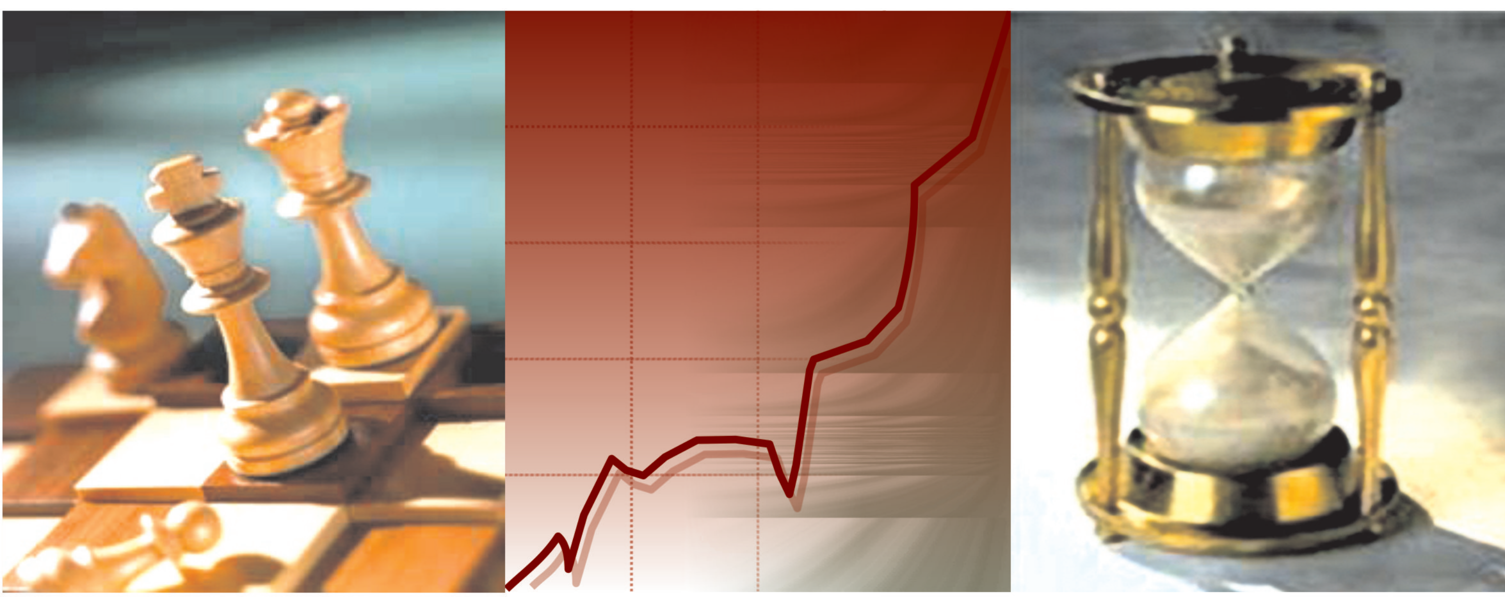
Republic of Turkey

2007 ANNUAL PROGRAMME



Undersecretariat of State Planning Organization

Republic of Turkey

Ninth Development Plan
(2007 - 2013)

2007 ANNUAL PROGRAMME

Undersecretariat of State Planning Organization

ANKARA - 2007

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DECREE OF THE COUNCIL OF MINISTERS

Decree Number: 2006/11105

Adoption of the Report dated 12/10/2006 and numbered 2006/80, which was submitted to the Council of Ministers by the Higher Planning Council along with the attached "2007 Annual Programme" and "Decision on the Implementation, Coordination and Supervision of 2007 Annual Programme", was decided by the Council of Ministers on 16/10/2006, in reference to the article 28 of the Decree-Law number 540.

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ABBREVIATIONS

AOÇ: General Directorate of Atatürk Forestry Farm
ASAGM: General Directorate of Family and Social Research
BAĞ-KUR: Social Security Institution of Craftsmen, Tradesmen and Other Self Employed
BAT: Bank Association of Turkey
BOREN: National Bore Research Institute
BOTAŞ: Petroleum Pipeline Corporation
BRSA: Banking Regulation and Supervision Agency
CBRT: Central Bank of Republic of Turkey
CMB: Capital Markets Board
DAP: Eastern Anatolian Project
DGD: Direct Income Support
DHMİ: General Directorate of State Airports Authority
DISF: Defence Industry Support Fund
DLHİ: General Directorate for the Construction of Railways, Seaports and Airports
DMİ: State Meteorological Service
DOKAP: Eastern Black Sea Development Project
DSİ: State Hydraulic Works
EBK: Meat and Fish Products Corporation
EDAŞ: Electricity Distribution Company
EİEİ: Electrical Power Resources Survey and Development Administration
EMEKLİ SANDIĞI: Pension Fund for Civil Servants
EPDK: Energy Market Regulatory Authority
ERDEMİR: Eregli Iron and Steel Works Co.
ETKB: Ministry of Energy and Natural Resources
EU: European Union
EUSG: European Union Secretary General
EÜAŞ: Electricity Generation Company
FCI: Fixed Capital Investment
FCDA: Foreign Currency Deposit Account with Credit Letter
GAP: South Eastern Anatolia Project
GDDI: Government Domestic Debt Instruments
GSEUA: General Secretariat of EU Affairs
GSGM: General Directorate of Youth and Sport
HEPP: Hydroelectric Power Plant
ISE: Istanbul Stock Exchange
İGEME: Export Promotion Centre
İŞKUR: Employment Agency
İTÜ: Istanbul Technical University
İZBAN A.Ş: İzmir Local (Suburb) Railway Industry Inc.
KALDER: Association of/for quality
KOSGEB: Small and Medium Industry Development Organization
MARA: Ministry of Agriculture and Rural Affairs
MASAK: Financial Crimes Investigation Board
MEF: Ministry of Environment and Forestry
MoI: Ministry of Interior
MoNE: Ministry of National Education
MPM : National Productivity Centre
MSPI: Mutual Promotion and Protection of the Investments
MTA: Mineral Research and Exploration
MYK: Vocational Qualification Agency
NABUCCO: Turkey-Bulgaria-Romania-Hungary-Austria Natural Gas Pipeline Project
ODTÜ: Middle East Technical University
ÖİB: Privatisation Administration
ÖZİDA: Prime Ministry Administration for Disabled People
PETKİM: Turkish Petrochemical Co.
PTT: Telecom and Postal Services co.
RTÜK: Radio and Television Supreme Council
SDIF: Saving Deposit Insurance Fund

SEE: State Economic Enterprise
SFDA: Super Foreign Exchange Deposit Account
SGK: Social Security Agency
SHÇEK: Social Services Child Care Institution
SMEs: Small and Medium Enterprises
SPO: State Planning Organization
SPSF: Support and Price Stabilization Fund
SSK: Social Security Organization
SSSF: Social Solidarity and Support Fund
SYDGM: Directorate of Social Assistance and Solidarity
TAEK: Turkish Atomic Energy Authority
Takasbank: ISE Settlement and Custody Bank Inc.
TCDD: Turkish Railway Company
TDİ: Turkish Maritime Administration
TEDAŞ: Turkish Electricity Distribution Company
TEİAŞ: Turkish Electricity Transmission Company
TEKEL: Turkish Tobacco Co.
TEKMER: Technology Development Centre
TESK: Turkish Confederation of Craftsmen and Artisans
TETAS: Turkish Electricity Trade and Agreement Co.
TGB: Technology Development Zones
TGNA: Grand National Assembly of Turkey
THY: Turkish Airlines Company
TİKA: Turkish International Cooperation and Development Agency
TİM: Turkish Chamber of Exporters
TİSK: Turkish Confederation of Employer Associations
TKİ: Turkish Lignite Company
TMO: General Directorate of Turkish Grain Board
TNSA: Population and Health Survey of Turkey
TOBB: Chambers and Commodity Exchanges of Turkey
TOKİ: Housing Development Administration of Turkey
TPAO: Turkish Petroleum Company
TRT: Turkish Radio TV
TSA: Turkish Sugar Authority
TSI: Turkish Standards Institution
TTGV: Technology Development Foundation of Turkey
TTK: Turkish Coal Institution
TUBA: The Turkish Academy of Sciences
TURKAK: Turkish Accreditation Agency
TURKKONFED: Turkish Enterprise and Business Confederations
TURKSTAT: Turkish Statistical Institute
TÜBİTAK: The Scientific and Technological Research Council of Turkey
TÜDEMSAŞ : Turkish Railway Machines Industry Inc.
TÜLOMSAŞ: Turkish Locomotive and Engine Inc.
TÜPRAŞ: Turkish Petroleum Refineries Corporation
TÜSİAD: Turkish Industrialists' and Businessmen's Association
TÜVASAŞ: Turkish Wagon Industry Corporation
UCTE: Union for Coordination of Transmission of Electricity
UFT: Undersecretariat of Foreign Trade
UMA: Undersecretariat of Maritime Affairs
UT: Undersecretariat of Treasury
WHO: World Health Organization
YOIKK: Coordination Committee of Investment Climate Reform
YÖK: The Council of Higher Education
YTL: New Turkish Lira
YURTKUR: General Directorate of Higher Education Credit and Hostels Institution

PART ONE

MACROECONOMIC GOALS AND POLICIES OF 2007 ANNUAL PROGRAMME

I. MACROECONOMIC GOALS

Basic macroeconomic goals of the 2007 Annual Programme, which represents the first year of the Ninth Development Plan, are to continue the economic growth process through enhancing confidence and stability established in the economy, to increase the level of employment, to reduce the rate of inflation, and to attain a level of current account deficit, which is sustainable and financed by solid financing means.

II. MACROECONOMIC POLICIES

A. GROWTH AND EMPLOYMENT

1. An economic growth, that is based on private sector dynamics, export oriented structure, serving to increase the welfare of the society and does not jeopardize macroeconomic stability, would be attained.

2. Sustainable growth environment would be strengthened by following the institutional and structural reforms phase that will enhance economic competitiveness and capacity to face external shocks, rationalize the labour market and increase the quality of the labour force.

3. Through elimination of uncertainties stemming particularly from public sector policies, a foreseeable business environment which favours enterprises to pursue long-term planning practice would be created.

B. MONETARY POLICY AND PRICE STABILITY

1. In year 2007 explicit inflation targeting policy would be continued.

2. Central Bank, in order to guide expectations and to determine the funding cost, would actively keep on using short term interest rates as the main monetary policy tool.

3. A floating exchange rate regime, within which the concerns on macro-economic equilibria and supply and demand conditions in the foreign currency market are highlighted, would be pursued.

4. In case of an excess supply of foreign currency, Central Bank would sterilize the abundant quantity through regular buying auctions.

5. Central Bank would be free to intervene in either way to prevent realized or possible excessive volatility.

C. BALANCE OF PAYMENTS

1. Regarding the traditional export sectors, the practices of rationalizing incentives and state aid in the aim of attaining high value added production would be continued.

2. In the context of applying trade policy tools efficiently, the internal processing regime would be reorganised by considering the conditions of domestic production and supervision.

3. Turkey's adoption process to the technical directives of the EU within the context of Customs Union would be accelerated. Necessary administrative, technical and physical infrastructure would be established to ensure efficient implementation of harmonized legislation. Surveillance and supervision of imports would be improved.

4. Necessary measures would be taken to increase our market share in the Turkic Republics, with which our trade is limited despite our cultural and geographical proximity.

5. To reduce the dependency of the domestic production on imports in the medium term, mechanisms for domestic production of imported intermediates used for the industrial production would be developed. In this context, by expansion of R&D activities, a special emphasis on high-tech domestic input production would be realised.

6. Export Strategic Plan 2007-2009, with the aim of realising the Export Oriented Development Model with all its aspects, would be put into implementation.

D. FISCAL POLICY

1. Aiming the sustainability of macroeconomic stability, harmony among the fiscal, monetary and income policy would be guaranteed.

2. In addition to reducing the ratio of the public sector debt stock within national income, fiscal discipline would be pursued with the aim of keeping current account deficit under control. In this context; high ratio of primary surplus would be retained, activities contrary to the structural reforms would be shunned.

3. A borrowing policy, which takes macroeconomic balances into consideration, and which is

sustainable, transparent, accountable and in harmony with monetary and fiscal policies, would be pursued.

4. Financing needs of the public sector, within the context of the determined risk level via considering the domestic and international market conditions and cost components, would be met with lowest costs possible in the medium to long term.

5. In the field of struggling with informal economy, a comprehensive programme would be prepared.

6. A efficient and uncomplicated tax system, which supports growth and development policies, reduces informal economy, and is also in line with the macroeconomic policies, would be established.

7. Without sacrificing the quality of the health services, the measures taken to control medicine and treatment expenditures, would be continued.

E. PUBLIC INVESTMENTS

1. The process of rationalizing the public sector investments which targets to be efficient, productive and punctual would be sustained.

2. Investments on education, health, technological research, transportation, drinking water and e-government would be assigned priority.

3. Public sector investments would be used as an efficient policy instrument for regional development and reducing the inter-regional gaps.

4. The investments, which the ongoing EU accession process necessitates, would be accelerated.

5. Models that allow the private sector participation to the public sector infrastructure investments would be improved.

6. Public sector investment proposals and decisions would be based on sound sectoral analyses and qualified feasibility studies.

F. SEE’S AND SOCIAL SECURITY

1. The main purpose of the SEEs policy is to privatise the eligible ones under a certain agenda and strategy and operate the others on the basis of productivity.

2. Legislative works intending to form a new structural system of governance, which aim to establish accountability, transparency, flexibility in the decision making process of the SEEs and reduce the number of institutions having the right to intervene SEEs, would be completed.

3. SEEs are supposed to operate in accordance with the objectives set in the Decree of General Investment and Financing. In this context, SEEs would be ensured to follow sales and financing policies, which are based on the conditions of increasing productivity, reducing the costs of stock keeping, production and marketing and setting prices in

accordance with input costs affected by the national and international markets.

4. The operation units of the SEEs which are facing losses would be liquidated by taking their functions into consideration.

5. Implementation of measures that aims to reduce the idle personnel and increase productivity would be continued, besides, the need of qualified personnel would be met in accordance with the pre-set criteria.

6. A study for settling the receivables/payables among SEEs and with the other public institutions, would be undertaken.

7. In order to reduce the burden of social security on the budget, measures to reduce informal employment and increase the premium collection would be taken. In this context, legal enforcement as to the premium receivables would be expedited and to this end outsourcing would be resorted.

8. In order to maintain the sustainability of the universal health insurance system, health expenditures would be taken under control. To this end, referral chain system would be enhanced and family medicine would be extended.

9. Information technology infrastructure of social security system would be strengthened in order to ensure the regular monitoring of health expenditures by both reducing the losses and leakages in the social security system and keeping track of the bills electronically. By this way, it is also targeted to provide immediate access to the information about all the stakeholders of the system such as hospital-doctor-pharmacy-insured and to facilitate supervision.

TABLE: I. 1- Main Economic Aggregates

	2001	2002	2003	2004	2005	2006 (1)	2007 (2)
GROWTH AND EMPLOYMENT (Percentage Change)							
Total Consumption	-7.3	3.1	4.9	9.6	8.3	7.9	3.7
Public	-1.7	1.8	-0.6	1.8	2.9	10.0	6.0
Private	-8.3	3.4	5.9	10.9	9.1	7.6	3.3
Total Fixed Capital Investment	-31.0	-3.8	10.7	29.4	25.6	10.8	5.9
Public	-27.4	9.9	-8.4	-4.9	37.8	1.2	5.8
Private	-32.6	-10.5	22.2	44.9	22.0	14.0	6.0
Change in Stocks (3)	-4.6	7.2	3.0	1.1	-2.6	-1.3	0.0
Total Exports of Goods and Services	7.4	11.1	16.0	12.5	8.5	6.7	11.0
Total Imports of Goods and Services	-24.9	15.8	27.1	24.7	11.6	9.3	7.9
GDP	-7.8	8.1	5.7	9.1	7.4	6.0	5.0
GDP (Million YTL, Current Prices)	178,412	277,574	359,763	430,511	487,202	562,913	632,433
GDP (Billion USD, Current Prices)	145.9	184.5	240.5	302.8	363.4	390.4	410.7
Per Capita National Income (GDP, USD)	2,134	2,662	3,425	4,256	5,042	5,349	5,559
Per Capita National Income (PPP, GDP, USD)	6,153	6,550	6,808	7,629	8,141	8,959	9,662
Population (Thousand Person)	68,365	69,302	70,231	71,152	72,065	72,974	73,875
Labour Force Participation Rate (Percent)	49.8	49.6	48.3	48.7	48.3	47.6	47.4
Civilian Employment (Thousand Person)	21,524	21,354	21,147	21,791	22,046	22,112	22,444
Unemployment Rate (Percent)	8.4	10.3	10.5	10.3	10.3	10.1	9.8
FOREIGN TRADE (Billion USD)							
Exports (FOB)	31.3	36.1	47.3	63.2	73.5	83.5	95.0
Imports (CIF) (4)	41.4	51.6	69.3	97.5	116.8	135.5	149.7
Foreign Trade Balance	-10.1	-15.5	-22.1	-34.3	-43.3	-52.0	-54.7
Current Account Balance / GDP (Percent)	2.3	-0.8	-3.3	-5.2	-6.4	-7.9	-7.4
Trade Volume / GDP (Percent)	49.8	47.5	48.5	53.1	52.4	56.1	59.6
PUBLIC FINANCE (Percent)							
General Government Revenues (5) / GDP	41.6	39.1	39.9	40.9	43.9	46.3	46.5
General Government Expenditures (5) / GDP	57.6	52.7	49.9	46.2	43.6	43.6	47.1
General Government Borrowing Requirement (5) / GDP	15.9	13.6	10.0	5.3	-0.2	-2.7	0.6
General Government Interest Expenditures (5) / GDP	23.7	19.3	16.8	13.4	9.6	8.4	8.5
Public Sector Borrowing Requirement (6) / GDP	16.3	12.6	9.3	4.7	-0.4	-3.1	0.2
Gross Public Debt Stock / GDP	106.1	92.5	82.5	77.1	71.5	64.0	59.3
Net Public Debt Stock / GDP	89.4	77.7	69.7	63.1	55.2	48.3	43.4
PRICES (Percent Change)							
GNP Deflator	55.3	44.4	22.5	9.5	5.3	9.0	7.0
CPI Year End	68.5	29.7	18.4	9.4	7.7	9.8	4.0

(1) Realisation Estimate
(2) Programme Target
(3) Given as percentage contribution to growth.
(4) Since 2001 non-monetary gold imports are included.
(5) Consolidated budget (2001 - 2005) / Central government budget (2006, 2007), include local administrations, annexed budget agencies, unemployment insurance fund, social security institutions, revolving funds and extra-budgetary funds, and universal health insurance scheme.
(6) Includes general government and SEEs.

2007 Annual Programme

PART TWO

MACROECONOMIC DEVELOPMENTS AND TARGETS

I. DEVELOPMENTS IN THE WORLD ECONOMY

The world economy remained buoyant for the last four years in a row and most regions experienced high rates of growth. During the first half of 2006, growth in most regions also met or exceeded expectations. Considering advanced countries, growth in the United States was particularly strong during the first quarter of 2006, gathered momentum in the Euro Area and continued in Japan. Likewise, emerging market economies and other developing countries, despite difficulties in global financial markets, have also maintained an impressive growth performance, largely aided by strong commodity prices. Under these circumstances, world output which expanded 4.9 percent in 2005 is projected to grow 5.1 percent in 2006 and 4.9 percent in 2007.

At the same time, there are signs that inflationary pressures are edging up in some countries as sustained high rates of growth have absorbed spare capacity. In advanced countries, particularly in the United States, there are signs of increases in core inflation and evidence in Japan indicates that deflation has finally ended.

In recent years, oil and metal prices have hit new highs as a result of the buoyant world economy. Since August 2006, however, oil prices started to decline, which is expected to continue also in 2007.

Inflationary concerns and tight monetary policy led to fluctuations in advanced country equity markets and asset markets in some emerging market economies in May-June. These disturbances, however, seem to be eliminated since July.

Large global current account imbalances among major economies remain to be a significant issue. Despite acceleration in export growth, the USA current account deficit is expected to near 7 percent of GDP. China's current account surplus is expected to remain in excess of 7 percent in 2007.

Growth in the US economy is expected to slowdown in connection with a probable cooling in housing market in 2007. In fact, the Federal Reserve is faced by the difficult situation of rising core inflation in the context of a slowing economy; however, given the importance of keeping inflation expectations under control, tight policy stance should not be ruled out for a period of time. In Japan, since the risk of accelerating inflation is still low, interest rate increases should only be gradual. In the Euro Area, if the ongoing expansion develops as strong as expected, it is most likely that interest rate would increase; in fact, the European Central Bank has raised the interest rate in recent months. However, since there are now downside risks to growth, it is expected that a tighter monetary policy should not be implemented.

The real GDP growth in the Euro Area during the first half of 2006 is being driven by domestic demand, particularly investment. Domestic demand growth remained robust in Germany, France and Spain. Looking forward, the pickup in corporate investment is expected to be the strongest in Germany where profitability has recovered most and corporate restructuring is well-advanced, followed by France and Italy.

Emerging market economies and other developing countries have shown impressive growth performances in recent years. Developing Asia, particularly China and India, rank top in terms of growth achievement. Sharply rising prices of non-fuel commodities, particularly metals, had underpinned strong growth in many emerging market and other developing countries.

The economic expansion in Latin America gathered momentum in the first half of 2006, underpinned by high prices for key commodities, declining interest rates and a pick up in public investment. The region's expansionary momentum was largely unaffected by the financial market volatility during the spring of 2006, mainly due to improved fiscal indicators, more flexible exchange rate system and important amounts of foreign exchange reserves.

In the new members of the EU in Central and Eastern Europe growth remains robust, mainly driven by buoyant domestic demand, underpinned by net capital inflows and credit growth. Solid growth is expected to continue in the region over the coming period as well.

In the Commonwealth of Independent States, activity is afloat and growth prospects are positive. It is expected that high growth rates will be maintained in these countries during the next period.

In recent years, the countries in sub-Saharan Africa have been accomplishing the strongest economic expansion for the first time since the early 1970s. Despite this, the growth performance still falls short of the 7 percent annual growth needed to meet the Millennium Development goal of halving poverty by 2015. The Middle East countries have increased their oil revenues further and enjoy current account surpluses.

In the context of emerging market and other developing economies, those countries with still weak public sector balance sheet, large current account deficits and less well-anchored inflationary expectations are in a relatively riskier position and are more susceptible to rising interest rates and reduced liquidity in global financial markets. Given this setting, the immediate policy priority in emerging market and other developing countries is to implement measures to sustain the current growth performance and to reduce vulnerabilities against external shocks.

Looking forward, the strong global expansion is likely to continue in 2007 with a better balanced composition of demand across the major advanced economies. It is expected that the rapid growth can be realized in emerging market economies, notably in China, and stronger-than expected investment can take place in a number of advanced economies.

Conversely, a number of downside risks can be identified as well that would adversely affect the global economy. These include primarily a more aggressive monetary response in the face of a continued build-up of inflationary pressures, the potential for supply-side shocks in the oil and non-fuel commodity markets, an abrupt slowdown in housing markets in advanced economies and a weaker-than-expected growth in private consumption in Europe and Japan.

On the other hand, in view of the pressure from the aging population on the social security systems in advanced countries, the need for fiscal consolidation has further increased.

TABLE II.1: Main Economic Indicators in the World Economy

(Percentage Change)

	2004	2005	2006 (1)	2007 (1)
WORLD OUTPUT	5.3	4.9	5.1	4.9
Developed Countries	3.2	2.6	3.1	2.7
USA	3.9	3.2	3.4	2.9
Japan	2.3	2.6	2.7	2.1
Euro Area	2.1	1.3	2.4	2.0
Germany	1.2	0.9	2.0	1.3
Developing Countries	7.7	7.4	7.3	7.2
Africa	5.5	5.4	5.4	5.9
Middle and East Europe	6.5	5.4	5.3	5.0
Commonwealth of Independent States	8.4	6.5	6.8	6.5
Asia	8.8	9.0	8.7	8.6
Latin America	5.7	4.3	4.8	4.2
Middle East	5.5	5.7	5.8	5.4
WORLD TRADE VOLUME	10.6	7.4	8.9	7.6
IMPORTS OF GOODS AND SERVICES				
Developed Countries	9.1	6.0	7.5	6.0
Euro Area	6.5	5.2	7.2	5.4
Developing Countries	16.4	11.9	13.0	12.1
CONSUMER PRICES				
Developed Countries	2.0	2.3	2.6	2.3
Euro Area	2.1	2.2	2.3	2.4
Developing Countries	5.6	5.3	5.2	5.0
UNEMPLOYMENT RATE (Percent)				
Developing Countries	6.3	6.0	5.6	5.5
Euro Area	8.9	8.6	7.9	7.7
LIBOR (Six Month, Percent, US Dollar)	1.8	3.7	5.4	5.5

Source: IMF, World Economic Outlook, September 2006
(1) Forecast

II. DEVELOPMENTS IN THE TURKISH ECONOMY AND TARGETS

A. GROWTH AND EMPLOYMENT

1. GNP and Sectoral Growth Rates

a) Current Outlook

Gross Domestic Product (GDP), which grew 8.9 percent in 2004, recorded a growth rate of 7.4 percent in 2005. In the following year, while agricultural value added grew by 5.6 percent, growth rate of the industrial value added was realized as 6.5 percent. Value added in the services sector increased by 8.2 percent, owing to the expansion in the trade sector and import taxes by 7.4 percent and 12.2 percent, respectively. Construction sector, which had contracted since 2001, recorded growth rates of 4.6 percent in 2004, and expanded 21.5 percent in 2005.

In the first half of 2006 high growth rates sustained and GDP recorded an increase of 7 percent. In the mentioned period, as in the previous years, growth rates of private consumption and private fixed capital investments have been effective in the high rate growth. In the first half of 2006, the agricultural value added increased by 1.3 percent while the industry and services grew by 7.7 and 7.2 percent, respectively. With a growth rate of 19.3 percent, the value added of construction sector sustained remarkable contribution to GDP expansion.

TABLE: II. 2- Growth Rates of Value Added and Sectoral Shares in GDP

	Quarters									
	2005				2006		Annual			
	I.	II.	III.	IV.	I.	II.	2004	2005	2006 (1)	2007 (2)
	(Constant Prices, Percentage Change)									
Agriculture	4.3	8.2	7.5	-0.1	6.2	-1.1	2.0	5.6	0.5	2.5
Industry	6.6	3.9	5.7	10.1	4.5	10.5	9.4	6.5	6.5	5.2
Services	6.8	6.0	8.7	10.9	7.5	6.9	10.2	8.2	6.8	5.4
GDP	6.6	5.5	7.7	9.5	6.5	7.5	8.9	7.4	6.0	5.0
GNP	7.5	4.7	8.0	10.2	6.4	8.5	9.9	7.6	6.0	5.0
	(Constant Prices, Percentage Change)									
Agriculture	4.3	7.4	20.3	9.9	4.3	6.8	11.6	11.4	10.8	10.6
Industry	32.9	32.0	25.1	28.5	32.3	33.0	29.4	29.2	29.3	29.4
Services	62.8	60.5	54.6	61.5	63.4	60.2	59.0	59.4	59.9	60.1
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SPO, TURKSTAT
(1) Realisation estimate
(2) Programme target

TABLE: II. 3- Per Capita GDP

Years	Mid-Year Population (1) (Thousand Person)	(Current Prices) GDP (Million YTL)	(Current Prices) Per Capita GDP YTL	(Current Prices) Per Capita GDP USD (2)	(1998 Prices) GDP (Million YTL)	(1998 Prices) Per Capita GNP YTL	(1998 Prices) Per Capita GNP USD (2)	Purchasing Power Parity(PPP) (USD/YTL) (3)	PPP Per Capita GDP (USD)
1990	56,154	393	7	2,684	37,591	669	2,574	0.001513	4,628
1991	57,272	630	11	2,639	37,940	662	2,547	0.002321	4,739
1992	58,392	1,093	18	2,726	40,210	689	2,648	0.003715	5,040
1993	59,513	1,982	33	3,031	43,444	730	2,807	0.006093	5,466
1994	60,637	3,868	63	2,148	41,074	677	2,605	0.012319	5,179
1995	61,763	7,762	125	2,750	44,027	713	2,741	0.022600	5,561
1996	62,909	14,772	234	2,892	47,112	749	2,880	0.039331	5,970
1997	64,064	28,836	450	2,972	50,659	791	3,041	0.071028	6,337
1998	65,215	52,225	800	3,080	52,225	801	3,080	0.124073	6,454
1999	66,350	77,415	1,166	2,794	49,766	750	2,884	0.191772	6,084
2000	67,420	124,583	1,847	2,963	53,428	792	3,047	0.271182	6,814
2001	68,365	178,412	2,609	2,134	49,424	723	2,780	0.424139	6,153
2002	69,302	277,574	4,005	2,662	53,349	770	2,960	0.611482	6,550
2003	70,231	359,763	5,122	3,425	56,440	804	3,090	0.752432	6,808
2004	71,152	430,511	6,050	4,256	61,481	864	3,323	0.793052	7,629
2005	72,065	487,202	6,760	5,042	66,018	916	3,523	0.830401	8,141
2006	72,974	562,913	7,713	5,349	69,979	959	3,688	0.861000	8,959
2007	73,875	632,433	8,560	5,559	73,478	995	3,825	0.886000	9,662

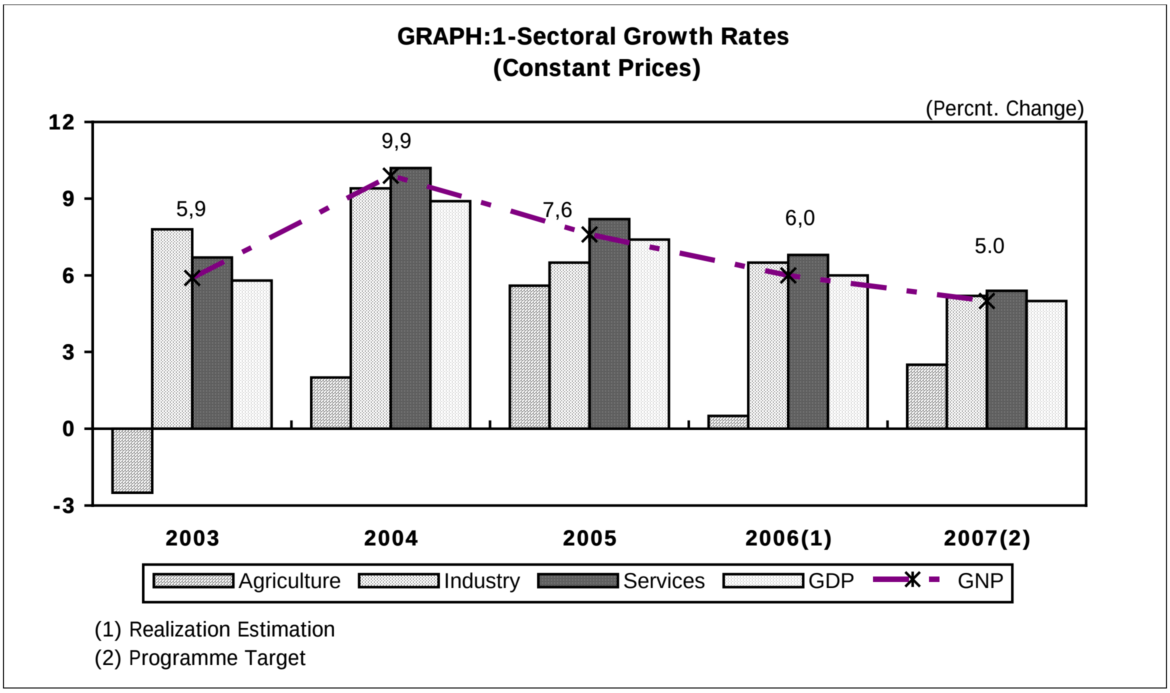
Source: TURKSTAT, OECD, SPO
(1) TURKSTAT estimation of mid-year.
(2) Calculated by using the Central Bank foreign currency purchase rate.
(3) Purchasing Power Parity calculated for GDP by the OECD.
(4) SPO estimation.
(5) Programme target.

When data on industrial production are considered, the rising trend started in 2002 is observed to continue also in the January-September period of 2006. The capacity utilisation rate in manufacturing industry reached 80.7 percent in January-September period of 2006. In addition, industrial production index rose by 6.6 percent in January-August period of 2006, compared to the same period of 2005. Under the light of GNP realisation for the first half of the year and of the latest developments regarding the industrial production as mentioned above, it is expected that a GDP growth rate of 6 percent is likely to realise for year 2006.

b) Targets for the Year 2007

Turkish economy started to follow a growth path beginning by the first quarter of 2002 and thus average annual GDP growth during the period 2002-2005 realised to be 7.5 percent. When the developments in 2006 are also taken into consideration, the growth rate of GDP, which prevails since 2002, is observed to exceed that of the long-run average. In 2007 the growth rate of the economy is expected to be lower than the previous ones. Thus, with the expected slow down in 2007 both GDP and GNP growth rates are estimated to be 5 percent. Alongside the success in the implementation of the economic programme and the achievement in the ongoing EU negotiation process appear as the two important anchors to support the growth targets. In this context, amelioration regarding the public finance and interest rates as well, steady fall in the trend of inflation, improvements in privatisation and in structural reforms would act as determining factors in the continuation of GDP growth in 2007.

Value added of the services sector is expected to grow by 5.4 percent in 2007. In 2007 construction sector is expected to grow by 15 percent as the result of expanding real credit stock, implementation of the mortgage system and with the anticipated medium term growth dynamics in the construction sector owing to the receded interest rates. Growth in the construction sector is also expected to trigger the growth dynamics in other sectors such as trade and transport. In 2007, continuation of high level of activity in tourism sector is also supporting the expansion of trade value added.



In 2007, growth rate of agricultural value added is expected to be 2.5 percent, a rate which is slightly over the multiple-year average.

As to industrial sector value added for the year 2007, a 5.2 percent increase is expected. Expansion in production capacities during the previous years due to the high rate of investment in private fixed capital and consolidation of the manufacturing industry exports on a solid path appear as factors to support the robust industrial production. In addition, productivity gains recorded in previous years shall contribute to continuation of the industrial expansion.

In the light of the above mentioned estimates, 5 percent projected growth rate of 2007 GDP, is expected to be contributed by agriculture at 0.3, by industry at 1.5 and by services at 3.2 percentage points. Regarding the sectoral shares compared to the previous year, agriculture is expected to drop, services sector and industry are expected to rise within 2007 GDP.

On the contrary, the realisation of global economy growth rate lower than the estimation and rising of the oil prices again appear as possible external risks which are likely to act as constraints on the projected 5 percentage points growth target for 2007.

2. Employment

a) Current Outlook

During 2002-2005 period of economic expansion, employment level increased by 692 thousand people. In the same period while economy grew by 7.5 percent on the average, employment increased by 1 percent on the average annually. The sluggish increase in employment is mainly because of the decrease in the rural employment. In this context, in non-agricultural sectors average annual employment increased by 3.8 percent.

In parallel to the transformation that Turkish economy is undergoing starting from 2002 till 2005, the cumulative expansion of employment was realised as 13.4 percent in the services, 9.4 percent in manufacturing and 22.2 percent in construction sectors while the corresponding rate was a negative 12.9 percent in agriculture.

When the rise in employment in 2005 is analysed on sectoral basis, it is observed that the trend is continuing. In 2005 agricultural employment shrunk by 12.3 percent while the employment in manufacturing and services sectors expanded by 7.4 percent and 8.4 percent, respectively. Particularly, the rise of employment in the services sector was due to the 13.7 percent increase in employment level of construction sub-branch. In 2005 the shares within the total employment were 19.4 percent for industry, 51.1 percent for services and 29.5 percent for agriculture sectors.

TABLE: II. 4- Developments in the Labour Market as of Years

(Age 15+, Thousand Person)

	2001	2002	2003	2004	2005
Working Age Population	47,158	48,041	48,912	49,906	50,826
Labour Force	23,491	23,818	23,640	24,289	24,565
Employment	21,524	21,354	21,147	21,791	22,046
Non-Agricultural Employment	13,436	13,896	13,982	14,391	15,553
Non-Unpaid Family Worker Employment	16,659	16,899	17,009	17,487	18,519
Agriculture	8,089	7,458	7,165	7,400	6,493
Industry	3,774	3,954	3,846	3,987	4,280
Services	9,661	9,942	10,136	10,404	11,273
Construction	1,110	958	965	1,030	1,171
Unemployed	1,967	2,464	2,493	2,498	2,520
Labour Force Participation Rate (Percent)	49.8	49.6	48.3	48.7	48.3
Employment Rate (Percent)	45.6	44.4	43.2	43.7	43.4
Unemployment Rate (Percent)	8.4	10.3	10.5	10.3,	10.3
Non-Agricultural Unemployment Rate (Percent)	12.4	14.5	13.8	14.3	13.6
Youth Unemployment Rate (Percent)	16.2	19.2	20.5	19.7	19.3
Underemployed	1,404	1,297	1,143	995	817
Underemployment Rate (Percent)	6.0	5.4	4.8	4.1	3.3
Idle Labour Force Rate (Percent)	14.4	15.7	15.3	14.4	13.6

Source: TURKSTAT

TABLE: II. 5- Developments in the Urban and Rural Labour Market

(Age 15+, Thousand Person)

	Urban			Rural		
	2003	2004	2005	2003	2004	2005
Working Age Population	29,919	30,813	31,678	18,993	19,093	19,148
Labour Force	13,091	13,714	14,398	10,549	10,576	10,167
Employment	11,287	11,843	12,566	9,860	9,948	9,480
Agriculture	478	684	673	6,687	6,716	5,820
Industry	3,119	3,203	3,407	728	783	873
Services	7,690	7,956	8,486	2,445	2,448	2,787
Unemployed	1,804	1,870	1,832	689	628	687
Labour Force Participation Rate (Percent)	43.8	44.5	45.5	55.5	55.4	53.1
Employment Rate (Percent)	37.7	38.4	39.7	51.9	52.1	49.5
Unemployment Rate (Percent)	13.8	13.6	12.7	6.5	5.9	6.8
Underemployed	675	516	415	468	479	402
Underemployment Rate (Percent)	5.2	3.8	2.9	4.4	4.5	4.0
Idle Labour Force Rate (Percent)	19.0	17.4	15.6	10.9	10.4	10.8

Source: TURKSTAT

In 2005, the recorded expansion of 1.2 percent in employment depends basically on the rise in urban employment, which is determined by the newly created job opportunities by the private sector. In 2005, urban employment rose by 6.1 percent and unemployment in cities realised to be 12.7 percent, with a decrease by 0.9 percentage point in the same period. Despite the increase in total employment, the net final effect was limited owing to the 1.8 percent increase in the working age population.

In 2005, employment rose both in the public and private sector by 2.3 percent and 1 percent, respectively. Thus, the number of employed, reached 3,027 thousand people in the public sector with an increase of 67 thousand and 19,019 thousand people in the private sector with an increase by 188 thousand.

In 2005, the ratio of casual and regular employees within total employment reached 54.2 percent. This ratio was 72.5 percent for urban labour force. On the other hand in agriculture, the number of paid workers was low while 46.3 percent of the people employed in this sector was constituted by unpaid family workers. Approximately, 67.4 percent of the unpaid family workers was women.

TABLE: II. 6- Employment According to the Type of Business

(Age 15+, Thousand Person)

	2003		2004		2005	
	Number of People	Percent	Number of People	Percent	Number of People	Percent
Public	3,212	15.2	2,960	13.6	3,027	13.7
Private	17,934	84.8	18,831	86.4	19,019	86.3
Total	21,147	100.0	21,791	100.0	22,046	100.0

Source: TURKSTAT

TABLE: II. 7- Employment According to the Payment Condition

(Age 15+, Thousand Person)

	2003		2004		2005	
	Number of People	Percent	Number of People	Percent	Number of People	Percent
Casual and Regular Employees	10,707	50.6	11,079	50.8	11,948	54.2
Self-Employed	6,302	29.8	6,408	29.4	6,570	29.8
Unpaid Family Workers	4,138	19.6	4,303	19.7	3,527	16.0
Total	21,147	100.0	21,791	100.0	22,046	100.0

Source: TURKSTAT

When employment figures are considered on regional basis the highest value is in TR90 region (Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane) with 61.8 percent and the lowest value is in TRC3 region (Mardin, Batman, Şırnak, Siirt) with 29.9 percent in 2005.

TABLE: II. 8- Regional Unemployment Rates

Regional Code	Name of Region	Unemployment Rate (Percent) 2004	2005
TR	Turkey	10.3	10.3
TRA1	Erzurum, Erzincan, Bayburt	4.1	4.7
TRA2	Ağrı, Kars, Iğdır, Ardahan	1.7	3.2
TRB1	Malatya, Elazığ, Bingöl, Tunceli	17.9	18.0
TRB2	Van, Muş, Bitlis, Hakkari	11.0	8.8
TRC1	Gaziantep, Adıyaman, Kilis	14.9	13.8
TRC2	Şanlıurfa, Diyarbakır	10.8	10.4
TRC3	Mardin, Batman, Şırnak, Siirt	6.1	11.1
TR10	İstanbul	12.3	11.4
TR21	Tekirdağ, Edirne, Kırklareli	6.2	7.8
TR22	Balıkesir, Çanakkale	6.6	6.9
TR31	İzmir	14.3	13.1
TR32	Aydın, Denizli, Muğla	7.2	7.0
TR33	Manisa, Afyon, Kütahya, Uşak	7.5	7.9
TR41	Bursa, Eskişehir, Bilecik	8.8	8.7
TR42	Kocaeli, Sakarya, Düzce, Bolu, Yalova	12.0	11.2
TR51	Ankara	14.8	14.2
TR52	Konya, Karaman	8.4	9.5
TR61	Antalya, Isparta, Burdur	6.6	6.2
TR62	Adana, Mersin	13.6	17.2
TR63	Hatay, Kahramanmaraş, Osmaniye	17.3	15.6
TR71	Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir	10.0	10.7
TR72	Kayseri, Sivas, Yozgat	8.9	11.1
TR81	Zonguldak, Karabük, Bartın	12.0	6.9
TR82	Kastamonu, Çankırı,Sinop	10.6	8.6
TR83	Samsun, Tokat, Çorum, Amasya	5.6	5.7
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane	6.8	5.6

Source: TURKSTAT

As to regional unemployment in 2005, TRB1 region (Malatya, Elazığ, Bingöl, Tunceli) is the highest with 18 percent while TRA2 region (Ağrı, Kars, Iğdır, Ardahan) is the lowest with 3.2 percent.

For the average of Turkey, the unemployment rate for the three month period of June, July and August of 2006 reduced to 8.8 percent, with a 0.3 percentage drop compared to the same period of the previous year. In the same period, non-agricultural unemployment rate, with a drop of 1 percentage point, realised to be 11.7 percent while unemployment rate among young population, with a drop of 0.5 percentage point, realised to be 17.1 percent. The number of employed in the period covering June, July and August, with an increase of 30 thousand compared to the same period of the previous year, reached 23,257 thousand people.

In the 3-month period covering June, July and August 2006, the labour force participation rate both men and women, realised to be 49.3 percent by a drop compared to the same period of the previous year. In the same period, employment rate, 0.7 percentage point lower than its previous year level, realised to be 45 percent.

In the 3-month period covering June, July and August 2006, the agricultural employment dropped by 836 thousand people compared to the same period of the previous year. In the same period, increase in employment is 120 thousand in industry and 745 thousand in services sector. In construction sector, which is prominent in the services, an employment increase of 84 thousand people was recorded. As a result, the share of employment held by the construction sector within total employment reached 6 percent.

TABLE: II. 9- Developments in the Domestic Labour Market in 2006

(Age 15+, Thousand Person)

	2 0 0 6						
	Jan.	**Feb.**	**March**	**April**	**May**	**June**	**July**
Working Age Population	51,281	51,371	51,408	51,542	51,561	51,647	51,701
Labour Force	23,633	23,400	23,883	24,608	25,075	25,445	25,508
Employment	20,834	20,604	21,272	22,172	22,860	23,200	23,257
Agriculture	5,204	5,167	5,541	6,065	6,488	6,779	6,854
Industry	4,307	4,203	4,216	4,281	4,277	4,362	4,412
Services	11,323	11,235	11,515	11,824	12,095	12,058	11,911
Construction	975	971	1,053	1,211	1,336	1,414	1,406
Unemployed	2,799	2,796	2,611	2,436	2,215	2,245	2,251
Labour Force Participation Rate (Percent)	46.1	45.5	46.5	47.7	48.6	49.3	49.3
Employment Rate (Percent)	40.6	40.1	41.4	43.0	44.3	44.9	45.0
Unemployment Rate (Percent)	11.8	11.9	10.9	9.9	8.8	8.8	8.8
Non-Agricultural Unemployment Rate (Percent)	14.9	14.8	13.7	12.5	11.5	11.5	11.7
Youth Unemployment Rate (Percent)	21.9	21.9	19.2	17.8	16.4	16.7	17.1
Underemployed	892	933	928	955	982	961	911
Underemployment Rate (Percent)	3.8	4.0	3.9	3.9	3.9	3.8	3.6
Idle Labour Force Rate (Percent)	15.6	15.9	14.8	13.8	12.7	12.6	12.4

Source: TURKSTAT

According to the recent data, the employment level is observed to continue. Under the assumption that labour force participation rate is to drop by 0.7 percentage point compared to that of 2005, the unemployment rate is estimated to be 10.1 percent in 2006.

b) Targets for the Year 2007

In parallel to the forecasted growth and buoyant investments in 2007, total employment is expected to increase by 330 thousand people whereas the unemployment rate, being lower than its 2006 level, is estimated to be 9.8 percent.

3. General Equilibrium of the Economy

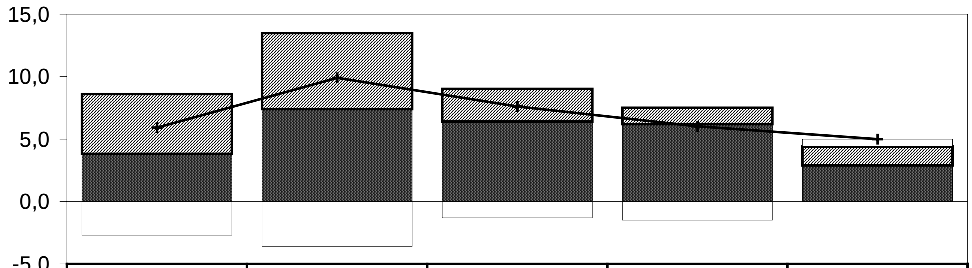
a) Current Outlook

While total domestic demand expanded by 8.6 percent in real terms in 2004, GNP grew by 7.6 percent, owing to the negative 1.3 percentage point contribution of external balance. In this period, private consumption increased by 9.1 percent, a rate which is close to the one realised in 2004. This increase is attributable to the 8.2 percent rise in food and beverages expenditures whose share is 30 percent in private consumption as well as rises in durable and semi-durable consumer goods, which grew by 15 percent and 12.9 percent in real terms, respectively. In addition, in 2005 the increase in domestic demand is attributable to the real increases in private and public sector fixed capital investments of 22 percent and 37.8 percent, respectively. In the same period, public consumption rose by 2.9 percent.

In 2006 total domestic demand is estimated to grow by 7.1 percent. Owing to the negative 1.5 percentage point contribution by the external balance, GNP is estimated to grow by 6 percent.

In 2006 total consumption is estimated to rise by 7.9 percent due to 7.6 percent increase in private consumption and 10 percent rise in public consumption. In the same year, it is estimated that the share of public consumption within GNP in current prices, with a rise of 0.4 percentage point, would reach a level of 12.4

GRAPH:2 - Contribution to GNP Growth



	2003	2004	2005	2006(1)	2007(2)
External sources	-2,7	-3,6	-1,3	-1,5	0,6
Investment	4,8	6,1	2,6	1,3	1,5
Consumption	3,8	7,4	6,4	6,2	2,9
GNP Growth	5,9	9,9	7,6	6,0	5,0

(1) Realization estimate (2) Programme target

percent while the share of private consumption, with a 1.3 percentage point increase compared to the previous year, would reach 71.1 percent.

In 2006 private fixed capital investments are expected to rise by 14 percent and public fixed capital investments are expected to go up by 1.2 percent. In this regard, while a 10.8 percent increase is expected in total fixed capital investments in real terms, its share within GNP in current prices would become 21.6 percent, with a 1.5 percentage point increase compared to the previous year. In the same period, contribution of changes in stocks to GNP growth is expected to realize as negative 1.3 points.

In 2006, the share of public disposable income in GNP, with a rise of 1.6 percentage point relative to its level in 2005, is forecasted to reach 17.6 percent. In this respect, despite

TABLE: II. 10- General Equilibrium of the Economy

		(Current Prices, Million YTL)			(Share in GNP)		
		2005	2006 (1)	2007 (2)	2005	2006 (1)	2007 (2)
I.	**1. GROSS NATIONAL PRODUCT**	**486,401**	**561,988**	**631,393**	**100.0**	**100.0**	**100.0**
	2. Foreign Resources	32,794	46,182	49,381	6.7	8.2	7.8
	3. Total Resources	519,195	608,170	680,774	106.7	108.2	107.8
	4. Total Investment Expenditures	121,212	139,341	157,090	24.9	24.8	24.9
	5. Fixed Capital Investment	97,647	121,132	137,385	20.1	21.6	21.8
	5.1 Public Sector	24,444	27,832	31,607	5.0	5.0	5.0
	5.2 Private Sector	73,204	93,300	105,778	15.1	16.6	16.8
	6. Change in Stocks	23,564	18,208	19,706	4.8	3.2	3.1
	6.1 Public Sector	1,131	-564	-975	0.2	-0.1	-0.2
	6.2 Private Sector	22,434	18,773	20,681	4.6	3.3	3.3
	7. Total Consumption Expenditures	397,983	468,829	523,684	81.8	83.4	82.9
II.	**8. PUBLIC DISPOSABLE INCOME**	**77,975**	**99,076**	**104,476**	**16.0**	**17.6**	**16.5**
	9. Public Sector Consumption	58,423	69,468	82,137	12.0	12.4	13.0
	10. Public Savings	19,553	29,608	22,339	4.0	5.3	3.5
	11. Public Sector Investment	25,574	27,268	30,632	5.3	4.9	4.9
	12. Public (Saving-Investment) Gap	-6,022	2,340	-8,293	-1.2	0.4	-1.3
III.	**13. PRIVATE DISPOSABLE INCOME**	**408,426**	**462,912**	**526,917**	**84.0**	**82.4**	**83.5**
	14. Private Sector Consumption	339,561	399,361	441,547	69.8	71.1	69.9
	15. Private Sector Savings	68,865	63,551	85,370	14.2	11.3	13.5
	16. Private Sector Investment	95,637	112,073	126,458	19.7	19.9	20.0
	17. Private (Saving.-Inv.) Gap	-26,772	-48,522	-41,088	-5.5	-8.6	-6.5
	18. Private Savings Ratio	16.9	13.7	16.2	-	-	-
	19. Total Domestic Savings	88,418	93,159	107,709	18.2	16.6	17.1
	20. Fix. Cap. Investment/GNP	-	-	-	20.1	21.6	21.8
	21. Total Domestic Savings/GNP	-	-	-	18.2	16.6	17.1

Source: SPO
(1) Realisation estimate
(2) Programme target

the increase in public consumption, the share of public saving-investment gap in GNP, is expected to be 0.4 percent surplus for the first time, owing to the increase in public savings and decrease in public investments.

0.6 percent positive contribution to GNP of the external balances.

In 2007, 3.3 percent increase in private sector consumption expenditures and 6 percent increase in public sector consumption expenditures are expected. In this year, private fixed capital investments are expected to grow by 6 percent and public sector fixed capital investments by 5.8 percent. When the situation is analysed in regards with contribution to

TABLE: II. 11- General Equilibrium of the Economy

		(1998 Prices, Million YTL)			(Percentage Change)	
		2005	2006 (2)	2007 (3)	2006 (2)	2007 (3)
I	**1. GROSS NATIONAL PRODUCT**	**65,338**	**69,258**	**72,721**	**6.0**	**5.0**
	2. Foreign Resources	3,495	4,447	4,010	-1.5	0.6
	3. Total Resources	68,832	73,705	76,731	7.1	4.1
	4. Total Investment Expenditures	18,136	18,983	20,001	4.7	5.4
	5. Fixed Capital Investment	15,385	17,051	18,065	10.8	5.9
	5.1 Public Sector	3,866	3,914	4,140	1.2	5.8
	5.2 Private Sector	11,519	13,137	13,925	14.0	6.0
	6. Change in Stocks (1)	2,751	1,932	1,936	-1.3	0.0
	6.1 Public Sector	132	-60	-96	-0.3	-0.1
	6.2 Private Sector	2,619	1,992	2,032	-1.0	0.1
	7. Total Consumption Expenditures	50,696	54,722	56,730	7.9	3.7
II	**8. PUBLIC DISPOSABLE INCOME**	**10,474**	**12,210**	**12,033**	**16.6**	**-1.4**
	9. Public Sector Consumption	6,721	7,391	7,832	10.0	6.0
	10. Public Savings	3,754	4,819	4,201	-	-
	11. Public Sector Investment	3,998	3,854	4,044	-3.6	4.9
	12. Public (Saving-Investment) Gap	-244	965	156	-	-
III	**13. PRIVATE DISPOSABLE INCOME**	**54,863**	**57,048**	**60,688**	**4.0**	**6.4**
	14. Private Sector Consumption	43,975	47,331	48,897	7.6	3.3
	15. Private Sector Savings	10,888	9,717	11,790	-10.8	21.3
	16. Private Sector Investment	14,139	15,129	15,957	7.0	5.5
	17. Private (Saving.-Inv.) Gap	-3,250	-5,412	-4,166	-	-
	18. Private Savings Ratio	19.8	17.0	19.4	-	-
	19. Total Domestic Savings	14,642	14,536	15,991	-0.7	10.0
	20. Fix. Cap. Investment/GNP	23.5	24.6	24.8	-	-
	21. Total Domestic Savings/GNP	22.4	21.0	22.0	-	-

Source: SPO
(1) Percentage changes indicate contribution to GNP growth.
(2) Realisation estimate
(3) Programme target

b) Targets for the Year 2007

In 2007, GNP growth is expected to realize at a rate of 5 percent, owing to 4.1 percent increase in total domestic demand and growth, it is observed that private consumption contributes by 2.3, public consumption by 0.6, private consumption by 1.1 and public sector fixed capital investment by 0.3 percentage point, respectively.

As a result of above developments in 2007, 5.9 percent real increase in total and fixed capital investments to GNP ratio at 24.9 percent in current prices which marks a 0.1 percentage point increase compared with the previous year, are expected.

Despite the steady rise of the ratio of public disposable income to GNP since 2001, this ratio is expected to drop 1.1 percentage point compared to the previous year and to realise as 16.5 percent in 2007. In this development, main determinants would be the decrease in non-tax normal revenues and factor incomes. Hence, the ratio of public saving-investment gap to GNP is expected to turn to negative after its positive realization in 2006.

B. INVESTMENTS

1. Sectoral Distribution of Investments

a) Current Outlook

In 2006, public sector fixed capital investments are expected to rise by 1.2 percent in real terms. The realisation of the public sector fixed capital investments is expected to be within the following percentages; 41 percent by the central budget institutions, 40.8 percent by local administrations, 11.5 percent by SEEs, 3.6 percent by the institutions under the scope of privatisation, 1.8 percent by the Bank of Provinces and 1.3 percent by revolving funds and social security administrations.

In 2006, compared to year 2005, within the public sector fixed capital investments it is expected that the shares of mining and other services would rise; agriculture, energy, transportation, housing and education would fall; manufacturing, tourism and health would remain at the same level.

In 2006 private sector fixed capital investments are expected to rise by 14 percent in real terms. Within total of private sector fixed capital investments it is particularly expected that the shares of agriculture, energy, transportation, housing and health would rise; mining, transportation, tourism and other services would fall; manufacturing and education would remain at the same level.

b) Targets for the Year 2007

In 2007, public sector fixed capital investments are expected to rise by 5.8 percent in real terms. It is expected that public sector fixed capital investments would be realised at the rates of 41 percent by local administrations, 40.7 percent by central budget institutions, 11.2 percent by the SEEs, 2.5 percent by the SEEs which are under the scope of privatisation, 2.3 percent by the Bank of Provinces and 2.3 percent by revolving funds and social security institutions.

In 2007, compared to the figures of 2006, the shares within public sector fixed capital investments total are expected to increase for agriculture, mining, energy, education, health and other services while that of transportation is expected to fall and those of manufacturing, tourism and housing are expected to remain at the same level.

In 2007 private sector fixed capital investments are expected to rise by 6 percent in real terms. Within this total, it is expected that the shares of agriculture and manufacturing would increase, transportation sector might fall and the rest would not change significantly.

TABLE: II. 12- Public Sector Fixed Capital Investments (2005)

(Current Prices, Million YTL.)

Sectors	Central Admin.(1)	SEE	Institutions Under Scope of Priv.	Funds	Bank of Provinces	Rev. Fund+S. S.A	SUB-TOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	1,267	21	1	0	0	30	1,320	9.2	339	1,658	7.5
Mining	1	363	0	0	0	0	365	2.6	1	365	1.7
Manufacturing	4	59	275	0	0	9	347	2.4	76	423	1.9
Energy	1,201	613	680	0	0	0	2,494	17.5	248	2,743	12.4
Transportation	2,988	1,148	432	0	0	9	4,578	32.1	3,126	7,704	34.9
Tourism	46	0	0	0	0	11	57	0.4	30	87	0.4
Housing	139	0	0	0	0	0	139	1.0	234	373	1.7
Education	1,901	0	0	0	0	98	1,999	14.0	334	2,333	10.6
Health	823	0	0	0	0	130	953	6.7	260	1,213	5.5
Other Services	1,422	0	0	12	526	58	2,017	14.1	3,187	5,205	23.5
Economic	992	0	0	0	19	53	1,063	7.5	310	1,373	6.2
Social	430	0	0	12	507	5	954	6.7	2,878	3,832	17.3
Total	9,793	2,204	1,388	12	526	346	14,269	100.0	7,834	22,104	100.0
Percent. Shares	68.6	15.4	9.7	0.1	3.7	2.4	100.0	-	-	-	-
Percent. Shares	44.3	10.0	6.3	0.1	2.4	1.6	64.6	-	35.4	100.0	-

Source: SPO
(1) Excluding labour cost

TABLE: II. 13- Public Sector Fixed Capital Investments (2006) (1)

(Current Prices, Million YTL.)

Sectors	Central Admin.(2)	SEE	Institutions Under Scope of Priv.	Funds	Bank of Provinces	Rev. Fund+S.S.A	SUB-TOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	1,071	22	1	0	0	30	1,124	7.5	531	1,655	6.5
Mining	32	561	0	0	0	0	594	4.0	1	594	2.3
Manufacturing	12	118	220	0	0	0	351	2.3	87	438	1.7
Energy	1,207	563	670	0	0	0	2,440	16.2	268	2,708	10.7
Transportation	2,672	1,659	26	0	0	20	4,377	29.1	4,192	8,569	33.8
Tourism	63	0	0	0	0	0	64	0.4	36	99	0.4
Housing	84	0	0	0	0	1	85	0.6	269	354	1.4
Education	2,161	0	0	0	0	20	2,181	14.5	414	2,595	10.2
Health	862	0	0	0	0	209	1,071	7.1	302	1,373	5.4
Other Services	2,223	0	0	2	467	42	2,734	18.2	4,237	6,971	27.5
Economic	1,350	0	0	0	17	37	1,404	9.3	362	1,766	7.0
Social	873	0	0	2	450	5	1,329	8.9	3,875	5,205	20.5
Total	10,388	2,923	917	2	467	323	15,020	100.0	10,336	25,356	100.0
Perc. Shares	69.2	19.5	6.1	0.0	3.1	2.1	100.0	-	-	-	-
Perc. Shares	41.0	11.5	3.6	0.0	1.8	1.3	59.2	-	40.8	100.0	-

Source: SPO
(1) Realisation estimate
(2) Excluding labour cost

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TABLE: II. 14- Public Sector Fixed Capital Investments (2007) (1)

(Current Prices, Million YTL.)

Sectors	Central Admin.(1)	SEE	Institutions Under Scope of Priv.	Funds	Bank of Provinces	Rev. Fund+S.S.A	SUB-TOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	1,425	28	1	0	0	39	1,494	8.8	650	2,143	7.4
Mining	75	710	0	0	0	0	785	4.6	1	786	2.7
Manufacturing	14	144	226	0	1	1	386	2.3	93	479	1.7
Energy	1,319	737	493	0	0	0	2,549	14.9	926	3,475	12.0
Transportation	2,261	1,621	4	0	0	38	3,924	23.0	4,083	8,007	27.7
Tourism	82	0	0	0	0	8	90	0.5	39	129	0.4
Housing	118	0	0	0	0	0	118	0.7	288	406	1.4
Education	2,767	0	0	0	0	39	2,806	16.5	456	3,262	11.3
Health	1,074	0	0	0	0	421	1,495	8.8	324	1,818	6.3
Other Services	2,640	0	0	0	659	106	3,405	20.0	4,994	8,400	29.1
Economic	1,604	0	0	0	25	100	1,729	10.1	389	2,118	7.3
Social	1,036	0	0	0	634	6	1,676	9.8	4,605	6,281	21.7
Total	11,776	3,240	725	0	660	651	17,052	100.0	11,851	28,904	100.0
Percent. Shares	69.1	19.0	4.3	0.0	3.9	3.8	100.0	-	-	-	-
Percent. Shares	40.7	11.2	2.5	0.0	2.3	2.3	59.0	-	41.0	100.0	-

Source: SPO
(1) Programme target
(2) Excluding labour cost

TABLO: II. 15- Sectoral Breakdown of Total Fixed Capital Investments (1)

(Current Prices, Million YTL)

	2005			2006 (2)			2007 (3)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	1,961	2,255	4,217	1,911	3,283	5,194	2,471	3,864	6,335
Mining	365	1,362	1,728	602	1,568	2,170	803	1,745	2,548
Manufacturing	424	30,728	31,152	441	39,116	39,557	482	44,784	45,266
Energy	3,030	1,554	4,584	2,996	2,602	5,597	3,778	2,923	6,701
Transportation	8,418	12,723	21,141	9,206	15,471	24,676	8,526	17,381	25,907
Tourism	98	5,759	5,856	115	6,843	6,958	148	7,615	7,763
Housing	406	11,141	11,547	374	14,676	15,050	433	16,488	16,921
Education	2,787	782	3,569	3,110	917	4,027	3,897	1,031	4,928
Health	1,409	3,645	5,055	1,578	4,948	6,526	2,065	5,612	7,677
Other Services	5,545	3,255	8,799	7,501	3,875	11,376	9,006	4,333	13,339
TOTAL	24,444	73,204	97,647	27,832	93,300	121,132	31,607	105,778	137,385

Source: SPO
(1) Labour cost included in the Central Administration Budget
(2) Realisation estimate
(3) Programme target

TABLE: II. 16- Sectoral Breakdown of Total Fixed Capital Investments (1)

(Current Prices, Percentage Shares)

	2005			2006 (2)			2007 (3)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	8.0	3.1	4.3	6.9	3.5	4.3	7.8	3.7	4.6
Mining	1.5	1.9	1.8	2.2	1.7	1.8	2.5	1.6	1.9
Manufacturing	1.7	42.0	31.9	1.6	41.9	32.7	1.5	42.3	32.9
Energy	12.4	2.1	4.7	10.8	2.8	4.6	12.0	2.8	4.9
Transportation	34.4	17.4	21.7	33.1	16.6	20.4	27.0	16.4	18.9
Tourism	0.4	7.9	6.0	0.4	7.3	5.7	0.5	7.2	5.7
Housing	1.7	15.2	11.8	1.3	15.7	12.4	1.4	15.6	12.3
Education	11.4	1.1	3.7	11.2	1.0	3.3	12.3	1.0	3.6
Health	5.8	5.0	5.2	5.7	5.3	5.4	6.5	5.3	5.6
Other Services	22.7	4.4	9.0	26.9	4.2	9.4	28.5	4.1	9.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SPO
(1) Labour cost included in the Central Administration Budget
(2) Realisation estimate
(3) Programme target

2. Implementation of Public Sector Investments

In Turkey, having the vast land area and a young population, significant amount of public investment is required for provision of education and health services efficiently, improving the quality of life, getting better the social and physical infrastructure vital for enhancing the competitive power and sustainability in growth, protecting the environment, complying with the EU criteria, closing the gap between the developed countries and Turkey and reducing the inter-regional development disparities.

When compared with the 25 EU countries, Turkey places second rank after Germany in regards with population and has first rank in terms of total land area. Considering the share of public fixed capital investments of general government over GDP for the period 2001-2006, it is observed that the ratio is well above the USA and EU averages, while it is close with or less than some of the individual EU members and Japan. Taking into account of the mentioned countries, especially the EU countries which have relatively small land and less population than Turkey, in the light of the fact that those countries have higher development levels, covered infra-structural needs to a great extent and sustained higher GNPs, it is obvious that there is still a vast public investment need for Turkey.

During the implementation of public investments in 2006; investments, which are improving the economic and social infrastructure, have given importance considering the priorities at sectoral, regional and project basis.

In 2006, excluding local administration investments and labour cost, in terms of 2006 prices, 2,525 public investment projects of which total value is YTL 200.4 billion, total cumulative expenditure as of end 2005 amounts to YTL 86.5 billion and total 2006 initial appropriation is YTL 17.5 billion, have been implemented.

TABLE: II. 17- Ratio of Public Fixed Capital Investments of General Government to GDP: Turkey, EU Countries, USA and Japan

Percentage

Countries	2001	2002	2003	2004	2005	2006
EU- Avg. of 15	2.8	2.8	2.8	2.7	2.7	2.7
EU- Avg. of 25	2.9	3.1	3.1	3.0	3.0	3.1
- Luxembourg	4.3	4.8	4.6	4.4	4.7	4.7
- Greece	3.9	3.7	4.1	4.2	3.5	3.1
- Ireland	4.2	4.2	3.8	3.6	3.4	3.7
- Spain	3.3	3.5	3.6	3.4	3.6	3.6
- Portugal	3.9	3.5	3.1	3.0	3.1	2.9
- Poland	3.4	3.4	3.3	3.4	3.1	4.0
USA	2.7	2.8	2.7	2.6	3.2	3.3
Japan	5.0	4.8	4.3	3.9	3.7	3.5
Turkey	4.7	4.6	3.6	3.1	3.8	3.9

Source: European Commission (European Economy), SPO (Pre-Accession Economic Programme).

In 2006 investment programme within 2,525 projects, 858 projects corresponding an amount of YTL 3.1 billion are projects those planned to be launched and completed during the year. Furthermore, 155 multi-year new projects of which total value is YTL 4.2 billion and annual appropriation is YTL 763.3 million are taken into the investment programme in 2006.

TABLE: II. 18– Public Sector Fixed Capital Investments in Turkey (1)

	2000	2001	2002	2003	2004	2005	2006
Number of Projects	5,321	5,047	4,414	3,851	3,555	2,627	2,525
Total Value of Project (Current Prices, Billion YTL)	86.2	105.2	166.8	187.1	196.1	206.7	200.4
Cumulative Expenditures Before Current Year (Current Prices, Billion YTL)	26.1	33.8	66.0	80.4	86.8	84.0	86.5
Total Value of Programme Appropriation (Current Prices, Billion YTL)	5.9	6.9	10.6	12.5	12.0	16.2	17.5
Number of Multi-Year New Projects in the Investment Programme	249	286	128	134	149	137	155
Total Programme Appropriation / Total Value of Project (In Percent)	6.8	6.5	6.3	6.7	6.1	7.8	8.7
Average Time of Completion of the Investment Stock (In Years) (2)	9.2	9.4	8.5	7.6	8.1	6.6	5.5

(1) Excluding local administration investments, expropriation expenditures and other investments, which are not included in the investment programme.
(2) Indicates the additional period to complete the relevant year's investment stock using the amount of programmed appropriation in that year.

In 2006 Investment Programme, in the allocation of YTL 17.5 billion to the 2,525 public investment projects, transportation-communication sector is in the first place with 31.0 percent, followed by other public services sector with 18.8, energy sector with 14.2, education sector with 14.0, agriculture sector with 7.6, and health sector with 7.1 percent. Mining, manufacturing, tourism and construction sectors claim 7.3 percent of the 2006 Investment Programme budget.

In 2006 Investment Programme, total cumulative expenditure as of end 2005 amounts to YTL 86.5 billion for the 2.525 public investment projects totalling YTL 200.4 billion in terms of 2006 prices and total of remaining project stock is YTL 113.9 billion. In this situation, under the assumptions of complete utilization of 2006 appropriation, the current year level appropriation is maintained and no additional projects are taken into the investment programme in the following years, 5.5 years is estimated as average completion time for the remaining stock fully. It is the shortest time for 2000-2006 and indicates a significant decrease. In 2006 Investment Programme, excluding the inactive project stock, which has trace appropriation, average completion time becomes 4.9 years.

69.2 percent of YTL 17.5 billion total investment appropriations corresponding YTL 12.1 billion in year 2006 is allocated for general and special budget. Transportation-communication sector has the largest share with 26.4 percent of general and special budget.

It is predicted that 23.6 percent of the 2.525 public investment projects would be financed with foreign project credits. In 2006 Investment Programme, 120 projects totalling YTL 82.8 billion are considered to be partially or totally financed with foreign project credits.

Within the scope of the rationalization efforts of public investment programme, limited appropriations have been allocated for urgent and priority projects that could be completed shortly and 84 trace allocation projects of YTL 10 billion in terms of 2006 prices, remain in 2006 Investment Programme.

Besides limited resources allocated on public investments, inefficient use of resources is still an important problem in Turkey. Despite the improvements attained through rationalization efforts in recent years, project stock, especially for irrigation sector, is still considerably large contrast to the limited financial resources. The other main reasons for inefficient use of the limited resources and inability of completion of the projects as programmed and therefore not benefiting from projects at a desired level are: lack of systematic project cycle management approach thus inability of project implementation with well-designed feasibility studies and the reference of a priority set, and failure to apply an efficient monitoring and evaluation system and deficiencies in the project preparation, implementation, monitoring and evaluation units of public institutions.

In order to establish safe and lively cities by prevention and reducing probable natural disaster damages, public investments are essential to improve damage reducing strategies and implement these strategies in cross sectors. Furthermore, disaster risks should be taken into consideration in selection process of new investment projects.

The factors below have created some opportunities for the following period in enhancing the allocation of resources on public investments and efficiency in implementation phase:

Having Turkish economy be stabilised

Because of the fact that EU structural funds, which Turkey is gaining access at a growing rate, would provide additional funds for the public sector investments and require efficient preparations and implementation; such funds would promote design, implementation, monitoring and evaluation of the projects in compliance with the certain standards in public institutions

Regarding the increased level of credibility of Turkey benefiting from the international resources would contribute its foreign project credits on better terms

Strategic planning in public institutions and the strategies set in the strategic documents that were prepared or would be prepared as for the agriculture and rural development, transportation, environment sectors, and the energy sector, would help better evaluation and prioritisation of projects

Would be benefiting from public/private partnerships models

Leaving local services to the local administrations and thus implementing the local administration principal

In addition to general sectoral and regional set of priorities, ongoing projects below would be prioritised in 2007:

Those projects, which would be completed by end 2007 and thus to be given under the command of the economy

Priority projects of which physical realization rate have reached a considerable level

Out of the priority projects with external financing in the Investment Programme, the ones of which physical realization rate have reached a considerable level

Projects which are interdependent or to be implemented and completed simultaneously with the other ongoing projects

Projects directed to natural disaster mitigation and compensation for their damages

Projects which are necessary to realize the priority and policies in relation to the EU membership process

Projects of information and communication technologies which are in compliance with the e-Transformation Turkey Project

C. BALANCE OF PAYMENTS

1. World Trade

Global output, which expanded at the rates of 4.9 in 2005, is expected to grow by 5.1 and 4.9 percent in 2006 and 2007, respectively.

TABLE: II. 19- World Output and Growth Rates

(Percentage Change)

	2004	2005	2006 (1)	2007 (1)
World Output (Billion USD)				
In terms of market exchange rates	41,258	44,455	47,767	51,057
In terms of Purchasing Power Parity (PPP)	56,965	61,028	65,117	69,489
Growth (GDP, constant prices)				
World	**5.3**	**4.9**	**5.1**	**4.9**
Developed Economies	3.2	2.6	3.1	2.7
Euro Area	2.1	1.3	2.4	2.0
USA	3.9	3.2	3.4	2.9
Japan	2.3	2.6	2.7	2.1
Other Developed Economies	4.0	3.1	3.6	3.3
Developing Economies	7.7	7.4	7.3	7.2
European Union	2.4	1.8	2.8	2.4
Newly Industrialised Asian Economies	5.9	4.5	4.9	4.4
Developing Asia Economies	8.8	9.0	8.7	8.6
Middle East Countries	5.5	5.7	5.8	5.4
China	10.1	10.2	10.0	10.0
India	8.0	8.5	8.3	7.3
Turkey	8.9	7.4	6.0	5.0

Source: IMF, World Economic Outlook, September 2006; SPO
(1) Estimation

The EU economy, which is Turkey's major trade partner, is expected to grow at the rate of 2.8 percent in 2006 and slow down to some extent in 2007. Asian economies, which are led by China and India, sustain their high growth rates. China is expected to sustain its 10 percent growth rate while India is expected to lower its growth rate to 7.3 percent in 2007 compared to 8.3 percent in 2006.

Total volume of world goods export in 2006 is expected to reach USD 11.7 trillion while this volume is expected to become USD 12.9 trillion in 2007. Turkey's export share in the total world export volume is expected to be 0.71 percent for 2006 and 0.74 percent targeted for 2007.

TABLE: II. 20- Turkey's Position in World Trade

(Billions of USD

	2004	2005	2006 (1)	2007 (1)
World Exports				
Goods and Services	11,208	12,684	14,464	15,891
Goods	8,945	10,186	11,721	12,896
Turkey's Foreign Trade				
Exports	63.2	73.5	83.5	95.0
Imports	97.5	116.8	135.5	149.7
Percentage Share				
Turkey's Exports / World Exports	0.706	0.722	0.712	0.737
Turkey's Imports / World Exports	1.089	1.147	1.156	1.161

Source: IMF, World Economic Outlook, September 2006; TURKSTAT; SPO
(1) Estimation

Total volume of goods and services trade expanded in 2005 by 7.4 percent, is expected to increase by 8.9 percent in 2006 and 7.6 percent in 2007. The annual growth of the total imports of the Euro area, which constitutes the major export market for Turkey, is expected to be 7.2 percent in 2006 and 5.4 percent in 2007.

In parallel with the expanding world trade volume, foreign trade volume of Turkey, which exceeded USD 190 billion in 2005, is expected to reach USD 219 billion by the end of 2006.

TABLE: II. 21- International Trade

(Percentage Change)

	2004	2005	2006 (1)	2007 (1)
Goods and Services Trade				
World Trade Volume	10.6	7.4	8.9	7.6
Price Deflator (USD)	9.7	5.4	4.6	2.2
Export Volume				
Developed Economies	8.8	5.5	8.0	6.0
Developing Economies	14.6	11.8	10.7	10.6
Euro Area	6.6	4.1	7.4	5.3
Import Volume				
Developed Economies	9.1	6.0	7.5	6.0
Developing Economies	16.4	11.9	13.0	12.1
Euro Area	6.5	5.2	7.2	5.4
Terms of Trade				
Developed Economies	-0.2	-1.3	-0.9	0.0
Developing Economies	2.7	4.5	4.0	0.5
Euro Area	-0.4	-1.0	-0.6	-0.1

Source: IMF, World Economic Outlook, September 2006
(1) Estimation

TABLE: II. 22- World Export Prices (Annual Average)

(Percentage Change)

		2004	2005	2006 (1)	2007 (1)
In USD	Manufactures	9.4	3.6	2.2	2.3
	Oil	30.7	41.3	20.1	-1.8
	Non-fuel Primary Commodities	18.5	10.3	22.1	-4.8
	Crude Oil Barrel Prices (2)	37.8	53.4	64.4	63.3
In Euro	Manufactures	-0.5	3.4	1.9	0.1
	Oil	18.9	41.0	20.2	-1.6
	Non-fuel Primary Commodities	7.8	10.0	21.7	-6.9
	Crude Oil Barrel Prices (2)	30.4	42.8	51.6	49.5
Short term	USA	1.4	3.2	5.0	5.3
Interest rates (3)	EURIBOR	2.1	2.2	3.1	3.7
	LIBOR	1.8	3.8	5.4	5.5

Source: IMF, World Economic Outlook, September 2006; SPO
(1) Estimation
(2) Average of spot crude oil prices of Brent, Dubai and West Texas
(3) Annual average, for LIBOR on 6-month USD deposit rates, for EURIBOR 3-month euro-deposit rate, for USA 3-month T-bonds interest rates.

As non-fuel primary commodity prices in the world rose by 10.3 percent in terms of USD in 2005, oil prices rose by 41.3 percent. The rise in oil prices continued to increase in the first seven months of 2006 and has been receding since August. In this context, by the end of 2006 it is expected that the rise in oil prices would be 20.7 percent while the rise in commodity prices would be 22.1 percent. On the other hand, expected falls would be 1.8 percent in oil prices and 4.8 percent in commodity prices in 2007. In this regard, average world oil price per barrel (average of Brent, Dubai and West Texas spot prices) is expected to realise USD 64.4 in 2006 then fall to USD 63.3 in 2007.

2. Current Account Balance

a) Current Outlook

Rising current account deficit, being in parallel with the high growth rates experienced since 2002, has reached USD 30.1 billion in August 2006 on annual terms. In that rise of the current account deficit, main determinants have been the increases energy and commodity prices as well as the high growth in imports in real terms owing to the rise in production and domestic demand. Appreciated YTL resulting from massive capital inflows has been another important factor affecting the levels of competition and current account deficit.

Balance on Goods

Total volume of exports reached USD 53.3 billion in January-August 2006 period, marking an increase of 14.1 percent compared to the same period of the previous year. In this period, total volume of exports of manufacturing industry, which constitutes 94.2 percent of total volume of exports, increased at a rate of 13.6 percent. In this increase, main determinants have been the rises of 30.3 percent in manufacture of basic metals, 18.3

TABLE: II. 23- Current Account Deficit and Its Components

(Billions of USD)

				January - August	
	2004	2005	2006 (1)	2005	2006
CURRENT ACCOUNT BALANCE	**-15.6**	**-23.2**	**-30.1**	**-15.5**	**-22.4**
BALANCE ON GOODS	**-23.9**	**-32.9**	**-39.3**	**-21.6**	**-28.0**
Total Merchandise Exports	**67.0**	**76.9**	**84.3**	**48.9**	**56.2**
Exports f.o.b.	63.2	73.5	80.1	46.7	53.3
Shuttle Trade, Other Goods	3.8	3.3	3.6	2.1	2.4
Total Merchandise Exports	**-90.9**	**-109.9**	**-123.6**	**-70.5**	**-84.2**
Imports c.i.f.	-97.5	-116.8	-130.7	-75.0	-88.9
Freight and Ins., Other Goods	10.1	10.8	10.6	7.5	7.3
BALANCE ON SERVICES	**12.8**	**14.0**	**13.4**	**9.1**	**8.5**
Credit	22.9	25.8	25.1	16.7	15.9
Tourism	15.9	18.2	18.0	11.8	11.7
Debit	-10.1	-11.9	-11.7	-7.6	-7.4
BALANCE ON INVESTMENT INCOME	**-5.6**	**-5.7**	**-5.7**	**-4.0**	**-4.0**
Credit	2.7	3.7	4.3	2.5	3.1
Debit	-8.3	-9.3	-10.0	-6.4	-7.1
CURRENT TRANSFERS	**1.1**	**1.5**	**1.5**	**0.9**	**1.0**

Source: CBRT
(1) As of August, annualised

percent in motor vehicles and trailers, 46.9 percent in coke, petroleum products and nuclear fuel, 38.3 percent in other transport and 19.1 percent in machinery and equipment compared to the previous year. In the same period, exports of agriculture and forestry and mining sector increased by 20.2 and 33.8 percent, respectively.

As of January-August 2006 period a significant change has not been observed in export markets composition of Turkey. As the shares of the America, Near and Middle East Countries receded slightly in total exports of Turkey, the share of the non-EU countries increased.

TABLE: II. 24- Exports According to Country Groups

(Billions of USD)

	Annual		Percentage Share		Jan. - Aug.		Percentage Share	
	2004	**2005**	**2004**	**2005**	**2005**	**2006**	**2005**	**2006**
TOTAL EXPORTS	**63.2**	**73.5**	**100.0**	**100.0**	**46.7**	**53.3**	**100.0**	**100.0**
EU COUNTRIES	**34.5**	**38.4**	**54.5**	**52.3**	**24.3**	**27.8**	**52.0**	**52.1**
EU-15	32.6	35.9	51.6	48.8	22.8	25.9	48.7	48.6
EU-10 (New Members)	1.9	2.5	2.9	3.4	1.5	1.9	3.3	3.5
TURKISH FREE ZONES	**2.6**	**3.0**	**4.1**	**4.0**	**1.9**	**1.9**	**4.2**	**3.6**
OTHER COUNTRIES	**26.2**	**32.1**	**41.4**	**43.7**	**20.5**	**23.6**	**43.8**	**44.3**
Other Europe (Excl. EU)	6.6	8.8	10.5	12.0	5.4	7.0	11.6	13.1
Africa	3.0	3.6	4.7	4.9	2.4	2.9	5.2	5.4
America	5.7	6.0	9.1	8.1	3.9	4.1	8.3	7.8
Asia	10.5	13.2	16.6	18.0	8.5	9.3	18.2	17.4
Near and Middle East	7.9	10.2	12.5	13.9	6.6	6.9	14.1	12.9
Other Asia	2.5	3.0	4.0	4.1	1.9	2.4	4.1	4.5
Other	0.3	0.5	0.6	0.7	0.3	0.3	0.5	0.6

Source: TURKSTAT

TABLE: II. 25- Imports According to Country Groups

(Billions of USD)

	Annual		Perc. Share		Jan. – Aug.		Perc. Share	
	2004	**2005**	**2004**	**2005**	**2005**	**2006**	**2005**	**2006**
TOTAL IMPORTS	**97.5**	**116.8**	**100.0**	**100.0**	**75.0**	**88.9**	**100.0**	**100.0**
EU COUNTRIES	**45.4**	**49.2**	**46.6**	**42.1**	**31.7**	**35.5**	**42.3**	**39.9**
EU-15	42.4	45.5	43.4	38.9	29.3	32.8	39.1	37.0
EU-10 (New Members)	3.1	3.8	3.2	3.2	2.4	2.7	3.1	3.0
TURKISH FREE ZONES	**0.8**	**0.8**	**0.8**	**0.7**	**0.5**	**0.6**	**0.6**	**0.6**
OTHER COUNTRIES	**51.3**	**66.8**	**52.6**	**57.2**	**42.8**	**52.8**	**57.1**	**59.4**
Other Europe (Excl. EU)	18.4	23.9	18.9	20.4	15.8	18.9	21.0	21.3
Africa	4.8	6.0	4.9	5.2	3.8	4.8	5.0	5.3
America	6.6	7.9	6.8	6.7	5.2	5.7	6.9	6.4
Asia	21.1	28.5	21.6	24.4	17.8	23.2	23.7	26.1
Near and Middle East	5.6	8.0	5.7	6.8	5.0	7.1	6.6	8.0
Other Asia	15.5	20.6	15.9	17.6	12.8	16.0	17.1	18.0
Other	0.4	0.5	0.4	0.4	0.3	0.3	0.4	0.3

Source: TURKSTAT

Through the year 2006, total volume of exports, with a 13.2 percent increase, is expected to reach USD 83.5 billion. Foreseeing a 2.7 percent increase in export prices during the same period, the real exports growth rate is expected to be 10.7 percent.

Total volume of imports in the period January-August 2006, rising at a rate of 18.5 percent compared to the same period of the previous year, reached USD 88.9 billion. In this period, the increase in the imports of consumption goods stayed above that of the total volume of imports with a 25.8 percent while imports of intermediate goods expanded by 19.4 percent. Rising energy costs acted as the main determining factor for the increase in the imports of intermediate goods.

When the share of the imports to different country groups within total volume of imports during the period January-August 2006 is considered, increases in shares of the oil exporting countries and developing countries in total imports are observed. In this regard, the share of imports from the EU countries, which was 42.3 percent as of January-August 2005 period, decreased to 39.9 percent as of the same period of 2006.

By the end of the year 2006, total volume of imports is expected to reach USD 135.5 billion, recording an annual growth rate of 16.0 percent. In 2006, owing to the expectation that import price index would rise by 4.1 percent, real growth rate of imports are estimated to be 11.5 percent.

As mentioned above, rising energy prices serve to deteriorate the current account balance. Each dollar increase in crude oil import prices adds approximately USD 170 million to the annual oil import bill. When price increases in other energy products stemming from the increases in crude oil prices is considered, a dollar rise in the barrel prices creates an incremental burden to the total energy costs by USD 455 million. The increase

TABLE: II.26- Export-to-Import Ratio as of Trade Partners

(Percentage)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (1)
TOTAL	**53.2**	**54.1**	**58.7**	**65.4**	**51.0**	**75.7**	**69.9**	**68.1**	**64.8**	**62.9**	**60.0**
EUROPEAN UNION COUNTRIES	**51.4**	**51.0**	**57.5**	**68.3**	**55.1**	**88.9**	**79.4**	**77.3**	**75.8**	**78.0**	**78.2**
EU-15	49.9	49.2	56.1	67.1	54.5	88.2	79.1	77.2	76.9	78.9	78.9
EU-10 (New Members)	143.1	146.0	126.7	132.0	74.0	110.1	84.3	78.6	60.4	67.4	70.1
OTHER COUNTRIES	**53.9**	**55.7**	**57.4**	**59.4**	**44.3**	**61.2**	**57.3**	**55.1**	**51.0**	**48.1**	**44.7**
Other Europe (non-EU)	63.2	72.1	61.8	46.0	33.4	42.1	41.0	40.5	36.0	37.0	37.0
Africa	58.1	56.1	103.4	98.1	50.6	54.0	62.9	63.8	61.6	60.0	60.4
America	41.0	43.6	53.0	75.5	74.9	95.9	96.3	86.7	86.9	75.9	73.0
Asia	56.8	54.4	48.1	53.0	37.6	58.1	53.8	55.4	49.6	46.3	40.1
Near and Middle East	78.3	101.7	128.6	120.8	76.3	108.1	108.0	122.7	141.8	127.8	96.2
Other Asia	41.5	32.6	21.0	24.6	18.7	27.3	27.4	24.3	16.4	14.7	15.1
Other	18.0	46.8	51.2	38.8	34.4	98.8	57.2	39.1	94.6	99.7	110.3

Source: TURKSTAT
(1) January-August

of average per barrel price to USD 60.5 in 2006 from its average level of USD 50.1 in 2005 would cause a rise by USD 4.7 billion in Turkey's energy import bill.

Since the entrance of Turkey to Customs Union in 1996 to 2006, our trade with the EU has continuously improved. The ratio exports-to-imports within Turkey's EU-15 trade was 49.9 percent in 1996 while this ratio rose to 78.9 percent in January-August 2006. The amendments to be taken in accordance with the chapter of full harmonization with the Customs Union and free circulation of goods are expected to enhance the competitiveness of Turkish exporters. On the other hand, the export-to-import ratio of Turkish foreign trade with energy exporting countries and far east countries is in a steady downward trend in recent years.

Balance on Services and Investment Income and Current Transfers

Balance on services, a traditional source of surplus owing to tourism revenues, recorded a surplus of USD 14 billion in 2005. As of 2006 January-August period with a 1,1 percent rise in comparison with the same period of the previous year, tourism revenues reached USD 11,7 billion. The estimated level for tourism income for the end of 2006 is USD 18,1 billion.

The balance on income for the period of January-August 2006, retaining its 2005 level, recorded a deficit of USD 4 billion. Including the interest paid by the general government and the banks on the debt instruments, recorded in portfolio investment account, total amount of interest paid during the period January-August 2006 realised as USD 5.9 billion. Thus, current account deficit excluding interest payments increased from USD 10.1 billion in January-August 2005 to USD 16.5 billion for the same period of 2006.

By the end of first eight months of 2006, current transfers gave a surplus of USD 1 billion.

Consequently, current account deficit which reached USD 22.4 billion in the first eight months of 2006, is expected to be USD 30.7 billion by the end of the year.

b) Targets for the Year 2007

In 2007 the volume of exports, with a 13.8 percent increase, is expected to reach USD 95 billion. Assuming a fall in energy prices and a moderate growth, total volume of imports is expected to achieve USD 149.7 billion with an increase of 10.5 percent. In 2007, the expected deficits are USD 4.9 billion for shuttle trade, USD 8.1 billion for freight and insurance and USD 39.4 billion for foreign trade balance.

Export prices are expected to rise by 1.8 percent while the expected increase rate for the import prices are 2 percent in 2007. Hence, in 2007 the volume of exports of Turkey is expected to grow by 11.8 percent whereas the growth rate of imports would be 8.3 percent in real terms.

With a 9.2 percent increase, tourism revenues are forecasted to reach USD 19.8 billion in 2007. Besides, tourism expenditures are estimated to reach USD 3.2 billion, with an increase of 11.8 percent. Including the other items, total credit services is expected to reach USD 27.4 billion, rising at a rate of 11.3 percent. On the other hand, with a rise of 6.5 percent, debit total of services is estimated to reach USD 11.8 billion. Hence, balance on services, with an increase of 15.2 percent, would produce a surplus of USD 15.5 billion.

TABLE: II. 27- Factors Affecting the Foreign Trade of Turkey

	2001	2002	2003	2004	2005	2006 (1)	2007 (2)
Exports (Billions of USD)	31.3	36.1	47.3	63.2	73.5	83.5	95.0
Imports (Billions of USD)	41.4	51.6	69.3	97.5	116.8	135.5	149.7
(Percentage Change)							
Exports	12.8	15.1	31.0	33.7	16.3	13.6	13.8
Imports	-24.0	24.5	34.5	40.7	19.7	16.0	10.5
Export Price Index	-2.6	-1.8	12.7	16.3	5.7	2.7	1.8
Import Price Index	-0.3	-1.2	12.8	15.1	7.1	4.1	2.0
Real Exports	15.8	17.2	16.3	15.0	10.1	10.7	11.8
Real Imports	-23.8	26.1	19.3	22.2	11.8	11.5	8.3
Real Exchange Rate (1 USD + 1,5 Euro)	-19.1	12.0	9.7	7.5	10.5	-1.0	-6.4
GNP Growth Rate	-9.5	7.9	5.9	9.9	7.6	6.0	5.0
Growth of Industry	-7.5	9.4	7.8	9.4	6.5	6.5	5.2
Growth of Domestic Demand	-16.9	9.3	8.7	13.3	8.6	7.1	4.1
Productivity	-3.3	10.1	7.6	8.9	5.2	7.2(3)	
Productivity (Developed Countries)	0.8	4.2	4.5	3.5	3.1	3.2	3.0
Unit Labour Cost	-30.8	2.6	17.6	12.0	12.7	6.4(3)	
Unit Labour Cost (Developed Countries)	2.1	0.2	0.1	-1.0	0.4	0.2	0.9

Source: TURKSTAT, SPO, IMF World Economic Outlook, September 2006
(1) Realisation estimate
(2) Programme target
(3) As of June, annualised

TABLE: II. 28- Sectoral Breakdown of Exports (ISIC.Rev.3)

	(Billion USD)			(Percent Share)			(Percentage Change)	
	2005	2006 (1)	2007 (2)	2005	2006 (1)	2007 (2)	06/05	07/06
TOTAL EXPORTS	**73.5**	**83.5**	**95.0**	**100.0**	**100.0**	**100.0**	**13.6**	**13.8**
Agric., Forest., Fishery	3.5	3.9	4.3	4.7	4.7	4.5	13.6	8.5
Mining and Stone Quarrying	0.8	1.0	1.2	1.1	1.2	1.3	24.7	18.8
Manufacturing Industry	68.8	78.1	88.9	93.7	93.5	93.6	13.4	13.8
Other	0.4	0.5	0.7	0.5	0.6	0.7	26.0	34.5

Source: SPO, TURKSTAT
(1) Realisation estimate
(2) Programme target

TABLE: II. 29- Composition of Imports According to Broad Economic Categories (BEC)

	(Billion USD)			(Percent Share)			(Percentage Change)	
	2005	2006(1)	2007(2)	2005	2006(1)	2007(2)	06/05	07/06
TOTAL IMPORTS	**116.8**	**135.5**	**149.7**	**100.0**	**100.0**	**100.0**	**16.0**	**10.5**
Capital Goods	20.4	23.4	26.4	17.4	17.3	17.6	14.8	12.8
Intermediate Goods	81.9	96.1	106.5	70.1	70.9	71.1	17.4	10.8
Fuel (excl. gasoline)	20.5	26.4	27.3	17.5	19.5	18.3	29.1	3.4
Crude Oil	8.6	10.3	10.2	7.4	7.6	6.8	19.2	-1.3
Non-fuel intermediate goods	61.4	69.7	79.2	52.6	51.4	52.9	13.5	13.6
Consumption Goods	14.0	15.4	16.4	12.0	11.4	10.9	10.4	6.1
Other	0.6	0.6	0.4	0.5	0.4	0.3	0.8	-21.7

Source: SPO, TURKSTAT
(1) Realisation estimate
(2) Programme target

In 2007, USD 7 billion deficit in balance on investment income and USD 1.8 billion surplus in current transfers are expected. In this regard, current account deficit is estimated to be USD 30.4 billion, corresponding to a 1 percent decrease in 2007. The ratio of current account balance to GNP, which is expected to be 7.9 percent in 2006, is estimated to fall by 7.4 percent in 2007.

TABLE: II. 30- Current Account Balance

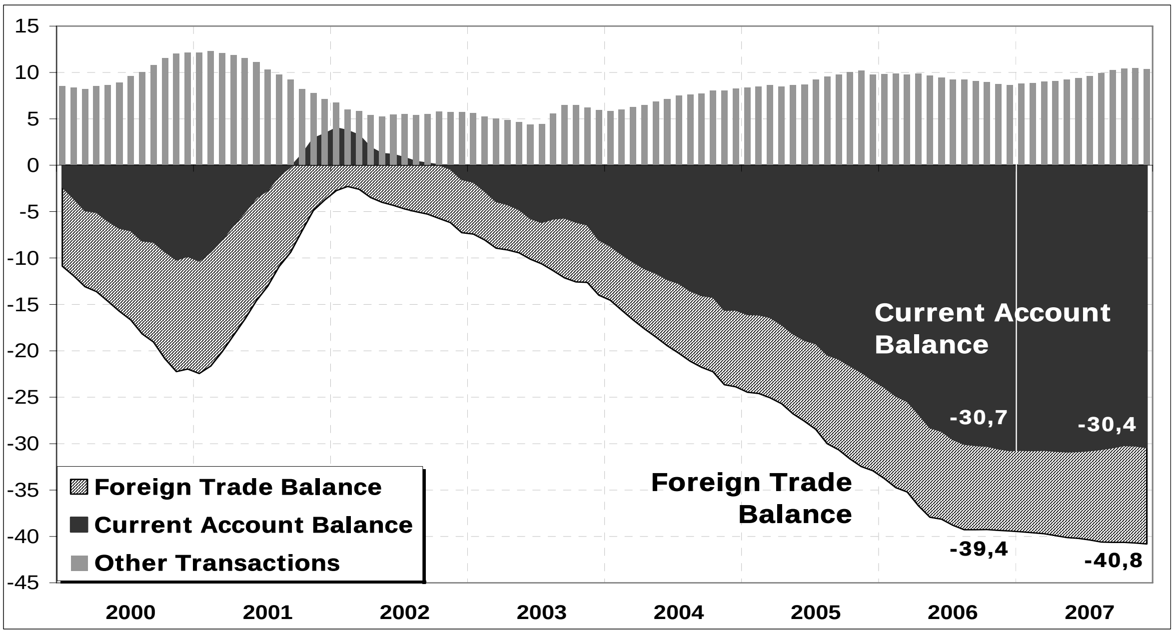
(Billions of USD)

	2003	2004	2006	2006(1)	2007(2)
CURRENT ACCOUNT BALANCE	**-8.0**	**-15.6**	**-23.2**	**-30.7**	**-30.4**
BALANCE ON GOODS	**-14.0**	**-23.9**	**-32.9**	**-39.4**	**-40.8**
Exports f.o.b.	51.1	67.0	76.8	88.0	99.9
Exports f.o.b.	47.3	63.2	73.5	83.5	95
Shuttle Trade	4.0	3.9	3.5	4.5	4.9
Adapt.: Other goods	-0.1	-0.1	-0.1	0.0	0.0
Imports f.o.b.	-62.6	-87.4	-106.0	-123.4	-136.3
Imports c.i.f.	-69.3	-97.5	-116.8	-135.5	-149.7
Freight and Insurance	4.1	5.8	6.9	8.1	9.0
Adapt.: Other goods	2.6	4.3	3.9	4.0	4.4
Non-monetary gold (net)	-2.5	-3.4	-3.8	-4.0	-4.4
BALANCE ON SERVICES	**10.5**	**12.8**	**14.0**	**13.5**	**15.5**
Credit	17.9	22.9	25.8	24.6	27.4
Debit	-7.4	-10.1	-11.9	-11.1	-11.8
Transportation	-0.5	-1.1	-1.3	-1.5	-1.1
Credit	2.2	3.3	4.0	3.6	3.8
Debit	-2.7	-4.3	-5.3	-5.1	-4.9
Tourism	11.1	13.4	15.3	15.3	16.6
Credit	13.2	15.9	18.2	18.1	19.8
Debit	-2.1	-2.5	-2.9	-2.9	-3.2
Other Services	-0.1	0.5	0.0	-0.3	0.0
Credit	2.6	3.8	3.7	2.9	3.8
Debit	-2.6	-3.3	-3.7	-3.2	-3.8
BALANCE ON INVESTMENT INCOME	**-5.6**	**-5.6**	**-5.7**	**-6.3**	**-7.0**
Credit	2.2	2.7	3.7	4.7	5.4
Debit	-7.8	-8.3	-9.3	-11.0	-12.4
Direct Investment	-0.4	-0.8	-0.7	-0.9	-0.9
Credit	0.2	0.2	0.3	0.2	0.4
Debit	-0.6	-1.0	-1.0	-1.1	-1.3
Portfolio Investment	-1.2	-1.2	-0.9	-0.4	-0.4
Credit	1.4	1.7	2.4	3.2	3.4
Debit	-2.6	-2.9	-3.3	-3.6	-3.8
Other Investment	-3.9	-3.6	-4.0	-5.0	-5.7
Interest Income	0.6	0.7	1.0	1.3	1.6
Interest Expenditure	-4.6	-4.3	-5.0	-6.3	-7.3
Long Term	-4.3	-3.9	-4.5	-5.6	-6.5
Short Term	-0.3	-0.4	-0.6	-0.7	-0.8
CURRENT TRANSFERS	**1.0**	**1.1**	**1.5**	**1.5**	**1.8**
Workers' Remittances	0.7	0.8	0.9	1.0	1.2
Official Transfers	0.3	0.3	0.6	0.5	0.6

Source: CBRT, SPO
(1) Realisation estimate
(2) Programme target

Graph:3 – Current Account Balance (12-Month Cumulative)

(Billions of USD)



Source: CBRT, SPO
(1) Estimate
(2) Programme target

3. Capital and Financial Account

a) Current Outlook

As a result of the economic programme and improved macroeconomic stability, there has been a substantial capital inflow in 2006. This inflow provided necessary resources to finance the current account deficit of USD 22.4 billion in the first eight months of the year, and to increase official reserves by USD 4.2 billion.

While in 2005, 34.7 percent of total net inflow in capital and financial account -excluding reserves- was realised in the form of portfolio investment, this share is expected to be 17.3 percent due to the outflows in May and June 2006. Increase in the foreign credit use by the non-bank private sector caused the share of other investment in total volume of financing to rise.

Compared to the previous years, rising weight of private sector credits is observed in financing the current account deficit. In January-August of 2006, the share of the private sector in net capital inflows showed a continuous increase while public sector's position has turned to net payer as of August 2006 due to repayments to the IMF. Thus, current account deficit and increase in official reserves were financed by the non-public sector.

In the first eight months of 2006, there has been a capital inflow including net repayments to the IMF of USD 3.5 billion, a resource of USD 5.3 billion- USD 4.2 billion with the net-errors and omissions- in excess of the financing requirement, was received.

TABLE: II. 31- Capital and Financial Account (Summary)

(Billions of USD)

				January-August	
	2004	2005	2006 (1)	2005	2006
Current Account Balance	**-15.6**	**-23.2**	**-30.1**	**-15.5**	**-22.4**
Capital and Financial Acc. (excl reserves)	**14.2**	**38.8**	**47.3**	**19.3**	**27.8**
Direct Investment (net)	2.0	8.7	18.5	2.4	12.1
Portfolio Investment (net)	8.0	13.4	8.6	7.3	2.4
Other Investment (net)	4.2	16.6	20.2	9.7	13.3
Official Reserves (2)	**-0.8**	**-17.8**	**-14.7**	**-7.4**	**-4.2**
Net Errors and Omissions	**2.2**	**2.2**	**-2.5**	**3.6**	**-1.1**

Source: CBRT
(1) As of August, annualised
(2) "–" sign indicates rise

TABLE: II. 32- Capital and Financial Account, Public-Private Sector Decomposition

(Billions of USD)

							Jan.-August	
	2001	2002	2003	2004	2005	2006 (1)	2005	2006
A. CURRENT ACCOUNT BALANCE	**3.4**	**-1.5**	**-8.0**	**-15.6**	**-23.2**	**-30.1**	**-15.5**	**-22.4**
B. CAPITAL AND FINANCIAL ACCOUNT (IMF Credits, excl. Reserves)	**-14.6**	**1.2**	**7.2**	**17.8**	**44.1**	**51.9**	**23.6**	**31.3**
Public Sector (excl. IMF Credits)	-5.0	2.6	1.4	6.6	6.4	3.6	3.9	1.1
Private Sector	-9.6	-1.4	5.8	11.2	37.8	48.3	19.7	30.3
Banks (net)	-9.7	-3.2	2.1	0.6	8.7	4.8	4.1	0.2
Non-Bank Private Sector (net)	0.0	1.8	3.6	10.5	28.7	43.2	15.3	29.8
Other	0.1	0.1	0.1	0.2	0.3	0.3	0.2	0.2
C. CURRENT, CAPITAL AND FINANCIAL ACCOUNT (A+B)	**-11.2**	**-0.3**	**-0.8**	**2.1**	**21.0**	**21.8**	**8.1**	**8.9**
D. NET ERRORS AND OMISSION	**-1.8**	**0.1**	**4.9**	**2.2**	**2.2**	**-2.5**	**3.6**	**-1.1**
E. GENERAL BALANCE (C+D)	**-12.9**	**-0.2**	**4.1**	**4.3**	**23.2**	**19.3**	**11.7**	**7.8**
F. TOTAL RESERVES	**3.0**	**12.9**	**0.2**	**-4.1**	**-4.3**	**-13.4**	**-2.6**	**-11.7**
Official Reserves (2)	2.7	-6.2	-4.0	-0.8	-17.8	-14.7	-7.4	-4.2
IMF Credits	10.2	6.4	-0.1	-3.5	-5.4	-4.6	-4.3	-3.5
Use	11.3	12.5	1.7	1.2	2.4	3.4	0.8	1.9
Repayment	-1.1	-6.1	-1.7	-4.7	-7.8	-8.1	-5.1	-5.4

Source: CBRT
(1) As of August, annualised
(2) "–" sign indicates rise

The increase in direct investment also continued in January-August 2006 period, thus net direct investment which realised as USD 2.3 billion 2005, reached USD 10.5 billion in 2006 on year on year basis of the same period.

In January-August 2006 the inflow of direct investment was realised as USD 12.4

billion. Of this total amount, USD 2 billion was realised by foreigners' purchase of real estate.

While in 2005 the ratio of the real estate purchases by foreigners within the total of net foreign direct investment inflow was 29.6 percent, it fell to 16.4 percent in the first eight month of 2006, due to the accelerated inflows other than real estate purchases.

In January-August 2006, USD 5.4 billion was repaid to the IMF while the use of credit was USD 1.9 billion. Thus net repayment to the IMF was USD 3.5 billion. It is planned to repay USD 4.5 billion to the IMF for the whole year.

In 2006 USD 34.6 billion net capital inflow, excluding reserves, would be expected. USD 18.3 billion of this amount would be in the form of direct investment, USD 5.5 billion as portfolio investment, USD 10.8 billion as other investment.

Net errors and omission, which has been a financing item since 2002, has been reversed during the first eight months of the 2006.

During January-August 2006 period, total reserves increased by USD 4.2 billion, hence the cumulative rise in official reserves has amounted to USD 33.1 billion since 2002.

Of the USD 10.5 billion foreign direct investment in January-August 2006, the largest share was constituted by services sector with 92.9 percent whereas manufacturing sector followed it by 5.9 percent.

TABLE: II. 33- Sectoral Decomposition of Foreign Direct Investment

(Millions of USD)

	Annual				January-August	
	2002	**2003**	**2004**	**2005**	**2005**	**2006**
Total	**622**	**745**	**1,291**	**8,537**	**2,625**	**10,544**
Agriculture	0	1	6	5	5	0
Mining and Stone Quarrying	2	14	75	40	23	62
Manufacturing Industry	110	448	214	789	478	625
Services	442	196	927	7 699	2,117	9,797
Other	68	86	69	4	2	60

Source: CBRT

b) Targets for the Year 2007

The excess global liquidity is expected to recede in 2007. In this respect, a slight slow down in capital inflows is expected.

Despite the current account deficit of USD 30.4 billion, USD 35.7 billion of net capital inflow, excluding the reserves, is expected in 2007. Apart from the net repayment of USD 1.5 billion to the IMF a rise of USD 5.3 billion in official reserves is expected. A total net capital inflow is expected in the form of USD 13.2 billion direct, USD 5.6 billion portfolio and USD 16.9 billion other investment.

As the direct investment in 2005 and 2006 largely realised by privatisation, mergers and acquisitions, the share of green-field investment are expected to rise of this type in 2007.

TABLE: II. 34- Current Account Balance and Financing

(Billions of USD)

	2002	2003	2004	2005	2006(1)	2007(2)
I. CURRENT ACCOUNT	**-1.5**	**-8.0**	**-15.6**	**-23.2**	**-30.7**	**-30.4**
II. CAPITAL AND FINANCIAL ACCOUNT	**1.4**	**3.1**	**13.4**	**20.9**	**31.9**	**30.4**
1. Direct Investment	**1.0**	**1.3**	**2.0**	**8.7**	**18.3**	**13.2**
1.1. Outflow	-0.2	-0.5	-0.9	-1.1	-0.7	-1.0
1.2. Inflow	1.1	1.8	2.9	9.8	19.0	14.2
2. Portfolio Investment	**-0.6**	**2.5**	**8.0**	**13.4**	**5.5**	**5.6**
2.1. Assets	-2.1	-1.4	-1.4	-1.2	-0.9	-1.0
2.2. Liabilities	1.5	3.9	9.4	14.7	6.5	6.6
Equities	0.0	0.9	1.4	5.7	2.0	2.0
Debt Instruments	1.5	2.9	8.0	9.0	4.5	4.6
3. Other Investment	**7.2**	**3.4**	**4.2**	**16.6**	**10.8**	**16.9**
3.1. Assets	-0.8	-1.0	-7.0	0.2	-8.5	-0.1
3.2. Liabilities	8.0	4.4	11.1	16.4	19.3	17.0
Trade Credits	2.5	2.2	4.2	3.6	4.3	4.7
Credits	5.0	0.8	6.1	12.0	13.9	11.8
Central Bank	-6.1	-1.5	-4.4	-2.9	0.0	0.0
IMF	-6.1	-1.5	-4.4	-2.9	0.0	0.0
General Government	11.8	-0.8	-0.3	-4.6	-4.2	-0.8
IMF	12.5	1.4	0.9	-2.5	-4.5	-1.4
Banks	-1.0	2.0	5.7	9.2	4.7	5.8
Other Sectors	0.4	1.0	5.1	10.3	13.4	6.7
Deposits	0.3	1.4	0.6	0.5	0.8	0.2
Other Liabilities	0.1	0.1	0.2	0.3	0.3	0.4
4. Reserve Assets (3)	**-6.2**	**-4.0**	**-0.8**	**-17.8**	**-2.8**	**-5.3**
III. NET ERRORS AND OMISSIONS	**0.1**	**4.9**	**2.2**	**2.2**	**-1.1**	**0.0**

Source: CBRT, SPO, UT
(1) Realisation estimate
(2) Programme target
(3) "–" sign indicates rise

4. External Debt Stock

The external debt stock, which was USD 171.1 billion in 2005 reached USD 193.6 billion by the second quarter of 2006. As the ratio of total external debt stock to GNP had been declining since 2002, it has turned upwards in the first half of 2006.

Whereas the share of private sector external debt within total has continuously been rising the public sector has become a net payer in recent period. In the first half of 2006, the share of banking sector increased within total private external debt owing to privatisation and commercial credits for imports.

TABLE: II. 35- Selected Indicators on External Debt Stock

(Billions of USD)

	2000	2001	2002	2003	2004	2005	2006(1)
Total External Debt	**118.5**	**113.6**	**130.1**	**144.9**	**162.2**	**171.1**	**193.6**
Short Term Debt	28.3	16.4	16.4	23.0	32.6	38.2	43.7
Medium-Long Term Debt	90.2	97.2	113.7	121.9	129.6	132.8	149.9
Public Sector External Debt	62.7	70.5	85.6	93.9	95.2	83.5	82.7
Private Sector External Debt	55.8	43.1	44.5	51.0	67.0	87.5	111.0
Banking Sector	21.5	11.2	9.4	12.8	20.3	30.0	37.4
Non-Banking Sector	34.4	31.9	35.1	38.2	46.7	57.6	73.6
Percentage Shares							
Short Term Ext. Debt / Tot. Ext. Debt	23.9	14.4	12.6	15.9	20.1	22.4	22.6
Public Sector/ Total External Debt	52.9	62.0	65.8	64.8	58.7	48.8	42.7
Reserves / Short Term External Debt	81.8	120.7	170.9	152.8	115.6	137.1	134.9
Total External Debt Stock / GNP	58.8	78.7	71.2	60.8	53.8	47.2	50.6

Source: CBRT, UT
(1) As of June

D. INFLATION AND MONETARY-EXCHANGE RATE POLICY

1. Inflation

In 2005 Consumer Price Index (CPI) rose by 7.7 percent while Producers' Price Index (PPI) rose by 2.7 percent. Thus, CPI inflation realised to be lower than 8 percent, the pre-determined level for 2005. As was the case for the period 2002-2004, the implemented fiscal discipline and tight monetary policy helped inflation rate to be lower than the target level for 2005. Other factors in this outcome were strong Turkish Lira, decisive implementation of structural reforms and continuity in productivity increases. On the other hand, the rapid decline in inflation since 2002 has been observed to slow down. In this development, rises in commodity prices and rigidity in service prices were determining factors.

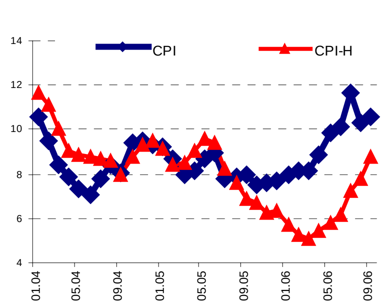
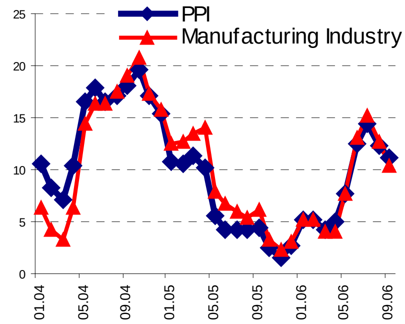
The implicit inflation targeting regime, which had been implemented since 2002 has replaced by explicit inflation targeting regime at the beginning of 2006. According to this regime, inflation targets are set as point targets. Apart from the implementation during the years 2002-2005, an uncertainty band is created for oblige of accountability and upwards and downwards deviations from the target will be assessed equally. For the year 2006, the inflation target is set as 5 percent and the uncertainty band is 2 points in both directions. Furthermore, a quarterly inflation path consistent with the end-year target is composed to function as review criterion of the implemented economic programme.

In 2006 the downward trend in inflation is replaced by a rise and the upward trend in yearly inflation had lasted until August. During the first 4-months period of the year, it is observed that rising commodity prices and the increase in the unprocessed food and tobacco prices were the determining factors on the inflation. As of May, the depreciation of Turkish Lira after the capital outflows due to the adverse developments in the global liquidity conditions has created an upward pressure on inflation. The direct effects of TL depreciation on consumer prices have firstly arisen via energy and durable consumer goods prices. And in the following months, price increases have spread to a wider product range with the delayed effects. Together with the rise in exchange rates, the rises in energy and unprocessed food prices have elevated the yearly inflation to double digits.

By realization of 8.2 percent at the end of the first quarter of 2006, the inflation has passed its path value by 0.8 points and remained within the uncertainty band. In the following period, with the depreciation of Turkish Lira, inflation has breached the upper limit of uncertainty band for the second and third quarters. As a matter of fact, while the path values for the second and third quarter were set as 6.5 percent and 5.8 percent, the yearly inflation realized as 10.1 and 10.5 percent for these periods.

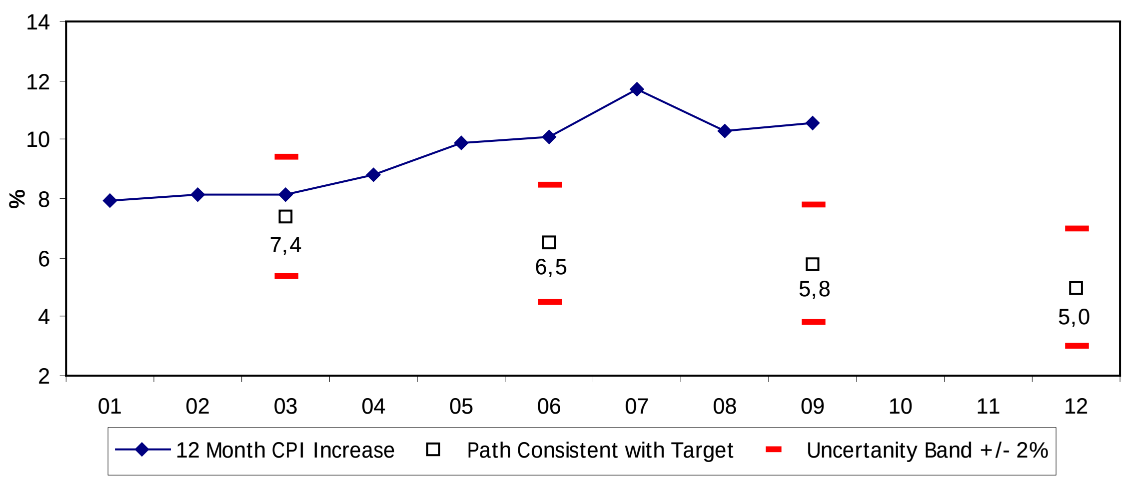
GRAPH-4 : Price Developments

(Annual Percentage Change, 2003=100 based indices)

CPI and Special CPI Aggregate -(H)	PPI and Manufacturing Industry
	

Source: TURKSTAT

Graph: 5- Inflation Path Consistent With End-Year Target And Realizations For 2006



Source: TURKSTAT, CBRT

Table: II. 36- Developments in Special CPI Aggregates as of September (2003=100)

(Percentage Change)

Series	Coverage	Jan-Sept. 2005	Jan-Sept. 2006	12 Months 2005	12 Months 2006	Average Annual 2005	Average Annual 2006
	CPI – General	3.93	6.65	7.99	10.55	8.63	9.05
A	Excluding seasonal goods	6.81	8.56	9.10	10.16	9.82	9.11
B	Excluding unprocessed foods	4.96	6.67	8.39	9.53	9.31	8.52
C	Excluding energy	3.54	6.36	7.43	10.68	7.99	8.87
D	(B) and (C)	4.72	6.32	7.79	9.49	8.67	8.21
E	(C) and excluding alcoholic beverages and tobacco products	2.48	6.45	6.55	10.71	7.85	7.87
F	(E) and excluding other administered prices and indirect taxes	2.20	7.60	6.73	12.39	7.98	8.92
G	(F) and (B)	3.26	7.85	6.86	11.36	8.72	8.12
H	(D) and excluding alcoholic beverages, tobacco and gold	3.67	6.03	6.92	8.74	8.68	6.39

Source: TURKSTAT

When movements of the special CPI aggregates which are calculated by eliminating transitory shocks from consumer prices are observed, it is seen that the increase in H-type aggregate -excluding unprocessed food, energy, alcoholic beverages, tobacco and gold- has remained below the general index. As of September 2006, while the yearly increase in CPI was 10.5, the 8.7 percent increase in H-type aggregate reveals the total effects of depreciation of Turkish Lira, the increase in energy and unprocessed food prices and price

TABLE: II. 37- Developments in the Price Indices as of September (2003=100)

(Percentage Change)

	January-September 2005	January-September 2006	12 Month 2005	12 Month 2006	Average Annual 2005	Average Annual 2006
PPI	2.98	11.54	4.38	11.19	9.54	7.06
Agriculture	-2.62	4.16	1.58	10.20	5.32	6.55
Industry	4.55	13.36	5.14	11.21	10.75	7.12
Mining	13.40	17.06	11.82	13.17	13.98	13.66
Manufacturing Industry	5.32	12.74	6.15	10.43	11.30	7.23
Electricity, gas, water supply	-9.68	21.70	-11.53	23.45	2.33	2.74
CPI	3.93	6.65	7.99	10.55	8.63	9.05
Food and non-alcoholic beverages	-0.37	6.78	4.38	12.45	5.55	8.21
Alcoholic beverages and tobacco	21.86	5.03	22.36	10.21	10.32	25.36
Textile and footwear	-9.52	-9.53	1.77	-0.13	5.28	-0.56
Housing	6.68	10.36	10.11	13.65	10.91	11.75
Household equipment	2.36	7.29	4.68	11.38	7.05	4.97
Health	-0.75	7.51	0.34	7.88	6.99	1.81
Transportation	11.68	9.97	18.17	9.31	15.59	10.92
Communication	0.99	1.81	2.37	2.54	1.48	2.85
Recreation and culture	7.59	7.39	5.70	6.44	8.73	4.34
Education	6.97	7.85	7.36	8.10	16.11	7.62
Restaurants and hotels	11.54	11.05	14.13	14.48	14.32	14.20
Miscellaneous goods and services	3.25	11.63	5.53	17.33	7.83	14.61

Source: TURKSTAT

adjustments in alcoholic beverages and tobacco prices on general index.

According to Central Bank forecasts, 2006 end-year inflation will realize in the interval of 9.2 percent and 10.6 percent with the 70 percent probability. In other words, two-point uncertainty band will be most probably exceeded at the end of 2006. However, measures taken by Central Bank in June and its resolute stance will provide inflation to converge to targets in medium term. In fact, inflation will show a marked decrease as of second quarter and at the end of 2007 it will realize between 3.5 percent and 6.8 percent with 70 percent probability according to projections made by Central Bank, under the assumption of sustained resolute stance. In this context, inflation will have converged to targeted 4 percent level at the end of 2007.

In production prices, 11.5 percent increase has been observed for first 9 months of 2006. In this period, increase of agriculture sector prices has been 4.2 percent and increase of industrial sector prices has been 13.4 percent. PPI is quite sensitive to cost shocks and changes in exchange rates since it is calculated in terms of basic prices. As a matter of fact, PPI that increased by 2.5 percent in the first quarter of 2006, has increased by 9 percent in the second quarter due to the fluctuations in exchange rates during May and June. Along with the increase in exchange rates, rises in metal and energy prices in international markets played role in this development. In third quarter, PPI decreased by 0.1 percent because of descent in exchange rates and oil prices.

TABLE: II. 38– Developments in the Factors Affecting the Price Increases

(Annual Average Percentage Change)

	1999	2000	2001	2002	2003	2004	2005	2006
WPI (1)	53.1	51.4	61.6	50.1	25.6	11.1	5.9	7.1(3)
- Manufacturing Industry	57.2	56.1	66.7	48.3	23.8	11.0	7.6	7.2(3)
CPI (1)	64.9	54.9	54.4	45.0	25.3	10.6	8.2	9.1(3)
- Food	48.6	49.8	50.3	49.9	28.7	9.0	4.9	8.2(3)
CPI – H	-	-	-	-	-	9.3	8.0	6.4(3)
Exchange rate of USD	60.6	49.4	96.1	23.0	-0.6	-4.9	-5.7	3.0(3)
Currency Issued	59.1	65.2	53.3	52.2	45.6	40.0	28.3	35.8(3)
Money Supply (M2Y)	91.8	70.1	76.3	37.4	18.1	22.9	20.5	27.6(3)
Domestic Borrowing Interest Rate (2)	109.5	38.0	96.2	63.8	45.0	25.7	16.9	17.5(3)
Nominal Wage (Net)								
- Public	134.3	65.7	36.6	31.7	21.9	12.5	16.4	6.1(4)
- Private	84.0	56.5	23.2	43.5	24.8	14.4	8.8	-
Nominal Net Wage	72.4	37.1	48.6	53.3	24.2	13.4	11.0	16.4(4)
Export Price Index	-6.8	-4.3	-2.6	-1.8	12.7	16.3	5.7	2.7(4)
Import Price Index	-5.5	4.5	-0.3	-1.2	12.8	15.1	7.1	4.1(4)

Source: TURKSTAT, SPO
(1) 2004 and before are according to 1994=100 base year, 2005 is according to the index with the base year 2003
(2) Average interest rates on Government Domestic Bills (annual compounded , excluding withholding tax)
(3) As of September
(4) Yearly estimation

2. Monetary-Exchange Rate Policy

a) Current Outlook

The implicit inflation targeting, which short term interest rates and monetary base has been utilized as the main policy instrument as the anchor since beginning of 2002 also continued in 2005. In this year, targets for monetary base, net domestic assets and net international reserves followed as aggregates of performance and indicative criteria were achieved, except the monetary base target set for September. That inflation have decreased steadily in past three years and 2005 CPI target realized below the 8 percent target set for the end year, contributed to enhance the credibility level of the monetary policy implementation and improve positive expectations of the agents in the economy.

TABLE: II. 39- Monetary Policy Performance Criteria For 2006

	Inflation (1)		NIR(2)	
	Criteria	**Realization**	**Criteria**	**Realization**
31 March 2006	5.4-9.4	8.16	17.2	32.4
30 June 2006	4.5-8.5	10.12	19.9	31.0
30 Sept. 2006	3.8-7.8	10.55	20.3	31.0
31 Dec. 2006	3.0-7.0	-	22.6	-

(1) Uncertainty band around path consistent with the inflation target; yearly, in percent.
(2) Lower limit, billion dollar

Central Bank has adopted explicit inflation targeting regime by beginning of 2006 with the completion of necessary technical infrastructure and supply of prerequisites. Explicit inflation targeting regime, which would not change the framework of monetary policy of implicit inflation targeting regime implemented since last four years, has made significant changes in terms of institutionalisation, transparency and accountability of the monetary policy. In this regard fundamental developments are interest rates decisions be taken by majority in Monetary Policy Committee and be binding, Inflation Report quarterly and the summaries of the Monetary Policy Committee meetings monthly be issued as main communication instruments and inflation be fundamental anchor. Besides, the inflation path consistent with the end of year target was announced quarterly and uncertainty bands around the path were determined. The uncertainty band for the 2006 year was set as 2 points in both directions. In the framework of the standby arrangement with the IMF, both the uncertainty band consistent with the inflation target and Net International Reserves (NIR) were set as performance criteria used for the quarterly revisions.

The first quarter of the year 2006 was a period in which there have been decisive implementation of strict monetary and fiscal policy and the conjuncture in favour of developing countries and the stability in exchange rates. By taking these developments into consideration, Central Bank reduced the short term interest rates by 25 base points in April. After a reduction in the interest rates, short-term interest rates which are set by Central Bank in interbank money market and İstanbul Stock Exchange Repo-Reserve Repo Market, were 13.25 percent for borrowing and 16.25 percent for lending.

In the second quarter of the year 2006, the reversal of global liquidity into developed countries by the expected increase in interest rates, caused capital outflows from developing countries including also Turkey. The fluctuation in financial markets due to capital outflows gave rise to rapid deprecation in YTL and the deterioration in inflation expectations. That the Monetary Policy Committee raised short term interest rates by 175 base points in unusual meeting on 7 June was the first response of Central Bank to these

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developments. In response to deterioration tendency of stability in financial markets once more, the continuation of YTL deprecation and the increased volatility in exchange rates, in the second unusual meeting on 25 June, the Monetary Policy Committee raised the interest rates by 225 base points with the aim of preventing the deviations from its medium term commitments. Furthermore, in order to diminish the disadvantages of Central Bank in lending transactions when it sterilizes the excess liquidity, the Bank raised technically lending interest rates 200 base points without the decision of Monetary Policy Committee in 28 June. Also in the usual meeting in July, by raising the interest rates 25 base points, the Monetary Policy Committee set 17.50 percent for borrowing and 22.50 percent for lending.

Although the interest rates decisions taken by Central Bank and additional measures lessened the deterioration in expectations, as of end of June and September CPI realized 10.12 percent and 10.55 percent respectively, because of the first round effects of the rise in exchange rates into price levels. These figures exceeded 8.5 percent and 7.8 percent the level which was determined as the upper limits of uncertainty bands for June and September respectively. In the framework of accountability principal, Central Bank sent two letters, disclosing the reasons of incapability to achieve the determined targets in due time or the occurrence of the possibility of not achieving targets and the measures to be taken, to the Government and IMF as a programme conditionality and informed the public on 14 July and 30 October 2006. In these letters, it was declared that the target for the year 2006 could not be achieved because of the rising costs resulting from the factors outside the control of monetary policy, the possibility of convergence to the target for the year 2007 was high and some monetary tightening would be necessary in order to attain the target.

TABLE: II. 40 – Developments in Central Bank Interest Rates

(In Percent)

	2005									2006				
	11 Jan.	9 Feb.	9 March	11 Apr.	10 May.	9 June.	11 Oct.	9 Nov.	9 Dec.	27 Apr.	7 June	25 June	28 June	20 July
O/N Borrowing	17.00	16.50	15.50	15.00	14.50	14.25	14.00	13.75	13.50	13.25	15.00	17.25	17.25	17.50
O/N Lending	21.00	20.50	19.50	19.00	18.50	18.25	18.00	17.75	17.50	16.25	18.00	20.25	22.25	22.50
T/N Borrowing	17.00	16.50	15.50	15.00	14.50	14.25	14.00	13.75	13.50	-	-	-	-	-
Late Liq. Window Borrowing	25.00	24.50	23.50	23.00	22.50	22.25	22.00	21.75	21.50	19.25	21.00	23.25	25.25	25.50
Late Liq. Window Lending	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	9.25	11.00	13.25	13.25	13.50

Source: CBRT

In addition to monetary tightening through raising interest rates, the measures aiming at sterilizing excess liquidity and overcoming shortage in exchange rate markets were taken by Central Bank. In this framework, the Bank began YTL deposit auctions with one and two-week maturity and exchange rate selling auctions. As the result of measures taken, the depreciation experienced in YTL ceased, excess volatility in exchange rates diminished and the deterioration tendency in expectations decelerated.

In January-September 2006 period, the FX assets expanded whereas the YTL assets shrank in Central Bank balance sheet as before. The increase in foreign assets mainly resulted from transactions of direct FX purchase interventions and daily purchase auctions

TABLE: II. 41- Selected Monetary Aggregates and Items in Central Bank Balance Sheet (1)

	2004	2005	2006		
	Dec.	Dec.	March	June	September
			(Million YTL)		
Monetary Aggregates					
M1	29,469	41,759	40,390	45,582	44,601
M2	109,344	153,146	162,212	176,913	176,662
M2Y	185,419	229,586	241,030	269,578	269,941
			(Million YTL)		
Net Foreign Assets	23,048	49,480	60,351	69,481	67,474
Net Domestic Assets	21,071	17,732	18,028	10,109	11,702
GDDI Portfolio	19,577	19,470	19,520	19,348	18,212
Revaluation Item	2,032	2,010	1,418	-6,029	-2,283
Central Bank Money	24,743	38,547	49,796	44,917	40,742
Currency Issued	13,465	19,612	20,207	23,276	23,278
Banks YTL Deposit	6,723	12,899	12,417	13,344	11,545
Liability on OMO	3,622	4,983	14,549	5,066	3,683
Treasury Cash Balance	793	868	2,543	3,070	2,096
			(Million USD)		
Net FX Position	2,736	15,499	23,660	21,715	19,464
Net Foreign Assets	17,173	36,843	44,947	43,347	45,227
Net FX Reserve	35,190	49,372	57,281	55,789	57,455
FCDA and SFDA (-)	18,602	15,576	15,671	15,930	15,685
Domestic FX Liabilities	14,437	21,344	21,287	21,632	25,762
Public Sector Deposits in FX	4,545	10,331	10,799	10,320	13,012
Banks' FX Deposits	9,892	11,013	10,488	11,312	12,750

Source : CBRT
(1) Central Bank Balance Sheet Items are as of the last day of month, Monetary Aggregates are as of the last Friday of month.

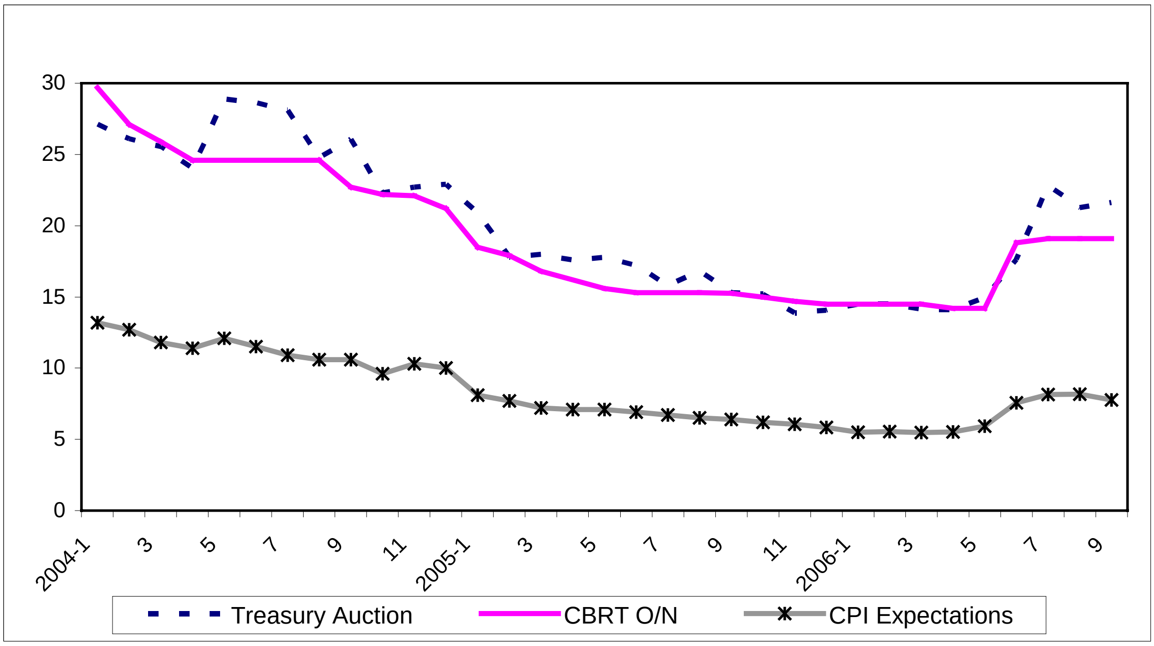
performed by Central Bank. The rise in FX assets through creation of YTL liabilities ensured Central Bank to increase its net FX position. During capital outflows in May and June, direct FX selling interventions and periodical FX selling in order to overcome liquidity shortage in the FX markets decelerated the increase in this item. In the same period, in addition to decline in domestic debt instruments portfolio of the Bank, negative flow of the revaluation account because of the increase in exchange rates were the basic determinants in decrease of Net Domestic Assets.

Currency issued, one of the main liability accounts on the Central Bank balance sheet showing an increase of 18.7 percent during January-September 2006, reached YTL 23.3 billion. At the same period, because of the total required reserves which was 6 percent for YTL liabilities began to be deposited in two weeks average, banks deposit fluctuated between YTL 6.8 billion and YTL 18.3 billion. In the first nine months of 2006, treasury cash balance and liability on open market operations fluctuated from YTL 0.3 billion to YTL 8.5 billion and from YTL 0.6 billion to YTL 20.6 billion, respectively. As a result of the flows mentioned above, Central Bank Money, which is the total of YTL liabilities, fluctuated between YTL 40 billion and YTL 51.3 billion and as of September 2006 realized as YTL 40.9 billion.

As of September 2006, M1, M2 and M2Y monetary aggregates expanded nominally in rates 6.8 percent, 15.4 percent and 17.6 percent respectively since the end of the previous year and recorded real increases except M1. For the decline in M1 in real terms, the determining factor was the deceleration of growth rate of currency in circulation and demand deposits in the first half of 2006 due to the slow down of money demand expansion continued for the last three years. In the rapid expansion of M2 during the first nine month of this year, 23.4 percent increase of saving deposits was the key factor. After depreciation of exchange rate in May and June, the jump in FX deposits in terms of both YTL and FX base was the factor describing rapid expansion in M2Y.

As a reflection of the volatility in May and June which shifted inflation expectations and thus risk premium, interest rates on domestic borrowing, after a steady fall during 2005, exhibited an upward tendency since second quarter of 2006. In this context, the weighted average compounded interest rates prevailed in the Treasury auctions increased from 14.1 percent level in December 2005 to 21.6 percent in September 2006. The said interest rate, which realized as 16.9 percent for the average of the year 2005 rose to 17.5 percent for the average of 2006 January-September period. It is considered that the basic determinants of the increase of interest rates prevailed in the Treasury auctions were the rise in Central Bank short-term interest rates, which is one of the fundamental funding costs for financial market agencies and the deterioration in inflation expectations. Despite

GRAPH: 6- Developments in Compound Interest Rates



the increase in interest rates, the average maturity prevailed in Treasury auctions extended since Treasury gave priority to floating rate debt instruments, which have a safeguard feature for both borrowers and lenders against interest rate risks. In fact, the average maturity prevailed in Treasury auctions, which was 560 days in 2005, extended to an average of 722 days in 2006 January-September period.

Floating exchange rate regime, which is complementary to the monetary policy strategy, continued in 2006 January-September period by keeping the framework including exchange rate interventions and periodical auctions. Central Bank announced the exchange rate buying auction programme for 2006 and that the maximum daily amount that can be bought was set at USD 20 million and an additional USD 40 million for optional selling for successful bidders. In the first four and a half months of 2006, Central Bank bought USD 3.3 billion foreign currency via auctions. However, because of the decline in foreign currency supply arising from the decrease in risk appetite towards emerging markets and the excess volatilities in exchange rates, the Bank decided to suspended daily FX buying auctions starting from May 16, 2006. In the following days, as a policy response to the persistent volatility in financial markets and the deterioration in inflation expectations, Bank held foreign currency selling auctions twice and sold USD 1 billion foreign currency in June, in order to overcome the liquidity shortage in the foreign currency market.

Starting from beginning of 2006, insufficiency of foreign currency demand in addition to both capital inflow and reserve currency substitution caused excess supply in the market. Because of the possibility that excess liquidity in the FX market would damage the medium and long term inflation target, Central Bank intervened directly in the market and bought USD 5.4 billion foreign currency. However, in the second quarter of 2006, particularly because of capital outflows in May and June and the increasing foreign currency demand, the situation reversed and an upward volatility in exchange rates was observed. Because of the liquidity shortage in FX market and uncertainty perception originated by excess volatility in exchange rates, Central Bank intervened directly in the FX market three times via selling. As a consequence of these interventions held in June, Central Bank sold USD 2.1 billion foreign currency.

Euro/dollar parity, starting to increase in favour of euro during 2004 and reaching 1.36 at the end of the year owing to the rise of risk perception about US economy, declined to 1.18 due to the raise of interest rates taken by

TABLE: II. 42- Exchange Rate Interventions and Periodical Auctions of Central Bank

(Million USD)

	Interventions		Auctions	
	Purchase	**Selling**	**Purchase**	**Selling**
2003	2,788	-	5,652	-
2004	1,283	9	4,104	-
2005	14,565	-	7,443	-
2006	5,441	2,105	3,318	1,000

Source : CBRT

FED, aiming to slow down domestic demand boom and diminish the inflationary pressure. FED decisions on the rise of interest rate maintained in the first half of 2006 and interest rates reached 5.25 percent as of June 2006. From June 2004 to June 2006, FED, after seventeen times increasing interest rate that was 1 percent, kept interest rates unchanged in 2006 July- September period by making out the case that growth indicators of the US economy were slowing and inflationary pressures exhibited a downward tendency. On the other hand, European Central Bank (ECB), increased the interest rate from 2 percent in December 2005 to 3.25 percent in October 2006. The concerns about US economy, the positive indicators of Euro area and the increases of interest rate of ECB caused the depreciation of US dollar against euro and the parity increased to 1.27 by the end of September.

b) Targets for the Year 2007

Explicit inflation targeting will also be maintained in the year 2007 by keeping its operational framework mentioned above. The uncertainty band for 2007 will be set towards the end of 2006.

In the framework of explicit inflation targeting, the inflation target is defined as the annual change in Consumer Price Index and has been determined as 4 percent for 2007 and 2008 years. The target for 2009 would be announced by the end of 2006.

For situations in which developments relating the conditions of balance of payments and currency substitution are suitable, FX buying auctions will be held by Central Bank in the framework of a pre announced programme.

In the framework of floating exchange rate regime, exchange rates would be established by supply and demand conditions in the FX market. However, Central Bank could intervene foreign currency market by selling and buying to prevent current and potential excess fluctuations in exchange rates.

PART THREE

DEVELOPMENTS AND TARGETS IN PUBLIC FINANCE

I. GENERAL GOVERNMENT

1. Current Outlook

General government is composed of public administrations within the scope of central government, local governments, extra-budgetary funds, social security organizations, general health insurance, revolving funds and unemployment insurance fund. In other words, the definition of general government excludes SEEs from the definition of total public sector.

General principle in calculating the expenditures and the revenues of general government, is abstaining from recording current transfers or capital transfers (excluding the tax revenues transferred to either local administrations or funds) made from a budget classification (or from a public institution) to another budget classification (or to a public institution) as an expenditure item in the accounts of the institutions making the transfer and as a revenue item in the accounts of the institution receiving the transfer. Such an accounting practice helps showing a public revenue as an income item in the budget of the public institution which first received this flow as income while as an expenditure item in the account of the institution performing the final expenditure. This principle is the first change made in the calculations of public accounts by the SPO. As a result of new style applied, deficit (or surplus) figures vary as to budget classifications (or public institutions) while total balance figures stay the same. Second modification is the termination of netting practice made in relation with certain income and expenditure items. For example, in the former practice, while the difference between the social security premium revenue, which is an inflow in the nature of tax revenues, and the monthly payments of retirement salaries, which is an outflow in the nature of personnel expenditures, is shown in the public sector general equilibrium as social funds, via the termination of netting practice the premium revenues and monthly retirement salary payments are disclosed under the income and expenditure items separately.

As a requirement of the tight fiscal policy of economic programme which is continued to pursue in 2006; total public sector primary surplus is targeted at the level of 6.5 percent of GNP, the deficit of social security organizations is restricted to 4.5 percent of GNP, with the exception of the investment projects that have priority it is committed to save the revenue surpluses which are obtained as a result of the increase in the economic performance and an upper limit cap is set to the total of the program defined expenditures of central government budget excluding transfers to social security organizations, and the expenditures of social security organizations.

As a result of adhering to fiscal discipline strictly, the general government balance gave surplus for the first time in 2005. The increase in primary surplus and the decrease in the budget burden of interest expenditures have both contributed to this development.

In spite of the increase in the primary expenditures in 2006, it is expected that the general government surplus will increase to the level of 2.7 percent of GDP due to the high privatisation revenues and one-off revenues.

In 2006, it is expected that primary expenditures would increase 1.2 percentage points as a ratio to GDP, and the revenues excluding privatisation would augment to correspond this amount. Thus, the general government surplus excluding interest expenditures and privatisation revenues are expected to be at the level of the year 2005.

2. Targets For The Year 2007

In 2007, privatisation revenues would decrease according to the previous year and there would not be significant revenues received form Saving Deposit Insurance Fund (SDIF). On the other hand there would be a pressure for expenditure due to some decisions and regulations that have expansionary effect. Furthermore it is expected that with the effect of social security reform, the ratio of general government revenue and expenditure figures would rise.

The general government expected to give a surplus in 2006 is projected to give a deficit of 0.6 percent of GDP in 2007. This deterioration is caused mainly by the decrease of privatisation revenues and the increase in personnel, other current, health and social aid expenditures.

The general government balance, expected to give a surplus of 8.9 percent of GDP excluding interest expenditures and privatisation revenues in 2006, is targeted to give a surplus of 7.1 with a decrease of 1.8 percentage points in 2007.

Whereas the public sector general balance including SEEs and calculated on the basis of SPO definition is expected to yield a surplus of 3.1 percent of GDP in 2006, this surplus is predicted to turn to a deficit at the level of 0.2 percent in 2007. In this context, public sector primary surplus according to the IMF definition expected to be 7.4 percent of GDP is programmed to realize at the level of 6.5 percent in 2007.

TABLE: III. 1- Revenues and Expenditures of the General Government

	(Current Prices, Millions YTL)					(Ratio to GDP, In Percent)				
	2003	**2004**	**2005 (1)**	**2006 (2)**	**2007 (3)**	**2003**	**2004**	**2005 (1)**	**2006 (2)**	**2007 (3)**
Taxes	**84,861**	**101,405**	**121,082**	**140,229**	**161,082**	**23.6**	**23.6**	**24.9**	**24.9**	**25.5**
-Direct	27,509	31,424	36,284	38,682	45,377	7.6	7.3	7.4	6.9	7.2
-Indirect	54,194	67,322	81,056	96,696	110,198	15.1	15.6	16.6	17.2	17.4
-Wealth	3,158	2,659	3,742	4,852	5,507	0.9	0.6	0.8	0.9	0.9
Non-Tax Revenues	**11,159**	**13,145**	**16,272**	**19,501**	**18,291**	**3.1**	**3.1**	**3.3**	**3.5**	**2.9**
Factor Incomes	**23,159**	**29,709**	**38,736**	**44,278**	**42,952**	**6.4**	**6.9**	**8.0**	**7.9**	**6.8**
Social Funds	**23,878**	**30,120**	**33,607**	**44,117**	**66,385**	**6.6**	**7.0**	**6.9**	**7.8**	**10.5**
TOTAL	**143,057**	**174,379**	**209,698**	**248,125**	**288,710**	**39.8**	**40.5**	**43.0**	**44.1**	**45.7**
-Privatisation Revenues	429	1,691	3,984	12,432	5,227	0.1	0.4	0.8	2.2	0.8
TOTAL REVENUES	**143,486**	**176,070**	**213,682**	**260,557**	**293,937**	**39.9**	**40.9**	**43.9**	**46.3**	**46.5**
Current Expenditures	62,960	76,034	85,343	105,361	124,623	17.5	17.7	17.5	18.7	19.7
Investment Expenditures	13,084	13,558	18,624	21,688	25,024	3.6	3.1	3.8	3.9	4.0
-Fixed Capital	12,994	13,430	18,511	21,516	24,939	3.6	3.1	3.8	3.8	3.9
-Change in Stocks	90	128	113	173	86	0.0	0.0	0.0	0.0	0.0
Transfer Expenditures	103,443	109,295	108,520	118,411	148,159	28.8	25.4	22.3	21.0	23.4
-Current Transfers	101,214	106,053	106,000	111,620	142,334	28.1	24.6	21.8	19.8	22.5
-Capital Transfers	2,229	3,242	2,520	6,791	5,825	0.6	0.8	0.5	1.2	0.9
Stock Revaluation Fund	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
NON-INTEREST EXPENDITURE	**119,020**	**141,012**	**165,828**	**198,204**	**243,877**	**33.1**	**32.8**	**34.0**	**35.2**	**38.6**
TOTAL EXPENDITURES	**179,487**	**198,888**	**212,487**	**245,460**	**297,806**	**49.9**	**46.2**	**43.6**	**43.6**	**47.1**
BORROWING REQUIREMENT	**36,001**	**22,818**	**-1,195**	**-15,097**	**3,870**	**10.0**	**5.3**	**-0.2**	**-2.7**	**0.6**
PRIMARY BALANCE	**-24,466**	**-35,058**	**-47,854**	**-62,353**	**-50,060**	**-6.8**	**-8.1**	**-9.8**	**-11.1**	**-7.9**
BORROWING REQUIREMENT EXCLUDING INTEREST EXPENDITURES AND PRIV. REVENUES	**-24,037**	**-33,367**	**-43,869**	**-49,921**	**-44,833**	**-6.7**	**-7.8**	**-9.0**	**-8.9**	**-7.1**

Source: SPO
(1) Provisional
(2) Realization estimate
(3) Programme target
Note: 1. General government includes; the consolidated budget (2003, 2004, 2005) / central government budget (2006, 2007), local governments, revolving funds, unemployment insurance fund, social security institutions, extra-budgetary funds and the general health insurance.
2. Tax rebates are excluded in revenues and expenditures.

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TABLE: III. 2- Public Sector Borrowing Requirement (PSBR) and Its Financing

	2003	2004	2005 (2)	2006 (3)	2007 (4)
	(Current Prices, Million YTL)				
Central Government Budget Borrowing Requirement (1)	40,204	30,300	8,117	3,046	16,740
SEEs Borrowing Requirement	-2,646	-2,451	-813	-2,197	-2,824
-Operating	-1,274	-1,723	-619	16	-699
-Institutions Within the Scope of Privatisation	-1,372	-728	-194	-2,212	-2,125
Local Governments Borrowing Requirement	1,357	-295	-397	-446	-423
Revolving Funds Borrowing Requirement	-1,122	-1,076	-1,252	-1,445	-1,450
Social Security Organizations Borrowing Requirement	133	203	138	-777	0
General Health Insurance Borrowing Requirement	0	0	0	0	0
Unemployment Insurance Fund Borrowing Requirement	-3,956	-4,379	-4,713	-5,621	-6,609
Borrowing Requirement of Extra-Budgetary Funds	-615	-1,935	-3,087	-9,854	-4,388
TOTAL PSBR	**33,355**	**20,367**	**-2,007**	**-17,294**	**1,046**
TOTAL PSBR (Exc. Interest Expenditures)	**-27,761**	**-38,025**	**-49,044**	**-65,079**	**-53,665**
TOTAL PSBR (Exc. Privatisation Revenues)	**33,784**	**22,058**	**1,977**	**-4,861**	**6,273**
TOTAL PSBR (Exc. Interest Expenditures+ Privatisation Revenues)	**-27,332**	**-36,334**	**-45,060**	**-52,647**	**-48,438**
TOTAL FINANCING	**33,355**	**20,367**	**-2,007**	**-17,294**	**1,046**
External Borrowing (Net)	2,361	4,511	13	-918	1,152
Internal Lending/Receivables (Net)	30,994	15,856	-2,020	-16,376	-106
	(Share in GNP, In Percent)				
Central Government Budget Borrowing Requirement (1)	11.18	7.04	1.67	0.54	2.65
SEEs Borrowing Requirement	-0.74	-0.57	-0.17	-0.39	-0.45
-Operating	-0.35	-0.40	-0.13	0.00	-0.11
- Institutions Within the Scope of Privatisation	-0.38	-0.17	-0.04	-0.39	-0.34
Local Governments Borrowing Requirement	0.38	-0.07	-0.08	-0.08	-0.07
Revolving Funds Borrowing Requirement	-0.31	-0.25	-0.26	-0.26	-0.23
Social Security Organizations Borrowing Requirement	0.04	0.05	0.03	-0.14	0.00
General Health Insurance Borrowing Requirement	0.00	0.00	0.00	0.00	0.00
Unemployment Insurance Fund Borrowing Requirement	-1.10	-1.02	-0.97	-1.00	-1.05
Borrowing Requirement of Extra-Budgetary Funds	-0.17	-0.45	-0.63	-1.75	-0.69
TOTAL PSBR	**9.27**	**4.73**	**-0.41**	**-3.07**	**0.17**
TOTAL PSBR (Exc. Interest Expenditures)	**-7.72**	**-8.83**	**-10.07**	**-11.56**	**-8.49**
TOTAL PSBR (Exc. Privatisation Revenues)	**9.39**	**5.12**	**0.41**	**-0.86**	**0.99**
TOTAL PSBR (Exc. Interest Expenditures+ Privatisation Revenues)	**-7.60**	**-8.44**	**-9.25**	**-9.35**	**-7.66**
TOTAL FINANCING	**9.27**	**4.73**	**-0.41**	**-3.07**	**0.17**
External Borrowing (Net)	0.66	1.05	0.00	-0.16	0.18
Internal Lending/Receivables (Net)	8.62	3.68	-0.41	-2.91	-0.02

(1) Since 2006, central government budget definition is used instead of consolidated budget definition.
(2) Provisional
(3) Realization estimate
(4) Programme target
Note: Negative sign indicates surplus.

TABLE: III. 3- Public Sector General Balance of the Year 2004

(Current Prices, Million YTL)

	Consolidated Budget	Local Governments	EBFs	Unemployment Insurance	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs Non-Financial	SEEs Scope of Privatisation	SEEs TOTAL	TOTAL PUBLIC
1. Taxes	88,639	8,146	2,161	0	0	-117	98,829	-470	-634	-1,104	97,725
a. Direct	26,559	2,901	2,161	0	0	-117	31,504	-470	-634	-1,104	30,400
b. Indirect	62,080	5,245	0	0	0	0	67,325	0	0	0	67,325
2. Non-Tax Revenues	10,160	2,774	563	0	0	-282	13,215	-427	-252	-680	12,535
3. Factor Incomes	10,310	3,864	-730	2,831	1,642	1,966	19,883	3,068	1,425	4,494	24,377
4. Social Funds	0	0	0	1,107	-17,815	0	-16,708	0	0	0	-16,708
5. Current Transfers	-87,037	-1,850	-30	440	16,087	178	-72,212	287	100	388	-71,825
I. PUBLIC DISPOSABLE INCOME	**22,072**	**12,933**	**1,963**	**4,379**	**-86**	**1,746**	**43,007**	**2,458**	**640**	**3,098**	**46,105**
II. CURRENT EXPENDITURES	**-42,677**	**-7,619**	**-1,184**	**0**	**0**	0	**-51,480**	0	0	0	**-51,480**
III. PUBLIC SAVINGS	**-20,605**	**5,314**	**779**	**4,379**	**-86**	**1,746**	**-8,473**	**2,458**	**640**	**3,098**	**-5,375**
IV. INVESTMENT	**-9,667**	**-5,480**	**-10**	**0**	**-117**	**-270**	**-15,545**	**-1,394**	**-945**	**-2,339**	**-17,883**
a. Fixed Capital	-9,667	-5,495	-10	0	-117	-200	-15,489	-1,471	-1,016	-2,488	-17,977
b. Change in Stocks	0	15	0	0	0	-70	-55	78	71	149	94
V. SAVINGS-INVESTMENT DIFFERENCE	**-30,273**	**-166**	**769**	**4,379**	**-203**	**1,476**	**-24,018**	**1,065**	**-305**	**759**	**-23,259**
VI. CAPITAL TRANSFERS	**-27**	**478**	**1,166**	**0**	**0**	**-344**	**1,273**	**944**	**1,587**	**2,530**	**3,803**
1. Taxes on Wealth	1,438	1,221	0	0	0	0	2,659	0	0	0	2,659
2. Other Transfers	-1,189	-212	1,171	0	0	0	-230	940	439	1,379	1,149
3. Expropriation and Increase in Fixed Assets	-277	-530	-5	0	0	-344	-1,156	4	1,148	1,152	-4
VII. CASH-BANK/ BORROWING	**30,300**	**-312**	**-1,935**	**-4,379**	**203**	**-1,132**	**22,745**	**-2,008**	**-1,282**	**-3,290**	**19,455**
1. Change in Cash-Bank	0	-1,228	-1,419	0	0	-865	-3,512	104	-101	3	-3,509
2. Foreign Borrowing (Net)	4,448	-396	-26	0	0	0	4,026	629	-145	485	4,511
- Repayments	-9,804	-615	-166	0	0	0	-10,584	-211	-348	-560	-11,144
- Loans	14,252	219	140	0	0	0	14,610	841	204	1,044	15,655
3. Domestic Borrowing/Lending (Net)	25,852	1,329	-491	-4,379	203	-210	22,304	-2,456	-483	-2,939	19,365
4. Stock Changes Fund	0	-17	0	0	0	-56	-73	-286	-553	-839	-912

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TABLE: III. 4- Public Sector General Balance of the Year 2005 (1)

(Current Prices, Million YTL)

	Consolidated Budget	Local Governments	EBFs	Unemployment Insurance	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs Non-Financial	SEEs Scope of Privatisation	SEEs TOTAL	TOTAL PUBLIC
1. Taxes	104,580	10,684	2,319	0	0	-149	117,433	-290	-82	-372	117,061
a. Direct	30,324	3,881	2,319	0	0	-149	36,374	-290	-82	-372	36,001
b. Indirect	74,256	6,803	0	0	0	0	81,059	0	0	0	81,059
2. Non-Tax Revenues	12,256	3,877	584	0	0	-298	16,419	-337	-6	-342	16,077
3. Factor Incomes	16,702	4,495	-324	3,031	2,277	2,078	28,259	2,331	1,375	3,706	31,965
4. Social Funds	0	0	0	1,180	-22,269	0	-21,089	0	0	0	-21,089
5. Current Transfers	-86,176	-615	-430	503	19,919	231	-66,568	520	10	530	-66,038
I. PUBLIC DISPOSABLE INCOME	**47,362**	**18,441**	**2,149**	**4,713**	**-73**	**1,861**	**74,454**	**2,224**	**1,297**	**3,521**	**77,975**
II. CURRENT EXPENDITURES	-46,493	-10,867	-1,063	0	0	0	**-58,423**	0	0	0	**-58,423**
III. PUBLIC SAVINGS	**870**	**7,574**	**1,085**	**4,713**	**-73**	**1,861**	**16,031**	**2,224**	**1,297**	**3,521**	**19,553**
IV. INVESTMENT	**-12,133**	**-8,368**	**-12**	**0**	**-66**	**-372**	**-20,950**	**-2,882**	**-1,743**	**-4,624**	**-25,574**
a. Fixed Capital	-12,133	-8,360	-12	0	-66	-280	-20,851	-2,204	-1,388	-3,593	-24,444
b. Change in Stocks	0	-7	0	0	0	-92	-99	-677	-354	-1,032	-1,131
V. SAVINGS-INVESTMENT DIFFERENCE	**-11,263**	**-794**	**1,073**	**4,713**	**-138**	**1,490**	**-4,919**	**-657**	**-445**	**-1,103**	**-6,022**
VI. CAPITAL TRANSFERS	**3,147**	**1,194**	**2,014**	**0**	**0**	**-226**	**6,128**	**1,278**	**642**	**1,920**	**8,047**
1. Taxes on Wealth	2,349	1,394	0	0	0	0	3,742	0	0	0	3,742
2. Other Transfers	1,180	600	2,017	0	0	0	3,797	852	520	1,373	5,169
3. Expropriation and Increase in Fixed Assets	-383	-799	-3	0	0	-226	-1,411	425	121	547	-865
VII. CASH-BANK/ BORROWING	**8,117**	**-400**	**-3,087**	**-4,713**	**138**	**-1,263**	**-1,209**	**-620**	**-196**	**-817**	**-2,026**
1. Change in Cash-Bank	0	-1,657	-766	0	0	124	-2,298	-1,166	194	-972	-3,270
2. Foreign Borrowing (Net)	-1,493	-277	-84	0	0	0	-1,854	2,250	-383	1,867	13
- Repayments	-15,778	-557	-140	0	0	0	-16,475	-857	-504	-1,361	-17,837
- Loans	14,285	280	56	0	0	0	14,621	3,107	122	3,229	17,850
3. Domestic Borrowing/Lending (Net)	9,610	1,536	-2,238	-4,713	138	-1,375	2,958	-1,703	-5	-1,708	1,250
4. Stock Changes Fund	0	-3	0	0	0	-12	-14	-1	-3	-4	-18

(1) Provisional

TABLE: III. 5- Public Sector General Balance of the Year 2006 (1)

(Current Prices, Million YTL)

	Central Gov. Budget	Local Governments	EBFs	Unemployment Insurance	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs			TOTAL PUBLIC
								Non-Financial	Scope of Privatisation	TOTAL	
1. Taxes	120,540	12,573	2,524	0	0	-161	135,476	-432	-10	-442	135,034
a. Direct	32,002	4,412	2,524	0	0	-161	38,776	-432	-10	-442	38,335
b. Indirect	88,538	8,161	0	0	0	0	96,699	0	0	0	96,699
2. Non-Tax Revenues	14,929	4,446	509	0	0	-301	19,582	-318	0	-318	19,264
3. Factor Incomes	14,976	5,009	-132	3,379	3,143	2,459	28,834	1,267	-152	1,115	29,949
4. Social Funds	0	0	0	1,592	-20,983	0	-19,391	0	0	0	-19,391
5. Current Transfers	-84,826	-375	-569	650	18,656	0	-66,465	663	22	684	-65,780
I. PUBLIC DISPOSABLE INCOME	**65,618**	**21,653**	**2,331**	**5,621**	**817**	**1,996**	**98,036**	**1,180**	**-140**	**1,040**	**99,076**
II. CURRENT EXPENDITURES	-55,652	-12,625	-1,191	0	0	0	**-69,468**	0	0	0	**-69,468**
III. PUBLIC SAVINGS	**9,965**	**9,028**	**1,140**	**5,621**	**817**	**1,996**	**28,568**	**1,180**	**-140**	**1,040**	**29,608**
IV. INVESTMENT	**-12,864**	**-10,811**	**-2**	**0**	**-40**	**-354**	**-24,070**	**-2,971**	**-227**	**-3,197**	**-27,268**
a. Fixed Capital	-12,864	-10,803	-2	0	-40	-283	-23,991	-2,923	-917	-3,841	-27,832
b. Change in Stocks	0	-8	0	0	0	-71	-79	-47	691	643	564
V. SAVINGS-INVESTMENT DIFFERENCE	**-2,898**	**-1,783**	**1,138**	**5,621**	**777**	**1,642**	**4,497**	**-1,791**	**-366**	**-2,157**	**2,340**
VI. CAPITAL TRANSFERS	**-148**	**2,245**	**8,716**	**0**	**0**	**-120**	**10,693**	**2,063**	**3,067**	**5,130**	**15,824**
1. Taxes on Wealth	2,813	2,038	0	0	0	0	4,852	0	0	0	4,852
2. Other Transfers	-2,647	1,222	8,728	0	0	0	7,303	1,940	2,631	4,571	11,874
3. Expropriation and Increase in Fixed Assets	-314	-1,015	-12	0	0	-120	-1,461	123	436	560	-902
VII. CASH-BANK/ BORROWING	**3,046**	**-462**	**-9,854**	**-5,621**	**-777**	**-1,522**	**-15,191**	**-272**	**-2,701**	**-2,973**	**-18,164**
1. Change in Cash-Bank	0	-959	-1,575	0	0	-504	-3,038	135	72	206	-2,831
2. Foreign Borrowing (Net)	-2,819	146	49	0	0	0	-2,624	1,622	84	1,706	-918
3. Domestic Borrowing/Lending (Net)	5,866	367	-8,329	-5,621	-777	-942	-9,435	-1,741	-2,368	-4,109	-13,544
4. Stock Changes Fund	0	-17	0	0	0	-77	-94	-288	-489	-776	-870

(1) Realization estimate

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TABLE: III. 6- Public Sector General Balance of the Year 2007 (1)

(Current Prices, Million YTL)

	Central Gov. Budget	Local Governments	EBFs	Unemployment Insurance	Social Security	Revolving Funds	GENERAL GOVERN. TOTAL	SEEs: Central Gov. Budget	SEEs: Non-Financial	SEEs: Scope of Privatisation	SEEs: TOTAL	TOTAL PUBLIC
1. Taxes	138,449	14,397	2,954	0	0	0	-119	155,680	-352	-1	-353	155,327
a. Direct	37,573	5,071	2,954	0	0	0	-119	45,478	-352	-1	-353	45,125
b. Indirect	100,875	9,326	0	0	0	0	0	110,201	0	0	0	110,201
2. Non-Tax Revenues	12,987	5,052	573	0	0	0	-350	18,262	-687	0	-687	17,575
3. Factor Incomes	11,527	5,673	216	4,128	2,556	0	2,543	26,644	2,831	1,293	4,124	30,768
4. Social Funds	0	0	0	1,721	-19,638	-1,613	0	-19,530	0	0	0	-19,530
5. Current Transfers	-98,454	-897	-567	760	17,207	1,613	0	-80,338	595	80	675	-79,663
I. PUBLIC DISPOSABLE INCOME	**64,508**	**24,225**	**3,176**	**6,609**	**125**	**0**	**2,074**	**100,718**	**2,386**	**1,372**	**3,758**	**104,476**
II. CURRENT EXPENDITURES	-66,653	-14,203	-1,282	0	0	0	0	**-82,137**	0	0	0	**-82,137**
III. PUBLIC SAVINGS	**-2,144**	**10,022**	**1,894**	**6,609**	**125**	**0**	**2,074**	**18,581**	**2,386**	**1,372**	**3,758**	**22,339**
IV. INVESTMENT	**-14,480**	**-12,528**	**0**	**0**	**-125**	**0**	**-557**	**-27,691**	**-2,948**	**6**	**-2,941**	**-30,632**
a. Fixed Capital	-14,480	-12,511	0	0	-125	0	-526	-27,642	-3,240	-725	-3,965	-31,607
b. Change in Stocks	0	-17	0	0	0	0	-31	-48	292	731	1,024	975
V. SAVINGS-INVESTMENT DIFFERENCE	**-16,624**	**-2,506**	**1,894**	**6,609**	**0**	**0**	**1,517**	**-9,110**	**-561**	**1,378**	**817**	**-8,293**
VI. CAPITAL TRANSFERS	**-116**	**2,936**	**2,494**	**0**	**0**	**0**	**-36**	**5,278**	**1,353**	**885**	**2,238**	**7,516**
1. Taxes on Wealth	3,246	2,262	0	0	0	0	0	5,507	0	0	0	5,507
2. Other Transfers	-3,204	1,817	2,494	0	0	0	0	1,108	1,358	600	1,958	3,066
3. Expropriation and Increase in Fixed Assets	-159	-1,143	0	0	0	0	-36	-1,337	-5	285	280	-1,058
VII. CASH-BANK/BORROWING	**16,740**	**-430**	**-4,388**	**-6,609**	**0**	**0**	**-1,481**	**3,832**	**-791**	**-2,263**	**-3,055**	**777**
1. Change in Cash-Bank	0	0	-1,386	0	0	0	-341	-1,727	-378	18	-360	-2,088
2. Foreign Borrowing (Net)	149	217	15	0	0	0	0	381	678	93	771	1,152
3. Domestic Borrowing/Lending (Net)	16,591	-640	-3,017	-6,609	0	0	-1,109	5,216	-999	-2,236	-3,235	1,981
4. Stock Changes Fund	0	-7	0	0	0	0	-31	-37	-92	-139	-231	-268

(1) Programme target

A. CENTRAL GOVERNMENT BUDGET

1. Current Outlook

The main goals of fiscal policy in 2006 were sustaining the primary surplus policy in order to achieve a sound fiscal structure through reducing public sector deficits and the ratio of public debt stock to national income permanently and supporting the struggle against inflation.

The budget for 2006 has been prepared according to central government budget pursuant to the Public Financial Management and Control Law No. 5018 and 2006 realization estimates are provided in line with this definition. Central government budget is composed of general budget (List No. I), special budgets (List No. II) and budgets of regulatory and supervisory agencies (List No. III). In this context, while 25 organizations having autonomous budget and receiving transfers from consolidated budget before the year 2006 are included in special budget administrations and shown in List No. II, 8 regulatory and supervisory agencies, which were excluded under the scope of budget in the old system but transferred their revenue surpluses, are included under List No. III. Moreover, health, social and cultural centres excluded in consolidated budget according to old definition and operated in connection with the universities started to be covered under special budget administrations.

Since 2006, one of the key changes in budget notation system is to show the shares and funds allocated to local governments and other organizations and agencies in the item of “shares from revenues” on the expenditure side in current transfers and on the revenue side in the related items. Paying in the next month, the expenditures are realized by the shares and funds from the collected revenues within a month. Besides, only for 2006, due to the payments of shares and funds not shown in central government budget in January, there was a discrepancy between shares and funds allocated from revenues and amounts of shares and funds reflected in the expenditures. This situation has a reducing effect on the deficit in 2006.

It is estimated that the ratio of central government budget revenues to GDP would realize at the level of 30.6 percent, the share of tax revenues to GDP at 24.5 percent, the share of total non-tax revenues to GDP at 6.1 percent in 2006.

One of the main factors effecting the performance of non-tax revenues during year is the one-off revenues in 2006. While YTL 4.5 billion was transferred to the budget for tax, fee, fine, default and overdue interests of the agencies whose management and audit taken over by SDIF, the amount transferred to the budget against these agencies’ GSM Treasury share payables was realized at YTL 1.7 billion.

In 2006, due to the increase in real wages and high interest rates, it is estimated that the collection of income tax would exceed the budget target. In addition, the collection of corporate tax is expected to remain below the target due to the revenue loss caused by the 10 percentage points reduction in corporate tax rate.

At the end of the year 2006, Special Consumption Tax (SCT) collection is expected to realize slightly below the budget estimate. While SCT on petroleum products and natural gas, tobacco products and alcoholic drinks and durable consumer goods and other goods is expected to realize in parallel with budget targets, the SCT revenues imposed on motor vehicles are expected to be some extent below the target due to the decreasing automobile sales because of increasing interest rates in the second half of the year. Domestic Value Added Tax (VAT) collection is expected to exceed the budget target as the growth and inflation took over the targeted level. Likewise, import VAT collection is expected to exceed the budget target because of increasing imports and change in the composition of imports.

As a result of these developments, although it is expected to yield a performance of tax collections above the targeted level of the 2006 budget, the share of taxes in GDP would be at the targeted level. It is estimated that the share of indirect taxes in total tax collection would be 69.6 percent, the share of direct taxes would be 30.4 percent.

The ratio of central government budget expenditures to GDP, targeted to be 32.2 percent in the budget of 2006, is expected to realize at 31.1 percent. On the other hand, the ratio of non-interest expenditures estimated to be 23.6 percent is expected to realize at 22.9 percent at the end of the year. However, non-interest opening appropriations would be exceeded approximately by YTL 0.9 billion.

In 2006, the personnel expenditures are expected to realize over the original estimation of the budget. In addition to the regular wage and salary increases, the increase in the personnel expenditures is attributable to the inflation compensation at the ratio of 2.32 percent, increasing rates of teachers' supplementary courses, transferring contractual teachers from Law No. 657 paragraph 4/c to paragraph 4/b and improving the wages of the personnel under the category of judge-prosecutor, provisional village guard and religion services, safety services, technical services and government administrative chief officer services.

In 2006 with the effect of green card expenditures, the health expenditures financed directly from the budget is expected to realize YTL 1.4 billion over the initial appropriation. Factors such as expanding the scope of green card, facilitating the access of green card owners to treatment and health services and arrears of green card expenditures from 2005 to year 2006 had played role on the green card over expenditures.

The appropriation allocated from the budget to agriculture sector is expected to rise from YTL 4 billion to YTL 4.9 billion in line with of the decisions taken during the year. The transfers to Social Security Organization (SSK) is expected to exceed the budget appropriations by YTL 1.5 billion, the transfers to Bağ-Kur is expected realize below the initial appropriation by YTL 2 billion. The transfers to Bağ-Kur are realized below the 2006 budget estimations because of the Law dated February 22, 2006 on Restructuring Social Security Arrears and Making Amendments to Some Laws.

After evaluation of fiscal means of the central government budget as a whole during 2006, the investment appropriation for the last three months of the year that was allocated through the Central Government Budget, is decided to be reduced by approximately YTL 1.8 billion.

With the Central Government Budget Law article 11/e in the List (B) of the general budget, the Minister of Finance is authorized to transfer YTL 2.5 billion to the budgets and the items defined in the Law, from the amount that would exceed the estimated revenue collection from accrued tax, fee, fine, default and overdue interests of the agencies of which their management and audit taken over by SDIF. While the estimated collections from SDIF for the mentioned receivable items were YTL 1 billion in 2006 Central Government Budget, the realizations were at the level of YTL 4.5 billion. In this context, an additional appropriation of YTL 2.5 billion was made. Furthermore, with a regulation that would be made until the end of 2006, an extra appropriation of YTL 1 billion would be available. Of such appropriations YTL 1.1 billion was transferred to the Project for the Support of the Infrastructure of Villages (Köy-Des).

As a result, the ratio of budget deficit to GDP targeted to be 2.6 percent in 2006 budget is expected to realize at 0.5 percent and the ratio of central government budget primary surplus to GDP based on IMF definition targeted to be 4.9 percent is expected to realize at 6.3 percent.

Inflationary trends in 2006 were triggered by factors such as increases in the international prices of energy and commodities, fluctuations and capital outflows in May and June. As a result, especially at the third quarter of the year 2006 an increasing trend was observed in compound interest rates on Government Domestic Debt Instruments (GDDI). The annual average compound interest rate which was 25.7 percent as of 2004, decreased to 16.9 percent in 2005 and realized at the level of 17.5 percent in January-September period of the year 2006. The interest rates which started to increase in June realized at 21.6 percent in September 2006.

Average maturity of domestic borrowing, which was 17.3 months in 2004, increased to 27.4 months in 2005 and then decreased to 26.7 months as of January-August period of 2006.

Consequently, of the total central government budget debt stock, realized USD 233.5 billion by the end of September 2006, USD 167.6 billion is domestic and USD 65.9 billion is external debt.

The weight of borrowing shifted to fixed-interest bonds and the weight of non-cash domestic debt stock within total debt stock has fallen gradually. In this context, central government budget domestic debt stock, which was YTL 224.5 billion by the end of 2004, reached YTL 244.8 billion by the end of 2005 and increased up to YTL 250.9 billion by the

TABLE: III. 7- Developments in Domestic Debt Stock of Central Government Budget

	(Current Prices, Millions of YTL)				(Share in GDP, In Percent)		
	2003	**2004**	**2005**	**2006 (1)**	**2003**	**2004**	**2005**
Total	**194,387**	**224,483**	**244,782**	**250,869**	**54.0**	**52.1**	**50.2**
Bonds	**168,974**	**194,211**	**226,964**	**235,103**	**47.0**	**45.1**	**46.6**
Cash	105,842	135,307	176,335	188,073	29.4	31.4	36.2
Non-Cash	63,132	58,904	50,629	47,030	17.5	13.7	10.4
Bills	**25,413**	**30,272**	**17,818**	**15,766**	**7.1**	**7.0**	**3.7**
Cash	24,642	30,272	17,818	15,766	6.8	7.0	3.7
Non-Cash	771	0	0	0	0.2	0.0	0.0

(1) As of September.

end of September 2006. On the other hand, public net debt stock in the second quarter of 2006 decreased to YTL 261.8 billion from its previous year level of YTL 269.1 billion.

2. Targets For The Year 2007

The central government budget for 2007 has been prepared in the context of basic aggregates, principles and basis determined in the Ninth Development Plan, the Medium Term Programme and the Medium Term Fiscal Plan in reference with sustaining the improvements in public finance and reduction of the ratio of public debt stock to national income.

The ratio of total revenues of central government budget to GDP in 2007 is expected to decrease by 0.8 percentage points in comparison to 2006 level and realize at the level of 29.8 percent. The ratio of central government budget tax revenues to GDP is expected to increase 0,6 percentage points and reach the level of 25 percent. The ratio of non-tax revenues to GDP is expected to decrease by 1.4 percentage points in comparison to 2006 level.

The most important factors in the increase of tax revenues are expected to be the VAT on imports and income tax. Tax revenues performance is expected to be affected positively by rearranging some withholding rates, the measures for struggling against unregistered economy and the expected increases in employment, real wages and imports. In 2007 tax rate reductions, revenue increasing or decreasing arrangements are not expected. The main reasons for the decrease in non tax revenues compared to 2006 are the dividend income losses which would arise from privatisations and the one-off revenues from SDIF and Telekom.

Central government budget expenditures, of which 2007 programme target is YTL 204.9 billion, is estimated to be at the level of 32.4 percent of GDP, marking an increase of 1.3 percentage points from its 2006 end year estimate. The non-interest expenditures, projected to be YTL 152 billion, are estimated to increase 1.1 percentage points and realize at the level of 24 percent of GDP.

The social security reform, adopted in the year 2006, would be implemented from the beginning of the year 2007. Under the scope of this reform, the coverage of earnings subject to premiums would be extended. In this context, in order to prevent the decrease of public officials' net wages, it is determined to cover the premium increases from the budget sources for two years. As a result of mentioned regulation, the ratio of state premium expenditures for social security to GDP is expected to increase to 1.6 percent in 2007 from the level of 0.9 percent in 2006.

In the framework of the social security reform, health expenditures would be covered by the Social Security Agency, thus it is now necessary to classify treatment, medicine and green card expenditures in the heading of current transfers in 2007 which were shown under the heading of purchase of goods and services item before 2007. Because of this change in classification, in 2007 purchase of goods and services would decrease by 14.7 percent annually, and its ratio to GDP is estimated to be 2.5 percent with a 0.8 percentage points decrease.

TABLE: III. 8- The Central Government Budget Figures

	(Current Prices, Millions of YTL)			(Percentage Change)		(Percentage Share)			(Share in GDP)		
	2005	2006 (1)	2007 (2)	2006	2007	2005	2006 (1)	2007 (2)	2005	2006 (1)	2007 (2)
EXPENDITURES	**146,098**	**175,248**	**204,902**	**20.0**	**16.9**	**100.0**	**100.0**	**100.0**	**30.0**	**31.1**	**32.4**
01- Personnel Expenditures	31,856	37,692	43,670	18.3	15.9	21.8	21.5	21.3	6.5	6.7	6.9
02- Government Premiums to Social Security Agencies	4,533	4,998	10,102	10.3	102.1	3.1	2.9	4.9	0.9	0.9	1.6
03-Purchase of Goods and Services	14,446	18,273	15,584	26.5	-14.7	9.9	10.4	7.6	3.0	3.2	2.5
04- Interest Expenditures	45,680	46,260	52,946	1.3	14.5	31.3	26.4	25.8	9.4	8.2	8.4
05- Current Transfers	35,223	50,831	60,863	44.3	19.7	24.1	29.0	29.7	7.2	9.0	9.6
06- Capital Expenditures	9,805	10,800	12,080	10.1	11.8	6.7	6.2	5.9	2.0	1.9	1.9
07- Capital Transfers	1,546	2,564	3,647	65.9	42.2	1.1	1.5	1.8	0.3	0.5	0.6
08- Lending	3,009	3,830	3,695	27.3	-3.5	2.1	2.2	1.8	0.6	0.7	0.6
09- Reserve Appropriations	0	0	2,317			0.0	0.0	1.1	0.0	0.0	0.4
REVENUES	**137,981**	**172,202**	**188,162**	**24.8**	**9.3**	**100.0**	**100.0**	**100.0**	**28.3**	**30.6**	**29.8**
1 – General/Central Government Budget Revenues	**135,756**	**172,202**	**188,162**	**26.8**	**9.3**	**98.4**	**100.0**	**100.0**	27.9	30.6	29.8
01- Tax Revenues	106,929	137,704	158,223	28.8	14.9	77.5	80.0	84.1	21.9	24.5	25.0
02- Non-Tax Revenues	25,468	31,620	26,950	24.2	-14.8	18.5	18.4	14.3	5.2	5.6	4.3
03- Capital Income	2,025	2,377	2,586	17.4	8.8	1.5	1.4	1.4	0.4	0.4	0.4
04- Grants and Aid Received	1,333	501	403	-62.4	-19.6	1.0	0.3	0.2	0.3	0.1	0.1
2 – Own Revenues of Annexed Budget	**2,225**	**-**	**-**			**1.6**	**0.0**	**0.0**	**0.5**	**0.0**	**0.0**
BUDGET DEFICIT	**-8,117**	**-3,046**	**-16,740**	**-62.5**	**449.5**				**-1.7**	**-0.5**	**-2.6**
MEMO											
Non-interest Expenditures	100,418	128,988	151,956	28.5	17.8				20.6	22.9	24.0
Primary Balance	37,563	43,214	36,206	15.0	-16.2				7.7	7.7	5.7
IMF-defined Primary Balance	25,994	35,525	31,659	36.7	-10.9				5.3	6.3	5.0

(1) Realization estimate
(2) Programme target
Note 1. 2005 year is prepared on the basis of consolidated budget, 2006 and 2007 years are prepared on the basis of central government budget.
2. Central government budget includes general budget, special budget and Regulatory and Supervisory Agencies .
3. In 2006 and 2007 the sub-distribution of the budget revenues of special budget and Regulatory and Supervisory Agencies was done by SPO.

It is expected that interest expenditures would increase 14.5 percent in 2007 when compared to its level in 2006 and the ratio of interest expenditures to GDP be 8.4 percent. The increase of interest and exchange rates due to fluctuations in the financial markets in May and June 2006 were effective for the rise in interest payments.

In 2007 with the effect of social security reform, the current transfer expenditures are expected to increase 19.7 percent annually, thus its ratio to GDP is estimated to be 9.6 percent.

The capital expenditures expected to realize YTL 10.8 billion are programmed to realize YTL 12.1 billion with a 11.8 percent annual increase in 2007. Rationalization efforts aiming efficiency and timeliness in the central government budget investments would be continued.

The expenditures made under the scope of Köy-Des project that was expected to realize YTL 1.4 billion in 2006 and followed in the title of capital transfers are programmed to be YTL 2 billion with an increase of 42.9 percent in 2007. YTL 300 billion is planned to spend on the Project for the Support of Infrastructure of Municipalities (Bel-Des).

Consequently, central government budget deficit in 2007 is programmed to be YTL 16.7 billion. Central government budget deficit to GDP ratio is targeted to be 2.7 percent whereas primary surplus of central government on the basis of IMF definition would realize as 5 percent of GNP.

The borrowing policies depending on cost and risk analysis would be pursued in 2007. In this context, the total borrowing would be realized primarily by YTL type fixed-interest instruments; cash based domestic borrowing cumulative term structure, including the foreign currency and foreign currency indexed types would be extended within market conditions; the policy of holding adequate reserves would be continued in order to diminish the liquidity risk.

B. LOCAL GOVERNMENTS

1. Current Outlook

Local governments balance is composed of special province administrations, municipalities, water-sewerage utilities and natural gas-urban transportation utilities of the metropolitan municipalities and the Bank of Provinces.

In 2005, revenues of local administrations, as compared to the previous year realization, increasing by 27.8 percent reached YTL 20,450 million while expenditures reached YTL 20,052 million with an increase of 27.6 percent. The ratios of local administration revenues and expenditures to GDP are 4.20 percent and 4.12 percent, respectively.

In 2005 local governments balance gave a surplus of 0.08 percent of GDP. In the realization of the balance above the previous year's level by 0.01 percent of GDP, the rise in the shares of metropolitan municipalities in the general budget tax revenues and the revenue increasing effect of lump-sum fees and taxes being more than the increase in expenditures under the amendment by the Law No. 5281 played an important role.

In 2006, the revenues of the local governments are expected to reach YTL 24,066 million with an annual increase of 17.7 percent and thus its share in GDP is estimated to be 4.28 percent. As to the expenditures of local administrations, a rise of 17.8 percent compared to the previous year's level is expected, reaching the level YTL 23,621 billion and 4.20 percent of GDP. In this respect, the balance of local administrations is expected to give a surplus equivalent to 0.08 percent of GDP in 2006.

2. Targets For The Year 2007

In 2007 it is estimated that local administrations revenues reach YTL 27,383 million, expenditures reach YTL 26,960 million, the shares in GDP realize 4.33 percent and 4.26 percent, respectively. This implies a surplus of YTL 423 million with a share of 0.07 percent in GDP. The main reason for the expected surplus in 2007 is the fact that those institutions would be prospective net debt payers due to restructuring efforts in their debt stock.

In order to ensure the continuation of the public services to be fulfilled after the abolishment of General Directorate of Rural Services, the implementation of appropriation transfers from the central government budget to the institutions taking over the services is pursued. Also, in 2006 for the investments under the scope of Köy-Des project, appropriations from the central government budget were provided.

In 2007, the implementation of Köy-Des project would be continued; in addition, Bel-Des project would come into force for the infrastructure needs of municipalities with population less than 10 thousand.

With the relevant provisions of the Metropolitan Municipality Law and the Municipality Law, operations regarding the restructuring of the receivables under the category of both public and private law of the metropolitan municipalities, municipalities, affiliated administrations as well as of the commercial institutions whose shares exceeding fifty percent of the equity belonging to municipalities from the public sector institutions and administrations and their obligations to public sector institutions and administrations as of 31 December 2004 were completed in 2006.

TABLE: III. 9- Resources Transferred from the Tax Revenues of the General Budget to Local Governments

	(Current Prices, Millions of YTL)				(Shares in GDP, In Percent)			
	2004	2005	2006 (1)	2007 (2)	2004	2005	2006 (1)	2007 (2)
Municipalities	4,496	5,288	6,284	7,192	1.04	1.09	1.12	1.14
Metropolitan Municipalities	2,494	3,806	4,482	5,130	0.58	0.78	0.80	0.81
Special Province Administrations	853	987	1,174	1,343	0.20	0.20	0.21	0.21
TOTAL	7,843	10,081	11,940	13,665	1.82	2.07	2.12	2.16

(1) Estimation
(2) Programme target

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TABLE: III. 10- Local Governments Revenues and Expenditures (1)

	(Current Prices, Millions of YTL)				(Shares in GDP, In Percent)			
	2004	2005 (2)(5)	2006 (3)(5)	2007 (4)(5)	2004	2005 (2)(5)	2006 (3)(5)	2007 (4)(5)
REVENUES	**16,004**	**20,450**	**24,066**	**27,383**	**3.72**	**4.20**	**4.28**	**4.33**
1.Taxes	9,366	12,077	14,611	16,659	2.18	2.48	2.60	2.63
2.Non-Tax Revenues	2,774	3,877	4,446	5,052	0.64	0.80	0.79	0.80
3.Factor Incomes	3,864	4,495	5,009	5,673	0.90	0.92	0.89	0.90
EXPENDITURES	**15,709**	**20,052**	**23,621**	**26,960**	**3.65**	**4.12**	**4.20**	**4.26**
1.Current Expenditures	7,619	10,867	12,625	14,203	1.77	2.23	2.24	2.25
2.Investment Expenditures	5,497	8,370	10,828	12,535	1.28	1.72	1.92	1.98
a. Fixed Capital	5,495	8,360	10,803	12,511	1.28	1.72	1.92	1.98
b. Changes in Stocks	2	10	25	24	0.00	0.00	0.00	0.00
3.Current Transfers	1,850	615	375	897	0.43	0.13	0.07	0.14
4.Expropriation and Increase in Fixed Assets	530	799	1,015	1,143	0.12	0.16	0.18	0.18
5.Capital Transfers	212	-600	-1,222	-1,817	0.05	-0.12	-0.22	-0.29
REV. – EXP. DIFFERENCE	**295**	**397**	**446**	**423**	**0.07**	**0.08**	**0.08**	**0.07**

(1) Includes special provincial administrations, municipalities, Bank of Provinces, water-sewerage and natural gas and urban transportation utilities operating under Metropolitan municipalities.
(2) Provisional
(3) Estimation
(4) Programme target
(5) Owing to the abolishment of the General Directorate of Rural Services and implementation and continuation of the Köy-Des Project and Bel-Des Project (in 2007) transfers from the general budget are included in revenues and expenditures.

C. REVOLVING FUNDS

1. Current Outlook

There are two types of institutions under the definition of revolving funds. In the first group are the administrations operating under the institutions of central government. In the second group, organizations having their own budgets and which can not be classified in the first category i.e. General Directorates of TRT (Turkish Radio and Television), National Lottery Administration, YURTKUR and Directorate of AOÇ are included. YURTKUR, placed under central government budget owing to Law No. 5018, is excluded from revolving fund coverage after 2006.

While the financing balance of revolving funds affiliated to the Ministry of Health and used to be followed on accrual basis before 2005, the revenues and expenditures of those institutions are calculated on cash-basis after 2005, owing to substantial differences between accrual and cash revenues.

The ratio of net budget surplus of revolving funds to GDP, which was 0.26 percent in 2005, is expected to remain the same in 2006. The proportion of profits of revolving funds to GDP realized as 0.62 percent in 2005 and it is expected to become 0.41 percent in 2006.

TABLE: III. 11- Financing Balance of the Revolving Funds

	2004	2005	2006 (1)	2007 (2)
	(Current Prices, Million YTL)			
A TOTAL REVENUES	**12,592**	**13,999**	**15,815**	**17,872**
I Operating Income	11,589	12,732	15,648	17,677
II Retained Funds	169	153	166	195
III Budget Transfers	834	1,114	0	0
B TOTAL EXPENDITURES	**11,517**	**12,747**	**14,369**	**16,422**
I Operating Expenses	9,792	10,807	13,356	15,329
II Investment Expenditures	200	280	283	526
III Increase in Stocks	126	103	148	62
IV Increase in Fixed Assets	344	226	120	36
V Direct Taxes	122	156	167	127
VI Transfers to Funds	277	291	296	342
VII Lending Minus Repayment (3)	655	883	0	0
C BORROWING REQUIREMENT (4)	**1,076**	**1,252**	**1,445**	**1,450**
	(Ratios to GDP, In Percent)			
A TOTAL REVENUES	**2.94**	**2.88**	**2.81**	**2.83**
I Operational Income	2.70	2.62	2.78	2.80
II Retained Funds	0.04	0.03	0.03	0.03
III Budget Transfers	0.19	0.23	0.00	0.00
B TOTAL EXPENDITURES	**2.68**	**2.62**	**2.56**	**2.60**
I Operational Expenses	2.28	2.22	2.38	2.43
II Investment Expenditures	0.05	0.06	0.05	0.08
III Increase in Stocks	0.03	0.02	0.03	0.01
IV Increase in Fixed Assets	0.08	0.05	0.02	0.01
V Direct Taxes	0.03	0.03	0.03	0.02
VI Transfers to Funds	0.06	0.06	0.05	0.05
VII Lending Minus Repayment (3)	0.15	0.18	0.00	0.00
C BORROWING REQUIREMENT (4)	**0.25**	**0.26**	**0.26**	**0.23**
Memo: Profits / GDP (Percent)	0.61	0.62	0.41	0.37

(1) Estimate
(2) Programme
(3) Credit payments and credit collections by YURTKUR
(4) Positive sign of borrowing requirement indicates surplus

2. Targets For the Year 2007

In 2007, the ratios of net budget surplus and profit of the revolving funds to GDP are expected to become 0.23 percent and 0.37 percent, respectively. In 2007, a decrease in the net budget surplus is expected due to the inclusion of some portion of additional payments to employees into the premium base, which is compensated by revolving funds after the social security reform.

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D. SOCIAL SECURITY INSTITUTIONS

1. Current Outlook

Budget transfers to the social security institutions, which decreased in 2000 after the social security reform launched in 1999 but followed an increasing trend in the succeeding years, is expected to realize as 4.1 percent of GDP in 2006. The revenue generated by the restructuring of the arrears of SSK and Bağ-Kur and the increase in the current contribution revenue of SSK have been effective in the decrease of this ratio by 0.7 percent of GDP compared to the previous year. Excluding the revenue generated by the restructuring of arrears, the ratio of budget transfers to the social security institutions to GDP maintains its 2005 level.

In 2006, budget transfers are estimated to be YTL 23,004 million, of which YTL 8,190 million is to SSK, YTL 4,779 million to Bağ-Kur and YTL 10,035 million to Emekli Sandığı, including invoiced payments and additional payments. The ratio of total budget transfers to GDP is expected to realize around 4.1 percent.

TABLE: III. 12- Social Security Institutions Revenue-Expenditure Balance

	2004	2005	2006 (1)	2007 (2)
	(Current Prices, Million YTL)			
I-REVENUES	**33,968**	**39,024**	**50,674**	**70,067**
-Premium Collections (3)	28,331	31,599	41,501	57,232
II-EXPENDITURES	**50,258**	**59,081**	**68,553**	**82,845**
-Insurance Payments	32,697	39,261	44,815	51,870
-Health Expenditures (4)	12,614	13,962	17,490	25,242
-Investment Spending (5)	117	66	40	125
III-REVENUE-EXPENDITURE DIF.	**-16,290**	**-20,057**	**-17,879**	**-12,778**
IV-BUDGET TRANSFERS	**16,087**	**19,919**	**18,656**	**12,778**
-Budget Transfers (6)	18,893	23,259	23,004	31,589
V-FINANCING DEFICIT	**-203**	**-138**	**777**	**0**
	(Ratios to GDP, In Percent)			
I-REVENUES	**7.9**	**8.0**	**9.0**	**11.1**
-Premium Collections (3)	6.6	6.5	7.4	9.1
II-EXPENDITURES	**11.7**	**12.1**	**12.2**	**13.1**
-Insurance Payments	7.6	8.1	8.0	8.2
-Health Expenditures (4)	2.9	2.9	3.1	4.0
-Investment Spending (5)	0.0	0.0	0.0	0.0
III-REVENUE-EXPENDITURE DIF.	**-3.8**	**-4.1**	**-3.2**	**-2.0**
IV-BUDGET TRANSFERS	**3.7**	**4.1**	**3.3**	**2.0**
-Budget Transfers (6)	4.4	4.8	4.1	5.0
V-FINANCING DEFICIT	**0.0**	**0.0**	**0.1**	**0.0**

(1) Estimate
(2) Programme
(3) State contribution and health insurance premium expenditure paid by public for those who are unable to pay are included.
(4) Following 2007, health expenditures incurred for civil servants, green card, those who are capable to pay and children under 18 are included in the scope of health expenditures.
(5) In 2006 and 2007, the investment spending of İŞKUR is included and the value of investments is added to the total revenues.
(6) Invoiced payments and additional premiums are included for 2004-2006 period and following 2007, the scope of budget transfers includes invoiced payments, social aid payments, state contributions to the social security system, health insurance premium expenditures paid by public for those who are unable to pay and additional payments to the retired.

The pensions for SSK and Bağ-Kur pensioners have been increased by 3 percent on January and July 2006. In 2006, tax rebate system for pensioners have been abolished and an increase of 5 percent for pensions below YTL 400 and 4 percent for pensions above YTL 400 have been implemented in order to compensate for the tax rebate loss.

Gross minimum wage has been increased to YTL 531 from YTL 489, with a rise of 8.7 percent for 2006, coming into effect by January 1, 2006. Income brackets for Bağ-Kur were increased by 8.7 percent as of January 1, 2006.

By the Law No. 5458 on Restructuring the Social Security Arrears and Amendment of Some Laws, SSK and Bağ-Kur arrears, published on Official Gazette on March 4, 2006, have been restructured, and the opportunity to pay the arrears on monthly instalments in a period up to 5 years for the insured, has been given. By this law, it is expected to get arrears restructuring revenue of YTL 3,050 million for Bağ-Kur and YTL 714 million for SSK during 2006. It is also expected to collect a considerable amount of premium revenue in SSK and Bağ-Kur in the short run, however, in the medium and long run due to pensions and health expenditures of the people who would benefit from the law, the restructuring of the arrears would put a severe burden on the social security system in the succeeding years.

In 2006, important arrangements within the scope of social security reform have been enacted. By the Law No. 5510 on Social Insurances and General Health Insurance, published on Official Gazette on June 16, 2006, pension systems serving under different norms and standards have been unified under a unique pension system serving under the same norms and standards for all pensioners. Also, the health services given under different standards to different groups have been reached to uniform standards by the establishment of General Health Insurance system covering the entire population. With this law, in order to ensure both the fiscal sustainability and long run actuarial balances of the pension system, basic parameters regarding the retirement have been altered for those who have first been employed after January 1, 2007, by gradually increasing the retirement age, decreasing the replacement rates, linking the level of pension to the collected premiums, including almost all kind of payments in the premium base especially for the civil servants, excluding the payments such as executive compensation and representative compensation from the calculation of pensions which were previously included in pensions without paying any premium in exchange, increasing working days for workers from 7,000 days to 9,000 days gradually in 20 years and introducing the declaration system for setting the premium base instead of income steps for self-employed and farmers. Moreover, the principle of state contribution for disabled, old-age and survivor’s insurances premiums and health insurance premium have been introduced.

With the health insurance part of the same law; the coverage and financing of the health services have been unified for all citizens, the principle of paying the premiums by state for those who are unable to pay has been introduced and some arrangements have been brought about in order to ensure the fiscal sustainability of the health system including the enforcement to the referral chain and taking co-payment for outpatient services.

With the same Law No. 5502, published on Official Gazette of May 20, 2005, SSK, Bağ-Kur and Emekli Sandigi have been abolished and consolidated under the roof of Social Security Agency. Within the new institution, General Directorate of Social Insurances, General Directorate of General Health Insurance, General Directorate of Un-funded Payments and General Directorate of Execution of Services have been constituted and thus, services relating to retirement, health financing and un-funded payments have been unified. Furthermore, the principle of accelerating the execution of the retirement and health services has been introduced by establishing fully-automated social security centres organized locally under the frame of single point services. By this law, it is targeted to establish a sound institutional framework and administration capacity, which is efficient in both premium collection and preventing misuses of retirement and health services.

In 2006, the arrangements stated below have been made in order to get the health and medicine expenditures under control:

Coming into effect by January 2006, no increase has been made to the average treatment prices compared to 2005 and positive list for drugs to be used by all institutions has been formed by the Budget Implementation Instruction. Additionally, the period of the protocol providing a discount in drug prices of around 10 percent on average, signed in the previous year among the Ministry of Finance, Ministry of Labor and Social Security and Turkish Pharmacists Association, has been extended by one year. Moreover, while it was paid up to the 30 percent of cheapest drug in the equivalent drug groups, this ratio has been decreased to 22 percent following May 2006, coming into effect by July 2006 the number of drugs in the positive list has been reduced and case payment system has been introduced for outpatient treatment. However, on October 2006, the execution of case payment system has been suspended by the Council of State. Furthermore, due to the trend of the exchange rate level drug prices have been increased by 5 percent on July, August and September.

In 2006, Emekli Sandığı is expected to get YTL 493 million receipt due to the deferred instalments of the real estates sold in previous years and within the current year.

TABLE: III. 13- Revenue-Expenditure Balance of Unemployment Insurance Fund

	(Current Prices, Million YTL)				(Ratio to GDP, In Percent)			
	2004	2005	2006 (1)	2007 (2)	2004	2005	2006 (1)	2007 (2)
I-REVENUES	**4,620**	**5,039**	**5,995**	**7,239**	**1.07**	**1.03**	**1.07**	**1.14**
-Premium Revenue	1,348	1,505	1,966	2,351	0.31	0.31	0.35	0.37
-State Contribution	440	503	650	760	0.10	0.10	0.12	0.12
-Interest Income	2,796	2,986	3,338	4,082	0.65	0.61	0.59	0.65
II-EXPENDITURES	**241**	**326**	**374**	**629**	**0.06**	**0.07**	**0.07**	**0.10**
-Insurance Expenditures	184	248	293	568	0.04	0.05	0.05	0.09
-Other Expenditures	57	77	82	61	0.01	0.02	0.01	0.01
III-REVENUE-EXPENDITURE DIF.	**4,379**	**4,713**	**5,621**	**6,609**	**1.02**	**0.97**	**1.00**	**1.05**
IV-TOTAL FUND ASSETS	**13,314**	**18,027**	**23,648**	**30,258**	**3.10**	**3.70**	**4.20**	**4.78**

(1) Estimate
(2) Programme target

In 2006, Unemployment Insurance Funds premium revenue, state contribution and interest income are expected to realize as 0.4, 0.1 and 0.6 percent of GDP respectively. In this context, total revenue is estimated to realize as 1.1 percent of GDP in 2006. The total expenditure of the Fund which started to pay unemployment benefits and provide health services to its insured since March 2002 is expected to reach YTL 374 million in 2006. Consequently, in 2006 the total asset of Fund is estimated to reach YTL 23,648 million which corresponds to 4.2 percent of GDP.

2. Targets For the Year 2007

In the new system, it is assumed that parallel to the minimum wage, the minimum premium base would increase by 4 percent in January and July in 2007. In 2007, in line with the new law pensions would be increased by 4.7 percent in January and 2.18 percent in July reflecting the previous six months cumulative rise in consumer price index. In 2007, arrears restructuring revenue is envisaged as YTL 2,159 million. It is assumed that number of people benefiting from health services would increase by the new system and treatment fees would be increased. It is expected that drug prices would not increase in 2007 on the basis of the exchange rate estimates. Emekli Sandığı is assumed to have YTL 140 million revenue from the sales of hotels in 2007.

Since, with the new system, the people who have an income below the minimum premium base would be excluded from the coverage of compulsory pension system and could become voluntarily insured on their demand in Bağ-Kur, 300,000 insured people, especially the farmers, are assumed to leave the system in Bağ-Kur, however, it is assumed that they would benefit from General Health Insurance with their dependants as being green card holders. Additionally, approximately 10 percent of those who are not in the coverage of social insurances but have ability to pay premiums are assumed to benefit from health services with their dependants by paying their premiums. Moreover, due to the new law, the health services for persons under 18 are assumed to be financed whether or not their parents pay premium.

Social security institutions total revenues including state contribution, total expenditures and deficit are estimated to be YTL 70.1 billion, YTL 82.8 billion and YTL 12.8 billion respectively in 2007. As ratios to GDP, revenues, expenditures and deficit are targeted as 11.1, 13.1 and 2 percent, respectively.

It is estimated that the total budget transfers to social security institution would be YTL 31.6 billion -corresponding to 5 percent of GDP- in 2007, consisting of invoice payments, social aid payments, state contribution to social security system, health insurance premium expenditure of state for those unable to pay premiums and additional payments to pensioners.

There is a risk for health expenditures to increase in case average price of health services package reaches a higher level, considering the fact that uniform standards for health services would be introduced and prices of all kind of health services would be determined by Health Services Pricing Commission in 2007. Furthermore, there exists a deviation risk for some insurance and health expenditure items such as transportation allowances, lactating aid and temporary disability payment since the coverage of those items has been extended or they are newly introduced.

In 2007, for Unemployment Insurance Fund it is expected that the ratios to GDP would be 0.4 percent of premium revenues, 0.1 percent of state contribution and 0.7 percent of interest revenues. Total expenditure of the Fund is expected to reach YTL 629 million in 2007. The fact that Fund should pay the disability, old-age, health and survivor's insurance premiums for those who get unemployment benefit due to the new law has a major role in the increase of the Funds expenditures in 2007. Consequently, it is estimated that the total fund assets would reach YTL 30,258 million corresponding to 4.8 percent of GDP.

E. FUNDS

1. Current Outlook

The coverage of Fund balance includes the budgetary Support and Price Stabilization Fund (SPSF) and the extra budgetary funds of Social Solidarity and Support Fund (SSSF), Defence Industry Support Fund (DISF) and Privatisation Fund.

The resources of the funds followed in the public sector general balance in 2006 are expected to reach a level of YTL 11,749 million, corresponding to 2.1 percent of GDP, and the expenditures are expected to reach a level of YTL 1,894 million, corresponding to 0.3 percent of GDP. Hence, the surplus of the fund system is expected to reach 1.8 percent of GDP.

As the result of the ongoing privatisation process, a revenue of YTL 10.4 billion in cash is expected to be collected by the Privatisation Fund in 2006.

2. Targets For the Year 2007

In 2007, Privatisation Fund is expected to raise a total of USD 2 billion of privatisation revenue.

TABLE: III. 14- Revenues and Expenditures of Funds (1)

	(Current Prices, Million YTL)			(Ratio to GDP, In Percent)		
	2005	2006 (2)	2007 (3)	2005	2006 (2)	2007 (3)
A FUND REVENUES	**4,917**	**11,749**	**6,237**	**1.01**	**2.09**	**0.99**
Tax Revenues	2,319	2,524	2,954	0.48	0.45	0.47
Non-Tax Normal Revenues	584	509	573	0.12	0.09	0.09
Factor Incomes (Net)	0	0	216	0.00	0.00	0.03
Current Transfers (Net)	0	0	0	0.00	0.00	0.00
Capital Transfers (Net)	2,014	8,716	2,494	0.41	1.55	0.39
B FUND EXPENDITURES	**1,829**	**1,894**	**1,849**	**0.38**	**0.34**	**0.29**
Current Expenditures	1,063	1,191	1,282	0.22	0.21	0.20
Factor Payments (Net)	324	132	0	0.07	0.02	0.00
Current Transfers (Net)	430	569	567	0.09	0.10	0.09
Capital Transfers (Net)	0	0	0	0.00	0.00	0.00
Fixed Capital Investments	12	2	0	0.00	0.00	0.00
C REVENUE – EXPENDITURE DIFFERENCE	**3,087**	**9,854**	**4,388**	**0.63**	**1.75**	**0.70**
D FINANCING	**-3,087**	**-9,854**	**-4,388**	**-0.63**	**-1.75**	**-0.70**
Use of External Debt	56	115	20	0.01	0.02	0.00
External Debt Payment	-140	-66	-5	-0.03	-0.01	0.00
Internal Debt-Lending (Net)	-2,238	-8,329	-3,017	-0.46	-1.48	-0.48
Change in Cash-Bank	-766	-1,575	-1,386	-0.16	-0.28	-0.22
Memo Item:						
Privatisation Rev.	2,206	10,422	3,080	0.45	1.85	0.49
Fund Rev. Except Priv. Rev.	2,711	1,327	3,157	0.56	0.24	0.50

(1) Excluding Unemployment Insurance Fund
(2) Estimate
(3) Programme target

In 2007, fund resources which amount YTL 6,237 million correspond to 1 percent of GDP, whereas, fund expenditures which amount YTL 1,849 million correspond to 0.3 percent of GDP. Thus, ratio of financing surplus of the fund system to GDP is expected to realize as 0.7 percent.

II. STATE ECONOMIC ENTERPRISES

1. Current Outlook

It is expected that the ratio of primary surplus of SEEs to GDP, including the SEEs in the privatisation portfolio, increased from 0.17 percent in 2005 to 0.39 percent in 2006. This improvement emanates from fund transfers above the programme provisions from the Privatisation Fund to TEKEL and TEDAS. Budget and fund transfers excluded, the primary surplus turns to a deficit of 0.24 percent in 2005 and 0.55 percent in 2006. This situation shows that SEE system has become increasingly dependent on the transfers from budget and Privatisation Fund.

Crude oil price, which maintained its rising trend in the first half of 2006, is expected to follow a declining trend in the second half of the year and realize its presumed end-year level. Financial position of BOTAŞ is negatively affected by the fact that high crude oil prices are not reflected to the sales prices and problems occur in the collection of receivables from some SEEs and municipalities. In the framework of programme provisions, BOTAŞ should increase prices with the aim of restoring its financial balance.

An arrangement had been made by the Law No. 5367, dated June 16 2005, enabling BOTAS to transfer existing natural gas purchase contracts to the private sector. Although the tender related to the transfers of the contracts was realized by the end of 2005, it has not been concluded yet.

The natural gas purchased from Azerbaijan under the condition of being re-exported would begin to be sold to Greece by the end of 2006. In line with the policy of Turkey to become an energy hub as well as to sustain the variety of energy supply, a contract was signed with Egypt enabling Turkey to purchase natural gas and re-export.

TEDAS continued to face problems in collecting receivables and this caused liquidity problems for the other energy SEEs. Besides deepening the financial distress of the institutions, such a low collection rate would negatively affect the liberalization and privatisation efforts in the sector. In 2006, YTL 314 million were transferred to TEDAS from the Privatisation Fund for investment needs and an additional YTL 600 million for the aim of mitigating the cash problems of energy SEEs. Moreover, financial structure of TEDAS deteriorated before its privatisation since the increase in input costs has not fully been reflected to distribution tariffs.

An increase in sales tariffs of TEDAS has been programmed in order to prevent continuation of aforementioned problems and to reach a profit level that the institution could finance all its investments.

Under the framework of the Privatisation Strategy, subsidiaries and establishments under the structure of TEDAS were divided into 20 distribution regions and were restructured as corporations. Within preparation process of privatisation, loss allowances of subsidiaries and establishments in the balance sheets of corporations were abated and required resources transferred to TEDAŞ, thus there had been a fictive increase of YTL 893 million in the profit of TEDAS for the year 2005.

No significant improvement occurred in the enactment of necessary legislative regulations to assure regular collection of TEDAS receivables stemming from street lighting.

Within the framework of the Privatisation Strategy, 6 portfolio groups were established by grouping the power plants under the structure of EUAS (Electricity Production Co.). In this context, while only major Hydroelectric Power Plants (HPPs) were left under the control of EUAS, thermal Power Plants (PPs) and some small HPPs were transferred to the portfolio companies. As a result of restructuring, portfolio groups were provided with the opportunity to sell directly to the regional electricity distribution companies as of September 2006. This arrangement decreased the amount of electricity sold from TETAS (Turkish Electricity Trade and Agreement Co.) to electricity distribution companies.

Regardless of the constraints related to employment in the general investment financing decree, TTK (Turkish Coal Institution) was given permission to recruit 1,000 new extraction workers in order to increase productivity in the production process and those workers were hired.

Operating rights of some lignite reserves owned by Turkish Lignite Company (TKİ) was started to be transferred to private sector companies in order to establish thermal power plants.

After the privatisation of TUPRAS, PETKIM began to have problems in obtaining proper naphtha oil, the primary input of PETKIM, and as a result, the necessity of importing the whole need of naphtha oil brought about extra cost to the company.

Turkish Railway Company (TCDD) continues to have great losses and tries to keep up with the support of Treasury capital injections. High personnel costs, which are almost equal to 120 percent of total sales revenue of goods and services, play an important role in this adverse situation. According to figures of 2006; monthly average costs to TCDD are YTL 2,400 for a public officer, YTL 2,040 for a contracted personnel, YTL 3,290 for a permanent worker and YTL 2,520 for a temporary worker.

Purchasing prices of agricultural crops, which rose at a rate of 7.7 percent on average in 2004, decreased by 2.7 percent in 2005. The initial purchase prices in 2005 realized a 5.5 percent decrease in common wheat, 12 percent increase in tea and 6.7 percent increase in sugar beet. In relation to some of the crops purchased by Agricultural Sales Cooperative Associations, while the initial price of cotton decreased by 2.2 percent compared to previous year, the rises in the initial prices realized to be 47.5 percent in nuts and 4.1 percent in sunflower.

Agricultural Support and Guidance Committee was established by Agriculture Law, No. 5488 dated April 18, 2006 to set the needs of budget allocations by determining the basics and the means of support programmes and to secure the coordination of institutions for agricultural support. Under the scope of the Law, the objectives and means of agricultural supports are defined and it is stated that financing be made by budget and extra budgetary sources.

TABLE: III.15 – Financing Bal. of SEEs Subject to Communiqué Law No. 233

	2005	2006 (1)	2007 (2)
	(Current Prices, Million YTL)		
A. TOTAL REVENUES	37,668	46,761	49,231
I. Operational Income	33,993	41,510	44,935
1. Revenues from Goods and Services Sales	31,481	38,676	43,312
2. Other Income	2,512	2,833	1,624
II. Retained Funds	2,234	2,639	2,341
1. Depreciation	1,870	1,973	2,169
2. Revaluation Profit/Loss	0	0	0
3. Reserves	364	666	172
III. Budgets and Funds	1,441	2,612	1,955
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	37,049	46,776	48,531
I. Operational Expenditures	33,896	42,882	44,445
1. Cost of Goods and Services Sold	29,379	37,219	39,413
2. Other Expenses	4,517	5,663	5,032
II. Investment Expenditures	2,204	2,923	3,240
III. Change in Stocks	679	335	-200
IV. Revaluation	-425	-123	5
V. Direct Taxes	290	461	442
VI. Dividend Payments	337	289	597
VII. Other Expenditures	69	10	2
C. BORROWING REQUIREMENT	619	-16	699
D. FINANCING	-619	16	-699
I. Change in Cash-Bank	-1,166	135	-378
II. Domestic Borrowing (Net)	-1,703	-1,741	-999
III. External Borrowing (Net)	2,250	1,622	678
	(Ratio to GDP, In Percent)		
A. TOTAL REVENUES	7.73	8.31	7.78
I. Operational Income	6.98	7.37	7.11
1. Revenues from Goods and Services Sales	6.46	6.87	6.85
2. Other Income	0.52	0.50	0.26
II. Retained Funds	0.46	0.47	0.37
1. Depreciation	0.38	0.35	0.34
2. Revaluation Profit/Loss	0.00	0.00	0.00
3. Reserves	0.07	0.12	0.03
III. Budgets and Funds	0.30	0.46	0.31
IV. Other Income	0.00	0.00	0.00
B. TOTAL EXPENDITURES	7.60	8.31	7.67
I. Operational Expenditures	6.96	7.62	7.03
1. Cost of Goods and Services Sold	6.03	6.61	6.23
2. Other Expenses	0.93	1.01	0.80
II. Investment Expenditures	0.45	0.52	0.51
III. Change in Stocks	0.14	0.06	-0.03
IV. Revaluation	-0.09	-0.02	0.00
V. Direct Taxes	0.06	0.08	0.07
VI. Dividend Payments	0.07	0.05	0.09
VII. Other Expenditures	0.01	0.00	0.00
C. BORROWING REQUIREMENT	0.13	0.00	0.11
D. FINANCING	-0.13	0.00	-0.11
I. Change in Cash-Bank	-0.24	0.02	-0.06
II. Domestic Borrowing (Net)	-0.35	-0.31	-0.16
III. External Borrowing (Net)	0.46	0.29	0.11

Source: SPO
(1) Estimate
(2) Programme target

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TABLE: III.16 – Financing Balance of the SEEs Under the Scope of Privatisation

	2005	2006 (1)	2007 (2)
	(Current Prices, Million YTL)		
A. TOTAL REVENUES	25,733	26,343	27,840
I. Operational Income	24,268	23,004	26,506
1. Revenues from Goods and Services Sales	21,871	22,181	25,594
2. Other Income	2,396	822	912
II. Retained Funds	930	681	654
1. Depreciation	771	490	462
2. Revaluation Profit/Loss	0	0	0
3. Reserves	159	192	192
III. Budgets and Funds	528	2,658	680
IV. Other Income	7	0	0
B. TOTAL EXPENDITURES	25,539	24,131	25,716
I. Operational Expenditures	23,823	23,837	25,868
1. Cost of Goods and Services Sold	15,939	16,574	18,440
2. Other Expenses	7,884	7,263	7,427
II. Investment Expenditures	1,388	917	725
III. Change in Stocks	357	-202	-592
IV. Revaluation	-121	-436	-285
V. Direct Taxes	82	10	1
VI. Dividend Payments	6	0	0
VII. Other Expenditures	5	5	0
C. BORROWING REQUIREMENT	194	2,212	2,125
D. FINANCING	-194	-2,212	-2,125
I. Change in Cash-Bank	194	72	18
II. Domestic Borrowing (Net)	-5	-2,368	-2,236
III. External Borrowing (Net)	-383	84	93
	(Ratios to GDP, In Percent)		
A. TOTAL REVENUES	5.28	4.68	4.40
I. Operational Income	4.98	4.09	4.19
1. Revenues from Goods and Services Sales	4.49	3.94	4.05
2. Other Income	0.49	0.15	0.14
II. Retained Funds	0.19	0.12	0.10
1. Depreciation	0.16	0.09	0.07
2. Revaluation Profit/Loss	0.00	0.00	0.00
3. Reserves	0.03	0.03	0.03
III. Budgets and Funds	0.11	0.47	0.11
IV. Other Income	0.00	0.00	0.00
B. TOTAL EXPENDITURES	5.24	4.29	4.07
I. Operational Expenditures	4.89	4.23	4.09
1. Cost of Goods and Services Sold	3.27	2.94	2.92
2. Other Expenses	1.62	1.29	1.17
II. Investment Expenditures	0.28	0.16	0.11
III. Change in Stocks	0.07	-0.04	-0.09
IV. Revaluation	-0.02	-0.08	-0.05
V. Direct Taxes	0.02	0.00	0.00
VI. Dividend Payments	0.00	0.00	0.00
VII. Other Expenditures	0.00	0.00	0.00
C. BORROWING REQUIREMENT	0.04	0.39	0.34
D. FINANCING	-0.04	-0.39	-0.34
I. Change in Cash-Bank	0.04	0.01	0.00
II. Domestic Borrowing (Net)	0.00	-0.42	-0.35
III. External Borrowing (Net)	-0.08	0.01	0.01

Source: SPO
(1) Estimate
(2) Programme target

TABLE: III. 17 –Selected Indicators of the SEEs

(Current Prices, Million YTL)

	Total, Excluding the Enterprises in the Scope of Privatisation			Total, Including the Enterprises in the Scope of Privatisation		
	2005	**2006 (1)**	**2007 (2)**	**2005**	**2006 (1)**	**2007 (2)**
Total No. of Personnel (person)	159,732	159,074	156,420	247,262	233,536	229,400
- Civ. Servants and on-Contract Personnel	76,313	76,822	74,541	93,882	93,124	90,615
- Worker	83,419	82,252	81,879	153,380	140,412	138,785
Total Personnel Expenditures	4,473	4,941	5,394	7,624	7,327	7,963
- Civ. Servants and on-Contract Personnel	1,673	1,959	2,237	2,056	2,343	2,675
- Worker	2,800	2,982	3,157	5,567	4,984	5,289
Revenues form the Sales of Goods and Services	31,481	38,676	43,312	53,352	60,858	68,905
Accrual of Duty Losses	1,358	1,397	1,289	1,358	1,405	1,289
Operational Profit – Loss	1,744	862	2,894	1,748	464	3,563
Interest Payments	293	443	688	378	465	706
Period Profit – Losses	1,455	25	1,780	1,900	-800	2,418
Factor Incomes	2,331	-289	2,831	3,706	1,115	4,124
Dividend Payments	337	289	597	342	289	597
Fixed Capital Investments	2,204	2,923	3,240	3,593	3,841	3,965
Budget and Fund Transfers	1,441	2,612	1,955	1,970	5,270	2,635
Borrowing Requirement	619	-16	699	813	2,197	2,824
Borrowing Requirement (3)	-822	-2,628	-1,255	-1,157	-3,074	189
Borrowing Requirement (4)	671	210	1,180	841	2,407	3,298
Borrowing Requirement /GDP (In Percent)	0.13	0.00	0.11	0.17	0.39	0.45
Borrowing Requirement (3)/GDP (In Percent)	-0.17	-0.47	-0.20	-0.24	-0.55	0.03
Borrowing Requirement (4)/GDP (In Percent)	0.14	0.04	0.19	0.17	0.43	0.52
Personnel Exp./Revenues (In Percent)	14.21	12.77	12.45	14.29	12.04	11.56
Interest Payments/Revenues (In Percent)	0.93	1.14	1.59	0.71	0.76	1.02

Source: SPO
(1) Estimate
(2) Programme target
(3) Excluding budget and privatisation fund transfers
(4) Excluding interest revenue and expenditures

By the changes made in the articles of association of the General Directorate of Turkish Grain Board (TMO), it was determined that TMO would execute the tasks related to agricultural products other than cereals when necessary with a Decree of the Council of Ministers. In this context, TMO is charged with purchase of nuts by the Decree of the Council of Ministers about the Purchase and the Sale of Nuts No. 2006/10865.

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The recent articles of association of Meat and Fish Products Corporation (EBK), which has been put out of the scope and program of privatisation with the Decree of High Council of Privatisation Administration No. 2005/104, was issued and its name was changed as the General Directorate of Meat and Fish Products. As with the new articles of association, the institution carries on with restructuring activities with the aim of securing regulation in the sector.

While the total amount of privatisation operations having completed sale/transfer transactions was USD 12.3 billion in 2005, it realized as USD 8 billion by October 2006. Total amount of undergoing privatisation operations for which the tender operations have been fulfilled but approval of sale/transfer process has not been completed or the contract has not yet been signed is 1.5 billion dollars.

Privatisation operations of sale/transfer processes completed during January-October 2006 are; block sale of state shares in TÜPRAŞ (51 percent), ERDEMİR (46.12 percent), Başak Insurance Company (56.7 percent) and Başak Pension Company (41 percent); public offering of 28.75 percent of Turkish Airlines Company (THY) shares; sales of Tarabya, Büyük Efes, Büyük Ankara hotels and Kızılay Emek Building owned by Pension Administration and saltpans and various real estate with facilities owned by TEKEL. USD 45.3 billion privatisation operations, of which tender and negotiation process have been completed but sale/transfer process is still undergoing, are expected to finalized by the end of 2006. Though, tender processes of vehicle examination spots and Mersin and İskenderun Ports of TCDD had been completed by 2005, their privatisation process have not been finalized yet due to their legal process keeps going.

The tenders concerning the transfer of operating rights of TCDD’s İzmir Port; and the block sale of Başkent, Sakarya and İstanbul Anadolu Yakası Electricity Distribution Companies; Bor, Ereğli, Ilgın Sugar Factories and 10 percent public share in Kayseri Sugar Factory Co. are planned to be finalized by the end of 2006.

With the transfer of Çanakkale Ferry Services operated by Turkish Maritime Administration (TDİ) to a company founded by Çanakkale Provincial Administration, privatisation operations at TDİ were completed except Salıpazarı Cruiser Port (Galataport).

The shares owned by Treasury in Halkbank were included in privatisation programme in 2006. The privatisation operation is planned to be finalized within two years.

According to the programme foresights of the year 2006, further source of nearly YTL 1 billion was earmarked in the budget for agricultural support. This additional source increased the payments for direct income support (DGD), premium support and livestock.

Within the framework of direct income support (DGD) programme, YTL 16 per thousand square meters payment was made in 2006, of YTL 6 deferred from the previous years. In this context, the share of direct income payments within the total agricultural supports realized as 55 percent.

In the year 2006, supports were pursued not only to the producers of oily seeds of un-ginned cotton, sunflower for oil extraction, soybean, canola, olive oil and corn which all have domestic supply shortages, but also to the producers of tea and cereals.

TABLE: III. 18- Agricultural Support Payments (1)

(Current Prices, Million YTL)

	2002	2003	2004	2005	2006(2)	2007(3)
Direct Income Support (4)	1,877	2,530	2,480	2,352	2,670	2,567
Livestock Payments	75	126	209	345	660	710
Agricultural Reform Application Project (5)	84	51	31	3	30	50
Premium Support Payments (6)	200	269	294	650	950	1,000
Premium on Tea and Trimming Support	40	39	70	113	150	150
Agricultural Crops Insurance	0	0	0	0	20	50
Certificated Seed/Milk Support	0	0	0	0	15	100
Alternative Crop Support (Potatoes)	0	0	0	8	15	13
Grants for Rural Development	0	0	0	0	50	50
Fertilizer Support	0	0	0	0	0	0
Gasoline Support	0	0	0	0	0	0
Wheat Premium	0	0	0	209	315	560
TOTAL	**2,276**	**3,015**	**3,084**	**3,680**	**4,875**	**5,250**

(1) Payments made from the budget of Ministry of Agriculture and Rural Affairs
(2) Estimate
(3) Programme target
(4) Total direct income support payments for gasoline were YTL 310 million, 327 million and 410 million in 2003, 2004 and 2005, respectively; in 2005, 274 million was for fertilizer. Within DGD payments of 2007, YTL 492 million would be given for gasoline and YTL 364 million for fertilizer.
(5) All payments in 2002 were for tobacco, of 2004 payments YTL 4 million was for sugar beet.
(6) Payments are made for cotton, olive oil, sunflower, soybeans, canola and corn.

TABLE: III. 19- Initial Purchase Prices of Selected Crops

	(Prices, YTL/Ton)			(Percentage Change)		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
1. Wheat (Bread)	325	370	350	41.3	14.0	-5.5
2. Barley (White) (1)	215	264	248	43.8	22.8	-6.1
3. Corn (1)	310	332	260	41.9	7.1	-21.7
4. Cotton (Aegean) (1)	900	900	880	12.5	0.0	-2.2
5. Sugar beet	89	99	106	11.7	11.4	6.7
6. Sunflower	460	485	505	15.0	5.4	4.1
7. Nuts	2,500	5,050	7,450	54.8	102.0	47.5
8. Dried fig	2,100	2,050	2,070	-6.7	-2.4	1.0
9. Seedless raisin	1,400	1,000	1,410	12.0	-28.6	41.0
10. Mohair (2)	1,800	3,000	3,200	63.6	66.7	6.7
11. Opium capsule	1,500	1,680	1,750	15.4	12.0	4.2
12. Cocoon (2)	3,000	2,500	2,500	50.0	-16.7	0.0
13. Tea	400	460	515	25.0	15.0	12.0

(1) Excluding support premiums
(2) Including support premiums. In addition, YTL 6, YTL 6,6 and YTL 7,3 per kg direct payments were made for mohair in 2003, 2004 and 2005 respectively; as to for cocoon, payments per kg were YTL 7, YTL 7,7 and YTL 8,5 in 2003, 2004 and 2005 respectively.

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TABLE: III. 20- Developments in Agricultural Crop Prices

	(Average Purchase Prices, YTL/Tone)			(Percentage Change)		
Crops	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
1. Wheat	353	351	332	53.9	-0.6	-5.4
2. Barley	235	262	250	55.5	11.4	-4.6
3. Rye	246	218	235	47.2	-11.0	7.3
4. Corn	289	319	242	34.3	10.1	-24.1
5. Oat	238	0	247	10.7	0.0	0.0
6. Cotton (1)	1,026	906	775	36.7	-11.7	-14.4
7. Tobacco (2)	1,083	0	0	-54.7	0.0	0.0
8. Sugar beet	95	107	103	20.7	13.2	-4.0
9. Sunflower	485	515	487	5.4	6.2	-5.5
10. Nuts	2,604	5,037	7,187	60.7	93.4	42.7
11. Dried fig	1,955	1,826	1,808	-23.4	-6.6	-1.0
12. Seedless raisin	1,420	1,181	1,399	20.2	-16.9	18.5
13. Olive oil	3,712	3,579	5,758	26.8	-3.6	60.9
14. Mohair (1)	1,800	2,871	3,094	82.3	61.5	7.8
15. Pistachio	2,600	6,590	9,602	-48.5	250.3	45.7
16. Soybean	432	405	315	17.1	-6.3	-35.6
17. Opium capsule	1,467	1,579	1,730	16.2	7.6	9.6
18. Rice	627	697	649	13.8	11.2	-7.0
19. Cocoon (1)	0	3,011	2,478	0.0	0.0	-17.7
20. Red pepper	0	2,504	3,200	0.0	0.0	27.8
21. Olive	1,430	2,405	2,323	-7.6	68.3	-3.4
22. Rose flower	2,010	2,125	2,110	43.6	5.7	-0.7
23. Red lentil	0	550	0	0.0	0.0	-100.0
24. Tea	400	460	515	25.0	15.0	12.0
25. Grape	215	224	215	29.1	3.9	-3.7
26. Apricot	2,582	3,180	154	0.0	23.2	-95.2
27. Seed raisin	0	0	707	0.0	0.0	0.0
28. Pistachio of Siirt	0	0	542	0.0	0.0	0.0
29. Haricot bean	0	0	1,337	0.0	0.0	0.0
30. Pea	0	0	1,289	0.0	0.0	0.0
31. Dried apricot	0	0	1,932	0.0	0.0	0.0
32. Peach	0	0	189	0.0	0.0	0.0

(1) Excluding support payments
(2) Within the coverage of State Support Programme

TABLE: III. 21- Quantities Purchased and Payments to Producers

	(Quantities Purchased, Thousand Tones)			(Payments to Producers, Current Prices, 1000 YTL)		
Crops	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
1. Wheat	545	1,880	4,320	192,253	658,882	1,432,269
2. Barley	27	1	799	6,351	269	199,616
3. Rye	4	2	11	982	437	2,575
4. Corn	381	471	655	110,205	150,063	158,254
5. Oat	2	0	5	476	0	1,194
6. Cotton	342	405	260	350,897	366,647	201,767
7. Tobacco (1)	10	0	0	10,832	0	0
8. Sugar beet (2)	9,131	9,528	9,603	865,541	1,022,827	989,409
9. Sunflower	427	468	530	207,079	240,978	257,966
10. Nuts	8	15	51	20,831	76,308	366,485
11. Dried fig	6	6	5	11,730	11,638	9,643
12. Seedless raisin	40	71	41	56,802	83,244	57,205
13. Olive oil	13	11	16	48,258	40,430	89,699
14. Mohair	0	0	0,2	272	445	560
15. Pistachio	1	0	0,2	3,837	1,239	1,978
16. Soya beans	17	9	9	7,345	4,309	2,753
17. Opium capsule	48	17	13	70,434	26,842	21,788
18. Rice	132	15	12	82,730	10,456	7,615
19. Cocoon	0	0	0,2	482	1,296	396
20. Red pepper	0	1	0	0	2,126	1,270
21. Olive	18	26	50	25,731	62,786	116,092
22. Rose flower	2	2	3	4,019	4,207	6,009
23. Red lentil	0	10	0	0	5,469	0
24. Tea	517	587	604	206,800	270,020	310,834
25. Grapes	5	3	2	1,077	595	372
26. Apricot	2	0	0.4	5,163	372	59
27. Seed raisin	0	0	0	0	0	186
28. Pistachio of Siirt	0	0	0.3	0	0	179
29. Haricot bean	0	0	1	0	0	1,355
30. Pea	0	0	0	0	0	286
31. Dried Apricot	0	0	1	0	0	1,003
32. Peach	0	0	0,5	0	0	93
TOTAL				2,290,127	2,935,251	4,238,911

(1) No support purchase was done.
(2) Indicates the value purchased. Of this total, approximately 40 percent is paid in current year while 60 percent is paid in the following year.

2. Targets for the Year 2007

For 2007, the ratio of the primary balance of SEEs to GDP, including the SEEs within the privatisation portfolio, is programmed to be 0.45 percent. This primary surplus would be realized with the assumption that price adjustments will be done according to the cost changes. The SEE system, which is foreseen to have a primary surplus, would face a deficit unless the assumed price increases for electricity and natural gas are applied.

The loss/theft ratio in electricity distribution, which was 17.2 percent in 2006 is targeted to decrease to 16.2 percent by the end of 2007.

In 2007, it is aimed to complete the privatisation operations, of which tenders were done in the last quarter of 2006, and to make privatisation tenders of PETKİM, TEKEL Cigarette Operations and the other electricity distribution companies.

For 2007, purchases of 2 million tonnes of wheat, 7.3 million tonnes of sugar beet, 43.000 tonnes of tobacco and 600,000 tones of non-dried tea leaf are programmed.

In 2007, the ratio of agricultural supports, in the scope of budget of Ministry of Agriculture and Rural Affairs, to GDP is programmed to be 0.83 percent and the share of direct income payments within the agricultural supports is programmed to be 49 percent.

PART FOUR

DEVELOPMENT AXES

I. ENHANCING COMPETITIVENESS

Specialisation in international markets and technology development capability have become the important elements of competitiveness in the process of globalisation and rapid technological progress. In this process, where competitive advantage elements change rapidly, information and communication technologies have created radical changes in ways of doing business. In economic development, the production of information-intensive and high value-added goods and services has come fort and particularly the education level and possession of necessary skills of labour force have gained importance.

In recent years, an improvement has been observed in Turkey's competitiveness ranking. In 2006, an apparent improvement in Turkey's rankings was observed as a result of developments in competitiveness factors, mainly the business environment.

TABLE: IV.1- The Place of Turkey in International Competitiveness Ranking

Indicators	2003	2004	2005	2006
The Number of Countries	102	104	117	125
Global Competitiveness Index (GCI)	-	-	71.	59.
Growth Competitiveness Index (GCI)	65.	66.	66.	-
-Technology Index	54.	52.	53.	52.
Business Competitiveness Index (BCI)	52.	52.	51.	46.
-Company Operations and Strategies	51.	44.	38.	41.
-Quality of National Business Environment	55.	55.	51.	46.

Source: World Economic Forum, Global Competitiveness Reports.

The main reasons for Turkey falling behind in the competitiveness rankings are inadequacies in the improvement of business and labour environment that should support entrepreneurship and innovation, increase productivity and decrease bureaucracy, and insufficiencies in the economic and technological infrastructure and the utilisation of human resources. This situation causes the foreign direct investment inflow to be lower than expected.

Problems of firms mainly arising from business and labour environment as well as firm and sectoral structure have been going on. High level of interest rates, unfair competition due to informal economy and low-priced imports, insufficiencies in physical infrastructure, bureaucracy in investment and operational stages, higher prices of some inputs supplied by the public relative to international prices, high rates of social security premium relative to wages and tax, inadequacy in the accreditation and certification services are the problems generally stemming from business environment. Important issues related to firm structures are insufficiencies in the financial, organizational and marketing structure, technology generation, original design, the ability of trade mark development and innovative creativity; the lack of quality, environment and productivity awareness, difficulties in adjustment to a competitive environment, especially experienced by SMEs and the need for support. On the other hand, there is an excess capacity in some sectors, and investments towards emerging sectors except for traditional ones are deficient.

The decline in inflation rate contributes to the competitiveness of firms. As a result of achievement of price stability to a certain extent, predictability in economic activities has been increasing in our country. In line with the decrease in risks and uncertainties about the future coming along with the decline in inflation rate has led to increase both in the credit stock and maturities.

Within the framework of main objective to provide the firms with a structure which has a high technological capability and a qualified labour force adapting rapidly to changing conditions and competitive in national and international markets; the need for improvement in macroeconomic stability, the quality of business environment, access to finance, energy and transportation infrastructure, protection of environment and urban infrastructure, development of R&D and innovativeness, diffusion of information and communication technologies, reduction of informality, making the agricultural infrastructure more efficient, and shift to high value-added production structure in industry and services has been continuing.

A. IMPROVING BUSINESS CLIMATE

1.Current Outlook

Recently, a significant progress has been recorded in improving the business climate and a rise in investments has been accomplished with the realization of various arrangements, primarily achieving macroeconomic stability in Turkey.

Within the scope of the Reform Programme for the Improvement of the Investment Environment in Turkey, initiated in 2001, many regulations have been introduced until 2006, for the simplification of the administrative and regulatory procedures encountered during the investment and operation phases. In this context, establishing a company in a single day has been made possible, the lowest amount of capital required for foreign direct investment has been removed, the permission system has been replaced by the notification system, the discrimination between foreign and domestic investors prior to company registration has been eliminated. Furthermore, the principles regarding the foreigners' working permits have been specified and the Ministry of Labour and Social Security has been identified as the sole authority. In addition, with the new Mining Law, a significant simplification of the mining licensing procedures has been introduced.

With the adoption of the Law on the Establishment, Coordination, and Duties of Development Agencies No. 5449 in January 2006, the establishment of Investment Support Offices (One-Stop-Shops) designed for the centralized monitoring and coordination of sectoral permits required during investment and operation phases was enacted. The Regulation on principles and procedures for the operation of these offices was also enforced in July 2006.

The twinning project, initiated within the context of 2003-EU-Turkey Financial Cooperation Programme, aiming to support the improvement of the investment environment efforts and enhance the effectiveness of foreign direct investment promotion activities in Turkey was completed in 2006.

Moreover, in order to meet the information requirements of the investors electronically, an investment portal (www.investinturkey.gov.tr) was launched in May 2006.

However, issues such as intensive bureaucracy, the ambiguity and redundancy of the permits, approvals and licenses are ongoing problems despite various arrangements introduced. This situation can be observed more clearly when compared to the OECD average.

In order to reduce the tax burden of the investors, several tax discounts were realized in 2005 and 2006. As a result of these arrangements, the ratio of the total tax payments by the enterprises in their gross profits became lower in Turkey compared with the OECD average. However, due to the complexity of the tax system and the large number of taxes, the cost of tax transactions still remains high.

TABLE:IV.2- Business Climate Indicators

	Starting a Business		Hiring- Firing Difficulty Index		Registering Property		Enforcing Contracts		Closing a Business	Paying Taxes	
	Number of Procedures	Duration (Days)	Hiring	Firing	Number of Procedures	Duration (Days)	Number of Procedures	Duration (Days)	Duration (Years)	Number of Procedures	Ratio to Gross Profit
Turkey	8	9	56	30	8	9	34	420	5.9	18	46.3
OECD Average	6.2	16.6	27	27.4	4.7	31.8	22.2	351.2	1.4	15.3	47.8

Source: Worldbank,

The Law on the Establishment of the Investment Support and Promotion Agency of Turkey No. 5523 aiming to specify and implement the investment support and promotion strategies to encourage the investments in Turkey was put into force in June 2006.

In addition, the need for the reduction of taxes and the social security premium burden on labour still continues. The reduction of these burdens is key to the registration of the labour force as well.

Regarding the business climate, the needs for efficient sectoral supervision, encouraging to register, reducing labour costs by enlarging the tax payers base, increasing efficiency by enhancing the labour force quality in accordance with the market requirements and improving insured elasticity in the labour market still exist.

In respect of competition policy, the necessary institutional capacity has been formed with the establishment of the Competition Authority. However, in light of the enforcement experience in the past as well as international experiences, amendments to the legislation and institutional structure are needed in order to implement the competition law efficiently. Besides these, despite the fact that the Turkish competition legislation is largely aligned with the EU legislation in terms of antitrust rules, there also exist deficiencies in opening state monopolies to competition.

In the Turkish intellectual property system, which has a considerable effect on enhancing the innovation capacity and the competitiveness of the enterprises, it is observed that the problems still exist in terms of enforcement, though its institutional and legal infrastructure have been completed on a large extend. The present administrative structure for copyright and related rights has not yet been effective and productive. In the intellectual property area, the need for fostering the legal procedure also continues. On the other hand, an important progress has been achieved for combating the piracy and counterfeiting; however it has not reached to its expected level, yet. In the intellectual property area, there are needs for training at each level and establishing a common and permanent intellectual property culture in the society.

In Turkey for 2005, the total number of filings are 3,498 for patent, 1,903 for utility

TABLE IV.3- Comparison of Patent Statistics (2004)

Countries	Resident patent filings	Resident patent filings per million population	Resident patent filings per USD billion GDP	Resident patent filings per USD million R&D Expenditures
USA	189,536	645.44	17.70	0.68
Japan	368,416	2 883.56	107.26	3.41
Belgium	540(1)	51.82	1.81	0.08
Germany	48,448	587.13	22.57	0.90
Poland	2,381	62.36	5.23	0.93
Romania	937	43.21	5.54	1.38
China	65,786	50.75	9.37	0.71
India	7,179	6.65	2.30	0.22
Turkey	636(2)	7.11	1.00	0.13

Source: WIPO Patent Report: Statistics on Worldwide Patent Activity (2006)
(1) Estimated
(2) Turkish Patent Institute

model, 59,112 for trademark and 5,334 for design. For these figures, the rate of resident filings is 82 percent for trademarks and 92 percent for designs, however for patents it is below 30 percent. The comparison of patents, which has an important place in the industrial property rights and indicate the innovation and invention capacity of countries, is given in the table below. It is observed that the patent system has not yet been adequately adopted by the society in spite of a historical experience for more than a century.

The continuing problems of the incentive system are lack of efficient support tools, complexity, redundancies, lack of coordination and inadequacy in the performance monitoring mechanisms. This situation is delaying the process of enhancing competitiveness of the firms by efficiently benefiting from state aids.

On the other hand, the Council of Minister Decree No. 2006/10921 Decision on State Aids in Investments was put into effect on October 6, 2006. With this Decree, two separate state aid programs in investments were merged, investment allowance, exemption from duty and levy of which application was repealed with the latest amendment in the tax laws were revoked from the scope of incentives system. Allocation of investment and operation credits of which the interest rates remained above the market rates, financed from the budget through intermediary banks previously, were revised as interest support for investment credits. Incentive measures exist in the decree such as exemption from Customs Duties and Fund Levies for the investment goods in investments to which investment certificate is given on project base, VAT exemption and non-payable interest support from the budget for the credits obtained from banks (including participation banks) for SMEs, R&D and environmental investments in priority regions for development.

A draft law to construct a framework for, monitor and evaluate the state aids was prepared and sent to the Prime Ministry.

To create an appropriate business environment, it is important to improve corporate governance of SMEs and promote the financing opportunities, which are diversified at favourable conditions.

SME credit programmes, executed by the contributions of the related public and professional institutions especially by Halkbank, continue and it is aimed to increase the funds available in the market by use of external funds. The capital of Credit Guarantee Fund established to solve the problems that SMEs face in providing guarantee for bank credits was increased by a significant amount. Although it is a good progress for increasing sources of credit guarantee system and enhancing effectiveness, the need for its improvement and extension continues.

In the scope of harmonization with the EU acquis, By-Law on Definition, Characteristics and Categorization of Small and Medium Sized Enterprises was adopted by the Council of Ministers and published in Official Gazette dated November 18, 2005. Thus, a unified SME definition in line with EU legislation was accepted. In the EU accession process, there is a need to make SMEs more conscious about their liabilities emanating from the adoption of EU acquis and Basel II criteria.

TABLE:IV.4- Halkbank Credits

(Million YTL)

	2003	2004	2005	2006(1)
SME Credits	588	918	1,313	2,271
Fund Credits	261	368	841	930
Industrial Credits	327	549	472	1,341
Cooperatives Credits	687	1,212	1,560	2,200
TOTAL	**1,275**	**2,130**	**2,873**	**4,471**

Source: Halkbank
(1) For 9 Month

Since SMEs technical knowledge and ability, access to information and communication technologies and capability of benefiting from advantages of these technologies are limited, value added created by them is insufficient. Therefore, there is a need to increase awareness of SMEs about importance of information and communication technologies, and expand modern business applications such as computer ownership, access to internet, e-business, enterprise resource planning, supply chain management.

2. Main Objectives and Targets

The basic objective is to improve the business environment with a competitive structure. In this framework, it is aimed to create a business climate that promotes investors with easy access to the financial markets, enhanced infrastructure, minimized input costs, effective state aids, simplified bureaucracy and widespread institutionalisation.

Besides, it is aimed to decrease the cost of enterprises, improve their productivity and facilitate their access to the new markets by spreading e-commerce implementations and efficient use of information and communication technologies.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Access to financial markets for enterprises primarily SMEs will be eased by diversifying the financial instruments.				
Measure 1.1. Venture capital system will be extended and its effectiveness will be increased.	Ministry of Industry and Trade	CMB, KOSGEB, TOBB, BAT, Commercial Banks, Chambers of Trade and Industry	2006-2008	Capacity and sources of existing venture capital firms are insufficient. It is aimed to ensure that more firms and entrepreneurs benefit from the venture capital system.
Measure 1.2. Specialization and intermediation of investment and commercial banks about SME supports will be supported.	KOSGEB	Undersecretariat of Treasury, TSKB, Commercial Banks	2006-2008	It is aimed that bank credits will be provided to SMEs without Treasury guarantee.
Measure 1.3. Extension and improvement of the credit guarantee system will be ensured.	KOSGEB	TOBB, Chambers of Industry and Trade, Banks	2007-2009	It is aimed to develop the credit guarantee system in terms of operation and resources and expand the system regionally.

Priority 2. Efforts on reducing bureaucracy and accelerating procedures will be pursued in order to improve the business environment.				
Measure 2.1. Investment Support Offices will be established in provinces under the Development Agencies.	SPO	Ministry of Interior, Relevant Governorships, Relevant Development Agencies	2006-2008	It is aimed that the licensing procedures will be monitored and coordinated through Investment Support Offices.
Measure 2.2. Licensing processes for the investment location will be shortened.	Ministry of Public Works and Settlement	All Relevant Agencies	2006-2007	It is aimed to reduce the zone permission procedures related mainly with mining and tourism facilities, excluding Organized Industrial Zones, Small Industrial Zones, Technology and Industrial Zones.
Measure 2.3. Within YOIKK framework, action plans of Technical Committees will be prepared and implemented.	Undersecretariat of Treasury	Relevant Bodies, NGOs	2007	The Technical Committees established within the framework of the Reform Program for the Improvement of the Investment Environment will prepare action plans including the issues that should be reviewed. Subsequently, these plans will be implemented.
Measure 2.4. Use of e-documents for foreign trade will be provided.	Undersecretariat of Customs	Ministry of Finance (Revenue Administration), Ministry of Health, Ministry of Transport, Ministry of Agriculture and Rural Affairs, Ministry of Industry and Trade, Ministry of Environment and Forestry, Undersecretariat of Foreign Trade, TURKSTAT, Turkish Atomic Energy Authority, Turkish Standards Institution, TOBB, Turkish Exporters Assembly	2007	Information and documents used in foreign trade transactions will be exchanged online between agencies that are party to business processes, and all transactions will be processed electronically using standard foreign trade documents.
Measure 2.5. Single Point Information Portal will be established.	Ministry of Industry and Trade	Ministry of Transport, Undersecretariat of Foreign Trade, Turkish Employment Organization, KOSGEB, TOBB, The Confederation of Turkish Tradesmen and Handicrafts, Relevant Public Institutions and Organizations	2007	The Portal will provide SMEs and entrepreneurs with all kinds of information including the sectoral information in which they operate, ICT usage, conducting business and starting up new businesses.
Priority 3. An efficient state aid system, comply with EU Acquis will be formed.				
Measure 3.1. An institutional structure for state aids will be established.	SPO	Ministry of Industry and Trade, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, Revenue Administration, Competition Authority	2006-2007	An institutional structure aiming at monitoring, control and coordination of state aids will be established in order to meet Turkey's commitments to EU.
Priority 4. Generalization of good governance principles and institutionalisation at enterprises will be supported.	CMB KOSGEB	MPM KALDER TİM	2006-2008	The main aim is to ensure that the enterprises will be administered by advanced management techniques. In this respect, meetings about corporate governance will be held and studies to develop corporate governance in SMEs will be executed.
Priority 5. The application of intellectual property rights will be made effective and a widespread intellectual rights culture will be generated in the society.				

Measure 5.1. Data supply in electronic form will be developed at Turkish Patent Institution.	Turkish Patent Institution		2006-2008	It is aimed to provide access to documents at Turkish Patent Institution in electronic form and through internet, thus prevent waste of time.
Measure 5.2. Improving the public awareness by informing the society about industrial property issues.	Turkish Patent Institution		2006-2008	Participation to fairs, arranging national and international organizations, organizing certificated education programmes, presentations, television and radio advertises, media relations, posters and promotion supplies will be provided.
Priority 6. Information and communication technologies infrastructure of enterprises will be improved; e-commerce applications and access to global market will be supported.				
Measure 6.1. Foreign Investor Focused Promotion Portal will be enriched.	Undersecretariat of Treasury	Ministry of Interior (D.G. Local Administrations) Ministry of Finance (D.G. Public Real Estates), Ministry of Finance (Revenue Administration), Ministry of Industry and Trade, General Directorate of Land Registry and Cadastre, Local Administrations, International Investors Association of Turkey	2007	Foreign investors will be informed about the legislation, sectors, investment incentives and primary inputs of Turkey. Also, different investment alternatives will be offered to foreign investors.
Measure 6.2. e-Commerce security infrastructure will be constituted.	Turkish Standards Institute	Undersecretariat of Foreign Trade, TÜBİTAK, BRSA, Turkish Accreditation Agency, Inter-bank Card Centre, Relevant NGOs	2007-2008	Standards for secure e-commerce applications will be determined, and a certification mechanism to be utilized by authorized bodies to audit the conformity of e-commerce companies to these standards will be established in order to create an appropriate environment for secure and reliable online shopping.

B. REDUCING THE INFORMAL ECONOMY

1. Current Outlook

What lie behind the informal economy, which has become a structural problem of the Turkish economy, are economic reasons such as the macroeconomic instability, inflationary tendencies, high tax and premium rates, and administrative – financial – legal burdens, and also structural and social reasons such as most enterprises being small scaled, poverty, unemployment, inefficient and wasteful public expenditures, rapid urbanization, bureaucratic formalities, high levels of cash use in the economy compared to developed countries, inefficiency of the supervision system, lack of coordination among institutions, frequent issuance of amnesties, and inability to create social and political will in fighting against informalization.

Studies on informal economy in Turkey show that the dimension of this problem is high compared to those of developed economies. Enlargement of the area of informal economy results in the creation of unfair competition among individuals and enterprises, deterioration of income distribution, and decrease in the willingness of taxpayers to pay taxes. The spread of informal economy causes this issue to be perceived as legitimate by the society and therefore results in the harming of social values. Compensating for the public financing requirement, which increases because of informal economy, by raising the tax rates, increases the resistance against taxes and creates a vicious cycle that feeds informal economy. In addition, even though informal economy seems as if it initially creates a competitive advantage for enterprises, as a result of the increasing tax burden on inputs and decreasing labour productivity, it actually creates a disadvantage in terms of international competition.

Even though encouraging regulations towards reduction in bureaucracy in the context of improving investment climate, implementation of inflation accounting, transition to automation in customs, social security and tax transactions, the fight against smuggling, protection of intellectual property rights and employment increase in underdeveloped provinces were put in place, the dimension of informal economy could not be reduced.

Macroeconomic stability in the last period has established an appropriate situation for combating informal economy, and also some measures have been taken for reducing informality in general and sectoral level. In the frame of combating informality the following measures were taken:

301 tax offices have been automated at the end of second stage of VEDOP project that has been implemented for improving the technological infrastructure of the Revenue Administration. With the e-Tax Department Automation project that has been started as of November 11, 2005, 147 tax offices have been taken into the coverage. A database (VERİA) for the information on taxing of public and private sector has been established.

The use of tax identification numbers in the relevant documents and records by those who are parties to transactions to be realized by financial organizations, has become obligatory since September 2001. On the other hand, the implementation stipulating the realization of collections and payments exceeding YTL 8,000 through the channel of banks or PTT offices has been started.

The efforts to use Turkish Republic Identification number instead of tax number have been completed.

Although the implementation of the mounting of payment recording devices to fuel oil pumps have been started, several problems have appeared and regulation has not been fully put into practice.

Project towards Combating Unregistered Employment (KADİM) aims providing coordination among public institutions for combating unrecorded employment, informing citizens and increasing supervision, has been started with Prime Ministry Circular No. 2006/28 dated October 4, 2006.

On the other hand, the measures for increasing the competitiveness in the economy, improving the investment climate and improving the financial system will have an important role in reducing informal economy.

Main Objectives and Targets

Reducing the informal economy is the primary goal, which contributes to attaining the aim of increasing the competitiveness and providing a sound structure of public finance.

Starting of fighting against informality with a comprehensive strategy driven by a strong social and political will, prepared with the participation of all segments of the society, informing society towards the harms of informal economy, encouraging formalization with decreasing the financial burdens taking into consideration of the constraint of public finance and providing an effective coordination among public institutions are the main targets.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Efforts will be initiated in order to form a strategy, so as to combat with informal economy.				
Measure 1.1. A comprehensive analysis of informal economy will be conducted.	SPO	Ministry of Labour and Social Security, Ministry of Finance, Undersecretariat of Customs, Revenue Administration, SGK, Energy Market Regulatory Authority, Financial Crimes Investigation Board	2007	Reasons, consequences and dimensions of informal economy will be defined in a comprehensive manner through the participation of related parties to help orientation of studies in this context.
Priority 2. Coordination among public institutions will be improved to reduce informal economy and unregistered employment.				
Measure 2.1. Coordination among public and non-governmental organizations will be provided in the context of combating unrecorded employment.	Ministry of Labour and Social Security	Related Public Institutions, Professional Institutions, NGOs	2007-2008	Providing coordination among public institutions and non-governmental organizations operating in different fields ensures more efficient functioning of combating against unregistered employment.
Measure 2.2. KADİM, published in 2006, will be carried out with delicate care.	Ministry of Labour and Social Security	Related Public Institutions, Professional Institutions, NGOs	2007-2008	Successful completion of The KADİM Project, a comprehensive project about combating undeclared work, plays an important role in combating unregistered employment.
Measure 2.3. T.R. Identification Number will be used in transactions related to tax and social security, to provide more effective coordination and control.	Ministry of Interior, Revenue Administration, Social Security Institution		2007	Registering of people to tax and social security system with different numbers makes it harder to conduct controlling and auditing operations.
Priority 3. Information campaigns will be organized, brochures will be delivered and lectures will be given to encourage people to take part in the formal economy and to describe the damages of informal economy.				
Measure 3.1. Information campaigns will be organized, brochures will be delivered and lectures will be given to describe the damages of informal economy in the frame of KADİM Project.	Ministry of Labour and Social Security	Related Public Institutions, Professional Institutions, NGOs	2007-2008	One of the main reasons of informal economy and unrecorded employment is the fact that the society considers those cases as legitimate and does not have enough knowledge about their consequences. Making people conscience about informality with these information campaigns, brochures and lectures, will play an important role in reducing the informality.
Priority 4. Tax system will be made more effective through the revision of tax laws.				
Measure 4.1. New Income Tax Law will be legislated and Tax Procedure Law will be revised.	Ministry of Finance	Revenue Administration, Tax Council	2007	Significant contributions will be made to combat with informal economy through a simpler and more effective tax system.

Priority 5. Technical and administrative infrastructure of the Revenue Administration will be strengthened.				
Measure 5.1. Large taxpayer unit will be established and will become active as soon as possible.	Revenue Administration		2007	Large taxpayer units will provide better monitoring of taxpayers who pay larger amount of taxes, and ensure better services.
Priority 6. An effective struggle will be carried out against smuggling.				
Measure 6.1. Cash register implementation in fuel stations will be activated.	Revenue Administration	Ministry of Industry and Trade, Ministry of Energy and Natural Resources, Energy Market Regulatory Authority	2007	Prevention of fuel smuggling and tax losses is aimed.
Measure 6.2. Regulations to prevent fuel smuggling will be implemented.	Revenue Administration		2007	The implementation of effective measures against fuel smuggling is aimed.
Measure 6.3. National marker implementation for fuel will be implemented.	Energy Market Regulatory Authority	Ministry of Industry and Trade, Ministry of Energy and Natural Resources	2007	Customer's usage of products in accordance with standards, as well as prevention of fuel smuggling and tax losses are aimed.
Measure 6.4. New label implementation, which prevents smuggling in tobacco products and alcoholic beverages, will be put into practice.	Ministry of Finance, Tobacco Products and Alcoholic Beverages Regulation Authority	Revenue Administration	2007	Prevention of smuggling and tax losses in tobacco products and alcoholic beverages is aimed.

C. DEVELOPING THE FINANCIAL SYSTEM

1. Current Outlook

The total asset of the institutions operating in the financial sector realized as YTL 471.6 by the end of 2005. This asset size corresponds to a ratio of 96.8 percent within GDP and to USD 351.2 billion. In terms of asset size, banking sector has the largest share in financial sector with 86.3 percent. It is observed that the shares of leasing companies and consumer finance companies, either substitute or complimentary for banks in credit markets, are too low and the share of the firms called institutional investors operating in capital markets is lower than the desired level. The share of the public banks including special purpose development and investment banks is 28.5 percent.

TABLE: IV. 5- Financial Sector Asset Size (2005)

	Million YTL	Million USD	Shares in Sector (In Percent)	Ratios to GDP (In Percent)	Number of Firms
Banks	**406,915**	**302,990**	**86.3**	**83.5**	**51**
Public Banks (1)	134,231	100,016	28.5	27.6	7
Private Banks	262,739	195,767	55.7	53.9	40
Participation Banks	9,945	7,410	2.1	2.0	4
Insurance and Pensions	**16,645**	**12,394**	**3.5**	**3.4**	**57**
Insurance	14,430	10,745	3.1	3.0	45
Pension Companies (2)	1,219	908	0.3	0.3	11
Reassurance	996	741	0.2	0.2	1
Financial Leasing Companies (3)	**6,092**	**4,539**	**1.3**	**1.3**	**83**
Factoring (3)	**5,340**	**3,979**	**1.1**	**1.1**	**88**
Consumer Finance Companies (3)	**2,516**	**1,875**	**0.5**	**0.5**	**9**
Authorized Institutions (4)	**296**	**221**	**0.1**	**0.1**	**773**
Authorized Individual Lenders (4)	**63**	**47**	**0.0**	**0.0**	**35**
Financial Intermediaries	**1,911**	**1,424**	**0.4**	**0.4**	**108**
Investment Trusts	**2,803**	**2,089**	**0.6**	**0.6**	**37**
Real Estate Investment Trusts	2,209	1,646	0.5	0.5	10
Mutual Funds	**29,374**	**21,887**	**6.2**	**6.0**	**275**
Type A	1,034	770	0.2	0.2	126
Type B	28,341	21,117	6.0	5.8	149
Total	**471,597**	**351,176**	**100.0**	**96.8**	**708**

Source: BRSA, CMB, ISE, Treasury
(1) Ziraat Bank, Halk Bank, Vakıf Bank, Birleşik Fon Bank, Bank of Provinces, Turkish Eximbank and Turkish Development Bank.
(2) Data are the size of managed fund.
(3) Number of firms are given as of March 2006 and asset sizes are given as of December 2005.
(4) Aggregates are given as the value of the capital as of the end of 2004.

Banking

As of October 2006, a total of 50 banks - consisting of 33 deposit banks, 13 development and investment banks and 4 participation banks- are operating in the Turkish banking sector. With the Law No. 5411, special finance houses are included in banks and defined as participation banks. While the number of banks decreased by one compared to the end of 2005 because of the merger of Yapı Kredi Bank and Koçbank, the number of branches increased from 6,568 to 7,014 and the number of personnel increased from 138,724 to 145,251 during the period December 2005 and July 2006.

As to the assets, the share of the 5 largest banks decreased from 61.4 percent to 58.5 percent by June 2006 compared to the end of

2005, while the share of the 10 largest banks decreased from 82.9 percent to 81.7 percent in the same period. While the share of private banks in total assets rose from 58.3 percent to 59.5 percent and the share of participation banks rose from 2.4 percent to 2.7 percent, the share of public banks decreased from 30.6 percent to 28.7 percent and the share of development and investment banks decreased from 3.2 percent to 3.1 percent. The prevalence of stability in the economy, beginning negotiations with EU, Turkish banking sector having an immature market in many financial products and its growth potential, led to the increase in investments by foreign banks to Turkey in the recent years. The share of banks that have foreign stake more than 50 percent in their ownership increased from 5.1 percent to 5.8 percent in the first seven months of 2006. Total foreign stake in the sector reached to 16.9 percent excluding the shares in ISE and 33.2 percent including the shares in ISE as of October 2006. When the mergers and acquisitions of which negotiations are continuing or in the process of receiving approval from BRSA are taken into account, it is expected that the foreign share in the sector will increase further in the coming period.

When the final balance sheets of the banks -excluding participation banks- as of June 2006 are analysed, it is observed that the total assets of the Turkish banking sector reached to YTL 455.2 billion with a 14.7 percent increase in terms of YTL in the first half of 2006 compared to the end of 2005. In dollar terms, total assets decreased by 4 percent compared to the end of 2005 to 284 billion dollars due to the depreciation of YTL in the financial volatility in May and June 2006. In the same period, the ratio of banking sector assets to GDP considered as an indicator of banking sector progress, rose from 81.5 percent to 87.1 percent.

In parallel with the fall in inflation and interest rates and decrease in the public sector borrowing requirement in the recent years, banking sector started to focus more on its main function of credit expansion. The increase in banking sector credits continued also in 2006 and the credit stock increased by 30 percent in the first half of 2006 compared to the end of 2005 from YTL 153.1 billion to YTL 199.1 billion. With the increase in credit volume, the share of credits in total assets, which was 33.7 percent in 2004 and 38.6 percent in 2005, reached 43.7 percent in June 2006. In parallel with this development, the big increase in consumer loans, working capital and investment loans were effective in the rise of the total credit volume. The rapid increase in housing loans which are included under the definition of consumer loans, continued also in the first half of 2006. However, because of the rise in interest rates in the financial volatility in May and June, the acceleration of consumer loans started to decrease after June.

The fall of the share of securities portfolio in 2005, which constitutes an important portion in uses of bank resources after 1990s, continued also in 2006. The ratio of securities portfolio, mainly composed of Treasury bills and government bonds, to total assets decreased from 36 percent in 2005 to 35.1 percent in June 2006. As of June 2006, the ratio of securities portfolio to total assets was 53.3 percent in public banks, 29 percent in private banks, 19.6 percent in foreign banks and 11.7 percent in development and investment banks.

TABLE: IV. 6– Selected Aggregates of the Banking Sector Balance Sheet (1)

	2003	2004	2005	June 2006
Basic Aggregates (Billions of YTL)				
Asset Total	249.7	306.5	397.0	455.2
Credits	70.0	103.2	153.1	199.1
Deposits	160.8	197.4	253.6	290.8
Performance Indicators (In Percent)				
Net Profit (Billions of YTL)	5.6	6.5	5.7	5.0
Return on Assets	2.2	2.1	1.4	1.1
Return on Equity	15.8	14.0	10.6	9.8
Credit / Deposit	43.5	52.3	60.4	68.5
Risk Indicators (In Percent)				
Capital Adequacy Ratio	30.9	28.8	24.2	18.6
Balance Sheet Open Position (Billions of USD)	-0.0	-1.4	-1.9	-5.8
Non-Performing Loans (NPL) / Credits	12.3	6.2	4.9	3.8
NPL (Net) / Credits	1.4	0.7	0.5	0.4
Securities Portfolio / Total Assets	42.8	40.4	36.0	35.1

Source: Banks Association of Turkey, BRSA
(1) Excluding participation banks

In addition to the improvement in the asset composition, the asset quality of the Turkish banking sector has been also improving. The ratio of gross non-performing loans (NPL) within total credit stock, which was 6.2 percent in 2004, decreased to 4.9 percent in 2005 and 3.8 percent in the first half of 2006.

When the liability structure of the banking sector is regarded, it is observed that the deposits, which form the major resources of the banks, increased by 14.7 percent to YTL 290.8 billion as of June 2006 compared to the end of 2005. In the same period, the share of deposits within total liabilities kept its previous level and became 63.9 percent. When YTL-FX composition of deposits are considered, it is observed that the upward trend in the share of YTL deposits within total deposits in recent years stopped due to the exchange rate movements which occurred in the middle of the year 2006. The ratio of YTL deposits to total deposits, which increased from 55.2 percent in 2004 to 63.2 percent in 2005, decreased to 62.7 percent in June 2006. Increasing access to external funds of banking sector who has relatively lower risk premium compared to previous periods continued and these funds became an important source of financing for the sector. In this respect, while the banking sector credit stock received from abroad was YTL 24.5 billion in 2004 and YTL 40.9 billion in 2005, these credits reached YTL

58.4 billion with the effect of the appreciation of the foreign exchange rate by June 2006. Although credits received from abroad provides a significant cost advantage in the periods when there is a stability on exchange rates, these credits have the risk of causing big loses for the banks in the periods when upward movements in foreign exchange rates gain momentum as hedging mechanisms for exchange rate risks are not used.

The upward trend in the ratio of credits to deposits since 2002, continued also in 2006. This ratio, which was 52.3 percent in 2004 and 60.4 in 2005, became 68.5 percent in June 2006. When analysed on the basis of bank groups, the ratio of credits to deposits is observed to be 81,2 percent for private commercial banks, 36.9 percent for public banks and 87.4 percent for foreign banks.

The rise in the risk weighted assets as the result of the rapid expansion of the credits, led to a decrease in capital adequacy ratios in recent years. The capital adequacy ratio of the sector fell from 28.8 percent in 2004 to 24.2 in 2005. In the first half of 2006, in addition to the rise in risk weighted assets, the fall in "securities increment value fund" in equity account due to the rise in interest rates in May and June brought about a steeper fall in the capital adequacy ratio to 18.6 percent. When the situation is analysed in reference to the bank groups, it is observed that the capital adequacy ratio of the public banks is higher than the other group of banks because of the high weight of government bonds in their portfolio and the ratio of development and investment banks is higher because of their balance sheet structure. In this context, the capital adequacy ratio is 25.2 percent for the public sector banks, 97.4 percent for development and investment banks, 13.9 percent for the private banks and 14 percent for the foreign banks as of June 2006.

As of June 2006, balance sheet foreign exchange open position of banking sector increased substantially compared to 2005. Large FX open position of private banks was effective in this development. Net foreign exchange open position was USD 64 million in 2005 and USD 192 million in June 2006.

In spite of the volatility in May and June in financial markets, the profit of Turkish banking sector continued to increase. In the first half of the year compared to the same period of the previous year, net profit of the banking sector increased by 18.4 percent from YTL 4.2 billion to YTL 5 billion. Despite this increase in net profits, return on equity which was 1.2 percent in the first half of 2005 decreased to 1.1 percent in the first half of 2006, since the percentage rise in total assets was bigger than the percentage rise in net profits. On the other hand, the limited rise in equity led to a rise in the return on equity ratio from 9 percent to 9.8 percent. In the first half of 2006 compared to the same period of the previous year, although interest from loans and fees and commission from loans increased, YTL 3.5 billion of foreign currency losses negatively affected net profit. While the share revenues obtained from credits and banking services within the total revenues of the sector increased starting with 2002, the share of revenues obtained from the securities portfolio within the total revenues started to recede, though this weight is still high. The rise in the share of the revenues from the main activities of the sector indicates that the sector is approaching to a better income structure.

TABLO: IV. 7- Comparison of the Indicators of the Turkish and EU Banking Sectors (2005)

(In Percent)

	Assets / GDP	Credits / GDP	Deposits / GDP	Credits / Deposits	NPL / Credits (1)	Capital Adequacy Ratio	Return on Assets	Return on Equity
Germany	303.8	134.5	115.4	116.6	4.8	13.4	0.2	3.5
Austria	294.0	133.7	101.4	131.7	2.2	14.5	0.8	11.4
Belgium	353.9	121.7	153.6	79.2	2.0	11.5	0.5	18.5
Denmark	346.1	184.5	68.7	268.7	0.7	13.2	1.0	16.3
Finland	151.0	75.5	54.9	137.6	0.3	17.3	0.9	10.0
France	297.7	99.5	79.7	124.7	3.5	11.4	0.6	11.9
Netherlands	338.2	188.9	136.3	138.6	1.2	12.4	0.5	14.6
Luxembourg	2,702.3	494.1	818.1	60.4	0.2	17.5	0.5	37.8
UK	470.5	155.6	138.0	112.8	1.0	12.8	0.8	11.8
Ireland	587.5	207.9	142.5	145.9	0.7	12.0	1.4	21.8
Spain	237.8	141.3	118.1	119.7	0.6	12.2	0.9	16.9
Sweden	226.8	119.9	53.3	225.1	1.1	9.9	0.8	17.2
Italy	177.1	90.3	59.6	151.5	6.3	11.6	0.7	13.3
Portugal	244.4	142.0	109.7	129.4	1.6	11.3	1.0	16.9
Greece	155.2	84.4	103.6	81.4	5.5	13.2	0.9	16.2
EU-15	315.3	130.2	106.2	122.6	2.1	12.9	0.8	15.9
Czech Republic	106.6	41.6	72.5	57.4	4.1	11.7	1.4	25.3
Poland	62.5	31.9	43.5	73.4	7.7	14.5	1.6	20.7
Hungary	84.9	51.8	42.6	121.5	2.1	12.0	2.0	25.1
Turkey	81.5	31.4	52.0	60.4	4.9	24.2	1.4	10.6

Source: ECB Report on EU Banking Structure, October 2006; Global Financial Stability Report, September 2006; BAT; TURKSTAT
(1) Austria and Denmark's NPL/credits ratios are as of 2004.
(2) NPL/credits, ROA, ROE and capital adequacy ratios are calculated by arithmetic average method.

When the Turkish Banking Sector is compared with those of the EU countries, it is observed that although there has been an improvement in recent years, the basic ratios that indicate sectors' depth and development such as assets/GDP, deposits/GDP, credits/GDP and credits/deposits are relatively low in Turkey compared to EU averages. Although capital adequacy ratio of the sector was considerably higher than those of the EU countries, there was a decrease in this ratio in the first half of 2006. It is expected that this ratio will decrease further with the adoption of Basel-II principles. While return on asset ratio is high compared to EU countries, return on equity ratio is relatively low.

When the balance sheets of participation banks are analysed, it is observed that their total assets rose by 23.5 percent to YTL 12.3 billion in the first half of 2006 compared to the end of the previous year. In the same period, the loans of participation banks increased by 24.8 percent to YTL 8.1 billion, while the funds collected by these banks increased by 18.1 percent to YTL 9.9 billion. The ratio of loans to funds collected which was 77.4 percent in 2005, rose to 81.7 percent in the first half of 2006. The capital adequacy ratio of participation banks rose from 12.5 percent to 14.1 percent in the same period.

During the first seven months of 2006 collections of Savings Deposit Insurance Fund (SDIF), which is authorized by the Banking Law No. 5411 on the insurance of deposits and participation accounts, management, restructuring, sale, liquidation and follow-up and collection of the receivables of the banks under control, reached a total of USD 6.3 billion. In addition this, in the same period, repayment of debt by SDIF reached USD 5.6 billion, USD 400 million of which was repaid to treasury and USD 5.2 billion of which was repaid to other institutions like Ministry of Finance and Social Security Institution. Besides, deposit insurance activity reserves reached to USD 1.8 billion as of July 2006.

Banking Law No. 5411; which was designed consistent with international principles and standards and EU directives was promulgated in the Official Gazette on the 1st of November 2005. In addition, works related to the secondary regulations which have to be put into effect in accordance with the Banking Law have been in progress. In this context, while the implementing regulation on the calculation of foreign exchange net general position/Equity standard ratio and implementing regulation on information systems auditing to be performed by independent auditors have been put into effect; draft regulations that have to be put into effect by 1st of November 2006 in accordance with the Law have been prepared and opened to public opinion.

The works related to the convergence to Basel-II have been continuing with the collaboration between BRSA and the banks. Within the scope of the roadmaps, the works related to compatibility of the current accounting and reporting systems to Basel-II requirements, update of the information management and data storage systems, classification of the assets by portfolios, classification of loans by corporate/SME/retail, fictionalisation of within the scope of the customer/guarantee follow up systems and classification of income/cost in terms of the branches of activities have being conducted by banks.

Capital Markets

With the continuation of increasing initial public offerings during 2006, accelerated since 2005, the number of companies traded in Istanbul Stock Exchange (ISE) has shown an increase as of September 2006. In this context, the number of companies whose shares are circulating in the market, which was 304 as of end of 2005, reached 316 as of September 2006. The share of stocks held in foreign investors portfolio within the total value of the stocks traded in ISE has kept the level as of end of 2005, which was 66.3 percent. The share of total market capitalization in GDP of the corporations listed on the ISE has decreased from 44.8 percent as of end of 2005 to 38.5 percent as of June 2006.

In recent years, a decrease in the number of financial institutions has been observed. The said decrease becomes more striking when considering that the activities of 7 of 106 financial intermediaries have been suspended temporarily.

Mutual funds have been remarkably affected from the volatility that took place during May and June 2006. In this period, investors sold off the mutual funds of those having comparably long maturity thus net asset value of the mutual funds decreased sharply. Nevertheless, the net asset value has shown increases since September. Mutual funds average maturity decreased from 189 days at the end of 2005 to 97 days as of September 2006.

Pension funds continued to develop rapidly and exhibited essential development in terms of the number of participants. Pension funds net asset value increased from YTL 1.2 billion at the end of 2005 to YTL 2.4 billion as of September 2006. This development has been very positive in terms of increasing institutional investors participation in capital markets.

Of the institutions, which are essential for the effective functioning of the capital markets, the number of independent auditing firms, real estate appraisal companies and rating institutions increased whereas the number of portfolio management companies has not changed.

Among the secondary markets, the transaction volume of Bonds and Bills Market Outright Purchases and Sales Market exceeds that of Stock Market. Accordingly in the first 9 months of 2006, the transaction volume of Bonds and Bills Market Outright Purchases and Sales Market realized at YTL 329 billion while that of stock market in the same period could only reach YTL 257 billion. However, when it is recalled that the stock values of cash borrowed Government Domestic Bills and total value of traded shares as of September 2006 are YTL 203.8 billion and YTL 68 billion respectively, it is apparent that the latter owns a higher degree of liquidity.

Considering the total stock value of shares, the performance of the initial public offerings, which is an important factor in deepening the market, has shown significant development after the year 2003. In this respect, in 2005 total revenue of public offerings realized at YTL 2.4 billion compared to the low level of realizations in the past periods. High revenue of public offerings realized in 2005 resulted especially from the revenue of YTL 1.7 billion at Vakifbank public offering in the last quarter. Total public offering revenue reached to YTL 1.2 billion by YTL 0.6 billion increase in the first 9 months of 2006 compared to the same period of the last year.

Takasbank Money Market, eliminating the liquidity needs especially of the financial intermediaries, decreased from a total volume of YTL 75 billion as of the first 9 months of 2005 to a total volume of YTL 34 billion as of the same period of 2006. In contrast, Repo-Reverse Repo Market, which is also used in eliminating the liquidity needs of the market participants, reached from a volume of YTL 1,373 billion to YTL 1,922 billion during the same periods.

Of Turkish Derivatives Exchange (TurkDex), started its activities in February 2005, transaction volume has developed rapidly and reached YTL 10.8 billion during the first 9 months of 2006. Considering the first 9 month of 2006, the majority of the transaction volume of TurkDex resulted from those of the contracts based on stock exchange indices and foreign exchanges. Accordingly, during this period transaction volume on the contracts based on stock exchange indices has realized YTL 6.1 billion whereas transaction volume of the contracts based on foreign exchange realized YTL 4.7 billion.

Exchange traded funds, which helps to widen capital markets, and securities lending and borrowing market, which facilitates clearing of the transactions for financial intermediaries have shown positive development. In addition, for the first time at September 28, 2006, gold exchange traded fund has been offered. Related to Developing Enterprises Market Inc. given the establishment permission in July 2005, preparations regarding the registry of the articles of association of the constituent shareholders continue.

TABLE: IV. 8- Capital Market Indicators

	Unit	2003	2004	2005	Sept. 2006
Corporations Registered by CMB	Number of	631	625	614	609
Corporations Listed on the ISE	Number of	298	307	316	328
Corporations Traded on the ISE	Number of	285	297	304	316
Corporations Traded off the ISE	Number of	13	10	12	12
Market Value (of Shares Traded on the ISE)	Million YTL	23 563	37 641	68 389	68 416
Foreign Share (of Shares Traded on the ISE)	Percent	51,48	54,94	66,34	66,27
Market Capitalization	Million YTL	96 073	132 556	218 318	210 323
Market Capitalization/GDP	Percent	26,70	30,79	44,81	38,52(1)
Financial Institutions	Number of	161	154	149	147
Financial Intermediaries	Number of	117	112	108	106
Banks	Number of	44	42	41	41
Mutual Funds	Number of	245	254	278	281
Net Asset Value	Million YTL	19 624	24 444	29 176	23 985
A and B Type Mutual Funds	Number of	245	253	275	277
Net Asset Value	Million YTL	19 624	24 443	29 115	23 927
Exchange Traded Funds	Number of	0	1	3	4
Net Asset Value	Million YTL	0	1	61	58
Pension Funds	Number of	-	81	96	102
Corporations	Number of	-	11	11	11
Participants	Number of	-	324 583	706 328	1 040 568
Net Asset Value	Million YTL	-	296	1 219	2 352
Foreign Mutual Funds	Number of	47	47	53	54
Net Asset Value	Million YTL	28	27	34	68
A and B Type Investment Trusts	Number of	22	23	26	31
Net Asset Value	Million YTL	220	314	452	542
Real Estate Investment Trusts	Number of	9	9	10	10
Net Asset Value	Million YTL	1 173	1 382	2 209	2 133
Venture Capital Investment Trusts	Number of	1	2	2	2
Net Asset Value	Million YTL	4	104	110	114
Portfolio Management Companies	Number of	21	21	19	19
Net Asset Value	Million YTL	17 784	24 453	30 226	25 739
Independent Auditing Firms	Number of	80	83	91	94
Real Estate Appraisal Companies	Number of	6	6	9	10
Rating Institutions	Number of	1	5	5	6

Source: CMB, Central Registry Inc.
(1) As of end of June 2006

TABLE: IV. 9- Transactions Volume in Capital Markets

(Millions of YTL)

				September	
	2003	2004	2005	2005	2006
Bonds and Bills Market					
Outright Purchases and Sales Market Transactions Volume	213,298	372,670	486,674	375,240	329,319
Repo-Reverse Repo Market Transactions Volume	1,040,535	1,551,410	1,859,713	1,372,588	1,921,544
Stock Market					
Transactions Volume	145,489	206,208	269,931	191,765	256,971
Total Public Offering Revenue	18	713	2,371	633	1,214
Takasbank Money Market					
Transactions Volume	133,017	94,442	94,864	74,540	33,638
Securities Lending and Borrowing Market (1)					
Transactions Volume	-	-	27	-	462
Gold Exchange					
Transactions Volume in TL	1,319	1,068	369	346	105
Transactions Volume in USD (Millions of USD)	1,778	2,908	4,237	2,125	3,476
Transactions Volume in TL and USD (Tonnes)	232	279	341	285	181
Futures and Options Exchange					
Transactions Volume	-	-	2,919	1,484	10,830
Transactions Volume (No. Of Contracts)	-	-	1,771,308	947,774	4,334,860
End-period Open Position (No. Of Contracts)	-	-	140,159	157,997	146,223

Source: ISE, Istanbul Gold Exchange, TurkDex, Takasbank
(1) Operates since November 2005.

With the communiqué effective since September 22, 2006, hedge funds on which only qualified investors could invest may be established.

Insurance

By the end of 2005 a total of 46 insurance firms, of which 38 were owned privately, 2 were owned by the public sector and 5 belonged to foreigners and 1 reinsurance firm were in operation. Out of those companies 20 were specialized in life, private pension, 26 were other insurance companies. Increase in foreign direct investment resulted in purchases of two public owned and four private firms by foreigners and the number of foreign firms has become 11 and the share of foreign investment in the sector has reached 12 percent.

Total of the assets of the insurance companies operating in Turkey, which was YTL 9.8 billion in 2004, reached YTL 14.4 billion in 2005 with a rate of increase by 47.2 percent. In 2005 within total assets, cash and cash equivalents corresponding to YTL 1.4 billion, which reflected a share of 10 percent, financial assets, financial investment -where risk is bared by premium holders- and non-current financial assets with YTL 8.7 billion represented a share of 60.4 percent. On the other hand, the share of equity was 33.6 percent within total liabilities.

Total assets of the reinsurance company were YTL 618 million in 2004, reached YTL 995 million in 2005 with a rate of increase by 61 percent.

Total investment of insurance companies increased from the level of YTL 6.4 billion in 2004 fell slightly to YTL 6.1 billion in 2005. As the investment portfolios of these companies are analysed, the funds are allocated mainly on securities, especially on Treasury bonds. In this context, the share of securities portfolio within total assets rose to 86 percent in 2005.

Direct premium generation realized by insurance companies with a rise of 18,1 percent from the level of YTL 6.6 billion in 2004 reached YTL 7.8 billion in 2005. During the last twenty years, excluding crisis of 1994 and 2001, the growth of the sector exceeded national income growth.

Premium generation of the reinsurance company rose 55 percent from its level of YTL 459 million in 2004 to YTL 715 million in 2005.

The share of the largest 10 companies is 65.2 percent in regards with premium collection in 2005. Those companies own 66.9 percent of the total assets of the sector and 82.1 percent of total equities. When it is recalled that some of those companies are owned by the same conglomerate, it is realized that the concentration in the sector is higher than observed.

Per capita premium collection of the insurance sector, with a growth rate of 16.3 increased from its level of YTL 91.9 in 2004 to YTL 106.9 in 2005. During the same period the ratio of direct premiums to GDP rose from 1.53 percent to 1.60 percent. When it is recalled that this ratio is above 5 percent levels in developed countries, it is obvious that there is an unutilised potential in the sector in spite of the stable real growth rate experienced so far.

When the insurance premium generation is considered on the basis of insurance categories, it is observed that the accident branch takes the biggest share. The amount generated in this branch, along with the compulsory traffic insurance premium,

TABLE: IV. 10- Direct Premium Generation in the Insurance Sector

	(Million YTL)			(Percentage Share)			(Percentage Change)	
Insurance Branches	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**	**2004/2003**	**2005/2004**
Fire	821	1,007	1,136	16.5	15.3	14.6	22.6	11.8
Transport	194	258	291	3.9	3.9	3.7	32.9	33.7
Accident	2,190	3,174	3,953	43.9	48.1	51.0	44.9	24.5
Machinery-Assembly	207	257	322	4.2	3.9	4.0	24.1	25.2
Agriculture	20	29	49	0.4	0.4	0.5	45.0	69.0
Health	512	651	799	10.3	9.9	10.2	27.1	22.7
Life	1,027	1,218	1,241	20.7	18.5	15.9	18.6	1.9
Total	**4,971**	**6,594**	**7,791**	**100.0**	**100.0**	**100.0**	**32.6**	**18.1**

Source: Treasury

constitutes nearly the half of the total volume of premiums. Throughout the recent years, while the weight of the accident insurance is on the rise, the shares of transport and fire branches are falling. The fall in the share of the life insurance is attributable to personal retirement schemes.

Non-life insurance branches, whose conservation rates are over 80 percent in developed countries, exceeded 50 percent in Turkey late as 1991 and realized 66.1 percent in 2005.

The total number of brokers working in the sector was 56 as of June 2006. In addition there are also 28 auditing firms, 1699 experts, 46 registered actuaries and 25,755 agents operating in Turkey.

On the other hand, in private pension scheme, as a complementary system to the existing public security system, the total of collected fund through contributions by participants reached YTL 2,352 million and the number of participants were 1,040,568 at the end of third quarter of 2006.

The number of policies in mandatory earthquake insurance increased at a rate of 15.7 percent and reached 2.4 million in 2005. In Istanbul, where earthquake risk is very high, compared to the year 2004, number of policies written rose by 3.08 percent in 2005. Mandatory earthquake insurances are underwritten by the insurance companies, their agencies and brokers, which are authorized to sign insurance agreement with the name and account of Turkish Catastrophic Insurance Pool (TCIP). The breakdown of the total fund YTL 310.3 million collected by TCIP into investment types is as indicated: 51 percent of the fund in YTL time deposits, 32 percent in public securities and 16 percent in foreign exchange deposits.

Agriculture Insurance Act enclosing the foundation of the insurance pool in order to compensate losses of farmers, related risks, revenues and expenses of the pool, the basis of providing reinsurance, and the tasks of the insurance companies and other related issues was put into force by June 21, 2006. Within the framework of Agriculture Insurance Act, the principals of the insurance policies, and the regulation and operation principles of agriculture insurance pool were also published.

In order to compensate damage or loss which can be caused by solicitors, architects, engineers and financial advisors during their duty, the general conditions of Occupational Compensation / Indemnity Insurance was published in 2006.

The Law on Regulation and Supervision of Insurance Transactions, which aims to provide an environment protecting the beneficiaries' rights, relying on universal insurance principles to ensure efficiency, confidence, stability and faithful behaviour, has been prepared in the context of EU convergence process.

2. Main Objectives and Targets

A secure and stable financial system which has diversified instruments and financial depth to channel resources to the investments is targeted.

Financial sector would be furnished in order to have an internationally competitive, profitable, efficient and rational structure. Regulations and supervisions would be performed in line with the international standards.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. New markets and tools will be developed and the depth of the financial system will be increased.				
Measure 1.1. Minority shareholders' rights will be improved in publicly owned companies.	CMB		2007-2008	This measure will be ensured with the changes in Capital Market Law, which will be done in line with EU acquis.
Measure 1.2. New capital market tools will be formed.	CMB		2007	Works on regulations to create guaranteed mutual funds, protected mutual funds and fund baskets will be performed.
Priority 2. Efficiency and competition will be promoted in financial markets.				
Measure 2.1. The factors that prevent the banking sector from attaining an internationally competitive power and profitable and efficient structure will be reviewed and reduced.	BRSA	Ministry of Finance, Undersecretariat of Treasury, CMB, Competition Authority, The Banks Association of Turkey, Related Governmental Institutions	2007-2008	Works will be performed in order to decrease transaction and intermediary costs and bureaucracy, integration will be achieved with other regulations and applications related with financial sector and the cooperation among the related parties will be increased.
Measure 2.2. Collective projects will be implemented in order to increase the cooperation between BRSA and institutional and professional unions and associations.	BRSA	The Banks Association of Turkey, Participation Banks Association, Turkish Leasing Association, Factoring Association, Consumer Finance Companies Association	2007-2008	An agenda will be formed for the activities that are directed to increase the cooperation among BRSA and institutional and professional unions and associations. Cooperation will be assured between institutional associations and institutions subject to supervision regarding collective projects. Sector review meetings will be held quarterly.
Priority 3. Works which aim to strengthen the confidence and stability in financial markets will be accelerated.				
Measure 3.1. Registration of the T-Bills by Central Registry Agency Inc. and keeping and tracking them on customer basis will be made.	CMB	Central Registry Agency Incorporation, Takasbank	2007	It was decided to treat outright purchases and sales of T-Bills and repo/reverse repo transaction separately. Before all else, principles to be applied in outright purchases and sales of T-Bills were determined and submitted to the State Ministry in February 2006. Within the framework of said principles, the system and software development works were completed by Central Registry Agency Inc. and education and testing phases are still running on. It is foreseen that the T-Bills subject to outright purchases and sales will be registered by Central Registry Agency Inc. in 2007. On the other hand, works on the T-Bills subject to repo transactions will be finalized following the completion of the works on the review of the repo regulations.
Measure 3.2. An emergency action plan will be prepared against systemic risks that may occur in banking sector with the help of related institutions and precautions will be determined to manage the risks.	BRSA	Undersecretariat of Treasury, CBRT, SDIF	2007	Within the framework of Article 72 of Banking Law No. 5411, necessary infrastructure will be prepared by the related institutions to be a groundwork for the measures taken by the Council of Ministers in case of the determination of unfavourable occurrences; understanding and cooperation among institutions will be developed.

Priority 4. Awareness and protection of the rights and benefits of customers and development of the protective applications will be ensured.				
Measure 4.1. A financial services guide book including subjects like general information on financial services and basic rights and benefits of customers will be prepared in cooperation with professional associations; a system will be formed under the roof of the institutions to respond the problems of the customers on time about the services they received.	BRSA	Ministry of Industry and Trade, Institutional Associations, Institutions subject to auditing (or supervising)	2007-2008	Said guidebook will be finalized by the cooperation of responsible and related institutions. A system will be formed under the roof of the institutions to respond the problems of the customers on time about the services they received, arbitrator applications will be formed in order to solve customer complaints fairly and effectively, alternatives to solve conflicts will be developed and a guide book to direct the customer complaints will be prepared.
Measure 4.2. Operability will be brought in capital markets to the Project of the Public Disclosure Platform.	CMB		2007	It is projected to complete the test stage and finish the project of the Public Disclosure Platform in the first quarter of 2007 which was started to collect securely the audited and un-audited financial tables, footnotes, annual reports, special cases announcements of the corporations traded on the ISE and financial intermediaries online by using electronic signature technology.
Priority 5. Regulation and supervision of the financial sector will be promoted in line with the international standards.				
Measure 5.1. Within the scope of twinning project that is executed to provide harmonization of Capital Markets Law with EU acquis, all Capital market regulations will be made compatible with EU regulations until the end of 2007.	CMB		2006-2007	Capital market regulations are compatible with EU acquis for the most part and the minor differences that arise in details will be eliminated. Besides, within the extent of twinning project, an impact assessment system will be formed to measure the effects of making capital market regulations compatible with EU acquis, training will be given to CMB staff and market actors and public clarification programme will be planned and put into action.
Measure 5.2. The Law on Regulation and Supervision of Insurance Transactions that ensures confident and stable environment for the sector and encompasses the operation and supervision of the sector, will be enacted and secondary regulations related to this Law, will be completed.	Undersecretariat of Treasury	Association of the Insurance and Reinsurance Companies of Turkey, Insurance Supervision Board, Insurance Companies	2007	Council of Ministers Decrees, regulations, by-laws, tariffs and instructions will be effectuated to ensure the execution of the legislation related with the insurance system and transactions.

D. IMPROVING THE ENERGY AND TRANSPORTATION INFRASTRUCTURE

ENERGY

1. Current Outlook

The continuing growth trend in 2006 especially in industry sector has also been observed in energy consumption. Primary energy consumption and electricity consumption of industry sector is expected to increase by an average of 6.4 percent and 7.1 percent, respectively, compared to previous year. Thus, total primary energy consumption is expected to increase by 4.7 percent.

As a result of the persistent growth trend of the economy, consumption of primary energy is expected to reach from 90 million tonnes oil equivalent (mtoe) in 2005 to 94.3 mtoe as of the end of 2006. Thereby, the consumption of primary energy per capita would increase from 1,249 kilogram oil equivalent (kgoe) to 1,291 kgoe.

The consumption of natural gas which has been steadily increasing for several years is expected to increase 3.3 percent and reach 25.7 mtoe as of the end of 2006.

Due to the insufficient rainfall, the electricity generation from hydraulic resources decreased in 2005. However, a 10 percent increase in electricity generation is expected due to the increasing rainfall in 2006.

Despite the significant increase in primary energy consumption, primary energy production is expected to increase from 26.5 mtoe to only 28 mtoe. High increases in primary energy consumption contrasted to the relatively lower rate of growth in domestic production lead the import dependency to increase.

The total installed capacity of power plants has increased from 38,843 MWs to 39,596 MWs with the addition of new plants as of the end of 2006. The increase in the installed capacity allows an electricity generation capacity above the demand. Hence some of the installed capacity stays unused. The increase in total installed capacity is due to the new power plants of auto-producers that have become operational in 2006.

The electricity generation is expected to increase by 6.8 percent and reach from 161.9 TWh to 173 TWh. The portions of natural gas fired power plants, hydraulic power plants and lignite fired power plants in electricity generation are 43 percent, 25.2 percent and 19.0 percent, respectively in 2006.

There had been a rapid increase in the weight of natural gas-based electricity production within the total since the year 1990. This share which was 17.7 percent in 1990, 19.2 percent in 1995, 37 percent in 2000 and 45.3 percent in 2005, is expected to decrease to 43 percent in 2006.

The electricity import-export balance, which was net import in 2002 and 2003, has turned to net export since 2004 and is expected to realise as 1.1 TWh net export in 2006.

In line with the Electricity Sector Reform and Privatisation Strategy Document adopted and announced in March 2004, public distribution and generation assets were planned to be grouped and privatised starting as of the first quarter of 2005 and the first half of 2006, respectively. However, serious difficulties have been faced especially during the privatisation works for the distribution assets and therefore the privatisation timetable envisaged in the strategy paper has been significantly delayed.

In the framework of the strategy paper, distribution system was restructured as 21 electricity distribution regions -including Kayseri ve Civarı Elektrik T.A.Ş.- 20 new regional electricity distribution companies were incorporated and transferred to Privatisation Administration. Privatisation activities have progressed significantly and tendering process for three of the distribution companies, Başkent EDAŞ, İstanbul Anadolu Yakası EDAŞ and Sakarya EDAŞ have been initiated. The tender proposals for these companies would be taken by the end of 2006, privatisation of these companies is expected to be completed until mid 2007. The privatisation works for the rest of the distribution companies continue and significant progress is aimed to be achieved until the end of 2007.

In line with the strategy paper, the works for the privatisation of public generation assets as portfolio generation companies are in progress. Portfolio generation groups are formed and the corporatization and transfer of these groups to the Privatisation Administration are underway. The in-cash implementation of the balancing and settlement mechanism, which is of utmost importance for the healthy operation of the market, started as of August 1, 2006.

Delays in the privatisation schedule of public distribution and generation assets will result in significant delays both for the actualisation of liberal market structure and the realization of the investments for the anticipated new generation capacities. Such difficulties can only be overcome by realizing the measures envisaged in the strategy paper and by the creation of a healthy market structure.

It is stressed in the strategy paper that all the necessary measures will be taken to ensure the security of supply during transition period. Thus, while performing any required activities during transition to liberal market structure, it is also crucial to continue to the investment level sufficient to avoid the risk of failing to meet the electricity demand in the short term.

Diversification of energy resources is of utmost importance in order to meet the electricity demand in a secure way. In this framework, increasing the share of new and renewable domestic resources in energy consumption is one of the highest priority issues. For this reason, the Law No. 5346 regarding Use of Renewable Energy Sources for Electricity Production was promulgated in May, 2005. Subsequently, the Regulation on Procedures and Principles regarding Issuance of Renewable Energy Source Certificate has been put into force.

Works to include nuclear energy in supply portfolio in line with the goal of diversification of energy resources for security of supply purposes are in progress. In this framework, significant progress has been achieved for the establishment of the legal infrastructure to allow the facilities of nuclear power plants.

As regards the natural gas market regulatory actions have been taken in Turkey parallel to the electricity sector. The Law on Natural Gas Market that took effect in May 2001 aims at reconstructing the sector by way of creating a competitive atmosphere in the natural gas market and works for privatising the natural gas facilities have started. In 2006, works continued to increase the use of natural gas rather than electricity generation via tenders for the in-city gas distribution networks.

Works continued to achieve security of supply in natural gas and oil. In this framework, works to establish natural gas storage facilities have continued during 2006.

To ensure the security of oil supply, it is envisaged in the Petroleum Market Law, the Law No. 5015, to maintain an oil stock of 90 days to sustain the stability in the petroleum market, to avoid the supply shortage risks during emergency or crisis times and to realize the responsibilities in consideration of the supply stock condition under international agreements. To realize such activities, National Stock Commission is established and the commission has started to function in this framework.

Another significant improvement in the petroleum market is that the Baku-Tbilisi-Ceyhan Petroleum Pipeline with a capacity of 50 million tons/year was completed and became fully operational in 2006. This project is also a step of utmost importance for Ceyhan to become an international energy hub.

It is a known fact that every year more and more energy is needed but the creation of secure supply resources based on healthy supply-demand projections is not achieved. While continuing the investments to meet the demand, integrating energy efficiency into policies at all fields from generation to consumption is of extreme importance. In this framework, selection of more efficient technologies in electricity generation, implementing necessary technical and non-technical measures to decrease the transmission and distribution losses to acceptable levels and realizing the regulations to increase the efficiency and savings as much as possible in primary and secondary energy generation, transmission and use have become a necessity.

2. Main Objectives and Targets

Main aim of the energy policies is to meet the energy needs of increasing population and growing economy in a continuous, qualified and secure manner through primarily private sector investments in a competitive and transparent free market environment. In this context, it is the main target to supply the required energy timely, uninterrupted and at minimum costs while making energy supply planning.

In 2007, both primary energy and electricity production and consumption would grow in parallel with the targeted economic growth. Thus, primary energy consumption is forecasted to increase by around 4.9 percent to reach 98.9 mtoe and per capita primary energy consumption by 3.6 percent to reach 1,337 kgoe.

Primary energy production, 28 mtoe in 2006, is forecasted to rise to 28.9 mtoe by growing 3.2 percent in 2007. This production level corresponds to 70.7 percent import dependency in meeting the primary energy demand in 2007.

The increase in the primary energy demand would lead to an increase in the consumption of all energy sources although it would be met largely through a rise in the use of natural gas and petroleum products.

Electricity consumption, which is expected to be 171.5 TWh in 2006, with a growth rate of 6.9 percent would rise to 183.5 TWh in 2007. Thus, per capita electricity consumption would increase from 2,348 kWh in 2006 to 2,513 kWh in 2007.

As a result of commissioning of the publicly-owned Borçka and Alpaslan I HEPP and auto-producer power plants, total installed power plant capacity would increase by 2.6 percent and reach 40,640 MW in 2007. Electricity generation, by growing 6.9 percent, will rise to 185 TWh and fuel shares of this amount will be 45.4 percent for natural gas, 23.9 percent for hydraulic and 18.9 percent for lignite.

Privatisation process for the power generation assets and distribution companies would continue as per Electric Energy Sector Reform and Privatisation Strategy Paper with an aim for contributing to formation of a competitive market and minimum-cost electricity system rather than revenue generation alone. Due not to be incurred new and extra burdens by the public sector, privatisations should be done carefully. Privatisations would be realized under such a rationale that private entrepreneurship is encouraged to take place in the electricity sector also after the privatisations.

Along with privatisation, a system which is more efficient and effective and operates completely as per market rules is aimed at. In this scope, it is expected that a significant decrease in the distribution loss/theft rate which is highly above the world averages, an increase in the billing rate and an improvement in collection would be achieved.

One part of electricity liberalization works is to integrate the national transmission grid with the UCTE grid, which is to be finished in 2007 and will permit cross-border electricity trade. Moreover, it is also important to develop necessary infrastructure to allow cross-border electricity trade with the neighbouring countries.

Due to price, efficiency and environmental advantages, continuation of the expansion of natural gas consumption in a planned way by taking fuel diversity issue into account is important. In 2007, due to the importance of expanding natural gas usage in a competitive way, on the basis of Natural Gas Market Law and liberalization programme, studies towards increasing the gas use outside electricity sector via in-city gas distribution tenders would continue.

To better exploit the geopolitical position of Turkey and to make her a transit country for the connection of energy sources in our region with Europe it is important to develop cross-border trade infrastructure in areas together with electricity.

In this respect, to connect the natural gas production sources with Europe via Turkey necessary infrastructure investments would be made. To increase the security of gas supply at the national level and meet the seasonal demand variations necessary measures would be taken.

Energy projects are those investments that require a long-term planning, development and investment horizon, extensive financing and advanced technology. For this reason, when restructuring and liberalization process in electricity sector is continuing, it is necessary to make planning to prevent any energy shortage and to take required measures beforehand not to cause any problems in investment, generation and operation activities. To keep energy import dependency at acceptable levels, it is important to develop indigenous and renewable resources, diversify the supply sources and give priority to energy efficiency and last but not the least put into force the related legal regulations in this context.

Nuclear energy would be utilised to diversify the electricity generation sources and to ensure the supply security. In this direction, necessary legal arrangements would be made and appropriate framework would be set to build nuclear power plants. Regarding nuclear waste storage, waste disposal and announcing, plans and programmes in detail would be conducted.

For the supply security in petroleum markets more effective operation of national stock system would be ensured. In this framework, current National Stock Commission would be institutionalised as the Stock Agency.

Towards increasing the energy efficiency in electricity generation, transmission, distribution and end-use both, developing new measures and promotion of investments in this area would be given priority. In this respect, enactment of Energy Efficiency Law and secondary regulations would be expedited.

By taking the protection of environment into consideration and in parallel with the international developments related with climate change, environmental measures towards reducing greenhouse gas emissions would be given priority as before and endeavours towards developing new and renewable energy resources would be supported.

TABLE: IV. 11-Selected Indicators of Primary Energy Consumption and Resources

(Thousands TOE)

	2005 Realization Estimate		2006 Estimate		2007 Estimate	
	Amount	Percentage Share	Amount	Percentage Share	Amount	Percentage Share
COMMERCIAL ENERGY	84,752	94.1	89,050	94.4	93,680	94.7
Hard Coal	14,489	16.1	14,805	15.7	15,052	15.2
Lignite	9,644	10.7	10,760	11.4	11,005	11.1
Petroleum Products	31,137	34.6	32,855	34.8	35,160	35.6
Natural Gas	24,856	27.6	25,665	27.2	27,356	27.7
Hydraulic Energy	3,402	3.8	3,744	4.0	3,801	3.8
Renewable Energy	1,324	1.5	1,350	1.4	1,427	1.4
Electricity Import (Export)	-100	-0.1	-129	-0.1	-120	-0.1
NON-COMMERCIAL ENERGY	5,325	5.9	5,250	5.6	5,200	5.3
Wood (1)	4,146	4.6	4,100	4.4	4,100	4.1
Bio-Mass (1)	1,179	1.3	1,150	1.2	1,100	1.1
T O T A L	**90,077**	**100.0**	**94,300**	**100.0**	**98,880**	**100.0**
Consumption per capita (KEP)	1,249		1,291		1,337	

(1) Estimate

TABLE: IV. 12-Electricity Consumption by Sectors

(GWh)

	2005		2006		2007	
	Realization Estimate		Estimate		Estimate	
	GWh	Percentage Share	GWh	Percentage Share	GWh	Percentage Share
Households	30,000	18.7	32,100	18.7	34,000	18.5
Commercial Places	18,200	11.3	21,300	12.4	23,200	12.6
Official Dept.	4,600	2.9	4,800	2.8	5,000	2.7
General Lighting	4,500	2.8	4,700	2.7	4,900	2.7
Industry	63,700	39.6	67,600	39.4	72,800	39.7
Others	9,700	6.0	10,100	5.9	11,400	6.2
NET TOTAL	130,700	81.3	140,600	82.0	151,300	82.5
Losses	30,094	18.7	30,900	18.0	32,200	17.5
GROSS TOTAL	160,794	100.0	171,500	100.0	183,500	100.0
Net Consumption per capita (kWh)	1,813		1,925		2,046	
Gross Consumption per capita (kWh)	2,230		2,348		2,482	

(1) Actual production is distributed according to fuel types.

TABLE: IV. 13-Installed Capacity, Production Capacity and Production Values in Electricity According to Fuel Types

Capacity: MW; Production: GWh

	2005			2006			2007		
	Installed Capacity (MW)	Average Production (GWh)	Actual Production (GWh)	Installed Capacity (MW)	Average Production (GWh)	Actual Production (GWh)	Installed Capacity (MW)	Average Production (GWh)	Actual Production (GWh)
Hard Coal	1,986	13,640	13,246	2,034	13,928	13,520	2,169	14,738	13,500
Lignite	7,131	44,220	29,946	7,131	44,220	34,370	7,131	44,220	35,000
Fuel-Oil	2,253	13,520	5,121	2,219	13,316	6,450	2,219	13,316	7,000
Diesel, LPG, Naphtha	253	1,390	362	253	1,390	400	253	1,390	600
Natural Gas	10,976	76,840	73,445	11,516	80,080	74,370	11,666	80,980	84,000
Multi-fuelled (1)	3,268	19,610		3,268	19,610		3,403	20,420	
Biogas-waste	35	210	122	37	220	155	37	220	170
THERMAL	25,902	169,430	122,242	26,458	172,764	129,265	26,878	175,284	140,270
HYDRAULIC	12,906	45,430	39,561	13,065	45,800	43,540	13,599	47,620	44,200
Geothermal	15	110	94	23	162	95	23	162	90
Wind	20	60	59	50	150	100	140	420	340
TOTAL	**38,843**	**215,030**	**161,956**	**39,596**	**218,876**	**173,000**	**40,640**	**223,486**	**184,900**

(1) Actual production is distributed according to fuel types.

TABLE: IV. 14-Developments in Production and Consumption of Energy

	Unit	1995 Realization	2000 Realization	2001 Realization	2002 Realization	2003 Realization	2004 Realization	2005 Realization Estimate	2006 Estimate	2007 Estimate
PRIMARY ENERGY										
PRODUCTION	TTOE	26,320	27,621	26,159	24,884	23,779	24,170	26,472	28,020	28,940
CONSUMPTION	TTOE	63,148	81,193	75,883	78,322	83,936	87,778	90,077	94,300	98,880
Consumption per capita	KOE	1,023	1,204	1,111	1,131	1,196	1,234	1,249	1,291	1,337
ELECTRICITY										
INSTALLED CAPACITY	MW	20,952	27,264	28,332	31,846	35,587	36,824	38,843	39,596	40,640
Thermal	MW	11,091	16,070	16,640	19,586	22,990	24,160	25,917	26,481	26,901
Hydraulic	MW	9,861	11,194	11,692	12,260	12,597	12,664	12,926	13,115	13,739
PRODUCTION	GWh	86,247	124,922	122,725	129,400	140,580	150,698	161,956	173,000	184,900
Thermal	GWh	50,706	94,010	98,653	95,668	105,190	104,556	122,336	129,360	140,360
Hydraulic	GWh	35,541	30,912	24,072	33,732	35,390	46,142	39,620	43,640	44,540
IMPORT	GWh	-	3,786	4,579	3,588	1,158	464	636	660	600
EXPORT	GWh	696	413	433	435	587	1,144	1,798	2,160	2,000
CONSUMPTION	GWh	85,551	128,295	126,872	132,553	141,151	150,018	160,794	171,500	183,500
Consumption per capita	kWh	1,386	1,903	1,857	1,914	2,011	2,109	2,230	2,348	2,513

TTOE: Thousands ton oil equivalent; KOE: Kilogram oil equivalent; MW: Mega Watts; GWh: Giga Watt hours

TABLE: IV. 15-Distribution of Electricity Production According to Fuel Types

(M: GWh)

	Hard Coal		Lignite		Petroleum Products		Natural Gas		Biogas-waste and Others		THERMAL		HYDRAULIC		Geothermal Wind		TOTAL	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1990	621	1.1	19,560	34.0	3,942	6.9	10,192	17.7			34,315	59.6	23,148	40.2	80		57,543	100.0
1991	999	1.7	20,563	34.1	3,293	5.5	12,589	20.9	38	0.1	37,482	62.2	22,683	37.7	81		60,246	100.0
1992	1,815	2.7	22,756	33.8	5,273	7.8	10,814	16.1	47	0.1	40,705	60.4	26,568	39.5	69		67,342	100.0
1993	1,796	2.4	21,964	29.8	5,175	7.0	10,788	14.6	56	0.1	39,779	53.9	33,951	46.0	78		73,808	100.0
1994	1,978	2.5	26,257	33.5	5,549	7.1	13,822	17.6	51	0.1	47,657	60.8	30,586	39.1	79		78,322	100.0
1995	2,232	2.6	25,815	29.9	5,772	6.7	16,579	19.2	222	0.3	50,620	58.7	35,541	41.2	86		86,247	100.0
1996	2,574	2.7	27,840	29.3	6,540	6.9	17,174	18.1	175	0.2	54,303	57.2	40,475	42.7	84		94,862	100.0
1997	3,273	3.2	30,587	29.6	7,157	6.9	22,086	21.4	294	0.3	63,397	61.4	39,816	38.5	83		103,296	100.0
1998	2,981	2.7	32,707	29.5	7,923	7.1	24,837	22.4	255	0.2	68,703	61.9	42,229	38.0	90	0.1	111,022	100.0
1999	3,123	2.7	33,908	29.1	8,080	6.9	36,345	31.2	205	0.2	81,661	70.1	34,677	29.8	102	0.1	116,440	100.0
2000	3,819	3.1	34,367	27.5	9,311	7.5	46,217	37.0	220	0.2	93,934	75.2	30,879	24.7	109	0.1	124,922	100.0
2001	4,046	3.3	34,372	28.0	10,366	8.4	49,549	40.4	230	0.2	98,563	80.3	24,010	19.6	152	0.1	122,725	100.0
2002	4,093	3.2	28,056	21.7	10,744	8.3	52,496	40.6	174	0.1	95,563	73.9	33,684	26.0	153	0.1	129,400	100.0
2003	8,663	6.2	23,590	16.8	9,196	6.5	63,536	45.2	116	0.1	105,101	74.8	35,329	25.1	150	0.1	140,580	100.0
2004	11,998	8.0	22,449	14.9	7,670	5.1	62,242	41.3	104	0.1	104,463	69.3	46,084	30.6	151	0.1	150,698	100.0
2005(1)	12,100	7.4	28,600	17.6	8,000	4.9	72,700	44.7	150	0.1	121,550	74.8	40,800	25.1	150	0.1	162,500	100.0
2006(2)	12,000	6.9	33,200	19.1	8,000	4.6	78,500	45.1	150	0.1	131,850	75.8	42,000	24.1	150	0.1	174,000	100.0
2007(2)	13,500	7.3	35,000	18.9	7,600	4.1	84,000	45.4	170	0.1	140,270	75.9	44,200	23.9	430	0.2	184,900	100.0

(1) Realization estimate
(2) Estimate

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. In terms of energy supply security, to keep the import dependency at acceptable levels development of indigenous resources and energy efficiency will be given priority and necessary regulations will be made.				
Measure 1.1. Works towards determining the potential, improvement and expansion of the renewable energy resources will go on.	EİEİ	DSİ, DMİ, MTA, TÜBİTAK, TEİAŞ, Universities, Private sector	2006-2008	Hydraulic, wind, geothermal, solar and biomass resource potential analysis will continue, R&D studies will be realized for extended, efficient and effective use of these resources.
Measure 1.2. Energy Efficiency Law will be enacted and secondary legislation will be completed.	EİEİ	Line Ministries, SPO, Undersecretariat of Treasury	2006-2007	Draft Energy Efficiency Law will be submitted to TGNA, and upon enactment secondary legislation preparations will start.
Measure 1.3. Appropriate framework will be set to build NPPs.	ETKB	SPO, Treasury, TAEK, EPDK, Related institutions	2006-2008	Nuclear fuel exploration, nuclear R&D activities, creating a conducive market environment for NPPs and setting up regulatory institutions will be realized. Detailed plans and programmes for waste storage, disposal and informing public will be made.
Priority 2. Public electricity generation and distribution assets will be privatised in such a way that it will contribute to the formation of a competitive market.				
Measure 2.1. Privatisation of the electricity distribution companies under the privatisation programme will continue.	ÖİB	ETKB, TEDAŞ	2006-2007	Purposes of the privatisation of electricity distribution is to lead setting up of strong and effective private companies reducing the loss/theft rate and decreasing the distribution costs to minimum levels as quick as possible.
Measure 2.2. EUAŞ affiliates portfolio GenCo's will be put under privatisation scope and privatised.	ÖİB	ETKB, EÜAŞ	2006-2008	EÜAŞ portfolio generation groups will be corporatized and transferred to privatisation scope.
Measure 2.3. DSİ HEPPs will be transferred to EÜAŞ.	EÜAŞ	ETKB, Undersecretariat of Treasury, DSİ	2006-2008	According to Electricity Market Law No. 4628, it is required to transfer DSİ hydroelectric power plants to EÜAŞ.
Measure 2.4. Electricity Market Management System Project will be completed.	TEİAŞ	ETKB	2006-2007	Balancing and settlement system should be set up for transparent and competitive trading in the free market and monitoring and control of trading market.
Priority 3. To enable cross-border trade national transmission grid will be integrated into European grid.				
Measure 3.1. Transmission network investments will be completed.	TEİAŞ	SPO	2006-2007	Construction of 380 kV Babaeski-Greece electricity transmission line is going on to be finished in 2007.
Measure 3.2. Operation of transmission network will be ensured in a way of more efficient, qualified and compatible to UCTE standards.	TEİAŞ	TÜBİTAK, Universities	2006-2008	On-going R&D studies in cooperation with TUBİTAK, ODTÜ and İTÜ will be concluded.
Measure 3.3. Frequency controls in power plants will be done.	EÜAŞ	TEİAŞ, EPDK	2006-2008	In line with Electricity Market Network Regulation and UCTE criteria, both existing and rehabilitated thermal power plants are to conform to primary frequency control.

Priority 4. Natural gas usage will be expanded on the basis of competition, and gas and petroleum supply security at the national level will be ensured by taking into account seasonal demand variations.				
Measure 4.1. Projects for natural gas storage installations will be developed.	BOTAŞ	TPAO	2006-2008	Salt lake gas storage project to meet the seasonal demand variations will continue.
Measure 4.2. Natural gas main transmission networks will be completed and country-wide distribution and use of gas will be enabled.	BOTAŞ	EPDK	2006-2008	For increasing the gas demand to absorb the "take-or-pay" gas import amounts, transmission investments to transport the gas to main consumption areas and city connector investments will be realized. Tenders for in-city gas distribution services will be continued by EPDK.
Measure 4.3. For petroleum supply security Stock Agency will be established.	ETKB	EPDK, Related institutions	2007-2009	A Stock Agency that will be responsible for the holding of minimum 90-days amount of net petroleum imports in the preceding year in reserves and management of this reserves will be established.
Priority 5. Studies towards making Turkey a transit country for the connection of energy sources in the region to Europe and making Ceyhan and international energy hub will continue.				
Measure 5.1. Projects for the connection of Middle East and Caspian region to Europe will be realized.	BOTAŞ	ETKB, Undersecretariat of Treasury, SPO	2006-2008	NABUCCO and Turkey-Greece-Italy gas pipeline feasibility studies are continuing.
Measure 5.2. Ceyhan will be aimed to be one of the important centres in international energy market.	BOTAŞ	ETKB, Undersecretariat of Treasury, SPO	2007-2009	Studies for Samsun-Ceyhan Crude Oil Pipeline Project which will have a central role in transporting the Caspian and Russian crude oil to the western markets will continue.

TRANSPORTATION

1. Current Outlook

The fact that railway and maritime physical infrastructure appropriate for increasing transport demand is not materialized on-time and road transport being the most suitable mode for door-to-door transport caused majority of passenger and freight traffic to be loaded on highway network. This situation caused existing highway infrastructure to deteriorate more which is already inadequate in terms of physical standards and network density coupled with lack of allocation of investment funds for maintenance-repair and loading beyond legal limits, which in turn created inefficient transportation system. Increasing transport demand, even though long-term planning is made, forces limited funds to be allocated to road construction and rehabilitation investments with short-term concerns. Competitiveness of railways which operates on obsolete infrastructure decreases everyday. Financial models which stimulate construction of large-scale ports in maritime can not effectively be put into life. Consequently; limited funds, incorrectly structured highway dependent system and increasing demand established an unfavourable transport system which feeds itself.

High fuel consumption, air pollution due to emission of exhaust gases, traffic accidents and congestion are prevailing problems in urban transportation which are exacerbated by rapid and unplanned urbanization, high rate of increase in population of metropolitan areas and soaring motor vehicle ownership ratio. National standards binding for all municipalities are still lacking, which in effect hinders the prioritisation of the infrastructure projects such as costly rail transit systems among the municipalities.

95 percent of inter-city passenger transport and 90 percent of freight transport are realized by highways in 2004. This ratio is 85 percent for passenger transport and 44 percent for freight transport in EU-25 countries in 2003. For the same year, 43 percent of freight transport is realized by sea and inland water transport in EU countries.

It is observed that Turkey has highway, motorway and railway network density significantly below EU-25 average. While average highway length for square-km is 0.474 km and average motorway length for square-km is 0.015 km in EU-25, these numbers are 0.201 km and 0.002 km for Turkey.

TABLE: IV. 16- Developments in Transport Modes

	Unit	2004 (1)	2005 (2)	2006 Programme (3)	Annual Increase In Percent 2005 (2/1)	2006 (3/2)
RAILWAY						
Passenger Transport (Domestic)	Million Passenger-km	5,098	4,977	5,026	-2.4	1.0
Freight Transport (Domestic)	Million Ton-km	9,178	9,707	10,192	5.8	5.0
MARITIME TRANSPORT						
Freight Trans. (National) (1)	Million-Ton-Km	5,350	5,225	5,330	-2.3	2.0
Freight Trans. (International) (1)	Million-Ton-Km	680,000	681,000	757,000	0.1	11.2
Turkish Maritime Fleet (300 GRT and Above)	Thousand DWT	7,055	7,600	7,900	7.7	3.9
AIR						
Passenger Transport (Domestic) (2)	Million Passenger-km	3,236	4,016	5,170	24.1	28.7
Passenger Transport (International) (2)	Million Passenger-km	15,358	17,301	22,658	12.7	31.0
HIGHWAY (3)						
Passenger Transport (Domestic)	Million Passenger-km	174,312	182,152	190,349	4.5	4.5
Freight Transport (Domestic)	Million Ton-km	156,853	166,831	171,836	6.4	3.0
PIPELINES						
Freight Transport (Domestic) (4)	Million Ton-km	2,664	2,712	2,640	1.8	-2.7
Freight Transport (Transit) (4)	Million Ton-km	3,280	1,141	7,307	-65.2	540.4
Natural Gas (5)	Million Nm3	21,798	26,707	29,700	22.5	11.2

(1) Approximate calculations including all transport realized by maritime.
(2) Only Turkish Airlines (THY) numbers.
(3) Numbers only for the network under the responsibility of General Directorate of Highways.
(4) Only Crude Oil transport.
(5) Total imported natural gas from Russian Federation, Nigeria, Algeria, Azerbaijan and Iran. Calorie-corrected volume numbers according to Sm^3, 9.155 kcal/m^3.

TABLE: IV. 17– Comparison of Transport Modes Among Various Countries

Countries	Highway density km/km^2 (2003)	Motorway density km/km^2 (2003)	Railway density km/1.000 km^2 (2003)	Annual Air Transport Traffic (1.000 passenger) (2004)
Czech Republic	0.703	0.007	122	9,950
France	0.724	0.019	54	102,432
Germany	0.648	0.034	101	135,850
Belgium	0.511	0.057	115	17,469
Austria	0.417	0.019	69	18,297
EU-25	0.474	0.015	50	650,425
Turkey	0.201 (1)	0.002	11	44,789

Sources : EU Energy-Transport Statistics (2003), General Directorate of Highways Statistics (2003), DHMİ Statistics (2004), Eurostat.
(1) Asphalt paved rural roads also taken into consideration.

Highways

The fact that especially more than 90 percent of the freight transports in Turkey are transports are realized through highways, the total length of roads having hot-mix asphalt pavements capable of handling heavy axle loads stands at only 8.855 km.

TABLE: IV.18– Current Status of the Highways Network

	Hot-Mix Asphaltic Concrete	Surface Treatment	Stone Paved	Stabilized Earth	Soil	Un-Passable	Total
Motorways	1,775	-	-	-	-	-	1,775
State Roads	6,199	24,541	42	254	86	249	31,371
Provincial Roads	881	25,761	91	1,953	1,243	639	30,568
Total	8,855	50,302	133	2,207	1,329	888	63,714

Source: General Directorate of Highways

realized through highways is resulting in increased heavy vehicle traffic on the roads, which in turn reduces traffic safety. Despite the fact that the average daily traffic on the state roads in Turkey is lower than the EU levels, casualties per 100 km road resulting from road traffic accidents in Turkey are roughly five times more than the EU-15 average, according to 2003 data.

As of beginning of 2006, the total length of state and provincial road network, excluding rural roads, is 63.714 km. Of this total, 4.424 km is unpaved -stabilized earth, soil or impassable-. Although 90 percent of freight

Highway Sector Support Project which includes the necessary regulations to be considered within the coherence period with EU, training of the personnel and traffic controls is under progress.

Within the framework of EU accession negotiations, the screening works for the road transport legislation have been completed.

Railway

The existing railway network in Turkey is 10,984 km in total and 8,697 km of this network consists of main lines. 2,305 km of the railway network is electrified and 2,665 km of the network is signalised. Transportation through the corridors between main cities is carried on an obsolete infrastructure. In Turkey, both railway and traffic density on the existing network are less. Furthermore, Turkey with 20 percent electrified lines is considerably below the EU average of 50 percent. The most important problem in the railway infrastructure is that railway lines between the highly populated cities are not appropriate for high speed and high quality service.

As a result of block train operation, procurement of new and effective freight cars and encouragement of private sector to carry with their own freight cars, freight transportation increased by 9.5 percent in 2004 and 5.8 percent in 2005 in million-ton/km terms. New railway investments which will contribute to the freight transportation are being made. Tendering process of Muratlı-Tekirdağ railway that will serve to international trains and Kemalpaşa Railway Connection Line which will connect an important industrialized centre, Kemalpaşa to the railway network are about to be finalized.

Long travel time, low reliability and security issues cause demand to be inadequate for passenger transportation. On the other hand, Ankara-Eskişehir section of Ankara-İstanbul High Speed Train project of which construction started in 2004 will be opened to the test operation at the end of 2006. Infrastructure of Ankara-Konya High Speed Train project is tendered and construction started. In addition, application projects of Ankara-Afyonkarahisar-İzmir, Ankara-Sivas, Halkalı-Bulgaria Border High Speed Train lines are completed.

It is important that TCDD should have an operational perception that takes into account the market condition and market balance and customer-needs. The existing structure of TCDD that does not consider customer needs and natural advantages and not hiring enough operational stuff due to continuous financial losses affects railway transportation negatively. In order to solve some of these problems, draft TCCD Law and draft Turkish Railway Law were prepared within the context of Twinning Project supported by EU.

Maritime

3.3 million TEU (Twenty-Feet Equivalent Unit) containers and 202 million tonnes of cargo were handled in Turkey by the end of 2005. As the ports could not be developed to meet the demand, freight handled in 2005 did not increase in huge amounts compared to the previous year. Since the necessary maintenance of the ports in the privatisation process could not be realized on time and necessary equipment could not be obtained, some of the freight was attracted to the ports of close countries. Moreover, since the economy of scale could not be attained in ports, enough freight could not be attracted and Turkey could not become a transit country. This also explains why the cargo tonnage handled per port is low in Turkey when compared to that of the EU Mediterranean Ports. Since large-scale port investments are not realized on time, the increasing demand is compensated by construction of many small-scale ports and piers. This, in turn, disperses freight traffic and a low amount of cargo tonnage is handled per port.

Regarding maritime safety, the record of Turkish flag improved in recent years, moving towards grey list from very high-risk category of black list of the European Union Member States with which Turkey has 50 percent of her trade.

TABLE: IV. 19- Container Traffic in Mediterranean Ports

Ports	Container (1.000 TEU)
Gioia Tauro – Italy	3,149
Algeciras – Spain	2,516
Valencia – Spain	1,993
Genoa – Italy	1,606
Barcelona – Spain	1,652
Piraeus – Greece	1,605
La Spezia – Italy	1,007
Marseille – France	833
İzmir – Turkey	701
Mersin – Turkey	467
Haydarpaşa – Turkey	244

Source: EU Energy and Transport in Figures (2003), TCDD Statistics Annual (2003)

Air Transportation

There are 36 airports operated by General Directorate of State Airports, 20 of which are international. Around 95 percent of the passenger traffic occurs at Atatürk, Antalya, Esenboğa, Adnan Menderes, Dalaman, Bodrum/Milas, Adana and Trabzon airports. Therefore, the investments for additional capacity and increases in the level of service at these airports maintain their priorities.

Increase in the demand as a result of the decrease in the tax burden of air transportation, continued in 2005 with a reduced acceleration. In 2005, the domestic air passenger traffic was 19.9 million passengers with a 38.2 percent yearly increase, the international air passenger traffic was 34.6 million passengers with a 13.9 percent yearly increase and the total air passenger traffic was 54.5 million passengers with a 21.7 percent growth. Air passenger traffic in 2006 is forecasted as 32.6 million passengers in international flights with a 5.8 percent yearly decrease, 26.3 million passengers in domestic flights with a 32.1 percent yearly increase and 58.9 million total passengers with a 8 percent yearly increase.

2. Main Objectives and Targets

The main objective in the transportation sector is to create a transportation infrastructure in advance, where transportation is conducted safely, economically and in conformity with the necessities of national economic and social life, secures a balance among the modes, compatible with modern technological and international standards and is sensitive to the environment. Complementary harmony in-between transportation sub-sectors and widespread use of combined transport are essential.

The standards of the existing road network shall be improved. As a priority, hot-mix asphaltic concrete pavement construction for those highway sections having average heavy traffic volumes above 1,000 vehicles/day would be kept up. In addition to this, in order to attain the 15,000 km target for the multi-lane highway network, dual carriage highway construction projects on the main highway axis would be continued.

Within this respect, the 560.5 km-long Eastern Black Sea Coastal Highway is anticipated to be fully opened to traffic in 2007, as well as construction of a total of approximately 1,500 km of dual carriage highways, at surface treatment and/or superstructure levels.

The infrastructure works and enforcement activities would be improved in order to increase traffic safety. In this respect, elimination of the black spots shall be continued and the deficient installations on the main highway axis -such as guardrail, horizontal paint markings and traffic signs-shall be eliminated with the partial support of a EU grant. In addition to these measures, effectiveness of traffic controls shall be increase through development of information and decision support systems.

Necessary precautions will be taken for the conservation and maintenance of the motorway infrastructure. User information and traffic management systems will be established and automatic toll systems shall be generalized within intelligent transport systems.

The missing link of Gümüşova-Gerede Motorway -Bolu Mountain Crossing 25 km- shall be completed in 2007. Construction of Kemerhisar-Pozantı -main body- and Gaziantep-Şanlıurfa Motorways will be accelerated. Since the main body of the Bursa By-pass Motorway -54 km- has been completed in 2006, the allocation shall be devoted for the construction of the connection roads. Within the İzmir By-pass Project, the northern section up to Çiğli Interchange shall be completed.

Realizing freight transport mainly through railways is a strategic aim in transportation sector. In this context, private sector train operations shall be improved in railways. Freight transport in railways shall be liberalized in order to benefit from operational advantages of private sector and TCDD's burden on the public shall be curbed into sustainable levels through restructuring. Extension line investments mainly for industrial organized zones shall be made through partnership with private sector and rail-stock investment shall be made by private sector.

The projects, which will make Turkey a transit country by construction of new large-scale and hub ports will be prioritised. Besides, the investments regarding maritime safety, particularly Automatic Identification System projects, will be accelerated, and the projects will be completed as soon as possible. The diminishing role of the government in port operations resulted in emphasis of its regulatory role. A port authority will be established to fulfil this role.

Several support mechanisms will be developed in order to have a sustainable regional air transportation. In addition to this, within the framework of general transportation polices, feasibility studies will be started for a new airport that responds to the long term demand in İstanbul region.

Provision of accessible, secure, and safe transportation for all citizens in cities regarding the economic and environmental sustainability is the main objective in urban transportation. In order to achieve this objective, integrating the land use and transportation plans, focusing on passengers rather than vehicles, exploiting all opportunities rendered by state of the art technology, and selecting the best suited modes of transportation for different city fabrics will be the priorities.

Technical and legislative studies in order to set the national standards for project selection, finance, implementation and operation of transit systems in urban transportation will be launched at both central and local levels.

In city-public transit, improvement of the quality of service in bus transit systems is the main policy. Rail transit systems will only be planned in the corridors which have peak hour travel demand of 15,000 passengers/hour/direction at the critical stations projected for the year and be completed. In evaluating the rail transit projects proposed for the investment program, the financial position of the municipalities will be considered as well as the economic and financial feasibility of the project itself. The local budgetary resources will be preferred in financing public transit projects, and the foreign funding will be allowed for only works involving technology transfer. The municipalities will be promoted to collaborate with the domestic industry from the planning stage to financing of public transit projects in order to prevent the foreign exchange outflow and secure technology transfer. At least 25 percent of the total cost of the public transit projects will be financed by the allocations from the local budgets in case that the project is financed by foreign credit guaranteed by Treasury.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Existing road infrastructure shall be improved through completion of dual carriage highway projects and increasing the standards of highways .				
Measure 1.1. Dual carriage highway projects shall continue to be implemented.	General Directorate of Highways		2007	Necessary funds shall be allocated in the 2007 budget to attain the 15,000 km of dual carriage highways target, and approximately 1,500 km of dual lane highways shall be completed within 2007.
Measure 1.2. Physical standards of the roads carrying heavy vehicle shall be increased.	General Directorate of Highways		2006-2008	Hot-mix asphalt pavement construction on the highway sections with average daily heavy traffic counts exceeding 1,000 vehicles shall be accelerated.
Priority 2. Traffic safety on the highways shall be improved.				
Measure 2.1. Black spots on the highways system shall be eliminated.	General Directorate of Highways	General Directorate of Security, General Directorate of Turkish State Railways	2006-2008	On the priority basis, 100 black spots shall be eliminated annually, and all at grade railway crossings on the state and provincial roads shall be provided with automatic barriers.
Measure 2.2. Effective controls for the freight weight shall be implemented.	Ministry of Transport	General Directorate of Highways, General Directorate of Security, General Command of Gendarme	2006-2008	Fixed and mobile control systems will be completed and 1.5 million vehicles will be inspected annually.
Measure 2.3. Horizontal and vertical road markings shall be installed at missing locations.	General Directorate of Highways		2006-2008	Deficient road installations such as guardrail, horizontal paint markings and traffic signs shall be eliminated, with priority given to recently completed dual carriage highway projects.
Measure 2.4. City crossings shall be improved.	General Directorate of Highways	Municipalities	2006-2008	Through-traffic shall be diverted outside the metropolitan areas at large city centres. Within this respect, as a priority Bursa, Afyon, İzmir and Kayseri Ring Roads shall be completed and Denizli Ring Road construction shall be initiated.
Measure 2.5. Information and decision support systems shall be developed for the infrastructure and traffic controls.	General Directorate of Highways	Municipalities, General Directorate of Security, General Command of Gendarme	2006-2008	Information systems such as CBS, Vehicle Control Systems to be used for highway infrastructure and traffic controls shall be developed and thus traffic controls and decision mechanisms shall be improved.

Priority 3. With utmost utilization of the EU funds, works aimed at integration of our national transportation networks , which connect the EU countries with Caucasian, Central Asian, South Asian and Middle East countries, with the Trans-European transportation networks shall be accelerated.				
Measure 3.1. Motorway and dual carriage highway projects on the international routes shall be completed.	General Directorate of Highways	SPO, Ministry of Transport, Ministry of Foreign Affairs	2006-2008	Bolu Mountain Crossing, G.Antep-Ş.Urfa Motorway, Kınalı Interchange -Tekirdağ- İpsala dual carriage highway projects shall be completed, K.Hisar-Pozantı Motorway construction shall be accelerated. Additionally, international highway routes shall be improved, with priority given to Şanlıurfa-Habur and Gerede-Merzifon axes.
Measure 3.2 Necessary institutional regulations and sectoral strategies will be prepared in order to utilize EU funds.	SPO	Ministry of Transport, Ministry of Public Works and Settlement	2006-2008	Sectoral Strategies will be prepared and TINA Study will be completed in order to utilize financing in the scope of IPA which is the financial instrument of EU that will be implemented for Turkey and other candidate/potential candidate countries beginning from 2007.
Priority 4. Freight transport will be concentrated on railways and maritime.				
Measure 4.1. Private train operations will be improved on General Directorate of Turkish State Railways network.	TCDD	Ministry of Transport, SPO	2006-2008	According to the Council of State decision regarding the Bylaw of Train Operations of Other Entities on General Directorate of Turkish State Railways Network, private train operations was paused. The issue of resuming private sector train operations will be evaluated in drafts of Turkish Railways Law and TCDD Law.
Measure 4.2 New legislation will be prepared for Railway Market and TCDD.	Ministry of Transport	SPO, TCDD, General Directorate of Railways, Ports and Airports Construction (DLHİ)	2006-2008	Railway Sector twinning project was initiated in order to prepare the drafts of necessary legislative documents for Turkish Railways market under the Turkey-EU pre-accession partnership programme. Drafts were finalized for Turkish Railway Law -Framework Law-, TCDD Law and other complementary bylaws. Parliamentary approval process will be started by the Ministry of Transport in 2007.
Measure 4.3. Extension lines to organized industrial zones and large factories will be constructed with private sector contribution.	TCDD, DLHİ	Ministry of Transport, SPO	2006-2008	Tendering of İzmir Kemalpaşa Organized Industrial Zone (KOSBİ) Railway Connection Project is about to finished by DLHİ. Gaziantep Free Trade Zone railway connection was completed by TCDD. Construction of Manisa Organized Industrial Zone Railway connection (7 km) was started by industrial zone's own financial resources. Agreement process is going on for Denizli Organized Industrial Zone railway connection between TCDD and the management of the industrial zone. Engineering projects for the Extension of Aydın-Çine-Güllük Port Railway is going on. Between 2006-2008, 302 factories will be connected to the railway network with 415 km of extension railway.
Measure 4.4. Transformation from plain rail transport approach to logistics approach will be done by establishing rail yard terminals in ports and land container terminals.	TCDD	Ministry of Transport, SPO	2006-2008	Door-to-door transport will be assured in freight transportation by railway-highway transfer. Gaziantep Land Container Terminal will be utilized better. Additionally, location and technical characteristics of new land container terminals will be determined and their construction will be started by private sector contribution.
Priority 5. TCDD will be restructured in order to increase service quality and market share and to decrease its financial burden on public.				

Measure 5.1. TCDD Restructuring Project will be completed.	TCDD	Ministry of Transport, SPO	2006-2008	The total number of TCDD personnel will be decreased gradually. Consequently, increasing need for operational personnel will be covered by new recruitment and/or training of non-operational employees according to specific needs.
Measure 5.2. İzmir commuter train operations will be transferred to İzmir Metropolitan Municipality.	TCDD, İzmir Metropolitan Municipality	Ministry of Transport, SPO, Undersecretariat of Treasury	2006-2009	It was approved to establish a joint enterprise by İzmir Metropolitan Municipality and TCDD with High Planning Council decision. İZBAN A.Ş. is responsible for the operation of approximately 79 km Basmane-Menemen-Aliağa and Alsancak-Cuma Ovası lines in metro standards. According to the protocol signed between TCDD and İzmir Metropolitan Municipality, İZBAN A.Ş. is also responsible for the construction of Karşıyaka and Şirinyer tunnels, missing stations, road/pedestrian underpass and overpasses and the procurement of rail stock. Construction of Karşıyaka and Şirinyer tunnels were started. Discussions with European Investment Bank regarding the procurement of rail stock are going on. Whole project will be completed in 2008. However, procurement of rail stock may extend to 2009.
Measure 5.3. Affiliated companies and factories of TCDD will be opened to private sector.	TCDD	Ministry of Transport, SPO	2006-2008	Procedure will be commenced immediately for Çankırı Switch Factory, for which there is a High Planning Council decision regarding the establishment of joint-stock company. Affiliated companies; TÜLOMSAŞ, TÜDEMSAŞ and TÜVASAŞ will be opened to private sector by including in privatisation program, establishing joint stock company or other methods.
Measure 5.4. Necessary training programs of technical and administrative capacity building for high speed train operation in TCDD will be started.	TCDD	SPO	2007-2008	It is required that technical and administrative capacity be accumulated in TCDD for high speed train operation techniques and high speed train sets repair and maintenance. For this purpose, a technical cooperation project will be started in 2007, using the EU funds if needed.
Priority 6. Port capacities will be increased, ports will be transformed into logistic centres where combined transport will be realized and efficient management of the ports will be ensured.				
Measure 6.1. Port Authority will be established.	Undersecretariat of Maritime Affairs	Ministry of Transport, Privatisation Administration, TCDD, Related Municipalities, Chamber of Shipping	2006-2008	A port authority model will be established for Turkey for the administration of ports in coordination and for implementation of public policies considering the individual port needs. The related regulatory and institutional measures will be taken. This authority will lead the development of ports according to the public policies, determine the standards of towage and pilot-age services, and regulate the tariffs if necessary, to avoid monopolization. Port authority will regulate and direct the ports from a macro perspective rather than making decisions for individual ports.

Measure 6.2. Large scale ports will be established and construction of dispersed small scale-low capacity piers/ports will be avoided through a Coastal Structures Master Plan.	Ministry of Transport (General Directorate of DLHİ)	Undersecretariat of Maritime Affairs, Privatisation Administration, TCDD, Related Municipalities, Chamber of Shipping	2007-2009	Large scale ports will be established in order to make Turkey a transit country, and get more share from world maritime transport. Besides, according to Coastal Structures Master Plan, available port sites for large scale ports will be determined and the private investors will be directed to these sites.
Measure 6.3. Considering the Coastal Structures Master Plan, bureaucratic procedures regarding construction of ports will be accelerated.	Ministry of Transport (General Directorate of DLHİ)	Ministry of Public Works and Settlement, Ministry of Environment and Forestry, SPO, TCDD, Undersecretariat of Maritime Affairs	2006-2008	Studies towards the solution of the problem of obligation to get permissions from too many public institutions and municipalities to construct and operate new ports will be concluded.
Measure 6.4. The problem with data collection and analysis in maritime sector, particularly about port facilities, will be solved.	Undersecretariat of Maritime Affairs	TURKSTAT, Chamber of Shipping	2006-2008	Undersecretariat of Maritime Affairs, Chamber of Shipping and TUIK will prepare a report on the statistical parameters that are used in the EU countries and about formation of a database. Necessary measures will be taken according to the results of this report.
Priority 7. Flag, port and coastal state control will be improved and necessary steps will be taken for Turkish citizen fleet owners to prefer Turkish flag.				
Measure 7.1. Flag, port and coastal state control will be improved to increase maritime safety.	Undersecretariat of Maritime Affairs	Coast Guard Command, Ministry of Environment and Forestry, TDİ, Chamber of Shipping, Metropolitan Municipality of İstanbul	2006-2008	Law on Maritime Safety and relevant secondary legislation will be enacted. Port regulations will be reviewed and missing issues will be included. Flag and port state inspections will continue to be carried out in accordance with EU standards, and necessary steps will be taken to ascend to the grey list of Paris MoU. To provide coastal and port state safety, Automatic Identification System (AIS) will be established in all coasts, and region-wide Vessel Traffic Services (VTS) will be implemented particularly in Aegean and Mediterranean Seas.
Measure 7.2. National and International Turkish ship registry will be restructured to ensure the return of Turkish ships.	Undersecretariat of Maritime Affairs	Ministry of Finance, TOBB	2007-2009	As in European countries, necessary studies will be conducted and necessary regulations will be enacted to bring in the ships owned by Turkish citizens that were operated under different flags.
Measure 7.3. Coastal trade will be improved.	Undersecretariat of Maritime Affairs	Undersecretariat of Treasury, Undersecretariat of Maritime Affairs, SPO, Chamber of Shipping, Eximbank	2006-2008	The study conducted by UMA to identify the cabotage lines that might be improved will be completed in 2006. Another study that will define ship type which is operable on these lines will be launched in 2007. Within this project, a new ship model will be designed to ensure the renewal of existing coaster fleet that is old and has competitive disadvantage. To ensure this model to be adopted by the private sector, necessary steps will be taken by UMA and Eximbank to provide financing.

Measure 7.4. The shortage of chief engineers will be met and the criteria to become seaman will be implemented.	YÖK	Chamber of Shipping, Undersecretariat of Maritime Affairs	2006-2008	Number of chief engineering students at undergraduate level will be increased. Graduation from at least high schools or maritime vocational high schools will be sought for seaman and raising seaman by private courses will be under the control of UMA.
Measure 7.5. High quality personnel will be raised in the areas of port construction and operation.	YÖK	Chamber of Shipping, Undersecretariat of Maritime Affairs	2006-2008	A separate faculty is needed in the areas of port construction and coastal engineering. Vocational high schools which will have training programmes on port operations are needed.
Priority 8. Studies will be started for a new airport in İstanbul region.	Ministry of Transport		2007-2009	Within the framework of general transportation policies, feasibility and project studies will be started for a new airport that responds the long term demand in İstanbul region.
Priority 9. Regional air transportation will be developed.	Ministry of Transport	Ministry of Finance, Ministry of Interior, SPO, Undersecretariat of Treasury, municipalities, Chambers of Commerce and Industry	2006-2008	In order to maintain continuous and regular regional air transportation service, regional air transportation will be supported and contributions of local administrations and non-governmental organizations will be taken in this manner. New measures will be taken in order to reduce the costs of regional air transportation. To maintain continuous and regular regional air transportation service, measures will be taken that enable the operation of a single airline in some low-demand routes.
Priority 10. Models that will enhance private participation in infrastructure will be developed.				
Measure 10.1. Public-private partnership legislation will be revised.	SPO	Ministry of Transport, Undersecretariat of Treasury	2007	Legal studies, necessary to implement new public-private partnership models to increase the number of sectors where public-private partnership models can be applicable, will be completed.
Measure 10.2. Priority will be given to public-private partnership models in the implementation of transportation projects.	Ministry of Transport, Ministry of Public Works and Settlement	SPO, Undersecretariat of Treasury, General Directorate of Highways	2006-2008	A project pool will be created that consists of applicable projects from all transportation modes which can be implemented by public-private partnership models. During the implementation of these projects, priority will be given to public-private partnership models.
Priority 11. National standards for project selection, finance, implementation and operation of transit systems in urban transportation will be set at both central and local levels.				
Measure 11.1. A regulation defining the procedure for proposing the rail transit projects for the approval of Ministry of Transport will be prepared.	Ministry of Transport (DLHİ)	SPO, Metropolitan Municipalities	2007	The Law No. 3348 which defines the duties of Ministry of Transport requires the approval of urban rail transit projects by the Ministry. A regulation will be prepared to define the necessary steps to be taken in the process of approval of the projects by the Ministry.

E. PROTECTION OF ENVIRONMENT AND IMPROVEMENT OF URBAN INFRASTRUCTURE

1. Current Outlook

Economic and technological development, population growth, rapid urbanization and consumption of natural resources have urged the environmental and infrastructural needs, such as drinking water, sewerage, solid waste and wastewater treatment.

The fact that adaptation to EU acquis will significantly affect the standards of environmental and urban infrastructure investments necessitates the studies on capacity building, increasing effectiveness and determining the needs in the environmental field. Although this situation involves the construction of more expensive plants because of increasing standards, it also brings the opportunity for the utilization of EU funds.

The Law on Environment No. 2872 was amended by the Law No.5491 Law on Changing the Environmental Law dated April 26, 2006 to meet the needs in the field of environment and to harmonize with the EU acquis.

As of 2006, the population of 3,225 municipalities is estimated to reach 64 million and its ratio to the total would be 87.2 percent. On the other hand, the population of 302 residential areas defined as city in municipal areas and having population above 20,000, urbanization ratio and rate are estimated as 44.8 million, 61.4 percent and 2.3 percent, respectively.

The responsibility in the realization of urban infrastructure investments mostly belongs to municipalities. However, most of the municipalities fail to consider environmental infrastructure with a comprehensive approach; they face problems like deficiency in coordination, inadequacies in finance, machinery-equipment, information, man power and particularly the use of sanctions.

Revenues of local governments especially of municipalities, did not rise corresponding to ever increasing services demand. Most of the municipalities are barely able to meet the salaries of personnel with their shares from general budget, and they could not allocate sufficient resources on urban infrastructure. For this reason, studies on revenue improvement of local authorities are being carried within the framework of the Local Administration Reform.

To ensure efficiency in meeting the growing service demand as a result of rapid urbanization and increase the service quality by creating competitiveness, studies on privatisation of some of the municipal services continue. Privatisation policy focuses on transferring of services from public to private sector; nonetheless following privatisation, municipalities failed to build institutional capacity on performing necessary auditing and coordination functions. As a result, it is observed that decline in service quality and inefficiency take place and an adequate environment of competition could not be ensured.

As of 2004, among 3,225 municipalities, 3,159 have drinking and utilization water network corresponding to 99 percent of the total municipal population and 2,226 have sewerage network corresponding to 86 percent. Solid waste collection services are supplied by 3,019 municipalities and 97 percent of the municipal population benefits from these services. The need for qualified personnel continues in construction and operation of the infrastructure plants such as municipal drinking water, sewerage and treatment systems and solid waste management.

Illegal settlement in the water basin protection zones and discharge of wastewater without treatment make the supply of hygienic and potable drinking water difficult. Water basins and drinking water resources need to be protected from pollution and their management should be planned.

According to 2004 statistics, 40 percent of 5 billion m^3 drinking and potable water supplied by municipalities met from dams, 28 percent from wells, 30 percent from rivers and springs, 2 percent from lakes and ponds. 47 percent of 2.9 billion m^3 of wastewater collected by the municipalities giving sewerage service was discharged into rivers, 40 percent into seas, 2 percent into lakes, 1 percent into soil, 3 percent into dams and 7 percent into other receiving environments. 1.9 billion m^3 of the discharged wastewater was treated in plants, 56 percent by biological treatment, 31 percent by physical treatment and 13 percent by advanced treatment. Besides in Turkey, the number of treatment plants is insufficient, ineffective usage of current plants creates an important environmental problem.

In Turkey, only 25 percent of the 25 million tonnes of solid waste collected was disposed in 16 landfills in 2004. Effective solid waste management system at national level could not be improved and an applicable policy could not be designed on these issues.

While municipalities perform their tasks about the collection and transfer of the solid waste management, they do not demonstrate adequate effectiveness and sensitiveness in disposal of solid waste. Especially wild dumping, misselection of dumping sites and negativities in operational conditions lead to ever growing problems.

Law on Amendments to the Environmental Law No. 5491 states "Metropolitan municipalities and municipalities are obliged to build, have it built, establish or have it established of municipal solid waste disposal plants. Anybody, who benefits/will benefit from these services, has to contribute investment, operation, maintenance, repair and reclamation expenses of responsible bodies. According to tariffs determined by municipality council, solid waste collection, transportation and disposal fees are collected from beneficiaries of these services. Collected charges can not be used in rather than solid waste services." In this framework, it is expected that municipalities could mobilize required resources for solid waste service.

Dangerous wastes increasing with industrialization and medical wastes are largely disposed with municipal solid waste, without taking any measures. As of 2004, the number of the municipalities that collect transport and dispose the medical waste separately is 578 and the amount of collected medical waste is 62 thousand tons. 21 percent of collected medical waste had been disposed in landfills, 13.4 percent of that in incineration plants.

The Law No. 5491 obliges hazardous waste producers to dispose wastes or have this waste disposed. In our country, there is a hazardous waste disposal plant with 790 thousand m3 capacity.

At firsthand, the amount of generated solid waste should be decreased in solid waste generation. Besides, the need for awareness-raising of households on making waste ready to be collected by separation at source continues.

The restructuring works of Bank of Provinces which is an agency specialized in urban infrastructure for supplying technical and financial support, continue considering the bottlenecks confronted by municipalities in fields such as project development, implementation, monitoring evaluation and obtaining finance regarding urban infrastructure.

Main problems of environmental management are inadequacy of infrastructure in urban areas; conservation and sustainable use of biological diversity and natural resources in rural districts. The main reasons for these problems are shortcomings in legislative and institutional arrangements, the complexity in hierarchy for preservation zones and lack of coordination. Pilot implementations are carried on and new arrangements in legislation and organizations are continued.

It is vital to utilize national resources effectively and ensure sustainability under consideration of future generations' needs and a comprehensive and balanced treatment of natural resources, economy and social development. To ensure the integration of the sustainable development approach in a systematic way into strategies, plans and programmes, National Commission for Sustainable Development carries on its studies. Project of Integrating Sustainable Development into Sectoral Policies of which the beneficiary is SPO, financed in the framework of Turkey-EU financial cooperation, is under implementation.

In the scope of compiling and providing environmental information that will enable rational utilization of national resources and be a basis for physical planning, the need for improving access to environmental information has been continuing.

In order to determine Turkey's special conditions and its current state in the context of the United Nations Framework Conventions on Climate Change ratified in 2004, Draft National Communication Report on Climate Change was prepared in the scope of the project of Support to Preparation of National Communication Report on Climate Change. In this framework, after negotiating special conditions of Turkey with UN Secretariat, an action plan needs to be prepared in cooperation with related institutions to determine works to be done by Turkey on climate change issue.

2. Main Objectives and Targets

Protecting human health, natural resources and aesthetics value, in line with sustainable development principles to achieve an adequate environmental protection level and to ensure clean, safe, and improved quality of urban life, in line with growing population, economic, social and technological development, meeting the differentiated urban infrastructure is main objective.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Priorities related to implementation will be determined by assessing necessary infrastructure and financial needs required for the implementation of environmental legislation; administrative and auditing capacity will be improved.				
Measure 1.1. Administrative and auditing capacity of the Ministry of Environment and Forestry will be strengthened.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Industry and Trade, Ministry of Health, Local Administrations Other Related Public Agencies	2006-2008	In order to harmonize national environmental legislation with EU environmental acquis and implement this legislation effectively, administrative and auditing capacity of Ministry of Environment and Forestry will be developed.
Measure 1.2. The infrastructure, envisaged by Access to Environmental Information Project, will be established within the related institutions.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Health, TURKSTAT, Environmental Protection Agency for Special Areas, State Hydraulic Works (DSI), Bank of Provinces, Municipalities, Water and Sewerage Administration, Other related public agencies	2006-2008	Technical and equipment infrastructure in related institutions will be established to develop and extend “Environmental Information System” that is foreseen by the project of “Administrational Structuring and Access to Environmental Information” in the scope of Turkey-EU financial cooperation fund.
Measure 1.3. Inventory studies will be done, a database will be established and implementation strategy will be identified to determine industries in the Annex-I list of “EU Directive on Integrated Pollution Prevention and Control”.	Ministry of Environment and Forestry	Ministry of Industry and Trade, mMinistry of Health, TURKSTAT, TOBB	2007-2008	With the purpose of designating investment needs for alignment of industry into EU acquis, detailed statistics will be formed and implementation strategy will be identified by making a comprehensive inventory study.
Measure 1.4. For protection of environment, manufacturing industry will be informed about the best available techniques and studies will be conducted on sectoral basis to evaluate the cost of these techniques.	Ministry of Environment and Forestry	Ministry of Industry and Trade, TOBB, TÜBİTAK, KOSGEB	2007-continue	Using best available techniques for protection of environment, mitigation of pollution and environmental problems originating from manufacturing industries will be provided. Cost of these techniques will be analysed by designating different needs of each sector.
Measure 1.5. Air quality monitoring and measurement stations will be established	Ministry of Environment and Forestry	Ministry of Health, TURKSTAT	2007-2009	By establishing air quality monitoring and measurement stations, data compilation on regular and reliable basis will be commenced.
Priority 2. Studies on determining, protecting, improving and bringing economic value through biological diversity and genetic resources of Turkey will be accelerated.				
Measure 2.1. According to Ramsar Convention, preparation of wetland management plans will be continued; implementation studies of prepared plans will begin.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Culture and Tourism, General Directorate of State Hydraulic Works, TÜBİTAK	2006-2008	Necessary rehabilitation and monitoring studies will be implemented according to wetland management plans to be prepared.

Measure 2.2. Assessments of biological diversity and genetic resources will be continued and by protecting these resources effective usage will be ensured.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, SPO, TÜBİTAK	2006-continues	For preservation and conversion of biological diversity and genetic resources into economic value, the analysis of current outlook will be determined on the basis of priorities and strategies. In the implementation of the results of biological diversity and natural resource management project, cooperation between related institutions will be ensured; human resources and institutional background will be strengthened. Sharing responsibilities among institutions will be clarified and research institutions capable to supply consultancy services will be established.
Measure 2.3. For protection of biological diversity and the nature, legal arrangements will be completed under mutual consensus of institutions.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Culture and Tourism, SPO, Environmental Protection Agency for Special Areas, TÜBİTAK	2007	In the scope of Biological Diversity and Natural Resources Management Project, legal arrangement studies on protection of biological diversity and the nature will be completed by the consensus of related institutions.
Priority 3. Necessary legal arrangements will be made for allocation, usage, development and protection of water resources from pollution.	Ministry of Energy and Natural Resources	Ministry of Health, Ministry of Environment and Forestry, Ministry of Foreign Affairs, Ministry of Agriculture and Rural Affairs, SPO, General Directorate of State Hydraulic Works	2006-2007	Aiming effective utilization and management of groundwater and surface water, the studies on development of water legislation in Turkey will be continued taking EU acquis into consideration.
Priority 4. Urban infrastructure master plan that identifies Municipalities' financial needs for infrastructure such as drinking water, sewerage, treatment plants and solid waste will be prepared.	Bank of Provinces	Ministry of Interior, Ministry of Environment and Forestry, SPO, General Directorate of State Hydraulic Works, Municipalities	2006-2008	Taking current studies into consideration, urban infrastructure needs will be determined at the national level and to implement environmental legislation, financial strategy will be formed and its schedule will be designated.
Priority 5. Construction of landfills will be prioritised for solid waste disposal and effectiveness in solid waste management consisting of collection, transportation, recycling, disposal, management and rehabilitation of plants will be ensured.				
Measure 5.1. Measures will be taken to increase the recycling ratio of solid waste.	Ministry of Environment and Forestry	Ministry of Interior, Bank of Provinces, Municipalities, NGOs	2007-continue	Solid waste will be classified at the source so that those having economic value will be recycled. Regulations related to packaging wastes will be implemented effectively.
Measure 5.2. For household awareness, trainings on the issue will be conducted.	Ministry of Environment and Forestry	Ministry of Interior, Bank of Provinces, Municipalities, NGOs	2006-continue	Households will be given awareness about solid waste classification at the source and reusing them with the perspective of economic value.
Measure 5.3. Landfill plants will be prioritised in disposal of domestic solid waste.	Ministry of Environment and Forestry	Ministry of Interior, Bank of Provinces, Municipalities	2006-continue	Landfill will be preferred as the best appropriate method in terms of both economic considerations and the country's situation. In this respect, related public institutions will give support to municipalities.

Measure 5.4. Construction of solid waste disposal facilities through cooperation between municipalities and local administration unions will be encouraged.	Ministry of Interior	Ministry of Environment and Forestry Bank of Provinces, Municipalities,	2006-2008	During construction of solid waste disposal plants, considering geographical and economic conditions to reduce costs, to benefit from scale economies and to provide effective solid waste management, the union model foreseen by Law No. 5355 will be implemented.
Priority 6. Bank of Provinces will be restructured in line with current conditions.	Bank of Provinces	Ministry of Interior, Ministry of Finance, Ministry of Environment and Forestry, SPO, Undersecretariat of Treasury, BRSA, CMB	2006-2007	Financial structure, human resources and institutional capacity of Bank of Provinces will be developed to facilitate the use of international resources by local authorities and to ensure technical and financial support to the municipalities.

F. R&D and ENHANCING INNOVATION

1. Current Outlook

In today's world, science, technology and innovation capacity turned out to be the most important factors of competitive advantage and socio-economic development.

As of 2004, the share of R&D expenditures in GDP is 0.67 percent in Turkey, whereas EU average is 1.82 percent. Due to the increase in the public funds allocated for this sector since 2005, the share of R&D expenditures in GDP is expected to rise to 0.8 percent in 2006.

Private sector has the most important role for turning R&D studies into products and for increasing the contribution of these studies in gaining competitive power. In the EU countries, 63.3 percent of the R&D expenditures are made by private sector; while this ratio is 23.2 percent in Turkey.

The number of full time equivalent R&D personnel per thousand labour force in Turkey in 2004 was 1.83, considerably below the EU average of 10.2 in 2003. Moreover, only 20.5 percent of the R&D personnel were employed by private sector in Turkey, whereas this ratio was 52.2 percent in EU countries as of 2003.

Since the R&D infrastructure exists mainly at the universities and public research institutions, most of the research studies are conducted in these institutions. Due to the lack of proper coordination among institutions that implement R&D that provide funds and support for these activities and use information and technology, the output of R&D activities can not be put into practice or the ongoing research generally stands away from the needs and demands of the industry.

The most important output of the research activities in the universities is the increase in the number of scientific articles. As a result, Turkey ranked 19th in the Scientific Citation Index in 2005.

In the Ninth Development Plan technologies and fields given priority are: nanotechnology, biotechnology, new generation nuclear technologies, hydrogen and fuel cell technologies; sectoral researches to which industry policy gives priority; R&D aiming to transform local resources into value-added; health researches to increase the quality of life, particularly vaccine and anti-serum studies; information and communication, defence and space technologies. In the above mentioned areas, activities for establishing excellence centres, providing support to universities and research institutions on the basis of research projects, and training researchers are carried on.

In 2005, the programmes within the framework of TUBITAK Turkey Research Area Programme: Academic and Practical R&D Support, Public R&D Support, Defence and Space R&D Support, Science and Technology Awareness, and Training and Development of Scientists are continued.

The activities carried out by technology development zones (TGB), technology development centres (TEKMER), open technology incubation centres and university-industry common research centres are continued to be supported. By October 2006, the number of technology development zones is 22, and currently 10 of them are in operation. There still exists a need to complete the infrastructure of the technology development zones.

In order to support private sector R&D activities, TUBITAK, Technology Development Foundation of Turkey (TTGV), Undersecretariat of Foreign Trade, Ministry of Industry and Trade, and Small and Medium Industry Development Organization (KOSGEB) provide loans and grants to firms which pursue R&D. There is a need to increase the efficiency and penetration of these supporting activities.

There exists drawbacks in the monitoring and evaluation of the applied policies and support mechanisms in the field of science and technology.

It is observed that public procurement system is not effectively utilized to put R&D capacity into action. Especially the technologies developed in the defence industry might have positive effects on several other areas.

Although Turkey has fully participated in the EU Sixth Framework Programme in science and technology sector, the return rate on projects has been low with respect to the contribution payments for the programme. The major factors which led to this situation are the deficiencies in the communication with the EU research network, and insufficient R&D infrastructure and number of researchers in addition to delayed participation of Turkey to the programme.

2. Main Objectives and Targets

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

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. A national innovation system to improve the cooperation among science and technology institutions and to ensure the efficiency of private sector will be formed.				
Measure 1.1. The responsibilities, authorities and duties of institutions will be re-defined by increasing the cooperation and coordination among institutions operating in science and technology areas.	SPO	TÜBİTAK, Public Institutions, NGOs, Professional Institutions, Private Sector.	2006-2008	The legal and institutional arrangements agreed upon by all related institutions and contributing to harness science and technology resources for value-added and improvements will be commenced. In this content, a draft legislation for R&D and Innovation Framework will be prepared.
Measure 1.2. To improve evaluation and operational effectiveness of the National Innovation System, a National Innovation Strategy and Action Plan will be prepared.	TÜBİTAK	SPO, Public Institutions, NGOs, Private Sector	2007-2009	In accordance with the decisions of the Science and Technology High Council's 14th Meeting, National Innovation Strategy and Action Plan will be prepared by participatory institutions under the coordination of TUBITAK to increase the country's innovation performance, to define an efficient national innovation system, and to determine a strategy in this framework for a performance-focused action plan.
Measure 1.3. Regional innovation systems will be defined and supported.	TÜBİTAK	SPO, TOBB, YÖK, Universities, Public Institutions, Private Sector, NGOs.	2006-2008	To support regional development and increase competitiveness, regional innovation systems which will provide solutions to regional needs and problems and cover private sector, universities, public institutions, and local dynamics will be defined. Support for making these systems as complementary to national innovation system will be provided.
Measure 1.4. An effective monitoring and evaluation system for science and technology projects will be created.	SPO	TUBITAK, TUBA, Public Institutions, Private Sector, NGOs.	2006-2008	A monitoring and evaluation system to implement science and technology policies, to monitor support mechanisms and identify their efficiencies, and to prevent duplications will be developed. All related institutions will cooperate under the coordination of SPO to establish a monitoring and evaluation system which will cover programmes and projects that are implemented by these institutions.
Priority 2. Increasing the demand and R&D capacity of the private sector will be supported.				
Measure 2.1. The R&D incentives provided to private sector will be increased.	TUBITAK	Ministry of Industry and Trade, Undersecretariat of Foreign Trade, KOSGEB, Private Sector, TTGV	2006-2008	Through supporting R&D projects that will be implemented in the industry, the innovation culture will be created and the demand of private sector for R&D studies will be enhanced. In priority areas, pre-competition partnership and comprehensive R&D activities will be supported to increase technological capacity of private sector and to disseminate this capacity throughout sectoral level.

Measure 2.2. The effectiveness of incentive schemes for establishment of R&D departments and employment of R&D personnel in the industry will be enhanced.	Ministry of Industry and Trade	Ministry of Finance, Undersecretariat of Treasury, TUBITAK, KOSGEB, Private Sector, Financial Institutions	2006-2008	In addition to supports on project basis, necessary arrangements and incentive systems that provide tax benefits will be developed to establish R&D infrastructure and employ R&D personnel in the private sector.
Measure 2.3. Financing mechanisms to support R&D based entrepreneurship will be developed.	Ministry of Industry and Trade	Ministry of Finance, Undersecretariat of Treasury, TUBITAK, KOSGEB, Vocational Institutions	2006-2008	To increase R&D based entrepreneurship, venture capital supports will be increased. To establish technology firms from scratch, seed capital support will be provided.
Measure 2.4. Public institutions, particularly Turkish Atomic Energy Institution (TAEK) and National Bore Research Institute (BOREN), will inform private sector about strategic fields. Joint research opportunities between public institutions and private sector will be provided.	TAEK, BOREN	Public Institutions, Private Sector	2006-2008	Training will be given at TAEK and BOREN. Additionally mass-media will be employed to reach private sector. Joint research studies will be conducted as well.
Priority 3. Supports for developing cooperation among private sector, universities and public research institutions will be increased and made more effective. R&D studies in universities and public research institutions will be increased and redirected towards the market demand.				
Measure 3.1. Current technology development zones will be strengthened.	Ministry of Industry and Trade	Ministry of Finance, SPO, Undersecretariat of Treasury	2006-2008	Completion of physical infrastructure of current technology development zones will be supported and each zone will be ensured to specialize in certain areas.
Measure 3.2. University-Industry Joint Research Centres (USAMP) will become more prevalent.	TUBITAK	YÖK, Universities, Private Sector	2006-2008	Within the framework of USAMP Implementation Essentials, the already established centres will be enhanced and be ensured to work effectively. Studies will be conducted to open new centres.
Measure 3.3. Technology incubation centres will become more prevalent.	KOSGEB	Universities, TUBITAK, TTGV, TGBs, Private Sector	2006-2008	The infrastructure of TEKMER and other technology incubation centres will be developed, and new centres will be established.
Measure 3.4. In the universities and public research institutions, the support for studies that will bring solutions to the problems of private sector and society will be increased.	YÖK TUBITAK	Ministry of Finance, SPO, Public Research Institutions, Universities, Private Sector	2006-2008	The organizations that provide funds and support to R&D projects will be guided to give priority to projects which tackle with problems of private sector and the society. In this respect, legislative arrangements for increasing coordination between researchers and private sector will be made, and the concentration of performing research studies in academic promotion system will be increased.
Measure 3.5. In universities, certain number of postgraduate thesis will be defined toward fulfilling the needs of private sector.	Ministry of Industry and Trade	Ministry of Finance, SPO, TUBITAK, YÖK, Universities, Private Sector	2006-2008	Industry Thesis (SANTEZ) programme will be continued.

Priority 4. Human resources will be enhanced in quantitative and qualitative terms.	TUBITAK	Ministry of National Education, SPO, YÖK, Universities	2007-2009	Number of programmes to train up scientists and researchers, such as Scientists Training Programme, Advanced Research and Education Programmes, Industry Supported Doctorate and Post-Doc Programmes will be increased. To encourage research, award, scholarship and incentive mechanisms will be developed.
Priority 5. Researches aiming to fulfil the needs and expectations of public institutions will be supported.	TUBITAK	SPO, Public Institutions, Universities	2006-2008	Public institutions will be supported to conduct research towards their own needs, and for developing operational policies. The projects in this respect will be supported within the context of investment programmes and TARAL. Moreover, R&D awareness in public institutions will be enhanced.
Priority 6. Public Procurement System will be ensured to have a structure in which R&D studies and development of national technologies will be encouraged.	Public Procurement Authority	Ministry of Finance, SPO, Public Institutions	2006-2008	In current public procurement system, necessary arrangements will be done to fulfil the needs of public institutions via utilizing technologies developed by domestic R&D studies.
Priority 7. R&D supports for reducing the dependency of defence industry to overseas resources will be increased. Technologies which will be developed for defence sector will be transmitted to other sectors, universities, research institutes and SMEs.	Ministry of National Defence	Turkish General Staff, Undersecretariat of Defence Industry, TUBITAK, Universities, Public Research Institutions, Defence Industry Institutions	2006-2008	Defence, space and aviation technologies, that can also be used in non-military fields will be identified and shared with other sectors. R&D support and incentives will be provided to defence industry institutions. Funds from TSK resources will also be allocated to R&D activities, apart from main weapon system projects.
Priority 8. Collaboration with countries and international organizations, EU countries in particular, having advanced science and technology capacities will be enhanced.				
Measure 8.1. EU Framework Programme will be utilized effectively.	TUBITAK	Ministry of Finance, SPO, EUSG, YÖK, Universities	2006-2008	To utilize EU Framework Programmes effectively, a mechanism which will lead, and ensure coordination, monitoring and evaluation of projects will be formed through participants of relevant institutions. Furthermore, institutional capacity development activities towards this purpose will be supported.
Measure 8.2. Technical cooperation activities with countries, which are competent on science and technology fields, will be enhanced.	TUBITAK	SPO, YÖK, Universities, Private Sector, NGOs	2006-2008	In addition to multilateral relations, bilateral relations will be established with countries, which have advanced capacities in science and technology sectors.
Priority 9. The awareness of society about science, research, technology and innovation will be increased.	TUBITAK	Ministry of National Education, Universities, NGOs.	2006-2008	Science parks and museums will be established. The public awareness will be increased via mass media. Children and adolescents will be encouraged through competitions and scholarships. Furthermore, measures will be taken in the curriculum to create an innovation culture and awareness.

Priority 10. Studies towards establishing technology transfer centres will be initiated.	SPO	Ministry of Industry and Trade, KOSGEB, TUBITAK, Universities, TOBB	2007-2009	A technology transfer centre model applicable to Turkey's situation, will be identified and studies towards establishment of these centres will be initiated.

G. DISSEMINATION OF INFORMATION AND COMMUNICATION TECHNOLOGIES

1. Current Outlook

Electronic communications sector is currently undergoing radical changes since 2000. In this period, Telecommunications Authority was established as the regulatory agency and new operators entered into the market with the abolition of monopoly at the beginning of 2004.

To meet the needs of the liberalized communications sector, Telecommunications Authority put into force secondary legislations in many areas considering the alignment with the EU's Regulatory Framework. However, the progress in the competition based on infrastructure and services is limited. Until September 2006, 45 operators were authorized to operate in long distance telephone service market, but due to obstacles stemming from interconnection tariffs, total market share of these new entrants was fairly low, and in return, 10 operators withdrew from the market and their licenses were cancelled. Local loop unbundling, which is crucial for enabling competition in the broadband access, is another area with no progress.

During 2006, 5 operators were authorized to provide telecommunications infrastructure services and 4 operators were authorized to provide cable platform services, in order to establish and strengthen the facility-based competition. Legislations on directory services and rights-of-way, which is important for the expansion of new infrastructure, was put into force. Work is underway regarding the restructuring of procedures for defining the operators with significant market power, and within this framework, consultation documents were prepared for relevant market definitions and were shared with interested parties. In addition, regulation for number portability, which aims at allowing the subscribers to switch to other service providers without changing their phone numbers, is at the final stage.

In line with the recent developments and the EU regulations, Draft Bill for Electronic Communications was prepared and sent to the Turkish Grand National Assembly. The Draft Bill lays down the legal basis for regulations, simplifies the authorization procedure, and describes the policy-making and regulation functions. Universal Service Law was enacted in June 2005, and after a year, secondary legislation on the procedures and principles of the implementation of the universal service was put into force in June 2006.

As a result of the privatisation programme, 55 percent share of Turk Telekom was sold in a block sale in November 2005. Besides, the sale of mobile operator Telsim was completed in December 2005, after transfer of its management to the Savings Deposit Insurance Fund in February 2004.

After the 2001 crisis, growth of information and communications sector continues at steady pace. At the end of 2006, it is expected that the telecommunications market will reach USD 12.5 billion, while information technology market will reach USD 3.5 billion.

The number of fixed telephone subscribers reached to its maturity, however, the growth in the number mobile subscribers still continues. The number of broadband subscribers shows a rapid growth in the recent years, but the 2.9 percent penetration rate as of June 2006 is still well below the EU average.

Legal and technical infrastructure studies regarding the transition policy to DVB-T are being executed under the coordination of Ministry of Transport. In this context, trial DVB-T broadcasts have been launched in Istanbul and Ankara in February 2006 with the participation of private sector.

TABLE: IV. 20- Main ICT Indicators

	2004	2005	2006 (1)
PSTN Capacity (Thousand People)	21,006	21,192	21,100
PSTN Subscribers (Thousand People)	19,125	18,978	18,900
PSTN Penetration (In Percent)	26.7	26.3	26.2
Mobile Subscribers (Thousand People)	34,708	43,608	51,000
Mobile Penetration (In Percent)	48.5	60.5	68.0
Internet Users (Thousand People)(2)	9,500	10,000	13,000
Internet Penetration (In Percent)	13.3	13.9	18.0
Broadband Subscribers (Thousand People)	500	1,590	2,500
Cable TV Subscribers (Thousand People)	1,127	1,199	1,250
ICT Market (Billion USD)	11.9	14.5	16.0
-Telecommunications	9.6	11.5	12.5
-Information Technology	2.3	3.0	3.5

Source: SPO, Telecommunications Authority, TURKSTAT, IDC
(1) Estimation
(2) TURKSTAT Household ICT Usage Survey, includes 16 - 74 age group.

2. Main Objectives and Targets

Main objective is accelerating the transformation into an information society through diffusion and effective usage of information and communication technologies by which contribution to increased competitive power and welfare level of Turkey has been achieved.

Regulatory role of the state will be made effective, authorizations for alternative infrastructure and services will be realized and problems negatively affecting the potential development of market and information society services will be eliminated in accordance with the aim that service capability of electronic communications sector will be improved in a global competitive environment.

It is expected that telecommunications service market will reach USD 14 billion and information technologies market will reach USD 4.4 billion by 2007 with a growth rate of 12 percent and 25 percent, respectively compared to the previous year. It is envisaged that mobile telephone and broadband subscribers will reach respectively 58 million and 3.5 million, while Internet users will be 17 million.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Electronic communications sector will be made more competitive.				
Measure 1.1. Draft Law of Electronic Communications will be enacted.	Ministry of Transport	SPO, Telecommunications Authority	2007	The Draft Law, which is of importance in terms of constituting the basis for many of the secondary regulations in the sector and putting the general principles for the sector, will be enacted.
Measure 1.2. Number portability will be ensured.	Telecommunications Authority	Ministry of Transport, SPO	2007	Competition in the sector will be improved through enabling subscribers to switch to another operator without changing their numbers.
Measure 1.3. Regulations for broadband wireless access service authorizations will be realized.	Telecommunications Authority	Ministry of Transport, SPO	2007-2008	Provision of broadband wireless access services will be assured. Setting the alternatives for existing broadband infrastructure and services in this way, competition in the broadband access market will be increased.
Measure 1.4. Local loop unbundling will be ensured.	Telecommunications Authority	Ministry of Transport	2007	Implementation of regulation for local loop unbundling, and in this respect the issue of a reference offer and implementation will be ensured.
Measure 1.5. A feasibility study will be undertaken as to the separation of the incumbent operator’s wholesale and retail services.	Telecommunications Authority	Ministry of Transport, Competition Authority	2007	In order to increase the implementation capacity of regulations put into practice for ensuring competition in the services, different procedures will be evaluated and cost benefit analysis will be undertaken aimed at separating the incumbent operator’s wholesale and retail services.
Priority 2. Infrastructure of information and communication technologies will be improved to support the transformation into information society, the use of internet will become widespread, measures aiming at developing of domestic information technologies sector will be implemented.				
Measure 2.1. Taxes on data and internet services will be decreased.	Ministry of Finance	Ministry of Transport, SPO, Telecommunications Authority	2007	In order to encourage usage of internet services, Special Communication Tax on data and internet services will be rearranged.
Measure 2.2. Authorization studies on next generation mobile telecommunication services will be conducted.	Telecommunications Authority	Ministry of Transport	2007	Authorization studies on next generation mobile systems, which will enable broadband access and will run many applications on them, will be carried out.
Priority 3. Postal sector will be restructured on the principles of speed, quality, reliability and accessibility with a competitive approach and in parallel with the EU regulations.	Ministry of Transport	SPO, Undersecretariat of Treasury, PTT, Telecommunications Authority	2007-2009	By a new law which will supersede the current Postal Law No. 5584, policy setting, regulation and operation functions will be separated, competences and liabilities of stakeholders will be clearly defined, and a regulatory body which is operationally independent and separate from operators will be established in order to regulate the market. Furthermore, postal services market will be gradually liberalized also taking EU regulations into consideration and Directorate General of PTT will be adapted to the prospective competitive environment.

Priority 4. Public service broadcasting will be improved also by taking the developments in technology into consideration and will be provided to have such a content that would meet the needs of different groups in the society and will be provided to have a well-established and sustainable financial structure.				
Measure 4.1. The role of TRT Corporation in public broadcasting will be defined and the said Corporation will be re-structured. Legal amendments will be realized in order to provide the Corporation with a well-established and sustainable financial structure.	Responsible State Ministry for the Turkish Radio and Television Corporation	Turkish Radio and Television Corporation (TRT), Radio and Television Supreme Council (RTUK), SPO	2007	Necessary amendments on Law No. 2954 will be made in order to re-structure TRT Corporation by defining its role in the context of public broadcasting and to achieve a well-established and sustainable financial structure. Providing a constitutionally autonomous and also accountable structure is to be an important target of the amendments.
Measure 4.2. Legal infrastructure needed for a well-arranged transition to digital broadcasting will be finalized and technical infrastructure studies will be continued.	RTUK, Telecommunications Authority	Ministry of Transport, TRT	2007-2008	Legal amendments will be made and secondary legislation will be developed for transition to DVB-T within the implementation plan set by Communications High Board.

H. IMPROVING THE AGRICULTURAL STRUCTURE

1. Current Outlook

In 2005 agricultural sector, growing by 5.6 percent, recorded 10.3 percent share in GDP and 29.5 percent share in total employment. The need for transformation in agriculture persists due to structural problems like fragmented lands, small scale holdings and organizational deficiencies, and continuing significance of agriculture in employment. Meanwhile, preparations for harmonization to EU acquis in the fields of agriculture and rural development, food safety, veterinary and phytosanitary, and fisheries are continuing by considering the issues which have come forward during the screening process as well.

Land and Water Resources

2005 data show that Turkey’s total agricultural land is 26.6 million hectares, of which 18.1 million hectares are sown, 4.9 million hectares are fallow, 0.8 million hectares are used for vegetable production, and 2.8 million hectares are reserved for fruit and olive trees, for tea and vineyards.

Due to reasons such as the reduction in fertile land resulting from widespread erosion and non-agricultural use, and deterioration resulting from wrong application of fertilization and pesticides decrease the quality and quantity of agricultural land. Erosion is a problem on 16 million hectares of agricultural land. 1.3 million hectares of highly fertile agricultural land have been given out to non-agricultural use. It is expected that the Law on Soil Conservation and Land Use No. 5403 enacted in 2005 would alleviate this problem. A draft on amendments to this law, which is on the agenda of the Turkish Grand National Assembly, rules that further parcelling due to inheritance of agricultural lands under certain sizes is not possible and that public institutions are authorized to implement land consolidation relating to their services.

As of end 2005, 2.46 million hectares of agricultural land is irrigable by projects put in place by State Hydraulic Works (DSI). 10 thousand cubic meters for flood irrigation, 6 thousand cubic meters for sprinkler irrigation and 4 thousand cubic meters for drip irrigation are recorded as the averages for water consumption for 1.6 million hectares of actually irrigated land. These measurements point out the importance of adopting water saving irrigation techniques. Moreover, efforts to increase the efficiency of water consumption for irrigation by means of pricing irrigation tariffs proportional to the amount used is gaining emphasis.

High demand for agricultural infrastructure, especially irrigation, results in three fourths of all agricultural sector public fixed capital investments being allocated to DSI projects. Despite the rationalization of investments during the Eighth Development Plan period, rational use of funds is not fully attainable due to the large number of projects in the investment portfolio. The average duration for completion of projects in DSI investment portfolio is 25 years. To shorten this duration, the need to diversify and increase financial resources and to prioritise project stock continues.

Plant Production

The increase in value added in agricultural sector mainly arises from plant production where changes in yields directly affect growth of the sector. Structural problems like small and fragmented structure of agricultural holdings, marketing problems and inadequate organization of producers prevent the increase in both productivity of the sector and income levels of producers. Within this framework, in order to improve productivity and quality in plant production, it is important to provide all propagating materials belonging to plant types with high genetic potential and high quality by means of domestic production at international standards, in a timely manner and at suitable prices.

In order to protect ecological balances, to lessen the negative effect of agriculture on environment and to improve socio-economic level of the producers, and in line with global trends, importance of organic farming has been rising. Organic farming production, initiated with 8 products at the mid 1980s for exports, has reached 205 products in 2005. According to 2005 data, organic farming area is approximately 204 thousand hectares in Turkey.

Starting with 2005, in addition to the prices announced by Turkish Grain Board for grain purchases, the price difference between purchase price and a target price has been paid to the producers.

It is important to implement environmental friendly methods by adopting in particular an integrated approach in plant protection and by considering food safety, in the combat against plant disease and pests. In this context, in order to prevent air, soil and water pollution and to harvest products without chemical residues, development of cooperation among researchers, implementers and producers, and integrated combating activities have priority.

Increase through supports of production of oilseeds with supply deficit is important in terms of their input to vegetable oil and feed industries as well as recently increasing bio-diesel production and their being alternatives of products with low competitive power.

Animal Husbandry

In spite of high animal population in Turkey, productivity remains low. While average cattle carcass weight is 270-280 kg in countries developed in animal husbandry, it is 180-190 kg in Turkey, and average milk yield is 5-6 thousand kg per cattle in countries mentioned above and 1.8-2 thousand kg per cattle in Turkey.

According to 2005 data, out of a total of 10.5 million heads of cattle, 43 percent and 22 percent are cross-bred and pure-bred, respectively. Native-bred sheep has relatively low productivity and their percentage in 23.3 million total sheep population is 97 percent. For the purposes of animal breeding and supply of qualified cattle bred, 1.5 million applications of artificial insemination were realized in 2005, and this figure is expected to reach 1.6 million in 2006.

Roughage production, which is the most important factor affecting the profitability in bovine and ovine animal husbandry, is not at sufficient levels, and there remains the necessity to increase the quality, amount and variety of roughage supplied.

While emphasizing protective measures in the efforts for decreasing the negative effects of animal diseases and pests in animal husbandry holdings is important, the need for increasing the amount and quality of vaccine, medicine and serum production remains.

Fisheries

The share of the fishery sector in the national income is about 0.4 percent despite the presence of rich water resources. Annual per capita consumption of fish is 16 kg in the world, 25 kg in EU while it is just 7.2 kg in Turkey.

2005 fisheries production is 545 thousand tonnes. Even though the essential part of the production is capture fisheries production based on coastal fishing, with the supports provided in the recent years aquaculture production has increased significantly and its share in the total production has reached around 20 percent levels.

Within the scope of harmonization to EU acquis, a Draft Law on Amendments to the Fisheries Law has been prepared and submitted to the Turkish Grand National Assembly. Aiming at increasing the effectiveness of the protection and control system, and establishing a sound and functioning data collection system, offices have been constructed at 30 fisheries harbours to conduct controls at landing points. Setting up the infrastructures of the above mentioned offices has been finalized, and work on information systems is continuing.

In Turkey, including ongoing constructions there are 277 shore facilities of which 165 are fisheries harbours. However, these facilities are not at the desired level of quality because of the insufficient superstructure. Furthermore, there are problems related with the selection of location, leasing and management of fisheries harbours.

Forestry

While per capita forest area is about 0.62 hectares worldwide, the figure is 0.15 hectares for Turkey. Considering biological diversity, water and wildlife, 4 percent of national forests are set aside as protected areas. This figure is about 11 percent in the world. About 2 percent of world's plantations aimed at industrial production and soil conservation is realized in Turkey. As of end 2005, 2.52 million hectares of industrial production and soil protection plantations have accumulated, including 69 thousand hectares completed in 2005. Meanwhile, 90 thousand hectares of forest areas have been lost in 19 thousand fires during the last decade.

Agricultural Supports

Share of Direct Income Support (DIS) payments in agricultural support budget decreased to 55 percent in 2006 from 64 percent in 2005. Within this scope, total area covered by the scheme has increased to 17 million hectares in 2005 from 12.2 million hectares in 2001. Since the start of the programme, total number of eligible producers has increased to 2.8 million in 2005 from 2.2 million in 2001 with a 26 percent cumulative increase. Additional DIS payment practice, introduced in 2005, is still available for those producers who have soil analyses, use certificated seed, and engage in organic farming activities. Furthermore, the land based support program for diesel and fertilizer, introduced in 2005, continued in 2006. Enrolling to the National Farmer Registration System became a condition to be eligible for all agricultural support payments.

In order to reach the targets other than income stability, which is attempted to be ensured by DIS program in the sector, and in line with the foresights of the Agricultural Strategy Document 2006-2010 adopted in 2004, the Law on Agriculture No. 5488 has been enforced in 2006. The Law basically specifies themes and purposes of agricultural policies, principles and priorities of agricultural support policies, and programmes through which such supports are to be provided; and aims at creating a stable climate which is not very much affected by short term preferences, so that producers can plan their production activities. Agricultural support tools are being restructured to this end, and DIS payments are aligned with policy tools on agricultural production.

Decree of Council of Ministers on Supports for Rural Development Investments, which aims to support investments in processing, handling and marketing of agricultural products of both natural persons and legal entities, covering 2006 to 2010, has been put into effect in 2006.

Implementation of State Assisted Agricultural Insurance mechanism has been started in 2006, pursuant to the Agriculture Insurance Law No. 5363 in 2005, to compensate the losses of farmers and breeders resulting from risks and uncertainties threatening the crop production and animal husbandry in the country.

In order to enhance competitiveness in agricultural exports, the needs for directing export subsidies towards consumer oriented, high value added and brand name products, and efficient use of scarce public resources still remain.

Food Industry

By Food Law No. 5179, food control has been foreseen to be implemented by the Ministry of Agriculture and Rural Affairs (MARA) as the competent authority. However, by Metropolitan Municipalities Law No. 5216 and the Municipalities Law No. 5393, certain responsibilities in terms of implementation of the food legislation, such as, operation permits for food producers and food registration formalities have been given to municipalities. This change have led to administrative and legal problems in food control services.

Improvement of food control infrastructure in Turkey continues via preparation for establishment of a National Food Reference Laboratory and an information network system for food safety in MARA.

In the sugar sector, new investments of private sugar factories are completed. This fact is expected to create problems in the implementation and monitoring of sugar production quotas. Problems related with contract farming and over-supply in the sugar sector await solution before restarting privatisation efforts.

agricultural techniques compatible with technological advancements.

In order to alleviate unemployment problems and migration pressures resulting from the transformation in the agricultural structure, rural development policies emphasizing non-agricultural activities will be implemented.

TABLE: IV. 21- Selected Indicators for Agriculture Sector

	2004	2005	2006 (1)	2007 (2)
Irrigation Area Built by DSI (Net Cumulative, Million Hectares)	2.40	2.46	2.55	2.62
Land Consolidation Area by General Directorate of Agricultural Reform (Cumulative, Million Hectares)	0.14	0.16	0.18	0.23
Share of Certificated Cereal Seeds Use (In Percent)	29.1	22.9	29.4	30.0
Share of Organic Farming Areas in Total Agricultural Land (In Percent)	0.8	0.8	1.0	1.0
Share of Livestock Production in Total Agricultural Production (In Percent)	25.9	26.2	26.5	27.0
Share of Cross-bred and Pure-bred Cattle in Total Cattle Population (In Percent)	64.6	65.5	66.2	67.0
Industrial Production and Soil Conservation Plantations (Cumulative, Million Hectares)	2.45	2.52	2.59	2.66

Source: MARA, MEF, SPO, DSI, General Directorate of Agricultural Reform
(1) Realization estimate
(2) Estimate

2. Main Objectives and Targets

The main objectives of agricultural policies are to ensure, considering food security, adequate and balanced nutrition of the growing population with increasing access to quality and safe food; to build an agricultural structure, economically, socially and environmentally sustainable, well organized, highly competitive and in line with EU; and to make sure the efficient use and development of natural resources.

Agricultural production and productivity will be increased through determination of plant types suitable to the ecological conditions of Turkey; making use of country's rich genetic resources; and application of

Efficient use of land and water resources, through use of agricultural lands according to their potentials and purposes, and with application of proper farming techniques; and through use of water resources in a balanced, sustainable and environmental friendly manner, and with an integrated approach, and expansion of agricultural infrastructure will be the basic principle.

In order to obtain high yield, high quality and standard products in plant production, priority will be given to development of types and expansion of certified nurseries and seeds; adaptation of new technologies and alternative production methods; implementation of effective and environmental friendly combat methods against plant diseases and pests; transition from products in surplus to alternative crops; and bringing stability in product markets.

To reach a higher productivity level in animal husbandry sector, improvement of the existing gene capacity through artificial and natural insemination applications, rehabilitation of keeping and feeding conditions and the balance between input and product prices will be ensured.

In the fisheries sector, priority is given to the improvement of the institutional structure, increasing the effectiveness of resource management in the capture fisheries, achieving an aquaculture production in harmony with the environment, and nourishing alternative sorts of fish.

In forest management and plantation works, the objective of protection of biological diversity, water and wildlife will be considered, and forest protection and conservation works will be intensified. Meanwhile, recreational and wood raw material needs, soil erosion, floods, global warming and acid rains will be considered, and the size of the activity and selection of tree types will be the basis for planning plantation works.

Considering the tendency toward liberalization of agricultural markets and EU acquis, it is aimed that agricultural support policies will be handled regarding their impacts on the competitiveness of food industry as well. Further, it is pursued that food safety conditions from farm to table in the food chain improved, and agriculture-industry integration encouraged.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Within the framework of issues that have come forward during the EU screening process, necessary efforts will start in order to find solutions for problematic areas.				
Measure 1.1. Efforts required by the results of screening process of agriculture related chapters will start.	MARA	Related Public Institutions	2007	After the gap analysis, in terms of legislation and implementation, of the screening processes of the chapters on Agriculture and Rural Development, Fisheries, Food Safety, Veterinary and Phytosanitary; as regards the proceeding negotiation process, preparations will be started immediately, consistent with other priorities of this chart.
Priority 2. Agricultural supports will be restructured within the framework of Agricultural Strategy Paper (2006-2010) and Agriculture Law No. 5488.				
Measure 2.1. Share of DIS payments in agricultural support budget will be maintained at the level of 45 percent.	MARA	Ministry of Finance, SPO, Undersecretariat of Treasury	2006-2010	In line with the Agricultural Strategy Paper, DIS payments will be maintained at the level of 45 percent in agricultural support budget.
Measure 2.2. Share of livestock supports in agricultural support budget will be maintained above the level of 12 percent.	MARA	Ministry of Finance, SPO, Undersecretariat of Treasury	2006-2010	In line with the Agricultural Strategy Paper; share of livestock supports, which also cover fisheries, in total agricultural support budget which was 9.5 percent in 2005, will be maintained above the level of 12 percent.

Priority 3. Agricultural credit subsidies and support payment channels to the producers via various agents and financial services towards agriculture sector will be diversified.	MARA	Ministry of Finance, SPO, Undersecretariat of Treasury, Ziraat Bank	2007-2009	The possibilities of provision of agricultural loans and other subsidies through private sector will be explored, and the deficiencies of the sector regarding finances will be determined. After those studies, financial services towards agriculture sector will be diversified.
Priority 4. Necessary for the implementation of agricultural policies, information infrastructure will be set up and administrative structure will be improved.				
Measure 4.1. Agricultural information system will be completed.	MARA	Ministry of Environment and Forestry, TURKSTAT, General Directorate of Land Registration and Cadastre, Turkish State Meteorological Service, DSI, General Command of Mapping	2006-2008	Agricultural databases will be established, especially the ones that are currently ongoing by the use of various sources of funds, such as: NFRS, Veterinary Information System, Agricultural Land Classification, Plant Passport, Farm Accountancy Data Network, Organic Farming Database and Food Control and Surveillance System. Management, use and sharing of any kind of information will be done in an integrated approach. Harmony with the EU's Integrated Administration and Control System (IACS) will be ensured.
Measure 4.2. A strategy document will be prepared so as to reach reliable statistics in the field of agriculture and rural development.	TURKSTAT	MARA, SPO, EUSG	2007-2008	As the importance and problems of statistics in the field of agriculture and rural development have been better realized during the screening process, a strategy document including steps to be taken, with targets, responsible authorities and cost estimations, shall be prepared. It shall be used as a road map for the future efforts.
Priority 5. In accordance with EU acquis, public services on food safety and plant and animal health will be provided in an integrated frame.				
Measure 5.1. The legislative work on food safety and plant and animal health issues is to be completed and efficiency in food control services is aimed to be provided via coordination among related institutions.	MARA	Ministry of Health, Ministry of Interior, Undersecretariat for Foreign Trade	2006-2007	Considering the outputs of screening process with the EU, Law No. 5179 will be amended, and the legislation on feed, food hygiene and veterinary issues will be completed. The problem created in food control system by local administration laws will be solved by new legal arrangements.
Measure 5.2. Projects will be implemented for on-job training of human resources and harmonization of food control system with the EU.	MARA	SPO	2006-2009	By the contribution of EU grants, Restructuring and Reinforcement of Food Safety and Control System in Turkey Project is started in order to enhance food safety standards, to increase efficiency of food control system, and to raise implementation capacity of MARA, as well as to establish a reference laboratory, training of its personnel, and to improve the control infrastructure in the country.

Target 5.3. Inventory studies on investment requirements of food sector enterprises for marketing of safe food will be carried out.	MARA	Ministry of Interior, Ministry of Industry and Trade, SPO, TURKSTAT	2007-2009	After the completion of screening with EU, one of the priorities is to specify the investment requirements of food enterprises for improvement of food safety conditions in order to prevent future non-tariff barriers in trade. Realization of these investments will help the full implementation of the food safety legislation and registration of the food production facilities for effective implementation of food control services.
Measure 5.4. The work on the preparation of regulation on bio-safety will be finalized.	MARA	Ministry of Health, Ministry of Environment and Forestry, Undersecretariat of Foreign Trade	2007	Enforcing a Law on Bio-safety is important in terms of regulating the production, use, trade and all other related activities of genetically modified crops and products, and establishing a control mechanism to prevent possible adverse effects of biotechnological activities on nature and human life.
Measure 5.5. Administrative and technical capacity related to animal health will be improved.	MARA	Ministry of Finance, SPO	2006-2007	Administrative and technical capacity will be improved for the purposes of eradication of animal diseases, particularly zoonotic animal diseases, and rehabilitation of animal health conditions, especially by utilising the grants through Turkey-EU Financial Cooperation.
Measure 5.6. Infrastructure for monitoring plant health, and quality and chemical residuals of disease control drugs, will be strengthened.	MARA	Ministry of Finance, SPO	2006-2007	In order to improve services for plant health, and quality and chemical residuals of disease control drugs, legislative efforts will be finalized and necessary laboratory infrastructure will be strengthened.
Measure 5.7. Efforts for combating plant diseases and insecticides will be handled with an integrated approach.	MARA	Ministry of Environment and Forestry	2007	Plant health efforts, which provide an opportunity to use all existing combating techniques in a systematic way, against existing and/or possible harmful organisms that lead to economic losses in plant production as well as environment, human health and sustainability of agricultural production, will be implemented with utmost importance.
Priority 6. Implementation of policy tools that will direct agricultural production according to demand conditions will carry high priority.				
Target 6.1. Provisions of the Sugar Law related with quota management in production and quota controls will be amended.	Ministry of Industry and Trade	MARA, Turkish Sugar Authority (TSA)	2006-2007	TSA as the authority in sugar sector is foreseen to more effectively manage sugar production quotas and monitoring activities. Moreover, required legislative changes considering sectoral needs and EU policy changes are going to be completed.
Measure 6.2. Agriculture oriented cooperatives will be supported and producer organization will be encouraged.	MARA	Ministry of Finance, SPO	2006-2008	For encouraging small producers co-operating to obtain competitive strength, and for reducing excessive price fluctuations in the market, supporting payments will be given to producers who will establish agriculture cooperatives for the first time.
Measure 6.3. Policies to increase the demand for animal products will be implemented.	MARA	Prime Ministry, Ministry of Education, NGO’s	2007	In food aid organizations and mass consumption centres, practices will be developed for increasing consumption of animal products. In this context, to increase consumption and to form habit of milk consumption among kids, School Milk Program will be implemented.

Priority 7. In order to increase competitiveness in agricultural exports, export subsidies will be directed towards products with potential competitive power and brand names.				
Measure 7.1. A strategy document regarding the policies on export subsidies for agricultural products will be prepared.	Undersecretariat for Foreign Trade	MARA, Ministry of Industry and Trade, SPO, Undersecretariat of Treasury	2006-2007	A strategy document will be prepared for the reformulation of export subsidies, considering to maintain and to increase market share in foreign markets, and market access targets, and in line with WTO rules. Subsequent implementations will be handled accordingly.
Priority 8. Competitiveness of animal husbandry sector will be increased.				
Measure 8.1. Efforts related to qualified roughage production will be intensified.	MARA	Ministry of Finance	2007-2009	Identification and designation of pastures will be completed, efforts for improvement of pastures and stability for qualified roughage production will be intensified.
Measure 8.2. Breeding oriented pedigree and pre-pedigree systems will be developed and artificial insemination implementations will be given emphasis.	MARA	Producer Organizations	2006-2008	Work on pedigree system continuing in cooperation with Cattle Breeders Association will be expanded country-wide, and artificial insemination will increase to 1.7 million heads in 2007.
Measure 8.3. Work on animal identification will be finalized.	MARA	Producer Organizations	2006-2008	Work on identification of bovine animals will be completed and work on identification of ovine animals will be launched to prevent illegal animal movements.
Priority 9. The efficiency of agricultural production will be increased by improvements in use of inputs, R&D studies, and training and extension services.				
Measure 9.1. Training and extension services will carry priority for productivity, quality and hygiene in agricultural production.	MARA	Producer Organizations, General Directorate of Agricultural Enterprises (GDAE)	2006-2009	Training and extension services on efficient input use, implementation of alternative production methods, and marketing will be emphasized. In addition to public efforts, private sector and producer organizations shall take part in those services.
Priority 10. GDAE enterprises will be directed towards the areas where private sector engagement does not exist or exists to a limited extent, and unused parts of enterprises will be open to private sector.	GDAE	MARA, SPO, Undersecretariat of Treasury,	2007-2009	Those GDAE enterprises, which cannot be operated profitably and effectively, will be open to private sector, in line with agricultural targets stated in the institution’s regulations, for agricultural projects envisaging the application of modern agricultural techniques, and conserving property integrity.
Priority 11. Efficient use of land and water resources will be fundamental.				
Measure 11.1. Flaws resulting in allocation of agricultural lands for non-agricultural purposes will be determined and fixed.	MARA	Ministry of Interior, Ministry of Public Works and Settlement, Ministry of Industry and Trade, Ministry of Culture and Tourism	2006-2007	Primarily, strict application of legislation that restricts allocation of agricultural lands for non-agricultural purposes, and consequently, identification and elimination of legislation that contain opposite clauses will be targeted.

Measure 11.2. A draft Water Law shall be prepared, and Water User Associations' Law shall be attempted to enforcement.	Ministry of Energy and Natural Resources	Related Public Institutions	2006-2007	A water law of framework nature for efficient use of water resources and Water User Associations' Law that removes legislative loopholes in front of participatory water use and management are planned to be enacted.
Measure 11.3. Volumetric water pricing will be studied.	DSI	Ministry of Interior, MARA	2006-2007	The aim is to increase benefits per unit volume of water by using water more efficiently in public irrigation schemes including those transferred to Water User Associations (WUAs).
Measure 11.4. Water saving irrigation techniques shall be extended.	DSI	MARA, Private Provincial Administrations, Chambers of Agricultural Associations of Turkey	2006-2009	The demand for water is mainly due to irrigation projects, therefore water saving techniques like sprinkler or drip irrigation shall be expanded.
Priority 12. Irrigation and land consolidation investments shall be expanded.				
Measure 12.1. Land consolidation works shall be advanced.	Private Provincial Administrations, General Directorate of Agricultural Reform	Ministry of Interior, SPO	2006-2009	Land consolidation works shall be accelerated to solve the problem of heavily fragmented and scattered agricultural lands.
Measure 12.2. Models to provide new financial resources outside of public budget shall be used for irrigation projects.	DSI	SPO, Under Secretariat of Treasury	2006-2007	Regarding the creation of new financial resources for irrigation sector, priority shall be given to construct irrigation networks of those suitable projects with ready water supply, and by using these financing models.
Priority 13. Institutional structure will be improved in the fisheries sector.				
Measure 13.1. New control offices of fisheries will be established.	MARA	Ministry of Public Works and Settlement	2007	In the scope of harmonization with EU acquis, fisheries control offices will be constructed at determined fisheries harbours in order to conduct controls at landing points and to obtain reliable data.
Measure 13.2. Information infrastructure of the fisheries sector will be established.	MARA	Turkish Coast Guard Command, TURKSTAT, Undersecretariat for Maritime Affairs	2007	With the establishment of fisheries information system, and vessel registration and monitoring system, information flow from the landing points to the centre will be provided and the effectiveness of protection and control services will be enhanced.
Measure 13.3. Management and leasing system of fisheries harbours will be rearranged.	MARA	Ministry of Finance, Ministry Of Transportation, Ministry of Public Works and Settlement, SPO	2006-2007	In order to solve the management and leasing problems that have been experienced in the present 165 fisheries harbours, By-law on Fisheries Harbours of 2002, will be revised.
Priority 14. Effective utilization of resources will be fundamental in the fisheries production.				
Measure14.1. Stock assessment studies will be conducted.	MARA	TÜBİTAK, Universities,	2007-2009	Stock assessment studies aiming the effective resource management will be conducted concentrating on important species in the seas, and by using data of these studies protection and control policies will be determined.

Measure 14.2. In aquaculture production, environmental sustainability will be ensured.	MARA	Ministry of Environment and Forestry, Ministry of Culture and Tourism, Undersecretariat for Maritime Affairs	2007-2009	In the seas, areas that are eligible for aquaculture will be designated, and those areas will be marked on the Environmental Layout Plans.
Priority 15. Management of forest ecosystem in a multipurpose and productive way will be taken as a basis, considering protection against various factors especially forest fires, conservation-utilization balance, biological diversity and human health.				
Measure 15.1. Combating with forest fires will be intensified.	Ministry of Environment and Forestry	Ministry of National Defence	2006-2009	Forest maintenance works will be intensified considering the growing site and fire sensitivity, especially in tourism regions, while tools for fire combating are expanded. Dead flora will be eliminated by the controlled firing method in winter wet periods. Brazier use will be banned except for forest resting areas. Fire safety roads and brakes will be fixed and established.
Measure 15.2. In forest activities, ergonomic measures will be given emphasis.	Ministry of Environment and Forestry	Ministry of Labour and Social Security, Ministry of Health, Turkish Standards Institution	2007-2009	For the purposes of employee health and security in the activities of wood production, fire combat, road construction and transportation, necessary planning will be done with regard to on-the-job training, warning signs, other tools and clothing, and those works will be controlled strictly.
Measure 15.3. Protected forest areas will be increased and utilized in accordance with master plans.	Ministry of Environment and Forestry		2006-2009	Protected areas like national parks and nature protection areas, which constitute 4 percent of total forest area, will be improved and expanded conscious of the values and benefits of the forests. Efforts to increase public awareness on these issues will be continued.
Measure 15.4. Inventory, production and consumption studies relating to products and services other than wood, will be realized.	Ministry of Environment and Forestry	TURKSTAT	2007	It is aimed to determine contribution of forest ecosystem to national income accurately and to plan its probable contributions to socio-economic development.
Priority 16. Plantation, rehabilitation, urban forestry and agro forestry works will be conducted taking into account wood raw material, desertification and community health. Emphasis will be given to awareness of the people on these subjects.				
Measure 16.1. Plantation works will be conducted in accordance with the criteria determined.	Ministry of Environment and Forestry		2006-2009	Untouched belts with appropriate width will be left along water bodies, while mixed types of saplings are used in the plantation works, considering the forest health, fires, insects and diseases and protecting water and wild life.
Measure 16.2. Urban forestry works will be improved and expanded.	Ministry of Environment and Forestry		2007-2009	Forest green belts works will be carried out by including various types of trees considering natural landscape with the aim of public health, erosion control and meeting public recreational needs.

I. ENSURING TRANSFORMATION TO HIGH VALUE-ADDED PRODUCTION STRUCTURE IN INDUSTRY AND SERVICES

INDUSTRY

1. Current Outlook

Manufacturing Industry

During 2002-2005 period, high growth rates were observed in investment, production and exports of the manufacturing industry. Along with the changes in the sectoral composition of exports and appreciation of real exchange rate, increases in the investments and exports brought about high growth rates in the intermediate and capital goods imports. In the first eight months of 2006, while the imports and exports growth rates of the manufacturing industry are approximately at the same level of 2005, an upward trend in the production growth rate is observed.

According to TURKSTAT quarterly industrial production index, production of manufacturing industry increased 10.4 percent and 4.8 percent in 2004 and 2005 respectively. Sectors which achieved highest growth in 2005 were wood products, furniture, accounting and computing machinery, rubber and plastics products, electrical machinery, medical instruments industries. Despite the general increasing trend in the production index, reductions in the transport equipment except motor vehicles, textile, wearing apparel and leather products industries were significant. According to TURKSTAT monthly industrial production index, in the first eight months of 2006, manufacturing industry production increased 6.2 percent compared to the same period of the previous year. In this period, high growth rates in machinery, transport equipment except motor vehicles, accounting and computing machinery, leather products, and electrical machinery industries were remarkable.

According to TURKSTAT quarterly manufacturing industrial tendency survey, private sector capacity utilization rate, which was 79.9 percent in 2004, realized as 79 percent in 2005. Based on monthly data, in January-September period of 2006, private sector average capacity utilization rate was 79.2 percent.

As fast recovery in the economy continued in 2004, manufacturing industry private sector fixed capital investments (FCI) increased 60 percent in 2004 and 25 percent in 2005 according to SPO data. In 2006, approximately 15 percent increase is expected. While almost no change in the number of incentive certificates was observed as a sign of investment tendency of companies, investment volume in USD increased 8.5 percent in 2004. In 2005, the number and investment volume of certificates in USD decreased by 10 percent and 1.5 percent, respectively. In the first eight months of 2006, the number of certificates decreased by 10.7 percent, as investment volume in USD increased by 17.7 percent.

Total exports reached USD 63.2 billion, making an increase of 33.7 percent, and USD 73.5 billion, making an increase of 16.3 percent, in 2004 and 2005 respectively. In the same years, manufacturing industry exports increased 34.3 percent and 15.5 percent respectively, and its share in the total exports was 93.7 percent in 2005. Metal goods, machinery, electrical machinery, electronics and automotive industries achieved high increases in 2005. The share of exports to EU countries in the total exports continued at the level of 52.3 percent. In January-August period of 2006, the volume of exports reached USD 53.3 billion, making an increase of 14.1

percent compared to the same period of the previous year. Furthermore, during this period manufacturing industry exports reached USD 50.2 billion, making an increase of 13.6 percent. Automotive, machinery, basic metals, petroleum products, electrical machinery and chemicals industries are the sectors which achieved the highest increases in exports.

Total imports reached USD 97.5 billion, making an increase of 40.7, and USD 116.8 billion, making an increase of 19.7, in 2004 and 2005 respectively. Moreover, manufacturing industry imports reached USD 80.4 billion, making an increase of 44.5 percent in 2004 and USD 94.2 billion, making an increase of 17.1 percent in 2005. Machinery, chemicals and electrical machinery and electronics industries are the sectors which experienced the significant increases in imports. In January-August period of 2006, the volume of imports reached USD 88.9 billion, making an increase of 18.5 percent compared to the same period of 2005. Furthermore, during this period manufacturing industry imports reached USD 70.1 billion, making an increase of 15.3 percent. In January-August period of 2006, the share of imports from EU countries in the total imports was 39.9 percent.

TABLE: IV. 22- Main Indicators of Manufacturing Industry

(In Percent)

	2004	2005	2006 (2)	EU-2004
Share in GDP (Current Prices)	20.4	20.8	22.9 (1)	20.5 (6)
Production Growth Rate (Fixed Prices)	10.4	4.8	6.2	2.4
Exports Growth Rate (Current Prices)	34.3	15.5	13.6	9.5 (7)
Share in Total Exports	94.3	94.0	94.2	87.1 (7)
Imports Growth Rate (Current Prices)	44.5	17.1	15.3	8.8 (7)
Share in Total Imports	82.4	80.6	79.0	69.3 (7)
Share in Private Sector F.C.I. (Current Prices)	42.2	42.0	41.9 (4)	-
Industry Employment Growth Rate	3.7	7.3	1.9 (1)	-0.9 (8)
Number of Firms Established	13,348	9,249	8,139 (3)	-
Number of Firms Closed	3,104	2,088	1,758 (3)	-
Private Sector Capacity Utilization Rate	79.9	79.0	79.2 (3)	-
G. Rate of Partial Productivity per Prod. Worker	8.9	5.2	7.2 (9)	-0.3 (5)

Source: TURKSTAT–[(1) 6 Months, (2) 8 Months, (3) 9 Months], (4) SPO-Annual estimation, (5) Eurostat-EU-15, (6) EU-25 Industrial Data (7) EU-25 Based on STIC (8) EU-25 data of 2002 (9) SPO- Annual estimation based on June data.

The change in import of intermediate goods; especially in goods other than oil and natural gas, having a share of 70 percent in total imports, is also significant. While imports were USD 67.5 billion in 2004 and USD 81.9 billion in 2005; it reached USD 63.6 billion with 19.4 percent increase in January- August period of 2006 compared to the same period of the previous year. This situation causes high increases in imports parallel to the growth in the production and exports of some sectors, and therefore widens current account deficit. Consequently taking account of the necessity of raw material imports, the shift to high value-added production structure in industry through moving up higher stages of value chain becomes important.

With the integration of countries to the world trade system such as China, India having relatively low labour costs competition based on input costs in the basic industrial products has become severe. As a result of this, in our country, the production of traditional sectors such as textiles, wearing apparel, leather products has been decreasing since 2002. On the contrary, following Customs Union, the increase in the share of medium and high technology sectors in the manufacturing production and exports continued in 2005. Especially automotive, machinery, electronics and household appliances are the driving sectors of the rise in exports. In 2006, the above mentioned sectors except electronics, experienced high growth rates. But the shares of these sectors are still below that of EU countries.

TABLE: IV. 23- Structure of Manufacturing Industry Production and Exports

(In Percent)

Technology Intensity (1)	TURKEY						EU
	Production			Exports			Exports(4)
	2000(2)	2002	2005(3)	2000	2002	2005	2003
High	5.9	5.1	6.3	7.8	6.2	6.0	21.5
Medium-High	22.5	18.2	25.3	20.4	24.3	28.5	41.9
Medium-Low	30.4	26.7	27.0	20.5	22.8	26.9	15.9
Low	41.2	50.0	41.4	51.3	46.8	38.7	20.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT, OECD STAN Database
(1) Based on OECD Science, Technology and Industry Scoreboard
(2) It covers the firms which have 10+ employees.
(3) SPO estimation based on 2002 prices
(4) EU countries which are also OECD Members.

In the framework of prevention of unfair competition in manufacturing industry imports since September 2006, accurate measures against dumping from various countries in 47 products and product groups, investigation of circumvention in 3 products and product groups, and dumping investigation in 6 products and product groups have been continuing. Unfair competition in imports from East Asia especially China and Commonwealth of Independent States (CIS) countries has been mostly observed in textile, chemicals, rubber and metal products sectors.

Main problems of industry such as high real interest rates, unfair competition resulting from informal economy and low priced imports, the excessive bureaucracy, some costly inputs negatively affected by public policies compared to international prices, high burden of taxes and social security premiums are continuing. Furthermore difficulties, which are mostly structural, such as insufficiency to promote technology, lack of rapid diffusion of modern technology, insufficiency in qualified labour force, limited production capability in high value added products, the need of modernization in the production and management infrastructure of facilities, obstacles in access to information about the capacity and potential of the industry by the investors, inability to meet demands for Organized Industrial Zones (OIZ) and Small Scale Industrial Estates (SSIE) in some regions should be solved.

A number of 87 Organized Industrial Zones and 393 Small Scale Industrial Estate projects were completed by the credit support of Ministry of Industry and Trade. In 2006 a number of 13 OIZs and 17 SSIEs are planned to be finished. Resources are allocated for the studies for the initial set up of industrial zones in the public investment programme.

Recently, along with the acceleration of global competition, enhancing the competitiveness of SMEs, which compose 99.8 percent of total number of enterprises, is very essential because of its contribution to the competitiveness and economic and social development. In order to make SMEs more competitive; ensuring effective utilization of financial system, expanding the usage of modern and environment-friendly technologies and flexible manufacturing systems, increasing R&D and innovation activities, ensuring efficient and high quality production, being informed about international standards, developing effective training and consultancy services directed to support of entrepreneurship, expanding usage of information and communication technologies, enabling the integration to new markets and creation of awareness of trademark are required.

In order to meet the needs of SMEs, it is necessary to improve SME support system. For this purpose, activities directed to increasing service capacities of institutions serving to SMEs, stabilizing their budget and developing the cooperation and coordination among them is continuing. It is important to ensure the standardization and regular supervision in order to increase the quality and effectiveness of SME training and consultancy services.

To improve the technological capacity of SMEs, beside provision of technology infrastructure support, the need for progress of SMEs ability to adopt the technology and to deploy it into production processes have been continuing.

Studies for the revision of SME Strategy and Action Plan, covering 2003-2006 period, to identify strategies and actions for implementation of National SME policies have been executed. In this context, arrangements regarding the improvement of effectiveness and implementation pace of the plan have been made.

Supports to create trademarks have been continued for the development of high value-added products. For this purpose Law No. 2006/4 The Communication about Promotion of Turkish Trademarks and the Improvement of the Image of Turkish Products Abroad and Supporting Turquality has been put into force changing the previous circular. In this circular the amount, scope and timeframe of supports to firms for creation of trademarks, and the scope of support programme directed to Turquality shops have been expanded.

TABLE IV.24- KOSGEB Supports

(Million YTL)

	2003	2004	2005	2006(1)
Non-repayable	17.7	90.8	38.0	15.2
Repayable	106.0	53.3	55.5	3.6
TOTAL	**123.7**	**144.1**	**93.5**	**18.8**

Source: KOSGEB
(1) 9 Months

TABLE: IV.25- Electricity and Natural Gas Prices for Industry Consumption

		2001	2002	2003	2004	2005	2006(1)
Electricity (Cent/Kwh)	Turkey	7.9	9.4	9.9	10.0	10.7	9.8
	Average of OECD Europe	5.4	5.9	7.3	8.2	-	-
	Average of OECD	6.1	6.0	-	-	-	-
Natural Gas ($\$/10^7$ Kcal)	Turkey	200.5	215.5	228.9	230.3	304.8	337.3
	Average of OECD	187.9	160.5	223.7	253.5	316.4	-

Source: International Energy Agency (IEA).
(1) 2006 prices are second quarter of the year.

The negative effect of relatively high prices of energy inputs on the industrial competitiveness is continuing. Despite policies of not increasing the domestic energy prices since 2003, the electricity price for industry is still higher than OECD averages. Moreover, as a result of the approach of indexing natural gas prices to petroleum prices, natural gas prices have risen since 2004, depending on the dramatic increases of petroleum prices.

Privatisation of manufacturing industry public facilities was continued in 2005 with the privatisation of Adapazarı Sugar Plant, Beykoz, Manisa and Sarıkamış facilities of Sümer Holding, Eti Aluminium, and Samsun facility of TUGSAŞ. In 2006 the privatisations of TUPRAŞ and ERDEMIR were completed. Thus, the entire privatisation process of industrial facilities within the context of privatisation programme was almost completed. Furthermore, PETKIM, TEKEL Cigarette Facilities and some sugar plants are in the scope of privatisation program.

In the first eight months of 2006, while the production of textiles and wearing apparel industries were decreasing, exports of these sectors remained at same level of the previous year. New quotas put into effect in the middle of 2005 by EU which is our main export market in these sectors, have also positive effects in maintaining the same export level. Furthermore, the exchange rates and labour costs are still important in these sectors. After the abolishment of quotas, at the end of 2008, the severe competition observed in these sectors is expected to ever rise. In leather products industry, rapid growth of imports

TABLE: IV.26- Price Increases of Electricity and Natural Gas Used by Industry

(In Percent, y.o.y)

	2001	2002	2003	2004	2005	2006(2)
Electricity	113.6	16.8	-6.4	0.0	0.0	0.0
Natural Gas	136.4	4.6	-12.8	23.5	16.3	21.1
PPI (1)	88.6	30.8	13.9	13.8	2.7	11.8

Source: Turkish Electricity Distribution Corporation (TEDAS), Petroleum Pipeline Corporation (BOTAS), Turkish Statistical Institute (TURKSTAT).
(1) The data of 2004 and the preceding years are Wholesale Prices Index (WPI). Since 2005, Producer Prices Index (PPI) has been used.
(2) Electricity and natural gas data comprise the first 10 months and PPI comprises the first 8 months for the year 2006.

from China is still affecting the sector negatively. Thus, competitiveness based on cost advantages in textiles, wearing apparel and leather products industries is not considered to be likely. The only way to compete with China and other East Asian countries with low labour costs is to produce high value-added, high quality, fashionable, trademark products and employ timely production techniques.

TABLE : IV.27- Developments in the Main Sectors of Manufacturing Industry

(In Percent)

	Production (1)		Exports (2)	
	2005	2006(3)	2005	2006(3)
Total Manufacturing Industry	4.8	6.2	15.5	13.6
Food and Beverages	6.2	7.6	27.5	4.1
Textiles	-11.8	-2.3	9.3	2.8
Wearing Apparel	-12.5	-4.2	6.3	-0.9
Leather Products	-19.0	19.6	12.9	15.5
Petroleum Products	-0.1	-0.6	84.6	46.9
Chemicals	6.3	12.8	10.2	21.2
Plastics and Rubber	19.8	-10.6	26.9	15.9
Non-Metallic Minerals	10.3	9.6	16.0	1.3
Basic Metals	3.4	9.3	1.1	30.3
Machinery	1.2	20.4	24.3	19.1
Electrical Machinery	17.3	31.2	22.7	31.8
Electronics	4.8	-14.7	9.3	4.9
Automotive	9.6	9.3	16.0	18.3

Source: TURKSTAT
(1) At 1997 prices
(2) At current prices in USD
(3) 8 months data

In the petroleum products sector, Liquefied Petroleum Gas (LPG) Market Law and the Amending Law on Electricity Market No. 5307, which regulate the market with the aim of supplying the liquefied petroleum gases procured from domestic and foreign resources in a reliable and cost effective manner within a competitive environment, have come into force on March 13, 2003. Within the terms of the Gasoline and Diesel Quality Regulation, which has been prepared within the scope of harmonization with the EU environmental standards, leaded gasoline sales were prohibited since January 1, 2006, only unleaded gasoline production and imports are realized then.

Due to the high growth in the construction sector since 2005, domestic demand for non-metallic mineral products has increased rapidly. Thus, while the increase in production was 10.3 percent in 2005, it realized as 9.6 percent in the first 8 months of 2006. The growth rate in exports has decelerated because of the shift in the production of sector towards domestic market as a result of high increase in domestic demand. It is observed that the growth rate of the exports, which was 16 percent in 2005, has been 1.3 percent for the first 8 months of 2006.

Especially in the cement sector, of which domestic sales have reached to high levels, the situation is much more evident.

While the cement production, which had been 38.8 million tonnes in 2004, rose to 42.8 million tonnes by 10.3 percent increase in 2005; exports fell from 8 million tonnes to 7.4 million tones by 7.7 percent decrease at the same period. This trend has continued in the first 7 months of 2006 and while cement production has increased 12 percent compared to the same period of the previous year, exports have decreased 27.2 percent.

In iron and steel industry, China's becoming a net exporter after increasing its capacity and production considerably in the recent period led to increases in raw material prices and decreases in final good prices in the international markets. These developments also had influences on domestic iron and steel industry. Besides, domestic production increased due to the rise in domestic demand in 2005. The increase in the demand for long products is due to the growth in construction sector and the increase in the demand for flat products arose from growth in automotive, machinery and metal processing industries. Production growth in the sector has continued in 2006. The first version of the National Restructuring Program, which was prepared to comply with the terms set by the Free Trade Agreement between Turkey and EU and to eliminate the structural imbalance concerning the domestic supply and demand of long and flat products, was sent to the European Commission as of August 2006.

In machinery industry the rates of increase were 20.4 percent in production, 19.1 percent in exports and 17.1 percent in imports in January- August period of 2006. Recent declining trend in interest rates, price stability and demand increase as a result of decrease in uncertainties were effective in the production and imports increases in 2006.

The household appliances industry 6.1 percent increase in production, 8.0 percent increase in exports, 2.9 percent increase in demand and 3.2 percent decrease in imports were observed in quantity terms in 2005. While total exports of household appliances reached USD 1.9 billion, the value of imports was USD 564 million in 2005. The production has been export-oriented at a great extent and more than 50 percent of refrigerator and washing machine production together with more than 70 percent of dishwasher production have been exported. In the first eight months of 2006 in terms of quantity the growth rates were 26.2 percent in production, 53.6 percent in exports and 81 percent in imports.

Consumer electronics industry in the world has started witnessing a shift from the cathode ray tube (CRT) technology to flat screen (FS) technology. This shift adversely affects the Turkey's TV production. Total TV production decreased by 753 thousand units in the first nine months of 2006 as compared to the corresponding period of 2005. The composition of this decrease corresponds to a decrease in CRT TVs by 1.5 million units and an increase in FS TVs by 700 thousand. The fall in CRT TV sales and the increase in FS TV sales are experienced in both domestic and foreign markets.

In automotive industry, considerable increases have been realized in the exports due to cooperation between domestic and foreign partners and decisions of international firms to undertake production in Turkey during recent years. Automotive industry export exceeded the level of USD 10 billion in 2005 by 36 percent annual average increase within 2000-2005 period. Therefore, significant progress has been achieved for being a production centre in automotive industry and importance shall be attached to extend this cooperation further to achieve economies of scale in production, and export oriented growth and sustainable competitiveness via assembler-supplier integration.

Defence industry in the country has not developed satisfactorily. Defence procurement is largely dependent upon external sources. In most developed countries 85-95 percent of defence needs are met from domestic capacity. In supplying defence needs domestic industry could not be utilized sufficiently. Also the cooperation between defence industry firms and other industry firms has not been developed adequately. One major factor, which hinders development of defence industry, is the current system, which favours the procurement of finished products instead of product development. Limited and/or misallocated product development R&D budgets of the domestic firms is another reason for failing to meet defence demands. This situation is limiting the technologic capability and capacity of the domestic firms and hindering their contribution to defence system. There is a need for better co-operation and coordination among agencies in defence industry.

Mining

In recent years increases in world prices and the international market demand allowed non-economic mineral deposits to be operated efficiently and existing mines experienced high growth rates in production and exports by benefiting from demand increases. In addition, new Mining Law enacted in 2004 with the aim of uplifting national mining has affected the mining sector positively and unified legislation in the sector. As a result, mining production, exports and demand for exploring and operating licenses increased considerably in 2005 as well. It is observed that this positive trend has been continuing in 2006.

TABLE :IV.28- Main Indicators of Mining

		2003	2004	2005	2006	
Share in GDP (In Percent)		1.1	1.2	1.4	1.1	(1)
Production Growth Rate (In Percent)		-3.4	4.0	13.8	7.8	(2)
Exports (USD Millions, Current Prices)		469	649	810	693	(2)
Exports Growth Rate (In Percent)		21.2	38.4	24.8	33.8	
Share in Total Exports (In Percent)		1.0	1.0	1.1	1.3	
Imports (USD Millions, Current Prices) (*)		1,255	1,615	2,181	1,578	(2)
Imports Growth Rate (In Percent) (*)		25.6	28.7	25.9	28.3	
Share in Total Imports (In Percent) (*)		1.8	1.7	1.9	1.8	
Import of Crude Oil and Natural Gas (USD Millions, Current Prices)		7,765	9,366	14,140	12,471	(2)
Share in Fixed Capital Investments (In Percent) (3)		1.8	1.9	1.8 (4)	1.8 (5)	
Number of Firms Established		372	463	551	455	(6)
Number of Firms Closed		44	69	63	45	(6)
Number of Licenses Applied (7)		6,856	3,984	15,149	12,913	(8)
Number of Licenses Received (7)	Exploration	5,250	4,385	9,832	9,171	(8)
	Pre-processing	650	861	-	-	
	Processing	349	543	1,473	1,122	(8)
	Total	6,249	5,789	11,305	10,293	(8)

Source: TURKSTAT [(1) 6 Months, (2) 8 Months, (6) 9 Months]. (3) SPO [(4) Estimation, (5) Program], (7) MIGEM [(8) 8 Months]
(*) Excluding Crude Oil and Natural Gas

Crude oil, natural gas, hard coal, iron ore are the leading import items of Turkish mining industry. As for the major export items are marble, boron, chromium and feldspar.

Exploration activities for oil and natural gas, initiated as a result of insufficiency of production in meeting domestic demand and increases in world prices, will be carried on mainly offshore. Underground natural gas storage facilities in the North Marmara and Değirmenköy, which aim at meeting seasonal fluctuations in natural gas demand and have total capacity of 1.6 billion m3, is planned to put into service in 2007.

The privatisation activities of state owned enterprises that used to produce copper, silver, chromites and iron mines were completed between 2004 and 2006.

The most significant problems of the sector are: low international market share of some mines, particularly boron that Turkey has a significant reserve potential and quality, failing to shift to high value-added production structure due to insufficient domestic processing of minerals such as boron, marble and chromium, inadequate exploring activities aiming to supply the raw material needs of industry, the need for improving the efficiency and effectiveness of public institutions operating in the sector, small scales of private firms and lack of basic legal arrangements in some sub-sectors.

2. Main Objectives and Targets

Increasing high value-added production in an export-oriented structure is the main objective in the manufacturing industry. In this framework, policies directed to encourage medium and high technology sectors and providing the adaptation of traditional sectors to international competition will be pursued.

Improvement of raw material supply safety and contribution to the economy through increasing mining value-added by domestic processing are the main objectives in mining.

In 2007, industry is expected to grow 5.2 percent.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Creation of high value-added will be encouraged through production and diffusion of technology and modernization of enterprises.				
Measure 1.1. Production and diffusion of technology and generation of high value-added will be encouraged.	Ministry of Industry and Trade	TUBITAK, KOSGEB, TTGV, Technology Development Zones, TEKMERs	2006-2008	Supporting the SMEs, which produce technologies providing competitive advantage, modernize their facilities and operate in high value-added fields, will be aimed.
Measure 1.2. Training and consultancy supports about strengthening the enterprises financial structures and usage of modern production systems will be increased.	KOSGEB	MPM	2006-2008	Particularly the needs of SMEs for supports on modernization will be met.

Measure 1.3. Large-scale investments, joint-investments, comprehensive R&D projects will be supported in medium and high technology sectors.	Undersecretariat of Treasury, TUBITAK	Ministry of Finance, Ministry of Industry and Trade, SPO	2007-2009	In order to improve high value-added production and technological capabilities, studies for the development of comprehensive R&D projects and the encouragement of large-scale investments will be conducted.
Priority 2. Efforts to increase industrial exports, especially of medium and high technology sectors, will continue.				
Measure 2.1. Transformation of traditional production sectors, significant for exports, to an R&D intensive structure will be ensured.	Under secretariat of Foreign Trade	TUBITAK, Ministry of Industry and Trade, KOSGEB, NGOs	2006-2008	For the purpose of increasing the export of high value-added products in industry including textile industry, product development, marketing, trademark and fashion creation, R&D activities will be encouraged. Moreover, training and informative courses about these issues will be organized for enterprises.
Measure 2.2. Export supports for SMEs and Sector Specific Foreign Trade Firms will continue.	Undersecretariat of Foreign Trade	IGEME	2007	It is aimed that SMEs will take place in new export markets with high-quality and competitive products and become more effective in exports by increasing their shares in traditional markets through environmental, market research, employment and training aids.
Measure 2.3. Export Strategic Plan will be revised by considering the increase in exports of medium and high technology products.	Undersecretariat of Foreign Trade	TOBB, TIM, Related Institutions	2007	Continuity of exports growth will be achieved by increasing the share of higher value-added products.
Measure 2.4. Financial instruments provided by Eximbank will be diversified.	Eximbank	Undersecretariat of Foreign Trade, Undersecretariat of Treasury, KOSGEB, TSKB, Commercial Banks	2006-2008	Financial instruments and programmes directed to new areas that competition in the market necessitates will be enhanced. Long term credit opportunities will be provided in order to improve the sectors that produce investment goods. Demand for industry will be created through country credits on the conditionality of procuring from Turkey.
Measure 2.5. Regarding boron, projects towards product and process improvement will be supported; refined boron products capacity will be increased.	Eti Mine Works, BOREN	Ministry of Energy and Natural Resources, SPO	2006-2008	In order to utilize boron resources adequately in Turkey, the shift to the production of final products as much as possible by investments in boron mining and boron products and researches in order to diversify the usage areas of boron will be conducted.
Priority 3. Studies of establishing knowledge system infrastructure aiming to prevent unfair competition in imports will be initiated.	Undersecretariat of Foreign Trade, Undersecretariat of Customs	TURKSTAT	2007	Studies to establish the infrastructure necessary for rapid and easy access to detailed information, which is based on transactions and has not a characteristic of confidentiality will be conducted.

Priority 4. Industrial information system will be established.	TURKSTAT	Ministry of Energy and Natural Resources, Ministry of Labour and Social Security, Ministry of Industry and Trade, SPO, Revenue Administration, EPDK, TEDAŞ, TETAŞ, SSK, TOBB, TESK	2006-2007	In first place, compiling, collecting and classifying data on the capacity, production, foreign trade, natural gas and electricity consumption, employment and turnover information based on sector, product and provinces, the establishment of information system is aimed. Ongoing Industry Information System Project with partners of SPO, TURKSTAT and TOBB will be completed and put into effect under the technical coordination of TURKSTAT.
Priority 5. Establishment of new enterprises in certain industrial zones and transfer of existing ones to these zones will be encouraged and the cooperation among enterprises will be supported.				
Measure 5.1. Organized Industrial Zone (OIZ) and Small Scale Industrial Estate (SSIE) projects in the investment program will be completed rapidly.	Ministry of Industry and Trade	Ministry of Finance, Undersecretariat of Treasury, SPO	2006-2009	By giving priority to the attractive centres in the regions, OIZ and SSIE projects will be completed to serve for the industrial enterprises. It is aimed to increase the number of completed OIZs from 87 to 110 and SSIEs from 393 to 430.
Measure 5.2. Rapid transfer of industrial firms, especially raw hides and skins processing firms, to the certain organized industrial zones and establishment of treatment facilities will be ensured.	Ministry of Industry and Trade	SPO, Related Sector Specific Institutions	2006-2009	Preventing the unfair competition and pollution of the environment is aimed.
Measure 5.3. Studies regarding encouragement of common procurement and marketing activities of firms will be executed.	KOSGEB	Undersecretariat of Foreign Trade, TOBB, TIM, Chambers of Industry and Trade	2007	In order to increase competitiveness of firms, particularly SMES, it is aimed to overcome their weaknesses in common procurement and marketing activities and make them benefit from economies of scale. In this scope, preparation studies will be executed in 2007.
Measure 5.4. Clustering policy will be developed.	Ministry of Industry and Trade, Undersecretariat of Foreign Trade	SPO, KOSGEB, TOBB, TIM, TURKKONFED	2006-2008	By developing cooperation among institutions and considering the clustering project being developed by EU financial aid, studies to increase sectoral competitiveness will be performed.
Priority 6. Development of SMEs, improvement of productivity and entrepreneurship at the firm level in the stages of start-up and growth will be supported.				
Measure 6.1. Productivity improvement projects at the province level will be spread nationwide.	MPM	Ministry of Industry and Trade, Ministry of National Education, KOSGEB, TOBB, Chambers of Industry and Trade	2006-2008	By 2008 productivity improvement projects will be realized in 6 provinces. In this framework, application oriented training about productivity improvement for especially SMEs in the manufacturing industry, spread of these techniques and development of solution proposals by searching the productivity problems will be ensured.
Measure 6.2. Support programs for SMEs will be continued.	KOSGEB		2007	A total YTL 168 million supports, of which YTL 55 million is repayable and of which is non-repayable YTL 113 million will be provided in 2007.

Measure 6.3. Entrepreneurship trainings will be spread.	KOSGEB	İŞKUR, Universities, TESK, TOBB	2006-2008	It is aimed to provide more comprehensive trainings to the entrepreneurs planning to develop their own venture and put their business idea into practice.
Measure 6.4. Entrepreneurship trainings in ICT sector will be organized.	Ministry of Industry and Trade	YÖK, KOSGEB, TUBITAK (TEYDEB), Universities, Related NGOs, Boards of Techno parks	2007	In the universities, courses about entrepreneurship in the information and communication technologies will be intensified, encouragements through entrepreneurship contests will be increased, and education programs will be enriched with best-case practices.
Measure 6.5. Business Development Centres will be spread and necessary arrangements to increase their effectiveness will be executed.	KOSGEB	OIB, ISKUR	2007-2008	In the scope of Privatisation Social Support Project II, new Business Development Centres will be established. By conducting impact assessment analysis of existing Business Development Centres, necessary improvements in this direction will be made.
Priority 7. Design and trademark activities will be supported.	Undersecretariat of Foreign Trade	Exports Unions	2006-2007	It is aimed that some expenses of trademark promoting activities in foreign markets of producer associations, producer and exporter unions and firms in commercial and/or industrial activity in Turkey will be paid by government.
Priority 8. Accreditation, conformity assessment and market surveillance systems will be activated and certification activities will be supported.				
Measure 8.1. The scope that has been a party in the recognition agreements of TURKAK, signed with European co-operation for Accreditation (EA) and the other international organizations will be extended.	TURKAK	Ministry of Industry and Trade	2006-2007	Mutual Recognition Agreement has been signed with European co-operation for Accreditation, and in 4 fields Turkish Accreditation Agency became a party. Efforts will be continued in 3 fields, not been a party yet.
Measure 8.2. Feasibility Study for the Procurement of Mobile Laboratory Equipments will be accomplished.	Ministry of Industry and Trade		2007	In order to be used for the testing and calibration of measuring apparatus, mobile effective service, required nationwide, will be provided.
Measure 8.3. Project of Supporting Measurement and Calibration Laboratories will be completed.	Ministry of Industry and Trade		2006-2007	By establishing the calibration chain for the purpose of traceability, laboratory equipments will be obtained in the context of Financial Cooperation with EU to be able to carry out Market Surveillance activities consistent with relevant EU directives.
Measure 8.4. Feasibility Study for the building Electromagnetic Compatibility (EMC) Laboratory will be prepared.	TSI		2007	Economic and technical feasibility study directed to building a new laboratory to carry out testing and certification within the framework of Electromagnetic Compatibility Directive will be prepared.
Measure 8.5. Necessary studies for the full membership to EU Standardization Bodies (CEN/CENELEC) will be completed.	TSI		2007	To develop relations with the EU Quality and Standardization Bodies to get full membership studies will be accelerated.
Priority 9. Transformation to a structure, which will adapt to international competition in traditional sectors such as textiles, wearing apparel, leather products, iron-steel etc. will be supported.				

Measure 9.1. Measures in order to prevent unfair competition in textiles imports will be taken.	Undersecretariat of Foreign Trade		2007	In the framework of national legislation, taking protective measures such as quotas, anti-damping etc. complying with WTO rules, will be continued.
Measure 9.2. Joint-policies with other countries will be formulated in order to prevent the unfair competition, arose from East Asian countries, in textiles and wearing apparel sectors.	Undersecretariat of Foreign Trade	ITKIB	2006-2007	Turkey will attend the activities of Europe - Mediterranean Dialog Group which was established in order to find new ideas to increase the competitiveness of textiles and wearing apparel sectors in Europe- Mediterranean region through analysing the situation and to develop regional cooperation programmes through researching the possibilities of participation of Mediterranean countries to the current or future EU projects.
Measure 9.3. Iron-Steel Industry Restructuring Programme will be finalized.	Undersecretariat of Foreign Trade	SPO, Undersecretariat of Treasury, Related Institutions	2006-2007	First National Restructuring Programme, prepared within the framework of Free Trade Agreement with EU, was submitted to EU. This programme will be finalized by including the Individual Business Plans and negotiating with EU.
Priority 10. In the defence industry, a system and legislation will be established which lie on the principles of R&D based procurement and obtaining domestic technology and capability.				
Measure 10.1. R&D based procurement legislation will be prepared.	Ministry of National Defence	Undersecretariat of Defence Industries	2007-2008	To create a structure based upon obtaining domestic technology and capability in procurement, R&D based procurement legislation will be drafted.
Measure 10.2. To utilize domestic means to an utmost level in defence industry, the studies toward determining the production and design capabilities will be updated.	Undersecretariat of Defence Industries	Related Institutions	2007-2008	To support the defence industry at utmost level, the studies in determining existing industries production and design capabilities will be developed
Measure 10.3. Exporters in defence industry will be supported by credit programmes.	Undersecretariat of Defence Industries	Eximbank, Undersecretariat of Treasury	2006-2007	Article 10 of Law No. 3238 regulates these issues. Export credit mechanisms will be established by publishing the application regulations. A certain amount of Defence Industry Support Fund interest revenues will be allocated to these works.
Priority 11. In the mining sector, priority will be given to the exploration of the industrial and energy raw materials and value-added will be increased by processing mining products domestically.				
Measure 11.1. The exploration activities for industrial and energy raw materials will be focused on.	MTA	Ministry of Energy and Natural Resources, TKİ, EÜAŞ, TTK, DSI, TPAO, EİEİ	2007	Priority will be given to the explorations of metal minerals, industrial and energy raw materials of which reserves are exhausted. The geological maps with a scale of 1/25,000, which are needed for the exploration activities, will be updated.
Measure 11.2. The exploration activities for oil and natural gas will be increased.	TPAO	Ministry of Energy and Natural Resources, Ministry of Foreign Affairs	2007	In order to reduce the dependence on energy imports, the drilling activities for oil and natural gas will be attached emphasis especially on offshore. Besides, the cooperation with Turkish Republics and other countries will be continued.

Priority 12. Legislation arrangements in mining sector will be finalized.				
Measure 12.1. The regulations about the geothermal energy resources will be finalized.	Ministry of Energy and Natural Resources	Related Institutions	2006-2007	Draft Law of Geothermal Energy and related regulations with the aim of exploration, exploitation and the more efficient usage of geothermal energy resources will be enacted.
Measure 12.2. Legal arrangements about Petroleum Law will be finalized by revising according to current conditions.	Ministry of Energy and Natural Resources	Related Institutions	2006-2007	Legislation arrangements directed to exploration, development and production of petroleum resources efficiently, and revision of the rules and procedures of regulation, direction, encouragement and control of petroleum exploration and production activities will be finalized according to recent conditions.
Measure 12.3. The establishment law of General Directorate of Mineral Research & Exploration will be revised according to recent conditions.	MTA	Ministry of Energy and Natural Resources	2006-2007	The required legal and managerial arrangement will be carried out. General Directorate of Mineral Research & Exploration will be restructured as a technically efficient organization. During these activities, cooperation with the relevant institutions will be achieved and its counterparts in the world will be taken into consideration.
Measure 12.4. The legislations, which affect the financial structure of TTK negatively, will be revised.	Ministry of Energy and Natural Resources	SPO, Undersecretariat of Treasury, SGK, TTK	2006-2007	The legal arrangements regarding to financial obligations, which are outdated and cause additional tax burden, will be executed in order to make the corporation more effective and operate with lower costs.
Measure 12.5. The restructuring activities concerning improving the effectiveness and productivity of General Directorate of Mining Affairs under Ministry of Energy and Natural Resources will be executed.	Ministry of Energy and Natural Resources		2006-2007	In order to conduct controlling activities effectively in the mining sector and monitor implementation related to the mining activities in the world, General Directorate of Mining Affairs will be restructured by enhancing the technical and physical capacity of the organization.
Measure 12.6. ETI Mine Works will be restructured as an autonomous corporation.	ETI Mine Works	Ministry of Energy and Natural Resources, SPO, Undersecretariat of Treasury	2006-2007	ETİ Mine Works is aimed to become a more dynamic, competitive enterprise with a renewable organization structure.

SERVICES

Tourism

1. Current Outlook

International demand for tourism has increased by 37.7 percent over the past decade, and tourism expenses increased by 60.7 percent within the same period. In 2005, the number of tourists globally reached 808 millions, while the tourism receipts realized USD 682 billion. International passenger transport is estimated to be 16 percent of total tourism receipts reaching USD 130 billion. By the end of 2006, the number of tourists globally was expected to hit 844 millions with an increase of 4.5 percent, while the tourism receipts are expected to reach USD 712 billion with an increase of 4.4 percent.

The forecast study 2020 Tourism Outlook of the World Tourism Organization estimates that by the year 2020, international tourist arrivals will reach 1.5 billions and total tourism receipts USD 2 trillion. The study further envisages that the Europe will remain the top tourist-receiving region and will maintain the highest share of world arrivals with 717 million tourists although there will be a decline from 60 percent in 1998 to 46 percent in 2020.

TABLE: IV. 29-International Tourism and Tourism Receipts

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (1)
Number of Tourists (Millions of People)	613	625	650	687	684	701	695	766	808	844
Annual Change (In Percent)	3.0	2.0	4.0	7.2	-0.4	2.5	-1.9	10.2	5.5	4.5
Tourism Receipts (Billion USD)	443	445	456	483	472	487	533	633	682	712
Annual Change (In Percent)	2.1	0.4	2.5	16.9	-2.3	3.2	9.4	18.8	7.7	4.4

Source: World Tourism Organization (UNWTO)
(1) Estimate

In 2005, the tourist arrival share of Europe was 50.9 percent of the world tourism activities. However, there was a decrease in the number of long-distance flights. France was the top tourist-receiving country with 76 million tourists followed by Spain with 55.6 millions and Italy 36.5 millions.

Turkey with a market share of 2.6 percent in the world tourism market and 4.8 percent in the European tourism market shows a rapid growth rate in both tourist arrivals and revenues, ranked ninth, among the top 20 tourism destinations in terms of tourist arrivals and eighth in terms of tourism receipts.

Direct employment in Turkey in 2005 was estimated to cover 3.1 millions in the tourism sector, thus directly and indirectly creating employment opportunities in 32 operation fields according to data provided by the World Tourism Organization.

In 2005, the tourist arrivals increased to 21.1 millions and tourism receipts increased to USD 18.2 billion while the number of bed places as certified by the Ministry of Culture and Tourism and by the municipalities increased to 483,000 and 400,000, respectively. There are 4,718 travel agencies operating in tourism sector by the end of the year 2005. The number of tourists from OECD countries and East Europe considerably rose by accounting for 60.3 and 27.7 percent respectively of foreign tourists. In 2005, among the countries from which the largest number of tourists to Turkey, Germany ranked first with 20.1 percent, followed by the Russian Federation 8.8 percent and the United Kingdom 8.3 percent.

In 2006 tourist arrivals are forecasted at 20.8 millions and tourism receipts at 18.1 billions while the number of bed places as certified by the Ministry of Culture and Tourism and the municipalities are expected to hit 520,000 and 410,000, respectively. Total bed capacity is projected to hit over 1.2 million including 278,000 bed places in investment phase.

With a view to improving seasonal and geographical dispersion of tourism and creating new areas according to the changing consumer preferences in foreign markets, destination management will be emphasized and guiding activities such as golfing, cruising, thermal, convention, winter, health and eco-tourism activities would be continued.

Despite the rapid increase in bed capacity and the important developments recorded in the recent years, some deficiencies in technical infrastructure still prevail. There is continuous demand for recreation and construction pressure continues on coastal areas. Pollution of physical environment and the urbanization of tourism centres are among the problems of Turkish tourism sector.

A certification system which will ensure the quality, efficiency and standardization in tourism training, its joint evaluation by the state and the sectoral organizations, achieving the labour quality and determination of the skill levels necessary for employment have not so far been implemented.

Some tour operators have grown significantly with horizontal and vertical integrations and determine the prices and conditions unilaterally. This problem affects tourism revenues adversely.

In the implementation of the projects likely to be covered within the ATAK project, there are problems in using the foreign loans and credits and solution of administrative and financial problems of local administrations still prevail.

The results of the forecast studies of the World Tourism Organization (UNWTO) indicate that, in most of the countries, national tourism organizations are founded by public and private organisations for the promotion abroad. In Turkey the need for such an organization for the promotion and marketing of the country in foreign markets is of importance.

2. Main Objectives and Targets

In tourism sector the basic objective is to form a structure which embodies the dynamics of globalisation, increases the quality of services as well as the number of incoming tourists, targets the high income groups by diversifying the market channels, preserves the natural endowments and focuses on diverse tourism attractions where Turkey has a comparative advantage.

2007 forecasts show that the number of bed places as certified by the Ministry of Culture and Tourism and the municipalities are expected to reach 550,000 and 420,000, respectively, tourist arrivals 22.3 millions and tourism receipts USD 19.8 billion.

TABLE: IV. 30- Developments in Tourism Sector

	2005	2006 (3)	2007 (4)	Average Annual Increase (In Percent)	
				2006 / 05	2007 /06
Incoming Tourists (Thousand) (1)	21,125	20,816	22,339	-1.5	7.3
Number of Citizens Going Abroad (Thousand)	8,246	8,180	9,000	-0.8	10.0
Tourism Receipts (Million USD) (2)	18,152	18,124	19,800	-0.2	9.2
Tourism Expenditure (Million USD)	2,872	2,863	3,200	-0.3	11.8

1) Police Department, Border Statistics,
2) Central Bank
3) Estimate
4) Estimate

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Tourism investments will be diversified and measures will be taken for extending the tourism activities to the entire year by means of a shift of investments from developed and congested areas to others.				
Measure 1.1. Incentives will be applied to the tourism investments taking place in under developed regions and inland.	Ministry of Culture and Tourism	Ministry of Finance, Undersecretariat of Treasury, SPO	2006-2008	For tourism investments of the priority projects such as GAP, DAP, DOKAP, winter tourism, health tourism and thermal tourism, the grant for the right of access for public land will be kept minimum as well as the other incentive measures.
Measure 1.2. Infrastructure and super structure investments will be realized in accordance with the land-use plans.	Ministry of Culture and Tourism	Ministry of Public Works and Settlement, Local Administrations	2006-2008	Priority will be given to the completion of land-use planning studies in selected investment areas and investments will be developed accordingly.
Measure 1.3. Those investors applying for public land allocation in developed regions will also be asked to invest in under developed regions.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, Ministry of Finance	2006-2008	The arrangements will be made in the by-law for the land allocation for tourism investments in Culture and Tourism Development Regions within the context of the Tourism Encouragement Law No.2684.
Measure 1.4. Destination Management projects will be supported.	Ministry of Culture and Tourism.	Special Provincial Administrations, Local Administrations, Sectoral Organisations, Universities, NGOs	2007-2008	Support shall be given to the Silk Road Project as well as Hitite and Frigian destination management projects, in the field of infrastructure, environment, protection and development of cultural and historical assets and touristic product design and marketing.
Priority 2. All tourism investments will be undertaken in a view of protecting and improving the natural, historical, social and cultural environment.				
Measure 2.1. Speed and effectiveness will be achieved in the protection of natural and historical environment.	Ministry of Culture and Tourism.	Ministry of Environment and Forestry, NGOs	2006-2008	To enhance efficiency and speed in protecting the environment necessary arrangements will be made for the implementation of Environment Law, Tourism Encouragement Law and Law for Protecting Cultural and Natural Assets and their by-laws.
Measure 2.2. Infrastructure deficiencies of the settlements located close to the tourism development areas will be handled with priority.	SPO, Local Administrations.	Ministry of Culture and Tourism, General Directorate of Highways, DSİ, DLHİ.	2006-2008	Programming will be employed in order to complete infrastructure deficiencies of the cities situated close to the tourist regions.
Measure 2.3. Solid and liquid waste purification and transfer to the appropriate medium will be ensured in Culture and Tourism Development Regions.	Ministry of Culture and Tourism	Local Administrations	2006-2008	The purification norms and standards will be designed in realistic limits and all the infrastructure will respond to the needs. Specially in the services given by municipalities, a system will be created for applying user pays principle.

Measure: 2.4. Quality in tourism services will be increased.	Ministry of Culture and Tourism	Local Authorities, Ministry of National Education.	2006-2008	For tourism workers, necessary legal arrangements will be made in order to improve the quality in services, standardization in vocational education, raising the efficiency as well as the level of competence and the job quality to international standards and the evaluation have to be carried out both by the state and the sectoral organisations jointly.
Priority 3. Demand will be created for Turkish tourism to maximize its share in international markets.				
Measure 3.1. For the promotion of tourism in foreign markets a reorganization will be launched.	Ministry of Culture and Tourism	Sectoral Organizations	2006-2008	A reorganization that will ensure the participation of tourist enterprises in the decision making process for promotion strategies, monitoring, control and the financing of the implementation is necessary.
Measure 3.2. Promotion activities that fit the changing conditions will be conducted by continuous monitoring of the demand.	Ministry of Culture and Tourism	Sectoral Organizations	2006-2008	While directing the promotion activities by diversifying the tourism markets, allocation of resources for traditional, new and potential markets will be necessary. Strengthening the enterprises forming the marketing network by unification or by achieving coordination links will be encouraged under the free market conditions. Regional and local promotion will be developed within the context of promotional activities carried out by touristic establishments. Tourism portal will be created to promote touristic establishments, to achieve inside reservation and knowledge sharing, between the different actors of the tourism industry.
Measure 3.3 Diversifying touristic products convenient for private tourism markets will be ensured.	Ministry of Culture and Tourism	Sectoral Organizations, Local Authorities	2006-2008	More emphasis will be given to convention, business and incentive tourism besides yachting, cruising, thermal and third age tourism. Within the context of development trends towards eco-tourism and active tourism, demand will be ensured in golfing, rafting, mountaineering, skiing and special interest tourism markets.
Measure 3.4. Both the number of tourists and revenue per capita shall be increased through an improvement in the services provided and in the profile of incoming tourists. Balanced distribution of the interior and exterior demand to the regions and through tourism products will be achieved.	Ministry of Culture and Tourism	Sectoral Organizations, Local Authorities	2006-2008	Scientific methods and modern communication technologies should be used excessively in promotion and marketing activities.
Priority 4. The cultural, social and natural richness of Istanbul city will be utilized in the context of sustainable tourism development.				
Measure 4.1. The creation of Istanbul brand in promoting and marketing will be ensured.	Ministry of Culture and Tourism	Metropolitan Municipality, Local Authorities	2006-2008	Participation of the entities receiving direct or indirect revenues from tourism for the finance of promotional activities to be able to realize dynamic, professional and financially sound promotion is necessary.
Measure 4.2. The implementation of tourism development projects prepared for Istanbul will be ensured.	Ministry of Culture and Tourism	Metropolitan Municipality, Local Authorities	2006-2008	After solving the legal and managerial problems of the projects related to convention tourism, cultural tourism, cruising and coastal zone planning and management, and implementation will be ensured.

CONSTRUCTION, ENGINEERING-ARCHITECTURE, TECHNICAL CONSULTANCY AND CONTRACTING SERVICES

1. Current Outlook

The share of construction sector in GNP, which was 3.8 percent in 2004, reached 4.3 percent in 2005. The sector grew by 4.6 percent in 2004 and 21.5 percent in 2005.

TABLE: IV. 31- Developments in Construction Sector

(by 1987 Prices)

Years	2003	2004	2005
Share in GNP (In Percent)	3.9	3.8	4.3
Growth Rate (In Percent)	-9.0	4.6	21.5

Source: TURKSTAT

High growth rate of construction sector in 2005, continued in the first half of 2006 with a slight slowdown and became 19.3 percent.

An increasing growth is observed especially in housing demand due to the extension of loan maturities for the renewing and new buying for housing and premises and decreasing interest rates in parallel with the inflation since the beginning of 2004. In 2005, 42.6 percent increase in building permits and 56.1 percent in occupancy permits are noticed in terms of square meters compared to previous years. Same rates of increases have been respectively 26.0 and 5.4 percent in the first half of 2006 compared to the same period of previous year.

However it is estimated that a slowing down would likely happen in housing production and demand, because of on one hand the rapid increase in housing demand caused asset prices rise above the inflation, due to construction materials and consequent cost increases in building, and on the other hand the financial volatility causing the rise in the cost of housing loans in June 2006.

TABLE: IV. 32- Building and Occupancy Permits

Years	2003	2004	2005
Building Construction Permits (Thousand sq-m)	45,516	69,720	99,432
Percentage Change	25.8	53.2	42.6
Occupancy Permits (Thousand sq-m)	30,937	31,028	48,440
Percentage Change	-2.3	0.3	56.1

Source: TURKSTAT

Construction sector is faced with a general quality problem stemming from inadequate supervision and qualified labour force. The labour force equipped with sufficient knowledge and experience in labour health, working safety and environmental issues, which will be able to implement the continuously developing construction technologies is below the desired level.

The Law No. 4708 on Building Supervision targeting efficiency in the supervision of and quality improvements in construction sector has not created the expected impact, since its implementation was limited to 19 provinces and insurance guarantee provisions were not included in the law.

The absence of a legal arrangement regulating the definition and minimum working conditions in building contracting sector affects the qualities of companies involved in the construction sector as well as the quality of buildings produced. On the other hand, the use of own sources of related institution instead of independent sources for the provision of technical consultancy services at any stage of public investments is another factor that affects negatively the quality and costs.

The employment created in construction sector has grown increasingly in recent years, and it was 965 thousand in 2003, 1,029 thousand in 2004, and 1,171 thousand people in 2005.

Important developments in 2004 regarding contracting services abroad continued to exist also in 2005 and the total amount of contracts reached USD 9.4 billion. It is expected to be USD 12 billion in the year 2006.

The deficit continues to exist in the labour-force having valid certified qualifications for foreign countries required for domestic and abroad contracting services and which would enable to obtain higher shares in particular from the markets of developed countries.

2. Main Objectives and Targets

Main objective is to increase compatibility, improve physical and human capital, to comply with international standards and EU regulations and to increase the share taken from world markets. It is targeted the total of contracts in contracting services abroad would amount to USD 15 billion in 2007.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Capital structures of companies will be strengthened.				
Measure 1.1. Company mergers will be encouraged to secure competetiveness in domestic and foreign markets.	Ministry of Finance	Undersecretariat of Treasury, Undersecretariat of Foreign Trade, Line Ministries, NGOs	2007	The fact that domestic firms active in the sector are smaller than foreign technical consultancy and contracting firms in terms of their capital structures and scales, limits their competitive advantages. Companies will be encouraged to merge in order to have stronger capital structures and larger scales.
Measure 1.2. Firms will be protected against political risks in foreign markets.	Undersecretariat of Foreign Trade	SPO, Undersecretariat of Treasury, Line Ministries, NGOs	2007	Relevant mechanisms will be created by which the letters of guarantee provided by domestic banks will be acceptable by foreign contracting services, the political risks will be lessened and obtaining job contracts in markets with high political risks will be facilitated.
Priority 2. The quality of labour force employed in the sector will be improved.				

Measure 2.1. Training programmes that will improve labour force qualifications in the areas needed by the sector will be developed.	Ministry of National Education	Ministry of Public Works and Settlement, Other Related Ministries, NGOs, Related Universities	2007-2008	An education and training curriculum, which will compensate the shortage of qualified workforce that keeps up with the rapid developments of the technology in the sector and which complies with the competency requirements of the Law No. 5544 on Vocational Qualifications Authority already entered into force in October 2006, will be prepared by getting also the contributions of both private sector and non-governmental organizations. Furthermore, training programmes will be provided to relevant public officers on the topics such as project management, contract management, resolution of disputes etc.
Measure 2.2. A system of measuring, evaluating and certification of vocational qualifications will be established.	Ministry of Labour and Social Security	Ministry of National Education, Related Universities, TSI, NGOs	2007	Since the certification of existing qualified workforce is a priority requirement of the sector, necessary arrangements for the implementation of the Law No. 5544 on Vocational Qualifications Authority will be completed shortly.
Priority 3. Technical consultancy and contracting services will be provided at international standards of quality and reliability.				
Measure 3.1. A Draft Law of Civil Construction will be prepared.	Ministry of Public Works and Settlement	SPO, Undersecretariat of Treasury, Line Ministries, NGOs	2007-2008	With a view to improve the qualities of the companies in the building sector as well as of the buildings, a Draft Law of Civil Construction will be prepared in order to stipulate the definition of building contracting and minimum working conditions for contracting services.
Measure 3.2. Building supervision will be enforced.	Ministry of Public Works and Settlement	SPO, Other Related Ministries, NGOs	2007-2008	Responsibility insurance system will be established that is necessary for an efficient building supervision. To this end, necessary amendments will be done in the Law No. 4708 on Supervision of Buildings.
Measure 3.3. Necessary arrangements will be done for benefiting from independent technical consultants in public investments.	Public Procurement Authority	Ministry of Public Works and Settlement, Line Ministries, TSI, Undersecretariat of Treasury, Universities, NGOs	2007	Through necessary amendments in Public Procurement Law, it will be made possible to obtain engineering and technical consultancy services from independent technical consultancy, at present provided by the institution itself and affect adversely the quality and costs of public investments.
Measure 3.4. An information system specific for the sector will be developed.	Ministry of Public Works and Settlement	TURKSTAT, Other Related Ministries, Universities, NGOs	2007-2009	An information system, which is necessitated by the policy formation and decision processes in the sector will be established. In this framework, it is aimed at defining the building inventory, creating a statistical databank, preparing earthquake risk maps as well as an earthquake resistance atlas for the existing building stock.
Measure 3.5. Necessary arrangements will be done to improve the quality and controlling of the materials used in buildings.	Ministry of Public Works and Settlement	Line Ministries, TSI, Undersecretariat of Treasury, Universities, NGOs	2007-2009	The implementing regulation on construction material, which is being prepared under the framework of compliance with EU will be completed and the necessary technical infrastructure will be set up that is necessary for the controlling of materials quality.

INFORMATION TECHNOLOGY SERVICES

1. Current Outlook

Although Turkish information technologies sector has not developed to the desired level, it has reached USD 3.05 billion by growing at an average rate of 20 percent annually during 2001-2005 period. Within the mostly hardware oriented sector total share of software and services is 31.6 percent. The main problems of the sector are shortage of qualified personnel, difficulties on access to finance, insufficient quality level, low level of R&D and innovation, inability to expand into external markets and narrowness of domestic market. Due to the narrow market and the limited development in vertical markets, companies facing difficulties in developing technical expertise and experience, insufficiency in expanding into external markets and having conditions of competition based on price rather than innovative solutions hinder growth.

2. Main Objectives and Targets

It is targeted to increase the competitiveness of information technology sector in global scale by becoming software and services centre within regional countries in vertical fields such as telecommunications, health, education and defence. It is expected that the size of sector will reach USD 7.4 billion by growing at an average rate of 26.6 percent annually in the period of 2005-2009.

In order to reach these targets, actions determined in the Information Society Strategy will be launched.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Actions that have been determined in the Information Society Strategy aiming to establish globally competitive information and communication technologies sector will be launched.				
Measure 1.1. Definition of Sector Professions will be determined.	Ministry of Labour and Social Security	TURKSTAT, İŞKUR, TSI, KOSGEB	2007	Job definitions will be made for the newly emerged professions as a result of the developments in the ICT sector; the Turkish Professions Glossary will be updated and the relevant legislation will be made.
Measure 1.2. Establishment of ICT Sector Union will be constituted.	Undersecretariat of Foreign Trade	Ministry of Industry and Trade, Ministry of Transport, SPO, TOBB, Relevant NGOs	2007	An roof organization will be established to ensure the guidance of the sector, to support the development of sector-specific policies as well as to foster its competencies and its representation in international activities.
Measure 1.3. Informatics Valley will be set up.	Ministry of Industry and Trade	Ministry of Public Works and Settlement, SPO, YÖK, TÜBİTAK, TOBB, TTGV	2007-2009	An Informatics Valley will be set up to ensure development of Turkey among the regional countries as a centre of production and operation for international IT corporations as well as support the expansion of small-scaled companies of the sector to foreign markets using the regional networks of international corporations, the attraction of foreign direct investment to the domestic IT sector; and the development of business competencies of domestic firms in the sector.

Measure 1.4. ICT sector business competency will be developed.	Ministry of Industry and Trade	Undersecretariat of Foreign Trade, KOSGEB, İGEME, ICT Sector Union, Relevant NGOs	2007-2009	In order to develop the sectoral business competencies, training and support activities such as training on marketing and sales, supports on business plan drafting and legal consulting services will be carried out.
Measure 1.5. Software Quality Certifications will be promoted.	Undersecretariat of Foreign Trade	SPO Public Procurement Authority, Relevant Public Institutions and Organizations	2007-2008	Quality standardization and certification will be encouraged in IT services and software; rapid establishment of quality awareness in the sector and extension of the implementation will be assured. This process will be encouraged via public procurement as well.
Measure 1.6. Regulations for effectiveness in public ICT procurement will be made.	Public Procurement Authority	Ministry of Finance, SPO, State Supply Office	2007	For the development of IT services in the domestic market, works will be undertaken to: Meet the IT needs of the public via public-private partnerships (outsourced service procurement) Enable framework agreements for IT goods and services procurements between the public and suppliers Enact regulations in the public procurement legislation with regard to the aggregated procurement of IT goods and services (broadband services, enterprise resource planning software etc.) by a relevant unit.

COMMERCIAL SERVICES

1. Current Outlook

The share of the commercial sector in GNP was realized as 20.5 percent in 2005. The wholesale and retail commercial services which had a 82.4 percent share in trade sector, made an important progress by the effect of private investments and final consumption expenditures in parallel to the improvements in the economy in the recent years. During the period of 2002-2005, wholesale and retail service grew up by 11.2 percent on the average.

Because of gaining great momentum through internationalisations, dynamic structure of the economy and country's potential, wholesaling and retailing encountered a rapid transformation process. There is a transition in the sector from the conventional structure to the structure in which modern gross-markets and market chains take place. Foreign investments, financial support of the banking sector, lower level of interest and inflation rates and the consumers income level have been effective on this improvement.

The increasing efficiency and performance in trade sector, achieved by using information and communication technologies and modern management techniques, have been determinative on the consumer prices, growth and employment. Organized retailing affects the activities in the whole sectors by opening the domestic producers to the international competition. These improvements on the one hand create new business possibilities and decrease unrecorded economic activities, on the other hand cause traditional type businesses to disappear.

The pressure of the competition and efficiency on the companies which are running in different sectors causes a transition in the logistic and distribution services, storage, construction, banking, cleaning and security services.

The importance of modern supply management and combined transportation systems is increasing. The weight of highways in the transportation sector is still high and there is still a need for the stable distribution of the transported goods among the transportation modes. In order to make good use of trade potential, it is essential that the different transportation modes should be worked together in a harmony; harbours and terminals should be provided to be convenient for different functions.

After the need for regulations on a healthy transition in the wholesaling and retailing, legislative studies are being carried on for the purpose of establishing, operating and controlling of gross-markets according to certain rules.

Draft Turkish Commerce Law which is prepared for the emergence of new international substantial laws and law regimes, improvements in the multi-sided international trade, improvements in the electronic processes and commerce, developments in liability laws and needs for compliance with EU legislation and other new laws concerning Trade Law, is in the agenda of TGNA.

In 2006, legislation studies have been carried on in order to restructure of commodity exchanges and to establish licensed commodity warehouses for the purpose of increasing worth of agricultural products and farmers' income by providing effective marketing conditions and encouraging quality production by determining product standards and preventing unrecorded economic activities. The commodity exchange development project has been completed and same progress has been provided about establishment of licensed commodity warehouse and commodity exchanges and restructuring of agricultural sales cooperatives unions and integration of these unions to licensed commodity warehouse.

The establishment of Commodity Exchange is regulated by The Union of Chambers and Commodity Exchanges of Turkey and Chambers and Exchanges Law No. 5174. This regulation provided commodity exchanges to be a shareholder in restructured commodity exchanges or to work as an agency or to create business of licensed commodity warehouse operating or to share in a corporation established in this field.

Agricultural Products Licensed Commodity Warehouse Law No. 5300 has been put into effect and eight implementing regulations have been published according to its application.

It is available to make transactions at cotton and wheat with contracts during different months of the year in Futures and Options Exchange Market (FOEM) that was went into operation in February 2005. Due to the fact that FOEM is still in the improvement period, transaction volume was limited with YTL 770,000 (396 contracts) in 2005.

2. Main Objectives And Targets

By making effective use of technology among logistics, management, supplying, sales and marketing areas, the efficiency is increasing and the costs are decreasing gradually in commercial services. This situation also causes the market share of the traditional structures to get lower.

In a sector that totally affects the whole economy, to provide high efficiency in a competitive environment will be an important stages of the transformation. Therein, it is essential to encourage the usage of new information and communication technologies and to protect competitive structure in the sector activities.

As making new legal arrangements due to the wholesaling and retailing, the effect of these arrangements on agriculture and manufacturing sectors as well as consumers should be analysed in many ways, taking into account of the input and output side of commercial sector. Within this situation on the one hand, there will be measures to combat with unrecorded economic activities, to increase efficiency and quality, to compliance to hygienic rules; on the other hand, it will be encouraged that commercial cervices will be transformed from its small merchants and handicrafts weighted structure to a modern structure by scale enlarging strategies.

It is targeted to have high standards on reliable, cheap and fast transportation systems, to improve the logistics and combined transporting activities in order to physical flow of goods and to have simple solutions to bureaucratic processes.

It is essential to develop commodity exchanges and futures and options exchanges and licensed commodity warehouse alongside solution of their operational difficulties to use rapidly advanced information technologies in this sector. By this way, it is aimed to store agricultural products in a reliable licensed commodity warehouses to make transactions using warehouse receipt at national or international level considering product standards, to balance the surplus seen during harvest by appropriate credit possibilities in this system, to encourage agricultural production by marketing more quality products at higher prices, to supply the commodity easily at any standard or quality demanded by manufacturer or merchants using commodity exchange and licensed warehouse.

In 2007 it is aimed to establish licensed commodity warehouses and get them to start its first applications. Product receipts will be arranged by the electronic ways. There will be a central recording institution and laboratory system that will control and trace the warehouse receipts which will be arranged electronically at commodity exchanges. Within the framework of Agricultural Reform Implementation Project (ARIP), the investments, that will provide transition of agricultural sales cooperatives and unions to business of licensed commodity warehouse shall be continued.

Starting to wide range usage of product receipt and licensed commodity warehouse system and perceiving of the importance of the Futures and Options Exchange Market on the risk management will provide the cotton and wheat contracts which are operated in VOB to be more liquid.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. In wholesaling and retailing, efforts shall be made in order to have a structure which will consist of protecting competition and consumer, supporting production, combating against unrecorded economic activities, increasing efficiency and quality and a sector which is growing up in a balance among sub-sectors.				
Measure 1.1. In the regulation that will be done relating wholesaling and retailing, competition, efficiency, high quality, consumer protection and its effects on other sectors and the balance within the sub stages of sector will be considered.	Ministry of Industry and Trade	Related Public Organizations, Private Sector	2007	As making new legal arrangements due to the wholesaling and retailing, the effect of these arrangements on agriculture and manufacturing sectors as well as consumers shall be analysed in many ways, taking into account of the input and output side of commercial sector additionally. There will be measures to combat with unrecorded economic activities to increase efficiency and quality, to comply with hygienic rules. It will be encouraged that commercial services will be transformed from its small merchants and handicrafts-weighted structure to a modern structure by scale enlarging strategies.
Measure 1.2. Some mechanisms will be formed in order to introduce and develop competition culture among the consumers, businesses and public organizations.	Ministry of Industry and Trade, Competition Authority	Related Public Organizations, TOBB, Chambers of Commodity and Exchanges, Professional Associations, NGOs	2007	An action plan shall be arranged in order to inform the consumers and others in the market about the current law and the applications. So that, the competition will be protected and improved in the commercial services.
Priority 2. Establishment of commodity exchanges, depending on this, establishment of licensed commodity warehouse system shall contribute solving the difficulties met on quality, storage, marketing, prices, financing and recording of activities of agricultural products.				
Measure 2.1. The difficulties; in establishment, first application, completion of institutional structure and functionalities of licensed commodity warehouses, shall be solved.	Ministry of Industry and Trade, Undersecretariat of Treasury	Ministry of Agriculture and Rural Affairs, Ministry of Finance, Undersecretariat of Foreign Trade, TURKAK, TSI, TMO, TOBB, Commodity Exchanges Agricultural Sales Cooperatives and Unions	2007-2009	According to Agricultural Products Licensed Warehouse Law No. 5300 and the implementing regulation on Licensed Warehouse Indemnification Fund; establishment of the fund management will be ensured. Institutional structure will be strengthened in order to run commodity exchanges and licensed commodity warehouses systems in an integrated manner. There will be studies about the tax regulations concerning markets and licensed commodity warehouses. In the framework of the ARIP, the investment projects of the agricultural sales cooperatives which intend to be integrated with the licensed warehouse system will be continued. The trainings about the system will be intensified.

Measure 2.2. Studies about forming a system that will improve the commodity exchanges and the authorized classifying system shall be carried on.	Ministry of Industry and Trade	MARA, Undersecretariat of Foreign Trade Undersecretariat of Treasury, TURKAK, TSI, TMO, TOBB, Commodity Exchanges, Agricultural Sales Cooperatives and Unions	2007-2009	Product receipts will be arranged by the electronic ways. There will be an institution that will control and trace these receipts. The trainings about the system will be intensified. In order to decrease the bureaucracy, cooperation and coordination among the organisations will be encouraged.

II. FOSTERING EMPLOYMENT

A. IMPROVING LABOR MARKET

1. Current Outlook

Turkey has got ahead of the period of upsurge in population and in the process of development, the effects of the problems stemming from the rapid merge in population have gradually been diminished. According to the population projections renewed in 2005, it is estimated that the annual population growth rate, which is 12.4 per thousand in 2006, will be regressed to 12.1 per thousand in 2007; and the midyear total population, which is 72.9 million in 2006, would ascend to 73.8 million in 2007. And the fertility rate, which is 2.18 in 2006, estimated to be regressed to 2.17 in 2007.

TABLE: IV. 33- Percentage of Age Groups in Total Population

(In Percent)

	0-14 Age Group		15-64 Age Group	
	2000	2006	2000	2006
EU- 15	16.7	15.7	66.9	66.8
Turkey	30.0	28.1	64.7	66.0

Source: EUROSTAT

Whereas the population share of the 0-14 age group within the total population is descending, the population shares of the working-age and aged groups are ascending. This situation requires enhancing new policies, particularly in the fields of employment and education. In this framework, it is envisaged that the structural changes in population will take an active part in reinforcing development via application of right and efficient education and employment policies.

Although there is a reduction in negativities caused by rapid population growth, the rapid decrease in agricultural employment, which accounts for one third of the total employment, high unemployment rate, low labour force participation and employment rates, low education level and qualification of labour force, weak link between education and employment are the main problematic areas on the way of transformation to an information society that has a high level of competitiveness power and employment creation capacity.

The employment created in Turkey during 2000-2005 the period has remained behind the growth in the working age population and the labour force. During this period, the working age population increased by an annual average rate of 1.9 percent and 1.3 percent, respectively. Even though the

GDP grew at an annual average rate of 4.4 percent during this period, total employment increase remained as 0.4 percent. The employment which declined following the 2001 crisis, displayed increases in 2004 and 2005.

The most important reason for the weak increase in employment is the employment decrease experienced in agricultural sector. The share of the agricultural sector in total employment has receded from 36 percent to 29.5 percent and employment in this sector decreased by 1 million 276 thousand persons during 2000-2005. A substantial increase took place in employment in non-agricultural sectors, especially following the year 2003 and an employment increase of 1 million 742 thousand people was realized during the 2000-2005 period. Creation of employment for 1 million 162 thousand persons in 2005 shows that this increase accelerated to a great extent in very recent years. Another reason for the low rate of total employment increase was the enterprises that utilised the labour force more efficiently, needing additional employment at lower levels.

As a result of the decrease in employment in agricultural sector and with the impact of 2001 crisis, the unemployment rate, which was 6.5 percent in 2000, increased to the level of 10.3 percent in 2005. On the other hand, non-agricultural unemployment rate that rose from 9.4 percent in 2000 to 14.5 percent in 2002 declined to 13.6 percent in 2005. The unemployment rate among young people, which is approximately twice as much as total unemployment, maintains its importance.

Progress in labour force participation and employment, which were at a lower level compared to EU averages, could not be accomplished. The low level of these rates are closely related to meager participation and employment rates of women. The rate of labour force participation and employment among women is around one third of that of the men.

TABLE: IV. 34- Main Indicators on Employment and Labour Force

(In Percent)

	Turkey					EU-15				
	2000	2002	2003	2004	2005	2000	2002	2003	2004	2005
Labor Force Participation Rate (LFPR) (15-64)	52.4	52.3	51.1	51.5	51.3	69.5	69.7	70.1	70.7	71.3
- LFPR (Female)	28.0	29.5	28.1	27.0	26.5	60.3	61.0	61.6	62.8	63.5
- LFPR (Male)	76.9	75.1	74.0	76.1	76.2	78.8	78.4	78.5	78.7	79.1
Employment Rate (15-64)	48.9	46.7	45.5	46.1	45.9	63.7	64.3	64.4	64.9	65.4
- Employment Rate (Female)	26.2	26.6	25.2	24.3	23.7	54.3	55.6	56.1	57.1	57.8
- Employment Rate (Male)	71.7	66.9	65.9	67.9	68.2	73.1	72.9	72.7	72.7	73.1
Unemployment Rate (15-64)	6.7	10.6	10.8	10.6	10.5	8.4	7.8	8.2	8.3	8.2
- Unemployment Rate (Rural)	4.0	5.7	7.3	5.9	6.8	-	-	-	-	-
- Unemployment Rate (Urban)	8.8	14.2	14.3	13.6	12.7	-	-	-	-	-
Unemployment Rate (15+ Age)	6.5	10.3	10.5	10.3	10.3	-	-	-	-	-
Young Unemployment Rate (15-24)	13.0	19.2	20.5	19.7	19.3	14.0	14.8	15.7	15.8	16.5

Source: TURKSTAT, OECD Employment Outlook 2005-2006.

In Turkey, problems such as insufficient quality of the vocational education and lack of lifelong learning practices in particular, as well as deficiencies in capital accumulation and technological renovation processes, lead to degradation in labour productivity.

Employers have responsibilities associated with the persons they have to employ and the units they have to open, depending on the number of their workers. The need for reviewing the responsibilities of employers in connection with employment and for making new arrangements with this regard in order to encourage employment still exists.

In recent years, there have been improvements in workers income in real terms. In 2005, civil servants average net salaries increased 11.0 percent in nominal and 2.6 percent in real terms while public employees average net wages increased 16.4 percent in nominal and 7.6 percent in real terms. During the same period, private sector employees net wages increased 8.8 percent in nominal and 0.5 percent in real basis.

In 2006, monthly gross minimum wage is determined as YTL 531 for the workers older than 16 years old, and YTL 450 for the workers younger than 16 years old. In 2005, average monthly net minimum wage for 16 and older ages in industry and services increased 12.7 percent in nominal and 4.2 percent in real basis.

TABLE: IV. 35- Developments In Labour Costs (1)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 (4)
					Real Labour Costs Index (1994=100)				
Worker (2)									
Public	79.1	107.7	130.1	115.7	99.5	102.2	105.4	112.4	108.3
Private	107.7	124.1	140.8	115.9	108.9	106.3	111.1	114.9	-
Civil Servant	132.7	146.8	129.7	117.0	120.3	122.6	127.8	134.5	139.3
Minimum Wage (3)	132.7	178.9	155.8	132.9	134.9	153.9	170.8	181.8	179.5
					Real Change (In Percent)				
Worker (2)									
Public	0.6	36.1	20.8	-11.1	-14.0	2.7	3.1	6.6	-3.7
Private	16.1	15.2	13.4	-17.7	-6.1	-2.3	4.5	3.4	-
Civil Servant	3.4	10.7	-11.7	-9.7	2.8	1.9	4.3	5.2	3.6
Minimum Wage (3)	-0.3	34.8	-13.0	-14.6	1.5	14.1	11.0	6.4	-1.3

Source : Public Sector Employer Unions, Turkish Confederation of Employer Association, Ministry of Finance, TURKSTAT, SPO
(1) Wholesale Price Index (1994=100) is used in calculations. Since 2005 Producer Price Index (2003=100) is used.
(2) The data provided by Public Sector Employer Unions and Turkish Confederation of Employer Association.
(3) The figures are annual average labour costs for 16 age and over in industry and services sectors.
(4) Estimate.

TABLE: IV. 36- Developments In Net Wages (1)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 (4)
Real Net Wage Index (1994=100)									
Worker(2)									
Public	73.1	103.8	111.1	98.2	89.2	86.8	88.3	95.0	92.1
Private	105.9	118.2	119.4	95.3	94.3	93.9	97.1	97.7	-
Civil Servant	117.8	123.1	108.9	104.8	110.8	109.9	112.7	115.7	123.0
Minimum Wage (3)	115.2	154.9	132.6	113.9	123.0	127.6	158.6	165.3	164.0
Real Change (In Percent)									
Worker (2)									
Public	-1.3	42.1	6.9	-11.5	-9.2	-2.7	1.7	7.6	-3.1
Private	17.0	11.6	1.1	-20.3	-1.0	-0.4	3.5	0.5	-
Civil Servant	-1.3	4.5	-11.5	-3.8	5.7	-0.9	2.6	2.6	6.3
Minimum Wage (3)	-4.9	34.4	-14.4	-14.1	8.0	3.7	24.3	4.2	-0.8

Source : Public Sector Employer Unions, Turkish Confederation of Employer Association, Ministry of Finance, TURKSTAT, SPO
(1) Consumer Price Index (1994=100) is used in calculations. Since 2005 Producer Price Index (2003=100) is used.
(2) The data is provided by Public Sector Employer Unions and Turkish Confederation of Employer Association
(3) The figures are annual average net minimum wage for 16 age and over in industry and services sectors.
(4) Estimate.

Flexible working, which is common in the EU, can not be implemented effectively in Turkey. Generalizing the use of flexible working forms has a great importance with a view to increasing employment, reducing unemployment and informal employment, increasing the employment of women and the disadvantaged groups in the scope of social inclusion. It is necessary to eliminate the legal obstacles hindering the generalization of flexible working forms in labour force market, promote these working forms and establish their link with social security.

Developments in the process of transition to information society are also changing working relations, working types and employment profile. For this reason, adjustment capability of workers, enterprises and sectors to this transformation have to be reinforced.

It is important to enhance social dialogue to ensure that arrangements in the EU harmonization process are based on mutual agreement among all stakeholders. Existing social dialogue mechanisms in Turkey should be strengthened at national, sectoral, and bi-lateral level. To this end, the Social Dialogue Project, which is financed by EU funds and Turkey jointly and undertaken by Ministry of Labour and Social Security (MLSS), has been initiated on February 1, 2006. The project aims at strengthening social dialogue at all levels, achieving harmonization with the related EU regulations and accelerating acquis implementation process, and taking necessary actions to provide for the obligations specified by the EU's social policies at any time, including post-accession period.

The Employment Background Study was prepared in 2003 within the scope of the activities towards harmonization with the

European Employment Strategy in the EU accession process. The Joint Assessment Paper, where the priorities regarding employment and the policies to be followed are determined, is also planned to be completed at the end of 2006.

The Law regarding Assent on the Approval of the Reviewed European Social Charter has been put into force on October 3, 2006.

The need for a labour legislation for the employees in agriculture, forestry and aviation which are out of the scope of the Job Law No. 4857 still remains.

2. Main Objectives and Targets

Within the framework of sustainable growth focusing on employment, raising qualified human resources, improving employment opportunities and reducing unemployment will be ensured in the direction of a competitive economy and information society.

Labour force market will be transformed into a structure in which a balance between flexibility and security is achieved, a wage system supporting the productive employment is established, the capacity to adapt to the transformation is enhanced, social dialogue is improved and equal opportunities for every one is provided.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. By assessing the flexibility and security both, labour market will acquire a more flexible structure.	Ministry of Labour and Social Security	Employer and Employee Trade Unions Confederations, Professional and Vocational Organizations, NGOs	2007-2009	Flexibility level in standard job contracts will be examined and the necessary adjustment will be done in order to render flexibility practices attractive for the employers and employees. Within this framework, obstacles to the practice of part-time work in particular will be determined and this type of work will be given a preferable structure with respect to both employers and employees.
Priority 2. Current social dialogue mechanisms in Turkey will be strengthened and social dialogue practises will be made widespread.				
Measure 2.1. The effectiveness of the national social dialogue mechanisms will be increased and they will acquire a functional structure, particularly Economic and Social Council and Trilateral Counselling Board.	Ministry of Labour and Social Security, SPO	Prime Ministry, Employer and Employee Trade Unions Confederations, Civil Servant Unions Confederations, Professional and Vocational Institutions, NGO’s	2007	Effectiveness of the national tripartite social dialog mechanisms will be improved by reflecting the issues agreed upon through these mechanisms into the economic and social life and, by securing their applicability thereto.

Measure 2.2. Bilateral social dialogue mechanisms will be strengthened at sectoral and firm levels, bilateral counselling mechanism will be established at the national level.	Ministry of Labour and Social Security	Employer and Employee Trade Unions Confederations, Civil Servant Unions Confederations, Professional and Vocational Institutions, NGOs	2007-2009	Working agenda, decisions and timetable of the bilateral advisory board, that consist of only the employees and the representatives of the employers on the national level, will be arranged. On the other hand, development of the bilateral social dialogue mechanisms and the active participation of employees to the decision-making processes at the enterprise level will be ensured.
Measure 2.3. Disharmonies stemming from international responsibilities in the field of social dialogue will be reviewed.	Ministry of Labour and Social Security	Employer and Employee Trade Unions Confederations, Civil Servant Unions Confederations, Professional and Vocational Institutions, NGOs	2006-2008	Legal arrangements concerning social dialog will be reviewed primarily for The Law for the Trade Unions No. 2821, The Law for Collective Bargaining Agreement, Strike and Lock-Out No. 2822 and The Law for the Trade Unions for Government Officials No. 4688.
Priority 3. The burden on employment will gradually be reduced.	Ministry of Labour and Social Security	SPO, SGK, İŞKUR, TOBB, TİSK, Employer and Employee Trade Unions Confederations, Professional and Vocational Institutions, NGOs	2007-2009	The burden on employment will gradually be lessened by way of development of new employment possibilities, proliferation of righteous businesses, encouragement of the prevention of informal employment and widening the base for the tax system, together with a consideration of the actuarial balances.
Priority 4. Adjustment skills of enterprises and workers to harmonize themselves with the change in the labour market will be reinforced.	Ministry of Labour and Social Security	İŞKUR, TOBB, TİSK, Employer and Employee Trade Unions Confederations, Professional and Vocational Institutions, NGOs	2007-2009	Adjustment capacity of business enterprises to changes in the labour market shall be provided through the modernization of labour institutions and supporting the adjustment in the enterprises. As for the employees, this shall be provided through the acquisition of new skills and information necessitated by the new labour conditions.
Priority 5. Participation of the disadvantaged groups in labour force will be facilitated.	Ministry of Labour and Social Security, KOSGEB, Turkish Employment Agency.	Turkish Employment Agency, Province Employment and Vocational Training Boards, Employer and Employee Trade Unions Confederations, Professional and Vocational Institutions, NGOs	2006-2008	Programmes of the acquisition of professional experience for the young people shall be elaborated. Within this scope, they shall be enabled to temporarily work in contracted workplaces with a view to facilitate their entrance to labour market.

B. INCREASING THE SENSITIVITY OF EDUCATION TO LABOUR DEMAND

1. Current Outlook

Ineffective interaction between the fields of employment and education in Turkey results in disequilibria between demand and supply of skills in the labour market. It causes unemployment in relative and absolute basis. There are problems as regards the supply of employees for middle level posts in the economy. On the other hand, rate of unemployment among the graduates of vocational education is also high. The reasons to this issue are vocational education is not in line with requirements of the labour market, and that employers cannot find the labour force with skills they demand. Moreover, employers can not reflect the labour force qualifications which they demand into the labour market. This situation necessitates that vocational education should be shaped in line with labour market demands and establishment of a national vocational qualification system.

To this end, Law on Vocational Qualification Agency has been put into effect on September 21, 2006 to establish the required national qualification system and to operate by specifying principles of national qualifications in technical and vocational fields and carrying out supervision, measurement and assessment, and certification activities in order to improve level of technical and vocational education on the basis of national and international occupational standards.

In Turkey, 67.3 percent of total labour force, 68 percent of total employment, and 60.5 percent of total unemployed in 2005 are graduates of a primary school and/or illiterate. Lower qualifications of existing labour force also reduce labour force productivity, create imbalance between demand and supply of labour thereby hamper effectiveness of the labour market.

When labour force is analysed on the basis of education, for the groups other than tertiary, unemployment rate increases as the level of education increases. However, as the level of education increases, labour market participation and employment rates increases, especially for the vocational higher schools and faculty graduates groups.

2. Main Objectives and Targets

In order to increase the sensitivity of education to labour demand, by taking the lifelong education strategy into consideration, to develop human resources in the areas demanded by the economy, and to obtain a more flexible structure in education and labour market are targeted.

TABLE: IV. 37- The Educational Level of Labour Force, 2005

(In Percent)

	Labour Force	Employment	Unemployed	LFPR	Employment Rate	Unemployment Rate
Total	**100.0**	**100.0**	**100.0**	**48.3**	**43.4**	**10.3**
Illiterate	5.4	5.7	2.4	21.9	20.9	4.5
Primary	61.9	62.3	58.1	47.4	42.8	9.6
Upper Secondary	21.2	20.5	28.1	57.1	49.3	13.6
- Upper Vocational Secondary	-	-	-	66.6	57.7	13.3
Tertiary	11.5	11.5	11.4	79.1	70.7	10.2

Source: TURKSTAT

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. In order to raise qualified human resources demanded by business world, mechanisms that will strengthen the linkage between education and labour force will be established.				
Measure 1.1. With a view to raising skilled human resources required by labour market in the context of vocational education, works for a transition to a modular and flexible system will be accelerated.	MoNE	SPO, TURKSTAT, İŞKUR, Vocational Qualification Agency (MYK), Provincial Vocational Training Boards, Provincial Employment Boards	2007-2009	A sound labour force forecast and analysis system shall be constituted, and modular programmes shall be prepared and updated on determining the needed skills.
Measure 1.2. Province Employment Boards and Province Vocational Education Training Boards will be united.	İŞKUR, Turkish Employment Agency	MoNE, MYK, Employer and Employee Trade Unions Confederations, Vocational Institutions.	2006-2008	Unification of these two boards, that help formulation of employment and vocational education policies on the local levels, and achieving their efficient function shall strengthen the relation between employment and education. For this purpose, necessary amendments shall be made in the Law of Vocational Education No. 3308 and Turkish Employment Agency Law No. 4904.
Measure 1.3. Apprenticeship training will be strengthened.	Ministry of National Education	İŞKUR, KOSGEB, MYK, KOSGEB, Employer and Employee Trade Unions Confederations, Vocational Institutions	2007-2009	Infrastructural and personnel deficiencies at the Apprenticeship Training Centres shall be eliminated, and apprenticeship programs shall be rearranged in accordance with the qualifications required by the industry.
Measure 1.4. Taking the programme integration into consideration, cooperation and division of labour between vocational high schools and vocational and technical secondary education institutions will be established and applied education will be provided in cooperation with industry.	MoNE, YÖK	İŞKUR, MYK, TOBB, TESK, TİSK, Provincial Employment Boards, Provincial Vocational Training Boards	2007-2009	Vocational High School (VHS) students' facility of practical training in industry shall be improved. An efficient cooperation between the VHSs and the organized industry zones shall be established by the coordination of Provincial Employment and Vocational Education Training Boards. VHSs shall be removed from the situation which is repetitive of the curricula of the vocational high schools, and a programmatic integrity between them shall be accomplished.
Measure 1.5. Business enterprises shall have an active participation in determination of the vocational education programmes and their contents.	MoNE	İŞKUR, MYK	2006-2009	By the incorporation of business enterprises into the vocational education system, the linkage between the education and employment shall be enhanced at the local and national levels, so the employers will easily obtain the labour by the qualifications they demand.
Measure 1.6. Vocational education activities of the trade unions and employers' unions shall be encouraged.	MoNE	İŞKUR, MYK, Employer and Employee Trade Unions Confederations	2006-Continous	Training shall be provided to the employees in required fields, and joint work practises between the trade unions and employers' unions shall be fostered.

Measure 1.7. An effective usage of the method of e-learning shall be achieved in enhancing the quality of the human resources.	MoNE	Ministry of Industry and Trade, İŞKUR, KOSGEB, MYK, TOBB, Employer and Employee Trade Unions Confederations, TESK	2007-2009	Knowledge and skills of the employees shall be upgraded through e-learning. The scope and platforms of e-learning shall be formed on a sectoral basis with a view to enhancing the quality of the human resources in the business enterprises.
Priority 2. A lifelong learning strategy shall be prepared.	MoNE	İŞKUR, MYK, Employer and Employee Trade Unions Confederations, Vocational Institutions	2007-2009	Labour force shall be made to acquire skills so as to respond the necessities of the labour market. Within this framework, lifelong learning strategy shall be designed in coordination with and by the participation of concerned parties.
Priority 3. Units and programmes of higher education institutions shall be updated, by taking into consideration the process of the transition into the information society along with the regional, national and international developments and needs.	YÖK	MoNE, Universities, NGOs	2007-2009	Units and programmes of higher education institutions shall be updated in the fields needed, by taking the development process of the society into consideration.

C. IMPROVING ACTIVE LABOR MARKET POLICIES

1. Current Outlook

In recent years, the importance given to active labour market policies as an effective instrument in increasing employment and decreasing unemployment has been stressed. Active labour market policies are the policies that contain public employment services, job creation and training of labour force and aim to increase the employment, skills and income of labour force, particularly of the disadvantaged groups.

İŞKUR, which is the main implementing agency of active labour market policies in Turkey, is conducting the matching procedures of job seekers and vacant jobs, the programmes of labour force training, the provisions of vocational consultancy and career guidance, the development of job seeking strategies, the services to provide disadvantaged groups such as the unemployed, the disabled, women and the young with the opportunities to find jobs, the entrepreneurship trainings and employment-guaranteed training programmes.

Within the scope of developing active labour market policies, İŞKUR has carried out the Active Labour Market Programmes Project, which was jointly funded by Turkey and the EU between 2003 and 2006. Within the framework of this project, almost 50,000 individuals were trained and more than 9,000 of them are employed.

2. Main Objectives and Targets

Active labour market policies will be fostered and the quality of the services provided in this context will be increased. Within this framework, the capacity of İŞKUR and the resources allocated to active labour market policies will be increased.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Active labour market policies will effectively be implemented and extended.				
Measure 1.1 Labour market information system shall be set up.	İŞKUR	SPO, TURKSTAT, MPM, KOSGEB, Employer and Employee Trade Unions, Professional Organizations	2006-2009	Correct and easily accessible information relevant to labour market bears importance in order to effectively design and implement the active labour market programmes and to define which programmes are needed for what type of target groups. For this purpose İŞKUR shall have Labour Market Information Advisory Board work in an effective way and will develop an information network by compiling necessary data.
Measure 1.2 Due importance shall be attached to upgrade the quality and skills of the surplus labour emanating from the agriculture sector.	İŞKUR	Ministry of Labour and Social Security, SPO, KOSGEB, Employer and Employee Trade Unions, Professional Organizations, NGOs	2007-Continuous	Labour speedily dissolved of the agricultural sector should be equipped with the skills and qualifications in line with the necessities of the labour market to be employed in the other sectors. In this context, active labour market policies are important to be implemented for the labour force which has quitted agriculture. Mechanisms to enable the said labour have access to these programmes will be developed.
Measure 1.3. The young and women, in particular, shall be oriented to entrepreneurship.	İŞKUR	KOSGEB, Employer and Employee Trade Unions, Professional Organizations, NGOs	2006-2009	Vocational information, guidance and counselling services shall be provided especially for the young and female unemployed, regarding the field of business activity they plan to set up.
Measure 1.4. Employment-guaranteed training programmes shall be extended.	İŞKUR	KOSGEB, Provincial Employment and Vocational Training Boards, Employer and Employee Trade Unions, Professional Organizations, NGOs	2007-2009	The number of employment-guaranteed training programmes shall be increased. These programmes provide both practical and theoretical on-the-job training involving fundamental vocational skills and drills, take the quality and professional standards in the forefront, and present opportunities of a permanent employment for the unemployed, and a qualified employed for the employee. Employment-guaranteed programmes shall be boosted by informing enterprises, particularly those who are being newly set up and making new investments.
Measure 1.5. Monitoring and evaluation system for the active labour market programmes shall be set up.	İŞKUR	Universities	2007-2009	Monitoring and evaluation of active labour market programmes will demonstrate whether the objectives envisaged and investments made for these programmes attained or not. In connection with monitoring and evaluation results, the necessary steps shall be taken and the programmes shall be redesigned in case of necessity.
Priority 2. Insufficiency of qualified personnel and deficiency in physical conditions in İŞKUR and local offices shall be removed.	İŞKUR	Ministry of Labour and Social Security, Employer and Employee Trade Unions, Professional Organizations, NGOs	2007-2009	

Priority 3. Resources allocated for the implementation of active labour market policies shall be increased.	İŞKUR	Ministry of Finance, SPO, Universities, Local Administrations, Employer and Employee Trade Unions, Professional Organizations, NGOs	2007-2009	İŞKUR's budget will be augmented in order to make sure that active labour market policies be carried out in an effective and widespread manner. Private sector shall be encouraged to implement these policies.

III. STRENGTHENING HUMAN DEVELOPMENT AND SOCIAL SOLIDARITY

A. IMPROVEMENT OF EDUCATION SYSTEM

1.Current Outlook

Major problems of education system could be summarized as access to education and quality of education. Regarding the access problem, enrolment rates and regional disparities, and as to quality problem insufficient physical infrastructure, update of curriculum, development of teacher qualifications and alignment of education materials with curriculum are the main challenges. While being not reached at the planned level, the enrolment rates have increased in all levels of education, however, a satisfactory improvement in the quality of education could not have been realized since financial resources have been allocated for access to education due to the increasing number of students.

Although enrolment rate has reached to 19.9 percent from 13.2 percent in pre-primary education in 2003-2006 period, it is remarkably lower than EU-25 average of 85 percent.

In primary education, late enrolments, drop-outs and problems of girls' access to education are main factors hindering the desired level of increase in enrolment rate. At the end of 2004-2005 academic year, while the rate of girls among those graduated from primary education is 45.7 percent throughout

TABLE: IV. 38- Enrolment Rates by Level of Education

	2003-2004		2004-2005		2005-2006	
	Number of Students (In Thousands)	Enrolment Rate (In Percent)	Number of Students (In Thousands)	Enrolment Rate (In Percent)	Number of Students (In Thousands)	Enrolment Rate (In Percent)
Pre-Primary Education (1)	358	13.2	435	15.3	550	19.9
Primary Education	10,480	96.3	10,565	95.7	10,674	95.6
Secondary Education	3,015	81.0	3,047	81.0	3,259	85.2
a) General Stream	1,942	52.2	1,934	51.4	2,076	54.3
b) Vocational Stream	1,073	28.8	1,113	29.6	1,183	30.9
Higher Education Total (2)	1,841	35.4	1,969	38.4	2,181	43.4
Formal	1,189	22.9	1,273	25.0	1,382	27.5
Non-Formal Education	3,601	-	4,045	-	-	-

Source: MoNE, Council of Higher Education
(1) Calculated for 4-5 age group.
(2) Universities and other educational institutions are included. Graduate students are excluded. Calculated for 17- 20 age group.

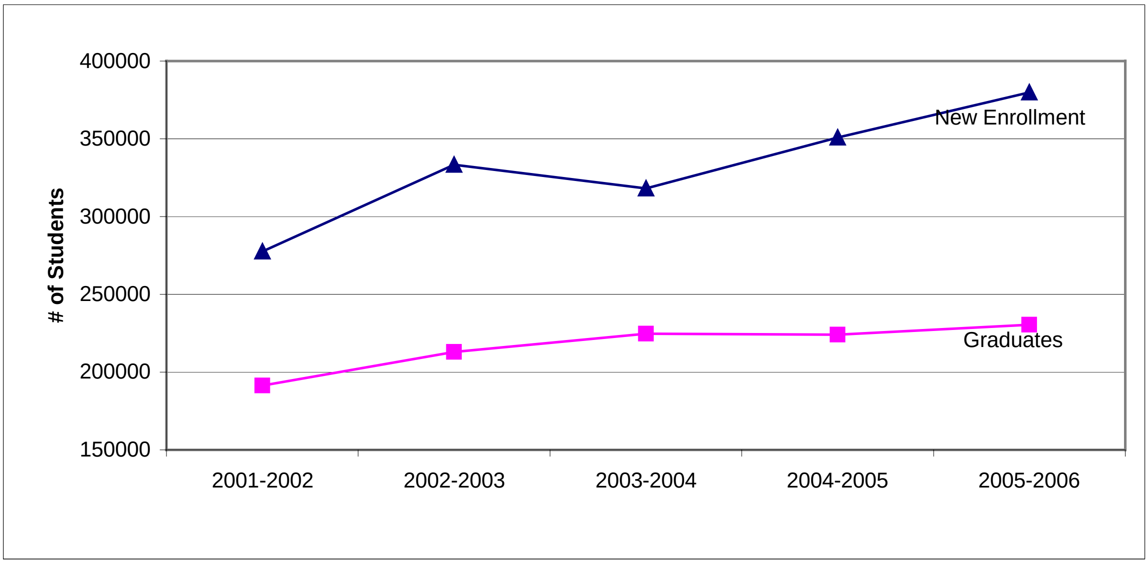
Turkey, this rate drops to 25 percent in some provinces. According to 2002 Household Budget Survey, 72.2 percent of children who do not attend to education are girls.

During the last three years, enrolment rate in secondary education has increased from 81 percent to 85.2 percent. As a result of extension of the duration of secondary education from 3 to 4 years gradually, it is expected that number of students in secondary education and consequently the need for classrooms will increase beginning from 2008-2009 academic year.

Share of vocational education in secondary education is quite low. In 1995, while the share of vocational and technical education in secondary education was 42.3 percent, it regressed to 32.3 percent in 2002-2003 academic year due to the impact of varying coefficient implementation among school types. However, through the implementation of entrance to vocational training schools with no examination in 2002, this rate started to increase and reached to 36.5 percent in 2005-2006 academic year.

The accumulation in higher education continues due to ineffective orientation to vocational training, improper establishment of the relation between education and employment and insufficient capacity generation in higher education. With the impact of change in the examination system, the number of students applying for the university entrance examination has decreased by 9 percent to 1,678 thousand students in 2006 compared to 2005. However, the rate of placement to universities has increased from 20.5 percent in 2005 to 21.9 percent in 2006. This increase is caused by the decline in the number of applicants other than the improvement of the capacity. Still, the enrolment rate that was 38.4 percent in 2004-2005 academic year has increased to 43.4 percent in 2005-2006. The fact that the number of new enrolments is higher than the number of graduates in formal education has played a major role in this increase.

GRAPH.7- The Number of New Enrolments and Graduates in Formal Higher Education.



Source: Council of Higher Education, SPO

The number of universities has reached to 93, of which 68 are public and 25 are foundation universities, with the establishment of 15 new public universities in order to meet the demand for higher education.

Basic priority areas to increase the quality of education can be classified as the update of the curriculum, employing qualified sufficient number of teachers in fields of foreign language, computer and guidance, increasing qualifications of teachers with in-service trainings, decreasing average size of the classes, changing two shift education to one shift education in primary education, establishing an effective guidance and consultancy system, providing alignment of vocational education with labour market, equipping schools with information and communication technologies.

Although 85,000 classes have been built in the last four years, main reason behind the insufficient reduction of average class sizes is that 43,173 classes have been used for out of purpose such as laboratories, libraries, IT class, pre-primary class and that pre-fabric schools and schools were taken down since they were determined to be weak against an earthquake.

TABLE: IV. 39- Number of Student/Classroom and Student/Teacher by Level of Education

		2003-2004	2004-2005	2005-2006
Primary Education	Number of Students per Classroom	36	36	35
	Urban	44	44	42
	Rural	25	24	23
	Number of Students per Teacher	26	26	27
Secondary Education	Number of Students per Classroom	32	31	31
	Number of Students per Teacher	18	16	16
a. General High School	Number of Students per Classroom	34	33	33
	Number of Students per Teacher	21	18	18
b. Vocational and Technical High Sch.	Number of Students per Classroom	29	28	29
	Number of Students per Teacher	15	14	13

Source: SPO, MoNE.
(1) Open education students are not included.

TABLE. IV.40- The Ratio of Students in Two-Shift Education and in Combined Classes in Primary Level

	2003-2004	2004-2005	2005-2006
Ratio of Students in Two-Shift Education	56.0	54.8	54.2
Ratio of Students in Combined Classes	6.5	5.7	5.4

Source: SPO, MoNE.

New curriculum prepared to anticipate future conditions was started to be implemented in primary education for 1-5th classes in 2005-2006 and for 6th class in 2006-2007. Textbooks, student workbooks and teacher guidance books have been prepared in line with the renewed curricula, while in-service trainings have been continued to ensure better adaptation of teachers to new curricula. On the other hand, broad based and modular programs which were developed within the Strengthening Vocational and Technical Education Project and implemented in pilot schools have been extended to all vocational and technical schools and institutions for 10th class and above since 2006-2007 training period.

In 2006, a total of additional 53,500 teachers comprised of 30,000 permanent staff, 20,000 contractual teachers and 3,500 part-time teachers were employed. However, 132,285 teachers are still needed to fulfil the norm staff of 657,888.

For effective use of IT classes in education, broadband internet access service has been provided for 23,450 schools and institutions, moreover necessary works in order for 4,581 schools and institutions to utilize this service in 2006 have been completed.

The share of public education expenditures in GDP is 4 percent, and 4.02 percent in 2004 and in 2005, respectively and it is expected to be 4.33 percent in 2006. These shares are below EU-25 and OECD averages, which are 5.24 percent and 4.96 percent, respectively. Despite the increasing resources allocated to education, greater importance should be attached to the quality of education.

The centralised and bureaucratic structure, current financial system, lack of quality assessment and accountability systems, high number of students per academic staff and inadequacy of the physical infrastructure are the major problems influencing the quality of higher education.

A great portion of the financial requirements of the state universities is met from the central government budget. The shares of budget transfers, revolving funds, tuition fees and other private resources in the total revenues of universities in 2005 are 56.4 percent, 37.6 percent, 4 percent, and 2 percent, respectively. High level of the budget transfers share illustrate universities' low capacity of income generation. The fundamental reasons for low income generation are mainly the insufficient level of university-industry cooperation and the ineffectiveness of universities in local development. On the other hand, it is essential that the share of tuition fees be increased in the financing of higher education due to the fact that higher education is a semi-public service and its individual rate of return is greater than the social rate of return.

The high number of students per academic staff and the concentration of academic staff in metropolitan areas are other problems of higher education. While the ratio of number of students in foundation universities to total number of formal students has been approximately 6.5 percent in the last two years, the share of the academic staff in these universities in total academic staff increased from 8.5 percent in 2005 to 9.6 percent in 2006. This indicates the improvement in the number of formal students per academic staff in favour of foundation universities. In order to meet the academic staff deficit in the long term, the projects on training academic staff in developed universities have been carried out since 2002.

TABLE. IV.41- The Number of Students per Academic Staff in Universities

	Number of Students per Total of Professors, Associate Profs. and Assistant Profs.		Number of Students per Total Academic Staff	
	State Univ.	Foundation Univ.	State Univ.	Foundation Univ.
1994-1995	46.2	57.9	15.9	12.6
2001-2002	44.3	39.4	16.6	12.1
2002-2003	44.9	40.4	16.9	13.1
2003-2004	44.6	42.8	17.0	13.7
2004-2005	45.2	41.3	17.7	13.2
2005-2006	46.7	39.3	19.0	12.5

Source: SPO

2. Main Objectives and Targets

With the aim of social development, productive and creative information age human being who has a developed capability of thinking, perception and problem solving, is devoted to Atatürk principles, democratic, independent, adopted national and spiritual values, open to new ideas, has a sense of personal responsibility, is able to contribute contemporary civilization, inclined to using and producing science and technology, considers art important and has high skills shall be grown.

In order to reduce drop-outs in primary and secondary education, measures shall be taken towards changing the negative condition against girls country-wide and students in rural areas, and also transition rates to secondary education shall be increased. Secondary education system shall be modified into a flexible structure based on programme type, allowing horizontal and vertical transitions and also including effective guidance and orientation service. Programmes prepared according to broad and modular basis shall be reviewed and updated with respect to the current needs .

Modular and flexible system shall be established in vocational and technical education, and vocational education in secondary and tertiary levels shall be transformed into a single structure that is based on programme unity. In vocational education system, applied education which has an important role in training qualified labour force shall be given more importance and students shall be trained in a way to get basic skills needed by labour market such as abilities of problem-solving, responsibility-taking and team-working.

In order to reduce the financial, social and psychological burden on students and their parents, the education system shall be released from the examination-based system. University entrance system shall be transformed into a structure that will adequately inform the students about the programmes, and evaluate their interests and skills in a multidirectional manner during the secondary education, and also that is based on the school performance and that is more compatible with the curriculum programmes.

In order to extend qualitative education opportunities in each level of education, a quality assurance system shall be established, quality standards shall be identified and extended, the jurisdictions and capacities of the education institutions shall be improved, and a performance-based model shall be developed.

Council of Higher Education shall be restructured and have the responsibilities of planning, identifying standards and coordination. The competitiveness of the system shall be increased by granting administrative and financial autonomy to higher education institutions in line with the principles of transparency and accountability and by ensuring their specialization according to local characteristics. The financial resources of universities shall be improved and diversified.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Administrative structure shall be reorganized in order to improve quality, efficiency and competitiveness in education.				
Measure 1.1. MoNE shall be restructured.	MoNE	Ministry of Finance, SPO, State Personnel Agency	2007-2009	Central organization of MoNE shall be modified into a new institutional structure and be responsible for determining policies, doing research and planning, consulting, leading pilot implementations and supervising. Board of Education shall be released from its executive functions and regulations for Board of Education to focus on its original functions shall be made.
Measure 1.2. Council of Higher Education shall be restructured and be responsible for long-term planning, identification of standards and coordination.	MoNE, YÖK	SPO, Universities, Student and Academic Staff NGOs	2007-2009	The whole system shall be reviewed in order for the Council of Higher Education (YÖK) to be transformed into Coordination Council of Higher Education, and the necessary legal regulations will be made as a result of the consensus among the related stakeholders. Inter-University Board will be authorised as the highest level of academic agency regarding academic issues. The institutional capacity of Council of Higher Education will be strengthened in order for YÖK to carry out its responsibility for planning, standard setting and coordination in an efficient manner. Financial resources will be allocated from the budget in order to establish information systems infrastructure providing access for every kind of data on higher education (students, graduates, employed).
Measure 1.3. Universities shall have full academic freedom; administrative and financial autonomies of universities shall be ensured.	MoNE, YÖK	Ministry of Finance, SPO	2007-2009	The autonomy of universities will be ensured beginning from the ones that have better administrative and financial conditions. Autonomy will be handled together with accountability to the public and other stakeholders. Within the framework of performance-based budgeting principle, financial flexibility will be provided for universities at the preliminary stage, and subsequently legislation will be modified in order to ensure financial autonomy.
Measure 1.4. Academic assessment and quality assurance systems shall be developed.	YÖK	Inter-University Board, Universities	2007-2009	It is crucial to adopt academic assessment and quality assurance systems in order to ensure national and international competitiveness in higher education. In this regard, necessary regulations for the establishment of internal and external assessment systems will be made.

Measure 1.5. Specialization of universities shall be ensured.	YÖK	MoNE, SPO, Local Governments, Universities, Student and Academic Staff NGOs	2007-2009	It will be ensured that universities with adequate research infrastructure will concentrate more on the research and graduate education, while other universities more on two-year and four-year undergraduate education. It will be given importance that the universities take the local problems into account and specialize with respect to the local needs.
Measure 1.6. The participation of students in the university administration shall be increased.	YÖK	Universities, Student NGOs	2007-2009	Active participation of students in the university administration will be ensured and the system in which the students have the right of vote in administration will be adopted.
Priority 2. Education curricula shall be revised and necessary updates shall be made.				
Measure 2.1. Curricula shall be updated on the basis of program unity and continuity.	MoNE	YÖK	2006-2009	While updating curricula of primary and secondary education, program unity with other levels of education will be ensured. Programs will be updated by ensuring program unity and continuity, and incompatibility and duplications will be avoided in transition from primary to secondary education and from secondary to tertiary education.
Measure 2.2. In-service trainings shall be extended by reviewing educational background of teachers in order to meet the requirements of the new curricula.	MoNE	YÖK, Universities	2006-2009	Pre-service educational background of teachers shall be reviewed by taking the new curricula into account, and necessary arrangements shall be made. In service trainings shall be extended countrywide to facilitate adaptability of teachers to the new curricula.
Measure 2.3. A new structure emphasizing programme diversity instead of school diversity shall be established.	MoNE		2007-2009	There are totally 34 types of schools in secondary education, 7 of which are in general secondary education, while 27 in vocational secondary education. Existence of different types of schools causes different administrative formations and prevents efficient use of resources. There is a need to reduce the types of schools and to establish a new structure including various programmes in the same school.
Priority 3. An effective orientation system shall be established in education system.				
Measure 3.1. Occupational guidance and consultancy services shall be improved.	MoNE	İSKUR, Social Partners (TOBB, TİSK etc.)	2007-Continuous	In order to provide efficient guidance and orientation activities, cooperation among institutions shall be improved. Materials related to provision of occupational information and guidance services shall be developed, and the required staff shall be trained.
Priority 4. Equipment needs shall be met at all levels of education and physical infrastructure shall be improved.				
Measure 4.1. Physical infrastructure need shall be met.	MoNE	SPO, Local Administrations, NGOs	2007-Continuous	In order to increase enrolment rates, schools and classes shall be built in necessary places; moreover, unoccupied public buildings shall be benefited as much as possible, 100 percent Support to Education Campaign shall be continued and investments of private sector shall be promoted.
Measure 4.2. Materials and equipment required for the new curricula shall be provided to schools.	MoNE	SPO	2007-2009	In line with the new curricula and education methods, environment and equipment will be provided in schools for training students who are able to make research, able to express themselves and have high self-confidence.

Priority 5. Number of teachers and academic staff shall be increased.				
Measure 5.1. The themes of foreign language, computer and guidance being in the first place, teacher deficit in all fields shall be decreased.	MoNE	YÖK	2007-Continuous	University quotas shall be increased in order to decrease the determined teacher deficit. Contractual teacher employment will be continued. Balanced regional distribution of teachers will be taken into consideration.
Measure 5.2. Necessary regulations on employee rights shall be made in order to ensure balanced distribution of teachers countrywide.	MoNE	Ministry of Finance, SPO, State Personnel Agency	2007-2009	There are some problems regarding balanced distribution of teachers countrywide although there has been an important improvement in the implementation of norm staff. Therefore, it is essential to make differentiation among the employee rights of teachers by taking the places where they carry out service and other criteria into consideration. The salaries of teachers shall be reviewed in this framework.
Measure 5.3. Academic Staff Training Programmes in developed universities shall be given priority in order to meet the academic staff needs of developing universities.	Universities	Ministry of Finance, SPO, YÖK	2007-Continuous	The number of academic staff will be increased and their balanced distribution within the country will be ensured. The cooperation between developed and developing universities will be improved in order to train academic staff.
Priority 6. Use of information technologies in education shall be extended and made effective.				
Measure 6.1. Extension of information technologies to all schools shall be ensured.	MoNE	Ministry of Transport, SPO	2007-2009	IT classes shall be extended in primary and secondary schools with sufficient capacity by using private and public resources. Alternative methods shall be developed to provide these opportunities for students in rural areas. Up-to-date education software shall be developed to ensure effective use of IT classes in all courses. Education portal shall be established as soon as possible and it shall be opened for use of students, parents and third parties.
Measure 6.2. Qualifications of teachers in information technologies shall be improved.	MoNE	Ministry of Finance, Universities	2007-2009	In order to improve qualifications of teachers in information technologies, an effective in-service training activity shall be arranged and extended. Number of computer teachers and formatters shall be increased and their balanced distribution shall be ensured.
Priority 7. Barriers for access to education in all levels of education shall be removed.				
Measure 7.1. Access to pre-primary education shall be increased.	MoNE	RTUK, TRT, NGOs	2007-Continuous	Implementations such as two-shift education, mobile and summer schools in pre-primary education shall be extended and non-formal education activities shall be utilized. Written and visual media shall be used to raise social awareness.

Measure 7.2. Access of disadvantaged groups to education shall be supported.	MoNE	RTUK, SHÇEK, TRT, ÖZİDA, Local Administrations, SYDGM	2007-2009	Access of disadvantaged groups who are not in education system due to low income and gender discrimination to education shall be increased by mechanisms of conditional cash transfer, scholarships, and education with transport. In order to increase access to education for special needs, physical infrastructure shall be improved and in order to make parents conscious and increase social awareness, effective use of television shall be ensured through educational and visual broadcast, and common campaigns shall be realized with NGOs.
Measure 7.3. Entrance system to secondary and higher education shall be revised and equality of opportunity shall be ensured.	MoNE, YÖK		2007-2009	The examination-based structure of education that causes to miss the expected results from education, and leads to significant amounts of expenditures for examination preparation and also financial, social and psychological problems in students and their parents shall be revised. Entrance system to secondary and higher education shall be transformed into a structure that will adequately inform the students about the programmes, and evaluate their interests and skills in a multidirectional manner and with an efficient guidance and orientation system during the secondary education, and also that is based on the school performance and that is more compatible with the curriculum programmes.
Priority 8. Alternative finance models shall be developed in all levels of education.				
Measure 8.1. Public-private partnership model shall be developed in education.	MoNE	Ministry of Finance, SPO, Undersecretariat of Treasury	2007-2009	In order to ensure effective use of limited public resources and to diversify resources allocated for education, arrangements for increasing the contribution of private sector to education shall be made.
Measure 8.2. Extension of private schools shall be promoted.	MoNE	Ministry of Finance, SPO, Undersecretariat of Treasury	2007-Continuous	In all levels of education, extension of private schools shall be promoted. In 2006, with the arrangements in Private Education Institutions Law towards promoting private formal education institutions shall be realized as soon as possible.
Measure 8.3. The share of foundation universities in higher education shall be increased and regulations on establishing private universities shall be made.	MoNE, YÖK	Ministry of Finance, SPO, Undersecretariat of Treasury	2007-2009	The share of foundation universities in higher education shall be increased through promotion mechanisms and related legislation shall be modified so as to enabling establishment of private universities.
Measure 8.4. The activities of higher education institutions to produce services for generating income shall be supported.	Universities	Ministry of Industry and Trade, SPO, TÜBİTAK, TÜSİAD, Union of Chambers and Commodity Exchanges	2007-Continuous	Cooperation with business world will be improved through mechanisms such as advisory boards and projects markets. Income generation of universities and academic staff will be supported.
Measure 8.5. The contribution of students to financing of higher education shall be increased.	YURTKUR	Ministry of Finance, YÖK, Financial Institutions	2007-2009	The share of tuition fees in the financing of higher education will be increased. Regulations will be made to facilitate the acquisition of credits by students with insufficient economic power and to ensure those credits to be subsidized by public sector.

B. MAKING THE HEALTH SYSTEM EFFECTIVE

1. Current Outlook

In recent years, some improvements have been achieved in the fields of manpower and infrastructure in health sector by effective policies, however, these improvements are not at the level of meeting the needs of the country. The major reasons behind this are, insufficient and unbalanced distribution of infrastructure and health personnel among regions, provinces and counties, insufficient preventive health care services, problems related with access to health services and finance, and ineffective referral system.

Number of inpatient beds has increased by years but the desired level has not reached and problems related to distribution of beds still persist. According to the socio-economic development index of provinces, number of persons per inpatient beds is 354 in the most developed region and 807 in the least developed region. In Turkey, the capacity of inpatient beds belongs to the Ministry of Health with 70 percent, universities with 15 percent and private sector with 7.7 percent. 50 percent of private hospitals is in Istanbul. The law and implementing regulations that enable public private partnership as a financial method in order to solve the infrastructure problems have come into force in 2005 and 2006.

Although there has been an improvement in the number of physicians and health personnel, it is not at desired level and unbalanced distribution problems among regions persist. When analysing the distribution of physicians, it is observed that, Marmara Region has 25 percent of total population and 28.6 percent of physicians, Eastern and South Eastern Region have 18.8 percent of total population and 11.3 percent of all physicians. Contractual personnel system started to be implemented in recent years has resulted some improvements in the distribution of practitioner and health personnel, but these improvements are not at a desired level in the distribution of specialists. Number of graduates of faculty of medicine per 100,000 people is 8.8 in Europe and this ratio decreased from 7.5 to 6.1 during 2000-2005 period in Turkey. Persistence of the decrease of that rate will cause greater needs for physicians in the coming years.

TABLE: IV. 42- Health Indicators

	2004	2005	2006 (1)	AB (2)
Infrastructure Indicators				
Number of Inpatient Beds	187,788	192,658	197,170	-
Number of People per Inpatient Beds	378	374	372	154
Bed Occupancy Rate (Percent)	64.9	64.5	-	77.5
Health Manpower Indicators				
Number of Physician	99,300	100,800	103,150	-
Number of People per Physician	716	715	707	288

Source: Ministry of Health, SPO, WHO
(1) Estimate
(2) EU-25, latest available data

TABLE: IV. 43- Main Health Indicators

	2004	2005	2006 (1)	AB (2)
Population Increase (Per Thousand)	12.9	12.6	12.4	3.1
Infant Mortality Rate (Per Thousand)	24.6	23.6	22.6	4.8
Total Fertility Rate	2.21	2.19	2.18	1.47
Life Expectancy at Birth (Year)	71.1	71.3	71.5	78.5
Ratio of Public Health Expenditure in GDP (In Percent)	5.1	5.2	5.3	6.7

Source: SPO, WHO
(1) Estimate
(2) EU-25, latest available data

In recent years, although significant progress has been observed in main health indicators, that progress is not sufficient compared to that of EU average. Infant mortality dropped from 55.4 per thousand in 1990 to 28.7 per thousand for 1998-2003 period according to the 2003 TNSA and it is estimated that the rate will be 22.6 per thousand in 2006 according to the same survey. Infant mortality rate differs significantly among regions and between urban and rural areas. It is 39 per thousand in rural areas and 23 per thousand in urban areas. With the decrease in infant mortality rate, life expectancy increased from 66 year in 1990 to 71.5 year in 2006.

Maternal Mortality Research, the first comprehensive field study on birth related maternal death, of which field studies had been completed, will be finalized before end of the year.

Ministry of Health executes General Immunization Programme, The Control of Diarrhoeal Diseases Programme, The Control of Acute Respiratory Infections Programme, Promoting Breastfeeding and Baby Friendly Hospital Initiative and Sexual Health/Reproductive Health within the scope of preventive health. Besides, immunes of rubella, mumps and meningitis are added to the free of charge immunes list. However, the need for improvement and financial support for preventive health persist.

Problems related to infrastructure, personnel and quality and ineffective usage of referral chain in primary level make the patient prefer second and third level health services, which have higher service cost. This demand causes accumulations in the hospitals, thus, the service quality of hospitals worsens. Although health posts have improved and mobile health services helped the primary level services to become better, 95 percent of the services given in the hospitals are still outpatient services.

Health Transformation Programme which aims to reorganize the Ministry of Health, establish General Health Insurance System, enhance health services by providing accessible, high quality and widespread services has been carried on. Within the scope of the Programme, execution of the family medicine system and establishing effective referral chain are important to decrease the demand of outpatient services in hospitals and the costs of services. The pilot study of family medicine system has been continued.

The coverage of health insurance has increased from 81 percent of population in 2001 to 91.7 percent in 2005. Another component of Health Transformation Programme is to cover the population who does not have health insurance or are unable to pay the premium of the insurance by General Health Insurance Systems. In this framework, General Health Insurance Law was enacted in 2006 and it will come into force in 2007.

Public health expenditures has increased from 4.3 percent of GDP in 2001 to 5.2 percent of GDP in 2005. This ratio is 6.7 percent for EU-25 and 5.9 percent for OECD countries. The ratio of pharmaceutical expenditures to total health expenditures decreased from 39 percent in 2000 to 34 percent in 2005. In EU countries, this ratio is 16 percent. There is a need to regulate the effective and appropriate use of pharmaceuticals of which expenditures are one third of the total health expenditures.

Within the scope of e-Health project, studies have been carried out to ensure data collection within predefined standards from health institutions in order to enable analysis and evaluation. Besides, family medicine information system has been developed and is being implemented in pilot provinces.

2. Main Objectives and Targets

The basic objectives of health policy are to ensure that all citizens take part in economic and social life as healthy individuals and to assist them raising their quality of life.

In order to reach this objective, strengthening the preventive health care services, making effective the primary level health care services by family medicine system, meeting the infrastructure and health personnel demands and balancing their allocation to reduce the disparities among regions and socio-economic groups, providing health care services on an egalitarian and just basis, respectful to patient rights, accessible, with quality and in an efficient way, developing systems for rational use of medicine and restructuring the Ministry of Health to strengthen its role of regulation, planning and controlling are aimed.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Primary health services, particularly preventive and mother-child health services, shall be strengthened and dispersed.				
Measure 1.1. Primary and secondary school students will be trained about healthy nutrition and students at risk will be controlled at health institutions.	Ministry of Health	Ministry of National Education	2006-Continuous	Because the nutrition problem is increasing and bring about a lot of chronicle diseases, students at primary and secondary schools particularly in the regions with low level socio-economic life will be trained. Also, surveillances will made and students who have obesity and underweight problems will be controlled at the health institutions.
Measure 1.2. Activities for improving the dental health conditions of the society will be increased.	Ministry of Health	Ministry of National Education, Universities, TRT, Turkish Dental Association	2006-Continuous	Provinces where the drinking water fluorine concentration is low, necessary activities will be implemented in order to improve the dental health. At primary and secondary schools students will be instructed about dental health, and health surveillances are made and students having problems with dental health will be controlled in health institutions. Also, awareness raising activities about dental health will be implemented by the help of media.

Measure 1.3. Breast-feeding will be promoted.	Ministry of Health	Ministry of National Education, TRT, All Health Service Providers	2006-Continuous	In order to make the infants breastfed immediately after the birth, awareness raising activities will be carried on. At primary level health service providers and hospitals personnel trainings about encouraging the mothers to breastfeeding will be increased. Also, activities for preventing iron deficiency anaemia will be carried on. Baby Friendly Hospital Programme will become widespread in all hospitals.
Measure 1.4. Preventive health programmes for children will be improved.	Ministry of Health	Ministry of National Education, TRT, Health Service Providers, Local Administrations	2006-Continuous	Current programmes will be carried on and awareness about vaccination will be raised. Zinc supplements will be given to the children at risk.
Measure 1.5. Elderly heath services, home care and mobile health services will be improved.	Ministry of Health	SHÇEK, All Health Service Providers, Local Administrations, NGOs	2006-2009	In order to increase the accessibility of health services particularly for people who are unable to reach easily, mobile health services will be improved by providing necessary infrastructure and personnel. Home care health services for elderly care will be started principally in regions in which socio-economic level is low. Training activities for both society and health personnel will be held in order to get better the health condition of the elderly people who stay in nursing homes and apply to a health care institution
Priority 2. Accessibility of health services particularly primary level services shall be improved.				
Measure 2.1. Infrastructure needs will be met.	Ministry of Health	Ministry of Finance, SPO	2006-2009	Infrastructure requirements of primary level health services particularly in the areas with accessibility problems will be met.
Measure 2.2. Equitable distribution of health personnel will be provided.	Ministry of Health	Ministry of Finance, State Personnel Agency, Local Administrations	2006-2009	The essential structure to encourage the health personnel to work in the underdeveloped regions will be established by taking the contributions of the related parties. Also, regulations, which increase the number of health personnel up to the sufficient level, will be made.
Measure 2.3 Family medicine system integrated with primary level health services will be applied in whole country.	Ministry of Health	Local Administrations	2006-2008	Number of pilot provinces for family medicine will be increased and this system will be dispersed to whole country.
Priority 3. Health service personnel shall be trained in the areas needed for.	YÖK	Ministry of National Education, Ministry of Health, SPO, State Personnel Agency, İŞKUR, Universities, Vocational Qualifications Authority	2006-2008	The occupational skills of health personnel will be improved by continuous training. Taking the teamwork characteristic of health services into account, in order to reach adequate level in terms of number of health personnel, the capacity of education institutions will be increased and necessary administrative regulations will be made. Curriculum will be revised in a manner to provide increase in the skills for primary health services.
Priority 4. Principle of Rational Use of Medicine shall be activated.	Ministry of Health	Ministry of Finance, TRT, SGK, NGOs	2006-2009	Taking into account the high proportion of medicine expenditures in the total health expenditures, in order to provide efficiency in costs, necessary legislative regulations aiming to activate the pharma-economic principles in supplying and using drugs and structural arrangements will be made. Besides, public awareness about rational use of medicine will be raised and on the job trainings of physicians towards this goal will be improved.

Priority 5. Ministry of Health shall be re-structured to strengthen its role of regulating, planning and controlling.	Ministry of Health	Prime Ministry, SPO, Universities, Local Administrations	2006-2008	Necessary administrative and legal regulations shall be made for restructuring the Ministry of Health's central and local functions reviewing within the context of strategic planning principles. These regulations shall be aimed to strengthen Ministry of Health's functions such as determining priorities in health sector, monitoring and evaluating services, accreditation of institutions and focusing on public health issues.
Priority 6. In the provision of health care services, patients rights and satisfaction shall be essential.				
Measure 6.1 A structure shall be established predicated on patient satisfaction in health institutions.	Ministry of Health	All Health Service Providers, NGOs	2006-2008	Administrative and legal regulations shall be made for establishing internal and external auditing systems that enable evaluating health institutions with a perspective of service quality and patient satisfaction. Necessary regulations, that enable societies' right to chose doctor within the context of patient rights and satisfaction, shall became commonplace to all health institutions.
Measure 6.2 Public conscious of patient rights shall be provided.	Ministry of Health	Ministry of National Education, TRT, All Health Service Providers, NGOs	2006-Continuous	Public conscious of patient rights shall be provided by mass media and trainings in schools. On the job trainings of health personnel in health service providers about patient rights shall be ensured.
Measure 6.3 Malpractice regulations shall be made.	Ministry of Health	Universities, All Health Service Providers, NGOs	2006-2008	Administrative and legal regulations shall be made for determining responsibilities of and hindering malpractice.
Priority 7. With a view to improving the services quality, hospital management shall be made autonomous and competitive and an accreditation system for health institutions shall be developed.	Ministry of Health	Ministry of Finance, SPO, SGK, Universities	2006-2009	Pilot studies will be started about hospitals' administrative and financial autonomy and accreditation systems. According to pilot study's conclusions, public health institutions' stages for autonomy shall be graded and necessary institutional and legal regulations shall be realized.
Priority 8. National Health Information System shall be activated.	Ministry of Health	SPO, SGK, TURKSTAT	2006-2009	National Health Information System, that will enable developing, protecting and sharing individuals' medical records, information transfer during referral levels and collecting data from primary health applications will be established. With this information system, Health Information System and Social Security Information System will be integrated.

C. IMPROVING INCOME DISTRIBUTION, SOCIAL INCLUSION AND COMBAT WITH POVERTY

1. Current Outlook

Certain segments of society are subject to social exclusion in terms of benefiting from health and education services, cultural possibilities and ICT, taking part within production activities and participating decision-making processes. Those are, in the meantime, the most vulnerable segments to the poverty risk. The agricultural sector, temporary workers and those who work with no social security, the less educated, women, children, the aged and the disabled are groups who are prone to social exclusion in particular.

TABLE: IV. 44- Distribution of Annual Disposable Income by the Household Quintiles

(In Percent)

Quintiles	1994	2002	2003	2004
Lowest 20 Percent	4.9	5.3	6.0	6.0
Second 20 Percent	8.6	9.8	10.3	10.7
Third 20 Percent	12.6	14.0	14.5	15.2
Fourth 20 Percent	19.0	20.8	20.9	21.9
Highest 20 Percent	54.9	50.1	48.3	46.2
Total	100.0	100.0	100.0	100.0
Gini Coefficient	**0.49**	**0.44**	**0.42**	**0.40**

Source: TURKSTAT

Data indicate that the share of the first four quintiles rise meanwhile the share of the fifth quintile is in a trend of continuous decline since 1994. This is an indicator of an improvement in income distribution through the years. Gini coefficient, as a measure of income inequality, diminished to 0.40 in 2004 from 0.49 in 1994. Share of the first quintile, which is the minimum in the total income, rose to 6 percent, whereas it was 4.9 in 1994. Share of the fifth quintile, which is the maximum in the total income, decreased to 46.2 percent, from 54.9 in 1994.

Although there are improvements in terms of indicators, problems to combat with poverty and income distribution continue. In 2004, 1.3 percent of Turkey's population live below the food poverty line, and 25.6 percent live below the food and non-food poverty line. Poverty is predominant particularly among the less educated, casual employees, unpaid family workers, the unemployed, those who work in agriculture and construction sectors, and in extended families.

Poverty risk ratios before and after transfers, which show the impact of social transfers on the redistribution of national income, indicate that the impact of social transfer incomes on the redistribution of income is relatively limited in comparison with

TABLE: IV. 45- Poorest Segments in terms of Food and Non-Food Expenditures by Various Criteria

(In Percent)

	Poverty Rates		
	2002	**2003**	**2004**
Rural	34.5	37.1	40.0
Woman	27.2	28.3	26.0
Illiterate	41.1	42.4	45.1
Patriarchal or Extended Family	34.3	32.7	32.0
Workers in Agricultural Sector	36.4	39.9	40.9
National Poverty Rate (Food and Non-food Poverty)	27.0	28.1	25.6

Source: TURKSTAT, Household Budget Surveys

EU-25. Poverty risk ratios before and after transfer incomes for EU-25, which are 25 and 16 percent, are 30 and 26 percent for Turkey, respectively.

Educational statues of the household individuals is one of the variables best explain the poverty. As for the poverty rate in 2004 with regard to the level of education, also taking into consideration their proportions in the total population, 45.1 percent of the illiterate individuals, who account for the 10.2 percent of Turkey's population, are poor. The same rate, however, decrease to as low as 1.3 percent for educated individuals graduated from tertiary education institutions, who account for 4.8 percent of the total population. As the education level rise, whether in urban or rural areas, the risk of poverty decreases. Primary education, which allows individuals acquire lifelong knowledge, skill, behaviour and habits, is an important element for obtaining equal opportunities and social well-being. Enrolment rate for compulsory primary education is 95.6 percent in the 2005-2006 school year. Enrolment rate appears to be at low levels especially in rural areas, due to the reasons such as the difficulty of access to education services and unpaid employment of children. Besides, enrolment rate of girls is below that of boys. For the primary education, enrolment rate of boys is 98.8 percent, whereas the same rate is 92.2 for girls in the 2005-2006 school year. The gap widens in secondary education for the enrolment rates. Even though the literacy rate of the women rose from 80.6 percent to 82.5 -population older than six age and above- between the years 2000 and 2005, is behind the male literacy rate. 31 percent of the women living in rural areas and 18.7 percent living in urban areas are illiterate.

51.6 percent of the employed women work in the agricultural sector with reference to the findings of 2005 Household Labour Force Survey. On the other hand, 41.7 percent of the women employed are deprived of social security, as being unpaid family workers. Women employed as unpaid family workers in the rural areas are withdrawn from the labour force due to a variety of reasons: Becoming, having migrated to the city, under-qualified compared to the jobs in the urban areas, confronting problems in child care as well as the aged and the disabled in the family, along with social pressures of a different environment. Thus they remain outside the economic activities and become vulnerable to the risk of social exclusion. In fact, labour force participation rate is 19.3 percent for the women living in urban, whereas it is 33.7 in the rural areas.

TABLE: IV. 46- Selected Indicators of Employment in 2005 (Age 15+)

(In Percent)

	Female		Male		Total	
	Employment Rate	Labour Force Participation Rate	Employment Rate	Employment Rate	Employment Rate	Employment Rate
Urban	16.0	19.3	63.2	71.5	39.7	45.5
Rural	32.3	33.7	67.6	73.5	49.5	53.1
Turkey	22.3	24.8	64.8	72.2	43.4	48.3

Source: TURKSTAT

The fact that agriculture, the sector of which value added per capita is the lowest, shelters the highest employment and scarcity of the off-farm activities are among the main reasons of higher poverty in rural areas. Surplus of inactive population due to the predominance of unpaid family workers, low productivity and underemployment are the important facts that lead to the discrepancy between agriculture's share in employment and in what it obtains from national income. Moreover, it is observed that unpaid workers employed in agriculture in particular constitute the most vulnerable group to the poverty risk in terms of working position. Poverty rate in this group is higher than that of the unemployed. The said situation also refers to a problem of working poor.

As a sector envisaged to gain a competitive character by the restructuring process, share of agriculture in total employment has diminished through the years. Decrease of employment in agriculture, predominant in rural areas, and the insufficiency of the possibilities of alternative jobs engender the risk of unemployment in agriculture. Consequently, instability in the incomes of the workers in this sector, a general withdrawal from agriculture, and difficulties in the rural sector in the access to services such as education and health, and narrow possibilities for the other income-generating activities pave the way for the impoverishment of the population living in the rural areas and in part for the migration to cities.

Those who have migrated and have had a low level of education are deprived of a regular income as being members of an under qualified labour force. This segment of society are mostly employed in the informal sector with low wages and lodged in unwholesome conditions. Migration to cities from the rural areas and a fast population growth, insufficiency of social and physical infrastructure and distorted structuring caused the emergence of unlawful building and slum areas of low environmental quality.

TABLE: IV. 47- Employment and GDP by Sectors (1)

(In Percent)

Sector	2001		2002		2003		2004		2005	
	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP
Agriculture	37.6	12.1	34.9	11.6	33.9	11.7	34	11.2	29.5	10.3
Industry	17.5	25.7	18.5	25.2	18.2	24.7	18.3	24.9	19.4	25.4
Services	44.9	62.2	46.6	63.2	47.9	63.6	47.7	63.9	51.1	64.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT
(1) GDP in current producer prices.

SHÇEK extends institutional care service for the children in need of protection, and these children can be adopted, and their care can be provided by a protecting family or by their own family. Services concerning protection, care and upbringing of the children who are decided by the Institution to be eligible for protection are aimed to be extended in their social environment as much as possible. In 2005, SHÇEK has launched a project entitled as Return to Family and Support in Reintegration to Family aimed at the children taken care of by the Institution. 1,839 children in 2005, and 577 children with a court decision of protection have been returned to their families or relatives as of June 2006. Institutional care cost per children is YTL 800 to YTL 1,100, whereas it is YTL 300 within the family.

Care services for the aged are of a growing importance due to the causes such as the gradual increase in the aged population and change in familial structure. Care services targeting the old people are predominantly institutional. As of October 2006, there are 231 retirement homes, which belong primarily to SHÇEK, and municipalities, other public institutions, associations, foundations and private sector, with a total capacity of 12,648 people. It is necessary to support home care services and upgrade the quality and quantity of the institutional care services within the scope of the services provided to the aged.

The disabled people are facing difficulties in integration to society for reasons of not being able to participate in labour force and education. Turkish Disabled Survey which was made in 2002 by TURKSTAT finds that 36.3 percent of the disabled by orthopaedic, mental, speech and verbal, auditory and visual categories together with a 24.8 percent of the chronically disabled are illiterate. Unemployment rate in the chronically disabled is 10.8, whereas the same rate is 15.5 in the orthopaedically, mentally, speech-verbally, auditory and visually disabled. The main reason for these rates not being above the average unemployment rate is that labour force participation rate for the disabled is on the low levels (21.7 percent for the orthopaedically, mentally, speech-verbally, auditory and visually disabled and 22.8 percent for the chronically disabled). Low level of the labour force participation rate for the disabled stems from the constraining effects of the present social living spaces in the country on their mobility, lack of conducive environments in the work spaces and the low demand for the disabled labour force. These problems the disabled experience in their participation to labour force bring about the risk of social exclusion and poverty. The Law for the Disabled No. 5378 became effective on July 7, 2005, and it envisages the prevention of disability, solution to the problems of the disabled regarding health, education, rehabilitation, employment, care and social security, and achievement of their participation to social life by taking necessary measures which ensure their development in all respects and the elimination of obstacles in their way, and the coordination of all these activities.

2. Main Objectives and Targets

The main objective is to have the social safety net attained an effective structure which minimizes the risk of social exclusion and poverty. This structure is to be achieved by considering all the socio-economic and cultural dimensions, taking into account the conditions of the country and region, integrating the disabled into society, and empowering all segments of society.

Social solidarity and integration is to be realized by improving the participation in economic and social life of individuals and groups that are subject or prone to the risk of poverty and social exclusion.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Transfer policies will be made more effective through achieving the redistribution of income in favour of the poor.	SGK, SYDGM	SHÇEK, The General Directorate of Foundations	2007-Continuous	Social transfers include the one-way transfers (pensions, salary for old-aged, unemployment benefit, unreturned scholarship etc.) from government, private enterprise or abroad and the payments in the form of assistance. A high portion of social transfers is composed of pensions. Making efficient transfers in the framework of social services and assistance system towards people who do not afford to pay premium, will affect income distribution positively. In this context, increasing the scope and efficiency of social services and assistance system gains more importance.
Priority 2. Services to reduce poverty will be in the nature of preventing the formation of culture of poverty and transforming poor to productive individuals.	SYDGM	İŞKUR	2007-Continuous	In conducting social assistance towards the poor, the capability of the person or his family to work will be taken into account to encourage them to be productive and financially self-sufficient.
Priority 3. Necessary measures will be taken to cover the poor who work in the informal sector under social security system and to employ them in decent work.	Ministry of Labour and Social Security, SGK	Ministry of Finance, SYDGM, SHÇEK	2007-2009	In Turkey, the poorest people are unpaid family workers and casual employees with regard to their employment statues. These people generally work in informal sector and so they could not be under the social security coverage. In the context of combating against informality, it is necessary to pay special attention to these people.
Priority 4. Income-generating projects will be supported in a way to diversify economic activities targeting poor segments. Particularly, entrepreneurship in rural areas and underdeveloped regions will be encouraged.	Ministry of Agriculture and Rural Affairs, İŞKUR	SYDGM, Directorate General on The Status of Women (KSGM), KOSGEB, Special Provincial Administrations, NGOs	2007-2009	Within the framework of rural development strategy, primarily the poor will be supported in the implementation of small-scale projects which will be developed in the areas like the improvement of traditional art and handicraft, presentation, sales and marketing of local products and services. Active labour market programmes will be put into action in non-agricultural sectors to increase the employability of the unqualified people, stemming from structural transformation in agricultural sector.
Priority 5. In order to increase the participation of women in the economic and social life, their employability will be increased through improving vocational training opportunities targeting women.				
Measure 5.1 Employability of women will be enhanced through providing vocational training especially for those who have migrated from rural to urban areas.	İŞKUR	KSGM, General Directorate of Family and Social Research (ASAGM), Special Provincial Administrations, Municipalities, Employee and Employer Trade Unions, NGOs	2007-2009	Professional qualities of women, primarily those who have migrated from rural to urban areas, will be enhanced through vocational training programmes with the aim of channelling them into the active labour force. The role of women in the economic and social life will be enhanced by increasing their employability.

Measure 5.2 Awareness-raising activities to strengthen women's social position will be undertaken.	KSGM	ASAGM, Special Provincial Administrations, Municipalities, TRT, Employee and Employer Trade Unions, NGOs	2007-2009	Realization and expansion of activities oriented at social awareness-raising will be supported with a view to enlarge women's room for efficiency, raise their level of education to help them benefit from equal opportunities, foster their participation in the development process, business life and decision-making processes.
Priority 6. Social awareness will be increased with regard to prevent violence against women.	KSGM	MoNE, RTÜK, TRT, Ministry of Justice, Ministry of Health, ASAGM, SHÇEK, Special Provincial Administrations, Municipalities, NGOs	2007-2009	A strong coordination and information network will be established among the public institutions and organisations, local administrations, universities and non-governmental organisations which run activities on the prevention of violence against women. Men and women will be enabled to gain awareness on their rights related with education, health, active participation to politics and employment.
Priority 7. Access to education will be facilitated for the children of low-income families, disabled children and especially girls in rural areas.	MoNE, SYDGM	SHÇEK, ASAGM, ÖZİDA, NGOs, Local Administrations	2007-2009	Projects which facilitate the access to education-basic education in particular- for disabled children, children of low-income families and especially girls in rural areas will be promoted along with the opportunities like transportation, clothing and nutrition. Also, the participation of civil society and private sector institutions in providing these opportunities will be developed consciousness of social responsibility in this respect.
Priority 8. Works directed towards improving the status of children who live under depressed conditions and preventing child labour will be made effective.	Ministry of Labour and Social Security, SHÇEK	Ministry of Interior, Local Administrations, NGOs	2007-2009	Database will be established regarding the children that are in need of protection. The social rehabilitation of the children that were adjudged by courts to be accommodated to Care Centres and Nurseries will be made at interim institutions. The attitude of employers with regard to the child employment will be inspected.
Priority 9. Educational programmes targeting families, which constitute the ideal environment for caring and raising children, will be boosted.	SHÇEK	MoNE, SYDGM, ASAGM, Local Administrations	2007-2009	Awareness raising studies will be done for all segments of society with regard to underline the importance of the concept of family and child care within family.
Priority 10. Home care services targeting the old will be supported and, the number and quality of retirement homes will be increased with respect to institutional care.	SHÇEK	Ministry of Health, SYDGM, ASAGM	2007-2009	Home care service, which can be served without isolating people from their social and physical environment, will be adopted as a model among the care services targeted towards the aged. In case where home care services are not possible, institutional services will be secured to serve at their best. In this context, it is necessary to increase especially the quality of retirement homes.
Priority 11. Social and physical environmental conditions will be improved to increase the participation of the disabled in the economic and social life, and to this regard special education opportunities and protective places of work, where the working environment is specially organized, will be developed.				
Measure 11.1. Need assessments will be made towards examining the adaptability of existing social and physical environmental conditions for people with disabilities.	Ministry of Interior	Ministry of Public Works and Settlement, ÖZİDA, SHÇEK, Municipalities, Special Provincial Administrations	2007-2008	Studies on the adaptability of social and physical environmental conditions to people with disabilities will be implemented.

Measure 11.2. Pre-school guidance and counselling services will be improved and private rehabilitation centres will be inspected efficiently for people with disabilities.	MoNE	ÖZİDA, SHÇEK	2007-2008	Guidance and counselling services will be designed for children with disabilities concerning their to-be institution before starting primary education. At the end of the guidance and counselling services, the disabled child to be able to involve in general education system will join therein, if not, they will be oriented to specialized educational institutions.
Measure 11.3. Home care services will be supported for people with disabilities to live in their own family environments.	SHÇEK	Ministry of Health, Ministry of Finance, ASAGM, ÖZİDA	2007-2009	The services, which provide the disabled with care services by their family's side and enable them to live in their own family environment, will be supported. The standards with regard to new services models will be developed in accordance with the regulations about determining people with disabilities in need of care, establishing and operating public and private care services.
Measure 11.4. Job opportunities towards people with disabilities will be broadened.	Ministry of Labour and Social Security, MoNE	ÖZİDA, SHÇEK, Private Sector Organizations	2006-2008	Sheltered workshops, where work environment is designed specially, will be developed and easily accessible vocational education and counselling services for people with disabilities will be provided. The employment of the disabled people will be provided by means of the regular work places first, if this is not possible, it will be provided by means of sheltered workshops. Initially, sheltered workshops will be developed in pilot work places and the presentation of this application to employers will be made by Prime Ministry Administration for Disabled People. Besides, by matching the defined job groups and existing disability types, it will be determined that for which profession a disability type could be benefiting.

D. INCREASING THE EFFECTIVENESS OF SOCIAL SECURITY SYSTEM

1. Current Outlook

The rate of population covered by social insurance programmes is 92 percent, and the rate of population under social health insurance coverage is 91.7 percent in 2005.

The most important problem of social security system is that revenues cannot meet the expenses. Whereas the ratio of the amounts of transfers from the central government budget to social insurance organizations in GDP was 2.6 percent in 2000, this ratio increased to 4.8 percent in 2005. The most important reasons of the financial problem of the social security system are the increase in health expenditures, insufficiencies of the IT infrastructure of the system, and the implementation of early retirement.

Social insurance program has diverged through time from its function of providing an effective and fair social security due to a number of reasons, in particular informal employment and financial deficit. In the context of reform studies, which are carried on in order to overcome the problems of the system and establish a fair social security system covering the whole population, the Social Security Institution Law No. 5502 was put into force on May 20, 2006. The Social Insurances and Universal Health Insurance Law No. 5510 will be put into force on January 1, 2007. Through the mentioned laws, five different social insurance regimes have been unified, therefore the implementation of benefiting from the social insurance rights in terms of different criteria has been ended. With the universal health insurance, the whole population will be covered by universal health insurance as of January 1, 2007. In addition, through the social security reform, an effective IT infrastructure will be established.

TABLE: IV. 48- Coverage Of The Social Insurance Programmes

(In Person)

INSTITUTIONS	2003	2004	2005
I. THE PENSION FUND OF CIVIL CERVANTS	**9,238,101**	**9,269,916**	**9,270,512**
1. Active Insured	2,408,148	2,404,091	2,402,409
2. Pensioners [1]	1,466,679	1,534,576	1,595,973
3. Dependents [2]	5,363,274	5,331,249	5,272,130
4. Active-Passive Ratio (1)/(2)	1.64	1.57	1.51
5. Dependency Rate (3+2)/(1)	2.84	2.86	2.86
II. THE SOCIAL INSURANCE INSTITUTION	**35,064,765**	**37,626,477**	**41,166,730**
1. Active Insured	5,655,647	6,229,169	6,965,937
2. Voluntary Active Insured[3]	697,630	327,962	266,558
3. Active Insured In Agricultural Sector	165,268	176,717	178,178
4. Pensioners [1]	3,935,523	4,120,866	4,308,186
5. Dependents [2]	24,610,697	26,771,763	29,447,871
6. Active-Passive Ratio (1+2+3)/(4)	1.66	1.63	1.72
7. Dependency Rate (5+4)/(3+2+1)	4.38	4.59	4.56
III. THE SOCIAL SECURITY INSTITUTION OF CRAFTSMEN, TRADESMEN AND OTHER SELF EMPLOYED	**15,881,624**	**16,233,984**	**15,990,253**
1. Active Insured	2,224,247	2,212,299	2,103,651
2. Voluntary Active Insured	236,398	238,313	239,388
3. Active Insured In Agricultural Sector	923,204	997,937	1,011,333
4. Pensioners [1]	1,445,820	1,519,190	1,600,294
5. Dependents[2]	11,051,955	11,266,245	11,035,587
6. Active-Passive Ratio (1+2+3)/(4)	2.34	2.27	2.10
7. Dependency Rate (5+4)/(3+2+1)	3.69	3.71	3.77
IV. THE PRIVATE FUNDS	**295,653**	**301,441**	**306,169**
1. Active Insured	70,925	73,412	75,552
2. Pensioners [1]	71,715	74,367	76,027
3. Dependents [2]	153,013	153,662	154,590
4. Active-Passive Ratio (1)/(2)	0.99	0.99	0.99
5. Dependency Rate (3+2)/(1)	3.17	3.11	3.05
V. GENERAL TOTAL	**60,480,143**	**63,431,818**	**66,733,664**
1. Active Insured	10,358,967	10,918,971	11,547,549
2. Voluntary Active Insured	934,028	566,275	505,946
3. Active Insured In Agricultural Sector	1,088,472	1,174,654	1,189,511
4. Pensioners [1]	6,919,737	7,248,999	7,580,480
5. Dependents [2]	41,178,939	43,522,919	45,910,178
6. Active-Passive Ratio (1+2+3)/(4)	1.79	1.75	1.75
7. Dependency Rate (5+4)/(3+2+1)	3.88	4.01	4.04
VI. SOCIAL INSURANCE COVERAGE WITH RESPECT TO HEALTH SERVICES[3]	**59,782,513**	**63,103,856**	**66,467,106**
VII.TOTAL POPULATION[4]	**70,692,000**	**71,609,000**	**72,520,000**
VIII.RATIO OF INSURED POPULATION (In Percent)	**85.6**	**88.6**	**92.0**
IX. RATIO OF POPULATION COVERED BY HEALTH SERVICES (In Percent)	**84.6**	**88.1**	**91.7**

Source: Pension Fund of Civil Servants, SSK, BAĞ-KUR, SPO.
1 Denotes the number of people (not the number of files).
2 Estimate.
3 Voluntary active insured in SSK are not under the coverage of health insurance.
4 Based on the population estimates of year 2005 derived from General Census of TURKSTAT, 2000 and HÜNEE (Hacettepe University Institute of Population Studies) research, 2003.

Studies related to allowances, eligibility inquiry, and provision system, which will be used during the provision of health services, are carried on within the Social Security Institution. Besides, arrangements about the implementations of general health insurance, social insurances and non-premium payments as well as studies related to institutional restructuring continue.

As a result of the fact that a large portion of the people with low incomes are either unemployed or working in the informal sector with low wages, they can not afford to pay premiums thus they can not participate in the social insurance system, and need to be supported through the social services and assistance system. Within the social services and assistance system, sufficient service can not be provided to the people in need due to lack of common measures and standards on the determination of the beneficiaries, lack of common database, failure on improving adequate cooperation within the public institutions as well as with the social security institutions and voluntary organizations, and lack of sufficient number of qualified personnel.

Monthly payment required by the Law No. 2022, which regulates the programme of the elderly and disability assistance, has increased to YTL 67.78 by July 2006, which was 24.48 at the end of 2002. The Disability Law No. 5378 has modified the Law No. 2022, hereby the monthly payments for the invalid and disabled rose up to three times commensurate with the severity of the disability ratio. As required by the Law No. 2022, total payments to elderly and disabled is YTL 1,003 million by the end of the year 2005.

As required by the Law No. 3816, health service given by Ministry of Health for people in need continues. Total green card expenditure is YTL 1,701 million for the year 2005. This expenditure is expected to be YTL 2,835 million by the end of the year 2006.

As required by the Decree Law No. 227 and the related regulation; poor, disabled and orphan people of 5,000 have received YTL 218.84 monthly payment in 2006. Besides, free food service has been given to 51,705 people at a total of 94 imarets, countrywide.

With the amendments in the Village Law No. 442 on December 28, 2005, health expenditures of temporary village policemen and their dependants who do not have any social security are started to be covered by the green card, whether they are eligible or not by Law No. 3816.

Monthly payment per person given by SHÇEK was increased to YTL 170.03 in the second half of 2006, which was YTL 76.19 at the beginning of the year 2005. With implementing regulation of in kind and cash aids, a total of YTL 16 million was transferred to approximately 20,000 people by SHÇEK in 2005.

The need for social services and assistance continues increasingly due to the reasons like migration, urbanization, change in the family structure, population growth, and unemployment. While the ratio of total public social assistance payments to GDP was 0.66 percent in 2004, this ratio is expected to increase to 1.09 in 2006. Monthly payments for the disabled and elderly, education and health benefits for children, aids for heating fuel and income generating projects targeting families in need are the supports that are extended in this context. These kinds of supports that facilitate the poor to have access to the services, such as education and health, raise their living standards.

2. Main Objectives and Targets

Social security system will be transformed to a system covering the entire population, that meets the societies changing needs, has financial sustainability and effective control mechanism and provides high quality services.

A common database working under objective rules and criteria will be set up to determine the targeted groups who will benefit from social services and supports. Coordination and collaboration among institutions in the social security system will be developed. Shortage of qualitative personnel in the sector will be met and the level of quality of services will be improved.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Social security system will be extended to cover the entire population.	SGK	Ministry of Labour and Social Security, Ministry of Finance, İŞKUR, TRT	2007-2009	To improve the awareness of social insurance, informative activities will be implemented.
Priority 2. Financial sustainability of social security system will be provided compatible with actuarial balances.	SGK	Ministry of Labour and Social Security, Ministry of Interior, Ministry of Health, Ministry of Finance, SPO, Undersecretariat of Treasury	2007-Continuous	Health care services financed by general health insurance will be bought on a contractual basis from providers. Health care services will be provided in accordance with analysis of cost effectiveness and priority health issues of the society.
Priority 3. The IT infrastructure of social insurance system will be developed as fully automated, effective, accessible and sustainable serving.	Ministry of Health, SGK	Ministry of Labour and Social Security	2007-Continuous	
Priority 4. Equality, social justice, effectiveness and efficiency principles will be the main basis. In order to determine the people who will benefit from the system, a common database will be created and a determination mechanism that is functioning through objective measures will be established.				
Measure 4.1. The effects of social assistance and project support, which is carried out in the area of social services and assistance, on the beneficiaries will be monitored and new strategy and policies will be developed in order to make these activities much more effective on the fight against poverty.	SYDGM	TURKSTAT, SHÇEK, Local Administrations	2007-2008	The effects of current social assistance and project supports on the poverty alleviation, as well of malfunctioning of the implementation will be determined, and the effectiveness of these processes will be increased. A research project, related to social assistance and project activities that are carried out by SYDGM, will be implemented.
Measure 4.2. The necessary regulations will be enacted in order to build up a good and objective deprivation criteria on determining the people who will benefit from social services and aids.	SGK, SYDGM	Ministry of Health, SHÇEK, TURKSTAT, ÖZİDA, General Directorate of Foundations, Local Administrations, NGOs	2007-2008	The absence of harmony in the deprivation criteria reduces the effectiveness of the assistance activities, and causes the people who are not in need benefit from the assistances and limits the beneficial use of the assistances for the people who are actually in need.

Measure 4.3. A better functioning IT infrastructure will be established and different databases will be integrated on the social services and aids system.	SHÇEK, SYDGM	Ministry of Health, SGK, TURKSTAT, ÖZİDA, General Directorate of Foundations, Local Administrations, NGOs	2007-2008	There are repeated beneficial uses on the social services and assistance system and, in order to prevent this setback, coordination among the organizations will be performed. This cooperation will be supported through the creation of common norm and standards by an integrated database.
Measure 4.4 National disability database will be set up.	ÖZİDA	Ministry of Interior, Ministry of Labour and Social Security, Ministry of Health, SGK, SYDGM, SHÇEK, TURKSTAT, Municipalities, NGOs	2007-2008	In order to discuss every kind of opinion and suggestions for solution about the subject of disabled people and disability, build up principles and programs which will be the basis for the national policies, support public consciousness about this subject, and provide the transposition and discussion of the ideas and developments at the national and international area, a project will be implemented for the preparation of the national disability database, which will compose the data of the disabled people.
Priority 5. Alternative care models will be supported for the children who need protection. Ameliorative measures shall be introduced where institutional care service is necessary.	SHÇEK	Local Administrations, NGOs	2007-2009	The spatial features of the institutions that give service to the children who need protection will be improved. Private care and rehabilitation centres will be established for the children who had emotional, sexual and physical abuse, drug addiction, live on streets, or directed to crime.
Priority 6. Within the area of social services and assistance, the need for qualified personnel will be met and the quality of the existing personnel will be increased.	MoNE YÖK	SGK, SHÇEK, SYDGM	2007-2008	The number of personnel who work in the area of social services and assistance is not sufficient. The number and capacity of the schools, which train the experts on the area of social services, will be increased.
Priority 7. Activities of local authorities and NGO's in the area of social services and assistance will be supported.	Ministry of Interior	Local Administrations, NGOs	2007-2008	In order to provide social services and assistance to reach the people in need, activities in this field will be carried out in cooperation with public institutions, local authorities and NGOs.

E. PROTECTING AND PROMOTING CULTURE AND STRENGHTENING SOCIAL DIALOGE

1.Current Outlook

Activities about strengthening our cultural infrastructure, generalizing cultural activities, fostering cultural relations with the countries of the world, especially with Turkish Republics and Communities; determination, research and restoration of cultural assets in Turkey and abroad are continued.

Initiatives for the legislative and administrative amendments to transfer local cultural services to the local administrations and promote public private partnership in this area for reviving cultural life and generalizing the cultural activities all around the country were started.

The issues of meeting the necessity of qualified human power, extension of coordination among the relevant institutions and removing the insufficiencies about promotion keep their importance.

Problems emerged because of intensive migration and wry urbanization cause the conditions that damage social integrity and harmony. This condition increases the importance of local administrations regarding the empowerment of social dialogue. In this context, initiatives to foster the culture of living together with democratic values have utmost importance. Furthermore, there is a need to enhance the capacities of local administrations and increase the dialogue with NGOs regarding these issues.

Rapid transformation process can influence the relationships within the family and society negatively. The reasons such as insufficient communication in the family and the problems of the education system can cause young people to break away from their families, become insensitive towards social problems and can increase their tendency towards violence. The participation of young people in the decision-making process is not at sufficient level; however, decreasing the election age to 25 is an important development in this area. The institution responsible for the promotion of social participation and seizing the free times of young people is the General Directorate of Youth and Sport (GSGM). However, taking the needs in this area into consideration, it is required to foster the ownership and implementations at regional and local level regarding the problems of young people. At local level, the implementing regulation for the working of youth councils has entered into force in 2006, but the efforts to transfer the youth services to the local administrations has not resulted yet.

2. Main Objectives and Targets

Protection, promotion and transfer to the coming generations of national cultural richness will be the basis of culture policies. The culture dimension will be taken into account while determining the economic and social policies and the effective participation of local administrations and NGOs to the realization of culture policies will be provided. It is targeted to take the necessary measures aiming to raise the individuals that will be able to integrate Turkish cultural accumulation being enriched with the needed values and attitudes and transferred from past to future and national identity formed by this culture with the values of present century in a self-confident manner. It is also aimed that all individuals will live within the framework of common cultural values and respect to differences in an atmosphere of tolerance, culture of compromise and social solidarity.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. The efforts for the inventory of our domestic and foreign cultural heritage, protection and restoration of this cultural heritage will be carried out in a planned manner and the consciousness of the public regarding this issue will be enhanced.				
Measure 1.1. The projects for the protection and promotion of cultural heritage belonging to the Anatolian Civilizations will be developed and supported.	Ministry of Culture and Tourism	Local Administrations, Universities, NGOs	2007-2008	The cultural heritage of Anatolian Civilizations will be protected and transferred to the coming generations. The projects to seize non-concrete cultural heritage will be developed.

Measure 1.2. The programmes at primary and secondary education for the enhancement of cultural consciousness will be developed.	MoNE	Ministry of Culture and Tourism	2007-2009	The younger people will be made conscious regarding national cultural heritage.
Measure 1.3. The legislative and administrative amendments in the process of İstanbul's candidacy for Europe's Culture Capital for 2010 will be resulted.	Ministry of Culture and Tourism	Local Administrations, Universities, NGOs	2007	The administrative and financial arrangements required for preparing İstanbul as the Culture Capital of Europe for 2010, planning and conducting future activities and extending the coordination among the public institutions regarding their activities will be realized.
Measure 1.4. The maintenance and restoration of Turkish cultural heritage abroad will be done.	Ministry of Culture and Tourism	SPO, General Directorate of Foundations, TİKA, Turkish Historical Society	2007-2009	The necessary legislative and institutional arrangements for the maintenance and restoration of Turkish Cultural heritage will be done.
Priority 2. The measures for easy access to and equal benefit from the cultural services for all segments of the society will be taken.	Ministry of Culture and Tourism	TGNA, State Archives, MoI, MoNE, RTÜK, General Directorate of Deed and Cadastral, General Directorate of Foundations, TRT, Local Administrations, Universities	2007-2009	The measures will be taken in order to prevent the cultural alienation stemming from insufficiency of education and knowledge and lack of information about our cultural heritage in the society. The activities for the cultural infrastructure will be completed in the planned time. Turkey Culture Portal, which enables interaction with the users, will be established and the initiatives for the extension and facilitation of sponsorship implementation in the area of culture will be made.
Priority 3.The appropriate atmosphere including place and financial support for the promotion of and support to visual, aural and scenic arts will be prepared.	Ministry of Culture and Tourism	Local Administrations, NGOs	2007-2009	Public and financial support regarding scenic arts will be continued. The support to the scenic arts, especially to the private theatres will be increased.
Priority 4. Increasing the number of endemic examples that were offered for tourism with protecting their authentic aspects will be supported in the context of promotion and extension of culture tourism.	Ministry of Culture and Tourism	Local Administrations	2007-2009	By the promotion of culture tourism, the cultural and endemic values will be protected and economic development will be contributed.
Priority 5. Cultural goods will be transformed into export products in accordance with the tourism sector and the obstacles that making export difficult will be eliminated.	Ministry of Culture and Tourism	Undersecretariat of Foreign Trade	2007-2009	The export of cultural goods, especially export of the hand works will be stimulated and facilitated.
Priority 6. The production of cultural products such as cinema and documentary films will be stimulated and the ratio of culture sector in GNP will be increased.	Ministry of Culture and Tourism	Undersecretariat of Foreign Trade, TRT, Private Sector	2007-2009	The project based supports in cinema and documentary film sector will be continued. The promotion of Turkish productions at international level will be fostered.

Priority 7. The tasks and responsibilities of the Ministry will be reorganized with the aim of determining effective policies to protect, foster and promote cultural identity and extending sufficient coordination among the relevant institutions.	Ministry of Culture and Tourism	Prime Ministry, SPO, Universities, NGOs, Private Sector	2007-2008	The necessary initiatives including research and legislative works for the coordination in the area of culture will be done.
Priority 8. Enrichment, and correct and effective usage of Turkish language will be provided.	Turkish Language Society	Ministry of Culture and Tourism, MoNE, YÖK, TRT, TÜBITAK, Universities	2007-Continuous	The usage of Turkish words instead of foreign words in written press and commercial life will be stimulated. The research activities for the promotion of Turkish will be continued. The correct and effective usage of Turkish will be provided primarily at the education, training, scientific and media institutions.
Priority 9. The measures for reducing the socio-cultural harmony problems stemming from intensive migration and wry urbanization will be taken.	MoI	Local Administrations	2007-2008	The socio-cultural need of people migrating to urban will be identified. The capacities of local administrations regarding the problems of these people about integration to the cities will be enhanced. The guiding services regarding harmony problems of students in the regions that are migrated will be improved.
Priority 10. The policies that foster tolerance and social dialogue will be prioritised to increase social solidarity.	Ministry of Culture and Tourism	MoNE, RTÜK, TRT, NGOs, Private Sector	2007-2008	The efforts for fostering tolerance and dialogue culture in written and visual press will be stimulated. The understanding of partnership culture and teamwork will be attached importance at schools. The understanding of partnership culture and teamwork will be placed to the mind at young ages.
Priority 11. The measures will be taken to make the relationship of the young with their families and the society healthier, to promote their self- confidence and increase their socialization, sensitivity and participation to the decision-making processes.				
Measure 11.1 The activities aiming to enhance the social participation of the young will be promoted and diversified.	General Directorate of Youth and Sport	MoNE, SHÇEK, Local Administrations, NGOs	2007-2009	The benefit of young people with low income from social activities regarding social participation will be extended and the number of activities will be diversified by increasing the quality and attractiveness of existing activities. The cooperation between local administration and General Directorate of Youth and Sport will be enhanced for increasing the number of beneficiaries of these activities.
Measure 11.2 The activities for preventing the tendency of young people to crime and harmful habits will be increased.	MoNE	MoI, SHÇEK, ASAGM, RTÜK, TRT, Local Administrations, NGOs	2007-2009	Visual and written publications for the prevention of tendency to the harmful habits and efforts to enhance the consciousness of families and young people regarding the beneficial usage of free times will be served.
Measure 11.3 The efforts for the improvement of coordination about youth services and for the definition of the role of state will be accelerated.	General Directorate of Youth and Sport	MoI, SHÇEK, Local Administrations, NGOs	2007	The efforts for transfer of youth services to the local administrations will be accelerated and the secondary legislation regarding the work of Youth Councils will be implemented effectively.

Measure 11.4 Convenient mechanisms for the participation of young people in decision-making process will be fostered.	General Directorate of Youth and Sport	MoNE, Universities, NGOs	2007	Best-practices, especially in the EU countries, in the field of participation to the decision-making processes will be analysed, an assessment will be done and the convenient mechanism will be selected for Turkey.
Priority 12. In the formulation of public policies, the efforts will be made to extend the contribution of NGOs to the decision making processes in order to provide democratic participation, social dialogue and transparency.	MoI	SPO, GSEUA, Local Administrations, NGOs	2007-2009	Efforts for the promotion and improvement of the quality of current NGOs will be provided. The NGOs will be made more effective by strengthening their positions. Existence of effective NGOs will foster the civilian oversight and transparency at public administration. The auditing process of NGOs will include guiding and improving dimension in the form of consultancy. The NGOs will be made conscious about their commitments.

F. INCREASING EFFICIENCY AND QUALITY OF SOCIAL EXPENDITURES

1. Current Outlook

There has been a considerable increase in the ratio of social expenditures, including education, health and social protection expenditures, to GDP in recent years. Although the ratio of public education expenditures to GDP has decreased after 2002, within the context of the Full Support to Education Campaign, which has been started in the same year, all education expenditures have been made exempt from tax and the contribution of private sector to education has increased. The ratio of public education expenditures to GDP is expected to increase again in 2006. Although, the ratio of education expenditures to GDP increases, access problems such as low level of education enrolment rate and regional differences, and quality problems such as inadequacy of physical infrastructure, revision of curriculum, improving teachers' qualifications of and synchronization of education materials with curriculum persist their importance.

Social protection expenditures have also risen considerably in the period 1998-2006, especially due to the increase in pension payments. Although the social protection expenditures have risen, problems such as poverty and inequality of income distribution stand out in this field.

Health expenditures have also increased considerably in the same period and although some measures have been taken in order to limit health expenditures in 2004 and 2005, the ratio of health expenditures to GDP has continued to increase. Despite the increase, quality problems in the health services keep their importance due to the reasons such as the inadequacy of the physical infrastructure and health personnel both qualitatively and quantitatively as well as their imbalanced distribution among regions, inadequacy of protective health care services, access problems and the lack of ability to form a referral chain.

TABLE: IV.49– Developments in Social Expenditures

(Ratios to GDP, In Percent)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 (1)	2007 (2)
Education (3)	**4.2**	**4.7**	**4.0**	**4.2**	**4.4**	**4.1**	**4.0**	**4.0**	**4.3**	**4.5**
Health (3)	**2.8**	**3.3**	**3.5**	**4.3**	**4.7**	**4.8**	**5.1**	**5.2**	**5.3**	**5.4**
Social Protection	**6.3**	**7.3**	**6.7**	**7.7**	**7.9**	**9.1**	**9.1**	**9.7**	**9.7**	**9.7**
Pensions and Other Expenditures (4)	6.0	6.9	6.3	7.1	7.1	8.1	8.2	8.7	8.6	8.6
Social Aids and Extended Payments (5)	0.2	0.5	0.4	0.3	0.3	0.4	0.3	0.5	0.6	0.6
Direct Income Sup. In Agriculture	0.0	0.0	0.0	0.3	0.5	0.6	0.6	0.5	0.5	0.4
Total	**13.3**	**15.3**	**14.2**	**16.2**	**17.1**	**18.0**	**18.2**	**18.9**	**19.3**	**19.6**

(1) Estimate
(2) Programme target
(3) Including the expenditures of general and annexed budgetary institutions (institutions that are under the context of central government after 2006), extra-budgetary funds, SEEs, social security institutions, revolving funds and local administrations. Additionally, green card expenditures which should be classified as social aid expenditures are included in the health expenditures.
(4) Including pension payments and other expenditures of social security institutions and expenditures of unemployment insurance fund.
(5) Including the expenditures of general and annexed budgetary institutions (institutions that are under the context of central government after 2006), Social Aid and Solidarity Fund excluding health and education expenditures, General Directorate of Social Services and Child Protection, Administration for Disabled People and extended payments of Emekli Sandığı.

2. Main Objectives and Targets

It is aimed that access, effectiveness and quality in the education, health and social protection systems will be enhanced by following a cost effective management in the forthcoming period.

IV. THE PROVISION OF REGIONAL DEVELOPMENT

A. INCREASING THE EFFECTIVENESS OF REGIONAL DEVELOPMENT POLICY AT THE CENTRAL LEVEL

1. Current Outlook

The needs for alleviation of the development disparities among regions and provinces, increasing the revenue levels of the underdeveloped regions, diversification of economic activities, reinforcement of local governments, encouragement of the initiatives that will mobilize the local dynamics and potentials, development of the competition based on cooperation and usage of resources in a more appropriate and effective way have been continuing.

With the commencement of the negotiation talks concerning the EU membership, the mitigation of the development disparities both between Turkey and EU member states and among its own regions, has gained importance.

TABLE: IV. 50- Development Performance of NUTS-2 Regions (1)

Level 2 Regions	Population as of 2000 (Thousand)	Share of Population (In Percent)	Annual Average Population Growth Rate 1990-2000 (Per Thousand)	Urbanization Rate (In Percent) (2000)	The Contribution of the Regions to GDP (2001)	GDP per capita Index Values (2001)	Number of Universities (2006)	Socio-Economic Development Index (2003)
TR10	10,018	14.8	33.1	90.7	21.3	143	23	1
TR21	1,354	2.0	13.6	60.2	2.5	127	2	6
TR22	1,541	2.3	9.2	51.5	2.2	98	2	10
TR31	3,370	5.0	22.4	81.1	7.5	150	5	3
TR32	2,516	3.7	16.3	46.7	4.2	113	3	8
TR33	3,051	4.5	10.0	52.0	3.9	88	4	12
TR41	3,025	4.5	22.6	76.4	5.2	117	3	4
TR42	2,715	4.0	17.7	57.2	7.6	191	5	5
TR51	4,007	5.9	21.4	88.3	7.6	128	10	2
TR52	2,435	3.6	21.3	58.9	2.7	75	1	13
TR61	2,490	3.7	31.3	55.3	3.5	95	3	9
TR62	3,500	5.2	21.8	68.5	5.8	111	3	7
TR63	2,714	4.0	12.8	52.6	2.9	74	2	15
TR71	1,690	2.5	10.1	53.0	2.1	85	4	17
TR72	2,498	3.7	8.7	58.8	2.4	66	3	16
TR81	1,024	1.5	-7.4	44.5	1.6	108	1	11
TR82	871	1.3	-7.3	47.8	0.9	70	1	21
TR83	2,999	4.4	5.2	51.5	3.2	73	4	18
TR90	3,131	4.6	9.3	49.4	3.1	67	4	19
TRA1	1,351	2.0	7.4	57.3	1.0	50	2	22
TRA2	1,156	1.7	5.0	44.6	0.6	34	1	25
TRB1	1,770	2.6	11.1	58.8	1.7	67	2	20
TRB2	1,956	2.9	25.5	49.3	1.0	35	1	26
TRC1	2,023	3.0	20.3	70.3	2.0	65	2	14
TRC2	2,806	4.1	29.1	59.1	2.2	54	2	23
TRC3	1,778	2.6	23.4	59.6	1.2	46	-	24
Turkey	**67,803**	**100**	**18.3**	**64.9**	**100**	**100**	**93**	

Source: SPO, TURKSTAT
(1) The Nomenclature of Territorial Units for Statistics (NUTS) classification in Turkey by the Council of Ministers Decree dated August 28, 2002 and No. 2002/4720.

National Regional Development Strategy studies have commenced to form the basis for spatial and regional development policy strategies, to provide coordination at the national level for the activities and efforts on regional development and to provide a framework for the lower scale plans and strategies. Within the framework of strategy studies, the analyses of the current status of the regions based on NUTS-2 classification are underway.

For the removal of the developmental disparities among the regions, the implementations of South Eastern Anatolia Project (GAP), Zonguldak-Bartın-Karabük

(ZBK), Eastern Black Sea (DOKAP) and Eastern Anatolia (DAP) Regional Development Plans are still underway. In addition, it is planned to complete Yeşilırmak Basin Development Plan (YHGP) and put into effect in 2007.

The support for the various projects of the special provincial administrations and municipalities in the Priority Regions for Development provided from the appropriation for authorities continues.

By the end of 2006, the number of the organized industrial estates in the Priority Regions for Development will reach 40 and the number of small industry sites will reach to 194.

5 out of 21 active free zones across the country are in the Priority Regions for Development.

In the educational year 2005-2006, the number of boarding primary schools in the Priority Regions for Development has reached 194, the number of boarding regional primary schools has reached 266 and these numbers have reached 282 and 300 respectively across the country.

In the provinces covered by the Law No. 5084 that regulates the incentives for the investments and employment and the Law No. 5350 that amends this Law, incentives such as withholding income tax, employer contributions for insurance premiums, free land allocation for investments and energy support continue. Within the framework of these laws, YTL 2 billion new investments in terms of 2006 prices, have been foreseen from the end of the 2004 until mid-September in 2006. It is expected that 21 percent of total investments will be realized in Eastern and South Eastern Anatolia Regions. In the same period, the additional employment, expected to be created within the framework of the energy support incentive element, will be approximately 109,000 people. The share of Eastern and South Eastern Anatolia Regions in the total additional employment is 22 percent.

The inter-regional migration in Turkey is mainly caused by developmental disparities between regions. In cities subject to intense migration, along with settlement problems including the shortage of housing, physical and social infrastructure, problems are also experienced in such fields as security, employment, environment, social services, and urban adaptation.

Along with metropolitan areas, such as Istanbul, Ankara, Izmir, Adana, Antalya, Diyarbakır, Gaziantep, Kocaeli, Bursa, Mersin, Sakarya, the negative effects of migration have become apparent in small and medium scale cities, such as Aydın, Yalova, Denizli, Manisa, Muğla, Şanlıurfa.

Within this scope, regional growth centres, which will act as centres and urban growth poles in orienting the migration tendencies and preventing out-migration in excessive amounts from relatively less developed regions and which have potentials to provide services for their periphery, have been identified. These centres, identified in the regions experiencing development difficulties, are the cities of Diyarbakır, Elazığ, Erzurum, Gaziantep, Kayseri, Konya, Malatya, Samsun, Sivas, Şanlıurfa, Trabzon and Van.

The twinning project of Support to State Planning Organization for Strengthening Institutional and administrative Capacity in Regional Development undertaken by the State Planning Organization and the member country partner the Department for Development and Cohesion Policies of the Italian Ministry of Economic Development was completed as of the end of 2006. Within the framework of the project, multi-aspect support was provided for the management of EU funds, the development of the cooperation between the central and regional units, human resources strategy for the management of the regional development policies, national development planning, management, control, monitoring and assessment and the establishment of development agencies.

2. Main Objectives and Targets

The regional development policies, on the one hand, contribute to the national development, competitiveness and employment by increasing the efficiency of the regions; on the other hand, serve to the purpose of alleviation of development disparities among the regions. They will bring the domestic migration movements into a stable structure compatible with social, economic and urban development; provide spatial balance for the development and a balanced distribution of the welfare across the country.

The national framework for regional and spatial development will be developed, regional development strategies and plans will be prepared in cooperation with development agencies and the scope, principles and standards of the sub-scale plan strategies - regional, provincial- will be determined.

In order to increase business opportunities and quality of life in the regions and the improvement of accessibility, intra- and inter-region interactions, spatial priorities and focusing will be adopted in public investments and the supply of service. The social and physical infrastructure will be reinforced particularly in the cities with high potential.

Public support policies for local and regional development will be reviewed considering the development levels and potentials of the regions, and new tools will be further developed such as venture capital, micro-credit institutions, application of minimum wage differentiated by regions and input costing to increase investment, production and employment.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. In the national regional development strategy, prepared to cover the entire country, the framework for spatial and regional development policies, will be formed and in connection with this, the rules, standards and framework for the spatial development strategies and plans will be determined.				
Measure 1.1. The basis of spatial and regional development strategies at the national and regional level will be formed.	SPO	Ministry of Public Works and Settlement Local Administrations, Line Ministries	2007	Strategic planning method which involves the active participation of local agents will be adopted in the preparation of regional plans and strategies. For this purpose, the required institutional capacity will be developed in relevant institutions at central and local levels.

Measure 1.2. The rules, standards and framework for the sub-scale -provincial, urban and rural- spatial development strategies will be determined.	Ministry of Public Works and Settlement	SPO Local Administrations, Line Ministries	2007-2008	In order to improve the quality of public facilities and construction, actions that are guiding and capacity improving in the field of spatial development strategies and physical planning need to be taken particularly for the relevant local authorities. Within this framework, the standards must be determined, the institutions in question must be guided and the foundations for the necessary legal, institutional and technical infrastructure must be laid by the relevant institutions at the centre.
Priority 2. The cities, which possess the attributes of a regional centre, will be determined and following an analysis of the migration trends among regions, strategies and policies to direct migration to these centres will be developed.	SPO	Line Ministries, Local Administrations, Universities, Bank of Provinces	2007-2009	The migration trends will be examined with all their aspects and will be associated with the development potentials in the regional attraction centres. In consistency with the projections within this framework, emphasis will be made on the existing and planned infrastructure projects of the regional attraction centres. Physical and social infrastructures, and in particular human resources of these regions will be developed, considering potentials and opportunities, current trends and environmental and structural analyses.
Priority 3. The fundamental problems of the cities, under intense migration pressure, will be identified and the physical and social infrastructure will be improved in the affected regions.	Ministry of the Interior	Line Ministries, SPO, Bank of Provinces, Special Provincial Administrations, Metropolitan Municipalities, Municipalities	2007	The cities that receive intense migration and face the most serious problems will be identified. Priority will be given to meet the needs of physical and social infrastructures of the identified cities.

B. ENHANCING DEVELOPMENT BASED ON LOCAL DYNAMICS AND INTERNAL POTENTIALS

1. Current Outlook

Along with the regional and local development policies, designed and executed from the centre, the applications, based on local dynamics and internal potentials, have also gained importance.

To mobilize the local potential and to develop the provinces and regions, many local development initiatives have emerged, such as Aegean Foundation for Economic Development (EGEV), The Foundation of Adana Güçbirliği and AYAGEM, The Council of Mersin Development and Co-operation (MEKİK), The Council of Samsun Regional Economic Development (SABEKAK), The Foundation for The Economic Development of Western Mediterranean (BAGEV) covering the provinces of Antalya, Burdur and Isparta, and Kelkit Platform formed by provinces and districts in the Kelkit basin.

The formation and development of these local development initiatives are encouraged for the implementation of the projects and activities within the framework of regional development plans and strategies with a participatory approach.

Both for the adaptation of the regional development policies and their applications to EU and also for the mobilization of the local development potential in the Priority Regions for Development, special regional development programs, financed within the framework of the Turkey-EU financial cooperation are underway. In a number of programmes, the projects, which are awarded contracts at the end of a competitive selection process are started to be implemented by the beneficiary institutions.

713 project proposals have been received to be financed under Eastern Anatolia Development Programme, covering Bitlis, Hakkari, Muş and Van. Following the evaluation, grant contracts have been signed with the owners of 309 projects and started to be implemented. These contracts correspond to the 87 percent of the total grants within programme budget.

1,050 proposals have been received to be financed within the framework of TR83 -Amasya, Çorum, Samsun, Tokat- TR82 -Çankırı, Kastamonu, Sinop- and TRA1 -Bayburt, Erzurum, Erzincan- NUTS-2 Regions Development Programme, covering 10 provinces. Following the evaluation, grant contracts have been signed for 396 projects. The implementations of the projects have commenced. The grant contracts signed correspond to the 98 percent of the total grants within programme budget. Within the framework of two programmes mentioned above, the total amount of fund that has been allocated to the projects for which contracts are signed has been Euro 80 million.

On April 18, 2006, call for project proposals has been announced under TRA2 -Ağrı, Ardahan, Iğdır, Kars- TR72 -Kayseri, Sivas,Yozgat- TR52 -Karaman, Konya- and TRB1 -Bingöl, Elazığ, Malatya, Tunceli- NUTS-2 Regions Development Programme. Within the framework of the programme, 1,589 project proposals have been received. It is envisaged that the evaluation of the project proposals collected in the Central Finance and Contract Unit will be completed and grant contracts will be signed by the end of 2006.

Financing agreement for the project package of 2005 Financial Cooperation Programme has been signed and within this framework, TR90 -Artvin, Giresun, Gümüşhane, Ordu, Rize, Trabzon- NUTS-2 Region Development Programme (DOKAP) is planned to be commenced in 2007.

2. Main Objectives and Targets

Regional development policies and applications will firstly be made based on the local dynamics and internal potential, and will be differentiated across relatively less developed regions and regions with high potential for development and will be equipped with innovative, multi-dimensional and differentiated tools. Strategic interventions will be supported with sufficient financial resources and effective coordination mechanisms at the central and local level, in particular with development agencies.

Regional and local economy will be taken as a basis for economic structuring and development, and particularly in underdeveloped regions, human resources in a way to support specialization at the local level, will be developed, entrepreneurship will be made widespread and measures, which will accelerate local employment and capital accumulation, will be adopted.

The determination, support and coordination of the innovative policies, specific to the regions will be provided with through development agencies and in particular in regions with high potential, the foundations for the development financing with independent financing nature will be laid.

Appropriate investment conditions will be provided for the SME policies differentiated with respect to the purposes of interregional convergence and competition. Within this framework, the expansion of the financing resources and the differentiation of the financing tools, the ease of access to the market, the support given to the clustering led by the leading sectors and strong social networks will be given special importance.

Firstly in cities with high development potentials, an environment helping the firms and universities to work in collaboration will be formed and activities aiming at accessing to information, development of technology transfer and transformation systems, establishment of an effective regional innovation system will be supported.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. By making labour market analyses in the appropriate regions, in accordance with the need for human resources and the SME policies, employment will be increased with the applications, which will develop the quality of labour force, the entrepreneurship and support clustering.				
Measure 1.1. Settlements with high development potential and competitive power that carry regional growth centre attributes will be identified.	SPO	Ministry of the Interior, KOSGEB, TOBB, TURKSTAT	2007	Considering the importance of the existing and potential human resources in fostering regional development, the integrated projects for the development of human resources are needed. It is aimed to accelerate the regional development and mitigate the regional disparities by initiating these project in regions with high potentials for development.
Measure 1.2. Economic analyses will be made for the identification of the needs of the settlements which are to be selected as regional growth centres.	İŞKUR	MoNE, Turkish Development Bank, YÖK TOBB, TURKSTAT, KOSGEB, Local Administrations	2007	The identification of the leading sectors and their labour requirements and qualifications will be made in the regions in question.
Measure 1.3. As a result of the labour market analyses to be made, special labour force and entrepreneurship trainings will be offered and infrastructure of clusters will be improved.	İŞKUR	Ministry of National Education, YÖK, KOSGEB, Local Administrations	2007-2008	By providing education in compliance with the identified needs, an increase in employment and economic development will be achieved. It is aimed at identifying existing and potential local entrepreneurs and training them in the fields such as management, production, promotion, technology, finance and organization.
Priority 2. Historical, cultural and natural assets at the local level will be better utilized, by assigning them priorities within the framework of regional strategies and considering protection-usage balance.				
Measure 2.1. Provincial inventories of natural, historical and cultural assets will be prepared.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, Local Administrations, Related NGOs	2007	It is aimed at preserving and developing the natural, historical and cultural assets and converting them to economic benefits. The inventory in question will be analysed within the framework of a standard format and the opportunities will be assessed and a priority order will be assigned.
Measure 2.2. Local non-governmental organizations and local authorities active in promotion and marketing of the local historical, cultural and natural assets will be supported.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, Local Administrations, Related NGOs	2007	Legal and institutional regulations, which will allow the promotion and operation of the assets at international standards, will be realized. In parallel with this, necessary support will be provided to the local stakeholders.

C. IMPROVING THE INSTITUTIONAL CAPACITY AT LOCAL LEVEL

1. Current Outlook

The Law of Establishment, Coordination and Duties of Development Agencies No. 5449 and dated as February 8, 2006 has become effective. The Law aims at accelerating the regional development, ensuring the sustainability and reducing the inter- and intra-regional disparities, in a way that complies with the principles and policies of National Development Plans and Programmes, through the development of the cooperation among public sector, private sector and civil organizations that will ensure the effectiveness of local resources.

The works on the preparation of by-laws needed for the constitution and activation of the Development Agencies are underway. In this context, the regulation for the principles and procedures of operations, the personnel regulation and the budget and accounting regulations have been completed.

The process of establishing Development Agencies commenced. According to the Council of Ministers Decision No. 2006/10550, published on July 6, 2006 in the Official Gazette; the pilot Development Agencies of Çukurova, covering Adana and Mersin provinces, and İzmir were established.

The local institutional capacity building has been supported with the Local Administrations Union Law No. 5355 that become effective in 2006.

A central, regional and local monitoring network has been established according to the Prime Minister Circular No. 2006/21 for the monitoring and evaluation of the regional development programmes which are supported by EU. The monitoring and evaluation activities of the three regional development programme, which are being implemented in 8 NUTS-2 regions, have been performed by 46 specialists, who are employed in Programme Implementation Units and Programme Coordination Centres, and in the provinces the governorship personnel assigned with the task. The State Planning Organization coordinates the monitoring and evaluation activities at the central level.

The monitoring network has been supporting the local project implementations while enabling the institutional capacity building in the fields of project preparation, monitoring and evaluation at local and regional levels.

Within the East Anatolian Development Programme -Bitlis, Hakkari, Muş, Van- 1,943 participants attended the training activities.

Within the TR83 -Amasya, Çorum, Samsun, Tokat-, TR82 -Çankırı, Kastamonu, Sinop- and TRA1 -Bayburt, Erzurum, Erzincan- NUTS 2 Regions Development Programme, which contains 10 provinces, 1,446 people participated to the training activities.

Within the TRA2 -Ağrı, Ardahan, Iğdır, Kars-, TR72 -Kayseri, Sivas,Yozgat-, TR52 -Karaman, Konya- and TRB1 -Bingöl, Elazığ, Malatya, Tunceli- NUTS 2 Regions Development Programme, which contains 13 provinces, 3,326 participants attended the training activities.

2. Main Objectives and Targets

In the formation of regional development policies and the improvement of their implementation potentials, the specialization level, project preparation, implementation, monitoring, evaluation and coordination capacities of the development agencies and local administrations will be enhanced and human resources will be developed.

The local cooperation and partnership among public, private and nongovernmental organizations will be supported and also the formation of a cooperation network and the knowledge transfer through this network for successful implementation examples will be encouraged.

D. RURAL DEVELOPMENT

1.Current Outlook

The National Rural Development Strategy has been prepared in order to accelerate rural development and form a rural development policy framework that will comply with EU policies. The document has been put into operation in 2006.

In accordance with the strategy document, a Rural Development Plan is being prepared to regulate the priority activities, measures and their implementations.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Local institutional structures especially development agencies will be constituted, the capacity of current structures will be improved, and the cooperation between central and local institutions will be made more effective.				
Measure 1.1. The establishment of Development Agencies will be continued.	SPO	Line Ministries, Local Administrations, Professional and Vocational Associations	2007	Two Development Agencies are established in two pilot NUTS-2 regions. Development Agencies aim at accelerating the regional development, ensuring the sustainability, enhancing the efficient usage of EU funds and developing the cooperation between public sector, private sector and nongovernmental organizations that will ensure the effective utilization of local resources. In 2007, new development agencies will continue to be established gradually in other regions.
Measure 1.2. The local and central institutional capacity will be enhanced for development, programming and management of projects.	SPO	Line Ministries, Local Administrations	2007	Capacity development studies for project management and for programming activities will be initialised at central and local levels starting with the pilot development agencies. These studies will be carried out to increase the project development capacity and the effectiveness in project implementation, monitoring and evaluation. The measure covers the alignment to the EU regional development policies and establishment of necessary implementation structures.
Priority 2. The tasks and authorities of the local and central authorities in physical planning will be clearly defined and an effective control mechanism will be formed.	Prime Ministry	SPO, Ministry of Public Works and Settlements, Line Ministries, Local Administrations	2007	The legislations about building and planning hierarchy will be revised and the tasks, rights and responsibilities will be harmonized. By these legislations, the confusion in rights, responsibilities and control mechanisms will be solved in order to be more effective in planning hierarchy, and become more timely and efficient in investments especially in urban infrastructure investments.

The work on formation of an institutional framework for the management of EU rural development funds that is envisaged to be benefited in 2007-2013 period is continuing. In this context, works on regulations to establish an Agricultural and Rural Development Institution is underway.

In Turkey, the differences in the definition of rural areas are limiting the formation of consistent rural development policies. In order to mitigate this problem, studies are being conducted for the clarification of the rural area definitions. Meanwhile, activities for the formation of a database for regional development policies, project implementation, monitoring and evaluation process are underway.

The need for the extension of social infrastructure facilities for rural areas in a participatory way keeps its importance.

Despite falling, the share of agricultural employment in total employment is still significant in rural areas. The number of people in rural areas employed in agricultural sector falls from 6.7 million (67.5 percent) in 2004 to 5.8 million (61.4 percent) in 2005. While the agricultural employment decreased by 900,000 people during the last year, non-agricultural employment increased by 440,000 people.

To mitigate the socio-economic problems such as unemployment, poverty and migration; some important measures that will diversify non agricultural economic activities, enhance the living standards and increase the level of income in rural areas should be implemented. In this context, it is still important to render the current support provided for the rural areas more effective.

The implementations of the Ordu-Giresun and Sivas-Erzincan rural development projects and Anatolian Water Basin Rehabilitation Project covering Samsun, Amasya, Çorum, Tokat, Sivas and Kayseri financed by national and international resources are continuing.

Within the framework of rural development sub-component of the Agricultural Reform Implementation Project (ARIP), the Village Based Participatory Investment Project is being implemented in 16 pilot provinces for the 2005-2007 period. In this context, 282 projects are identified for the

TABLE: IV. 51- Rural Employment and Unemployment Rates

(Thousand people)

	2004				2005			
	Turkey	In Perc.	Rural	In Perc.	Turkey	In Perc.	Rural	In Perc.
Total Employment	21,791	100.0	9,948	100.0	22,046	100,0	9,480	100,0
- Agriculture	7,400	34.0	6,716	67.5	6,493	29,5	5,820	61,4
- Industry	3,987	18.3	783	7.9	4,280	19,4	873	9,2
- Services	10,404	47.7	2,449	24.6	11,273	51,1	2,787	29,4
Unemployed	2,498	10.3	628	5.9	2,520	10,3	687	6,8
Non-Agricultural Unemployment		14,3		14.8		13.6		14.8
Young Population Unemployment		19,7		12.6		19.3		14.1

Resources: TURKSTAT

grant support of YTL 33.3 million. The Rural Development Investment Support Programme financed by national resources is put into practice for the 2006-2010 period in the remaining 65 provinces. The programme has a content and implementation structure similar, to a large extent, to the ARIP. The programme provides grant support to the eligible economic and physical infrastructure investment projects. In the context of the programme, 974 projects have been identified for a grant of YTL 118.1 million.

According to the year 2000 Census, 35.1 percent of the Turkish population is living in the villages. According to the Ministry of Interior data, there are 36,822 villages and 47,059 sub-villages in 2006.

In addition to the village roads and drinking water programme, village sewage systems and agricultural infrastructures projects are also included in the Rural Infrastructure Support Project (Köy-Des) in 2006. 12,370 village road projects, 7,747 village drinking water projects, 582 agricultural infrastructure projects and 1,182 village sewage projects, making up a total of 21,881, are planned to be implemented by the end of October 2006.

The rural drinking water, sewage, electricity, communication, transportation and agricultural infrastructure investments which are important for ensuring sustainable living standards and improving the quality of life in the rural areas, have been completed to a large extent.

The funding needs in rural infrastructure investments have remained high due to the efforts to improve the standards in investments. Moreover, the unit cost of investments is increasing due to the problems of dispersed settlement pattern and out-migration. For these reasons, a study on the identification of suitable settlement places has been started in order to determine and strengthen medium-scaled growth centres that has appropriate population and economic scales.

The problems in provision of services to the rural settlements of which total number approximate 83 thousand nationwide have been continuing due to their large number and dispersed settlement. For this reason, making the suitably scaled central settlements more functional and prioritising them in the provision of public services remain important issues.

The Settlement Law No. 5543 has been put into force which regulates the rights and obligations of the settlers, provision of housing to migrants, nomads and to those whose land has been expropriated, housing associated with social security and the terms of physical settlement in villages.

By the Return to Village and Rehabilitation Project, 141 thousand of 360 thousand people out-migrated from their villages returned to their villages. On the other hand, efforts to ensure the participation of the migrants, who prefer to live in the areas where they migrated, to their new social and economic life and their social integration keeps its importance and priority. Besides, the Law on the Compensation of the Loses due to the Terror and Fight Against Terror No. 5233 provides compensation of the pecuniary losses of people migrated reluctantly.

In this context, the project of migration and out-migrated population research has been completed in order to determine the policies and measures, and develop their implementation plans for selected rural areas.

The implementations of regional development projects that aim to solve the social and economic problems of rural areas in an integrated manner are being continued.

2. Main Objectives and Targets

The main objective in rural development is composed of enhancement of the working and living conditions of rural population compatible with the urban areas and making them sustainable via mobilization of local potentials and resources and development of new economic activities with higher value added without sacrificing from the protection of natural and cultural assets.

Rural development policies will be implemented in a complementary way with agricultural policies with an emphasis on mitigation of the unemployment and migration problems associated with the transformation of rural areas and diversification of sources of income. In this context, the strengthening of producers organizations, efficient usage of soil and water resources and increasing competitiveness of agricultural enterprises will be prioritised.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. The Rural Development Plan will be completed, central–local institutional structures will be strengthened and the division of tasks between them will be made more effective for the implementation of the plan. Institutional mechanisms will be formed for the use of EU rural development funds..				
Measure 1.1. Rural Development Plan will be prepared.	Ministry of Agriculture and Rural Affairs	SPO, Ministry of Interior, Line Ministries, Local Administrations	2006-2007	The plan will be prepared within the framework of Rural Development Strategy and ground on the activities and measures that are to be financed by national and international resources. Besides, the necessary legislation and administrative structures will be defined for the utilization of rural development funds given in the context of the Instrument for Pre-Accession Aids of EU.
Measure 1.2. Necessary administrative structures will be established for the implementation of Rural Development Plan.	Ministry of Agriculture and Rural Affairs	SPO, Undersecretariat of Treasury, Secretary General for EU Affairs, Related Institutions and Organizations	2006-2007	The administrative framework regarding the preparation, implementation, monitoring and evaluation of the plan at central and local levels will be completed by taking the Acquis-Communitaire into account. Establishment of Agriculture and Rural Development Institution and an inter-ministerial committee will be prioritised at the central level in order to ensure coordination and participation. The capacity of the management of EU funds will be enhanced in the context of National Fund.
Priority 2. Special practices backed up with information and communication technologies for the development of alternative economic activities will be supported in order to decrease the unemployment in rural areas and increase the employment opportunities.				
Measure 2.1. In rural areas, non-agricultural economic activities will be defined and vocational training will be provided in order to address the labour force requirements of these activities.	İŞKUR	MARA, Ministry of Industry and Trade, MoNE, SPO, Governorships, Special Provincial Administrations	2007-2009	Vocational training will be given to the labour force which are seeking non-agricultural employment due to the declining agricultural employment in order to enable them to gain necessary skills required by the locally identified non-agricultural activities.

Measure 2.2. Pilot local development projects will be planned and put into implementation.	Ministry of Agriculture and Rural Affairs	Ministry of Industry and Trade, Ministry of Culture and Tourism, Ministry of Environment and Forestry, SPO, Other Relevant Institutions, Development Agencies, Local Administrations, NGOs	2007-2009	In light of the national plans, programs and sectoral strategies, pilot participatory rural development programs will be prepared and implemented. Alternative employment areas like tourism and handcrafts will be developed and the value-added in agricultural and forestry activities will be increased by processing and marketing the products of those activities. The settlements that have sufficient institutional capacity and coordination potentials will be prioritised.
Priority 3. The infrastructure of the chosen rural growth centres will be rehabilitated by prioritising them in public investments and services.	SPO	Ministry of Interior, Ministry of Public Works and Settlement, Governorships, Line Ministries	2007-2008	In order to accelerate rural development, based on sustainable development principle, appropriate growth centres that have potentials to grow and serve their hinterlands will be determined by taking the functional classification of settlements study and the current municipal law into consideration.
Priority 4. The capacities of local authorities and their associations, especially provincial administrations, will be strengthened to enable them to participate in rural development effectively.	Ministry of Interior	Line Ministries, SPO	2007-2009	Necessary framework will be established in order to ensure the coherence and effectiveness of the local practices with the national policies in a strategic perspective and to form a basis for the practices of implementing institutions.
Priority 5. Necessary measures will be taken to provide better living conditions for the people that migrated for some reasons in their former or current settlements as they like.				
Measure 5.1. Through Return to The Village and Rehabilitation Project, the return of those people who are willing to turn to their villages will be managed in a planned manner.	Ministry of Interior	Ministry of Public Works and Settlement, MARA, SPO	2007-2009	The Return to the Village and Rehabilitation Project has been continued in order to provide sustainable living conditions for the families who migrated from their villages and want to come back.
Measure 5.2. The existing projects for the housing of the people who have left their places due to obligatory reasons such as expropriation will be continued.	Ministry of Public Works and Settlement	Ministry of Interior, SPO, Special Provincial Administrations, TOKİ	2007-2009	The implementation principles and measures in rural areas about the arrangements of physical settlements, including the arrangements of dispersed settlement structure and housing of the people whose places have been expropriated, will be realized within the framework of the Settlement Law No. 5543.

V. IMPROVING THE QUALITY AND EFFECTIVENESS IN PUBLIC SERVICES

In order to ensure effective management of the Turkey’s economic and social development process, there is an ongoing need for public administration in Turkey to provide citizen- and result-oriented, high-quality, effective and efficient services and have a contemporary understanding, structure and functioning of modern concepts such as flexibility, transparency, participation, accountability, consistency and predictability.

In this framework, problems such as lack of coordination and cooperation among public agencies and institutions, lack of harmonization in the duties and authority of public agencies and institutions and their organizational structure, inability to realize effective human resources planning to enable the public employees to attain competency are experienced. In addition, deficiencies in direct service areas such as justice, internal security, disaster management and deed and land registry exist. Moreover, from the point of view of ensuring effective public services, it is of importance to utilize information and communication technologies.

A. RATIONALIZING THE TASKS AND AUTHORITIES IN AND AMONG THE INSTITUTIONS

1. Current Outlook

Important regulations with regard to the improvement of the institutional structure of the State were realized in recent years. In order to allow the Prime Ministry to return to its principal duty by reducing the tasks it executes and downsize its organizational structure, the number of institutions and organizations attached and affiliated to the Prime Ministry was decreased. In this context, The Ministry of Culture was merged with the Ministry of Tourism and the Ministry of Environment was merged with the Ministry of Forestry. The number of state ministers was decreased and thus the number of ministries, which was previously 36, was decreased to 23. The General Directorate of Rural Services and the Undersecretariat of Housing were abolished. Furthermore, Social Security Institution was established to update the social security system to modern standards and ensure coordination and collaboration among public agencies within social security system.

However, confusion about authority and duties among public agencies and institutions is still being encountered in some sectoral and thematic fields, especially in disaster management. When regulatory agencies were established, appropriate modifications were not fully introduced regarding the duties of the relevant sections of ministries, which performed these duties previously. Coordination problems could not be alleviated in the sectors where more than one institution or organization was involved.

To organize principles pertaining to the duties, authorities, resource-sharing and relations among central and local administrations, there is still the requirement for the central government to determine the necessary standards in order to reach a certain level of service quality nationwide and to monitor compliance with these standards.

2. Main Objectives and Targets

For the public agencies and institutions to perform their principal duties; to ensure cohesion between their duties and authorities, to take into account the principles set forth by the European Charter of Local Self-Government in the transfer of duties and authorities from the central administration to local administration, to set up the minimum national standards in the services provided by the regional administrations and to ensure monitoring are the main targets.

Local administrations within the principles of unity of the administration and conforming to the unitary structure of the state, based on the standards and principles determined by the central administration; will be reformed as transparent administrative units that take their own decisions to meet the local and common needs in an effective, efficient and timely manner, creating their self-resources and implementing their projects.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. For provision of public services more efficiently and effectively, incompatibilities and ambiguities in duties and authorities among public institutions would be removed, and public institutions would have institutional structures consistent with their main duties.	Prime Ministry	Public Institutions and Organizations	2007-2009	Taking into consideration the Functional Review Report prepared by SPO, legal adjustments to abolish the overlaps in responsibilities and duties among public institutions would be realized. Organization laws of public institutions would be reviewed to harmonize duties and responsibilities with their organizational structures.
Priority 2. For the services provided by local administration, nationwide service standards would be determined and monitoring the compliance with these standards would be carried out by central administration.	Ministry of Interior	Related Public Institutions and Organizations, Local Administration, Professional Associations	2007-2009	To provide services with certain quality and standards all over the country, minimum services standards and criteria would be determined by related ministries, and compliance with these standards in service provision would be monitored by central administration.
Priority 3. Works on draft General Administrative Procedure Law would be completed.	Ministry of Justice		2006-2007	To develop the procedural rules of administrative acts and decisions and to determine the administrative decision-making process, preparatory works for a draft law would be completed in line with the aim of improving business environment.

B. ENHANCING POLICY MAKING AND IMPLEMENTATION CAPACITY

1. Current Outlook

The Public Financial Management and Control Law No. 5018, which covers the allocation of public resources to priority public services, the efficient, effective and economic use of these resources and delegation of more authority to public administrations in the budgeting process, was enacted. Through realization of the legal arrangements concerning local administrations in recent years, compliance with the principles introduced by the Law No. 5018 has been accomplished.

Guides were prepared to aid the implementation of strategic planning and performance based budgeting. Pilot implementations of strategic planning and performance based budgeting were started in selected public organizations in 2004. Strategic planning activities have been completed in six of those eight public organizations. The Strategic Planning Guide for Public Administrations has been updated in the light of the information and experience obtained from pilot implementations.

Rolling the implementation of strategic planning out to public administrations within the scope of a phased transition program has been adopted. In order to create a transition program based on data and information, the Strategic Management Survey was conducted to determine the management processes, management quality and institutional capacity in public organizations.

Strategy development units were established to create the organizational structure for activating strategic management approach in public administrations. Within the framework of secondary legislation arrangements, the Implementing Regulation on the Principles and Procedures for Strategic Planning in Public Administrations has been published and entered into force. A phased transition programme has been established in the Implementing Regulation, which envisages rolling out the strategic planning responsibility to all public organizations until January 31, 2009

2. Main Objectives and Targets

Transition to strategic management in public institutions and organizations will be carried out through a change management approach.

In order to rationalize the policy formulation process and to ensure that the policies are based on data and information, qualitative and quantitative data management systems will be developed. Numerical, simulative and analytical methods will be utilized in both policy formulation and costing processes.

The budget will be structured to indicate the performance of public administrations by considering the costs of the policies to be implemented, the groups affected by these policies and the opportunity costs. Within the framework of creating a performance culture in public administrations; measurement, monitoring and evaluation processes will be improved.

The existing administrative and human capacity in public administrations will be developed in terms of quality and quantity in line with the strategic management approach, programmes targeting the adoption of the managerial culture to new structure will be organized.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. The strategic planning and performance based budgeting works at the institutional level, which are being conducted within the framework of the public financial management reform, will be rolled out in a scheduled manner.				
Measure 1.1. The secondary legislation for performance based budgeting will be published and guidelines will be completed.	Ministry of Finance	Turkish Court of Accounts, Ministry of Interior, SPO	2007	In accordance with the provision of the Public Financial Management and Control Law No. 5018, the public administrations will base their budgets on strategic plans and will prepare them on performance basis. The works for the implementing regulation and guidelines for performance based budgeting will be completed.
Measure 1.2. Public administrations will carry on their strategic planning works in accordance with the transition schedule in the Implementing Regulation on the Principles and Procedures for Strategic Planning in Public Administrations.	SPO	Public Institutions and Organizations	2007-2009	In order to effectively implement strategic planning, a gradual implementation strategy has been adopted and a phased transition programme has been created which provides rolling out strategic planning responsibility to public administrations until January 31, 2009. In this framework, 31 administrations in 2007, 60 administrations in 2008 and 40 administrations in 2009 shall complete their strategic plans. Other public administrations should conduct the works and operations for preparation and design stage of the strategic planning process.

Measure 1.3 Human and institutional capacity of the public administrations for strategic planning will be developed.	SPO	Ministry of Finance, Ministry of Interior, Local Administrations, Universities, NGOs	2007-2009	In order to effectively implement strategic planning, which has been adopted as an innovative tool in public financial management, the theoretical and practical knowledge base will be enhanced. For this aim, the cooperation among public administrations, universities and nongovernmental organizations will be promoted, training, research and publication activities will be carried out, and coordination among central organizations in public sector will be ensured.

C. IMPROVING THE HUMAN RESOURCES IN THE PUBLIC SECTOR

1. Current Outlook

There are inadequacies in human resource development in the public sector. Major inadequacies exist on the basis of personnel and wages, ineffective human resource planning, unclear and inadequate definition in the legislation pertaining to personnel promotion, imbalanced allocation of public employees among institutions and agencies. It is essential that public employees utilize the opportunities and possibilities provided by information and communication technologies, strengthen policy and project creation capabilities, adapt to teamwork and having multi-faceted and flexible knowledge and skills to be capable of taking initiative.

Efforts are still under way to enact a new law to replace the Civil Servants Law No. 657 in order to resolve such issues.

2. Main Objectives and Targets

Effective human resource planning, the employment of personnel in terms of numbers and qualifications as necessary to provide the services, realization of public employee regime reform, and expansion of the use of norm cadre shall be ensured in public agencies and institutions.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Necessary measures will be taken to ensure the allocation of public personnel quantitatively and qualitatively in a well-balanced way and to enhance the capabilities of public personnel.				
Measure 1.1. Works on the draft law on public employee regime reform would be completed.	State Personnel Agency	Ministry of Finance, Public Administration Institute for Turkey and Middle East	2006-2007	To abolish shortcomings and deficiencies in the public employment regime and to provide public services in an effective and productive way, works on draft law which envisages restructuring the regime radically would be completed.
Measure 1.2. Harmonization of cadre regime with the restructured public employment regime would be ensured.	State Personnel Agency	Ministry of Finance	2006-2008	Following the restructuring of public employment regime, works on harmonization of cadres and positions and cadre regime legislation with the newly established statutes would be continued.

Measure 1.3. Completion of norms cadre works and monitoring of the implementation will be ensured.	State Personnel Agency	Ministry of Finance	2006-2008	In the framework of Council of Ministers Decree on the procedures and principles of norm cadre works that will be carried out by the public agencies and institutions No. 2000/1658 and amendments to this decree, also Prime Ministry Circular No. 2001/39 norm cadre works of public institutions and agencies, would be completed and the implementation would be monitored.
Measure 1.4. Effective human resources planning would be carried out in all public institutions and agencies.	State Personnel Agency	Public Institutions and Organizations	2007-2009	An effective human resources plan would be carried out in public institutions and agencies in order to ensure all public employees reach an efficient capacity level and adapt themselves to changing conditions. Within this framework, employees would participate continuously in education, training and development processes and would be equipped with the necessary knowledge and skills to carry out their works in an efficient way.

D. ENHANCING THE DISSEMINATION AND EFFECTIVENESS of e-GOVERNMENT

1. Current Outlook

e-government approach adopted in the scope of e-Transformation Turkey Project aims to establish a participatory, transparent and accountable government structure, by which users can reach inter-operable and integrated electronic public services that are focused on the needs of citizens and businesses securely, on one-stop basis and from multi-platforms.

Within this approach, in order to improve and disseminate e-government services, two strategic priorities, Citizen Focused Public Service Provision and Modernizing Public Management took place in the scope of Information Society Strategy that was put into practice in 2006, where the targets for 2010 as well as activities to reach these targets are defined.

Central Population Management System (MERNIS), ID Information Sharing System, Automation of Tax Administrations (VEDOP I-II), National Adjudication Network (UYAP), Modernization of Customs Administration (GİMOP), Police Information Network (POLNET), Automation of Public Budget Auditing System (Say2000i), SSK e-Declaration and Prime Ministry Legislation Information System are primary e-government applications that are commonly provided. On the other hand, studies are underway to establish address record system; land registry and cadastre information system (TAKBİS); and unique number system for legal persons. Besides, establishment of e-government gateway is being carried out by TURKSAT Corporation. The portal is expected to be initiated at the beginning of 2007.

12 out of 20 basic on-line public services suggested by the EU are provided in Turkey through electronic channels at different maturity levels. As of 2005, average maturity level of 20 basic on-line public service provision is 53 percent in Turkey, while EU-25 average is 65 percent. The rate of citizens who reach e-government services on the internet to total population is 23 percent in the EU-25, while it is 6 percent in Turkey according to TURKSTAT data for 2005.

Studies to provide e-government services in an integrated manner instead of separate applications of different public agencies; to prevent overlaps and waste of resources in electronic public service provisions; to eliminate problems stemming from lack of inter-operability in sharing information and documents within and among the agencies are being held in various levels. It is expected that the establishment of e-government portal will vastly eliminate these problems.

2. Main Objectives and Targets

The main objective is to establish e-government structure, which is an important tool for effective public management with required technical, administrative and legal aspects. In this respect, e-government applications will be carried out with an integrated manner, public ICT investment projects will be executed on the basis of coordination and sharing information in secure electronic environments.

On-line public services will be provided on the basis of life cycles and business processes of citizens and business, and public processes will be redefined and improved within this context. Standards will be defined in order to eliminate repetitions and maintain inter-operability in e-government applications; one-stop, continuous, secure and multi-channel integrated public service provision will be achieved and disseminated. In the process of transition to e-government, increasing service productivity will be essential and public applications providing quick gains will be prioritised.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. An effective and reliable e-government structure will be established within the frame of strategic priorities defined in the Information Society Strategy.				
Measure 1.1 e-government Portal will be established and developed.	TURKSAT Satellite Communication and Cable TV Operation AS (TÜRKSAT A.S.)	Ministry of Transport, SPO, Public Institutions and Organizations	2007-Continuous	e-government Portal will be established. It will enable access to electronic public services from single point and different platforms; electronic public service provision will be enhanced and the usage will be improved.
Measure 1.2. Public Secure Network will be established.	TURKSAT Satellite Communication and Cable TV Operation AS (TÜRKSAT A.S.)	Ministry of Transport, SPO, Public Institutions and Organizations	2007-2009	Rather than investing on institutional wide area network infrastructures, a common secure communication infrastructure will be installed to meet the needs of the public institutions that will also constitute the backbone of the government architecture.
Measure 1.3. Address Record System will be established.	Ministry of Interior	Ministry of Industry and Trade, Higher Election Board, TURKSTAT, TOBB, Municipalities	2007	Address information regarding citizens, enterprises and other entities will be stored at a central database in accordance with EU standards. Address information will be exchanged between relevant agencies based on pre-identified principles, and address collection efforts of different agencies will be consolidated. Address registry documents will be exchanged online among agencies.

Measure 1.4. Land Registry and Cadastre Information System will be disseminated.	General Directorate of Land Registry and Cadastre	Ministry of Justice, Ministry of Interior, Ministry of Finance (Revenue Administration), Municipalities, Relevant Public Institutions and Organizations	2007-2009	TAKBİS will be rolled out to several land registry and cadastre offices; the database to be created will be shared between the institutions and the organizations that require such information such as Ministry of Justice, Ministry of Finance, municipalities, notary-publics. Land registry and cadastre database will be integrated with MERNİS database. Citizens will be able to make several queries about their properties online.
Measure 1.5. Public employees will be trained regarding new public management approach and e-government issues.	Prime Ministry	Ministry of Interior, SPO, State Personnel Agency, Universities, Public Institutions and Organizations	2007-Continuous	An education programme to inform public employees on new public management approach and e-Government issues will be initiated and sustained.
Measure 1.6. Priorities and actions of the Information Society Strategy and the Action Plan will be realized.	SPO	Public Institutions and Organizations	2007-Continuous	The Action Plan comprises the actions and e-Transformation Projects to be applied between 2006-2010. In this period, these projects will be prioritised in the Public Investment Programmes.

E. IMPROVING THE JUDICIAL SYSTEM

1. Current Outlook

With the Law No. 5536, a new salary system applicable only to judges, prosecutors and high-level judicial bodies was set up and the salaries of judges and prosecutors were increased.

With the Law No. 5530, jurisdiction of military courts on civil persons has been mostly narrowed at peace times, Military Criminal Procedural Law has been widely harmonized with Civil Criminal Procedural Law. The execution of criminal and security measures given by the military courts has been subject to Ordinary Law on Criminal and Security Measures Execution No. 5275 to a great extent.

As of September 2006, the number of judges and public prosecutors is 9,048 and other administrative judicial staff is 27,596. These figures are relatively below the average, especially for judges, of EU averages. With the establishment of Regional General Courts (Courts of Appeal) by June 1, 2007 and enactment of main laws such as the Turkish Penal Code, Law on Criminal Procedure, Law on Execution of Punishments and Measures, Law on Probation and Parole, it is evident that there will be an ever greater gap in the number of judges, prosecutors, and other judicial staff.

There are insufficiencies in both quantity and capacity of prisons and detention houses. Prisons and detention houses were 436 in September with a total capacity of 73,681 persons. While the number of prisons and detention houses was 54,842 in September 2005, it reached 66,917 as of September 2006.

TABLE: IV. 52-Number of Judges and Public Prosecutors and Criminal Cases in Courts per 100.000 Inhabitants

(2004 Data)

Countries	Number of Judges	Number of Prosecutors	Criminal Cases in Courts
Germany	25	6	1,104
France	10	3	1,549
Netherlands	12	4	-
Spain	10	4	12,074
Portugal	17	12	1,105
Italy	10	4	2,452
Turkey	**8**	**4**	**2,500**

Source: European Commission for the Efficiency of Justice (CEPEJ) 2006 European Judicial Systems Evaluation Report

2. Main Objectives and Targets

Efforts for improving the quality of service in the functioning as well as basic components of the judicial system will be continued. Legal and institutional regulations that will ensure better operation of the judicial process will be further improved.

With the aim of reducing workload of the judicial authorities, development of alternative dispute resolution methods, increasing the number of judges, prosecutors and other judicial staff, alleviation of the deficiency of technical and physical infrastructure of judicial service units and transfer of judicial services into the electronic environment will be ensured.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Judiciary services will be improved.				
Measure 1.1. Development of alternative dispute resolution methods would be improved for alleviating workload of justice.	Ministry of Justice		2007	In order to solve disputes fast, simply, cost-efficiently and to alleviate the workload of justice, some legal regulations would be held especially in civil law disputes to secure alternative dispute resolution methods.
Measure 1.2. Judge, public prosecutor and other administrative judicial staff numbers would be increased.	Ministry of Justice	Ministry of Finance, State Personnel Agency	2007-2009	The shortage of judge, public prosecutor and the other administrative judicial staff would be increased in the framework of norm cadre based on work analyses.
Measure 1.3. Technical and physical infrastructural deficiency of judicial service units would be alleviated.	Ministry of Justice	Ministry of Finance, Ministry of Public Works and Settlement, SPO	2007-2009	Works for alleviating the technical and physical infrastructural deficiency of judicial service units would be accelerated.

F. ENHANCING THE EFFECTIVENESS OF SECURITY SERVICES

1. Current Outlook

Because of increasing trend of the terrorist activities, rising criminal cases related to public security, and expansion of the organized crimes to the international level, security has been the main issue on national and international scale.

Due to the insufficient level of activities for fighting against criminal matters at the country levels, there is a growing need for the measures directed to establishment of the international cooperation.

In modern and democratic societies, the nature of the public security services should concentrate on the human satisfaction considering the critical balance between freedom and security. In this content, institutional framework and technological infrastructure of national police, gendarme and coast guard have been strengthened.

2. Main Objectives and Targets

The security services will be concentrated on fighting against financial and organised crimes, illegal migration and asylum, human trafficking, using and trading drugs and terrorism while keeping on the security measures for public and individual safety.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Public security services will be provided on the basis of civic support and individual orientation by adoption of an approach that prevents the criminal events at their origin and tracing to the suspect by the way of evidence.				
Measure 1.1. Security services will be concentrated on general public order and intelligence activities and the technological infrastructure will be strengthened in related agencies.	General Directorate of Security	Ministry of Interior, General Command of Gendarme, Command of Coastal Guard, National Intelligence Organization	2006-2008	The legal and institutional framework of related agencies will be established in order to give effective security services which take into consideration of human satisfaction while observing the critical balance between the freedom and security.
Measure 1.2. The criminology labs will be extended to countrywide and their technological needs will be met.	General Directorate of Security	Ministry of Interior, General Command of Gendarme	2006-2008	The technological needs of criminal labs will be met in order to reach the suspect by way of evidence.
Priority 2. Fight against financial and organised crimes, against terrorism and its finance will be carried on.				
Measure 2.1. The institutional restructuring of related agencies will be realised and technological infrastructures and qualified personnel needs will be taken into consideration.	General Directorate of Security	Prime Ministry, Ministry of Interior, General Command of Gendarme, MASAK	2006-2008	Technologically equipped and mobile security system infrastructure will be established effectively to fight against organised crime, money laundering, and terrorist activities.

Priority 3. Fight against illegal migration and asylum, human trafficking, drugs using and trading; will be carried on effectively.				
Measure 3.1. Studies on the efficient legal and institutional infrastructure for border security will be carried on.	General Directorate of Security	Ministry of Foreign Affairs, General Command of Gendarme, Command of Coastal Guard, Undersecretariat of Customs	2007-2009	Establishing a new agency for civil administration of migration and asylum will be carried on. Construction of re-admission centres and new management system for external borders will be carried on.
Measure 3.2. National Drug Strategy of Turkey and Action Plan will be implemented in all details.	General Directorate of Security	General Command of Gendarme, Command of Coastal Guard, Undersecretariat of Customs	2007-2009	The capacity of The REITOX Focal Point of Turkey will be enhanced and it will give the services at EU standards.

G. NATURAL DISASTERS

1. Current Outlook

Disaster management is fundamentally composed of disaster mitigation, preparation, response and reconstruction/rehabilitation stages. However, efforts in Turkey had been focused on response and reconstruction/ rehabilitation activities rather than disaster mitigation and preparedness.

There are numerous institutional, administrative, legal and implementation problems relating to pre/post disaster periods. The need to have a comprehensive disaster management system that will eliminate overlapping duties and responsibilities of institutions in disaster management still continues.

Although some measures such as building control and compulsory earthquake insurance have been initiated in order to create safe living spaces, adequate improvement can not be achieved in particular issues such as risk management and urban planning systems.

The Decree-Law on Compulsory Earthquake Insurance No. 587 was put into force in 1999. While approximately two million insurance policies were sold initially, the number of policies sold has decreased in time. Some of the reasons for this decrease are as follows; public buildings and the buildings in villages are not subject to Compulsory Earthquake Insurance, inadequate sanctions for incompliance and reliance of the public that the government shall take the responsibility of constructing permanent houses by issuing special laws following earthquakes.

2. Main Objective and Targets

Disaster management will be restructured in an adequate, effective and a comprehensive form both at central and local levels.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Overlapping responsibilities and duties of institutions in disaster management will be eliminated and necessary arrangements will be realised by reviewing existing laws and regulations.	Prime Ministry	Ministry of Interior, Ministry of Public Works and Settlement, SPO, Local Administrations, Other Related Public Institutions	2007-2008	In order to have a comprehensive disaster management system which covers mitigation and preparation, response and reconstructions/ rehabilitation stages, an institutional and administrative structure will be developed.
Priority 2. The development and building codes will be revised in terms of mitigation and risk management in order to make cities safer.				
Measure 2.1. Standards and methods for disaster safety, mitigation and risk management will be developed in urban planning and building construction, control of development and construction processes will be ensured and responsibilities and penalties will be clarified.	Ministry of Public Works and Settlement	Ministry of Interior, Local Administrations	2007-2008	In urban planning and construction works, it is necessary to integrate mitigation and risk management standards and methods for disaster safety to Zoning and Development Law and its regulations, to facilitate supervision of development and construction process and to define explicitly responsibilities and penalties.
Measure 2.2. Compulsory Earthquake Insurance will be improved to cover countrywide and all disaster types and buildings.	Undersecretariat of Treasury	Ministry of Public Works and Settlement, Other Related Public Institutions	2007-2008	

PART FIVE

THE EUROPEAN UNION AND FOREIGN ECONOMIC RELATIONS

I. PROCESS OF ALIGNMENT WITH THE EUROPEAN UNION

Accession negotiations between Turkey and the EU have started as of October 3, 2005; in line with the Presidency Conclusions of the European Council of December 17, 2004.

The screening process, which constitutes the first phase of the negotiations and was carried out on the basis of the acquis chapters, started on October 20, 2005 and was completed on October 13, 2006. The screening process, which is essentially a technical issue, has been carried out by the active participation of related ministries and public institutions. The Chapter on Science and Research was opened to negotiations and closed provisionally. On the other hand, concerning the Chapter on Education and Culture, the negotiation position paper has been submitted to the Presidency of the EU, but the EU has not reached a common position yet.

The Monitoring and Steering Committee, which operates under the chairmanship of the Minister of State appointed as the chief negotiator and composed of high level representatives from Prime Ministry, Ministry of Foreign Affairs, Undersecretariat of State Planning Organization, Secretariat-General for EU Affairs and Permanent Representative to the EU in Brussels, coordinated and steered the internal activities regarding screening process.

In June 2006, the issues of utmost importance in respect of alignment with the screened acquis chapters were determined and legal arrangements planned to be made by the end of 2007 were set out within the context of the Programme for the Harmonisation with the EU Acquis.

Reforms aiming at alignment with the Copenhagen political criteria have continued. In this respect, decrees concerning the ratification of Protocol No. 14 to the Convention for the Protection of Human Rights and Fundamental Freedoms, amending the Control System of the Convention, and UN Convention against Corruption have been adopted. Law on the ratification of the revised European Social Charter and the Protocol amending the European Social Charter, Law on amending the Law on the Establishment and Trial Procedures of Military Courts, Law on Settlement and Law on Public Inspection Authority (Ombudsman) have been adopted. Furthermore, a constitutional amendment reducing the age requirement for being a deputy to 25 has been made.

The Centre for European Union Education and Youth Programmes established to fulfil the function of National Agency for Turkey’s participation to EU education and youth programmes -Socrates, Leonardo da Vinci and Youth- has continued to work successfully. In respect of the country-centred programmes, nearly 26,000 persons during the 2003-2005 period and 25,000 persons in 2006 benefited from the above mentioned three programmes, amounting to a total of approximately 51,000 persons by the end of 2006.

The Sixth Framework Programme of the EU in the field of research and technological development, to which Turkey participated, will expire at the end of 2006. Work towards Turkey’s participation to Seventh Framework Programme (2007-2014) is underway. Turkey continues to participate to Fiscalis 2007 Programme, Customs 2007 Programme and Public Health Action Programmes. A memorandum of understanding was signed at the end of 2005 between Turkey and the EU with a view to Turkey's participation in the Culture 2000 Programme and the implementation of the Programme has started.

Agreement on Cooperation in the Exploration and the Use of Outer Space for Peaceful Purposes signed between Turkey and the European Space Agency, one of the Community agencies, has been ratified and entered into force.

In order to benefit from EU’s pre-accession financial aid, Euro 500 million has been allocated to Turkey within the framework of Turkey-EU Financial Cooperation 2006 Programme. 2006 project packages seeking harmonisation with the acquis, institutional structuring and economic and social cohesion have been submitted to the European Commission.

Financial aids, granted by the EU to the candidate countries during the period of 2007-2013 shall be arranged within the scope of the Instrument of Pre-Accession Financial Aid (IPA). Preparations to accelerate accreditation process of the required structures and work towards strengthening the capacities of the related institutions continue.

In the context of the recent developments in the EU, following the rejection of the European Constitution setting out the policies and institutional structures of the Union by the referenda in France and the Netherlands in the first half of 2005, it has been decided that a reflection period should be given to Member States and concrete steps should be taken on the Constitution by the second half of 2008 at the latest.

The number of the Member States will rise to 27 after the accession of Bulgaria and Romania to the Union as of January 1, 2007.

At the Intergovernmental Conference on October 3, 2005; accession negotiations have been opened with Croatia besides Turkey.

At the European Council in December 2005, the Republic of Macedonia has been accepted as a candidate country. At the same European Council, the Member States have reached a compromise on financial perspectives for the 2007-2013 period.

II. MULTILATERAL AND BILATERAL ECONOMIC COOPERATION

A. MULTILATERAL ECONOMIC COOPERATION

1. Current Outlook

Efforts for development of commercial and economic relations with Islamic Countries continue at bilateral and multilateral levels. Multilateral economic relations among Islamic Countries are conducted under the umbrella of the Standing Committee for Commercial and Economic Cooperation of Organization of the Islamic Conference (COMCEC), and, in the various other platforms of Organization of the Islamic Conference (OIC). OIC which has 57 member countries, has also observer countries whose number has increased to 5 with the participation of the Russian Federation in 2005.

The First Round Talks of Trade Negotiations aiming at the establishment of a Trade Preferential System among the OIC Member Countries (TPSOIC) as one of the important projects of the COMCEC hosted by Turkey has been completed successfully in 2005. The Round drafted the Protocol on Preferential Tariff Scheme (PRETAS), which classifies the tariff reductions agreed by the member countries. PRETAS was adopted by the Trade Negotiating Committee (TNC) and later has been approved and opened for signature of the relevant member countries by the 21st Meeting of COMCEC held in November 2005. Six countries have signed the Protocol so far.

The 22nd COMCEC Meeting will be held in Istanbul on November 21-24, 2006. In this meeting, the issues regarding economic developments in member countries and in the world, implementation of OIC Economic Cooperation Action Plan and in OIC Ten-Year Programme of Action, progress in the implementation of COMCEC projects, establishment of a Trade Preferential System among the OIC Member Countries, enhancement of the trade among the member countries, exchange of views on simplification of trade and investment procedures, enhancement of the cooperation among the private sector and the matters related to the activities of the World Trade Organization will be discussed.

During the 22nd Meeting of COMCEC Follow-up Committee, it was decided that the TPSOIC Second Round of Trade Negotiations would be hosted by Turkey. During the First Meeting of the Second Round of TPSOIC Trade Negotiations scheduled to be held in Istanbul on 24-26 of November 2006 after the 22nd COMCEC Meeting, the issues regarding the implementation of PRETAS will be discussed.

Turkey’s export to OIC countries in 2005 was realized as USD 13 billion constituting 17.8 percent of Turkey’s total exports. In the first 6 months of 2006, the level of exports has been USD 6.5 billion representing a 1.5 percent increase as compared to the same period of the last year.

Turkey’s import from the OIC countries in 2005 was realized as USD 14.4 billion constituting 12.4 percent of Turkey’s total imports. In the first half of 2006, the level of imports was USD 8.8 billion indicating a 37.5 percent increase when compared with the same period of the last year.

Within the framework of Economic Cooperation Organization (ECO), as one of the regional cooperation organizations joined by

Afghanistan, Azerbaijan, Iran, Kazakhstan, Kirgizistan, Uzbekistan, Pakistan, Tajikistan, Turkmenistan, and Turkey, cooperation activities in the fields of trade and investment, transport and telecommunication, energy, mining and environment, agriculture, industry, health and tourism, economic research and statistics, education, science and drug control are under way.

Turkey, Iran and Pakistan have signed and ratified the Agreement for the establishment of ECO Trade and Development Bank. Efforts are under way for the operation of the Bank.

While the İstanbul-Tehran-Taşkent-Almatı container train which started in 2002 is continuing its runs regularly, and the passenger train between Istanbul and Tehran is also running regularly, efforts are continued to extend the passenger line up to Almatı. A Meeting of a Study Group was held in Tehran on June 19, 2006 to that effect.

The first meeting of the Board of Governors of ECO Trade and Development Bank was held in Ankara on July 6, 2006.

The 16th Meeting of ECO Regional Planning Council was held in Tehran on January 30 to February 2, 2006.

The third ECO Ministerial Meeting on Environment was held in Almatı on June 28-30, 2006 and the sixth ECO Ministerial Meeting on Transport and Communication was held in Tehran in May 2006.

The Transit Transportation Framework Agreement (TTFA), which aims to facilitate the transitions and cooperation in transportation sector among ECO countries, has entered into force on May 19, 2006 after the completion of ratification procedures by 7 member countries. Turkey's ratification procedures are under way. In this framework, the first meeting of the Transit Transportation Coordination Council (TTCC) working for the implementation of TTFA was held in Baku on September 25-26, 2006.

The preparatory works for the ECO Regional Food Security Programme have been completed with the support of UN Food and Agricultural Organization (FAO) in 2006. The Programme is composed of regional and national projects in the fields of cereal production, organic agriculture, animal husbandry, water management, drought management and improvement of the trade capacity. IDB has initially allocated USD 2.5 billion to finance the national projects under the Programme.

Turkey's exports to ECO countries in 2005 was USD 2.7 billion constituting 3.6 percent of the total exports. In the first half of 2006, the exports have raised to the level of USD 1.4 billion with an increase of 7.7 percent when compared with the same period of the last year.

Turkey's imports from ECO countries was USD 5.1 billion in 2005 which was 4.4 percent of the total imports of the year. In the first half of 2006, the imports have raised to the level of USD 3.7 billion with an increase of 85 percent as compared to the same period of the previous year. Huge price upsurge in petroleum and natural gas was the main factors in that sharp increase.

Turkey, Albania, Azerbaijan, Bulgaria, Armenia, Georgia, Moldavia, Romania, Russia, Ukraine, and Greece have taken part in the Black Sea Economic Cooperation (BSEC) as founding members. With the participation of

Serbia in 2004, the number of member countries has risen to 12. Poland, Tunisia, Israel, Egypt, Slovakia, Italy, Austria, Germany, France, Belarus, Croatia, Check Republic, and, USA are observer countries in BSEC.

The rule of a coordinator country in BSEC study groups continue. Turkey is the coordinator of the study groups for Protection of the Environment, Trade and Economic Development and SMEs.

The Study Group for Transportation has prepared BSEC Action Plan in that area. Under the coordination of the Ministry of Transportation, the studies are undertaken to determine the strategies and actions to be taken by Turkey.

The studies and efforts for inter-connection of electrical power systems of the BSEC countries are also under way.

Additional funds have been made available for EU funded projects in the countries that are in the accession period such as Bulgaria, Romania and Turkey with the memorandum of understanding signed by BSEC Trade and Development Bank and European Council.

Turkey has approved of the Agreement between the Governments of the Black Sea Economic Cooperation for Emergency Help and Rapid Intervention in Disasters stemming from Natural or Human Causes.

Turkey's export to BSEC countries in 2005 was USD 8.6 billion constituting 11.7 percent of the total exports. In the first half of 2006, total exports have risen to the level of USD 4.8 billion indicating a 20 percent increase when compared with the same period of the previous year.

Turkey's imports from BSEC countries in 2005 were USD 20.5 billion constituting 17.5 percent of the total imports. In the first half of 2006, total imports have risen to the level of USD 12.2 billion with a 25.7 percent increase when compared with the same period of the previous year.

Developing Eight Countries (D-8) is a platform of cooperation for economic development and trade amongst the developing countries. Its members are Bangladesh, Indonesia, Iran, Malaysia, Egypt, Nigeria, Pakistan and Turkey. Since the establishment of the organization, a wide range of information and experience has been exchanged which has produced an atmosphere of friendship leading to a synergy in the efforts for the development of bilateral relations as well.

During the Fifth D-8 Summit that took place in Bali (Indonesia) in 2006, the Ministers have signed the Preferential Trade Agreement and the Agreement for Customs Cooperation among the member countries and approved the Bali Declaration. For entry into force of D-8 the Preferential Trade Agreement, negotiations for Rules of Origin will be held in 2007.

Turkey's exports to D-8 countries were USD 2.1 billion in 2005 representing 2.8 percent of the total exports of that year. During the first half of 2006, the exports have amounted to USD 1.1 billion reflecting an 11 percent increase when compared with the same period of the last year.

Turkey's imports from D-8 countries were USD 5.9 billion in 2005 corresponding to 5 percent of the total imports of the year. In the first six months of 2006, imports have risen up to the level of USD 5 billion indicating a 48 percent increase as compared with the same period of the previous year.

2. Main Objectives and Targets

Efforts for the development of economic and commercial relations at bilateral and multilateral level will be continued and the quality and coverage of these efforts will be improved. In this context, adequate and well-focused measures will be taken for the development of economic and commercial relations with Islamic Countries. Required measures for diversification of export goods, accession to new markets and removal of the investment and trade barriers will also be taken.

Within the context of TPSOIC, Turkey will host the four meetings of the Second Round in 2007. In the Second Round, the matters related to the realization of PRETAS will be discussed, and efforts will be intensified for involvement of more member countries in the trade negotiations through signing and ratification of the Framework Agreement.

Within the context of COMCEC activities; the projects for cooperation among patent offices, building of a network of job incubators, seashore erosion, building of a network of energy technology etc. will be continued.

In line with the Millennium Development Goals of the United Nations, required support will be given, within the framework of OIC, to the programmes such as capacity building, production and processing of cotton for poverty alleviation in OIC member countries.

In ECO region, necessary efforts will be continued for removal of tariff and non-tariff barriers for the improvement of the regional trade, facilitation of transportation and delivery, strengthening the market economy, facilitating effective operation of private sector, improvement of investment climate in the region, ensuring consistency with the international standards through improving the transparency of the trade regimes.

Active participation to the existing activities will be ensured and required support will be given for the liberalization of the regional trade and for the improvement of the conditions for investment in the region and entry into force the ECO Trade Agreement (ECOTA) and the Agreement for Protection and Promotion of Investments as soon as possible. For strengthening the relations of the countries region with the West, cooperation in transportation and communication will be continued.

In Turkey’s relations with BSEC countries, private sector will be given the priority and private entrepreneurship will be encouraged. Necessary measures will be taken for improving investment climate and facilitation of private sector corporate activities, at individual and collective level.

Since the SMEs play an important role in the process of transition to free market economy, necessary measures will be taken for the gradual removal of the barriers and obstacles encountered by the SMEs in BSEC countries in trading with other countries and for enhancing cooperation in the free trade zones.

The facilities of the BSEC Bank of Trade and Development will be used to finance the joint projects and to support the private sector in line with the programmes and policies of the Bank.

While trade, transportation and energy will continue to be the priority fields of cooperation, the cooperative efforts in the fields of tourism, communication, exchange of economic and commercial knowledge will also be uplifted and will be made more effective.

New projects will be introduced applicable to the region to improve the trade and e-trade. In order to encourage the agriculture and investments in the region, programmes and projects that will improve the cooperation between the Secretariat of BSEC and relevant UN institutions will be launched.

Joint activities aiming at the enhancement of energy efficiency and particularly the protection, processing and enhancement of bio-energy production potential of the Black Sea will be supported, and regional training programmes for enhancing energy efficiency will be conducted.

Efforts shall be continued for transformation of Turkey into an energy hub and marketing of energy through effective transportation of natural gas and petroleum produced in BSEC region to the markets in the Western world through the pipe-lines with no harm to the environment.

In 2007, Turkey that will assume the Term Presidency of BSEC, will continue to play an effective role and contribute to political stability and regional peace by improving the economic cooperation with the member countries of the region.

D-8 Cooperation, established with the initiative of Turkey, constitutes a platform for the improvement of relations among the member countries. In this respect, Turkey will continue to support cooperation activities under D-8.

For the improvement of commercial relations and removal of the barriers for free trade among D-8 countries, studies will be continued in the fields of taxation, realization of the preferential trade system, harmonization of tariff codes and regulations, introduction of preferential tariff rates, removal of the non-tariff barriers, prevention of double taxation and harmonization of commercial laws and regulations.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Efforts are under way for TPSOIC Tariff Reduction Protocol of PRETAS to be signed and executed by many countries.				
Measure 1.1. TPSOIC Second Round will continue in 2007.	Undersecretariat of Foreign Trade, SPO	OIC General Secretariat, Subsidiary and Affiliated International Organizations	1991-2007	Within the context of TPSOIC–PRETAS, negotiations on the rules of origin and other trade related matters would be concluded.
Priority 2. Within the framework of ECO, cooperation activities will be realized in the fields of trade and investment, transport and telecommunication, energy, mining and environment, agriculture, industry, health and tourism, economic research and statistics, education, science and drug control.				

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Measure 2.1. The activities will continue for the establishment of the ECO Trade and Development Bank.	Undersecretariat of Treasury	Ministry of Foreign Affairs, Ministry of Finance, SPO	1996-Continuous	Preparatory works will be carried out for the ECO Trade and Development Bank to be fully operational in 2007.
Measure 2.2. The activities for ECOTA's entry into force will be continued.	Undersecretariat of Foreign Trade	Ministry of Foreign Affairs, SPO, Undersecretariat of Customs	2007-Continuous	ECOTA will be put in force via negotiations with the related organizations and through consultations with member countries.
Measure 2.3. The activities related to Turkey's ratification of TTFA and the activities related to TTCC Council will be continued.	Ministry of Transport	Ministry of Foreign Affairs, SPO, Undersecretariat of Customs, TOBB	2007-Continuous	In line with comments gathered from the related organizations, negotiations will be conducted in TTCC Council for the implementation of TTFA.
Measure 2.4. ECO-ITC Project will be continued.	Undersecretariat of Foreign Trade	Ministry of Foreign Affairs, SPO, TOBB, Related International Organizations	2007	Efforts will be spent for the completion of the second phase of the project in consultation with the related organizations and in coordination with the member countries.
Measure 2.5. ECO Food Safety Donor's Conference will be held in Turkey in 2007.	Ministry of Agriculture and Rural Affairs	Ministry of Foreign Affairs, Ministry of Health, SPO, Undersecretariat of Foreign Trade	2007	In this conference, in line with the views and comments of the public organizations and enterprises: the matters related to cereal production, organic agriculture, husbandry, water management, drought management, improvement of trade capacity will be discussed.
Priority 3. Multilateral and multi-sectoral cooperation among the BSEC countries will be improved for enhancing economic and commercial relations.				
Measure 3.1. A programme will be developed to support and facilitate the trade and investment in BSEC region.	Undersecretariat of Foreign Trade, Undersecretariat of Treasury	Ministry of Foreign Affairs, KOSGEB, IGEME, BSEC Secretariat, UN Institutions	2007-2009	In consultation with public sector institutions and enterprises, efforts will be made to develop and implement programmes between BSEC Secretariat and UN Organizations.
Priority 4. Efforts will be continued in the fields of reduction of custom tariffs for realization of the preferential trade system, removal of the non-tariff barriers, prevention of double taxation and harmonization of the trade procedures among the D-8 countries .				
Measure 4.1. Preferential Trade System will be finalized.	Undersecretariat of Foreign Trade	Ministry of Foreign Affairs, Undersecretariat of Customs	2007	Facilitation and enhancement of trade among the member countries will be ensured.
Measure 4.2. Multilateral Agreement for Administrative Assistance in the field of customs will be finalized.	Undersecretariat of Customs	Ministry of Foreign Affairs, Undersecretariat of Foreign Trade	2007	Custom procedures will be facilitated for enhancing trade among the countries.

B. BILATERAL ECONOMIC COOPERATION

1. Current Outlook

Turkey's relations, starting in 1991, with Turkish Republics and Communities, have continued in 2006 in consistency with the medium-term and long-term interests of the country and the region.

Baku-Tbilisi-Ceyhan crude oil pipeline has been put into operation officially.

It has been targeted that Turkey-Georgia (Kars-Tbilisi) Railway Project which has been initiated for ensuring a continuous railway connection between Turkey and Turkish Republics would be realized in 2007. Trans-Asian passenger train has been operating since March 12, 2001. İstanbul-Tehran-Taşkent-Almatı container train, which started to operate in 2002, is running regularly.

Under the Great Student Programme executed by the Ministry of National Education, graduate and post-graduate education has been offered for foreign students. TÖMER continues its programmes for teaching Turkish language.

Turkish International Cooperation and Development Agency's (TİKA) technical assistance to Turkish Republics is increasingly continued.

Turkey's exports to Turkish Republics were USD 1.4 billion in 2005, which was 1.9 percent of the total exports of the year. In the first half of 2006, the amount of exports was USD 791 million which reflects a 1.5 percent increase when compared with the same period of the last year.

Turkey's imports from Turkish Republics were USD 1.3 billion in 2005, which was 1.1 percent of the total imports of the year. In the first half of 2006, the imports were realized at USD 747 million which reflects a 21 percent increase when compared with the same period of the last year.

In the light of the experience gained in the regional development and cross-border cooperation programmes executed within the framework EU financial support for Turkey which is in the preparation phase for accession, activities for implementation of the Interregional Cooperation Programme between Turkey and Arab Republic of Syria are underway.

Country reports are prepared in order to inform public and private sector and improve bilateral relations with other countries in economic, social and cultural fields.

Through the meetings of Joint Economic Commission (JEC), Free Trade Agreements (FTA) and the agreements of Mutual Promotion and Protection of the Investments (MSPI) have been signed between Turkey and various countries.

2. Main Objectives and Targets

Activities initiated for improving Turkey's relations and cooperation with the Turkish Republics in all fields will be executed more effectively through better financial and administrative coordination.

Efforts will be made for realization of JEC meetings with Turkish Republics and fostering top-level economic and commercial relations in this framework.

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Furthermore, infrastructure programmes will be given special importance while implementing the economic and cultural programmes such as transportation, communication, television broadcasting, banking, contractors' activities, agriculture, and mining.

In the light of the experience gained from the cross-border cooperation programmes with neighbouring countries, similar Regional Cooperation Programmes will be realized with Turkish Republics.

The activities of Interregional Cooperation Programme with Arab Republic of Syria will be carried out in coordination with public institutions and enterprises, NGOs, and relevant entrepreneurs in private sector.

Country reports prepared for improvement of Turkey's bilateral economic relations will be published for public use.

Through realization of JEC meetings between Turkey and other countries, and, in coherence with Turkey's responsibilities under the Customs Policy of EU, efforts will be made for signing of FTAs and MPPI Agreements. In this context, efforts will also be done for enhancing economic and commercial relations with these countries to the highest possible level.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. Cultural, economic, social, and other cooperation programmes will continue between Turkey and Turkish Republics.				
Measure 1.1. Cooperation activities with the Turkish Republics will be carried out within the framework of a plan and programme.	SPO, TİKA	All Public Institutions and Organizations	1991-Continuous	Turkey's relations with Turkish Republics; economic, social, cultural, and, similar activities will be continued.
Priority 2. Inter-regional Cooperation Programme with Arab Republic of Syria will be continued.	SPO	Public Institutions and Organizations, NGOs, Related Entrepreneurs	2006-2008	Efforts required for the cooperation with public organizations and enterprises, NGOs, and, related entrepreneurs will be made. Mutual actions will be taken with Syria for the implementation of the Programme.
Priority 3. Through JEC meetings, Turkey will sign FTAs and MSPI Agreements with various countries.				
Measure 3.1. JEC meetings will be continued, FTAs will be realized.	Undersecretariat of Foreign Trade	Related Public Institutions and Organizations	Continuous	Necessary actions will continue in negotiation with the related public organizations and enterprises.
Measure 3.2. Signing of MSPI Agreements will be continued.	Undersecretariat of Treasury	Related Public Institutions and Organizations	Continuous	Necessary actions will be continued in consultation with the related public organizations and enterprises.

C. TECHNICAL COOPERATION

1. Current Outlook

Turkey as one of the 30 members of the Organization of Economic Cooperation and Development (OECD), is considered under the category of developing countries in the field of development cooperation. Turkey has observer status in the Development Assistance Committee (DAC) joined by 23 members under OECD. After the authorization of TİKA by the Prime Ministry’s Notification No. 2005/11 to keep the inventory of Turkey’s assistance to developing countries, the calculations made by TİKA in line with OECD standards made Turkey’s Official Development Assistance (ODA) more visible in terms of quantity. The amount that Turkey received under the scheme of ODA, rose from USD 339 million in 2004 to USD 601 million in 2005. The ratio of Turkey’s ODA to GNP rose from 0.12 percent in 2004 to 0.17 percent in 2005. Thus, Turkey achieved the target of 0.17 percent put by EU for the year of 2010 for its 10 new member countries who joined in 2004.

TABLE: V. 1- Turkey’s Official Development Assistance (ODA)

	2002	2003	2004	2005
ODA (Million USD)	73	66	339	601
ODA/GNP (In Percent)	0.039	0.027	0.12	0.17

Source: TURKSTAT, TİKA

Although Turkey’s ODA has quantitatively caught up with the standards of a developed country, the need for quality improvement continues. Turkey’s assistance to developing countries should be realized in the context of middle and long-term strategies and on the basis of programmes. Although some improvements are observed in the coordination of development assistance as a result of actions taken by TİKA, further improvement in coordination is still required. Efforts for a draft law for foreign assistance are being continued.

During the last two years Turkey extended most of its development assistance to Africa besides Balkans and Central Asia. In 2005, a total of 562 technical cooperation activities and projects has been realized of which 312 in Caucus and Central Asia, 197 in Balkans and East Europe, 45 in Middle East and Africa, and 8 in other countries and regions. Out of these projects, 306 were in social infrastructure, 135 were contributions to cultural cooperation and social peace, 84 were in the production sector, and 33 were in economic infrastructure. 1,878 trainees and 1,480 experts have been trained in various fields, 326 establishments have been built, and 210 packs of material and technological knowledge have been provided.

Turkey, being treated as a developing country, continues to receive development assistance from developed countries and multilateral organizations. Turkey receives most of the assistance, on the basis of a project or a programme, from the United Nations (UN) Institutions, German Technical Cooperation (GTZ) and Japan International Cooperation Agency (JICA). There have been 49 projects executed with the UN Institutions such as UNDP, UNFPA and UNICEF, 7 projects with JICA, and 6 projects with GTZ.

Japan, India, South Korea, Singapore, Indonesia, Malaysia, Holland and Italy were the countries who offered short-term training programmes for Turkish officials in 2006.

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In cooperation with the UN Institutions, it has been endeavoured to integrate the global development principles and goals with Turkey's national policies including the Millennium Development Goals (MDGs) in the first place.

2. Main Objectives and Targets

Turkey's development assistance to less developed and developing countries including Central Asia, Balkans and African countries will be continued on the basis of an understanding which takes care the needs of recipient country, the fields in which Turkey has a considerable expertise and Turkey's priorities in foreign policy. In the context of South-South cooperation, with initiatives and pioneering role of public institutions, joint actions will be taken with the developing countries.

The quality of the development assistance will be improved along with the increasing amount of ODA.

In the execution of the technical assistance projects in Turkey, strengthening the institutional capacity needed in the process EU membership will be focused on.

Efforts will be made to strengthen cooperation with international organizations for meeting technical assistance or other kinds of assistance demands from Turkey.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 1. The quality of Turkey's development assistance and the coordination among the organizations will be improved.				
Measure 1.1. With regard to Turkey's development assistance to developing countries, medium term and long term strategies will be developed taking care of the national priorities of Turkey and the needs of the developing countries.	TİKA	Ministry of Foreign Affairs, SPO, Undersecretariat of Treasury	2007-Continuous	Development assistance will be provided on the basis of country-specific programmes and in line with national priorities. With contributions from the coordination offices, requests received from the countries will be taken into consideration in the formulation of strategies.
Measurer 1.2. The works related to the Law for Foreign Assistance will be concluded.	Ministry of Foreign Affairs	Ministry of Finance, Undersecretariat of Treasury, SPO, TİKA	2007	With the Law for Foreign Assistance, the legal ambiguity in the field of development assistance will be eliminated, and the coordination among the national institutions will be improved.
Priority 2. In addition to the importance given to the infrastructural services while providing development assistance, studies will also be done for realization of global development targets coherent with the Acquis Communitaire.	TİKA	SPO	2007-2009	In the countries receiving the development assistance, including the African countries at the first place, one of the main targets will be poverty alleviation. During the technical assistance process, human rights, good governance and gender equality will also be taken into consideration. Overall framework of the assistance would be the realization of Millennium Development Goals (MDGs) in the recipient countries.

Priority 3. In providing development assistance, dialogue mechanisms will be developed with the recipient countries to enhance their ownership.	TİKA	Ministry of Foreign Affairs, SPO	2007-2009	Ownership by the recipient country will enhance the productivity and efficiency of the technical cooperation activities. In this way, the determination of the needs of the country and meeting them will be done in a much better way.
Priority 4. In order to enhance efficiency of the assistance offered by NGOs, dialogue and cooperation between public sector and NGOs will be improved.	TİKA	Ministry of Foreign Affairs, Ministry of Interior, SPO, NGOs	2007-2009	Improvement of the cooperation with NGOs will enhance the quality and effectiveness of the assistance.
Priority 5. Matters related to follow-up and evaluation of the technical cooperation projects executed in Turkey will be improved.	TİKA	Ministry of Foreign Affairs	2007-2008	The implementation of gathering the Execution Reports of the projects will be enhanced, reporting procedures will be improved with an effective mechanism, and reports will be evaluated objectively.
Priority 6. Required measures will be taken for ensuring higher rates of recruitment of Turkish citizens in international organizations.	Ministry of Foreign Affairs	Ministry of Finance, SPO TİKA	2007-2008	Turkish citizens will be encouraged to receive positions in the UN institutions and in other international organizations. Efforts will be enhanced to that effect.