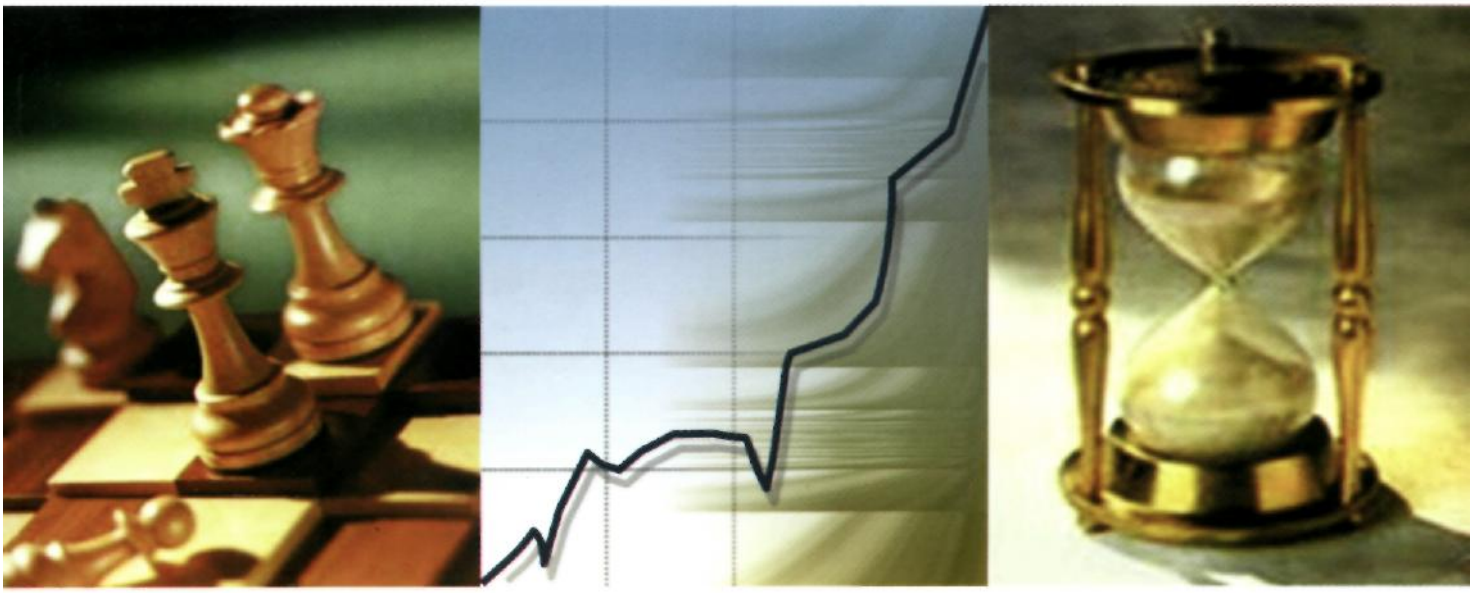
Republic of Turkey

2008 ANNUAL PROGRAMME



Undersecretariat of State Planning Organization

Republic of Turkey

Ninth Development Plan
(2007 - 2013)

2008 ANNUAL PROGRAMME

Undersecretariat of State Planning Organization

ANKARA - 2008

DECREE OF THE COUNCIL OF MINISTERS

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ABBREVIATIONS

AMATEM: Alcohol and Drug Research, Treatment and Training Center
AOÇ: General Directorate of Atatürk Forestry Farm
ARDSI: The Agricultural and Rural Development Support Institute
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
BEC: Black Sea Economic Cooperation
BOREN: National Bore Research Institute
BOTAŞ: Petroleum Pipeline Corporation
BRSA: Banking Regulation and Supervision Agency
BTDB: Black Sea Trade and Development Bank
CBRT: Central Bank of Republic of Turkey
CMB: Capital Markets Board
COMCEC: Commercial and Economic Cooperation of Organization of the Islamic Conference
ÇSGB: Ministry of Labor and Social Security
DAP: Eastern Anatolian Project
DGD: Direct Income Support
DHMİ: General Directorate of State Airports Authority
DIS: Direct Income Support
DISF: Defense Industry Support Fund
DLHİ: General Directorate for the Construction of Railways, Seaports and Airports
DMİ: State Meteorological Service
DMO: State Supply Office
DOKAP: Eastern Black Sea Development Project
DSİ: State Hydraulic Works
EBF: Extra-budgetary fund
EBK: Meat and Fish Products Corporation
ECO: Economic Cooperation Organization
ECOTA: ECO Trade Agreement
EDAŞ: Electricity Distribution Company
EGO: Electricity, Gas and Bus Services 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
FAO: Food and Agriculture Organization of the United Nations
FCI: Fixed Capital Investment
FCDA: Foreign Currency Deposit Account with Credit Letter
FİSKOBİRLİK: The union of agricultural cooperatives for the sale of hazelnuts
GAP: South Eastern Anatolia Project
GDDI: Government Domestic Debt Instruments
GDSAA: General Directorate of State Airport Authority
GESAD: Union of Ship Builders
GİSBİR: Turkish Ship Builders' Association
GSEUA: General Secretariat of EU Affairs
GSGM: General Directorate of Youth and Sport
HCFC: Hydro chlorofluorocarbon
HEPP: Hydroelectric Power Plant
ICT: Information and Communication Technologies
IPA: Instrument for Pre-Accession Assistance
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
KIYEM: Directorate General of Coastal Safety
KOSGEB: Small and Medium Industry Development Organization
KÖYDES: Rural Infrastructure Support Project
KSGM: General Directorate On The Status Of Women
LFPR: Labor Force Participation Rate
MARA: Ministry of Agriculture and Rural Affairs
MASAK: Financial Crimes Investigation Board
MEF: Ministry of Environment and Forestry
MoF: Ministry of Finance
MoI: Ministry of Interior
MoND: Ministry of National Defense
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
MYO: Vocational Training School
NABUCCO: Turkey-Bulgaria-Romania-Hungary-Austria Natural Gas Pipeline Project
NGO: Non-Governmental Organization
NRDS: the national regional development strategy
NUTS: The Nomenclature of Territorial Units for Statistics
OIC: Organization of the Islamic Conference
OIZ: Organized Industrial Zones
ODTÜ: Middle East Technical University
ÖİB: Privatization Administration
ÖSYM: Student Selection and Placement Center
ÖZİDA: Prime Ministry Administration for Disabled People
PETKİM: Turkish Petrochemical Co.
PİGM: Directorate General of Petroleum Affairs
PMUM: Financial Balancing and Settlement System
PRETAS: Protocol on Preferential Tariff Scheme
PTT: Telecom and Postal Services co.
RISCAM: Regional Institution for Standardization, Conformity Assessment, Accreditation, and Meteorology
RTÜK: Radio and Television Supreme Council
SAN-TEZ: Industry Thesis
SDIF: Saving Deposit Insurance Fund
SEE: State Economic Enterprise
SFDA: Super Foreign Exchange Deposit Account
SGK: Social Security Agency
SHÇEK: Social Services and Child Care Institution
SMEs: Small and Medium Enterprises
SPO: State Planning Organization
SPSF: Support and Price Stabilization Fund
SSİE: Small Scale Industrial Estates
SSK: Social Security Institution
SSSF: Social Solidarity and Support Fund
SYDGM: General Directorate of Social Assistance and Solidarity
TAEK: Turkish Atomic Energy Authority
TAKASBANK: ISE Settlement and Custody Bank Inc.
TAPDK: Regulatory Authority for the Markets of Tobacco, Tobacco Products and Alcoholic Beverages
TCDD: Turkish Railway Company
TCIP: Turkish Catastrophic Insurance Pool
TDİ: Turkish Maritime Administration
TEDAŞ: Turkish Electricity Distribution Company
TEİAŞ: Turkish Electricity Transmission Company
TEKEL: Turkish Tobacco Co.
TEKMER: Technology Development Centre
TEMSAN: Turkish Electromechanics Industry

TESK: Turkish Confederation of Craftsmen and Artisans
TETAŞ: Turkish Electricity Trade and Agreement Co.
TGB: Technology Development Zones
TGNA: Grand National Assembly of Turkey
THY: Turkish Airlines Company
TİGEM: General Directorate of Agricultural Enterprises
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
TÖMER: Turkish and Foreign Language Research and Application Center
TPAO: Turkish Petroleum Company
TPIC: Turkish Petroleum International Company
TPPD: Petroleum Distribution Company
TPSOIC: Trade Preferential System among the OIC Member Countries
TRT: Turkish Radio TV
TRUP: Agricultural Reform Implementation Project
TSA: Turkish Sugar Authority
TSE: Turkish Standards Institution
TSPAKB: The Association of Capital Market Intermediary Institutions of Turkey
TTB: Turkish Medical Association
TTFA: ECO Framework Agreement of Transit Transportation
TTGV: Technology Development Foundation of Turkey
TTK: Turkish Coal Institution
TURKAK: Turkish Accreditation Agency
TURKKONFED: Turkish Enterprise and Business Confederations
TURKSTAT: Turkish Statistical Institute
TÜRMOB: Union of Chambers of Certified Public Accountants of Turkey
TÜBA: The Turkish Academy of Sciences
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
TÜRKLİM: Port Operators Association of Turkey
TÜRKSAT: Satellite Communication and Cable TV Company
TÜSİAD: Turkish Industrialists' and Businessmen's Association
TÜVASAŞ: Turkish Wagon Industry Corporation
TZOB: Union of Turkish Chambers of Agriculture
UCTE: Union for Coordination of Transmission of Electricity
UFT: Undersecretariat for Foreign Trade
UMA: Undersecretariat of Maritime Affairs
UNDP: United Nations Development Programme
UT: Undersecretariat of Treasury
VHS: Vocational High School
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 2008 ANNUAL PROGRAMME

I. MACROECONOMIC GOALS

Basic macroeconomic goals of the 2008 Annual Programme are to maintain the confidence and stability established in the economy, to continue the economic growth process originated from external demand and private sector, to increase the level of employment, to sustain financial discipline by achieving a solid and well-defined financial structure, to reduce the rate of inflation at a reasonable level, to attain a level of current account deficit, which is sustainable and financed by solid financing means, and to establish a predictable economic environment.

II. MACROECONOMIC POLICIES

A. GROWTH AND EMPLOYMENT

1. An economic growth, that is based on sustainable macroeconomic stability, giving priority to increase employment and new opportunities of employment in the economy, export oriented structure and serving to raise the welfare of the whole society, would be attained.

2. In the programme period, sustainable growth environment would be strengthened by following the institutional and structural reforms phase that will enhance the capacity to face domestic and external shocks, economic competitiveness 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 private sector to pursue long-term planning practice, would be created.

B. MONETARY POLICY AND PRICE STABILITY

1. Explicit inflation targeting regime, of which main operational framework

2. would be kept in a great extent, would be continued in year 2008.

3. In the framework of inflation targeting regime, Central Bank, would actively keep on using short term interest rates as the main monetary policy tool in order to guide expectations and achieve price stability.

4. Monetary policy decisions would be taken by monthly Monetary Policy Committee Meetings which will be held with a pre-announced schedule, except in emergency cases.

5. For the following period, Central Bank would continue to focus on medium term inflation outlook and set the monetary policy decisions in line with the medium term outlook.

6. If the inflation deviates considerably from the target or likelihood of the deviation appears, Central Bank would submit a report to the Government disclosing the reasons for the deviation and the measures to be taken for convergence to the target and share this report with the public.

7. Central Bank will continue to implement a floating exchange rate regime in the upcoming year. In the floating exchange rate regime, the FX rate is neither a target, nor a policy tool and it will be determined by macro-economic equilibria and supply and demand conditions in the foreign exchange market.

8. Central Bank would continue to closely monitor the volatility in exchange rates also in 2008 and may directly intervene in the market via FX buying intervention or FX selling interventions in the event of actual or potential excessive volatilities. These interventions would not aim to influence long term FX rates.

9. In case of an excess supply of foreign currency, Central Bank may sterilize the excess quantity through regular buying auctions in order to accumulate FX reserves. FX buying auctions would continue in the framework of the pre-announced programs and limits. Thus, the affects of the auctions are aimed to keep at minimum and the principles and operation of floating exchange rate regime will be assured.

C. BALANCE OF PAYMENTS

1. Current support systems will be made effective in compliance with EU and WTO norms in order to provide the transformation of exports into a capital and knowledge intensive, high value added and high-tech structure.

2. In the traditional export sectors, high value added production will be attained by supporting practises such as product differentiation and brand creation.

3. New support mechanisms will be designed to develop products, which have high value added and new technology and can compete in external markets by product diversification and directing them towards exports.

4. With a view of increasing exports in the context of bilateral and multilateral trade relations, mechanisms will be developed to ensure coordination among the public sector, the private sector and non-governmental organizations and to improve opportunities for exporters to enter the market.

5. Export Strategic Plan efforts will be accelerated with the aim of developing exports and realising the export-oriented development model with all its aspects.

6. In order to apply trade policy tools effectively, the inward processing regime will be adapted according to the new developments in the conditions of domestic production and supervision.

7. To reduce the import content of domestic production in the medium term, mechanisms for domestic production of imported intermediates used for the industrial production would be developed. In this context, studies will be started towards the expansion of R&D activities in industry whereby intermediate inputs especially with high technology content will be produced domestically.

8. 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 made effective.

9. Foreign direct investment will be supported by eliminating the problems that emerge in the implementation of the reforms to improve the investment climate.

D. FISCAL POLICY

1. In order to maintain macroeconomic stability fiscal, monetary and income policies will be continued harmoniously.

2. With a view to decrease public debt stock to GNP ratio and control the current account deficit, fiscal discipline will be pursued diligently. In this framework, primary surplus policy will be continued and this process will be supported with institutional reforms.

3. In order to secure public financing from reliable resources and prevent the distortion of tax base, fixed taxes and duties will be updated by taking into consideration the general economic conditions.

4. Revenue decreasing regulations will be implemented by taking macroeconomic targets and public financing needs into consideration.

5. Regulations, which will create fiscal implications, will be implemented taking into consideration not only their short-term effects but also the medium and long-term effects.

6. Under the framework of the principle to increase the efficiency in public expenditures, all expenditure programmes will be revised and programmes, which have lost their priority, will be eliminated in order to enable the new services.

7. Fiscal transparency in public finance will be enhanced; regulations and applications that violate the fiscal transparency will be avoided.

8. Meeting financing requirements at the lowest possible cost in the medium and long-run, within the framework of the risk level determined by considering domestic and foreign market conditions and cost elements, and pursuing a borrowing policy that takes into consideration the macroeconomic balances, which is compatible with the monetary and fiscal policies, sustainable, transparent and accountable, is essential.

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 development disparities.

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 sectoral analyses containing problem analysis and qualified feasibility studies.

F. SEEs AND SOCIAL SECURITY

1. The eligible State Economic Enterprises (SEEs) will be privatised under a certain schedule and strategy; yet before the privatisation of those enterprises and the ones that can not be privatised due to the economic reasons will be operated in accordance with efficiency principles.

2. Strategic management comprehension, accountability, transparency, and flexibility will be taken as the basis in the decision process of SEEs.

3. All corporate policies of SEEs, especially the issue of pricing, will be determined in line with the market conditions, and implemented effectively in order to attain the foreseen targets of the general investment and financial decrees.

4. SEEs will continue to follow financial policies that increase their efficiency and profitability by reducing the inventory, supply, production, and marketing costs, and are sensitive to international price changes.

5. The current market value will be taken as the basis while selling or leasing idle real estate properties of SEEs.

6. In principle, SEEs will not sell or transfer their real estate properties that are not idle. However, in compulsory situations, the sale or transfer will be realized in such a way so as to the efficiency and integrity of the SEE and environmental health will not be adversely affected.

7. Operating units of SEEs that incur losses will be liquidated by taking their functions into account.

8. Implementation of measures aiming to reduce idle employment in SEEs will continue; however, measures will be taken to meet their needs for qualified personnel.
9. Budgetary transfers to social security system as a ratio of GDP is aimed to tabilize around 2007 level. In this framework, measures to reduce informal employment and increase the premium collection would be taken.

10. In order to maintain the financial sustainability of the universal health insurance system, health expenditures will be taken under control.

11. 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 facilitate supervision and to provide immediate access to the information about all of the system such as hospital-doctor-pharmacy-insured.

TABLE: I. 1- Main Economic Aggregates

	2002	2003	2004	2005	2006	2007 (1)	2008 (2)
GROWTH AND EMPLOYMENT (Percentage Change)							
Total Consumption	3,1	4,9	9,6	8,3	5,9	4,3	4,6
Public	1,8	-0,6	1,8	2,7	10,9	6,5	3,4
Private	3,4	5,9	10,9	9,2	5,1	3,9	4,8
Total Fixed Capital Investment	-3,8	10,7	29,4	25,7	13,5	6,2	5,8
Public	9,9	-8,4	-4,9	38,6	4,2	2,3	-3,9
Private	-10,5	22,2	44,9	21,8	16,7	7,4	8,5
Change in Stocks (3)	7,2	3,0	1,1	-2,6	-2,0	0,5	0,2
Total Exports of Goods and Services	11,1	16,0	12,5	8,5	8,5	11,2	8,3
Total Imports of Goods and Services	15,8	27,1	24,7	11,6	7,1	10,7	6,7
GDP	8,1	5,7	9,1	7,4	5,9	5,0	5,5
GDP (Million YTL, Current Prices)	277 574	359 763	430 511	487 202	576 322	647 498	717 266
GDP (Billion USD, Current Prices)	184,5	240,5	302,8	363,4	402,7	489,4	520,7
Per Capita National Income (GDP, USD)	2 662	3 425	4 256	5 042	5 519	6 625	6 964
Per Capita National Income (PPP, GDP, USD)	6 550	6 786	7 277	7 711	8 577	9 073	9 681
Population (Thousand Person)	69 302	70 231	71 152	72 065	72 974	73 875	74 766
Labour Force Participation Rate (Percent)	49,6	48,3	48,7	48,3	48,0	48,2	48,5
Civilian Employment (Thousand Person)	21 354	21 147	21 791	22 046	22 330	22 680	23 105
Unemployment Rate (Percent)	10,3	10,5	10,3	10,3	9,9	9,7	9,6
FOREIGN TRADE (Billion USD)							
Exports (FOB)	36,1	47,3	63,2	73,5	85,5	104,0	117,0
Imports (CIF) (4)	51,6	69,3	97,5	116,8	139,6	166,0	182,0
Foreign Trade Balance	-15,5	-22,1	-34,4	-43,3	-54,0	-62,0	-65,0
Current Account Balance / GDP (Percent)	-0,8	-3,3	-5,2	-6,2	-8,2	-7,4	-7,5
Trade Volume / GDP (Percent)	47,5	48,5	53,1	52,4	55,9	55,2	57,4
PUBLIC FINANCE (Percent)							
General Government Revenues (5) / GDP	39,1	39,9	40,9	43,9	46,2	43,7	43,2
General Government Expenditures (5) / GDP	52,7	49,9	46,2	43,6	44,3	43,6	43,3
General Government Borrowing Requirement (5) / GDP	13,6	10,0	5,3	-0,3	-1,9	0,0	0,0
General Government Interest Expenditures (5) / GDP	19,3	16,8	13,4	9,6	8,1	7,7	7,9
Public Sector Borrowing Requirement (6) / GDP	12,6	9,3	4,7	-0,4	-2,6	0,0	-0,3
IMF-defined Public Sector Primary Surplus (6) / GDP	4,4	6,6	7,0	6,4	6,5	4,1	5,5
Gross Public Debt Stock / GDP	92,5	82,5	77,1	71,5	63,3	57,8	
Net Public Debt Stock / GDP	77,7	69,7	63,7	55,3	45,0	40,2	
PRICES (Percent Change)							
GNP Deflator	44,4	22,5	9,5	5,3	11,7	7,0	5,0
CPI Year End	29,7	18,4	9,4	7,7	9,7	6,5	4,0

(1) Realisation Estimate
(2) Programme Target
(3) Given as percentage contribution to growth.
(4) Non-monetary gold imports are included.
(5) Consolidated budget (2002 - 2005) / Central government budget (2006, 2007,2008), include local administrations, annexed budget agencies, unemployment insurance fund, social security institutions, and extra-budgetary funds.
(6) Includes general government and SEEs.

PART TWO

MACROECONOMIC DEVELOPMENTS AND TARGETS

I. DEVELOPMENTS IN THE WORLD ECONOMY

The world economy remained buoyant throughout 2006, registering a growth of 5,4 percent. Despite the volatility in financial markets, the global expansion continued also during the first half of 2007.

In 2006, the adverse impact on global growth of the slowdown in the US economy stemming from the crisis in mortgage system was limited. Elsewhere, the growth in the Euro area accelerated to its fastest pace in the last six years by a boost in domestic demand and in Japan activity regained momentum toward year-end, after a soft patch in mid-year.

In 2007, among the advanced economies, growth in the Euro area and Japan slowed in the second quarter while the downturn in the US housing market continued to adversely affect the overall economy. In emerging markets, China and India remained to be among the fastest growing economies and Russia grew strongly during the first half of the year. Even low-income countries in Africa achieved impressive growth performance after a long period of time.

The inflationary pressures which eased in 2006 worldwide largely due to decline in oil prices have been contained in developed countries but started to rise in many emerging markets and developing countries in 2007, reflecting high energy and food prices. During the year, while the prices have essentially been flat in Japan, the core inflation in the US and consumer prices in the Euro area have generally remained below 2 percent. Some developing countries have seen, however, more inflationary pressures, reflecting strong growth and rising food prices. The acceleration in prices is largely due to increasing use of corn, soybeans and other items for bio-fuel production and poor weather conditions.

Despite positive developments in global growth, financial market conditions have become more volatile in 2007. Negative developments and uncertainties in the US housing market have in general led to tighter credit conditions in other markets, which in turn resulted in liquidity squeeze in financial markets. As a result, the major central banks around the world which were tightening monetary policy to head off nascent inflation previously have started to adopt policies to

reduce short-term interest rates and inject liquidity into the money markets in mid-year. The Federal Reserve cut the federal funds rate by 0.25 percentage points in August and 0.5 percentage points in September. Financial markets expect further reductions by The Federal Reserve during the coming months.

As a result of the turbulence in financial markets, the global growth is expected to decline to 4.8 per cent in 2008. According to IMF projections, risks for global growth in 2008 have increased. Growth forecasts are based on the assumption that credit tightening will be overcome in coming months and markets will revert to more normal conditions. There is nonetheless a distinct possibility that turbulent financial market conditions could continue for some time. In such circumstances, the uncertainties in financial markets could, on the one hand, have dampening impact on growth, particularly through the effect on housing market in the US and some European countries, and weaken capital inflows to the countries which rely on external financing for their growth. Therefore, the immediate focus of policy-makers should be in the direction of adopting measures to alleviate tightening in credit markets and safeguard the global expansion.

Additional short-term risks to global growth include potential inflationary pressures, volatile oil markets and the impact on emerging markets of foreign exchange inflows. Population aging, increasing resistance to globalization and global warming are, on the other hand, long-term issues to constrain global growth.

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

(Percentage Change)

	2005	2006	2007 (1)	2008 (1)
WORLD OUTPUT	4.8	5.4	5.2	4.8
Developed Countries	2.5	2.9	2.5	2.2
USA	3.1	2.9	1.9	1.9
Japan	1.9	2.2	2.0	1.7
Euro Area	1.5	2.8	2.5	2.1
Germany	0.8	2.9	2.4	2.0
Developing Countries	7.5	8.1	8.1	7.4
Africa	5.6	5.6	5.7	6.5
Middle and East Europe	5.6	6.3	5.8	5.2
Commonwealth of Independent States	6.6	7.7	7.8	7.0
Asia	9.2	9.8	9.8	8.8
Latin America	4.6	5.5	5.0	4.3
Middle East	5.4	5.6	5.9	5.9
WORLD TRADE VOLUME				
IMPORTS OF GOODS AND SERVICES				
Developed Countries	6.1	7.4	4.3	5.0
Developing Countries	12.1	14.9	12.5	11.3
CONSUMER PRICES				
Developed Countries	2.3	2.3	2.1	2.0
Euro Area	2.2	2.2	2.0	2.0
Developing Countries	5.2	5.1	5.9	5.3
UNEMPLOYMENT RATE (Percent)				
Developing Countries	6.0	5.6	5.3	5.5
Euro Area	8.6	7.8	6.9	6.8
LIBOR (Six Month, Percent, in USD)	3.8	5.3	5.2	4.4

Source: IMF, World Economic Outlook, October 2007
(1) Forecast

II. DEVELOPMENTS IN THE TURKISH ECONOMY AND TARGETS

A. GROWTH AND EMPLOYMENT

1. GNP and Sectoral Growth Rates

a) Current Outlook

In 2006, Gross Domestic Product (GDP) grew by 6.1 percent and Gross National Product (GNP), as a result of decrease in net foreign income abroad, increased by 6 percent.

In 2006, while agricultural value added grew by 2.9 percent, growth rate of the industrial value added was realized as 7.4 percent. In the same year value added in manufacture, mining and energy sectors which are forming industry sector, grew by 7.4 percent, 4.8 percent and 8.7 percent respectively. Value added in the services sector increased by 6.1 percent, owing to the expansion in the construction sector and trade sector by 19.4 percent and 5.9 percent, respectively.

In the first half of 2007, growth rate was slowing down and GDP growth rate realised as 5.3 percent. The factors of this situation could be summarised as; negative effects of the interest rates, which increased in the second quarter of 2006 due to the financial turmoil in the international markets, on private consumption and private fix capital investments; developments in domestic markets in the first half of 2007; decrease in the value added of agriculture sector because of the weather conditions and drought. In the first half of 2007 the agricultural value added increased by 0.9 percent while the industry and services grew by 5.2 and 5.8 percent, respectively. With a growth rate of 16.1 percent, the value added

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

	Quarters									
	2006				2007		Annual			
	I.	II.	III.	IV.	I.	II.	2005	2006	2007 (1)	2008 (2)
	(Constant Prices, Percentage Change)									
Agriculture	7.6	-0.4	0.5	9.7	4.4	-1.1	5.6	2.9	-3.0	3.0
Industry	4.5	11.1	7.2	6.5	7.5	3.2	6.5	7.4	5.5	5.7
Services	7.7	7.8	5.3	3.9	6.8	4.9	8.2	6.1	6.2	5.9
GDP	6.7	8.3	4.8	5.2	6.9	3.9	7.4	6.1	5.0	5.5
GNP	6.4	9.3	4.3	4.6	6.8	3.9	7.6	6.0	5.0	5.5
	(Constant Prices, Percentage Share)									
Agriculture	4.4	6.8	19.5	10.3	4.3	6.5	11.4	11.1	10.2	10.0
Industry	32.2	32.9	25.7	28.9	32.4	32.7	29.2	29.5	29.7	29.7
Services	63.4	60.3	54.8	60.8	63.3	60.8	59.4	59.4	60.1	60.3
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

of construction sector sustained remarkable contribution to GDP expansion.

When data on industrial production are considered; in January-August period of 2007 total industrial production index, which rose by 6.1 percent in the same period of 2006 compared to the same period of 2005, increased by 5.3 percent. The capacity utilisation ratio in manufacturing industry increased by 0.6 percent points compared to the same period of previous year and reached 83.3 percent in January-September period of 2007.

In 2007, due to the drought and temperature increases which has been above the seasonal averages, the agricultural

TABLE: II. 3- Per Capita GDP

Years	Mid-Year Population (1) (Thousand Person)	(Current Prices) GDP (Million YTL)	Per Capita GDP YTL	Per Capita GDP USD (2)	(1998 Prices) GDP (Million YTL)	Per Capita GNP YTL	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	0.754923	6,786
2004	71,152	430,511	6,050	4,256	61,481	864	3,323	0.831471	7,277
2005	72,065	487,202	6,760	5,042	66,018	916	3,523	0.876766	7,711
2006	72,974	576,322	7,898	5,519	70,045	960	3,691	0.920755	8,577
2007(4)	73,875	647,498	8,765	6,625	72,801	985	3,790	0.966000	9,073
2008(5)	74,766	717,266	9,594	6,964	76,839	1,028	3,952	0.991000	9,681

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.

production has decreased. This expected fall in the agricultural production will be an important factor on the realization of GDP growth estimation of 5 percent in 2007.

b) Targets for the Year 2008

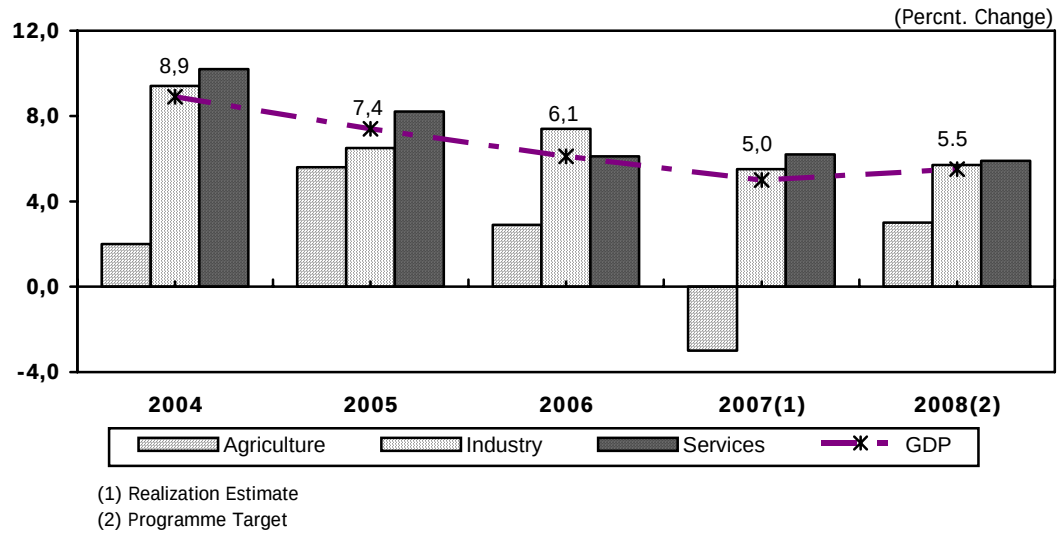
Turkish economy started to follow a growth path beginning by the first quarter of 2002 and thus average annual GDP growth during the period 2002-2006 realised as 7.2 percent. In 2007 the growth rate of the economy is expected to be 5 percent and in 2008 GDP growth rate is estimated to be 5.5 percent. The success in the implementation of the economic programme and the achievement in the on-going EU negotiation process appear as the two important anchors to support the growth targets. In this context, steady fall in the trend of inflation, amelioration regarding interest rates and the public finance as well, improvements in privatisation and in structural reforms would act as determining factors in the continuation of GDP growth in 2008.

In 2008, growth rate of agricultural value added is expected to be 3 percent due to the low base effect of 2007, and a rate which is slightly over the multiple-year average.

As to industrial sector value added for the year 2008, a 5.7 percent increase is expected. From the beginning of 2002, expansion in production capacities during the previous years due to the high rate of investment in private fixed capital and the performance of the export oriented manufacturing industry sectors appear as factors to support the robust industrial production. In addition, productivity gains in manufacturing industry shall contribute to the continuation of the industrial expansion.

Value added of the services sector is expected to grow by 5.9 percent in 2008. The construction permits by municipalities in which high increases have been recorded from the beginning of 2003, decreased by 7.7 percent in the second half of 2006 compared

GRAPH:1-Sectoral Growth Rates
(Constant Prices)



(1) Realization Estimate
(2) Programme Target

to the same period of 2005. And the construction permits increased only 1.8 percent in the first half of 2007 compared to the same period of 2006. As a result of these developments, according to the construction value added calculation methods, the value added in construction sector will be expected to increase at a decreasing rate in 2008 compared to 2007. On the other hand, with the steady fall in the interest rates in 2008 and widespread use of the mortgage system, a growth trend in the construction sector will be expected. Growth in the construction sector is also expected to trigger the growth dynamics in other sectors such as trade and industry. In 2008, continuation of high level of activity in tourism sector will also support the expansion of trade value added.

In the light of the above mentioned estimates, 5.5 percent projected growth rate of 2008 GDP, is expected to be contributed by agriculture at 0.3, by industry at 1.7 and by services at 3.5 percentage points.

On the contrary, especially the realisation of USA economy growth rate lower than the estimations and rising of the oil prices again appear as possible external risks which are likely to act as constraints on the projected 5.5 percent growth target for 2008.

2. Employment

a) Current Outlook

During 2002-2006 period, while economy grew by 7.2 percent on the average, employment increased by 0.7 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 3.9 percent.

In parallel to the structural transformation that Turkish economy is undergoing, during the 2002-2006 period the cumulative expansion of employment realised as 16.8 percent in industry, 22.5 percent in services and 14.1 percent in construction sectors while the corresponding rate was a negative 24.7 percent in agriculture.

In 2006, while employment increased by 284 thousand people, compared to the 2005, and realised as 22,330 thousand, unemployment rate decreased by 0.4 point and realised as 9.9 percent. The effective factor in this development is the 0.3 point decrease in the labour force participation rate, which is realised as 48 percent.

In 2006, agricultural employment shrunk by 6.2 percent while the employment in industry and services sectors expanded by 2.9 percent and 5 percent, respectively. Particularly, the rise of employment in the services sector was due to the 8 percent increase in employment level of construction sub-branch. In 2006, the shares within the total employment were 27.3 percent for agriculture, 19.7 percent for industry and 53 percent for services sectors.

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

(Age 15+, Thousand Person)

	2002	2003	2004	2005	2006
Working Age Population	48,041	48,912	49,906	50,826	51,668
Labour Force	23,818	23,640	24,289	24,565	24,776
Employment	**21,354**	**21,147**	**21,791**	**22,046**	**22,330**
Non-Agricultural Employment	13,896	13,982	14,391	15,553	16,242
Employment Except Unpaid Family Worker	16,899	17,009	17,487	18,519	19,064
Agriculture	7,458	7,165	7,400	6,493	6,088
Industry	3,954	3,846	3,987	4,284	4,407
Services	9,942	10,136	10,404	11,269	11,836
Construction	958	965	1,030	1,173	1,267
Unemployed	2,464	2,493	2,498	2,520	2,446
Labour Force Participation Rate (Percent)	**49.6**	**48.3**	**48.7**	**48.3**	**48.0**
Employment Rate (Percent)	44.4	43.2	43.7	43.4	43.2
Unemployment Rate (Percent)	**10.3**	**10.5**	**10.3**	**10.3**	**9.9**
Non-Agricultural Unemployment Rate (Percent)	14.5	13.8	14.3	13.6	12.6
Youth Unemployment Rate (Percent)	19.2	20.5	19.7	19.3	18.7
Underemployed	1,297	1,143	995	817	890
Underemployment Rate (Percent)	5.4	4.8	4.1	3.3	3.6
Idle Labour Force Rate (Percent)	15.7	15.3	14.4	13.6	13.5

Source: TURKSTAT

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

(Age 15+, Thousand Person)

	Urban			Rural		
	2004	2005	2006	2004	2005	2006
Working Age Population	30,813	31,678	32,718	19,093	19,148	18,950
Labour Force	13,714	14,398	14,882	10,576	10,167	9,894
Employment	11,843	12,566	13,081	9,948	9,480	9,249
Agriculture	684	673	622	6,716	5,820	5,466
Industry	3,203	3,410	3,477	783	874	930
Services	7,956	8,483	8,982	2,449	2,786	2,853
Unemployed	1,870	1,832	1,802	628	687	645
Labour Force Participation Rate (Percent)	44.5	45.5	45.5	55.4	53.1	52.2
Employment Rate (Percent)	38.4	39.7	40.0	52.1	49.5	48.8
Unemployment Rate (Percent)	13.6	12.7	12.1	5.9	6.8	6.5
Underemployed	516	415	470	479	402	419
Underemployment Rate (Percent)	3.8	2.9	3.2	4.5	4.0	4.2
Idle Labour Force Rate (Percent)	17.4	15.6	15.3	10.4	10.8	10.7

Source: TURKSTAT

In 2006, agricultural employment shrunk by 6.2 percent while the employment in industry and services sectors expanded by 2.9 percent and 5 percent, respectively. Particularly, the rise of employment in the services sector was due to the 8 percent increase in employment level of construction sub-branch. In 2006, the shares within the total employment were 27.3 percent for agriculture, 19.7 percent for industry and 53 percent for services sectors.

In 2006, the recorded expansion of 1.3 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 2006, as a result of 4.1 percent increase in urban employment, unemployment in cities realised as 12.1 percent, with a decrease of 0.6 percentage point in the same period.

In 2006, while the ratio of casual and regular employees within total employment increased, the ratio of self-employed and unpaid family workers within the total employment decreased.

When employment figures are considered on regional basis, the highest value is in TR90 region (Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane) with 58.7 percent and the lowest value is in TRC3 region (Mardin, Batman, Şırnak, Siirt) with 25.8 percent in 2006.

As to regional unemployment in 2006, TR62 region (Adana, Mersin) is the highest with 16,2 percent while TR82 region (Kastamonu, Çankırı, Sinop) is the lowest with 5 percent.

TABLE: II. 6- Employment According to the Payment Condition

(Age 15+, Thousand Person)

	2004		2005		2006	
	Number of People	Percent	Number of People	Percent	Number of People	Percent
Casual and Regular Employees	11,079	50.8	11,948	54.2	12,617	56.5
Self-Employed	6,408	29.4	6,570	29.8	6,447	28.9
Unpaid Family Workers	4,303	19.7	3,527	16.0	3,266	14.6
Total	21,790	100.0	22,046	100.0	22,330	100.0

Source: TURKSTAT

TABLE: II. 7- Regional Unemployment Rates

Regional Code	Name of Region	Unemployment Rate (Percent)	
		2005	2006
TR	Turkey	10.3	9.9
TRA1	Erzurum, Erzincan, Bayburt	4.7	5.4
TRA2	Ağrı, Kars, Iğdır, Ardahan	3.2	5.2
TRB1	Malatya, Elazığ, Bingöl, Tunceli	18.0	13.7
TRB2	Van, Muş, Bitlis, Hakkari	8.8	8.5
TRC1	Gaziantep, Adıyaman, Kilis	13.8	15.1
TRC2	Şanlıurfa, Diyarbakır	10.4	12.0
TRC3	Mardin, Batman, Şırnak, Siirt	11.1	15.7
TR10	İstanbul	11.4	11.2
TR21	Tekirdağ, Edirne, Kırklareli	7.8	8.0
TR22	Balıkesir, Çanakkale	6.9	6.2
TR31	İzmir	13.1	11.2
TR32	Aydın, Denizli, Muğla	7.0	7.4
TR33	Manisa, Afyon, Kütahya, Uşak	7.9	7.2
TR41	Bursa, Eskişehir, Bilecik	8.7	7.6
TR42	Kocaeli, Sakarya, Düzce, Bolu, Yalova	11.2	10.7
TR51	Ankara	14.2	12.1
TR52	Konya, Karaman	9.5	10.6
TR61	Antalya, Isparta, Burdur	6.2	7.3
TR62	Adana, Mersin	17.2	16.2
TR63	Hatay, Kahramanmaraş, Osmaniye	15.6	12.1
TR71	Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir	10.7	10.5
TR72	Kayseri, Sivas, Yozgat	11.1	11.3
TR81	Zonguldak, Karabük, Bartın	6.9	5.9
TR82	Kastamonu, Çankırı,Sinop	8.6	5.0
TR83	Samsun, Tokat, Çorum, Amasya	5.7	6.6
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane	5.6	5.7

Source: TURKSTAT

For the average of Turkey, the unemployment rate for the three month period of June, July and August of 2007 realised as 8.8 percent without any change, compared to the same period of the previous year. In the same period, non-agricultural unemployment rate, with a drop of 0.1 percentage point, realised as 11.6 percent while unemployment rate among young population, with a rise of 1.5 percentage point, realised as 18.6 percent.

The number of employed in the period covering June, July and August, increased by 490 thousand people.

In the 3-month period covering June, July and August 2007, the labour force participation rate increased in both men and women and realised as 49.5 percent.

TABLE: II. 8- Developments in the Labour Market as of July Months(*)

(Age 15+, Thousand Person)

	2005	2006	2007
Working Age Population	50 833	51 701	52 581
Labour Force	25 544	25 508	26 043
Employment	**23 227**	**23 257**	**23 747**
Agriculture	7 690	6 854	6 804
Industry	4 292	4 413	4 443
Services	11 245	11 990	12 500
Construction	1 324	1 406	1 523
Unemployed	2 317	2 251	2 296
Labour Force Participation Rate (Percent)	**50,3**	**49,3**	**49,5**
Employment Rate (Percent)	45,7	45,0	45,2
Unemployment Rate (Percent)	**9,1**	**8,8**	**8,8**
Non-Agricultural Unemployment Rate (Percent)	12,7	11,7	11,6
Youth Unemployment Rate (Percent)	17,6	17,1	18,6
Underemployed	790	911	818
Underemployment Rate (Percent)	3,1	3,6	3,1
Idle Labour Force Rate (Percent)	12,2	12,4	11,9

Source: TURKSTAT

(*) For the three month period of June, July and August weighted average.

In the 3-month period covering June, July and August 2007, the agricultural employment dropped by 50 thousand people compared to the same period of the previous year. In the same period, increase in employment is 30 thousand in industry and 510 thousand in services sector. In construction sector, which is prominent in the services, the share of employment held by the construction sector within total employment reached to 6.4 percent by an employment increase of 117 thousand people.

In 2007, it is estimated that labour force participation rate will increase by 0.2 percentage point compared to that of 2006 and the unemployment rate to be 9,7 percent.

b) Targets for the Year 2008

In parallel to the forecasted growth and increase in investments in 2008, total employment is expected to increase by 425 thousand people whereas the unemployment rate is estimated to be 9,6 percent.

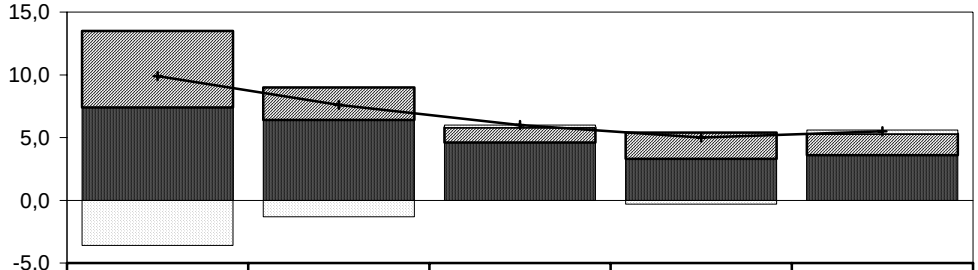
3. General Balance of the Economy

a) Current Outlook

While total domestic demand increased by 5.4 percent in real terms in 2006, GNP grew by 6 percent owing to the positive 0.2 percentage point contribution of foreign balance. In terms of contribution of foreign balance to GNP growth, it is seen that it became positive for the first time in 2006 following negative contribution of foreign balance to GNP growth in the period of 2002-2005. The factors behind this development can be counted as low growth rate of imports due to the slowing down of total domestic demand especially in the second half of 2006 and continuation of exports increase owing partly to the increase in real exchange rate. In

2006 the growth rate of private consumption realized as 5.1 percent, which was in harmonious with slowing down of total domestic demand, following high levels realized in 2004 and 2005. This development is attributable to the low growth rates realized in some sub-sectors of private consumption expenditures, such as food and beverages, durable consumer goods and energy-transportation-communication. In 2006, while the growth rate of public sector fixed capital investment realized as 4.2 percent, private sector fixed capital investment increased by 16.7 percent

GRAPH:2 - Contributions to GNP Growth



	2004	2005	2006	2007 (1)	2008(2)
Foreign Balance	-3,6	-1,3	0,2	-0,3	0,3
Investment	6,1	2,6	1,2	2,1	1,7
Consumption	7,4	6,4	4,6	3,3	3,6
GNP Growth	9,9	7,6	6,0	5,0	5,5

(1) Realization estimate (2) Programme target

In 2007 total domestic demand is estimated to increase by 5.1 percent and GNP is estimated to grow by 5 percent owing to the negative 0.3 percentage point contribution by the foreign balance.

In 2007 total consumption is estimated to rise by 4.3 percent due to 3.9 percent increase in private consumption and 6.5 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 0.3 percentage point compared to the previous year, will reach a level of 12.8 percent while the share of private consumption, with a 1.5 percentage point decline, will realize as 69.9 percent.

In 2007 private fixed capital investment and public fixed capital investment are expected to rise by 7.4 percent and by 2.3 percent, respectively. In this regard, a 6.2 percent increase is expected in total fixed capital investments in real terms and its share within GNP in current prices would become 21.7 percent, with a 0.2 percentage point increase compared to the previous year. In 2007, contribution of changes in stocks to GNP growth is estimated to realize as positive 0.5 points.

In 2007, the share of public disposable income in GNP, with a fall of 3 percentage points relative to its level in 2006, is estimated to decline to 15.8 percent. The falling shares in GNP of all revenue items of public disposable income are expected to be effective in this development. In this regard, the share of public savings in national income is expected to decrease from 6.2 percent in 2006 to 3.1 percent in 2007 and public saving-investment balance, which was positive in 2006, will turn to negative again in 2007.

TABLE: II. 9- General Balance of the Economy

		(Current Prices, Million YTL)			(Shares in GNP)		
		2006	2007 (1)	2008 (2)	2006	2007 (1)	2008 (2)
I.	**1. GROSS NATIONAL PRODUCT**	**575,784**	**646,893**	**716,596**	**100.0**	**100.0**	**100.0**
	2. Foreign Resources	44,677	45,900	49,328	7.8	7.1	6.9
	3. Total Resources	620,461	692,793	765,924	107.8	107.1	106.9
	4. Total Investment	137,015	157,909	175,226	23.8	24.4	24.5
	5. Fixed Capital Investment	123,569	140,290	155,153	21.5	21.7	21.7
	5.1 Public	30,410	33,435	33,371	5.3	5.2	4.7
	5.2 Private	93,159	106,855	121,783	16.2	16.5	17.0
	6. Change in Stocks	13,446	17,619	20,073	2.3	2.7	2.8
	6.1 Public	-703	556	438	-0.1	0.1	0.1
	6.2 Private	14,149	17,063	19,634	2.5	2.6	2.7
	7. Total Consumption	483,446	534,884	590,698	84.0	82.7	82.4
II.	**8. PUBLIC DISPOSABLE INCOME**	**108,028**	**102,432**	**112,879**	**18.8**	**15.8**	**15.8**
	9. Public Consumption	72,222	82,588	89,637	12.5	12.8	12.5
	10. Public Saving	35,806	19,844	23,241	6.2	3.1	3.2
	11. Public Investment	29,706	33,991	33,809	5.2	5.3	4.7
	12. Public Saving-Investment Dif.	6,099	-14,147	-10,568	1.1	-2.2	-1.5
III.	**13. PRIVATE DISPOSABLE INCOME**	**467,756**	**544,462**	**603,717**	**81.2**	**84.2**	**84.2**
	14. Private Consumption	411,224	452,296	501,061	71.4	69.9	69.9
	15. Private Saving	56,532	92,166	102,656	9.8	14.2	14.3
	16. Private Investment	107,309	123,918	141,417	18.6	19.2	19.7
	17. Private Saving-Investment Dif.	-50,776	-31,752	-38,761	-8.8	-4.9	-5.4
	18. Private Saving Ratio	12.1	16.9	17.0	-	-	-
	19. Total Domestic Saving	92,338	112,010	125,898	16.0	17.3	17.6
	20. Fixed Capital Investment / GNP	-	-	-	21.5	21.7	21.7
	21. Total Domestic Saving / GNP	-	-	-	16.0	17.3	17.6

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

TABLE: II. 10- General Balance of the Economy

	(1998 Prices, Million YTL)			(Percentage Change)	
	2006	**2007 (2)**	**2008 (3)**	**2007 (2)**	**2008 (3)**
I. 1. GROSS NATIONAL PRODUCT	**69,237**	**72,699**	**76,697**	**5.0**	**5.5**
2. Foreign Resources (1)	3,346	3,586	3,388	-0.3	0.3
3. Total Resources	72,583	76,285	80,085	5.1	5.0
4. Total Investment	18,903	20,323	21,533	7.5	6.0
5. Fixed Capital Investment	17,467	18,554	19,621	6.2	5.8
5.1 Public	4,050	4,145	3,983	2.3	-3.9
5.2 Private	13,417	14,409	15,637	7.4	8.5
6. Change in Stocks (1)	1,436	1,769	1,912	0.5	0.2
6.1 Public	-75	56	42	0.2	-0.0
6.2 Private	1,511	1,713	1,870	0.3	0.2
7. Total Consumption	53,679	55,962	58,553	4.3	4.6
II. 8. PUBLIC DISPOSABLE INCOME	**12,990**	**11,511**	**12,081**	**-11.4**	**5.0**
9. Public Consumption	7,440	7,925	8,192	6.5	3.4
10. Public Saving	5,550	3,586	3,890	-	-
11. Public Investment	3,975	4,201	4,025	5.7	-4.2
12. Public Saving-Investment Dif.	1,575	-615	-135	-	-
III. 13. PRIVATE DISPOSABLE INCOME	**56,247**	**61,187**	**64,616**	**8.8**	**5.6**
14. Private Consumption	46,239	48,037	50,361	3.9	4.8
15. Private Saving	10,007	13,151	14,255	31.4	8.4
16. Private Investment	14,928	16,122	17,508	8.0	8.6
17. Private Saving-Investment Dif.	-4,921	-2,972	-3,253	-	-
18. Private Saving Ratio	17.8	21.5	22.1	-	-
19. Total Domestic Saving	15,557	16,737	18,144	7.6	8.4
20. Fixed Capital Investment / GNP	25.2	25.5	25.6	-	-
21. Total Domestic Saving / GNP	22.5	23.0	23.7	-	-

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

b) Targets for the Year 2008

In 2008, GNP growth is expected to realize as 5.5 percent, owing to 5 percent increase in total domestic demand and 0.3 percentage points positive contribution to GNP growth of the foreign balances.

In 2008, private sector consumption expenditures and public sector consumption expenditures are expected to increase by 4.8 and 3.4 percent, respectively. In this year, private fixed capital investment is expected to grow by 8.5 percent while public sector fixed capital investment is expected to decline by 3.9 percent. When the situation is analysed in

regards with contribution to growth, it is observed that private consumption contributes by 3.2, public consumption by 0.4, private fixed capital investment by 1.7 and public sector fixed capital investment by negative 0.2 percentage points, respectively, to the GNP growth rate of 5.5 percent in 2008. In the same year, contribution of changes in stocks to GNP growth is expected to realize as positive 0.2 percentage points.

In 2008, the ratio of public disposable income to GNP is estimated to stay at the previous year's level with the rate of 15.8 percent. In 2008, public saving-investment balance is expected to realise as negative 1.5 percent with a slightly improvement compared to 2007, due to the decline in the share of public investment in GNP while there is no change in the share of public saving.

B. INVESTMENTS

1. Sectoral Distribution of Investments

a) Current Outlook

In 2007, public sector fixed capital investments are expected to rise by 2.3 percent in real terms. The realisation of the public sector fixed capital investments is expected to be within the following percentages; 37.4 percent by the central budget institutions, 45 percent by local administrations, 9.9 percent by SEEs, 3.3 percent by the institutions under the scope of privatisation, 2.1 percent by the Bank of Provinces and 2.2 percent by revolving funds and social security administrations.

In 2007, compared to year 2006, it is expected that the shares of mining, agriculture, health, energy and other services would rise; manufacturing and transportation, would fall; housing, tourism and education would remain at the same level in the public sector fixed capital investments.

In 2007 private sector fixed capital investments are expected to rise by 7.4 percent in real terms. It is particularly expected that the shares of agriculture, housing and health would rise; manufacturing, transportation, would fall; mining, education, energy, tourism and other services would remain at the same level in total of private sector fixed capital investments.

b) Targets for the Year 2008

In 2008, public sector fixed capital investments are expected to decrease by 3.9 percent in real terms. It is expected that public sector fixed capital investments would be realised at the rates of 43.9 percent by local administrations, 38.1 percent by central budget institutions, 10.6 percent by the SEEs, 2.5 percent by the SEEs which are under the scope of privatisation, 2.4 percent by the Bank of Provinces and 2.5 percent by revolving funds and social security institutions.

In 2008, compared to the figures of 2007, the shares within public sector fixed capital investments are expected to increase for mining, manufacturing, transportation and other services while that of agriculture, energy and education is expected to fall and those of health, tourism and housing are expected to remain at the same level.

In 2008, private sector fixed capital investments are expected to rise by 8.5 percent in real terms. Within this total, it is expected that the shares of agriculture and education would increase, transportation sector might fall and the rest would not change significantly.

TABLE: II. 11- Public Sector Fixed Capital Investments (2006)

(Current Prices, Million YTL.)

Sectors	Central Admin.(1)	SEEs	Institutions Under Scope of Priv.	Bank of Provinces	Rev. Fund+ SGK	SUB-TOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	1,183	13	1	0	30	1,227	7.7	594	1,821	6.5
Mining	36	514	0	0	0	550	3.4	1	551	2.0
Manufacturing	14	314	172	0	0	501	3.1	113	614	2.2
Energy	1,334	276	711	0	0	2,321	14.5	336	2,657	9.5
Transportation	2,952	1,668	2	0	20	4,642	29.0	5,082	9,724	34.8
Tourism	70	0	0	0	0	70	0.4	36	107	0.4
Housing	93	0	0	0	1	94	0.6	343	436	1.6
Education	2,387	0	0	0	15	2,402	15.0	350	2,752	9.9
Health	953	0	0	0	209	1,161	7.3	368	1,530	5.5
Other Services	2,456	0	0	540	25	3,026	18.9	4,718	7,743	27.7
Economic	1,492	0	0	37	22	1,550	9.7	428	1,978	7.1
Social	964	0	0	503	3	1,475	9.2	4,290	5,765	20.6
Total	11,476	2,785	887	540	300	15,994	100	11,940	27,934	100
Percent. Shares	71.8	17.4	5.5	3.4	1.9	100				
Percent. Shares	41.1	10.0	3.2	1.9	1.1	57.3		42.7	100	

Source: SPO
(1) Excluding labour cost

TABLE: II. 12- Public Sector Fixed Capital Investments (2007) (1)

(Current Prices, Million YTL.)

Sectors	Central Admin.(2)	SEEs	Institutions Under Scope of Priv.	Bank of Provinces	Rev. Fund+SGK	SUB-TOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	1,405	23	1	0	108	1,538	9.1	966	2,504	8.1
Mining	70	595	0	0	0	665	3.9	1	666	2.2
Manufacturing	12	111	169	1	0	293	1.7	133	426	1.4
Energy	1,279	622	854	0	0	2,755	16.3	342	3,097	10.1
Transportation	2,198	1,677	1	0	44	3,920	23.2	5,659	9,579	31.2
Tourism	81	0	0	0	10	91	0.5	38	129	0.4
Housing	115	0	0	0	0	115	0.7	402	517	1.7
Education	2,706	0	0	0	28	2,734	16.2	318	3,052	9.9
Health	1,036	0	0	0	412	1,447	8.6	424	1,871	6.1
Other Services	2,608	0	0	659	69	3,336	19.7	5,558	8,893	28.9
Economic	1,558	0	0	45	67	1,671	9.9	485	2,156	7.0
Social	1,050	0	0	614	2	1,665	9.9	5,072	6,738	21.9
Total	11,509	3,028	1,025	660	671	16,894	100	13,841	30,735	100
Perc. Shares	68.1	17.9	6.1	3.9	4.0	100				
Perc. Shares	37.4	9.9	3.3	2.1	2.2	55.0		45.0	100	

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

TABLE: II. 13- Public Sector Fixed Capital Investments (2008) (1)

(Current Prices, Million YTL.)

Sectors	Central Admin.(1)	SEEs	Institutions Under Scope of Priv.	Bank of Provinces	Rev. Fund+SGK	SUB-TOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	1,395	29	2	0	45	1,471	8.6	724	2,195	7.2
Mining	91	722	0	0	0	813	4.7	1	814	2.7
Manufacturing	25	145	192	1	1	364	2.1	147	511	1.7
Energy	1,073	782	553	0	0	2,409	14.1	361	2,769	9.1
Transportation	2,338	1,571	5	0	45	3,958	23.1	5,628	9,586	31.4
Tourism	88	0	0	0	12	100	0.6	27	127	0.4
Housing	113	0	0	0	0	113	0.7	432	545	1.8
Education	2,812	0	0	0	24	2,836	16.6	75	2,912	9.5
Health	963	0	0	0	460	1,423	8.3	433	1,855	6.1
Other Services	2,722	0	0	738	175	3,636	21.2	5,573	9,209	30.2
Economic	1,639	0	0	50	174	1,863	10.9	473	2,336	7.7
Social	1,084	0	0	688	1	1,772	10.4	5,100	6,873	22.5
Total	11,622	3,249	751	740	761	17,123	100	13,401	30,524	100
Percent. Shares	67.9	19.0	4.4	4.3	4.4	100				
Percent. Shares	38.1	10.6	2.5	2.4	2.5	56.1		43.9	100	

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

TABLO: II. 14- Sectoral Breakdown of Total Fixed Capital Investments (1)

(Current Prices, Million YTL)

	2006			2007 (2)			2008 (3)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	2,076	3,147	5,222	2,834	3,777	6,610	2,537	4,164	6,701
Mining	558	1,572	2,130	683	1,787	2,470	837	1,952	2,788
Manufacturing	617	39,347	39,964	429	44,219	44,648	517	51,073	51,591
Energy	2,945	2,540	5,485	3,397	2,816	6,213	3,032	3,075	6,107
Transportation	10,360	15,216	25,576	10,095	16,717	26,811	10,159	18,606	28,765
Tourism	122	6,890	7,012	147	7,882	8,029	149	9,103	9,252
Housing	457	14,511	14,968	544	18,048	18,592	573	20,466	21,039
Education	3,267	948	4,215	3,687	1,144	4,831	3,600	1,442	5,042
Health	1,735	5,268	7,003	2,114	6,162	8,277	2,091	7,118	9,209
Other Services	8,273	3,720	11,993	9,505	4,303	13,809	9,875	4,785	14,660
TOTAL	30,410	93,159	123,569	33,435	106,855	140,290	33,371	121,783	155,153

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

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

(Current Prices, Percentage Shares)

	2006			2007 (2)			2008 (3)		
	Public	**Private**	**Total**	**Public**	**Private**	**Total**	**Public**	**Private**	**Total**
Agriculture	6.8	3.4	4.2	8.5	3.5	4.7	7.6	3.4	4.3
Mining	1.8	1.7	1.7	2.0	1.7	1.8	2.5	1.6	1.8
Manufacturing	2.0	42.2	32.3	1.3	41.4	31.8	1.6	41.9	33.3
Energy	9.7	2.7	4.4	10.2	2.6	4.4	9.1	2.5	3.9
Transportation	34.1	16.3	20.7	30.2	15.6	19.1	30.4	15.3	18.5
Tourism	0.4	7.4	5.7	0.4	7.4	5.7	0.4	7.5	6.0
Housing	1.5	15.6	12.1	1.6	16.9	13.3	1.7	16.8	13.6
Education	10.7	1.0	3.4	11.0	1.1	3.4	10.8	1.2	3.2
Health	5.7	5.7	5.7	6.3	5.8	5.9	6.3	5.8	5.9
Other Services	27.2	4.0	9.7	28.4	4.0	9.8	29.6	3.9	9.4
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. Public Sector Investment Implementation

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, advancing the quality of life, improving 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 27 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 2002-2007, 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 GDP, the requirement of additional public investment is observed in Turkey.

In the implementation of public investments in 2007, investments, which will enhance the economic and social infrastructure, have given importance considering the priorities at sectoral, regional and project basis.

In 2007, excluding local administration investments and labour cost, in terms of 2007 prices, 2,710 public investment projects of which total value is YTL 209.3 billion, cumulative expenditure as of end 2006 amounts to YTL 93.4 billion and 2007 initial appropriation is YTL 17.1 billion, have been implemented.

In 2007 Investment Programme within 2,710 projects, 1,054 projects corresponding an amount of YTL 3.8 billion are projects those planned to be launched and completed during the year. Furthermore, 161 multi-year new projects of which total value is YTL 9.4 billion and annual appropriation is YTL 500.6 million are taken into the investment programme.

In 2007 Investment Programme, in the allocation of YTL 17.1 billion to the 2,710 public investment projects, transportation-communication sector is in the first place with 23,0 percent, followed by other public services sector with 19.9, education sector with 16.5, energy sector with 14.9, agriculture sector with 8.8, and health sector with 8.7 percent. Mining, manufacturing, tourism and housing sectors claim 8.1 percent of the 2007 Investment Programme budget.

In 2007 Investment Programme, total

TABLE: II. 16- Ratio of Public Fixed Capital Investments of General Government to GDP

(In Percent)

Countries	2002	2003	2004	2005	2006	2007
Belgium	1.7	1.7	1.6	1.8	1.7	1.6
Germany	1.7	1.6	1.4	1.3	1.4	1.4
Ireland	4.2	3.8	3.7	3.7	3.9	4.1
Greece	3.7	4.2	4.2	3.5	3.6	3.5
Spain	3.5	3.6	3.4	3.6	3.6	3.6
France	2.9	3.1	3.1	3.3	3.4	3.4
Italy	1.7	2.5	2.4	2.3	2.3	2.4
Luxembourg	5.0	4.6	4.3	4.7	4.1	3.9
Netherlands	3.5	3.6	3.2	3.2	3.3	3.3
Austria	1.3	1.2	1.1	1.1	1.1	1.1
Portugal	3.5	3.1	3.1	2.8	2.3	2.2
Slovenia	3.0	3.3	3.5	3.4	3.7	3.6
Finland	2.7	2.9	2.9	2.6	2.6	2,6
Average of Euro Area Countries	**3.0**	**3.0**	**2.9**	**2.9**	**2.8**	**2.8**
Bulgaria	2.7	2.5	2.7	3.4	3.7	4.0
Czech Republic	3.9	4.5	4.9	4.9	5.1	5.3
Denmark	1.8	1.6	1.8	1.8	1.7	1.6
Estonia	4.9	4.2	3.1	3.2	3.6	3.8
Greek Cypriot Administration	3.0	3.4	4.0	3.1	3.3	3.3
Latvia	1.3	2.4	3.1	3.3	3.4	3.8
Lithuania	2.9	3.0	3.4	3.5	4.2	5.1
Hungary	4.9	3.5	3.5	4.0	4.5	3.6
Malta	4.5	5.1	2.1	5.3	4.6	5.2
Poland	3.4	3.3	3.4	3.4	4.1	4.6
Romania	3.1	3.2	3.0	3.8	2.9	3.8
Slovakia	3.2	2.6	2.4	2.1	2.2	2.2
Sweden	3.2	3.1	3.0	3.0	3.2	3.2
United Kingdom	1.4	1.6	1.7	0.6	1.8	2.0
Average of EU-27 Countries	**3.1**	**3.1**	**3.0**	**3.1**	**3.2**	**3.3**
USA	**2.8**	**2.7**	**2.6**	**2.6**	**3.3**	**3.3**
Japan	**4.8**	**4.3**	**3.9**	**3.7**	**3.4**	**3.2**
Turkey	**4.6**	**3.6**	**3.1**	**3.8**	**4.2**	**4.1**

Source: European Commission, European Economy (Economic Forecasts-Spring 2007), SPO (Pre–Accession Economic Programme)

cumulative expenditure corresponding YTL 93.5 billion for the 2.710 public investment projects totalling YTL 209.3 billion as of end 2007 and total of remaining project stock is YTL 115.9 billion. In this situation, under the assumptions of complete utilization of 2007 appropriation, the current year level appropriation is maintained and no additional projects are taken into the investment programme in the following years, 5.8 years is estimated as average completion time for the remaining stock.

billion are considered to partially or totally finance by 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 55 trace allocation projects of YTL 13.5 billion in terms of 2007 prices remain in 2007 Investment Programme.

TABLE: II. 17– Public Investments in Turkey (2000-2007) (1)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Number of Projects	5,321	5,047	4,414	3,851	3,555	2,627	2,525	2,710
Total Value of Project (Current Prices, Billion YTL)	86.2	105.2	166.8	187.1	196.1	206.7	200.4	209.3
Cumulative Expenditures Before Current Year (Current Prices, Billion YTL)	26.1	33.8	66.0	80.4	86.8	84.0	86.5	93.5
Total Value of Programme Appropriation (Current Prices, Billion YTL)	5.9	6.9	10.6	12.5	12.0	16.2	17.5	17.1
Number of Multi-Year New Projects in the Investment Programme	249	286	128	134	149	137	155	161
Total Programme Appropriation / Total Value of Project (In Percent)	6.8	6.5	6.3	6.7	6.1	7.8	8.7	8.2
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	5.8

(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.

68.8 percent of YTL 17.1 billion investment appropriation corresponding YTL 11.8 billion in year 2007 is allocated for general and special budget. Education sector has the largest share with 23.7 percent of general and special budget.

It is predicted that 18.8 percent of investment appropriation corresponding YTL 3.2 billion would be financed by foreign project credits. In 2007 Investment Programme, 274 projects totalling YTL 117

In addition to 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 compared to the limited financial resources. Lack of systematic project cycle management approach and inability of project implementation with well-designed feasibility studies and the reference

of a priority set, failure to apply an efficient monitoring and evaluation system and deficiencies in the project preparation, implementation, monitoring and evaluation units of public institutions are the other prominent reasons for inefficient use of the limited resources and inability of completion of the projects as programmed. In addition to new investment requirements of Turkey in many areas, Turkey needs maintenance-replacement, care-repair, rehabilitation and modernisation expenditures for effective utilisation and protection of its capital stock.

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 the selection process of new investment projects.

Below stated factors have created important opportunities for the following period in enhancing the allocation of resources on public investments and efficiency in implementation phase: Stability in the economy, growing contribution of the EU funds, which Turkey is gaining access at a growing rate, in terms of both providing additional funds for the public sector investments and improving capacity to design, implementation, monitoring and evaluation of the projects in compliance with the certain standards in public institutions, benefiting from the international resources for foreign project credits because of the increased level of credibility of Turkey on better terms, better evaluation and prioritisation of projects with the help of strategic planning in public institutions and the strategies set in the strategic documents, 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 2008:

- The projects, which would be able to be completed by the end of 2008,
- 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,
- The projects which are interdependent or to be implemented and completed simultaneously with the other ongoing projects,
- Maintenance-replacement, care-repair, rehabilitation and modernization projects for efficient utilisation and protection of capital stock,
- The projects directed to natural disaster mitigation and compensation for their damages,
- The projects which are necessary to realize the priority and policies in relation to EU membership process,

The projects, which are in compliance with the e-Transformation Turkey Project and Turkish Information Society Strategy.

C. BALANCE OF PAYMENTS

1. World Trade

Global output, which expanded at the rates of 5.4 in 2006, is expected to grow by 5.2 and 4.8 percent in 2007 and 2008, respectively.

The EU economy, which is Turkey's major trade partner, is expected to grow at the rate of 3 percent in 2007 and slow down to 2.5 in 2008. Asian economies, which are led by China and India, sustain their high growth rates. In 2007 and 2008 China is expected to grow 11.5 and 10 percent growth rate while India is expected to grow 8.9 and 8.4 percent.

TABLE: II. 18- World Output and Growth Rates

(Percentage Change)

	2005	2006	2007 (1)	2008 (1)
World Output (Billion USD)				
In terms of market exchange rates	44 745	48 245	53 352	57 323
In terms of Purchasing Power Parity (PPP)	61 259	66 229	70 807	75 632
Growth (GDP, constant prices)				
World	**4.8**	**5.4**	**5.2**	**4.8**
Developed Economies	2.5	2.9	2.5	2.2
Euro Area	1.5	2.8	2.5	2.1
USA	3.1	2.9	1.9	1.9
Japan	1.9	2.2	2.0	1.7
Other Developed Economies	3.2	3.7	3.7	3.1
Developing Economies	7.5	8.1	8.1	7.4
European Union	2.0	3.2	3.0	2.5
Newly Industrialised Asian Economies	4.7	5.3	4.9	4.4
Developing Asia Economies	9.2	9.8	9.8	8.8
Middle East Countries	5.4	5.6	5.9	5.9
China	10.4	11.1	11.5	10.0
India	9.0	9.7	8.9	8.4
Turkey	7.4	6.1	5.0	5.5

Source: IMF, World Economic Outlook, October 2007; SPO
(1) Estimation

TABLE: II. 19- Turkey's Position in World Trade

(Billions of USD

	2005	2006	2007 (1)	2008 (1)
World Exports				
Goods and Services	12 822	14 697	16 786	18 334
Goods	10 296	11 893	13 581	14 854
Turkey's Foreign Trade				
Exports	73.5	85.5	104.0	117.0
Imports	116.8	139.6	166.0	182.0
Percentage Share				
Turkey's Exports / World Exports	7.14	7.19	7.66	7.88
Turkey's Imports / World Exports	11.34	11.74	12.22	12.25

Source: IMF, World Economic Outlook, October 2007; TURKSTAT; SPO
(1) Estimation

TABLE: II. 20- International Trade

(Percentage Change)

	2005	2006	2007 (1)	2008 (1)
Goods and Services Trade				
World Trade Volume	7.5	9.2	6.6	6.7
Price Deflator (USD)	5.7	4.8	7.0	2.4
Export Volume				
Developed Economies	5.8	8.2	5.4	5.3
Developing Economies	11.1	11.0	9.2	9.0
Euro Area	4.5	7.8	6.0	5.5
Import Volume				
Developed Economies	6.1	7.4	4.3	5.0
Developing Economies	12.1	14.9	12.5	11.3
Euro Area	5.1	7.8	5.6	6.1
Terms of Trade				
Developed Economies	-1.6	-0.9	0.2	-0.2
Developing Economies	5.7	4.7	0.2	1.0
Euro Area	-1.4	-1.0	-0.2	-

Source: IMF, World Economic Outlook, October 2007
(1) Estimation

Total volume of world goods export in 2007 is expected to reach USD 13.6 trillion while this volume is expected to become USD 14.9 trillion in 2008. Turkey's export share in the total world export volume is expected to be 0.77 percent for 2007 and 0.79 percent targeted for 2008.

Total volume of goods and services trade expanded in 2006 by 9.2 percent, is expected to increase by 6.6 percent in 2007 and 6.7 percent in 2008. The annual growth of the total imports of the Euro area, which constitutes the major export market for Turkey, is expected to be 5.6 percent in 2007 and 6.1 percent in 2008.

TABLE: II. 21- World Export Prices (Annual Average)

(Percentage Change)

		2005	2006	2007 (1)	2008 (1)
In USD	Manufactures	3.7	3.8	7.9	2.8
	Oil	41.3	20.5	6.6	9.5
	Non-fuel Primary Commodities	10.3	28.4	12.2	-6.7
	Crude Oil Barrel Prices (2)	53.4	64.3	68.5	75.0
In Euro	Manufactures	3.5	2.9	0.3	1.0
	Oil	41.0	19.5	-0.8	7.6
	Non-fuel Primary Commodities	10.0	27.4	4.4	-8.3
	Crude Oil Barrel Prices (2)	42.8	51.1	50.7	54.6
Reel Interest rates (3)	LIBOR	0.5	2.1	2.6	2.7
	Long Run World Average	1.3	1.7	2.4	2.7

Source: IMF, World Economic Outlook, October 2007; SPO
(1) Estimation
(2) Average of spot crude oil prices of Brent, Dubai and West Texas
(3) In Percent, for LIBOR London interbank offered rate on U.S. dollar deposits less percent change in U.S. GDP deflator, for Long Run World Average : GDP-weighted average of 10-year (or nearest maturity) government bond rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada.

TABLE: II. 22- Current Account Deficit and Its Components

(Billions of USD)

				January - August	
	2005	2006	2007(1)	2006	2007
CURRENT ACCOUNT BALANCE	**-22.6**	**-32.9**	**-33.2**	**-23.0**	**-23.3**
BALANCE ON GOODS	**-33.5**	**-41.3**	**-42.6**	**-28.9**	**-30.1**
Total Merchandise Exports	**76.9**	**91.9**	**106.2**	**57.5**	**71.8**
Exports f.o.b.	73.5	85.5	98.9	53.8	67.1
Shuttle Trade, Other Goods	3.5	6.4	7.3	3.7	4.6
Total Merchandise Exports	**-110.5**	**-133.3**	**-148.8**	**-86.4**	**-101.9**
Imports c.i.f.	-116.8	-139.6	-156.9	-90.3	-107.6
Freight and Ins., Other Goods	6.3	6.3	8.1	3.9	5.7
BALANCE ON SERVICES	**15.3**	**13.4**	**14.4**	**9.0**	**10.0**
Credit	26.6	24.5	27.2	16.2	19.0
Tourism	18.2	16.9	17.9	11.2	12.3
Debit	-11.4	-11.1	-12.9	-7.2	-9.0
BALANCE ON INCOME	**-5.8**	**-6.6**	**-6.7**	**-4.1**	**-4.3**
Credit	3.7	4.5	5.7	3.1	4.3
Debit	-9.5	-11.1	-12.4	-7.2	-8.6
CURRENT TRANSFERS	**1.5**	**1.7**	**1.7**	**1.0**	**1.1**

Source: CBRT
(1) As of August, annualised

In parallel with the expanding world trade volume, foreign trade volume of Turkey, which exceeded USD 225 billion in 2006, is expected to reach USD 270 billion by the end of 2007.

As non-fuel primary commodity prices in the world rose by 28.4 percent in terms of USD in 2006, oil prices rose by 20.5 percent. In the first three quarter of 2007, oil prices has been declined according to same period in 2006. Yet in the rest of 2007, oil prices is expected to increase in higher rates. In this context, by the end of 2007 it is expected that the rise in oil prices would be 6.6 percent while the rise in commodity prices would be 12.2 percent. In 2008, while oil price is expected to increase by 9.5 percent, commodity prices is expected to decrease by 6.7 percent. In this regard, average world oil price per barrel (average of Brent, Dubai and West Texas spot prices) is expected to realise USD 68.5 in 2007 and then rise to USD 75 in 2008.

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 33.2 billion in August 2007 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 67.1 billion in January-August 2007 period, marking an increase of 24.8 percent compared to the same period of the previous year. In this

TABLE: II. 23- Exports According to Country Groups

(Billions of USD)

	Annual		Percentage Share		Jan. - Aug.		Percentage Share	
	2005	2006	2005	2006	2006	2007	2006	2007
TOTAL EXPORTS	**73.5**	**85.5**	**100**	**100**	**53.8**	**67.1**	**100**	**100**
EU COUNTRIES (EU-27)	**41.4**	**47.9**	**56.3**	**56.0**	**30.1**	**38.0**	**56.0**	**56.6**
TURKISH FREE ZONES	**3.0**	**3.0**	**4.0**	**3.5**	**1.9**	**1.9**	**3.6**	**2.8**
OTHER COUNTRIES	**29.1**	**34.6**	**39.7**	**40.5**	**21.7**	**27.3**	**40.3**	**40.6**
Other Europe (Excl. EU)	5.9	8.0	8.0	9.3	4.9	6.6	9.0	9.9
Africa	3.6	4.6	4.9	5.3	2.9	3.8	5.4	5.7
America	6.0	6.3	8.1	7.4	4.2	3.7	7.9	5.5
Asia	13.2	15.3	18.0	17.8	9.4	12.5	17.5	18.7
Near and Middle East	10.2	11.3	13.9	13.2	7.0	9.2	13.0	13.7
Other	0.5	0.5	0.7	0.6	0.3	0.6	0.6	0.9
OECD	44.4	54.5	60.4	63.7	34.6	41.5	64.3	61.9
EFTA	0.8	1.2	1.1	1.4	0.8	0.8	1.6	1.2
Black Sea Economic Co.	8.6	11.6	11.7	13.5	6.8	10.3	12.5	15.4
Economic Co-operation	2.7	3.3	3.6	3.9	2.0	2.8	3.7	4.2
New Independent Countries	5.1	7.0	6.9	8.2	4.0	6.1	7.5	9.2
Turkic Republics	1.4	2.0	1.9	2.3	1.2	1.8	2.2	2.7
Islamic Conference	13.1	15.0	17.8	17.5	9.2	12.5	17.1	18.7

Source: SPO, TURKSTAT

TABLE: II. 24- Imports According to Country Groups

(Billions of USD)

	Annual		Percentage Share		Jan. – Aug.		Percentage Share	
	2005	2006	2005	2006	2006	2007	2006	2007
TOTAL IMPORTS	**116.8**	**139.6**	**100**	**100**	**90.3**	**107.6**	**100**	**100**
EU COUNTRIES (EU-27)	**52.7**	**59.4**	**45.1**	**42.6**	**39.0**	**43.4**	**43.2**	**40.4**
TURKISH FREE ZONES	**0.8**	**0.9**	**0.7**	**0.7**	**0.6**	**0.8**	**0.6**	**0.7**
OTHER COUNTRIES	**63.3**	**79.2**	**54.2**	**56.8**	**50.7**	**63.4**	**56.2**	**58.9**
Other Europe (Excl. EU)	20.4	25.7	17.5	18.4	16.3	22.1	18.1	20.6
Africa	6.0	7.4	5.2	5.3	4.8	4.4	5.3	4.1
America	7.9	9.4	6.7	6.7	6.0	7.8	6.6	7.2
Asia	28.5	36.2	24.4	26.0	23.4	28.5	25.9	26.5
Near and Middle East	8.0	10.6	6.8	7.6	7.2	7.6	7.9	7.0
Other Asia	20.6	25.7	17.6	18.4	16.2	21.0	17.9	19.5
Other	0.5	0.5	0.4	0.4	0.3	0.6	0.3	0.5
OECD	66.1	77.8	56.6	55.7	41.5	58.5	46.0	54.4
EFTA	4.4	4.5	3.8	3.2	0.8	4.1	0.9	3.8
Black Sea Economic Co.	20.5	27.0	17.5	19.4	10.3	22.0	11.4	20.5
Economic Co-operation	5.1	8.1	4.4	5.8	2.8	6.4	3.1	5.9
New Independent Countries	17.3	23.4	14.8	16.7	6.1	19.8	6.8	18.4
Turkic Republics	1.3	2.0	1.1	1.4	1.8	1.6	2.0	1.5
Islamic Conference	14.5	19.1	12.4	13.7	12.5	13.2	13.9	12.3

Source: SPO, TURKSTAT

period, total volume of exports of manufacturing industry, which constitutes 94.7 percent of total volume of exports, increased at a rate of 25.4 percent. In this increase, main determinants have been the rises of 34.2 percent in motor vehicles and trailers, 34.2 percent in manufacture of basic metals, 37.2 percent in machinery and equipment, and 16.9 percent in wearing apparel to the previous year. In the same period, while exports of agriculture and forestry decreased by 3.5 percent, mining sector increased by 45 percent.

As of January-August 2007 period a significant change has not been observed in export markets composition of Turkey. Because of the appreciation of TRY against USD, as the shares of the American Countries has maintained to decrease in total exports of Turkey, the share of the oil exporter countries and EU countries increased.

Through the year 2007, total volume of exports is expected to reach USD 104 billion with 21.6 percent increase. Foreseeing a 8.3 percent increase in export prices during the same period, the real exports growth rate is expected to be 12.4 percent.

Total volume of imports in the period January-August 2007, rising at a rate of 19.2 percent compared to the same period of the previous year, reached USD 107.6 billion. In this period, the increase in the imports of consumption and capital goods stayed below that of the total volume of imports while imports of intermediate goods expanded by 23.1 percent parallel to export expansion.

When the share of the imports to different country groups within total volume of imports during the period January-August 2007 is considered, increases in shares of the OECD and Black Sea Co-operation countries in total imports are observed. The share of imports from the EU countries, which was 43.2 percent as of January-August 2006 period, decreased to 40.4 percent as of the same period of 2007.

By the end of the year 2007, total volume of imports is expected to reach USD 166 billion, recording an annual growth rate of 18.9 percent. In 2007, owing to the expectation that import price index would rise by 6.9 percent, real growth rate of imports are estimated to be 11.3 percent.

Rising energy prices deteriorates the current account balance. Each dollar increase in crude oil import prices adds approximately USD 190 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 530 million. The increase of average per barrel price to USD 65 in 2007 would cause a rise by USD 2.1 billion in Turkey's energy import bill.

Balance on Services, Income and Current Transfers

Balance on services, a traditional source of surplus owing to tourism revenues, recorded a surplus of USD 13.4 billion in 2006. As of 2007 January-August period with a 9.6 percent rise in comparison with the same period of the previous year, tourism revenues reached USD 12.3 billion. The estimated level for tourism income for the end of 2007 is USD 18,6 billion.

The balance on income for the period of January-August 2007, retaining its 2006 level, recorded a deficit of USD 4.3 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 2007 realised as USD 6.9 billion. Thus, current account deficit

excluding interest payments decreased to USD 16.4 billion for the same period of 2007 from USD 17 billion in January-August 2006.

By the end of first eight months of 2007, current transfers gave a surplus of USD 1.1 billion.

Consequently, current account deficit which reached USD 23.3 billion in the first eight months of 2007, is expected to be USD 36.4 billion by the end of the year.

b) Targets for the Year 2008

In 2008 the volume of exports, with a 12.5 percent increase, is expected to reach USD 117 billion, total volume of imports is expected to achieve USD 182 billion with an increase of 9.6 percent. In 2008, the trade deficit is expected to be USD 65 billions. With revenues of USD 8.5 billion from shuttle trade and USD 10.2 billion from freight and insurance, foreign trade deficit is expected to be USD 46.9 billion.

Export and import prices are expected to increase by 1.7 percent and 2.5 percent respectively in 2008. Hence, in 2008 the volume of exports of Turkey is expected to grow by 10.6 percent whereas the growth rate of imports would be 6.9 percent in real terms.

With a 5.1 percent increase, tourism revenues are forecasted to reach USD 19.6

TABLE: II. 25- Factors Affecting the Foreign Trade of Turkey

	2005	2006	2007 (1)	2008 (2)
Exports (Billions of USD)	73.5	85.5	104.0	117.0
Imports (Billions of USD)	116.8	139.6	166.0	182.0
(Percentage Change)				
Exports	16.3	16.4	21.6	12.5
Imports	19.7	19.5	18.9	9.6
Export Price Index	6.0	3.5	8.3	1.7
Import Price Index	7.0	8.6	6.9	2.5
Real Exports	9.7	12.5	12.4	10.6
Real Imports	11.9	10.0	11.3	6.9
Real Exchange Rate (1 USD + 1,5 Euro)	9.7	-0.4	9.5	-4.0
GNP Growth Rate	7.6	6.0	5.0	5.5
Growth of Industry	6.5	7.4	5.5	5.7
Growth of Domestic Demand	8.8	5.6	4.1	4.5
Productivity	5.2	6.4	3.7(3)	
Productivity (Developed Countries)	3.4	3.8	2.7	2.6
Unit Labour Cost	12.7	-0.7	2.7(3)	
Unit Labour Cost (Developed Countries)	-0.1	-0.8	1.4	0.7

Source: TURKSTAT, SPO, IMF World Economic Outlook, October 2007
(1) Realisation estimate
(2) Programme target
(3) As of June, annualised

TABLE: II. 26- Sectoral Breakdown of Exports (ISIC.Rev.3)

	(Billion USD)			(Percent Share)			(Percentage Change)	
	2006	2007 (1)	2008 (2)	2006	2007 (1)	2008 (2)	07/06	08/07
TOTAL EXPORTS	**85.5**	**104.0**	**117.0**	**100**	**100**	**100**	**21.6**	**12.5**
Agric., Forest., Fishery	3.6	3.7	4.5	4.2	3.6	3.8	3.7	20.2
Mining and Stone Quarrying	1.1	1.6	1.8	1.3	1.5	1.5	36.1	15.4
Manufacturing Industry	80.2	98.0	109.8	93.8	94.2	93.8	22.1	12.0
Other	0.5	0.7	0.9	0.6	0.7	0.8	38.2	24.0

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

TABLE: II. 27- Composition of Imports According to Broad Economic Categories (BEC)

	(Billion USD)			(Percent Share)			(Percentage Change)	
	2006	2007(1)	2008(2)	2006	2007(1)	2008(2)	07/06	08/07
TOTAL IMPORTS	**139.6**	**166.0**	**182.0**	**100**	**100**	**100**	**18.9**	**9.6**
Capital Goods	23.3	26.5	28.8	16.7	16.0	15.8	13.4	8.8
Intermediate Goods	99.6	120.4	131.8	71.4	72.5	72.4	20.8	9.5
Crude Oil	10.7	12.3	13.8	7.7	7.4	7.6	14.6	12.5
Other	88.9	108.1	118.0	63.7	65.1	64.8	21.6	9.1
Consumption Goods	16.1	18.0	20.1	11.5	10.8	11.0	11.4	12.0
Other	0.5	1.2	1.3	0.4	0.7	0.7	136.4	8.8

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

billion in 2008. Besides, tourism expenditures are estimated to reach USD 3.4 billion, with an increase of 4.7 percent. Including the other items, credit total of services is expected to reach USD 29.8 billion, rising at a rate of 6.1 percent. On the other hand, with a rise of 6.4 percent, debit total of services is estimated to reach USD 14.6 billion. Hence, balance on services, with an increase of 5.7 percent, would produce a surplus of USD 15.2 billion.

In 2008, USD 9.3 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 39.2 billion, corresponding to a 7,9 percent increase in 2008. The ratio of current account balance to GNP, which is expected to be 7.4 percent in 2007, is estimated to rise to 7.5 percent in 2008.

TABLE: II. 28- Current Account Balance

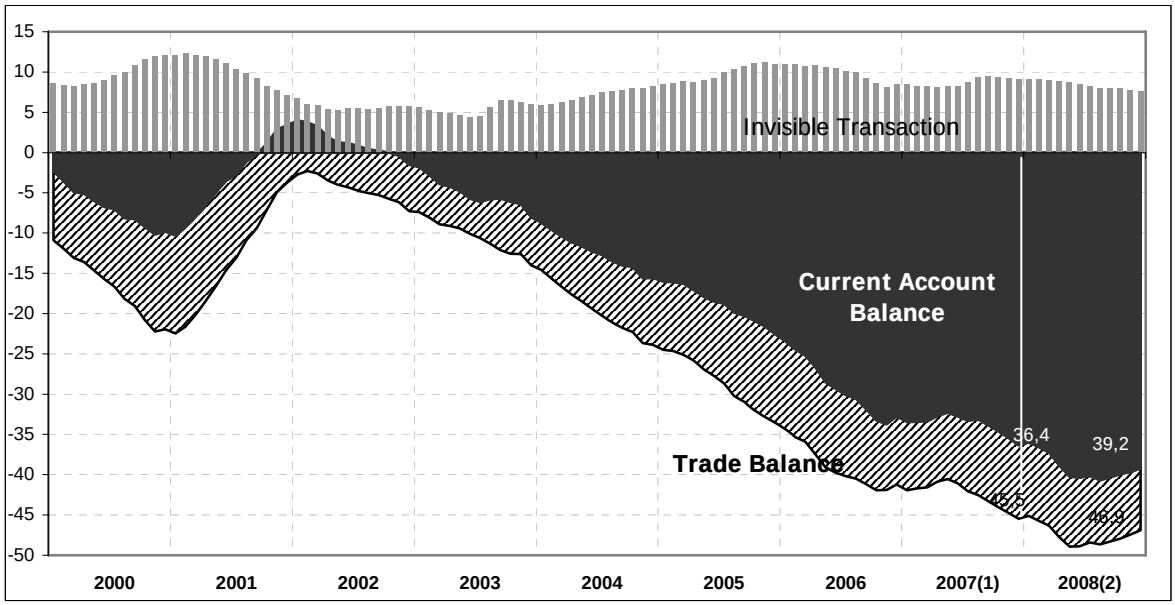
(Billions of USD)

	2005	2006	2007(1)	2008(2)
CURRENT ACCOUNT BALANCE	**-22.6**	**-32.9**	**-36.4**	**-39.2**
BALANCE ON GOODS	**-33.5**	**-41.3**	**-45.5**	**-46.9**
Exports f.o.b.	76.8	91.2	111.0	124.7
Exports f.o.b.	73.5	85.5	104.0	117.0
Shuttle Trade, Adaptation	3.3	5.7	7.0	7.7
Imports f.o.b.	-106.2	-128.8	-152.7	-167.7
Imports c.i.f.	-116.8	-139.6	-166.0	-182.0
Freight and Insurance, Adaptation	10.6	10.8	13.3	14.3
Non-monetary gold (net)	-3.8	-3.3	-3.3	-3.4
Goods procured in ports by carriers (net)	-0.3	-0.4	-0.5	-0.5
BALANCE ON SERVICES	**15.3**	**13.4**	**14.4**	**15.2**
Credit	26.6	24.5	28.1	29.8
Debit	-11.4	-11.1	-13.7	-14.6
Transportation	0.1	-0.1	0.2	0.2
Tourism	15.3	14.1	15.4	16.2
Credit	18.2	16.9	18.6	19.6
Debit	-2.9	-2.7	-3.2	-3.4
Other Services	-0.1	-0.7	-1.2	-1.2
BALANCE ON INCOME	**-5.8**	**-6.6**	**-7.0**	**-9.3**
Credit	3.7	4.5	6.1	6.4
Debit	-9.5	-11.1	-13.1	-15.7
Compensation of Employees	-0.1	-0.1	-0.1	-0.1
Investment Income	-5.7	-6.5	-6.9	-9.2
Direct Investment	-0.8	-1.0	-1.4	-1.8
Portfolio Investment	-0.9	-0.7	-0.1	-0.2
Other Investment	-4.0	-4.9	-5.5	-7.2
Interest Income	1.0	1.5	2.0	2.0
Interest Expenditure	-5.0	-6.3	-7.4	-9.2
Long Term	-4.5	-5.5	-6.6	-8.3
Short Term	-0.6	-0.8	-0.8	-0.8
CURRENT TRANSFERS	**1.5**	**1.7**	**1.7**	**1.8**

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

Graph:3 – Current Account Balance and 2008 Target (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 macroeconomic stability reached by the economic programme, there has been a substantial capital inflow in 2007. This inflow provided necessary resources to finance the current account deficit of USD 23.3 billion in the first eight months of the year, and to increase official reserves by USD 9.6 billion as well.

In 2006, 18.9 percent of total net inflow in capital and financial account -excluding reserves- was realised in the form of portfolio investment, and this share is expected to be 11.4 percent in 2007. Because of the increase of the foreign credit used by the non-bank private sector, the share of other investment in total volume of financing has increased.

Compared to the years before 2006, weight of the private sector credits has been observed to increase in financing the current account deficit. In January-August of 2007, the share of the private sector in net capital inflows has shown a continuous increase while public sector's position has turned to net payer with 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 2007, there has been a capital surplus caused to increase in reserves amounted USD 6.9 billions which corresponds to USD 9.6 billions with net errors and omissions after net repayments to the IMF of USD 3.1 billion.

While total reserves has increased by USD 9.6 billion during January-August 2007 period, the accumulation in official reserves has amounted to USD 44.6 billion from 2002 to August 2007.

TABLE: II. 29- Capital and Financial Account (Summary)

(Billions of USD)

				January-August	
	2005	2006	2007 (1)	2006	2007
Current Account Balance	**-22.6**	**-32.9**	**-33.2**	**-23.0**	**-23.3**
Capital and Financial Acc. (excl reserves)	**38.3**	**41.2**	**43.2**	**28.3**	**30.2**
Direct Investment (net)	8.9	19.0	18.5	12.6	12.1
Portfolio Investment (net)	13.4	7.4	9.2	2.4	4.2
Other Investment (net)	15.9	14.8	15.4	13.2	13.9
Official Reserves (2)	**-17.8**	**-6.1**	**-11.5**	**-4.2**	**-9.6**
Net Errors and Omissions	**2.2**	**-2.2**	**1.6**	**-1.1**	**2.8**

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

TABLE: II. 30- Capital and Financial Account, Public-Private Sector Decomposition

(Billions of USD)

				Jan.-August	
	2005	2006	2007 (1)	2006	2007
A. CURRENT ACCOUNT BALANCE	**-22.6**	**-32.9**	**-33.2**	**-23.0**	**-23.3**
B. CAPITAL AND FINANCIAL ACCOUNT (IMF Credits, excl. Reserves)	**43.6**	**45.7**	**47.3**	**31.8**	**33.3**
Public Sector (excl. IMF Credits)	6.4	7.4	8.7	1.1	2.3
Private Sector	37.3	38.3	38.6	30.7	31.0
Banks (net)	8.7	-3.1	-8.9	0.2	-5.6
Non-Bank Private Sector (net)	28.5	41.4	47.4	30.5	36.6
C. CURRENT, CAPITAL AND FINANCIAL ACCOUNT (A+B)	**21.0**	**12.9**	**14.0**	**8.8**	**10.0**
D. NET ERRORS AND OMISSION	**2.2**	**-2.3**	**1.6**	**-1.1**	**2.8**
E. GENERAL BALANCE (C+D)	**23.2**	**10.6**	**15.6**	**7.8**	**12.8**
F. TOTAL RESERVES	**-23.2**	**-10.6**	**-15.6**	**-7.8**	**-12.8**
Official Reserves (2)	-17.8	-6.1	-11.5	-4.2	-9.6
IMF Credits	-5.4	-4.5	-4.1	-3.5	-3.1
Use	2.4	3.0	2.3	1.9	1.1
Repayment	-7.8	-7.5	-6.4	-5.4	-4.3

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

In the first eight month of 2007, direct investment was realized as USD 12.1 billion which is very close to the same period of the last year. While in January-August 2006 the inflow of direct investment was realised as USD 12.9 billion, in the same period of 2007, it reached to USD 13.9 billion. Of this total amount, USD 1.6 billion was realised by foreigners' purchase of real estate.

In January-August 2007, USD 4.3 billion was repaid to the IMF while the use of credit was USD 1.1 billion. Thus net repayment to the IMF was USD 3.1 billion. It is planned to repay net USD 2.8 billion to the IMF for the whole year.

In 2007 USD 42.6 billion net capital inflow, excluding reserves, would be expected. USD 16.2 billion of this amount would be in the form of direct investment, USD 4.9 billion as portfolio investment, and USD 21.5 billion as other investment.

Of the USD 12.1 billion foreign direct investment in January-August 2007, the largest share was constituted by services sector with 71.6 percent whereas manufacturing sector followed it by 21.3 percent.

b)Targets for the Year 2008

Despite the current account deficit of USD 39.2 billion, USD 43.1 billion of net capital inflow, excluding the reserves, is expected in 2008. A total net capital inflow is expected in the forms of USD 16.5 billion direct, USD 2.7 billion portfolio and USD 23.9 billion other investment.

While the direct investment during the period 2005-2007 largely realised by privatisation, mergers and acquisitions, the share of greenfield investment is expected to rise in 2008.

TABLE: II. 31- Sectoral Decomposition of Foreign Direct Investment

(Millions of USD)

					January-August	
	2003	**2004**	**2005**	**2006**	**2006**	**2007**
Total	**745**	**1 291**	**8 536**	**17 709**	**10 893**	**12 086**
Agriculture	1	6	7	6	0	3
Mining and Stone Quarrying	14	75	40	122	70	318
Manufacturing Industry	448	214	788	1 867	1 070	2 576
Services	196	927	7 697	15 602	9 642	8 652
Other	86	69	4	112	111	537

Source: CBRT

TABLE: II. 32- Current Account Balance and Its Financing

(Billions of USD)

	2005	2006	2007(1)	2008(2)
I. CURRENT ACCOUNT	**-22.6**	**-32.9**	**-36.4**	**-39.2**
II. CAPITAL AND FINANCIAL ACCOUNT	**20.4**	**35.1**	**33.6**	**39.2**
1. Direct Investment	**8.9**	**19.0**	**16.2**	**16.5**
1.1. Outflow	-1.1	-0.9	-2.0	-2.0
1.2. Inflow	10.0	20.0	18.2	18.5
2. Portfolio Investment	**13.4**	**7.4**	**4.9**	**2.9**
2.1. Assets	-1.2	-4.0	-3.7	-3.5
2.2. Liabilities	14.7	11.4	8.6	6.1
Equities	5.7	1.9	5.7	2.0
Debt Instruments	9.0	9.5	2.9	4.1
3. Other Investment	**15.9**	**14.8**	**21.5**	**23.9**
3.1. Assets	0.3	-12.4	-1.9	0.9
3.2. Liabilities	15.6	27.2	23.4	23.1
Trade Credits	3.1	2.6	5.2	5.9
Credits	11.7	19.7	24.3	19.2
Central Bank	-2.9	0.0	0.0	0.0
IMF	-2.9	0.0	0.0	0.0
General Government	-4.6	-5.2	-2.4	2.2
IMF	-2.5	-4.5	-2.8	0.4
Banks	9.2	5.8	4.8	5.5
Other Sectors	10.0	19.1	21.9	11.5
Deposits	0.5	4.6	-6.5	-1.8
Other Liabilities	0.3	0.3	0.4	0.0
4. Reserve Assets (3)	**-17.8**	**-6.1**	**-9.0**	**-3.9**
III. NET ERRORS AND OMISSIONS	**2.2**	**-2.3**	**2.8**	**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 207.8 billion in 2006, reached USD 226.4 billion by the second quarter of 2007. While the ratio of total external debt stock to GNP has been declining since 2002, it has turned upwards in the first half of 2006. This upward trend has maintained in the first half of the 2007.

The quantity and the share of private sector's external debt in total debt stock has been significantly rising since 2004. Moreover, short run debt stock of private sector was 14.8 at the end of 2002, it has reached to USD 37.1 in August 2007. This position made the private sector more exposed to the exchange rate risk.

In the first half of the 2007, while private banking sector decreased the short run debt stock, long run debt stock has increased. As a result, in this period, banking sector's total debt stock has increased slightly compared to the end of 2006. Yet, in the first

TABLE: II. 33- Selected Indicators on External Debt Stock

(Billions of USD)

	2002	2003	2004	2005	2006	2007(1)
Total External Debt	**129.7**	**144.3**	**160.9**	**168.9**	**207.8**	**226.4**
Short Term Debt	16.4	23.0	31.9	37.1	42.3	41.0
Medium-Long Term Debt	113.3	121.3	129.0	131.8	165.4	185.3
Public Sector External Debt	86.5	95.2	97.1	85.8	87.3	87.8
Private Sector External Debt	43.2	49.1	63.8	83.1	120.5	138.5
Banking Sector	8.5	11.5	18.5	28.3	40.3	41.4
Non-Banking Sector	34.7	37.6	45.3	54.8	80.2	97.1
Percentage Shares						
Short Term Ext. Debt / Tot. Ext. Debt	12.7	15.9	19.8	22.0	20.4	18.1
Private Sector/ Total External Debt	33.3	34.0	39.6	49.2	58.0	61.2
CBRT Net Reserves / Short Term Ext. Debt	170.9	152.8	118.1	141.3	149.6	172.2
Total External Debt Stock / GNP	71.4	60.5	53.3	46.6	51.6	52.6

Source: CBRT, UT
(1) As of June

D. INFLATION AND MONETARY-EXCHANGE RATE POLICY

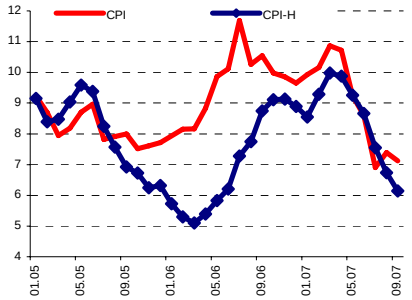
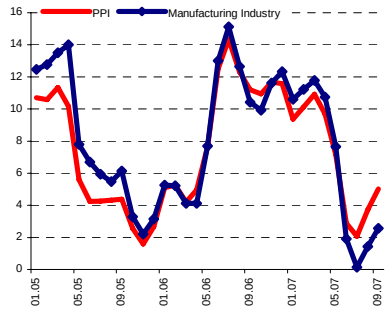
1. Inflation

In 2006 Consumer Price Index (CPI) rose by 9.65 percent while Producer Price Index (PPI) rose by 11.58 percent. In this year, annual consumer inflation has increased by 1.9 points compared to the year 2005 and the upper limit of the 2-points uncertainty band determined around 5 percent end-year target has been breached. Thus, inflation has exceeded the end-year target for the first time since 2002.

Persistence of supply shocks arising from high commodity and unprocessed food prices in the first half of the year and depreciation of domestic currency after

GRAPH-4 : Price Developments

(Annual Percentage Change, 2003=100 based indices)

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

Source: TURKSTAT, CBRT

TABLE: II. 34- Developments in the Price Indices as of September (2003=100)

(Percentage Change)

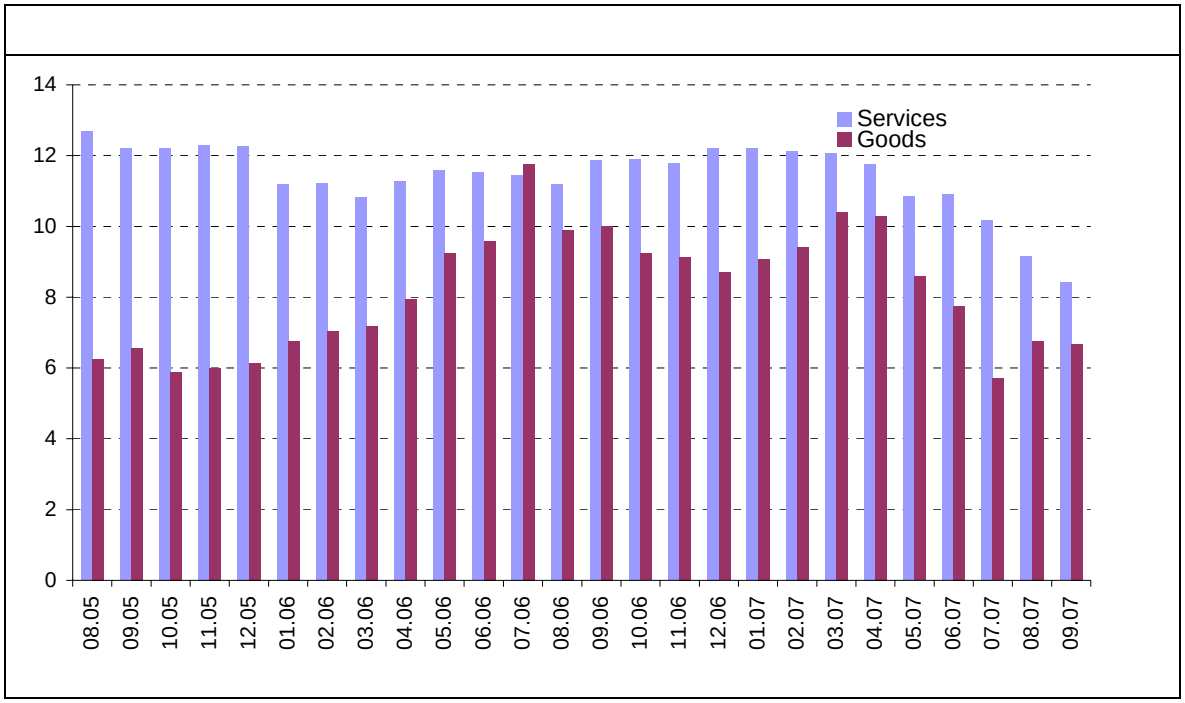
	January-September		12 Month		Average Annual	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**
PPI	**11.54**	**4.98**	**11.19**	**5.02**	**7.06**	**7.77**
Agriculture	4.16	13.38	10.20	11.60	6.55	5.31
Industry	13.36	3.12	11.21	3.53	7.12	8.35
Mining	17.06	7.11	13.17	3.92	13.66	8.92
Manufacturing Industry	12.74	2.95	10.43	2.57	7.23	7.43
Electricity, gas, water supply	21.70	4.29	23.45	17.31	2.74	21.34
CPI	**6.65**	**4.19**	**10.55**	**7.12**	**9.05**	**9.17**
Food and non-alcoholic beverages	6.78	7.35	12.45	11.76	8.21	11.86
Alcoholic beverages and tobacco	5.03	10.04	10.21	10.07	25.36	8.32
Textile and footwear	-9.53	-6.61	-0.13	5.19	-0.56	4.19
Housing	10.36	5.47	13.65	8.99	11.75	12.06
Household equipment	7.29	3.27	11.38	3.29	4.97	8.81
Health	7.51	2.14	7.88	2.54	1.81	6.38
Transportation	9.97	3.21	9.31	3.37	10.92	6.81
Communication	1.81	-3.12	2.54	-3.57	2.85	0.18
Recreation and culture	7.39	-0.81	6.44	-0.02	4.34	5.93
Education	7.85	6.35	8.10	6.23	7.62	7.66
Restaurants and hotels	11.05	6.97	14.48	9.37	14.20	12.02
Miscellaneous goods and services	11.63	2.75	17.33	3.39	14.61	8.82
CPI-H	**4.53**	**3.35**	**8.74**	**6.14**	**6.40**	**8.57**

Source: TURKSTAT

deterioration in risk perceptions along with contraction in international liquidity after May, has been effective in noticeably overshooting of inflation target in 2006.

Annual inflation has increased to 10.86 percent as of March 2007. Unprocessed food prices played major role in this development along with price increases in tobacco products stemmed from tax adjustments. Despite this temporary increase, inflation remained in uncertainty band around the path consistent with end-year target for the first quarter. Since the second quarter of the year, inflation has entered a rapid decreasing phase and realized as 8.6 percent in June and continued to remain in path consistent with end-year target. Lagged effects of monetary tightening on services and durable good prices and clearance of high base stemmed from the fluctuations in exchange rate in May-June 2006 are the main factors in downward track in inflation in this period. Although the annual inflation, which moved down to 6.9 percent as of July, has reached to

GRAPH:5-Good and Service Prices (Annual Percentage Change)



Source:TURKSTAT

7.12 percent in September due to temporary effects of increases in food prices, it also remained within the uncertainty band for the third quarter.

In the first nine months of the year 2007 the remarkable slowdown in service price inflation is striking. In the same period, compared with the previous year there is a relative slowdown in energy and unprocessed good prices is observed. In the mentioned period, increases in non-durable good prices preserved its high pace while the durable good prices have decreased remarkably. In this context service and durable good prices have shown a positive prospect and became the determining factor in disinflation in the first nine months of 2007. The annual inflation in service and good prices realized as 8.41 percent and 6.68 percent respectively as of September.

Positive developments in service and durable good prices have also been effective on special CPI aggregates. The slowdown in annual increase of the CPI-H, which excludes energy, unprocessed good, alcoholic beverages, tobacco and gold has been distinctive and realized as 6.14 percent as of September which is lower than the CPI.

The annual increase in PPI has realised as 5.02 percent as of September 2007. Agriculture prices rose by 11.60 while the industry prices rose by 3.53 in this period.

TABLE: II. 35– Developments in the Factors Affecting the Price Increases

(Annual Average Percentage Change)

	2000	2001	2002	2003	2004	2005	2006	2007
PPI (1)	51.4	61.6	50.1	25.6	11.1	5.9	9.3	7.8(3)
- Manufacturing Industry	56.1	66.7	48.3	23.8	11.0	7.6	9.3	7.4(3)
CPI (1)	54.9	54.4	45.0	25.3	10.6	8.2	9.6	9.2(3)
- Food	49.8	50.3	49.9	28.7	9.0	4.9	9.7	11.9(3)
CPI – H	-	-	-	-	9.3	8.0	7.1	8.6(3)
Exchange rate (USD)	48.4	96.5	22.9	-0.8	-4.7	-5.7	6.7	-2.6(3)
Currency Issued	65.2	53.3	52.2	45.6	40.0	28.3	31.2	11.5(3)
Money Supply (M2Y)	70.1	76.3	37.5	18.1	22.9	20.3	27.6	20.9(3)
Domestic Borrowing Interest Rate (2)	38.0	96.2	63.8	45.0	25.7	16.9	18.2	19.2(3)
Nominal Wage (Net)								
- Public	65.7	36.6	31.7	21.9	12.5	11.2	6.6	12.3(4)
- Private	56.5	23.2	43.5	24.8	14.4	8.8	11.9	-
Nominal Net Wage	37.1	48.6	53.3	24.2	13.4	11.0	16.4	13.0(4)
Export Price Index	-4.3	-2.6	-1.8	12.7	16.3	6.0	3.5	8.3(4)
Import Price Index	4.5	-0.3	-1.2	12.8	15.1	7.0	8.6	6.9(4)

Source: TURKSTAT, SPO
(1) data for 2004 and before are according to 1994=100 base year, data for 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

Central Bank has continued to implement the inflation targeting regime in 2007, which was adopted at the beginning of 2006. While mostly keeping the operational framework of monetary policy of inflation targeting regime unchanged, some changes have been made in order to implement communication and monetary policies more effectively. In this framework, the first change was the publishing the inflation and output gap forecasts for a two-year horizon rather than one and a half year forecast in the Inflation Reports of CBRT. This change aimed to help the economic units to predict the future better. Furthermore, it was aimed to form a comparable forecast period with the results of the Expectations Survey and provide the opportunity to analyze and assess inflation forecasts more easily. Another significant change was to start publishing the Turkish version and the English translation of the Monetary Policy Committee decisions on the same day of the meeting. Besides, it was started to publish the statement entitled summary of the Monetary Policy Committee discussions within 8 working days following the meeting with the title Summary of the Monetary Policy Committee Meeting, alongside with its English translation.

Inflation realization exceeded its target level in 2006. However, Central Bank decided to keep 4 percent inflation target which has already been announced for the end of the year 2007. Central Bank considered that frequent changes in targets are likely to have adverse effects on inflation expectations and pricing behaviors, which could damage the credibility

TABLE: II. 36- Inflation Path Consistent With the End-Year Target and The Uncertainty Band

	March 2007	June 2007	September 2007	December 2007
Upper Limit of Uncertainty Band	11,2	8,7	7,3	6,0
Path Consistent With the Target	9,2	6,7	5,3	4,0
Lower Limit of Uncertainty Band	7,2	4,7	3,.3	2,0

Source: CBRT

of the future commitments. For this reason, Central Bank took the responsibility to render account if necessary.

Inflation targets would continue to be defined as the end-year rate of inflation calculated by the annual percentage change of the Consumer Price Index (CPI) in the upcoming period. The target horizon, which was set as three years, would be preserved for 2008. Taking into account the structural transformation of the economy, the transition from chronic high inflation to low inflation, and the process of convergence to EU, an inflation target of around 4 percent is considered appropriate for the medium-term. Therefore, inflation targets for 2007, 2008 and 2009 were announced as 4 percent. Central Bank announced a symmetrical uncertainty band of 2 percentage points in both directions around the point target of 2007 along with the three year inflation path consistent with the end-year target. Along with the net international reserves (NIR), the path would also be used as performance criterion for the IMF reviews within the framework of the Stand-by program. After the review, which will be held in December 2007, NIR will be used as an indicative target.

Annual inflation showed an upward tendency in the first quarter of 2007, however realized as 10.86 percent and remained within the uncertainty band. The high course of annual inflation partly owes to the elevated unprocessed food prices and the hikes in the prices of tobacco products. Moreover, although the lagged effects of the exchange rate pass-through have moderated, some cumulative impact still remains. The impact of monetary tightening on inflation, on the other hand, remains to be seen. Accordingly, annual inflation stayed at high levels in the first quarter of 2007. The effects of the monetary tightening applied since June 2006 became apparent after the second quarter of 2007. A considerable slowdown in domestic demand and the visibility of the impact of monetary tightening on the demand of service and durable goods have played a significant role in the decline in annual inflation after March 2007. Annual inflation rate fell down significantly and became 6.90 percent in July. Annual inflation displayed a temporary rise in August to 7.39 percent due to the price increases especially in the unprocessed food group and decreased to 7.12 percent in September.

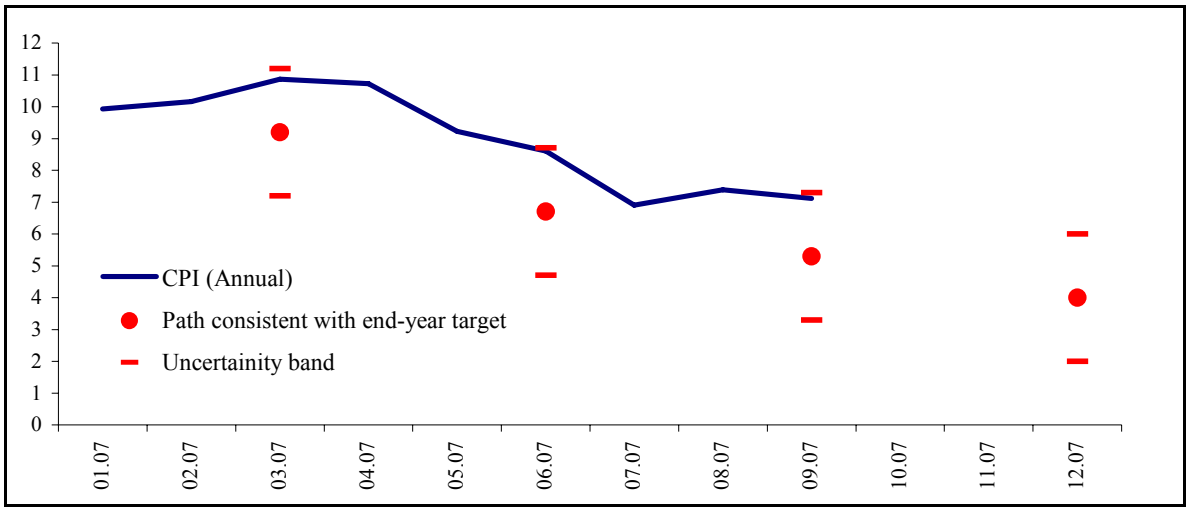
TABLE: II. 37- Monetary Policy Performance Criteria For 2007

	NIR (1)	
	Criteria	Realization
April 30, 2007	28,7	40,6
August 31, 2007	31,3	-
December 31, 2007	31,8	-

(1) Lower limit, billion USD
Source: CBRT

Monetary policy decisions were continued to be made through pre-announced Monetary Policy Committee meetings during

GRAPH: 6- Inflation Path Consistent With End-Year Target and Realizations For 2007



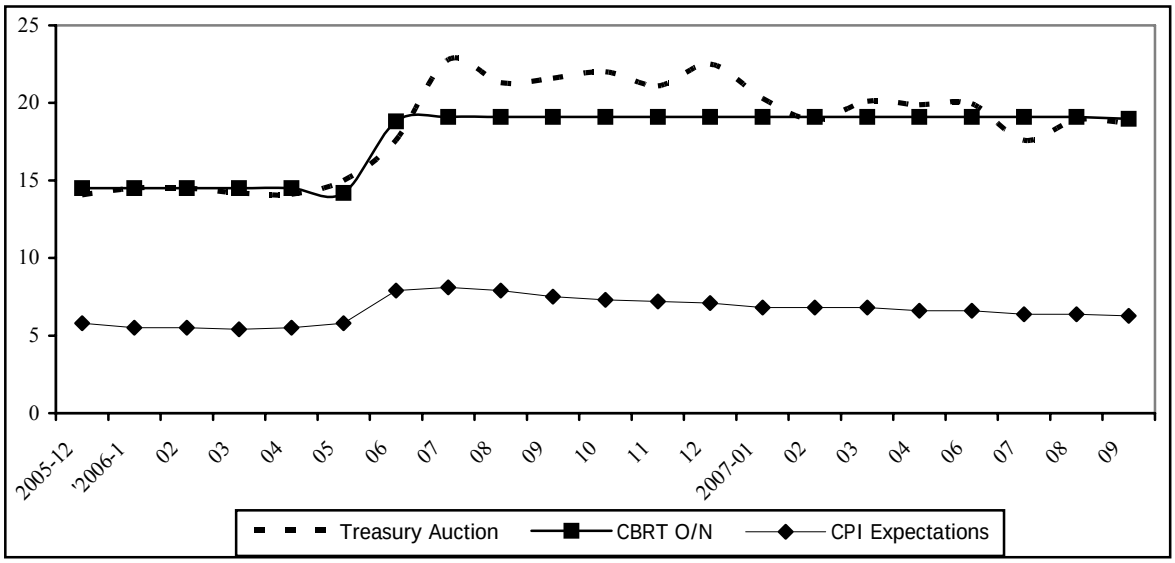
Source: CBRT, TURKSTAT

2007. These meetings were held monthly and voting system was adopted as decision mechanism in these meetings. In this framework, overnight rates in the Interbank Money Market within the CBRT and overnight rates for repo transactions in the Repo and Reverse Repo Market of the Istanbul Stock Exchange is used as main monetary policy tool. Monetary Policy Committee takes into consideration the consistency of inflation expectations with the target during the interest rate decision process and it shapes its decisions with a medium-term outlook. Central Bank does not react to temporary volatility in inflation but reacts to the deviations from medium-term inflation targets instead, as it can be seen in 2006 exercises.

Despite the decreasing trend in inflation rate since the second quarter of 2007, Central Bank did not change the policy stance until August 2007 and kept the policy rates at 17.5 percent because of the stickiness in service sector prices, past indexing behavior of economic units and probable changes in global risk appetite. Nevertheless, Central Bank stressed the possibility to reach the medium term target of 4 percent at the end of 2008. The Monetary Policy Committee assessed that global developments are likely to restrain both the domestic and external demand, increasing the downward risks on achieving the 4 percent target in the medium term at the September 2007 meeting and decided to cut policy rates by 25 base points. Monetary Policy Committee decided to continue the measured rate cuts at October 2007 meeting and the policy rate became 16.75 percent by a 50 base points decline.

Interest rates on domestic borrowing, which had an upward tendency since the second quarter of 2006, exhibited a downward trend starting from the beginning of 2007. In this context, the weighted average compounded interest rates prevailed in the Treasury auctions increased from 22.5 percent level in December 2006 to 18.7 percent in September 2007. The said interest rate, which realized as 18.2 percent for the average of the year 2006 rose to 19.2 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

GRAPH: 7- Developments in Interest Rates (Compound Interest, In Percent)



the fundamental funding costs for financial market agencies and the deterioration in inflation expectations. Beginning from the February 2007, interest rates prevailed in the Treasury auctions exhibited a downward tendency and remained at interbank overnight rates.

Central Bank continued to implement floating exchange rate regime. In the floating exchange rate regime, the FX rate is determined by supply and demand conditions in the foreign currency market. Therefore, the Central Bank does not target any level for FX rate. Central Bank can intervene in the market via FX buying or selling interventions in the event of actual or potential excessive volatilities. Besides that, Central Bank also carries out foreign exchange buying auctions in order to accumulate FX reserves. Central Bank bought USD 6.8 billion foreign currency via auctions during the period from January 1, 2007 to October 5, 2007 and gross FX reserves accumulated to USD 71.7 billion as a result.

TABLE: II. 38- Exchange Rate Interventions and Periodical Auctions of Central Bank

(Million USD)

Year	Buying Auctions	Selling Auctions	Buying Interventions	Selling Interventions	Net FX Buying
2002	795	-	16	12	799
2003	5,652	-	4,229	-	9,881
2004	4,104	-	1,283	9	5,378
2005	7,442	-	14,565	-	22,007
2006	4,296	1,000	5,441	2,105	6,632
2007(1)	6,812	-	-	-	6,812
Total	**29,101**	**1,000**	**25,534**	**2,126**	**51,509**

(1)By the end of October 5, 2007
Source : CBRT

TABLE: II. 39- Selected Monetary Aggregates and Items in Central Bank Balance Sheet (1)

	2005	2006			2007
	Dec.	Dec.	March	June	September
			(Million YTL)		
Monetary Aggregates (2)					
M1	41,759	47,491	40,990	46,037	50,458
M2	153,146	185,145	187,474	200,934	212,835
M2Y	229,587	286,544	292,798	308,906	316,657
			(Million YTL)		
Net Foreign Assets	49,480	67,136	75,371	72,820	71,530
Net Domestic Assets	17,732	12,888	13,518	15,221	15,447
GDDI Portfolio	19,470	18,812	18,972	17,266	16,247
Revaluation Account	2,010	646	1,464	3,923	4,824
Central Bank Money	38,547	41,916	40,460	49,159	51,040
Currency Issued	19,612	26,815	22,212	24,662	26,091
Banks' YTL Deposits	12,899	14,420	13,419	16,193	13,319
Liabilities on OMO	4,983	-1,098	3,523	4,900	7,954
Public Sector Deposits	868	1,616	1,072	3,266	3,508
			(Million USD)		
Net FX Position	15,499	20,542	19,437	25,828	29,415
Net Foreign Assets	36,843	47,510	54,377	55,419	59,116
Net FX Reserves	49,372	59,718	66,501	67,440	70,910
FCDA and SFDA (-)	15,576	15,838	15,792	15,658	15,821
Domestic FX Liabilities	15,499	20,542	19,437	25,828	29,415
Public Sector Deposits in FX	36,843	47,510	54,377	55,419	59,116
Banks' FX Deposits	49,372	59,718	66,501	67,440	70,910

Source : CBRT
(1) Data obtained by the last Friday of each month.
(2) Old presentations were used for M1, M2 and M2Y. As of October 5, 2007.

In January-September 2007 period, despite the increase in dollar value of Central Bank net foreign assets, YTL value of the assets decreased because of the appreciation of the domestic currency. Net domestic assets increased during the first three quarters of 2007. The increase in net foreign assets mainly resulted from daily FX buying auctions performed by Central Bank. In the same period, in spite of a decline in domestic debt instruments portfolio of the Bank, positive flow of the revaluation account was the basic determinant of the increase in Net Domestic Assets.

Currency issued, one of the main liability accounts on the Central Bank balance sheet showing a decrease of 2.7 percent during January-September 2007, declined to YTL 26.1 billion. At the same period, banks free deposits fluctuated between YTL 11.5 billion and YTL 16.2 billion. In the first nine months of 2006, public sector deposits and liabilities on open market operations fluctuated from

YTL 0.6 billion to YTL 7.3 billion and from YTL 3.4 billion to YTL 9.7 billion, respectively. As a result of the flows mentioned above, Central Bank Money, which is the total of YTL liabilities, fluctuated between YTL 40.5 billion and YTL 51.4 billion and as of September 2007 realized as YTL 51 billion.

As of October 5, 2007, old definitions of M1, M2 and M2Y monetary aggregates expanded nominally in rates 6.2 percent, 15 percent and 10.5 percent respectively since the end of the previous year. For the slight increase in M1, the determining factors were deceleration of growth rate of currency in circulation and decrease in commercial demand deposits. In the rapid expansion of M2, high increase in saving deposits for the first nine months of the year was the key factor. Despite the increase in dollar value of FX deposits, YTL value of them decreased because of the appreciation of YTL, therefore, M2Y exhibited a lower increase than M2.

b)Targets for the Year 2008

Explicit inflation targeting regime would be continued in year 2008 by keeping its main operational framework. The policy document titled Monetary and Exchange Rate Policy for 2008 would be released at the end of 2007.

Inflation targets for 2008 and 2009 were announced as 4 percent. Consistent with the three year target horizon, Central Bank and the Government would jointly determine and disclose the inflation target for the year 2010 and the uncertainty band around the target for year 2008 at the end of 2007.

Central Bank would continue to implement the floating exchange rate regime during the following period. In this framework, the FX rate would be determined by supply and demand conditions in the foreign currency market. Central Bank may intervene in the market via FX buying or selling interventions in the event of actual or potential excessive volatilities. Besides that, Central Bank also may carry out foreign exchange buying auctions in order to accumulate FX reserves with a pre-announced schedule under the favorable conditions of the balance of payments and currency substitution.

The successful implementation of inflation targeting regime requires some conditions such as conducting institutional and technical arrangements, ensuring macroeconomic and financial stability and notably keeping the independence of central bank. Besides a stability focused monetary policy, a fiscal policy which supports the disinflation process is a requirement to struggle against inflation. In this framework, taking the measures to maintain fiscal discipline without concession and to improve its quality, implementing the incomes policy consistent with the medium term inflation targets have high importance. Besides that, continuing the strong debt management would contribute to decrease in risk perception. For the following period, continuing inflation targeting regime with a medium term perspective, ongoing the structural reforms during the process of convergence to European Union, keeping the independence of central bank and maintaining fiscal discipline without concession have utmost importance. Having a sound market economy and gaining and securing price stability depend on the implementation of above mentioned policies decisively.

PART THREE

DEVELOPMENTS AND TARGETS IN PUBLIC FINANCE

I. GENERAL GOVERNMENT

1. Current Outlook

Public institutions and administrations within the scope of the central government budget, local governments, extra-budgetary funds, social security institutions, revolving funds, unemployment insurance fund and the SEEs constitute the public sector. The definition of general government is reached by excluding the SEEs from the public sector.

General government expenditures and revenues, naturally, consist of total expenditures and revenues of the general government units. However, general principle in calculating the expenditures and the revenues of general government units is abstaining from recording transfers made from a budget classification to another budget classification 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 receives the flow as income while as an expenditure item in the account of the institution which performs the final expenditure. 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. Furthermore, netting practice made in relation with certain income and expenditure items during the calculation of SPO defined public sector general balance has been terminated in the case of general government.

As a result of adhering to fiscal discipline strictly and decline in the interest expenditure compared to the previous year, the general government balance gave a surplus for the first time in 2005 and surplus continued due to the high privatisation revenues and one-off revenues in 2006. In 2007 as a ratio of GDP, it is expected that there would be 0.4

points decrease in interest expenditures, 0.2 points decrease in primary expenditures, 0.3 points decrease in privatisation revenues, and 2.2 points decrease in revenues excluding privatisation. General government is expected to be in balance, the general government surplus excluding interest expenditures and privatisation revenues is expected to be 6.0 percent with a decrease of 2.0 points as a ratio to GDP in 2007 in comparison with 2006.

2. Targets For The Year 2008

In 2008, general government tax revenues are expected to increase by 0.5 points as a ratio to GDP according to the previous year. In spite of the expected 0.1 point decrease in value-added tax (VAT); 0.3 point increase in special consumption tax (SCT), 0.2 point increase in VAT on import, and 0.1 point increase in banking and insurance transactions tax are the main reasons on the increase in general government tax revenues. Similarly, 0.1 point increase is expected in social funds. On the other hand, in 2008, general government total revenues are expected to decrease by 0.5 point as a ratio to GDP, as a result of the expectations of 0.3 point decrease in non-tax revenues of central government budget and local governments, 0.6 point decrease in factor incomes because of the interest revenues and 0.2 point decrease in privatization revenues.

In 2008, as a ratio to GDP, 0.3 point increase is expected in general government current transfers with the help of 0.2 point increase in central government budget interest expenditure. Besides, general government capital transfers are expected to increase by 0.2 point due to the local governments and funds. On the other hand, due to local governments, revolving funds and especially central government budget, current expenditures are expected to decrease by 0.4 points; the investment expenditures are projected to decrease by 0.4 point in line with the decrease in the fixed capital investments of central government budget and local governments, Thus, general government total expenditures are projected to decrease by 0.3 point.

The general government balance is expected to be in balance in 2008, as it was in 2007. However central government budget surplus which was 2.2 percent in 2007 as of GDP is expected to fall to 1.6 percent with a decrease of 0.6 point in 2008; on the other hand, deficits of local governments and social security institutions are expected to fall by 0.3 point and 0.1 point respectively; surpluses of both extra-budgetary and revolving funds are expected to increase by 0.1 point each.

In 2008, when interest expenditures and privatization revenues are excluded, general government balance is expected to give a surplus of 6.2 percent of GDP, 0.2 point higher than the one in 2007 which is expected to be 6.0 percent of GDP. SPO defined public sector, which covers both SEEs and the general government, is expected to be in balance in 2007 and to shift a surplus of 0.3 percent of GDP in 2008. In this framework, IMF defined public sector primary surplus which is expected to realize as 4.1 percent of GNP in 2007, is programmed to realize as 5.5 percent in 2008.

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

	(Current Prices, Millions YTL)					(Ratio to GDP, In Percent)				
	2004	**2005**	**2006 (1)**	**2007 (2)**	**2008 (3)**	**2004**	**2005**	**2006 (1)**	**2007 (2)**	**2008 (3)**
Taxes	**101,405**	**120,935**	**140,275**	**154,054**	**174,376**	**23.6**	**24.8**	**24.3**	**23.8**	**24.3**
-Direct	31,424	36,283	40,092	46,890	52,025	7.3	7.4	7.0	7.2	7.3
-Indirect	67,322	80,972	95,441	101,790	116,450	15.6	16.6	16.6	15.7	16.2
-Wealth	2,659	3,680	4,742	5,374	5,901	0.6	0.8	0.8	0.8	0.8
Non-Tax Revenues	13,145	16,388	21,550	18,862	18,613	**3.1**	**3.4**	**3.7**	**2.9**	**2.6**
Factor Incomes	29,709	38,815	48,167	49,850	50,787	**6.9**	**8.0**	**8.4**	**7.7**	**7.1**
Social Funds	30,120	33,607	44,399	48,287	54,592	**7.0**	**6.9**	**7.7**	**7.5**	**7.6**
TOTAL	**174,379**	**209,745**	**254,391**	**271,053**	**298,367**	**40.5**	**43.1**	**44.1**	**41.9**	**41.6**
-Privatisation Revenues	1,691	3,984	11,958	11,581	11,798	0.4	0.8	2.1	1.8	1.6
TOTAL REVENUES	**176,070**	**213,729**	**266,349**	**282,634**	**310,165**	**40.9**	**43.9**	**46.2**	**43.7**	**43.2**
Current Expenditures	76,034	85,217	109,276	125,305	136,317	17.7	17.5	19.0	19.4	19.0
Investment Expenditures	13,558	18,761	24,597	26,772	26,617	3.1	3.9	4.3	4.1	3.7
-Fixed Capital	13,430	18,645	24,398	26,681	26,524	3.1	3.8	4.2	4.1	3.7
-Change in Stocks	128	116	198	90	93	0.0	0.0	0.0	0.0	0.0
Transfer Expenditures	109,295	108,530	121,252	130,289	147,438	25.4	22.3	21.0	20.1	20.6
-Current Transfers	106,053	105,868	112,097	126,134	141,712	24.6	21.7	19.5	19.5	19.8
-Capital Transfers	3,242	2,662	9,154	4,155	5,726	0.8	0.5	1.6	0.6	0.8
Stock Revaluation Fund	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
NON-INTEREST EXPENDITURE	**141,012**	**165,925**	**208,260**	**232,460**	**253,641**	**32.8**	**34.1**	**36.1**	**35.9**	**35.4**
TOTAL EXPENDITURES	**198,888**	**212,509**	**255,125**	**282,366**	**310,371**	**46.2**	**43.6**	**44.3**	**43.6**	**43.3**
BORROWING REQUIREMENT	**22,818**	**-1,221**	**-11,224**	**-269**	**206**	**5.3**	**-0.3**	**-1.9**	**0.0**	**0.0**
PRIMARY BALANCE	**-35,058**	**-47,805**	**-58,089**	**-50,175**	**-56,524**	**-8.1**	**-9.8**	**-10.1**	**-7.7**	**-7.9**
BORROWING REQUIREMENT EXCLUDING INTEREST EXPENDITURES AND PRIV. REVENUES	**-33,367**	**-43,821**	**-46,131**	**-38,594**	**-44,726**	**-7.8**	**-9.0**	**-8.0**	**-6.0**	**-6.2**

Source: SPO
(1) Provisional
(2) Realization estimate
(3) Programme target
Note: 1. General government includes; the consolidated budget (2004, 2005) / central government budget (2007, 2008), local governments, revolving funds, unemployment insurance fund, social security institutions, and extra-budgetary funds.
2. Tax rebates are excluded in revenues and expenditures.

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

	2004	2005	2006 (2)	2007 (3)	2008 (4)
	(Current Prices, Million YTL)				
Central Government Budget Borrowing Requirement (1)	30,300	8,117	4,643	14,884	17,756
SEEs Borrowing Requirement	-2,451	-872	-3,725	5	-2,575
-Operating	-1,723	-678	-1,327	-519	-526
-Institutions Within the Scope of Privatisation	-728	-194	-2,398	525	-2,049
Local Governments Borrowing Requirement	-295	-449	1,204	-92	256
Revolving Funds Borrowing Requirement	-1,076	-1,226	-1,263	-1,317	-1,562
Social Security Organizations Borrowing Requirement	203	138	-889	472	0
Unemployment Insurance Fund Borrowing Requirement	-4,379	-4,713	-5,717	-7,087	-7,886
Borrowing Requirement of Extra-Budgetary Funds	-1,935	-3,087	-9,202	-7,129	-8,358
TOTAL PSBR	**20,367**	**-2,093**	**-14,950**	**-263**	**-2,369**
TOTAL PSBR (Exc. Interest Expenditures)	**-38,025**	**-49,055**	**-62,316**	**-51,122**	**-59,892**
TOTAL PSBR (Exc. Privatisation Revenues)	**22,058**	**1,892**	**-2,992**	**11,318**	**9,429**
TOTAL PSBR (Exc. Interest Expenditures+ Privatisation Revenues)	**-36,334**	**-45,070**	**-50,358**	**-39,541**	**-48,094**
	(Ratio to GNP, In Percent)				
Central Government Budget Borrowing Requirement (1)	7.04	1.67	0.81	2.30	2.48
SEEs Borrowing Requirement	-0.57	-0.18	-0.65	0.00	-0.36
-Operating	-0.40	-0.14	-0.23	-0.08	-0.07
- Institutions Within the Scope of Privatisation	-0.17	-0.04	-0.42	0.08	-0.29
Local Governments Borrowing Requirement	-0.07	-0.09	0.21	-0.01	0.04
Revolving Funds Borrowing Requirement	-0.25	-0.25	-0.22	-0.20	-0.22
Social Security Organizations Borrowing Requirement	0.05	0.03	-0.15	0.07	0.00
Unemployment Insurance Fund Borrowing Requirement	-1.02	-0.97	-0.99	-1.09	-1.10
Borrowing Requirement of Extra-Budgetary Funds	-0.45	-0.63	-1.60	-1.10	-1.17
TOTAL PSBR	**4.73**	**-0.43**	**-2.59**	**-0.04**	**-0.33**
TOTAL PSBR (Exc. Interest Expenditures)	**-8.83**	**-10.07**	**-10.81**	**-7.90**	**-8.35**
TOTAL PSBR (Exc. Privatisation Revenues)	**5.12**	**0.39**	**-0.52**	**1.75**	**1.31**
TOTAL PSBR (Exc. Interest Expenditures+ Privatisation Revenues)	**-8.44**	**-9.25**	**-8.74**	**-6.11**	**-6.71**

(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 2005

(Current Prices, Million YTL)

								SEEs			
	Consolidated Budget	Local Gov.	EBFs	Unemp. Insurance	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Non-Financial	Under the Scope of Privat.	TOTAL	TOTAL PUBLIC
1. Taxes	104,580	10,599	2,319	0	0	-157	117,341	-350	-82	-433	116,908
a. Direct	30,324	3,881	2,319	0	0	-157	36,366	-350	-82	-433	35,933
b. Indirect	74,256	6,719	0	0	0	0	80,975	0	0	0	80,975
2. Non-Tax Revenues	12,256	3,994	584	0	0	-291	16,543	-337	-6	-342	16,200
3. Factor Incomes	16,702	4,573	-324	3,031	2,277	2,102	28,361	2,331	1,375	3,706	32,067
4. Social Funds	0	0	0	1,180	-22,269	0	-21,089	0	0	0	-21,089
5. Current Transfers	-86,176	-484	-430	503	19,919	231	-66,436	520	10	530	-65,906
I. PUBLIC DISPOSABLE INCOME	**47,362**	**18,683**	**2,149**	**4,713**	**-73**	**1,884**	**74,719**	**2,164**	**1,297**	**3,461**	**78,180**
II. CURRENT EXPENDITURES	-46,493	-10,765	-1,063	0	0	0	-58,321	0	0	0	-58,321
III. PUBLIC SAVINGS	**870**	**7,918**	**1,085**	**4,713**	**-73**	**1,884**	**16,398**	**2,164**	**1,297**	**3,461**	**19,860**
IV. INVESTMENT	**-12,133**	**-8,502**	**-12**	**0**	**-66**	**-374**	**-21,087**	**-2,882**	**-1,743**	**-4,624**	**-25,711**
a. Fixed Capital	-12,133	-8,495	-12	0	-66	-280	-20,986	-2,204	-1,388	-3,593	-24,578
b. Change in Stocks	0	-7	0	0	0	-94	-102	-677	-354	-1,032	-1,133
V. SAVINGS-INVESTMENT DIFFERENCE	**-11,263**	**-584**	**1,073**	**4,713**	**-138**	**1,510**	**-4,689**	**-718**	**-445**	**-1,163**	**-5,852**
VI. CAPITAL TRANSFERS	**3,147**	**1,035**	**2,014**	**0**	**0**	**-272**	**5,924**	**1,397**	**642**	**2,039**	**7,963**
1. Taxes on Wealth	2,349	1,331	0	0	0	0	3,680	0	0	0	3,680
2. Other Transfers	1,180	528	2,017	0	0	0	3,725	852	520	1,373	5,097
3. Expropriation and Increase in Fixed Assets	-383	-824	-3	0	0	-272	-1,481	545	121	666	-815
VII. CASH-BANK/ BORROWING	**8,117**	**-451**	**-3,087**	**-4,713**	**138**	**-1,238**	**-1,235**	**-680**	**-196**	**-876**	**-2,111**
1. Change in Cash-Bank	0	-1,479	-766	0	0	122	-2,123	-1,166	194	-972	-3,095
2. Foreign Borrowing (Net)	-2,271	-323	-84	0	0	0	-2,677	2,250	-383	1,867	-810
- Repayments	-16,700	-608	-140	0	0	0	-17,448	-857	-504	-1,361	-18,810
- Loans	14,429	285	56	0	0	0	14,771	3,107	122	3,229	17,999
3. Domestic Borrowing/Lending (Net)	10,387	1,352	-2,238	-4,713	138	-1,348	3,580	-1,762	-5	-1,767	1,812
4. Stock Changes Fund	0	-3	0	0	0	-12	-14	-1	-3	-4	-18

TABLE: III. 4- Public Sector General Balance of the Year 2006 (1)

(Current Prices, Million YTL)

								SEEs			
	Central Gov. Budget	Local Gov.	EBFs	Unemp. Insurance	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Non-Financial	Under the Scope of Privat.	TOTAL	TOTAL PUBLIC
1. Taxes	121,511	11,583	2,632	0	0	-100	135,625	-496	48	-448	135,177
a. Direct	33,666	3,983	2,632	0	0	-100	40,181	-496	48	-448	39,732
b. Indirect	87,844	7,600	0	0	0	0	95,445	0	0	0	95,445
2. Non-Tax Revenues	15,404	5,685	498	0	0	-292	21,295	-325	0	-325	20,969
3. Factor Incomes	16,277	7,325	-225	3,448	3,455	2,262	32,542	3,221	2,313	5,534	38,076
4. Social Funds	0	0	0	1,612	-21,102	0	-19,490	0	0	0	-19,490
5. Current Transfers	-85,158	-392	-1,092	657	18,552	0	-67,433	707	21	728	-66,705
I. PUBLIC DISPOSABLE INCOME	**68,034**	**24,200**	**1,813**	**5,717**	**906**	**1,870**	**102,539**	**3,106**	**2,382**	**5,488**	**108,028**
II. CURRENT EXPENDITURES	-56,038	-14,826	-1,357	0	0	0	-72,222	0	0	0	-72,222
III. PUBLIC SAVINGS	**11,996**	**9,374**	**455**	**5,717**	**906**	**1,870**	**30,318**	**3,106**	**2,382**	**5,488**	**35,806**
IV. INVESTMENT	**-13,952**	**-12,462**	**-5**	**0**	**-17**	**-421**	**-26,857**	**-2,793**	**-56**	**-2,849**	**-29,706**
a. Fixed Capital	-13,952	-12,480	-5	0	-17	-283	-26,738	-2,785	-887	-3,672	-30,410
b. Change in Stocks	0	18	0	0	0	-138	-120	-8	831	823	703
V. SAVINGS-INVESTMENT DIFFERENCE	**-1,956**	**-3,088**	**450**	**5,717**	**889**	**1,449**	**3,460**	**314**	**2,326**	**2,639**	**6,099**
VI. CAPITAL TRANSFERS	**-2,686**	**1,897**	**8,752**	**0**	**0**	**-119**	**7,843**	**1,274**	**515**	**1,789**	**9,632**
1. Taxes on Wealth	2,800	1,942	0	0	0	0	4,742	0	0	0	4,742
2. Other Transfers	-5,307	1,611	8,754	0	0	0	5,057	1,905	2,610	4,515	9,572
3. Expropriation and Increase in Fixed Assets	-179	-1,656	-2	0	0	-119	-1,956	-631	-2,095	-2,726	-4,682
VII. CASH-BANK/ BORROWING	**4,643**	**1,191**	**-9,202**	**-5,717**	**-889**	**-1,329**	**-11,303**	**-1,588**	**-2,841**	**-4,428**	**-15,731**
1. Change in Cash-Bank	0	312	-897	0	0	-583	-1,168	-72	-199	-271	-1,439
2. Foreign Borrowing (Net)	-1,203	-153	47	0	0	0	-1,309	-61	2	-60	-1,369
- Repayments	-18,476	-691	-103	0	0	0	-19,270	-1,691	-3	-1,694	-20,964
- Loans	17,273	538	150	0	0	0	17,961	1,630	4	1,635	19,595
3. Domestic Borrowing/Lending (Net)	5,846	1,044	-8,351	-5,717	-889	-680	-8,747	-1,194	-2,201	-3,394	-12,141
4. Stock Changes Fund	0	-13	0	0	0	-66	-79	-260	-442	-703	-781

(1) Provisional

TABLE: III. 5- Public Sector General Balance of the Year 2007 (1)

(Current Prices, Million YTL)

								SEEs			
	Central Gov. Budget	Local Gov.	EBFs	Unemp. Insurance	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Non-Financial	Under the Scope of Privat.	TOTAL	TOTAL PUBLIC
1. Taxes	131,694	14,066	3,086	0	0	-68	148,777	-503	-140	-643	148,135
a. Direct	39,086	4,880	3,086	0	0	-68	46,984	-503	-140	-643	46,341
b. Indirect	92,607	9,186	0	0	0	0	101,793	0	0	0	101,793
2. Non-Tax Revenues	13,461	5,340	484	0	0	-302	18,983	-714	0	-714	18,269
3. Factor Incomes	15,802	8,118	-167	4,328	2,390	2,421	32,892	4,068	-210	3,858	36,750
4. Social Funds	0	0	0	1,969	-28,758	0	-26,789	0	0	0	-26,789
5. Current Transfers	-100,079	-569	-763	790	25,971	0	-74,650	638	80	718	-73,932
I. PUBLIC DISPOSABLE INCOME	**60,877**	**26,955**	**2,641**	**7,087**	**-398**	**2,050**	**99,212**	**3,489**	**-269**	**3,219**	**102,432**
II. CURRENT EXPENDITURES	-65,373	-15,971	-1,244	0	0	0	-82,588	0	0	0	-82,588
III. PUBLIC SAVINGS	**-4,496**	**10,984**	**1,397**	**7,087**	**-398**	**2,050**	**16,624**	**3,489**	**-269**	**3,219**	**19,844**
IV. INVESTMENT	**-14,209**	**-14,492**	**0**	**0**	**-74**	**-647**	**-29,422**	**-3,793**	**-776**	**-4,569**	**-33,991**
a. Fixed Capital	-14,209	-14,501	0	0	-74	-597	-29,382	-3,028	-1,025	-4,054	-33,435
b. Change in Stocks	0	9	0	0	0	-50	-41	-764	249	-515	-556
V. SAVINGS-INVESTMENT DIFFERENCE	**-18,705**	**-3,508**	**1,397**	**7,087**	**-472**	**1,404**	**-12,798**	**-304**	**-1,045**	**-1,349**	**-14,147**
VI. CAPITAL TRANSFERS	**3,822**	**3,606**	**5,732**	**0**	**0**	**-43**	**13,116**	**912**	**654**	**1,566**	**14,682**
1. Taxes on Wealth	3,227	2,147	0	0	0	0	5,374	0	0	0	5,374
2. Other Transfers	710	3,450	5,732	0	0	0	9,893	1,617	526	2,144	12,036
3. Expropriation and Increase in Fixed Assets	-116	-1,991	-1	0	0	-43	-2,150	-705	127	-578	-2,728
VII. CASH-BANK/ BORROWING	**14,884**	**-98**	**-7,129**	**-7,087**	**472**	**-1,361**	**-318**	**-608**	**392**	**-217**	**-535**
1. Change in Cash-Bank	0	-714	-2,598	0	0	-150	-3,463	-551	14	-538	-4,000
2. Foreign Borrowing (Net)	0	-40	139	0	0	0	100	348	8	356	456
3. Domestic Borrowing/Lending (Net)	14,884	662	-4,670	-7,087	472	-1,167	3,094	-316	503	187	3,281
4. Stock Changes Fund	0	-6	0	0	0	-44	-50	-89	-133	-222	-271

(1) Realization estimate

TABLE: III. 6- Public Sector General Balance of the Year 2008 (1)

(Current Prices, Million YTL)

								SEEs			
	Central Gov. Budget	Local Gov.	EBFs	Unemp. Insurance	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Non-Financial	Under the Scope of Privat.	TOTAL	TOTAL PUBLIC
1. Taxes	149,252	15,876	3,517	0	0	-67	168,577	-701	0	-701	167,876
a. Direct	43,126	5,547	3,517	0	0	-67	52,124	-701	0	-701	51,422
b. Indirect	106,126	10,328	0	0	0	0	116,454	0	0	0	116,454
2. Non-Tax Revenues	13,454	5,736	215	0	0	-332	19,073	-971	0	-971	18,102
3. Factor Incomes	13,308	9,061	-31	4,736	2,364	2,682	32,120	5,185	1,562	6,747	38,866
4. Social Funds	0	0	0	2,218	-30,990	0	-28,772	0	0	0	-28,772
5. Current Transfers	-111,540	-1,155	-980	932	28,804	0	-83,939	722	23	745	-83,194
I. PUBLIC DISPOSABLE INCOME	**64,473**	**29,517**	**2,721**	**7,886**	**178**	**2,283**	**107,059**	**4,236**	**1,584**	**5,820**	**112,879**
II. CURRENT EXPENDITURES	-71,286	-16,976	-1,375	0	0	0	-89,637	0	0	0	-89,637
III. PUBLIC SAVINGS	**-6,813**	**12,541**	**1,346**	**7,886**	**178**	**2,283**	**17,421**	**4,236**	**1,584**	**5,820**	**23,241**
IV. INVESTMENT	**-14,468**	**-14,136**	**0**	**0**	**-178**	**-638**	**-29,421**	**-4,441**	**53**	**-4,388**	**-33,809**
a. Fixed Capital	-14,468	-14,141	0	0	-178	-583	-29,371	-3,249	-751	-4,000	-33,371
b. Change in Stocks	0	4	0	0	0	-55	-50	-1,192	804	-388	-438
V. SAVINGS-INVESTMENT DIFFERENCE	**-21,281**	**-1,595**	**1,346**	**7,886**	**0**	**1,645**	**-11,999**	**-206**	**1,637**	**1,432**	**-10,568**
VI. CAPITAL TRANSFERS	**3,525**	**1,343**	**7,012**	**0**	**0**	**-45**	**11,836**	**827**	**528**	**1,355**	**13,191**
1. Taxes on Wealth	3,605	2,296	0	0	0	0	5,901	0	0	0	5,901
2. Other Transfers	48	1,221	7,013	0	0	0	8,282	1,577	520	2,097	10,379
3. Expropriation and Increase in Fixed Assets	-127	-2,174	-1	0	0	-45	-2,347	-750	8	-742	-3,089
VII. CASH-BANK/ BORROWING	**17,756**	**252**	**-8,358**	**-7,886**	**0**	**-1,600**	**164**	**-622**	**-2,166**	**-2,787**	**-2,624**
1. Change in Cash-Bank	0	73	-4,983	0	0	-547	-5,457	-411	116	-295	-5,752
2. Foreign Borrowing (Net)	0	260	169	0	0	0	429	277	1	278	707
3. Domestic Borrowing/Lending (Net)	17,756	-77	-3,545	-7,886	0	-1,015	5,234	-392	-2,166	-2,558	2,676
4. Stock Changes Fund	0	-5	0	0	0	-38	-42	-96	-116	-212	-255

(1) Programme Target

A. CENTRAL GOVERNMENT BUDGET

1. Current Outlook

Central government budget which possesses the greatest share in the public revenues and expenditures, is the most effective component of distribution process. In this framework central government budget continued to be the most important policy instrument of the economic programme also in 2007.

In 2007, in central government budget, as a ratio to GDP, tax revenues are expected to realize as 23.3 percent, non-tax total revenues as 5.7 percent and, total revenues are expected to realize as 29 percent as a result.

In 2007, energy SEEs' fiscal problems and privatisation and property sales revenues, which realized over the estimations, are the important factors that effect central government budget revenues. As a consequence of energy SEEs' not fulfilling their tax-included fiscal liabilities, tax revenues were effected negatively; on the other hand advance payment of Turkish Telecom Company's residual privatization instalment of YTL 5.8 billion in this year and property sales revenue at the level of YTL 1.1 billion created a positive effect on the central government budget non-tax revenues.

As a result of the base effect arouse during the previous year, the increase in real wages and the registered employment and high levels of the interest rates, personal income tax collection is expected to realize as YTL 902 million over the budget target. Corporate income tax collection is also expected to exceed the target projected at the budget.

In the field of income tax, tax refund for wage earners has been abolished at the beginning of 2007 by the Law No. 5615 and minimum subsistence allowance system has been approved from the beginning of 2008. Minimum subsistence allowance envisages to exclude a particular ratio of gross minimum wage, in some cases all of it, for the workers himself/herself, for his/her unemployed spouse and each of his/her dependent children.

In 2007, SCT revenues, one of the most important component of budget, are expected to realize below the budget target. The budget realizations are expected to fall short of the SCT revenue targets imposed on both tobacco products since the programmed tax increases haven't been done within the year and the expected price increases haven't realized; and for SCT imposed on motor vehicles since the vehicle sales remained under the expectations. Domestic VAT collection is estimated to realize considerably under the budget target owing to tax refunds which were increased as a result of the high amount of export and some legal regulations in this field; besides, import VAT collection is estimated to realize below the budget target as a result of the exchange rates continuing at low levels despite foreign exchange based increase in the imports and financial problems existed at energy SEEs reflected to the VAT collection.

Tax revenues are expected to realize approximately at YTL 7.1 billion under the budget target, and 23.3 percent of GDP as a result of these developments explained above. In the total tax collection, the share of indirect taxes are estimated to be 66.3 percent with an increase of 2.3 points compared to the previous year, while the direct taxes are estimated to be at the level of 33.7 percent.

In 2007, total expenditure of the central government budget, which was targeted to be 32.4 percent of GDP, is estimated to realize at the level of 31.3 percent. In total expenditures,

primary expenditures are expected to be 23.8 percent, and interest expenditures are expected to be 7.6 percent as a ratio to GDP.

Despite exceeding the budget allocation at primary expenditures, as a result of the expected decrease in the interest expenditure, the year 2007 is expected to be completed with an expenditure of YTL 2.1 billion below the total budget appropriations.

Through the Budget Circular No. 10, it is decided not to expend some particular appropriations under the expenditures for goods and services after August 31, 2007. Appropriations under the capital expenditure caption belonging to the last three months of the year were blocked as well.

In 2007, giving permanent positions to the temporary workers, wage increase above the projections through the labour contract with the public workers and extra contracted personnel employment increased the pressure on the personnel expenditures.

In 2007, expenditures from the budget for the agriculture sector are estimated to rise from YTL 5.3 billion to YTL 5.6 billion as a result of the decisions both to appropriate certificated seed supports to the farmers suffered from the drought and to increase the grain premiums over the expectations.

Furthermore, the payments made under the framework of the Law related to the handicapped, extra expenditure requirements stemmed from progressing the utilizing conditions through the Law No. 5084 concerning the encouragement of the investments, amended with the Law No. 5615, and payments for the terror compensation have constituted pressure over the expenditures of 2007 budget.

Decreasing restructuring revenues coming from the SSK and Bağ-Kur arrears, increasing insurance expenditures due to retirement of the insurees who utilized the arrear restructuring opportunity, increasing health expenditures due to facilitation of access to health services, and increase in pensions over the rates presumed in the program induce to realize transfers to the social security institutions over the budget appropriations.

As a result of this developments, together with remaining under the target in tax revenues, favourable performance seen in non-tax revenues; at the other hand expenditures remaining under the budget appropriations, the budget deficit targeted as 2.7 percent is expected to realize as 2.3 percent as a ratio to GDP. However, since the revenues which causes the favourable performance in the non-tax revenues are not classified under the IMF definition, IMF-defined central government primary surplus which was targeted 5 percent is estimated to be 3.3 percent as a ratio to GNP.

As a result of tight monetary and fiscal policy continued under the current economic programme, YTL denominated discounted cost of internal borrowing, which was at the level of 21.5 percent in December 2006, displayed floating movements related to the developments at the international markets, and realized as 18.9 percent in September 2007. Similarly, average maturity of domestic borrowing, which was 28 months in 2006, increased to 35.4 months by September 2007 as a result of five-year, inflation-indexed bonds, and seven-year floating rate bonds issued for the first time in 2007.

Consequently, of the total central government budget debt stock, realized USD 282.1 billion by the end of September 2007,

USD 213.3 billion is domestic and USD 68.8 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. Thus, central government budget domestic debt stock, which was YTL 244.8 billion by the end of 2005, reached YTL 251.5 billion by the end of 2006 and increased up to YTL 258.3 billion by the end of September 2007. On the other hand, public net debt stock in the second quarter of 2007 decreased to YTL 249.1 billion from its previous year level of YTL 259.2 billion.

2. Targets For The Year 2008

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 2008 is expected to decrease by 0.5 percentage points in comparison to 2007 level and realize at the level of 28.5 percent. The ratio of central government budget tax revenues to GDP is expected to increase 0.6 percentage points and reach the level of 23.9 percent. The ratio of non-tax revenues to GDP is expected to decrease by 1.1 percentage points in comparison to 2007 level.

In 2008, it is assumed that energy SEEs will carry out their fiscal liabilities on time and systematically. The budget revenues of 2008 determined in the light of the effect of the VAT rate reduction in tourism sector would be limited, the revenue loss of minimum livelihood allowance would be equal to the saving from the abolishment of tax refund, and any revenue decreasing arrangements would not be made.

Important reasons of non-tax revenues that decreased 1.1 percentage points as a ratio to GDP compared to the year 2007 are expected decrease in interest revenues together with expected relative decrease in privatization and property sales revenue.

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

	(Current Prices, Millions of YTL)				(Ratio toGDP, In Percent)		
	2004	**2005**	**2006**	**2007 (1)**	**2004**	**2005**	**2006**
Total	**224,483**	**244,782**	**251,470**	**258,272**	**52.1**	**50.2**	**43.6**
Bonds	**194,211**	**226,964**	**241,877**	**251,588**	**45.1**	**46.6**	**42.0**
Cash	135,307	176,335	198,783	211,752	31.4	36.2	34.5
Non-Cash	58,904	50,629	43,094	39,836	13.7	10.4	7.5
Bills	**30,272**	**17,818**	**9,594**	**6,684**	**7.0**	**3.7**	**1.7**
Cash	30,272	17,818	9,594	6,684	7.0	3.7	1.7
Non-Cash	0	0	0	0	0.0	0.0	0.0

(1) As of September.

In 2008, primary expenditures are projected to decrease by 0.6 percentage points, and interest expenditures are estimated to increase by 0.2 percentage points as a ratio to GDP compared to the previous year. Thus, central government budget expenditures, which was programmed as YTL 222.3 billion, is estimated to be at the level of 31 percent that is below the level of 2007.

In 2008, civil servant salaries will be increased two times as two percent each in January and July, in addition base salary will be increased by YTL 10 in January. Furthermore, the balancing compensation paid to the workers that don't benefit from the supplementary payment will be increased as YTL 20 in January and July. Public worker wages will be increased by 3 percent in the first and the second periods. As a consequence of these developments the total of personnel expenditures, government premiums to social security institutions, and personnel contingency is programmed as YTL 55.5 billion, and 7.7 percent as a ratio to GDP which was also the level of 2007.

In 2008, expenditures on goods and services are projected to realize as 3.2 percent as a ratio to GDP with the decrease of 0.2 percentage points, and interest expenditures are estimated to be 7.8 percent as a ratio to GDP with an increase of 0.2 percentage points compared to the previous year.

In 2008, current transfer expenditures are estimated to realize as 9.6 percent as a ratio to GDP with the increase of 9.6 percentage. In this framework, revenue shares are estimated to realize at the level of YTL 19.4 billion with an increase of 14.5 percent. Appropriation of YTL 120 million is allocated for the terror compensation application which is paid to the people suffered from terrorism, and appropriation of YTL 300 million is allocated for the incentives which will be paid by Treasury in the framework of the Law No. 5084 to encourage investments.

Capital expenditures which are estimated to realize at the level of YTL 11.7 billion in 2007, are programmed to be YTL 11.8 billion in 2008 with an increase of only 0.7 percent. Rationalization efforts aiming at efficiency and timeliness in the central government budget investments would be continued also in 2008.

Capital transfers which are estimated to realize as YTL 3.6 billion in 2007, are programmed to be YTL 2.1 billion in 2008. In this framework the expenditures made under the scope of Köy-Des project that is expected to realize as YTL 2 billion in 2007, is programmed as YTL 500 million in 2008. YTL 300 billion expenditure is planned to spend under the scope of Project for the Support of Infrastructure of Municipalities (Bel-Des) in 2008 as it was in 2007.

Under the framework of revenue and expenditure estimations stated above, central government budget deficit which is estimated to realize as YTL 19.8 billion, and 2.3 percent as a ratio to GDP in 2007 is projected to be YTL 17.8 billion, and increase to the level of 2.5 percent of GDP in 2008. Primary surplus of central government on the basis of IMF definition is targeted as 4.5 percent of GNP.

As regards to the debt management, the practice of strategic benchmark will be pursued in the forthcoming periods as it was in the years 2006 and 2007. Under this framework in

TABLE: III. 8- The Central Government Budget Figures

	(Current Prices, Millions of YTL)			(Percentage Change)		(Percentage Share)			(Share in GDP)		
	2006	2007 (1)	2008 (2)	2007	2008	2006	2007 (1)	2008 (2)	2006	2007 (1)	2008 (2)
EXPENDITURES	**178,126**	**202,853**	**222,313**	**13.9**	**9.6**	**100.0**	**100.0**	**100.0**	**30.9**	**31.3**	**31.0**
01- Personnel Expenditures	37,812	44,112	48,672	16.7	10.3	21.2	21.7	21.9	6.6	6.8	6.8
02- Government Premiums to Social Security Agencies	5,075	5,880	6,405	15.9	8.9	2.8	2.9	2.9	0.9	0.9	0.9
03-Purchase of Goods and Services	19,001	21,862	22,905	15.1	4.8	10.7	10.8	10.3	3.3	3.4	3.2
04- Interest Expenditures	45,963	49,000	56,000	6.6	14.3	25.8	24.2	25.2	8.0	7.6	7.8
05- Current Transfers	49,851	63,121	69,206	26.6	9.6	28.0	31.1	31.1	8.6	9.7	9.6
06- Capital Expenditures	12,098	11,688	11,775	-3.4	0.7	6.8	5.8	5.3	2.1	1.8	1.6
07- Capital Transfers	2,637	3,580	2,084	35.8	-41.8	1.5	1.8	0.9	0.5	0.6	0.3
08- Lending	5,689	3,612	3,934	-36.5	8.9	3.2	1.8	1.8	1.0	0.6	0.5
09- Reserve Appropriations	0	0	1,331			0.0	0.0	0.6	0.0	0.0	0.2
REVENUES	**173,483**	**187,970**	**204,556**	**8.4**	**8.8**	**100.0**	**100.0**	**100.0**	**30.1**	**29.0**	**28.5**
1 – General/Central Government Budget Revenues	**168,547**	**182,687**	**199,337**	**8.4**	**9.1**	**97.2**	**97.2**	**97.4**	29.2	28.2	27.8
01- Tax Revenues	137,480	151,056	171,206	9.9	13.3	79.2	80.4	83.7	23.9	23.3	23.9
02- Non-Tax Revenues	26,970	23,635	23,022	-12.4	-2.6	15.5	12.6	11.3	4.7	3.7	3.2
03- Capital Income	1,841	6,202	4,307	236.8	-30.6	1.1	3.3	2.1	0.3	1.0	0.6
04- Grants and Aid Received	2,255	1,794	802	-20.5	-55.3	1.3	1.0	0.4	0.4	0.3	0.1
2 – Own Revenues of Annexed Budget	**4,937**	**5,282**	**5,220**	**7.0**	**-1.2**	**2.8**	**2.8**	**2.6**	**0.9**	**0.8**	**0.7**
BUDGET DEFICIT	**-4,643**	**-14,884**	**-17,756**	**220.6**	**19.3**				**-0.8**	**-2.3**	**-2.5**
MEMO											
Non-interest Expenditures	132,163	153,854	166,313	16.4	8.1				22.9	23.8	23.2
Primary Balance	41,320	34,116	38,244	-17.4	12.1				7.2	5.3	5.3
IMF-defined Primary Balance	32,672	21,283	31,982	-34.9	50.3				5.7	3.3	4.5

(1) Realization estimate
(2) Programme target
Note: Central government budget includes general budget, special budget and regulatory and supervisory agencies.

2008, in order to alleviate interest rate and foreign exchange rate risks that could be faced at the implementation process of borrowing policy; extending the interest renovation period and borrowing by YTL-type instruments predominantly, extending the maturity in average borrowing within market conditions, holding adequate reserves would be continued in order to diminish the liquidity risk are targeted.

Within the scope of sustaining transparency in debt management financing programmes and information on debt will be regularly announced to the public. Policies towards to enhance investor base of the government borrowing instruments (GDBI), efficiency in issuance and in the secondary markets will be continued. On the other hand creating a healthy yield curve in secondary markets and primary dealer system implementation aimed at providing liquidity in GDBI buying-selling transactions will be pursued. Enhancing the GDBI investor base through the diversification of borrowing instruments to be issued according to the preferences of different investors is included among the priorities of the coming period.

Moreover, related to the domestic borrowings, which constitute a major part of the annual financing requirement, it is projected that the repurchasing and clearing transactions being currently implemented as an active debt management instruments will be continued in a manner consistent with strategic benchmarks with the aim of making the current amortizations more organized.

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 2006, revenues of local administrations, as compared to the previous year realization, increased by 33.9 percent and reached YTL 28.1 billion while the expenditures reached YTL 29.3 billion with an increase of 42.6 percent. Comparing the shares in GDP with those of previous year, local governments revenues and expenditures, increased by 0.6 and 0.9 percentage points respectively and realized as 4.9 percent and 5.1 percent. In this respect, local governments balance yield in a deficit of 0.2 percent of GDP in 2006, although it was programmed in a surplus of 0.06 percent of GDP.

In 2007, revenues of local governments are expected to reach to YTL 33.1 billion with an increase of 17.7 percent and thus its share in GDP is estimated to be 5.1 percent with the contribution of base effect of increase in shares from general government tax revenues and immovable sales. In the same year, the expenditures of local governments are expected to reach to YTL 33 billion and 5.1 percent of GDP by increasing 12.5 percent.

2. Targets For The Year 2008

In 2008, revenues, expenditures and deficits of local governments are estimated as YTL 34.2 billion, YTL 34.4 billion and YTL 256 million, respectively.

The natural gas enterprise under the General Directorate of EGO is assumed to be privatized in 2008 according to the Law No. 5669.

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 will be pursued and for the investments under the scope of Köy-Des and Bel-Des Projects, appropriations from the central government budget will be provided also in 2008.

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

	(Current Prices, Millions of YTL)				(Ratio to GDP, In Percent)			
	2005	2006	2007 (1)	2008 (2)	2005	2006	2007 (1)	2008 (2)
Municipalities	5,337	5,772	7,012	7,798	1.10	1.00	1.08	1.09
Metropolitan Municipalities	3,806	4,057	4,935	5,759	0.78	0.70	0.76	0.80
Special Province Administrations	996	1,077	1,311	1,508	0.20	0.19	0.20	0.21
TOTAL	**10,140**	**10,906**	**13,258**	**15,065**	**2.08**	**1.89**	**2.05**	**2.10**

(1) Estimation
(2) Programme target

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

	(Current Prices, Millions of YTL)				(Ratio to GDP, In Percent)			
	2005	2006 (2)	2007 (3)	2008 (4)	2005	2006 (2)	2007 (3)	2008 (4)
REVENUES	**21,026**	**28,145**	**33,120**	**34,190**	**4.3**	**4.9**	**5.1**	**4.8**
1.Taxes	11,931	13,525	16,212	18,172	2.4	2.3	2.5	2.5
2.Non-Tax Revenues	3,994	5,685	5,340	5,736	0.8	1.0	0.8	0.8
3.Factor Incomes (Net)	4,573	7,325	8,118	9,061	0.9	1.3	1.3	1.3
5.Capital Transfers (Net)	528	1,611	3,450	1,221	0.1	0.3	0.5	0.2
EXPENDITURES	**20,577**	**29,349**	**33,029**	**34,446**	**4.2**	**5.1**	**5.1**	**4.8**
1.Current Expenditures	10,765	14,826	15,971	16,976	2.2	2.6	2.5	2.4
2.Investment Expenditures	8,505	12,474	14,498	14,141	1.7	2.2	2.2	2.0
a. Fixed Capital	8,495	12,480	14,501	14,141	1.7	2.2	2.2	2.0
b. Changes in Stocks	10	-6	-3	0	0.0	0.0	0.0	0.0
3.Current Transfers	484	392	569	1,155	0.1	0.1	0.1	0.2
4.Expropriation and Increase in Fixed Assets	824	1,656	1,991	2,174	0.2	0.3	0.3	0.3
REV. – EXP. DIFFERENCE	**449**	**-1,204**	**92**	**-256**	**0.1**	**-0.2**	**0.0**	**0.0**

(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

C. REVOLVING FUNDS

1.Current Outlook

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

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

	2005	2006	2007 (1)	2008 (2)
	(Current Prices, Million YTL)			
A TOTAL REVENUES	**14,024**	**15,843**	**18,195**	**20,181**
I Operating Income	12,732	15,648	17,989	19,933
II Retained Funds	178	194	207	249
III Budget Transfers	1,114	0	0	0
B TOTAL EXPENDITURES	**12,798**	**14,579**	**16,878**	**18,619**
I Operating Expenses	10,808	13,580	15,774	17,499
II Investment Expenditures	280	283	597	583
III Increase in Stocks	106	204	94	92
IV Increase in Fixed Assets	272	119	43	45
V Direct Taxes	157	100	68	67
VI Transfers to Funds	291	292	302	332
VII Lending Minus Repayment (3)	883	0	0	0
C REVENUE-EXPENDITURE DIFFERENCE	**1,226**	**1,263**	**1,317**	**1,562**
	(Ratios to GDP, In Percent)			
A TOTAL REVENUES	**2.88**	**2.75**	**2.81**	**2.81**
I Operational Income	2.61	2.72	2.78	2.78
II Retained Funds	0.04	0.03	0.03	0.03
III Budget Transfers	0.23	0.00	0.00	0.00
B TOTAL EXPENDITURES	**2.63**	**2.53**	**2.61**	**2.60**
I Operational Expenses	2.22	2.36	2.44	2.44
II Investment Expenditures	0.06	0.05	0.09	0.08
III Increase in Stocks	0.02	0.04	0.01	0.01
IV Increase in Fixed Assets	0.06	0.02	0.01	0.01
V Direct Taxes	0.03	0.02	0.01	0.01
VI Transfers to Funds	0.06	0.05	0.05	0.05
VII Lending Minus Repayment (3)	0.18	0.00	0.00	0.00
C REVENUE-EXPENDITURE DIFFERENCE	**0.25**	**0.22**	**0.20**	**0.22**
Memo: Profits / GDP (In Percent)	0.62	0.36	0.34	0.34

(1) Estimate
(2) Programme
(3) Credit payments and credit collections by YURTKUR

While the financing balance of revolving funds affiliated to the Ministry of Health 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 stemming from the liabilities of government on behalf of social security institutions, budgetary administrations and green card owners.

The ratio of net budget surplus of revolving funds to GDP, which was 0.22 percent in 2006, is expected to realize as 0.20 percent in 2007. The ratio of profits of revolving funds to GDP realized as 0.36 percent in 2006 and it is expected to become 0.34 percent in 2007.

2. Targets For the Year 2008

In 2008, the ratios of net budget surplus and profit of the revolving funds to GDP are expected to become 0.22 percent and 0.34 percent, respectively.

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 5.13 percent of GDP in 2007. The factors underlying the increase of this ratio by 1.16 percent of GDP compared to the previous year can be stated as the decreasing revenues coming from the SSK and Bağ-Kur arrears restructured in 2006, the increasing insurance expenditures due to the retirement of the insured people who utilized the arrear restructuring opportunity, the increase in pensions over the rates presumed in the 2007 program, and the increasing health expenditures due to facilitation of access to health services.

In 2007, budget transfers are estimated to be YTL 33,2 billion, of which YTL 12,1 billion is to defunct SSK including additional payment, YTL 8,7 billion to defunct Bağ-Kur including additional payment and YTL 12,4 billion to defunct Emekli Sandığı including additional payment, invoiced payments and additional allowances. The ratio of total budget transfers to GDP is expected to realize around 5.13 percent.

Although it has been presumed to increase SSK and Bağ-Kur pensions by 4.7 percent in January and 2.18 percent in July in 2007 to reflect the inflation rate of previous six months, the aforementioned rates have realized as 6.33 percent and 3.87 percent respectively, since the inflation target has been exceeded.

Gross minimum wage has been increased to YTL 562.5 from YTL 531 with a rise of 5.9 percent for the first half of 2007. Afterwards, it has been increased to YTL 585 with a rise of 4 percent in the second half of 2007. Coming into effect by January 1, 2007, income brackets for Bağ-Kur were increased by 10.2 percent.

By the Law No. 5458 on Restructuring the Social Security Arrears and Amendment of Some Laws, published on Official Gazette on March 4, 2006, SSK and Bağ-Kur arrears 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, arrears restructuring revenue was YTL 2,959 million for Bağ-Kur and YTL 714 million for SSK in 2006. Besides, defunct Bağ-Kur is expected to obtain arrears restructuring revenue of YTL 1,032 million and defunct SSK of YTL 478 million in 2007.

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

	2005	2006	2007 (1)	2008 (2)
	(Current Prices, Million YTL)			
I-REVENUES	**39,024**	**51,221**	**53,725**	**60,098**
-Premium Collections	31,599	41,754	45,126	50,793
II-EXPENDITURES	**59,081**	**68,884**	**80,167**	**88,902**
-Insurance Payments	39,261	44,786	52,831	58,046
-Health Expenditures (3)	13,962	17,676	20,381	23,117
-Investment Expenditures (4)	66	17	74	178
III-REVENUE-EXPENDITURE DIF.	**-20,057**	**-17,663**	**-26,443**	**-28,804**
IV-BUDGET TRANSFERS	**19,919**	**18,552**	**25,971**	**28,804**
-Budget Transfers (5)	23,259	22,891	33,224	37,031
V-FINANCING DEFICIT	**138**	**-889**	**472**	**0**
	(Ratios to GDP, In Percent)			
I-REVENUES	**8.01**	**8.89**	**8.30**	**8.38**
-Premium Collections	6.49	7.24	6.97	7.08
II-EXPENDITURES	**12.13**	**11.95**	**12.38**	**12.39**
-Insurance Payments	8.06	7.77	8.16	8.09
-Health Expenditures (3)	2.87	3.07	3.15	3.22
-Investment Expenditures (4)	0.01	0.00	0.01	0.02
III-REVENUE-EXPENDITURE DIF.	**-4.12**	**-3.06**	**-4.08**	**-4.02**
IV-BUDGET TRANSFERS	**4.09**	**3.22**	**4.01**	**4.02**
-Budget Transfers (5)	4.77	3.97	5.13	5.16
V-FINANCING DEFICIT	**0.03**	**-0.15**	**0.07**	**0.00**

(1) Estimate
(2) Programme
(3) The effects of the social security reform to become effective through 2008 have not been taken into consideration and health expenditures of defunct SSK, defunct Bağ-Kur and defunct Emekli Sandığı are covered.
(4) Since 2007, the investment expenditure of İŞKUR is included and the value of investments is added to the total revenues.
(5) Invoiced payments and additional premiums are included in 2005 and 2006. Following 2007, additional payment to the retired has also been covered.

In 2006, important arrangements within the scope of social security reform have been enacted. By the Law No. 5502, published on Official Gazette of May 20, 2006, SSK, Bağ-Kur and Emekli Sandığı have been abolished and consolidated under the roof of Social Security Institution. Besides, by the Law No. 5510 on Social Insurances and General Health Insurance, published on Official Gazette on June 16, 2006, it has been aimed to unify the pension systems currently serving under different norms and standards under a unique pension system serving under the same norms and standards for all pensioners as well as making the health services given under different standards to different groups reach to uniform standards through the establishment of General Health Insurance system covering the entire population. However, through its decision on December 15, 2006, Constitutional Court cancelled some of the articles and decided to stay some of the articles in this Law. Hereupon, enforcement date of the law has been determined firstly as July 1, 2007 by Central Government Budget Law and then as January 1, 2008 by Law No. 5655. In order to fully enact the social security reform in 2008, Social Security Institution is working on a draft law to revise the former law as well as the secondary regulations so as to minimize the problems to be confronted during the implementation.

By the Law No. 5561 published on Official Gazette on December 16, 2006, eligibility criteria to survivor's pension have become more flexible. The new law requires the insured people to have been insured for at least 5 years and to have paid premium for 900 days, whereas the former one required the insured people to have been insured for at least 5 years and to have paid premium for 1800 days in order to qualify for the survivor's pension. This regulation is expected to result in a marginal cost worth YTL 113 million for 2007.

By the Law No. 5595 published on Official Gazette on March 10, 2007, the index determining the pension of the pensioners under the scope of this law has been increased. Besides, the people covered by this law has gained the right for a pension equal to the net minimum wage (75 percent of net minimum wage for widow spouses) provided that they do not get income or pension from any social security institution and do not have a job requiring mandatory registration in the social security system. This regulation is expected to result in a marginal cost worth YTL 33 million for 2007.

By the Law No. 5673 published on Official Gazette on June 2, 2007, temporary village guards without any further connection to their jobs have been given the right for a pension. This regulation is expected to result in a marginal cost worth YTL 17.7 million for 2007.

By the change in regulation about the implementation of Law No. 3201 published on Official Gazette on July 6, 2007, the problem of defunct Bağ-Kur insurees' ineligibility to abroad indebtment – due to a gap in the legislation – has been removed. This regulation is expected to result in a marginal cost worth YTL 27.5 million for 2007.

In 2007, YTL 148 million has been gathered from the sales of the hotels belong to the defunct Emekli Sandığı.

In 2007, the arrangements stated below have been made in order to get the treatment and medicine expenditures under control:

Treatment prices determined by the Budget Implementation Instruction issued in 2006 remained effective until 15 June 2007 and by the Treatment Aid Implementation Notice published on Concurrent Official Gazette on 25 May 2007, the treatment prices were kept almost at the same level as 2006 and the positive list practice went on. Additionally, the coverage period of the protocol providing a discount in drug prices of around 10 percent on average, signed in 2005 among the Ministry of Finance, Ministry of Labor and Social Security and Turkish Pharmacists Association, has been extended to 30 June 2007. Afterwards, a new one-year protocol effective from July 2007 has been signed between Social Security Institution and Turkish Pharmacists Association and the discounts on drug prices continued. Besides, Price Evaluation Commission held a meeting and determined the exchange rate to form the basis for determination of drug prices in the period ahead. Thereby, 7.77 percent discount has been made in drug prices.

Medical Messenger Information System (MEDULA), which has been in use since September 1, 2006, is aimed to be used by all the hospitals, which have contract with Social Security Institution, until the end of 2007. Thereby, Social Security Institution will be able to control the invoices effectively through sampling and prevent abuses and corruptions while getting the treatment expenditures under control.

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

	(Current Prices, Million YTL)				(Ratio to GDP, In Percent)			
	2005	**2006**	**2007 (1)**	**2008 (2)**	**2005**	**2006**	**2007 (1)**	**2008 (2)**
I-REVENUES	**5,039**	**6,093**	**7,490**	**8,535**	**1.04**	**1.06**	**1.16**	**1.19**
-Premium Revenue	1,505	1,988	2,371	2,867	0.31	0.34	0.37	0.40
-State Contribution	503	657	790	932	0.10	0.11	0.12	0.13
-Interest Income	2,986	3,405	4,270	4,670	0.61	0.59	0.66	0.65
II-EXPENDITURES	**326**	**376**	**403**	**649**	**0.07**	**0.07**	**0.06**	**0.09**
-Insurance Expenditures	248	292	354	541	0.05	0.05	0.05	0.08
-Other Expenditures	77	84	48	108	0.02	0.01	0.01	0.02
III-REVENUE-EXPENDITURE DIF.	**4,713**	**5,717**	**7,087**	**7,886**	**0.97**	**0.99**	**1.09**	**1.10**
IV-TOTAL FUND ASSETS	**18,027**	**23,744**	**30,813**	**38,699**	**3.70**	**4.12**	**4.76**	**5.40**

(1) Estimate
(2) Programme target

By the Social Security Institution Health Implementation Notice (SUT) published on Concurrent Official Gazette on 25 May 2007 and put into effect through 15 June 2007, similar to the defunct Emekli Sandığı insurees, insurees of defunct SSK and defunct Bağ-Kur were given the opportunity to go to the university hospitals contracted by Social Security Institution directly (without any need for referral), make the Social Security Institution pay for their treatment expenditures to those health service providers, apply to the private health service providers contracted by Social Security Institution directly (without any need for referral) either as outpatient or as inpatient. This regulation is considered to result in pressure on the expenditure side for 2008. Breaking the referral chain is not consistent with the goals of the family medicine system, which is aimed to spread nationwide under the scope of Health Transformation Program. By the aforementioned Notice, hospitals are obliged to provide the drugs and supplies to be utilized for inpatients and it is aimed to overcome the problems faced by the patients and their relatives while trying to provide drugs and the necessary supplies. Additionally, regarding the illnesses like tension, diabetes, cholesterol, etc., which require usage of drugs for long periods, patients are given the opportunity to get their drugs in three-month-doses from the pharmacies for two years once they are treated, diagnosed, prescribed and given a report stating the existence of such an illness.

In 2007, Unemployment Insurance Funds premium revenue, state contribution and interest income are expected to realize as 0.37, 0.12 and 0.66 percent of GDP

respectively. In this context, total revenue is estimated to increase by 0.1 point in comparison to 2006 and realize as 1.16 percent of GDP in 2007. 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 403 million in 2007. Consequently, in 2007 the total assets of the Fund are estimated to reach YTL 30.8 billion, which corresponds to 4.76 percent of GDP.

2.Targets for the Year 2008

It is assumed that minimum wage would increase by 6 percent in January in 2008. Pensions are presumed to increase by 2 percent in January and July in 2008. In 2008, arrears restructuring revenue is expected as YTL 781 million.

The impact of the social security reform on the financing balance of the 2008 programme has not been taken into consideration since studies on the reform are still being carried on and the parameters of the reform are not yet clear. Therefore, health expenditures cover only the health expenditures of defunct SSK, defunct Bağ-Kur and defunct Emekli Sandığı.

Social security institutions' total revenues, total expenditures and deficit are estimated to be YTL 60.1 billion, YTL 88.9 billion and YTL 28.8 billion respectively in 2008. As ratios to GDP, revenues, expenditures and deficit are targeted as 8.38, 12.39 and 4.02 percent, respectively.

It is estimated that the total budget transfers to social security institution would be YTL 37 billion, corresponds to 5.16 percent of GDP, in 2008, including invoiced payments, additional allowances and additional payment to pensioners.

In 2008, for Unemployment Insurance Fund, it is expected that the ratios to GDP would be 0.40 percent of premium revenues, 0.13 percent of state contribution and 0.65 percent of interest revenues. In the last quarter of 2008, eligibility criteria for unemployment benefit are expected to facilitate and the amount of unemployment benefit is expected to rise. Therefore, Fund expenditures, which are expected to realize around YTL 403 million in 2007 and YTL 649 million in 2008. Consequently, it is estimated that the total fund assets would reach YTL 38.7 billion corresponding to 5.4 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 2007 are expected to reach a level of YTL 9.3 billion, corresponding to 1.44 percent of GDP, and the expenditures are expected to reach a level of YTL 2.2 billion, corresponding to 0.34 percent of GDP. Hence, the surplus of the fund system is expected to reach 1.10 percent of GDP.

As the result of the ongoing privatisation processes, a revenue of YTL 5.7 billion in cash is expected to be collected by the Privatisation Fund in 2007.

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

	(Current Prices, Million YTL)			(Ratio to GDP, In Percent)		
	2006	**2007 (2)**	**2008 (3)**	**2006**	**2007 (2)**	**2008 (3)**
A. Fund Revenues	**11,881**	**9,302**	**10,744**	**2.06**	**1.44**	**1.50**
Tax Revenues	2,632	3,086	3,517	0.46	0.48	0.49
Non-Tax Normal Revenues	498	484	215	0.09	0.07	0.03
Factor Incomes (Net)	0	0	0	0.00	0.00	0.00
Current Transfers (Net)	0	0	0	0.00	0.00	0.00
Capital Transfers (Net)	8,752	5,732	7,012	1.52	0.89	0.98
B. Fund Expenditures	**2,680**	**2,174**	**2,386**	**0.46**	**0.34**	**0.33**
Current Expenditures	1,357	1,244	1,375	0.24	0.19	0.19
Factor Payments (Net)	225	167	31	0.04	0.03	0.00
Fixed Capital Investments	5	0	0	0.00	0.00	0.00
Current Transfers (Net)	1,092	763	980	0.19	0.12	0.14
Capital Transfers (Net)	0	0	0	0.00	0.00	0.00
C. Revenue – Exp. Difference	**9,202**	**7,129**	**8,358**	**1.60**	**1.10**	**1.17**
D. Financing	**-9,202**	**-7,129**	**-8,358**	**-1.60**	**-1.10**	**-1.17**
Use of External Debt	150	200	236	0.03	0.03	0.03
External Debt Payment	-103	-60	-67	-0.02	-0.01	-0.01
Internal Debt-Lending (Net)	-8,351	-4,670	-3,545	-1.45	-0.72	-0.49
Change in Cash-Bank	-897	-2,598	-4,983	-0.16	-0.40	-0.69
Memo Item:						
Privatisation Rev.	10,441	5,739	7,398	1.81	0.89	1.03
Fund Rev. Except Priv. Rev.	1,440	3,563	3,346	0.25	0.55	0.47

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

2. Targets for the Year 2008

In 2008, Privatisation Fund is expected to raise a total of YTL 7.4 billion of privatisation revenue.

In 2008, fund resources which amount to YTL 10.7 billion correspond to 1.50 percent of GDP, whereas, fund expenditures which amount to YTL 2.4 billion correspond to 0.33 percent of GDP. Thus, ratio of financing surplus of the fund system, which is YTL 8.4 billion, to GDP is expected to realize as 1.17 percent.

II. STATE ECONOMIC ENTERPRISES

1. Current Outlook

It is estimated that the ratio of financial surplus of SEEs, including the enterprises in the privatisation portfolio, to GDP, which was 0.65 percent in 2006, will decrease to zero

percent in 2007. The main reasons of this decrease are; the lack of necessary adjustments for electricity prices and the less amount of capital transfers from Privatisation Fund to the enterprises in the privatisation portfolio in 2007 than 2006.

Studies which were initiated to provide accountability, transparency and flexibility of SEEs in the decision-making process, reduce interventions over SEEs and establish performance-oriented management approach in SEEs continue.

22 thousand temporary workers, who were employed in SEEs more than 6 months in 2006, were transferred to the permanent worker positions in 2007 with the Law No. 5620.

Experienced and qualified personnel need for SEEs has increased due to 10 percent limit in recruitment, which has been applied since 2002, and the transfers of employees to the private firms because of lower salaries in SEEs. In order to relieve this problem, the salary ceilings of on-contract personnel and uncovered workers by collective union bargaining have been increased with salary increases which is higher than the inflation rate.

TEDAŞ's need to increase collection ratios of receivables in some tariff categories and in same regions, to collect street lighting receivables and to reflect cost increases to the sales prices is continuing. In addition, besides new customers, as electricity sales prices left behind the production costs, some auto-producers and eligible customers have switched to purchase from TEDAŞ. This situation led to an 18 billion kwh unexpected demand increase in excess of TEDAŞ's programmed figures. Meeting this demand increase, which could not be supplied by EÜAŞ and TETAŞ, by spot purchases from PMUM also increased TEDAŞ's losses further.

These developments in TEDAŞ cause disruption in cash flows of all energy SEEs, particularly TKİ and BOTAŞ, and difficulties to fulfil their fiscal and operational obligations.

Interest receivables of BOTAŞ from EGO were cancelled with the Law No.5669.

An amount of 293 million YTL is expected to transfer from the Privatisation Fund to TEDAŞ in order to meet the investment needs of TEDAŞ in 2007.

Besides the rationalization of existing sales prices in the short term, functioning of the existing mechanism regulating the reflection of cost changes to the sales prices is also crucial in order to contribute electricity supply security.

TEMSAN, a subsidiary of EÜAŞ, was restructured as a state economic enterprise by the Decree of the Council of Ministers No. 2007/12106.

The tender in 2005 about the transfer of 4 billion sm^3 of BOTAŞ's annual gas purchasing contracts to the private sector was finalized and the signing has approached.

EÜAŞ focused on thermal power plants because of drought. Since EUAS increased the consumption of natural gas, production costs of EÜAŞ were affected negatively. It is expected that this production composition will continue in 2008.

Profits of EÜAŞ and TETAŞ from the sales to PMUM were transferred to TEDAŞ with price discounts in the second part of the year.

In order to form an integrated structure in the petroleum sector, TP Petroleum Distribution Company was established by TPIC, a subsidiary of TPAO.

Financial requirements of Turkish Railway Company (TCDD) have increased because TCDD kept on undertaking the cost of port personnel after the privatisation of ports.

PTT, which had financial problems since telecommunication services departed from its main body, became able to pay dividend to the Treasury with the positive effects created by the reorganization activities and PTT Bank services.

While the total amount of privatisation operations, whose sale/transfer transactions were completed, was USD 8.29 billion in 2006, it was realized as USD 7.31 billion as of October 2007. Total amount of privatisation operations for which tender and negotiation processes have been completed but sale/transfer processes are still undergoing is USD 6.26 billion.

Privatisation operations whose sale/transfer processes were completed during January-October 2007 were; the lease of Antalya Airport of DHMI for 17,5 years, public offering of 24,98 percent of HALKBANK, transfer of operating rights of Mersin Port of TCDD for 36 years and the 1st and 2nd Regions of Motor Vehicles Inspection Stations, sale of a real estate in Beşiktaş owned by the General Directorate of Highways and various real estates and facilities. During the same period, tender and negotiation processes of privatisation operations of PETKİM, İzmir and Derince Ports of TCDD, real estates of Sümer Holding and Çelik Palas Hotel of Pension Fund for Civil Servants and 20 year lease of Sabiha Gökçen Airport of the Undersecretariat of Defence Industry, have been completed but their sale/transfer processes are still undergoing, and expected to be finalized as soon as possible.

Tenders for the privatisation of electricity distribution, which were primarily planned for three distribution regions, were postponed in order to complete necessary infrastructure investments.

Tender process for the block sale of 51 percent shares of PETKİM was completed. Tender committee took a decision on submitting Socar-Turcas-Injaz Joint Enterprise Group's bid of USD 2.04 billion, which is the second best bid of the tender, for Competition Board's approval.

Studies on the privatisation operations for tobacco factories, Çamaltı and Ayvalık saltpans of TEKEL with idle real estates and facilities are going on. As the preparations for tenders are completed, tender dates are announced. Preparatory studies for the privatisation of some portion of Turk Telekom Corporation's 45 percent public shares via public offering have been started.

Public shares of Turkish Sugar Factories Co., which are still in privatisation coverage, were included in privatisation programme and privatisation operation is

planned to finalise within two years. Sümer Halı was also included in the privatisation programme and its privatisation operation is planned to finalise within one year.

Some highways, bridges and facilities on them, which are service production units and constructed, maintained and operated by the General Directorate of Highways, were included in privatisation programme. These are Edirne-İstanbul-Ankara, Pozantı-Tarsus-Mersin, Tarsus-Adana-Gaziantep, Toprakkale-İskenderun, Gaziantep-Şanlıurfa, İzmir-Çeşme, İzmir-Aydın Highways, İzmir and Ankara Beltways' connection roads and, Boğaziçi and Fatih Sultan Mehmet Bridges' connection roads.

Prices of agricultural crops decreased by 2.6 and 7.6 percent on average in 2005 and 2006 respectively. The initial purchase prices in 2006 realized 7.1 percent increase in common wheat, 10.7 percent increase in tea and 15 percent decrease in sugar beet.

By the Decree of the Council of Ministers No. 2007/12339, it was determined that some producers registered for Producer Registration System (PRS) will be given drought support to be compensated for the loss incurred due to the drought and the agricultural credit debts of those producers (including the credits with low interests) to Ziraat Bank and Agriculture Credit Cooperatives will be put off. In this context, due to the drought in spring 2007, producers registered in PRS (excluding public legal entities) and accommodated in the provinces which is indicated in the attached list of the Decree and whose loss was set by province/district commissions of ascertainment of damage as, for the products in the scope of the Decree, having loss 25 percent and more would be compensated for meeting the needs of certificated seed and that for the areas corresponding to the quantity of products lost; they would be given support payment of YTL 15 per thousand square meters for wheat; YTL 12 per thousand square meters for barley and sainfoin; YTL 20 per thousand square meters for vetch. Thus, producers incurred loss due to drought would be paid YTL 300 million from agricultural support budget.

A recommendation decision was adopted in the SEE Commission of TGNA about TİGEM as that the enterprise would not be able to get in new lease transactions until previous leases were evaluated and decided whether they had produced good results for economy, employment, production and investment and until knowledge and experience be constituted for the solution of legal issues about the leases.

By the Decree of the Council of Ministers No. 2007/11854, TMO was charged with building and/or making to build storages appropriate for chartered storage for purchasing nuts and for meeting the needs for storage in the production areas of nuts.

TABLE: III. 15- Financing Balance of SEEs Subject to Decree Law No. 233

	2006	2007(1)	2008(2)
		(Current Prices, Million YTL)	
A. TOTAL REVENUES	**51,090**	**52,641**	**56,667**
I. Operational Income	45,062	47,253	50,974
1. Revenues from Goods and Services Sales	40,696	44,445	48,588
2. Other Income	4,367	2,808	2,385
II. Retained Funds	3,403	3,128	3,393
1. Depreciation	2,497	2,941	3,013
2. Revaluation Profit/Loss	0	0	0
3. Reserves	906	187	380
III. Budgets and Funds	2,624	2,259	2,300
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	**49,763**	**52,122**	**56,141**
I. Operational Expenditures	45,244	46,314	49,182
1. Cost of Goods and Services Sold	37,629	39,425	42,484
2. Other Expenses	7,615	6,888	6,698
II. Investment Expenditures	2,785	3,028	3,249
III. Change in Stocks	268	853	1,288
IV. Revaluation	631	705	750
V. Direct Taxes	533	610	847
VI. Dividend Payments	288	607	825
VII. Other Expenditures	12	4	0
C. REVENUES – EXPENDITURES DIFFERENCE	**1,327**	**519**	**526**
D. FINANCING	**-1,327**	**-519**	**-526**
I. Change in Cash-Bank	-72	-551	-411
II. Domestic Borrowing (Net)	-1,194	-316	-392
III. External Borrowing (Net)	-61	348	277
		(Ratio to GDP, In Percent)	
A. TOTAL REVENUES	**8.86**	**8.13**	**7.90**
I. Operational Income	7.82	7.30	7.11
1. Revenues from Goods and Services Sales	7.06	6.86	6.77
2. Other Income	0.76	0.43	0.33
II. Retained Funds	0.59	0.48	0.47
1. Depreciation	0.43	0.45	0.42
2. Revaluation Profit/Loss	0.00	0.00	0.00
3. Reserves	0.16	0.03	0.05
III. Budgets and Funds	0.46	0.35	0.32
IV. Other Income	0.00	0.00	0.00
B. TOTAL EXPENDITURES	**8.63**	**8.05**	**7.83**
I. Operational Expenditures	7.85	7.15	6.86
1. Cost of Goods and Services Sold	6.53	6.09	5.92
2. Other Expenses	1.32	1.06	0.93
II. Investment Expenditures	0.48	0.47	0.45
III. Change in Stocks	0.05	0.13	0.18
IV. Revaluation	0.11	0.11	0.10
V. Direct Taxes	0.09	0.09	0.12
VI. Dividend Payments	0.05	0.09	0.12
VII. Other Expenditures	0.00	0.00	0.00
C. REVENUES – EXPENDITURES DIFFERENCE	**0.23**	**0.08**	**0.07**
D. FINANCING	**-0.23**	**-0.08**	**-0.07**
I. Change in Cash-Bank	-0.01	-0.09	-0.06
II. Domestic Borrowing (Net)	-0.21	-0.05	-0.05
III. External Borrowing (Net)	-0.01	0.05	0.04

(1) Estimate
(2) Programme Target

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

	2006	2007(1)	2008(2)
	(Current Prices, Million YTL)		
A. TOTAL REVENUES	**32,238**	**26,764**	**32,594**
I. Operational Income	28,672	25,394	31,253
1. Revenues from Goods and Services Sales	22,518	24,280	30,239
2. Other Income	6,155	1,114	1,015
II. Retained Funds	929	763	798
1. Depreciation	653	617	643
2. Revaluation Profit/Loss	0	0	0
3. Reserves	276	147	155
III. Budgets and Funds	2,636	606	543
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	**29,839**	**27,288**	**30,545**
I. Operational Expenditures	27,289	26,367	30,490
1. Cost of Goods and Services Sold	16,712	19,009	22,791
2. Other Expenses	10,577	7,358	7,699
II. Investment Expenditures	887	1,025	751
III. Change in Stocks	-388	-116	-687
IV. Revaluation	2,095	-127	-8
V. Direct Taxes	-48	140	0
VI. Dividend Payments	0	0	0
VII. Other Expenditures	6	0	0
C. REVENUES – EXPENDITURES DIFFERENCE	**2,398**	**-525**	**2,049**
D. FINANCING	**-2,398**	**525**	**-2,049**
I. Change in Cash-Bank	-199	14	116
II. Domestic Borrowing (Net)	-2,201	503	-2,166
III. External Borrowing (Net)	2	8	1
		(Ratio to GDP, In Percent)	
A. TOTAL REVENUES	**5.59**	**4.13**	**4.54**
I. Operational Income	4.98	3.92	4.36
1. Revenues from Goods and Services Sales	3.91	3.75	4.22
2. Other Income	1.07	0.17	0.14
II. Retained Funds	0.16	0.12	0.11
1. Depreciation	0.11	0.10	0.09
2. Revaluation Profit/Loss	0.00	0.00	0.00
3. Reserves	0.05	0.02	0.02
III. Budgets and Funds	0.46	0.09	0.08
IV. Other Income	0.00	0.00	0.00
B. TOTAL EXPENDITURES	**5.18**	**4.21**	**4.26**
I. Operational Expenditures	4.73	4.07	4.25
1. Cost of Goods and Services Sold	2.90	2.94	3.18
2. Other Expenses	1.84	1.14	1.07
II. Investment Expenditures	0.15	0.16	0.10
III. Change in Stocks	-0.07	-0.02	-0.10
IV. Revaluation	0.36	-0.02	0.00
V. Direct Taxes	-0.01	0.02	0.00
VI. Dividend Payments	0.00	0.00	0.00
VII. Other Expenditures	0.00	0.00	0.00
C. REVENUES – EXPENDITURES DIFFERENCE	**0.42**	**-0.08**	**0.29**
D. FINANCING	**-0.42**	**0.08**	**-0.29**
I. Change in Cash-Bank	-0.03	0.00	0.02
II. Domestic Borrowing (Net)	-0.38	0.08	-0.30
III. External Borrowing (Net)	0.00	0.00	0.00

(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		
	2006	**2007 (1)**	**2008 (2)**	**2006**	**2007 (1)**	**2008 (2)**
Total No. of Personnel (person)	156,649	158,339	156,553	225,744	227,095	227,005
- Civil Servants and on-Contract Personnel	75,745	76,533	75,946	91,748	91,777	90,767
- Worker	80,904	81,806	80,607	133,996	135,318	136,238
Total Personnel Expenditures	4,728	5,304	5,528	7,109	7,967	8,399
- Civil Servants and on-Contract Personnel	1,849	2,071	2,154	2,261	2,504	2,605
- Worker	2,879	3,233	3,375	4,848	5,463	5,794
Revenues form the Sales of Goods and Services	40,696	44,445	48,588	63,213	68,725	78,827
Accrual of Duty Losses	1,409	784	897	1,413	789	897
Operational Profit – Loss	1,403	2,681	3,837	1,041	1,630	4,522
Interest Payments	481	,919	759	501	953	793
Period Profit – Losses	1,227	1,724	2,688	2,615	755	3,452
Factor Incomes	3,221	4,068	5,185	5,534	3,858	6,747
Dividend Payments	288	607	825	288	,607	825
Fixed Capital Investments	2,785	3,028	3,249	3,672	4,054	4,000
Budget and Fund Transfers	2,624	2,259	2,300	5,261	2,866	2,843
Borrowing Requirement*	-1,327	-519	-526	-3,725	5	-2,575
Borrowing Requirement* (3)	1,297	1,740	1,774	1,535	2,871	268
Borrowing Requirement* (4)	-1,356	-1,144	-1,004	-3,731	-,600	-3,059
Borrowing Requirement* /GDP (In Percent)	-0.23	-0.08	-0.07	-0.65	0.00	-0.36
Borrowing Requirement* (3)/GDP (In Percent)	0.23	0.27	0.25	0.27	0.44	0.04
Borrowing Requirement* (4)/GDP (In Percent)	-0.24	-0.18	-0.14	-0.65	-0.09	-0.43
Personnel Exp./Revenues (In Percent)	11.62	11.93	11.38	11.25	11.59	10.65
Interest Payments/Revenues (In Percent)	1.18	2.07	1.56	0.79	1.39	1.01

* (-) sign indicates the financing surplus
(1) Estimate
(2) Programme target
(3) Excluding budget and privatisation fund transfers
(4) Excluding interest revenue and expenditures

In the context of the Decree of the Council of Ministers No. 2007/11619, TMO imported 294,000 tones maize, 96,000 tones wheat without customs duty. With the Decree of the Council of Ministers No. 2007/12597, TMO was allowed to import 800,000 tones wheat and 300,000 tones maize and barley for each without paying customs duty.

As of 2007-2008 purchasing period, most of the agricultural sales cooperatives and associations have adopted the advance payment application for the purchases.

Within the framework of direct income support (DIS) programme, YTL 10 was paid per decare in 2007. With the Decree of the

TABLE: III. 18- Agricultural Support Payments*

(Current Prices, Million YTL)

	2004	2005	2006	2007(1)	2008(2)
Direct Income Support and Area Based Agricultural Support Payments	2 480	2 353	2 653	2 465	2 554
DIS	2 125	1 673	2 653	1 640	1 710
Gasoline	355	410	0	480	492
Fertilizer	0	270	0	345	352
Nut	0	0	0	0	0
Difference Support Payments	334	897	1 292	1 794	1 758
Payments to products with supply shortages (3)	294	622	1 085	1 270	1 280
Cereal	0	205	120	435	365
Tea	40	70	87	89	113
Livestock Payments	209	345	661	711	731
Agricultural Reform Application Project (4)	31	29	14	36	69
Grants for Rural Development	0	0	0	90	93
Agricultural Crops Insurance	0	0	2	50	55
Compensatory Payments	0	56	67	76	80
Potato Wart Support	0	13	14	21	24
Tea Trimming Support and Charges	0	43	53	55	56
Drought Support	0	0	0	300	0
Others	30	28	58	55	60
TOTAL	**3 084**	**3 707**	**4 747**	**5 576**	**5 400**

* Definite account data of the budget of the Ministry of Agriculture and Rural Affairs for the years 2004, 2005 and 2006.
(1) Estimate
(2) Programme Target
(3) Payments are made for cotton, olive oil, sunflower, soybeans, canola and corn.
(4) Of 2004 payments, YTL 4 million was for sugar beet.

Council of Ministers No. 2006/11483, it was decided that producers would get support payments for the gasoline and fertilizer used for agriculture. Thus, the share of direct income payments within the total agricultural supports is expected to realize as 44 percent.

In 2007, supports were pursued 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. Besides, support payments to tea and cereal producers were continued.

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

	(Prices, YTL/Ton)			(Percentage Change)		
	2004	2005	2006	2004	2005	2006
1. Wheat (Bread) (1)	370	350	375	14,0	-5,5	7,1
2. Barley (White) (1)	264	248	265	22,8	-6,1	6,9
3. Corn (1) (2)	332	260	-	7,1	-21,7	-
4. Sugar Beet	99	106	90	11,4	6,7	-15,0
5. Nut	5 050	7 450	4 000	102,0	47,5	-46,3
6. Opium Capsule	1 680	1 750	1 850	12,0	4,2	5,7
7. Tea	460	515	570	15,0	12,0	10,7

* As most of the agricultural sales cooperatives and associations have adopted the advance payment application for the purchases; the products purchased by them don't exist in the table.
(1) Excluding support premiums
(2) The initial purchase price was not revealed in 2006.

TABLE: III. 20- Developments in Agricultural Crop Prices

	(Average Purchase Prices, YTL/Ton)			(Percentage Change)		
Crops	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**
1. Wheat	351	332	350	-0.6	-5.4	5.6
2. Barley	262	250	258	11.4	-4.6	3.3
3. Rye	218	235	241	-11.0	7.3	2.8
4. Corn	319	242	-	10.1	-24.1	-
5. Oat	-	247	258	-	-	4.4
6. Cotton (1)	906	775	843	-11.7	-14.4	8.8
7. Sugar beet	107	103	90	13.2	-4.0	-13.0
8. Sunflower	515	487	525	6.2	-5.5	7.9
9. Nut	5,037	7,187	3,953	93.4	42.7	-45.0
10. Dried fig	1,826	1,808	2,198	-6.6	-1.0	21.6
11. Seedless raisin	1,181	1,399	1,402	-16.9	18.5	0.2
12. Olive oil	3,579	5,758	4,449	-3.6	60.9	-22.7
13. Mohair (1)	2 871	3 094	3,920	61.5	7.8	26.7
14. Pistachio	6,590	9,602	5,375	250.3	45.7	-44.0
15. Soybean	405	315	490	-6.3	-35.6	55.5
16. Opium capsule	1,579	1,730	1,850	7.6	9.6	6.9
17. Rice	697	649	640	11.2	-7.0	-1.3
18. Cocoon (1)	3,011	2 478	612	-	-17.7	-75.3
19. Red pepper	2,504	3,200	3,806	-	27.8	18.9
20. Olive	2,405	2,323	2,169	68.3	-3.4	-6.6
21. Rose flower	2,125	2,110	1,266	5.7	-0.7	-40.0
22. Red lentil	550	-	605	-	-	-
23. Tea	460	515	570	15.0	12.0	10.7
24. Grape	224	215	273	3.9	-3.7	26.8
25. Dried apricot	3,180	1,932	-	23.2	-39.3	-
26. Seed raisin	-	707	-	-	-	-
27. Pistachio of Siirt	-	542	-	-	-	-
28. Haricot bean	-	1,337	-	-	-	-
29. Pea	-	1,289	-	-	-	-
30. Apricot	-	154	362	-	-	134.4
31. Peach	-	189	472	-	-	150.0

(1) Excluding support payments

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

(Current Prices, Thousand YTL)

	(Quantities Purchased, Thousand Tones)			Payments to Producers		
Crops	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**
1. Wheat	1,880	4,320	1,456	658,882	1,432,269	509,770
2. Barley	1	799	725	269	199,616	187,050
3. Rye	2	11	6	437	2,575	1,518
4. Corn	471	655	0	150,063	158,254	0
5. Oat	0	5	2	0	1,194	552
6. Cotton	405	260	264	366,647	201,767	222,992
7. Sugar beet (1)	9,528	9,603	6,688	1,022,827	989,409	599,589
8. Sunflower	468	530	491	240,978	257,966	257,835
9. Nuts*	15	51	202	76,308	366,485	799,273
10. Dried fig	6	5	6	11,638	9,643	12,917
11. Seedless raisin	71	41	37	83,244	57,205	52,316
12. Olive oil	11	16	11	40,430	89,699	50,578
13. Mohair	0	0.2	0.2	445	560	737
14. Pistachio	0	0.2	0.0	1,239	1,978	81
15. Soybean	9	9	15	4,309	2,753	7,526
16. Opium capsule	17	13	27	26,842	21,788	50,770
17. Rice	15	12	87	10,456	7,615	55,816
18. Cocoon	0	0.2	2.5	1,296	396	1,534
19. Red pepper	1	0	0	2,126	1,270	126
20. Olive	26	50	28	62,786	116,092	60,764
21. Rose flower	2	3	3	4,207	6,009	3,390
22. Red lentil	10	0	0	5,469	0	125
23. Tea	587	604	627	270,020	310,834	357,507
24. Grape	3	2	1	595	372	217
25. Dried apricot	0.1	0.5	0.0	372	1,002	0
26. Seed raisin	0	0	0	0	186	0
27. Pistachio of Siirt	0	0.3	0	0	179	0
28. Haricot bean	0	1	0	0	1,355	0
29. Pea	0	0	0	0	286	0
30. Apricot	0	0.4	0.2	0	59	59
31. Peach	0	0.5	0.3	0	93	154
TOTAL				3,041,885	4,238,910	3,233,194

* In 2006, both TMO and Fiskobirlik purchased nuts.

(1) Indicates the purchase value. 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 2008

For 2008, the ratio of the financial surplus of SEEs to GDP, including the SEEs within the privatisation portfolio, is programmed to be 0.36 percent. This financial 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 financial surplus, would face a deficit unless the assumed price increases for electricity are applied.

A law will be enacted concerning the principles of accountability, transparency, flexibility in decision-making processes and strategic management approach in SEEs.

Qualified personnel requirements of the SEEs would be met while the implication of measures aiming at decreasing the idle employment will be continued. Related legislations will be changed to overcome the problems in personnel recruitment and to provide hiring personnel at desired/demanded qualification.

Price adjustments for TEDAŞ in 2007 and 2008 were programmed in order to overcome the liquidity problems of energy SEEs, to make TEDAŞ's financial position sustainable, to finance its investments and also to run the market mechanism.

A policy favouring the industry customers will be followed in determining the energy prices, which have negative effects on production costs of the manufacturing industry. In this context this policy will be taken into account in TEDAS's price adjustments.

The theft and lost ratio in electricity distribution is targeted to realize as 13.5 percent by the end of 2008.

The tenders concerning the privatisation of electricity distribution areas are planned to start at the beginning of 2008.

It is planned to merge KIYEM and TDİ in order to stop wasting sources and to collect the similar works under one company.

Privatisation operations of highways and bridges are planned to finalize at the end of 2008.

For 2008, 900,000 tonnes of wheat, 9.1 million tonnes of sugar beet, 35,000 tonnes of tobacco and 613,000 tonnes of non-dried tea leaf are programmed to purchase.

To harmonize with the EU cereal common market organization, regulations on trade of cereal and rice will be issued by TMO.

To prevent the financial burden on the public stemming from nut stocks accruing in the future and to reach a sound and sustainable structure, a new nut strategy will be developed.

In 2008, the ratio of agricultural supports in the budget of Ministry of Agriculture and Rural Affairs to GDP is programmed to be 0.75 percent and the share of direct income payments within the agricultural supports is programmed to be 47 percent.

PART FOUR

DEVELOPMENT AXES

I. ENHANCING COMPETITIVENESS

Specialization in international markets and the capability of technology development have become the important elements of competitiveness in the process of globalization 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.

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 support entrepreneurship and innovation, increase productivity and decrease bureaucracy, and insufficiencies in the economic and technological infrastructure and the utilization of human resources.

As a result of leaving the chronic inflation period behind, through the realization of financial management reform and pursuing independent monetary policy, significant improvement has been obtained in ensuring the relative macroeconomic stability. Besides, reforms implemented during the EU accession process have contributed to ensuring a stable and reliable environment for producers and investors.

Turkey is outperforming Poland, Slovenia, Latvia and Lithuania, which are among 10 new members of EU in innovation and market efficiency indicators. In addition to large internal markets of our country, recent microeconomic reforms aimed at reducing bureaucracy contributed to this improvement.

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 competitiveness 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 innovation capability, diffusion of information and communication technologies, reduction of bureaucracy, making the agricultural infrastructure more efficient, and shift to high value-added production structure in industry and services has been continuing.

A. MAINTAINING MACROECONOMIC STABILITY

1. Current Outlook

As a result of decisive implementation of macroeconomic programs supported by International Monetary Fund since 2000, despite the deep economic crisis occurred in 2001, the confidence and stability climate which was very crucial for the decision-makers was established, a continuous growth performance were achieved, the inflation was reduced to a single digit levels and the sustainability of the debt stock was secured by keeping public deficits under control.

The implementation of fiscal, monetary and incomes policies in a coherent and corroborative way has played an important role in this remarkable success. In addition, implementing structural reforms and taking important steps in this direction in order to establish more efficient, flexible and productive economic structure contributed to making macroeconomic stability permanent. The decisive implementation of economic program along with stability established in the political arena played an important role in making macroeconomic stability permanent.

In this period, legal arrangements were made and their implementations were realized in many areas such as tax policy, banking, central banking, insurance, capital market, public financial management, local administrations, social security, social supports, health, energy, telecommunication, sugar, tobacco, agricultural subsidies, public procurements, public finance and debt management, duty losses, funds, special

revenue special allowance system, statistical institution, improvement of investment environment and expropriation.

Owing to the confidence and stability environment achieved in the economy Turkish economy entered a high and continuous growth period which is originated from the private sector.

Having implemented implicit inflation targeting regime since 2002 and then explicit inflation targeting regime since 2006, remarkable successes were achieved in the direction of maintaining price stability and inflation was reduced to the single-digit levels.

An improvement in the financing structure of the deficit, which has an increasing trend due to high growth rates realized in the economy, was realized and mainly foreign direct investment and long-term borrowing financed this deficit. Historical records were observed after privatization applications.

Maintaining primary surplus policy of the public sector, which is one of the most important elements of the fiscal policy, was pursued. Budget deficit, which had reached 16 percent of national income before 2000, was reduced to very low levels. In the period of 2000-2006, the ratio of public sector primary surplus to national income was realized as 5.63 percent. Excluding only interest payments, this ratio increases to 8.3 percent.

Due to the tight fiscal policy, interest rates were reduced, the maturities of the debt stock were extended, the ratio of net debt stock to national income was decreased to 40 percent levels and thus the sustainability of the debt stock was maintained.

Along with taking economic decisions and achieving important successes, social dimension has been taken into account; the salaries and wages of pensioners and low incomes groups were increased significantly, it was fought against poverty efficiently through various social aids and programs.

Thus, important steps were taken to improve the life quality of the people in Turkey with the help of macroeconomic stability.

2. Main Objectives and Targets

To establish a growth structure that led by the private sector, driven mainly by the external demand and aimed to increase investment, production and employment is of critical importance for the economy.

Expanding the capital stock of the economy, improving the skills of the labor as well as increasing total factor productivity will play important roles in maintaining the sustainable growth structure.

Public sector, by focusing on physical and social infrastructure, will make a contribution to enhance the productive capacity of the economy on the one hand and will promote private sector to shepherd on high value added production structure by affecting investment and production decisions of the private sector in the positive direction on the other.

Within the framework of an employment oriented growth structure, to create a labor market structure in which labor supply and demand conditions match properly, to transform the skills of the labor in accordance with changing conditions of the economy, and to reduce the burden on employment are essential.

To control current account deficits by means of reducing high dependency of production and export structure to import by transforming production and export structure is of critical importance.

In accordance with securing fiscal discipline, giving primary surplus policy of the public sector will be pursued. Thus, it will be possible to keep inflation rates at low levels and to control current account deficit by means of further reducing public debt stock to GNP ratio.

The main goal of the monetary policy is to establish and sustain price stability. In this context, it is projected, one the one hand, inflation targeting regime to be implemented and on the other hand short term interest rates be to be continued as the main policy tool of the Central Bank of Turkey.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Measures will be taken in order to sustain fiscal discipline.				
Measure 1.1. Fiscal rules will be designated in public financial management.	Ministry of Finance	SPO, Undersecretariat of Treasury, Ministry of Interior	End of December	In order to maintain achieved macroeconomic stability and fiscal discipline, legal base will be constituted by means of fiscal rules in public financial management.
Priority 2. Measures will be taken in order to use public sources effective and efficiently.				
Measure 2.1. Draft Prosecution Procedures of Government Cases Law will be constituted.	Ministry of Finance	Ministry of Justice	End of June	An arrangement which meets the needs stemmed from the government law services that intensified and varied in the national and international arena and that also enables to fulfill this services equitable, quick, effective and efficient will be done.
Measure 2.2. The use of vehicles in public institutions will be rearranged.	Ministry of Finance	Public Institutions	End of June	Problems in application and proposals to solve these problems will be determined, and a new Vehicle Law that is appropriate to the contemporary needs and requirements will be prepared in order to increase effectiveness, transparency and accountability in public expenditure management.
Measure 2.3. Public travel allowance system will be rearranged.	Ministry of Finance	Public Institutions	End of June	Problems in application and proposals to solve these problems will be determined, and a new Travel Allowance Law that is appropriate to the contemporary needs and requirements will be prepared in order to increase effectiveness, transparency and accountability in public expenditure management.
Measure 2.4. Revolving funds will be restructured.	Ministry of Finance	Public Institutions, which have revolving funds.	End of June	As required by the temporary eleventh article of the Law No. 5018, a legal arrangement will be done in order to restructure the revolving funds in public sector; in this framework these institutions' budget, accounting and audit system will be harmonized with the new public financial management system.

Priority 3. Efforts to constitute a simple, foreseeable, equitable and broad-based tax system will be continued.				
Measure 3.1. An arrangement will be done that restricts to make amendments only in the related tax law.	Ministry of Finance	Prime Ministry, SPO, Undersecretariat of Treasury	End of June	By means of an article which will be attached to the constitution, all arrangements regarding the taxes only could be done in the related tax law thus entireness of tax legislation and traceability will be protected.
Measure 3.2. Compliance with the EU acquis communitaire will be ensured in the taxation of alcohol and alcoholic beverages.	Ministry of Finance	SPO, TAPDK	End of June	In order to comply with EU acquis, alcohol and alcoholic beverages taxation criteria and rates will be regulated by cabinet decision.
Measure 3.3. Income tax system will be rearranged.	Ministry of Finance	SPO, Undersecretariat of Treasury, Revenue Administration, Tax Council, Occupational Chambers	End of June	In order to constitute effective and efficient tax system, Income Tax Law will be rewritten simply under the framework of the efforts compatible with the free market economy which aim to encourage sustainable development with increasing investments and employment, and increase the adaptation to tax and decrease the unregistered economy.
Priority 4. Measures will be taken in order to perform fiscal management, internal control and internal audit functions effectively.				
Measure 4.1. Central harmonization unit for internal audit will be established.	Ministry of Finance	Prime Ministry, SPO, Undersecretariat of Treasury, Ministry of Interior, Internal Audit Coordination Board.	End of June	Internal Audit Coordination Board attached to the Ministry of Finance will be reorganized as an independent and objective unit as it was expressed in the Law No. 5018 in order to improve and coordinate the public internal audit system.
Measure 4.2. Public Internal Financial Control Policy Paper will be put into force.	Ministry of Finance	SPO, Undersecretariat of Treasury	End of June	Current situation analysis, planned works to be done for the future will be determined in the field of internal financial control by means of a cabinet decision.
Priority 5. Accounting and audit standards will be improved.				
Measure 5.1. Compliance with the international accounting and audit standards will be ensured by means of giving international accreditation to the profession members.	Ministry of Finance	TÜRMOB	End of June	By means of the amendment on the Law No. 3568, some regulations will be made regarding the selection of profession members, training and constituting the bodies for professional associations, and thus, compliance with the international accounting and audit standards will be ensured and international accreditation to the profession members will be given.
Measure 5.2. Compliance with the international accounting and audit standards will be ensured.	Ministry of Finance	Related Public Institutions and Occupational Chambers	End of June	By means of a legal arrangement for enterprises, different audit methods and techniques applied in the field of independent external audit will be eliminated, compliance with the international accounting and audit standards will be ensured by producing single type financial table and performing external audit with the same standards all over the country. It will be ensured that the financial tables will be responsive to users' needs, true, reliable, transparent, stabilized, comparable, understandable, compatible with the international standards and respective to public benefits. To this end, legal arrangement will be done to establish the Turkish Accounting Standards Board and Turkish Audit Standards Board.

Priority 6. Accountability, transparency, flexibility in the decision-making process and strategic management perception will be the basis for the SEEs' operations.				
Measure 6.1. SEE Corporate Governance Law will be issued.	Undersecretariat of Treasury	SPO, ÖİB, CMB, SEEs	End of December	In the context of works commenced for public owned companies under the scope of YOİKK, a law will be issued so that accountability, transparency, flexibility in the decision-making process and strategic management perception will be the basis for their operations.
Measure 6.2. Public Procurement Law of Public Owned Companies and Companies Operating in Some Sectors will be issued.	Public Procurement Authority	Ministry of Finance, Ministry of Transport, Ministry of Environment and Forestry, Ministry of Energy and Natural Resources, public companies operating in sectors of water, energy, transportation and postal services	End of March	It is aimed that purchases made by public companies operating in sectors of water, energy, transportation and postal services, ignoring their legal status (public or private company) be made in harmony with EU legislation. Implementing Regulation of Public Procurement Law of Public Owned Companies and Companies Operating in Some Sectors will be issued just after the law is issued.
Priority 7. All corporate policies of SEEs, especially pricing, will be determined in line with the market conditions and implemented so as to attain the foreseen targets of the general investment and financial decrees.				
Measure 7.1. SEEs will report regularly its operational activities of which they will implement in accordance with the targets and principles set in the general investment and financial decrees.	SEEs	SPO, Undersecretariat of Treasury, ÖİB, EPDK, Ministries of related SEEs	Continuous during the year	Fail to comply with the targets set in the general investment and financial programme causes serious financing problems in SEEs. Therefore, all SEEs, primarily energy SEEs will make necessary price adjustments to meet its costs and investment needs in accordance with the general investment and financial programme. SEEs will report the implementation of this measure quarterly to the Treasury. The Treasury will be responsible for reporting as a whole.
Measure 7.2. The street lightening receivables of TEDAS will be paid regularly with an arrangement.	ÖİB	SPO, Undersecretariat of Treasury, Ministry of Finance, Ministry of Energy and Natural Resources, TEDAŞ	End of June	With this arrangement, consumers will pay the cost without placing any burden on TEDAŞ and the easing of the privatisation processes will be provided
Measure 7.3. An arrangement for automatic price adjustments of energy SEEs will be performed.	Ministry of Energy and Natural Resources	SPO, Undersecretariat of Treasury, EPDK, TKİ, BOTAŞ, EÜAŞ, TETAŞ, TEDAŞ	End of March	Existing price mechanism will be implemented in such a way that TEDAŞ and TETAŞ will be able to reflect its purchasing cost to their tariffs without intervention. Besides, a similar mechanism for EÜAŞ will be established. Necessary arrangements will be made for BOTAŞ and TKİ to set prices accordingly to their costs.
Measure 7.4. A reliable structure for credit/debt collections and cash flows among energy SEEs will be accomplished.	Undersecretariat of Treasury	SPO, Ministry of Energy and Natural Resources, EPDK, ÖİB, related SEEs	End of March	It will be accomplished that commitments among energy SEEs are fulfilled by making necessary price arrangements, performing a reliable price mechanism and solving collection problems sourced by not only street lightening but also other consumer groups.

Priority 8. An increase in the efficiency and profitability of SEEs will be achieved.				
Measure 8.1. PMUM costs will be reflected temporarily to the TEDAŞ sales prices.	Energy Market Regulatory Authority	SPO, Undersecretariat of Treasury, Ministry of Energy and Natural Resources, TEDAŞ	End of March	In order to decrease public losses to the minimum level because of a disorder in the energy market, an arrangement for reflecting PMUM costs partially or totally upon sales tariffs will be realized.
Priority 9. Legal status and organization structure of enterprises will be renewed according to changing conditions.				
Measure 9.1. An action plan will be prepared to reorganize administrative structure of DHMİ.	General Directorate of State Airports Authority (DHMİ)	SPO, Undersecretariat of Treasury, Ministry of Transport, State Personnel Agency	End of March	The role of DHMİ is limited with "auditing" and "supervision" activities after the privatisation process of airports. An action plan to reorganize administrative structure of the enterprise will be prepared in the scope of change of personnel titles to highlight enterprises' air traffic management duties and revision of main statute.
Measure 9.2. TDİ and KIYEM will be merged.	Ministry of Transport	SPO, Undersecretariat of Treasury, ÖİB	End of December	In order to use resources more efficiently and manage similar operations centrally, KIYEM and TDİ will be merged.
Measure 9.3. Turkish National Lottery Administration will be reorganized.	Turkish National Lottery Administration	Ministry of Finance, ÖİB	End of June	Turkish National Lottery Administration will be reorganized by the amendment in the Law to conform to the rules of contemporary management, time, labour force and rational working circumstances.
Priority 10. Agricultural product markets will be made to operate effectively.				
Measure 10.1. TMO Board of Directors will issue implementing regulations for both purchase and sale of cereal and rice.	General Directorate of TMO	SPO, Undersecretariat of Treasury, Undersecretariat for Foreign Trade, related stock-exchanges and associations	End of March	To harmonize with EU cereal common market organization, implementing regulations about both purchase and sale of cereal and rice will be issued by TMO.
Measure 10.2. A new strategy for nut will be developed.	Ministry of Agriculture and Rural Affairs	SPO, Undersecretariat of Treasury, Undersecretariat for Foreign Trade, TMO	End of September	With the purchasing of nut by TMO in 2006, nut stocks brought a high amount of financial burden to public. To prevent the financial burden born from nut stocks accruing in the future, a new strategy will be developed for nut.
Priority 11. Financial services for agriculture sector will be rationalized.				
Measure 11.1. Credit support provided to Agricultural Sales Cooperative and Associations will be rationalized.	Undersecretariat of Treasury	SPO, Undersecretariat for Foreign Trade, Ministry of Finance, Ministry of Industry and Trade, Ministry of Agriculture and Rural Affairs, Ziraat Bank, CBRT	End of September	Supporting Agricultural Sales Cooperative and Associations by "interest income loss model on banking system" instead of getting "direct credit" from Support and Price Stabilisation Fund is aimed. In this context, regulations should be made on related laws and decrees.

B. IMPROVING BUSINESS CLIMATE

1. Current Outlook

Recently, a significant progress has been recorded in improving the business climate and an escalation in investments has been accomplished with the realization of various regulations, primarily ensuring macroeconomic stability in Turkey.

Technical Committees, established under the Coordination Council for the Improvement of the Investment Environment (YOİKK), continue their activities according to their action plans which were revised in cooperation with public and private sector at the beginning of 2007. At the YOİKK Steering Committee, which meets monthly, the mutual issues are discussed, the developments in the action plans are evaluated and the problems raised are tried to be solved. Moreover, the Investment Advisory Council (YDK) chaired by the Prime Minister realized its regular annual meeting on June 11th, 2007 with the participation of the senior executives of twenty one multinational firms, international organizations, Turkish NGOs and public organizations and the relevant ministers. In the meeting, the previous year's investment environment practices were evaluated and suggestions were made about the issues to be focused in the upcoming period.

In 2007, by amending the implementing regulation on Opening a Business Place and Work License, several improvements are introduced regarding the sectoral licenses, such as the simplification of licensing, allocation of licenses based on declaration and the substitution of a favorable decision on environmental impact assessment (EIA) with site selection and facility establishment report for first class non-sanitary businesses. Also, with the amendment on the implementing regulation on Licensing of Mining Activities various enhancements are realized regarding the permits and the necessity of preparing a construction plan for temporary mining facilities in unplanned construction sites is abolished.

Agricultural Investors Guidance Center (TARYAT) was established as a branch of Ministry of Agriculture and Rural Affairs on January 14th, 2007, in order to supply information about agricultural investments and present guidance services to domestic and international investors.

Studies related to establishment of industry information system which enables the investors and other users in the markets to make more reasonable decisions by collecting, updating and presenting the data integrated, systematic and in the form of harmonized with each other will be continued.

In order to improve corporate governance in Turkey, "Corporate Governance in Turkey: OECD Pilot Study" aiming to determine the short and long term priorities and evaluate the position of Turkey under the framework of OECD's corporate governance principles, was completed in 2006.

In "OECD e-Government Studies Turkey" report prepared by OECD in coordination with Undersecretariat of State Planning Organization, maturity level of eight main public services for business prioritized by EU, is found to be 84 percent in Turkey whereas this rate is 81 percent on an average for ten new members participated to the EU in 2004.

TABLE:IV.2- Business Climate Indicators

	Starting a Business		Hiring- Firing Difficulty Index		Registering Property		Enforcing Contracts		Closing a Business	Paying Taxes	
	Procedures (Number)	Duration (Days)	Hiring	Firing	Procedures (Number)	Duration (Days)	Procedures (Number)	Duration (Days)	Duration (Years)	Procedures (Number)	Ratio to Gross Profit (%)
Turkey	6	6	56	30	6	6	36	420	3.3	15	45.1
OECD Average	6	14.9	25.2	27.9	4.9	28.0	31.3	443.3	1.3	15.1	46.2

Source: Worldbank, www.doingbusines.org, September 2007

According to World Bank's "Doing Business 2008" report, which is prepared annually to provide measures for business environment regulations and their enforcement, and to make comparisons across countries, Turkey was ranked 57 out of 178 countries in terms of ease of doing business. Compared to the report of 2007, besides general ranking, improvements are observed in Turkey's situation in the areas of starting a business, closing a business and paying taxes indicators.

However, during the start-up period, issues such as intensive bureaucracy, the ambiguity and redundancy of the permits, approvals and licenses are ongoing problems even though various arrangements are introduced. Moreover, the needs for efficient sectoral inspections, encouraging formalization, reducing labor costs by enlarging the tax payer's base, increasing efficiency by enhancing the labor force quality in accordance with the market requirements and improving insured elasticity in the labor market still exist.

Even though the Turkish competition legislation is largely in conformity with the EU legislation in terms of antitrust rules, for an efficient implementation of competition law, changes are called for in the legislation and the institutional structure in the light of the past practices and EU experience. Within the framework of a market share threshold of 40 per cent which has been introduced by the Amendment to the Communiqué No. 2002/2 on the Block Exemption Communiqué on Vertical Agreements, it is aimed that those undertakings with market power will be prevented from establishing contracts that create barriers to entry into the market. Within the scope of regulatory impact analysis in the legislation process, competition impact assessment will also be done while having economic impacts examined. On the other hand, there are deficiencies about introducing competition into state monopolies.

Intellectual property system is another area that affects enhancing the innovation capacity and competitiveness of the enterprises. In Turkey for 2006, the total number of filings is 5,165 for patents, 2,456 for utility models, 66,855 for trademarks and 29,484 for designs. For these figures, the rate of resident filings is 82 percent for trademarks, 96 percent for designs and 99 percent for utility models, however for patents it is about 20 percent. In patents, which are the indicators for the innovation and invention capacity of countries and critically important in the industrial property rights, the comparison of domestic patent filings with the other countries in the Table below. To this Table, it is observed that the patent system has not yet been

adequately understood and adopted by the society in spite of a historical experience for more than a century.

A patent incentive system has been implemented by TUBITAK and Turkish Patent Institute (TPI) for financial supporting the patent expenses so as to generalize to use of patent system. Establishment of a "Patent Evaluation Agency" with a view to determine the economic value of inventions and bring them into the industry is planned.

judicial procedure still exits. In addition, a common and accepted culture of intellectual property rights could not be formed at the society level.

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. Furthermore in terms of sectoral and regional

TABLE: IV. 3- Comparison of Patent Statistics (2005)

Countries	Resident patent filings	Resident patent filings per million population	Resident patent filings per $ billion GDP	Resident patent filings per $ million R&D Expenditures
USA	202,776	701.08	18.82	0.72
Japan	359,382	2,875.68	103.53	3.37
Belgium	533	50.90	1.78	0.09
Germany	47,537	586.37	22.38	0.91
Poland	2,028	53.14	4.31	0.77
Romania (1)	937	43.21	5.54	1.38
China	93,172	71.66	11.92	0.91
India	6,610	6.04	1.97	0.25
Turkey	895(2)	7.94	1.07	0.17

Source: WIPO Patent Report: Statistics on Worldwide Patent Activities (2007)
(1) 2004 data
(2) TPI

In the intellectual property system, it is observed that the problems still exist in terms of enforcement, although considerable progress has been made in the legal and institutional infrastructure. The present administrative structure for copyright and related rights could not yet be turned into a more effective and efficient institution. The need for fostering

developments, improvement of the incentive system is needed.

In the process of harmonization with EU legislation, a draft law to construct a framework for, monitor and evaluate the state aids should be put into force.

SME support programs in Turkey, when compared to practices in EU and other developed countries, are not at the level of meeting the needs of enterprises. In addition to this, lack of source and insufficiency of institutional capacities constitute an important barrier for achieving concrete results from programs in short or medium term. In order to increase effectiveness of SME support programs and prevent duplications, it is necessary to increase coordination among institutions and transform supports to an integrated structure.

In order to increase SMEs' access to finance and their utilization rate of bank credits, various credit programs are implemented by particularly Halkbank and KOSGEB with supports of related institutions. In this respect, KOSGEB ensures that credits with no interest are allocated to SMEs by providing interest support since 2003. Information about supports provided by Halkbank and KOSGEB are shown in the tables below.

In our country start-up and risk capital system and credit guarantee support are not sufficient in terms of source and operation. Capital amount of Credit Guarantee Fund Corporation (KGF A.S.), which was established to be solution for guarantee problems of SMEs in taking bank credits, has been increased to YTL 20 million from YTL 50 thousand. Despite the fact that this is a positive development for increasing the source and effectiveness of credit guarantee system, the need for developing and extending credit guarantee mechanism is observed from the low number of SMEs to which credits are provided.

TABLE: IV. 4- Credits of Halkbank

(Million YTL)

SME Credits	2006	2007(1)
Commercial Credits	913	1,222
Entrepreneur Credits	2,678	2,703
Tradesman Credit	2,637	4,025
Total	6,228	7,950

Source: Halkbank
(1) 6 months

TABLE: IV. 6- Credit Support Information of KGF A.Ş.

(Thousand YTL)

Year	Number of Enterprises	Credit Amount
2004	253	42,100
2005	235	41,800
2006	258	51,087
2007(1)	200	17,404

Source: Operating Report of KGF A.S 2006, KOSGEB
(1) 8 months

TABLE:IV. 5- Credit Support of KOSGEB

(Million YTL)

Year	Number of Enterprises	Credit Amount (1)	Cost of the Credit Support for KOSGEB
2004	2,864	275	31
2005	3,755	413	19
2006	2,697	295	16
2007(2)	6,077	622	61
Total	15,953	1,651	135

Source: KOSGEB
(1) Allocated by Halkbank, Ziraat Bank and Vakıflar Bank
(2) 8 months

2. Main Objectives and Targets

The basic objective is to improve the business environment by ensuring a competitive structure. In this context, it is aimed to create a business climate where modern technology is internalized and used accurately, investors have easy access to the financial markets, intellectual property rights are protected, enterprises can compete in fair conditions, input costs are minimized, state aids are effective, bureaucracy is simplified and companies are promoted with high entrepreneurship capability, enhanced infrastructure, productivity awareness and widespread institutionalization.

With the contribution of gradually increasing awareness of the significance of information and communication technologies in all enterprises, especially in SMEs; modern business applications along with computer ownership, access to internet and e-commerce will be made widespread.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Financial instruments will be diversified; accession of enterprises, particularly SME's, to financial resources will be facilitated.				
Measure 1.1. Improvement and extension of credit guarantee system will be ensured.	KOSGEB	SPO, TOBB	End of December	KOSGEB will ensure that two new credit guarantee fund corporation will be established. Necessary coordination and cooperation activities will be held in order to make banks, chambers, stock exchanges and other related institutions partners of the new credit guarantee fund companies. KOSGEB will participate in these companies by giving YTL 10 million. Moreover, capital of the existing Credit Guarantee Fund Corporation will be increased and it will be extended by opening new branches. Consequently, it is aimed to increase guarantee amount provided by KGF A.Ş. and the number of enterprises that it provides guarantee.
Priority 2. Efforts to reduce bureaucracy and simplify the procedures with a view to improve business environment will be continued.				
Measure 2.1. Within YOİKK Framework, duty implementation of scheduled action plans, which are prepared by Technical Committees, by charged institutions will be monitored.	Undersecretariat of Treasury	Related Public Institutions, NGOs	End of December	Issues in the action plans of the Technical Committees, which were established within the framework of the reform program for the improvement of the investment environment, will be finalized in the designated time by the institutions in charge.
Measure 2.2. Single Point Information Portal will be established.	Ministry of Industry and Trade	Ministry of Transport, Undersecretariat for Foreign Trade, Turkish Employment Organization, KOSGEB, TOBB, The Confederation of Turkish Tradesmen and Handicrafts, Related Public Institutions and Organizations	End of December	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.

Measure 2.3. Preparation of the national investment support and promotion strategy will be finalized.	Investment Support and Promotion Agency	Related Institutions and Organizations	End of June	Within the framework of Development Plan and Annual Programs, investment support and promotion strategy will be prepared to encourage investing in Turkey.
Priority 3. Work to construct an efficient state aid system which comply with EU acquis will be continued.				
Measure 3.1. Law on framework, monitoring and evaluating of the state aids will be enacted.	SPO	Prime Ministry	End of March	In order to meet Turkey's commitments to EU, draft law aiming at constructing the framework, monitoring and evaluating the state aids will be put into effect.
Measure 3.2. Cabinet of Ministers will be authorized to arrange incentives concerning tax exemptions and free land allocations.	Undersecretariat of Treasury	Ministry of Finance, SPO	End of March	Amendment of Law to give the authorization to Cabinet of Ministers about the incentives concerning regional, sectoral and/or tax exemption and free land allocation components of investment aids depending on the amount of the investment will be made and these incentives will be re-arranged by considering EU rules.
Priority 4. Based on corporate governance principles, widespread use of institutionalization in enterprises will be encouraged and thus access to financial opportunities in a more convenient conditions will be provided.				
Measure 4.1. Institutionalization of SMEs and their adoption of good governance principles will be ensured and SMEs will be supported during the process of harmonization with Basel II.	KOSGEB	CMB ,TOBB, Commercial Banks	End of December	It is aimed that enterprises will reach to modern management concept and structure and harmonize with Basel II. For this purpose, informing, training and consultancy services will be provided.
Priority 5. In securing the efficiency of the intellectual property system; institutional capacity will be strengthened, efficient cooperation and coordination among the institutions will be provided, common and accepted culture of intellectual property rights at the society level will be formed.				
Measure 5.1. A Coordination Committee will be established for the enforcement of intellectual property rights.	Turkish Patent Institute	Ministry of Industry and Trade, Ministry of Culture and Tourism, Ministry of Justice, Ministry of Interior, SPO, Undersecretariat of Customs, UFT	End of March	It is targeted to establish a Coordination Committee which is formed by the representatives of high level decision-makers to settle short, medium and long term strategies which will be followed for the enforcement of intellectual property rights, to increase the enforcement efficiency and to provide the cooperation and coordination among the related institutions by a Prime Ministerial Circular.
Measure 5.2. Amending Laws on Patent and Utility Model, Industrial Designs, Trademarks and Integrated Circuits will be enacted.	Turkish Patent Institute	Ministry of Industry and Trade, Ministry of Justice	End of September	It is aimed to update and change the industrial property legislation for harmonizing the EU legislation, international developments and for removing difficulties arising from domestic implementations.
Measure 5.3. The Law on Turkish Patent Authority will be enacted.	Turkish Patent Institute	Ministry of Industry and Trade	End of September	The aim of the Authority is to have more effective and efficient organizational structure; to enhance its institutional capacity and to arrange the patent and trademark attorneys. Besides, the Patent Academy will be established to introduce vocational training on industrial property issues to the TPI staff, to foreign officers and patent attorneys. The Academy will also introduce the training to the business and the related parties and cooperate with the universities and the other research institutions on the educational issues.

Measure 5.4. The Law on Establishing of Patent Evaluation Agency will be enacted.	Turkish Patent Institute	Ministry of Industry and Trade	End of September	The Patent Evaluation Agency will be established to assist the determination of the economic value of patents; to bring the inventors and businessman together and to support them in innovation procedure.
Measure 5.5. A pilot technology transfer office will be created in Gazi University.	Turkish Patent Institute	Gazi University	End of June	It is aimed that a pilot implementation will begin to construct a model of effective benefiting from the industrial property rights for technology transfer offices to be established in the universities.
Measure 5.6. The related unit, which is carried on copyright issues, of the Ministry of Culture and Tourism will be transformed to the effective institutional structure.	Ministry of Culture and Tourism	SPO	End of December	The legislation and policies of the copyrights and related rights are implemented by the Department of Copyright of the General Directorate of the Copyright and Cinema in the Ministry of Culture and Tourism. This institutional structure lessens the efficiency of enforcement which is related to protection of rights, auditing and litigation in contemporary standards. For this reason, the Department of Copyrights is required to be transformed to a specialized and technically facilitated institutional structure for enhancing the capacity building, for raising the enforcement to the international standards and for realizing an effective coordination.
Priority 6. Deterrent remedies will be implemented to tackle practices preventing, distorting or restricting competition, transparency will be ensured in the remedy process, and activities to advocate competition will be continued.				
Measure 6.1. Important competition infringements which distort efficiency in the markets for goods and services should be primarily and effectively investigated.	Competition Authority	Related Institutions	End of June	Amendments will be made in the Law No. 4054 on The Protection of Competition and secondary legislation.
Priority 7. Industrial information system will be established.				
Measure 7.1. Industry 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	End of December	In the first place, by using the existing data in the related intuitions and collecting necessary additional data, to present the regular statistics for the data on the capacity, production, foreign trade, electricity and natural gas consumption, employment and turnover information based on sector, product and provinces, establishment of information system is aimed. Ongoing Industry Information System Project with partnership of SPO, TURKSTAT and TOBB will be completed with the technical coordination of TURKSTAT.

C. 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 in the previous years, 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 informality.

Studies on informal economy in Turkey show that the dimension of this problem is high compared to those of developed economies. Increasing informal activities result in the creation of unfair competition among individuals and enterprises, deterioration of income distribution, and decrease in the voluntary adaptation of taxpayers to 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 initially creates a competitive advantage for enterprises, it blocks the institutionalization of the enterprises and reaching larger scales. Moreover, the increasing tax burden on inputs actually creates a disadvantage in terms of international competition when the economy is considered as a whole.

In recent years, 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 provision of incentives towards increasing employment in underdeveloped provinces have been put in place. Although these regulations contributed to the formation of an infrastructure in the field of combating against informal economy, the dimension of informal economy could not be reduced at a desirable level.

Macroeconomic stability 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 framework of combating informality, the following measures were taken:

Large Taxpayers Unit, which has been founded in order to serve to the taxpayers paying a considerable share of the taxes in a different manner and to monitor them, has been activated in 2007.

Implementation of marker in fuel products and mounting of payment recording devices to fuel oil pumps have been started. Efforts to establish labeled monitoring system regarding alcoholic beverages and cigarettes have been completed and put into practice.

Under the scope of Project Towards Combating Unregistered Employment (KADİM); Coordination Board of Combating Unregistered Employment have been founded

under the body of Ministry of Labor and Social Security Strategy Development Department, booklets and posters have been distributed, Board of Coordination for Combating Unregistered Employment have held meetings, Meeting of Assistant Governors responsible for Combating Unregistered Employment have been held on February 26, 2007 through participation of assistant governors of all 81 provinces, trainings have been delivered to 75,700 participants during the period of October 2006 and July 2007, Turkish and English versions of the project documents has been prepared and distributed in order to gain recognition nationwide and worldwide.

Under the scope of KADİM Project, 103,176 enterprises and 548,032 workers have been supervised during the period of October 2006 and July 2007. As the result of the supervisions, 35,961 workers, of which 243 are illegal foreign workers, have been determined to work informally.

Beyond the aforementioned projects and practices put in place under the scope of the combat against informality; 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.

2. Main Objectives and Targets

Accelerating the process of transition to formal economy is the primary goal, which contributes to the aim of increasing the competitiveness of the economy and providing a sound structure of public finance.

Making the acceleration of the process of transition to formal economy a state policy through 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 through decreasing the financial and social burdens on employment as well as considering the constraint of public finance and providing an effective coordination among public institutions are the main targets.

Besides, it is planned to carry on the trainings delivered under the scope of KADİM Project, emphasize on the utilization of visual media so as to increase the recognition of the project, intensify the supervisions regarding the construction, tourism and service sectors, where there is intensive unregistered employment and come up with a more effective collaboration among the institutions regarding the fight against informal economy.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. A strategy will be determined in order to reduce informal economy.				
Measure 1.1. Through the contribution of all parties, a strategy to combat with informal economy will be formed.	Revenue Administration	SPO, Undersecretariat of Treasury, Undersecretariat of Customs, Ministry of Finance, Ministry of Labour and Social Security, SGK, EPDK, TPDK, BRSA	End of June	An analysis introducing the reasons, consequences and dimensions of informal economy in an integrated manner will be carried out (End of March). Proposals of solution towards elimination of those reasons will be developed and the strategy to combat with informal economy will be prepared through determination of a schedule to take the steps put forward as well as their performance indicators.

Priority 2. Coordination among public institutions will be improved to reduce informal economy and unregistered employment.				
Measure 2.1. Effective collaboration and coordination among the institutions will be provided towards the prevention of unregistered employment	Ministry of Labour and Social Security	Undersecretariat of Customs, Ministry of Finance, Ministry of Interior, Revenue Administration, SGK, Professional Institutions, NGOs	End of June	"Joint Action Protocol" will be signed in order to prevent unregistered employment through improvement of collaboration among institutions as well as maintenance of uniqueness within the framework of the regulations of the institutions regarding unregistered employment and employment of foreign illegal workers.
Priority 3. Activities will be organized to encourage people to take part in the formal economy and to describe the damages of informal economy.				
Measure 3.1. Within the framework of KADIM Project, informative and educational activities regarding unregistered employment will be organized.	Ministry of Labour and Social Security	Undersecretariat of Customs, Ministry of Finance, Revenue Administration, SGK, Professional Institutions, NGOs	Continuous through the year	Information campaigns and television programs will be organized, booklets will be delivered and lectures will be given to describe the damages of informal economy in the framework of KADİM Project.
Priority 4. Implementations to strengthen and activate the supervisory dimension of the combat with informal economy will be put into practice and the necessary legal arrangements will be made.				
Measure 4.1. Collaboration among institutions will be provided regarding the supervisory dimension of the combat with unregistered employment.	Ministry of Labour and Social Security	Undersecretariat of Treasury, Revenue Administration, Social Security Institution, BRSA	End of September	Legal arrangements will be made regarding the payment of worker's salaries via banks and sharing the information related to those payments among banks and the relevant public institutions. Thereby, controls regarding the enrolment status of the workers and short entries will have been facilitated.
Measure 4.2. Illegal worker call center will be established so as to make notifications easily and on time.	Ministry of Labour and Social Security	Social Security Institution, Telecommunication Institution	End of June	In order to prevent workers' losses of social security rights, to provide the individuals with the opportunity to make notifications shortly and easily as well as get the results in a short time and to perform the audits in a timely manner, illegal worker call center will be established.
Measure 4.3. The enterprises employing illegal workers will be enjoined from participating in public tenders for a certain period.	Ministry of Labour and Social Security	Public Procurement Authority	End of September	Changes will be made in the Public Procurement Law No. 4734 towards the aim of the combat with unregistered employment. The employer, employing unregistered workers, if this is a legal personality, the legal personality itself as well as the partners and the companies at which those partners have a share, will not be able to participate in public tenders for 5 years.
Measure 4.4. Changes will be made in the Identity Notification Law No. 1774 in order to facilitate the combat with unregistered employment.	Ministry of Labour and Social Security	Ministry of Interior	End of December	Through the change in Identity Notification Law, computer terminals that can be controlled from provinces will be established in the stations of general law-enforcement officers. The data belonging to the workers at all types of commercial and craft job-sites, especially at hotels, private healthcare institutions and vacation villages will be cross-checked with the data available at insurance directorates and it will be possible to cover the unregistered employees at those job-sites under the social security system.

Measure 4.5. Computer Based Audit and Risk Analysis Center will be established.	Revenue Administration		End of June	Within the scope of increasing the efficiency of the audits, Computer Based Audit and Risk Analysis Center will be established.
Priority 5. An effective struggle will be carried out against smuggling and laundering of crime revenues.				
Measure 5.1. Vehicle Identity Unit System Project will be put into practice.	Revenue Administration	Ministry of Industry and Trade	End of March	Through this project, it is aimed to make fuel stations draw up documents to the real owners and prevent informality in the fuel sector.
Measure 5.2. Secondary regulations aiming to prevent laundering of crime revenues and financing of terror will be implemented.	Ministry of Finance	Undersecretariat of Treasury, Undersecretariat of Customs, Ministry of Foreign Affairs, Ministry of Interior, Ministry of Justice, CBRT, BRSA, CMB, Revenue Administration, BAT, Participation Banks Association of Turkey, TSPAKB, Association of the Insurance and Reinsurance Companies of Turkey	End of March	Regarding the prevention of laundering of crime revenues and financing of terror, an implementing regulation will be issued so as to make the liables form systems on education, internal audit, internal control and risk management, appoint harmonization officer and take the other necessary precautions. Besides, a communiqué on Identity Determination and on Queer Transaction will be issued.

D. DEVELOPING THE FINANCIAL SYSTEM

1. Current Outlook

The total assets of the institutions operating in the financial sector realized as YTL 568.2 by the end of 2006. This aggregate, in terms of USD, has reached to the level of USD 402.1 billion. Banking sector accounts for 87.8 per cent of the financial sector. As of the end of 2006, the share of the asset size of the financial sector in GNP has realized at the level of 98.6 per cent. The share of the insurance and pensions in the financial sector, despite the increase in the funds that pension companies manage, has been at a relatively low level of 3.8 per cent. Another important aggregate in the financial sector is observed in mutual funds. Institutions which are either substitute or complimentary for banks in credit markets such as leasing companies, factoring and consumer finance companies continue in their operations at relatively low sector shares. The share of the public banks including special purpose development and investment banks is 27.1 percent.

Banking

As of October 2007, 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. While the number of banks didn't change compared to the end of 2006, the number of branches and personnel increased in parallel to the growth trend in balance sheet aggregates and transaction volumes that become distinctive in recent years. In this context, the number of branches increased from 7,296 to 7,654 and the number of personnel increased from 150,793 to 156,746 during the period of December 2006-July 2007.

TABLE: IV. 7- Financial Sector Asset Size (2006)

	Million YTL	Million USD	Shares in Sector (In Percent)	Ratios to GDP (In Percent)	Number of Firms
Banks	**498,596**	**352,838**	**87.8**	**86.5**	**50**
Public Banks (1)	154,047	109,014	27.1	26.7	7
Private Banks	330,810	234,102	58.2	57.4	39
Participation Banks	13,739	9,723	2.4	2.4	4
Insurance and Pensions	**21,426**	**15,162**	**3.8**	**3.7**	**53**
Insurance	17,479	12,369	3.1	3.0	41
Pension Companies (2)	2,815	1,992	0.5	0.5	11
Reassurance	1,132	801	0.2	0.2	1
Financial Leasing Companies	**9,968**	**7,054**	**1.8**	**1.7**	**81**
Factoring	**6,332**	**4,481**	**1.1**	**1.1**	**87**
Consumer Finance Companies	**3,384**	**2,395**	**0.6**	**0.6**	**9**
Authorized Institutions (3)	**508**	**360**	**0.1**	**0.1**	**761**
Authorized Individual Lenders (4)	**70**	**50**	**0.0**	**0.0**	**33**
Financial Intermediaries	**2,734**	**1,935**	**0.5**	**0.5**	**100**
Investment Trusts	**3,148**	**2,228**	**0.6**	**0.5**	**43**
Real Estate Investment Trusts	2,481	1,756	0.4	0.4	11
Mutual Funds	**22,012**	**15,577**	**3.9**	**3.8**	**289**
Type A	832	588	0.1	0.1	126
Type B	21,180	14,988	3.7	3.7	163
Total (5)	**568,179**	**402,079**	**100.0**	**98.6**	**712**

Source: BRSA, CMB, ISE, Treasury, TSPAKB, BAT
(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) Aggregates are given as the value of the paid-in capital as of the end of 2005.
(4) Aggregates are available as the value of the total capital.
(5) Total number of firms are given by excluding the data for those of authorized institutions and authorized individual lenders.

In the first half of 2007, while the share of private deposit banks in total assets decreased from 53.2 percent to 53.1 percent and the share of public deposit banks decreased from 28.9 percent to 28.6 percent, the share of participation banks rose from 2.8 percent to 3.1 percent and the share of development and investment banks rose from 3.1 percent to 3.2 percent. The prevalence of macro economic stability, beginning of the negotiations with EU, Turkish banking sector being open to many new financial products and having 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 in 2005 to 12.1 percent in the first half of 2007. Total foreign stake in the sector reached to 22.5 percent excluding the shares in ISE and 39.4 percent including the shares in ISE as of June

2007. There hasn't been a significant change in the concentration of the banking sector in the first half of 2007. As of June 2007, the share of the 5 largest banks in the sector maintain its 2006 level which was 60.9 percent, while the share of the 10 largest banks decreased from 83.5 percent to 83 percent.

When the final balance sheets of the banks -excluding participation banks- as of June 2007 are analyzed, it is observed that the total assets of the Turkish banking sector reached to YTL 516 billion with a 6.4 percent increase in terms of domestic currency and increased to USD 392.5 billion with a 14.4 percent rise in US dollar terms as of the first half of 2007 compared to the end of 2006. In the same period, the ratio of banking sector assets to GDP considered as an indicator of banking sector progress, rose from 84.1 percent to 84.3 percent. It is observed that while the growth in banking sector assets has been continuing, the growth trend slowed compared to previous years.

The growth trend in banking sector credits has slowed, however the increase in credits has continued also in 2007. Especially the increase in consumer loans and working capital loans led to the rise of the banking sector credit volume in the first half of 2007, from YTL 218.1 billion to YTL 243.6 billion with a 11.7 percent rise. When the users of the credits are analyzed, it is seen that during the period December 2006 and July 2007 SME loans has increased by 15.7 percent from YTL 56.4 billions to YTL 65.3 billion, consumer credits and credit cards has increased by 15 percent from YTL 67.7 billion to YTL 77.8 billion and other commercial loans has increased by 7.2 percent from YTL 85.6 billion to YTL 91.7 billion. Thereby, the share of credits in total assets, which was 38.9 percent in 2005 and 45 percent in 2006, has reached to 47.2 percent by the end of the first half of 2007. In parallel with these developments, the ratio of banking sector credits to GDP which was 31.4 percent in 2005 and 37.8 percent in 2006, has increased to 39.8 percent by the end of the first half of 2007. These developments indicate that Turkish banking sector has greater opportunity to provide financing to productive sectors of the economy. According to banking groups, investment and development banks and private banks transfer greater portion of their resources as credits. In this context, while the share of credits in total assets is 61.7 percent in investment and development banks and 50.4 percent in private banks, this ratio is lower in public banks with 34.6 percent because of the high share of government bonds in their portfolio.

After the fall of the share of securities portfolio since 2004, which constitutes an important portion in uses of bank resources after 1990s, the share didn't change much in the first half of 2007. The ratio of securities portfolio, mainly composed of Treasury bills and government bonds, to total assets decreased from 34.7 percent in 2006 to 33.8 percent in June 2007 by the effect of the growth of the credit portfolio. As of June 2007, the ratio of securities portfolio to total assets was 48.8 percent in public banks, 30.9 percent in private banks, 17.2 percent in foreign banks and 12.5 percent in development and investment banks.

It is seen that the fall in the ratio of non-performing loans to total loans in recent years stopped in 2007, with the help of the revival in economic activity, the rise in credit volume and the debt restructuring practices. This ratio which decreased by 1.1 points in 2006 compared to the previous year to 3.8 percent, became 3.7 percent in June 2007.

TABLE: IV. 8– Selected Aggregates of the Banking Sector Balance Sheet (1)

	2004	2005	2006	June 2007
Basic Aggregates (Billions of YTL)				
Total Assets	306.5	397.0	484.9	516.0
Credits	103.2	153.1	218.1	243.6
Deposits	197.4	253.6	312.8	331.8
Performance Indicators (In Percent)				
Net Profit (Billions of YTL)	6.5	5.7	11.0	7.9
Return on Assets	2.1	1.4	2.3	1.5
Return on Equity	14.0	10.6	18.9	12.2
Credit / Deposit	52.3	60.4	69.7	73.4
Risk Indicators (In Percent)				
Capital Adequacy Ratio	28.8	24.2	22.0	18.8
Balance Sheet FX Position (Billions of USD)	-1.4	-1.9	-5.5	-7.7
Net General FX Position (Billions of USD)	-0.1	-0.1	0.2	-0.6
Non-Performing Loans (NPL) / Credits	6.2	4.9	3.8	3.7
NPL (Net) / Credits	0.7	0.5	0.3	0.4
Securities Portfolio / Total Assets	40.4	36.0	34.7	33.8

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

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 6.1 percent from YTL 312.8 billion to YTL 331.8 billion as of June 2007 compared to the end of 2006. In this period, YTL deposits increased by 8.5 percent and USD value of FX deposits increased by 14 percent. Since the rise in YTL value of FX deposits become limited with 2.1 percent because of the depreciation in USD, the share of FX deposits in total deposits fall from 38.4 percent to 36.9 percent. In the same period, the share of deposits in total banking sector liabilities didn't change much and this ratio which was 64.5 percent in 2006 become 64.3 percent in the first half of 2007. Although funds received from abroad, which increased significantly in recent years and became an important source of financing for the sector, rose also in 2007, growth rate of these funds fall in 2007 compared to previous years. As a matter of fact, "Funds Borrowed", which was composed of mainly funds borrowed from abroad, rose by 9 percent in US dollar terms and 0.9 percent in YTL terms and reached to YTL 57.4 billion. The share of "Funds Borrowed" in total liabilities, which was 11.7 percent in 2006 decreased to 11.1 percent in June 2007.

The upward trend in the ratio of credits to deposits since 2002, continued also in 2007. The ratio of credits to deposits, which was 60.4 percent in 2005 and 69.7 percent in 2006, became 73.4 percent in June 2007. When

analyzed on the basis of bank groups, this ratio is observed to be 81.6 percent for private banks, 44.1 percent for public banks, and 99.5 percent for foreign banks.

The rise in the risk weighted assets as a result of the rapid expansion of the credits, led to a decrease in capital adequacy ratios in recent years. In 2006, there was a fall in capital adequacy ratio as a result of the rise in interest rates during the financial turmoil in May-June besides the increase in risk weighted assets. The capital adequacy ratio of the sector fell also in the first half of 2007 and decreased from 22 percent at the end of 2006 to 18.8 percent. When the situation is analyzed in reference to the bank groups, it is observed that the capital adequacy ratio of the public banks is higher than the other groups of banks because of the high weight of government bonds in their portfolio and the same ratio of development and investment banks is higher than the other groups because of their balance sheet structure. In this context, the capital adequacy ratio is 20.3 percent for the public banks, 68.5 percent for development and investment banks, 16.2 percent for the private banks and 15.8 percent for the foreign banks as of June 2007.

As of June 2007, balance sheet FX open position of banking sector increased approximately by USD 2.2 billion from USD 5.5 billion to USD 7.7 billion. Although balance sheet open position increased in this period, it is observed that FX open position was balanced by off-balance sheet operations to a large extent. With the help of off-balance sheet operations, net general FX open position which was USD 184 million at the end of 2006, became USD 618 million by the first half of 2007. Thus, foreign exchange risk resulting from this open position can be regarded as manageable.

Turkish banking sector's profitability continued to increase in the first half of 2007. In the first half of the year compared to the same period of the previous year, the net profit of the banking sector rose by 57.7 percent from YTL 5 billion to YTL 7.9 billion. The increase in profits led to an upturn in return on assets and return on equity. In this context, return on asset which was 1.1 percent in the first half of 2006 rose to 1.5 percent in the first half of 2007 and return on equity rose from 9.8 percent to 12.2 percent in the same period. Interest income from credits and securities, banking services income and the income obtained from the sale of assets were effective factors in the profitability performance in the first half of 2007. While the share of revenues obtained from credits and banking services within the total revenues of the sector have increased, the share of revenues obtained from the securities portfolio within the total revenues have declined since 2002. 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.

When the balance sheets of participation banks are analyzed, it is observed that their total assets rose by 22.2 percent to YTL 16.8 billion in the first half of 2007 compared to the end of the previous year. In the same period, the loans of participation banks increased by 35.4 percent to YTL 12.6 billion, while the funds collected by these banks increased by 15.2 percent to YTL 12.8 billion. As a result of the big increase in the loans given by these banks, the ratio of loans to funds collected which was 83.6 percent in 2006, rose to 98.3 percent in the first half of 2007. The capital adequacy ratio of participation banks decreased from 16.5 percent to 16 percent in the same period.

TABLO: IV. 9- Comparison of the Indicators of the Turkish and EU Banking Sectors (2006) (1)

(In Percent)

	Assets / GDP	Credits / GDP	Deposits / GDP	Credits / Deposits	NPL / Credits (1)	Capital Adequacy Ratio	Return on Assets	Return on Equity
Germany	308.5	132.2	119.5	111.1	4.0	12.2	0.5	9.0
Austria	306.2	135.5	104.5	129.7	2.6	12.8	0.7	13.6
Belgium	357.2	123.7	148.4	83.3	1.8	12.0	1.1	17.7
Denmark	373.5	203.2	70.1	289.8	0.4	13.8	1.0	17.1
Finland	152.7	78.7	53.4	147.4	0.3	15.0	1.0	10.6
France	319.7	105.3	79.2	133.0	3.2	11.4	0.6	11.9
Netherlands	354.8	196.0	150.3	130.4	1.0	11.7	0.4	15.9
UK	506.3	162.2	143.2	113.3	0.9	12.9	0.5	8.9
Ireland	674.8	230.0	165.1	139.3	0.7	13.6	1.4	21.8
Spain	257.7	164.1	135.3	121.3	0.6	11.9	1.0	19.9
Sweden	255.9	132.1	59.7	221.4	0.5	7.1	1.0	18.6
Italy	189.3	96.5	63.1	152.8	5.3	10.7	0.8	11.5
Luxembourg	2 539.9	482.3	871.7	55.3	0.2	14.8	0.9	55.6
Portugal	255.9	148.8	114.1	130.4	1.3	10.9	1.0	15.6
Greece	161.4	85.7	108.1	79.3	5.5	12.3	1.2	21.7
EU-15 (2)	334.7	136.7	111.7	122.4	1.9	12.2	0.9	18.0
Czech Republic	100.7	45.3	68.0	66.6	4.1	11.4	1.2	19.4
Hungary	104.3	62.6	52.4	119.5	2.5	11.3	1.9	24.3
Poland	69.8	35.5	44.8	79.3	9.4	14.0	2.1	21.0
Turkey	84.1	37.8	54.3	69.7	3.7	22.0	2.3	18.9

Source: ECB Report on EU Banking Structure, October 2007; Global Financial Stability Report, September 2007; BAT; TURKSTAT
(1) The most recent available data were given for the indicators that don't have 2006 year end data.
(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 the basic ratios that indicate sectors' depth and development such as assets/GDP, deposits/GDP, credits/GDP and credits/deposits in recent years, these ratios are still lower than the EU averages. Although capital adequacy ratio of the Turkish banking sector has been decreasing in recent years, this ratio is higher than those of the EU countries as of 2006. The profitability ratios of the sector is higher than those of EU countries' and this situation is one of the factors that accelerate the foreign entrance to the sector.

Regarding the management, restructuring, sale, liquidation of banks transferred to SDIF and the follow-up and collection of their receivables; USD 1.4 billion collections were made in the first half of 2007 and the cumulative collection reached a total of USD 15.3 billion as of June 2007. From this cumulative collection, USD 7.5 billion to Treasury, USD 1.4 billion to Central Bank and USD 6.3 billion to other institutions like Ministry of Finance and Social Security Institution were paid. Furthermore, deposit insurance operation reserve reached to USD 2.6 billion as of June 2007.

Regarding regulations in the banking sector; an important step was taken regarding the efficient operation of card market by the enforcement of "By-law on Bank Cards and Credit Cards", regulation framework was completed for the restructuring of SMEs' debt to the financial sector and started to be implemented, secondary regulations regarding capital adequacy within the framework of EU directives were completed to a large extent, new regulations regarding operational risk and liquidity risk were put into effect in 2007. Besides, the works related to FSAP-Turkey conducted in cooperation with IMF and World Bank was completed, the studies of Financial Sector Commission in which institutions related to financial sector are gathered for exchange of information and cooperation has gained momentum and Customer Complaints Arbitration Committee which will have a conciliatory feature between banks and individual customers was formed.

The works related to the convergence to Basel-II have been continuing. Second Basel-II Regional Quantitative Impact Study (QIS-TR2) was completed and evaluation results was announced to public in July 2007. According to the results of this study, in which the data for September 2006 period were used and which was implemented with the participation of 31 banks representing 97 percent of the sector, the capital adequacy ratio of the participant banks is decreasing by 5.6 points to 13.7 percent with Basel-II while this ratio is 19.3 percent according to the current legislation. In this study, it is determined that the most important factors that contribute negatively to capital adequacy ratios with the convergence to Basel-II are the rise of the risk weight of FX public securities included in public portfolio and trading portfolio to 100 percent, the inclusion of operational risk to capital adequacy calculations and the implementation of 100 percent risk weight for most of the institutional loans since most of the customers in institutional portfolio don't have formal credit rating.

Besides the studies related to Basel-II, it is planned to test the software for the implementation of computer supported on-site supervision, to complete the researches related to the measurement of interest rate risk of banks and the implementation of audits for the adaptation of non-bank financial institutions to new legislation. In addition, it is planned that Financial Sector Commission, which was formed in order to ensure confidence, stability and development in financial markets, provide coordination and exchange of information between institutions and make common policy proposals, will start to produce concrete outputs/outcomes with the determination of sub-working subjects. Implementation of on-site supervisions for the adaptation of non-bank financial institutions, renovating of reporting format and the completion of banking performance reporting system are other priorities for the year 2007.

Capital Markets

With the continuation of increasing initial public offerings, the number of companies traded in Istanbul Stock Exchange (ISE) has increased from 329 as of end of 2006 to 333 as of August 2007. This increase is much more remarkable when considering the number of companies with stocks de-listed from ISE markets in 2007 is 4. The share of total market capitalization in GDP of the corporations listed on the ISE, the ratio that is used for capital market's depth indicator, has increased 7.3 percentage point and reached to 47.2 percent as of June 2007, compared to as of end of 2006. The total market value of the ISE listed companies' shares of those only traded in public has improved from YTL 75.6 billion as of end of 2006 to YTL 100.2 billion as of August

2007. At the same dates, the share of stocks held in foreign investors portfolio within the total value of the stocks traded in ISE has increased from 65.3 percent to 71.1 percent.

The authorized institutions to operate in the capital markets are banks and financial intermediaries. The number of the said institutions, which has a decreasing trend in recent years, increased to 145 as of August 2007.

In 2006, a sizeable decrease in the asset value of the mutual funds realized and the similar trend was seen in the first 2 months in 2007. After the significant increase in the asset value of the mutual funds in March 2007, the asset value has comparably kept its current value and realized at the level of YTL 25.1 billion as of August 2007.

Pension funds have continued to develop rapidly and exhibited essential development in terms of the number of participants. The net asset value that pension funds manage, which realized at the level of YTL 2.8 billion at the end of 2006, reached to YTL 3.9 billion as of end of August 2007.

The number of real estate appraisal companies has increased by 5 and reached to 18 as of August 2007 compared to as of end of 2006. These companies will affect the banking sector as much as the capital markets especially with the law dealing with housing finance that has come into force. Of the institutions, which are essential for the effective functioning of the capital markets, the number of independent auditing firms and rating institutions has increased whereas the number of portfolio management companies has decreased.

Due to very low level of private security issuance resulting from the structure of the Turkish capital markets, predominantly Government Domestic Bills are traded in Bonds and Bills Market Outright Purchases and Sales Market and Repo-Reverse Repo Market, which are among the secondary markets. Transaction volumes of these markets decreased in the first 8 months of 2007 compared the same period of 2006 and realized YTL 262.1 billion and YTL 1,680.3 billion respectively. In the same period, the transaction volume of Stock Market has increased by 8.6 percent and reached to the level of YTL 253.6 billion.

Initial and secondary public offerings are essential, considering their positive contribution to deepen the stock market. Significant developments seen in the recent years has continued during the year 2007 and total revenue of public offerings in the first 8 months of 2007 has realized as YTL 3.8 billion. In this development, the public offering of Halkbank, which was realized at the level of YTL 2.5 billion, has significant contribution.

The transaction volume of Takasbank Money Market, eliminating the liquidity needs especially of the financial intermediaries, decreased by 6.4 percent and realized at YTL 27.9 billion as of the first 8 months of 2007 compared to the same period of 2006.

Turkish Derivatives Exchange (TurkDex) has continued its rapid development and the transaction volume has increased above 5 fold in the first 8 months of 2007 compared to the same period of 2006 and reached to YTL 61.1 billion. The majority of the transaction volume of TurkDex resulted from those of the contracts based on ISE-30 stock exchange index and USD.

TABLE: IV. 10- Capital Market Indicators

	Unit	2004	2005	2006	August 2007
Corporations Registered by CMB	Number of	625	614	605	608
Corporations Listed on the ISE	Number of	307	316	329	333
Corporations Traded on the ISE	Number of	297	304	316	321
Corporations Traded off the ISE	Number of	10	12	13	12
Market Value (of Shares Traded on the ISE)	Million YTL	37,641	68,389	75,569	100,171
Foreign Share (of Shares Traded on the ISE)	Percent	54.94	66.34	65.26	71.10
Market Capitalization	Million YTL	132,556	218,318	230,038	303,136
Market Capitalization/GDP	Percent	30.79	44.81	39.91	47.20 (1)
Financial Institutions	Number of	154	141	140	145
Financial Intermediaries	Number of	112	101	100	104
Banks	Number of	42	40	40	41
Mutual Funds	Number of	254	277	295	294
Net Asset Value	Million YTL	24,444	29,166	22,228	25,098
A and B Type Mutual Funds	Number of	253	275	289	287
Net Asset Value	Million YTL	24,443	29,115	22,012	24,852
Exchange Traded Funds	Number of	1	2	6	7
Net Asset Value (2)	Million YTL	1	51	216	246
Pension Funds	Number of	81	96	102	103
Corporations	Number of	11	11	11	11
Participants	Number of	314,257	672,696	1,073,650	1,334,833
Net Asset Value	Million YTL	296	1,219	2,815	3,903
Foreign Mutual Funds	Number of	47	53	60	60
Net Asset Value	Million YTL	27	34	74	98
A and B Type Investment Trusts	Number of	23	26	30	33
Net Asset Value	Million YTL	314	488	540	636
Real Estate Investment Trusts	Number of	9	10	11	13
Net Asset Value	Million YTL	1,383	2,209	2,481	3,612
Venture Capital Investment Trusts	Number of	2	2	2	2
Net Asset Value	Million YTL	104	93	127	166
Portfolio Management Companies	Number of	21	19	19	18
Net Asset Value	Million YTL	24,453	30,226	25,964	28,652
Independent Auditing Firms	Number of	83	91	94	95
Real Estate Appraisal Companies	Number of	6	9	13	18
Rating Institutions	Number of	5	6	7	8

Source: CMB, Central Registry Agency Inc., TURKSTAT, ISE
(1) As of end of June 2007
(2) It indicates the nominal value.

TABLE: IV. 11- Transactions Volume in Capital Markets

(Millions of YTL)

				August	
	2004	**2005**	**2006**	**2006**	**2007**
Bonds and Bills Market					
Outright Purchases and Sales Market Transactions Volume	372,670	486,674	381,760	262,186	262,096
Repo-Reverse Repo Market Transactions Volume	1,551,410	1,859,713	2,538,802	1,698,612	1,680,347
Stock Market					
Transactions Volume	206,208	269,931	325,151	233,580	253,596
Total Public Offering Revenue	713	2,362	1,240	1,214	3,807
Takasbank Money Market					
Transactions Volume	94,442	94,864	44,983	29,809	27,891
Securities Lending and Borrowing Market					
Transactions Volume	-	27	769	388	919
Gold Exchange					
Transactions Volume in YTL	1,068	369	227	103	962
Transactions Volume in USD (Millions of USD)	2,908	4,237	4,409	3,063	4,424
Transactions Volume in YTL and USD (Tonnes)	279	341	232	159	241
Futures and Options Exchange					
Transactions Volume	-	2,919	17,386	9,136	61,126
Transactions Volume (No. Of Contracts)	-	1,771,308	6,628,503	3,718,659	14,500,300
End-period Open Position (No. Of Contracts)	-	140,159	198,074	88,154	216,558

Source: ISE, Istanbul Gold Exchange, TurkDex, Takasbank

As a result of the objective to widen the capital markets, the right to establish funds of funds with the communiqué effective since November 2006 and guaranteed funds with the communiqué effective since May 2007 has been given.

The law concerning housing finance has come into force in March 2007. Following the law coming into force, regulations regarding its implementation has continued to be prepared.

In April 2007, the regulation dealing with derivative intermediary institutions' establishment and operations has been come into force, of the institutions which, as specialized institutions, it is expected to give positive contribution to derivative market.

Insurance

By the end of 2006, a total of 46 insurance firms and 1 reinsurance firm were in operation in insurance sector. Out of those companies 25 were specialized in non-life, 10 in life/pension, 10 in life, 1 in pension and 1 in reinsurance.

The effect of increase in foreign direct investment can be observed in direct and indirect partnership of 24 firms in the sector. The share of foreign capital in paid-in capital is 19 percent and 34 percent for non-life insurance and life/pension markets respectively. The share of

the premium volume of the companies with foreign partners in total premium volume reached 53 percent and this rate reached 61 percent for life insurance market.

According to the consolidated balance sheets of insurance, private pension and reinsurance companies, the total assets of insurance sectors in Turkey, which was YTL 15.4 billion in 2005, reached YTL 18.6 billion with 20.8 percent increase. Although life/pension companies had high shares in the sector in terms of total assets before 2004, the rapid growth of non-life insurance companies by 59 percent in 2005 has changed this situation. The main reason for such growth is inflation adjustment which caused a larger growth for non-life companies that are older and had more non-monetary assets than life companies.

Considering the concentration indicators by assets, it can be seen that the shares of the first five and first ten firms decreased by 3 points each and became 43.7 percent and 63.8 percent respectively through 2002-2006. Based on groups, it is observed that the share of the first five companies in non-life group has increased 12 points and reached 62.2 percent whereas the share of first five companies in life/pension group decreased 10 points to 65.5 percent. This developments implies a higher concentration in non-life group than in life/pension group.

While there has been an increase in total assets in insurance sector continuously, return on assets slows down because of decrease in profitability. Return on assets decreased to 1.41 percent in 2006 with a fall of more than 1 point comparing with the previous year.

The largest shares in total assets composed of the receivables from operation for non-life insurance companies, financial assets and receivables from operation for life/pension companies and financial assets for life insurance companies.

As the 76 percent of the financial assets in the sector and financial investments of which risks are taken by policy holders are blocked on behalf of Treasury to secure liabilities regarding the insurance contracts of companies and the remaining 24 percent consists of assets in free portfolio.

Considering the dispersion of financial assets through investment instruments, it can be seen that the government bonds and treasury bills are the most common financial instruments used and followed by stocks and mutual funds.

When looked at global level, in 2005 world insurance premium production had been USD 3,426 billion, of which 88 percent produced by developed countries. It is observed that the developed countries and Asia and Africa zones which are from emerging markets produced more premium at life insurance compared with non-life. Latin America, East Europe and Middle East zones which are from emerging markets produced more premium at non-life insurance.

Turkish insurance sector took 35th place within 88 countries with a share of 1,7 percent in global premium production in 2005. According to ratios of premium volume to GDP and premium volume per capita, Turkish insurance market has been 69th and 61st respectively. When compared with European countries, Turkish insurance sector had a share of 4,1 percent, ranking 19th on the basis of total premium production.

TABLE: IV. 12– Selected Aggregates of the Insurance Sector

	2004	2005	2006
Basic Aggregates (Billions of YTL)			
Asset Total	**10.5**	**15.4**	**18.6**
Non-Life Companies	4.9	7.8	9.1
Life/Pension Companies	4.2	5.6	7.2
Life Companies	0.7	0.9	1.0
Pension Companies	0.0	0.1	0.2
Insurance and Pension Companies	**9.8**	**14.4**	**17.5**
Reinsurance Companies	**0.7**	**1.1**	**1.1**
Concentration Indicators by Assets (In Percent)			
Share of First Five Companies	42.3	45.5	43.7
Share of First Ten Companies	64.5	67.0	63.8
Performance Indicators (In Percent)			
Net Profit for Financial Year (Millions of YTL)	371	379	263
Non-Life Companies	270	276	141
Life/Pension Companies	90	66	74
Reinsurance Companies	11	37	48
Net Profit / Total Assets	3.5	2.5	1.4
Net Profit / Paid-in Capital	15.1	7.1	4.7
Technical Indicators (In Percent)			
Premium Retention Ratio			
Non-Life Companies	62.0	65.7	64.7
Life/Pension Companies	90.8	92.5	91.4
Technical Profit Ratio			
Non-Life Companies	7.3	2.5	0.5
Life/Pension Companies	18.4	2.5	8.7
Financial Profit Ratio			
Non-Life Companies	-2.2	3.4	3.5
Life/Pension Companies	-11.5	12.5	9.4

Source: Undersecretariat of Treasury

As premium per capita, distribution of premiums to non-life and life branches and ratio of premiums to GDP are compared with EU countries, it is observed that non-life insurance is more operative in Turkey than life insurance and insurance sector, in a rapid growth tendency as a whole, has still a very small share in GDP.

When analyzed according to policies bought with respect to insurance branches, it is observed that out of 33.7 million policies written in 2006, 29 percent belongs to traffic, 22 percent accident, 17 percent life and 13 percent personal accident.

TABLE: IV. 13- Investment Instruments Breakdown of Financial Assets (2006)

Million YTL

	Non-Life	Life/Pension	Life	Reinsurance	Total
Government Bonds/Treasury Bills	1,606	1,751	608	385	4,350
Stock	33	1,327	2	19	1,381
Mutual Funds	60	9	2	1	72
Others	28	722	135	2	887
Total	**1,728**	**3,808**	**747**	**407**	**6,690**

Source: Undersecretariat of Treasury

TABLE: IV. 14- Direct Premium Generation in the Insurance Sector

	(Million YTL)			(Percentage Share)			(Percentage Change)	
Insurance Branches	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**	**2005/2004**	**2006/2005**
Non-Life	**5,397**	**6,575**	**8,281**	**81.5**	**84.1**	**85.7**	**21.8**	**26.0**
Fire	1,016	1,136	1,583	15.3	14.5	16.4	11.8	39.3
Transport	258	291	346	3.9	3.7	3.6	12.5	19.2
Accident	1,987	2,437	3,119	30.0	31.2	32.3	22.6	28.0
Personal Accident	163	234	300	2.5	3.0	3.1	43.3	28.0
Health	651	799	984	9.8	10.2	10.2	22.7	23.2
Legal Protection	15	22	27	0.2	0.3	0.3	45.4	25.0
Credit	3	5	8	0.0	0.1	0.1	67.4	85.4
Engineering	257	322	430	3.9	4.1	4.4	25.2	33.7
Traffic	1,017	1,282	1,429	15.4	16.4	14.8	26.0	11.5
Agriculture	-	-	50	0.0	0.0	0.5	-	-
Life	**1,224**	**1,241**	**1,385**	**18.5**	**15.9**	**14.3**	**1.4**	**11.6**
Total	**6,621**	**7,816**	**9,666**	**100.0**	**100.0**	**100.0**	**18.0**	**23.7**

Source: Undersecretariat of Treasury

Direct premium generation by insurance companies exhibited a rise of 23.7 percent from the level of 7.8 billion YTL in 2005 and reached 9.7 billion YTL in 2006. During the last twenty years, excluding crisis of 1994 and 2001, the growth rate of insurance sector premium production exceeded national income growth.

When the insurance premium generation is considered on the basis of insurance categories, it is observed that the accident branch takes the highest share. The amount of premium generated in this branch, along with the traffic (third party liability) insurance is equal to half of total premium volume. It is observed that there is a slowdown in life branch premium volume which is due to the shift from life portfolio to private pension system.

Premium per capita, with 22.3 percent increase from the level of 106.9 YTL in 2005, reached 130.8 YTL in 2006. The ratio of direct premiums to gross domestic product increased by 0.08 point and become 1.68 percent in 2006

compared with the previous year. Considering the fact that the same ratio is over 5 percent in developed countries, despite the steady growth in insurance sector in Turkey, unutilized potential still exists in the sector. Thus, it is expected that the increasing activity started by 2006 in the sector will continue during the coming years.

There are 15,322 agencies excluding bank branches, 56 brokers and 1.734 experts and around 50,000 people are employed in the sector.

Private pension scheme, which is a complementary system to the existing public security system, operates with eleven companies, 102 funds and offers to the participants different alternatives with 939 plans. According to data released by Pension Monitoring Center the number of participants were 1,073,650 and the total of collected fund through contributions by participants reached YTL 2,814.5 million at the end of the year 2006. The same indicators reached to 1,370,112 persons and YTL 4,189.2 million respectively on October 8, 2007.

The average maturity, which started to increase since 2005, exceeded 650 days in April 2006 for pension funds but the fluctuations in May and June and increase in demand for liquid funds decreased the length of the period lower than 100 days. By the end of the year, 72,6 percent of consolidated pension fund portfolio consist of government bond/treasury bills and 27,4 percent consist of other financial instruments.

The slowdown in written policies of mandatory earthquake insurance since 2001 transformed into a significant increase in 2005, because of the increase in the number of earthquakes in the country and the high growth rate in housing sector. The number of mandatory earthquake insurance policies which can be written by authorized insurance companies and their agencies in the name and account of Turkish Catastrophic Insurance Pool (TCIP) increased by 5.7 percent and reached YTL 2,554,709 and the premium volume increased by 29.4 percent and amounted YTL 205.8 million in 2006. Among the regions, Marmara Region has the highest insured ratio of 30 percent, which implies that 1,227,990 of 4,143,474 dwellings has been insured.

YTL 17,7 million was paid to compensate the losses from the TCIP during the period of 2000-2006.

According to 2006 data given by Motor Vehicle Insurance Information Center (TRAMER), out of 12.2 million vehicle, nearly 75,9 percent has been insured and the number of policies written and the premium produced has been 9,3 million and YTL 1.4 billion respectively. The establishment of TRAMER basically aims to store reliable statistical data to ensure similarity in applications, to prevent insurance forgery, to detect uninsured motor vehicles and to increase the insured ratio.

Insurance Pool, established according to the Agricultural Insurance Code, which provide the coverage the risks threatening the agricultural industry, was established as a corporation by the insurance companies with equal share of the members. The companies in the insurance pool issue insurance contracts with their own name but all risks and the premiums are transferred to the Pool. The government contribution exclusively to insurance contracts executed under the Law No. 5363 in terms of premium on behalf of the farmers. Premium contributions is determined by Council of Ministers on annual basis with respect to crops, risk, region and premises scale.

The Turkish Insurance Law No.5684, which aims improvements in the sector, better protection of the beneficiaries' right, provision of an environment that ensure confidence, stability and convergence to EU norms, came into force in June 2007. Within that context the rules guiding all sorts of activities in the sector and supervision of corporation and institutions in the sector, together with the new established Arbitration System have been put into action. The preparation of secondary legislation related to Insurance Law in accordance with EU norms and other international application, is going to be completed in one year period as determined in the Law.

2. Main Objectives and Targets

A financial system which has diversified instruments and financial depth to channel resources to the investments, which reached to a competitive scale and which is regulated and supervised in international standards is targeted.

Financial sector would be furnished in order to have an internationally competitive, profitable, efficient and rational structure and the confidence and stability in the sector will be strengthened.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	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. Istanbul Gold Exchange will be improved.	Istanbul Gold Exchange	SPO, Undersecretariat of Treasury, Ministry of Finance, CBRT, Authorized Institutions, Banks, Istanbul Mineral and Metals Exporters' Association	End of December	By directing effective exchange rate operations occurred in different markets to the Exchange, Foreign Exchange and Banknotes Market, which is liquid and provides decreased counter party risk, increased number of market participants and minimized price differentials for the sake of market participants due to authorized institutions and precious metal intermediaries, will be established. To determine market structure dealing with precious stones used in jewellery production and to develop precious stones trade in Turkey by bringing it within the formal economy, Diamond and Precious Stone Market will be established. It will be provided to establish trade network dealing with gold trade across the countries which are member to COMCEC and to support those countries' gold sectors.
Measure 1.2. The instruments on Asset Backed Securities will be developed.	CMB	Ministry of Finance, CBRT, BRSA, BAT, Private Sector Representatives	End of December	The aim is to increase the types of instruments that savings holders could invest and to give opportunity to corporations to finance their needs via capital markets by using their assets to secure the finance.
Measure 1.3. New capital market instruments will be formed.	CMB	SPO, Undersecretariat of Treasury, BRSA, TOKİ, ISE, Takasbank, Central Registry Agency Inc., Intermediary Institutions	Continuous during the year	Within the scope of works on a communiqué on structured products especially dealing stock warrants, the institutions that may issue the said instruments and primary dealers minimum standards which may issue the instruments that may be traded in ISE market will be structured. (End of December) The opportunity to establish Real Estate Mutual Funds will be provided. (End of December) The opportunity to establish Venture Capital Mutual Funds will be provided. (End of December) Fund Transfer System (Fontra) which allow to buy and sell participation certificates will be established. In this way, it is the target to provide spreading of capital ownership. (End of December) Models regarding the infrastructure on Mortgage System will be prepared. (End of June)

Priority 2. Efficiency and competition will be promoted in financial markets.				
Measure 2.1. The law on Individual Pension Savings and Investment System will be amended.	Undersecretariat of Treasury	Pension Monitoring Center, Association of the Insurance and Reinsurance Companies of Turkey	End of June	In order to mitigate the problems stemming from the implementation of the Individual Pension System, the Law No. 4632 will be amended. The Draft will be sent to the Prime Ministry by March 2008 and to the Turkish Grand National Assembly by June 2008.
Measure 2.2. Legislation to use moveable assets as a guarantee will be enacted.	CMB	Ministry of Justice, Ministry of Industry and Trade, BRSA	End of June	This legislation will enable the financial markets to be modernized and to operate efficiently and serve financial deepening. It is needed to begin legislation works.
Measure 2.3. The factors that prevent the banking sector from attaining an internationally competitive power and from operating in a profitable, efficient and rational structure will be reviewed and reduced.	BRSA	SPO, Undersecretariat of Treasury, Ministry of Finance, CMB, Competition Authority, BAT, Related Governmental Institutions, all banks	End of December	Works will be performed in order to decrease transaction and intermediary costs and bureaucracy; it will be ensured that the indicators that show the developments in transaction and intermediary costs will be disseminated; integration will be achieved with other regulations and applications related with financial sector; the cooperation among the related parties will be increased and policies will be developed in order to remove competition obstacles that institutions subject to auditing face and bring in international competition power to the financial system.
Measure 2.4. Collective projects will be implemented in order to increase the cooperation between BRSA and institutional and professional unions and associations.	BRSA	Related institutional and professional unions and associations	End of December	An agenda will be formed for the activities that are directed to increase the cooperation among 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 with the participation of related institutions' representatives.
Measure 2.5. Law of Eximbank will be enacted.	Eximbank	SPO, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, BRSA	End of June	The Draft Law on Rearrangement of the Establishment and Functions/Missions of the Export Credit Bank of Turkey was sent to Prime Ministry by the related Ministry.
Measure 2.6. Bank of Provinces will be restructured.	Bank of Provinces	SPO, Undersecretariat of Treasury, Ministry of Finance, Ministry of Public Works and Settlement, BRSA	End of December	Organization and share structure and operating activities of the Bank will be restructured by a legal arrangement.
Measure 2.7. Changes will be made on articles of Banking Law No. 5411 related to sanctions and follow-up	BRSA	SPO, Undersecretariat of Treasury, SDIF	End of December	The legal provisions related to the collection of receivables from 22 banks that were taken away from banking system will be arranged in another law and it will be ensured that sanctions implemented will be more elastic.

Priority 3. Works which aim to strengthen the confidence and stability in financial markets will be accelerated.				
Measure 3.1. Receivables of the Treasury from SDIF will be resolved.	Undersecretariat of Treasury	SDIF	End of March	The legal arrangement will be prepared and submitted to TGNA. The works related to this issue is conducted by the Treasury and SDIF.
Measure 3.2. Registration works will be continued.	Central Registry Agency Inc.	CMB, CBRT, Takasbank	Continuous during the year	The registration of companies registered with the board (and non listed in ISE) will be completed. (End of September) Treasury Bills, Government Bonds and Liquidity Certificates will be registered. (End of June) Transition to registration of new types of domestic or foreign securities (warrants and mortgage securities) will be made. (End of June)
Measure 3.3. Measures to improve capital markets supervision and inspection system will be planned.	CMB	ISE, Central Registry Agency Inc., TÜBİTAK Space Technologies Research Institute (UZAY), TÜBİTAK National Research Institute of Electronics and Cryptology (UEKAE)	Continuous during the year	The Association of Appraisal Specialists of Turkey will be established to develop real estate appraisal profession. (End of March) CMB-ISE Surveillance System will be implemented. (End of December) Public Disclosure Project will be put into action. (End of December)
Measure 3.4. The mechanisms that provide the cooperation and coordination between related institutions in Financial Sector Commission will be established.	BRSA	The member institutions of Financial Sector Commission	End of December	"Communiqué on the Joint Operations of the Member Institutions of Financial Sector Commission" will be put into effect. Cooperation and coordination will be provided on decreasing the costs of financial regulations, evaluation of developments in financial markets and exchange of information. "Financial Sector Development Report" will be started to be published semi-annually that evaluates the potential risks in markets and their effects.
Measure 3.5. An emergency action plan will be prepared against systemic risks that may occur in banking sector and precautions will be determined to manage the risks.	BRSA	SPO, Undersecretariat of Treasury, CBRT, SDIF	End of December	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 that spread to whole banking sector; 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 will be prepared and 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	Undersecretariat of Treasury, Ministry of Industry and Trade, CMB, Institutional Associations, Institutions subject to auditing	End of December	Said guidebook, including subjects like general information on financial services and basic rights and benefits of customers, will be finalized by the cooperation of responsible and related institutions. A system will be formed to respond to the problems of the customers on time about the services they received.

Priority 5. Regulation and supervision of the financial sector will be enhanced in line with the international standards.				
Measure 5.1. Capital Market Law and Decree Law No.91 will be amended to be compatible with EU acquis.	CMB	SPO, Undersecretariat of Treasury	End of March	It will be ensured that the related legislation be compatible with EU acquis considered in the chapters of Financial Services and Company Law.
Measure 5.2. The efficiency of the regulation and supervision system for non-bank financial institutions will be enhanced.	BRSA	SPO, Undersecretariat of Treasury	End of December	The Draft Act on Leasing, Factoring and Consumer Financing Institutions will be submitted to TGNA. Procedures and principles for the audit and supervision of leasing, factoring and consumer finance institutions will be determined and audit and supervision principles for these institutions will be determined in parallel to banks. In addition, an early warning system and a performance system will be formed for these institutions, main nominal data and ratios derived from these data will be presented to users as quarterly data systematically with the mentioned system that work on the basis of institutions. Furthermore, balance sheet and income statements of asset management companies will be taken quarterly in electronic format.
Measure 5.3. The efficiency of audit and supervision system of banks will be enhanced.	BRSA	Undersecretariat of Treasury, CMB	End of December	The issues related to the framework and the scope of consolidated supervision will be determined. The coordination of the operations of the regulatory and supervisory authorities of other financial institutions subject to consolidated supervision, with the operations of BRSA will be assured and procedures and principles regarding the exchange of auditing results and information and documents used in auditing will be determined by BRSA by taking the evaluations of related authorities. Information systems auditing will be started to be performed in order to determine the information system components used by banks and whether the risks deriving from these systems are adequately managed. Current stress testing implementation used by BRSA will be enhanced and will be made more sensitive to economic variables. A regulation will be made regarding the reporting of important changes in investment strategies and operations of banks.
Measure 5.4. The regulations regarding Basel II will be put into effect and necessary conditions will be ensured for its implementation..	BRSA	Undersecretariat of Treasury, CBRT, institutional associations	End of December	After the completion of regulations regarding the compliance to CRD/Basel II, operational risk database required for the implementation of Basel II will be formed and risk centralization data will be enriched.
Measure 5.5. The secondary regulations related to the Turkish Insurance Law will be completed.	Undersecretariat of Treasury	Association of the Insurance and Reinsurance Companies of Turkey, Insurance Supervision Board, Insurance Companies	End of December	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.

E. IMPROVING THE ENERGY AND TRANSPORTATION INFRASTRUCTURE

ENERGY

1. Current Outlook

Sustainable and strong economic growth together with the accompanying rise in social wealth since 2002 has led to an increase in energy demand. As a result of the same growth trend continuing in 2007, industrial sector and electricity sector primary energy consumption is expected to increase by 4 percent and 15 percent, respectively, compared to previous year, thereby leading to a 7 percent increase in total primary energy consumption with respect to 2006. Thus, 99.3 million tonnes of oil equivalent (mtoe) of primary energy consumption in 2006 is expected to reach 106.3 mtoe in 2007 and 1,377 kilograms of oil equivalent (kgoe) of per capita energy consumption in 2006 would rise to 1,455 kgoe in 2007.

Natural gas consumption which has been increasing steadily for the last several years is expected to increase by around 11 percent reaching 31.5 mtoe in 2007. Thereby, the share of natural gas in primary energy consumption would increase to 30 percent.

Due to the adverse hydrological conditions, hydroelectricity production in 2007 is expected to decrease by 20 percent.

Despite the increase in primary energy consumption, primary energy production is not expected to increase significantly. Thus an increasing share of energy consumption should be met by energy imports. Primary energy production is envisaged to increase to 29.5 mtoe in 2007 from 28 mtoe in 2006.

The total installed power plant capacity has increased from 40,565 MWs in 2006 to 40,984 MWs in 2007 corresponding to a just 1 percent increase. Although this capacity is substantially higher than the power demand, due to both plant availability problems and adverse hydrological conditions there have been sporadic difficulties faced in meeting the demand. Due to the lack of notable new investments secure reserve margin has shrunk down.

Electricity generation, 176.3 TWh in 2006, is forecasted to grow by 7.8 percent reaching 190.1 TWh in 2007. The shares of gas fired power plants, lignite fired power plants and hydroelectric power plants of this amount would be 48.3 percent, 21 percent and 18.6 percent, respectively.

Rapidly rising share of natural gas in total electricity generation since 1990 is poised to grow further reaching 48.3 percent in 2007 from that of 17.7 percent in 1990. This much dependence on such a resource almost all of which is imported constitutes an important supply security risk.

Electricity trade resulting in net import in 2003 and before has turned to net export as of 2004 which is expected to be 1.7 TWh in 2007.

According to "Electrical Energy Sector Reform and Privatization Strategy Paper" dated March 17th, 2004, privatisation process for 20 state-owned distribution companies currently in the privatisation programme will be re-launched.

Under the framework of the Strategy Paper, state-owned power plants were restructured as portfolio generation groups and studies towards incorporation and transfer of them to Privatization Administration are underway. State electricity generation company EÜAŞ- owned 7 small hydro power plants, 1 geothermal power

plant and 1 gas turbine corresponding to a 140 MW of installed capacity in total were bundled together and put into privatization programme to be operated by Ankara Doğal Elektrik Üretim ve Ticaret Company (ADÜAŞ). Tendering process for individual power plants were also initiated.

Delays in the privatization schedule of public distribution and generation assets cause both postponement in the establishment of a truly competitive, free electricity market and of new generation investments expected to be commissioned in the coming years. Such difficulties can only be overcome by updating the Strategy Paper to account for the current conditions and implementing it as soon as possible.

It is articulated in the Strategy Paper that all the necessary measures will be taken to ensure the security of electricity supply during the transition period. Thus, during the transition to liberal market system, demand-side management and supply-side expansion measures should be implemented as soon as possible to preclude short-term electricity supply shortage foreseen by the supply-demand projections.

Diversification of energy mix is essential in order to meet the electricity demand in a secure manner. In this regard, to increase the share of indigenous and renewable energy resources together with the nuclear energy in overall electricity production, Law No. 5346 on the Use of Renewable Energy Resources for Electricity Production and dated 2005 was revised in 2007 to create a more conducive climate for the use of those resources and to include the nuclear energy into the electricity supply mix Draft Law on Building and Operation of Nuclear Power Plants and Sale of Energy was transmitted to the parliament.

Law No. 5627 on Energy Efficiency, aiming at using energy conservatively and efficiently at every stage of its production upto the end-use and providing incentives in this regard was enacted in 2007. To implement the Law, secondary legislation is being prepared.

As a result of the legislative act dated April, 2007 hydropower projects under the scope of Intergovernmental Bilateral Cooperation can benefit from the provisions of the Law No. 5346 thereby clearing the path for the expeditious realisation of those hydropower projects by private sector which could take several more years to complete with the scarce public finances.

Alongside power sector reform in Turkey natural gas market was also deregulated. Natural Gas Market Law enacted in 2001 envisage a transition from monopolistic market structure to a more competitive, free market system. To this end, work towards the privatization of pertinent natural gas activities and expanding the gas usage through in-city gas distribution tenders continues.

In the context of ensuring the natural gas and petroleum supply security, building of gas storage facilities has been continued in 2007 and according to Law No. 5015 on Petroleum Market Law, National Stock Commission was established to secure the adequacy of national petroleum stocks and to manage that stock. Moreover, to tackle the petroleum smuggling which has become chronic as in the case of illicit electricity use appropriate provisions has been put into Law No. 5015.

After the commissioning of the Baku-Tbilisi-Ceyhan petroleum pipeline having a 50 million tons/year throughput, efforts toward establishing Ceyhan as an international energy hub have been increased. In this regard, the region has been set as a Ceyhan Energy Qualified Industrial Zone.

2. Main Objectives and Targets

Main objective of the energy policy is to meet the energy needs of economic and social development in a continuous, qualified and secure manner at least costs in a competitive free market environment.

In 2008, both primary energy and electricity demand would grow in parallel with the targeted economic growth. Thus, primary energy consumption is forecasted to increase by around 5 percent to reach 111.6 mtoe and per capita primary energy consumption by 3.8 percent to reach 1,510 kgoe.

Primary energy production, 29.5 mtoe in 2007, is forecasted to rise to 30.3 mtoe by growing 3,2 percent in 2008. This production level corresponds to 72.8 percent import dependency in meeting the primary energy demand in 2008.

The increase in the primary energy demand will lead to an increase in the consumption of all energy sources. However, the highest increase in terms of percentage points, due mainly to the electricity sector demand, would be met largely by the consumption of natural gas with a 6.8 percent rise.

Electricity consumption, which is expected to be 188.4 TWh in 2007, with a growth rate of 7 percent would rise to 201.6 TWh in 2008. Thus, per capita electricity consumption would increase from 2,580 kWh in 2007 to 2,727 kWh in 2008.

TABLE: IV. 15- Primary Energy Consumption and Fuel Shares

(Thousands TOE)

	2006		2007 (1)		2008 (2)	
	Quantity	**Share (%)**	**Quantity**	**Share (%)**	**Quantity**	**Share (%)**
COMMERCIAL ENERGY	94,187	94.8	101,289	95.3	106,685	95.6
Hard Coal	16,476	16.6	16,970	16.0	17,840	16.0
Lignite	11,500	11.6	13,400	12.6	14,075	12.6
Petroleum Products	32,551	32.8	34,920	32.9	36,555	32.7
Natural Gas	28,495	28.7	31,535	29.7	33,670	30.2
Hydroelectricity	3,805	3.8	3,036	2.9	2,967	2.7
Renewable Energy	1,503	1.5	1,573	1.5	1,656	1.5
Electricity Import (Export)	-143	-0.1	-146	-0.1	-77	-0.1
NON-COMMERCIAL ENERGY	5,126	5.2	5,000	4.7	4,960	4.4
Wood (2)	3,980	4.0	3,900	3.7	3,860	3.5
Animal Waste and Plant Residue (2)	1,146	1.2	1,100	1.0	1,100	1.0
TOTAL	**99,313**	**100.0**	**106,289**	**100.0**	**111,645**	**100.0**
Per capita consumption (kgoe)	1,377		1,455		1,510	

(1) Realization Estimate,
(2) Forecast

As a result of commissioning of the publicly-owned Alpaslan I, Obruk and other HEPPs and privately-owned power plants, total installed power plant capacity would increase by 2.9 percent reaching to 42,160 MW in 2008. Electricity generation, by growing 6.5 percent, would rise to 202.5 TWh and fuel shares of this amount would be 49.1 percent for natural gas, 21.1 percent for lignite and 17 percent for hydraulic.

TABLE: IV. 16- Power Plants Installed Capacity, Production Capacity and Electricity Generation by Fuel

(capacity: MW; Production: GWh)

	2006			2007 (2)			2008 (3)		
	Installed Capacity	Production Capacity	Generation	Installed Capacity	Production Capacity	Generation	Installed Capacity	Production Capacity	Generation
Hard Coal	1,987	14,900	14,217	1,987	14,900	14,300	2,122	15,913	15,600
Lignite	8,211	52,550	32,433	8,211	52,550	40,000	8,211	52,550	42,800
Fuel-Oil	2,123	12,740	4,232	1,776	10,660	6,500	1,776	10,660	7,000
Diesel,LPG,Naphtha	273	1,230	108	273	1,230	1,300	273	1,230	1,800
Natural Gas	11,462	85,965	80,691	11,702	87,765	91,800	11,902	89,265	99,500
Multi-fuel (1)	3,323	23,260		3,323	23,260		3,323	23,260	
Biogas-waste	41	305	154	42	313	280	43	319	300
THERMAL	27,420	190,950	131,835	27,315	190,678	154,180	27,651	193,197	167,000
HYDRO	13,062	45,800	44,244	13,414	47,020	35,300	14,134	49,378	34,500
Geothermal	23	150	94	23	150	150	23	150	150
Wind	59	200	127	232	772	470	352	1,165	850
TOTAL	**40,565**	**237,100**	**176,300**	**40,984**	**238,620**	**190,100**	**42,160**	**243,890**	**202,500**

(1) Actual generation is distributed according to fuel used,
(2) Realization Estimate,
(3) Forecast

TABLE: IV. 17- Electricity Consumption by Sectors

	2006		2007 (1)		2008 (2)	
	GWh	Share (%)	GWh	Share (%)	GWh	Share (%)
Households	34,800	19.9	36,400	19.3	38,200	18.9
Commercial Buildings	21,100	12.1	24,500	13.0	26,800	13.3
Official Buildings	6,000	3.4	5,800	3.1	6,000	3.0
Street Lighting	3,900	2.2	4,100	2.2	4,300	2.1
Industry	67,000	38.4	72,600	38.5	78,200	38.8
Others	10,200	5.8	11,400	6.1	12,400	6.2
NET TOTAL	143,000	81.9	154,800	82.2	165,900	82.3
Own consumption and Losses	31,637	18.1	33,600	17.8	35,700	17.7
GROSS TOTAL	174,637	100.0	188,400	100.0	201,600	100.0
Net per capita consumption (kWh)	1,958		2,094		2,217	
Gross per capita consumption (kWh)	2,391		2,548		2,694	

(1) Realization Estimate,
(2) Forecast

TABLE: IV. 18-Energy Production and Consumption

	Unit	2000	2001	2002	2003	2004	2005	2006	2007 (1)	2008 (2)
PRIMARY ENERGY										
PRODUCTION	ttoe	27,621	26,159	24,884	23,779	24,170	26,472	28,045	29,480	30,330
CONSUMPTION	ttoe	81,193	75,883	78,322	83,936	87,778	90,077	99,313	106,289	111,645
Per capita consumption	kgoe	1,204	1,111	1,131	1,196	1,234	1,249	1,377	1,455	1,510
ELECTRICITY										
INS.CAPACITY	MW	27,264	28,332	31,846	35,587	36,824	38,843	40,565	40,984	42,160
Thermal	MW	16,070	16,640	19,586	22,990	24,160	25,917	27,443	27,338	27,674
Hydro	MW	11,194	11,692	12,260	12,597	12,664	12,926	13,122	13,646	14,486
GENERATION	GWh	124,922	122,725	129,400	140,580	150,698	161,956	176,300	190,100	202,500
Thermal	GWh	94,010	98,653	95,668	105,190	104,556	122,336	131,929	154,330	167,150
Hydro	GWh	30,912	24,072	33,732	35,390	46,142	39,620	44,371	35,770	35,350
IMPORT	GWh	3,786	4,579	3,588	1,158	464	636	573	800	1,000
EXPORT	GWh	413	433	435	587	1,144	1,798	2,236	2,500	1,900
CONSUMPTION	GWh	128,295	126,872	132,553	141,151	150,018	160,794	174,637	188,400	201,600
Per capita consumption	kWh	1,903	1,857	1,914	2,011	2,109	2,230	2,391	2,580	2,727

(1) Realization Estimate,
(2) Forecast, ttoe: 1000 toe

TABLE: IV. 19-Electricity Generation by Fuel

	Hard Coal		Lignite		Liquid Fuels		Natural Gas		Biogas-waste		THERMAL		HYDRO		Geothermal + Wind		TOTAL	
	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%
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	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	14,217	8.1	32.433	18.4	4,340	2.5	80,691	45.8	154	0.1	131,835	74.8	44,244	25.1	221	0.1	176,300	100.0
2007*	14,300	7.5	40.000	21.0	7,800	4.1	91,800	48.3	280	0.1	154,180	81.1	35,300	18.6	620	0.3	190,100	100.0
2008**	15,600	7.7	42.800	21.1	8,800	4.3	99,500	49.1	300	0.1	167,000	82.5	34,500	17.0	1 000	0.5	202,500	100.0

*Realization Estimate,
**Forecast

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. To enhance the energy supply security, development of indigenous resources, diversification of energy resources and improvement of energy efficiency will be given priority and necessary regulations will be made.				
Measure 1.1. Work toward determining the renewable energy resources potential and developing and expanding the applications thereof will be continued.	Electrical Power Resources Survey and Development Administration	ETKB, TEİAŞ, TEDAŞ, MTA, DSİ, DMİ, TÜBİTAK-MAM, General Directorate of Land Registry and Cadastre, Universities, Private Sector	End of December	Studies on hydraulic, wind, geothermal, solar and biomass resource potential will be continued. RD&D studies will be realized for extensive, efficient and effective use of these resources. Coordinates, potential, network connection, land ownership information about wind energy resource areas in Turkey will be compiled and made available to investors. Master plan studies for 84 MW; 320 GWh hydropower potential will be completed.
Measure 1.2. Secondary legislation on energy efficiency and saving will be completed.	Ministry of Energy and Natural Resources	Ministry of Transfer, Ministry of Industry and Trade, Ministry of Environment and Forestry, Ministry of Public Works and Settlement, EİEİ	End of December	Studies on secondary legislation will be finalized to enact Energy Efficiency Law. Implementation regulations on Increasing Energy Efficiency in Transportation, Increasing Energy Efficiency, Regulation on Eco-Design Requirements of Energy Consuming Products etc. will be published.
Measure 1.3. Construction process for nuclear power plants will be started.	Ministry of Energy and Natural Resources	TAEK, SPO, EPDK, Undersecretariat of Treasury, TETAŞ, Related Institutions	End of March	Following the enactment of Law on building nuclear power plants in the last quarter of 2007, due process foreseen in Law will be started. Priority will be given to private sector in funding the construction of nuclear power plants. Moreover, informing the public will be emphasized.
Measure 1.4. Legal framework for the regulation and supervision of nuclear activities will be established and necessary institutions will be created.	Ministry of Energy and Natural Resources	TAEK	End of June	Nuclear Law will be enacted for the nuclear activities to be regulated and supervised by independent regulatory authority. Duties and authorities of TAEK to conduct R&D and implementation studies will be rearranged.
Measure 1.5. Afşin Elbistan C-D Thermal Power Plants investments will be started.	Ministry of Energy and Natural Resources	EÜAŞ, TETAŞ	End of September	Bidding process for Afşin Elbistan C-D TPPs foreseen in the related law will be completed and investments will be started.
Measure 1.6. Electricity supply security will be monitored and necessary measures will be taken.	Ministry of Energy and Natural Resources	EPDK, SPO, Undersecretariat of Treasury, Related Institutions	End of December	Necessary measures for the acceleration of new investments and urgent completion of ongoing investments will be taken. Efficient use of existing power plant capacity will be ensured. Electricity supply security will be monitored continuously.

Priority 2. Public electricity generation and distribution assets will be privatized in such a way that it will contribute to the formation of a competitive market.				
Measure 2.1. Privatization of electricity distribution companies will be commenced.	Privatization Administration	ETKB, TEDAŞ	End of June	Privatizations aim at reducing the high distribution losses (technical and non-technical), increasing the billing and collection rates, lowering the costs via operational efficiency and reflecting it to consumers, and undertaking of renewal-expansion investments by private sector. Privatization process suspended at the bidding stage as of the end of 2006 will be recommenced according to revised Strategy Paper.
Measure 2.2. Privatization process for electricity generation will be commenced.	Privatization Administration	ETKB, EÜAŞ	End of June	EÜAŞ was restructured into optimum number of portfolio generation groups amenable to competitive market structure and privatization process for those groups will be initiated by putting them under the privatization scope. ADÜAŞ which was tendered as of October 2007 will be privatized.
Priority 3. In the framework of the integration of national transmission grid to European grid which will enable cross-border energy trade, frequency control systems in power plants will be installed.	EÜAŞ	TEİAŞ, EPDK	End of December	In line with Electricity Market Network Regulation and UCTE criteria, both existing and rehabilitated thermal power plants' conformity with primary frequency control will be ensured.
Priority 4. Natural gas usage will be expanded through competitive biddings and gas and petroleum supply security will be ensured at the national level by taking into account seasonal demand variations.				
Measure 4.1. Natural gas main transmission networks will be completed and country-wide distribution and use of gas will be enabled.	BOTAŞ	EPDK	End of December	To increase the gas demand to absorb the "take-or-pay" gas commitments, transmission investments to transport the gas to main consumption areas and city connector investments will be realized. In 2008, Bolu, Karabük, Zonguldak, Bartın, Nevşehir, Tokat, Amasya, Erzincan city connector lines investments will be completed.
Measure 4.2. National Petroleum Stock Agency will be established.	Ministry of Energy and Natural Resources	EPDK, SPO, Undersecretariat of Treasury, PİGM	End of June	A Stock Agency will be set up to hold and effectively manage national petroleum stocks in order to ensure the continuity in petroleum market, mitigate the risks in crisis and emergency situations and undertake the commitments regarding emergency petroleum stocks according to international agreements.

TRANSPORT

1. Current Outlook

The fact that railway and maritime transport physical infrastructure appropriate for the increasing transport demand is not materialized on-time and road transport being the most suitable mode for door-to-door transport caused a greater extent of passenger and freight traffic to be loaded on the highway network. This situation, coupled with lack of investment funds for timely repair-maintenance and loading beyond legal limits, caused further deterioration of the existing highway infrastructure, which is already inadequate in terms of physical standards and network density, and therefore created an inefficient transportation system. Even though long-term planning is made, increasing transport demand forces limited funds to be allocated to road construction and rehabilitation investments with short-term concerns. Competitiveness of railways, which operate on an obsolete infrastructure, decreases everyday. Financial models, which would stimulate the construction of large-scale ports in maritime transport sector, can not be effectively put into life. Consequently; limited funds, an incorrectly structured highway dependent system and ever increasing demand have created an unfavorable transport system, which has turned into a vicious cycle.

TABLE: IV. 20- Developments in Transport Modes

					Annual Increase (%)	
	Unit	2005 (1)	2006 (2)	2007 Programme (3)	2006 (2/1)	2007 (3/2)
RAILWAY						
Passenger Transport (Domestic)	Million Passenger-km	3,602	3,802	3,878	5.6	2.0
Freight Transport (Domestic)	Million Ton-km	7,997	8,227	8,638	2.9	5.0
Freight Transport (International)	Million Ton-km	1,081	1,318	1,581	21,9	20,0
MARITIME						
Freight Transport (Domestic)[1]	Million-Ton-Km	5,225	5,518	5,965	5.6	8.1
Freight Transport (International)[1]	Million-Ton-Km	680,000	775,500	884,800	14.0	14.0
Turkish Maritime Fleet (300 GRT and above)	Thousand DWT	7,600	7,300	7,900	- 4.0	8.2
AIR						
Passenger Transport (Domestic) [2]	Million Passenger-km	4,106	5,265	6,177	31.1	17.3
Passenger Transport (International) [2]	Million Passenger-km	17,301	20,099	24,124	16.2	20.0
HIGHWAY [3]						
Passenger Transport (Domestic)	Million Passenger-km	182,152	187,593	194,159	6.3	4.5
Freight Transport (Domestic)	Million Ton-km	166,831	177,399	185,382	3.0	3.5
PIPELINES						
Freight Transport (Domestic) [4]	Million Ton-km	2,712	2,842	2,518	6.7	-11.4
Freight Transport (Transit) [4]	Million Ton-km	1,141	9,118	28,806	118	215.9
Natural Gas [5]	Million Nm3	26,735	30,308	36,651	41.4	18.9

[1] Approximate calculations including all transport realized by maritime.
[2] Only Turkish Airlines (THY) transport.
[3] 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 by BOTAS.

TINA Study, which aims to identify transports axes that will connect Turkish transport network to Trans-European Network, has been completed.

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 prioritization of the costly rail transit system projects.

In Turkey, approximately 95 percent of inter-city passenger transport and about 90 percent of freight transport are realized through highways. This ratio is 84 percent for passenger transport and 44 percent for freight transport in EU-25 countries for 2005. 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 the average highway length for square-km is 0.475 km and average motorway length for square-km is 0.015 km in EU-25, these figures are 0.201 km and 0.002 km for Turkey, respectively.

Highways

The fact that approximately 90 percent of freight transport in Turkey is realized through highways, results 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 3.5 times higher than the EU-15 average, according to 2005 data.

As of the beginning of 2007, the total length of state and provincial road network, excluding rural roads, is 63,751 km. Of this total, 4,266 km is unpaved (stabilized earth, soil or impassable). While 90 percent of freight transport is realized through highways, the total length of roads having hot-mix asphalt pavements capable of handling heavy axle loads stands at 9,191 km.

TABLE: IV. 21– Comparison of Transport Modes Among Various Countries

Countries	Highway density km/km^2 (2004)	Motorway density km/km^2 (2004)	Railway density km/1.000 km^2 (2004)	Air Transport Passanger Traffic (million) (2006)
Czech Republic	0.704	0.007	122	13
France	0.729	0.019	54	113
Germany	0.648	0.034	97	156
Belgium	0.512	0.057	116	19
Austria	0.417	0.019	68	21
EU-25	0.475	0.015	50	743
Turkey	0.201 (1)	0.002	11	59

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

The Eastern Black Sea Coastal Highway project of 560.5 km length and the Bolu Mountain Crossing project of 25 km length were completed in 2007 and opened to service. Within the framework of 15,000 kms of multi-lane highway network target, 6,800 kms of dual carriage highways have been completed as of September 2007. In 2007, 281 kms of existing dual carriage highways have been improved by either replacing the existing pavement or converting the pavement to hot-mix asphalt, while the newly completed 43 kms of dual carriage highways have been constructed as hot-mix asphalt paved.

corridors between main cities is carried on an obsolete infrastructure. In Turkey, both railway and traffic density on the existing network are less. Furthermore, electrified lines with 21 percent in Turkey 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

TABLE: IV.22– Current Status of the Highways Network (km)

(as of beginning of 2007)

	Hot-Mix Asphaltic Concrete	Surface Treatment	Stone Paved	Stabilized Earth	Soil	Im-Passable	Total
Motorways	1,987	-	-	-	-	-	1,987
State Roads	6,337	24,391	43	237	86	241	31,335
Provincial Roads	867	25,768	92	1,895	1,140	667	30,429
Total	**9,191**	**50,159**	**135**	**2,132**	**1,226**	**908**	**63,751**

Source: General Directorate of Highways

Legislative studies are in progress on the harmonization of driving licenses in Turkey with those in the EU, installing speed-limit devices into certain vehicle types, regulating the working and rest hours of drivers, building up a compatible database with the EU standards on traffic accidents and ensuring the equivalence of driver training in Turkey with that of in the EU member states.

Railway

The existing railway network in Turkey is 10,984 km in total and 8,697 km of this network consists of main lines. 2,336 km of the railway network is electrified and 3,111 km of the network is signalised. Transportation through the

with their own freight cars, 2.9 percent increase in domestic and 21.9 percent increase in international freight transport were achieved in 2006 in million-tons terms. New railway investments which will contribute to the freight transportation are being made. Construction 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 going on.

Long travel time, low reliability and security issues cause demand to be inadequate for passenger transportation. On the other hand, test operation is continuing through the Ankara-Eskişehir section of Ankara-İstanbul High Speed

Railway Project, which was started in 2004 and will provide fast, safe and comfortable trip between Ankara and İstanbul. Tender procedures were completed for Eskişehir-Köseköy section and foreign credit agreements were signed. Progress was made in infrastructure construction of Ankara-Konya High Speed Train project and its superstructure tender was also completed.

It is important that TCDD should pass into an operational perception that oversees market conditions and balances, is based on effective service and customer-oriented. Existing structure of TCDD which is closed, does not consider customer needs and its natural advantages, does not recruit necessary operational personnel due to continuous financial losses affects railways negatively. In order to solve some of these problems, draft TCDD Law and draft Railway Law were prepared.

Maritime

3.8 million TEU (Twenty-Feet Equivalent Unit) containers and 203 million tonnes of cargo other than container were handled in Turkey by the end of 2006. Freight and containers handled in 2006 increased 15 percent compared to the previous year. Nonetheless, since the ports are dispersed and far from economies of scale, 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. Moreover, since the economies of scale could not be attained in ports, enough freight could not be attracted and Turkey could not become a transit country.

Regarding maritime safety, the record of Turkish flag showed considerable improvement, moving towards grey list from black list of the European Union Member States (Paris MoU) with which Turkey has 50 percent of her trade. Besides, Automatic Identification System (AIS), which will improve safety and security in Turkish coasts, began to operate in 2007.

Shipyards Master Plan, which was conducted to identify locations of shipyards that will enhance Turkey's position in world ship building industry, has been completed in 2007.

TABLE: IV. 23- Container Traffic in Mediterranean Ports

Ports	Container (1.000 TEU)
Gioia Tauro – Italy	3,261
Algeciras – Spain	2,936
Valencia – Spain	2,145
Genoa – Italy	1,629
Barcelona – Spain	1,916
Piraeus – Greece	1,542
La Spezia – Italy	1,040
Marseille – France	916
İzmir – Turkey	805
Mersin – Turkey	533
Haydarpaşa – Turkey	317

Source: EU Energy and Transport Figures (2004 figures)

Air Transportation

The number of airports operated by General Directorate of State Airports has reached 36, 20 of which are international. The international and domestic passenger terminals of Atatürk, Esenboğa ve Antalya Airports and the domestic passenger terminals of Adnan Menderes and Dalaman Airports are operated by private sector. Around 95 percent of the passenger traffic occurs at Atatürk, Antalya, Esenboğa, Adnan Menderes, Dalaman, Bodrum/Milas, Adana and Trabzon airports. The investments for additional capacity and projects towards increasing service standard and management of air traffic increases in the level of service at these airports maintain their priorities.

Increase in the demand for the domestic air passenger traffic as a result of the decrease in the tax burden of air transportation continued in 2006 while the tendency of increase in the international air passenger traffic was ended resulting in a decrease in the passenger traffic. As a result, in 2006, the domestic air passenger traffic was 26.6 million passengers with a 33.6 percent yearly increase, the international air passenger traffic was 32.1 million passengers with a 7.1 percent yearly decrease and the total air passenger traffic was 58.8 million passengers with a 7.8 percent growth. Air passenger traffic in 2007 is expected as 36.8 million passengers in international flights with a 14.4 percent yearly increase, 31.4 million passengers in domestic flights with a 17.8 percent yearly increase and 68.1 million total passengers with a 15.9 percent yearly increase.

2. Main Objectives and Targets

The main objective in the transportation sector is timely creation of a transportation infrastructure, which is safe, economical 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 among the transportation sub-sectors and widespread utilization of combined transport are essential.

The fundamental aim in the road transport sector is to build a road network, which is safe and in harmony with other transport modes and provide services at high quality standards, by means of continuing the divided highway construction works primarily on the main corridors having high traffic volumes, converting the pavement of road segments to hot-mix asphalt where heavy traffic volume is high, improving the traffic safety infrastructure and enforcement mechanisms, and eliminating the black spots.

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 will be generalized within intelligent transport systems.

It is planned that the construction of the main body of the Gaziantep-Şanlıurfa Motorway will be completed to a great extent in 2008, while the main body of the Kemerhisar-Pozantı Motorway, which is located on the Ankara-Habur corridor, will be completed in 2009. The linkage road works on the Bursa By-Pass project, which was initiated within the framework of Transformation of Big City

Crossings to By-Pass Roads policy, will be continued. On the northern section of the İzmir By-pass project, the section up to the Sasalı Interchange will be completed.

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

New large scale and hub ports, which will provide continuous and efficient flow of increasing trade and make Turkey a transit country, will be constructed. Particularly, necessary steps will be taken for the implementation of Çandarlı Port project. Efforts will be continued for Turkish ports to take place on the main axes of EU Motorways of the Sea. Besides, the projects regarding maritime safety will be completed as soon as possible. Necessary steps will be continued to be taken to move towards white list from grey list within the context of Paris Memorandum of Understanding. The diminishing role of the government in port operations resulted in emphasis of its regulatory role. A port administration model will be developed to fulfil this role.

In air transportation sector, Construction of Trabzon Airport New Domestic Terminal, Construction of Merzifon Airport New Terminal Building and Construction of Elazığ Airport New Runway will be completed in 2008.

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

In urban transportation, improvement of the quality of service in bus transit systems is the main policy. Rail transit systems will only be planned in the critical corridors which have peak hour travel demand of 15,000 passengers/hour/direction. 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. In urban rail transit projects, the national industry will be used to the highest extent. The municipalities will be promoted to collaborate with the domestic industry from the planning stage to financing of urban rail transit projects in order to increase the international competitiveness. At least 25 percent of the total cost of the rail 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 in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. 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 Transport Networks will be accelerated.				
Measure 1.1. TINA Study will be concluded.	Ministry of Transport	SPO	End of March	TINA (Transport Infrastructure Needs Assessment) Study, which will be the basis for the negotiations in Trans-European Networks Chapter, will be presented to High Planning Council for approval.
Measure 1.2. Projects taking place in Transport Operational Programme will be commenced.	Ministry of Transport	SPO	End of June	Procedures will be concluded for the implementation of Çandarlı Port and Halkalı-Kapıkule Railway Projects that take place in Transport Operational Programme with utilization of the EU funds.
Priority 2. The existing road infrastructure will be improved through the construction of dual carriage highways and by increasing the standards of highways.				
Measure 2.1. The construction of dual carriage highways will be continued.	General Directorate of Highways		End of December	To ensure the fulfillment of 15,000 kms of dual carriage highway target, the construction works on the main corridors will be continued. Within this framework, construction of a total of 500 kms of dual carriage highways will be completed.
Measure 2.2. Physical standards of the roads having heavy vehicle traffic will be improved.	General Directorate of Highways		End of December	250 kms of hot-mix asphalt paved road will be constructed on the routes where the average daily heavy vehicle traffic volume is higher than 1,000.
Priority 3. Traffic safety on the road network will be improved.				
Measure 3.1. The black-spots on the highway network will be eliminated.	General Directorate of Highways	General Directorate of Security, TCDD	End of December	On a priority basis, 70 black-spots will be eliminated and 9 at-grade railway crossings on the state and provincial roads will be upgraded to automatic barriers.
Measure 3.2.Effective freight weight controls will be ensured.	Ministry of Transport	General Directorate of Highways, General Directorate of Security, General Command of Gendarme	End of December	It is planned that freight weight controls will be done effectively by completing the fixed and mobile control systems. Within the framework of Renewal, Improvement and Construction of Weight and Dimension Control Stations project, the preliminary studies on the renewal of the existing stations and construction of additional stations will be completed, and the necessary construction works will be tendered.
Measure 3.3.Guardrails, horizontal-vertical road markings and traffic signs will be improved on the main road corridors.	General Directorate of Highways		End of December	With the priority given to the dual carriage highways recently completed, 450 kms of guardrail installation and repair will be done, 15,000,000 m^2 of horizontal marking will be completed on 55,000 kms of highways and 25 percent of replacement and improvement will be achieved on vertical traffic signs.
Priority 4. Freight transport will be concentrated on railways and maritime.				
Measure 4.1. Connection lines to organized industrial zones, large factories and ports will be constructed with private sector contribution.	Ministry of Transport	SPO	End of December	İzmir Kemalpaşa Industrial Zone (KOSBİ) railway connection line construction will be completed. Tekirdağ-Muratlı Railway will be completed.

Measure 4.2. TCDD's railway fleet will be improved in order to increase freight transport.	TCDD	Ministry of Transport, SPO	End of December	Foreign credit tendering of 80 mainline electric locomotives will be completed. The remaining 23 diesel-electric locomotives which are already under manufacturing in TÜLOMSAŞ will be delivered. Depending on domestic funds, around 600 miscellaneous type freight cars will be manufactured.
Measure 4.3. 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	End of December	Work has been started for the establishment of İstanbul-Halkalı, Kocaeli-Köseköy, Eskişehir-Hasanbey, Balıkesir-Gökköy, Kayseri-Boğazköprü and Samsun-Gelemen logistics centers. Logistics center at Samsun-Gelemen is operational and completion investments are going on. Civil work will be started at Eskişehir-Hasanbey. Project design and land acquisition work continues for other logistics centers. Besides from above logistics centers, design projects were drawn for Mersin-Yenice logistics center. Additionaly, studies are going on for Erzurum, Uşak and Konya.
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 New legislation will be put into force for Railway Sector and TCDD.	Ministry of Transport	TCDD	End of December	Draft Railway Law and TCDD Law will be sent to the Parliament.
Measure 5.2. Affiliated companies and factories of TCDD will be opened to private sector.	TCDD	Ministry of Transport, SPO	End of December	Tendering work for Çankırı Switch Factory, Afyonkarahisar Sleeper Factory and Sivas Sleeper Factory, for which there are High Planning Council decisions regarding the establishment of joint-stock company will be completed.
Priority 6. Passenger transport with high-speed train will be started on the core network consisting of İstanbul-Ankara-Sivas, Ankara-Afyonkarahisar-İzmir, Ankara-Konya and Bursa connection, with Ankara being the central city.				
Measure 6.1. Passenger transport with high-speed train will be started on the core network consisting of İstanbul-Ankara-Sivas, Ankara-Afyonkarahisar-İzmir, Ankara-Konya and Bursa connection, with Ankara being the central city.	TCDD	Ministry of Transport, SPO	End of December	Remaining work for Sincan-Esenkent, Esenkent-Eskişehir, Eskişehir-İnönü sections of Ankara-İstanbul High Speed Project will be completed and put into service and Eskişehir Station Pass will be tendered. Construction will start at İnönü-Vezirhan and Vezirhan-Köseköy sections. Infrastructure of Ankara-Konya High Speed Railway Project (subgrade works and structures) will be completed. Ankara-Sivas and Bandırma-Bursa-Osmaneli, Ayazma-İnönü railway projects will be tendered with the funds obtained from the privatization of TCDD ports.
Priority 7. Port capacities will be increased, ports will be transformed into logistics centres where combined transport will be realized and efficient management of the ports will be ensured.				
Measure 7.1. A port administration model will be established for Turkish ports.	Undersecretariat of Maritime Affairs	Ministry of Transport, SPO, Privatisation Administration, TCDD, Related Municipalities, Chamber of Shipping, TÜRKLİM	End of December	A port authority will be established for the administration of ports in coordination and for implementation of public policies considering individual port needs. In this framework: Studies in order to identify port administration model for Turkey will be completed. Necessary studies will be commenced in order to implement regulatory and institutional measures that will come out as a result of the model.

Measure 7.2. A Coastal Structures Master Plan will be prepared in order to establish large scale ports within a plan instead of dispersed, small scale, low capacity piers/ports.	Ministry of Transport	Ministry of Public Works and Settlement, Undersecretariat of Maritime Affairs, Privatisation Administration, TCDD, Related Municipalities, Chamber of Shipping	End of March	Coastal Structures Master Plan, which will determine available port sites and direct private investors to them in order to construct new large scale and hub ports that will provide continuous and efficient flow of increasing trade and make Turkey a transit country, will be commenced.
Priority 8. Flag, port and coastal state control will be improved and necessary steps will be continued to take for Turkish citizen fleet owners to prefer Turkish flag.				
Measure 8.1. Flag, port and coastal state control will be improved to increase maritime and environmental safety.	Undersecretariat of Maritime Affairs	Ministry of Foreign Affairs, Ministry of Environment and Forestry, Turkish General Staff, Coastal Guard Command, TDİ, KIYEM, Chamber of Shipping	End of September	In order to provide coastal and port state safety, region-wide Vessel Traffic Services (VTS) will be implemented in all coasts, particularly in Marmara, Aegean and Mediterranean Seas. Law on Maritime Safety and legislation that countenances becoming party to SOLAS and MARPOL amendments and annexes will be submitted to the Parliament.
Measure 8.2. Necessary measures will be taken for Turkish citizen fleet owners to prefer Turkish flag.	Undersecretariat of Maritime Affairs	Ministry of Finance, TOBB, CMB	End of June	A report, which will state necessary studies to be conducted and necessary regulations to be enacted in order to bring in the ships owned by Turkish citizens that were operated under different flags, will be prepared.
Measure 8.3. R&D studies will be conducted to improve ship supply industry that will increase domestic contribution in ship building.	Undersecretariat of Maritime Affairs	Ministry of Industry and Trade, KOSGEB, Chamber of Shipping, GİSBİR, GESAD, TÜBİTAK, Universities	End of September	Main products and materials used in ship and yacht building, which are imported therefore cause foreign exchange losses will be identified. Necessary steps will be taken in order to produce those materials in Turkey.
Priority 9. Studies will be initiated for a new airport in İstanbul region.				
Measure 9.1. Site selection and feasibility studies will be started for the third airport.	Ministry of Transport	Governorship of İstanbul, İstanbul Metropolitan Municipality, GDSAA, SPO	End of December	In accordance with the development plans of Istanbul, within the framework of development and transport plans, site selection, design and feasibility studies will be started for a new airport.
Priority 10. Regional air transportation will be improved.				
Measure 10.1. Measures will be taken in the routes where sufficient air transport service is not being delivered in order to deliver continuous air transport service.	Ministry of Transport	Ministry of Finance, SPO, Undersecretariat of Treasury	End of September	In order to provide continuous and regular air transport service, legal studies will be started in order to decrease the costs. Through this legislation measures will be taken that enable the operation of a single airline in some low-demand routes.
Priority 11. Models that will increase the participation of private sector in meeting the transportation infrastructure requirements.				
Measure 11.1. Public-Private Partnerships Law will be enacted.	SPO	Ministry of Transport, Undersecretariat of Treasury	End of June	Legal studies necessary to implement new public-private partnership models to increase the number of sectors, for which public-private partnership models can be applicable, will be completed.

Priority 12. National standards for project selection, finance, implementation and operation of transit systems in urban transportation will be set at both central and local level.				
Measure 12.1 Implementing regulation directed to the evaluation and approval process of the rail transit projects by General Directorate of DLHİ will be prepared.	Ministry of Transport	SPO	End of December	The Law No.3348 which defines the duties of Ministry of Transport requires the approval of urban rail transit projects by the General Directorate of DLHİ. A regulation will be prepared to define the necessary steps to be taken in the process of approval of the projects by the Ministry.

F. PROTECTION OF ENVIRONMENT AND IMPROVEMENT OF URBAN INFRASTRUCTURE

1. Current Outlook

Economic growth, population increase, rapid urbanization, consumption patterns and technological development put a growing pressure on the environment and natural resources. as a result of unsustainable consumption of natural resources, insufficiency of legal and institutional structure regulating environmental management and inadequacy in urban infrastructure, above stated pressure causes important environmental problems.

National Commission for Sustainable Development, which was established to ensure the integration of the sustainable development approach in a systematic way into strategies, plans and programmes, carries on its studies. On the other hand, the Project of Integrating Sustainable Development into Sectoral Policies, which aims integration of sustainable development principles into national and regional development plans in sectoral level, has been continued.

Studies related to our commitments in the scope of UN Framework Convention on Climate Change have been in progress. In this context, "First National Communication on Climate Change Report" was prepared and studies to determine special circumstances of Turkey in the scope of Convention have been initiated. An action plan fostering cooperation between institutions to minimize the impacts of climate change on our country and including measures on improvement of institutional capacity is needed.

"Turkey's National Biological Diversity Strategy and Action Plan", prepared to implement United Nations Convention on Biological Diversity and to solve the problems due to loss of biological diversity, was updated in line with the changing national and international conditions.

Turkey's EU Integrated Environmental Approximation Strategy, which defines financial, technical and institutional necessities for effective implementation of the legislation enacted in the scope of harmonization with EU environmental acquis, was prepared. It is necessary to study on capacity building, efficiency increase and determining the needs in the environmental field since the alignment to the EU acquis is expected to affect the environmental and urban infrastructure investment standards significantly. 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. Environmental Operational Programme for 2007-2009 that is in line with Strategic Coherence Framework, defining the general framework and priorities of EU Instrument for Pre-accession Assistance (IPA), and Turkey's EU Integrated Environmental Approximation Strategy have been prepared. The Operational Programme comprises of drinking water supply and

wastewater services, rehabilitation of integrated solid waste management and technical assistance. the total financial support under this Programme will be distributed as following; 38 percent for wastewater projects, 28 percent for drinking water projects, 28 percent for solid waste projects and 6 percent for technical assistance.

Rapid urbanization caused by population increase and migration from rural areas results in insufficiency in provision of housing, infrastructure and environmental services in urban areas.

There is a need to clarify the principles and scope of the physical plan hierarchy levels, to form their mutual linkages and to determine inner ties by legislative regulations. The activities aiming urban renewal has to be carried out under the legislation which is developed with a comprehensive approach.

The needs of developing financial models in order to meet the housing demand and to solve the housing problems of low income groups, building control, construction quality, planned urban and housing environments, obligatory disaster insurance, land with infrastructure, housing and urbanisation database using geographical information systems are continuing. The Law numbered 5582 which provides opportunity for mortgage system for housing enacted in June 2007.

As of 2007, the population in total 3,225 municipalities is estimated to reach to 87.3 percent of total population of Turkey. For the same year, the population of cities having population above 20,000 is 46.3 million and their urbanization ratio and rate are estimated to be 62.7 percent and 2.4 percent, respectively.

The responsibility for the realization of urban infrastructure investments mostly belongs to municipalities. As of 2004, among all 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.

Turkey is classified as a country which will become a water-stressed country since having yearly amount of 1,735 m^3 potable water per capita and increasing water demand owing to social and economic development. The issues such as insufficient monitoring and evaluation, absence of sanctions, inexistence of only one responsible authority, insufficiency of common database and data flow, lack of coordination and insufficient R&D are the bottlenecks in efficient usage of water resources. Unbilled water amount which also includes losses and leakages is estimated as about 55 percent, even though it is unable to acquire the reliable data on drinking water losses in our country. For this reason, works on decreasing the water losses and leakages have gained importance.

Illegal settlement in the water basin protection zones and discharge of wastewater without treatment make the supply of hygienic and potable drinking water difficult. Measures should be taken in order to protect groundwater, surface and coastal water.

In 2004, 25 million tonnes of solid waste collected by municipalities and only 25 percent of them were landfilled in 16 sanitary landfill sites. In 2007, the number of sanitary landfill sites is 21 and the number of composting facilities is 4. Currently, 25 landfill sites are under construction.

Law No. 5491 obliges hazardous waste producers to dispose or make their wastes disposed. However, hazardous wastes and

medical wastes are disposed with municipal solid waste, without taking adequate measures. As of 2006, 20 percent of total collected medical waste was incinerated, 25 percent of that was disposed in landfills and 55 percent was disposed in municipal dumpsites with municipal wastes. In our country, there is one hazardous waste disposal plant with 790 thousands m^3 capacity.

An effective solid waste management system in national level and policy for the implementation of this policy could not be developed. Although municipalities are mostly complying with their duties on collecting and transporting phases in solid waste management, they don't pay enough attention on the efficiency of solid waste disposal. Especially wild dumping, inaccuracies in the selection of dumping sites and insufficiencies in the operation conditions lead to growing problems. In solid waste management, the waste production should be minimized at first. Besides, the need of public awareness to prepare the waste for collection by separating waste at the source is continuing.

Most of the municipalities could not consider environmental infrastructure with a holistic approach and they also face with problems like deficiency in coordination and inadequacies in finance, machinery-equipment, information, manpower and mainly in the usage of authorizations of sanction. Since the share from the general budget tax revenues could barely meet personnel salary, municipalities could not allocate sufficient finance for urban infrastructure. In that framework, starting with Local Administration Reform, studies on the improvement of local administrations' revenues are being carried on.

To provide the efficiency in meeting the increasing service demand, to increase the quality of services by composing the competitive atmosphere and to increase the financial possibilities, the studies on the privatisation of some services of municipalities have been going on. Privatisation policy for municipal services mostly focuses on transferring of services from public to private sector but, after privatization process, municipalities could not built capacity on necessary auditing and coordination functions.

To solve the problems of municipalities in providing urban infrastructure services and to ensure technical and financial support, restructuring works of Bank of Provinces, a specialized agency in urban infrastructure, are being continued. In this context, providing national co-finance to the projects supported by the grants supplied from EU Instrument for Pre-accession Assistance and technical assistance to municipalities on these projects by the Bank of Provinces present importance.

2. Main Objectives and Targets

In line with sustainable development principles, achieving an adequate environmental protection level and transforming cities into clean, safe, and improved life quality places by protecting human health, natural resources and aesthetic values are the main objectives.

In the formation of safe settlement units and their environments, the physical planning system and zoning rules will be rearranged considering environment quality, efficiency in implementation, distribution of the authorization, audit and resilient to disaster, and adequate building plot submission and methods and tools securing orderly structuring will be developed.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Administrative, auditing and implementation capacity will be improved on the implementation of national environmental legislation.				
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 Institutions	End of December	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 improved. In this scope, "Capacity Building of Ministry of Environment and Forestry in the Field of Noise Management", "Accreditation of Environmental Reference Laboratories" and "Integration of Work Processes" projects will be implemented.
Measure 1.2. To harmonize the national environmental legislation with EU environmental acquis, primary and secondary legislations will be enacted.	Ministry of Environment and Forestry	Ministry of Foreign Affairs, Ministry of Agriculture and Rural Affairs, Ministry of Health, Ministry of Industry and Trade, Undersecretariat of Foreign Trade	End of December	Primary legislation: "Law on the Approval of the Stockholm Convention on Persistent Organic Polluters", and "Law on the Conservation of Nature and Biological Diversity". Secondary legislations: "Implementing Regulation on Large Combustion Plants", "Implementing Regulation on Biocidal Products"(by Ministry of Health), "Implementing Regulation Concerning the Importation into Member States of Skins of Certain Sea Pups and Products Derived Therefrom" (by the Ministry of Agriculture and Rural Affairs), "Implementing Regulation on Integrated Pollution Prevention and Control", "Implementing Regulation on the Control of Pollution Caused by Volatile Organic Compounds", "Implementing Regulation on Ecolabelling" (in cooperation with the Ministry of Industry and Trade), "Implementing Regulation on the reduction of HCFCs" (in cooperation with Undersecretariat of Foreign Trade)
Measure 1.3. Biosafety Law will be enacted.	Ministry of Agriculture and Rural Affairs	Ministry of Environment and Forestry, Ministry of Health, SPO, Undersecretariat of Foreign Trade, Undersecretariat of Customs, Universities, TÜBİTAK	End of December	Draft Biosafety Law, which is prepared to provide legal auditing for biotechnological studies in order not to affect the nature and human health, and regulate the production, usage, trade and other similar activities of genetically modified seed and its products, will be send to Turkey Grand National Assembly after taking the views from related institutions.

Measure 1.4. To develop and extend "Environmental Information System", necessary infrastructure will be established within the related institutions.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Health, TÜBİTAK, TURKSTAT, Environmental Protection Agency for Special Areas, State Hydraulic Works (DSİ), General Directorate of State Meteorological Service, Bank of Provinces, Municipalities, Water and Sewerage Administrations, Other Related Institutions	End of December	In addition to establishment of the technical and hardware infrastructure in the related institutions, for the acquisition of environmental information, "Computer-aided Reporting and Evaluation of the Industrial Plant Emissions Project" will be finalized, automated meteorology stations will be installed in several places by General Directorate of State Meteorological Service.
Measure 1.5. Studies on the development of required infrastructure and capacity to implement cleaner production strategies will be started.	Ministry of Environment and Forestry	Ministry of Industry and Trade, KOSGEB, TÜBİTAK, Universities, NGOs.	End of June	In the scope of a project developed on the subject of cleaner production, to ensure the foundation of the cleaner production centre needed for making cleaner production widespread in Turkey, legal/institutional framework will be determined, pilot studies will be done in the selected sectors and institutional capacity will be developed.
Measure 1.6. Air quality evaluation and management systems will be established.	Ministry of Environment and Forestry	Ministry of Health, General Directorate of State Meteorological Service, TÜBİTAK, TURKSTAT, Local Administrations, Other Related Institutions	End of December	In the context of "Institutional Building in the Field of Air Quality in Marmara Region" project, regional clean air centre, air quality measurement and monitoring stations will be established and laboratory infrastructure will be constituted. "Monitoring the Pollutants Reaching to Turkey by Cross-border Atmospheric Transport and Estimation of the Air Quality in Several Regions by Modelling (IZMOD)" project will be hold by General Directorate of State Meteorology Service.
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. Turkey's National Biological Diversity Strategy and Action Plan (NBDSAP) will be put in force.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Culture and Tourism, SPO, Undersecretariat of Maritime Affairs, TÜBİTAK, Universities, Other Related Institutions	End of September	The actions required to be done for reaching the targets determined in NBDSAP will be evaluated and defining the distribution of the responsibilities between institutions, studies for making the legal and institutional arrangements in this context will be started.
Measure 2.2. According to Ramsar Convention, wetland management plans will be prepared and put into force.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, Ministry of Culture and Tourism, General Directorate of State Hydraulic Works, TÜBİTAK	End of December	Necessary rehabilitation and monitoring studies will be continued according to wetland management plans to be prepared.

Priority 3. Measures for combating with climate change and its probable effects will be taken.				
Measure 3.1. Studies on the combating with the climate change will be started.	Ministry of Environment and Forestry	Related Public Institutions, Universities, NGOs	End of December	Studies on the determination of the special circumstances in the combating with climate change and the development of measures in this context will be carried out. "Harmonization of the National Emission Ceilings Directive (2001/81/EC) Project" will be prepared; "Strengthening the National Climate Change Studies (İKLİME)" will be realized.
Measure 3.2. Studies on the mitigation of the probable effects of the climate change will be started.	Ministry of Environment and Forestry	Related Public Institutions, Universities, NGOs	End of December	"Climate Change Scenarios for Turkey" project will be finalized and pilot study named as "Generating the Risk Maps of the Infectious Diseases Related to the Climate Change with the Help of the Geographical Information Systems" will be hold.
Priority 4. Urban living standards will be raised.				
Measure 4.1. Zoning Law No. 3194 will be rearranged.	Ministry of Public Works and Settlement	Ministry of Interior Affairs, Ministry of Environment and Forestry, Municipalities, Related Other Public Agencies	End of December	With the appraisal of all laws related to zoning, process, authorities and responsibilities in physical planning will be clarified considering urban environment quality and creating safer living areas. In this scope, authority and responsibility duplication will be prevented, transparency in the implementation and control processes will be provided and the standards on building and environment will be improved within the framework of public benefit. Standards and methods for disaster safety related risk mitigation and management will be included into above mentioned legislation.
Measure 4.2. Social housing projects and urban renovation and gecekondu transformation projects will be implemented.	TOKİ	Ministry of Environment and Forestry, Ministry of Public Works and Settlement, Governorships, Municipalities, Other Related Public Institutions	End of December	In the scope of social housing projects for the low and middle income groups and the poor; 30,000 houses with social and technical infrastructure will be built in 2008 and approximately 7,000 houses will be built in the context of urban renovation and gecekondu transformation projects in cooperation with municipalities.
Priority 5. Technical and financial assistance given to municipalities for the urban infrastructure investments will be improved.				
Measure 5.1. "Turkey Urban Infrastructure Master Plan Project" will be started.	Bank of Provinces	Ministry of Interior, Ministry of Environment and Forestry, SPO, General Directorate of State Hydraulic Works, Municipalities	End of June	Urban infrastructure master plan that identifies Municipalities' financial and infrastructure needs in drinking water, sewerage, treatment plants and solid waste services will be prepared.

Measure 5.2. Bank of Provinces will be restructured.	Bank of Provinces	Ministry of Interior, Ministry of Finance, Ministry of Environment and Forestry, SPO, Undersecretariat of Treasury, BRSA, CMB	End of December	Financial structure, human resources and institutional capacity of Bank of Provinces will be developed to give technical and financial support to the municipalities. To this end, the Draft Law on Bank of Provinces Corporation which is currently on progress in Turkish Grand National Assembly will become law. To provide co-finance to urban infrastructure projects granted from European Union, a financing mechanism will be formed.
Priority 6. Works on effective and integrated management of water resources will continue.				
Measure 6.1. Works on effective and integrated management of water resources will be carried on.	Ministry of Environment and Forestry	Ministry of Foreign Affairs, Ministry of Health, Ministry of Agriculture and Rural Affairs, SPO, General Directorate of State Hydraulic Works	End of December	A strategy document to build integrated management of water resources legally and institutionally including ground and surface water resources and collecting all in one structure will be prepared.
Priority 7. Solid waste management will be made effective.				
Measure 7.1. National and regional solid waste management plans will be prepared and Solid Waste Master Plan Study will be finalized.	Ministry of Environment and Forestry	Ministry of Interior, SPO, Secretariat General for EU Affairs, Bank of Provinces, Municipalities	End of December	According to national legislation, national and regional solid waste management plans will be prepared in order to benefit from EU funds. To ensure the efficiency in issues such as building sanitary landfills, reduction of waste amount, recycling, collection, transportation and transferring of waste, planning works will be executed by unions of local administrations.
Measure 7.2. Solid waste disposal plants will be made widespread.	Ministry of Environment and Forestry	Ministry of Interior, Ministry of Finance, SPO, Undersecretariat of Treasury, Bank of Provinces, Municipalities, Unions of Municipalities	End of December	Landfilling will be preferred as the most economic way of municipal solid waste disposal and the implementation of the model of union drawn by the Law No. 5355 will be supported to decrease costs considering geographic and economic conditions, benefit from economies of scale and ensure the efficiency in solid waste management.

G. ENHANCING R&D and 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 2005, the share of R&D expenditures in GDP was 0,79 percent in Turkey, whereas EU average was 1,74 percent. Due to the increase in the public funds allocated to this area since 2005 and private sector investments, the share of R&D expenditures in GDP is expected to rise.

Private sector has the most important role for turning R&D studies into products and for increasing the contribution of these studies in enhancing competitiveness. Whereas 24,2 percent of R&D activities were carried out by the private sector in 2004, this raised to 33,8 percent in 2005 indicating a substantial increase. On the other hand, this figure still falls behind the EU average of 63 percent.

The number of full time equivalent R&D personnel per thousand labour force in Turkey in 2005 was 2,23, considerably below the EU average of 9,9 in 2004. Moreover, only 30,4 percent of the R&D personnel were employed by private sector in Turkey, whereas this ratio was 51,5 percent in EU countries as of 2004.

The R&D infrastructure exists mainly at the universities and public research institutions and 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 2006.

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 centers and university-industry common research centers are continued to be supported. By October 2007, the number of technology development zones was 28, and currently 15 of them werle in operation.

In order to support private sector R&D activities, TUBITAK, Technology Development Foundation of Turkey (TTGV), Undersecretariat for Foreign Trade, Ministry of Industry and Trade, and KOSGEB provide loans and grants to firms which pursue R&D. Studies are continued for enforcement of the draft law, which is prepared with the aim of arranging the tax incentives regarding R&D, within the year 2007.

The need for improving the monitoring and evaluation of the applied policies and support mechanisms in the field of science and technology still continues.

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.

Memorandum of understanding signed for the participation within the Seventh Framework Programme of EU in the Science and Technology Field put into force by being published in the Official Gazette No. 26567 dated 29 June 2007.

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 in Charge	Institutions to be Cooperated	Period	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. To improve evaluation and operational effectiveness of the National Innovation System, a National Innovation Strategy and Action Plan will be prepared.	TÜBİTAK	Ministry of Industry and Trade, SPO, Related Public Institutions, Private Sector, Local Administrations, NGOs	End of December	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. Through providing the cooperation and coordination between the institutions within the science and technology sector, the mission, authority and responsibilities of the institutions will be redefined.
Measure 1.2. Regional innovation systems will be defined and supported.	TÜBİTAK	SPO, TOBB, YÖK, Related Public Institutions, Universities, Public Institutions, Private Sector, Local Administrations NGOs	End of December	To support regional development and increase competitiveness of regions, the establishment of cooperation network which will cover private sector, universities, public institutions and local dynamics, and operate in innovation axe will be supported.
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	UFT, KOSGEB, Private Sector, TTGV, TOBB, NGOs.	End of December	Through supporting R&D projects that will be implemented in the industry, the innovation culture will be created and the demand 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 and to spread 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	End of December	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, KOSGEB, Undersecretariat of Treasury, Vocational Institutions, TUBITAK	End of December	To encourage R&D based entrepreneurship, venture capital supports will be increased. To establish new technology firms, seed capital support will be provided.
Measure 2.4. Studies will be initiated to support putting into application of the results of the technology development activities.	Ministry of Industry and Trade	Ministry of Finance, SPO, TUBİTAK, Universities, Related Public Institutions, Private Sector, NGOs.	End of December	Support mechanisms will be developed for transforming the results of the technology development projects into products and for protecting and marketing of the intellectual and industrial property rights.
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	End of December	The Technology Development Zone Law No.4691 will be updated, 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. Scientific and Technological Cooperation Networks and Platforms (İŞBAP) will become more prevalent.	TUBITAK	YÖK, Universities, Private Sector, Public Institutions	End of December	İŞBAP Establishment Undertakings Support Program will be continued and in additional to the joint research centers, new cooperation channels will be formed.
Measure 3.3. In universities, certain number of postgraduate thesis will be defined toward fulfilling the needs of private sector and supported.	Ministry of Industry and Trade	Ministry of Finance, SPO, TUBITAK, YÖK, Universities, Private Sector	End of December	Industry Thesis (SANTEZ) programme will be continued.
Priority 4. Public Procurement System will be ensured to have a structure that encourages R&D studies and development of national technologies.				
Measure 4.1. Researches aiming to fulfil the needs and expectations of public institutions will be supported.	TUBITAK	SPO, Related Public Institutions, Universities, Private Sector	End of December	Public institutions will be supported to conduct research towards their own needs, and for developing operational policies. Moreover, R&D awareness in public institutions will be enhanced.
Measure 4.2. 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**.**	MoND	The Chief of General Staff, Undersecretariat for Defense Industries, TUBITAK, Universities, Public Research Institutions, Defence Industry Institutions	End of December	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 of those other than the main weapon system projects.

Priority 5. Collaboration with countries and international organizations, EU countries in particular, having advanced science and technology capacities will be enhanced.	TUBITAK	Ministry of Finance, SPO, EUSG, YÖK, Universities, Private Sector, NGOs	End of December	The 7th Framework Program Turkish Network, which is formed in order to increase the benefit obtained from EU Framework Programmes, will be empowered. For this purpose, coordinated studies with institutions, capacity building and training activities, national and international cooperation initiatives will be supported; the R&D potential of the country will be promoted on abroad; the cooperation between the European technology programmes and national technology programmes will be ensured and the participation of private sector in 7th Framework Programme will be encouraged. Additionally, formation of cooperation with the other countries will be supported within the context of 2007-2010 International Science, Technology and Innovation Strategy Implementation Plan.
Priority 6. The awareness of society about science, research, technology and innovation will be increased.	TUBITAK	Ministry of National Education, SPO, Universities, TÜBA, NGOs	End of December	The establishment of science parks and museums continues. 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.

H. DISSEMINATION OF INFORMATION AND COMMUNICATION TECHNOLOGIES

1. Current Outlook

Electronic communications sector has entered a new era after the liberalization that has started in 2004. In this period, after the cease of monopoly new operators entered into the market, Turk Telekom was privatized at the end of 2005, and sectoral regulations has been accelerated.

237 operators are authorized by the Telecommunications Authority as of September 2007. In order to establish facilities-based competition, authorizations have started in infrastructure operations. Although, new operators that entered into the market started to operate the public organizations' fiber infrastructure, satisfactory competitiveness in this market has not emerged yet. The annex of the Implementing Regulation On Authorization, which authorizes cable platform operations, was cancelled by the Council of State.

Amendment to the implementing regulation regarding fixed-line telecommunications services authorization, which is expected to establish competition in local telephone services market, was completed in August 2007, however, no authorization has been granted yet. Although Turk Telekom and several operators signed local loop unbundling agreements and test operations have started, there are significant delays in this issue.

Turk Telekom's new tariffs that became effective at the beginning of 2007, have been carried to the court and the litigation process still continues. On the other hand, the broadband access tariffs were reduced.

In 2007, the Telecommunications Authority issued Implementing Regulation on the Access and Interconnection, Implementing Regulation on the Determination of Operators with Significant Market Power, Implementing Regulation on the Inspection, Implementing Regulation on the Number Portability and made significant amendments in Implementing Regulation on the Authorization.

The third generation mobile license tender of September 7th, 2007, with only one operator showing interest, was cancelled due to lack of competition by the Telecommunications Authority. Preparations for a new tender have started.

Draft Law on Electronic Communications that has been prepared in line with the recent developments in the sector and the EU regulations is expected to be enacted in 2008. The Draft Law lays down the legal basis for regulations, simplifies the authorization procedure, and defines the policy-making and regulatory functions.

After the 2001 crisis, the growth of information and communication technologies sector continues at steady pace. It is expected that the size of telecommunications market will reach USD 15.5 billion, and the size of information technologies market will reach USD 4.8 billion by the end of 2007 with a growth rate of 12 percent and 17 percent, respectively, compared to 2006.

The number of fixed telephone subscribers reached to its maturity, however, the growth in the number of mobile subscribers still continues. In parallel to the expansion of DSL infrastructure, the number of broadband subscribers is increasing rapidly. However, the 5.2 percent broadband penetration rate as of June 2007 is still low compared to EU-member States.

A sectoral reform is needed in postal sector for a gradual and controlled liberalization and restructuring of the sector in competitive understanding parallel with the EU legislations. However, no substantial progress has been

TABLE: IV. 24- Main ICT Indicators

	2005	2006	2007(1)
PSTN Capacity (Thousand People)	21,192	21,100	21,000
PSTN Subscribers (Thousand People)	18,978	18,832	18,500
PSTN Penetration (Percent)	26.3	25.8	25
Mobile Subscribers (Thousand People)	43,608	52,663	62,000
Mobile Penetration (Percent)	60.5	72.2	83.9
Broadband Subscribers (Thousand People)	1,590	2,774	4,650
Broadband Penetration (Percent)	2.2	3.8	6.3
Internet Penetration (Percent)(2)	13.9	18	25
Cable TV Subscribers (Thousand People)	1,199	1,208	1,100
ICT Market (Billion US dollars)	15.8	17.9	20.3
-Telecommunications	12.4	13.8	15.5
-Information Technology	3.4	4.1	4.8

Source: Telecommunications Authority, TURKSTAT, IDC (International Data Corporation)
(1) Realization Estimate (SPO)
(2) The ratio covers 16 - 74 age group. TURKSTAT Household ICT Usage Survey results for 2005. The figures for 2006 and 2007 are

achieved in legislative studies started in this context.

The duties of TRT Corporation, which are publicly financed in the context of public service broadcasting, must be clearly defined and the Corporation must be restructured such that it will have a sustainable financial structure. The regulations should be made in a way that respects constitutional autonomy while guaranteeing accountability and that does not distort competition in the market.

Legal and technical infrastructure studies on the policy of transition to DVB-T are being executed through the coordination of Ministry of Transport. In this context, trial DVB-T broadcasts launched in Ankara, Istanbul and Izmir are continued by TRT. In April 2007, a company was established by TRT and 17 private firms in order to perform DVB-T broadcasts by common transmitters.

2. Main Objectives and Targets

Main objective is accelerating the transformation into an information society and contributing to increase in competitive power and welfare of Turkey via dissemination and effective usage of information and communication technologies.

Regulatory role of the state will be made effective, alternative infrastructure and services will be made available, and problems negatively affecting the potential development of the market and information society services will be eliminated in order to improve the service capability of electronic communications sector in a globally competitive environment.

It is expected that telecommunications service market will reach USD 17.5 billion and information technologies market will reach 5,8 billion US dollars by 2008 with a growth rate of 13 percent and 21 percent, respectively, compared to the previous year. It is envisaged that mobile telephone and broadband subscribers' penetration will reach 96,3 percent and 10 percent, respectively, at the end of 2008.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Electronic communications sector will be made more competitive by attaching importance to the provision of alternative infrastructure and services.				
Measure 1.1. Number portability will be made operational.	Telecommunications Authority	Ministry of Transport, SPO	End of December	Competition in the sector will be facilitated through enabling subscribers to switch to another operator without changing their numbers.
Measure 1.2. Regulatory works for broadband wireless access service authorizations will be made.	Telecommunications Authority	Ministry of Transport, SPO	End of September	Broadband wireless access services will be made available, by introducing alternative offers to existing broadband infrastructure, so, the competition in the broadband access market will be increased.
Measure 1.3. Regulatory works for mobile virtual network operators will be made.	Telecommunications Authority	Ministry of Transport, SPO	End of September	The regulations that will enable alternative operators to offer mobile services by using the existing operators' infrastructure will be completed.

Priority 2. Regulations which are needed to establish effective competitive environment in the sector will be realized and effective and timely execution of the current regulations will be ensured.				
Measure 2.1. Law on Electronic Communications will be enacted.	Ministry of Transport	SPO, Telecommunications Authority	End of June	The Law, which is of high importance in terms of constituting the basis for many prospective secondary regulations in the sector and defining the general principles of the sector, will be enacted.
Priority 3. Access to information and communication technologies, especially broadband access, facilities of all society will be improved.				
Measure 3.1. Authorization studies on next generation mobile telecommunication services will be continued.	Telecommunications Authority	Ministry of Transport	End of December	Authorization studies on next generation mobile systems, which will enable broadband access and many applications, will be carried on.
Priority 4. 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.				
Measure 4.1. Policy setting, regulating and operating activities will be separated in the postal sector.	Ministry of Transport	PTT, SPO	End of December	By a new law which will entirely regulate the postal sector and replace the current Postal Law No. 5584, 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.
Measure 4.2. Regulations will be made to gradually liberalize the postal service market by taking EU regulations into consideration.	Ministry of Transport	PTT, SPO	End of December	With the new Postal Law, the process of gradually reducing the scope of postal monopoly on the basis of quantitative criteria will be started. The target of the liberalization is to allow new operators to enter the market and enhance competition in order to increase consumer welfare by lower prices, higher quality and new types of services.
Measure 4.3. Necessary legal arrangements will be made to adapt Directorate General of PTT to the prospective competitive environment in the sector.	Ministry of Transport	PTT, SPO, Undersecretariat of Treasury	End of December	In the context of restructuring of the postal sector, a law will be enacted to prepare Directorate General of PTT to the prospective competition in the postal market by defining appropriate organizational structure for PTT's role in the sector and policies to follow.
Priority 5. 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 5.1. The role of TRT Corporation in public broadcasting will be defined and the Corporation will be restructured. Legal amendments will be realized in order to provide the Corporation with a well-established and sustainable financial structure.	Responsible State Ministry for the TRT	TRT, Radio and Television Supreme Council (RTUK), SPO	End of December	Necessary amendments on Law No. 2954 will be made in order to restructure TRT Corporation by defining its role in the context of public service 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 5.2. Legal infrastructure needed for a well-arranged transition to digital broadcasting will be finalized, technical infrastructure studies will be continued and parallel broadcasting will be started in cities set by Communications High Board.	RTUK	Telecommunications Authority, TRT, Ministry of Transport, SPO	End of September	Legal amendments on Law No. 3984 will be made regarding the transition to DVB-T; digital and analog broadcasting will be performed simultaneously in the cities set within the implementation plan of Communications High Board.
Measure 5.3. Legal arrangements will be made for harmonization of the broadcasting sector with EU.	RTUK	-	End of September	Necessary amendments on Law No. 3984 will be made and secondary legislation will be developed in parallel Television Without Frontiers Directive regarding definitions, right of jurisdiction, major events and promotion of independent productions.

I. IMPROVING AGRICULTURAL STRUCTURE

1. Current Outlook

Agricultural sector, growing at 2.9 percent, recorded 9.2 percent share in GDP and 27.3 percent share in total employment in 2006. The requirement for transformation in agriculture persists due to structural problems such as fragmented lands, small scale holdings and organizational deficiencies. Meanwhile, preparations for harmonization to EU acquis in the fields of agriculture and rural development, food safety, veterinary and phytosanitary, and fisheries are continuing.

Land and Water Resources

2006 statistics show that Turkey's total agricultural land is 25.8 million hectares, of which 17.5 million hectares are sown, 4.7 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.

The quality and quantity of land available for agriculture decreases mainly due to the reduction in fertile land resulting from widespread erosion and non-agricultural use, and deterioration resulting from wrong use of fertilizers and pesticides. The February 2007 amendments to the Law No. 5403 on Soil Conservation and Land Use rules that further parceling of agricultural lands even due to inheritance under certain sizes is not allowed and that public institutions in general are authorized to implement land consolidation services in their field of activities.

Additions to irrigated land by State Hydraulic Works (DSI) averaged 41 thousand hectares per year in the period of 2001-2005, and 69 thousand hectares for 2006. However, 54 thousands hectares in 2005, 47 thousands hectares in 2006 could not be irrigated due to water shortage. This fact points out the importance of adopting water saving irrigation techniques. Moreover, efforts to increase the efficiency of water consumption for irrigation by means of pricing related to irrigation tariffs that is to be proportional to the actual amount used appears to take greater attention.

High demand to agricultural infrastructure and especially irrigation results in the allocation of three quarters of all agricultural sector public fixed capital

investments to DSI projects. Despite the rationalization of investments during the Eighth Development Plan period, rational use of funds could not have been achieved due to the large number of projects in the investment portfolio. The average duration for completion of projects in DSI investment portfolio is 26 years. To shorten this duration, the need to diversify and increase financial resources, which are allocated to irrigation, and to prioritize project stock continues.

Climate change caused by global warming, and possible droughts are expected to affect the countries in the Mediterranean Basin including Turkey. Therefore, in order to mitigate the effects of agricultural droughts, the principles and procedures related to drought preparedness planning and drought management activities were set by the decree 2007/12477, issued in August 2007. In this context, an Agricultural Drought Preparedness Strategy and Action Plan has been prepared.

Plant Production

Increase in value added in agricultural sector mainly arises from plant production where changes in yields directly affect growth of the sector. Present structure of the sector prevents the increase in both productivity and income level of producers. In 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 a suitable price.

Organic farming, which is a kind of production taken protection of human health and ecological balances into account, has been developing in our country. Efforts on increasing the share of organic farming areas in total agricultural land and harmonization efforts with the EU acquis related to this issue continue.

The Law No. 5300 on Agricultural Products Licensed Warehouse has been put into force in 2005, but there has been no licensed warehouse established and operated yet either by public or private sector.

In our country with different ecological agricultural regions and, linked to this, substantial genetic resources, it is important to prevent air, soil and water pollution by taking an integrated approach for combating against plant disease and pests, to ensure production of products free of chemical residues and to improve the cooperation between the public and producers.

There has been substantial changes in demand and supply balance of agricultural products particularly oil seeds parallel to the increase in demand for the raw materials used in production of bio-fuel of which demand has increased alternatively to the fossil based fuels.

Animal Husbandry

In spite of a high animal population in Turkey, productivity remains low. While average cattle carcass weight is 270-280 kg in countries, which are developed in animal husbandry, it is 195-200 kg in Turkey, and while milk yield per cattle is 5-6 thousand kg in countries mentioned above and 2 thousand kg per cattle in Turkey.

According to 2006 statistics, out of a total of 11 million heads of cattle, 43 percent of is cross bred and 25.5 percent is pure-bred. The share of native-bred sheep, which have relatively low productivity in total sheep population is 97 percent. For the purposes of animal breeding and supply of qualified cattle bred, 1.8 million artificial insemination were realized in 2006, and this figure is expected to reach to 2.1 million in 2007.

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 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 suitable for country conditions continues.

In this framework, within the context of EU Pre-Accession Assistance, Border Inspection Posts Project, Control of Rubies Project, Control of Foot and Mouth Disease (FMD) Project and Avian Influenza and Human Pandemic Preparedness and Response (APL) Project put into practice in 2007.

Fisheries

Despite the availability of rich water resources, the ineffective use of resources, inability of conducting needs driven R&D, lack of awareness in the producers, environmental problems and poor institutional infrastructure are still the important problems of the sector.

Fisheries production, of which essential part is based on capture fisheries, is 662 thousand tonnes in 2006. With the production supports provided in the recent years, aquaculture production has increased significantly and its share in the total production has reached 20 percent levels. According to FAO data, Turkey is the 3rd country in terms of aquaculture production growth rate in the period of 2002-2004.

Draft Law on Amendments of the Fisheries Law, prepared by taking into consideration the needs of harmonization with EU acqui and comprising measures in order to increase the effectiveness of protection and control services, to constitute sustainable fisheries and to produce high quality products compliant with the market needs, is expected to be put into force in 2008. Additionally, in order to conduct controls at the landing points, office buildings have been constructed in 33 fisheries harbours and the work on information systems to establish a sound and functioning data collection has been 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 superstructre. Furthermore, it is essential to solve the problems related with the coordination and task assignment of institutions regarding the selection of location, transfer of management, leasing and control of fisheries harbours.

Forestry

While per capita forest area is about 0.62 hectares worldwide, the figure is 0.15 hectares for Turkey. While 4 percent of country's forests are set aside as protected areas considering biological diversity, water and wildlife, this figure is about 11 percent in the world. About 2 percent of world's plantations aimed at industrial wood production and soil conservation is realized in Turkey. Including 86 thousand hectares completed in 2006, 2.6 million hectares of industrial and soil protection plantations have been realized as of the end of 2006. Meanwhile, a total area of 1.58 million hectares have been damaged by forest fires, including 11 thousand hectares burned by September 2007.

No completion of forest cadastre works mainly because of the long legal proceedings, and inadequacy of annual plantations considering long term needs constitute the main issues for the sector.

Agricultural Supports

The restructuring process of agricultural supports is going on in the context of the Agricultural Strategy Document (2006-2010) accepted by High Planning Council at the end of 2004, and the Law on Agriculture enacted in 2006. In this direction, the approach of handling Direct Income Support (DIS) payments with production policy tools, is still pursued.

In this framework, the share of DIS payments in agricultural support budget is envisaged to be phased down to 45 percent. The ratio has been realized at about 56 percent in 2006 and expected to display a 44 percent level in 2007. Apart from that, although Strategy Paper suggests a 13 percent share for premium payments, it has been realized as 27 percent share in agricultural support budget in 2006. This share is expected to reach a level of 32 percent in 2007.

Total area registered under DIS scheme has been 16.3 million hectares in 2006, as 2.6 millions of producers received payments within the context of this scheme. In addition to basic DIS payment area, additional DIS payment practice, introduced in 2005, is still available for those producers who have soil analyses and engage in organic farming activities. Besides, the implementation of area based fuel oil and fertilizer support scheme, which was started in 2005, has been continued.

In order to establish institutional capacity for implementation of EU Rural Development Policies, the implementation of supports for rural development investments, which has started in 2006 and aims to support investments in processing, handling and marketing of agricultural products of both natural persons and legal entities, has been carried on.

Government Supported Agricultural Insurance mechanism has put into practice in 2006, pursuant to the Agriculture Insurance Law No. 5363, to compensate the losses of farmers and breeders resulting from risks and uncertainties threatening the crop production and animal husbandry in our country. In the scope of the implementation, the number of issued insurance policies, related to the risks under assurance especially on the subjects such as hail, frost, and animal life, has reached to 221 thousands, and YTL 30 million government support has been provided.

In order to enhance competitiveness in agricultural exports, necessities for directing export subsidies towards consumer oriented, high value added and brand name products, and efficient use of scarce public resources, still remain. The structural problems that were getting chronic type and deepened due to previous years' implementations in the related products' markets, are ought to be solved by measures related to production stage.

Food Legislation, Implementation and Sectoral Regulation

Practices for the harmonization of Food Law No. 5179 and Feed Law No. 1734 with the EU acquis continue. 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. However, these services have been foreseen to be implemented by Ministry of Agriculture and Rural Affairs, the competent authority in the Food Law No. 5179. New legislative changes are to solve the administrative and legal problems in food control services.

Improvement of food control infrastructure in Turkey continues via establishment of a National Food Reference Laboratory, a risk analysis system and an information network system for food safety. The completion of legislative convergence of food safety system to that of EU is considered important to lead a healthy working system.

TABLE: IV. 25- Selected Indicators for Agriculture Sector

	2005	2006	2007 (1)	2008 (2)
Irrigation Area Built by DSI (Net Cumulative, Million Hectares)	2.46	2.53	2.60	2.67
Land Consolidation Area by General Directorate of Agricultural Reform (Cumulative, Million Hectares)	0.16	0.18	0.23	0.27
Share of Certificated Cereal Seeds Usage (Percent)	22.9	27.0	28.0	30.0
Share of Organic Farming Areas in Total Agricultural Land (Percent) (3)	0.8	0.8	0.8	0.8
Share of Cross-bred and Pure-bred Cattle in Total Cattle Population (Percent)	65.5	68.7	70.0	71.5
Industrial and Soil Conservation Plantations (Cumulative, Million Hectares)	2.52	2.60	2.66	2.69
Number of Issued Insurance Policies Under State Assisted Agricultural Insurance (Thousands)	-	12.3	250.0	350.0

Source: MARA, MEF, SPO, DSI, General Directorate of Agricultural Reform
(1) Realization Estimate
(2) Estimate
(3) Organic farming areas cover the fields where certified producing is carried out and natural gathering is done and which are at transition period.

In the sugar sector, the privatization process is planned to be completed in 24 months starting from October 2007 according to the decision of Privatization High Council. To dissolve the uncertainties of privatization process, it seems to be important to determine the investment priorities and restructuring needs of public sugar factories. Launching of new private sugar factories creates further problems related to the implementation and monitoring of current system of sugar production quotas.

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.

The transformation in agricultural structure will be given high priority to cope with competitive pressure within the Union after EU accession while implementing policy tools that will direct agricultural production according to demand conditions.

Organization of producers for various purposes in a way to increase their productivity and competitiveness in marketing will be ensured.

Agriculture support policies of which the framework is determined with the Agriculture Law, will be enhanced through new implementation elements for increasing productivity.

Problems related to the quality and quantity of agricultural statistical data will be eliminated, information infrastructure and administrative structure that are needed for effective implementation of agricultural policies, will be improved.

In line with EU acquis, services provided by the public sector in the areas of phytosanitary, animal health and food safety will be carried out within an integrated framework.

Achieving efficient use of land and water resources, through use of agricultural lands according to their potentials and purposes, and with 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 irrigation infrastructure and land consolidation will be the main objective.

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.

While considering the protection of ecosystem in forestry activities, plantation works will be carried on regarding social needs, facts of global warming and desertification.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Necessary institutional and administrative transformation will be given priority in the period of accession to EU.				
Measure 1.1. Decree Law on establishment and duties of Ministry of Agriculture and Rural Affairs will be reviewed in terms of contemporary needs and a new law will be enacted.	Ministry of Agriculture and Rural Affairs	Ministry of Finance, Ministry of Industry and Trade, Ministry of Environment and Forestry, Ministry of Health, Ministry of Interior, SPO, Undersecretariat of Treasury, UFT, TOBB, TZOB	End of December	After reviews by the related institutions' and their comments, the draft law will be finalized, considering the subjects such as; functional organization needs arising from the alignment process with EU, the need to carry out services on soil conservation and land usage, agricultural research and development and extension in an integrated way.
Measure 1.2. Law Amending Some of the Provisions of Sugar Law will be enacted.	Ministry of Industry and Trade	Ministry of Agriculture and Rural Affairs, Turkish Sugar Authority	End of September	More effective management of sugar production quotas and monitoring activities is aimed to be provided and administrative arrangements are aimed to be completed considering changes in the EU sugar policy.
Measure 1.3. A restructuring and activity programming will be prepared for TİGEM.	Ministry of Agriculture and Rural Affairs	SPO, Undersecretariat of Treasury, TİGEM	End of December	A strategy will be prepared covering the subjects of directing the enterprises of TİGEM towards areas where limited or no private sector activities are performed, restructuring of the institution considering the usage of the enterprises which does not serve for the explained purposes by private sector and an activity programme. Afterwards, taking this strategy as a basis, a draft law will be prepared to set the conditions to hire those enterprises.
Measure 1.4. Law on Alcohol and Alcoholic Drinks will be enacted.	TAPDK	Ministry of Finance, Ministry of Agriculture and Rural Affairs	End of December	Law on Alcohol and Alcoholic Drinks will be enacted in order to ensure harmonization with regulations of EU's wine common market organization.
Measure 1.5. An amendment will be made in the Law No. 4572 on Agricultural Sales Cooperatives and Unions	Ministry of Industry and Trade	Ministry of Agriculture and Rural Affairs, SPO, Undersecretariat of Treasury	End of December	A law that amends the Law No.4572 will be enacted, in order to cover regulations towards ensuring unions with sustainable financial and administrative structures and remove the transitional articles regarding the restructuring period mentioned in that Law.
Priority 2. Legislative regulations which will ensure the producers to organize for various purposes in a way to increase their productivity and competitiveness in marketing will be done.				
Measure 2.1. A draft law, which will amend the provisions on establishment permissions, monitoring, control and auditing of the organizations, in the legislation of agricultural producer organizations, will be prepared.	Ministry of Agriculture and Rural Affairs	Ministry of Finance, Ministry of Industry and Trade, SPO	End of December	The legislation on agricultural producer organizations will be changed via a new draft law to be prepared, where establishment permissions of the organizations and monitoring of their activities will be carried out by MARA, internal auditing will be done by the organizations themselves and external auditing will be handled by independent auditing agencies.

Priority 3. Agricultural supports will be restructured within the framework of Agricultural Strategy Paper (2006-2010) and Agriculture Law No. 5488.				
Measure 3.1. Animal husbandry supports will be simplified and restructured in a target-oriented way.	Ministry of Agriculture and Rural Affairs	Ministry of Finance, Ministry of Industry and Trade, Ministry of Environment and Forestry, SPO, Undersecretariat of Treasury, Undersecretariat for Foreign Trade	End of June	Animal husbandry support tools that are relatively large in number of measures will be simplified, and the related Decree (2005/8503) will be restructured in a view to ensure resource and transfer efficiency.
Measure 3.2. A Decree on the roles of producer organizations in the implementation of agricultural supports will be enacted.	Ministry of Agriculture and Rural Affairs	Ministry of Finance, SPO, Undersecretariat of Treasury, EUSG, Producer Organizations	End of December	In order to include producer organizations in the process of implementation of agricultural supports, a Decree that determines the support themes, criteria for selection of organizations, payment to producers and the principles of a pilot implementation will be enacted.
Priority 4. The information infrastructure regarding the implementation of agricultural policies will be established and administrative structure will be improved.				
Measure 4.1. By-law on Establishment of Farm Accountancy Data Network (FADN) will be enacted.	MARA	TURKSTAT	End of December	The by-law that will set the procedures and principles of the administrative and legal actions towards the establishment of FADN system and related pilot works, will be enacted.
Priority 5. Services provided by the public sector in the areas of phytosanitary, animal health and food safety will be carried out within an integrated framework considering EU acquis.				
Measure 5.1. The legislative arrangements on food, feed, food hygiene and veterinary services as well as plant health will be completed.	MARA	Ministry of Health, Ministry of Interior, Ministry of Justice, SPO, Undersecretariat for Foreign Trade, Undersecretariat of Customs	End of June	To offer public services on plant and animal health and food safety issues in an integrated frame, a draft law in harmony with the EU acquis is prepared and is going to be enacted after the necessary corrections and views of stakeholders are incorporated in the text.
Priority 6. The structure of agricultural product markets will be strengthened in order to increase their competitiveness within the Union after EU accession.				
Measure 6.1. A legislative arrangement for Contract Farming will be done.	Ministry of Agriculture and Rural Affairs	Ministry of Industry and Trade, TOBB, TZOB, Producer Organizations, Universities	End of September	As an instrument to provide agriculture-industry integration, contract farming activities are going to be regulated by putting an implementing regulation on the methods and principles of contract farming into force.
Measure 6.2. Law on Marketing Standards for Agricultural Products will be enacted.	Undersecretariat for Foreign Trade	Ministry of Agriculture and Rural Affairs, Ministry of Industry and Trade, TSE	End of December	In parallel with the implementation within EU, related legislative works will be finalized in order to implement marketing standards for the trade of agricultural products.

Measure 6.3. The draft law that envisages an amendment on the legislation of geographical indicators will be enacted.	Turkish Patent Institute	Ministry of Justice, Ministry of Agriculture and Rural Affairs, Ministry of Industry and Trade	End of September	Legislation of geographical indicators will be updated, with the aims to determine the conditions and rules regarding the protection of those products with a local or traditional feature under the name of geographical indicator or product with traditional feature, and to eliminate problems arising in the implementation.
Measure 6.4. Agricultural basins will be determined.	Ministry of Agriculture and Rural Affairs	Ministry of Environment and Forestry, SPO	End of December	Agricultural production policies aiming to increase productivity and efficiency, will be implemented on the basis of agricultural basins, so as to minimize adverse environmental effects considering the ecological balance. In this context, a strategy paper, which will be the base for the Decree to be enacted as required by the article 14 of Law on Agriculture No. 5488, will be prepared after the completion of the works on determination of basins.
Priority 7. Efficient use of land and water resources will be fundamental.				
Measure 7.1. Flaws in restriction of allocating agricultural lands for non-agricultural use will be determined and reported.	Ministry of Agriculture and Rural Affairs	-	End of September	In order to form a basis for later legal arrangements, flaws encountered in the application of legislation that restricts allocation of agricultural lands for non-agricultural purposes, and those clauses in opposite direction identified in other legislation will be reported.
Measure 7.2. Law on Irrigation Associations will be enacted.	Ministry of Environment and Forestry	DSI	End of September	In order to enhance efficient use of water resources and remove legislative gaps in participatory water use and management, draft Law on Irrigation Associations will be forwarded to the Grand National Assembly.
Priority 8. Irrigation and land consolidation investments will be expanded.				
Measure 8.1. Build-operate-transfer (BOT)efforts in irrigation investments will be accelerated.	Ministry of Environment and Forestry	SPO, DSI	End of December	In order to overcome financial constraints and provide non-governmental funds to accelerate irrigation investments, BOT mechanism will be finalized and a pilot project will be started.
Measure 8.2. Land consolidation works will be accelerated.	Ministry of Agriculture and Rural Affairs	Ministry of Interior, SPO, DSI, General Directorate of Agricultural Reform	End of December	Within the context of revised legislation, land consolidation works will be accelerated to solve the problem of heavily fragmented and scattered agricultural lands, as well as, to decrease investment costs and expropriation expenses of irrigation projects.
Priority 9. Institutional structure will be improved in the fisheries sector.				
Measure 9.1. By-Law on Fisheries Harbours will be rearranged.	Ministry of Agriculture and Rural Affairs	Ministry of Finance, Ministry Of Transport, Ministry of Public Works and Settlement, SPO	End of December	In order to solve the problems that have been experiencing in practice related with the selection of location, transfer of management, leasing and control, By-Law on Fisheries Harbors will be revised.

Measure 9.2. Law on Amendments of the Fisheries Law will be enacted.	Ministry of Agriculture and Rural Affairs	Ministry of Environment and Forestry, Ministry of Interior, Turkish Coast Guard Command, Producers Organizations	End of March	Draft Law on Amendments of the Fisheries Law, prepared by taking into consideration the needs of harmonization to EU acquis and comprising measures in order to increase the effectiveness of protection and control services, to constitute sustainable fisheries and to produce high quality products compliant with the market needs will be enacted.
Priority 10. While protecting the ecosystem in forestry activities, plantation works and combating with forest fires will be carried on.				
Measure 10.1. Capacity for combating with forest fires will be improved.	Ministry of Environment and Forestry	Ministry of Agriculture and Rural Affairs, General Directorate of Forestry	End of December	In order to combat more effectively with forest fires necessary machinery and equipment purchase will be continued.
Measure 10.2. Plantation works will be carried on.	Ministry of Environment and Forestry	-	End of December	Considering forest health, fires, insects, diseases and protecting water and wild life, various types of seedlings will be used in plantations and untouched strips with appropriate width will be left along water bodies.

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

INDUSTRY

1. Current Outlook

Manufacturing Industry

During the 2002-2006 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 caused high growth rates in the intermediate and capital goods imports. In the first seven months of 2007, while the imports growth rate of the manufacturing industry is approximately at the same level of 2006, a significant growth rate is observed in exports. Furthermore, in the first seven months of 2007 production growth rate of the manufacturing industry was reduced compared to the same period of 2006.

According to TURKSTAT quarterly industrial production index, production of manufacturing industry increased 4.8 percent and 5.6 percent in 2005 and 2006 respectively. The sectors, which achieved highest production growth in 2006, were transportation vehicles excluding automotives, machinery, metallic goods, electrical machinery and tobacco products industries. Despite the general increasing trend in the production index, reductions in the electronics and plastics-rubber products industries were significant. According to TURKSTAT monthly industrial production index, in the first seven months of 2007, manufacturing industry production increased 4.4 percent compared to the same period of the previous year. In this period, high growth rates in machinery, electrical machinery, wood products, metallic goods and basic metals industries were remarkable.

According to TURKSTAT monthly manufacturing industrial tendency survey,

private sector capacity utilization rate which was 78.8 percent in 2005, realized as 79.6 percent in 2006 and 79.4 percent in the month of August 2007.

As fast recovery in the economy continued in 2005, manufacturing industry private sector fixed capital investments (FCI) increased 25 percent in 2005 and 15 percent in 2006 according to SPO data. In 2007, approximately 8 percent increase is expected. As a sign of investment tendency of companies in the manufacturing industry, 9.9 percent decrease in the number of incentive certificates and 3 percent decrease in the investment volume in the current prices was observed in 2005. The number of certificates decreased by 29.9 percent and the volume of investment in the current prices decreased by 7.7 percent in 2006. In the first seven months of 2007, the number of incentive certificates decreased by 28.9 percent and investment volume decreased by 14.5 percent in current prices compared to the same period of the previous year.

According to the index of production workers, an upswing tendency has been observed again in the manufacturing industry employment since the fourth quarter of 2006. Manufacturing industry employment increased 2.3 percent in the first quarter and 1.7 percent in the second quarter of 2007 compared to the same periods of previous year. This rise stemmed from the increase in private sector employment, public sector employment declined in manufacturing industry.

Total exports reached USD 73.5 billion, with an increase of 16.3 percent, and USD 85.5 billion, with an increase of 16.4 percent, in 2005 and 2006 respectively. In the same years, manufacturing industry exports increased 15.5 percent and 16.6 percent respectively, and its share in the total exports was 93.8 percent in 2006. Electrical machinery, automotive, basic metals, petroleum products, tobacco and chemical products achieved the highest exports increases in 2006. The share of exports to EU countries in the total exports continued at the level of 56 percent. In January-July period of 2007, the volume of exports reached USD 58.4 billion, with an increase of 24.3 percent and manufacturing industry exports reached USD 55.3 billion, with an increase of 25.2 percent compared to the same period of 2006. Electrical machinery, basic metals, machinery, fabricated metal, manufacturing of plastics-rubber industries are the sectors that achieved the highest increases in exports during this period.

Total imports reached USD 116.8 billion, with an increase of 19.7, and USD 139.6 billion, with an increase of 19.5, in 2005 and 2006 respectively. Manufacturing industry imports reached USD 94.2 billion, making an increase of 17.1 percent in 2005 and USD 110.3 billion, making an increase of 17.1 percent in 2006. Non-metallic minerals, petroleum products, basic metals, wearing apparel industries are the sectors, which experienced the significant increases in imports. In January-July period of 2007, the volume of imports reached USD 92.5 billion, with an increase of 18.6 percent, manufacturing industry imports reached USD 72.7 billion, with an increase of 17.7 percent compared to the same period of 2005. In this period, the share of imports from EU countries in the total imports was 40.6 percent.

The change in intermediate goods; especially in goods other than oil and natural gas, having a large share in total imports, is significant. While imports of goods other than oil and natural gas displayed the value of USD 67.2 billion in 2005 and USD 79.8 billion in 2006; it reached to USD 56.5 billion with an

TABLE: IV. 26- Main Indicators of Manufacturing Industry (Percentage Changes)

	2005	2006	2007 (1)	EU-2005
Share in GDP (Current Prices)	20.8	21.1	22.3 (2)	20.6 (5)
Production Growth Rate (Fixed Prices)	4.8	5.6	4.4	1.1 (5)
Exports Growth Rate (Current Prices)	15.5	16.6	25.2	9.5 (6)
Share in Total Exports	94.0	93.8	94.7	87.1 (6)
Imports Growth Rate (Current Prices)	17.1	17.1	17.7	8.8 (6)
Share in Total Imports	80.6	79.1	78.5	69.3 (6)
Share of Private Sector in F.C.I. (Current Prices)	42.0	41.9	42.3 (3)	-
Industry Employment Growth Rate	7.3	2.8	0.9	-0.4 (7)
Number of Firms Established	9249	10411	6697	-
Number of Firms Closed	2088	2401	1485	-
Private Sector Capacity Utilization Rate	78.8	79.6	80.7	-
G. Rate of Partial Productivity per Prod. Worker	5.3	6.4	-0.1 (4)	-0.3 (8)

Source: TURKSTAT
(1) For the first 7 Months,
(2) For the first 6 Months,
(3) SPO-Annual estimation,
(4) As of 2007,2nd quarter,
(5) EU-25 Industry Data,
(6) EU-25, data of 2004, based on STIC,
(7) EU-25 2004 estimation,
(8) EU-25 data of 2004.

increase of 27.2 percent in January-July period of 2007 compared to the same period of previous year. Thereby, the share of goods other than oil and natural gas in total imports, that was 57 percent in the first seven months of 2006, rose up to 61 percent in the same period of 2007. This situation causes a high growth in imports affected by high growth rates experienced in the production and exports of some sectors, and therefore increases current account deficit. For this reason, taking the raw material and intermediate product imports into account, it is importatnt to shift to high value-added production structure in industry in order to reduce current account deficit.

With the integration of countries such as China and India, which have cheap labor costs, to the world trade system, competition based on input costs in the basic industrial products has become difficult. As a result of that, the production of traditional sectors such as textiles, wearing apparel, and leather products has been experiencing a bottleneck in our country, since 2002. On the contrary, the tendency, of increase in the share of medium and high technology sectors in the manufacturing production and exports after Customs Union, continued in 2005. Especially, automotive, machinery, electronics and household appliances are the driving sectors of this tendency of increase in exports. High growth rates continued, in all the above-mentioned sectors except electronics in 2006 and 2007. However the shares of these sectors are still low compared to those in EU countries.

Main problems of industry such as high real interest rates, unfair competition resulting from informal economy, over-valued exchange rate and low priced imports, the excessive bureaucracy, expensive prices of inputs supplied by public institutions compared to international prices, high rates 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 labor 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 of Organized Industrial Zones (OIZ) and Small Scale Industrial Estates (SSIE) in some regions must be solved.

General and sectoral industrial policies were evaluated in Enterprise and Industrial Policy Chapter in the framework of negotiations with EU in 2006. In this context, industrial policies have been in general regarded as harmonious with EU policies. However, there exists the need for revising the current industrial policy documents, preparing sectoral strategies, with evaluations based on more detailed competitiveness analysis and increasing ownership and efficiency during the implementation of policies. In this direction studies have been carried on.

Moreover, Permanent Special Ad-hoc Committee on Enhancing Competitiveness of Industry was established by Prime Ministry's Circular 2007/19 for evaluating general and sectoral problems, developing proposals, designing policies, carrying out detailed studies and analysis for these issues and ensuring permanent dialogue environment with the contribution of related parties in public and private sectors. Commission studies will be started in 2007.

In the framework of prevention of unfair competition in imports in manufacturing industry, definitive measures against dumping implementations of various countries in 43 product groups, investigation of circumvention in 1 product group, and dumping investigation in 2 product groups have been continued as of September 2007. The unfair competition in imports stemming from Far East, Commonwealth of Independent States (CIS) countries and especially China has been intensifying in textile, chemicals, rubber and metal products sectors.

As a successful method of increasing competitiveness during the globalization process, clustering approach has become fairly widespread. Although several clustering formations at sectoral and regional level exist in Turkey, especially with the contribution of OIZs in line with the developments in the world, it is needed to define a general clustering policy. In this context, sectoral and regional clustering maps should be arranged; physical, economic and legal ground for the clustering initiatives should be developed by using current clustering infrastructures like OIZs and building new models. Realization of clustering structures especially in the sectors with a disorganized formation will ensure significant benefits for our country.

In order to ensure planned industrialization and organized urbanization, reduce environmental impact of industrial activities and increase competitiveness of SMEs by providing better production conditions, construction of Organized Industrial Zones (OIZ) and Small Scale Industrial Estates (SSIE) is going on. 93 OIZs and 403 SSIEs have been completed by the credit support of Ministry of Industry and Trade by the end of 2006. In the 2007 Annual Investment Program, there are 112 OIZ and 62 SSIE projects ongoing, of which 10 OIZs and 14 SSIEs are expected to be completed by the end of 2007. Despite the fact that 88 percent of parcels have been allocated in the completed OIZs, production takes place only on the 59

percent of parcels. In cities other than the developed ones, it is observed that occupancy rate in OIZs is lower.

international markets. The need to increase competitiveness of SMEs is still valid.

TABLE: IV.27- Structure of Manufacturing Industry Production and Exports (Percentage Share)

Technology Intensity (1)	TURKEY						EU
	Production			Exports			Exports (4)
	2000(2)	2002	2006(3)	2000	2002	2005	2003
High	5.9	5.1	6.0	7.8	6.2	6.0	21.5
Medium-High	22.5	18.2	27.1	20.4	24.3	28.5	41.9
Medium-Low	30.4	26.7	26.9	20.5	22.8	26.9	15.9
Low	41.2	50.0	40.0	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 that have 10+ employees.
(3) SPO estimation based on 2002 prices
(4) EU countries that are also OECD Members.

TABLE:IV. 28-Project and Credit Information of OIZs and SSIEs

(Million YTL at 2007 prices)

	Organized Industrial Zones		Small Scale Industrial Estates		
Year	Amount of the Allocated Credit	Number of Completed OIZs	Amount of the Allocated Credit	Number of Completed SSIEs	Number of Completed Work Places
2003	51	7	34	14	1,516
2004	55	5	34	14	2,353
2005	98	10	53	9	679
2006	77	7	45	11	680
2007(1)	59	10	38	14	1,672

Source: Ministry of Industry and Trade
(1) Forecast

Low level of awareness and capacity of branding, quality and environmental standards, insufficient use of technology, low level of quality and efficiency in production, low level of value added, insufficiency in R&D and innovation activities and investments of SMEs are the main barriers to their competitiveness in

In order to meet the needs of SMEs, it is necessary to improve SME support system. For this purpose, activities directed to increasing the capacities of institutions, particularly KOSGEB, serving to SMEs, and stabilizing their budget continue. It is important to ensure the standardization and supervision of SME training

and consultancy services in order to increase the quality and effectiveness of these services. The amount of supports provided by KOSGEB is insufficient compared to size and importance of its target group.

Training and consultancy services directed to new entrepreneurs are provided by various institutions and business organizations, particularly KOSGEB. Financial supports started to be given by KOSGEB and TUBITAK as a result of the arrangements made in 2006.

with the High Planning Council Decision No. 2007/25.

Supports to create trademarks have been continued for the development of high value-added products. In this context, special importance is given to the implementation of TURQUALITY system. Furthermore, within the context of export aids, Law No. 2007/3 entitled "The Communiqué about Education and Consultancy Aid" has been put into force in 2007. With the new communiqué, besides SMEs and Sectoral Foreign Trade Companies, all industrial/commercial companies and companies operating in the software industry have been covered. Moreover, aid measures directed to the education of designers and consultancy services are envisaged in order to support high value-added products.

TABLE:IV. 29- KOSGEB Supports

(Million YTL)

	2004	2005	2006	2007 September
Repayable Supports	53	56	6	3
Non-Repayable Supports	91	38	30	72
Total	144	94	36	75

Source: KOSGEB

Business Development Centers have been established in Tarsus, Eskişehir, Adana, Mersin, Zonguldak and Van by KOSGEB and allocation of offices and consultancy services to new entrepreneurs have been provided. 185 enterprises have been established and 1,067 people have been employed in these Business Development Centers.

There is a need to develop cooperation between SMEs and universities/large companies and increase primary-supplier industry relations in order to make SMEs benefit from the knowledge capacity of universities and large companies.

SME Strategy and Action Plan, which was adopted in 2003 to ensure implementation of National SME policies and increase competitiveness of SMEs, has been revised to cover 2007-2009 period and adopted in 2007

The negative effect of relatively high prices of energy inputs on the industrial competitiveness is continuing, although there have been no significant increases in domestic electricity prices since 2002. Electricity prices for industry are higher than OECD Europe averages. Moreover, as a result of the indexing policy of natural gas prices to petroleum prices, natural gas prices have risen on large scale since 2004, depending on dramatic increases of petroleum prices. Natural gas prices for Turkish industry have been close to OECD averages for recent years.

Privatization of public facilities in manufacturing industry continued in 2006 with the privatization of TUPRAŞ and ERDEMIR. The Privatization of PETKIM was completed in 2007. Thus, only TEKEL Cigarette Facilities and Sugar Plants remained as public industrial facilities in privatization program.

In the manufacturing industry, main activities of the sub-sectors and their problems are as follows. In tobacco industry, 125.2 billion cigarettes were manufactured in 2006; 33 per cent of the production was performed by public sector and 67 per cent was performed by private sector. The share of public sector was decreased to 28.7 percent in the first six months of 2007. TEKEL has been conducting modernization investments to maintain its competitiveness. Unrecorded activities continue to affect sector negatively. In alcoholic beverage sector, there has been a decline in production in recent years. Raki production dropped to 46.5 million liters by decreasing 1.9 percent in 2006. The production decreased to 13.2 percent in the first six months of 2007 compared to same period of previous year. It is presumed that decrease in production was induced by unrecorded production.

In the textiles and wearing apparel industry downward trend of production in the last few years has started to recover in the first seven months of 2007. This situation mainly stemmed from the increase in exports of the industry. New quotas to China put into effect in mid-2005 by EU, which is our main export market in these sectors, have also positive effects on the increase in the export level in 2006 and 2007. On the other hand, adverse effects of 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, despite the significant increase in exports, production level remains same in the first seven months of 2007. Rapid growth of imports from China is still affecting the sector negatively and tendency to shift in domestic consumption to import goods continues. Thus, competitiveness based on cost advantages in textiles, wearing apparel and leather products industries is getting harder. 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. In recent years, although some companies have showed efforts in this direction, general sectoral transformation has not been realized yet.

TABLE: IV. 30- Electricity and Natural Gas Prices for Industry Consumption

		2002	2003	2004	2005	2006	2007(1)
Electricity (¢/Kwh)	**Turkey**	9.4	9.9	10.0	10.6	10.0	10.6
	Average of OECD Europe	5.9	7.3	8.2	9.1	-	-
Natural Gas ($/10^7 Kcal)	**Turkey**	215.5	228.9	230.3	304.5	352.7	431.1
	Average of OECD	156.4	220.1	253.4	320.4	335.4	-

Source: International Energy Agency (IEA)
(1) As of second quarter of 2007.

TABLE: IV.31- Price Increases of Electricity and Natural Gas Consumed by Industry

(Changes of prices as of end of the years, in percentages)

	2002	2003	2004	2005	2006	2007 (3)
Electricity (1)	16.8	-6.4	0.0	0.0	0.0	-2.9
Natural Gas	4.6	-12.8	23.5	16.3	28.18	0.0
PPI (2)	30.8	13.9	13.8	2.7	11.6	3.1

Source: TEDAŞ, BOTAŞ, TURKSTAT
(1) According to one timed, one termed, low voltage industry tariffs.
(2) The data of 2004 and the preceding years are Wholesale Prices Index (WPI). Since 2005, Producer Prices Index has been used.
(3) Electricity and natural gas data comprise the first 9 months and PPI comprises the first 7 months for the year 2007.

In order to detect any fuels that have illegally entered the petroleum products market and to prevent the sales of illegal and nonstandard products, national marker implementation, which has been envisaged by the Petroleum Market Law No. 5015, has started in early 2007. The Implementing Regulation on the Procedures and Principles Concerning the Detection and Elimination of Illegal Petroleum, which is an important legal arrangement regarding struggle against illegality and prevention of unfair competition in petroleum products sector, has come into force in May 2007.

The average annual rate of chemical production increase in the last 5 years has been 10 percent and in 2006, the production increase has been 7 percent. Compared to the previous year, the export has increased 23.5 percent and

TABLE: IV.32- Changes in the Main Sectors of Manufacturing Industry

(Percentage)

	Production (1)		Exports (2)	
	2006	2007(3)	2006	2007(3)
Total Manufacturing Industry	5.6	4.4	16.6	25.2
Food and Beverages	6.0	3.7	1.6	9.0
Textiles	-1.0	5.5	6.0	16.4
Wearing Apparel	-4.9	0.2	2.5	16.4
Leather Products	14.3	2.8	17.9	35.4
Petroleum Products	2.3	4.8	35.0	19.6
Chemicals	7.0	4.7	23.5	16.5
Plastics and Rubber	-11.7	11.2	21.3	34.9
Non-Metallic Minerals	4.4	0.8	4.2	17.4
Basic Metals	10.6	12.7	35.5	37.4
Machinery	22.0	11.0	23.4	39.0
Electrical Machinery	20.5	25.9	46.0	54.2
Electronics	-15.9	-32.3	-2.1	-19.7
Automotive	9.6	3.6	24.0	33.4

Source: TURKSTAT
(1) At 1997 prices
(2) At current prices (USD)
(3) 7 months data

reached to USD 3.5 million, and the import has increased 12.1 percent and reached to USD 19.6 million. The chemical industry's import ranks the first with 17.8 percent share among the manufacturing industry. The imports of thermoplastics and basic chemicals which are intermediate goods are among the high levels. The chemical industry is highly dependent on raw material imports and the industry is becoming more dependent on imports as the demand is not fully met by production and the new investments are plant extension type and have small capacity. Construction of specialized industrial zones may motivate the investors to invest since the environmental issues will be solved and competitiveness will be increased by acquiring the building sites and lands.

In pharmaceutical industry, several regulations have been put into force to harmonize with EU acquis. New pricing regulations have been put into force as a measure to decrease the cost to government budget arising from the enforcements facilitating access to pharmaceuticals. According to the data supplied by the Pharmaceutical Manufacturer's Association of Turkey the market has reached YTL 9.5 billion and 1.2 billion units by volume, the growth rate of the market is 11.5 percent by value and 7.5 percent by volume in 2006. Pharmaceutical consumption per capita is USD 92 in 2006. Consumption is increased by 22 percent by value and 7.7 percent by volume in the first six months of 2007 compared to the same period of the previous year. The import is USD 3 billion and the export is USD 311 million as of 2006. In order to solve the problems of pharmaceutical industry autonomous institutionalization is needed.

Due to the significant growth in the construction sector in 2006, demand for non-metallic mineral products increased rapidly. Because of the high increase in domestic growth, production of the sector shifted towards domestic market and growth rate in exports slowed down. Thus, the growth rate of non-metallic mineral products exports, which was 16 percent in 2005, decreased to 3.1 percent in 2006.

This situation is even more evident in the cement sector. The cement production, which was 38.8 million tons in 2004, rose to 42.8 million tons in 2005 and 47.4 million tons in 2006 and reached its highest production level up to present. Tendency of growth in production continued in the first six months of 2007. In this period, the growth rate was 6 percent compared to the previous year. Because of high increase in domestic demand, cement exports (including clinker), which was 10.5 million tons in 2005, fell down to 7.2 million tons in 2006 with a decrease of 31.6 percent.

In the glass sector, in order to increase the competitiveness in foreign markets, some proportion of production has been shifted to facilities abroad which are advantageous in terms of costs of inputs like energy, wages and raw materials etc. and in terms of proximity to markets. As a result of this situation, glass productions decreased by 9.4 percent in 2006.

In recent years, global steel industry has been witnessing increased capacity and production in developing countries, especially in China, and corresponding high increases in international input prices. Global steel players that want to minimize the risks arising from the fluctuations in world steel markets have been increasingly involved in mergers and acquisitions among themselves and with raw materials producers. These developments also affect the Turkish steel industry. On the other

hand, domestic steel industry had a favourable year in 2006 as a result of the increase in the demand for long products 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. In 2006, long production increased by 20.6 percent, flat production increased by 3.8 percent and special steel production increased by 23.6 percent. The growth in the sector has continued in 2007. Turkish iron and steel products exports increased by 13.4 percent in terms of volume and by 48.6 percent in terms of value in the first half of 2007 compared to same period of the previous year. The 27.5 percent increase in terms of volume in long products exports was accounted for most of the increase in the industry's exports; in addition, this increase was partly supported by the increase in international steel prices in 2007.

The first version of the National Restructuring Programme, 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. The work on the Programme is being continued based on the comments of the Commission to revise the demand forecasts in the document and to improve the Individual Business Plans for the steel companies.

In machinery industry the rates of increase were 22 percent in production, 23.2 percent in exports and 17.1 percent in imports in 2006. High production increases observed in lifting-handling, mining-construction and food industry machines. In the sector the rates of increase were 11 percent in production, 39 percent in exports and 15.3 percent in imports in January- July period of 2007.

The production of white goods is export-oriented at a great extent and more than 50 percent of refrigerator and washing machine production and more than 70 percent of dishwasher production is exported. The growth rates were 13 percent in production and 20 percent in exports in terms of quantity despite a 7 percent decrease in domestic sales in the first seven months of 2007.

The decline, which started in 2005 in the production and exports of TV comprising the highest share of production in the Turkish electronics industry, has continued. Production and exports declined by 3.8 million and 3.4 million units respectively in the first nine months of 2007 compared to the same period of 2006. The sales of CRT TVs in domestic and foreign markets decreased, whereas the sales of flat screen TVs increased in both markets.

In automotive industry's products, considerable increases in the exports have been realized in recent years due to cooperation between domestic and foreign partners and decisions of international firms to undertake production in Turkey. Automotive industry export exceeded the level of USD 10 billion in 2005 by 36 percent annual average increase within 2000-2005 period. Automotive industry exports in 2006 realized as USD 12.7 billion with 24 percent growth rate compared to the previous year. Therefore, significant progress has been achieved for being a production center in automotive industry and nearly one million vehicles were produced in 2006 with the contribution of exports. The production has been increased by 3.6 percent and export has been increased by 32.8 percent, whereas import has been decreased by 9.5 percent in automotive industry I n the first seven months of 2007. Importance shall be attached to extend this

cooperation by also taking account the primary - supplier integration to achieve economies of scale in production, and export oriented growth and sustainable competitiveness.

The production of defense industry has increased from USD 1.1 billion in 2002 to USD 1.7 billion in 2006. In the same period, exports have risen from USD 247 million to USD 350 million. In this period, main activities carried out to develop domestic production and design capabilities are tank, helicopter, warship and surveillance purposed satellite production and design projects.

Defense industry in our country has not developed sufficiently. In developed countries 85-95 percent of defense needs are supplied from domestic resources. In supplying defense needs in Turkey, domestic industry could not be utilized sufficiently and defense procurement is largely dependent upon external sources. Main factors are insufficient cooperation between defense industry firms and other industry firms, the procurement of finished products rather than product development, and limited R&D budgets of the domestic firms which are not well focused on product development. This situation limits the technologic capability and capacity of the domestic firms and hinders their contribution to defense system. There is a need for better co-operation and coordination among agents in defense industry. In this context, restructuring of MKEK to increase the competitiveness is required.

Mining

In recent years, due to the increase in world prices and international market demand, new mineral deposits are put into operation and existing mines experienced high growth rates in both production and exports. Furthermore, the new Mining Law enacted in 2004 with the aim of accelerating domestic mining and unifying sectoral legislation had a favorable effect on mining. As a result, a considerable rise has been realized in both mining production and exports as well as in the demand for exploration and operation licenses. This trend is expected to continue in 2007.

The 41 percent increase in exports in 2006 mostly depends on copper, marble, chromium, feldspar and magnesium. This rise is mainly derived from the increase in mineral prices.

In the last period, a special importance is given to mineral and geothermal exploration investments, in order to take advantage of the briskness in the sector caused by the significant increase in world raw material prices, to substitute the depleted domestic mineral reserves, to meet the energy needs of the country from domestic resources to the utmost and to exploit Turkey’s mineral reserves for providing further contribution to the economy. In this framework, exploration investment budget of MTA has increased by 118 percent in 2007.

By the end of year 2006, 8,5 percent of Turkey’s demand for crude oil and 3 percent of the demand for natural gas is met by domestic production. The exploration and production investments of TPAO has been increased significantly in order to improve the country’s demand coverage of domestic production. In this context, the first stage of the natural gas reservoir site, which was discovered in Akçakoca Western Black Sea Region, has been taken into operation and the produced natural gas has been transferred to the main natural gas distribution network since the beginning of 2007. The exploration and drilling activities for oil and natural gas will be maintained mainly at offshore with a focus on Black Sea in 2008.

TABLE :IV.33- Main Indicators of Mining

		2004	2005	2006	2007
Share in GDP (In Percent)		1,2	1,4	1,4	1,2 (1)
Production Growth Rate (In Percent)		4,0	13,8	4,4	9,6 (1)
Exports (USD Millions, Current Prices)		649	810	1.142	678 (1)
Exports Growth Rate (In Percent)		38,4	24,8	41	33,9
Share in Total Exports (In Percent)		1,0	1,1	1,3	1,4
Imports (USD Millions, Current Prices) (*)		1.615	2.181	2.814	1.442 (1)
Imports Growth Rate (In Percent) (*)		28,7	25,9	29	17
Share in Total Imports (In Percent) (*)		1,7	1,9	2	1,9
Import of Crude Oil and Natural Gas (USD Millions, Current Prices)		9.366	14.140	19.220	9.911 (1)
Share in Fixed Capital Investments (In Percent)		1,87	1,77	1,79 (3)	1,85 (4)
Public Investments (Million YTL)		271	365	602 (3)	803 (4)
Private Investments (Million YTL)		1 205	1 362	1 568 (3)	1 745 (4)
Number of Firms Established		463	551	490	478 (2)
Number of Firms Closed		69	63	47	23 (2)
Number of Licenses Applied		3.984	15.149	18.208	9.584 (5)
Number of Licenses Received	Exploration	4.385	9.832	12.215	6.450 (5)
	Pre-operation	861	-	-	-
	Operation	543	1.473	1.651	936 (5)
	Total	5.789	11.305	13.866	7.386 (5)

Source: TURKSTAT
(1) 6 Months,
(2) 8 Months, SPO
(3) Estimation,
(4) Program, MİGEM
(5) 6 Months
(*) Excluding crude oil and natural gas

The underground natural gas storage facility in Trakya, which aims at fulfilling seasonal fluctuations in natural gas demand and have total capacity of 1.7 billion m^3 is completed by TPAO and put into operation in April 2007.

The Law No. 5686 on Geothermal Resources and Natural Mineral Waters, which regulates the efficient exploration, investigation, development, production and assignment of our country's geothermal and natural mineral water resources, was enacted in June 2007.

The leading problems of the mining sector are; low international market share of some mines, particularly boron, for which Turkey owns a considerable reserve with high quality, failing to improve the value-added created because of insufficient domestic processing of minerals such as marble and chromium, inadequate exploring activities especially by the private sector aiming to supply the oil, natural gas, geothermal needs of the energy sector and the raw material needs of the industry, the inefficiency and ineffectiveness of public institutions serving in the sector, the bureaucratic barriers faced by the investors and the small scales of the private firms.

2. Main Objectives and Targets

Increasing high value-added production within the export-oriented structure is the main objective in the manufacturing industry. In this framework, policies directed to increasing the share of medium and high technology sectors and providing the adaptation of traditional sectors to the international competition will be pursued.

The main objectives of mining are; improving the raw material supply safety and enhancing the sector's contribution to the economy by increasing the value-added through processing minerals domestically. In this framework, the national and international exploration activities will be carried on with the purpose of meeting the oil, natural gas, and geothermal energy needs of the energy sector and the raw material needs of the industry. Additionally, for the utmost evaluation of the current reserves, the efforts on introducing public owned mine sites to private companies will be pursued.

In order to increase competitiveness of SMEs, effective supports on export, technology, R&D, training and consultancy areas will be provided. In this respect, SMEs, which export their products or have the potential to export them, information and technology oriented, have tendency to grow and make innovation, will be supported with priority.

In order to increase effectiveness of OIZ investments, priority will be given to the completion of on going projects; supports will be provided to increase occupancy rates of existing ones.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Efforts to increase industrial exports, especially of medium and high technology sectors, will be initiated.				
Measure 1.1. It will be ensured that credits at suitable conditions are provided for investment projects of 1000 SMEs operating in medium-high and high technology sectors.	KOSGEB	SPO	End of December	Investment projects of 1000 exporting SMEs, which are innovative, create employment, have tendency to grow and have high competitiveness in medium-high and high technology sectors, will be supported. In supporting SMEs, priority will be given to the ones which are developed in terms of the above mentioned criteria. By giving interest support, KOSGEB will ensure that banks will provide credits at suitable conditions to the SMEs which will be identified. In addition to the credit support, KOSGEB will support SMEs on export, quality, branding and technology. Interest support of YTL 100 thousand and other KOSGEB supports of YTL 10 thousand are envisaged to provide to each SME.
Measure 1.2. The Communiqué on Turkish Commerce Centers will be put into force.	UFT	Exports Unions	End of June	In order to ensure the entrance of investment goods produced in Turkey to the international markets and to hold on to these markets, it is aimed at establishing Turkish Commerce Centers abroad oriented to producers of investment goods and supporting marketing expenses of the branches which will be opened for trading activities by the firms operating in these centers.

Measure 1.3. Resources of Eximbank will be increased; financial instruments provided by Eximbank will be diversified; medium-long term credit, insurance and guarantee programs will be worked on.	Turk Eximbank	Undersecretariat of Treasury, UFT, Commercial Banks	End of December	On one hand, Turk Eximbank will develop financial instruments and programs directed to new fields, that market competition necessitates; it will, on the other hand, concentrate on medium-long term credit programs and exports credits insurance and guarantee activities, proper to general mission of Eximbanks. In this sense, studies conducted in the fields of Export Oriented Production Support Credit Program for the purpose of supporting the usage of domestic intermediate goods in the context of export products, new opportunities in order to facilitate SMEs to reach deposit, Political Risk Insurance of Overseas Contracting Services, promotion of trademark activities in the scope of TURQUALITY Project, directing the funds in commercial banking system to export financing through Turk Eximbank guarantee will be completed.
Priority 2. Studies directed to prevention of unfair competition in imports will be carried on.				
Measure 2.1. In order to facilitate the firms to access information for the prevention of unfair competition in imports, pre-investigation will be carried out.	UFT	Undersecretariat of Customs, TURKSTAT	End of June	Studies required for ensuring rapid and easy access of information, which is detailed but has not a characteristic of trade secret, will be carried out.
Priority 3. 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 3.1. OIZ nd SSIE projects in the investment program will be completed rapidly and their waste treatment facility needs will be met.	Ministry of Industry and Trade	Ministry of Finance, Undersecretariat of Treasury , SPO	End of December	11 OIZ and 13 SSIE projects are planned to be finished in 2008.
Measure 3.2. Clustering policy will be developed and analysis will be made to identify clustering potentials. Cooperation among enterprises and clustering activities will be supported, particularly in OIZs.	Ministry of Industry and Trade	SPO, UFT, KOSGEB, TOBB, Management of OIZs, Chambers of Industry and Trade	End of December	Clustering policy and strategies will be developed by using the outputs of the project conducted by UFT and sectors and regions which have clustering potential will be identified. In this respect, clustering activities will be started. Also, cooperation activities such as establishing common design/production/R&D/test-analysis centers by SMEs in existing cluster areas, particularly in OIZs, will be supported by KOSGEB.
Priority 4. Efforts directed to Turkey's becoming a production center of automotive, white goods, machine and electronic sectors that are at medium and high technology levels will be made.				
Measure 4.1. A study will be performed to support large and new investments by project in a way that will cover the firms in supply chain.	Ministry of Industry and Trade	Ministry of Finance, Undersecretariat of Treasury, SPO, KOSGEB, related public and private sector institutions.	End of June	A study will be carried out and proposals will be developed to support the investments to be made by primary and supplier industry's firms in the scope of a large scale project.

Priority 5. In order to increase the competitiveness of the SME's and entrepreneurs, activities oriented to improvement of productivity, creation and developing of businesses will be supported.				
Measure 5.1. 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	End of December	Productivity improvement project applications will be realized in Ankara, Amasya, Konya and Sivas provinces in 2008.
Measure 5.2. KOSGEB will be restructured in order to improve and increase the effectiveness of its support system.	Ministry of Industry and Trade	SPO, other related institutions	End of December	In order to ensure high value added structure in industry and increase competitiveness and export capacity of SMEs in our country, structure of KOSGEB and its support system will be restructured according to the needs of SMEs in coordination with related parties, particularly SMEs and their representatives.
Measure 5.3. Business Development Center support will be extended and necessary arrangements will be made in order to increase its effectiveness.	KOSGEB	OIB, ISKUR	End of December	It will be ensured that 5 new Business Development Centers will come into operation. Effectiveness analysis of Business Development Centers will be conducted and necessary improvements will be done in line with the results of the analysis.
Measure 5.4. Design Council will be established.	Turkish Patent Institute	Ministry of National Education, UFT, Professional and Vocational Organizations, Universities, TİM	End of June	In order to increase the competitiveness of Turkish economy and industry, a Cabinet Circular will be adopted to establish a Design Council for implementing design policies and programmes in close cooperation with the related sectors and for composing training policies in this area.
Measure 5.5. The Hezarfen Project will become widespread.	Turkish Patent Institute	KOSGEB, OIZ, Chambers of Industry and Trade	End of June	In the scope of Hezarfen Project, which is oriented to strengthen the innovative capacity of SMEs, by evaluating the outcomes of OSTIM's pilot implementation, a widespreading plan of the project will be done to the other OIZ's according to sectoral and regional priorities.
Priority 6. Accreditation, conformity assessment and market surveillance systems will be activated; certification activities will be supported.				
Measure 6.1. Law on the Amendment of the Law No. 4457 on Establishment and Tasks of Turkish Accreditation Agency will be enacted.	Ministry of Industry and Trade	TURKAK	End of March	In order to be able to implement an administrative structure in Turkish Accreditation Agency established in the framework of EU adjustment laws in conformity with those structures existing in the accreditation agencies which are members of the European Accreditation Union, a necessity has emerged to amend certain articles of TÜRKAK Law No. 4457 in accordance with the EU New Approach Directives so as to overcome the defects encountered in the 5-year implementation period.

Measure 6.2. The scope that has been a party in the recognition agreements of TÜRKAK, signed with European co-operation for Accreditation (EA) and the other international organizations will be extended.	TÜRKAK	Related Public Institutions	End of March	Mutual Recognition Agreement has been signed with European Accreditation Union and Turkish Accreditation Agency became a party to the said Union in 4 fields (Testing- Calibration Lab., Inspection Body and Quality Management System). Preliminary studies have been completed in 3 fields (Product- Personnel Certification and Environment Management System), to which Turkey has not been a party yet. Audit of European Accreditation Union will be conducted in the first months of 2008. After auditing it is expected that the scope of the treaty will be expanded in 3 fields.
Measure 6.3. Product Safety Law will be enacted.	UFT	Related Public Institutions	End of December	Significant portion of EU technical legislation including the New and Classical Legislation Approach, which has already been put into force after its adaptation in our country, is based on the Law No. 4703. However, the EU repealed the Directive No.2001/95/EC along with the General Product Safety Directive No.92/59/EC. The European Commission has also been preparing a horizontal legislation on the issues of new approach, notified bodies and market surveillance since 2004. As a result of recent changes in EU Legislation, there has come about the necessity to reconsider the main elements of EU system, which regulates the product safety area and consists of new approach, classical approach, national technical legislation in the fields of non-harmonized area, mutual recognition and general product safety legislation, all together. The enacted law aims at complying with the developments in the EU legislation.
Measure 6.4. Council of Ministers implementing regulation on Mutual Recognition in the Non-harmonized Area will be enacted.	Under secretariat of Foreign Trade	Related Public Institutions	End of June	In accordance with Communique No. 2003/C 265/02 and Decision No. 3052/95/EC, it is aimed that the procedures and principles will be laid down for the incorporation of the mutual recognition clause in the national technical regulations in order to ensure free movement of goods in the non-harmonized area between Turkey and the EU; and for the notification of national measures, which prevent the free movement of goods between Turkey and the EU.
Measure 6.5. General Directorate of Measurement and Standards will be restructured.	Ministry of Industry and Trade	Related Public Institutions	End of December	In order to provide the establishment of calibration network related to legal metrology; provision of its traceability and nationwide execution of activities in a permanent and effective way, an institution restructuring study will be carried out.
Measure 6.6. Secondary legislation on the requirements for eco-design of energy consuming products will be made.	Ministry of Industry and Trade	Ministry of Environment and Forestry	End of December	An implementing regulation which envisages to take into account a certain criteria contributing to the protection of environment in the design stage of products (such as televisions) within the scope of relevant EU directives, and maintains these criteria regarding the protection of environment also in the design stage of the product, in order to ensure more effective applicability of the legislation on disposal conditions of such products will be prepared for the purpose of aligning with Directive No. 2005/32/AT.

Measure 6.7. Law of Turkish Pharmaceuticals and Medical Devices Association will be enacted.	Ministry of Health	Ministry of Finance, Social Security Institution, Pharmaceutical and Medical Device Companies and NGOs	End of December	With this Law, procedures and principles about establishment and operation of Turkish Pharmaceuticals and Medical Devices Association will be specified. The aim of this institution will be to formulate all kinds of arrangements to regulate the production, import, export, marketing, planning, distribution, putting into service, regulating the usage of pharmaceuticals, special products, nationally and internationally controlled products, raw materials and active ingredients used for pharmaceutical production, cosmetics, and medical devices used for protection, diagnosis, therapy, rehabilitation services in order to protect, cure and improve the health of humans and animals and to assure/inspect public access to their implementation by secure, effective, good quality and up to standard ways.
Measure 6.8. Implementing Regulation On Product Safety Checks in Imports From Third Countries will be enacted.	UFT	Related Public Institutions	End of December	Procedures and principles for product safety checks in imports from third countries, carried out in the framework set by obligations (Regulation 339/93) originating from WTO rules and Customs Union with the EU will be adopted.
Priority 7. Transformation to a structure, which will adapt to international competition in traditional sectors, will be supported.				
Measure 7.1. Iron-Steel Industry Restructuring Programme will be finalized.	UFT	SPO, Undersecretariat of Treasury, Other Related Institutions	End of December	First version of the National Restructuring Programme aiming at aligning the state aids granted to the sector after 31 July 2001 to our commitments to the EU, and ensuring that state aids will also be granted in the future in compliance with our commitments was submitted to the European Commission in August 2006. This Programme, together with the Individual Business Plans, will be revised and resubmitted to the Commission. Programme will then be finalized after negotiations with the Commission.
Measure 7.2. In order to increase competitiveness and value added of SMEs operating in medium-low and low technology sectors, investment credits at suitable conditions will be provided.	KOSGEB	SPO	End of December	1,000 SMEs which operate in medium-low and low technology sectors and export, have tendency to grow and have high competitiveness will be supported in order to make them reach international standards. In supporting SMEs, priority will be given to the ones which are developed in terms of the above mentioned criteria. By giving interest support, KOSGEB will ensure that banks will provide credits at suitable conditions to the SMEs that will be identified. Also, other KOSGEB supports about export, quality and technology etc. will be provided to the SMEs. Interest support of YTL 50,000 and other KOSGEB supports of YTL 10,000 YTL are foreseen to provided to each SME.
Priority 8. In order to constitute the medium and long term perspective, sectoral policy documents will be prepared in cooperation with public and private sectors.				
Measure 8.1. Industrial Policy for Turkey document will be revised.	Ministry of Industry and Trade	SPO, Undersecretariat of Treasury, UFT, TÜBİTAK, GSEUA, KOSGEB, TOBB, Other Related Institutions	End of June	In the scope of closing criteria of Enterprise and Industrial Policy Chapter, Industrial Policy document will be prepared with the coordination of Ministry of Industry and Trade and SPO to increase the competitiveness of Turkish industry. Therefore, by taking account EU industrial policies and Lisbon Strategy, in the framework of Ninth Development Plan, "Industrial Policy for Turkey" document prepared in 2003 will be revised and submitted to High Planning Council.

Measure 8.2. Sectoral Strategies will be prepared, particularly in automotive, machinery, electronics, textiles, shoe and food sectors.	Ministry of Industry and Trade	SPO, Related Institutions	End of June	In the revised industrial policy document, it is expected to include the sectoral competitiveness results of sectoral competitiveness analysis and to consider the sectoral strategies to be prepared.
Priority 9. In defense industry a system and legislation will be established which lies on the principles of R&D based procurement and obtaining domestic technology and capability.				
Measure 9.1. Strategy and policy documents directed to the development of a defense industry which creates domestic original solutions and competes in international arena will be prepared.	Undersecretariat for Defense Industries	The Chief of General Staff, TUBITAK, Universities, Defense Industry Institutions.	End of December	The share of domestic procurement for defense system needs will be increased. In this context; -Defense Industry Strategy -Sub Sector Strategy -Supplier Industry (SMEs) Integration Procedure -Defense R&D Road Map and Technology Acquirement Plan will be prepared.
Measure 9.2. Exporters in defense industry will be supported by credit programs.	Undersecretariat for Defense Industries	Eximbank, Undersecretariat of Treasury	End of December	Defense industry exporters will be supported through crediting importer countries while some amount of of resource will be allocated from defence industry support funds. In 2008 three institutions will sign a protocol and rules of application will be determined.
Measure 9.3. R&D based procurement draft law will be prepared.	Ministry of National Defense	The Chief of General Staff, Undersecretariat of Defense Industries	End of December	An R&D based procurement law will be drafted to create a structure based on obtaining domestic technology and capability in procurement.
Measure 9.4. Studies will be done directed to increase the effectiveness of procurement activities suitable to user needs and industrial targets.	Undersecretariat for Defense Industries	The Chief of General Staff, Ministry of National Defense, TUBITAK, Universities, Defense Industry Institutions	End of December	Feasibility studies will be prepared for the determined system projects directed to satisfaction of user needs.
Priority 10. In the mining sector, priority will be given to exploration of industrial and energy raw materials and value-added will be increased by processing mining products domestically.				
Measure 10.1. Focus will be put on exploration activities for industrial and energy raw materials in mining sector.	MTA	Ministry of Energy and Natural Resources, TKİ, EÜAŞ, TTK, DSİ,TPAO, EİEİ	End of December	Priority will be given to the exploration of metal minerals, industrial raw materials whose reserves are consumed away and geothermal resources. In this scope, 160,000 meters of drilling will be made in 2008. The drilling activities will include 120,000 meters drilling for coal and geothermal, and 40,000 meters drilling for metal minerals and industrial raw materials.
Measure 10.2. The exploration activities for oil and natural gas will be improved.	TPAO	Ministry of Energy and Natural Resources, Ministry of Foreign Affairs	End of December	In order to reduce the dependence on imports, the exploration and drilling activities for oil and natural gas will be improved, especially mainly at offshore. In this scope, 7,350 km 2 dimension, 1,000 km^2 3 dimension seismic activities will be realized and 155,439 meters will be drilled in 2008. Additionally, a total investment of USD 410 million for the overseas investments has been planned.

Priority 11. The legal and administrative regulations in the mining sector will be finalized.				
Measure 11.1. The studies on the legal arrangements regarding the revision of the Petroleum Law according to the changing circumstances in the sector will be completed.	Ministry of Energy and Natural Resources	Related Institutions	End of March	The legislative studies directed to the effective exploration, enhancement and production of petroleum resources, rearrangement of the procedures and principles concerning the arrangement, management, promotion and control of petroleum exploration and production activities in our country will be finalized in line with current circumstances.

SERVICES

Tourism

1. Current Outlook

International demand for tourism has increased by 44.2 percent over the past decade, and tourism expenses increased by 75.9 percent within the same period. In 2006, the number of tourists globally reached 842 millions, while the tourism receipts showed USD 735 billion. This number is excluded that of international passenger transport. International passenger transport is estimated as 16 per cent of total tourism receipts reaching to 140 billion dollars. By the end of 2007, the number of tourists globally was expected to hit 901 millions with an increase of 7.0 percent, while the tourism receipts are expected to reach 783 billion dollars with an increase of 6.5 percent.

The forecast study "2020 Tourism Outlook" of the World Tourism Organization estimates that by the year 2020, international tourist arrivals will hit 1.5 billion and total tourism receipts will reach 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.

In 2006, the tourist arrival rate of Europe was 54.3 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 79.1 million tourists followed by Spain (58.5 millions) and Italy (41.1 millions).

Turkey with a market share of 2.5 in the world tourism market and 4.4 percent in the European tourism market shows a rapid growth rate in both tourist arrivals and revenues, ranked 11th, among the top 20 tourism destinations in terms of tourist arrivals and 9th in terms of tourism receipts.

TABLE: IV. 34- World International Tourism and Tourism Receipts

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007 (1)**
Number of tourists (millions of people)	625	650	687	684	701	695	766	802	842	901
Annual change (percent)	2.0	4.0	7.2	-0.4	2.5	-0.9	10.2	4.7	5.0	7.0
Tourism receipts (billion dollars)	445	456	483	472	487	533	633	678	735	783
Annual change (percent)	0.4	5.9	16.9	-2.3	3.2	9.4	18.8	6.8	8.4	6.5

Source: World Tourism Organization (UNWTO)
(1) Estimate

According to data provided by the World Tourism Organization, direct employment in the tourism industry, which directly and indirectly creates employment opportunities in 32 operation fields, was estimated to cover 3.2 millions in Turkey in 2006.

In 2006, the tourist arrivals increased to 19.8 millions and tourism receipts increased to USD 16.9 billion while the number of beds as certified by the Ministry of Culture and Tourism and by the municipalities increased to 509,000 and 415,000, respectively. The number of tourists from OECD countries and East Europe considerably rose by accounting for 59.4 and 28.2 percent of foreign tourists respectively. In 2006, among the countries which sent the largest number of tourists to Turkey, Germany ranked the first with 18.7 percent, followed by the Russian Federation (10.0 percent) and the United Kingdom (8.5 percent).

In 2007 tourist arrivals are estimated at 22 millions and tourism receipts at USD 18.6 billion while the number of beds as certified by the Ministry of Culture and Tourism and the municipalities are expected to hit 530,000 and 420,000 respectively. Total bed capacity is estimated to hit over 1.2 million including 275,000 beds under the investment plan. There are 5,127 travel agencies operating in tourism industry by the year 2007.

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, thermal tourism, convention, winter, cruising, health and eco-tourism activities will be continued. However, strong demand on tourist arrivals and new buildings in coastal regions have continued.

Despite the rapid increase in bed capacity and the important developments recorded in the recent years, some deficiencies in technical infrastructure still prevail. Pollution of physical environment and the urbanisation of tourism centers are among the problems of Turkish tourism industry.

A certification system which will ensure the quality, efficiency and standardization in tourism training, its joint evaluation by the state and the sectoral organisations, achieving the labour quality and determination of the skill levels necessary for employment could not be implemented yet.

Some tour operators have grown significantly with horizontal and vertical integrations and determine the prices and conditions unilaterally. This problem has some negative results on tourism revenues.

In the implementation of the ATAK project, which aims at preventing environmental deterioration and improving the tourism infrastructure in Aegean and Mediterranean coasts where the touristic activities are intense, 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 World Tourism Organization (UNWTO) research indicate that, in most of the countries surveyed, 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 carries the importance.

The number of beds as certified by the Ministry of Culture and Tourism and the municipalities are expected to reach 550,000 and

425,000, respectively, tourist arrivals 23.2 millions and tourism receipts USD 19.6 billion in 2008.

2. Main Objectives and Targets

In tourism sector, the basic objective is to form a structure which embodies the dynamics of globalization, 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 those diverse tourism attractions where Turkey has a comparative advantage such as golfing, thermal tourism, convention, winter, cruising, and health tourism activities.

TABLE: IV. 35- Developments in Tourism Sector

				Average annual increase (percent)	
	2006	2007(1)	2008 (2)	2007 / 06	2008 /07
Incoming tourists (thousand)	19,820	22,000	23,200	11.0	5.5
Number of citizens going abroad (thousand)	8,275	9,000	9,350	8.8	3.9
Tourism receipts (million USD)	16,853	18,600	19,550	10.4	5.1
Tourism expenditure (million USD)	2,743	3,200	3,350	16.7	4.7

Source : Border Statistics of General Directorate of Security, CBRT
(1) Estimate
(2) Programme

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Tourism investments will be diversified and measures will be taken for expanding the tourism season to the entire year by means of a shift of investments from developed and congested areas to others.				
Measure 1.1. Suitable incentives will be introduced to tourism activities in the interior and underdeveloped regions.	Ministry of Culture and Tourism	Ministry of Finance, Undersecretariat of Treasury, SPO, Turkish Development Bank	End of December	The quantity, regional specialties, application periods and conditions of incentives will be identified annually.
Measure 1.2. Touristic accommodations will be supported.	Ministry of Culture and Tourism	Ministry of Finance, Undersecretariat of Treasury, SPO, Turkish Development Bank	End of December	To improve the service quality of touristic establishments and to increase their capacities when needed as well as inclusion of the travel agencies to incentive packages applied to accommodation establishments will be provided.
Measure 1.3. Planning, consultancy and investment firms serving tourism sector will be certified.	Ministry of Culture and Tourism	Sectoral Organisations	End of December	In order to provide diversity, quality and acceleration to investments, amendments will be made on Tourism Encouragement Law and Law on Foundation and Duties of Ministry of Culture and Tourism, for the purpose of certification of the firms working in the field of planning, investment and consultancy.
Measure 1.4. 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	End of December	Priority will be given to the completion of land-use planning studies in selected investment areas and investments will be developed accordingly.

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. Projects in the scope of "Destination Management" will be supported.	Ministry of Culture and Tourism	Special Provincial Administrations, Local Administrations, Sectoral Organisations, Universities, NGO's.	End of December	Support is given to Silk Road project as well as Hittite 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. Local interest has to be kept alive. Erzincan touristic transport road will be completed.
Measure 2.2. Efficiency will be achieved in the protection of natural and historical environment.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, NGO's	End of December	Priority will be given to the construction of technical infrastructure projects such as solid and liquid waste disposal and water treatment plants in accordance with the Law No.4848 on Foundation and Duties of Ministry of Culture and Tourism. Balıkesir-Edremit-Akçay waste water treatment plant will be completed.
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	End of December	Within the context of Mediterranean- Aegean Tourism Infrastructure and Coastal Management (ATAK) Project: -Antalya-Oba-Tosmur waste water treatment and discharge plant, -Alanya-Türkerler deep sea discharge plant, -Antalya-Serik hard waste disposal and composting plant, -Antalya-Kargıcak waste water collection system construction, -Antalya Serik-Çandır waste water collection system construction, -Antalya-Kestel waste water collection system will be completed.
Measure 2.4. Quality in touristic services will be increased.	Ministry of Culture and Tourism.	Local Administrations, Ministry of National Education.	End of December	Necessary legal arrangements will be made for certification of the workers in tourism industry, to improve the quality in tourism services and standardization in vocational education, to ensure the joint evaluation by the government and sector, to raise the efficiency as well as the job quality to international standards and to determine the level of competence necessary for employment.
Priority 3. Demand will be created for Turkish tourism to maximize its share in international markets.				
Measure 3.1. Restructuring will be achieved for the promotion of tourism in foreign markets.	Ministry of Culture and Tourism	Sectoral Organisations	End of December	The decision for the restructuring that will ensure the participation of touristic enterprises in the decision making process for promotion strategies, monitoring, control and the financing of the implementation was taken and attached to the memorandum of conclusion in Tourism Summit held in March 2007. Work on participation of sector will be carried on.
Measure 3.2. Promotion activities that fit the changing conditions will be conducted by monitoring continuously the changes in the demand.	Ministry of Culture and Tourism	Sectoral Organisations	End of December	By pursuing the Promotion Strategy of 2008; -While directing the promotion activities by diversifying the tourism markets, resources for classical, new and potential markets will be allocated. -Regional and local promotion will be developed within the context of facility-based 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 Organisations, Local Administrations.	End of December	More emphasize will be given to convention, business and incentive tourism besides yachting, cruising, thermal and third age tourism which. 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. The number of tourists and revenue per tourist will be increased, tourists in high income group will be attracted, demand will be ensured during the year, balanced distribution of the interior and exterior demand to the regions and products will be achieved.	Ministry of Culture and Tourism	Sectoral Organizations, Local Administrations.	End of December	Scientific methods and modern communication technologies need to be used extensively in promotion and marketing activities.
Priority 4. The cultural, social and natural richness of the city of İstanbul will be utilized in the context of sustainable tourism development.				
Measure 4.1. The creation of an "İstanbul brand" in promoting and marketing will be ensured.	Ministry of Culture and Tourism	Governorship of İstanbul, İstanbul Metropolitan Municipality, Local Administrations, Sectoral Organisations.	End of December	To be able to realize dynamic, professional and financially sound promotion, participation of the entities receiving direct or indirect revenues from tourism to the finance of promotional activities is necessary.
Measure 4.2. The implementation of tourism development projects prepared for İstanbul will be ensured.	Ministry of Culture and Tourism	Governorship of İstanbul, İstanbul Metropolitan Municipality, Local Administrations, Sectoral Organisations.	End of December	For the metropolitan city of İstanbul, elected as European Cultural Capital for the year 2010, after solving the legal and managerial problems of the projects related to convention tourism, cultural tourism, cruising and coastal zone their implementation will be realized. Feasibility studies and application projects for Galata, Haydarpaşa, Ataköy and Zeytinburnu cruise ports will be completed.

CONSTRUCTION, ENGINEERING-ARCHITECTURE, TECHNICAL CONSULTANCY AND CONTRACTING SERVICES

1. Current Outlook

The share of construction sector in GNP was 4.3 percent in 2005 and reached 5.3 percent in 2006. The sector grew by 21.5 percent in 2005 and 19.4 percent in 2006.

The growth rate of construction sector in the first half of 2006 was high with 19.3 percent, and became 16.1 percent in the first six months of 2007.

Rise in the interest rates of loan for renewing and new purchase for housing and premises slowed down especially housing demand in 2006. As a result of this, there is a 9.5 percent increase in building permits and 3.9 percent increase in occupancy permits in terms of square meters in 2006 compared to the previous year. Rates of increases have been 1.8 and 18.3 percent respectively in the first half of 2007 compared to the same period of the previous year.

TABLE: IV. 36- Developments in Construction Sector (at 1987 Prices)

Years	2004	2005	2006	2007(1)
Share in GNP (In Percent)	3.8	4.3	5.3	5.1
Growth Rate (In Percent)	4.6	21.5	19.4	16.1

Source: TURKSTAT
(1) First six months of 2007

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

TABLE: IV. 37- Building and Occupancy Permits and Rates of Change

Years	2004	2005	2006
Building Construction Permits (Thousand sq-m)	64,295	98,228	107,603
Percentage Change	41.0	52.7	9.5
Occupancy Permits (Thousand sq-m)	29,250	47,795	49,667
Percentage Change	-5.5	63	3.9

Source: TURKSTAT

Quality problem stemming from inadequate supervision and qualified labour force in construction sector is continuing. The labour force equipped with sufficient knowledge and experience in labour health, working safety and environmental issues who will be able to implement the continuously developing construction technologies is still below the desired level. The Law No.5544 on Vocational Qualification Authority is an important step to supply qualified workforce to the sector. The Vocational Qualification Authority established by the law started to work on issues regarding establishment of the rules for measurement, evaluation and certification of professions and preparation of draft of implementation regulations in cooperation with the related institutions during the year. These implementing regulations are expected to put into force till the end of 2007.

The Law No. 4708 on Supervision of Building targeting efficiency in the supervision of and quality improvements in construction sector has not made the expected impact so far, since its implementation was limited to 19 buildings. The employment created in construction sector has grown steadily in recent years, and it was 1,029 thousand in 2004, 1,171 thousand in 2005, and 1,267 thousand people in 2006.

Important developments in 2005 regarding contracting services conducted abroad continued to exist also in 2006, services were dispersed more regions and total amount of project contracts increased and the total amount of contracts reached USD 15.9 billion. Total construction contracts conducted abroad is expected to be USD 17 billion in 2007. Moreover, Prime Ministry Circular No. 2007/20 on establishment of the Council for International Contracting and Technical Consultancy Services was published in Official Gazette No.26588 on June 20th 2007.

Certification of skilled labour necessary for domestic and international construction services that would particularly increase labour employment in development countries is still insufficient.

The Strengthening Vocational and Educational System Project in Turkey (MEGEP) is completed. In the context of the project, professions are classified according to profession groups, fields and branches on the basis of ISCO 88 and ISCED 97 with the purpose of training the necessary labour force. The tasks and operations performed by professionals are identified and proficiency programs have been prepared. In this framework, the vocational training programs needed by the construction sector continue.

For the purpose of improvement of material quality and control used in construction, the work on the Communiqué on Attaching CE Mark to Construction Material and Preparing Technical File and the Communiqué on Formation and The Tasks of Eurocode Technical Committee are carried out by the Ministry of Public Works and Settlement. Moreover, the work on draft Construction Law continues. However, progresses on strengthening of building supervision and the information system for the sector have not been realized.

Work on implementing regulation amendments on employing independent technical consultants in public investments is expected to be completed at end of 2007 by the Public Procurement Authority.

2. Main Objectives and Targets

The technical consultancy and contracting services will be provided in international standards through out the whole sector by removing issues in quality stemming from the insufficient sectoral supervision and skilled labour force. Required measures will be taken to increase the market share of construction services in the world.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Capital structures of companies will be strengthened.				
Measure 1.1. The Letter of Guarantee problem will be solved.	UFT	The Ministry of Justice, Turk Eximbank, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, BRSA, Bank Association of Turkey, related private banking and finance institutions.	End of December	The working group to be established by The Council for International Contracting and Technical Consultancy Services will start to operate in this field. Turkish banks are in difficulty to give the letter of guarantee by themselves especially for high amount biddings. Arrangement will be made to solve this issue by means of banks consortium. The provision for letter of guarantee will be reduced. The provision regarding the cancelling of the letter of guarantee according to domestic law will be made compatible with international rules.

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, Line Ministries, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Association of Turkish Consulting Engineers and Architects, Related Universities	End of December	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 having 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 continue to be established.	Ministry of Labour and Social Security	Ministry of National Education, Related Universities, TSE, The Turkish Union of Construction Industry Employers, Turkish Contractors Association, Association of Turkish Consulting Engineers and Architects	End of December	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 as soon as possible.
Measure 2.3. The formation of the accreditation system in international contracting and technical consultancy services sector will be started.	UFT	TÜRKAK, TOBB, Association of Turkish Consulting Engineers and Architects, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Universities	End of December	A working group will be established by The Council for International Contracting and Technical Consultancy Services will start to operate in this field. A system will be formed to accredit the relevant services and a service export commission will be assigned responsible for certification and research and development. Its activities scope will be enlarged so as to cover other service areas in the future, if necessary.
Priority 3. Technical consultancy and contracting services will be provided at international standards of quality and reliability.				
Measure 3.1. A Draft Civil Construction Law will be prepared.	Ministry of Public Works and Settlement	SPO, Undersecretariat of Treasury, Line Ministries, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Association of Turkish Consulting Engineers and Architects.	End of December	With a view to improving the quality of the construction companies as well as the buildings, a Draft Civil Construction Law will be prepared which stipulates the definition of building contracting and minimum working conditions for contracting services.
Measure 3.2. Supervision of building will be enforced.	Ministry of Public Works and Settlement	SPO, Line Ministries, The Turkish Union of Construction Industry Employers Association of Turkish Consulting Engineers and Architects, Turkish Contractors Association	End of December	Responsibility insurance system will be established necessary for an efficient supervision of building. To this end, necessary amendments will be made in the Law No. 4708 on Supervision of Buildings.

Measure 3.3. Independent technical consultants in public investments will be used.	Public Procurement Authority	Ministry of Public Works and Settlement, Line Ministries, TSE, Undersecretariat of Treasury, Universities, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Association of Turkish Consulting Engineers and Architects.	End of June	Through necessary amendments in Public Procurement legislation, 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, and necessary adjustment will be made on the basis of the implementation monitoring results through out the year.
Measure 3.4. An information system specific for the sector will be developed.	Ministry of Public Works and Settlement	TURKSTAT, Line Ministries, Universities, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Association of Turkish Consulting Engineers and Architects.	End of December	An information system required for the policy formation and decision processes in the sector will be established. In this framework, it is aimed at defining 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. Efforts to improve the quality of construction materials and control in buildings will continue.	Ministry of Public Works and Settlement	Line Ministries, TSE, Undersecretariat of Treasury, Universities, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Association of Turkish Consulting Engineers and Architects	End of December	Construction materials regulation prepared in the context of harmonization with the EU will be completed and technical infrastructure necessary for material control will be established.

INFORMATION TECHNOLOGY SERVICES

1. Current Outlook

Information Technologies (IT) sector is one of the basic sectors behind the information society transformation process. This sector is critically important since it has a rapidly growing market, creates employment opportunities and contributes to competitiveness by increasing efficiency of business processes,.

According to IDC data, Turkish IT sector has grown at an average rate of 27.7 percent annually during 2001-2006 period and reached to USD 4.1 billion. It is estimated that the sector will grow 17 percent and reach to USD 4.8 billion during 2007.

Within the hardware dominated Turkish IT sector, total share of software and services is around 25 percent. This rate is very low compared to the world average of 65 percent.

The main problems of the sector, which is dominated by small scale firms, are shortage of qualified personnel, difficulties on access to finance, lack of consciousness on the role of quality standards, low level of R&D and innovation, narrowness of domestic market and inability to expand into external markets.

Firms in the IT sector comprise 65 percent of more than 700 firms in 12 technology development zones that are still operating, out of 26 zones in total founded since 2001.

2. Main Objectives and Targets

The global competitiveness of IT sector will be increased in order to increase value added by meeting the increasing demand emerged during the information society transformation process and position itself in external markets. Within this scope, with a selective approach, the focus will be on project-centred services and outsourced services such as application management, hosting, management of business processes, etc. in the field of IT services, and on vertical solutions in strategic areas such as telecommunications, health, education, defense industry, etc. that offer a higher competitive advantage in the field of software. In order to develop software and services sector, the goods and services required by the public sector will be procured via public-private partnerships (outsourcing), Informatics Valley Project will be initiated and the other actions determined in the Information Society Strategy will be launched.

It is expected that the size of sector will reach USD 5.8 billion in 2008, with annual growth rate of 20.8 percent.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	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. Entrepreneurship training will be provided in ICT sector.	Ministry of Industry and Trade	The Council of Higher Education, KOSGEB, TÜBİTAK (TEYDEB), Universities, Related NGOs, Technopark Administrations	End of December	Entrepreneurship courses oriented to the ICT sector will be widely provided at Universities; incentives will be provided via entrepreneurship contests; and education programs will be enriched with the best case applications.
Measure 1.2. Informatics Valley Feasibility Study will be completed.	Ministry of Industry and Trade	Ministry of Public Works and Settlement, SPO, YÖK, TÜBİTAK, TOBB, TTGV	End of December	Informatics Valley Feasibility Study - which will be set up to ensure development of Turkey among the countries of the region 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 improvement of business competencies of domestic firms in the sector- will be completed.
Measure 1.3. Business competencies of ICT sector will be developed.	Ministry of Industry and Trade	Undersecretariat for Foreign Trade, KOSGEB, İGEME, ICT Sector Union, Related NGOs	End of December	In order to develop the sector's business competencies, training and support activities such as marketing and sales courses, supports on business plan drafting and legal consulting services will be carried out.

COMMERCIAL SERVICES

1. Current Outlook

The share of the commercial sector in GNP was realized as 20.5 percent in 2006. The wholesale and retail commercial services which had a 83 percent share in trade sector, made an important progress in parallel to the improvements in the economy in recent years. During the period of 2002-2006, as the total service sector grew up by 7.7 percent on the average, commercial sector grew up by 9 percent and wholesale and retail service sector grew up by 10.2 percent.

Because of gaining great momentum through globalization, 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, interest rates and inflation level and the consumer's income level has 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 exposing the domestic producers to the international competition. These improvements on the one hand create new business opportunities 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, increases the importance of modern supply management and combined transportation systems. The weight of use of highways in transportation sector is still high and there is still a need for the stable distribution of transported goods among the transportation modes. In order to make good use of trade potential, it is essential that different transportation modes should be worked together in a harmony; harbours and terminals should be provided to be convenient for different functions.

In order to get a healthy transition in the wholesaling and retailing sector, legislative studies are being carried on for the purpose of establishing, operating and controlling of mall centers according to certain rules.

Draft Turkish Commerce Law which is prepared for the emergence of new international substantive laws and law regimes, developments in the multi-sided international trade, electronic commerce, liability laws and needs in alignment with EU legislation and other new laws concerning Commerce Law, is in the agenda of TGNA.

Legislation and implementation studies was carried on in order to restructure of commodity exchanges and to establish licensed commodity warehouses for the purpose of encouraging quality production, increasing worth of agricultural products and farmers' income, preventing unrecorded economic activities by providing effective marketing conditions and by determining product standards in agricultural products. The commodity exchange development project prepared for this purpose has been completed. The studies related to establishment

of licensed commodity warehouse and commodity exchanges and restructuring of agricultural sales cooperatives unions and integration of these unions to licensed commodity warehouse have been carried on.

Law No. 5652 on Regulation of Fresh Vegetable and Fruit Trade and Amendment of Same Article of Governmental Decree on Covered Wholesale Food Markets states that the municipalities can run covered wholesale food markets by the way of assignment, sale or lease. In addition, when the agricultural products sent outside of the province or district in which they are produced will have to enter and be put in use at destination covered wholesale food markets and the provision of municipality will be collected by the destination municipality according to the Law No. 5652.

It is available to make transactions at cotton and wheat with contracts during different months of the year in Turkish Derivatives Exchange (TurkDex). Due to the fact that TurkDex is still in development period, transaction volume was limited with YTL 837,000 (428 contracts) from 2005 to September 2007.

2. Main Objectives And Targets

In a sector that totally affects the whole economy, to provide high efficiency in a competitive environment will be one of the important stages of the transformation. Therein, it is essential to encourage the use of new technologies and to protect competitive structure of the sector.

Before adoption of new legislation regarding the wholesaling and retailing, the effects of these legislations on agriculture and manufacturing sectors as well as consumers should be analyzed in many aspects. In this context, on the one hand, there will be measures to combat with informal economic activities, to increase efficiency and quality, to compliance to hygienic rules; on the other hand, 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.

Physical flow of goods is targeted to have reliable, cheap and fast transportation systems with high standards to improve the logistics and combined transporting activities and conduct bureaucratic processes with simple solutions.

The necessary legislative amendments in commercial services sector to comply with the EU acquis and changing conditions in the field of commercial services shall be completed in order to increase the local enterprises competitiveness in the international markets.

It is aimed to establish licensed commodity warehouses and initiate the implementations in 2008. In this framework, firstly, it is planned to function the authorized classifying system (laboratory system) together with licensed commodity warehouses and arrange paper product receipts operated in commodity exchange. Then, after establishment of central recording institution and specialized products exchange, electronic product receipts will be arranged electronically at commodity exchanges and electronic trade of agricultural products will be possible. The investments, that will provide transition of agricultural sales cooperatives and unions to business of licensed commodity warehouse, will be continued.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. In commercial services sector, efforts will be made to have a structure, which will consist of protecting competition and consumer, supporting production, increasing efficiency and quality.				
Measure 1.1. In the regulation that will be adopted 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, TOBB, Professional and Vocational Associations	End of December	Before adoption of new legislation regarding the wholesaling and retailing, the effects of these legislations on agriculture and manufacturing sectors considering demand and supply side as well as consumers should be analyzed in many aspects. There will be measures to combat with informal 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. Turkish First Trade Congress will be arranged.	Ministry of Industry and Trade	Related Public Institutions, TOBB, Professional Associations, NGOs	End of September	Discussing whole existing issues together with their solution at national or international level, encouraging innovations and use of new technologies in the sector, introducing and evaluating new Commerce Law to be enacted soon, setting up 2023 Turkish Trade Vision, steering the potentials through common target by improving coordination among the institutions in this sector are targeted at the Congress.
Priority 2. Legislation in commercial services sector will be finalized.				
Measure 2.1. Legislation studies about Regulation on Fresh Vegetable and Fruit Trade and Covered Wholesale Food Market will be completed	Ministry of Industry and Trade	Ministry of Agriculture and Rural Affairs, Ministry of Interior, Sectoral Representatives, Professional and Vocational Associations	End of September	The regulatory impact analysis studies on draft law on Regulation of Fresh Vegetable and Fruit Trade and Covered Wholesale Food Market will be finalized. Secondary legislation will go into effect in six months after the enactment of the Law. This new regulations aims at strengthening the managerial, technical and physical infrastructure of covered wholesale food markets and restructuring them considering new conditions, setting up market recording system, minimizing informal economic activities.
Measure 2.2. Secondary legislations towards implementation of Turkish Commerce Law will be published and put into force.	Ministry of Industry and Trade	Related Public Institutions, TMSK, Professional and Vocational Associations	End of September	After enactment of Draft Turkish Commerce Law, necessary secondary legislation and presentation studies will be finalized in six months. In this context, three regulations, six implementing regulations, eight communiqué will be published and put into force.
Measure 2.3. Legislation studies aimed at regulation of retailing sector will be completed.	Ministry of Industry and Trade	Related Public Institutions, TOBB, Sectoral Organizations, Professional and Vocational Associations	End of December	The legislation studies about mall centers will be completed in direction of main objectives and measures taken place in development plan and annual programs.

Priority 3. Commodity exchange and licensed commodity warehouse system will be established to provide effective marketing condition in agricultural products.				
Measure 3.1. The difficulties in establishment, first application, completion of institutional structure and functionalities of licensed commodity warehouses and authorized classifying system shall be solved.	Ministry of Industry and Trade	Ministry of Agriculture and Rural Affairs, Ministry of Finance, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, TÜRKAK, TSE, TMO, TOBB, Commodity Exchanges, Agricultural Sales Cooperatives and Unions	End of December	In line with Law No. 5300 on Agricultural Products Licensed Warehouse and the implementing regulation on Licensed Warehouse Indemnification Fund; establishment of the fund management will be ensured. Studies will be conducted about the agricultural incentives such as tax, premium, aid to support establishment of licensed commodity warehouses system. In this context of the TRUP, 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.

II. FOSTERING EMPLOYMENT

A. IMPROVING LABOR MARKET

1. Current Outlook

Turkey has left behind the period of upsurge in population and the effects of the problems stemming from the rapid increase in population have gradually been diminishing in the development process. According to the population projections renewed in 2005, it is estimated that the annual population growth rate, which is 12.1 per thousand in 2007, will be decrease to 11.8 per thousand in 2008; and the midyear total population, which is 73.9 million in 2007, would reach to 74.8 million in 2008. The fertility rate, which is 2.17 in 2007, estimated to decline to 2.15 in 2008.

Whereas the share of the 0-14 age group within the total population is decreasing, the shares of the working-age and aged groups are increasing.

Although population growth rate decreases in the country, the rapid decline in agricultural employment, which accounts for one third of the total employment, high unemployment rate, low labour force participation and employment rates, low level of educational attainment and qualification of labour force and weak link between education and employment are the main problematic areas on the way of transformation to information society with a high level of competitiveness and employment creation capacity.

The employment created in Turkey during the period 2000-2006 remained behind the growth in the working age population and the labour force. During this period, the employment, the working age population and the labour force increased by an annual average rate

TABLE: IV. 38- Shares 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

of 0.6 percent, 1.9 percent and 1.2 percent respectively. The employment which decreased following the 2001 crisis, increased by 644 thousands of people in 2004, 255 thousands of people in 2005 and 284 thousands of people in 2006.

The most important reason for the limited rise in employment can be attributed to the employment decrease experienced in agricultural sector depending on the structural transformation in the economy. The share of the agricultural sector in total employment decreased from 36 percent to 27.3 percent and employment in this sector decreased by 2,001 thousands of people during the period 2000-2006. A substantial increase was experienced in employment in non-agricultural sectors, especially following the year 2003. An employment increase of 2,432 thousands of people in non-agricultural sectors was realized during the period 2000-2006.

Another reason for the low rate of total employment increase was the rise in the labour productivity and the hours worked. According to the Employment and Earnings Survey of TURKSTAT, the normal hours worked per week in manufacturing industry was 45 hours in the second period of 2000 and it increased to 46.5 hours in the second period of 2007. Moreover, according to the Household Labor Force Survey of TURKSTAT, the actual hours worked per week was 43.8 hours in 2000 and it increased to 51.4 hours in 2005.

As a result of the decrease in employment in agricultural sector and with the impact of 2001 crisis, the unemployment rate increased to the level of 10.5 percent in 2003 and with the achievement of sustainable economy it improved to the level of 9.9 percent. On the other hand, the non-agricultural unemployment rate rose to 14.5 percent in 2002 and with the increase of the employment in non-agricultural sectors this rate declined to 12.6 percent in 2006. The unemployment rate among young people, which is approximately twice as much as total unemployment, is quite high though it has showed a diminishing trend in recent years.

TABLE: IV. 39- Main Indicators on Employment and Labour Force

(In Percent)

	Turkey				EU-15			
	2003	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**
Labor Force Participation Rate (LFPR) (15-64)	51.1	51.5	51.3	50.2	70.1	70.6	71.0	71.6
- LFPR (Female)	28.1	27.0	26.5	26.1	61.6	62.6	63.2	64.1
- LFPR (Male)	74.0	76.1	76.2	74.4	78.6	78.6	78.9	79.2
Employment Rate (15-64)	45.5	46.1	45.9	45.9	64.3	64.5	65.2	66.0
- Employment Rate (Female)	25.2	24.3	23.7	23.9	56.1	56.5	57.4	58.6
- Employment Rate (Male)	65.9	67.9	68.2	68.1	72.6	72.4	72.9	73.5
Unemployment Rate (15-64)	10.8	10.6	10.5	10.1	8.2	8.3	8.2	7.8
Unemployment Rate (15+)	10.5	10.3	10.3	9.9	8.1	8.3	8.2	7.8
- Unemployment Rate (Rural)	7.3	5.9	6.8	6.5	-	-	-	-
- Unemployment Rate (Urban)	14.3	13.6	12.7	12.1	-	-	-	-
Youth Unemployment Rate (15-24)	20.5	19.7	19.3	18.7	16.1	15.5	16.2	16.7

Source: TURKSTAT, Eurostat

No progress has been achieved in labour force participation and employment having a lower level compared to EU averages. The low level of these rates are closely related to meagre participation of women to employment and labor force. The rates of labour force participation and employment among women are around one third of that of the men.

number of their workers. The need for reviewing the responsibilities of employers in connection with employment and making new arrangements with this regard in order to encourage employment still exists5.

Considering wages, one of the most important indicators of the working life, it is

TABLE: IV. 40- Developments In Labour Costs (1)

	2000	2001	2002	2003	2004	2005	2006	2007(4)
Real Labour Cost Index (1994=100)								
Worker (2)								
Public	130.1	115.7	99.5	102.2	105.4	107.4	104.4	111.5
Private	140.8	115.9	108.9	106.3	111.1	114.9	117.0	-
Civil Servant	129.7	117.0	120.3	122.6	127.8	134.5	140.2	148.3
Minimum Wage (3)	155.8	132.9	134.9	153.9	170.8	181.8	180.7	183.5
Real Change (In Percent)								
Worker (2)								
Public	20.8	-11.1	-14.0	2.7	3.1	1.9	-2.8	6.8
Private	13.4	-17.7	-6.1	-2.3	4.5	3.4	1.8	-
Civil Servant	-11.7	-9.7	2.8	1.9	4.3	5.2	4.2	5.7
Minimum Wage (3)	-13.0	-14.6	1.5	14.1	11.0	6.4	-0.6	1.6

Source : Ministry of Finance, TURKSTAT, SPO, Public Sector Employer Unions, TİSK
(1) In real change calculations, Wholesale Price Index (1994=100) during 2000-2004 is used and during 2005 and onwards Producer Price Index (2003=100) is used. Annual average increase rate of Producer Price Index is estimated as 6.4 percent for 2007.
(2) The data provided by Public Sector Employer Unions and TİSK. Wage of private sector workers for 2006 is an estimate.
(3) The figures are annual average labour costs for 16 age and over in industry and services sectors.
(4) Estimate.

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 low labour productivity compared to EU averages.

Employers have legal obligations to employ specific groups of people and open certain units in their sites depending on the

estimated that average net salaries of civil servants increased 13.0 percent and average net wages of public workers increased 12.3 percent in nominal terms, these figures had shown an increase of 4.2 percent and 3.6 percent in real terms, respectively in 2007. In 2006, net wages of private sector workers increased 11.9 percent in nominal and 2.1 percent in real basis.

TABLE: IV. 41- Developments In Net Wages (1)

	2000	2001	2002	2003	2004	2005	2006	2007(4)
Real Net Wage Index (1994=100)								
Worker(2)								
Public	111.1	98.2	89.2	86.8	88.3	90.7	88.3	91.4
Private	119.4	95.3	94.3	93.9	97.1	97.7	99.7	-
Civil Servant	108.9	104.8	110.8	109.9	112.7	115.7	122.9	128.1
Minimum Wage (3)	132.6	113.9	123.0	127.6	158.6	165.3	163.9	163.3
Real Change (In Percent)								
Worker (2)								
Public	6.9	-11.5	-9.2	-2.7	1.7	2.7	-2.7	3.6
Private	1.1	-20.3	-1.0	-0.4	3.5	0.5	2.1	-
Civil Servant	-11.5	-3.8	5.7	-0.9	2.6	2.6	6.2	4.2
Minimum Wage (3)	-14.4	-14.1	8.0	3.7	24.3	4.2	-0.9	-0.3

Source : Ministry of Finance, TURKSTAT, SPO, Public Sector Employer Unions, TİSK
(1) Consumer Price Index (1994=100) is used in calculations on real basis for 2000-2004 period. After the year of 2005 Consumer Price Index (2003=100) is used. Annual average increase rate of Consumer Price Index is estimated as 8.4 percent for 2007.
(2) The data is provided by Public Sector Employer Unions and TİSK. Wage of private sector workers for 2006 is an estimate.
(3) The figures are annual average net minimum wage for 16 age and over in industry and services sectors.
(4) Estimate.

In 2007, monthly gross minimum wage is set as YTL 585 for the workers older than 16, and YTL 491 for the workers younger than 16. In 2007, average monthly net minimum wage for 16 and older ages is estimated to increase by 8.1 percent in nominal and 0.3 percent in real basis.

Wider use of flexible working forms assumes a great importance in 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 wider use of flexible working forms in labour market, to promote these working forms and to establish their link with social security.

Developments in the process of transition to information society are making changes in working relations, working types and employment profile. For this reason, adjustment capability of workers, enterprises and sectors to this transformation have to be reinforced.

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 pursued are determined, is also planned to be completed in 2008.

The need for a labour legislation for the employees in agriculture, forestry and aviation which are out of the scope of the Labour Law still remains.

2. Main Objectives and Targets

Towards the objective of building a competitive economy and information society, and within the framework of sustainable growth with a focus of employment, will be raised, employment opportunities will be improved, unemployment will be reduced and labor market will be made effective.

Labour 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 adaptation to changes is enhanced, social dialogue is improved and equal opportunities for every one is provided and will be made effective.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Effectiveness of labour market will be ensured.				
Measure 1.1. By providing the balance between flexibility and security, labour market will acquire a more flexible and a more mobile structure.	Ministry of Labour and Social Security (ÇSGB)	Social Security Agency, İŞKUR, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of December	Obstacles to the practice of part-time work in particular will be determined in order to render flexibility practices attractive for the employers and employees, and this type of work will be given a preferable structure for both employers and employees. The necessary changes will be done in the Labour Law No. 4857 and the social security legislation.
Measure 1.2. Necessary studies will be undertaken with regard to reducing the burden on employment in a way to increase employment.	ÇSGB	Ministry of Finance, SPO, Undersecretariat of Treasury, SGK, İŞKUR, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of December	The necessary actions will be taken with regard to decreasing the burden on employment through development of new employment possibilities, proliferation of decent work, encouragement of formal employment and widening the tax base, taking into consideration the actuarial balances.
Measure 1.3. Adjustment capabilities of enterprises and workers to adapt changes in the labour market will be reinforced.	ÇSGB	MoNE, İŞKUR, KOSGEB, Vocational Qualifications Agency, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of December (continuous)	Adaptation capability of enterprises to changes in the labour market will be provided through the modernization of labour institutions and supporting the adjustment in the enterprises. As for the employees, this will be provided through the acquisition of new skills and knowledge necessitated by the new conditions. The EU Funds (IPA Funds) shall be used effectively in this area.
Priority 2. Social dialogue mechanisms in Turkey will be strengthened by making social dialogue practises widespread.				
Measure 2.1.The Economic and Social Council will acquire a functional structure and its effectiveness will be increased.	SPO	Prime Ministry, ÇSGB, Confederations of Employer and Employee Trade Unions, Confederations of Civil Servant Trade Unions, Professional Organizations, NGOs	End of December	The effectiveness of Economic and Social Council, the most significant tripartite social dialog mechanism at the national level, will be improved through the means of reflecting the issues agreed upon into the economic and social life, and securing their applicability.

Measure 2.2. Bilateral social dialogue mechanisms will be strengthened at sectoral and enterprise levels, bilateral counseling mechanisms will be established at the national level.	ÇSGB	Confederations of Employer and Employee Trade Unions, Confederations of Civil Servant Trade Unions, Professional Organizations, NGOs	End of December	Working agenda, decisions and timetable of the bilateral advisory board, that consists of only the employees and the representatives of the employers at 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. Issues regarding the international obligations in the field of trade unions will be addressed.	ÇSGB	Ministry of Finance, SPO, State Personnel Agency, Confederations of Employer and Employee Trade Unions, Confederations of Civil Servant Trade Unions, Professional Organizations, NGOs	End of December	Law on Trade Unions No. 2821, Law on Collective Bargaining Agreement, Strike and Lock-Out No. 2822 and Law on Trade Unions for Government Officials No. 4688 will be reviewed with respect to the alignment to the EU acquis.
Priority 3. Equal opportunities will be provided for the women, the young, and the long term unemployed, the disabled and former convicts who encounter difficulties in the labour market.				
Measure 3.1. The youth unemployment will be reduced.	İŞKUR	ÇSGB, MoNE, SPO, SGK, YÖK, KOSGEB, The General Directorate of Youth and Sport, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December (continuous)	Equal opportunities will be provided for youth who face with difficulties in the labour market. In order to increase employment and labour force participation rates of the young people, programmes of the acquisition of professional experience will be developed. Vocational training, information, guidance, and consultancy services will be provided for the unemployed youth.
Measure 3.2. Participation of women to the employment and the labour force will be increased.	ÇSGB	Ministry of Finance, İŞKUR, MoNE, SPO, Undersecretariat of Treasury, SGK, KOSGEB, KSGM, Local Administrations, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December (continuous)	So as to facilitate their entrance into the labour market, flexible work types for women will be widened. Easy and affordable access of women to child and elderly care will be provided. The labour force training shall be provided for women. The vocational consultancy and counseling and information services with regard to setting up a new business will be provided for women.
Measure 3.3. Participation of the disabled to the employment and the labour force shall be increased.	Prime Ministry Administration for Disabled People (ÖZİDA)	Ministry of Finance, ÇSGB, MoNE, SPO, Undersecretariat of Treasury, İŞKUR, SHÇEK, Local Administrations, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	By matching the defined occupation groups and existing disability types, it will be determined which disability group can perform what profession. Necessary studies on technical and financial support by the government with respect to the protected work places will be done.

Measure 3.4. Arrangements will be done regarding employment of disabled people and former convicts.	ÇSGB	Ministry of Finance, Ministry of Justice, SPO, Undersecretariat of Treasury, SGK, İŞKUR, ÖZİDA	End of December	The SSK employer contribution rate will be paid by the Treasury when the disabled people are employed by the employers who are obliged to employ according to the labour law. The regulation of compulsory employment of the former convicts will be abolished. The clean record will not be demanded except for some specific jobs when former convicts apply for a job.

B. INCREASING THE SENSITIVITY OF EDUCATION TO LABOUR DEMAND

1. Current Outlook

Turkey, as regards its demographic structure, has serious opportunities for creating employment for its continuously increasing working age population and for transforming itself to the information society in the medium term. In the short and medium run, increasing vocational skills of young population who will meet the labor force needs with parallel to the changing conditions of economy, and benefiting from the opportunities provided by information and communication technologies that ensures the production of high value added, shall reveal the driving force needed for both transforming to the information society and developing human resources.

Ineffective interaction between the fields of employment and education in Turkey, and lack of vocational education in responding the needs of labour market results in disequilibria between demand and supply of skills in the labour market. This fact simultaneously leads to unemployment and vacant positions. These problems necessitate formulation of vocational education in line with labour market demands and establishment of a national vocational qualification system.

In this framework, Vocational Qualification Agency has started functioning with an aim to establish and operate the national qualifications system required for improving the level of technical and vocational education through specifying the principles of national qualifications in technical and vocational areas and carrying out activities of supervision, measurement, assessment and certification on the basis of national and international occupational standards.

Although considerable steps were taken with the enactment of Law No: 3308 in apprenticeship training, ineffective implementation of the legislation leads to delay in solutions of existing problems. Financial obligations of companies for employing apprentices increase unregistered employment and hinder strengthening apprenticeship training.

Studies are underway to establish modular system in vocational and technical education. However, works carried out at secondary education level has not been reflected on Higher Vocational Schools (MYO). On the other hand, about one-fifth of MYO's are not active. The active ones do not meet requirements of industry located in their vicinity.

TABLE: IV. 42- Educational Attainment Level of Labour Force, 2006

(In Percent)

	Labour Force	Employment	Unemployed	LFPR	Employment Rate	Unemployment Rate
Total	**100.0**	**100.0**	**100.0**	**48.0**	**43.2**	**9.9**
Illiterate	5.0	5.3	2.2	20.3	19.4	4.4
Less than High School	61.0	61.4	57.7	46.9	42.5	9.3
High School	21.6	20.9	28.1	57.0	49.7	12.8
- Upper Vocational Secondary	-	-	-	65.5	57.9	11.6
Tertiary	12.4	12.4	12.0	78.5	71.0	9.5

Source: TURKSTAT

In Turkey, 66 percent of total labour force, 66.7 percent of total employment, and 59.9 percent of total unemployed in 2006 are illiterate and/or have education less than high school. Low qualification level of existing labour force also reduces labour force productivity, creates imbalances between demand and supply of labour, thereby hampers effectiveness of the labour market.

When labour force is analyzed on the basis of education, for the groups other than tertiary, unemployment rate increases as the level of education increases. Major reason for this fact is that as the level of education increases labour market participation and employment rates increases, especially for the higher schools and faculty graduates groups.

2. Main Objectives and Targets

By taking into account the lifelong learning strategy, which will be prepared to increase the sensitivity of education to labour demand, developing human resources in the areas demanded by the economy, and ensuring a more flexible structure in education and labour market are planned.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	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. The modular system, established for educating human resources that the market needs in vocational education, will be strengthened.	MoNE	SPO, TURKSTAT, İŞKUR, Vocational Qualifications Agency (MYK), Provincial Vocational Training Boards, Provincial Employment Boards	End of December	Through a sound labour force forecast and analysis system, needed skills will be determined, modular programs will be prepared and updated to this end. The qualification of teachers will be increased by the current modular system and necessary measures will be taken by determining the problems related to develop modular program.

Measure 1.2. Provincial Employment Boards and Provincial Vocational Training Boards will be unified and made decision making unit.	İŞKUR	Ministry of Labour and Social Security, MoNE, MYK, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of September	Active participation of enterprises to the identification of vocational programs and their contents will be ensured. At both central and local level, by including the enterprises in the vocational education system, the relation between education and employment will be strengthened; employers will be able to find the employees with the skills they need. Unification of these two boards that help formulation of employment and vocational education policies at local levels, and achieving their efficient functioning will strengthen the relation between employment and education. For this purpose, necessary amendments will be made in the Law of Vocational Education No. 3308 and Turkish Employment Agency Law No. 4904.
Measure 1.3. Taking the program integration into consideration, cooperation and division of labour between vocational high schools and vocational and technical secondary education institutions will be established and practical education will be provided in cooperation with industry.	Ministry of National Education	İŞKUR, YÖK, MYK, Confederations of Employer and Employee Trade Unions, Professional Organizations, Provincial Employment Boards, Provincial Vocational Training Boards	End of December	Opportunities of Vocational High School (VHS) and MYO students to practice and apprentice in industry will be improved. An efficient cooperation between the VHSs and the organized industry zones will be established by the coordination of Provincial Employment and Vocational Training Boards. VHSs shall not repeat the curricula of the vocational high schools, and a programmatic integrity between them shall be accomplished. Inactive VHSs will be closed; the VHSs that have low number of students and that do not respond to the local needs will be combined with other VHSs by taking into account the geographic proximity.
Measure 1.4. A lifelong learning strategy will be prepared.	MoNE,	Ministry of Labour and Social Security, SPO, İŞKUR, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	Lifelong Learning Strategy Paper that has been prepared in the EU harmonization process will be finalized. In accordance with the said Paper the draft Lifelong Learning Coordination Law will be submitted to TBMM.
Priority 2. Information technologies will be used effectively in order to improve the qualification of human resources.	MoNE	Ministry of Trade and Industry, YÖK, İŞKUR, KOSGEB, MYK, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	Effective use of e-learning methods will be ensured in improving the qualification of human resources and access to information technologies will be made widespread. Education curricula for information technologies will be improved.

C. IMPROVING ACTIVE LABOR MARKET POLICIES

1. Current Outlook

In recent years, the importance given to active labour market policies, which contain public employment services, job creation and training of labour force and aim to increase the employment, skills and earnings of labour force, particularly of the disadvantaged groups, as an effective instrument in increasing employment and decreasing unemployment has been increased.

İŞKUR, within the scope of active labor market policies, is conducting the matching procedures for job seekers and vacant jobs, the programmes of labour force training, vocational training and labour force adaptation, the provision of vocational orientation, consultancy and career guidance, the development of job seeking strategies, the services to provide opportunities to disadvantaged groups such as the unemployed, the disabled, women and the young to find jobs easier, the entrepreneurship trainings and employment-guaranteed training programmes.

Within the scope of developing active labour market policies, İŞKUR had carried out the Active Labour Market Programmes Project, which was co-financed by Turkey and the EU between the years 2003 and 2006. Benefiting from the experience obtained with this project, the Project of Active Employment Measures and Support for Turkish Employment Agency at Local Level, which aims to improve employability of women and the young, and to develop institutional capacity of İŞKUR in 28 provinces with the co-finance of Turkey and the EU has been initiated in 2007.

In the context of the Labor Redeployment Services Component of the Privatization Social Support Project I (PSSP), 773 projects with a participation of 25,184 persons in the fields of job counseling, placement services, labor retraining, business advisory services and temporary community employment programs had been implemented in 2001-2006. 11,701 persons out of 22,230 persons who completed the programs successfully within the scope of the project had been employed. In addition, with the support of counseling services for set-up of small scale businesses under the project, 414 small scale enterprises with an employment of 1,230 persons were established. Under the PSSP II, 254 projects with a participation of 5,228 persons in the fields of job counseling, placement services, labor retraining, business advisory services and temporary community employment programs were implemented and 2,791 persons participating these programs were placed in a job as of October 2007.

2. Main Objectives and Targets

Developing active labour market policies in line with the requirements of labour market and improving the quality of services provided in this context are the main objectives.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Active labour market policies will be effectively implemented and extended.				
Measure 1.1 Labour market information system will be set up.	İŞKUR	ÇSGB, SPO, TURKSTAT, MPM, KOSGEB, Confederations of Employer and Employee Associations, Professional and Vocational Organizations	End of December	Labour market information system will be set up in order to effectively design and implement the active labour market programmes and to define which programmes are needed in the labour market for what type of target groups.
Measure 1.2. The quality and skills of the surplus labour emanating from the agriculture sector will be upgraded.	İŞKUR	ÇSGB, MoNE, Ministry of Agriculture and Rural Affairs, SPO, KOSGEB, Confederations of Employer and Employee Associations, Professional and Vocational Organizations, NGOs	End of December (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 quitted agriculture.
Measure 1.3. Employment-guaranteed training programmes will be extended.	İŞKUR	MoNE, MYK, KOSGEB, Provincial Employment and Vocational Training Boards, Confederations of Employer and Employee Associations, Professional and Vocational Organizations, NGOs	End of December (Continuous)	The number of employment-guaranteed training programmes will 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 labour for the employee. Employment-guaranteed programmes will be expanded by informing enterprises, particularly those who are being newly set up and making new investments.
Priority 2. Resources allocated for the implementation of active labour market policies will be increased.				
Measure 2.1. Additional resources will be allocated for active labor market programs.	ÇSGB	Ministry of Finance, MoNE, SPO, Undersecretariat of Treasury, Social Security Institution, İŞKUR, MYK, Confederations of Employer and Employee Associations, Professional and Vocational Organizations		Additional resources will be allocated for improvement of labour force adaptation services provided for the unemployed.
Measure 2.2. Private employment offices will be made more effective and their scope of activity will be widened.	İŞKUR	ÇSGB, MYK, Confederations of Employer and Employee Associations, Professional and Vocational Organizations, Provincial Employment Councils, Provincial Vocational Education Councils, Private Employment Offices	End of December	Opening-up of private employment offices will be encouraged and their fields of activities will be diversified. In this regard, necessary amendments shall be done in Law No. 4857 and Law No. 4904.

Priority 3. Institutional capacity of İŞKUR will be improved.	İŞKUR	Ministry of Finance, ÇSGB, SPO, Confederations of Employer and Employee Associations	End of December	In order to enable İŞKUR to adapt itself to changes taking place in labour market due to globalization and technological progress, by taking into account the needs at local level, the institutional capacity of İŞKUR will be improved, its fields of service will be diversified, and its target group will be widened.
Priority 4. Micro-scale projects aiming at creating employment shall be supported.				
Measure 4.1. Promotion of Local and Sectoral Employment Programme will be formed.	ÇSGB	Ministry of Finance, MoNE, SPO, Undersecretariat of Treasury, İŞKUR, Confederations of Employer and Employee Associations, Local Administrations, Universities	End of December	In order to encourage finding solutions for employment problems emerging at local and sectoral levels with participation of all related parties, within the scope of Ministry of Labour and Social Security, by benefiting from the implementation mechanisms of EU Pre-Accession Funds, Programme for Promotion of Local and Sectoral Employment shall be formed, in this context, small-scale projects with several partners aiming at increasing employment, strengthening ties between education and labour market will be supported.

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. The main challenges are enrollment rates and regional disparities regarding the access problem and insufficient physical infrastructure, outdated of curriculum, development of teacher qualifications and alignment of education materials with curriculum regarding the quality problem. Though enrollment rate is not reached to desired level, it has increased in all levels of education, however, a satisfactory improvement in the quality of education could not have been

TABLE: IV. 43- Enrollment Rates by Level of Education

	2004-2005		2005-2006		2006-2007	
	Number of Students (In Thousands)	Enrollment Rate (In Percent)	Number of Students (In Thousands)	Enrollment Rate (In Percent)	Number of Students (In Thousands)	Enrollment Rate (In Percent)
Pre-Primary Education (1)	435	15.3	550	19.9	641	24.0
Primary Education(2)	10,565	95.7	10,674	95.6	10,847	96.4
Secondary Education (2)	3,047	81.0	3,259	85.2	3,387	86.6
a) General Stream	1,934	51.4	2,076	54.3	2,142	54.8
b) Vocational Stream	1,113	29.6	1,183	30.9	1,244	31.8
Higher Education Total (3)	1,969	38.4	2,181	43.4	2,292	46.0
Formal	1,273	25.0	1,382	27.5	1,446	29.1
Non-Formal Education	4,045	-	3,887	-	4,509	-

Source: MoNE, YÖK
(1) Calculated for 4-5 age group.
(2) Open Education students are included.
(3) Universities and other educational institutions are included. Graduate students are excluded. Calculated for 17- 20 age group.

realized since financial resources have been allocated for access to education due to the increasing number of students.

Although enrollment rate has reached to 24 percent from 15.3 percent in pre-primary education in 2004-2007 period, it is remarkably lower than EU-25 average of 85 percent (calculated for 4 years old). This rate is expected to reach the target level of Ninth Development Plan which is 50 percent if rate of increase is supposed to continue at the same level. Despite the increase in pre-primary education enrollment, there are still some problems about quality and perception of its function by society. Although, it is known that pre-primary education has a positive impact on success in further levels of education, in some cases it can be perceived as child care service. It is important to remove such misperceptions and to raise awareness of importance of this education especially among the lower socio-economic families.

In primary education, late enrollments, drop-outs and problems of girls' access to education are main factors hindering the desired level of increase in enrollment rate. At the end of 2005-2006 academic year, while the share of girls among those graduated from primary education is 48.6 percent throughout Turkey, this figure drops to as low as 30 percent in some provinces. In 2006-2007 academic year, the number of children that are in age group of primary education but don't go to school is 1,111 thousand, of which 667 thousand are girls and 444 thousand are boys. Accordingly, the net enrollment rate in primary education is 87.9 percent for girls and 92.2 percent for boys.

During the last three years, enrollment rate in secondary education has increased from 81 percent to 86.6 percent. With the extension of the duration of secondary education from 3 to 4 years, as there will be no graduates in some schools in 2007-2008, 700 thousand of students will stay in system. As a result of this increase, average class size in secondary education will increase from 32 to 43. Additional classes will be needed to reduce average class size to 30.

Although there is improvement in enrollment rate of secondary education, there are still some problems arising from regional disparities. The transition rate from primary to secondary education is 86.5 percent throughout Turkey, whereas it is around 60 percent in some provinces.

Share of vocational education in secondary education is low. In 1995, while the share of vocational and technical education in secondary education was 42.3 percent, it decreased 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 (MYO) without examination in 2002, this rate started to increase and reached to 36.8 percent in 2006-2007 academic year. Nevertheless, there are some issues hindering increase of vocational education's share in secondary education. These issues are that transition system from primary to secondary education is not taking into account interests, skills and abilities of students, that an effective guidance system has not been established in primary education yet, and that vocational education graduates are disadvantaged with respect to access to higher education.

Although implementation of modular system has been initiated, there are still needs for developing educational equipments in

accordance with these system. Moreover, in-service training related to new curriculum for teachers need to be provided. On the other hand, the fact that secondary education is structured on the basis of school type instead of programme type hinders the effective functioning of modular and flexible system in secondary education. Furthermore, the programmes of MYO's not updated in line with the modular system in secondary education, the practice of entrance to MYO's without examination, the inadequacy of infrastructure, equipment and academic staff in MYO's deteriorates the quality of vocational education.

The high waiting list for 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. The number of students applying for the university entrance examination has increased by 6.0 percent in 2007 compared to 2006 and reached to 1,776 thousand students. However, the rate of placement to universities has increased from 21.9 percent in 2006 to 22.1 percent in 2007.

The number of graduates from secondary education as of 2005-2006 academic year was 645,328, of which 235,219 were from vocational and technical education level. On the other hand, in 2006, the capacity of higher education to be enrolled was 435,274 and the number of new enrollments was 674,210, including open education and direct access to vocational higher education without entrance examination. It is observed that the capacity of higher education is sufficient enough for the placement of most of the recent secondary education graduates. However, because of the fact that only the 33.4 percent of the total number of applications to university entrance examination is composed of recent secondary education graduates and that the 66.6 percent is composed of the students who are applying for more than one time, the issue of the effectiveness of the university entrance examination system and the evaluation of all the relevant factors is arised.

The number of universities has reached to 115, of which 85 are public and 30 are foundation universities, with the establishment of 32 new public universities in order to meet the demand for higher education and to make it nationwide.

TABLE: IV. 44- Number of Student/Classroom and Student/Teacher by Level of Education

		2004-2005	2005-2006	2006-2007
Primary Education	**Number of Students per Classroom**	37	35	34
	Urban	45	44	41
	Rural	24	23	23
	Number of Students per Teacher	26	27	26
Secondary Education	**Number of Students per Classroom**	34	31	31
	Number of Students per Teacher	18	16	16
a. General High School	**Number of Students per Classroom**	38	33	32
	Number of Students per Teacher	20	18	18
b. Vocational and Technical High Sch.	**Number of Students per Classroom**	29	29	29
	Number of Students per Teacher	15	14	13

Source: SPO, MoNE.

There are also some problems regarding quality of education in addition to problems of access to 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 class-teacher, increasing qualifications of teachers by means of 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, and effective use of information and communication technologies in schools.

In primary and secondary education, 112 thousands classes have been built in the last five years. However, average number of students per classroom has not been reduced sufficiently since some classes built have been used as laboratories, libraries and IT class to increase quality of education. Although average number of students per classroom in primary education has been approaching to 30 in recent years, it is seen that this rate is high especially in provinces that have high migration rate, and those in Eastern and Southeastern Anatolia regions. Such issue is more evident in city centers. Average number of students per classroom is 62, 51 and 51 in throughout province, and 72, 55 and 60 in city-center of Şanlıurfa, İstanbul and Gaziantep respectively.

Despite the actions carried out to shift to one-shift education in primary education, share of students in one-shift education is still at level of 45.3 percent in 2006-2007 academic year. Moreover, despite the improvements in the number of students in unified classes, the share of students in these classes is still 5.1 percent.

TABLO: IV. 45- Number of Computers per Student

	Number of Computers per 100 Students				Number of Computers with Internet Connection per 100 Students
	Primary Education		Upper Secondary Education	Total	
	Primary Education	Lower Secondary Education			
EU-27	9.5	10.9	12.7	11,4	10.0
New Member Countries	6.1	6.4	8.2	7,1	9.4
Turkey	3.4		4.9	4.1	4.0

Source: MoNE, European Commision (2006)

New curriculum prepared to anticipate future conditions is being implemented in primary education. Moreover, curriculum update in secondary vocational education is almost complete. General secondary education curriculum and secondary vocational education programs that was not updated in Project of Strengthening Vocational and Technical Education in Turkey (SVET), is being updated in Secondary Education Project.

In 2007, a total of additional 40,000 teachers comprised of 20,000 permanent and 20,000 contractual teachers were employed. However, more teachers are still needed in fields of foreign language, computer and class-teacher. Moreover, despite some improvements provided by norm staff practice, there are problems regarding balanced allocation of teachers throughout the country. The number of students per teacher in primary education is 26

throughout Turkey, but it is over 40 in some provinces.

There is a need to increase qualifications of teachers and trainers, and to improve ICT infrastructure in schools, so that students can get technological skills required by process of transformation to information society, and formal and non-formal training can be supported by these technologies. For effective use of IT classes in education, broadband internet access service has been provided for 29,018 schools and other education institutions. Moreover necessary work for all schools and other educational institutions to utilize this service has been carried out.

The share of public education expenditures in GDP is 4.0 percent, and 4.1 percent in 2005 and in 2006, respectively and it is expected to be 4.3 percent in 2007. These shares are below EU-25 average of 5.2 percent in 2003 and OECD average of 5.4 percent in 2004. 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 and other private resources in the total revenues of universities in 2006 are 51.2 percent, 34.7 percent and 14.1 percent, respectively. High level of share of budget transfers illustrate universities' low capacity of income generation. The fundamental reasons for low income generation in universities are mainly the insufficient level of university-industry cooperation, the ineffectiveness of universities in local development and inability of mission differentiation of universities. 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

TABLE: IV. 46- The Distribution of Students and Academic Staff in Formal Higher Education, 2006-2007 (1)

	Students		Professors, Associate Profs. and Assistant Profs.		Total Academic Staff	
	Number	Percentage	Number	Percentage	Number	Percentage
Ankara	145,608	10.3	6,142	18.0	14,148	16.4
İstanbul	213,536	15.0	6,860	20.1	12,971	15.0
İzmir	82,998	5.8	2,616	7.7	5,903	6.8
Total-Metropolitan Area	**442,142**	**31.1**	**15,618**	**45.8**	**33,022**	**38.2**
Other Cities	977,383	68.9	18,498	54.2	53,500	61.8
Total	**1,419,525**	**100.0**	**34,116**	**100.0**	**86,522**	**100.0**

Source: SPO, ÖSYM
(1) The other higher educational institutions, graduate students and the academic staff studying in research centers are excluded.

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 7.7 percent in 2007, the share of the academic staff in these universities to total number of academic staff increased from 9.6 percent in 2006 to 12.9 percent in 2007. This indicates that the foundation universities are in a better condition in terms of the number of formal students per academic staff. Since 31.1 percent of the total students and 45.8 percent of total professors, associate professors and assistant professors are concentrated highly in metropolitan areas, the number of students per professor, associate professor and assistant professor is 28.3 in those big cities. This yields an advantageous result in favor of metropolitan areas when this figure is compared to the country average of 46.2. In order to meet the academic staff deficit in the long term and decrease the regional disparities, the projects on training academic staff in developed universities have been carried out since 2002.

The bed capacity of dormitories in higher education is 332,060 as of 2005-2006 academic year, of which 195,891 belongs to Yurt-Kur, 41,496 belongs to universities and 94,673 belongs to private sector. The students and families mostly prefer the Yurt-Kur dormitories especially because of their low cost. As of 2005-2006 academic year, while the number of idle bed capacity was 89,250, the number of applications was realized as 191,706 which yields a supply-demand ratio of 47.0 percent.

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 will be grown.

In order to reduce drop-outs in primary and secondary education, measures will be taken towards changing the negative condition against girls country-wide and students in rural areas, and also transition rates to secondary education will be increased. Secondary education system will 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 will be updated with respect to the current needs.

Modular and flexible system will be established in vocational and technical education, and vocational education in secondary and tertiary levels will 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 will be given more importance and students will be trained in a way to get basic skills needed by labour market such as abilities of problem-solving, responsibility-taking and team-working.

University entrance system will 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 will be established, quality standards will be identified and extended, the jurisdictions and capacities of the education institutions will be improved, and a performance-based model will be developed.

It is aimed that information and communication technologies, which are of basic tools in education process, will be used by teachers and trainers effectively. In this framework, ICT infrastructure in formal and non-formal education institutions will be established. It will be provided that students have competencies to use ICT. Furthermore, curriculum supported by ICT will be developed, and individuals will be supported to improve their capabilities by means of e-learning and to continue in life-long learning.

Council of Higher Education will be restructured and have the responsibilities of planning, identifying standards, coordination and auditing. The competitiveness of the system will 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 will be improved and diversified.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Administrative structure will be reorganized in order to improve quality, efficiency and competitiveness in education.				
Measure 1.1. MoNE will be restructured.	MoNE	Ministry of Finance, SPO, State Personnel Agency	End of December	Central organization of MoNE will 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 will be released from its executive functions and regulations to focus on its original functions. The Law No. 3797 on Duties and Organization of Ministry of Education will be revised, the number of departments will be reduced and the Ministry will be reorganized.
Measure 1.2. A new structure emphasizing on programme diversity instead of school diversity will be established in secondary education.	MoNE	ÇSGB, SPO, İşkur, MYK, Professional and Vocational Institutions	End of December	Types of schools shall be reduced and a new structure will be established, which makes possible to implement different programs under a school. To this end, The Law No. 3797 and related legislation will be revised.
Measure 1.3. In order to monitor the developments and set policies in education, system for data production, indicator development and evaluation will be developed.	MoNE	Ministry of Finance, SPO, TURKSTAT, YÖK, Universities	End of December	Education statistics, especially related to educational expenditures, will be harmonized with EUROSTAT and missing statistics will be produced. Qualitative and quantitative developments in education will be monitored and comprehensive analyses will be conducted in the light of these developments.

Measure 1.4 Council of Higher Education (YÖK) will be restructured.	MoNE	SPO, YÖK, Universities, NGOs	End of December	YÖK will be transformed into an institution that is responsible for identification of standards, coordination, long-term planning and auditing. Its institutional capacity will be strengthened on the basis of expertise in order to carry out these responsibilities. Inter-University Board will be authorised as the highest level of academic agency regarding academic issues. For these purposes, the necessary changes in the Laws No. 2547, 2809, 2914 and other related legislation will be made.
Measure 1.5 Universities will be restructured.	MoNE	Ministry of Finance, SPO, YÖK, Universities, NGOs	End of December	Universities will be transformed into a structure which enables accountability and autonomy in administrative and financial aspects. 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. In order to make the academic career more preferable among the university graduates, personnel rights of the academic staff starting from the research assistants will be improved. An administrative structure based on board of trustees will be put into effect so as to remove the problems caused by centralization. This board will be formed in a way that enables to improve the cooperation between university and industry, to increase the contribution of universities to the local development and to integrate with society and that allows the active participation of student in the administration with the right of voting. Universities will be differentiated as research and education universities by taking their human capital, physical condition and financial resources into consideration. 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.
Priority 2. Curriculum will be reviewed in secondary education and necessary updates will be done.				
Measure 2.1. In-service training activities will be expanded in line with revised curriculum of primary and secondary education and curriculum of education faculties will be updated.	MoNE	YÖK, Universities	End of December	The number of teachers trained in-service will be increased. Curriculum of education faculties will be updated by a Commission that will be set up in coordination with MoNE. In-service training containing revised vocational education and modules in secondary education will be given to vocational school teachers. The subjects, which are needed by teachers, will be determined in coordination with education faculties.
Measure 2.2. Curriculum development studies will be finalized in secondary education.	MoNE	Universities	End of December	Within the framework of Secondary Education Project, the curriculum revision studies of 5 area course in general secondary education and 18 area course in vocational education will be finalised. Modules of vocational education will be distributed free of charge likewise secondary education.
Priority 3. An effective orientation system will be established in education system.				
Measure 3.1. Occupational guidance and consultancy services will be improved at primary and secondary level education.	MoNE	İŞKUR, TOBB, TİSK, Labour Unions	End of December	A consultancy and guidance system including to introduce the jobs in practice will be established in especially 6-7th class of primary education, and inclined students will be encouraged for vocational education. In order to close the gap of guidance teachers, the quotas of universities will be increased in cooperation with YÖK and employment of guidance teachers will be ensured. 500 special training formator will be raised in cooperation with universities throughout Turkey.

Priority 4. Enrollment rates will be increased, equipment needs will be met and physical infrastructure will be improved at all levels of education.				
Measure 4.1. Number of students per classroom will be decreased.	MoNE	Ministry of Finance, SPO, YÖK, TOKİ, Local Administrations, NGOs	End of December	Necessary legislative regulations will be made in order to ensure to sell the schools, that are stuck in factories and business centers in big cities and have real estate value, and in order to use these revenues to build new schools. The cities in which the number of students per classroom is over 50 will be given priority and these cities will be converged to national average. Besides, province centers will be given importance taking into account that in the centers of the said provinces students per classroom rates are over 60.
Measure 4.2. Pre school education services will be diversified and social awareness will be increased.	MoNE	Ministry of Finance, SPO	End of December	Mobile school, summer school and binary education practices will be extended in pre-school education. Visual and printed media channels will be used for increasing social awareness.
Measure 4.3. The number and the capacity of the dormitories will be increased and the quality of existing dormitories will be improved.	YURT-KUR	Ministry of Finance, SPO	End of December	The process of land providing and procurement will be accelerated in order to meet the increasing need for dormitories in the cities which have high priority and in which 32 state universities were founded in 2006 and 2007. The process of improving the physical condition and the equipment of existing dormitories will be continued.
Öncelik 5. Inadequacy in the number of teachers and academic staff will be overcome.				
Measure 5.1. Academic Staff Training Programmes in developed universities will be given priority in order to meet the academic staff needs of developing universities.	SPO	Ministry of Finance, YÖK, Universities	End of December	The number of academic staff shall be increased and their balanced distribution within the country will be ensured. The cooperation and coordination between developed and developing universities will be improved in order to train academic staff. It will be ensured that the graduates of Academic Staff Training Programmes be appointed as assistant professors within at most six months.
Priority 6. Use of information technologies in education will be extended and made effective.				
Measure 6.1. Formal and non-formal education will be supported by information and communication technologies in education and necessary infrastructure will be accomplished.	MoNE	Ministry of Transport, SPO, Governorships	End of December	Establishment of IT laboratories will be completed in the planned schools, multi media libraries will be set up in these laboratories and will be updated regularly. Essential IT education will be given to the students in IT classes and their use of libraries will be ensured. Besides, IT classes will be opened to public use in certain hours. IT curriculum in secondary education will be updated as a complementary of education that have gained in primary school. In order to ensure the effective use of IT in all lessons updated software will be provided. Multimedia CDs and education software that contribute to individual studies of students and address to the interests and abilities of students will be included in the program and prepared book sets will be transformed to e-book in order to ensure the interactive use in internet.

Priority 7. Barriers to the access to all levels of education will be removed.				
Measure 7.1. Access of disadvantaged groups to education will be increased.	MoNE	RTÜK, TRT, SHÇEK, ÖZİDA, Local Administrations, SYDGM	End of December	Access of disadvantaged groups who are not in education system due to low income and gender discrimination to education will 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 will be improved and in order to make parents conscious and increase social awareness, effective use of educational and visual broadcast will be ensured, and common campaigns will be realized with NGOs. "Hey Girls! Let's Go to School" campaign will be continued.
Measure 7.2. The placement system for secondary education and higher education will be overviewed so as to also enable the equality of opportunity.	MoNE	YÖK, ÖSYM	End of December	The entrance system for secondary and higher education will be transformed into a structure - that informs the student about the programs sufficiently, - that evaluates the interests and abilities of students by means of efficient guidance and orientation systems during the time of education, - that relies more on success at school, - that is compatible with the curricula - that does not require learning beside the education in the school. Moreover, new methods for the implementation of university entrance examination system will be introduced. Transition between programs and universities will be eased according to entrance exam scores in order to reduce the repeated applications for entrance examination. Coefficient inequality will be removed for the graduates of vocational high schools who want to attend in a university programme in the same or close field.
Measure 7.3. Drop- outs will be decreased in primary schools.	MoNE	Ministry of Labour and Social Security, SYDGM, SHÇEK, ASAGM, KSGM, NGOs	End of December	Drop-out inclined students will be determined by teachers and material and moral support will be given through Family-School Unions according to the need of the student. In order to decrease the drop outs, pre-school education will be supported in the regions that have higher drop out rates.
Priority 8. Alternative finance models will be developed in all levels of education.				
Measure 8.1. Extension of private schools will be promoted.	MoNE	Ministry of Finance, SPO, Undersecretariat of Treasury	End of December	Private Education Institutions Law No. 5580 will be revised in order to ensure private formal education institutions. Different models will be used in school building such as public private partnership. Promotions such as estate appropriation, tax reduction and subsidies will be extended.
Measure 8.2. The share of foundation universities in higher education will be increased and regulations on establishing private universities will be made.	MoNE	Ministry of Finance, SPO, Undersecretariat of Treasury, YÖK	End of December	Among promotions provided to foundation universities, the allocation of land will be eased and financial support will be increased. Necessary legislative changes will be made so as to enable the establishment of private universities.

Measure 8.3. The contribution of students in financing higher education will be increased. An efficient tuition fee, scholar and loan system will be introduced for the students with low income.	MoNE	Ministry of Finance, YURT-KUR, YÖK, Financial Institutions	End of December	The share of tuition fees in financing higher education will be increased. Regulations that enable the finance sector to give credits to lower-income students under the warranty of Government and that enable graduates to pay back these credits after having reached to a certain income level will be adopted.
Priority 9. Practices will be increased for the sake of elimination of discipline related problems including violence.				
Measure 9.1. Social activities and rehabilitation services will be increased for students.	MoNE	Ministry of Interior, Ministry of Justice, SHÇEK, General Directorate for Youth and Sports, Local Administrations	End of December	Especially in cities with high migration rate, violence prone students will be determined and rehabilitation services will be provided. In order to keep away the students from violence the participation of students to the cultural, sportive and artistic activities will be increased.

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, ineffective referral system and lack of health consciousness of society.

Although significant progress has been observed in main health indicators, the level of developed countries has not been reached. According to the 2003 Turkey Demographic and Health Survey infant mortality is approximately 29 per thousand for 1998-2003 period. It is estimated that the rate will be 21.7 per thousand in 2007. According to the same survey, infant mortality and child mortality rates differ significantly among regions and between urban and rural areas. There is a strong correlation between probability of children's life expectancy and mother's education level. Mothers with no education or less than primary education, infant mortality rate is 51 per thousand, however, infant mortality rate of mothers with at least primary education is 18 per thousand.

According to the 2005 Turkey National Maternal Mortality Study, maternal mortality rate is 28.5 per hundred thousand live births. Whereas this rate is 20.7 in urban areas, it is

TABLE: IV. 47- Main Health Indicators of Population

	2005	2006	2007(1)	EU (2)
Population Increase (Per Thousand)	12.6	12.4	12.1	3.1
Infant Mortality Rate (Per Thousand)	23.6	22.6	21.7	5.17
Total Fertility Rate	2.19	2.18	2.17	1.5
Life Expectancy at Birth (Year)	71.3	71.5	71.7	78.4

Source: SPO, WHO
(1) SPO Estimate
(2) Latest available EU data

40.3 in rural areas. The rate differs significantly among regions; 7.4 at west Anatolia, 68.3 at East Black Sea and North East Anatolia. 61.6 percent of the maternal mortality caused by avoidable factors such as failure to recognize pregnancy related problems, not taking antenatal care, poor diagnosis and management of the physicians, long distance to the nearest health care providers. In Health Seeking Behavior Survey, conducted in the context of Turkey Reproductive Health Program, perceptions which could affect natal and antenatal care have been examined. According to the survey, economic conditions, existence of health insurance, socio-cultural specifications and unfavorable experiences with health personnel during previous deliveries determine the place of delivery.

The percentage of elderly in the population is increasing faster than those of other age groups. It is expected that, the 0-14 age group will decrease 16.7 percent and 15-64 age group will increase 31.9 percent between 2005 and 2050. For the same period, over 65 and over 75 age groups will increase 316.2 and 421.6 percent respectively. Since the mentioned changes will affect the burden of diseases, it is vital to review the quantity and specialization areas of health personal, and to develop long term care as well as treatment services.

According to the World Health Organization, tobacco is the second major cause of death in the world and it is currently responsible for the death of one in ten adults worldwide. According to the Family Structure Survey conducted in 2006, 33.4 percent of the adults older than 18 smoke, the age group covering 25-34 years old smoke the most with 41.5 percent rate. 50.6 percent of men and 16.6 percent of women smoke.

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, Neonatal Control Programme, Iron Support Programme and Sexual Health/Reproductive Health within the scope of preventive health. However, the need for improvement of preventive health services persists.

TABLE: IV. 48- Infrastructure Indicators on Health Sector

	2005	2006	2007 (1)	EU (2)
Number of Inpatient Beds	192,658	196,667	201,600	-
Number of People per Inpatient Bed	374	371	366	171
Bed Occupancy Rate (Percent)	64.5	64.4	-	77.5

Source: Ministry of Health, SPO, WHO
(1) SPO Estimate
(2) Latest available EU data

The capacity of inpatient beds belongs to the Ministry of Health with 67 percent, universities with 15 percent and private sector with 6,9 percent. Mental Health hospitals have the highest bed occupancy rate; lack of sufficient inpatients beds is the most evident cause of it.

Number of inpatient beds has increased by years but the desired level has not reached and problems related to distribution of beds still

persist. In 2002-2006 period the number of inpatient beds has increased 10.4 percent. According to the socio-economic development index of provinces, the number of persons per inpatient beds is 363 in the most developed region and 800 in the least developed region. Unbalanced distribution of inpatient beds is one of the reasons, which cause unbalanced distribution of the health personnel.

Demand for health services is increasing every year. In 2002-2006 period number of outpatient services has increased 74.9 percent in hospitals, 86.4 percent in health posts. Increase in outpatient services caused particularly by payment of outpatient services and medicine expenditures of patients with green card by Ministry of Health, reducing differences in services through gathering all public hospitals under one umbrella, facilitating usage of private sector services and improving primary level health services. The number of outpatient services increased significantly especially due to the increased service efficiency caused by improvements made in health post in the context of "one room for every physician" principle.

On the other hand, although improvements in primary level services and decrease in referral rate, inadequacies in 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. The service quality of hospitals gets worse because of excess demand. The rate of outpatient services given in the hospitals has decreased to 3.6 from 4.4 percent during 2002-2006 period.

All of the public hospitals have the patient rights units. The right to choose practitioners had been started at 11 hospitals in 2004 and this figure has reached to 400 in the first half of 2007.

TABLE: IV. 49- Health Manpower Indicators

	2005	2006	2007 (1)	AB (2)
Number of Physicians	100,800	103,150	105,500	-
Number of People per Physician	715	707	700	315
Number of Graduates of Faculty of Medicine per 100,000 People	6.1	6		9.3
Number of People per Nurse	858	843	-	143

Source: Ministry of Health, SPO, ÖSYM, WHO
(1) SPO Estimate
(2) Latest available EU data

Although there has been an improvement in the number of health personnel, it is not at the level of meeting the needs of the country and unbalanced distribution problems among regions persist. Despite the improvements in the distribution of health personnel and practitioners, because of the obligatory public service and contractual personnel system, the desired level of improvements in the distribution of specialists could not been achieved. In medical schools the number of students per academicians without assistants is 3.6, however this rate is 22.5 in Germany, 11.8 in Italy, 5.1 in Finland. In order to decrease the deficit of practitioners, medical schools have been established since 1992. However, while the number of new students registered to 24 schools of medicine was 4,852 in 1992, 4,813 students registered to 46 schools of medicine in

2006. Although the number of graduates of faculty of medicine per 100,000 people is 9,3 in Europe, this figure has decreased from 7.5 to 6.1 during the period of 2000-2006 in Turkey. Persistence of the decrease of that rate will cause greater needs for physicians in the upcoming years. Similarly, as the number of graduates of nurse per 100,000 people is 28 in Europe, it displays only a level of 5.6 in Turkey, though slight increases realised in recent years.

Health Transformation Programme which aims to reorganize the Ministry of Health, execute the family medicine system, establish General Health Insurance System, extend health services, facilitate accessibility to services and increase the quality of the services has been carried on. 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 in 12 provinces, it is expected to be executed in 59 provinces at the end of 2008.

The coverage of health insurance is 81.6 percent of population in 2006. General Health Insurance system, which will ensure to cover the population who does not have health insurance or are unable to pay the premium of the insurance, is envisaged to be started in 2008.

Public health expenditures have increased from 4.3 percent of GDP in 2001 to 5.2 percent of GDP in 2006, and it is expected to be 5.2 in 2007. This ratio is 6.5 percent for Europe and 6.3 percent for OECD countries. The ratio of pharmaceutical expenditures to total health expenditures decreased from 39 percent in 2000 to 33.5 percent in 2006. 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, which aims to ensure data collection within predefined standards from health institutions in order to enable analysis and evaluation, family medicine information system has been initiated in pilot provinces at which family medicine system is executed, National Health Data Dictionary has been prepared and Minimum Health Data Set has been published. Pilot project of tele-medicine system in pathology and radiology will be started at the end of 2007. Pilot implementation of Central Hospital Appointment System Project will be executed in three regional centers in 2008.

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 achieve 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 in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Primary health services, particularly preventive and mother-child health services, will be strengthened and dispersed.				
Measure 1.1. Preventive health programs, particularly mother-child health, will be diversified and dispersed.	Ministry of Health	MoNE, SHÇEK, TRT, All Health Service Providers, Local Administrations, NGOs	End of December	In order to make the infants breastfed immediately after the birth, awareness raising activities will be carried on. Baby Friendly Health Institution Programme will become widespread in all health institution. Current "Infant Surveillance Programs" will become widespread and hearing and sight surveillances shall be added to those programs. Programs related to nutrition, physical activity and preventing obesity will be prepared particularly for school children. Legal regulations will be made for hindering sale of foods including nonstandard additives in school canteens and for contents of those foods' adverts. At the end of 2008 immunization rate will be reached to 95 percent and none of the residential areas will have vaccination rate less than 90 percent. Building of vaccine cooling rooms in all provinces will be completed for providing quality and safety in vaccination. Vehicles with coolers will be provided to all provinces to be used for distribution of vaccines in the province. Preventing suicide and intervene to crisis program, carrying on 49 provinces, will be dispersed to whole country. National Mental Health Activity Plan will be prepared. Starting with the provinces where family medicine system is carrying on, check lists for homecare services will be composed and pilot implementation will be conducted with local administrations and provincial directorates of social services.
Measure 1.2. Services for improving the dental health conditions of the society will be increased.	Ministry of Health	Turkish Dental Association, Universities	End of December	20 Dental Health Centers will be established. Family dentistry model will be structured as a model, and the implementation will be started after the family medicine implementation act enters into force.
Measure 1.3. Emergency health services will be strengthened.	Ministry of Health	Ministry of National Education, Ministry of Finance, Ministry of Interior, General Directorate of Borders and Coasts	End of December	Chopper and plane ambulances will be provided through outsourcing. Number of sea ambulances, which is currently 4, will be increased to 10. Coordination of provincial crisis centers and 112 stations shall be enhanced through improving their communication infrastructure and number of air tent type mobile emergency health units shall be increased to 11. In order to improve the citizens' first aid abilities necessary regulations will be done on current first aid bylaw and trainings will be increased. At least 10 percent of the population will be trained about first aid by 2011.

Measure 1.4. Activities towards decreasing alcohol, tobacco and drug usage will be carried on.	Ministry of Health	Ministry of Agriculture and Rural Affairs, Ministry of National Education, TAPDK, Universities	End of December	Necessary regulations regarding the tobacco products' commercials and sponsorship, the usage of health warnings on tobacco products' packages will be done on the "Act of Hindering Tobacco Products' Harms". Increasing number and quality of AMATEMs, training of personnel, preparation of diagnose and treatment guidelines and improvement of data collection systems from Drug Addiction Treatment Services will be achieved. AMATEMs will be opened in İstanbul, Gaziantep, Mersin, Kocaeli and Konya.
Priority 2. Accessibility of health services particularly primary level services will be improved.				
Measure 2.1. Quality of health centers will be improved and a plan about new health centers' construction shall be prepared.	Ministry of Health	Ministry of Interior, Universities, Turkish Red Crescent, TTB, NGOs	End of December	Planning of health centers construction shall be done through taking into account geographical area, population density, transportation facility and current health investments. Provinces where high safety judicial psychiatry hospitals would be established shall be determined and preparation of projects shall be done. Patient rooms shall be transformed to a qualified structure which it has its own bath-WC, telephone-TV, nurse calling system, patient unit. Settings to ease disabled patients' accessibility shall be done in and around hospitals. Type A and B blood centers and blood stations will become consistent with new regulations.
Measure 2.2. Countrywide equitable distribution of health personnel will be provided.	Ministry of Health	Ministry of Finance, DPB, Local Administrations	End of December	A realistic personnel distribution plan for health institutions will be prepared based on target population, service area, physical structure and service providing characteristics.
Measure 2.3. Implementation of family medicine will be dispersed.	Ministry of Health	Local Administrations	End of December	Implementation of family medicine will be dispersed to 59 provinces. Instead of Law No 5258 Pilot Implementation of Family Medicine System Law family medicine implementation law will be enacted and secondary legislations will be made.
Measure 2.4. Diagnosis based medical implementations will become widespread in health centers.	Ministry of Health	Health Institutions, Universities	End of December	The study of Diagnosis Related Groups (DRG), ongoing in 50 hospitals (35 of them owned by Ministry of Health), will be completed within the context of "Infrastructure Development for Strengthening and Restructuring of Health Services' Financial Management" project.
Priority 3. Health service personnel will be trained in the areas needed for.				
Measure 3.1. Quotas of health personnel, particularly physicians, educating institutions will be increased.	YÖK	DPT, Universities	End of December (continuous)	Quotas of universities will be increased gradually to close the health personnel gap particularly physicians. Faculty of medicines' investment needs that are related to quota increases will be prioritized.
Measure 3.2. Quality of health personnel will be improved.	Ministry of Health	MoNE, YÖK, Universities, Professional and Vocational Institutions	End of December	Health personnel's vocational qualifications will be improved through continuing education. Curriculums will be edited to increase students' basic health abilities.

Priority 4. Principle of rational use of medicine will be activated.				
Measure 4.1. Programs about rational use of medicine will be prepared.	Ministry of Health	Ministry of Finance, TRT, Social Security Institution, NGOs and Professional Institutions	End of December (continuous)	Taking into account the high proportion of medicine expenditures in the total health expenditures, in order to provide efficiency in costs, necessary regulations aiming to activate the pharma-economic principles in supplying and using drugs will be made. Public awareness about rational use of medicine will be raised and on the job training opportunities for physicians towards this goal will be increased. Necessary studies for training of hospital staff and establishment of side effect database will be started.
Measure: 4.2. Medicine chase system will be established.	Ministry of Health	Social Security Institution, Hacettepe University, Turkish Pharmacists' Association	End of December	Preparatory works for establishment of a countrywide chasing system that will enable to trace every individual medicine chest will be done.
Priority 5. Institutions responsible for health services will be restructured.				
Measure 5.1. Law on Organization of Ministry of Health will be renewed.	Ministry of Health	Prime Ministry, SPO, Universities, Local Administrations	End of December	Necessary administrative and legal regulations will be made for restructuring the central and local functions of Ministry of Health by reviewing its physical and human resources and organizational structure within the context of strategic planning principles. These regulations will be aimed to focus on Ministry of Health's functions such as determining priorities in health sector, monitoring and evaluating services, accreditation of institutions and the management of public health functions.
Measure 5.2. Refik Saydam Hygiene Center will be restructured.	Ministry of Health	Refik Saydam Hygiene Center, Universities	End of December	Legislative studies necessary to establish an independent and equal to international alikes organization that will serve at a reference level in diagnosing and controlling the cause of disease to prevent public health decrease and hinder disease risks will be completed.
Measure 5.3. School of Public Health shall be transformed into health institute.	Ministry of Health	SPO, DPB, YÖK Universities,	End of December	To transform Public School of Health into an organizational structure that makes research and development on health policy, organization law will be prepared in the first phase.
Priority 6. In the provision of health care services, patients rights and satisfaction shall be essential.				
Measure 6.1. Implementation of physician choosing right will be widespread and public awareness of patient rights will be increased.	Ministry of Health	MoNE, TRT, All Health Service Providers, NGOs	End of December	Necessary regulations, that enable societies' right to chose physician within the context of patient rights and satisfaction, shall became commonplace to all health institutions. Public awareness of patient rights shall be increased by mass media and trainings in schools. On the job trainings of health personnel about patient rights will be ensured.
Measure 6.2. Malpractice regulations shall be made.	Ministry of Health	Universities, All Health Service Providers, NGOs	End of December	Administrative and legal regulations shall be made for determining responsibilities of and hindering malpractice.

Priority 7. In order to improve the quality of services, hospital management will be structured such that it will be fiscally and administratively autonomous.				
Measure 7.1. Pilot implementation of public hospitals association will be started.	Ministry of Health	Ministry of Finance, SPO, Social Security Institution, Universities	End of December	After the acceptance of draft law on the pilot implementation of public hospitals association by parliament, pilot implementation will be started in 3 provinces.
Priority 8. The efficiency of national health information system will be increased.				
Measure 8.1. The efficiency of national health information system will be increased.	Ministry of Health	Social Security Institution	End of December	Health Coding Reference System will be improved such that it covers diagnose coding system and medical devices and material coding system. Usage of family medicine information system will be ensured in the provinces where family medicine system is implemented. Usage of Minimum Health Data Sets and Social Security Institution's data sets will become commonplace. Telemedicine protocol about tele-radiology and tele-pathology will be prepared. Pilot implementation of telemedicine project will be started. Pilot implementation of "Hospital Appointment and Referral Integration System" which will allow citizens to take appointment through family medicines or directly by phone, will be started in 4 regions.

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 in particular from health and education services, cultural opportunities and ICT, taking part within production activities and participating decision-making processes. The above stated segments consist of those who work in the agriculture and temporary works without any social security, uneducated individuals, women, children, the aged and the disabled. Those are also the most vulnerable segments to the poverty risk.

Data concerning income distribution indicate that the share of the first four quintiles rise meanwhile the share of the fifth quintile is in a trend of a continuous decline. Share of the

TABLE: IV. 50- Distribution of Annual Disposable Income by the Household Quintiles

(In Percent)

Quintiles	**+2002**	**2003**	**2004**	**2005**
Lowest 20 Percent	5.3	6.0	6.0	6.1
Second 20 Percent	9.8	10.3	10.7	11.1
Third 20 Percent	14.0	14.5	15.2	15.8
Fourth 20 Percent	20.8	20.9	21.9	22.6
Highest 20 Percent	50.1	48.3	46.2	44.4
Total	100.0	100.0	100.0	100.0
Gini Coefficient	**0.44**	**0.42**	**0.40**	**0.38**

Source: TURKSTAT

first quintile, which has the lowest share in the total income, rose to 6.1 percent in 2005, while it was 5.3 percent in 2002. Share of the fifth quintile, which has the highest share in the total income, decreased to 44.4 percent in 2005 from 50.1 in 2002. In parallel to the above mentioned developments, Gini coefficient, which is an indicator of income inequality, diminished to 0.38 in 2005 from 0.44 in 2002.

improvements in indicators, the poverty rate is above the EU average. Relative poverty rate is 26 percent for Turkey, whereas it is 16 percent for the EU-25.

Poverty is predominant particularly among the less educated, casual employees, unpaid family workers, those who work in agriculture and extended families. Educational

TABLE: IV. 51- Poorest Segments in terms of Food and Non-Food Expenditures by Various Criteria

(In Percent)

	Poverty Rates			
	2002	**2003**	**2004**	**2005**
Rural	34.5	37.1	40.0	33.0
Illiterate	41.1	42.4	45.1	37.8
Patriarchal or Extended Family	34.3	32.7	32.0	27.3
Workers in Agricultural Sector	36.4	39.9	40.9	37.2
Unpaid family workers and casual employees (1)	45.0	43.1	38.7	34.5
National Poverty Rate (Food and Non-food Poverty)	27.0	28.1	25.6	20.5

Source: TURKSTAT, Household Budget Surveys
(1) The 2002 and 2003 data belongs casual employees, 2004 and 2005 belongs to unpaid family workers.

The recent economic growth and a better income distribution enabled the poor segments to benefit from the welfare increase more. Proportion of the population below the food and non-food poverty line, which was 27 percent in 2002, fell down to 20.5 percent in 2005. The proportion below the food poverty line, which was 1.4 percent in 2002, fell down to 0.9 percent in 2005. Although there are

background is one of the variables that explain the poverty best. Poverty rate with regard to the level of education and to their proportions in the total population was 37.8 percent in 2005 for the illiterate individuals, who account for the 10.3 percent of Turkey's population. The stated rate, however, is as low as 0.8 percent for the educated individuals graduated from tertiary education institutions, who account for 4.5

TABLE: IV. 52- Selected Indicators of Employment in 2006 (Age 15+)

(In Percent)

	Female		Male		Total	
	Employment Rate	**Labour Force Participation Rate**	**Employment Rate**	**Labour Force Participation Rate**	**Employment Rate**	**Labour Force Participation Rate**
Urban	16.7	19.9	63.0	70.8	40.0	45.5
Rural	31.6	33.0	67.2	72.7	48.8	52.2
Turkey	22.3	24.9	64.5	71.5	43.2	48.0

Source: TURKSTAT

percent of the total population. Primary education, which allows individuals acquire a lifelong knowledge, skills, behaviors and habits, is an important element to establish equal opportunities and social well-being.

According to the 2006 Household Labor Force Survey, 48.5 percent of the employed women work in the agricultural sector. On the other hand, 39 percent of the employed women are unpaid family workers, and deprived of social security mostly. Women, employed as unpaid family workers in the rural areas, are withdrawn from the labor force and become vulnerable to the risk of social exclusion due to the following reasons: being under-qualified compared to the jobs in the urban areas after migrating to the cities, confronting problems in child care as well as the aged and the disabled in the family, along with the social pressures of a different environment.

The main reasons of higher poverty in rural areas are the largest employment volume in agriculture, whose value added per capita is relatively low, and the insufficiency of the off-farm activities. Surplus of the inactive population due to the divided ownership structure, predominance of unpaid family workers, low productivity and underemployment in agriculture are the primary facts that lead to the discrepancy between agriculture's share in employment and its share in national income.

The share of agriculture in total employment has been decreasing. Decline in employment in agriculture, which is predominant in rural areas, the limited alternative jobs, the difficulties in access to services such as education and health have caused the impoverishment of the population in the rural areas and their migration to the cities. However, those migrated people who have low education have difficulties in integration both to the labor market and the society. This segment of society is mostly employed in the informal sector with low wages and live in the slum areas of low environmental quality. In order to tackle these problems it is important that individuals should become participatory, productive and self-sufficient.

The employed poor earn low wages owing to their low levels of education and the peculiarities of the agricultural sector in which they intensely work and the majority of them work temporarily and without security. According to the Household Budget Survey, poverty rates for the unpaid family workers and casual employees are 14 and 11.6 percentage points higher than the general poverty rates respectively.

TABLE: IV. 53 Employment and GDP by Sectors (1)

(In Percent)

Sectors	2002		2003		2004		2005		2006	
	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP
Agriculture	34.9	11.6	33.9	11.7	34	11.2	29.5	10.3	27.3	9.2
Industry	18.5	25.2	18.2	24.7	18.3	24.9	19.4	25.4	19.7	25.6
Services	46.6	63.2	47.9	63.6	47.7	63.9	51.1	64.3	53.0	65.2
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.

As a result of poverty, migration, unemployed parents, awareness level of parents, problems within the family, the following groups of children need special care: Children who are in need of protection, in conflict with law, exposed to violence, disabled, working and street children and children who live under distressed conditions and are in risky groups. Services aimed at the street children, institutional care and adoption services rendered for the children in need of protection are mainly extended by Social Services and Child Protection Institution (SHÇEK). Services concerning protection, care and upbringing of the children who demand to be eligible for the services of the SHÇEK are aimed to be extended in their social environment as much as possible. For this purpose, SHÇEK has launched a project entitled as "Return to Family and Support in Reintegration to Family" with a view to implement social and economic support programs for the parents of the children with a court decision of protection on account of being needy. A new system composed of detached premises is being introduced, in order for children in need of protection to be brought up within a system of structure and relation similar to family environment. Activities concerned with preventing child labor give positive results. On the other hand, infrastructure requirements remain for the trial and correction processes of the children conflicting with law.

As the number of aged population has increased gradually and family structure has changed, the importance of care services for the aged are growing. Care services for the aged are mainly provided by institutions. As of September 2007, there are 237 rest homes, which belong primarily to SHÇEK, municipalities, other public institutions, associations, foundations and private sector, with a total capacity of 19,750 people.

The disabled people are facing difficulties in integration to society since they are not able to participate in labor force and education. According to Turkish Disabled Survey in 2002 by TURKSTAT, 36.3 percent of the disabled in orthopaedic, mental, speech and verbal, auditory and visual categories and 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 labor force participation rate for the disabled is on the low levels which is 21.7 percent for the orthopaedically, mentally, speech-verbally, auditory and visually disabled and 22.8 percent for the chronically disabled. This low level of the labor 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 labor force.

The National Disabled Database Project, which aims at drawing up programs and principles that particularly underlying national policies concerning the disabled, and contribute to raising public awareness upon the subject, is almost to be completed. By the Implementing Regulation Concerning the Determination of the Disabled in Requiring Care and Guidelines of Care Services issued in July 2006, arrangements have been made so as to extend care services to the disabled, who requires care and are in economic and social deprivation, in the institutions and in their own residences. Upon this, the disabled requiring care which receive internal care service from the institutions are paid an amount of two month's minimum wage, and those who are cared by

their own relatives are paid one month's minimum wage.

2. Main Objectives and Targets

The main objective is to have a social safety net attained an effective structure which minimizes the risk of social exclusion and poverty. This efficient structure is to be achieved through considering all socio-economic and local conditions, encompassing the whole population, integrating the disabled into society, and minimizing the risk of poverty by empowering all segments of society.

Social solidarity and integration will 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 in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Social assistance and services targeting the poor who are capable of work will be in the nature of preventing the formation of culture of poverty and transforming poor to productive individuals. The poor who are not able to work will be supported by regular social assistance.				
Measure 1.1. Social programs will be developed for the poor who are able to work.	SYDGM	Ministry of Labor and Social Security, İŞKUR SHÇEK, Local administrations	End of December (Continuous)	In the case that the poor or his/her family is capable to work, social assistance targeting will be extended so as to enable the poor people to become productive and self-sufficient individuals. In this framework, those who benefit from social assistance will be registered in İŞKUR and they will be offered new possibilities such as taking up a profession, counseling, joining public works programs.
Measure 1.2. Practices aimed to set up small-scale businesses will be enhanced in order to enable the poor to live on their own means.	SYDGM	KOSGEB, İŞKUR, local administrations, financial institutions, NGOs	End of December (Continuous)	Availability of the financial resources should be widened for the poor can start up their own business by a small amount of capital support or credit. In this respect, credit possibilities will be enlarged by implementing joint projects with public and private financial institutions, municipalities, special provincial administrations and NGOs.
Measure 1.3. The poor who are needy and incapable of working will be determined and regular social assistance programs will be elaborated towards them.	SGK	SHÇEK, SYDGM, local administrations	End of December (Continuous)	In line with the objective of providing social assistance for the people who are really in need, poor segments of the society such as the aged, disabled, children and who are also incapable of work will be benefited from regular social assistance programs and these programs will be promoted.
Priority 2. 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 and especially in rural areas and underdeveloped regions entrepreneurship will be encouraged.				
Measure 2.1. Special programs of vocational training will be arranged and projects at the local level will be implemented in order for the poor who work in temporary jobs without social security.	Ministry of Labor and Social Security	ISKUR, SYDGM, local administrations	End of December (Continuous)	The poor who work in temporary jobs without social security have a high risk of poverty. Employment of these people in decent jobs is important in order to diminish poverty risk.

Measure 2.2. Income-generating projects will be supported to diversify economic activities of the poor segments in rural areas.	Ministry of Agriculture and Rural Affairs	İŞKUR, SYDGM, KOSGEB, local administrations, NGOs	End of December (Continuous)	Off-farm income-generating activities will be supported within the framework of National Rural Development Strategy. Active labor market programs will be mobilized to increase the employability of the unqualified people, who emerged from structural transformation in agricultural sector, in non-agricultural sectors. Besides, preparations will be launched for the projects to be implemented within the scope of IPARD.
Priority 3. Participation of women in the economic and social life will be increased and social awareness will be raised with regard to prevent violence against women.				
Measure 3.1. Awareness-raising activities to strengthen women's social position will be undertaken.	KSGM	TRT, Relevant Public Bodies and Institutions, Governorships, Municipalities, Employee and Employer Trade Unions, NGOs	End of December (Continuous)	National training program and training materials, which aims policy makers, decision makers, implementing agencies and the society, will be developed in order to reflect gender equality in public policy and programs. Awareness-raising seminars will be arranged through utilization of the stated materials.
Measure 3.2. Unpaid maternity leave will be rearranged as parent leave.	KSGM	Ministry of Labor and Social Security, Ministry of Health, State Personnel Agency, Employee and Employer Trade Unions, NGOs	End of March	Transformation of unpaid maternity leave to parent leave is in the agenda of The Health, Family, Labor and Social Affairs Commissions of the TGNA. In this respect, the Law concerning the amendment on the Government Officials Law and Labor Law will be enacted.
Measure 3.3. National Action Plan of Women will be prepared.	KSGM	Relevant Public Bodies and Institutions, Local Administrations, Universities, Employee and Employer Trade Unions, NGOs	End of December	Activities related with the Action Plan, which will be prepared to solve the fundamental problems of women and will underlie public policies, will be implemented and coordination among the institutions will be reached.
Measure 3.4. Awareness raising work will be made with regard to prevent violence within the family against women.	KSGM	TRT, YOK, relevant Public Bodies and Institutions, Governorships, Municipalities, Employee and Employer Trade Unions, NGOs	End of December (Continuous	Nationwide seminars will be arranged to advance awareness and sensitivity with regard to violence against women. Qualitative and quantitative research will be made about the effects of the violence against women within the family. National Action Plan of Combating Violence against Women will be implemented.
Measure 3.5. Number of women guesthouses will be raised.	SHÇEK	Local administrations, Universities, NGOs	End of December	It is necessary to increase the number of institutions rendering service particularly for the women victimized by custom. Besides, SHÇEK has been obligated to open women guesthouses by the circular of the Prime Ministry entitled as "Prevention of Violence within the Family against Women".
Priority 4. Works directed towards improving the status of convicted children and children who live under depressed conditions and preventing child labor will be made effective.				
Measure 4.1. Studies regarding the prevention of child labor will be activated.	Ministry of Labor and Social Security	MoNE, SGK, İŞKUR, SHÇEK, SYDGM	End of December (Continuous	Family awareness raising activities to prevent child labor and vocational training activities for the families of the working children will continue. Practices of the employees about child labor will be monitored.

Measure 4.2. The quality of services towards convicted children and young people will be improved.	Ministry of Justice	SHÇEK, Ministry of Interior, MoNE, Gen. Dir. Of Youth and Sports, İŞKUR, Professional Associations	End of December (Continuous)	Ongoing programs for the convicted children and youth will be diversified and activated for their correction during their conviction period and for their integration with society at the time of discharge. A monitoring system will be built for the surveillance of these children in order to analyze the impact of the said programs. The number and staff of juvenile courts will be increased.
Measure 4.3. The Child Home Regulation will be enacted.	SHÇEK	Ministry of Finance, Turkish Court of Accounts, Prime Ministry	End of September	The legal arrangement will be made to establish the units in which children in need of protection to be brought up within a system of structure similar to family environment instead of institutional care.
Priority 5. Home care services targeting the aged 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	End of December (Continuous)	Home care service, which can be served without isolating people from their social and physical environment, will be preferred as a model in the care services for 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 the quality of retirement homes.
Priority 6. 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 will be developed.				
Measure 6.1. Need assessments will be made towards examining the adaptability of existing social and physical environmental conditions for disabled.	ÖZİDA	Ministry of Interior, Ministry of Public Works and Settlement, SHÇEK, Local Administrations	End of December (Continuous)	Studies on the adaptability of social and physical environmental conditions to the disabled will be implemented.
Measure 6.2. Pre-school counseling and guidance services will be developed for the disabled, and private rehabilitation centers will be effectively inspected.	MoNE	ÖZİDA, SHÇEK	End of December (Continuous)	Guidance and counseling services on suitable pre-school education will be designed for disabled children. At the end of the guidance and counseling services, the disabled children will involve in general education system if they are ready, if not, they will be directed to specialized educational institutions.
Measure 6.3. Home care services will be supported for the disabled people to stay in their own family environments.	SHÇEK	Ministry of Health, Ministry of Finance, ASAGM, ÖZİDA	End of December (Continuous)	The standards with regard to new service models will be developed in accordance with the regulations relevant to the determination of the disabled people in need of care, and establishment and operation of public and private care services.

D. INCREASING THE EFFECTIVENESS OF SOCIAL SECURITY SYSTEM

1. Current Outlook

The rate of population covered by social insurance programs was 81.9 percent, and the rate of population under social health insurance coverage was 81.3 percent in 2006.

The major problem of social security system is that revenues cannot meet the expenses. Among the most important reasons of the financial problem of the social security system are continuing negative effects of the implementation of early retirement, increase in health expenditures, and insufficiencies of the information infrastructure of the system. While the ratio of the amounts of transfers from the central government budget to social insurance institutions in GDP was 4.77 percent in 2005, this ratio decreased to 3.97 percent in 2006.

Social insurance program has been unable to fulfill its function of providing an effective and fair social security in time, due to a number of reasons, in particular informal employment and financial deficit. In order to overcome the problems of the system, to establish a fair social security system covering the whole population and getting the whole population under the coverage of health security, to unify five different social insurance regimes, and to establish an effectively functioning information infrastructure, the Social Security Agency Law No: 5502 was put into force on May 20, 2006. Within the context of the reform, it was stipulated that the Social Insurances and Universal Health Insurance Law No: 5510 would come into force on January 1, 2007, however, the Constitutional Court has canceled some of the provisions of the Law by its decision dated on December 15, 2006. The studies carried on by Social Security Agency (SGK) and the line ministries regarding the Law No: 5510 continue in line with the decision of the Constitutional Court, and the Law No: 5510 will be put into force on January 1, 2008.

Studies related to allowances, eligibility inquiry, and provision system, which will be used during the provision of health services, is carried on by SGK. Besides, arrangements about the implementation of universal health insurance, social insurances and non-contributory benefits as well as studies related to institutional restructuring are underway.

Since the group of people, who do not work, or work within the informal sector for low wages or have no ability to afford contributions of the system, cannot participate in the social insurance system; they need to be supported through the social services and assistance system. Within the social services and assistance system, sufficient services can not be provided for the people in need due to the reasons, such as lack of common criteria and standards on the determination of the beneficiary persons or groups, lack of common database for the institutions acting in this field, failure in developing an adequate level of cooperation among the institutions acting in the field and between these institutions and the social security institutions and voluntary organizations, and lack of sufficient amount of qualified personnel.

Monthly payment, that is required by the Law No: 2022 which regulates a program of old age and disability assistance, has increased to YTL 76.6 for the elderly, YTL 153 for the invalid and YTL 230 for the disabled for the period of July-December 2007, which was YTL 24.48 at the end of 2002. As required by the Law No: 2022, totally 1,244 thousands of

TABLE: IV. 54- The Population Covered By Social Insurance Programs [1]

(In Person)

	INSTITUTIONS	2004	2005	2006
I.	**THE PENSION FUND OF CIVIL SERVANTS IN TOTAL**	**9.519.165**	**9.633.079**	**9.668.567**
	1. Active Insured	2.404.091	2.402.409	2.420.897
	2. Pensioners	1.534.576	1.595.973	1.649.998
	3. Dependants [2]	5.580.498	5.634.697	5.597.672
	4. Ratio of Active - Passive Insured (1)/(2)	1,57	1,51	1,47
	5. Ratio of Dependence (3+2)/(1)	2,96	3,01	2,99
II.	**THE SOCIAL INSURANCE INSTITUTION IN TOTAL**	**27.069.450**	**29.454.776**	**33.635.196**
	1. Active Insured	6.229.169	6.965.937	8.310.192
	2. Voluntary Active Insured [3]	327.962	266.558	278.608
	3. Active Insured in Agriculture	176.717	178.178	187.951
	4. Pensioners	4.120.866	4.308.186	4.510.701
	5. Dependants [2]	16.214.736	17.735.917	20.347.744
	6. Ratio of Active - Passive Insured (1+2+3)/(4)	1,63	1,72	1,95
	7. Ratio of Dependence (5+4)/(3+2+1)	3,02	2,97	2,83
III.	**THE SOCIAL SECURITY INSTITUTION OF CRAFTSMEN, TRADESMEN AND OTHER SELF-EMPLOYED IN TOTAL**	**16.403.890**	**15.990.253**	**16.383.589**
	1. Active Insured	2.212.299	2.103.651	2.082.318
	2. Voluntary Active Insured [3]	238.313	239.388	244.105
	3. Active Insured in Agriculture	997.937	1.011.333	1.049.206
	4. Pensioners	1.519.190	1.600.294	1.753.025
	5. Dependants [2]	11.436.151	11.200.608	11.423.963
	6. Ratio of Active - Passive Insured (1+2+3)/(4)	2,27	2,10	1,93
	7. Ratio of Dependence (5+4)/(3+2+1)	3,76	3,82	3,90
IV.	**THE PRIVATE FUNDS IN TOTAL**	**301.441**	**306.169**	**298.266**
	1. Active Insured	73.412	75.552	85.352
	2. Pensioners	74.367	76.027	77.979
	3. Dependants [2]	153.662	154.590	134.935
	4. Ratio of Active - Passive Insured (1)/(2)	0,99	0,99	1,09
	5. Ratio of Dependence (3+2)/(1)	3,11	3,05	2,49
V.	**GENERAL TOTAL**	**53.293.946**	**55.549.298**	**60.154.646**
	1. Active Insured	10.918.971	11.547.549	12.898.759
	2. Voluntary Active Insured [3]	566.275	505.946	522.713
	3. Active Insured in Agriculture	1.174.654	1.189.511	1.237.157
	4. Pensioners	7.248.999	7.580.480	7.991.703
	5. Dependants [2]	33.385.047	34.725.812	37.504.314
	6. Ratio of Active - Passive Insured (1+2+3)/(4)	1,75	1,75	1,83
	7. Ratio of Dependence (5+4)/(3+2+1)	3,21	3,19	3,10
VI.	**SOCIAL INSURANCE COVERAGE WITH RESPECT TO HEALTH SERVICES [3]**	**52.965.984**	**55.117.719**	**59.707.010**
VII.	**TOTAL POPULATION [4]**	**71.609.000**	**72.520.000**	**73.425.000**
VIII.	**RATIO OF INSURED POPULATION (In Percent)**	**74,4**	**76,6**	**81,9**
IX.	**RATIO OF INSURED POPULATION COVERED BY HEALTH SERVICES (In Percent)**	**74,0**	**76,0**	**81,3**

Source: Social Security Agency (Emekli Sandığı, SSK, Bağ-Kur), SPO

[1] The data taking place in the 2007 Annual Programme have been changed according to the updates of the Social Security Agency. With the Social Security Agency Law No: 5502, Emekli Sandığı, SSK and Bağ-Kur have been transferred to Social Security Agency.

[2] Estimation.

[3] The contributors and beneficiaries of voluntary active insured in SSK and their dependants are not under the coverage of health insurance.

[4] Based on the population estimates of year 2005 derived from General Census of TURKSTAT in 2000 and HÜNEE (Hacettepe University Institute of Population Studies).

elderly; invalid and disabled people have received YTL 1,284 million payments by the end of 2006.

Health services provided by the Ministry of Health for the people in need are carried on in line with the Law No: 3816. Total green card expenditure is YTL 2.983 million for the year 2006.

As required by the Decree Law No: 227 and related implementing regulation, five thousands people who are poor, disabled or orphans have received YTL 250.21 monthly payments in the year 2007. Besides, food services have been provided for 77,280 people at the 108 imarets countrywide.

Monthly payment per person given by Social Services and Child Care Institution (SHÇEK) has been increased to 183.73 YTL in the second half of the year 2007, which was 178.54 YTL at the beginning of the year. According to the Regulation of In-Kind and Cash Payments, totally YTL 41 million of in-kind and cash payments were given to 27,319 people by SHÇEK in the year 2006, and YTL 35 million of in-kind and cash payments were given to 18,560 people as of August 2007.

General Directorate of Social Assistance and Solidarity (SYDGM) provides various social assistance for the people in need, through the foundations located at provinces and districts, like health, education, food and heating supports, pre-feast and natural disaster aids, and project supports. In this context, 7,433,738 people received approximately YTL 1,305,000 of support in the year 2005, and 7,409,638 people received approximately YTL

TABLE: IV. 55- Social Assistance Expenditures of the Institutions Providing Social Assistance

Institution	Type of Assistance	2004		2005		2006	
		Number of People [4]	Expenditures (YTL)	Number of People [4]	Expenditures (YTL)	Number of People [4]	Expenditures (YTL)
SGK (the Pension Fund of Civil Servants)	Elderly-Invalid and Disabled Payments	1,092,457	788,824,786	1,266,268	1,003,882,239	1,243,878	1,284,823,461
SHÇEK	In-Kind and Cash Benefits	19,707	11,484,000	19,735	15,980,800	27,319	41,000,000
General Directorate of Foundations	Monthly Payments for the Poor Orphans and Disabled	1,605	3,505,705	2,557	6,172,086	5,000	11,962,000
	İmaret Services	50,705	9,473,000	51,705	35,000,000	77,280	47,724,940
Ministry of Health (1)	Green Card	13,418,569	678,600,000	10,811,554	1,808,746,327	12,550,892	2,908,268,006
SYDGM (The Fund) (2)	All Kinds of Social Assistances	7,244,573	1,347,846,000	7,433,738	1,304,664,099	7,409,638	1,389,532,694
TOTAL (3),(4)		21,827,616	2,839,733,491	19,585,557	4,174,445,551	21,314,007	5,683,311,101
TOTAL/GDP (Percent)			0.66		0.86		0.99

Source: SPO, Social Security Institution (the Pension Fund of Civil Servants), Ministry of Health, SHÇEK, SYDGM, General Directorate of Foundations
(1) Number of people refers to the total number of people who has green card by the end of that year.
(2) The number of beneficiary person is the number of utilization.
(3) The social assistance expenditures of the Municipalities are not included the total due to the lack of data.
(4) There might be repetitions in the number of people getting social assistance.

1,389,000 of support in the year 2006 from SYDGM.

Need for social services and assistance persists and even increases due to the reasons like migration, urbanization, changes in the family structure, population growth, and unemployment. While the ratio of total public social assistance payments to GDP was 0.86 percent in the year 2005, this ratio increased to 1.05 in the year 2006. Living standards of the poor people are improving with the assistances, which make easy for the poor to access services such as education and health. In parallel to the increase in need for social services and assistance, the number of social services institutions serving under SHÇEK is increasing.

2. Main Objectives and Targets

Social security system will be transformed to a system covering the whole population, meeting the changing needs of society, having financial sustainability and efficient control mechanism, and providing high quality services.

In order to provide social assistance and services under the principles of equality, social justice, efficiency and effectiveness, by setting up a common database to identify the group in need of social services and assistance, an identification mechanism will be established with objective criteria, and coordination and collaboration among institutions in the system will be ensured. The quality of services will be improved by filling the lack of qualified personnel in the field of social services and assistance.

TABLE: IV. 56- The Number of the Affiliated Bodies of the General Directorate of Social Services and Child Care Institution and Their Capacities

	2004		2005		2006		2007 (1)	
Type of Institution	Number	Capacity	Number	Capacity	Number	Capacity	Number	Capacity
Growing-up Hostel	109	8884	110	8581	112	8359	113	8281
Daytime Child Care Centre	91	8092	95	8677	107	9534	106	9534
Rest Home	62	6760	66	7173	69	7605	69	7605
Nursing and Rehabilitation Centre for the Disabled (Daytime and Residential)	61	2415	68	2755	67	3027	66	3120
Community Centre	59	-	62	-	66	-	70	-
Family Counseling Centre	21	-	33	-	38	-	38	-
Woman Guest House	9	-	15	-	17	-	20	-
Child House	-	-	-	-	-	-	45	260
Social Rehabilitation Centre	-	-	-	-	-	-	7	174

Source: General Directorate of Social Services and Child Care Institution
(1) As of September

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Social insurance system will be extended to cover the entire working population by taking into account actuarial balances and the system will be fully automated.				
Measure 1.1. Financial sustainability of social insurance system will be ensured and it will be extended to cover the entire working population	SGK	Ministry of Labour and Social Security, Ministry of Finance, Ministry of Health, SPO, Undersecretariat of Treasury, İŞKUR	End of March	Law No: 5510 will be reviewed in line with the decision of Constitutional Court for canceling some articles of the regarding law. Number of active insured population under the social insurance system and the rate of premium paid will be increased. Health care services financed by Universal Health Insurance System will be bought on a contractual basis from health care providers. These services will be determined by taking into account the primary health problems of society and cost effectiveness analyses.
Measure 1.2. The IT infrastructure of social insurance system will be developed to ensure full automation.	SGK	Ministry of Labour and Social Security	End of December	An effective, accessible, and sustainable service-providing structure in social insurance system will be established by accomplishing fully automated IT infrastructure. Monitor and Appropriation of Incomes and Receivables Project (GETAP) will be implemented with an aim to enable identification of the content, form and delivery period of all kinds of documents and information which will form the basis of monitoring and appropriating procedures of incomes and receivables, and to enable delivery of these documents and information via internet, electronic and similar means.
Priority 2. Social services and assistance system will be improved; a common database will be set up to identify eligible people within the system; and an identification mechanism with objective criteria will be established.				
Measure 2.1. Law on Social Services will be enacted.	SHÇEK	Related public institutions	End of December	The objective of Law on Social Services to be enacted will be identification of main basis, principles, models and features of social services provided by public institutions and real and legal persons for individuals, families, groups and society who need protection, care, development, support and assistance, and will be regulation of base and modes of guidance and control regarding social services activities.
Measure 2.2. Social services and assistance activities will cover all people in need and will be performed under the coordination and control of a central public institution.	SGK	SYDGM, SHÇEK, General Directorate of Foundations	End of March	Law on Social Assistance and Non-Contributory Payments, which aims to identify main principles of social assistance in an integrated way with social security system, and to ensure social services and assistance to be seen as a right, will be enacted.
Measure 2.3. New strategies and policies will be formulated based on the findings of research on impacts of social assistance and project supports.	SYDGM	SPO, TURKSTAT, SHÇEK, Local Administrations	End of December	Following evaluation of the results of research project on impact assessment of social assistance and project supports provided by SYDGM, new strategies and policies will be set up for the activities mentioned to ensure effectiveness in poverty alleviation.

Measure 2.4. An objective and viable poverty criteria will be set up to determine who can be eligible for social assistance.	SYDGM	SGK, Ministry of Health, SHÇEK, TURKSTAT, ÖZİDA, General Directorate of Foundations, Local Administrations, NGOs	End of December	Scoring formula used in identification of people who are eligible for social assistance will be improved to ensure an objective and viable evaluation process and to cover each types of social assistance.
Measure 2.5. A better functioning IT infrastructure in social services and assistance system will be set up and various databases used in the system will be integrated.	SYDGM	SGK, SHÇEK, Ministry of Health, TURKSTAT, ÖZİDA, General Directorate of Foundations, Local Administrations, NGOs	End of December	Establishing a database covering each of the NGOs working in the field of social assistance in each of the provinces and districts with information on their titles, addresses, branches and etc., will be possible with the completion of Management Information System in SYDGM. A standard structure will be set up following the identification of common norms and criteria for integration of various databases with contribution and joint works of institutions to be cooperated.
Measure 2.6. National disability database will be made effective.	ÖZİDA	Ministry of Interior, Ministry of Labour and Social Security, Ministry of Health, SGK, SYDGM, SHÇEK, TURKSTAT, Local Administrations, NGOs	End of December	In order to enable national disability database, which contains information about disabled people, to cover each of the disabled people, data within the records of all relevant institutions will be inserted in this database.
Measure 2.7. Lack of qualified personnel in the field of social services and assistance will be eliminated.	YÖK	MoNE, SGK, SHÇEK, SYDGM	End of December (Continuous)	The number, quotas and number of instructors of the schools, which train experts of social services, will be increased.
Measure 2.8. Activities of local administrations and NGOs in the field of social services and assistance will be supported.	SYDGM	Ministry of Interior, SHÇEK, Local Administrations, NGOs	End of December (Continuous)	In order to ensure social services and assistance to reach people in need, activities in this field will be carried out in cooperation between public institutions, local administrations and NGOs.
Priority 3. Alternative care models will be supported for the children in need of protection, and institutional care services will be improved.				
Measure 3.1. Care of the children in need of protection will be provided primarily in their families' homes.	SHÇEK	Local Administrations, NGOs, SYDGM	End of December (Continuous)	Families of the children in need of protection will be assisted with revenue generating projects and cash and in kind supports.
Measure 3.2. The model of sevgi evi (home for love) and homes for children will be primarily used instead of collective living centers serving for the children in need of protection. Protection Care and Rehabilitation Centers and Care and Social Rehabilitation Centers will be established for the children who have emotional, sexual and physical abuse, drug addiction, and who are directed to crime.	SHÇEK	MoNE, Ministry of Health, Ministry of Labour and Social Security, Ministry of Interior, ASAGM, General Directorate for the Youth and Sport, Local Administrations, NGOs	End of December (Continuous)	Institutions providing services for the children in need of protection will be designed so as to contribute to development and social adaptation of the children. Accommodation of the children, who have emotional, sexual and physical abuse, drug addiction, lives on streets, or are directed to crime, in growing-up hostels (yetiştirme yurdu) leads to problems for the other children living in these places. In this regard, centers, which can provide especially in-day rehabilitation services for this specific group of children, need to be established.

E. PROTECTING AND PROMOTING CULTURE AND STRENGTHENING SOCIAL DIALOGUE

1. Current Outlook

Activities about strengthening our cultural infrastructure, generalizing cultural activities, fostering cultural relations with other countries, especially with Turkic Republics and Communities; determination, research, maintenance and restoration of cultural assets in Turkey and abroad are continued.

Translation and publication support studies ongoing in the scope of Opening Turkish Literature to Abroad Project (TEDA) which was started in 2005 by Ministry of Culture and Tourism and targeting presentation of Turkish culture, art and literature abroad and saving writing language accumulation of Turkish literature to world languages. In this context, 108 works supported in 2006 and 33 of them translated and published in various languages.

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 have been introduced. In this context work on facilitating and generalizing sponsorship implementation in cultural issues is continued.

In the framework of measures to prevent cultural alienation, studies on interactive web sites Turkish Culture Portal have been started by Ministry of Culture and Tourism, and draft of web sites' map has been formed. Pilot usage of the portal is envisaged to start at the beginning of 2008.

The issues of meeting the necessity of qualified human power in culture area, provision of coordination among the relevant institutions and removing the insufficiencies about promotion keep their importance.

Problems stemming from intensive migration and wry urbanization create the circumstances that damage social integrity and harmony. In this context, there is a need for local administrations and NGO's to concentrate on activities that enhance social solidarity and culture of living together.

Rapid transformation process in each area of life influences negatively relationships within the family and society. Insufficient communication in family, the problems of the education system can cause the young to break away from their families, become insensitive to social problems and can increase their tendency towards violence. Issues such as education, unemployment, social security, social participation, participation in decision-making processes, state of belonging and social sensitivity necessitate an effective coordination between institutions.

Concept of family gain more importance because of rapid cultural transformation. Policies that aspiring strengthening the institutional body of family, improving its social status and rising living standards of family members become basic requirements to complete economic development with social development.

2. Main Objectives and Targets

Protection, promotion and improvement of our cultural richness and its transfer to the next generations 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 in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Protection and promotion of our cultural heritage and rising public awareness on this issue will be provided.	Ministry of Culture and Tourism	MoNE, The Presidency of Religious Affairs, State Archives, General Directorate of Foundations, Local Administrations, Universities and NGOs	End of December	Protection of our domestic and foreign heritage will be ensured. The programs at the level of primary and secondary education for the enhancement of cultural consciousness will be developed. Restoration of manuscript works and facsimile of them through contemporary Turkish will be done.
Priority 2. The necessary 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	Universities, Local Administrations and NGOs	End of December	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 appropriate atmosphere including place and financial support for the development and promotion of visual, aural and scenic arts will be prepared. Libraries will be modernized, their number will be increased and to provide cooperation of local administrations and private sectors on this issue, legislative arrangements will be done. Work on content and installation of technical infrastructure of Culture Portal of Turkey will be completed.
Priority 3. The share of culture sector in national income and exports will be increased.				
Measure 3.1. Improvement of culture tourism and transformation of material cultural products into export products will be ensured.	Ministry of Culture and Tourism	UFT, Local Administration	End of December	Together with the protection of cultural and local values, export of cultural goods, especially export of the handicraft goods will be facilitated.
Measure 3.2. The production of cultural products such as cinema and documentary films will be stimulated and their share in national income and export will be increased.	Ministry of Culture and Tourism	UFT, TRT, Private Sector	End of December	The project based supports in cinema and documentary film sector will be continued. Besides, the promotion of Turkish production at international level, financial support will be provided.

Priority 4. Enrichment and correct and effective usage of Turkish language will be provided.	Turkish Language Society	Ministry of Culture and Tourism, MoNE, YÖK, TRT, TÜBITAK, RTÜK, Universities	End of December	The correct and effective usage of Turkish will be provided in the education, training, scientific and media institutions. The usage of Turkish words instead of foreign words in written press and commercial life will be stimulated. The research activities for the improvement of Turkish will be continued.
Priority 5. The policies that foster tolerance and social dialogue and overcome socio-cultural harmony problems will be prioritized with the aim of increasing social solidarity.				
Measure 5.1. The socio-cultural needs of people migrating to urban centers will be identified and their integration to the urban life will be provided.	Ministry of Interior	MoNE, SHÇEK, Local Administrations, NGOs	End of December	The guiding services regarding adaptation problems of students in the regions that have high migration rate will be improved. The capacities of local administrations regarding the problems of migrating people about integration to the cities will be enhanced and social researches on this issue will be prioritized.
Measure 5.2. Policies aiming at the strengthening institution of family, improving its social status and rising living standards of family members as a whole will be developed.	General Directorate of Family and Social Research (ASAGM)	KSGM, Local Administrations, Universities, NGOs	End of December	With the aim of strengthening institution of family awareness work directed to families and society will be done. Education programs that aim to increase consciousness of families will be prepared.
Measure 5.3. Service of family counseling will be provided effectively.	Institution of Social Services and Child Care	ASAGM, Local Administrations	End of December	Family education and family counseling models will be developed to reduce the problems that emerged as a result of intensive migration, fast and wry urbanization. Capacity of SHÇEK staff about counseling for domestic violence will be improved.
Priority 6. 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 state of belonging, social sensitivity and participation to the decision-making processes.				
Measure 6.1. Regulations about youth sector will be rearranged.	General Directorate of Youth and Sport (GSGM)	Prime Ministry, SPO	End of September	Researches will be done regarding the regulations and organizational bodies in EU members and other countries on youth sector, and a model that includes draft of law will be prepared for Turkey.
Measure 6.2. Participation of the young to the decision-making processes will be increased.	GSGM	MoNE, SHÇEK, Local Administrations, NGOs	End of June	Good examples on participation in decision-making processes in EU members and other countries will be examined and an evaluation will be made for Turkey. Variety of activities for leisure times will be increased by the virtue of participant's suggestions. Number of sportsmen and sportswomen who participate in Province Sports Center Project will be increased to 400 thousands and sports education centers for sportsmen and sportswomen will be provided to give service in more provinces and in more branches. An example model about Youth Center will be formed.
Measure 6.3. Establishment of the Province Youth Assembly will be stimulated and cooperation of these assemblies with local public institutions will be improved.	Ministry of Interior	GSGM, SHÇEK, Local Administrations	End of September	Monitoring issue will be done in cities which have potentials to form Youth Assembly that gain legal status according to City Council Implementing Regulations and contribution of existing Youth Assemblies to the work of local institutions will be increased.

Measure 6.4. Children and the youth will be prevented against tendency of violence and children will be protected against crimes that are committed on internet.	Ministry of Interior	MoNE, GSGM, ASAGM, SHÇEK, RTÜK, NGOs	End of December	Control of broadcasts which leads children and young people towards violence will be increased and needed legislations will be adopted. Public campaigns will be arranged to raise awareness towards crimes on internet against children.
Priority 7. Role of non-governmental organizations in social development will be increased.				
Measure 7.1. Communication between NGOs and public institutions will be increased.	Ministry of Interior	SPO, NGOs	End of December	Participation of NGOs in decision-making processes will be provided to ensure democratic participation, transparency and improve social dialogue in establishment of public policies process. Public institutions will be informed about state of NGOs in Turkey by periodicals.
Measure 7.2. It will be ensured that foundations will play a more effective role in increasing the social assistance and facilitating the services that are on state, and citizens will participate to and support the foundations.	General Directorate of Foundations	MoNE, TRT, Universities, NGOs	End of December	Partnership among foundations, NGOs and public institutions will be established on social services, projects and policy making processes. Foundations will be informed about policy making processes. Tax ratio on grants of foundations will be decreased. Incentive and promoting activities and broadcasts will be conducted to present foundation culture.

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 has increased 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 2000-2007, 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 thanks to the measures taken in order to limit health expenditures in 2004, 2005 and 2006, the ratio of health expenditures to GDP has continued to remain stable after 2004. In the aforementioned period, despite the general rising trend of health expenditures, 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.

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.

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

TABLE: IV.57– Developments in Social Expenditures

(Ratios to GDP, In Percent)

	2000	2001	2002	2003	2004	2005	2006	2007 (1)	2008 (2)
Education (3)	**4.0**	**4.2**	**4.4**	**4.1**	**4.0**	**4.0**	**4.1**	**4.3**	**4.5**
Health (3)	**3.5**	**4.3**	**4.7**	**4.8**	**5.1**	**5.2**	**5.2**	**5.2**	**5.1**
Social Protection	**6.7**	**7.7**	**7.9**	**9.1**	**9.1**	**9.7**	**9.5**	**9.7**	**9.7**
Pensions and Other Expenditures (4)	6.3	7.1	7.1	8.1	8.2	8.7	8.4	8.7	8.6
Social Aids and Extended Payments (5)	0.4	0.3	0.3	0.4	0.3	0.5	0.6	0.6	0.7
Direct Income Support Payments	0.0	0.3	0.5	0.6	0.6	0.5	0.5	0.4	0.4
TOTAL	**14.2**	**16.2**	**17.1**	**18.0**	**18.2**	**18.9**	**18.8**	**19.2**	**19.3**

(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.

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

member states and among Turkey's own regions, has gained importance.

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 Plan and Yeşilırmak Basin Development Plan (YHGP) applications are not fully utilized due to the fact of limited resources, coordination problems, and capacity insufficiencies. The need for local technical coordination units, defined financial resources

TABLE: IV. 58- Various Indicators of NUTS-2 Regions

Regions	Socio-Economic Development Ranking (2003)	The share of Population (2008) (In Percent)	Annual Average Population Growth Rat1990-2000 (In Percent)	Urbanization Rates (2000) (In Percent)	Net Migration Rate (1995- 2000) (Per Thousand)	The Contribution of the Regions to GDP (2001) (In Percent)	GDP Per Capita Index Values (2001)	Unemployment Rate (2006) (In Percent)	The Sectoral Structure of Employment (2006)			The Number of Universities (2007)	The rate of budget revenues to expenditures (2006)
									Agriculture (In Percent)	Industry (In Percent)	Service (In Percent)		
TR10 *(İstanbul)*	1	14.8	33.1	90.7	46.1	21.3	143	11.2	0.5	41.9	57.6	27	9.97
TR51 *(Ankara)*	2	5.9	21.4	88.3	25.6	7.6	128	12.1	7.5	25.2	67.3	10	2.20
TR31 *(İzmir)*	3	5	22.4	81.1	39.9	7.5	150	11.2	17.5	31.2	51.3	6	4.46
TR41 *(Bilecik, Bursa, Eskişehir)*	4	4.5	22.6	76.4	38.7	5.2	117	7.6	17.3	45.1	37.6	4	1.86
TR42 *(Bolu, Düzce, Kocaeli, Sakarya, Yalova)*	5	4	17.7	57.2	-9.5	7.6	191	10.7	20.0	34.6	45.4	5	8.61
TR21 *(Edirne, Kırklareli, Tekirdağ)*	6	2	13.6	60.2	43.4	2.5	127	8.0	22.9	30.0	47.1	3	1.74
TR62 *(Adana, Mersin)*	7	5.2	21.8	68.5	-6.9	5.8	111	16.2	26.1	21.5	52.3	3	1.45
TR32 *(Aydın, Denizli, Muğla)*	8	3.7	16.3	46.7	35.8	4.2	113	7.4	34.9	22.7	42.4	3	1.13
TR61 *(Antalya, Burdur, Isparta)*	9	3.7	31.3	55.3	47.2	3.5	95	7.3	32.6	14.3	53.1	3	1.38
TR22 *(Balıkesir, Çanakkale)*	10	2.3	9.2	51.5	11.6	2.2	98	6.2	47.7	15.0	37.3	2	0.83
TR81 *(Bartın, Karabük, Zonguldak)*	11	1.5	-7.4	44.5	-69.1	1.6	108	5.9	36.6	23.9	39.5	2	1.56
TR33 *(Afyon, Kütahya, Manisa, Uşak)*	12	4.5	10	52	-5.8	3.9	88	7.2	40.6	24.1	35.3	4	0.95
TR52 *(Karaman, Konya)*	13	3.6	21.3	58.9	0.0	2.7	75	10.6	33.5	18.9	47.5	2	0.75
TRC1 *(Adıyaman, Gaziantep, Kilis)*	14	3	20.3	70.3	-22.9	2	65	15.1	23.3	35.2	41.5	3	0.61
TR63 *(Hatay, Kahramanmaraş, Osmaniye)*	15	4	12.8	52.6	-30.2	2.9	74	12.1	33.3	22.3	44.4	3	0.97
TR72 *(Kayseri, Sivas, Yozgat)*	16	3.7	8.7	58.8	-28.6	2.4	66	11.3	26.8	23.2	50.0	3	0.68
TR71 *(Aksaray, Kırıkkale, Kırşehir, Nevşehir, Niğde)*	17	2.5	10.1	53	-19.4	2.1	85	10.5	42.0	16.3	41.7	5	0.90
TR83 *(Amasya, Çorum, Samsun, Tokat)*	18	4.4	5.2	51.5	-46.7	3.2	73	6.6	50.8	15.1	34.0	4	0.56
TR90 *(Artvin, Giresun, Gümüşhane, Rize, Trabzon, Ordu)*	19	4.6	9.3	49.4	-26.1	3.1	67	5.7	52.2	11.9	35.9	5	0.61
TRB1 *(Bingöl, Elazığ, Malatya, Tunceli)*	20	2.6	11.1	58.8	-27.1	1.7	67	13.7	44.2	13.6	42.2	3	0.32
TR82 *(Çankırı, Kastamonu, Sinop)*	21	1.3	-7.3	47.8	-39.8	0.9	70	5.0	58.6	10.3	31.2	3	0.40
TRA1 *(Bayburt, Erzincan, Erzurum)*	22	2	7.4	57.3	-43.5	1	50	5.4	47.5	8.6	43.8	2	0.30
TRC2 *(Diyarbakır, Şanlıurfa)*	23	4.1	29.1	59.1	-39.5	2.2	54	12.0	26.9	16.2	56.8	2	0.31
TRC3 *(Batman, Mardin, Siirt, Şırnak)*	24	2.6	23.4	59.6	-46.8	1.2	46	15.7	20.0	17.5	62.5	3	0.22
TRA2 *(Ağrı, Ardahan, Iğdır, Kars)*	25	1.7	5	44.6	-57.3	0.6	34	5.2	56.2	5.9	37.9	2	0.23
TRB2 *(Bitlis, Hakkari, Muş, Van)*	26	2.9	25.5	49.3	-39.5	1	35	8.5	48.4	10.6	41.0	3	0.18
Turkey		**100**	**18.3**	**64.9**		**100**	**100**	**9.9**	**27.3**	**25.4**	**47.3**	**105**	

Source: SPO, TURKSTAT, MoF

and operational programmes to accelerate regional development have been continuing.

National Regional Development Strategy studies have been continuing 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.

Policies towards in the Priority Regions for Development, which consist of 49 provinces and 2 counties, have been continuing through various supports. In this context, financial support for the various projects of the special provincial administrations and municipalities is provided from the appropriation for local authorities.

By the end of 2007, in the Priority Regions for Development, the number of the organized industrial estates is expected to reach from 35 to 40, and the number of small industry sites from 182 to 190.

The number of active free zones across the whole country has reached from 21 to 22 for the year 2007. 5 out of 22 are in the Priority Regions for Development.

In the educational year 2006-2007, 282 primary pension schools are turned to the boarding primary schools in the Priority Regions for Development. With the construction of new 21 boarding primary schools, 10 of them are in Priority Regions, the number of these schools has reached from 266 to 470 and from 300 to 603 in the Priority Regions for Development and all across the country, respectively.

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 2.9 billion new investments in terms of 2007 prices, have been foreseen from the end of the 2004 until the end of September 2007. It is expected that 15.4 percent of total investments will be realized in Eastern and South Eastern Anatolia Regions. In the same period, while expected additional employment created within the framework of the energy support incentive element will be approximately 86,000 people, the share of Eastern and South Eastern Anatolia Regions in the total additional employment is 20 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, environmental, physical and social infrastructure, problems are also experienced in such fields as security, employment, social services and urban adaptation.

Along with metropolitan areas, such as Istanbul, Ankara, İzmir, Adana, Antalya, Diyarbakır, Gaziantep, İzmit, Bursa, Mersin, Adapazarı, the negative effects of migration have become apparent in 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.

Within the process of EU accession period, the studies of adaptation to the chapter of 'Coordination of Regional Policy and Structural Instrument' for the utilization of structural funds and adoption acqui funds after membership are being carried out by the coordination of SPO. In this field, in order to achieve practical knowledge and experience, regional development programme applications that are supported by EU funds have been continued.

The Strategic Framework Document, which was prepared for 2007-2013 EU Pre-accession Financial Funds, based on growth centers approach in order to maintain spatial focusing. In this context, Batman, Diyarbakır, Elazığ, Erzurum, Gaziantep, Kahramanmaraş, Kars, Kastamonu, Kayseri, Malatya, Samsun, Sivas, Şanlıurfa, Trabzon and Van city centers were selected as the priority areas of regional competitiveness and human resources projects.

The twinning project of 'Support to State Planning Organization for Strengthening Institutional and Administrative Capacity in Regional Development' undertaken by the SPO and the member country partner the Department for Development and Cohesion Policies of the Italian Ministry of Economic Development was completed in January 2007. In addition to this project, a bilateral cooperation project with Italian Government has been started and will be completed by the end of 2007.

2. Main Objectives and Targets

The regional development policies, which are aligned with EU, 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 local 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 selective and spatial focused state aids particularly, venture capital, credit guarantee funds, 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 in Charge	Institutions to be Cooperated	Period	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. At the national level, the regional development strategy (NRDS) will be formed.	SPO	Ministry of Public Works and Settlement, Ministry of Environment and Forestry, Line Ministries, Local Administrations	End of December	NRDS will be planned in order to provide national coordination, direct the applications and form a general framework for the preparation of plans and strategies. NRDS will be prepared by strategic planning methods and include national spatial development perspective.
Priority 2. The duties and responsibilities of spatial development planning among local and central organizations will be clearly defined and an efficient auditing mechanism will be established.				
Measure 2.1. The spatial development planning hierarchy and the duties and responsibilities of the institutions will be redefined.	Prime Ministry	SPO, Ministry of Public Works and Settlement, Ministry of Environment and Forestry, Line Ministries, Local Administrations	End of December	The legislation of construction and planning hierarchy will be revised and the tasks, authorities 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 and rural settlements. While preparing plans, the priorities will be given to the new developed rural growth centers, tourism areas under mass construction, conservation areas and areas under risk of disaster.
Priority 3. For the development of efficient regional development policy and harmonization of EU regional policies and funds, necessary organizations and activities for capacity development will be realized.				
Measure 3.1. The national action plan will be prepared for the need of the alignment with EU Regional Policies and Structural Funds for Coordination.	SPO	Ministry of Interior Affairs, Ministry of Foreign Affairs, Ministry of Finance, Turkish Court of Accounts, Undersecretariat of Treasury, GSEUA, TURKSTAT, Local Administrations, Other Related Institutions	End of December	An action plan will be prepared in cooperation with related bodies for the alignment of Turkish legislation with EU acquis in the fields of legal, institutional framework, administrative capacity, programming, monitoring and evaluating, financial management and control in order to use the EU regional development funds by considering IPA preparations. For this purpose, capacity development activities will be planned in local and central levels.
Priority 4. A selective and spatial focused implementation system based on regional and sectoral priorities will be established by revising the state aid mechanism and its priorities through regional development policies.				
Measure 4.1. The necessary studies will be organized for the redefinition of sectoral and regional priorities of state aids.	Undersecretariat of Treasury	SPO, Ministry of Industry and Trade, Ministry of Finance, Ministry of Labour and Social Security, Undersecretariat of Foreign Trade, KOSGEB, İŞKUR, Other Related Institutions	End of December	The application period of the Laws No. 5084 and 5350 will last by the end of 2008. For this reason, the application strategies and regional and sectoral priorities should be redefined regarding the EU adaptation activities for the period after 2008. These studies will be based on the evaluation of the application findings of Laws No. 5084 and 5350.

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 central government, the applications, based on local dynamics and internal potentials, have also gained importance in recent years.

To mobilize the local potential and to develop the provinces and regions, many local development initiatives have emerged. 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 realization 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.

Grant contracts have been signed and the implementation of the projects is continuing under the Eastern Anatolia Development Programme, covering Bitlis, Hakkari, Muş, Van and NUTS-2 Regions Development Programme, covering TR83 (Amasya, Çorum, Samsun, Tokat), TR82 (Çankırı, Kastamonu, Sinop) and TRA1 (Bayburt, Erzurum, Erzincan).

510 grant contracts have been signed and the implementation of the projects has begun within the framework of NUTS-2 Regions Development Programme covering TRA2 (Ağrı, Ardahan, Iğdır, Kars), TR72 (Kayseri, Sivas,Yozgat), TR52 (Karaman, Konya) and TRB1 (Bingöl, Elazığ, Malatya, Tunceli).

These programmes are supported by a joint monitoring system that is formed by the coordination of SPO. In this context, the implementation of 1,200 projects in 8 NUTS-2 regions and 27 provinces, is planning to be finalized by the end of November 2007.

The implementation of the projects within the framework of TR90 (Artvin, Giresun, Gümüşhane, Ordu, Rize, Trabzon) NUTS-2 Region Development Programme (DOKAP) will be completed at the end of November 2008. The total budget of EU-Turkey Financial Cooperation Programme for Regional Development Programmes including DOKAP Programme and the South Eastern Anatolia Development Programme coordinated by South Eastern Anatolia Development Administration is around 259 million Euros.

2. Main Objectives and Targets

Regional development policies and applications will firstly be 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. Implementations will be supported with sufficient financial resources and effective coordination mechanisms at the central and local level.

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 established.

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.

Especially 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 in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. At the comparatively least developed regions, the growth centers that will perform as the attraction centers and urban growth pools and keeps the migration flow in the region will be developed.				
Measure 1.1. Preparation work regarding growth centers will be completed.	SPO	Ministry of Finance, Ministry of Interior, Ministry of Industry and Trade, KOSGEB, İŞKUR, TOBB, Related Local Administrations and other institutions	End of December	In comparatively least developed regions, the preparatory works on supporting the growth centers that will perform as the attraction centers and urban growth pools and keeps the migration flow in the region will be completed.
Priority 2. 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 2.1. Beginning with the least developed regions, the studies on the development of clusters will be completed.	Ministry of Industry and Trade	SPO, Undersecretary of Foreign Trade, Ministry of Agriculture and Rural Affairs, TURKSTAT, KOSGEB, TÜBİTAK, İŞKUR, TOBB, and other NGOs	End of December	Beginning with the sectors and regions having tendency toward clustering, activities to support clustering will be implemented.
Measure 2.2. As a result of the labour market analyses, special labour force and entrepreneurship trainings oriented to labour demand will be offered and infrastructure of clusters will be supported.	İŞKUR	SPO, Ministry of Industry and Trade, MoNE, YÖK, KOSGEB, TOBB, Local Administrations	End of December	Beginning with the settlements having tendency toward clustering, 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 3. 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 3.1. Provincial inventories of natural, historical and cultural assets will be completed.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, Local Administrations, Related NGOs	End of September	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 3.2. 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	End of December	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 finalization of legal process on The Law of Establishment, Coordination and Duties of Development Agencies No. 5449 and dated as February 8, 2006 is being waited to be operational that will sustain the capacity building efforts.

While the local and regional development implementations are being intensively supported, the development of institutional capacity at local level is being ensured with the institutional structures like Development Unions and Village Service Unions established in the framework of the Local Administrations Union Law No. 5355 enacted in 2006.

The training activities aiming at building capacity at local level on project preparation and implementation are continuing in regional development programmes supported with EU-Turkey co-financing, joint finance. Within the scope of TRA2 (Ağrı, Ardahan, Iğdır, Kars), TR72 (Kayseri, Sivas,Yozgat), TR52 (Karaman, Konya) and TRB1 (Bingöl, Elazığ, Malatya, Tunceli) NUTS 2 Regions Development Programme covering 13 provinces, trainings are provided to beneficiaries on subjects such as equipment, service, works contracts, grant project management, implementation and Monitoring Information System in accordance with the EU purchasing rules.

The total of 4750 farmers is expected to be trained in the context of the agriculture and rural development component of the aforementioned programme. Different training programmes in the regions are provided on 10 different subjects in accordance with the analysis of training needs conducted in the provinces. In addition, it will be ensured that 3,750 farmers will visit the best practices of the applications in the various parts of Turkey. Moreover, 330 technical staff, particularly extension staffs of provincial directorates of Ministry of Agriculture and Rural Affairs, were

trained on the areas of technical issues and personal development.

In the scope of the same programme, trainings about project, business plan preparation and EU funds opportunities were provided to SMEs and NGOs to build capacity on benefiting the EU funds in the future programmes. Almost 700 people attended to these trainings in 13 provinces. In the same framework, trainings on feasibility study for local administrations, environmental impact assessment and international tender rules are being provided and 350 people in 13 provinces are expected to attend to these training which are planned to be finalized by the end of 2007.

In the 6 provinces of TR90 NUTS 2 regions development programme, project preparation trainings to grant applicants are realized with the participation of 2,260 people.

A monitoring network at central, regional and local levels was established according to the Prime Minister Circular No. 2006/21 for the monitoring and evaluation of EU supported regional development programmes, The monitoring and evaluation activities of the four regional development programmes, which are being implemented in 9 NUTS-2 regions, have been performed by 62 experts, who are employed in Programme Implementation and Coordination Units, and in the provinces, the governorship personnel assigned with the task. With the ongoing monitoring activities, local project implementations are supported while enabling the fostering of the institutional capacity on project management, monitoring and evaluation.

The provincial coordination committee meetings in which provincial public investments are reviewed are hold periodically. However, it is needed to increase functionality and efficiency of these committees on investment planning, coordination and monitoring.

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 regional development units and local administrations will be enhanced and human resources will be developed. The financial resources of Local Administrations will be diversified and increased.

The local cooperation and the partnership among public, private and nongovernmental organizations will be supported and also the formation of a cooperation network and the information exchange through this network for the best practices will be encouraged.

The flow of information and cooperation among central and local institutions on planning, implementation, monitoring and evaluation phases will be made more effective. On the other hand, coordination and effectiveness of local institutions regarding the planning, implementation, monitoring and evaluation of provincial public investments will be enhanced.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Development units, responsible from regional coordination, with strong technical capacity will be established to increase institutional capacity at local level, the capacity of other related units will be improved and cooperation among central and local units will be activated.				
Measure 1.1. Development Units, responsible from regional coordination, with strong technical capacity will be established.	SPO	Line Ministries, Local Administrations, Professional and Vocational Associations	End of December	Depending on the finalization of the legal process of development agencies, the necessary legislative works will be done for required units.
Measure 1.2. The flow of information and cooperation among central and local institutions on planning, implementation, monitoring and evaluation phases will be activated.	SPO	Ministry of Interior, Governorships, Provincial Directorates, Local Administrations, Regional Directorates	End of December	A system facilitating realization and monitoring of the decisions of Provincial Coordination Committees, obtaining regular information, monitoring of sectoral information from the committees and public investments in the provinces regularly will be established. Investment proposals of the provinces will be submitted to central government after review of provincial coordination committees with the opinions of the governorships.

D. RURAL DEVELOPMENT

1. Current Outlook

The Rural Development Plan's preparatory studies, which regulates priority measures and activities with the implementation and monitoring issues, are continued in accordance with the National Rural Development Strategy (NRDS) that was come into force in 2006.

The draft rural development program that was prepared for the utilization of EU pre-accession rural development funds (IPARD Fund) in 2007-2013 period was submitted to the European Commission. The Agricultural and Rural Development Support Institute (ARDSI) was established with Law No. 5648 on May 18, 2007. This institute will be responsible for the implementation of rural development programs, which include EU funds and the funds provided by other international institutions. The secondary legislation studies to activate the ARDSI have been continuing.

In Turkey, the differences in the rural area definitions and failure to form up-to-date data for rural settlements limit the formation of effective rural development policies. Studies to clarify the differences in rural area definitions and to form a database for regional development policies, project implementation, monitoring and evaluation process are continuing. In this context, a comprehensive monitoring system has been prepared for the KÖYDES Project.

Transformation process in rural labor market has continued because of the decrease in agricultural employment. In rural areas, the number of people employed in agriculture fell from 5.8 million (61.4 percent) in 2005 to 5.4 million (59.1 percent) in 2006. While the agricultural employment decreased by 400,000 people, non-agricultural employment increased by only 120,000 people.

TABLE:IV. 59- Labor Force and Structure of Employment

(Thousand people, In Percent)

	Turkey		Rural	
	2005	**2006**	**2005**	**2006**
Labor Force	24,565	24,776	10,167	9,894
Employed	22,046	22,330	9,480	9,249
Unemployed	2,520	2,446	687	645
Labor Force Participation Rate	48.3	48.0	53.1	52.2
Employment Rate	43.4	43.2	49.5	48.8
Unemployment Rate	10.3	9.9	6.8	6.5
Non-agricultural Unemployment Rate	13.6	12.6	14.8	13.2
Sectoral Distribution of Employment				
Agriculture	29.5	27.3	61.4	59.1
Industry	19.4	19.7	9.2	10.1
Services	51.1	53.0	29.4	30.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: TURKSAT

In line with the Ninth Development Plan and the NRDS document, it is still important to direct the outgoing labor force from agricultural sector to non-agricultural sectors and to develop the quality and skills of this labor force through implementation of active labor market programs in accordance with the necessity of labor market. In this context, it is still a necessity to make current supports more effective that are provided by rural development programs.

Ordu-Giresun Rural Development Project, which was started in 1995 and financed by national and international resources, has been completed in 2007. The implementations of the Sivas-Erzincan Rural Development Project (2004-2012), Anatolian Watershed Rehabilitation Project (2004-2012) and Diyarbakır-Batman-Siirt Rural Development Project (2007-2012) financed by national and international resources and Gökçeada and Bozcaada Agricultural Development Project financed by national resources are continuing.

Within the framework of rural development sub-component of the Agricultural Reform Implementation Project (ARIP), the Village Based Participatory Investment Project (VBPIP) is being implemented in 16 pilot provinces for the 2005-2008 periods. The Rural Development Investment Support Program (RDISP) financed by national resources was put into practice for the 2006-2010 period in the remaining 65 provinces. Grant supports are provided by above mentioned programs and Support for Machine and Equipment Buying Program.

The second stages implementations of projects were realized in 2006 and within the context of VBPIP, approximately 89,9 million YTL for 801 projects out of 1,139 project applications and within the context of RDISP 17,1 million YTL for 123 projects out of 165 projects application was granted. The third stages implementations of projects are continuing in 2007. The number of project applications for grant programs are 2,032 and 615 respectively by September 2007. Excessive project application to programmes has brought

up resource insufficiency and increased necessity for specialized personnel in the provincial directorate of agriculture.

According to the year 2000 Census, 35.1 percent of the Turkish population is living in the rural areas. According to the Ministry of Interior data, there are 2,011 towns, 34,407 villages and 47,128 sub-villages by October 2007.

The main aim of Rural Infrastructure Support Project (KÖYDES) which launched throughout Turkey in 2005 excluding İstanbul and Kocaeli provinces is rapidly to carry out implementation of infrastructure projects of the villages which have road and drinking water problems under the auspices of provincial administrations.

20,875 projects were completed successfully under the KÖYDES by the end of 2006. 57 percent of these projects are composed of village road projects, 36 percent of them village drinking water projects, 2 percent of them agricultural infrastructure projects and 5 percent of them village sewage projects, 22,451 additional projects, which are composed of 61 percent village roads and 39 percent village drinking water projects, are planned to be implemented as of October 2007. From the beginning of the KÖYDES Project, totally YTL 4,2 billion in nominal terms has been allocated for these infrastructure projects.

Another rural infrastructure project named as Rural Municipalities Infrastructure Support Project (BELDES) was launched in 2007 for eliminating the infrastructure problems of the municipalities having less than 10.000 inhabitants. Under this Project 2,556 municipalities, where 9.6 million inhabitants are living, YTL 330 million are allocated for drinking water and road projects. It is estimated that as of October 2007 4,635 projects are planned to be successfully accomplished which are composed of 80 percent municipality roads, 20 percent of them are of drinking water projects.

High funding needs in rural infrastructure investments have been remaining due to the efforts to improve the standards in investments and the needs to accomplish renovation facilities. Because of dispersed settlement pattern and out-migration, unit cost of investments is still increasing in rural settlements. For these reasons, it is necessary to determine and choose the suitable rural settlements having potential to give services to the surroundings that have appropriate population and economic scales.

Rural settlements are open to the risks of natural disasters according to their different topographies because of dispersed settlement, over numbering, and their small-scale population structures throughout the country. On the other hand, the tendency of migrating from urban to rural areas surrounding cities is increasing. In order to improve, conserve, and control the rural areas and rural settlements it is important to accomplish planning of rural areas in line with the Village Law No. 442, Reconstruction Law No. 3194, and Settlement Law No. 5543.

Resettling of migrants whose lands have been expropriated by dam construction facilities and housing of nomads are being continued. The need for the collective settlement places is continuing since the bottlenecks on finding large areas for collective settlements and agricultural practices are continuing.

The activities under the Return to Village and Rehabilitation Project is continuing In order to ensure social and economic infrastructures and sustainable living conditions for the people who migrated from their homes due to terror in some provinces and willing to come back to their settlements. On the other

hand, efforts to ensure the participation of the migrants, who prefer to live in the areas where they migrated instead of coming back to their homes, to their new social and economic life and their social integration keeps its importance and priority.

2. Main Objectives and Targets

The main objective in rural development is enhancing working and living conditions of rural population compatible with the urban areas and making them sustainable by evaluating local resources and potential as well as conserving natural and cultural assets. In this context, rural development policies will be implemented in a complementary way with agricultural policies for solving the problems of unemployment and poverty and socio-economic problems of migration caused by restructuring process in agriculture sector.

Diversifying income-generating activities, stabilizing and increasing the incomes of rural population are aimed. In this context, priority will be given to increase the competitiveness of agricultural enterprises, empower the production unions, effective usage of soil and water resources, enhancing non-agricultural activities, increase the effectiveness of local administrations and their unions related to the rural development.

The administrative framework regarding the preparation, implementation, monitoring and evaluation of the rural development programme at central and local levels will be completed by taking the EU Acquis into account in order to use the grants that will be given to Turkey under the IPA Rural Development Programme of Turkey (IPARD) will be finalized.

Housing of the nomadic families and the families whose lands expropriated will be continued. While doing collective settlements, collective settlements will be made more efficient by means of cooperation with the land-owners and new financial models.

Return to Village and Rehabilitation Project will be updated, and reporting and archiving system will be established for monitoring implementation, evaluation and enabling transparency during the implementation of the Project.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Coordination, monitoring and evaluation tasks will be fulfilled all of the rural development implementations and rural development plan that will be prepared in accordance with policy framework, which was identified in NRDS.				
Measure 1.1. Rural Development Plan will be prepared.	Ministry of Agriculture and Rural Affairs	SPO, Ministry of Environment and Forestry, Ministry of Public Work and Settlement, Ministry of Interior, Line Ministries, Related Institutions and Organizations and NGOs	End of December	Coordination and working groups will be formed to provide an effective and participatory preparation process for the Plan. The Plan will be prepared as a dynamic action plan that enables to monitor and evaluate all of the rural development programs and projects financed by national and international resources. Implementation basis of rural development activities will be identified and coordination with sectoral and regional policies will be provided in the Plan.

Priority 2. Preparation works for programming and implementing of pre-accession rural development funds, which will be provided in the context of EU financial cooperation in 2007-2013, will be completed.				
Measure 2.1. EU Instrument for Pre-accession of Rural Development Program will be prepared.	Ministry of Agriculture and Rural Affairs	SPO, Undersecretariat of Treasury, General Secretariat of EU Affairs, Related Institutions and Organizations	End of March	Fourth draft of program was submitted to European Commission (EC) in 20.07.2007 and obtained the EC opinion at October 4th. Acceptation process of the program will be executed in coordination with Commission after the last draft is submitted to EC.
Measure 2.2. Institutional mechanisms for implementation of EU pre-accession rural development program will be formed.	Ministry of Agriculture and Rural Affairs	SPO, Undersecretariat of Treasury, General Secretariat of EU Affairs, Related Institutions and Organizations	End of September	The administrative framework regarding the implementation, monitoring and evaluation of the plan at central and local levels will be completed by taking the Acquis-Communitaire into account. After acceptation of the program an interministerial monitoring and steering committee will be established at the central level in order to ensure coordination and participation with the Agriculture and Rural Development Support Institution.
Priority 3. 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 3.1. 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	SPO, Ministry of Agricultural and Rural Affairs, Ministry of Industry and Trade, MoNE, Governorships, Provincial District Administrations, Special Provincial Administrations	End of December	Through active labour force programs, vocational training directed to increase employability in non-agricultural sectors and on site activities will be given to the labor force, which is outgoing from agricultural sector.
Measure 3.2. Pilot local development projects will be planned and put into implementation.	Ministry of Agriculture and Rural Affairs	SPO, Ministry of Industry and Trade, Ministry of Culture and Tourism, Ministry of Environment and Forestry, Local Administrations, Related Institutions and Organizations, NGOs	End of June	Implementations of participatory rural development programs that have positive impact on regional development and rural development will be continued. In the context of these programs, projects that enhance alternative employment and sources of income as processing, introducing and marketing of agricultural and forestry products, tourism and handcrafts activities will be promoted.
Priority 4. The infrastructure of the chosen rural growth centres will be rehabilitated by prioritising them in public investments and services.				
Measure 4.1. Growth centers in rural areas will be determined on countrywide.	SPO	Ministry of Interior, Ministry of Public Work and Settlement, Governorships, Line Ministries, Related Institutions	End of December	In order to accelerate rural development, based on sustainable development principle, appropriate growth centers 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. Also county town and municipalities will be evaluated in this context.

Measure 4.2. Rural Development activities will be implemented in pilot growth centers.	Southeastern Anatolian Project Regional Development Administration	Ministry of Agriculture and Rural Affairs, Ministry of Interior, Ministry of Public Work and Settlement, Governorships	End of December	Pilot works, which are initiated with in the context of Central Village and Return to Village Rural Development Project in Batman, Siirt and Şırnak, will be carried out and new pilot implementations will be started in three central villages.
Priority 5. Technical, financial and institutional capacities of local authorities, their associations and other related central institutions will be strengthened to increase their effectiveness in rural development.				
Measure 5.1. Capacities of provincial administrations and Service Providing Unions to Villages related to the rural development will be strengthened.	Ministry of Interior	SPO, Ministry of Agriculture and Rural Affairs, Iller Bank, Other Related Public Institutions and NGOs	End of December	Project preparation capacities of local administrations, which are gaining importance on rural development initiatives in recent years, related to the rural development grants will be strengthened.
Measure 5.2. For implementation of infrastructure projects in rural areas effective monitoring and evaluation systems will be established.	SPO	Ministry of Interior, Governorships, Provincial District Administrations	End of March	The efficiency of KÖYDES Monitoring Information System, which is established in order to increase transparency and accountability on KÖYDES Project implementations, will be increased through regular and reliable data input.
Priority 6. In order to provide sustainable living conditions, necessary measures will be realized for the citizens, who left their settlements due to obligatory reasons such as natural disasters, expropriation and terror, in their former and current settlements as they like.				
Measure 6.1. Enabling of housing of the nomadic families and the families who have left their places due to obligatory reasons such as expropriation will be continued.	Ministry of Public Works and Settlements	TOKİ, DSİ	End of December	Because of the high cost of building and difficulties in obtaining premises for building activities, cooperation will be made with the land owners and building of new settlements will be efficiently realized by means of credit methods.
Measure 6.2. In order to develop and conserve the rural settlements, local architectural characteristics will be determined and pilot architectural projects prepared.	Public Works and Settlements	TOKİ, Ministry of Public Works and Settlements General Directorate of Disaster Affairs, Ministry of Culture and Tourism, Governorships	End of March	For renovation of rural settlements and increasing demand for secondary housing as alternative settlements caused by urbanization the quality of the settlements in rural areas will be upgraded. In this context, guideline for "Local Architectural Characteristics in Rural Settlements" will be determined as well as the codes and methods will be determined for the local architectural characteristics.
Measure 6.3. Return to Village and Rehabilitation Project will be updated.	Ministry of Interior	Ministry of Foreign Affairs, MoNE, Ministry of Health, SHÇEK, SYDGM, Southeastern Regional Development Administration, Governorships	End of December	Return to Village and Rehabilitation Project will be updated by taking into account current needs and demands. Moreover, effective report and archive system will be established for the implementation of the project. While speed of implementation on project phases will be increased by the newly established software systems it will be possible to follow the next phases of their dossiers on the internet by ID number of citizenship.

V. INCREASING QUALITY AND EFFECTIVENESS IN PUBLIC SERVICES

In order to ensure effective management of the country's economic and social development process, the need for public administration in Turkey to provide citizen and result-oriented, high-quality, effective and efficient services and have the contemporary understanding, structure and functioning towards modern concepts such as flexibility, transparency, participation, accountability, consistency and predictability still continues.

In this framework, on the one hand problems such as lack of coordination and cooperation amongst 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 and, on the other hand deficiencies in concrete service areas such as justice, internal security, disaster management and land registry and cadastre exist. Moreover, it is of importance to utilize information and communication technologies as a tool to facilitate achievement of the aims of public administration in the area of implementing public services.

A. RATIONALIZING THE TASKS AND AUTHORITIES AMONG THE INSTITUTIONS

1. Current Outlook

Important regulations with regard to improvement of the institutional structure of the state have been realized in the recent years. In this context, in order to allow the Prime Ministry to return 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. Furthermore, the Ministry of Culture was merged with the Ministry of Tourism and the Ministry of Environment with the Ministry of Forestry, the number of state ministers was decreased. The General Directorate of Rural Services and the Undersecretariat of Housing were closed down, conflict about authority and duties in the areas of food production, consumption and control was removed and Ministry of Agriculture and Rural Affairs was entitled as the exclusive authority in these areas. Besides, the Social Security Institution was established to bring the social security system up to the modern standards and ensure coordination and collaboration among public bodies related to social security system.

However, conflict about authority and duties among public agencies and institutions exist in some sectoral and thematic fields, especially in disaster management. When independent regulatory agencies were established, necessary changes were not made in the duties of the relevant units of ministries, which previously performed those duties. The lack of coordination could not be alleviated in the sectors where more than one institution or organization was involved.

As of 2007, there are 81 special provincial administrations, 3,225 municipalities and 34,407 villages. 16 of 3,225 municipalities are metropolitan municipalities and 101 districts and 283 first-level municipalities exist in the scope of metropolitan municipalities. 65 of remaining 2,825 municipalities are provinces, 749 are district municipalities outside of metropolitan municipalities and 2,011 are town

municipalities. Besides, there are 1,585 local administration unions of which special provincial administrations, municipalities and villages are members. There are also 19 public corporations that are attached to 16 metropolitan municipalities.

Secondary legislation envisaged by laws on municipalities, special provincial administrations and metropolitan municipalities and local administration unions enacted in the framework of Local Administration Reform was promulgated and legislation framework necessary for effective implementation of laws was completed.

Local administration budgets of 2006 were prepared and implemented according to rules of Law No. 5018 on Public Finance Management and Control in line with performance based budgeting approach, mission, vision, strategic goals and objectives stated in strategic plans, aiming to allocate resources in accordance with these goals and objectives.

Within the scope of Local Administration Reform, Village Law and laws regarding revenues of local administrations need to be reviewed.

To organize principles pertaining to the duties, authorities, resource sharing and service relations among central and local administrations, there is still a need for the central government to determine the necessary standards in order to reach a certain level of service in the country in the framework of these regulations and to monitor compliance with those standards.

Work on building administrative, financial and technical capacity that will carry out increasing duties given by new legal arrangements in local administrations have not been concluded yet. Special provincial administrations and municipalities do not have enough resources to perform their responsibilities. Bottleneck for the provision of resources directs municipalities to get into debt for both investment projects that require large-scale finance and transfer of technology and other projects.

2. Main Objectives and Targets

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

Local administrations will be restructured within the principle 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 as transparent administrative units that meet the local and common needs in an effective, efficient and prompt manner, take decisions on their own, create self-resources and implement projects.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. For provision of public services more efficiently and effectively, incompatibilities and ambiguities in duties and authorities among public institutions will be removed, and public institutions will be ensured to have institutional structures consistent with their main duties.				
Measure 1.1. Functional Review Report will be updated.	SPO	Public institutions	End of December	Functional Review Report, prepared by State Planning Organization to review and clarify the duties, competences and functions of public institutions and to constitute a structure that each institution fulfills its actual duties will be updated within the framework of amendments in the legislation and organizational structures.
Priority 2. Legal arrangement covering procedures and principles that public institutions should comply with in their transactions and activities will be realized.				
Measure 2.1. Work on draft General Administrative Procedure Law will be completed.	Ministry of Justice	-	End of December	To develop the procedural rules of administrative acts and decisions and to determine the administrative decision-making process, preparatory work for a draft law will be completed in line with the aim of improving business environment.
Priority 3. Service capacity of local administrations will be developed, nationwide minimum service standards will be determined for services provided by them, conformity assessment of these standards will be performed by central administration.				
Measure 3.1. Nationwide service standards will be determined and conformity assessment of these standards will be carried out by central administration.	Ministry of Interior	Related public institutions, Local Administrations, Professional and Vocational Organizations	End of December	To provide services with certain quality and standards all over the country necessary work will be achieved to determine principles and criteria by related ministries. Compliance with those standards in service provision by local administrations will be monitored by central administration. Within this scope, training programmes will be organized to develop the capacities of local administrations.
Measure 3.2. Law on Special Provincial Administration and Municipality Revenues will be enacted.	Ministry of Interior	Ministry of Finance, SPO, Undersecretariat of Treasury, Bank of Provinces, Local Administrations	End of December	Allocation to local administrations from general budget total tax revenues will be increased parallel to local duties taking into account the duties transferred and the country's general economic structure. Revenues of local administrations except revenues provided by central administration will be rearranged. Within this scope revenue structure of special provincial administrations and municipalities will be paralleled.

B. ENHANCING POLICY MAKING AND IMPLEMENTATION CAPACITY

1. Current Outlook

Strategic planning and performance based budgeting activities have been going on pursuant to the Public Financial Management and Control Law No. 5018, which covers the allocation of public resources to priority public services and aims efficient, effective and economic use of these resources. The implementation has been rolled out within the transition program determined in the Bylaw on the Principles and Procedures of Strategic Planning in Public Administrations. Within this framework, as of September 2007, out of 48 central public administrations which are under the obligation of preparation of strategic plan

and performance programme, 46 have prepared strategic plans and 22 administrations have prepared performance programmes. Preparatory and design activities necessary for the process are being carried out within the 100 administrations which are under the obligation of completing their strategic plans and performance programmes in years 2008 and 2009.

"Strategy Development Units Survey" was conducted in order to determine the problems of effective implementation faced by the strategy development units which were established in the beginning of year 2006 to create the organizational structure for activating strategic management approach in public administrations.

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.

It will be ensured that management decisions are formed with a medium to long-term perspective based on strategic plans and performance programmes.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. The strategic planning and performance based budgeting work at the institutional level, being conducted within the framework of the public financial management reform, will be rolled out in a scheduled manner.				
Measure 1.1. Performance based budgeting guideline will be completed.	Ministry of Finance	Turkish Court of Accounts, Ministry of Interior, SPO	End of December	In accordance with the Public Financial Management and Control Law No. 5018, public administrations will base their budgets on strategic plans and will prepare them on performance basis. The guide is required to be prepared for agencies to carry out performance based budgeting efforts in a healthy manner.
Measure 1.2. Public administrations will carry on their strategic planning work in accordance with the transition schedule in the Bylaw on the Principles and Procedures of Strategic Planning in Public Administrations.	Responsible Public Administrations	SPO, Ministry of Finance	End of December	In accordance with Bylaw on the Principles and Procedures of Strategic Planning in Public Administrations, 60 public administrations will prepare strategic plans and performance programmes in 2008.

Priority 2. Measuring, monitoring and evaluation processes will be developed in public administrations within the context of building a performance culture.				
Measure 2.1. Strategy development units will carry out monitoring and evaluation of strategic plans and performance programmes.	Public Administrations	Turkish Court of Accounts, SPO, Ministry of Finance	End of December	Strategy development units will carry out studies aimed to create methods and tools to measure, monitor and evaluate the results of the implementation of strategic plans and performance programmes.
Priority 3. 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.				
Measure 3.1. Training programmes aimed to enhance human resources and institutional capacity will be developed in the public administrations that are responsible to prepare strategic plans in accordance with the Public Financial Management and Control Law No. 5018	SPO	Ministry of Finance, Ministry of Interior, Local Administrations, Universities, NGOs.	End of December	Theoretical and practical knowledge accumulation will be expanded for effective implementation of strategic management. In order to do that, cooperation between public administrations, universities and civil society organizations will be encouraged; training, research and publications activities will be realized; coordination between central administrations within this framework will be increased.

C. DEVELOPING HUMAN RESOURCES IN THE PUBLIC SECTOR

1. Current Outlook

Because of inadequacies in the area of human resources development in public sector, a necessity of serious reforms arose in this area. The drawbacks in public personnel regime are seen at all stages such as recruitment, promotion, payment system and pension. There is a multi-system in both payment system and the determination of cadres. Increasing cadres cannot be made in accordance with objective rules, a wage regime based on single law cannot be implemented. Including special provisions related with payments in the recent organizational laws and regulations regarding personnel, bring about inequality among agencies and institutions.

Effective human resources planning cannot be realized in public agencies and institutions. Insufficient on-the-job training hampers public servants to have knowledge and capabilities to carry out their duties in an effective and productive manner. In addition, a necessity for developing objective and transparent standards to evaluate performance of the personnel exists.

Other problems are unclear and inadequate definition in the legislation pertaining to promotion on the job, imbalanced distribution of public employees among institutions and agencies and inadequate amount of employees as well as salaries.

Efforts towards enacting a new law to replace the Civil Servants Law No. 657 are still under way in order to resolve such issues.

2. Main Objectives and Targets

Effective human resources planning, the employment of personnel in terms of numbers and qualifications as necessary to provide the services, realization of civil service reform, and expansion of the use of norm cadre are the main targets in the public sector.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Civil Service Reform will be realized.				
Measure 1.1. Work on draft law concerning civil service reform will be concluded.	State Personnel Presidency	Ministry of Finance, Public Administration Institute for Turkey and Middle East	End of December	To abolish shortcomings and deficiencies in the public personnel regime and to provide public services in an effective and productive way, evaluation of opinions coming from public agencies and institutions on draft law that envisages radical rearrangements in public personnel regime will be completed and studies on draft law will be finalized.

D. INCREASING THE DISSEMINATION and EFFECTIVENESS of e-GOVERNMENT

1. Current Outlook

e-Government, as one of the basic tools of contemporary public management, is among the basic components of information society transformation process of Turkey. The objective of e-Government approach which has been adopted in the scope of e-Transformation Turkey Project that has been conducted since 2003 and Information Society Strategy which was started to be implemented in 2006, is to establish a participatory, transparent and accountable government structure, by which users can reach interoperable 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, namely citizen focused public service provision and modernizing public management are specified in the information society strategy and the targets and activities to reach these priorities are defined for 2010.

The efforts to provide e-government services in an integrated manner instead of individual applications of different public agencies; to prevent overlaps and waste of resources in electronic public service provisions; to eliminate problems stemming from lack of interoperability in sharing information and documents within and among the agencies are being carried out at various levels. It is expected that the establishment of e-Government Portal will contribute considerably to eliminate these problems.

Central Population Management System (MERNIS), ID Information Sharing System, Automation of Tax Administrations (VEDOP I-II), National Adjudication Network (UYAP), Modernization of Customs Administration (GIMOP), Police Information Network (POLNET), Automation of Public Budget Auditing System (Say2000i), e-Declaration and Prime Ministry Legislation Information System are primary e-government applications that are commonly provided. On the other hand, the address record system is completed and the studies to integrate address and population data are underway. Besides, the studies on the third phase of Automation of Tax Administrations Project, Land Registry and Cadastre Information System (TAKBIS); and unique

number system for legal persons are in progress. Also, the minimum standards have been set to ensure compatibility of electronic registry systems and to manage them effectively and these standards have entered into effect with TS 13298 - Electronic Document Management Standard.

Regarding the fully on-line provision of 20 basic public services that are defined by the EU, Turkey's level is 55 percent, while the level of EU-27+ (EU-27 and Turkey, Iceland, Switzerland, Norway) is 59 percent. Concerning the maturity level reached in the provision of these services through electronic channels, Turkey's score is 69 percent, while EU-27+ reaches 76 percent. However, Turkey outscores EU-27+ in the maturity level of public service provision for business with a score of 86 percent against 84 percent. On the other hand, Turkey reaches 12 percent regarding the indicator of user focused service provision, when EU-27+ reaches 19 percent.

2. Main Objectives and Targets

The main objective is to establish e-Government structure with required technical, administrative and legal regulations with an approach of effective public management. 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 of information in secure electronic environments.

On-line public services will be provided on the basis of life and business cycles of citizens and business; and public business cycles will be simplified and improved within this context, in the provision of public services the declaration of citizens and the avoidance of requiring duplicated citizen information will be essential. The studies in order to eliminate duplications and maintain interoperability in e-Government applications will be continued; one-stop, continuous, secure and multi-channel integrated public service provision will be achieved and disseminated. Besides, the pilot implementation studies of Citizen's Card Project, which will be used by citizens to reach public services like tax, citizenship, health, social security, etc. will be carried on.

In the process of transition to e-Government, increasing service productivity will be essential and applications providing quick gains will be prioritized.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. An efficient and reliable e-government structure will be established within the framework of strategic priorities defined in the Information Society Strategy.				
Measure 1.1. e-Government Portal will be operational with pilot services and the studies to widen service applications will be started.	TÜRKSAT A.Ş.	Ministry of Transport, SPO, Related Public Institutions	End of December	e-Government portal that will provide access to electronic public services from single point and different platforms will be started to implement through pilot services. Besides, the studies to widen the applications in order to integrate other public services to the portal will be initiated.
Measure 1.2. The feasibility study to establish a Public Secure Network will be conducted.	TÜRKSAT A.Ş.	Ministry of Transport, SPO, Related Public Institutions	End of June	Rather than investing on institutional wide area network infrastructures, to meet the needs of the public institutions, a feasibility study to establish a common secure communication infrastructure that will also constitute the backbone of the government architecture will be conducted.

Measure 1.3. Land Registry and Cadastre Information System (TAKBIS) will be disseminated.	General Directorate of Land Registry and Cadastre	Ministry of Justice, Ministry of Interior, Revenue Administration, Municipalities, Related Public Institutions and Organizations	End of December	TAKBIS will be rolled out to 225 land registry and 9 cadastre offices. In this context, the database to be created will be shared between the institutions and the organizations such as Ministry of Justice, Ministry of Finance, municipalities, notary-publics that require such information. Land registry and cadastre database will be integrated with MERNİS database; citizens will be able to make several queries about their properties online.
Measure 1.4. The first phase of pilot application regarding Citizen's Card Project will be executed.	Ministry of Interior	Ministry of Justice, Ministry of Finance, Ministry of Health, SPO, SGK, General Directorate of Security, General Directorate of Mint and Printing Plant, TÜBITAK	End of December	The pilot application for electronic citizen's card, which includes basic identification information and biometric elements in order to use as an authentication and authorization medium in accessing public services, will be conducted.
Measure 1.5. The infrastructure of Electronic Public Procurement System will be established.	Public Procurement Authority	Ministry of Justice, Ministry of Interior, State Supply Office	End of December	The infrastructure for an e-procurement system, which enables public agencies to procure on-line, will be established and pilot applications will be initiated.
Measure 1.6. The works under the third phase of Automation of Tax Administrations Project (VEDOP-3) will be carried on.	Ministry of Finance	TÜRKSAT A.Ş.	End of December	The works are underway to widen internet based central tax administration applications (e-VDO) for tax offices, all property directorates and tax assessment commissions will be integrated to the system. The establishment of business continuity center will be completed. The works are underway to establish a Disaster Recovery Center. On-line services for taxpayers will be enhanced.
Measure 1.7. The law regarding protection of personal data will be enacted.	Ministry of Justice	Ministry of Interior, SPO, TUBİTAK, Relevant Public Institutions and Organizations	End of June	Having regard to the harmonization with the EU acquis, respecting the protection of natural persons right to privacy, their tangible and intangible asset, fundamental rights and freedoms, the regulation will be enacted to protect unlawful processing of personal data by electronic or other means.

E. IMPROVING THE JUDICIAL SYSTEM

1. Current Outlook

In April 2007, 118 laws that are no longer applicable were abolished by the Law No. 5637. This law is an important milestone for the prevention of legislation complexity and impurity.

According to regional geographical conditions and workload, it was decided by Ministry of Justice to establish regional courts of appeal in İstanbul, Bursa, İzmir, Ankara, Konya, Samsun, Adana, Erzurum and Diyarbakır. It was published in Official Gazette No. 26543, dated 5 June 2007. In addition to that, High Council of Judges and Prosecutors took a decision to determine judicial authorization of aforementioned regional courts of appeal and it was published in the said Official Gazette. However, the regional courts of appeal have not been operational yet.

In Turkey, as of September 2007, the number of judges and public prosecutors is 10,313 and other administrative judicial staff is

TABLE: IV. 60-Number of Judges and Public Prosecutors and Criminal Cases in Courts per 100,000 Inhabitants (2004)

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

27,618. These figures are relatively below the EU averages, especially for judges. Because of the establishment of regional courts of appeal and enactment of main laws such as Turkish Criminal Code, Criminal Procedure Code, Law on the Execution of Punishments and Measures, Law on Probation and Parole, it is expected that there will be growing need for the number of judges, prosecutors, and other judicial staff.

There are insufficiencies in capacity of prisons and detention houses. Prisons and detention houses were 389 in September 2007 with a total capacity of 90,547 persons. While the number of condemned and arrested people in prisons and detention houses was 66,917 in September 2006, it reached to 85,865 as of September 2007.

Hardware infrastructure of National Judicial Network Project (UYAP) that is prepared by Ministry of Justice aims to transfer judicial process and services into electronic environment and to ensure setting up a network among the judiciary has been completed nearly 95% as of September 2007.

Efforts for constructing and renewing contemporary courthouses are underway to ensure judicial and justice services in modern, effective and productive ways. From the beginning of 2003 to August 2007, new 50 courthouses have been completed and opened. Moreover, new 27 courthouses have been completed and ready to be used. Now, 35 courthouses have been continuing to be constructed.

Nevertheless, slow and ineffective operations of the trial process, the failure to fully obey fair trial rule, to monitor new developments adequately in formulating legal rules, to attain desired standards in legal education, to eliminate problems regarding quality and quantity of human resources in the judicial system, to meet the physical and technical infrastructure requirements sufficiently prevent effective provision of judicial and justice services in a great extent.

2. Main Objectives and Targets

Efforts towards increasing the quality of judging process and main components of this process will be continued; legal and institutional arrangements will be made in order to ensure the fast, fair, reliable and proper operation of the judging process, in the framework of the rule of law and the supremacy of law. 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, legal regulations regarding the professional ethics rules in the framework of the international standards, with which the judicial system personnel should comply, 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 in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Judiciary services will be provided in faster, more reliable, fair and proper ways.				
Measure 1.1. To alleviate workload of justice, mediation as one of the alternative dispute resolution methods will be in practice.	Ministry of Justice	-	End of December	In order to solve disputes fast, simply, cost-efficiently and to alleviate the workload of justice especially in civil law disputes, draft Law on Mediation in Civil Matters as one of the alternative dispute resolution method will be adopted.
Measure 1.2. Legal regulations regarding the professional ethics rules at international standards, with which the judicial system personnel should comply will be defined.	Ministry of Justice	-	End of December	The legal arrangement on ethic rules that judge, public prosecutor and the other administrative judicial staff should comply will be adopted.
Measure 1.3. Transfer of judicial process and services into the electronic environment and setting up a network among the judiciary will be completed.	Ministry of Justice	SPO	End of December	Prepared by Ministry of Justice and completed to a great extent for hardware infrastructure, National Judicial Network Project (UYAP) that aims to transfer judicial process and services into electronic environment and setting up a network among the judiciary will be operated at the national level at the end of 2008.
Measure 1.4. The studies on renewing main laws on judiciary and justice will be completed.	Ministry of Justice		End of December	Legislation has got to be updated because of EU accession process, advancement in technology, economic and social activities, growing and diversifying legal conflicts and changing societal relationship. In order to reach to international standards such as democracy, fundamental rights and supremacy of law basic laws will be renewed. As a priority, following draft laws will be enacted: - Law on Protection of Eyewitness - Civil Procedure Code - Law on the Protection of Personal Data - Law on the Association of Turkish Judges and Prosecutors - Law on the Amendments of Administrative Justice Procedure Law - Law on DNA Data and National DNA Data Center - Law on the Amendment of the Law on Surveillance Board on Prisons and Detention Houses - Law on the Amendment of Several Laws to be in line with Main Criminal Codes - Law on the Amendment of Law on the Court of Appeal - Private International and Procedure Law
Measure 1.5. The legal arrangement for public accession to judicial judgments will be adopted.	Ministry of Justice		End of December	In conformity with personal data protection principle, the legal arrangement will be adopted for public accession to judicial judgments by publishing thereof.

F. ENHANCING THE EFFECTIVENESS OF SECURITY SERVICES

1. Current Outlook

Organised criminal activities at national and international level, drastic changes and fluctuations on economic and cultural life of society and internal migration from rural to urban areas and economic issues regarding migration caused the tendency of increase in the criminal cases related especially public security, organized crimes and terrorist activities. Internal security has been kept up the main issue on the national level in 2007.

According to the criminal data related to responsibility area of police forces at 2006 compared to 2005, public security cases has been increased 61 percent, organized crimes 51 percent, terrorist activities 4 percent and general public criminal cases 13 percent. Significant increase in public security cases results from especially the cases that occur in urban areas, which have high migration rate. In responsibility areas of police forces the number of cases in 2006 were 785,510 and 23 percent of those cases which sum to 182,844 has occurred in İstanbul province.

Within the context of Phase I Operation Plan, works regarding border management and fighting against illegal migration and asylum seekers continue to construct the accommodation and readmission center at different provinces.

Issues on establishment of the effective harmonization among internal security forces, coordination of intelligence activities to prevent the realization of criminal activities and enlargement of the criminal lab to all country side in order to reach the suspect by way of evidence keep their importance.

2. Main Objectives and Targets

In modern and democratic societies the nature of public security services should concentrate on the human satisfaction considering the critical balance between freedom and security. In this end, the security services will be concentrated on fighting against financial and organized crimes, illegal migration and asylum seekers, human trafficking, drugs trading and using, terrorist activities and financing of it while keeping on the security measures for public and individual safety.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Policy 1. Fighting effectively against terrorism and its funding, financial and organized crimes and necessery legal regulations directed to border management will be put into action.				
Measure 1.1. Fighting effectively against illegal migration and asylum seekers will be ensured.	Ministry of Interior	Ministry of Foreign Affairs, General Directorate of Security, General Command of Gendarme, Command of Coastal Guard	End of June	The related articles of the Passport Law No.5682 will be revised.
Measure 1.2. Fighting effectively against smuggling and organised crimes will be ensured.	Ministry of Interior	General Directorate of Security, General Command of Gendarme, Command of Coastal Guard, Undersecretariat of Customs	End of March	Secondary legislation will be completed concerning controlled delivery.

Priority 2. Supply of public security services oriented to social peace and security of society will be provided.				
Measure 2.1. Public security services which is supported by society and which is focused on individuals will be ensured.	Ministry of Interior	General Directorate of Security, General Command of Gendarme, Command of Coastal Guard, General Directorate of Provinces, Telekom A.Ş.	End of December	The bidding and preliminary project phases of MOBESE in order to make the system nationwide will be completed. The legal base of Emergency Call System (112) will be constituted.
Priority 3. In order to prevent the crimes at the origin preventive forces will be strengthened and technological infrastructure necessary for tracing crimes and criminals will be strenghtened.				
Measure 3.1. The technological infrastructure of preventive forces will be strengthened.	Ministry of Interior	General Directorate of Security, General Command of Gendarme, Command of Coastal Guard, Undersecretariat of National Intelligence Organization	End of December	Technological needs of intelligence department of related institutions will be met.
Measure 3.2. The technological infrastructure necessary to reach suspect by way of evidence will be made nationwide.	Ministry of Interior	General Directorate of Security, General Command of Gendarme	End of June	Needs of machine – equipment of regional criminal lab and crime scene investigation and department of identification verification will be met.

G. DISASTERS

1. Current Outlook

The economic and social costs of natural disasters in Turkey, where 95% of surface area, 70% of population and 75% of industrial establishments are under varying earthquake risks, has been increasing day by day.

In our country, there are many institutional, administrative, legal and implementation problems covering both the pre and post disaster phases of disaster management. Efforts have been carried on; to sort out the overlapping tasks and responsibilities of related institutions working in this field and reach an integrative structure in disaster management system.

Define and determine the different disaster risks to prepare integrated disaster risk maps is required and within this context, it is necessary to standardize the various models that is used by different institutions in preparing disaster scenarios.

In order to form safe living spaces, legal arrangement studies have been carried on to meliorate the development system.

Works have been going on to create a fast, efficient and safe communication system on and after disaster, both between institutions and local and central government authorities.

The number of households with insurance which was approximately 2.5 million initially, has not reached to the expected levels since; the coverage of The Decree-Law No. 587 on Compulsory Earthquake Insurance issued to decrease the burden on government in post disaster reconstruction stage, was limited to the earthquake damage and, the government has taken up the responsibility of building disaster houses by the special laws enacted after the earthquakes that occurred at different times. Thus, it is necessary to widespread the disaster insurance countrywide which would cover all types of disasters and buildings, and include sanctions.

2. Main Objectives and Targets

In disaster management, a sufficient, effective and integrative institutional, administrative and legal structure will be achieved at local and central levels.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. An integrative system will be achieved in disaster management.				
Measure 1.1. Institutional and administrative structure will be improved to achieve an integrative disaster management system that would cover the risk mitigation, preparedness, response, reconstruction/recovery phases.	Prime Ministry	Ministry of Interior, Ministry of Public Works and Settlement, SPO, Local Administrations, Other Related Public Institutions	End of June	Necessary structures will be formed; to centrally coordinate the delivery of aid and emergency intervention on and after the disaster effectively and on time and, in line with this, to make the delivery of aid and emergency intervention directly by local authorities. In this context, overlapping authorities and responsibilities of institutions will be eliminated and current laws and regulations will be reviewed to make necessary arrangements.
Measure 1.2. Turkish National Disaster Archive System will be improved	Ministry of Public Works and Settlement	Related Public Institutions	End of December	Turkish National Disaster Archive System will be improved, database will be updated and information on disaster education will be included in the system by developing linkages with related organizations and institutions.
Measure 1.3. Strategies including priorities and actions covering the risk mitigation, preparedness, response, reconstruction/recovery phases of disaster management, will be determined.	Ministry of Public Works and Settlement	Prime Ministry, Ministry of Interior, SPO, Local Administrations, Other Related Public Institutions	End of December	National Disaster Management Strategy and Action Plan will be prepared.
Measure 1.4. Law on Natural Disaster Insurance will be enacted.	Undersecretariat of Treasury	Ministry of Public Works and Settlement, Turkish Catastrophic Insurance Pool, Association of the Insurance and Reinsurance Companies of Turkey	End of March	Law on Natural Disaster Insurance which will include sanctions, will be enacted such that it contains all disaster and building types, and covers the whole country.
Measure 1.5. Settlements with natural disaster risk will be prioritized nationwide according to disaster risk level.	Ministry of Public Works and Settlement	Related Public Institutions	End of December	Integrated disaster risk maps, including different disaster risks in settlements and urban risks, will be prepared in order to reduce the possible effects of disasters and to create safe living spaces.

PART FIVE

THE EUROPEAN UNION AND FOREIGN ECONOMIC RELATIONS

I. PROCESS OF ALIGNMENT WITH THE EUROPEAN UNION

Accession negotiations between Turkey and the European Union (EU) have started as of 3 October 2005, in line with the Presidency Conclusions of the European Council of 17 December 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 20 October 2005 and was completed on 13 October 2006. The screening process, which is essentially of a technical nature, has been carried out by the active participation of related ministries and public institutions.

The Monitoring and Steering Committee, which operates under the chairmanship of the chief negotiator and composed of the 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.

The Chapter on Science and Research was opened to negotiations and closed provisionally. The Chapters on Enterprise and Industrial Policy, Statistics and Financial Control were opened. Concerning the Chapters on Education and Culture, Economic and Monetary Policy, Consumer and Health Protection and Trans-European Networks, although no benchmarks were set, negotiations have not been opened yet.

According to the decision of 11 December 2006 of General Affairs and External Relations Council, which was endorsed by the European Council on 15 December 2006, negotiations would not be opened on the chapters Free Movement of Goods, Right of Establishment and Freedom to Provide Services, Financial Services, Agriculture and Rural Development, Fisheries, Transport Policy, Customs Union and External Relations until Turkey fulfills its commitments related to the Additional Protocol signed in 2004 also as regards Greek Cypriot Administration. Moreover, this issue is a closing benchmark for all chapters.

Following the completion of the screening process and with the perspective of EU

membership, Programme for Alignment with the EU Acquis, consisting of primary and secondary legislation to be enacted by Turkey during the period of 2007-2013 is announced in April 2007. Besides alignment obligations, the needs and priorities of the country were taken into account in the preparation of the Programme.

EU education and youth programmes Socrates, Leonardo da Vinci and Youth have expired at the end of 2006. The Memorandum of Understanding on the participation of Turkey in the successor programmes (Lifelong Learning Programme and Youth Programme) covering the period 2007-2013 was signed and entered into force.

The Sixth Framework Programme of the EU in the field of research and technological development, to which Turkey participated, has expired at the end of 2006. The Memorandum of Understanding on the pariticipation by early 2007 in the Seventh Framework Programme for Research, Technological Development and Demonstration Activities covering the period 2007-2013 was signed and entered into force. The Memorandum of Understanding on Culture Programme (2007-2013) and the Memorandum of Understanding on the participation of Turkey in the Community Programme on Interoperable Delivery of pan-European eGovernment Services to Public Administrations, Businesses and Citizens (IDABC) were also ratified and entered into force.

Turkey continues to participate to the Customs 2007 Programme, the Public Health Action Programme and the Fiscalis 2007 Programme regarding taxation.

The process for the participation of Turkey to the European Monitoring Centre for Drugs and Drug Addiction is underway. Turkey continues to participate to the European Environment Agency.

EU financial assistance to the candidate countries during the period of 2007-2013 is provided through the Instrument for Pre-Accession Assistance (IPA). General coordination of assistance under the Regional Development and Human Resources Development components is carried out by the SPO as Strategic Coordinator. Strategic Coherence Framework, which contains the priorities for the EU financial assistance under these components, has been prepared by the SPO. Four operational programmes in the fields of Transport, Environment, Regional Competitiveness and Human Resources Development have been prepared under these components. Preparations have been coordinated by the relevant ministries. Ministry of Transport, Ministry of Environment and Forestry, Ministry of Industry and Trade and Ministry of Labour and Social Security have been designated as responsible bodies for the implementation of the operational programmes as Operating Structures.

Ministry of Agriculture and Rural Affairs has been designated as the responsible body for the Rural Development, which is the fifth component of IPA. In this context, Law No. 5648 on the Establishment and Duties of Agriculture and Rural Development Support Institution was adopted in May 2007 to utilize the assistance in the field of rural development.

The accreditation process of the new structure established within the scope of the IPA continues.

On the other hand, 497.2 million Euros has been allocated to Turkey within the framework of 2008 financial cooperation. Programming activities

has been completed for the first component (Transition Assistance and Institution Building) of the IPA and the project package has been transmitted to the European Commission. Programming activities regarding other components continue.

As regards the latest developments in the EU, following the rejection in the referendums held in France and the Netherlands in 2005 of the Treaty establishing a Constitution for Europe which contains the policies and institutional structure of the EU, a period of reflection on the future steps to be taken was given to the Member States. The European Council of 21-22 June 2007 has decided to convene an Intergovernmental Conference to prepare a new Reform Treaty amending the founding treaties in force. In line with this decision, the Intergovernmental Conference began its work on 23 July 2007. It is envisaged that the work on the Reform Treaty is to be finalized by the end of 2007 and the ratification process of the Treaty is to be completed before the European Parliament elections to be held in 2009.

The number of the Member States rose to 27 after the accession of Bulgaria and Romania to the EU as of 1 January 2007.

The accession negotiations with Croatia, which started the negotiations at the same date with Turkey, is underway. The European Council of 17 December 2005 granted the status of candidate country to the Former Yugoslav Republic of Macedonia, however the accession negotiations have not started yet.

II. MULTILATERAL AND BILATERAL ECONOMIC COOPERATION

A. MULTILATERAL ECONOMIC COOPERATION

1. Current Outlook

Efforts for development of commercial and economic relations with Islamic Countries will 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, on the various other platforms of Organization of the Islamic Conference (OIC).

Establishment of a Trade Preferential System among the OIC Member Countries (TPSOIC) is one of the important projects of the COMCEC. In this context, TPSOIC Framework Agreement, Protocol on Preferential Tariff Scheme (PRETAS), and, TIPSOIC Rules of Origin have been negotiated and finalized. All the member countries that haven't signed yet are expected to sign these PRETAS Agreements in a ceremony during the 23rd COMCEC Meeting. Efforts for Turkey's approval of PRETAS are under way.

The Job Description of the Task Force aiming to increase the trade volume from 15 percent to 20 percent among the OIC members has been prepared by the COMCEC Secretariat. On the other hand, OIC Cotton Investment Forum will be held in Istanbul on November 12-13, 2007.

The 23rd COMCEC Meeting will be held in Istanbul on November 14-17, 2007.

Turkey's export to OIC countries in 2006 was realized as USD 15 billion constituting 17.5 percent of Turkey's total exports. In the first 6 months of 2007, the level of exports has been USD 8.9 billion representing a 35 percent increase as compared to the same period of the last year.

Turkey's import from the OIC countries in 2006 was realized as USD 19.1 billion constituting 13.7 percent of Turkey's total imports. In the first half of 2007, the level of imports has been USD 9.8 billion indicating a 5 percent increase when compared with the same period of the last year.

Turkey, Iran and Pakistan have signed and ratified the Agreement for the establishment of Trade and Development Bank of Economic Cooperation Organization (ECO). The bank was established in Istanbul at the end of 2006, and, expected to start financial operations at the end of 2007.

Turkey has signed and ratified the ECO Trade Agreement (ECOTA) in 2007. Efforts are under way for the Agreement to take effect.

Regarding the second phase of the project jointly executed by ECO and International Trade Center (ITC) for the development of trade between ECO members, a Business Forum including buyers and sellers meetings has been conducted in Istanbul on October 24-26, 2007.

Turkey will host the Donors Conference of the ECO Regional Food Security Programme in May 2008.

In the field of ECO Industrial Cooperation, efforts are under way for the establishment of a Regional Institution for Standardization, Conformity Assessment, Accreditation, and Meteorology (RISCAM). It has been agreed on that the main office of the secretariat of RISCAM will be in Tehran and the technical boards will be in Turkey.

Turkey's exports to ECO countries in 2006 was USD 3.3 billion constituting 3.9 percent of the total exports. In the first half of 2007, the exports have raised to the level of USD 1.9 billion with an increase of 41 percent when compared with the same period of the last year.

Turkey's imports from ECO countries were USD 8.1 billion in 2006 as of 5.8 percent of the total imports of the year. In the first half of 2007, the imports have raised to the level of USD 4.6 billion with an increase of 25 percent.

When looked at the distribution of the projects to member countries, Turkey comes first by holding a share of 23.9 percent of all the projects approved and signed by the Board of Directors of the Black Sea Economic Cooperation (BEC) Trade and Development Bank (BTDB). Ukraine and Russia follow by holding the shares 19.3 and 12.7 percents.

United Nations Development Programme (UNDP) has declared the Blacksea as a priority region for the years of 2006-2010. In this context, the "Blacksea Investment Incentive Programme" proposed by UNDP has taken start with the participation of Turkey, Greece and UNDP. It is anticipated that the programme will expand to the Blacksea region in the future.

In the field of transportation, two memoranda, "the Memorandum of the Agreement for the Coordinated Development of Blacksea Ring Road", and, "the Memorandum of the Agreement for Development of Blacksea Seaways", have been

signed during the 16th Meeting of BEC Foreign Ministers Council in Belgrade on April 16, 2007. Blacksea Costal Road which is an important part of Blacksea Ring Road has been opened on April 7, 2007.

For the BEC to be a regional cooperation organization running on the basis of projects, a fund has been raised with a separate budget other then the BEC general budget. The legal documents for the operational aspects of the fund have been completed. Five countries including Turkey and the affiliated BEC organizations have contributed for the fund.

Turkey's exports to BEC countries were USD 11.6 billion in 2006 as of 13.5 percent of the total exports. In the first half of 2007, total exports have risen to USD 7.5 billion indicating a 57 percent increase when compared with the same period of the previous year.

Turkey's imports from BEC countries were USD 27 billion in 2006 as of 19.4 percent of the total imports of the year. In the first half of 2007, total imports have risen to the level of USD 15.8 billion with a 26.9 percent increase when compared with the same period of the previous year.

Within the context of the activities of Developing Eight Countries (D8), the Commission has decided to submit the draft document of "D8 Cooperation Road Map 2007-2017" to the D8 Ministers Meeting.

In the D8 High Level Experts Meeting, the Protocol of Origin has been negotiated as an addendum to D8 Preferential Trade Agreement. It has been decided that D8 Rules of Origin should be predicated on the TPSOIC Rules of Origin.

Turkey's exports to D-8 countries were USD 2.2 billion in 2006 equal to 2.6 percent of the total exports of that year. During the first half of 2007, the exports were USD 1.2 billion reflecting a 24 percent increase when compared with the same period of the previous year.

Turkey's imports from D-8 countries were 8.9 billion USD in 2006 as of 6.3 percent of the total imports of the year. In the first half of 2007, imports have risen up to the level of 5.3 billion USD indicating a 26 percent increase when compared with the same period of the previous year.

2. Main Objectives and Targets

Efforts will be expedited for the development and deepening of economic and commercial relations with Islamic countries at bilateral and multilateral level, operations will continue for the diversification of export goods, accession to new markets and removal of the investment and trade barriers in these countries.

Signing and ratification procedures of PRETAS and TPS-OIC Rules of Origin will be completed. As targeted for the TPS-OIC Preferential Trade System to be in force in January 2009, attempts will be made for PRETAS and TPS-OIC Rules of Origin to be signed and ratified by at least 10 countries.

In line with the Millennium Development Goals of the United Nations, and within the framework of Turkey's Strategy for Expansion in Africa for reduction of poverty in OIC member countries, the capacity building programmes such as cooperation in production and processing of cotton will be supported.

In ECO region, required efforts will continue for the improvement of the regional trade such as the removal of tariff and non-tariff barriers, simplification of transportation and delivery, facilitating the private sector in the region to operate effectively, improvement of investment climate in the region, consistency with the international standards by improving the transparency of the trade regimes.

Within the context of liberalization of trade in the region, attempts for ECO Trade Agreement (ECOTA) to go in force will continue.

Signing and ratification process of ECO Framework Agreement of Transit Transportation will be completed.

After the ECO Trade and Investment Bank (ECO Bank) which has been founded in Istanbul has started its financial operations at the end of the year 2007, required efforts will be spent for the bank to effectively provide finance for trade and projects.

Support will continue for the Project Development Fund, which has been developed for BEC to be a regional cooperation organization running on the basis of projects. The resources of BEC Trade and Development Bank will be appreciated in financing the shared projects and supporting the private sector in line with the program and policies of the Bank. In BEC region, the actions required for the development of transportation and for the removal of the barriers to transportation over sea and land, and, common projects this effect will be produced. Studies of a project for the development of a BEC Trade Centre in Bursa will be completed.

Turkey will continue to support the cooperation activities within the framework of D-8. The studies related to the Protocol of the Rules of Origin of D-8 Preferential Trade System will be completed. Priority will be given for immediate enforcement of the "Multilateral Agreement for Mutual Assistance in Administrative Matters Related to Customs and Simplification of Visa Matters for Businessmen".

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. As targeted for the TPS-OIC Preferential Trade System to be in force in January 2009, attempts will be made for the PRETAS and TPS-OIC Rules of Origin to be signed and ratified by at least 10 countries including Turkey.				
Measure 1.1. Signing and ratification procedures of PRETAS and TPS-OIC Rules of Origin will be completed.	Undersecretariat for Foreign Trade	TGNA, Prime Ministry, Ministry of Foreign Affairs, SPO, OIC General Secretariat, Subsidiary and Affiliated International Organizations	End of December (Continuous)	Trade between the member countries will be simplified and enhanced.
Priority 2. Within the framework of ECO, cooperation activities will continue in the fields of trade and investment, transportation and communication, energy, mining and environment, agriculture, industry, health and tourism, human development, economic research and statistics, education, science, culture and drug control.				
Measure 2.1. Institutional build up and operational matters related to ECO Trade and Development Bank will be completed.	Undersecretariat of Treasury	Ministry of Foreign Affairs, Ministry of Finance, SPO	End of December (Continuous)	Preliminary works will be carried out for the ECO Trade and Development Bank to be financially operational in 2007.

Measure 2.2. Efforts will continue for ECOTA to be in force.	Undersecretariat for Foreign Trade	Ministry of Foreign Affairs, SPO, Undersecretariat of Customs	End of December (continuous)	ECOTA will be put in force via negotiations with the related organizations and through consultations with member countries.
Measure 2.3. Efforts for Turkey's consent for TTFA and works related to TTCC will continue.	Ministry of Transport	Ministry of Foreign Affairs, SPO, Undersecretariat of Customs, TOBB	End of December (Continuous)	In line with comments gathered from the related organizations, negotiations will be conducted in TTCC Council for the implementation of TTFA.
Priority 3. Multilateral and multisectoral cooperation will be achieved to develop and strengthen the economic and commercial relations between the BEC countries.				
Measure 3.1. Facilitating of and support for trade and investment in BEC region will be programmed.	Ministry of Foreign Affairs	Undersecretariat for Foreign Trade, Undersecretariat of Treasury, KOSGEB, İGEME, TOBB, BEC Secretariat, UN Institutions	End of December (Continuous)	In consultation with public sector institutions and enterprises, efforts will continue to develop and implement programmes between BEC Secretariat and UN Organizations.
Priority 4. Efforts will continue for the reduction of tariff rates, removal of non-tariff barriers, prevention of double-taxation and harmonization of trade legislation for D-8 countries to have a Preferential Trade System.				
Measure 4.1. Protocol of the Rules of Origin of Preferential Trade System will be finalized.	Undersecretariat for Foreign Trade	Ministry of Foreign Affairs, Undersecretariat of Customs.	End of December	Trade between the member countries will be simplified and enhanced.
Measure 4.2. Multilateral Agreement for Mutual Assistance in Administrative Matters Related to Customs will be finalized.	Undersecretariat of Customs	Ministry of Foreign Affairs, Undersecretariat for Foreign Trade	End of December	Matters related to trade and customs will be solved.

B. BILATERAL ECONOMIC COOPERATION

1. Current Outlook

Turkey’s relations, starting in 1991, with Turkic Republics and Communities, have continued in 2007 in consistency with the medium-term and long-term interests of the country and the region.

Under the Great Student Programme executed by the Ministry of National Education, undergraduate and graduate education has been offered for the students from Turkic Republics and Turkish or relative nations. In this context, 5,274 students are received training including 664 students trained in Turkish language at TÖMER.

TABLE:V.1- Students from Turkic Republics and Other Nationalities

(person)

Country	TÖMER	2-Year Degree	Undergraduate	Graduate	PhD	Total
Azerbaijan	58	2	250	183	154	**647**
Kazakhstan	110	19	257	82	40	**508**
Kyrgyzstan	42	21	349	152	66	**630**
Uzbekistan	8	0	7	3	0	**18**
Turkmenistan	45	0	469	23	6	**543**
Other Asian	269	60	903	211	120	**1,563**
Balkanic	132	66	1,009	118	40	**1,365**
TOTAL	**664**	**168**	**3,244**	**772**	**4,426**	**5,274**

Environmental impact assessment (EIA), Feasibility and Execution Projects of 76 km of Baku-Tbilisi railway that runs on the Turkish territory were completed at the end of 2006. Except the Ahılkelek Station, the route project of remaining line that runs 28.3 km on the Geogian territory was completed in July 2007.

Turk Eximbank, under the heading of credit programmes targeting Turkic Republics, have allocated USD 830.6 millions in total during the period of 1992-2005 of which USD 306.8 millions as commodity credit and USD 523.8 millions as project credit.

Turkey's exports to Turkic Republics were USD 1.9 billion in 2006, which was 2.3 percent of the total exports of the year. In the first half of 2007, the amount of exports was USD1.8 billion which reflects a 54 percent increase when compared with the same period of the last year.

Turkey's imports from Turkish Republics were USD 1.9 billion in 2006, which was 1.6 percent of the total imports of the year. In the first half of 2007, the imports were USD 1.6 billion reflecting a 36 percent increase when compared with the same period of the last year.

The capital outflow from Turkey to Turkic Republics was USD 3 billion during the period of 1996-2005. The countries received the biggest part from capital outflow from Turkey were Azerbaijan (81 percent), Kazakhstan (15 percent), Turkmenistan (2 percent), Uzbekstan (1 percent) and Kyrgyzstan (1 percent). In the first nine months of 2007, the total capital outflow to these countries has been USD 184.1 million. Azerbaijan with USD 181.2 million and Uzbekistan with USD 1.8 million were the two countries received the most of the capital outflow.

In 2007, Turkey signed the Agreement of Mutual Support and Protection of Investment (MSPI) with Oman Sultanate and similar agreements with Lebanon, Slovenia, Syria and Jordan have entered in force. Similar MSPI agreements with Bulgaria, Check Republic and

Romania are expected to sign 2008. Organization of Joint Economic Commission (JEC) meetings, and, signing JEC protocols with various countries continued in 2007.

The Cross-border Cooperation Programme with Syria continues to be executed.

Various country reports are prepared for the development of Turkey's bilateral relations with other countries in the field of economy, social and cultural relations and to inform the private and public sector on these issues.

2. Main Objectives and Targets

Activities initiated for improving Turkey's relations and cooperation with the Turkic 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 Turkic Republics and fostering high-level economic and commercial relations in this framework.

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 neighbour countries, similar Regional Cooperation Programmes will be realized with Turkic Republics.

Public organizations and enterprises, NGOs and relevant entrepreneurs in private sector will cooperate in Interregional Cooperation Programmes with neighbour countries.

Efforts will be spent for the realization of Joint Economic Commission (JEC) meetings and for the realization of Free Trade Agreements (FTA) with other countries in coherence with the agreements of Mutual Support and Protection of Investments (MSPI) and with Turkey's obligations in the EU custom union.

C. TECHNICAL COOPERATION

1. Current Outlook

Turkey has observer status in the Development Assistance Committee (DAC) joined by 23 members of OECD. Turkey's Official Development Assistance (ODA) rose from USD 339 million in 2004 to USD 601 million in 2005 and USD 714 million in 2006. Turkey's ratio rose from 0.17 percent in 2005 to 0.18 percent in 2006.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Cultural, economic, social, and other cooperation programmes will continue between Turkey and Turkic Republics.				
Measure 1.1. A strategy document will be prepared for the activities towards Turkic Republics within the framework of a plan and programme.	TİKA	Ministry of Foreign Affairs, SPO	End of December (continuous)	Turkey's relations with other Turkic Republics will continue with economic, social, cultural, and, similar activities.

Turkey achieved the ODA / GNP target of 0.17 percent in 2005 which is required by EU for the year 2010 for its 10 new member countries joined in 2004

TABLE:V.2- Turkey's Official Development Assistance (ODA)

	2002	2003	2004	2005	2006
ODA (Million USD)	73	66	339	601	714
ODA/GNP (In Percent)	0.039	0.027	0.12	0.17	0.18

Source TURKSTAT, TİKA

Although Turkey's ODA has increased, 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. Though some improvements were observed in the coordination of development assistance after the actions taken by TİKA, further improvement in coordination is required. Efforts continue for a Draft Law for Foreign Assistance expected to contribute in coordination of various organizations.

Balkans and Central Asia continue to be the target regions of technical cooperation for Turkey. In the first 8 months of 2007, a total of 79 technical cooperation activities have been realized of which 42 in Caucasus and Central Asia, 4 in Balkans and East Europe, 5 in Middle East and African countries. TİKA provided technical cooperation assistance for projects worth of USD 13.1 million in 2006 and USD 6.1 million for the period of January-September of 2007.

Besides the assistance provided by TİKA, public and non-governmental organizations executed a total of 107 technical cooperation activities in 2006 with the participation of 654 experts and trainees. During the period of January-September of 2007, 660 experts and trainees participated the 110 technical cooperation project activities of them 453 from Caucasus and Central Asia, 51 from Balkans and East Europe, 149 from Middle East and Africa, 32 from other countries and regions.

In 2007, with the support of United Nations Development Programme (UNDP) and other UN organizations, 54 technical cooperation projects have been executed in Turkey. Gender equality, environment, techniques of good governance, fight against poverty, strengthening mother and child care, improvement of the position of children and teenagers, and, development of project implementation capacity were the basic subjects of these activities.

4 projects supported by Germen Technical Assistance (GTZ) and 10 projects supported by Japan International Cooperation Agency (JICA) have been executed by the year of 2007.

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 the initiatives and

pioneering role of public institutions, joint actions will be taken with the developing countries.

Regarding the technical assistance projects implemented in Turkey, strengthening the institutional capacity will be focused on.

Participation of voluntary organizations and private sector will be supported in the international technical cooperation activities and information and data will be systematically kept and updated.

Turkish experts are encouraged to get positions for certain periods in international organizations.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	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	End of December (continuous)	Development assistance will be provided on the basis of country-specific programmes and in line with national priorities. With the help of the coordination offices, requests from the beneficent countries will be taken into consideration in formulation of strategies. With the help of the related organizations, new tools will be created to improve the coordination between the organizations.
Measure 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	End of December	With the Law for Foreign Assistance, the legal ambiguity in the field of development assistance will be eliminated, and the coordination among the institutions will be improved.
Priority 2. With regard to Turkey's development assistance, coherence with the international rules and standards will be improved.				
Measure 2.1. The assistance to developing countries will be determined, the rules and the strategy of the assistance will be implemented on the basis of good governance, human rights, and, ownership.	TİKA	Ministry of Foreign Affairs, SPO	End of December (continuous)	One of the main targets in the beneficent countries of the development assistance, mainly the African countries, will be the fight against poverty. For technical assistance, respect for human rights, good governance and gender equality will be taken into consideration. Overall framework of the assistance would be the UN Millennium Development Goals (MDG) and the Paris Declaration. The productivity and efficiency of the technical cooperation activities will be enhanced through ownership by the recipient country. In this way, the determination and satisfaction of the needs of that country will be done in a much better way. Country programmes pursuant to the needs of that country will start to be executed.
Measure 2.2. In order to enhance the efficiency of the assistance offered by NGOs, dialogue and cooperation between NGOs and public sector will be improved.	TİKA	Ministry of Foreign Affairs, Ministry of Interior	End of December (continuous)	Preparatory studies will be conducted for the distribution of public resources through the NGOs as observed in the cases of development assistance around the world.