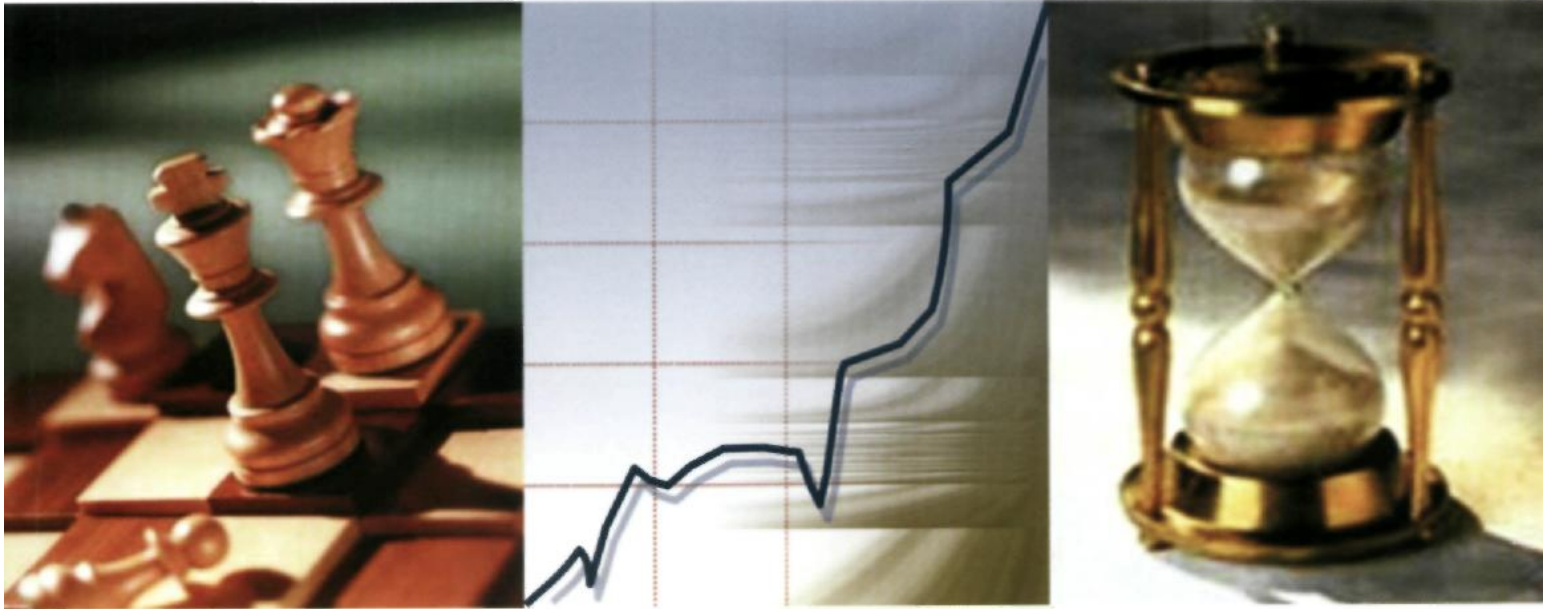




Republic of Turkey

2009 ANNUAL PROGRAMME



TR Prime Ministry
Undersecretariat of State Planning Organization



Republic of Turkey

Ninth Development Plan
(2007 - 2013)

2009
ANNUAL
PROGRAMME

TR Prime Ministry
Undersecretariat of State Planning Organization

ANKARA - 2008

DECREE OF THE COUNCIL OF MINISTERS

Decree Number: 2008/14200

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ABBREVIATIONS

AMATEM: Alcohol and Drug Research, Treatment and Training Center

AOC: 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

DHMI: General Directorate of State Airports Authority

DIS: Direct Income Support

DISF: Defense Industry Support Fund

DLHI: General Directorate for the Construction of Railways, Seaports and Airports

DMI: State Meteorological Service

DMO: State Supply Office

DOKAP: Eastern Black Sea Development Project

DSI: 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 (EMRA): Energy Market Regulatory Authority

ERDEMİR: Ereğli 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

MENR: Ministry of Energy and Natural Resources

MoEF: Ministry of Environment and Forestry

MoF: Ministry of Finance

MoI: Ministry of Interior

MoIT: Ministry of Industry and Trade	SPO: State Planning Organization
MoND: Ministry of National Defense	SPSF: Support and Price Stabilization Fund
MoNE: Ministry of National Education	SSİE: Small Scale Industrial Estates
MoPWS: Ministry of Public Works and Settlement	SSK: Social Security Institution
MoT: Ministry of Transport	SSSF: Social Solidarity and Support Fund
MPM: National Productivity Centre	SYDGM: General Directorate of Social Assistance and Solidarity
MSPI: Mutual Promotion and Protection of the Investments	TAEK: Turkish Atomic Energy Authority
MTA: Mineral Research and Exploration	TAKASBANK: ISE Settlement and Custody Bank Inc.
MYK: Vocational Qualification Agency	TAPDK: Regulatory Authority for the Markets of Tobacco, Tobacco Products and Alcoholic Beverages
MYO: Vocational Training School	TCDD: Turkish Railway Company
NABUCCO: Turkey-Bulgaria-Romania-Hungary-Austria Natural Gas Pipeline Project	TCIP: Turkish Catastrophic Insurance Pool
NGO: Non-Governmental Organization	TDİ: Turkish Maritime Administration
NRDS: the national regional development strategy	TEDAŞ: Turkish Electricity Distribution Company
NUTS: The Nomenclature of Territorial Units for Statistics	TEİAŞ: Turkish Electricity Transmission Company
OIC: Organization of the Islamic Conference	TEKEL: Turkish Tobacco Co.
OIZ: Organized Industrial Zones	TEKMER: Technology Development Centre
ODTÜ: Middle East Technical University	TEMSAN: Turkish Electromechanics Industry
ÖİB: Privatization Administration	TESK: Turkish Confederation of Craftsmen and Artisans
ÖSYM: Student Selection and Placement Center	TETAŞ: Turkish Electricity Trade and Agreement Co.
ÖZİDA: Prime Ministry Administration for Disabled People	TGB: Technology Development Zones
PA: Privatization Administration	TGNA: Grand National Assembly of Turkey
PBAT: The Participation Banks Association of Turkey	THY: Turkish Airlines Company
PETKİM: Turkish Petrochemical Co.	TİGEM: General Directorate of Agricultural Enterprises
PİGM: Directorate General of Petroleum Affairs	TİKA: Turkish International Cooperation and Development Agency
PMUM: Financial Balancing and Settlement System	TİM: Turkish Chamber of Exporters
PRETAS: Protocol on Preferential Tariff Scheme	TİSK: Turkish Confederation of Employer Associations
PTT: Telecom and Postal Services co.	TKİ: Turkish Lignite Company
RISCAM: Regional Institution for Standardization, Conformity Assessment, Accreditation, and Meteorology	TMO: General Directorate of Turkish Grain Board
RTÜK: Radio and Television Supreme Council	TNSA: Population and Health Survey of Turkey
SAN-TEZ: Industry Thesis	TOBB: Chambers and Commodity Exchanges of Turkey
SDIF: Saving Deposit Insurance Fund	TOKİ: Housing Development Administration of Turkey
SEE: State Economic Enterprise	TÖMER: Turkish and Foreign Language Research and Application Center
SFDA: Super Foreign Exchange Deposit Account	TPAO: Turkish Petroleum Company
SGK: Social Security Agency	
SHÇEK: Social Services and Child Care Institution	
SMEs: Small and Medium Enterprises	

TPIC: Turkish Petroleum International Company	TÜLOMSAŞ: Turkish Locomotive and Engine Inc.
TPPD: Petroleum Distribution Company	TÜPRAŞ: Turkish Petroleum Refineries Corporation
TPSOIC: Trade Preferential System among the OIC Member Countries	TÜRKLİM: Port Operators Association of Turkey
TRT: Turkish Radio TV	TÜRSAT: Satellite Communication and Cable TV Company
TRUP: Agricultural Reform Implementation Project	TÜSİAD: Turkish Industrialists' and Businessmen's Association
TSA: Turkish Sugar Authority	TÜVASAŞ: Turkish Wagon Industry Corporation
TSE: Turkish Standards Institution	TZOB: Union of Turkish Chambers of Agriculture
TSPAKB: The Association of Capital Market Intermediary Institutions of Turkey	UCTE: Union for Coordination of Transmission of Electricity
TTB: Turkish Medical Association	UFT: Undersecretariat for Foreign Trade
TTFA: ECO Framework Agreement of Transit Transportation	UMA: Undersecretariat of Maritime Affairs
TTGV: Technology Development Foundation of Turkey	UNDP: United Nations Development Programme
TTK: Turkish Coal Institution	UT: Undersecretariat of Treasury
TURKAK: Turkish Accreditation Agency	VHS: Vocational High School
TURKKONFED: Turkish Enterprise and Business Confederations	WHO: World Health Organization
TURKSTAT: Turkish Statistical Institute	YOIKK: Coordination Committee of Investment Climate Reform
TÜRMOB: Union of Chambers of Certified Public Accountants of Turkey	YÖK: The Council of Higher Education
TÜBA: The Turkish Academy of Sciences	YTL: New Turkish Lira
TÜBİTAK: The Scientific and Technological Research Council of Turkey	YURTKUR: General Directorate of Higher Education Credit and Hostels Institution
TÜDEMSAŞ: Turkish Railway Machines Industry Inc.	

INTRODUCTION

2009 Annual Programme, compatible with the Ninth Development Plan and Medium Term Programme (2009-2011) which is prepared for three years perspective, is a policy document that both analyze the current status and modify the macroeconomic, sectoral and regional policies, goals, targets and priorities for one year period and nestle the measures of public sector within this direction.

The way and rate of global financial and economic developments affect the national economies in different types has changed. As a reaction to this change, the policies and applications of the countries trigger the potential of systematic fluctuation and shock creation of economies. The international enforcements propose the eclectic approach in policy measures and priorities towards fluctuations and shocks. Both the approaches compatible with the market economy understanding and the decisions not appropriate with the market economy are put in together.

In Turkey, the process of annual programme and budget start with the acceptance of medium term programme at the end of May by the Council of Ministers. National budget forecast report and central government budget draft law is submitted to Turkish Grand National Assembly 75 days before the fiscal year. Because of this, while the macroeconomic aggregates is prepared, the current data of September and October are used both in global and national scale. In this frame, while composing the indicators and targets of the 2009 Annual Programme, by preserving long-term perspective, the presumptive effects of the global fluctuation, which has stemmed from the developed countries' financial markets and expanded towards their real sector, on our economy have taken into consideration. In the light

of the needs of Turkish economy and the restrictions of the global conjuncture, the required preferences and priorities related with the inflation-growth and employment has been set in the Programme. However, globally scaled rapid developments and ambiguities affect the currency of some data and assumptions.

In the application process of 2009 Annual Programme, in realization of administrative and legal arrangements, ministries and other public institutions take into consideration the programme's priority and objective in their decision making and application process. In order to synchronize the application process of ministries and public institutions with the plans and programmes and to reshape the precautions that minimize the effects of the global crisis; the legal and functional infrastructure of "Economy Coordination Board" (ECB) is strengthened.

2009 Annual Programme measures, as in the frame mentioned above; were constituted by considering the actions of public bodies that foresee in order to make real the targets of Ninth Development Plan, 60. Government Programme Action Plan and the Programme for Alignment with the EU Acquis as well as the proposals which were brought up in the ECB meetings by the sector agents.

As of 1 January 2009 all the monetary transactions will be done by Turkish Lira instead of New Turkish Lira, so that in 2009 Annual Programme Turkish Lira was used.

The realization of the measures in 2009 Annual Programme will be monitored and evaluated in the perspective of the related articles of the Decree of the Council of Ministers on the Implementation, Coordination and Supervision of 2009 Programme.

CHAPTER ONE

MACROECONOMIC GOALS AND POLICIES OF 2009 ANNUAL PROGRAMME

I. MACROECONOMIC GOALS

While minimizing possible negative effects of the global crisis on Turkish economy, which emerged in international financial markets and transmitted to the real production sectors, maintaining confidence and stability established in the economy, keeping economic growth at a reasonable level, continuing the persistent disinflation policies, differentiating financing sources of the current account deficit, and achieving fiscal goals given in 2009-2011 Medium Term Programme by sustaining fiscal discipline under a well-defined fiscal structure, are basic macroeconomic goals of the 2009 Annual Programme.

II. MACROECONOMIC POLICIES

A. GROWTH AND EMPLOYMENT

1. In a period in which global growth rate was slowdown, so as to keep on our growth rate close to its potential level, an economic environment that aims at maintaining macroeconomic stability, fostering private sector investments, improving investment environment and sustaining the upward trend of export will be ensured.
2. Sustainable growth environment would be strengthened by following the institutional and structural reforms phase that will enhance economic competitiveness and capacity to face external shocks, rationalize the labour market and increase the quality of the labour force.
3. The production and employment potentials are evaluated effectively throughout the sources that are allocated to public investments, mainly to Southeastern Anatolia Project.
4. The necessary measures related to access to finance would be taken in financial markets and about tax issues.

5. Through elimination of uncertainties stemming particularly from public sector policies, a foreseeable business environment which favors enterprises to pursue long-term decision making practice would be created.

B. MONETARY POLICY AND PRICE

STABILITY

1. The monetary policy will be implemented in 2009 based on the principles of inflation targeting regime.
2. Central Bank would keep on using short term interest rates as the main monetary policy tool. Besides, supportive tools such as required reserve ratios or effective liquidity management would be used when necessary.
3. 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.
4. For the following period, Central Bank would continue to focus on medium term inflation outlook and set the monetary policy decisions in line with this outlook.
5. 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.
6. Central Bank will continue to implement a floating exchange rate regime in 2009. In this framework, the FX rate will be determined by supply and demand conditions in the foreign currency market, and Central Bank will not set any target for FX rates.

7. Central Bank may directly intervene in the market via FX buying intervention or FX selling interventions in the event of actual or potential excessive volatilities.

C. BALANCE OF PAYMENTS

1. Necessary arrangements will be made and new programs will be introduced in current support systems in compliance with WTO and EU obligations, to ensure the transformation of exports into a structure where high value-added, capital and knowledge intensive and high technology sectors have a predominant share.
2. Policies to increase value added in the traditional export sectors will be followed. In this context, current supports related to design, brand management, marketing and promotion will be diversified and enhanced.
3. Measures will be taken to maintain our share in EU market, which is our biggest trade partner and affected negatively by the financial crisis to a considerable extent, and to increase our exports to oil exporting countries and countries less affected by the crises.
4. By product differentiation, support systems will be formed in order to develop competitive, high value added and new technology featuring products and direct them towards exports.
5. For the purpose of developing exports within the context of bilateral and multilateral trade relations, mechanisms will be developed to ensure the coordination among public and private sector and NGOs and to improve opportunities for exporters to enter markets.
6. In order to eliminate trade barriers, technical cooperation agreements signed with third countries will be made effective. Besides, studies will be carried out in order to sign parallel agreements with those countries that EU has signed agreements regarding mutual recognition of conformity evaluation results and EFTA countries.
7. In medium term, mechanisms will be developed for domestic production of imported inputs, with the purpose of decreasing import dependency of domestic production on imports.
8. The process of alignment with the EU acquis, which is Turkey's obligation under

the Customs Union, will be accelerated; the administrative, technical and physical infrastructure necessary for the effective implementation of the aligned legislation will be completed; controls at importing stage and market surveillance and supervision stages will be made effective.

9. Studies towards the improvement of investment environment will continue.

D. FISCAL POLICY

1. In order to maintain macroeconomic stability fiscal, monetary and income policies will be continued harmoniously.
2. Efforts will be accomplished in order to provide the fiscal rules with a certain legal base.
3. Public sector primary surplus will be determined in a way to ensure medium term fiscal targets.
4. Necessary measures will be taken in order to enhance fiscal transparency.
5. Administrative and technical capacity will be strengthened in the field of fiscal management, internal control and internal audit in order to enhance the consciousness on fiscal responsibility.
6. Impact analysis on regulations that will create fiscal implications will be done not only on their short-term effects but also the medium and long-term effects.
7. Measures will be taken if necessary in order to reduce the effects of global financial crisis at the budget implementation process.
8. Wages and salaries in public sector will be determined in line with the target inflation rate.
9. The limitations regarding the employment of new personnel in public sector will be continued.
10. Measures will be continued in order to control the fiscal cost stem from medicine and treatment expenditures.
11. Fixed taxes and fees will be updated through general economic conditions.
12. Efforts will be continued to strengthen the audit and implementation capacity of revenue administration.

13. Appropriateness, effectiveness and productivity in public expenditures with alternative cost will be taken into account.
14. Borrowing instruments will be diversified in line with different investor preferences.
15. Meeting the public financing requirements under a reasonable risk level, holding adequate reserves in order to mitigate medium and long term risks and ensuring the transparency are the main principals as regard to the debt management.
16. Regulations will be put into effect in order to increase own revenues of local governments.

E. PUBLIC INVESTMENTS

1. The efforts targeting efficient use of the current capital stock and effective, productive and punctual realization of public sector investments would be sustained.
2. Infrastructure investments in education, health, technological research, transportation, drinking water and improvement of communication and information technologies would be assigned priority. In this frame, İstanbul IT Valley Project has of special significance.
3. Public sector investments focusing on renewable energy and strengthening agricultural infrastructure would be used at especially South Eastern Anatolian Project, Eastern Anatolian Project, Konya Plain Project and on the other regions as an efficient policy instrument on regional development and social improvement and reducing the inter-regional development disparities.
4. The investments, which are essential to implement the policies and priorities set forth for the EU membership, will be accelerated.
5. Models that encourage private sector participation in public infrastructure investments will be implemented.
6. The proposals of and the decisions on public investments will be based on sectoral research covering problem and result-oriented analyses, and qualified feasibility analysis and studies.

F. SEEs AND SOCIAL SECURITY

1. The State Economic Enterprises (SEEs) in the privatization portfolio will be privatized under a certain schedule and strategy; yet before the privatization of those enterprises and the ones that are not in the privatization portfolio will be operated in accordance with efficiency principles.
2. A comprehension of accountability, transparency, flexibility in decision processes and strategic management will be essential at SEEs.
3. In order to attain the foreseen targets of the general investment and financing decrees, all corporate policies of SEEs, especially the issue of pricing, will be determined in line with the market conditions and implemented effectively.
4. SEEs will follow financial policies that increase their efficiency 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. 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.
6. Operating units of SEEs that incur losses will be resolved by taking their functions into account.
7. Implementation of measures aiming to reduce idle employment in SEEs will continue; however, measures will be taken to meet their needs for qualified personnel.
8. In determining the price of energy inputs, that has adverse effects on manufacturing costs, a policy in favor of industrial users will be followed.
9. In order to maintain the financial sustainability of the universal health insurance system, health expenditures will be taken under control
10. Family medicine system will be implemented in accordance with compulsory referral chain.

TABLE: I. 1- Main Economic Aggregates

GROWTH AND EMPLOYMENT (Percentage Change)	2003	2004	2005	2006 ⁽¹⁾	2007	2008 ⁽²⁾	2009 ⁽³⁾
Total Consumption	8,3	10,3	7,2	5,1	4,4	3,6	3,4
Public	-2,6	6,0	2,5	8,4	6,5	4,2	2,1
Private	10,2	11,0	7,9	4,6	4,1	3,5	3,5
Total Fixed Capital Investment	14,2	28,4	17,4	13,3	5,5	4,3	5,0
Public	-15,1	-6,6	25,0	2,6	7,3	2,8	1,6
Private	23,7	36,1	16,2	15,0	5,2	4,5	5,6
Change in Stocks ⁽⁴⁾	-0,4	-1,9	0,1	-0,1	1,0	0,5	0,3
Total Exports of Goods and Services	6,9	11,2	7,9	6,6	7,3	6,2	6,9
Total Imports of Goods and Services	23,5	20,8	12,2	6,9	10,7	6,7	6,5
GDP	5,3	9,4	8,4	6,9	4,6	4,0	4,0
GDP (Million TL, Current Prices)	454 781	559 033	648 932	758 391	853 636	994 315	1 111 438
GDP (Billion USD, Current Prices)	304,1	392,9	483,9	530,6	655,9	801,9	788,4
Per Capita National Income (GDP, USD)	4 531	5 779	7 027	7 609	9 305	11 228	10 913
Per Capita National Income (PPP, GDP, USD)	8 767	10 137	10 852	11 588	13 023	13 998	14 761
Population (Thousand Person)	67 123	68 000	68 867	69 732	70 586	71 419	72 240
Labour Force Participation Rate (Percent)	48,3	48,7	48,3	48,0	47,8	48,0	48,0
Civilian Employment (Thousand Person)	21 147	21 791	22 046	20 954	21 189	21 429	21 669
Unemployment Rate (Percent)	10,5	10,3	10,3	9,9	9,9	10,3	10,4
FOREIGN TRADE (Billion USD)							
Exports (FOB)	47,3	63,2	73,5	85,5	107,3	137,5	149,0
Imports (CIF) ⁽⁵⁾	69,3	97,5	116,8	139,6	170,1	218,0	232,5
Foreign Trade Balance	-22,0	-34,3	-43,3	-54,1	-62,8	-80,5	-83,5
Current Account Balance / GDP (Percent)	-2,5	-3,7	-4,6	-6,1	-5,7	-6,4	-6,4
Trade Volume / GDP (Percent)	38,2	41,2	39,5	42,8	42,3	44,3	48,4
PUBLIC FINANCE (Percent)							
General Government Revenues ⁽⁶⁾ / GDP	31,6	31,5	32,9	34,7	33,1	32,4	33,6
General Government Expenditures ⁽⁶⁾ / GDP	39,5	35,6	32,8	33,2	33,3	33,2	34,0
General Government Borrowing Requirement ⁽⁶⁾ /GDP	7,9	4,1	-0,2	-1,5	0,2	0,7	0,3
General Government Interest Expenditures ⁽⁶⁾ /GDP	13,3	10,4	7,2	6,1	5,8	5,7	5,4
Public Sector Borrowing Requirement ⁽⁷⁾ / GDP	7,3	3,6	-0,3	-2,0	0,1	0,8	0,0
Gross Public Debt Stock / GDP	5,2	5,4	4,8	4,9	3,0	2,7	3,0
Net Public Debt Stock / GDP	65,4	59,5	54,1	48,2	41,6	39,0	37,2
PRICES (Percent Change)	55,1	49,0	41,6	34,0	29,1	25,9	24,5
GNP Deflator							
CPI Year End	23,3	12,4	7,1	9,3	7,6	12,0	7,5

(1) From November 2006, the results of the household labour force survey will be disseminated according to the total population obtained from the Address Based Population Registration (ABPRS). The large differences between the previous periods results from this.

(2) Realisation Estimate

(3) Programme Target

(4) Given as percentage contribution to growth.

(5) Since 2001 non-monetary gold imports are included.

(6) Consolidated budget (2001 - 2005) / Central government budget (2006, 2007), include local administrations, annexed budget agencies, unemployment insurance fund, social security institutions, revolving funds and extra-budgetary funds, and universal health insurance scheme.

(7) Includes general government and SEEs.

CHAPTER TWO

MACROECONOMIC DEVELOPMENTS AND TARGETS

I. DEVELOPMENTS IN THE WORLD ECONOMY

World economy has been through a long lasting growth period. Starting from 2003, the growth rates increased further and reached 5.1 percent in 2006, and 5 percent in 2007. In the mentioned years, growth rates have been recorded as 3 percent and 2.6 percent in developed countries, and historical maximum levels of 7.8 percent and 8 percent in emerging and developing countries. World trade has increased by 9.4 percent and 7 percent in respective years. According to UNCTAD statistics, one of the most significant items of the growth process, the foreign direct investments, reached level of USD 1.9 trillion in 2007, recording an increase of 30 percent. New and big mergers increased the market share and power of big multinational companies.

In this period, the position of emerging and developing countries in the world economy improved, both at aggregate level and to some extent at company level, their incomes and growth capacities recorded significant increases. China's position as a global economic actor became more significant. India and Brazil also showed significant achievement in this aspect. Within this context, the share of Brazil, China and India in world GDP has reached the level of 2.2, 5.5 and 1.8 percent, respectively in 2006, which were 2, 3.7 and 1.5 percent in 2000.

The most effective driving forces of this high growth period in world economy have been scientific and technologic development and globalization of economies. Within this environment, the economies and companies which recorded faster progress in transforming to knowledge based economy, both in economic and social issues, also recorded better overall performance and made better progress in transformation process. At the same time, it is observed that, the countries which completed structural reforms, decreased systemic fragilities, strengthened main internal and external balances, banking sector and international reserves, according to the lessons learned from 1997-1998 Asia and Russia crises, have been more successful in this period. Additionally, the countries like Russia and Middle

East countries benefited from the high increases in the prices of energy raw materials and increased their incomes significantly.

The rises in energy prices, and rises in food prices resulting from the global drought and increased demand for bio-fuels, had an upward pressure on inflation after 2007.

Emerging and developing economies in general, recorded progress in terms of convergence to the developed economies in this growth cycle, but at the same time the difference between others and especially the poorest in Africa and South Asia increased, and the domestic inequality increased in most of the economies, including the developed ones.

Long living policies of lower credit costs in some major developed economies, global excess liquidity and increased risk appetite have been significant facts in this growth cycle of world economy. Returns in the financial sector increased much faster than the other sectors, especially in the developed economies.

First signs of the problems and bottlenecks in the financial sector appeared in mid-2007, and these turned to a big crisis in 2008. Main reasons of the crisis include various but several interrelated factors such as; expansion of the mortgage lending to a big population with low purchasing power in USA housing market; in addition to this, creation of abnormal quantities of financial resources by using the collaterals related with mortgage payments as supporting assets, which became virtual after some point; increase of the complex derivative securities such as the ones mentioned above and other types; inappropriate risk management; the big amounts of investments made by hedge funds without reserving necessary collaterals; these things becoming common for most of the financial sector; lack of regulation and insufficiency of control in this area; insufficiency of international regulation and supervision mechanisms; delay in taking counteractive measures and moral hazard.

In 2008, initially only a couple, but starting from September many of the major banks and financial institutions in the developed economies, either became

bankrupt or faced big financial trouble. After the burst of the crisis, commercial lending activities ceased, world credit markets were stopped. Stock markets recorded big losses all around the world.

Factors such as it's stemming from the financial sector, its global character, the size, speed and unexpected spread and its different character compared to the previous crises are among the most significant properties of this crisis.

Facing the crisis, starting from the developed economies, a series of radical measures, extensively depending on public resources, were taken. Amounting to a couple of trillion dollars, these measures include injection of big amounts of liquidity and capital to banks; purchasing of bank stocks; providing guarantee for deposits and credits; purchasing of certain liabilities; public funded mergers among big companies; support to the part of troubled companies; coordinated interest rate cuts by central banks; a coordinated approach within EU in financial issues; banning of short selling of financial instruments for a period and consumer support packages. A big majority of financial institutions in developed economies are under temporary public control. This situation and most of the measures undertaken have attained an unprecedented level.

Initially the crisis affected the developed economies only, but afterwards it also spread into developing economies. Countries like China and India are also affected, though to a comparatively lesser extent. Several emerging and developing economies, especially those with fragilities in their macroeconomic balances, financial sectors and poor foreign credit opportunities are facing serious difficulties in the wake of the crisis. A series of emerging economies have signed agreements with IMF and started financial support processes. As of October 2008, extensive agreements were decided to be signed between IMF and Iceland, a small developed economy at insolvent position, Ukraine, which is another emerging economy, and Hungary, an EU member and an emerging economy

The crisis has also started to spread on to the real sector and the scale of this spread will significantly affect the future development perspective of the world economy.

Though the extensive measures taken have not created significant changes except initial decrease in LIBOR rates and slight increases in corporate credits until now, the effects are expected to appear in the near future.

In addition to these measures, a restructuring of the financial system at global level, in which China and India and countries like Brazil and Turkey, i.e. developing countries in general in addition to the G-20's should be significantly effective, is needed. At the same time, this restructuring should also include establishment of healthy and strong regulatory and supervisory mechanisms at global level.

The analyses of the effects of crisis show that the adverse effects will be felt strongly and extensively for a while. However, the cooperative approach of countries that are willing to stimulate their economies, which demonstrate effective resource management without destabilizing their financial balances and without a panic approach, and demonstrate dense and extensive international coordination, can limit the size and timeframe of these adverse effects. The growth path until 2008 has created big new capacities and experience accumulation in the world economy with the help of developments contributed by knowledge economies. A global level restructuring with participation from all countries, even at a limited extent, will form mechanisms through restructuring existing bodies and establishing new bodies as needed, and these mechanisms will mobilize the established capacities, will help overcoming of the crisis and start a new, healthier and sustainable growth period. If progress can be achieved in the measures taken and restructuring issues, it is expected that crisis will end, and a new growth period will start within one and a half to two years

Table II.1- Indicators Regarding to Recent Developments

Financial Markets Indicators (1)			
	Dec. 31st, 2007	October 22nd, 2008	Percentage Change
USA - Dow Jones Industrial Average	13 270	8 519	-35,8
Germany - DAX	8 062	4 571	-43,3
UK - FTSE 100	6 455	4 041	-37,4
France - CAC 40	5 619	3 298	-41,3
Japan - NIKKEI 225	15 299	8 675	-43,3
Brazil - Bovespa	63 878	35 069	-45,1
China - SSEA	5 516	1 991	-63,9
Russia - RTS	2 094	666	-68,2
Malaysia - KLSE	1 445	904	-37,4
Singapore -STI	3 469	1 821	-47,5
Turkey - İMKB-100	55 538	25 624	-53,9
LIBOR, 3 Months US dollar, percent	4,7	3,8	-0,9
Risk Premium (Spread) (2)	1,5	2,5	1,0
Changes in World Growth and Interest Rates Forecasts (3)			
	Oct. 2007 Forecast	Oct. 2008 Forecast	Difference
World Economic Growth, Percent			
2007	5,2	5,0	-0,2
2008	4,8	3,9	-0,9
2009	-	3,0	-
Developed Countries' Growth, Percent			
2007	2,5	2,6	0,1
2008	2,2	1,5	-0,7
2009	-	0,5	-
Developing Countries' Growth, Percent			
2007	8,1	8,0	-0,1
2008	7,4	6,9	-0,5
2009	-	6,1	-

(1) Source: The Economist.

(2) Difference between three months LIBOR rate and interest rate on 3 months US Treasury bills

(3) Source: IMF World Economic Outlook, October 2008

According to the last interim forecasts of OECD, growth rates are estimated to be 1.5 in total of OECD countries, 1.5 in the US, 1.1 in Euro Area and 0.6 in Japan. Growth forecasts are 0.2, -0.3, 0 and 0.2 consecutively for the same countries for 2009. According to these forecasts, OECD economies will grow 2 percent and economic recovery will start in 2010.

According to the OECD interim forecasts, world trade will grow 5.1 percent in 2008 and 3.9 percent in 2009. For non-OECD Asian countries, these rates will

be 7.2 and 7.1 percent respectively. Previous UNCTAD forecasts were indicating FDI to reach a total of 1.6 trillion dollars in 2008, but due to the heavy crisis, the realization is expected to be much lower than that.

According to the most recent developments and analyses, world growth is expected to be significantly lower than the most recent IMF forecast of 3 percent for 2009. Especially in certain big developed economies, it is also possible to observe growth rates lower than those foreseen in the last interim forecasts of OECD.

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Observing -1.5 percent growth rate in the US and -1 percent in Euro Area will not be surprising. Accordingly, unemployment rate in OECD countries is expected to be higher than those of the OECD's most recent interim forecasts which are 5.9 percent and 6.7 percent for 2008 and 2009, respectively. Due to the decrease in aggregate demand and decreasing energy prices, inflation rate is not expected to be higher than the

OECD forecasts of 3.3 percent and 2.1 percent in 2008 and 2009 respectively, though it should be taken into consideration that the effects of liquidity increasing measures will become visible. In the IMF's World Economic Outlook report in October 2008, growth and other forecasts look optimistic in general, and some of these should be viewed as the maximums those could be achieved in a best case scenario

Table II.2- Main Indicators of the World Economy

(Percentage Changes)

	2006	2007	2008 (1)	2009 (1)
World Output	5,1	5,0	3,9	3,0
Developed Countries	3,0	2,6	1,5	0,5
USA	2,8	2,0	1,6	0,1
Japan	2,4	2,1	0,7	0,5
Euro Area	2,8	2,6	1,3	0,2
Germany	3,0	2,5	1,8	0,0
Developing Countries	7,9	8,0	6,9	6,1
Africa	6,1	6,3	5,9	6,0
Central and Eastern Europe	6,7	5,7	4,5	3,4
CIS - Commonwealth of Indep. States	8,2	8,6	7,2	5,7
Asia	9,9	10,0	8,4	7,7
Latin America	5,5	5,6	4,6	3,2
Middle East	5,7	5,9	6,4	5,9
World Trade Volume	9,3	7,2	4,9	4,1
Goods and Services Imports				
Developed Countries	7,5	4,5	1,9	1,1
Developing Countries	14,7	14,2	11,7	10,5
Consumer Prices				
Developed Countries	2,4	2,2	3,6	2,0
Euro Area	2,2	2,1	3,5	1,9
Developing Countries	5,4	6,4	9,4	7,8
Unemployment Rate (Percent)				
Developed Countries	5,7	5,4	5,7	6,5
Euro Area	8,7	7,4	7,6	8,3
LIBOR, Six months US dollar, Percent	5,3	5,3	3,2	3,1

Source: IMF, World Economic Outlook, October 2008.

(1) Forecast

II. DEVELOPMENTS AND TARGETS IN TURKISH ECONOMY

A. GROWTH AND EMPLOYMENT

1. GDP and Sectoral Growth Rates

a) Current Outlook

In 2007, Gross Domestic Product (GDP) increased by 4.6 percent. In this period; while agricultural value

added decreased by 6.9 percent, growth rates of industrial and services value added were realized as 5.8 and 6 percent, respectively. In the same year, value added increases in manufacturing, mining and energy which are forming industry sector, were realized as 5.6 percent, 8.1 percent and 6.8 percent, respectively. Value added in services sector increased by 6 percent due to 9.8 percent increase in value added of financial intermediation and 6.9 percent increase in value added of transport, storage and communication, which have quite high shares in services sector

TABLE: II. 3- Growth Rates of Value Added and Sectoral Shares in GDP

	Quarters						Annual			
	2007				2008					
	I.	II.	III.	IV.	I.	II.	2006	2007	2008(1)	2009(2)
(Constant Prices, Percentage Change)										
Agriculture	-4,4	-1,0	-8,2	-10,2	2,7	-3,1	1,4	-6,9	4,9	3,6
Industry	10,1	4,6	5,0	4,1	7,2	2,8	8,3	5,8	3,9	3,9
Services	8,2	4,6	5,8	5,5	6,7	2,1	7,2	6,0	4,0	4,2
GDP	8,1	4,1	3,3	3,6	6,7	1,9	6,9	4,6	4,0	4,0
(Current Prices. Percentage Share)										
Agriculture	3,7	6,2	12,6	6,7	3,6	6,2	8,3	7,5	7,6	7,5
Industry	20,6	20,2	18,8	19,7	19,6	20,5	20,1	19,8	19,7	20,0
Services	75,7	73,6	68,6	73,6	76,8	73,3	71,6	72,7	72,7	72,6
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

In the first half of 2008, GDP growth rate realized as 4.2 percent. While the GDP growth rate realized as 6.7 percent in the first quarter of the year, the growth rate slowed down substantially and realised as 1.9 percent in the second quarter. Thus, in the first half of the year; while agricultural value added declined by 1.1

percent, industrial and services valued added increased by 4.9 and 4.4 percent, respectively. Decrease in the agricultural value added mainly stemmed from drought in the South East Anatolia in the second quarter. In fact, rain fall around the country was below that of the same period of 2007.

TABLE: II. 4- Per Capita GDP

Years	End- Year Population (1) (Thousand Person)	(Current Prices)			(1998 Prices)			Purchasing Power Parity (PPP) (USD/TL) (3)	PPP Per Capita GDP (USD)
		GDP (Million TL)	Per Capita GDP		GDP (Million TL)	Per Capita GDP			
			TL	USD (2)		TL	USD (2)		
1998	62 618	70 203	1 121	4 311	70 203	1 121	4 311	0,131097	8 552
1999	63 532	104 596	1 646	3 943	67 841	1 068	4 106	0,202023	8 149
2000	64 441	166 658	2 586	4 146	72 436	1 124	4 323	0,283153	9 134
2001	65 342	240 224	3 676	3 006	68 309	1 045	4 020	0,427939	8 591
2002	66 237	350 476	5 291	3 517	72 520	1 095	4 210	0,61262	8 637
2003	67 123	454 781	6 775	4 531	76 338	1 137	4 374	0,772811	8 767
2004	68 000	559 033	8 221	5 779	83 486	1 228	4 721	0,811015	10 137
2005	68 867	648 932	9 423	7 027	90 500	1 314	5 054	0,868338	10 852
2006	69 732	758 391	10 876	7 609	96 738	1 387	5 335	0,938553	11 588
2007	70 586	853 636	12 094	9 305	101 208	1 434	5 514	0,928647	13 023
2008(4)	71 419	994 315	13 922	11 228	105 257	1 474	5 668	0,994581	13 998
2009(5)	72 240	1 111 438	15 385	10 913	109 467	1 515	5 827	1,042321	14 761

Source: TURKSTAT, OECD, SPO

(1) TURKSTAT estimation of end-year.

(2) Calculated by using Central Bank foreign currency purchase rate.

(3) Purchasing Power Parity calculated for GDP by the OECD.

(4) SPO estimation.

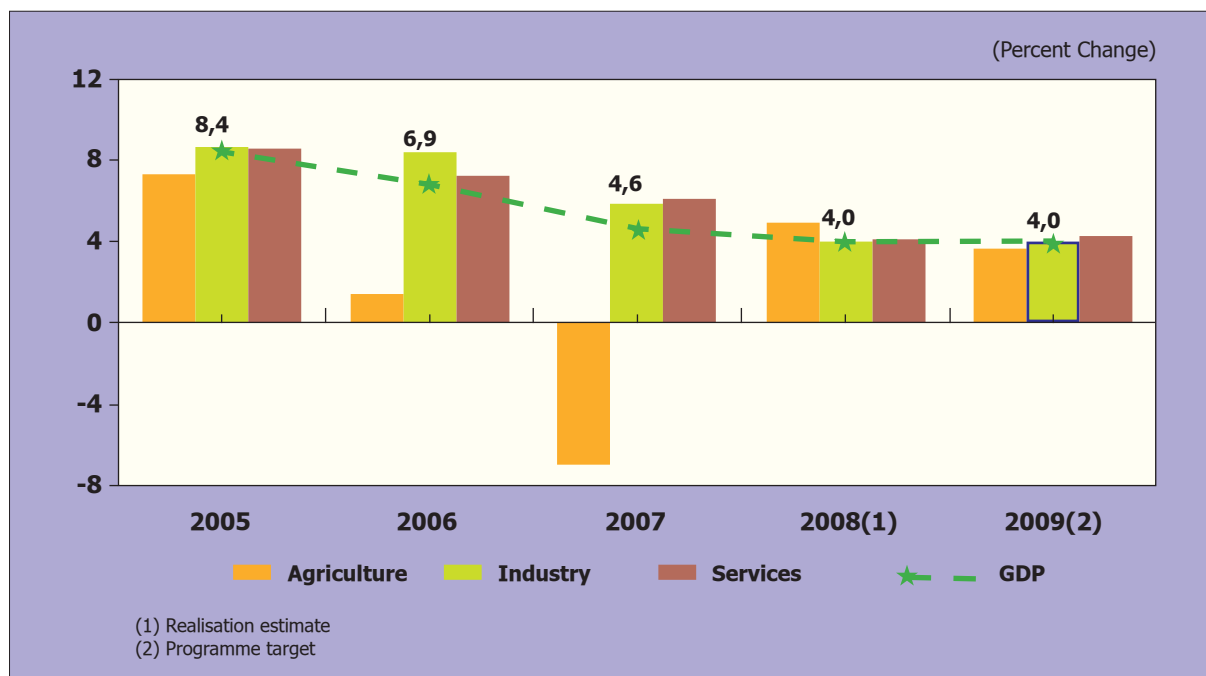
(5) Programme target.

Industrial production, in January-August period of 2008 increased by 3.6 percent compared to the same period of the previous year. Capacity utilization ratio of manufacturing industry decreased by 1.2 percentage points in the January-September period of 2008 compared to the same period of 2007, and realized as 80.4 percent.

b) Targets for the Year 2009

The Turkish economy has grown permanently since the first quarter of 2002. Hence, for the

period 2002-2007, Annual average of GDP has increased in real terms by 6.8 percent. The growth rate of GDP, which is expected to be 4 percent for 2008, will continue to be at this rate in 2009, as well. It was assumed that the effects of the global crisis on Turkey would be limited, despite this would depend on dimension and duration of the crisis. However, the required initiatives will be employed towards downward risks stemmed from global crisis, which has deepened more in the last period.

GRAPH:1-Sectoral Growth Rates (Constant Prices)


In 2009, the growth rate of agricultural value added is expected to be 3.6 percent, which is above long term annual average due to basis effect of 2008 stemmed from partially drought that prevailed in 2008.

It is expected that industrial value added will be 3.9 percent in 2009. At high rate increases in imports of intermediate and investment goods in recent years and performances of exports oriented sectors will support industrial growth. In addition to these developments, productivity increases will also support keeping the increase in industrial production

It is expected that the value added of services sector will increase by 4.2 percent, in 2009. With relative increases in domestic demand, expected gradual increases in trade, transportation and construction sectors will support this target.

However, the transmission of global financial crisis to the real economies reduced the growth rate estimates around the world will affect our export performance negatively. Furthermore, in this environment, quantity and cost pressures on external finance facilities will lead to problems for private sector credit accesses. These are considered as realizable risks in growth target of 2009.

2. Employment

a) Current Outlook

During 2002-2007 period, economy grew by 6.8 percent on the average annually. From November 2006, the results of the household labour force survey were disseminated according to the total population obtained from the Address Based Population Registration System (ABPRS). Consequently, the annual average increase in the employment can not be calculated for the period 2002-2007. According to the old series, the annual average increase is 0.7 percent for 2002-2006 period. The sluggish increase in employment is mainly because of the decrease in the rural employment. In this context, average annual employment increased by 3.9 percent in non-agricultural sectors.

In parallel to the transformation that Turkish economy is undergoing, during the 2002-2006 period the cumulative expansion of employment was realized 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 2007, while employment increased by 235 thousand people, compared to the 2006, and realized as 21,189 thousand, unemployment rate realized as 9.9 percent. The 0.2 point decrease in the labour force participation rate, realised as 47.8 percent, was effective in this progress.

TABLE: II. 5- Developments in the Labour Market as of Years

(Age 15+, Thousand Person)

	2003	2004	2005	2006(*)	2007(*)
Working Age Population	48 912	49 906	50 826	48 485	49 215
Labour Force	23 640	24 289	24 565	23 250	23 523
Employment	21 147	21 791	22 046	20 954	21 189
Non-Agricultural Employment	13 982	14 391	15 553	15 241	15 589
Non-Unpaid Family Worker Employment	17 009	17 487	18 519	17 890	18 203
Agriculture	7 165	7 400	6 493	5 713	5 600
Industry	3 846	3 987	4 284	4 134	4 185
Services	10 136	10 404	11 269	11 106	11 404
Construction	965	1 030	1 173	1 189	1 224
Unemployed	2 493	2 498	2 520	2 295	2 333
Labour Force Participation Rate (Percent)	48,3	48,7	48,3	48,0	47,8
Employment Rate (Percent)	43,2	43,7	43,4	43,2	43,1
Unemployment Rate (Percent)	10,5	10,3	10,3	9,9	9,9
Non-Agricultural Unemployment Rate (Percent)	13,8	14,3	13,6	12,6	12,6
Youth Unemployment Rate (Percent)	20,5	19,7	19,3	18,7	19,6
Underemployed	1 143	995	817	835	742
Underemployment Rate (Percent)	4,8	4,1	3,3	3,6	3,2
Idle Labour Force Rate (Percent)	15,3	14,4	13,6	13,5	13,1

Source: TURKSTAT

() The numbers are revised according to the Address Based Population Registration System (ABPRS) in 2006

In 2007 agricultural employment shrunk by 2 percent while the employment in industry and services sectors expanded by 1.2 percent and 2.6 percent, respectively. Particularly, the rise of employment in the services sector was due to the 6.2 percent

increase in employment level of financial institutions sub-branch. In 2007 the shares within the total employment were 26.4 percent for agriculture, 19.8 percent for industry and 53.8 percent for services sectors.

TABLE: II. 6- Developments in the Urban and Rural Labour Market

(Age 15+, Thousand Person)

	Urban			Rural		
	2005	2006(*)	2007(*)	2005	2006(*)	2007(*)
Working Age Population	31 678	30 703	31 476	19 148	17 783	17 739
Labour Force	14 398	13 965	14 292	10 167	9 285	9 230
Employment	12 566	12 274	12 594	9 480	8 679	8 596
Agriculture	673	584	561	5 820	5 129	5 040
Industry	3 410	3 263	3 309	874	872	876
Services	8 483	8 427	8 724	2 786	2 678	2 680
Unemployed	1 832	1 691	1 699	687	605	634
Labour Force Participation Rate (Percent)	45,5	45,5	45,4	53,1	52,2	52,0
Employment Rate (Percent)	39,7	40,0	40,0	49,5	48,8	48,5
Unemployment Rate (Percent)	12,7	12,1	11,9	6,8	6,5	6,9
Underemployed	415	441	393	402	393	349
Underemployment Rate (Percent)	2,9	3,2	2,7	4,0	4,2	3,8
Idle Labour Force Rate (Percent)	15,6	15,3	14,6	10,8	10,7	10,7

Source: TURKSTAT

*The numbers are revised according to the Address Based Population Registration System (ABPRS) in 2006

In 2007, the recorded expansion of 1.1 percent in employment depends on the rise in urban employment, which is determined by the newly created job opportunities by the private sector. Besides, the decrease in the rural employment curb the total employment increase. In 2007, as a result of urban employment rose by 2.6 percent, unemployment in

cities realised to be 11.9 percent, with a decrease by 0.2 percentage point in the same period.

In 2007, 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.

TABLE: II. 7- Employment According to the Payment Condition (Age 15+, Thousand Person)

	2005		2006 (*)		2007	
	Number of People	Percent	Number of People	Percent	Number of People	Percent
Casual and Regular Employees	11 948	54,2	11 840	56,5	12 316	58,1
Self-Employed	6 570	29,8	6 050	28,9	5 887	27,8
Unpaid Family Workers	3 527	16,0	3 065	14,6	2 986	14,1
Total	22 046	100,0	20 955	100,0	21 189	100,0

Source: TURKSTAT

(*) From November 2006, the results of the household labour force survey will be disseminated according to the total population obtained from the ABPRS. The large differences between the previous periods results from this.

For the average of Turkey, the unemployment rate for the three month period of June, July and August of 2008 realised as 9.4 percent, with an increase by 0.6 percentage point, compared to the same period of the previous year. In the same period, non-agricultural unemployment rate, with a rise of 0.7 percentage

point, realised to be 12.3 percent while unemployment rate among young population, with a drop of 0.3 percentage point, realised to be 18.3 percent. The number of employed in the given period, increased by 373 thousand people.

TABLE: II. 8- Developments in the Labour Market as of July Months (1)

(Age 15+, Thousand Person)

	2006	2007(2)	2008
Working Age Population	51 701	49 263	50 015
Labour Force	25 508	24 400	24 975
Employment	23 257	22 249	22 622
Agriculture	6 854	6 375	6 297
Industry	4 413	4 163	4 374
Services	11 990	11 711	11 951
Construction	1 406	1 427	1 402
Unemployed	2 251	2 151	2 353
Labour Force Participation Rate (Percent)	49,3	49,5	49,9
Employment Rate (Percent)	45,0	45,2	45,2
Unemployment Rate (Percent)	8,8	8,8	9,4
Non-Agricultural Unemployment Rate (Percent)	11,7	11,6	12,3
Youth Unemployment Rate (Percent)	17,1	18,6	18,3
Underemployed	911	766	858
Underemployment Rate (Percent)	3,6	3,1	3,4
Idle Labour Force Rate (Percent)	12,4	11,9	12,8

Source: TURKSTAT

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

(2) From November 2006, the results of the household labour force survey will be disseminated according to the total population obtained from the ABPRS

In the 3-month period covering June, July and August 2008, the labour force participation rate increased in both men and women and realised to be 49.9 percent.

In the 3-month period covering June, July and August 2008, the agricultural employment dropped by 78 thousand people compared to the same period of the previous year. In the same period, increase in employment is 211 thousand in industry and 240 thousand in services sector.

In 2008, it is estimated that labour force participation rate realised as 48 percent and the unemployment rate realised as 9.7 percent.

b) Targets for the Year 2009

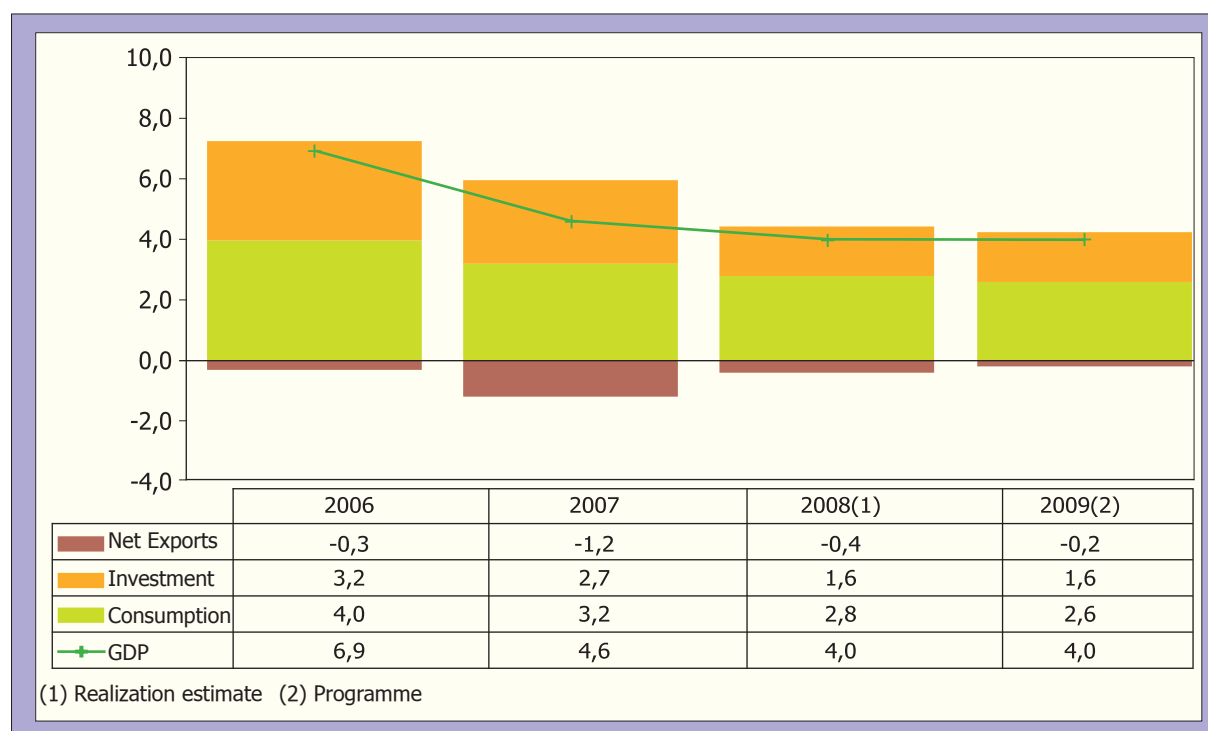
In parallel to the forecasted growth and buoyant investments in 2009, total employment is expected to increase by 240 thousand people whereas the unemployment rate is expected to be 10.4 percent.

3. General Balance of the Economy

a) Current Outlook

While total domestic demand increased by 5.6 percent in real terms in 2007, which contributed 5.9 percentage points to GDP growth, GDP grew by 4.6 percent due to the negative 1.2 percentage points contribution of foreign balance. In 2007 the growth rate of private consumption realized as 4 percent, which was in harmony with the slow down of total domestic demand. This development is attributable to the decline in the growth rate in some sub-sectors of private consumption expenditures such as clothing-footwear and recreation-culture as well as low growth rates realized in food and beverages, furniture-furnishings and transportation-communication sub-sectors. In 2007, while the growth rate of public sector fixed capital investment realized as 13 percent, private sector fixed capital investment increased by 5.2 percent.

GRAPH: 2- Contributions to GDP Growth



In 2008 total domestic demand is estimated to increase by 4.2 percent and GDP is estimated to grow by 4 percent owing to the negative 0.4 percentage point contribution by the foreign balance.

In 2008 total consumption is estimated to rise by 3.6 percent due to 3.5 percent increase in private

consumption and 4.2 percent rise in public consumption. In the same year, it is estimated that the share of public consumption within GDP in current prices, with a decline of 0.2 percentage point compared to the previous year, will reach a level of 9.6 percent while the share of private consumption, with a 0.4 percentage point rise, will realize as 73.8 percent.

In 2008, private fixed capital investment is expected to rise by 4.5 percent, which is the lowest level since 2002. In the same period, public fixed capital investment is expected to rise by 2.8 percent. In this regard, a 4.3 percent increase is expected in total fixed

capital investments in real terms and its share within GDP in current prices will become 21.6 percent, with a 0.3 percentage point decline compared to the previous year. In 2008, contribution of changes in stocks to GDP growth is estimated to realize as positive 0.5 points.

TABLE: II. 9- General Balance of the Economy (In Current Prices)

	2007	2008 (1)	2009 (2)	2007	2008 (1)	2009 (2)
	(Million TL)			(Shares in GDP)		
Total Consumption	709 698	829 063	925 135	83,1	83,4	83,2
Public	83 231	95 358	106 522	9,8	9,6	9,6
Private	626 467	733 704	818 613	73,4	73,8	73,7
Total Investment	187 451	222 523	250 276	22,0	22,4	22,5
Public	32 604	37 736	39 876	3,8	3,8	3,6
Private	154 847	184 787	210 400	18,1	18,6	18,9
Fixed Capital Investment	186 915	214 758	242 365	21,9	21,6	21,8
Public	32 534	37 125	40 796	3,8	3,7	3,7
Private	154 381	177 633	201 568	18,1	17,9	18,1
Change in Stocks	536	7 764	7 911	0,1	0,8	0,7
Public	70	611	-920	0,0	0,1	-0,1
Private	466	7 154	8 832	0,1	0,7	0,8
Total Domestic Demand (Total Resources)	897 150	1 051 585	1 175 411	105,1	105,8	105,8
Net Exports of Goods and Services	-43 513	-57 270	-63 973	-5,1	-5,8	-5,8
Exports of Goods and Services	188 225	225 696	278 111	22,0	22,7	25,0
Imports of Goods and Services	-231 738	-282 966	-342 084	-27,1	-28,5	-30,8
GROSS DOMESTIC PRODUCT (GDP)	853 636	994 315	1 111 438	100,0	100,0	100,0
Net Factor Incomes	-9 302	-10 267	-11 395	-1,1	-1,0	-1,0
Net Current Transfers	2 929	2 621	3 051	0,3	0,3	0,3
GROSS NATIONAL DISPOSABLE INCOME (GNDI)	847 263	986 669	1 103 094	99,3	99,2	99,2
PUBLIC DISPOSABLE INCOME	103 140	115 779	129 955	12,1	11,6	11,7
Public Consumption	83 231	95 358	106 522	9,8	9,6	9,6
Public Saving	19 909	20 420	23 434	2,3	2,1	2,1
Public Investment	32 604	37 736	39 876	3,8	3,8	3,6
Public Saving-Investment Difference	-12 695	-17 315	-16 442	-1,5	-1,7	-1,5
PRIVATE DISPOSABLE INCOME	744 124	870 891	973 138	87,2	87,6	87,6
Private Consumption	626 467	733 704	818 613	73,4	73,8	73,7
Private Saving	117 656	137 186	154 525	13,8	13,8	13,9
Private Investment	154 847	184 787	210 400	18,1	18,6	18,9
Private Saving-Investment Difference	-37 191	-47 600	-55 875	-4,4	-4,8	-5,0
<i>Memo Item:</i>						
Total Domestic Saving	137 565	157 607	177 959	16,1	15,9	16,0

Source: SPO
 (1) Realization Estimate
 (2) Programme Target

In 2008, the share of private disposable income in GDP is anticipated to increase to 87.6 percent while the share of private saving in GDP will stay at the previous year level. Private saving-investment difference, which had negative figures since 2005, is expected to realize as negative 4.8 percent of GDP. The share of public disposable income in GDP, which had an increasing trend since 2001 and reached 13.9 percent in 2006, is expected to decrease to 11.6 percent. In this development, main determinants would be the decrease in the shares of indirect tax and factor incomes in spite of an improvement in the social

funds. The share of public saving to GDP improved continuously over time, owing to the no serious change in the share of public consumption in this period although fluctuated from year to year, in parallel with the increase in public disposable income in GDP and turned positive in 2005. The share of public saving to GDP, which reached the peak level in 2006, started to decline after 2007 due to the declining trend of public disposable income. In this regard, the share of public saving-investment difference in GDP, which was negative 1.5 percent in 2007, is expected to realize as negative 1.7 percent in 2008

TABLE: II. 10- General Balance of the Economy (In 1998 Prices)

	2007	2008 (2)	2009 (3)	2007	2008 (2)	2009 (3)
	(Million TL)			(Percentage Change)		
Total Consumption	78 832	81 672	84 422	4,1	3,6	3,4
Public	7 597	7 918	8 085	5,4	4,2	2,1
Private	71 236	73 753	76 336	4,0	3,5	3,5
Total Investment	27 034	28 684	30 386	10,5	6,1	5,9
Public	4 267	4 432	4 370	15,5	3,9	-1,4
Private	22 767	24 251	26 015	9,6	6,5	7,3
Fixed Capital Investment	26 852	27 995	29 382	6,4	4,3	5,0
Public	4 260	4 378	4 447	13,0	2,8	1,6
Private	22 592	23 617	24 935	5,2	4,5	5,6
Change in Stocks	182	688	1 004	1,0	0,5	0,3
Public	7	54	-76	0,1	0,0	-0,1
Private	175	634	1 080	0,9	0,5	0,4
Total Domestic Demand (Total Resources)	105 866	110 355	114 807	5,6	4,2	4,0
Net Exports of Goods and Services	-4 658	-5 098	-5 341	-1,2	-0,4	-0,2
Exports of Goods and Services	25 275	26 844	28 692	7,3	6,2	6,9
Imports of Goods and Services	-29 933	-31 942	-34 033	10,7	6,7	6,5
GROSS DOMESTIC PRODUCT (GDP)	101 208	105 257	109 467	4,6	4,0	4,0
Net Factor Incomes	-1 292	-1 277	-1 218	-6,6	-1,2	-4,6
Net Current Transfers	378	296	304	7,1	-21,7	2,7
GROSS NATIONAL DISPOSABLE INCOME (GNDI)	100 294	104 276	108 553	4,8	4,0	4,1
PUBLIC DISPOSABLE INCOME	12 209	12 236	12 788	-8,9	0,2	4,5
Public Consumption	7 597	7 918	8 085	5,4	4,2	2,1
Public Saving	4 613	4 318	4 703	-25,4	-6,4	8,9
Public Investment	4 267	4 432	4 370	15,5	3,9	-1,4
Public Saving-Investment Difference	346	-115	333	
PRIVATE DISPOSABLE INCOME	88 086	92 039	95 763	7,0	4,5	4,0
Private Consumption	71 236	73 753	76 336	4,0	3,5	3,5
Private Saving	16 850	18 286	19 427	22,2	8,5	6,2
Private Investment	22 767	24 251	26 015	9,6	6,5	7,3
Private Saving-Investment Difference	-5 917	-5 965	-6 588	

Source: SPO

(1) Percentage changes indicate contribution to GDP growth

(2) Realization Estimate

(3) Programme Target

b) Targets for the Year 2009

In 2009, GDP growth is expected to realize as 4 percent, owing to 4.2 percent increase in total domestic demand and negative 0.2 percentage points contribution of foreign balance.

In 2009, private sector consumption expenditures and public sector consumption expenditures are expected to increase by 3.5 and 2.1 percent, respectively. In this year, private fixed capital investment is expected to grow by 5.6 percent while public sector fixed capital investment is expected to increase by 1.6 percent.

When the situation is analyzed in regards with contribution to growth, it is observed that private consumption contributes by 2.5, public consumption

by 0.2, private fixed capital investment by 1.3 and public sector fixed capital investment by 0.1 percentage points, respectively, to the GDP growth. In the same year, contribution of changes in stocks to GDP growth is expected to realize as positive 0.3 percentage points.

In 2009, the ratio of public disposable income to GDP is estimated to realize as 11.7 percent, with 0.1 point increase relative to previous year level. In 2009, public saving-investment balance is expected to realize as negative 1.5 percent, with a slightly improvement compared to 2007, owing to same level of the share of public saving in GDP compared to previous year. In 2009, the ratio of total domestic saving to GDP is estimated to stay at the previous year's level because the relative decline in public saving is expected to be offset by the rise in private saving.

Box: Gross National Disposable Income (GNDI)

Gross Domestic Production (GDP), which is the main concept of the national income accounting, is defined as the total value added produced within the borders of a country in a given period of time. However, since it includes only the total value added created in a country, GDP is not sufficient to comprehend the total income and well-beings of residents. While some of the value added created in the country is transferred to non-residents via profit transfers, interest and wage payments, residents also get some incomes from non-residents. These types of incomes are called as factor incomes in the balance of payments statistics. When factor incomes are added to GDP, Gross National Income (GNI) is obtained. On the other hand, there are some transfers between residents and non-residents which are unrelated with the use production factors. These kind of transfers are called as unrequited current transfers and are included in the balance of payments statistics as the last item of the current account balance. When unrequited current transfers are added to GNI, Gross National Disposable Income (GNDI) is obtained. GNDI denotes all income that can be used by residents and is used in the calculation of savings. When total consumption is subtracted from GNDI, total domestic savings is obtained.

In the new income series produced by TURKSTAT, the income concepts other than GDP are not calculated. In this context, GNDI was produced by SPO from balance of payments statistics to be able to constitute the general balance of Turkish economy.

$GDP = \text{Consumption Expenditures} + \text{Investment Expenditures} + \text{Exports of Goods and Services} - \text{Imports of Goods and Services}$

$GNI = GDP + \text{Net Factor Incomes from abroad}$

$\text{Net Factor Incomes from abroad} = \text{Factor incomes received from abroad by residents} - \text{factor incomes paid to nonresidents}$

$GNDI = GNI + \text{Net Current Transfers from abroad}$

$\text{Net Current Transfers from abroad} = \text{Current Transfers from abroad by residents} - \text{Current Transfers paid to nonresidents}$

The general balance of the economy, prepared by SPO to use in the development plans, medium term economic programs and annual programs, includes not only national income accounts by expenditure side but saving-investment balance of the economy. The general balance of the economy is prepared to represent public and private sector figures separately and in this context the sum of public disposable income and private disposable income gives GNDI. When consumption figures are subtracted from disposable incomes for public and private sectors, savings for both sectors are obtained and the sum of public savings and private savings gives total domestic savings. In theory, total savings is equal to total investment at the end of a period. In this regard, when the total domestic saving falls short of total investment there will be foreign savings inflow to the economy, while total domestic savings exceeds total investment there will be saving outflow from the economy.

Foreign saving is equal to current account balance part of the balance of payments accounts and is calculated as the sum of exports of goods and services, imports of goods of services, net factor incomes from abroad and net current transfers from abroad.

B. INVESTMENTS**1. Sectoral Distribution of Investments****a) Current Outlook**

In 2008, public sector fixed capital investments are expected to rise by 2.8 percent in real terms. The realisation of the public sector fixed capital investments is expected to be within the following percentages; 47.6 percent by the central budget institutions, 37.6 percent by local administrations, 9 percent by SEEs, 2.5 percent by the institutions under the scope of privatisation, 1.5 percent by the Bank of Provinces and 1.8 percent by revolving funds and social security administrations.

In 2008, compared to year 2007, it is expected that the shares of mining, transportation, education, housing, health and other economic services would rise; other social services would fall and the rest would remain at the same level in the public sector fixed capital investments.

In 2008 private sector fixed capital investments are expected to rise by 4.5 percent in real terms. It is particularly expected that the shares of energy, transportation, tourism and health would rise; agriculture, manufacturing and housing would fall and the rest would remain at the same level in total of private sector fixed capital investments.

b) Targets for the Year 2009

In 2009, public sector fixed capital investments are expected to decrease by 1.6 percent in real terms. It is expected that public sector fixed capital investments would be realised at the rates of 45.4 percent by central budget institutions, 37.9 percent by local administrations, 11.5 percent by the SEEs, 1.5 percent by the SEEs which are under the scope of privatisation, 1.4 percent by the Bank of Provinces and 2.4 percent by revolving funds and social security institutions.

In 2009, compared to the figures of 2008, the shares within public sector fixed capital investments are expected to increase for agriculture, mining, manufacturing and transportation while that of energy, education and other services is expected to fall and those of health, tourism and housing are expected to remain at the same level.

In 2009, private sector fixed capital investments are expected to rise by 5.6 percent in real terms. Within this total, it is expected that the shares of energy, transportation and health would increase, manufacturing tourism and housing might fall and the rest would not change significantly.

TABLE: II. 11- Public Sector Fixed Capital Investments (2007)

(Current Prices, Million TL)

Sectors	Central Admin. (1)	SEEs	Institution Under Scope of Priv.	Bank of Provinces	Rev. Fund+SSI	SUB-TOTAL	Perc. Shares	Local Govts.	TOTAL PUB. SECT.	Perc. Shares
Agriculture	1 549	16	1	0	107	1 673	9,6	874	2 547	8,6
Mining	77	543	0	0	0	620	3,6	1	621	2,1
Manufacturing	13	70	117	1	0	201	1,2	116	317	1,1
Energy	1 410	474	853	0	0	2 736	15,8	316	3 052	10,3
Transportation	2 423	1 444	1	0	44	3 912	22,5	5 026	8 937	30,1
Tourism	89	0	0	0	1	90	0,5	34	123	0,4
Housing	127	0	0	0	0	127	0,7	349	476	1,6
Education	2 983	0	0	0	36	3 019	17,4	291	3 310	11,1
Health	1 142	0	0	0	422	1 563	9,0	370	1 933	6,5
Other Services	2 875	0	0	506	34	3 415	19,7	4 985	8 400	28,3
Economic	1 718	0	0	35	29	1 781	10,3	424	2 205	7,4
Social	1 157	0	0	472	5	1 634	9,4	4 561	6 195	20,8
Total	12 688	2 547	971	507	643	17 355	100,0	12 361	29 717	100,0
Percent. Shares	73,1	14,7	5,6	2,9	3,7	100,0				
Percent. Shares	42,7	8,6	3,3	1,7	2,2	58,4		41,6	100,0	

Source: SPO

(1) Excluding labour cost

TABLE: II.12- Public Sector Fixed Capital Investments (2008) (1)

(Current Prices, Million TL.)

Sectors	Central Admin. (1)	SEEs	Institution Under Scope of Priv.	Bank of Provinces	Rev. Fund+SSI	SUB-TOTAL	Perc. Shares	Local Govts.	TOTAL PUB. SECT.	Perc. Shares
Agriculture	2 023	29	1	0	43	2 096	9,8	688	2 784	8,2
Mining	132	696	0	0	0	828	3,9	1	829	2,4
Manufacturing	36	163	42	1	1	243	1,1	144	387	1,1
Energy	1 556	497	811	0	0	2 864	13,5	332	3 196	9,4
Transportation	3 390	1 672	2	0	45	5 108	24,0	5 419	10 527	30,8
Tourism	71	0	0	0	3	74	0,3	27	100	0,3
Housing	164	0	0	0	0	164	0,8	424	588	1,7
Education	3 992	0	0	0	24	4 016	18,9	73	4 090	12,0
Health	1 396	0	0	0	468	1 864	8,8	424	2 288	6,7
Other Services	3 492	0	0	494	47	4 033	18,9	5 305	9 338	27,4
Economic	2 374	0	0	34	36	2 444	11,5	464	2 908	8,5
Social	1 118	0	0	460	11	1 589	7,5	4 841	6 430	18,8
Total	16 252	3 056	856	495	630	21 290	100,0	12 836	34 126	100,0
Perc. Shares	76,3	14,4	4,0	2,3	3,0	100,0				
Perc. Shares	47,6	9,0	2,5	1,5	1,8	62,4		37,6	100,0	

Source: SPO

(1) Realisation estimate (2) Excluding labour cost

TABLE:II.13 - Public Sector Fixed Capital Investments (2009) (1)

(Current Prices, Million TL.)

Sectors	Central Admin. (1)	SEEs	Institution Under Scope of Priv.	Bank of Provinces	Rev. Fund+SSI	SUB-TOTAL	Perc. Shares	Local Govts.	TOTAL PUB. SECT.	Perc. Shares
Agriculture	3 117	27	1	0	104	3 249	13,9	797	4 046	10,8
Mining	106	825	0	0	0	931	4,0	1	932	2,5
Manufacturing	28	254	17	2	1	302	1,3	170	472	1,3
Energy	1 425	1 087	550	0	0	3 062	13,1	208	3 270	8,7
Transportation	3 583	2 100	8	0	92	5 783	24,8	5 848	11 631	31,0
Tourism	141	0	0	0	3	144	0,6	42	186	0,5
Housing	138	0	0	0	0	138	0,6	508	646	1,7
Education	3 641	0	0	0	13	3 653	15,7	285	3 938	10,5
Health	1 277	0	0	0	492	1 769	7,6	526	2 295	6,1
Other Services	3 566	11	0	518	184	4 279	18,4	5 819	10 098	26,9
Economic	1 833	11	0	29	166	2 028	8,7	592	2 620	7,0
Social	1 734	0	0	489	17	2 251	9,7	5 227	7 478	19,9
Total	17 022	4 303	576	520	888	23 309	100,0	14 204	37 513	100,0
Perc. Shares	73,0	18,5	2,5	2,2	3,8	100,0				
Perc. Shares	45,4	11,5	1,5	1,4	2,4	62,1		37,9	100,0	

Source: SPO

(1) Programme target (2) Excluding labour cost

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

(Current Prices, Million TL.)

	2007			2008 (2)			2009 (3)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	2 891	4 962	7 854	3 157	5 353	8 510	4 749	5 985	10 734
Mining	638	2 486	3 124	853	2 890	3 743	962	3 293	4 255
Manufacturing	319	70 010	70 329	394	79 926	80 319	479	90 216	90 695
Energy	3 365	4 901	8 267	3 483	5 939	9 423	3 669	6 960	10 628
Transportation	9 475	26 919	36 394	11 152	31 265	42 418	12 597	36 299	48 896
Tourism	143	10 347	10 490	113	12 133	12 246	121	13 564	13 685
Housing	504	19 552	20 056	618	22 405	23 024	684	24 567	25 252
Education	3 972	1 572	5 544	4 826	1 875	6 701	4 508	2 318	6 826
Health	2 187	7 001	9 187	2 546	8 139	10 684	2 725	9 624	12 349
Other Services	9 038	6 631	15 670	9 982	7 709	17 691	10 302	8 743	19 045
TOTAL	32 534	154 381	186 915	37 125	177 633	214 758	40 796	201 568	242 365

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, Million TL.)

	2007			2008 (2)			2009 (3)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	8,9	3,2	4,2	8,5	3,0	4,0	11,6	3,0	4,4
Mining	2,0	1,6	1,7	2,3	1,6	1,7	2,4	1,6	1,8
Manufacturing	1,0	45,3	37,6	1,1	45,0	37,4	1,2	44,8	37,4
Energy	10,3	3,2	4,4	9,4	3,3	4,4	9,0	3,5	4,4
Transportation	29,1	17,4	19,5	30,0	17,6	19,8	30,9	18,0	20,2
Tourism	0,4	6,7	5,6	0,3	6,8	5,7	0,3	6,7	5,6
Housing	1,5	12,7	10,7	1,7	12,6	10,7	1,7	12,2	10,4
Education	12,2	1,0	3,0	13,0	1,1	3,1	11,1	1,1	2,8
Health	6,7	4,5	4,9	6,9	4,6	5,0	6,7	4,8	5,1
Other Services	27,8	4,3	8,4	26,9	4,3	8,2	25,3	4,3	7,9
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, 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.

Considering the share of public fixed capital investments of general government over GDP for the period 2003-2008 in Turkey, it is observed that the ratio is less than the USA, Japan and EU averages. 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 2008; investments, which will enhance the economic and social infrastructure, have given importance considering the priorities at sectoral, regional and project basis.

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

(Percentage)

Countries	2003	2004	2005	2006	2007	2008
Belgium	1,7	1,6	1,8	1,7	1,7	1,7
Germany	1,6	1,4	1,4	1,4	1,5	1,6
Ireland	3,8	3,6	3,4	3,7	4,2	4,5
Greece	3,6	3,7	3,0	3,1	3,0	3,0
Spain	3,6	3,4	3,6	3,8	3,8	3,8
France	3,1	3,1	3,3	3,2	3,3	3,2
Italy	2,5	2,4	2,4	2,4	2,4	2,4
Luxembourg	4,6	4,3	4,5	3,6	3,9	4,0
Malta	4,7	4,0	4,9	4,2	4,1	3,9
Netherlands	3,6	3,2	3,3	3,3	3,4	3,5
Austria	1,2	1,1	1,1	1,1	1,0	1,0
Portugal	3,1	3,1	2,9	2,3	2,4	2,4
Slovenia	3,3	3,5	3,2	3,7	3,7	3,7
Finland	2,9	2,9	2,6	2,4	2,5	2,5
Average of Euro Area Countries	3,1	3,0	3,0	2,9	2,9	2,9
Bulgaria	2,7	2,9	4,2	4,2	4,8	5,4
Czech Republic	4,5	4,8	4,9	5,0	4,8	4,8
Denmark	1,6	1,9	1,8	1,9	1,8	1,9
Estonia	4,2	3,4	3,7	4,5	4,4	4,4
Latvia	2,4	3,1	3,4	4,7	5,7	5,4
Lithuania	3,0	3,4	3,5	4,2	5,2	5,2
Hungary	3,5	3,5	4,0	4,4	3,6	3,6
Poland	3,3	3,4	3,4	3,9	4,1	4,5
Romania	3,2	3,0	3,9	5,1	5,5	5,8
Slovakia	2,6	2,4	2,1	2,2	1,9	1,9
Sweden	2,9	2,9	3,0	3,1	3,1	3,2
United Kingdom	1,5	1,7	0,7	1,8	1,8	2,0
Average of EU-27 Countries	3,0	3,0	3,1	3,3	3,4	3,4
USA	2,7	2,6	2,6	2,7	3,4	3,5
Japan	4,3	3,9	3,6	3,2	3,1	3,0
Turkey	2,9	2,4	2,9	2,9	3,1	3,0

Source: European Commission, European Economy (Economic Forecasts), SPO

In 2008, excluding local administration investments and labour cost, in terms of 2008 prices, 2,759 public investment projects of which total value is TL 219

billion, cumulative expenditure as of end 2007 amounts to TL 102.4 billion and 2008 initial appropriation is TL 17.1 billion, have been implemented.

TABLE: II. 17– Public Investments in Turkey (2001-2008) (1)

	2001	2002	2003	2004	2005	2006	2007	2008
Number of Projects	5 047	4 414	3 851	3 555	2 627	2 525	2 710	2 759
Total Value of Project (Current Prices, Billion TL)	105,2	166,8	187,1	196,1	206,7	200,4	209,3	219
Cumulative Expenditures Before Current Year (Current Prices, Billion TL)	33,8	66,0	80,4	86,8	84,0	86,5	93,5	102,4
Total Value of Programme Appropriation (Current Prices, Billion TL)	6,9	10,6	12,5	12,0	16,2	17,5	17,1	17,1
Number of Multi-Year New Projects in the Investment Programme	286	128	134	149	137	155	161	180
Total Programme Appropriation / Total Value of Project (In Percent)	6,5	6,3	6,7	6,1	7,8	8,7	8,2	7,8
Average Time of Completion of the Investment Stock (In Years) (2)	9,4	8,5	7,6	8,1	6,6	5,5	5,8	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.

In 2008 Investment Programme within 2,759 projects, 1,148 projects corresponding an amount of TL 3.7 billion are projects those planned to be launched and completed during the year. Furthermore, 180 multi-year new projects of which total value is TL 6.2 billion and annual appropriation is TL 834 million are taken into the investment programme.

In 2008 Investment Programme, in the allocation of TL 17.1 billion to the 2,710 public investment projects, transportation-communication sector is in the first place with 23.1 percent, followed by other public services sector with 21.2, education sector with 16.6, energy sector with 14.1, agriculture sector with 8.6 and health sector with 8.4 percent. Mining, manufacturing, tourism and housing sectors claim 8.1 percent of the 2008 Investment Programme budget.

In 2008 Investment Programme, total cumulative expenditure as of end 2007 corresponding TL 102.4 billion for the 2,759 public investment projects totalling TL 219 and total of remaining project stock is TL 116.6 billion. In this situation, under the assumptions of complete utilization of 2008 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 fully.

67.9 percent of investment appropriation corresponding TL 11.6 billion in year 2008 is allocated for general and special budget. Education sector has the largest share with 24.4 percent of general and special budget.

It is predicted that 18.1 percent of investment appropriation corresponding TL 3.1 billion would be financed with foreign project credits. In 2008 Investment Programme, 146 projects totalling TL 106.3 billion are considered to partially or totally finance with foreign project credits.

Within the scope of the rationalization efforts of public investment programme, limited appropriations have been allocated for urgent and priority projects that could be completed shortly and 46 trace allocation projects of TL 15.1 billion in terms of 2008 prices remain in 2008 Investment Programme.

In Turkey, despite the improvements attained through rationalization efforts in recent years, project stock, especially for irrigation sector, is still considerably large contrarily to the limited financial resources. Insufficiency at systematic project cycle management approach and deficiencies in the project preparation, implementation, and monitoring and evaluation units of public institutions cause problems in implementing of projects as programmed. Besides, 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 selection process of new investment projects.

Below stated factors have created some 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 structural 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 2009;

- Those projects, which would be able to be completed by end 2009
- Projects of which physical realization rate have reached a considerable level
- Out of the 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 the EU membership process
 - İstanbul IT Valley Project and the projects which are in compliance with the e-Transformation Turkey Project and Turkish Information Society Strategy.
- ağırlık verilecektir.

C. BALANCE OF PAYMENTS

1. World Trade

Total volume of world goods exports which is expected to realize as USD 16.9 trillion in 2008 is projected to increase by 4.2 per cent and rise to USD 17.6 trillion in 2009. In this context, Turkey's exports share in total world exports, which is projected to be 0.82 per cent in 2008, is targeted to increase to 0.85 per cent in 2009.

TABLE: II. 18- Turkey's Position in World Trade

(Billions of USD)

	2006	2007	2008 (1)	2009 (1)
World Exports				
Goods and Services	14 759	17 130	20 770	21 622
Goods	11 903	13 751	16 860	17 560
Turkey's Foreign Trade				
Exports	85,5	107,3	137,5	149,0
Imports	139,6	170,1	218,0	232,5
Percentage Share				
Turkey's Exports / World Exports	7,2	7,8	8,2	8,5
Turkey's Imports / World Exports	11,7	12,4	12,9	13,2

Source: IMF, World Economic Outlook, October 2008; TURKSTAT; SPO
(1) Estimation

Total volume of world goods and services trade expanded by 7.2 percent in 2007, is expected to increase by 4.9 percent in 2008 and by 4.1 percent in 2009. The total volume of goods and services imports volume of the Euro area as the major export

market for Turkey which has recorded 8.1 per cent and 5.4 per cent increases in 2006 and 2007 respectively is expected to slow down due to global crisis and increase by 2.4 per cent in 2007 and 0.5 percent in 2009.

TABLE: II. 19 - International Trade

(Percentage Change)

	2006	2007	2008 (1)	2009 (1)
Goods and Services Trade				
World Trade Volume	9,3	7,2	4,9	4,1
Price Deflator (USD)	5,0	8,1	15,3	0,2
Export Volume				
Developed Economies	8,4	5,9	4,3	2,5
Developing Economies	11,0	9,5	6,3	7,4
Euro Area	8,1	6,0	3,2	0,9
Import Volume				
Developed Economies	7,5	4,5	1,9	1,1
Developing Economies	14,7	14,2	11,7	10,5
Euro Area	8,1	5,4	2,4	0,5
Terms of Trade				
Developed Economies	-1,2	0,3	-1,8	-0,1
Developing Economies	4,9	1,7	5,5	-0,9
Euro Area	-1,4	0,3	-1,8	0,1

Source: IMF, World Economic Outlook, October 2008

(1) Estimation

Crude oil prices which recorded high increases in the first seven months of 2008, have tended to decline sharply due to the increases in the value of the US dollar and demand contraction as a result of global economic turmoil. Since September 2008, crude oil prices fell sharply as global financial crisis becomes widespread and recession trend in developed economies increases progressively. It is expected that the rise in oil prices would be 50.8 percent while the rise in commodity prices would be

13.8 percent in 2008 compared to 2007 averages. In 2009, crude oil price is projected to be close to the levels prevailing during the last quarter of 2008. In this context, in 2009 crude oil price is projected to decrease by 6.3 percent, while commodity prices are projected to increase by 0.5 percent. Under these circumstances, world crude oil price, average of Brent, Dubai and West Texas annual spot prices, is expected to be USD 107.3 in 2008 and decrease to USD 100.5 in 2009.

TABLE: II. 20 - World Export Prices (Annual Average)

(Percentage Change)

		2006	2007	2008 (1)	2009 (1)
In USD	Manufactures	3,7	8,8	13,8	0,5
	Oil	20,5	10,7	50,8	-6,3
	Non-fuel Primary Commodities	23,2	14,1	13,3	-6,2
	Crude Oil Barrel Prices (2)	64,3	71,1	107,3	100,5
In Euro	Manufactures	2,9	-0,4	2,4	1,9
	Oil	19,5	1,4	35,6	-5,0
	Non-fuel Primary Commodities	22,3	4,5	1,9	-4,9
	Crude Oil Barrel Prices (2)	51,1	51,8	70,2	66,7

Source: IMF, World Economic Outlook, October 2008

(1) Estimation

(2) Annual average of spot prices of Brent, Dubai and West Texas crude oil

2. Current Account Balance

a) Current Outlook

The expansionary tendency in current account deficit has continued also in the first eight months of 2008 and current account deficit reached to USD

48.7 billion by August 2008 at twelve-month period. In this rise of the current account deficit, increases in energy and commodity prices, real appreciation of TL, high increases in intermediate goods imports in parallel with increasing exports have been the main determinants

TABLE: II. 21- Current Account Deficit and Its Components

(Billions of USD)

	2006	2007	2008(1)	January - August	
				2007	2008
CURRENT ACCOUNT BALANCE	-31,9	-37,7	-48,7	-23,8	-34,8
BALANCE ON GOODS	-40,9	-46,7	-58,5	-29,8	-41,6
Total Merchandise Exports	93,6	115,4	140,7	72,6	98,0
Exports f.o.b.	85,5	107,3	132,5	67,3	92,5
Shuttle Trade, Other Goods	8,1	8,1	8,2	5,3	5,5
Total Merchandise Imports	-134,6	-162,0	-199,2	-102,4	-139,6
Imports c.i.f.	-139,6	-170,1	-208,4	-107,2	-145,6
Freight and Ins., Other Goods	5,0	8,0	9,2	4,8	5,9
BALANCE ON SERVICES	13,8	13,9	15,7	9,2	11,0
Credit	25,3	28,8	33,0	18,6	22,8
Tourism	16,9	18,5	21,0	11,9	14,3
Debit	-11,4	-14,9	-17,3	-9,4	-11,8
BALANCE ON INCOME	-6,7	-7,1	-8,1	-4,6	-5,5
Credit	4,4	6,4	6,9	4,2	4,7
Debit	-11,1	-13,5	-15,0	-8,8	-10,2
Interest Payments	-9,4	-10,8	-11,7	-7,0	-7,8
CURRENT TRANSFERS	1,9	2,2	2,1	1,4	1,3

Source: CBRT

(1) As of August, annualized

Foreign Trade Balance

Exports reached to USD 92.5 billion in January-August 2008 period, marking an increase of 37.4 percent compared to the same period of the previous year. In this period, exports of manufacturing industry, which constitutes 95.4 percent of the total exports, increased by 38.6 percent. This increase was mainly determined by the increase in manufacture of basic metals by 98.9 percent, motor vehicles and trailers by 37.8 and coke, petroleum products and nuclear fuel by

88 percent. In the same period exports of agriculture-forestry and mining sectors increased by 9.5 percent and by 46.5 percent respectively.

While the share of the oil exporting countries in total increased, the growth rate of exports to OECD countries remained below the total growth rate of exports in January-August 2008 period. This improvement is affected mainly by the income effect due to rising oil prices, appreciation of the TL against USD, and slowdown in EU economic growth.

TABLE: II. 22- Exports by Country Groups

(Billions of USD)

	Annual		January – August	
	2006	2007	2007	2008
TOTAL EXPORTS	85,5	107,3	67,3	92,5
EU COUNTRIES (EU-27)	47,9	60,4	38,0	45,6
TURKISH FREE ZONES	3,0	2,9	1,9	2,2
OTHER COUNTRIES	34,6	43,9	27,4	44,7
Other Europe (Excl. EU)	8,0	10,8	6,6	11,0
Africa	4,6	6,0	3,8	6,2
America	6,3	5,6	3,7	4,2
Asia	15,3	20,3	12,6	22,1
Near and Middle East	11,3	15,1	9,3	17,2
Other	0,5	1,2	0,6	1,2
OECD	54,5	65,7	41,6	50,0
EFTA	1,2	1,3	0,8	2,1
Black Sea Economic Co.	11,6	16,8	10,3	14,7
Economic Co-operation	3,3	4,7	2,9	4,1
New Independent Countries	7,0	10,1	6,2	9,5
Turkish Republics	2,0	2,9	1,8	2,4
Islamic Conference	15,0	20,3	12,6	21,9

Source: TURKSTAT

In 2008, total exports is projected to reach to USD 137.5 billion by increasing 28.2 percent. In 2008 export prices is expected to increase by 18.5 percent and thus the volume growth of exports is expected to be 8.2 percent.

In January-August 2008 period total imports reached to USD 145.6 billion by increasing 35.8 percent compared to the same period of the previous year. In this period while the rate of growth of the imports of consumption and capital goods stayed below the growth

rate of total imports, imports of intermediate goods increased by 40.1 percent in parallel with increases in exports.

In January-August 2008 period, when the shares of country groups in total imports examined, it is observed that the share of the oil exporting countries in total imports increased due to rising energy prices. While the share of imports from the EU countries was 40.3 percent in January-August 2007 period, it decreased to 37.4 percent in the same period of 2008.

TABLE: II. 23- Imports by Country Groups

(Billions of USD)

	Annual		January - August	
	2006	2007	2007	2008
TOTAL IMPORTS	139,6	170,1	107,2	145,6
EU COUNTRIES (EU-27)	59,4	68,6	43,2	54,4
TURKISH FREE ZONES	0,9	1,2	0,8	1,0
OTHER COUNTRIES	79,2	100,2	63,2	90,2
Other Europe (Excl. EU)	25,7	34,3	22,2	32,4
Africa	7,4	6,8	4,4	5,8
America	9,4	12,2	7,7	11,8
Asia	36,2	46,3	28,5	39,6
Near and Middle East	10,6	12,6	7,6	12,8
Other Asia	25,7	33,7	21,0	26,8
Other	0,5	0,7	0,5	0,6
OECD	77,8	91,9	58,2	74,3
EFTA	4,5	5,8	4,1	4,8
Black Sea Economic Co.	27,0	34,8	22,1	33,4
Economic Co-operation	8,1	10,0	6,4	9,7
New Independent Countries	23,4	31,3	19,8	31,2
Turkish Republics	2,0	2,7	1,6	3,3
Islamic Conference	19,1	21,5	13,2	21,3

Source: TURKSTAT

In 2008, total imports is expected to reach USD 218 billion by increasing 28,2 percent comparing to the previous year. In 2008 import prices is projected to increase by 20.1 percent and the volume growth of imports is estimated to be 6.8 percent.

Each dollar increase in crude oil import prices adds approximately USD 175 million to the annual oil import bill and USD 500 million to the annual total energy cost. In 2008 average crude oil price per barrel is expected to rise to USD 102.7 and in this context it is expected to result in an additional burden of USD 15.4 billion on energy import bill.

Balance on Services, Income and Current Transfers

Balance on services recorded a surplus of USD 13.9 billion in 2007 by the contribution of tourism income. As of 2008 January-August period with a 20.8 percent rise in comparison with the same period of the previous year, tourism revenues reached USD 14.3 billion. In

2008 tourism income is projected to reach to USD 22.7 billion.

In January-August 2008 period the deficit in income balance reached USD 5.5 billion by increasing 20.6 percent compared to the same period of the previous year. In January-August 2008 period total amount of interest payments including the bond repayments by the general government and the banks which is recorded under portfolio investments account, realized as USD 7.8 billion. Thus, current account deficit excluding interest payments which was USD 16.8 billion in January-August 2007 period reached to USD 27 billion in the same period of 2008 by increasing 60.8 percent

By the end of first eight months of 2008, current transfers yielded a surplus of USD 1.3 billion.

As a result of this developments, current account deficit which reached USD 34.8 billion in the first eight months of 2008, is expected to be USD 51.5 billion by the end of the year

b) Targets for the Year 2009

In 2009 total exports, with a 8.4 percent increase, is projected to reach USD 149 billion while total imports is projected to achieve USD 232.5 billion with an increase of 6.7 percent. In this context, in 2009, foreign trade deficit is projected to reach USD 83.5 billion. In 2009, it is projected that USD 5.8 billion shuttle trade revenue and USD 13.5 billion freight and insurance

income will realize and thus foreign trade balance will yield a deficit of USD 64.5 billion.

In 2009 export prices are projected to increase by 1.4 percent while import prices are projected to decline by 0.2 percent in parallel with 6.3 percent decrease in crude oil prices. Thus, the volume growth of both exports and imports of Turkey is projected to be 6.9 percent.

TABLE: II. 24- Factors Affecting the Foreign Trade of Turkey

	2006	2007	2008(1)	2009(2)
Exports (Billions of USD)	85,5	107,3	137,5	149,0
Imports (Billions of USD)	139,6	170,1	218,0	232,5
(Percentage Change)				
Exports	16,4	25,3	28,2	8,4
Imports	19,5	21,8	28,2	6,7
Export Price Index	3,5	12,6	18,5	1,4
Import Price Index	8,6	9,6	20,1	-0,2
Real Exports	12,5	11,3	8,2	6,9
Real Imports	10,0	11,1	6,8	6,9
Real Exchange Rate (1 USD + 1,5 Euro)	-0,4	11,1	6,8	-7,3
GNP Growth Rate	6,9	4,6	4,0	4,0
Growth of Industry	8,3	5,8	3,9	3,9
Growth of Domestic Demand	7,0	4,7	3,7	3,7
Productivity	6,4	2,4	2,4 ⁽³⁾	
Productivity (Developed Countries)	2,6	3,3	2,0	2,0
Unit Labour Cost	-0,7	5,8	22,4 ⁽³⁾	
Unit Labour Cost (Developed Countries)	0,9	-0,1	1,5	1,2

Source: TURKSTAT, SPO, IMF World Economic Outlook, October 2008

(1) Realisation estimate

(2) Programme target

(3) As of June, annualised

In 2009 while tourism revenues are projected to reach USD 24.9 billion by increasing 9.7 percent, tourism expenditures are projected to reach USD 3.8 billion by increasing 5.6 percent. In 2009 total services credit is expected to reach USD 39 billion by increasing

9.2 percent. On the other hand, total services debit is estimated to reach USD 19 billion by increasing 7.5 percent. Thus, balance on services would result in a surplus of USD 20.1 billion by increasing 10.8 percent.

TABLE: II. 25- Sectoral Breakdown of Exports (ISIC.Rev.3)

	(Billion USD)			(Percent Share)			(Percentage Change)	
	2007	2008 (1)	2009 (2)	2007	2008 (1)	2009 (2)	08/07	09/08
TOTAL EXPORTS	107,3	137,5	149,0	100,0	100,0	100,0	28,2	8,4
Agric., Forest., Fishery	3,9	4,3	4,9	3,6	3,1	3,3	9,4	15,3
Mining and Stone Quarrying	1,7	2,4	2,5	1,5	1,7	1,7	41,5	5,3
Manufacturing Industry	101,1	130,3	141,0	94,2	94,8	94,6	28,9	8,2
Other	0,6	0,6	0,6	0,6	0,4	0,4	-7,1	4,2

(1) Realisation estimate

(2) Programme target

TABLE: II. 26- Composition of Imports According to Broad Economic Categories (BEC)

	(Billion USD)			(Percent Share)			(Percentage Change)	
	2007	2008 (1)	2009 (2)	2007	2008 (1)	2009 (2)	08/07	09/08
TOTAL IMPORTS	170,1	218,0	232,5	100,0	100,0	100,0	28,2	6,7
Capital Goods	27,1	31,8	34,8	15,9	14,6	15,0	17,4	9,6
Intermediate Goods	123,6	161,8	171,5	72,7	74,2	73,8	30,9	6,0
Consumption Goods	18,7	23,8	25,4	11,0	10,9	10,9	27,0	6,9
Other	0,7	0,7	0,8	0,4	0,3	0,3	3,8	14,3
Fuel (27. Item)	33,9	50,0	49,5	19,9	22,9	21,3	47,6	-1,0
Other	136,2	168,0	183,0	80,1	77,1	78,7	23,4	8,9

(1) Realisation estimate

(2) Programme target

In 2009 while a deficit of USD 8.1 billion is projected in the balance on investment income, a surplus of USD 2.2 billion is projected in current transfers. Thus, current account deficit is projected to decline by 2.1

percent and be USD 50.4 billion. The ratio of current account balance to GDP which is expected to be 6.4 percent in 2008 is forecasted to remain at the same levels in 2009 as well.

TABLE: II. 27- Current Account Balance

(Billions of USD)

	2006	2007	2008(1)	2009(2)
CURRENT ACCOUNT BALANCE	-31,9	-37,7	-51,5	-50,4
BALANCE ON FOREIGN TRADE	-40,9	-46,7	-63,4	-64,5
Exports f.o.b.	92,9	114,3	143,1	155,0
Exports f.o.b.	85,5	107,3	137,5	149,0
Shuttle Trade, Adaptation	7,4	7,1	5,6	6,0
Imports f.o.b.	-130,1	-156,1	-204,0	-217,1
Imports c.i.f.	-139,6	-170,1	-218,0	-232,5
Freight and Insurance, Adaptation	9,5	13,9	14,0	15,4
Non-monetary gold (net)	-3,3	-4,4	-1,6	-1,6
Goods procured in ports by carriers (net)	-0,4	-0,5	-0,9	-0,9
BALANCE ON SERVICES	13,8	13,9	18,1	20,1
Credit	25,3	28,8	35,7	39,0
Debit	-11,4	-14,9	-17,6	-19,0
Transportation	0,4	-0,4	-0,4	-0,3
Tourism	14,1	15,2	19,1	21,1
Credit	16,9	18,5	22,7	24,9
Debit	-2,7	-3,3	-3,6	-3,8
Other Services	-0,7	-1,0	-0,6	-0,8
BALANCE ON INCOME	-6,7	-7,1	-8,3	-8,1
Credit	4,4	6,4	7,4	8,2
Debit	-11,1	-13,5	-15,7	-16,3
Compensation of Employees	-0,1	-0,1	-0,1	-0,1
Investment Income	-6,6	-7,0	-8,1	-7,9
Direct Investment	-1,0	-2,1	-3,3	-3,3
Portfolio Investment	-0,7	0,4	1,4	2,2
Other Investment	-4,9	-5,3	-6,3	-6,8
Interest Income	1,5	2,2	2,2	2,5
Interest Expenditure	-6,3	-7,5	-8,5	-9,3
Long Term	-5,5	-6,8	-7,9	-8,2
Short Term	-0,8	-0,7	-0,6	-1,1
CURRENT TRANSFERS	1,9	2,2	2,1	2,2

Source: CBRT, SPO

(1) GRealisation estimate

(2) Programme target

3. Capital and Financial Account

In the first eight months of 2008 a substantial capital inflow was realized. This inflow besides financing

the current account deficit of USD 34.8 billion and also ensured increases in official reserves by USD 2.7 billion and currency and deposits by USD 8.1 billion.

TABLE: II. 28- Capital and Financial Account (Summary)

(Billions of USD)

	January-August				
	2006	2007	2008(1)	2007	2008
Current Account Balance	-31,9	-37,7	-48,7	-23,8	-34,8
Capital and Financial Acc. (excl reserves)	38,2	44,6	56,0	30,6	42,0
Direct Investment (net)	19,3	20,1	15,4	13,8	9,0
Portfolio Investment (net)	7,4	0,7	-2,2	4,3	1,4
Other Investment (net)	11,5	23,8	42,8	12,5	31,5
Official Reserves (2)	-6,1	-8,0	-1,1	-9,6	-2,7
Net Errors and Omissions	-0,2	1,1	-6,2	2,8	-4,5

Source: CBRT

(1) As of August, annualised

(2) "-" sign indicates rise.

In 2007, while public sector's position has turned to net payer with repayments to the IMF, current account deficit and increases in official reserves were financed by the private sector. In a similar way, in the first eight months of 2008, most of the capital inflows was also met by private sector.

In the first eight months of 2008, in capital and financial account there has been a capital inflow of USD 7.1 billion in excess of the financing requirement but as the net-errors and omissions included excess of the financing requirement amounts to USD 2.7 billion.

TABLE: II. 29- Capital and Financial Account, Public-Private Sector Decomposition

(Billions of USD)

	Jan.-August				
	2006	2007	2008(1)	2007	2008
A. CURRENT ACCOUNT BALANCE	-31,9	-37,7	-48,7	-23,8	-34,8
B. CAPITAL AND FINANCIAL ACCOUNT (IMF Credits, excl. Reserves)	42,7	48,6	54,4	33,7	39,5
Public Sector (excl. IMF Credits)	7,4	-3,8	-8,6	2,3	-2,4
Private Sector	35,2	52,4	63,0	31,4	41,9
Banks (net)	-3,1	-1,6	8,5	-5,7	4,4
Non-Bank Private Sector (net)	38,3	54,0	54,5	37,0	37,5
C. CURRENT, CAPITAL AND FINANCIAL ACCOUNT (A+B)	10,8	10,9	5,7	9,9	4,7
D. NET ERRORS AND OMISSION	-0,2	1,1	-6,2	2,8	-4,5
E. GENERAL BALANCE (C+D)	10,6	12,0	-0,6	12,8	0,2
F. TOTAL RESERVES	-10,6	-12,0	0,6	-12,8	-0,2
Official Reserves (2)	-6,1	-8,0	-1,1	-9,6	-2,7
IMF Credits	-4,5	-4,0	1,6	-3,1	2,5
Use	3,0	1,1	3,6	1,1	3,6
Repayment	-7,5	-5,1	-2,0	-4,3	-1,2

Source: CBRT

(1) As of August, annualised

(2) "-" sign indicates rise

During January-August 2008 period, total reserves increased by USD 2.7 billion.

In January-August 2008 period direct investment decreased by 34.4 percent compared to the same period of the previous year and realized as USD 9 billion. While in January-August 2007 the inflow of direct investment realized as USD 15.6 billion, in the same period of 2008, it deteriorated to USD 11.2 billion. Of this total amount, USD 2 billion was realized by foreigners' purchase of real estate in Turkey.

In January-August 2008, USD 1.2 billion was repaid to the IMF while the use of credit from IMF was USD 3.6 billion.

4. External Debt Stock

The external debt stock, which was USD 247.1 billion in 2007 reached USD 284.4 billion by the second quarter of 2008. As the ratio of total external debt stock to GNP had been declining since 2002, it turned upwards in 2006, it declined again in 2007. In the first half of the 2008 the ratio of external debt stock to GNP has increased 0.7 point.

The amount and share of private sector's external debt within total debt stock has been significantly rising since 2004 and reached to 190.5 in the first half of 2008. Private sector's share in total external debt increased as the rate of growth of private sector external debt stock is higher than that of the total debt stock.

TABLE: II. 30- Selected Indicators on External Debt Stock

(Billions of USD)

	2003	2004	2005	2006	2007	2008*
Total External Debt	144,2	160,6	168,4	205,2	247,1	284,4
Short Term Debt	23,0	31,9	37,1	40,4	41,8	51,9
Medium-Long Term Debt	121,1	128,8	131,3	164,8	205,3	232,5
Public Sector External Debt	70,8	75,7	70,4	71,6	73,5	77,7
CBRT External Debt	24,4	21,4	15,4	15,7	15,8	16,2
Private Sector External Debt	48,9	63,6	82,6	117,9	157,9	190,5
Financial Institutions	13,7	21,3	32,0	47,3	57,2	65,9
Non- Financial Institutions	35,2	42,2	50,6	70,6	100,6	124,7
Percentage Shares						
Short Term Ext. Debt / Tot. Ext. Debt						
Public Sect. Ext. Debt/ Total External Debt	16,0	19,8	22,0	19,7	16,9	18,3
Total Net Reserves / Short Term Ext. Debt	49,8	49,1	47,1	41,8	34,9	28,3
Total External Debt Stock / GNP	195,4	168,7	185,3	225,1	259,1	226,7
Toplam Dış Borç Stoku / GSYH	47,3	41,1	35,0	39,0	37,4	38,1

Source : UT

*As of June

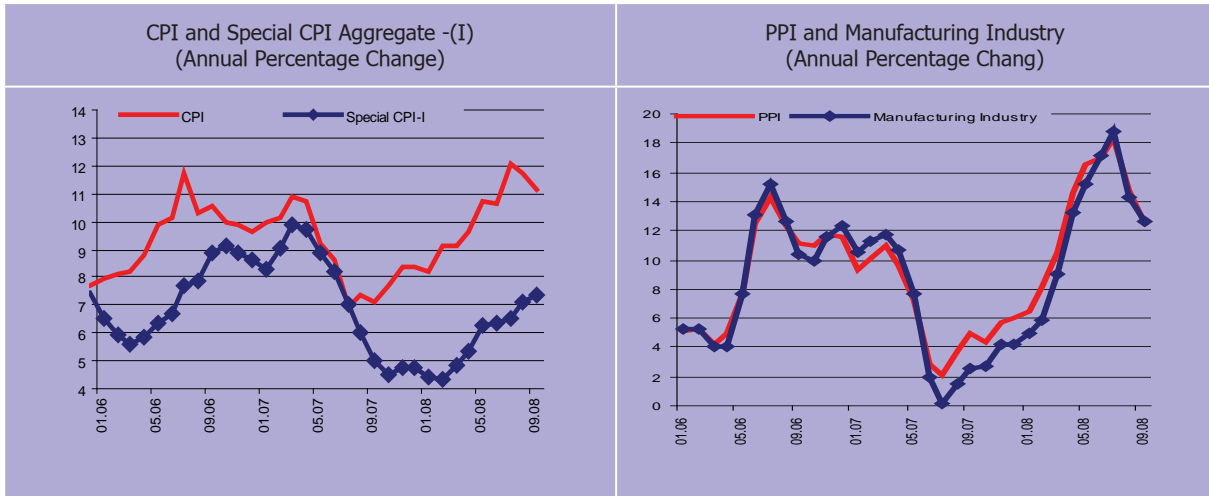
D. INFLATION AND MONETARY-EXCHANGE RATE POLICY

1. Inflation

In 2007 Consumer Price Index (CPI) and Producer Price Index (PPI) rose by 8.39 and 5.94 percent

respectively. While annual consumer inflation has realised in the uncertainty band determined around the path consistent with end-year target for the first three quarters of 2008, the upper limit of 6 percent has been breached in the last quarter.

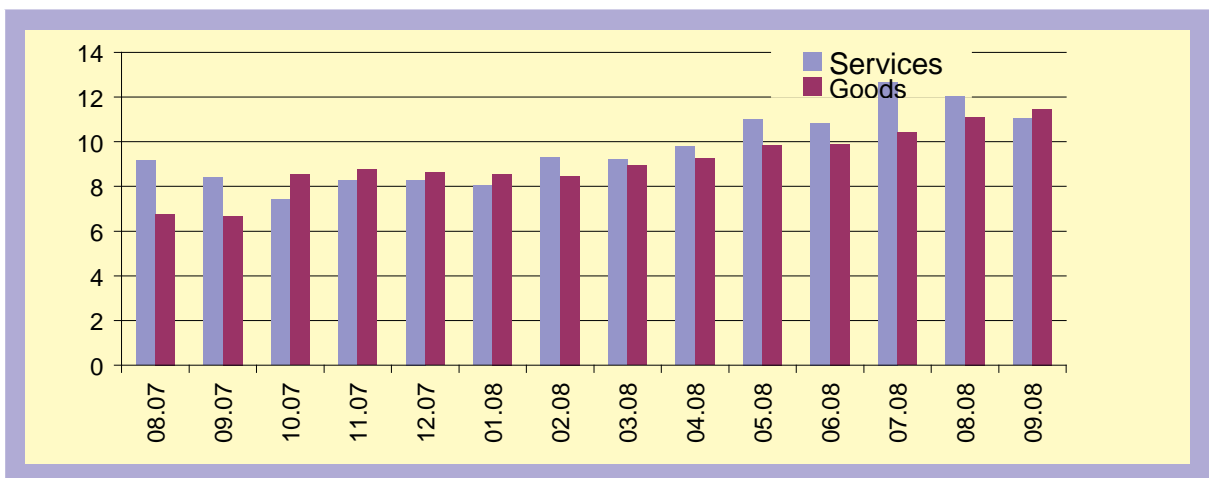
GRAPH-3: Price Developments



In the first quarter of 2008 inflation has preserved its upward trend. In this period, the rise in food and energy prices has become more evident due to both domestic and international conditions. In addition to these two factors, the depreciation in TL has been partially effective over inflation. Consequently annual inflation rose to 9.15 percent by the end of first quarter and remained over the upper limit of path consistent with end year target. In the second quarter of 2008

the direct effects of rising food and energy prices and its indirect effects on service prices remained to be the major determinants of the rise in inflation and the annual inflation is elevated to 10.61 percent. The trend in the second quarter continued in June, however a downturn in inflation is observed in August and September. Despite the annual inflation has decreased to 11.13 percent at the end of third quarter, it exceeded the upper limit of uncertainty band.

GRAPH: 4- Prices of Goods and Services (Annual Percentage Change)



In the first nine months of 2008 the sharp rises in food and energy prices has been effective in overshooting of upper limit of predetermined uncertainty band. Despite the decline recorded in September, the direct contribution of food and energy items to inflation is reached to 6.9 percentage points. Furthermore the reflections of food and energy prices over the restaurant and transportation prices caused higher service prices in the first nine months compared to previous year. On the other hand, the services except restaurant and transportation remained close to previous year's level. The inflation of goods except food and energy has also increased compared to previous year. To sum up, as of September 2008, inflation rose compared to previous year in all major groups.

The rise in annual inflation of services and goods except food and energy has lead to an increase in special CPI aggregates. While the annual increase in special CPI aggregate CPI-H, excluding energy, unprocessed food, alcoholic beverages, tobacco and gold has realised as 10.5 percent as of September, the CPI-I index which is computed by subtraction of processed food from CPI-H, has reached to 7.35 percent which was 4.34 as of February 2008.

The PPI has increased by 11.48 percent in the first nine months of 2008. In this period agriculture prices rose by 4.43 percent while the industry prices rose by 13.22

percent due to rise in commodity prices and exchange rates.

2. Monetary-Exchange Rate Policy

a) Current Outlook

The monetary policy has been implemented in 2008 based on the principles of inflation targeting regime. The operational framework of monetary policy was mostly kept in 2008. The inflation target, calculated by the annual percentage change of the Consumer Price Index (CPI), has been determined by the Central Bank and Turkish Government jointly. The target horizon has been set as 3 years. Inflation path consistent with the end-year target and an uncertainty band of 2 percentage points in both directions around the path has been announced for 2008. In this framework, inflation target for 2008 were announced as 4 percent in monetary policy reports designed for 2006, 2007 and 2008.

Inflation stayed above targeted path mostly because of the external reasons other than the monetary policy in the first nine months of 2008. The reasons behind the deviation from inflation target and necessary measures already taken and should be taken further to converge to the target were announced to the public with the open letters written to the Government in April and July.

TABLE: II. 31- Inflation Path Consistent With Target in 2008 and the Uncertainty Band

	March 2008	June 2008	September 2008	December 2008
Upper Limit of Uncertainty Band	9,1	8,5	8,3	6,0
Path Consistent With the Target	7,1	6,5	6,3	4,0
Lower Limit of Uncertainty Band	5,1	4,5	4,3	2,0
Realized Inflation	9,15	10,61	11,13	-

Source: CBRT.

The short term interest rates, which is the main monetary policy tool and used in the Interbank Money Market within the CBRT and the Repo and Reverse Repo Market of the Istanbul Stock Exchange, were used in a most effective way by taking into consideration the medium term inflation outlook and risks. In this context, continuity of supply shocks started to be effective since 2006 and tightening in global credit conditions since the second quarter of 2007 have resulted to follow a tight monetary policy stance in 2008.

Measured rate cuts which are initiated in September 2007 continued also in the beginning of 2008 based on the deceleration in the core inflation indicators and the foresights that demand conditions would support the decrease in inflation because of the lagged effects of monetary tightening and expected slow down in world

economy. But, at the same time, further increases in food and energy prices, intensification of uncertainties in global financial markets and depreciation of TL have created negative effects on inflation and expectations.

After these developments, risks, regarding secondary effects of shocks and inflation stickiness have increased. So, Central Bank suspended the interest rate cuts in March 2008. Increase in food and energy prices and problems in global financial markets have continued also in the following period. Parallel to this, domestic uncertainty perceptions have strengthened and deterioration in inflation expectations have accelerated. In line with these developments Central Bank increased interest rates starting from May and continued to implement tight monetary policy. *eltereğ, sıkı para politikası izlemeye devam etmiştir.*

TABLE: II. 32- Monetary Policy Committee (MPC) Decisions in 2008

Dates for MPC Meetings	Decision on Interest Rates	Interest rate*
August 14th, 2007	No change	17,50
September 13th, 2007	-0.25	17,25
October 16th, 2007	-0.50	16,75
November 14th, 2007	-0.50	16,25
December 13th, 2007	-0.50	15,75
January 17th, 2008	-0.25	15,50
February 14th, 2008	-0.25	15,25
March 19th, 2008	No change	15,25
April 17th, 2008	No change	15,25
May 16th, 2008	+0,50	15,75
June 17th, 2008	+0,50	16,25
July 18th, 2008	+0,50	16,75
August 14th, 2008	No change	16,75
September 18th, 2008	No change	16,75
October 22nd, 2008	No change	16,75

Source: CBRT.

(*) Overnight borrowing rates used in the Interbank Money Market within the CBRT and the Repo and Reverse Repo Market of the Istanbul Stock Exchange.

The views and expectations, that say the increases in food and energy prices will be permanent and this increase reflects a structural change stemming from global developments, have strengthened in the mid-2008. Central Bank has revised inflation forecasts upwards significantly because of the supply shocks that have turned out to be more persistent than expected, uncertainties in global economy and increase in risks in second round effects. According to Inflation Report issued in April, the CBRT envisages a framework in which it takes more than two years to reach the 4 percent inflation target even though the tight monetary policy is followed. On the other hand, the studies by Central Bank showed that the past inflation has gained more importance and the anchor role of current inflation targets has decreased in determining inflation expectations.

As a result of above mentioned developments, it is argued that the conditions mentioned in The General

Framework of the Inflation Targeting Regime Report, published in December 2005, and Monetary and Exchange Rate In 2006 Reports, were realized. These reports stated that inflation targets would be changed only if inflation was expected to stay away from the target for a considerably long period of time due to factors beyond the control of the monetary policy and consequently official inflation targets ceased to be an anchor. In this context, Central Bank and the Government agreed on to determine the inflation targets for 2009-2011 period and the new targets were announced to the public with an open letter on June 3rd, 2008. In this framework, inflation targets were revised as 7.5 percent for end-2009, 6.5 percent for end-2010, and 5.5 percent for end-2011. These targets were also used in the Medium Term Programme that covers 2009-2011 periods. The target determined for 2008 was not changed in respect to the accountability principle.

TABLE: II. 33- Inflation Targets

	Targets Before Revision	Revised Targets
2009	4,0	7,5
2010	4,0	6,5
2011	-	5,5

Source: CBRT

It is observed that the tight monetary policy stopped the deterioration in inflation expectations after the revision in inflation targets. In the Inflation Report published in July, inflation targets were forecasted as 10.6 percent for end-2008, between 5.9 and 9.3 percent with 70 percent probability at the end of 2009, between 4 and 7.8 per cent with 70 percent probability at the end of 2010 and to come down to 5.4 percent by the end of 2011.

Significantly lower course of oil prices than the levels assumed in the July Inflation Report and the downward course of other commodity prices displayed a positive impact on inflation. On the other side, total demand conditions, stemmed from the indication of recently announced aggregates to slowdown in economic activity and problems in global credit markets and global economy, would support the decreasing trend in inflation. In this framework, inflation has been expected to follow a decreasing trend and the key policy rates this have been kept unchanged. By this way, Central Bank exhibited a precautious stance because of the risks in pricing behaviors and global uncertainties.

Central Bank continued to implement floating exchange rate regime in 2008 by keeping its framework on excessive volatility interventions and foreign exchange buying auctions in order to accumulate FX reserves. There has not been any direct intervention in the foreign exchange market since June 2006, when a direct selling intervention was made during the fluctuations in international financial markets.

The second aspect of the floating exchange rate regime is the foreign exchange buying auctions, which are hold in the framework of a pre-announced program, in order to accumulate FX reserves. In the event of unforeseen extraordinary developments in foreign exchange supply, the Central Bank may, with prior notice, change the daily auction amount and/ or optional selling amount in both directions and may suspend the auctions temporarily for shorter and longer periods. In this framework, the maximum amount to be purchased in daily foreign exchange buying auctions has been set as USD 90 million for

2008, with USD 30 million for auction amount and USD 60 million for optional selling amount, with a press release at the end of 2007 about the Monetary and exchange rate policy in 2008.

However, the auction amount has been lowered to USD 45 million, with USD 15 million for auction amount and USD 30 million for optional selling amount as of 10 March 2007 due to the increased volatility in foreign exchange market stemming from the recession expectations in developed economies.

Recent problems in global credit markets have merged with the concerns on the credibility of the global financial system and caused liquidity squeeze in the money markets of developed countries. Acting promptly and in a coordinated manner, central banks are taking decisions in an effort to overcome the liquidity squeeze in money markets. Said uncertainties causes the decrease in foreign exchange liquidity in Turkish markets sometimes. By this reason, the Foreign Exchange Deposit Market within the CBRT was re-opened on 9 October 2008 with a view to support the increase in foreign exchange liquidity in the interbank FX market until the disappearance of uncertainties in global markets. Furthermore, with a view to prevent problems of banks in obtaining foreign exchange needed, transaction limits in the Foreign Exchange and Foreign Currency Markets were doubled as of 14 October 2008.

In addition to this, Foreign Exchange buying auctions were suspended starting from 16 October 2008 in order to further enhance the liquidity conditions of Turkish banks. Central Bank bought USD 7.6 billion foreign currency via auctions during the period from January 1, 2008 to October 24, 2008. On the other hand, CBRT has started to inject foreign exchange liquidity into the market through foreign exchange selling auctions as of October 24, 2008. The daily amount of foreign exchange to be sold via auctions has been set as USD 50 million, which can be raised on the auction days when deemed necessary. As of October 17, 2008, gross FX reserves of Central Bank realized as USD 73.4 billion.

TABLE: II. 34- 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	9 906	-	-	-	9 906
2008*	7 584	-	-	-	7 584

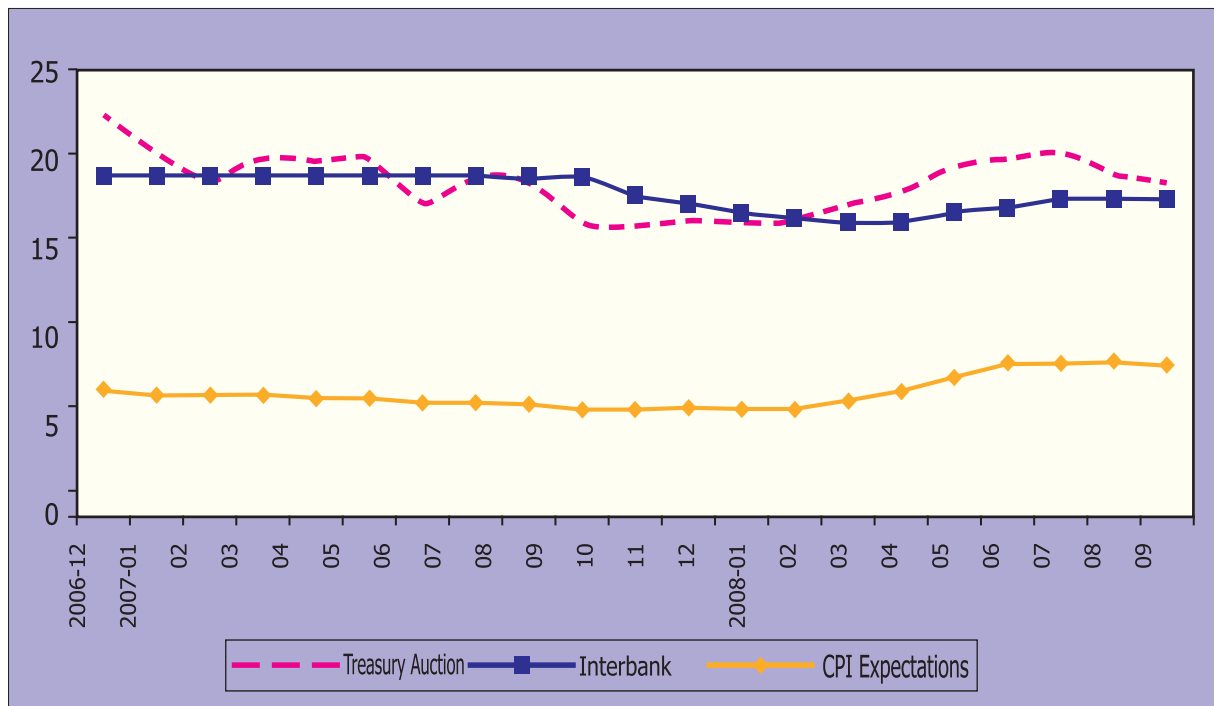
Source: CBRT

*(1)By the end of October 20, 2008

Interest rates on domestic borrowing, which had a downward tendency since the end of 2006, exhibited an upward trend starting from the beginning of 2008. In this context, the weighted average compounded interest rates prevailed in the Treasury auctions increased from

16.6 percent level in December 2007 to 18.8 percent in September 2008. It is considered that the basic determinants of the increase of interest rates prevailed in the Treasury auctions were the fluctuations in financial markets and deterioration in risk perceptions.

GRAPH: 5- Developments in Interest Rates (Compound Interest, In Percent)



In January-September 2008 period, Central Bank net foreign assets increased in terms of both dollar and TL. Net domestic assets decreased during the first nine months of 2008. The increase in net foreign assets mainly resulted from daily FX buying auctions

performed by Central Bank. In the same period, the decrease in the GDDI portfolio of Treasury was the basic determinant of the decrease in Net Domestic Assets.

TABLE: II. 35- Selected Monetary Aggregates and Items in Central Bank Balance Sheet (1)

	2006	2007	2008		
	Dec.	Dec.	March	June	September
	(Million TL)				
Monetary Aggregates (2)					
M1	72 163	77 675	77 728	81 573	87 702
M2	297 481	345 028	368 134	379 335	400 024
M3	319 836	370 078	394 609	404 699	425 509
	(Million TL)				
Net Foreign Assets	67 136	68 611	77 500	75 800	81 136
Net Domestic Assets	12 888	16 166	11 539	11 256	9 607
GDDI Portfolio	18 812	16 789	16 986	15 334	13 936
Revaluation Account	646	5 070	-537	641	613
Central Bank Money	41 916	54 691	51 556	45 481	51 867
Currency Issued	26 815	27 944	28 318	29 614	35 035
Banks' TL Deposits	14 420	16 748	15 263	19 100	17 439
Liabilities on OMO	-1 098	4 369	3 737	-5 250	-2 577
Public Sector Deposits	1 616	5 472	4 089	1 859	1 848
	(Million TL)				
Net FX Position	20 542	32 905	31 813	28 297	34 322
Net Foreign Assets	47 510	58 602	61 611	62 671	65 895
Net FX Reserves	59 718	70 527	74 050	74 415	75 964
FCDA and SFDA (-)	15 838	15 814	16 807	16 364	14 634
Domestic FX Liabilities	26 968	25 697	29 798	34 374	31 573
Public Sector Deposits in FX	13 227	10 430	13 601	17 244	14 614
Banks' FX Deposits	13 741	15 267	16 197	17 130	16 959

Source: CBRT

(1) Data obtained by the last Friday of each month.

(2) New presentations were used for M1, M2 and M3.

Currency issued, one of the main liability accounts on the Central Bank balance sheet showing an increase of 25.4 percent during the period of January-September 2008, increased to TL 35 billion. At the same period, banks free deposits fluctuated between TL 13.9 billion and TL 19.7 billion. In the first nine months of 2006, public sector deposits and liabilities on open market operations fluctuated from TL 0.5 billion to TL 20.3 billion and from TL 6.9 billion to TL -5.2 billion, respectively. As a result of the fluctuations mentioned above, Central Bank Money, which is the total of TL liabilities, fluctuated between TL 45.5 billion and YTL 54.7 billion and as of September 2008 realized as TL 51.9 billion.

As of the end of September 2008, the new definitions of M1, M2 and M3 monetary aggregates expanded

nominally in rates of 12.9 percent, 15.9 percent and 15 percent respectively since the end of the previous year. For the increase in M1, the determining factors were the increasing tendencies in currency in circulation and TL demand deposits. In the expansion of M2, increase in both dollar and TL saving deposits was the key factor. Changes in repo and money market funds was limited, as a result, M3 exhibited a level close to M2.

According to the Decision of The Council of Ministers dated April 4, 2007 and No: 2007/11963, the prefix "New" used in the "New Turkish Lira" and the "New Kuruş" will be removed as of January 1, 2009.

b) Targets for the Year 2009

Inflation targeting regime would be continued in 2009. Inflation target for 2009 has been determined as 7.5 percent. Keeping main operational framework unchanged in a great extent, the changes necessary to increase the efficiency of monetary policy would be announced to the public with the policy document titled Monetary and Exchange Rate Policy for 2009 at the end of 2008.

Central Bank would continue to implement the floating exchange rate regime during 2009 by keeping its framework on excessive volatility interventions and foreign exchange buying auctions in order to accumulate FX reserves. 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 intervention or FX 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.

Having permanent price stability is seen as the main condition of macroeconomic stability and enhancing predictability. But, monetary policy is not sufficient alone in obtaining price stability. Maintaining fiscal discipline without concession and ongoing the structural reforms without interruption would contribute to obtain price stability. These supports contributed significantly to decrease inflation, which was very high for last thirty years, to one digit numbers in almost three years after 2001. By this reason, maintaining fiscal discipline and structural reforms will keep utmost importance during the following periods.

CHAPTER 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, descriptively, 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 balance.

As a result of tight fiscal policy implemented in scope of the economic program, general government budget balance gave surplus for the first time in 2005 and continued to give surplus in 2006 with the contribution of high privatization and one off revenues. As for 2007, decrease in one off revenues compared with 2006, 0.2 points decline in privatization revenues as a ratio to GDP and 0.5 points increase in primary expenditures led to the general government budget turn to a 0.2 percent deficit as a ratio to GDP.

In 2008, general government deficit as a ratio to GDP is expected to be 0.7 percent with a 0.5 points increase

compared to the previous year due to weak performance of indirect taxes and privatization revenues. On the other hand, general government balance excluding privatization revenues and interest expenditures is expected to give a surplus of 3.8 percent as a ratio to GDP with a 0.3 percentage point decline compared to the previous year.

SPO defined public sector general balance including SEEs is estimated to be in deficit of 0.1 percent in 2007 and that is expected to reach 0.8 percent in 2008 as a ratio to GDP.

Moreover, IMF defined public sector primary surplus which was realized by 3 percent in 2007, is expected to decrease to 2.7 percent as a ratio to GDP in 2008.

2. Targets For The Year 2009

In 2009, general government tax revenues are expected to realize as 18.6 percent with an increase of 0.6 points as a ratio to GDP compared with the previous year. 0.3, 0.2 and 0.2 points increases in import VAT, personnel income tax and corporate income tax respectively are the main determinants of this development.

Factor incomes, as a share of GDP, is estimated to be 4.8 percent with a 0.3 points decrease compared with the previous year. 0.1 point declines in revenues both from public banks and interests will be the major determinants of this development.

Social fund revenues, which are the total premium receipts collected from private and public sector in order to finance the social security system, are estimated to realize at 7 percent as a ratio to GDP, with a 0.8 points increase in 2009 compared with the previous year. Although there would be a decline in the receipts from the restructured premium debts, state contributions which will be paid by the central government budget owing to the social security reform would play a key role in that increase in 2009. Thus, some part of deficit transfers that are mainly central government expenditures before social security reform will be taken over as state contribution with a certain legal share.

In addition to these developments, as a result of 0.3 percentage point increase in privatization revenues, general government total revenues as a share of GDP

are expected to rise to 33.6 percent from 32.4 percent compared with 2008.

General government primary expenditures are expected to rise to 28.6 percent as a ratio to GDP with a 1.1 points increase. That increase is predominantly stemmed from the rise of general government transfer expenditures. Though there is a 0.3 points decline in interest expenditures; contribution of employer premium's 5 points part by the Treasury according to the Law On Amending Labour Law and Some Laws No. 5793, and increase of transfers with the decline in collections acquired through restructured social security premium debts according to the Law No. 5793 are the main determiners in the increase in current transfers.

In this framework, general government deficit

which is estimated to be 0.7 percent as a ratio to GDP in 2008 is projected to be 0.3 percent in 2009. Nevertheless, when interest expenditures and privatization proceeds excluded general government balance which is expected to give 3.8 percent surplus as a ratio to GDP in 2008 is estimated to give 3.6 percent surplus in 2009 with a 0.2 point decrease.

Public sector general balance based on the SPO definition and including the SEEs is expected to have a deficit of 0.8 percent as a ratio to GDP in 2008 and to regain revenue-expenditure equilibrium in 2009.

Moreover, in 2009, IMF defined public sector primary surplus is expected to be 3 percent of GDP which is in accordance with the Medium-Term Programme (2009-2011) targets.

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

	(Current Prices, Millions YTL)					(Ratio to GDP, In Percent)				
	2005	2006	2007	2008 (1)	2009 (2)	2005	2006	2007	2008 (1)	2009 (2)
Taxes	120 935	142 353	156 815	179 210	207 131	18,6	18,8	18,4	18,0	18,6
-Direct	36 283	39 541	46 829	56 470	65 835	5,6	5,2	5,5	5,7	5,9
-Indirect	80 972	98 660	105 256	117 434	135 252	12,5	13,0	12,3	11,8	12,2
-Wealth	3 680	4 151	4 730	5 306	6 044	0,6	0,5	0,6	0,5	0,5
Non-Tax Revenues	16 388	18 991	17 697	19 182	19 537	2,5	2,5	2,1	1,9	1,8
Factor Incomes	38 814	45 567	48 077	50 716	53 600	6,0	6,0	5,6	5,1	4,8
Social Funds	33 607	44 399	48 319	62 454	78 151	5,2	5,9	5,7	6,3	7,0
TOTAL	209 744	251 311	270 907	311 562	358 419	32,3	33,1	31,7	31,3	32,2
-Privatization Revenues	3 984	11 958	11 795	10 940	15 531	0,6	1,6	1,4	1,1	1,4
TOTAL REVENUES	213 729	263 269	282 701	322 501	373 950	32,9	34,7	33,1	32,4	33,6
Current Expenditures	85 217	108 938	125 970	147 671	164 128	13,1	14,4	14,8	14,9	14,8
Investment Expenditures	18 761	22 523	26 302	30 310	32 753	2,9	3,0	3,1	3,0	2,9
-Fixed Capital	18 645	22 316	26 199	30 214	32 634	2,9	2,9	3,1	3,0	2,9
-Change in Stocks	116	206	104	96	119	0,0	0,0	0,0	0,0	0,0
Transfer Expenditures	108 631	120 556	132 326	151 732	180 743	16,7	15,9	15,5	15,3	16,3
-Current Transfers	105 868	112 929	126 870	144 540	177 644	16,3	14,9	14,9	14,5	16,0
-Capital Transfers	2 763	7 627	5 456	7 192	3 099	0,4	1,0	0,6	0,7	0,3
Stock Revaluation Fund	0	0	0	0	0	0,0	0,0	0,0	0,0	0,0
NON-INTEREST EXPENDITURE	166 024	205 449	235 157	273 283	317 867	25,6	27,1	27,5	27,5	28,6
TOTAL EXPENDITURES	212 609	252 017	284 598	329 713	377 624	32,8	33,2	33,3	33,2	34,0
BORROWING REQUIREMENT	-1 120	-11 252	1 896	7 212	3 674	-0,2	-1,5	0,2	0,7	0,3
PRIMARY BALANCE	-47 704	-57 820	-47 544	-49 218	-56 083	-7,4	-7,6	-5,6	-4,9	-5,0
BORROWING REQUIREMENT EXCLUDING INTEREST EXPENDITURES AND PRIV.	-43 720	-45 862	-35 750	-38 278	-40 552	-6,7	-6,0	-4,2	-3,8	-3,6
REVENUES AND PRIV. REVENUES										

Note: General government includes; the central government budget (consolidated budget in 2005), local governments, revolving funds, unemployment insurance fund, social security institutions, and extra-budgetary funds.

(1) Realization Estimate

(2) Programme

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

	2005	2006	2007	2008 (3)	2009 (4)
	(Current Prices, Million TL)				
Central Government Budget Borrowing Requirement (1)	8 117	4 643	13 708	14 140	13 351
SEEs Borrowing Requirement	-872	-3 725	-1 027	1 083	-3 912
-Operating	-678	-1 327	-1 503	884	-1 095
-Institutions Within the Scope of Privatization	-194	-2 398	477	199	-2 817
Local Governments Borrowing Requirement	-449	1 015	3 848	3 028	-594
Revolving Funds Borrowing Requirement	-1 125	-1 102	-640	-904	-958
Social Security Organizations Borrowing Requirement (2)	138	-889	-783	1 158	0
Unemployment Insurance Fund Borrowing Requirement	-4 713	-5 717	-6 986	-7 304	-7 096
Borrowing Requirement of Extra-Budgetary Funds	-3 087	-9 202	-7 251	-2 906	-1 029
TOTAL PSBR	-1 992	-14 977	870	8 295	-238
TOTAL PSBR (Exc. Interest Expenditures)	-48 954	-62 046	-49 575	-49 154	-61 184
TOTAL PSBR (Exc. Privatization Revenues)	1 992	-3 019	12 664	19 235	15 293
TOTAL PSBR (Exc. Interest Expenditures + Priv. Revenues)	-44 969	-50 088	-37 780	-38 215	-45 653
	(Ratio to GDP, In Percent)				
Central Government Budget Borrowing Requirement (1)	1,25	0,61	1,61	1,42	1,20
SEEs Borrowing Requirement	-0,13	-0,49	-0,12	0,11	-0,35
-Operating	-0,10	-0,17	-0,18	0,09	-0,10
-Institutions Within the Scope of Privatization	-0,03	-0,32	0,06	0,02	-0,25
Local Governments Borrowing Requirement	-0,07	0,13	0,45	0,30	-0,05
Revolving Funds Borrowing Requirement	-0,17	-0,15	-0,07	-0,09	-0,09
Social Security Organizations Borrowing Requirement (2)	0,02	-0,12	-0,09	0,12	0,00
Unemployment Insurance Fund Borrowing Requirement	-0,73	-0,75	-0,82	-0,73	-0,64
Borrowing Requirement of Extra-Budgetary Funds	-0,48	-1,21	-0,85	-0,29	-0,09
TOTAL PSBR	-0,31	-1,97	0,10	0,83	-0,02
TOTAL PSBR (Exc. Interest Expenditures)	-7,54	-8,18	-5,81	-4,94	-5,50
TOTAL PSBR (Exc. Privatization Revenues)	0,31	-0,40	1,48	1,93	1,38
TOTAL PSBR (Exc. Interest Expenditures + Priv. Revenues)	-6,93	-6,60	-4,43	-3,84	-4,11

Note: Negative sign indicates surplus.

(1) Consolidated budget definition was used in 2005.

(2) General Health Insurance is included.

(3) Realization Estimate

(4) Programme

TABLE: III. 3- Public Sector General Balance of the Year 2006

(Current Prices, Million TL)

								SEEs			TOTAL PUBLIC
	Central Gov. Budget	Local Gov.	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Operating	Scope of Privatiza.	TOTAL	
1. Taxes	121 511	14 251	2 632	0	0	-100	138 293	-496	48	-448	137 845
a. Direct	33 666	3 432	2 632	0	0	-100	39 630	-496	48	-448	39 182
b. Indirect	87 844	10 819	0	0	0	0	98 664	0	0	0	98 664
2. Non-Tax Revenues	15 404	3 153	498	0	0	-292	18 763	-325	0	-325	18 438
3. Factor Incomes	16 277	4 726	-225	3 448	3 455	2 262	29 943	3 221	2 313	5 534	35 477
4. Social Funds	0	0	0	1 612	-21 102	0	-19 490	0	0	0	-19 490
5. Current Transfers	-84 716	-1 224	-1 092	657	18 552	0	-67 823	707	21	728	-67 094
I. PUBLIC DISPOSABLE INCOME	68 476	20 906	1 813	5 717	906	1 870	99 687	3 107	2 382	5 488	105 175
II. CURRENT EXPENDITURES	-56 481	-14 489	-1 357	0	0	0	-72 327	0	0	0	-72 327
III. PUBLIC SAVINGS	11 996	6 417	455	5 717	906	1 870	27 360	3 107	2 382	5 488	32 848
IV. INVESTMENT	-14 088	-10 388	-5	0	-17	-421	-24 919	-2 793	-56	-2 849	-27 768
a. Fixed Capital	-14 088	-10 399	-5	0	-17	-283	-24 792	-2 785	-887	-3 672	-28 464
b. Change in Stocks	0	11	0	0	0	-138	-127	-8	831	823	696
V. SAV.- INV. DIF.	-2 093	-3 971	450	5 717	889	1 448	2 441	314	2 326	2 639	5 080
VI. CAPITAL TRANS.	-2 550	2 969	8 752	0	0	-280	8 890	1 274	515	1 789	10 679
1. Taxes on Wealth	2 800	1 351	0	0	0	0	4 151	0	0	0	4 151
2. Other Transfers	-5 171	822	8 754	0	0	0	4 404	1 905	2 610	4 515	8 919
3. Exp. and Inc of Assets	-179	795	-2	0	0	-280	334	-631	-2 095	-2 726	-2 392
VII. CASH-BANK/ BORROWING	4 643	1 002	-9 202	-5 717	-889	-1 168	-11 331	-1 588	-2 841	-4 428	-15 759
1. Change in Cash-Bank	0	198	-897	0	0	-583	-1 283	-72	-199	-271	-1 554
2. Foreign Borrowing (Net)	-407	-122	47	0	0	0	-482	-61	2	-60	-542
- Repayments	-18 476	-483	-103	0	0	0	-19 063	-1 691	-3	-1 694	-20 757
- Loans	18 069	361	150	0	0	0	18 581	1 630	4	1 635	20 215
3. Domestic Borrowing/ Lending (Net)	5 050	939	-8 351	-5 717	-889	-519	-9 487	-1 194	-2 201	-3 394	-12 881
4. Stock Changes Fund	0	-13	0	0	0	-66	-79	-260	-442	-703	-782
BORROWING REQ.	4 643	1.015	-9 202	-5 717	-889	-1 102	-11 252	-1 327	-2 398	-3 725	-14 977

Note: General Health Insurance is included in the SSIs accounts.

TABLE: III. 4- Public Sector General Balance of the Year 2007

(Current Prices, Million)

								SEEs			TOTAL PUBLIC
	Central Gov. Budget	Local Gov.	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Operating	Scope of Privatiza.	TOTAL	
1. Taxes	133 348	15 790	3 125	0	0	-81	152 182	-323	-128	-451	151 731
a. Direct	39 826	4 052	3 125	0	0	-81	46 922	-323	-128	-451	46 471
b. Indirect	93 522	11 738	0	0	0	0	105 260	0	0	0	105 260
2. Non-Tax Revenues	13 857	3 592	523	0	0	-311	17 661	-714	0	-714	16 947
3. Factor Incomes	16 124	5 666	-156	4 163	3 296	2 149	31 242	4 107	247	4 355	35 596
4. Social Funds	0	0	0	2 009	-28 291	0	-26 282	0	0	0	-26 282
5. Current Transfers	-100 008	-1 418	-782	814	25 824	0	-75 571	638	80	718	-74 853
I. PUBLIC DISPOSABLE INCOME	63 321	23 630	2 710	6 986	829	1 756	99 232	3 708	200	3 908	103 140
II. CURRENT EXPENDITURES	-64 879	-16 946	-1 405	0	0	0	-83 231	0	0	0	-83 231
III. PUBLIC SAVINGS	-1 558	6 684	1 305	6 986	829	1 756	16 001	3 708	200	3 908	19 909
IV. INVESTMENT	-15 505	-12 859	0	0	-46	-663	-29 073	-2 780	-752	-3 532	-32 604
a. Fixed Capital	-15 505	-12 869	0	0	-46	-597	-29 016	-2 547	-971	-3 518	-32 534
b. Change in Stocks	0	10	0	0	0	-67	-57	-233	219	-14	-70
V. SAV.- INV. DIF.	-17 063	-6 175	1 305	6 986	783	1 093	-13 071	928	-552	376	-12 695
VI. CAPITAL TRANS.	3 355	2 333	5 946	0	0	-412	11 222	660	202	863	12 084
1. Taxes on Wealth	3 263	1 467	0	0	0	0	4 730	0	0	0	4 730
2. Other Transfers	475	335	5 946	0	0	0	6 756	1 936	233	2 169	8 925
3. Exp. and Inc of Assets	-382	531	0	0	0	-412	-264	-1 276	-31	-1 307	-1 571
VII. CASH-BANK/ BORROWING	13 708	3 842	-7 251	-6 986	-783	-681	1 849	-1 589	350	-1 238	611
1. Change in Cash-Bank	0	1 752	-2 178	0	0	-605	-1 032	-685	-23	-708	-1 739
2. Foreign Borrowing (Net)	-5 200	401	219	0	0	0	-4 580	315	-3	312	-4 267
- Repayments	-15 700	-386	-79	0	0	0	-16 164	-9 202	-17	-9 219	-25 384
- Loans	10 500	787	298	0	0	0	11 585	9 518	14	9 532	21 116
3. Domestic Borrowing/ Lending (Net)	18 908	1 695	-5 292	-6 986	-783	-34	7 508	-1 134	503	-631	6 877
4. Stock Changes Fund	0	-6	0	0	0	-41	-47	-85	-127	-212	-259
BORROWING REQ.	13 708	3 848	-7 251	-6 986	-873	-640	1 896	-1 503	477	-1 027	870

Note: General Health Insurance is included in the SSIs accounts.

TABLE III. 5- Public Sector General Balance of the Year 2008 (1)

(Current Prices, Million)

								SEEs			TOTAL PUBLIC
	Central Gov. Budget	Local Gov.	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Operating	Scope of Privatiza.	TOTAL	
1. Taxes	150 911	19 407	3 773	0	0	-84	174 006	-739	5	-733	173 273
a. Direct	47 559	5 321	3 773	0	0	-84	56 569	-739	5	-733	55 835
b. Indirect	103 352	14 086	0	0	0	0	117 438	0	0	0	117 438
2. Non-Tax Revenues	16 250	4 127	140	0	0	-354	20 163	-1 048	0	-1 048	19 115
3. Factor Incomes	14 888	5 996	5	3 801	3 203	2 483	30 376	4 255	-506	3 749	34 125
4. Social Funds	0	0	0	3 753	-27 781	0	-24 028	0	0	0	-24 028
5. Current Transfers	-107 909	-1 795	-1 070	-250	23 467	0	-87 558	829	23	852	-86 705
I. PUBLIC DISPOSABLE INCOME	74 139	27 735	2 848	7 304	-1 111	2 044	112 959	3 297	-477	2 819	115 779
II. CURRENT EXPENDITURES	-74 587	-19 214	-1 557	0	0	0	-95 358	0	0	0	-95 358
III. PUBLIC SAVINGS	-448	8 521	1 290	7 304	-1 111	2 044	17 601	3 297	-477	2 819	20 420
IV. INVESTMENT	-19 251	-13 316	0	0	-47	-563	-33 177	-4 897	338	-4 559	-37 736
a. Fixed Capital	-19 251	-13 331	0	0	-47	-583	-33 212	-3 056	-856	-3 913	-37 125
b. Change in Stocks	0	15	0	0	0	20	36	-1 841	1 195	-646	-611
V. SAV.- INV. DIF.	-19 699	-4 794	1 290	7 304	-1 158	1 482	-15 576	-1 601	-139	-1 739	-17 315
VI. CAPITAL TRANS.	5 560	1 782	1 615	0	0	-462	8 495	1 177	568	1 745	10 240
1. Taxes on Wealth	3 722	1 584	0	0	0	0	5 306	0	0	0	5 306
2. Other Transfers	3 189	250	1 615	0	0	0	5 054	2 027	253	2 280	7 334
3. Exp. and Inc of Assets	-1 352	-51	0	0	0	-462	-1 865	-850	315	-536	-2 401
VII. CASH-BANK/ BORROWING	14 140	3 012	-2 906	-7 304	1 158	-1 020	7 080	424	-429	-5	7 075
1. Change in Cash-Bank	0	1 330	-2 954	0	0	-596	-2 220	758	-304	453	-1 767
2. Foreign Borrowing (Net)	1 900	313	43	0	0	0	2 256	199	313	512	2 768
- Repayments	-11 100	-620	-50	0	0	0	-11 770	-10 596	-3	-10 599	-22 369
- Loans	13 000	933	94	0	0	0	14 027	10 795	316	11 111	25 137
3. Domestic Borrowing/ Lending (Net)	12 240	1 385	5	-7 304	1 158	-308	7 176	-73	191	118	7 294
4. Stock Changes Fund	0	-15	0	0	0	-116	-132	-460	-628	-1 088	-1 220
BORROWING REQ.	14 140	3 028	-2 906	-7 304	1 158	-904	7 212	884	199	1 083	8 295

Note: General Health Insurance is included in the SSIs accounts.

(1) Realization Estimate

TABLE: III. 6- Public Sector General Balance of the Year 2009 (1)

(Current Prices, MillionL)

								SEEs			TOTAL PUBLIC
	Central Gov. Budget	Local Gov.	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOV. TOTAL	Operating	Scope of Privatiza.	TOTAL	
1. Taxes	173 744	23 472	4 071	0	0	-92	201 196	-932	-150	-1 082	200 113
a. Direct	55 380	6 580	4 071	0	0	-92	65 940	-932	-150	-1 082	64 858
b. Indirect	118 364	16 892	0	0	0	0	135 256	0	0	0	135 256
2. Non-Tax Revenues	19 085	4 459	61	0	0	-390	23 216	-1 393	0	-1 393	21 823
3. Factor Incomes	13 303	6 846	49	4 627	2 604	2 749	30 178	4 945	3 225	8 170	38 348
4. Social Funds	0	0	0	2 939	-23 793	0	-20 854	0	0	0	-20 854
5. Current Transfers	-128 318	-2 071	-1 410	-470	21 378	0	-110 891	1 192	223	1 415	-109 475
I. PUBLIC DISPOSABLE INCOME	77 815	32 706	2 772	7 096	188	2 267	122 844	3 812	3 299	7 111	129 955
II. CURRENT EXPENDITURES	-83 194	-21 568	-1 759	0	0	0	-106 522	0	0	0	-106 522
III. PUBLIC SAVINGS	-5 380	11 138	1 013	7 096	188	2 267	16 323	3 812	3 299	7 111	23 434
IV. INVESTMENT	-20 306	-14 723	0	0	-188	-751	-35 968	-3 379	-530	-3 908	-39 876
a. Fixed Capital	-20 306	-14 724	0	0	-188	-700	-35 917	-4 303	-576	-4 879	-40 796
b. Change in Stocks	0	1	0	0	0	-51	-50	924	46	971	920
V. SAV.- INV. DIF.	-25 685	-3 585	1 013	7 096	0	1 516	-19 645	434	2 769	3 202	-16 442
VI. CAPITAL TRANS.	12 334	4 186	16	0	0	-496	16 040	887	236	1 123	17 162
1. Taxes on Wealth	4 314	1 729	0	0	0	0	6 044	0	0	0	6 044
2. Other Transfers	7 671	2 464	16	0	0	0	10 151	1 862	200	2 062	12 214
3. Exp. and Inc of Assets	349	-8	0	0	0	-496	-155	-976	36	-940	-1 095
VII. CASH-BANK/ BORROWING	13 351	-601	-1 029	-7 096	0	-1 020	3 605	-1 320	-3 005	-4 325	-720
1. Change in Cash-Bank	0	-652	-823	0	0	-757	-2 233	58	-71	-13	-2 246
2. Foreign Borrowing (Net)	1 600	680	-6	0	0	0	2 274	464	91	555	2 829
- Repayments	-10 200	-427	-56	0	0	0	-10 683	-5 379	-2	-5 382	-16 064
- Loans	11 800	1 107	50	0	0	0	12 957	5 843	93	5 937	18 893
3. Domestic Borrowing/ Lending (Net)	11 751	-621	-200	-7 096	0	-201	3 633	-1 617	-2 837	-4 454	-821
4. Stock Changes Fund	0	-7	0	0	0	-62	-69	-225	-188	-413	-482
BORROWING REQ.	13 351	-594	-1 029	-7 096	0	-958	3 674	-1 095	-2 817	-3 912	-238

Note: General Health Insurance is included in the SSIs accounts.

(1) Programme

A. CENTRAL GOVERNMENT BUDGET

1. Current Outlook

As a result of full implementation of the Law No. 5018 from the beginning of 2006, the scope of budget expanded, share of local governments and funds were started to display as transfer expenditure in the budget also from the beginning of 2008, privatization proceeds and a certain share of interest revenues of Unemployment Insurance Fund were initiated to transfer to the budget in order to use under the scope of GAP Action Plan. All have increased the importance of central government budget, the most important policy instrument, in terms of the volume of total revenues and expenditures.

In 2008, it is expected that central government total revenues will be 21.7 percent, tax revenues will be 17.6 percent and non-tax revenues will be 4.1 percent as a ratio to GDP.

Although real growth is expected to be under the target, as a result of the significantly higher deflator, nominal GDP is expected to realize over the target. With the effect of this development also, in 2008, tax revenues are estimated TL 3.5 billion over the target. On the other hand, lack of fulfillment of fiscal responsibilities of SEEs operating in energy sector affected tax collection negatively.

In this context, as a result of high interest rates, wage increase and inflation, personal income tax, corporate income tax and as result of high import performance import VAT, will exceed the budget target TL 1.2 billion, TL 3.1 billion and TL 0.9 billion respectively. On the other hand, SCT collection is expected to realize as TL 1.3 billion below the target as a result of change in consumer preferences and lower consumption levels below the expectations.

As a result of the developments mentioned above, tax revenues are predicted to realize as 17.6 percent of GDP. The share of indirect taxes in total taxes which was 68.5 and 66.1 percent respectively in 2006 and 2007 is estimated to realize as 65.1 percent that of direct taxes is 34.9 percent in 2008.

In scope of the regulations made by Laws No. 5763 and 5793, although these were not foreseen in the budget, about TL 6 billion of privatization revenue and TL 1.3 billion of interest revenue from UIF have been recorded as a budget revenue. On the other hand, revenue that was received from the privatization of certain part of the public share of Turkish Telecom was realized as TL 2.1 billion which is below the target.

In 2008, central government expenditures, primary expenditures and interest expenditures are estimated to realize as 23.1, 17.6 and 5.5 percent as a ratio to GDP respectively.

In 2008, central government primary expenditures are expected to be TL 8.5 billion over budget target basically as a result of the expenditures on goods and services and capital expenditures.

Personnel expenditures, appropriated as TL 48.7 billion in central government budget, is estimated to realize as TL 50.4 billion and 5.1 percent as a ratio to GDP. Regulations to lessen imbalances among public employees' fiscal and personal rights have been crucial in the rise of personnel expenditures. In this context, Council of Ministers was authorized by the Law No. 5793 to give extra payments for public employees up to 200 percent of highest ranked public personnel to whom don't have institutional supplementary payments. In this framework, Council Of Ministers put the new supplementary payment decree into effect which is effective since August 15, 2008. This regulation will create approximately TL 900 million costs for five months.

Expenditures on goods and services except defense and health are estimated to realize TL 1.8 billion above the appropriation. Pressures arose from education services for handicapped, family medicine system and additional energy and fuel costs have been significant in this circumstance.

Compensation of 5 point employer share of social security premiums by Treasury from October 1, 2008 according to the Law No 5763, agricultural subsidies in the framework of drought support, improving the utilization conditions by the Laws No. 5350 and No. 5615 from the Law No 5084 which is related to promote the investments, indemnification payments due to the terrorism and expenditures under the framework of the law related to the handicapped made expenditure pressures on the current transfers. On the other side, proceeds that were received due to the restructured social security debts by the Law No. 5797 resulted in decline of the transfers to the social security institutions.

Capital expenditures are expected to realize TL 5.9 billion over its appropriation. Additional expenditures of; TL 2.1 billion which will be used for GAP Action Plan investments and economic and social development investments, TL 2.8 billion for General Directorate Of Highways, TL 902 million for expropriations of Ministry Of Health are the main determiners of this circumstance.

Furthermore expenditures as part of the KOYDES Project are expected to realize TL 303 million over

its appropriation and capital transfers for SEEs are expected to realize TL 466 million over its appropriation mainly due to the transfers from the privatization receipt of Mersin Port.

In accordance with these developments mentioned above, total revenues are expected to be TL 10.8 billion over the budget target while total expenditures are estimated to realize TL 7 billion over its initial appropriation, thus budget deficit which was targeted to be TL 18 billion in the 2008 budget bill is now expected to realize as TL 14.1 billion. However by the reason of positive performance which predominantly came from revenues of privatizations and other items that are not counted as primary revenues under the IMF definition, the same performance couldn't be seen at the IMF defined primary surplus. Likewise, although IMF defined primary surplus was programmed to be TL 31.7 billion at the budget, realization is estimated to realize as TL 25.8 billion.

As regards to the debt management, TL denominated discounted cost of domestic borrowing, which was at the level of 16.5 percent in December 2007, displayed floating movements related to the developments in the international markets, and realized as 18.8 percent in September 2008. Similarly,

average maturity of domestic borrowing, which was 33 months in 2007, realized as 30 months by the end of September 2008.

Decreasing the roll over ratio of domestic debt and extending the maturity of borrowing are aimed through debt management policies applied under the scope of strategic benchmarks and market conditions in order to reduce liquidity risk. In this context, the domestic debt roll over ratio which was 79.5 percent in 2007 is estimated to be 70 percent at the end of 2008.

In order to organize amortization profile, bonds at the value of TL 6.2 billion were repurchased by the repurchasing and clearing transactions under the framework of active debt management policies applied in 2008.

Consequently, of the total central government budget debt stock, realized TL 353.6 billion by the end of September 2008, TL 266.4 billion is domestic and TL 87.2 billion is external debt.

Also public net debt stock which was TL 248.3 billion at the end of 2007 and 29.1 percent as a ratio to GDP declined to TL 235 billion at the end of the first half of 2008.

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

	(Current Prices, Millions of TL)				(Ratio to GDP, In Percent)		
	2005	2006	2007	2008 (1)	2005	2006	2007
Total	244 782	251 470	255 310	266 364	37,7	33,2	29,9
Bonds	226 964	241 876	249 176	257 291	35,0	31,9	29,2
Cash	176 335	198 783	214 448	225 281	27,2	26,2	25,1
Non-Cash	50 629	43 094	34 728	32 010	7,8	5,7	4,1
Bills	17 818	9 594	6 134	9 073	2,7	1,3	0,7
Cash	17 818	9 594	6 134	9 073	2,7	1,3	0,7
Non-Cash	0	0	0	0	0,0	0,0	0,0

(1) As of the end of September.

2. Targets For The Year 2009

In 2009, in order to reach the public sector primary surplus target which was targeted as 3 percent of GDP in Medium Term Programme, primary surplus of central government budget is programmed as 2.4 percent of GDP over its initial target which was 2.3 percent of GDP in Medium Term Programme.

In 2009, central government budget revenues are expected to realize as 22.4 percent of GDP with a 0.7 points increase of which 0.6 points is due to the tax revenues compared with 2008.

In estimation of tax revenues for 2009, it is assumed that fixed SCT amounts will be updated and regulations that will result in any revenue loss will not be enacted. Also, taxes on international trade and transactions are estimated to rise 0.3 points as a ratio to GDP as a result of the import and exchange rate assumptions compared with 2008.

One fourth of interest receipts of UIF and cash surplus of privatization fund will also be transferred to the budget in 2009 as it was done in 2008. In this framework, in 2009, non-tax revenues are expected to rise to 4.2 percent of GDP with a 0.1 points increase compared with the previous year.

In 2009, primary expenditures are estimated to rise 0.8 points compared with the previous year although interest expenditures are estimated to decline 0.3 points as a ratio to GDP. Thus, central government budget expenditures, programmed as TL 229.5 billion, are targeted as 23.6 percent of GDP with a 0.5 points increase compared with the previous year.

In accordance with the collective bargaining resolutions, 4 percent increase in January and 4.5 percent increase in July 2009 to the salaries of civil servants was decided. In addition, regulations aimed at reducing imbalances among public personnels' financial and personal rights are estimated to result in TL 2.5 billion cost for 2009.

In 2009, current transfer expenditures are estimated to reach 8 percent as a ratio to GDP with 1.1 points increase compared with the previous year. This increase is mainly due to the TL 4.7 billion cost of 5 points contribution by the Treasury for employer share of

social security premiums and the increase in the deficit transfers to the social security institutions owing to the decline in the collections from restructured premium debts compared with 2008. Also it was determined to meet the energy costs for lightening of the avenues and streets together with traffic signalization from the appropriation that will be allocated to the budget of Undersecretariat Of Treasury by the Law No. 5874 dated July 9, 2008. TL 500 million expenditure is estimated in 2009 owing to this regulation.

In 2009, it is projected to make TL 2.8 billion transfers form Privatization Fund and UIF for the expenditures under the scope of GAP Action Plan and it is determined to allocate TL 500 million appropriation for KÖYDES Project.

In 2009, as it was in the previous year, payments under the scope of the Law related to the handicapped and terror compensations will continue to make spending pressures. Also TL 200 million expenditure is programmed to spend for the Istanbul 2010 European Capital Of Culture Project that was regulated with the Law No. 5706.

Under the framework of revenue and expenditure expectations defined above, central government budget deficit which is estimated to realize as TL 14.1 billion and 1.4 percent as a share of GDP in 2008 is targeted to decline TL 13.4 billion and 1.2 percent as a share of GDP in 2009. IMF defined primary surplus is programmed to be 2.4 percent as a ratio to GDP.

As regards to the debt management, the practice of strategic benchmark will be pursued in the forthcoming periods as it was in recent years. Under this framework, in 2009, 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 TL-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..

TABLE: III. 8- The Central Government Budget Figures

	(Current Prices, Millions of TL)			(Percentage Change)		(Percentage Share)			(Share in GDP, In Percent)		
	2007	2008 (1)	2009 (2)	2008	2009	2007	2008 (1)	2009 (2)	2007	2008 (1)	2009 (2)
EXPENDITURES	204 068	229 535	262 110	12,5	14,2	100,0	100,0	100,0	23,9	23,1	23,6
01- Personnel Expenditures	43 569	50 355	57 211	15,6	13,6	21,4	21,9	21,8	5,1	5,1	5,1
02- Government Premiums to SSIs	5 805	6 450	7 243	11,1	12,3	2,8	2,8	2,8	0,7	0,6	0,7
03- Exp. On Goods and Services	22 258	24 750	26 133	11,2	5,6	10,9	10,8	10,0	2,6	2,5	2,4
04- Interest Expenditures	48 753	54 500	57 500	11,8	5,5	23,9	23,7	21,9	5,7	5,5	5,2
05- Current Transfers	63 292	68 694	88 504	8,5	28,8	31,0	29,9	33,8	7,4	6,9	8,0
06- Capital Expenditures	13 003	17 675	16 622	35,9	-6,0	6,4	7,7	6,3	1,5	1,8	1,5
07- Capital Transfers	3 542	2 803	2 819	-20,9	0,6	1,7	1,2	1,1	0,4	0,3	0,3
08- Lending	3 846	4 308	4 661	12,0	8,2	1,9	1,9	1,8	0,5	0,4	0,4
09- Reserve Appropriations	0	0	1 418			0,0	0,0	0,5	0,0	0,0	0,1
REVENUES	190 360	215 396	248 759	13,2	15,5	100,0	100,0	100,0	22,3	21,7	22,4
1 – General Budget	184 803	209 239	242 958	13,2	16,1	97,1	97,1	97,7	21,6	21,0	21,9
01- Tax Revenues	152 835	174 745	202 090	14,3	15,6	80,3	81,1	81,2	17,9	17,6	18,2
02- Non-Tax Revenues	24 043	22 963	25 270	-4,5	10,0	12,6	10,7	10,2	2,8	2,3	2,3
03- Capital Income	6 080	8 294	13 139	36,4	58,4	3,2	3,9	5,3	0,7	0,8	1,2
04- Grants and Aid Received	1 845	3 237	2 460	75,5	-24,0	1,0	1,5	1,0	0,2	0,3	0,2
2 – Rev. From Spec. Budget and Reg. And Sup. Agencies	5 557	6 156	5 801	10,8	-5,8	2,9	2,9	2,3	0,7	0,6	0,5
BUDGET DEFICIT	-13 708	-14 140	-13 351	3,1	-5,6				-1,6	-1,4	-1,2
MEMO											
Non-interest Expenditures	155 315	175 035	204 610	12,7	16,9				18,2	17,6	18,4
Primary Balance	35 045	40 360	44 149	15,2	9,4				4,1	4,1	4,0
IMF-defined Primary Balance	21 241	25 766	26 806	21,3	4,0				2,5	2,6	2,4

Note: Revenue surpluses from the regulatory and supervisory agencies subtracted from general budget non-tax revenues

(1) Estimate

(2) Programme

Within the scope of sustaining transparency in debt management financing, programmes and information on debt will be regularly announced to the public in 2009. 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.

Efforts will be continued to create new borrowing instruments and retail selling methods in order to enhance investor base of the government domestic borrowing instruments (GDBI).

Primary dealer system is planned to continue which has been implemented in order to enhance efficiency in primary and secondary markets of GDBI. Moreover policies towards to reissue bonds in decreasing maturities in order to create a healthy yield curve in secondary markets and provide liquidity in GDBI buying-selling transactions will be pursued.

Keeping reserves at a sufficient level throughout the year with the aim of mitigating the liquidity risk that might arise in cash and debt management is targeted. Moreover, efforts which were started with the aim of managing the cash reserves more effectively will be maintained.

B. LOCAL GOVERNMENTS

1. Current Outlook

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

In 2007, revenues of local administrations, as compared to the previous year realization, increased by 10.5 percent and reached TL 26.9 billion while the expenditures reached TL 30.7 billion with an increase of 21.3 percent. Comparing the shares in GDP with those of previous year, local governments revenues decreased by 0.05 and expenditures increased by 0.26 percentage points. As a result of this, local governments deficit reached to 0.45 percent of GDP by increasing 0.32 point compare to year 2006.

Acceleration of water pipeline investments planned to realized in long-term and urban mass transportation investments are the main reasons of rapid increasing of local governments borrowing requirements in 2007. Increasing trend of budget deficit in municipalities other than metropolitans continued in 2007.

In 2008, revenues of local governments are expected to reach to TL 31.4 billion with an increase of 16.8 percent and thus its share in GDP is estimated to be 3.15 percent with the contribution of increase in shares from general government tax revenues. Local governments expenditures are expected to reach to TL 34.4 billion and 3.46 percent of GDP by increasing 12 percent in the same year. As a result of this, local governments borrowing requirements estimated to decreased to 0.3 percent of GDP by the improvement at the metropolitan utilities budget balance.

Transfers from general budget tax revenues to special province administrations and municipalities were increased and tax share distribution mechanism changed by The Law on Transfer from General Budget Tax Revenues to Special Province Administrations and Municipalities (law no:5779). SCT, special communication tax and lottery tax will be included in tax share revenue pool under the new tax share system. By July 2008, general budget tax revenues will be remitted in a formula of 2.85 percent to municipalities out of the metropolitan areas, 2.5 percent to metropolitan district municipalities and 1.15 percent to special province administrations. Metropolitan municipalities will continue to receive 5 percent of general budget tax revenues collected in metropolitan area as it did in the old tax share distribution system, but SCT on petroleum products will be excluded from tax share revenue pool until end of year 2012.

The most important improvement put into force by the new law on tax share transfers are the adding of new criterias for tax share distribution mechanism. Under the new tax share distribution system; for the municipalities out of the metropolitan areas, 80 percent of tax share revenues distributed on per-capita base while remaining 20 percent distributed on base of development index calculated by SPO. New system target to decrease fiscal capacity disparities, which arouse as a result of regional development disparities, among municipalities. Per-capita distribution formula continued to use for metropolitan district municipalities. Transfers from district municipalities tax shares to the metropolitan municipalities decreased to 30 percent from 35 percent.

The other new arrangement bring by the law no 5779 is the equalization appropriation 0.1 percent of last realized general budget tax revenues subject to equalizing appropriation, and 60 percent of this amount distributed to municipalities which have population under 5.000 and remaining 40 percent distributed to municipalities which have population between 5.001-9.999 on equal bases.

Legal personalities of the municipalities which have a population below two thousand were converted into village -that will be put into force after the forthcoming local elections-, first stage municipalities which were

inside the borders of metropolitan municipalities were abolished and new district municipalities were constituted also borders of some existing municipalities were marked out again by the Law No. 5747. Abolishment of municipalities' legal personalities which are populated below two thousand will not only have a limited contribution to the local government borrowing

requirement but also help to increase the efficiency of budget implementations in local governments.

2. Targets for the Year 2009

In 2009, revenues, expenditures and surplus of local governments are estimated as TL 39 billion, TL 38.4 billion and TL 0.6 million, respectively.

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)			
	2006	2007	2008(1)	2009(2)	2006	2007	2008(1)	2009(2)
Municipalities	6 207	6 886	8 695	10 569	0,82	0,81	0,87	0,95
Metropolitan Municipalities	4 540	4 921	5 900	7 081	0,60	0,58	0,59	0,64
Special Province Administrations	1 159	1 285	1 713	2 269	0,15	0,15	0,17	0,20
TOTAL	11 906	13 092	16 308	19 919	1,57	1,53	1,64	1,79

(1) Estimation (2) Programme target

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

	(Current Prices, Millions of YTL)				(Ratio to GDP, In Percent)			
	2006	2007	2008(2)	2009(3)	2006	2007	2008(2)	2009(3)
REVENUES	24 303	26 851	31 364	38 971	3,20	3,15	3,15	3,51
1.Taxes	15 603	17 257	20 991	25 201	2,06	2,02	2,11	2,27
2.Non-Tax Revenues	3 153	3 592	4 127	4 459	0,42	0,42	0,42	0,40
3.Factor Incomes (Net)	4 726	5 666	5 996	6 846	0,62	0,66	0,60	0,62
4.Capital Transfers (Net)	822	335	250	2 464	0,11	0,04	0,03	0,22
EXPENDITURES	25 318	30 699	34 392	38 378	3,34	3,60	3,46	3,45
1.Current Expenditures	14 489	16 946	19 214	21 568	1,91	1,99	1,93	1,94
2.Investment Expenditures	10 400	12 865	13 331	14 730	1,37	1,51	1,34	1,33
a. Fixed Capital	10 399	12 869	13 331	14 724	1,37	1,51	1,34	1,32
b. Changes in Stocks	2	-4	0	6	0,00	0,00	0,00	0,00
3. Current Transfers	1 224	1 418	1 795	2 071	0,16	0,17	0,18	0,19
4. Expropriation and Increase in Fixed Assets	-795	-531	51	8	-0,10	-0,06	0,01	0,00
	-1 015	-3 848	-3 028	594	-0,13	-0,45	-0,30	0,05
REV. – EXP.								
DIFFERENCE								

(1) Includes special provincial administrations, municipalities, Bank of Provinces, local government unions, water-sewerage and natural gas and urban transportation utilities operating under metropolitan municipalities.

(2) Estimation

(3) Programme target

Revenues from the privatization of local natural gas distribution company, property sale and increasing of tax share revenue ratio are the main reasons of estimated local government surplus for 2009. It is expected that TL 2.4 billion will be received from asset sales and the most of these revenue will be spent for debt repayments. It is estimated that claw-back ratio for arrears repayment will be decided at the level which prevent the municipalities creating new arrears and help them to decrease the debt stocks.

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 AOC are included. YURTKUR and ÖSYM placed under central government budget owing to Law No. 5018 are excluded from revolving fund coverage after 2006.

The financing balance of revolving funds affiliated to the Ministry of Health, which was used to be followed on accrual basis, has been followed in cash basis since 2005, owing to substantial differences between accrual and cash revenues stemming from the liabilities of governments on behalf of social security institutions, budgetary institutions and green card owners.

The ratio of net budget surplus of revolving funds to GDP, which was 0.07 percent in 2007, is expected to realize as 0.09 percent in 2008. The ratio of profits of revolving funds to GDP realized as 0.22 percent in 2007 and it is also expected to become 0.22 percent in 2008.

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

	2006	2007	2008 (1)	2009 (2)
	(Current Prices, Million TL)			
A. TOTAL REVENUES	15 842	17 974	20 479	22 859
- Operating Income	15 647	17 718	20 152	22 481
- Retained Funds	194	256	327	378
- Budget Transfers	0	0	0	0
B. TOTAL EXPENDITURES	14 739	17 334	19 576	21 901
- Operating Expenses	13 579	15 825	17 997	20 110
- Investment Expenditures	283	597	583	700
- Increase in Stocks	204	108	96	113
- Increase in Fixed Assets	280	412	462	496
- Direct Taxes	100	81	84	92
- Transfers to Funds	292	311	354	390
C. REVENUE-EXPENDITURE DIFFERENCE	1 102	640	904	958
	(Ratios to GDP, In Percent)			
A. TOTAL REVENUES	2,09	2,11	2,06	2,06
- Operating Income	2,06	2,08	2,03	2,02
- Retained Funds	0,03	0,03	0,03	0,03
- Budget Transfers	0,00	0,00	0,00	0,00
B. TOTAL EXPENDITURES	1,94	2,03	1,97	1,97
- Operating Expenses	1,79	1,85	1,81	1,81
- Investment Expenditures	0,04	0,07	0,06	0,06
- Increase in Stocks	0,03	0,01	0,01	0,01
- Increase in Fixed Assets	0,04	0,05	0,05	0,04
- Direct Taxes	0,01	0,01	0,01	0,01
- Transfers to Funds	0,04	0,04	0,04	0,04
C. REVENUE-EXPENDITURE DIFFERENCE	0,15	0,07	0,09	0,09
Memo: Profits / GDP (In Percent)	0,27	0,22	0,22	0,21

(1) Estimate

(2) Programme target

2. Targets for the Year 2009

In 2009, the ratios of net budget surplus and profit of the revolving funds to GDP are expected to become 0.09 percent and 0.21 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 3.31 percent of GDP in 2008. The revenue gathered from the arrear restructuring of Alienated SSK and Bağ-Kur has been a leading factor of the increase in this ratio by 0.56 percent of GDP compared to the previous year.

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

	2006	2007	2008 (1)	2009 (2)
	(Current Prices, Million T)			
A. REVENUES	51 221	54 591	65 618	81 374
- Premium Collections	41 754	45 092	57 157	65 392
B. EXPENDITURES	68 884	79 632	90 243	102 752
- Insurance Payments	44 786	52 736	59 595	69 565
- Health Expenditures (3)	17 676	20 045	25 587	27 618
- Investment Expenditures (4)	17	46	47	188
C. REVENUE-EXPENDITURE DIF.	-17 663	-25 041	-24 625	-21 378
D. BUDGET TRANSFERS	18 552	25 824	23 467	21 378
- Budget Transfers (5)	22 891	33 063	32 884	46 690
E. FINANCING DEFICIT	- 889	- 783	1 158	0
	(Ratios to GDP, In Percent)			
A. REVENUES	6,75	6,40	6,60	7,32
- Premium Collections	5,51	5,28	5,75	5,88
B. EXPENDITURES	9,08	9,33	9,08	9,24
- Insurance Payments	5,91	6,18	5,99	6,26
- Health Expenditures (3)	2,33	2,35	2,57	2,48
- Investment Expenditures (4)	0,00	0,01	0,00	0,02
C. REVENUE-EXPENDITURE DIF.	-2,33	-2,93	-2,48	-1,92
D. BUDGET TRANSFERS	2,45	3,03	2,36	1,92
- Budget Transfers (5)	3,02	3,87	3,31	4,20
E. FINANCING DEFICIT	-0,12	-0,09	0,12	0,00

(1) Estimate

(2) Programme target

(3) Not including the expenditures of budgetary institutions and green card holders since those health expenditures have not been transferred to SSI yet.

(4) The investment expenditure of İŞKUR is included and the value of investment expenditures is added to the total revenues.

(5) Invoiced payments, additional premiums and additional payments to the retired are included. SSK 5 points premium reduction transfers and disabled premium incentive transfers are also included following 2008 and 2009 respectively.

In 2008, budget transfers are estimated to be TL 32.9 billion, of which TL 17.5 billion is to Alienated SSK pension system including additional payment, state contribution, SSK 5 points premium reduction transfer and disabled premium incentive transfer, TL 1.1 billion to Alienated Bağ-Kur pension system including additional payment and state contribution, TL 11.8 billion to Alienated Emekli Sandığı pension system including additional payment, state contribution, invoiced payments and additional allowances and TL 2.5 billion to general health insurance system including state contribution. The ratio of total budget transfers to GDP is expected to realize around 3.31 percent.

Although it has been presumed to increase SSK, Bağ-Kur and Emekli Sandığı pensions by 2 percent in January and 2 percent in July in 2008 in line with the presumed increase rates for public officers wages, the aforementioned rates have realized as 2 percent and 7.27 percent respectively for SSK and Bağ-Kur pensioners and 3.35 percent and 4 percent respectively for Emekli Sandığı pensioners, since the inflation target has been exceeded.

Gross minimum wage has been increased to TL 608.4 from TL 585 with a rise of 4 percent for January 1st – June 30th 2008 period. Afterwards, it has been increased to TL 638.7 with a rise of 5 percent July 1st

– December 31st 2008 period. In line with the gross minimum wage Bağ-Kur income brackets have also been increased by 4 percent in January 1st, 2008 and by 5 percent in July 1st, 2008.

The enforcement date of Law No. 5510 on Social Insurances and General Health Insurance has initially been determined as July 1 st, 2007 by the 2007 Central Government Budget Law, then has been changed as January 1 st, 2008 by Law No. 5655 and finally has been postponed to July 1 st, 2008 by the 2008 Central Government Budget Law. Within the scope of the studies conducted by SSI in order to implement the social security reform, Law No. 5754 on Changing the Law on Social Insurances and General Health Insurance and Some Other Laws and Decrees Regarded as Law has been enacted in 2008.

The most important step of the social security reform regarding the legal framework has been completed by the full implementation of Law No. 5510 as changed by Law No. 5754, following October 1 st 2008. Within the scope of Law No. 5510 as changed by Law No. 5754, different insurance schemes, which were serving under different norms and standards before, have been unified to a single scheme serving under the same norm and standards for all insured except those who were public officers before the enforcement date of the Law. Furthermore, legal base of moving to the implementation of general health insurance system has been established with the Law. However, since the studies conducted for establishing the required technical and administrative infrastructure could not be completed yet, the transfer of the health expenditures of budgetary institutions and green card holders to SSI has been decided to be completed within 3 years by Law No. 5797 on Changing the Law on Social Insurances and General Health Insurance and Some Other Laws. When the transfer of those expenditures to SSI has been completed, general health insurance system will have been fully implemented.

By the Law No. 5510 as changed by Law No. 5754, SSK and Bağ-Kur arrears have been restructured and an opportunity for paying arrears in advance or on installments up to 24 months and cancellation of fines and penalties by 85 percent in case of in advance payment, by 55 percent in case of payment up to 12 installments and by 35 percent in case of payment up to 24 installments has been provided. Furthermore, for those who could not benefit from restructuring implementation although they were willing to do so, because of the two months application period, additional application period of 20 days and an opportunity for paying arrears on installments up to 12 months and cancellation of fines and penalties by 80 percent in case of in advance payment and by 50 percent in case of payment up to 12 installments has been

provided by the article inserted to Law No. 5510 by Law No. 5797. It is estimated that only for the implementation of those two above-mentioned articles, restructuring revenue of TL 6 billion will be gathered. It is expected that just as the case in previous restructuring implementations, this restructuring implementation, which is based on a reasonable objective such as ensuring the insured people to enter the post-reform era without any debt, will deteriorate the functioning of the system, decrease the current premium collection due to the increased expectations for new restructuring implementations in the future and will put under the system much more liabilities compared to the revenues gathered in the medium term leading to a deterioration of cost-benefit balance.

Important arrangements directly related to the social security field have been made by Law No. 5763 on Changing the Labor Law and Some Other Laws, which is known as employment package on general public. By the Law, it was arranged that the employer's share of disability, old-age and death insurance premiums of those aged 18 to 29 and all women without any age conditions who were employed additionally over the current employment number of a workplace within the one-year period to be on charge by the publication of Law, would be compensated by Unemployment Insurance Fund up to 100 percent in the first year, 80 percent in the second year, 60 percent in the third year, 40 percent in the fourth year and 20 percent in the fifth year and transferred to SSI. Moreover, it was arranged that to be on charge by October 1 st, 2008, 5 points of premium over the employer's share of disability, old-age and death insurance premiums of those employed with a service contract would be compensated by Treasury.

Within 2008, corresponding with the real estates and affiliates belonging to SSI, TL 1,189 million revenue of which, TL 902 million coming from the transfer of a land to Ministry of Health, TL 10 million from transfer of a building to the General Directorate of Security and TL 277 million from the privatization revenue of PETKİM in return for the affiliate share of PETKİM, has been collected.

In 2008, the arrangements stated below have been made in order to get the treatment expenditures under control:

Treatment Aid Implementation Notice published on Concurrent Official Gazette on 25 May 2007 which was in effect after 15 June 2007 remained effective until 1 October 2008. Accordingly, there has been no increase in the treatment prices up to this date within 2008.

Social Security Institution Treatment Aid Implementation Notice published on Concurrent Official Gazette on 29 September 2008 has been in effect by 1 October 2008. In the new notice, current treatment prices

have been contained to a great extent but the prices of the operations referred as Group A which were remained low-priced compared to their costs have been increased. Moreover, by the new notice, copayment implementation for outpatient services except the first step health providers have been started. The notice also have brought a pilot implementation of referral chain in four of the provinces where family medicine is implemented (Bayburt, Isparta, Gümüşhane, Denizli) and it has been declared that the referral chain implementation would be extended to all provinces where family medicine is implemented in 2009. Regarding the birth related treatments, the price of caesarean section has been decreased and the price of natural birth has been increased in order to promote natural birth. Furthermore, the prices of physiotherapy services, average price of phaco operations and the price of outpatient services of private hospitals has been decreased and some restrictive measures that could electronically be monitored have been introduced.

With the Decree No. 2008/13728 of Council of Ministers, it was arranged that the private health care

providers should only charge insured people an additional fee of up to 30 percent over the price paid by SSI except the room services and exceptional health care services.

In 2008, Unemployment Insurance Funds premium revenue, interest income and state contribution are expected to realize as 0.31, 0.51 and 0.11 percent of GDP respectively. In this context, total revenue is estimated to realize as 0.93 percent of GDP. 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 TL 1,966 million in 2008. TL 1,300 million of this expenditure is originated from the transfer of this amount to the central government budget from Unemployment Insurance fund in order to be used before all else for the financing of the investments within the scope of GAP Project in accordance with Law No. 5763 on Changing the Labor Law and Some Other Laws. Consequently, in 2008 the total assets of the Fund are estimated to reach TL 38 billion, which corresponds to 3.82 percent of GDP.

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

	(Current Prices, Million TL)				(Ratios to GDP, In Percent)			
	2006	2007	2008 (1)	2009 (2)	2006	2007	2008 (1)	2009 (2)
A. REVENUES	6 093	7 390	9 270	10 337	0,80	0,87	0,93	0,93
- Premium Revenue	1 988	2 413	3 119	3 144	0,26	0,28	0,31	0,28
- State Contribution	657	814	1 050	1 048	0,09	0,10	0,11	0,09
- Interest Income	3 405	4 100	5 024	6 072	0,45	0,48	0,51	0,55
B. EXPENDITURES	376	404	1 966	3 241	0,05	0,05	0,20	0,29
- Insurance Expenditures	292	324	450	569	0,04	0,04	0,05	0,05
- Other Expenditures	84	81	1 516	2 672	0,01	0,01	0,15	0,24
C. REVEN.-EXPEN. DIF.	5 717	6 986	7 304	7 096	0,75	0,82	0,73	0,64
D. TOTAL FUND ASSETS	23 744	30 712	38 016	45 112	3,13	3,60	3,82	4,06

(1) Estimate (2) Programme target

2. Targets for the Year 2009

In 2009, it is assumed that minimum wage would increase by 4 percent in both January and July and pensions would increase by 4.89 percent in January and 3.76 percent in July corresponding to the preceding six months cumulative inflation estimation. In 2009, arrears restructuring revenue is expected as TL 3,558 million.

Since the transfer of the health expenditures of budgetary institutions and green card holders to SSI

is presumed to be completed within 3 years, health expenditures of those are not covered in programme balances. Accordingly, health expenditures cover the expenditures of Alienated SSK, Alienated Bağ-Kur, Alienated Emekli Sandığı, those who are not compulsory insured but have ability to pay and children under 18.

Social security institutions' total revenues, total expenditures and deficit are estimated to be TL 81.3 billion, TL 102.8 billion and TL 21.4 billion respectively in 2009. As ratios to GDP, revenues, expenditures and

deficit are targeted as 7.32, 9.24 and 1.92 percent, respectively.

It is estimated that the total budget transfers to social security institution would be TL 46.7 billion, corresponds to 4.2 percent of GDP, in 2009, including invoiced payments, additional allowances, additional payment to pensioners, state contribution, SSK 5 points premium reduction incentive and disabled premium reduction incentive.

In 2009, for Unemployment Insurance Fund, it is expected that the ratios to GDP would be 0.29 percent of premium revenues, 0.55 percent of interest revenues and 0.09 percent of state contribution. In accordance with the Law No. 5763, it is assumed that TL 1,518 million of Fund's interest revenue corresponding to the state contribution share will be transferred to the central government budget for the financing of the investments within the scope of GAP and TL 944 million of Fund's revenue corresponding to the cost of the premium reduction implemented to foster the

youth and women employment, will be transferred to SSI in 2009. Moreover, by the same Law, the base and ceiling of the unemployment benefit have been increased from the half of the net minimum wage to the 40 percent of the gross minimum wage and from the net minimum wage to the gross minimum wage respectively. Thereby, an increase for the amount of unemployment benefit by 11 percent has been provided. Within this context, Fund's expenditures are expected to reach TL 3,241 million. Consequently, it is estimated that the total fund assets would reach TL 45.1 billion corresponding to 4.06 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), Defense Industry Support Fund (DISF) and Privatization Fund.

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

	(Current Prices, Million TL)				(Ratios to GDP, In Percent)			
	2006	2007	2008 (2)	2009 (3)	2006	2007	2008 (2)	2009 (3)
A. Fund Revenues	11 881	9 594	5 533	4 198	1,57	1,12	0,56	0,38
- Tax Revenues	2 632	3 125	3 773	4 071	0,35	0,37	0,38	0,37
- Non-Tax Revenues	498	523	140	61	0,07	0,06	0,01	0,01
- Factor Incomes (Net)	0	0	5	49	0,00	0,00	0,00	0,00
- Current Transfers (Net)	0	0	0	0	0,00	0,00	0,00	0,00
- Capital Transfers (Net)	8 752	5 946	1 615	16	1,15	0,70	0,16	0,00
B. Fund Expenditures	2 680	2 343	2 627	3 169	0,35	0,27	0,26	0,29
- Current Expenditures	1 357	1 405	1 557	1 759	0,18	0,16	0,16	0,16
- Factor Payments (Net)	225	156	0	0	0,03	0,02	0,00	0,00
- Fixed Capital Invest.	5	0	0	0	0,00	0,00	0,00	0,00
- Current Transfers (Net)	1 092	782	1 070	1 410	0,14	0,09	0,11	0,13
- Capital Transfers (Net)	0	0	0	0	0,00	0,00	0,00	0,00
C. Reven.-Expen. Dif.	9 202	7 251	2 906	1 029	1,21	0,85	0,29	0,09
D. Financing	-9 202	-7 251	-2 906	-1 029	-1,21	-0,85	-0,29	-0,09
- Use of External Debt	150	298	94	50	0,02	0,03	0,01	0,00
- External Debt Payment	-103	-79	-50	-56	-0,01	-0,01	-0,01	-0,01
- Int. Debt-Lending (Net)	-8 351	-5 292	5	- 200	-1,10	-0,62	0,00	-0,02
- Change in Cash-Bank	- 897	-2 178	-2 954	- 823	-0,12	-0,26	-0,30	-0,07
Memo:								
<i>Privatization Rev.</i>	<i>10 441</i>	<i>5 953</i>	<i>7 853</i>	<i>3 368</i>	<i>1,38</i>	<i>0,70</i>	<i>0,79</i>	<i>0,30</i>

(1) Excluding Unemployment Insurance Fund

(2) Estimate

(3) Programme target

The resources of the funds followed in the public sector general balance in 2008 are expected to reach a level of TL 5.5 billion, corresponding to 0.56 percent of GDP, and the expenditures are expected to reach a level of TL 2.6 billion, corresponding to 0.26 percent of GDP. Hence, the surplus of the fund system is expected to reach 0.29 percent of GDP.

As the result of the ongoing privatization processes, revenue of TL 7.9 billion in cash is expected to be collected by the Privatization Fund in 2008.

2. Targets for the Year 2009

In 2009, Privatization Fund is expected to raise a total of TL 3.4 billion of revenue from the ongoing privatization process.

In 2009, fund resources which amount to TL 4.2 billion correspond to 0.38 percent of GDP, whereas, fund expenditures which amount to TL 3.2 billion correspond to 0.29 percent of GDP. Thus, ratio of financing surplus of the fund system, which is TL 1 billion, to GDP is expected to realize as 0.09 percent.

II. STATE ECONOMIC ENTERPRISES

1. Current Outlook

It is estimated that the ratio of financial balance of SEEs, including the enterprises in the privatization portfolio, to GDP, which was 0.19 percent surplus in 2007, will decrease to 0.07 percent deficit in 2008. The main reasons of this decrease are; insufficient reflection of the increase in Turkey energy costs parallel to the rise in world crude oil prices to the end-users and inability of TMO, which was employed for purchasing nuts, to sell nuts despite high amount of purchases.

Within the activities of Coordination Council for the Improvement of the Investment Environment (YOİKK), 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. In this sense, SEEs have begun to prepare their strategic plans in 2008. Of those strategic plans, the ones which are approved by SPO will be realized in 2009.

The application, which limits SEEs in recruitments to hire at most 10 percent of fired/retired personnel, has provided an important contribution to solve idle employment problem in last seven years. On the other hand, necessary actions are taken in order to eliminate the problems for satisfying the need for qualified personnel which were derived from this limitation and the other related legislation.

For general lighting, which TEDAŞ has difficulties of collecting receivables; an adjustment was made with Law No: 5784 so that street lighting costs will be paid by the Treasury. Because of theft and losses, TEDAŞ can make out invoices for only 86 percent of the electricity that it purchased. Because of the problems occurred in collecting these invoices, TEDAŞ cannot reach sufficient cash amount and thus cannot pay its liabilities to EÜAŞ and TETAŞ. In 2008, inability of TKİ and BOTAŞ, which are the raw-material suppliers of energy enterprises, to collect their receivables, has created a distinctive increase in bank loans. Within the studies to solve the receivable-payable problem through energy SEEs, a protocol was signed in September 2008 under the supervision of the Ministers of Finance and Energy and Natural Resources. With this protocol, it was decided that SEEs will pay their liabilities and the deficit, which will be caused by the lack in the collection of receivables of TEDAŞ, will be compensated. This protocol would be realized if and only if the penal sanctions against chronic accrual-collection problem are applied rigidly. The receivables of BOTAŞ from EGO (Başkent Gas) are expected to be paid by Ankara Metropolitan Municipality after the privatization of Başkent Gas in accordance with the Law no:5669.

Electricity sale prices were increased by TEDAŞ in January, July and September 2008. Despite these price increases, it is estimated that TEDAŞ will close 2008 with annual loss of TL 750 million because of the rise in energy input costs. Although decrease was seen in the velocity of electricity demand increase after those price increases, fulfilling the current demand, which cannot be supplied from EÜAŞ and TETAŞ, by spot purchases from PMUM with an average price of 16,7 kr/kwh stands as another factor that grows the loss of TEDAŞ in 2008. No transfer was made to TEDAŞ by Privatization Fund in 2007 and 2008 (till October) in order to compensate its financial deficit. It is estimated that TEDAŞ, which realizes investments for renewing urban and rural networks costing TL 1.3 million, will close 2008 with TL 1.1 billion primary deficit, which deviated TL 1.7 billion from the program target.

The tender in 2005 about the transfer of 4 billion sm3 of BOTAŞ annual gas purchasing contracts to the private sector was finalized in accordance with the Law No. 4646. However, since the gas prices that are applied to industry and distribution companies, to which the gas is sold in TL, have been lower than the average gas purchasing prices, those wholesalers could not get the opportunity to enter the market. Thus, BOTAŞ is expected to be the unique supplier in the market for a while.

Because of the increase in natural gas prices thermal power plants have become costlier and this

caused hydroelectric power plants to be operated more than their capacities although the required water level could not be reached at dams due to the draught. However this situation is not sustainable and if new hydroelectric power plants are not taken into operation, the increased demand of TEDAŞ will only be fulfilled with natural gas based thermal plants. This

According to the High Planning Council Decision No. 2008/T-5 and dated February 14, 2008; Cost Based Pricing Mechanism (MBF) has come into effect in July 2008. MBF includes the four SEEs operating in energy sector and twenty regional distribution companies. These are TKİ, BOTAŞ, portfolio groups belonging to EÜAŞ, TETAŞ and the distribution companies affiliated with TEDAŞ. With this mechanism, these companies have begun to adjust their prices as parallel to the changes in their cost structures and have taken the measures to protect against external effects and make their financial structures more stable. Since it is aimed to prevent potential losses in the future instead of compensating previous losses; positive financial effects are expected to appear in 2009.

By the Law No. 5793, it was determined that 40 percent of privatization revenues from privatization operations of ports of TCDD will be used for railway construction and related issues such as expropriation, maintenance and restoration of railways and buying railway vehicles. In addition, the same Law made an arrangement in order to hand over real estates – which were in utilization of DHMI but were not registered on DHMI - to DHMI in order to enable DHMI to use these real properties efficiently, make it acceptor de jure and manage its operations free of problems.

While the total amount of privatization operations, whose sale/transfer transactions were completed, was USD 7.45 billion in 2007, it was realized as USD 8.68 billion as of October 2008. Total amount of privatization operations for which tender and negotiation processes have been completed but sale/transfer processes are still undergoing is USD 4.17 billion.

Privatization operations whose sale/transfer processes were completed during January – October

2008 were; block sale of 51 percent of State shares in PETKİM, public offering of 13.34 percent of TÜRK TELEKOM shares, privatization of nine power plants of Ankara Natural Electricity Generation Company, all tobacco factories of TEKEL and various real estates and facilities. During the same period, tender processes of privatization operations of Samsun and Derince Ports of TCDD, Başkent, Sakarya, Meram and Aras Electricity Distribution Companies and various real estates of TEKEL have been completed but their sale/transfer processes are still undergoing, and expected to be finalized as soon as possible. Operating rights of Menderes Electricity Distribution Company was transferred in August 15, 2008, so the company was removed from privatization program. Besides, transfer process of 20 years lease of Sabiha Gökçen Airport of the Undersecretariat of Defense Industry, whose tender and negotiation processes have been completed in 2007, is completed in 2008. Moreover, privatization operations of İzmir and Derince Ports of TCDD and some real estates, for which negotiation processes have been completed, are expected to be finalized as soon as possible.

Studies as regard the privatization of assets and İzmir Çamaltı saltpan of TEKEL are underway. As the preparations for tenders are completed, tender dates are announced.

After cancellation of the Decree of Privatization High Council No. 2007/57, which was regulating inclusion of Turkish Sugar Factories Co. (TŞFAŞ) to the privatization program, by Council of State, public shares of TŞFAŞ were again included in privatization program by the Decree of Privatization High Council No. 2008/50.

The bill, which includes regulations, tariffs and authorization descriptions to enable private sector companies to operate highways and bridges under privatization program, is in the agenda of TGNA.

Necessary legal amendments for the licensing of national lottery games were completed and their tender dates are expected to be announced until the end of 2008.

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

	2007	2008(1)	2009(2)
	(Current Prices, Million TL)		
A. TOTAL REVENUES	55 392	73 243	84 337
I. Operational Income	49 819	66 093	77 518
1. Revenues from Goods and Services Sales	44 512	60 792	73 066
2. Other Income	5 307	5 302	4 453
II. Retained Funds	2 991	4 277	3 758
1. Depreciation	2 737	2 845	3 080
2. Revaluation Profit/Loss	0	0	0
3. Reserves	254	1 432	678
III. Budgets and Funds	2 582	2 872	3 061
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	53 889	74 127	83 242
I. Operational Expenditures	48 703	66 116	76 331
1. Cost of Goods and Services Sold	38 607	55 895	66 811
2. Other Expenses	10 096	10 222	9 521
II. Investment Expenditures	2 547	3 056	4 303
III. Change in Stocks	318	2 301	-699
IV. Revaluation	1 276	850	976
V. Direct Taxes	430	895	1 141
VI. Dividend Payments	607	892	1 184
VII. Other Expenditures	8	16	7
C. REVENUES – EXPENDITURES DIFFERENCE	1 503	-884	1 095
D. FINANCING	-1 503	884	-1 095
I. Change in Cash-Bank	-685	758	58
II. Domestic Borrowing (Net)	-1 134	-73	-1 617
III. External Borrowing (Net)	315	199	464
	(Ratio to GDP, In Percent)		
	6,49	7,37	7,59
A. TOTAL REVENUES	5,84	6,65	6,97
I. Operational Income	5,21	6,11	6,57
1. Revenues from Goods and Services Sales	0,62	0,53	0,40
2. Other Income	0,35	0,43	0,34
II. Retained Funds	0,32	0,29	0,28
1. Depreciation	0,00	0,00	0,00
2. Revaluation Profit/Loss	0,03	0,14	0,06
3. Reserves	0,30	0,29	0,28
III. Budgets and Funds	0,00	0,00	0,00
IV. Other Income	6,31	7,46	7,49
B. TOTAL EXPENDITURES	5,71	6,65	6,87
I. Operational Expenditures	4,52	5,62	6,01
1. Cost of Goods and Services Sold	1,18	1,03	0,86
2. Other Expenses	0,30	0,31	0,39
II. Investment Expenditures	0,04	0,23	-0,06
III. Change in Stocks	0,15	0,09	0,09
IV. Revaluation	0,05	0,09	0,10
V. Direct Taxes	0,07	0,09	0,11
VI. Dividend Payments	0,00	0,00	0,00
VII. Other Expenditures	0,18	-0,09	0,10
C. REVENUES – EXPENDITURES DIFFERENCE	-0,18	0,09	-0,10
D. FINANCING	-0,08	0,08	0,01
I. Change in Cash-Bank	-0,13	-0,01	-0,15
II. Domestic Borrowing (Net)	0,04	0,02	0,04

(1) Estimate

(2) Programme Target

TABLE: III. 16- Financing Balance of the SEEs in the Privatization Portfolio

	2007	2008(1)	2009(2)
	(Current Prices, Million TL)		
A. TOTAL REVENUES	27 098	30 066	35 405
I. Operational Income	25 749	28 632	33 808
1. Revenues from Goods and Services Sales	22 813	26 056	31 026
2. Other Income	2 936	2 576	2 783
II. Retained Funds	1 036	1 158	1 173
1. Depreciation	663	556	530
2. Revaluation Profit/Loss	0	0	0
3. Reserves	374	602	643
III. Budgets and Funds	313	276	423
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	27 575	30 265	32 588
I. Operational Expenditures	26 538	30 296	31 756
1. Cost of Goods and Services Sold	18 950	23 337	26 520
2. Other Expenses	7 588	6 959	5 236
II. Investment Expenditures	971	856	576
III. Change in Stocks	- 93	- 567	141
IV. Revaluation	31	- 315	- 36
V. Direct Taxes	128	- 5	150
VI. Dividend Payments	0	0	0
VII. Other Expenditures	0	0	0
C. REVENUES – EXPENDITURES DIFFERENCE	- 477	- 199	2 817
D. FINANCING	477	199	-2 817
I. Change in Cash-Bank	- 23	- 304	- 71
II. Domestic Borrowing (Net)	503	191	-2 837
III. External Borrowing (Net)	- 3	313	91
	(Ratio to GDP, In Percent)		
	3,17	3,02	3,19
A. TOTAL REVENUES	3,02	2,88	3,04
I. Operational Income	2,67	2,62	2,79
1. Revenues from Goods and Services Sales	0,34	0,26	0,25
2. Other Income	0,12	0,12	0,11
II. Retained Funds	0,08	0,06	0,05
1. Depreciation	0,00	0,00	0,00
2. Revaluation Profit/Loss	0,04	0,06	0,06
3. Reserves	0,04	0,03	0,04
III. Budgets and Funds	0,00	0,00	0,00
IV. Other Income	3,23	3,04	2,93
B. TOTAL EXPENDITURES	3,11	3,05	2,86
I. Operational Expenditures	2,22	2,35	2,39
1. Cost of Goods and Services Sold	0,89	0,70	0,47
2. Other Expenses	0,11	0,09	0,05
II. Investment Expenditures	-0,01	-0,06	0,01
III. Change in Stocks	0,00	-0,03	0,00
IV. Revaluation	0,01	0,00	0,01
V. Direct Taxes	0,00	0,00	0,00
VI. Dividend Payments	0,00	0,00	0,00
VII. Other Expenditures	-0,06	-0,02	0,25
C. REVENUES – EXPENDITURES DIFFERENCE	0,06	0,02	-0,25
D. FINANCING	0,00	-0,03	-0,01
I. Change in Cash-Bank	0,06	0,02	-0,26
II. Domestic Borrowing (Net)	0,00	0,03	0,01
III. External Borrowing (Net)			

(1) Estimate (2) Programme Target

TABLE: III. 17- Selected Indicators of the SEEs

Current Prices, Million TL

	Total, Excluding the Enterprises in the Privatization Portfolio			Total, Including the Enterprises in the Privatization Portfolio		
	2007	2008 (1)	2009 (2)	2007	2008 (1)	2009 (2)
Total No. of Personnel (person)	156 112	153 745	152 033	222 871	213 406	205 343
- Civil Servants and on-Contract Personnel	76 050	76 678	75 644	91 224	90 670	88 123
- Worker	80 062	77 067	76 389	131 647	122 737	117 220
Total Personnel Expenditures	5 305	5 578	6 010	7 791	7 850	8 225
- Civil Servants and on-Contract Personnel	2 043	2 187	2 341	2 472	2 619	2 758
- Worker	3 262	3 391	3 669	5 319	5 231	5 467
Revenues form the Sales of Goods and Services	44 512	60 792	73 066	67 325	86 848	104 091
Accrual of Duty Losses	704	1 502	2 496	706	1 503	2 496
Operational Profit – Loss	2 660	3 085	5 820	826	1 628	7 485
Interest Payments	970	993	1 181	1 004	1 020	1 188
Period Profit – Losses	1 821	1 479	3 683	1 034	- 184	5 735
Factor Incomes	4 107	4 255	4 945	4 355	3 749	8 170
Dividend Payments	607	892	1 184	607	892	1 184
Fixed Capital Investments	2 547	3 056	4 303	3 518	3 913	4 879
Budget and Fund Transfers	2 582	2 872	3 061	2 895	3 148	3 484
Borrowing Requirement*	-1 503	884	-1 095	-1 027	1 083	-3 912
Borrowing Requirement* (3)	1 079	3 756	1 966	1 868	4 231	- 428
Borrowing Requirement* (4)	-2 103	418	-1 730	-1 583	688	-4 440
Borrowing Requirement* /GDP (In Percent)	-0,18	0,09	-0,10	-0,12	0,11	-0,35
Borrowing Requirement* (3)/GDP (In Percent)	0,13	0,38	0,18	0,22	0,43	-0,04
Borrowing Requirement* (4)/GDP (In Percent)	-0,25	0,04	-0,16	-0,19	0,07	-0,40
Personnel Exp./Revenues (In Percent)	11,92	9,18	8,23	11,57	9,04	7,90
Interest Payments/Revenues (In Percent)	2,18	1,63	1,62	1,49	1,17	1,14

* (-) sign indicates the financing surplus

(1) Estimate

(2) Programme target

(3) Excluding budget and privatisation fund transfers

(4) Excluding interest revenue and expenditures.

Within the framework of a recommendation decision which was adopted in the SEE Commission of TGNA about TİGEM in 2007 as that its enterprises will not be leased until the strategy about the lease transactions is decided, any lease transaction was not done in 2008.

By the Decree of the Council of Ministers No. 2008/13879, TMO was charged with selling as 30 thousand tones from the nuts which are stored for oil, with 1.10 TL/kg price, as 6 months term and no term in 2 times sum in provision of the real estate property to Nut Agriculture Sale Cooperatives (NASC).

By the Decree of the Council of Ministers No. 2008/13849, the purchasing price of poppy capsule was determined as 2.20 TL/kg in 2008.

In 2007, with the Decree of the Council of Ministers No. 2007/12597, TMO was allowed to import 800 thousand tones wheat, 300 thousand tones maize and barley for each without customs duty. Within the framework of the Decree of the Council of Ministers, 695 thousand tones wheat, 295 thousand tones maize and 65 thousand tones barley were imported. In 2008, with the Decree of the Council of Ministers No. 2008/13450 which is declared to meet the grain needs, TMO was allowed to import 700 thousand tones wheat, 300 thousand tones maize without customs duty, and the executive time of the Decree of the Council of Ministers No. 2007/12597 was extended until the end of 2008. Besides, TMO was allowed to import, with the Decree of the Council of Ministers No. 2008/13503, 100 thousand tones rice; with the Decree of the Council of Ministers No. 2008/13503, 100 thousand tones red lentil without customs duty. Within the framework of the Decrees of the Council of Ministers, until October 2008, 31 thousands tones rice and 45 thousands tones red lentil were imported.

2. Targets for the Year 2009

For 2009, the ratio of the financial surplus of SEEs to GDP, including the SEEs within the privatization portfolio, is programmed to be 0.4 percent. This financial

surplus would be realized with the assumption that fluctuations in oil prices and currency will be reflected to the end-users through cost base pricing mechanism. On the other hand, if the costs undertaken by SEEs for buying agricultural products, particularly the nuts, are not paid to these SEEs via duty loss payments, reaching this financial surplus will be harder.

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.

The SEEs that has not completed strategic planning studies, which were started in order to employ strategic management comprehension in SEEs, in 2008 will complete their strategic plans in 2009 and realize those for 2009-2014 period.

The theft and lost ratio in electricity distribution is targeted to decrease to 13 percent by the end of 2009.

The tenders concerning the privatization of electricity distribution areas are planned to be finalized at the end of 2009.

Sugar factories belonging to TŞFAŞ will be grouped according to their geographical position and their privatization operations are planned to be finalized in two years. Privatization operation of Sümer Halı, which is also included in the privatization program, is planned to be finalized in one year.

Privatization operations including transferring of operating rights of highways, bridges and facilities on them and licensing of national lottery games, whose privatization revenues will be recorded to central government budget are planned to be finalized at the end of 2009.

In 2009, one million tones wheat, nine million tones sugar beet, 30 thousand tones tobacco and 637 thousand tones of non-dried tea leaf are programmed to be purchased.

CHAPTER 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 forth and particularly the education level and possession of necessary skills of labor force have gained importance.

In recent years, an improvement has been observed in Turkey's competitiveness ranking and this improvement continued in 2007. However Turkey dropped back to 63rd place in the ranking done by World Economic Forum according to its global competitiveness index. The main reason for this situation is insufficiency in the fields of financial market efficiency, upgrading the quality of infrastructure, improving the human resources base through better primary education and better healthcare, and reinforcing the efficiency and transparency of public institutions.

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

Indicators	2003	2004	2005	2006	2007	2008*
The Number of Countries	102	104	117	125	131	134
Global Competitiveness Index	-	-	71.	59.	53.	63.
- Basic requirements	-	-	-	67.	63.	72.
- Efficiency enhancers	-	-	-	56.	51.	59.
- Innovation and sophistication factors	-	-	-	44.	48.	63.
Growth Competitiveness Index	65.	66.	66.	-	-	-
Business Competitiveness Index	52.	52.	51.	46.	46.	-

Source: World Economic Forum's Global Competitiveness Reports.

(*)World Economic Forum introduced a new method in preparing rankings beginning from 2008.

TABLE: IV. 2 - Competitiveness of Turkey (Its Place in Ranking As Regards Pillars of Global Competitiveness Index)

	2006	2007	2008
Basic Requirements			
Institutions	54.	55.	80.
Infrastructure	61.	59.	66.
Macroeconomic stability	101.	83.	79.
Health and primary education	75.	77.	78.
Efficiency Enhancers			
Higher education and training	58.	60.	72.
Goods market efficiency	43.	43.	55.
Labor market efficiency	114.	126.	125.
Financial market sophistication	85.	61.	76.
Technological readiness	50.	53.	58.
Market size	18.	18.	15.
Innovation And Sophistication Factors			
Business sophistication	42.	41.	60.
Innovation	49.	53.	66.

Source: World Economic Forum's Global Competitiveness Reports

Nevertheless, Turkey is ready to evolve from efficiency driven stage to innovation driven stage of development thanks to its large market, which is characterized by relatively sophisticated business operations, and a comparatively efficient allocation of goods in the economy.

As a result of leaving the chronic inflation period behind, through the realization of public finance 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.

The main objective is to provide the firms with a structure which has a high technological capability and a qualified labor force adapting rapidly to changing conditions and competitiveness in national and international markets. Within this framework, it is necessary to improve in macroeconomic stability, in 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.

A. MAINTAINING MACROECONOMIC STABILITY

1. Current Outlook

As a result of decisive implementation of macroeconomic programs supported by International Monetary Fund since 2000, confidence and stability climate has been established, a continuous growth performance has been achieved, and the inflation has been reduced seriously and by reducing public deficits, sustainability of public debt has been provided.

The implementation of fiscal, monetary and income policies in a coherent and corroborative way has played an important role in this remarkable success. In addition to this, implementing structural reforms and taking important steps in this direction to establish more efficient, flexible and productive economic structure, contributed enormously to achieving permanent macroeconomic stability.

As a result of established confidence and stability, Turkish economy and capital markets have become more open and our economy has entered into a private sector based, high and permanent growth process. However, this situation has led to increases in private sector's external debt due to insufficient savings of our country.

Depending on high growth rates, current account deficits have increased, as well. However, current account deficit has been financed at an increasing rate by foreign direct investment and long term borrowing items.

Global crisis, which emerged in international financial markets and started to affect production sectors, and the negative effects of it have started to be seen in our country's macro economic indicators. Nevertheless, due to the fact that through structural reforms, the financial sector has been transformed into a healthier structure and through decisive implementations of economic programme. public finance has been strengthened and emerged as our

strong sides to limit adverse effects of the global fluctuations in our economy.

Furthermore, the fact that the usage of the derivatives, which led to the global crisis, has not been widespread in our country yet is an element that prohibits that our financial system will be affected directly. However, shrinkage in external finance opportunities, and decreasing demand for our exported goods due to expected economic downturn in developed countries, which are our trade partners, are seen as factors that will influence real sector.

2. Main Objectives and Targets

The implementation of monetary, fiscal and income policies corroboratively under a strong coordination in our stronger economy compared to the past has great importance for sustaining achieved macroeconomic stability. Macroeconomic, sectoral and regional policy and measures of the 2009 Annual Programme has been designed to protect this stability.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Cooperation and coordination about economic decisions will be enhanced.				
Measure 1. The legal and functional structure of Economic Coordination Board (ECB) will be enhanced.	SPO	Prime Ministry, ECB Member Ministries	End of March	The duties of monitoring and evaluating national and international economic developments; to strengthen synchronisation of implementation processes of ministries and public institutions with plans and programmes; to increase the quality of economic and financial governance between private and public sector; to construct the concept of economic security and economic defence and to coordinate implementation will be given to the ECB with the prepared law.
Measure 2. Important arrangements which will create economic results will be submitted to the evaluation of the ECB.	Prime Ministry	Economic Coordination Board	During the year	The important regulations to be implemented, which affect macroeconomic and financial stability with impact analyses will be submitted to the ECB starting from the new year.
Measure 3. The preparation of sectoral and thematic strategies in priority areas will be ensured.	SPO	Related Public Institutions	During the year	The strategy documents for the road map of the sectoral change and transformation will be prepared with sector representatives especially in areas determined by the ECB and put into force.
Priority 2. Studies to increase potential growth of the economy will be made				
Measure 4. In Turkey, studies will be made to increase individual and institutional savings and to accelerate	SPO	Ministry of Finance, UT, Central Bank, TURKSTAT, Universities, NGOs.	End of Decemb.	A comprehensive and detailed report about this topic will be prepared.

Priority 3. Measures will be taken in order to sustain fiscal discipline.

Measure 5. Fiscal rules in public fiscal administrations will be determined.	Ministry of Finance	SPO, UT	End of June	Fiscal rules which ensure macroeconomic stability and a sustainable public finance will be integrated into the Turkish public finance administration.
Measure 6. The share of TRT in the electricity tariffs will be re-determined.	UT	SPO, TRT, ÖİB, EMRA, Ministry of Energy and Natural Resources, Ministry of Finance	End of June	The revenues of TRT, which will exceed the expectations, will be re-determined by taking the financial needs of the institution into account.

Priority 4. Required measures will be taken to use public resources effectively and productively

Measure 7. The reform of the public expenditure administration will be accelerated.	Ministry of Finance	SPO, UT, Related Public Administrations	End of June	Efficiency, productivity and alternative costs of the public expenditures will be taken into account. Current and transfer expenditure programmes will be reviewed, by determining unproductive expenditures, the expenditure programme will be rearranged.
Measure 8. In the public sector, system of vehicle usage and travel allowance will be rearranged.	Ministry of Finance	Public Administrations	End of June	In the public expenditure system to increase efficiency, transparency, and accountability in accordance with today's conditions and needs a new Vehicle Law and Travel Allowance Law will be prepared.
Measure 9. Inventory of public assets will be prepared.	Ministry of Finance	Public Administrations	End of June	A technical report aiming at determining inventories of public idle assets to activate them and alternative usage of these assets will be prepared.
Measure 10. In health services, efficiency of quality-cost will be ensured.	SPO	Ministry of Finance, Ministry of Health, UT, Social Security Institution	End of June	Health expenditures will systematically be monitored, evaluated and the required strategies will be developed. To this end, Health Expenditures Monitoring and Evaluation Commission will be established. Related institutions will be obliged to give related information to the Commission. The commission will deliver its reports to the related institutions and establishments regularly.

Priority 5. Efforts will be continuing so as to constitute a simple, foreseeable, fair and broad-based tax system

Measure 11. Income tax system will be rearranged.	Ministry of Finance	SPO, UT, 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.
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Priority 6. Measures will be taken in order to perform fiscal management, internal control and internal audit functions effectively

Measure 12. Central harmonization unit for internal audit will be established.	Ministry of Finance	Internal Audit Coordination Board, Prime Ministry, SPO, UT, Ministry of Interior	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.
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Priority 7. Measures will be taken in order to improve the fiscal structure and enhancement of fiscal discipline at local authorities.

Measure 13. An arrangement to increase the own-source revenues of municipalities and special province administrations will be taken into force.	Ministry of Interior	SPO, Ministry of Finance, UT	End of Decemb.	By increasing the local own-source revenues, municipalities and special province administrations' fiscal structure and administrative responsibility to citizens will be improved.
Measure 14. Measures will be taken in order to prevent the local authorities creating new arrears.	UT	SPO, Ministry of Finance, Bank of Provinces	End of June	Claw-back ratio for arrears repayment will be decided at the level which prevent the local authorities creating new arrears and help them to decrease the debt stocks.

Priority 8. Accountability, transparency, flexibility in the decision-making process and strategic management perception will be the basis for the SEEs' operations.

Measure 15. SEE Corporate Governance Law will be issued.	SPO	UT, ÖİB, CMB, SEEs	End of Decemb.	In the context of works commenced for public owned companies, 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 16. It will be provided that SEEs will complete their strategic plans for 2010-2014 period.		UT, ÖİB, CMB, SEEs	End of Decemb.	Strategic planning studies, which were started in order to employ strategic management comprehension in SEEs, will be completed.

Priority 9. Legal status and organization structure of enterprises will be renewed according to changing conditions

Measure 17. 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, labor force and rational working circumstances
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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), announced their action plans which were revised in cooperation with public and private sector in April 2008. 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 18th, 2008 with the participation of the senior executives of eighteen multinational firms, international

organizations, Turkish NGOs, public organizations and the relevant ministers. In the meeting, the previous year's investment environment practices were evaluated and suggestions were made on the issues to be focused in the upcoming period.

In 2008, within the framework of the legislation by Ministry of Labor and Social Security, with the revision of Labor Law, license for opening a business place is abolished. Furthermore, The Draft Law on General Administrative Procedure prepared by Ministry of Justice was sent to the Prime Ministry in September 2008. With the draft law, the obligation of finalizing the procedures on applications of citizens and private sector in 30 days is introduced. In this respect, the duration of obtaining permits will be shortened.

In order to fasten the procedures to increase the number of beneficiaries from the simplified customs procedures who deals with composing export and origin proof documents, Customs General Communiqué was published in the Official Gazette in April 2008.

Revised Land Registry Law No. 5782 which regulates foreign companies' property procurement is published in the Official Gazette in July 2008.

Investment Support and Promotion Strategy aiming to encourage investing in Turkey is being prepared by Investment Support and Promotion Agency and expected to be finalized in 2008.

Izmir, Adana and Mersin Development Agencies which were established in 2006 and their Investment Support Offices started their activities in 2008 with the removal of the juridical obstacles. Investment Support Offices which aim to shorten and simplify the investment process by supporting investors during permit and license procedures are planned to be established gradually all over Turkey.

Studies related to establishment of entrepreneurship information system which enables the investors and other users in the markets to make more reasonable decisions by collecting, updating and presenting the industry and trade sectors' data integrated, systematic and in the form of harmonized with each other are continued by the coordination of Ministry of Industry and Trade.

In World Bank's "Doing Business 2009" report which is prepared annually to provide measures for business environment regulations, their enforcement and to make comparisons across countries, Turkey was ranked 59 out of 181 countries which is one place up compared to the previous year. Compared to the report of 2008, besides general ranking, improvements are observed in Turkey's situation in the areas of protecting investors, hiring and enforcing contracts indicators. On the other hand, Turkey is positioned quite behind in terms of employing workers, dealing with construction permits and closing business.

In general, during the start-up period, issues such as intensive bureaucracy, ambiguity and redundancy of the permits, approvals and licenses are ongoing problems even though various regulations are introduced.

Furthermore, according to the UNCTAD's World Investment Report 2008, Turkey was ranked as 9th among developing countries and 23rd worldwide with the record of 22 Billion US Dollars of foreign direct investment flow.

TABLE:IV. 3- Business Climate Indicators

Year	Country	Starting a Business		Hiring-Firing Difficulty Index		Registering Property		Enforcing Contracts		Closing a Business	Paying Taxes	
		Procedures (Number)	Duration (Day)	Hiring	Firing	Procedures (Number)	Duration (Day)	Procedures (Number)	Duration (Day)	Duration (Year)	Number	Ratio to Gross Profit (%)
2007	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
2008	Turkey	6	6	44	30	6	6	35	420	3,3	15	45,5
	OECD Average	5,8	13,4	25,7	26,3	4,7	30,3	30,8	462,7	1,7	13,4	45,3

Source: WorldBank, www.doingbusiness.org

In terms of antitrust rules, the legislation in our country is largely in conformity with EU competition rules. However, when the constantly changing nature of the EU competition law is taken into account, amendments to the legislation and new regulations are sometimes needed in order to maintain the level of harmonization and meet the requirements of our country. At this point, important

and deterrent amendments related to administrative fines were made in the Act No. 4054 on the Protection of Competition at the beginning of the year 2008. Moreover, a comprehensive draft was prepared to amend the Act No. 4054, opinions from all related sectors were taken, and the amendment bill was referred to Turkish Grand National Assembly. It is expected that there will be more

flexibility and legal certainty in implementation of the Act, and the harmonization of Turkish competition legislation with EU legislation will increase after the bill is adopted.

Another area affecting the enhancement of the innovation capacity and competitiveness of the enterprises is the intellectual property system. In Turkey for 2007, the total number of filings is 6,189 for patents, 3,016 for utility models, 72,633 for trademarks and 30,398 for designs. For these figures, the rate of resident filings is 81 percent for trademarks, 96 percent for designs and 99 percent for utility models, whereas for patents it is about 30 percent. However, for resident filings in patents 69 percent increase is recorded according to the previous year filings. 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 intensity resident patent filings with the other countries is in the Table.

Furthermore, the Coordination Council of Intellectual and Industrial Property Rights is established by the Prime Ministerial Circular published in the Official Gazette dated 21 May, 2008. The Council is assigned 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 coordination and cooperation among related institutions.

A pilot technology transfer office is established and operated in Gazi University which aims a pilot implementation to begin to construct a model of effective exploitation of the industrial property rights by technology transfer offices to be established in the universities.

TABLE:IV. 4- Comparison of Patent Statistics

Countries	Resident patent filings per million population		Resident patent filings per \$ billion GDP		Resident patent filings per \$ million R&D Expenditures	
	2005	2006	2005	2006	2005	2006
USA	701,08	741,78	18,82	19,60	0,72	0,78
Japan	2 875,68	2 720,65	103,53	86,53	3,37	2,64
Belgium	50,90	46,73	1,78	1,56	0,09	0,09
Germany	586,37	582,59	22,38	19,41	0,91	0,82
Poland	53,14	56,60	4,31	4,27	0,77	0,99
China	71,66	93,24	11,92	23,65	0,91	2,44
India	6,04	4,07	1,97	2,12	0,25	0,40
Turkey	7,94	14,70	1,07	6,05	0,17	1,02

Source: WIPO Patent Report: Statistics on Worldwide Patent Ac

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.

In the process of harmonization with EU legislation, a draft law to construct a framework for coordinating, monitoring and evaluating the state aids has been prepared.

Furthermore, in terms of sectoral and regional developments, incentive system is needed to be improved. Within this framework, by taking into account the situations of all provinces, including the ones covered by ongoing Law No: 5084, a study to construct a more efficient and transparent sectoral

and regional incentive system is carried out. Upon the completion of these studies, a new system, taking into account the properties and potentials of the provinces and supported by regionally leveled incentive tools, is foreseen to be formed.

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.

TABLE:IV. 5- SME Credits of Halkbank

(Million TL)

	2006	2007	2008*
Commercial Credits	913	2 137	3 013
Entrepreneur Credits	2 678	1 376	1 170
Tradesman Credit	2 637	6 377	7 012
Total	6 228	9 890	11 195

Source: Halkbank * 6 Months

In order to increase SMEs' access to finance and their utilization rate of bank credits, various credit programs are implemented by Halkbank and KOSGEB. In this respect, Halkbank supplied 9.9 million TL credits in 2007 and approximately 11 million TL credits by the end of June 2008 to SMEs.

In credit programs of KOSGEB, credits at zero interest are provided to SMEs by banks and in these programs KOSGEB provides interest amount. KOSGEB has provided an amount of TL 482 million interest support which has enabled 28,659 enterprises to get an amount of TL 3 billion credit since 2004.

TABLE:IV. 6- Credit Interest Support Information of KOSGEB

(Million TL)

Year	Number of enterprises	Credit Amount	Interest Support Amount
2005	4 598	451	76
2006	4 384	322	60
2007	9 679	1 010	127
2008*	7 134	902	126
Total	28 659	2 980	482

Source: KOSGEB * As of September 15

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 solve the guarantee problems of SMEs in taking bank credits, has been increased to YTL 20 million from YTL 50 thousand in 2006. Moreover, in 2007 and

2008 number of branch offices increased and currently KGF operates in 13 cities. Despite the fact that these are positive developments for increasing the source and effectiveness of credit guarantee system, the need for developing and extending credit guarantee mechanism is continuing since the number of SMEs to which credit guarantee has been provided is nearly 250 per year.

TABLE:IV. 7- Guarantee Information of KGF A.Ş.

(Million TL)

Year	Number of Guarantee	Amount of Guarantee	Credit Volume
2004	253	28,1	42,1
2005	235	28,5	41,7
2006	257	33,6	50,7
2007	183	31,9	47,4
2008*	324	85,8	117

Source: Operating Report of KGF A.Ş.-2007, KOSGEB * As of the end of September

Tradesmen and craftsmen, which have an important share in total number of enterprises and total employment, are more affected by the developments in business environment because of their small scale and

capital structure and low level of productivity, quality and technology. As of the end of September 2008, there are 1,898,105 tradesman and craftsman.

TABLE: IV. 8- Number of Tradesman and Craftsman Starting and Closing a Business

Year	Number of tradesman and craftsman starting a business	Number of tradesman and craftsman closing a business
2005	196 494	86 400
2006	249 265	105 817
2007	171 236	118 776
2008*	130 724	92 276

Source: Ministry of Industry and Trade * As of 15 September

It is important to support tradesmen and craftsmen in areas such as productivity, quality, enhancing scale and developing cooperation and partnership activities in order to enable their in global competition environment. For these purposes, preparation activities of a strategy and action plan oriented to tradesmen and craftsmen are carried out in the coordination of Ministry of Industry and Trade.

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.

Cooperation and coordination among institutions supporting SMEs will be improved and in order to increase effectiveness of supports, monitoring and evaluation systems will be established.

In order to increase SMEs' access to finance, number and effectiveness of financial instruments and programs will be increased. In this respect, by credit programs of KOSGEB, in addition to supporting investments of innovative enterprises and enterprises operating in high technology sectors, investments contributing to regional development and creating employment will be supported.

3. Policy Priorities and Measures

Priority / Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 10. Accession of Enterprises, particularly SME's to financial resources will be facilitated.				
Measure 18. Improvement and extension of credit guarantee system will be ensured.	KOSGEB	Ministry of Industry and Trade, SPO, TOBB	End of Dec.	Extending services of KGF A.S throughout the country and increasing number of enterprises getting guarantee will be ensured. For this purpose, an analysis oriented to increase the performance of the corporation will be conducted and qualifications of employees, its capital structure and business processes will be improved.
Measure 19. Project based support programs will be developed in order to increase competitiveness of SMEs	KOSGEB	SPO, GAP Administration, Commercial Banks and other related institutions	End of Dec.	In line with policy priorities, support programs will be developed and project based SME support programs will be extended.
Priority 11. Efforts to reduce bureaucracy, accelarete the transactions and reduce the transaction costs with a view to improve business environment will be continued.				

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Measure 20. Within YOİKK Framework, duty implementation of scheduled action plans, which are prepared by Technical Committees, by charged institutions will be monitored.	Under-secretariat of Treasury	Other Related Institutions, NGO's	End of Dec.	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.
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Priority 12. Efforts to construct an efficient state aid system will be continued.

Measure 21. State aid system for investments will be activated by taking sectoral and regional priorities into account, relevant primary and secondary legislations will be made.	Under-secretariat of Treasury	Ministry of Industry and Trade, Ministry of Finance, Ministry of Labor and Social Security SPO, DTM, KOSGEB, İŞKUR, Development Agencies, Other Related Institutions	End of March	Studies in cooperation with the related institutions and organizations regarding EU harmonization activities to make new arrangements in the area of Law No. 5084 and 5350, whose application period will expire at the end of 2008, continue; new incentive system depending on the sectoral and regional priorities will be constructed. Primary and secondary legislation required for the new system will be put into effect.r
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Priority 13. To secure the efficiency of the intellectual property system; institutional capacity and coordination will be strengthened, a common established culture of intellectual property rights at the society level will be formed.

Measure 22. Legal arrangements to amend Laws on Patent and Utility Model, Industrial Designs, Trademarks, Integrated Circuits Topographies and Geographical Indications will be made	Turkish Patent Institute	Ministry of Industry and Trade, Ministry of Justice	End of March	It is aimed to update and amend the industrial property legislation to harmonize with the EU legislation, international developments and to remove difficulties arising from domestic implementations. In this context, relevant draft laws will be submitted to the TGNA
Measure 23. The preparation of the Draft Law on Turkish Patent Authority will be carried out.	Turkish Patent Institute	Sanayi ve Ticaret Bakanlığı	End of Dec.	The Draft Law on the Turkish Patent Authority, which will be prepared in order to transform TPI into a more efficient and effective institutional structure, strengthen the institutional capacity and arrange the establishment of power of attorneys, will be submitted to the TGNA.
Measure 24. The unit of the Ministry of Culture and Tourism which is responsible from copyrights related issues will be transformed into an effective institutional structure	Ministry of Culture and Tourism	SPO	End of Dec.	A Draft Law, which will be prepared in order to enhance the present institutional capacity, raise the enforcement to the international standards and realize an effective coordination, will be submitted to the TGNA.
Measure 25. Amendment for the Law on Intellectual and Artistic Works, No.5846 will be made.	Ministry of Culture and Tourism	Ministry of Justice	End of Dec.	A Draft Law, which will be prepared by the aim of amending articles not harmonizing with the EU legislation and rearranging some articles creating conflicts and achieving problems in national implementation apart from the EU harmonization goals, will be submitted to the TGNA.

Priority 14. Entrepreneur Information System will be established.

Measure 26 Entrepreneurship information system will be established.	Ministry of Industry and Trade	Ministry of Finance (Revenue Administration), Ministry of Energy and Natural Resources, Ministry of Labor and Social Security, SPO, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, EPDK, TURKSTAT TEDAS, TOBB, TESK, Other related institutions.	End of Dec.	The studies for establishing industry and trade inventory aimed by company information system and industrial information system projects will be combined in the framework of entrepreneurship information system. The economic activities of real persons will also be included in this system. The economic activities of all real persons and corporate bodies covered in this system will be defined according to international code system.
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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 macroeconomic instabilities, inflationary tendencies, high tax and premium rates, and administrative – financial – legal burdens, and also structural and social reasons such as most enterprises being small scaled, poverty, unemployment, inefficient and wasteful public expenditures, rapid urbanization, bureaucratic formalities, high levels of cash use in the economy, 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 show that the dimension of this problem in our country is considerably high compared to those of developed economies. Increasing informal activities result in the emergence of unfair competition among individuals and enterprises, deterioration of income distribution, decrease in the voluntary compliance to taxation and reduce in the tax awareness in the society. 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 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 the informal economy. In addition, even though informal economy initially creates a competitive advantage for enterprises that operate informally, it blocks the institutionalization of the enterprises and benefits arising from economies of scale. Moreover, for the overall economy the increasing tax burden on inputs actually creates a disadvantage in terms of international competition.

In recent years, regulations encouraging the 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 the provision of incentives towards increasing employment in underdeveloped provinces have been put in place. These regulations have considerable importance in formation of an infrastructure in the field of combating against informal economy.

Moreover, in line with the aforementioned developments, achieved stability of macroeconomic indicators has yield an appropriate situation for combating against informal economy, and thereby, contributed to the arrangement and successful implementation of some measures taken for reducing informality in general and sectoral levels.

Number of tax auditors hired has been increased in recent years in order to increase the efficiency and power of tax audit. Draft Law about collecting tax audit units has been submitted to the TGNA.

Combating activities against unregistered employment have been initiated under the scope of Project Towards Combating Unregistered Employment (KADİM).

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, a call center referred as "Informal Employment and Social Security Information Line" was established.

In order to reduce the tax burden on employment which is one of the most important factors against the registered employment, by the Law no. 5763, came in to effect in May 2008, employers premium for disability, old age and death has been reduced by 5 percentage points.

It is also expected that the measures taken in the fields such as increasing the competitiveness in the economy, improving the investment climate, public services and functioning of the financial system will play an important role in reducing informal economy.

2. Main Objectives and Targets

Increasing the competitiveness of the economy and providing a sound structure of public finance are the main targets in the process of transition to formal economy.

Combating against unregistered economy will be continued under the scope of the Strategy to Combat With Informal Economy.

Studies initiated to make up technical infrastructure for combating against unregistered economy will be completed rapidly.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 15. Efficient fight against informality shall be started within the context of prepared programs				
Measure 27. The Strategic Action Plan to Combat With Informal Economy will start to be implemented.	Revenue Administration	Ministry of Finance, Ministry of Labor and social Security, Ministry of Industry and Trade, SPO, Undersecretariat of Customs, Social Security Institution, EPDK, TAPDK, BRSA	End of March	The Action Plan will be monitored, assessed and updated within the year. In order to increase the social sensibility for combating with informal economy, the activities to inform the public will be continued increasingly. The scope and attribute of the tax loss and fraud will regularly be investigated with several methodologies and audits to prevent tax loss and fraud shall be increased.
Measure 28. "Joint Action Protocol" signed to increase the efficient collaboration and coordination among institutions in order to combat with unregistered employment will be implemented.	Social Security Institution	Ministry of Finance, Ministry of Interior, Ministry of Labor and Social Security, Revenue Administration, Undersecretariat of Customs, Professional Institutions, NGOs	End of March	"Joint Action Protocol" signed in order to achieve uniqueness within the framework of the regulations of the institutions regarding unregistered employment and employment of foreign illegal workers and prevent unregistered employment through improvement of collaboration among institutions will be implemented.
Priority 16. 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 29. Taxpayer services will be improved, measures to speed up the transactions such as electronic bill, electronic document and electronic records will be introduced and storage of accounting records electronically will be provided.	Revenue Administration	Ministry of Industry and Trade, Social Security Institution	End of Dec.	All kinds of returns, statements and forms will be revised and composing guides will be prepared. Moreover, an internet support system will be established in Tax Communication Center. An electronic billing system integrated with the banking sector will be established. Opportunities for forming, storing and transferring of the documents except bills in electronic environment will be created. Legal and technical framework for forming, approving and storing the accounting records, which were obliged to be kept by taxpayers, will be established. Standards for the storage of the accounting records electronically will be introduced and studies to ensure quicker access to information and documents and uniform storage of data will be conducted.
Measure 30. Studies on establishing Computer Based Auditing and Risk Analysis Center will be completed.	Revenue Administration	Ministry of Finance	End of Dec.	To improve efficiency of auditing, Computer Based Auditing and Risk Analysis Center will be established.
Measure 31. Enjoining enterprises employing illegal workers from participating in public tenders for a certain period will be regulated.	Ministry of Labor and Social Security	Public Procurement Authority	End of June	Amendments 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

Priority 17. An effective struggle will be carried out against smuggling

Measure 32. The effect of the measures taken in order to prevent smuggling of petroleum products will be measured	Revenue Administration	Ministry of Finance, Ministry of Energy and Natural Resources, Ministry of Industry and Trade, Under-secretariat of Customs, UFT, EPDK, Related NGOs	End of Dec.	The results of the measures taken in order to prevent smuggling of petroleum products will be reported per 3 months periods and an impact evaluation analysis report about the results will be prepared by the end of the year
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D. DEVELOPING THE FINANCIAL SYSTEM**1. Current Outlook**

As of the end of 2007, the total assets of the financial sector increased by 17.8 percent to TL 670.5 billion compared to the previous year. This aggregate, in terms of dollar, has reached to the level of USD 575.7 billion. The ratio of the total asset size of the financial sector to GDP, which was 75.1 percent in 2006, increased to 78.5 percent in 2007. Banking sector has the highest share in the total asset size of the financial sector with 86.7 percent share.

But the share of banking sector in total financial sector, which was 87.8 percent in 2006, decreased comparatively with the rise in the share of insurance and pension companies, leasing companies, financial intermediaries and investment trusts in financial sector. The share of insurance and pension sector in total financial sector, which was 3.8 percent in 2006, rose to 4.2 percent in 2007. Institutions which have alternative financial instruments to banking sector such as leasing companies, factoring and consumer finance companies continue in their operations at relatively low sector shares.

TABLE: IV. 9- Financial Sector Asset Size (2007)

	Million TL	Million USD	Shares in Sector (%)	Ratios to GDP (%)	Number of Firms
Banks	581 635	499 386	86,7	68,1	50
Deposit Banks	543 272	466 448	81,0	63,6	33
Development and Investment Banks	18 888	16 217	2,8	2,2	13
Participation Banks	19 474	16 720	2,9	2,3	4
Insurance and Pensions	27 926	23 977	4,2	3,3	58
Insurance	22 135	19 005	3,3	2,6	46
Pension Companies (1)	4 566	3 921	0,7	0,5	10
Reassurance	1 225	1 052	0,2	0,1	2
Financial Leasing Companies	13 711	11 772	2,0	1,6	65
Factoring	7 552	6 484	1,1	0,9	85
Consumer Finance Companies	3 916	3 362	0,6	0,5	9
Authorized Institutions (2)	508	437	0,1	0,1	761
Authorized Individual Lenders (3)	70	60	0,0	0,0	35
Financial Intermediaries (4)	3 841	3 298	0,6	0,4	104
Investment Trusts	4 981	4 277	0,7	0,6	48
Real Estate Investment Trusts	4 118	3 536	0,6	0,5	13
Mutual Funds	26 381	22 651	3,9	3,1	297
Type A	919	789	0,1	0,1	129
Type B	25 462	21 861	3,8	3,0	168
Total (5)	670 522	575 703	100,0	78,5	716

Source: BRSA, CMB, Treasury, TSPAKB, Pension Surveillance Centre

(1) Data are the size of managed fund. Life insurance and pension companies are counted in pension companies.

(2) Aggregates are given as the value of the paid-in capital as of the end of 2005.

(3) Aggregates are available as the value of the total capital as of the end of 2006.

(4) Asset size of 99 financial intermediaries is given.

(5) Total number of firms is given by excluding the data for those of authorized institutions and authorized individual lenders.

Banking

In spite of the fluctuations that has been triggered by asset-based securities and related derivative instruments and that has become apparent in international financial markets since the middle of 2007, the Turkish banking sector is maintaining its positive outlook also in 2008. The restructuring process implemented after the crisis in 2001 and more prudent regulatory and supervisory approach adopted for the sector in recent years limited the effects of the financial crisis, that has been occurred in international markets especially since September 2008, on Turkish banking sector.

As of September 2008, the number of banks operating in Turkish banking sector remained same as the end of 2007 and become 50. 33 of these banks are deposit banks, 13 of them are development and investment banks and 4 of them are participation banks. The number of branches and personnel increased in the first half of 2008. In this context, the number of branches increased from 8,122 to 8,722 and the number of personnel increased from 167,760 to 177,175 during the period of December 2007 and June 2008.

There hasn't been a significant change in the concentration of the banking sector in the first half of 2008. The share of the 5 largest banks in the sector decreased from 59.8 percent to 59.4 percent and the share of the 10 largest banks decreased from 82.5 percent to 82.4 percent. In this period, while the share of functional groups didn't change significantly; it is observed that considering group shares in terms of ownership, there has been an increase in the share of foreign banks. In this context, the share of deposit banks is 93.3 percent, the share of participation banks is 3.5 percent and the share of development and investment banks is 3.1 percent in total assets of the sector as of June 2008. On the other hand, the share of public banks decreased from 30.4 percent to 30.1 percent and the share of private banks decreased from 55.7 percent to 52.6 percent. In the same period, since a deposit bank and a participation bank became foreign bank, the share of banks that have more than

50 percent foreign stake in their ownership structure increased from 14 percent to 17.3 percent. As of July 2008, the total foreign share in the sector has reached to 24.3 percent excluding the share in ISE and 41.5 percent including the shares in ISE.

When the BRSA banking sector aggregate balance sheet data including participation banks are analyzed, it is observed that the total assets of the Turkish banking sector reached to TL 656.9 billion by 12.9 percent increase in terms of domestic currency and increased to USD 537 billion by 7.5 percent rise in dollar terms as of June 2008 compared to the end of 2007. The ratio of banking sector assets to GDP considered as an indicator of banking sector progress, increased by 3.4 points compared to the end of 2007 from 68.1 percent to 71.5 percent.

The growth trend that was seen in recent years in banking sector credits has continued also in 2008, although this trend has slowed. Banking sector credit volume increased from TL 285.6 to TL 342.7 billion with a 20 percent rise in the first half of 2008 compared to the end of 2007. As of June 2008, the share of FX credits in total credits is 25 percent. When the users of the credits are analyzed, it is seen that during the period December 2007 and June 2008, SME loans has increased by 14.7 percent from TL 80.3 billions to TL 92.1 billion, consumer credits and credit cards has increased by 16.2 percent from TL 95 billion to TL 110.3 billion and other commercial and corporate loans has increased by 27.1 percent from TL 110.3 billion to TL 140.2 billion. The rate of increase in consumer credits has decreased since the second quarter of 2008.

With the rise in credits, the share of credits in total assets which was 43.8 percent in 2006 and 49.1 percent in 2007 has reached to 52.2 percent in June 2008. The ratio of banking sector credits to GDP which was 28.9 percent in 2006 and 33.5 percent in 2007 rose to 37.3 percent at the end of June 2008. In addition, the ratio of non-performing loans to total loans decreased from 3.5 percent to 3.1 percent during the period December 2007 and June 2008.

TABLE: IV. 10– Selected Aggregates of the Banking Sector Balance Sheet (1)

	2006	2007	2008 June
Basic Aggregates			
Total Assets (Billions of TL)	499,7	581,6	656,9
Credits (Billions of TL)	219,0	285,6	342,7
Deposits (Billions of TL)	307,6	356,9	405,8
Number of Banks	50	50	50
Number of Branches	7 302	8 122	8 722
Number of Personnel (Thousands)	151,0	167,8	177,2
Performance Indicators			
Net Profit (Billions of TL)	11,4	14,9	8,3
Profit Before Tax /Average Total Assets (Percent) (2)	3,3	3,4	3,2
Net Profit / Average Shareholders' Equity (Percent) (2)	21,0	26,8	25,3
Credit / Deposit (Percent)	71,2	80,0	84,4
Credit / Total Assets (Percent)	43,8	49,1	52,2
Risk Indicators			
Capital Adequacy Ratio (Percent)	21,9	18,9	16,8
Balance Sheet FX Position (Billions of USD)	-5,5	-8,1	-14,4
Net General FX Position (Billions of USD)	-0,1	-0,2	-0,1
Non-Performing Loans (NPL) (Gross) / Credits (Percent)	3,7	3,5	3,1
NPL (Net) / Credits (Percent)	0,4	0,5	0,6
Securities Portfolio / Total Assets (Percent)	31,8	28,3	26,3

Source: BRSA

(1) BRSA's banking sector data including participation banks are used. Special current accounts and participation accounts in participation banks are included in deposit data.

(2) Annualized values of these ratios are given for June 2008.

The share of securities portfolio in total assets, which demonstrated a decreasing trend in the recent years because of the sector's focus on credits, declined also in the first half of 2008. The ratio of securities portfolio, mainly composed of Treasury bills and government bonds, to total assets decreased from 28.3 percent in 2007 to 26.3 percent in June 2008. As of June 2008, the ratio of securities portfolio to total assets was 39 percent in public banks, 22.9 percent in private banks and 14.7 percent in foreign 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 13.7 percent from TL 356.9 billion to TL 405.8 billion as of June 2008 compared to the end of 2007 and there has been a limited rise in the share of deposits in total liabilities from 61.4 percent to 61.8 percent in the same period. The TL-FX composition of deposits didn't

change much in the first half of 2008 and as the share of TL deposits in total deposits became 64.1 percent and the share of FX deposits became 35.9 percent as of June 2008.

On the other hand, there has been a contraction in foreign borrowing of the banks with the impact of the developments in international financial markets. The syndication and securitization loans borrowed from abroad by the banks operating in Turkey, decreased by 7.7 percent in dollar terms from USD 26.4 billion at the end of 2007 to USD 24.4 billion in June 2008. With this decline, the share of these loans, which became an important source of financing for the sector, in total balance sheet decreased from 5.3 percent to 4.5 percent in the first half of 2008. In the forthcoming period, a decline in foreign borrowing possibilities and an increase in the cost of these funds can be seen with the effect of the international financial crisis.

The upward trend in the ratio of credits to deposits since 2002, continued also in 2008. The ratio of credits to deposits, which was 71.2 percent in 2006 and 80 percent in 2007, became 84.4 percent in June 2008. When analyzed on the basis of bank groups, this ratio is observed to be 94.1 percent for private banks, 56.9 percent for public banks, and 116.9 percent for foreign banks.

The rapid expansion of the credits in recent years, caused an increase in the risk weighted assets and consequently a decline in the capital adequacy ratio of the banking sector. In the first half of 2008, with the effect of the limited rise in equity and the increase in risk weighted assets in parallel to the rise in credits, the capital adequacy ratio of the sector decreased by 2.1 points to 16.8 percent compared to the end of 2007. 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 20.9 percent for the public banks, 15.8 percent for the private banks and 14.9 percent in foreign banks. In reference to functional groups, the ratio is 15.3 percent in deposit banks, 61.1 percent in investment and development banks and 14.1 percent in participation banks.

As of June 2008, balance sheet FX open position of banking sector increased by USD 6.3 billion compared to the end of 2007 from USD 8.1 billion to USD 14.4 billion.

However, in this period, the open position in balance sheet was closed to a large extent with off-balance sheet transactions. With the effect of off-balance sheet transactions, net FX position of the sector, which was USD 173 million at the end of 2007, became -140 million dollars as of June 2008. However, FX risk resulting from this open position is in manageable levels.

While the net profit of the Turkish banking sector increased in nominal terms in the first half of 2008 compared to the same period of the previous year, it decreased in real terms. As of June, while the net profit after tax has increased by 2.3 percent from TL 8.1 billion to TL 8.4 billion in nominal terms, it decreased by 6.6 percent in real terms. The fall in profitability is also seen in return on assets and return on equity ratios. In this context, return on assets based on profit before tax, which was 3.4 percent in 2007, decreased to 3.2 percent in June 2008 in annualized terms and return on equity decreased from 26.8 percent to 25.3 percent in the same period. Although interest income, fees and commissions from credits and banking services income increased and the loss on trading account securities in the previous period became profit; the contraction in interest income from securities portfolio, the increase in personnel expenses and provisions and the decline in foreign exchange profit reduced the profitability performance in the first half of the year 2008. 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 been declining since 2002.

TABLE:IV. 11- Comparison of the Indicators of the Turkish and EU Banking Sectors (2007)

(In Percent)

	Assets / GDP	Credits / GDP	Deposits / GDP	Credits / Deposits	NPL / Credits (1)	Capital Adequacy Ratio	Return on Assets	Return on Equity
EU-15 (1)	351,4	164,4	141,5	116,2	1,6	11,9	0,7	16,2
Czech Republic	109,8	52,8	72,9	72,4	2,6	11,5	1,3	24,5
Hungary	107,3	64,9	50,6	128,2	2,4	10,8	1,4	18,1
Poland (2)	76,8	43,5	47,9	90,7	3,1	11,8	1,7	21,9
Turkey	68,1	33,5	41,8	80,0	3,5	18,9	2,6	19,6

Source: ECB Report on EU Banking Structure, October 2008; Global Financial Stability Report, October 2008; BRSA; TURKSTAT

(1) EU-15 averages were calculated by weighted average method for Asset / GDP, Credit / GDP, Deposits / GDP, Credits / Deposits ratios and by arithmetical average method for NPL / Credits, capital adequacy ratio, return on assets and return on equity ratios. For the NPL / Credits, capital adequacy ratio, return on assets and return on equity ratios of the countries that don't have 2007 data, 2006 year end data were used.

(2) For Poland, capital adequacy ratio is as of September 2007, return on assets and return on equity ratios are as of the end of 2006, and other data are as of the end of 2007.

When the Turkish Banking Sector is compared with those of the EU countries, it is observed that Assets/GDP, Deposit/GDP, Credits/GDP ratios, which indicate the debt and development of the banking sector, are considerably lower than the EU-15 averages. Although, NPL/Credits ratio declined significantly by the help of financial debt restructurings and the boom in economic activity, this ratio is higher than EU countries as of the end of 2007. Even though the sector's capital adequacy ratio has declined in recent years, it is significantly higher than those of EU countries' as of 2007. The profitability ratios of the sector are higher than especially those of the EU-15 countries'.

In the context of the Financial Restructuring Programme for SME's, a total number of 115 firms have been taken under the scope of restructuring as of September 2008. Debt restructuring agreements were signed with 99 of these firms and a total debt of TL 113.4 million was restructured.

Because main secondary regulations were completed to a large extent in previous years, regulations completed in 2008 were mainly the amendments to the existing regulations in the light of recent needs. Regulations completed focused on protective provisions, principles of establishment and operations, financial reporting and corporate governance regarding a more prudential regulatory and supervisory approach, changing needs and a flexible regulatory framework required by economic course.

Works related to the convergence to Basel-II have been continuing in cooperation with BRSA and the banks. On the other hand, considering the developments in international financial markets, the need of revision in the current set of standards, that the Turkish Commercial Code's hasn't been in force yet and the opinions about the timing of its enforcement; the implementation of calculating credit risk based on ratings was postponed.

The implementation of "FINTURK- Turkey's Financial Map", which demonstrates the distribution of financial data of banking sector in Turkey geographically with the intermediation of an interactive map, was put into force with the aim of increasing transparency in sectoral data and making contribution to the process of producing information.

In addition, new projects have been started in 2008 about (i) reviewing and reducing the factors that prevent banking sector from attaining an internationally competitive power and from operating in a profitable, efficient and rational structure, (ii) preparing an emergency action plan against systemic risks that may occur in banking sector and determining precautions to manage the risks, (iii) preparing a financial services guide book for the users of financial services, (iv) implementing collective projects in order to increase the cooperation between BRSA and institutional and professional unions and associations, (v)

establishing the mechanisms that provide the cooperation and coordination between related institutions in Financial Sector Commission .

Capital Markets

The number of companies traded in Istanbul Stock Exchange (ISE) as of August 2008 has stayed at the same level of end 2007 and realized at 332. The ratio of total market capitalization to GDP of the corporations listed on the ISE, which is used for capital market's depth indicator, has decreased to 25.7 percent as of June 2008 from 39.4 percent as of end of 2007 due to continuing global financial crisis. The total market value of the ISE listed companies' shares of those only traded in public has declined from TL 112.5 billion as of end of 2007 to TL 90.1 billion as of August 2008. The share of stocks held in foreign investors' portfolio within the total value of the stocks traded in ISE has decreased from 72.4 percent to 69 percent at the same period.

Number of mutual funds has shown a significant increase compared to that of the end of the previous year and reached to 337, as of August 2008. During the same period, the asset value of the mutual funds has decreased by TL 1 billion and realized as TL 25.7 billion.

The number of participants in pension funds have continued to increase, despite the slowdown in the rate of increase, and in parallel with this development the asset value of pension funds increased significantly. The net asset value under pension funds' management, which realized as TL 4.6 billion at the end of 2007, reached TL 5.7 billion as of end of August 2008.

After the enactment of the law about housing finance, the number of real estate appraisal companies, which will affect the banking sector as much as the capital markets, has increased by 20 and reached to 46 as of August 2008 compared to as of end of 2007. The number of independent auditing firms and portfolio management companies, which are essential for the effective functioning of the capital markets, has increased whereas the number of rating institutions has stayed at the same level.

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 volume of the Bonds and Bills Market Outright Purchases and Sales Market decreased in the first 8 months of 2008 compared to the same period of 2007 whereas the transaction volume of Repo-Reverse Repo Market increased, and realized at TL 218.1 billion and TL 1,908,5 billion respectively. During the same period, the transaction volume of Stock Market has decreased by 8.8 percent and realized as TL 231.2 billion.

TABLE: IV. 12- Capital Markets Indicators

	Unit	2005	2006	2007	August 2008
Corporations Registered by CMB	Number of	614	605	593	581
Corporations Listed on the ISE	Number of	316	329	332	332
Corporations Traded on the ISE	Number of	304	316	319	318
Corporations Traded off the ISE	Number of	12	13	13	14
Market Value (of Shares Traded on the ISE)	Million TL	68 389	75 569	112 468	90 140
Foreign Share (of Shares Traded on the ISE)	Percent	66,34	65,26	72,37	68,99
Market Capitalization	Million TL	218 318	230 038	335 948	272 013
Market Capitalization/GDP	Percent	33,64	30,33	39,35	25,67 (1)
Financial Institutions	Number of	141	140	145	145
Financial Intermediaries	Number of	101	100	104	104
Banks	Number of	40	40	41	41
Mutual Funds	Number of	277	295	305	337
Net Asset Value	Million TL	29 393	22 228	26 727	25 696
A and B Type Mutual Funds	Number of	275	289	297	328
Net Asset Value	Million TL	29 342	22 012	26 381	24 610
Exchange Traded Funds	Number of	2	6	8	9
Net Asset Value (2)	Million TL	51	216	346	1 086
Pension Funds	Number of	96	102	104	115
Corporations	Number of	11	11	10	10
Participants	Number of	672 696	1 073 650	1 457 704	1 664 170
Net Asset Value	Million TL	1 219	2 815	4 566	5 688
Foreign Mutual Funds	Number of	53	60	60	81
Net Asset Value	Million TL	34	74	90	51
A and B Type Investment Trusts	Number of	26	30	33	34
Net Asset Value	Million TL	488	540	689	617
Real Estate Investment Trusts	Number of	10	11	13	14
Net Asset Value	Million TL	2 209	2 481	4 118	4 021
Venture Capital Investment Trusts	Number of	2	2	2	2
Net Asset Value	Million TL	93	127	174	190
Portfolio Management Companies	Number of	19	19	19	22
Net Asset Value	Million TL	30 226	25 964	31 190	30 780
Independent Auditing Firms	Number of	91	94	96	98
Real Estate Appraisal Companies	Number of	9	13	26	46
Rating Institutions	Number of	6	7	8	8

Source: CMB, Central Registry Agency Inc., TURKSTAT, ISE, Pension Monitoring Centre

(1) As of end of June 2008

(2) It indicates the nominal value

Despite the fact that the positive developments in initial and secondary public offerings in recent years have lost its pace in 2008, total revenue of public offerings in the first 8 months of 2008 has realized as TL 2.4 billion. However, total revenue, which has been realized by two companies, has been due to mainly the public offering of Turk Telekom, amounting TL 2.4 billion.

The transaction volume of Takasbank Money Market decreased by 10.9 percent and realized at TL

24.9 billion as of the first 8 months of 2008 compared to the same period of 2007.

Turkish Derivatives Exchange (TurkDex) has continued its rapid development and the transaction volume has increased by 134.4 percent in the first 8 months of 2008, compared to the same period of 2007, and reached to TL 143.3 billion. The majority of the transaction volume were recorded at the contracts based on ISE-30 stock exchange index and USD.

TABLE: IV. 13- Transaction Volume in Capital Markets

(Million TL)

	2005	2006	2007	August	
				2007	2008
Bonds and Bills Market					
Outright Purchases and Sales Market Transactions Volume	486 674	381 760	363 922	262 096	218 808
Repo-Reverse Repo Market Transactions Volume	1 859 713	2 538 802	2 571 169	1 680 347	1 908 540
Stock Market					
Transactions Volume	269 931	325 151	387 777	253 596	231 202
Total Public Offering Revenue	2 362	1 240	4 391	3 807	2 420
Takasbank Money Market					
Transactions Volume	94 864	44 983	40 196	27 891	24 854
Securities Lending and Borrowing Market					
Transactions Volume	27	769	1 401	919	905
Gold Exchange					
Transactions Volume in TL	369	227	1 014	962	144
Transactions Volume in USD (Millions of USD)	4 237	4 409	6 507	4 424	6 702
Transactions Volume in YTL and USD (Tonnes)	341	232	327	241	239
Futures and Options Exchange					
Transactions Volume	2 919	17 386	116 869	61 126	143 275
Transactions Volume (No. Of Contracts)	1 771 308	6 628 503	24 456 900	14 500 300	33 465 597
End-period Open Interest (No. Of Contracts)	140 159	198 074	234 713	216 558	217 608

Source: ISE, Istanbul Gold Exchange, TurkDex, Takasbank

Regulations that allow corporations registered by Capital Market Board, to increase capital with the decision of board of directors have been amended in order to be inline with the EU acquis at January 2008. At March 2008, principles related to deregistration and issuers' rights on exemption provisions have been amended in accordance with EU acquis.

To develop corporate governance applications in capital markets, corporations listed on the ISE have been made liable to make public disclosure and due diligence on their operations performed with subsidiaries or related corporations, with the regulation at March 2008. Establishment of units for investor relations and employment of licensed

staff have been made mandatory for those corporations.

With the regulation dealing with the preparation of financial reports in capital markets, which has been prepared in accordance with EU acquis and come into force at April 2008, related to financial accounts that are the primary component of public disclosure, which is very important for the capital markets, corporations listed on the ISE, financial intermediaries, portfolio management companies, and subsidiaries, affiliates and partnerships of those corporations will implement International Accounting Standards and International Financial Reporting Standards which were accepted by EU as of January 1st, 2008.

Within the framework of the regulation studies dealing with housing finance, the regulation regarding asset-backed securities, which is designed as an off-balance sheet instrument and of which issuance is allowed only by asset finance fund, has come into force as of August 2008.

Insurance

By the end of 2007, a total of 48 insurance firms and 2 reinsurance firms were actively in operation.

During the last three years increase in foreign direct investment has also been reflected in the insurance sector. This development has played an effective role in the situation where 35 companies in the sector have foreign partners either direct or indirect. The share of foreign capital in paid capital of non-life and life-pension markets is 38 percent. As the share of the companies with foreign partners in total premium volume is 41 percent, it reaches 43 percent for life-pension market.

According to the consolidated balance sheets of insurance and private pension sectors and reinsurance

companies, the total asset of the sector in Turkey, which was 18.6 billion YTL in 2006, reached 23.4 billion YTL with a rate of increase by 25.8 percent in 2007. In the total volume of assets of the sector, the weight of the non-life insurance companies increased considerably because of the inflation adjustment applied in 2005.

Considering the concentration indicators by assets, it can be seen that the shares of the first five and first ten firms became 47.1 percent and 66.0 percent respectively in 2007. Based on groups, it is observed that the share of the first five companies in non-life group has kept its share of 61.7 percent whereas the share of first five companies in life/pension group increased 5 points to 70.4 percent. This developments implies a higher concentration in the sector as a whole and in the life-pension market compared to non-life companies.

With the effect of increase of 165.4 percent in net profit, return on assets in insurance market increased 113.6 percent during 2007 and became 3 percent. During the same period return on paid-in capital increased 9.1 percent.

TABLE: IV. 14– Selected Aggregates of the Insurance Sector

	2005	2006	2007
Basic Aggregates (Billions of TL)			
Asset Total	15,4	18,6	23,4
Non-Life Companies	7,8	9,1	11,4
Life/Pension Companies	6,6	8,4	10,7
Reinsurance	1,0	1,1	1,2
Concentration Indicators by Assets (In Percent)			
Share of First Five Companies	46,5	43,7	47,1
Share of First Ten Companies	67,0	63,8	66,0
Share of First Ten Companies			
	379	263	698
Performance Indicators (In Percent)			
Net Profit for Financial Year (Millions of TL)	276	141	424
Non-Life Companies	66	74	201
Life/Pension Companies	37	48	73
Reinsurance	2,5	1,4	3,0
	7,1	4,7	9,1
Net Profit / Total Assets			
Net profit / Paid-in Capital			
Technical Indicators (In Percent)			
Premium Retention Ratio	65,7	64,7	67,7
Non-Life Companies	92,5	91,4	92,4
Life/Pension Companies			
Technical Profit Ratio	2,5	0,5	2,6
Non-Life Companies	2,5	8,7	12,7
Life/Pension Companies			
Financial Profit Ratio	3,4	3,5	3,6
Non-Life Companies	12,5	9,4	11,6
Life/Pension Companies			

Source: Treasury

31 percent of financial assets and financial investments for life insurance policy holder were in free portfolio and 69 percent blocked on behalf of Treasury to secure all liabilities regarding the insurance contracts of companies.

When considered the dispersion of financial assets between investment instruments, government bonds are the most common instruments, second one is treasury bills and the third one is investment funds.

Turkey took thirty-fifth place within 87 countries with the share of 0.18 percent in global premium production in 2006. According to ratios of premium volume to GDP Turkey has been sixty-eighth and kept the same ranking of sixty-first with respect to premium volume per capita. When compared according to total premium product Turkey has a rank of 32 over 34 European countries

TABLE: IV. 15- Share of the Instruments in Financial Assets (2007)

(Million TL)

	Non-Life	Life/Pension	Life	Reinsur.	Total
Government Bonds/Treasury Bills	2 042	2 004	674	524	5 244
Stock	96	1 464	2	12	1 576
Mutual Funds	77	7	6	1	90
Others	216	578	174	1	968
Total	2 431	4 053	856	537	7 878

Source: 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 though rapid growth, insurance sector has still a very small share in GDP.

TABLE: IV. 16- Direct Premium Generation in the Insurance Sector

Insurance Branches	(Million TL)			(Percentage Share)			(Percentage Change)	
	2005	2006	2007	2005	2006	2007	2006	2007
Non-Life	6 423	8 090	9 370	83,8	85,4	87,6	26,0	15,8
Fire	1 093	1 524	1 661	14,3	16,1	15,5	39,4	9,0
Transport	279	332	352	3,6	3,5	3,3	19,0	6,0
Traffic	1 147	1 328	1 544	15,0	14,0	14,4	15,8	16,2
Accident	2 519	3 163	3 620	33,0	33,4	33,8	25,6	14,4
Personal Accident	232	295	396	3,0	3,1	3,7	27,2	34,2
Credit	4	8	13	0,1	0,1	0,1	100,0	62,5
Legal Protection	19	25	28	0,2	0,3	0,3	31,6	12,0
Engineering	310	412	505	4,0	4,3	4,7	32,9	13,3
Agriculture	48	54	88	0,6	0,6	0,8	12,5	62,9
Health	772	949	1 163	10,0	10,0	11,0	22,9	22,5
Life	1 242	1 385	1 331	16,2	14,6	12,4	11,5	-4,0
Total	7 665	9 474	10 701	100,0	100,0	100,0	23,6	12,9

Source: Treasury

Direct premium generation realized by insurance companies with a rise of 12.9 percent from the level of 9.5 billion YTL in 2006 reached 10.7 billion YTL in 2007. During the last twenty years, excluding years of crisis, the growth of insurance sector with respect to premium production, exceeded national income growth. Policies produced in different insurance branches, with a growth rate of 13.8 percent in 2007, reached 38.3 million. The smaller rate of increase in production than in the number of policies may be evaluated as an indicator of increasing competition in the insurance market.

Although changing from year to year 70 percent of premium volume has been produced by agencies, 10 percent by the banks and 20 percent produced directly by the main office in the insurance market.

As participation into individual pension system continues to grow at a high rate, according to data released by Pension Monitoring Center the number of contracts were 2. 576. 273 at the end of 2007. According to the same data, collected fund through contributions by participants reached 3.917 million YTL and 5.116 million YTL at the end of 2007 and October 2008 respectively.

The number of compulsory earthquake insurance policies increased by 2.5 percent and reached 2.617.974 and the premium volume increased by 14 percent and amounted 234.6 million YTL and the total amount of covers reached 124.9 billion YTL.

At the end of 2007, compared to the previous year the number of policies, premium volume and paid loss in agricultural sector, increased extraordinarily in the area of vegetable product, animal life, green house products, poultry and fishery product. Twenty five fold increase in the number of insured farmers in 2007 compared with 2006 reached 62 095 which can be understood as the growing consciousness of insurance in the agricultural sector.

Non-Bank Financial Institutions under the Surveillance of BRSA

Under the scope of non-bank financial institutions, that have been regulated and supervised by BRSA since the beginning of 2006 according to Banking Law No. 5411, a total of 142 leasing, factoring and consumer financing companies are operating as of September 2008.

During the period of December 2007- September 2008, 13 leasing companies put an end to their operations voluntarily or because of withdrawals of their license for not being able to conform to the new regulations and the number of leasing companies operating in the sector decreased to 52. In this period, while the number of the branches of leasing companies rose from 10 to 19, the number of personnel decreased from 1,557 to 1,541.

In the first half of 2008, the total asset size of the leasing companies reached from TL 13.7 billion to TL 15.2 billion with a 10.7 percent rise. As of June 2008, the sector

has a 1.7 share in GDP. The increase in leasing receivables was effective in the rise in total assets.

When the sectoral distribution of leasing operations in the first half of 2008 is analyzed, it is observed that a structure mainly based on service sector has been continuing. On the other hand, the rise in financial debt and own funds by 14.6 percent and 13.1 percent respectively, played a determining factor in the growth of leasing sector in the first half of 2008. The net profit of leasing sector in the first half of 2008, increased by 28 percent to TL 317 million compared to the same period of the previous year, with the effect of the rise in leasing income.

In the first 9 months of 2008, 5 factoring companies put an end to their operations because of various reasons and the number of factoring companies decreased to 80 as of September.

As of June 2008, compared to the end of 2007, the total assets of factoring companies reached to TL 8.7 billion from TL 7.6 billion with a 15.9 percent rise. The ratio of the assets of these companies to GDP became 1 percent in this period. The increase in factoring receivables from TL 6.2 billion at the end of 2007 to TL 7.5 billion by the half of 2008 was effective in the rise of total assets. When the sectoral distribution of factoring operations in the first half of 2008 is considered, it is seen that of the total receivables, 70.8 percent of them corresponds to manufacturing industry, 26.1 percent of them corresponds to services sector and 1.2 percent of them corresponds to agriculture sector. When the liability composition is analyzed, it is seen that the balance sheet was mainly financed with financial debt, the share of financial debt rose from 65.1 percent to 69.6 percent in the first half of 2008 and the share of own funds didn't change much and became 26.3 percent as of the half of 2008. The net profit of factoring companies increased by 85.2 percent to TL 200 million in the first half of 2008 compared to the same period of the previous year.

The number of consumer financing companies increased to 10, with the inclusion of one company that started its operations in the first 9 months of 2008. During the period of December 2007 and June 2008, the total assets of consumer financing companies reached from TL 3.9 billion to TL 4.4 billion with an 11.8 percent rise. The ratio of the total balance sheet size of these companies to GDP is 0.5 percent as of June 2008. The rise in credits, which reached to TL 4 billion and had share of 90.6 percent in the balance sheet, was determinant in the growth in total assets. As of June 2008, TL 1.6 billion of the credits were consumer credits and TL 2.4 billion of the credits were commercial installment loans. In the liability side, financial debt is the most significant financing account with a 79 percent share. In the first half of 2008, net profit of consumer financing companies decreased by 6.5 percent to TL 29 million compared to the same period of the previous year.

The adaptation process of the operations of leasing, factoring and consumer financing companies to the relevant regulations, continued in 2008. In the field of regulations, it is aimed to bring the regulatory and supervisory framework for these companies in parallel to banks and international standards, with the help of regulations on principles of establishment and operations and provisions for receivables. On the other hand, the works on the Draft Act on Leasing, Factoring and Financing Companies, which aim that these companies operate in the framework of regulations that respond to current needs, has been completed.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 18. New markets and tools will be developed and the depth of the financial system will be increased.				
Measure 33. Capital Market Law will be amended.	CMB	MoF, SPO, UT, BRSA, CBRT, BAT, PBAT	End of Decem.	Within the framework of EU regulations and developments in global markets, the draft law that includes necessary amendment to the law will be sent to TGNA aiming capital markets to develop and increase its competitiveness.
Measure 34. Financial instruments will be developed to benefit from the capital accumulation of Gulf countries.	CMB	MoF, UT, BRSA, CBRT, BAT, PBAT	End of Decem.	By analysing the financial instruments in Gulf countries, studies on the regulation of those which are deemed to be suitable considering asset classes in Turkey will be done.
Measure 35. Complementary and long-term private health insurance system will be developed.	UT	Ministry of Health, SGK, Association of the Insurance and Reinsurance Companies of Turkey	End of Decem.	The legal and technical amendments for private health insurance will be realized
Measure 36. Works will be done to enable mutual funds that quote prices in FX denomination and financial institutions to extend domestic FX credits.	UT	MoF, CBRT, BRSA, CMB, BAT, PBAT, Central Registry Agency, TAKASBANK NGOs, other related institutions	End of June	In cooperation with related institutions, works will be done to enable mutual funds that quote prices in FX denomination and financial institutions to extend domestic FX credits. After the completion of this study, proposals for legal amendmenst will be developed.
Measure 37. Tariffs in the life insurance and plans in the private pension will be excluded from confirmation process and will be set freely.	UT	Association of the Insurance and Reinsurance Companies of Turkey	End of Decem.	For the realization of this freedom the legal and technical amendments will be realized gradually and the infrastructure for according to this supervision will be constituted.
Priority 19. Works which aim to strengthen the confidence and stability in financial markets will be accelerated.				
Measure 38. Regulations that provide the establishment of risk management in banks, leasing, factoring and consumer financing companies will be made.	BRSA	Related institutional associations	End of Decem.	Changes in regulations for the improvement of risk management in banks will be made, parallel applications will be implemented for the development of risk management systems in non-bank financial institutions.

2. Main Objectives and Targets

A financial system with instrument diversity and financial depth to channel resources to the investments 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..

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Measure 39. Actuarial supervision of funds and foundations will ensure the consolidated supervision of the insurance sector.	UT	Association of the Insurance and Reinsurance Companies of Turkey	End of Decem.	Actuarial supervision of funds and foundations will be put into practice step by step and relative works to ensure the consolidated supervision of insurance will be enacted.
Measure 40. Accounting system based on valuation by market prices will be reviewed.	BRSA	CBRT, CMB, Turkish Accounting Standards Board, BAT	End of June	Flexibilities in the accounting system, that stipulates regular declaration of profit and loss on the changes in market prices of assets, will be reviewed in the context of international accounting standards and required regulations will be made.

Priority 20. Awareness and protection of the rights and benefits of customers and development of the protective applications will be ensured.

Measure 41. All of the general conditions of insurance will be examined and the content will be standardized.	UT	Association of the Insurance and Reinsurance Companies of Turkey	End of Decem.	The general conditions in insurance policies will be altered in accordance with the changeable conditions and will be standardized.
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Priority 21. Regulation and supervision of the financial sector will be enhanced in line with the international standards.

Measure 42. The efficiency of surveillance and supervision system of banks and non-bank financial institution under the surveillance of BRSA will be enhanced.	BRSA	UT, CMB	End of Decem.	Regulations will be made regarding the prevention of arbitrage deriving from regulations and strengthening consolidated supervision.
Measure 43. The law on Individual Pension Savings and Investment System will be amended.	UT	CMB, Pension Monitoring Centre, Association of the Insurance and Reinsurance Companies of Turkey	End of Decem.	In order to mitigate the problem stemming from the implementation of the Individual Pension System the Law No 4632 will be amended. The draft will be submitted to the Turkish Grand National Assembly.
Measure 44. Leasing, Factoring and Financing Companies' Act will be enacted.	BRSA	UT, CBRT, related institutional associations	End of June	Draft Act on Leasing, Factoring and Financing Companies, prepared with the aim of strengthening the regulatory and supervisory framework for these institutions, will be sent to TGNA.
Measure 45. 28 main principle of International Agency of Insurance Supervision (IAIS) will be adapted gradually	UT		End of Decem.	After analysing the IAIS principles, necessary amendments that should be done in our regulations, will be determined and studies for these amendments will be started

Priority 22. Istanbul international financial centre project will be implemented.

Measure 46. Strategy on Istanbul international financial centre project will be prepared.	SPO	Related ministries and governmental institutions, related associations, institutions in the sector, NGO's	End of Sept.	A strategy document related to Istanbul international financial centre project will be prepared. Furthermore, the announcement of the financial centre strategy is planned to be made during the annual meetings of IMF and World Bank held in Istanbul at 6-7 October 2009.
Measure 47. Capital Market Strategy Document will be prepared	CMB	Related associations and institutions, NGO's	End of Sept.	A strategy document related to studies ensuring the deepening of capital markets institutionally and functionally and the establishment of the regulation and supervision system at universal quality will be prepared.

E. DEVELOPMENT OF ENERGY AND TRANSPORT INFRASTRUCTURE

ENERGY

1. Current Outlook

Continuing strong and stable economic growth together with the accompanying increase in social wealth since 2002 has also led to substantial increase in energy demand. Over the last five years primary energy and electricity consumption has increased 35 percent and 43 percent respectively.

Due to the same continuing economic growth trend in 2008, industrial sector and electricity sector primary energy consumption is expected to rise by 3.9 percent and 7.6 percent, respectively, compared to previous year, thereby leading to a 4.5 percent increase in overall primary energy consumption. Thus, 106 million tonnes of oil equivalent (mtoe) of primary energy consumption in 2007 is expected to reach 110.8 mtoe in 2008 and 1,451 kilograms of oil equivalent (kgoe) of per capita energy consumption in 2007 would rise to 1,481 kgoe in 2008.

Natural gas consumption which has been increasing steadily for the last several years is expected to increase by 5.5 percent to reach 33.6 mtoe in 2008. Thereby, the share of natural gas in primary energy consumption would exceed 30 percent.

Despite the adverse hydrological conditions, use of hydrolic resources has been increased due to the tight balance between electricity supply and demand. Hydroelectricity production in 2008 is expected to rise by 3.2 percent. Because of the same reason, comparatively very high cost electricity generation based on liquid fuels is expected to rise by 62 percent.

Despite the increase in primary energy consumption, production of primary energy is not expected to increase significantly. Thus, an increasing share of energy consumption should be met by energy imports. Primary energy production in 2008 is expected to increase to 30.5 mtoe from 29.2 mtoe in 2007. Consequently, overall energy import share would rise to 72.5 percent.

The total installed power plant capacity has increased from 40,836 MW in 2007 to 42,191 MW in 2008 corresponding to a 3.3 percent rise. Although this capacity is pretty much higher than the power demand, there have been sporadic difficulties faced in meeting the demand due to both the plant availability problems and adverse hydrological conditions. Additionally, secure reserve margin has shrunk because of the lack of notable new investments. Fast-rising demand and insufficient supply has increased the risk of electricity supply security.

Electricity generation, 191.6 TWh in 2007, is forecasted to grow by 6 percent reaching 203 TWh in 2008. Fuel shares in electricity generation is expected to be 47.3 percent for natural gas, 20.7 percent for lignite and 18.2 percent for hydrolic.

Rapidly rising share of natural gas in total electricity generation since 1990 is poised to grow further reaching 47.3 percent in 2008 from that of 17.7 percent in 1990. That much dependance on such a resource almost all of which is imported and big chunk of imports coming from one country constitutes an important supply security risk. Moreover, that high dependance on gas is also the main reason behind the frequent electricity price increases seen in 2008. This is so because big hikes seen in the international natural gas prices over the last six years directly feed into end-user electricity prices since natural gas prices constitute the largest and very high share of generation cost of a gas-fired power plant.

Electricity trade resulting in net import in 2003 and before has turned to net export as of 2004 and net electricity export is expected to decrease significantly with respect to previous year in 2008 to be 0.3 TWh due to rising domestic demand.

Under the framework of "Electrical Energy Sector Reform and Privatization Strategy Paper" dated 17 March 2004, public power plants has been restructured as portfolio generation groups and studies on the privatisation of some individual power plants selected according to rehabilitation needs and new unit addibility capacity and identification of generation privatisation methodology is continuing.

Delays in the privatization schedule of public distribution and generation assets caused both postponement in the establishment of a truly competitive, free electricity market and of commissioning of the new generation investments. Aforementioned Startegy Paper has been updated by taking into account the present situation of the electricity sector, implementations of the Startegy Paper and currently faced electricity supply shortage risk.

Law Changing the Electricity Market Law and Some Other Laws (No. 5784) has been put into force on 26 July 2008 to preclude near term electricity supply shortage foreseen by the supply-demand projections and ensure the long-term security of supply. Duties and responsibilities of all related institutions regarding monitoring, assessing and ensuring the security of electricity supply has been clarified with the Law.

Law (No. 5784) set the enabling legal framework for the creation of capacity mechanisms and in this context procurement of energy through a central contest. As a last resort public investment in generation is permitted.

Council of Ministers is the final decision authority for both of these options.

Law envisages that in the case of multiple applications for a wind energy area transmission company will arrange a contest. Investors who fail to undertake generation investments on a foreseen timescale are subject to sanctions including licence cancellation. Proceeds of generation privatisation would be used for the energy sector. Limits regarding how much energy autoproducers can sell into the free market is extended for the cases in which security of supply is in question.

Law foresees some measures to ensure the short-term security of supply; electricity import by islanding, TETAŞ's signing of power purchase agreements through tenders, in the case of insufficient TEİAŞ finances for the connection of new generation facilities to transmission network owners of the generation facilities could make required investments themselves or make it done on the condition that they would be paid back at most 10 years, generation facilities would pay half the transmission use of system charges for five years and be exempt from stamp tax and fees during investment period, Special Consumption Tax (ÖTV) exemption for liquid fuels-fired power plants. Moreover, Law allows BOTAŞ to undertake new LNG imports and spot LNG purchases are exempted from Public Procurement Law. Regarding renewable energy Law provides some new incentives and furnish some simplicity. Law regulates the payment of general lighting expenditures.

Law About the Utilisation of Renewable Energy Resources for Electricity Production, Law No.5346, has started to take positive results and windplants' installed capacity jumped threefold and geothermal power plants' installed capacity jumped twofold in 2008 compared to previous year. Total electricity generation increased 2.5 times to reach 1.8 billion kWh. This production met the 11 percent of electricity production increase in 2008. Thereby, share of wind and geothermal electricity in total electricity production has reached almost 1 percent by increasing twofold with respect to previous year.

As per Law About Building and Operation of Nuclear Power Plants and Sale of Energy, Law No.5710, a contest was held to build 5000 MWe (4000+/-25 percent) of nuclear power plant (NPP) with a bid submission deadline of 24 September 2008, but get one bid. As of October, bid evaluation is continuing.

Preparation studies of secondary regulations as per Energy Efficiency Law, Law No.5627, which aims to use of energy conservatively and efficiently at every stage through its production upto the end-use and providing incentives in this regard, is continuing. In this context, 2008 was declared as energy efficiency year.

In the context of ensuring the natural gas and petroleum supply security, building of natural gas storage facilities has also been continued in 2008.

In the context of establishing Ceyhan as an international energy hub, following the commissioning of the Baku-Tbilisi-Ceyhan petroleum pipeline having a 50 million tons/year throughput, infrastructure studies is being continued in Ceyhan Energy Qualified Industrial Zone.

2. Main Objective and Targets

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

In 2009, strengtning of the legal and institutional infrastructure in the field of nuclear energy would continue. NPP contest which would make a fundamental contribution to healthy diversification of electricity supply resources and reduction of heavy dependence on natural gas to reasonable level would be finalised and plant construction would be commenced. However, NPP build project would be carried out in such a way that to serve the ultimate objective of the country to be self-sufficient in nuclear technology in the long-run.

Development of indigenous and renewable energy sources to ensure and sustain the energy supply security and effective implementation of mechanisms envisaged by Law No.5627 to increase energy efficiency would continue.

2009 is a critical year in terms of electricity supply security. In this regard, curtailment of electricity demand increase through demand-side management measures and efficient use and expansion of existing electricity supply through supply-side measure is aimed. Especially, it is crucial that licenced and under-construction power plants are commsioned as planned.

Market structure would be improved for the creation of a properly functioning free market thus formation of prices in a competitive environment resulting in reasonable prices and to preclude negative impacts on consumers and to ensure stable continuation of investments.

Regarding the energy security being at the tops of the international agenda, policy towards making Turkey a reliable transit country and a hub would be furthered.

In 2009, both primary energy and electricity demand is expected to grow in parallel with the targeted economic growth. Thus, primary energy consumption is forecasted to increase by 4.3 percent to reach 115.6 mtoe and per capita primary energy consumption by 3.1 percent to reach 1,527 kgoe.

Primary energy production, 30.5 mtoe in 2008, is forecasted to rise to 31.1 mtoe by growing 2 percent in 2009. Import dependency in primary energy would thereby be 73.1 percent in 2009.

The increase in the primary energy demand would be met through increases in the consumption of all energy

sources. However, largest percentage rise of 10 percent due mainly to the electricity sector demand would be in natural gas consumption. In 2009, 56 percent of the increase in electricity generation is programmed to come from natural gas.

TABLE:IV. 17- Primary Energy Consumption and Fuel Shares

(M: Bin TEP)

	2007		2008 (1)		2009 (2)	
	Quantity	Share (pct)	Quantity	Share (pct)	Quantity	Share (pct)
COMMERCIAL ENERGY	100 900	95,2	105 800	95,5	110 740	95,8
Hard Coal	17 180	16,2	17 250	15,6	17 565	15,2
Lignite	13 010	12,3	13 670	12,3	13 930	12,1
Petroleum Products	34 300	32,4	36 370	32,8	37 025	32,0
Natural Gas	31 900	30,1	33 640	30,4	36 995	32,0
Hydroelectricity	3 083	2,9	3 182	2,9	3 354	2,9
Renewable Energy	1 561	1,5	1 715	1,5	1 897	1,6
Electricity Import (Export)	-134	-0,1	-26	0,0	-26	0,0
NON-COMMERCIAL ENERGY	5 100	4,8	5 000	4,5	4 860	4,2
Wood (1)	3 960	3,7	3 900	3,5	3 800	3,3
Animal Waste ve Plant Residue (1)	1 140	1,1	1 100	1,0	1 060	0,9
TOTAL	106 000	100,0	110 800	100,0	115 600	100,0
Per capita consumption (kgoe)	1 451		1 481		1 527	

(1) Estimate, (2) Forecast

Electricity consumption, which is expected to be 202.7 TWh in 2008, would rise to 217.1 TWh in 2009 growing 7.1 percent with respect to previous year. Thus, per capita electricity consumption would increase from 2,741 kWh in 2008 to 2,902 kWh in 2009. However, the continuation of energy price increases and of slowdown in economic activities would lead to the continuation of slowdown in electricity demand increase as evidenced since July 2008.

Total installed power plant capacity would increase by 2.6 percent to 43,303 MW in 2009. Electricity generation, by increasing 7.1 percent, would rise to 217.4 TWh. Main fuel shares of this amount would be 47.8 percent for natural gas, 20.3 percent for lignite and 17.9 percent for hydraulic. Share of wind and geothermal electricity is expected to rise to 1.5 percent.

TABLE:IV. 18- Power Plants Installed Capacity, Production Capacity and Electricity Generation by Fuel

Installed Capacity: MW; Production Capacity, Generation: GWh

	2007			2008 (1)			2009 (2)		
	Installed	Production	Generation	Installed	Production	Generation	Installed	Production	Generation
	Capacity	Capacity	Capacity	Capacity	Capacity	Capacity	Capacity	Capacity	Capacity
Hard Coal	1 986	15 490	15 136	1 986	15 490	15 400	2 151	16 778	16 000
Lignite	8 211	52 550	38 294	8 211	52 550	42 000	8 367	53 550	44 200
Fuel-Oil	1 773	10 660	6 470	1 818	10 930	9 300	1 818	10 930	9 300
Diesel,LPG,Naphtha	228	1 230	67	228	1 230	1 290	302	1 360	1 320
Natural Gas	11 648	87 765	95 025	11 848	88 860	96 000	12 048	90 360	104 000
Multi-fuel (*)	3 384	23 260		3 384	23 688		3 384	23 688	
Biogas-waste	43	258	214	43	258	210	44	264	220
THERMAL	27 273	191 213	155 206	27 518	193 006	164 200	28 114	196 930	175 040
HYDRO	13 395	47 023	35 851	14 025	48 800	37 000	14 173	49 405	39 000
Geothermal	23	150	156	68	442	400	76	494	460
Wind	145	493	355	580	1 972	1 400	940	3 196	2 900
T O T A L	40 836	238 878	191 568	42 191	244 220	203 000	43 303	250 025	217 400

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

TABLE:IV. 19- Electricity Consumption by Sectors

	2007		2008 (1)		2009 (2)	
	GWh	Share (pct)	GWh	Share (pct)	GWh	Share (pct)
Households	36 476	19,2	38 400	18,9	40 400	18,6
Commercial Buildings	23 141	12,2	26 300	13,0	29 900	13,8
Official Buildings	6 933	3,6	7 500	3,7	8 100	3,7
General Lighting	4 053	2,1	4 100	2,0	4 200	1,9
Industry	73 795	38,8	78 000	38,5	83 000	38,2
Others	10 738	5,7	11 100	5,5	11 500	5,3
NET TOTAL	155 136	81,6	165 400	81,6	177 100	81,6
Own consumption and Losses	34 874	18,4	37 300	18,4	40 000	18,4
GROSS TOTAL	190 010	100,0	202 700	100,0	217 100	100,0
Net per capita consumption (kWh)	2 098		2 211		2 339	
Gross per capita consumption (kWh)	2 570		2 709		2 868	

(1) Estimate, (2) Forecast

TABLE:IV. 20- Energy Production and Consumption

	Unit	2000	2001	2002	2003	2004	2005	2006	2007	2008 (1)	2009 (2)
PRIMARY ENERGY											
PRODUCTION	BTEP	27 621	26 159	24 884	23 779	24 170	26 472	28 045	29 215	30 500	31 100
CONSUMPTION	BTEP	81 193	75 883	78 322	83 936	87 778	90 077	99 313	106 000	110 800	115 600
Per capita consumption	KEP	1 204	1 111	1 131	1 196	1 234	1 249	1 377	1 451	1 481	1 527
ELECTRICITY											
INS.CAPACITY	MW	27 264	28 332	31 846	35 587	36 824	38 843	40 565	40 836	42 191	43 303
Thermal	MW	16 070	16 640	19 586	22 990	24 160	25 917	27 443	27 296	27 586	28 190
Hydro	MW	11 194	11 692	12 260	12 597	12 664	12 926	13 122	13 540	14 605	15 113
GENERATION											
	GWh	124 922	122 725	129 400	140 580	150 698	161 956	176 300	191 568	203 000	217 400
Thermal	GWh	94 010	98 653	95 668	105 190	104 556	122 336	131 929	155 362	164 600	175 500
Hydro	GWh	30 912	24 072	33 732	35 390	46 142	39 620	44 371	36 206	38 400	41 900
IMPORT											
	GWh	3 786	4 579	3 588	1 158	464	636	573	864	1 000	1 000
EXPORT											
	GWh	413	433	435	587	1 144	1 798	2 236	2 422	1 300	1 300
CONSUMPTION											
	GWh	128 295	126 872	132 553	141 151	150 018	160 794	174 637	190 010	202 700	217 100
Per capita consumption	kWh	1 903	1 857	1 914	2 011	2 109	2 230	2 391	2 602	2 741	2 902

(1) Estiamte, (2) Forecast, ktoe: 1000 toe

TABLE:IV. 21 - Electricity Generation by Fuel

	Hard Coal		Lignite		Liquid Fuels		Natural Gas		Biogas-waste		THERMAL		HYDRO		Geothermal + Wind		TOTAL	
	GWh	pct	GWh	pct	GWh	pct	GWh	pct	GWh	pct	GWh	pct	GWh	pct	GWh	pct	GWh	pct
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	15 136	7,9	38 294	20,0	6 537	3,4	95 025	49,6	214	0,1	155 206	81,0	35 851	18,7	511	0,3	191 568	100,0
2008(1)	15 400	7,6	42 000	20,7	10 590	5,2	96 000	47,3	210	0,1	164 200	80,9	37 000	18,2	1 800	0,9	203 000	100,0
2009(2)	16 000	7,4	44 200	20,3	10 620	4,9	104 000	47,8	220	0,1	175 040	80,5	39 000	17,9	3 360	1,5	217 400	100,0

* Estimate, **Forecast

3. Policy Priorities and Measures

Priority/ Measure	Responsible Institution	Institutions to be Cooperated	Duration	Description of Objectives
Priority 23. To enhance the security of energy supply, development of indigenous resources, diversification of energy resources and improvement of energy efficiency will be given priority and necessary regulations will be made.				
Measure 48. Studies towards determining the renewable energy resource potential and developing and expanding the applications thereof would be continued.	EİEİ	MENR, TEİAŞ, TEDAŞ, MTA, DSİ, DMİ, TÜBİTAK-MAM, DG Cadastre and Land Registry, Universities, Private Sector	End of December	To supply the peak energy demand and for more efficient utilisation of wind energy potential, potential determination and project studies regarding pumped-storage hydroelectric power plants would be done. Technical evaluations of the windplant applications to EPDK would be realized. Solar Energy Map would be improved and Biomass Map would be prepared.
Measure 49. As regards energy efficiency secondary legislation would be completed and effective mechanisms to increase energy efficiency and conservation would be developed.	MENR	MoF, MoPWS, EİEİ, Industrial Enterprises, Producers' Unions and Associations, Universities, Chamber of Professions, Energy Efficiency Consulting Companies	End of December	In the framework of Energy Efficiency Law, energy efficiency implementation projects would be supported and voluntary agreement applications to decrease the energy intensity of industrial enterprises would be started. Energy Management System in industry, buildings and service sectors would be established and expanded. To this end, necessary infrastructure would be developed and training studies would be done.
Measure 50. NPP build works would be continued.	MENR	TAEK, SPO, Treasury, EMRA, TETAŞ, Related institutions	End of September	NPP build project would be executed in a way to utilise the nuclear power in an increasing amount to ensure the long-term security of energy supply. To enable new contests in addition to existing one, legal and administrative regulations would be completed.
Measure 51. Legal framework for the regulation and supervision of nuclear activities would be established and necessary institutions would be created.	MENR	TAEK	End of March	Draft Law regarding independent regulation and supervision of nuclear activities and re-regulation of duties and responsibilities of TAEK would be sent to TGNA.
Measure 52. Afşin Elbistan C-D Thermal Power Plants investments would be commenced.	MENR	EÜAŞ, TETAŞ	End of March	A new bidding process for the construction of Afşin Elbistan C-D TPPs would be started and in this regard legal and administrative regulations would be completed.
Measure 53. Electricity supply security would be monitored and necessary measures would be taken.	MENR	SPO, EMRA, Treasury, Related institutions	End of December	Necessary measures for the expedition of new investments and urgent completion of ongoing investments would be taken. In this direction, measures foreseen in the Law No.5784 would be implemented effectively. Efficient use of existing power plant capacity would be ensured. Rehabilitation and capacity increase investments would be expedited. Electricity supply security situation would be monitored continuously. A capacity mechanism would be created to ensure the security of supply in the cases of markets failing to ensure security of supply.

Priority 24. 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 54. Privatization of electricity distribution companies would be continued.	Privatization Administration	MENR, TEDAŞ	End of December	Privatizations aim to reduce the high distribution losses (technical and non-technical), increase the billing and collection rates, lower the costs via operational efficiency and reflecting it to consumers, and undertaking of renewal-expansion investments by private sector. Distribution privatizations would be continued.
Measure 55. Privatization works for electricity generation would be continued.	Privatization Administration	MENR, EÜAŞ	End of March	Privatisation of some individual power plants selected according to their rehabilitation needs and new unit addibility capacity would be evaluated. Status of portfolio generation companies and generation privatisation methodology would be determined.

TRANSPORT

1. Current Outlook

General

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 every day. Financial models, which would stimulate the construction of large-scale ports in maritime transport sector, cannot 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.22- Developments in Transport Modes

	Unit	2006 Realization (1)	2007 Realization (2)	2008 Forecast (3)	Annual Increase (%)	
					2007 (2/1)	2008 (3/2)
RAILWAY TRANSPORTATION						
Passenger Transport (Domestic)	Million- Passenger-Km	3 802	3 999	3 600	5,2	-9,9
Freight Transport (Domestic)	Million-Ton- Km	8 227	8 439	9 400	2,6	11,4
Freight Transport (International)	Million-Ton- Km	1 318	1 316	1 480	-0,2	12,5
MARITIME TRANSPORTATION						
Freight Transport (Domestic) ⁽¹⁾	Million –Ton- Km	5 518	6 140	7 050	11,3	14,85
Freight Transport (International) ⁽¹⁾	Million –Ton- Km	775 500	896 400	1 033 000	15,6	15,3
Turkish Maritime Fleet (300 Grt and above)	Thousand DWT	7 270	7 225	7 850	-0,6	8,6
AIR TRANSPORTATION						
Passenger Transport (Domestic) ⁽²⁾	Million- Passenger-Km	5 265	6 177	6 862	17,3	11,1
Passenger Transport (International) ⁽²⁾	Million- Passenger-Km	20 099	24 124	26 464	20,0	9,70
HIGHWAY TRANSPORTATION ⁽³⁾						
Passenger Transport (Domestic)	Million- Passenger-Km	187 593	209 115	215 388	11,5	3,0
Freight Transport (Domestic)	Million-Ton- Km	177 399	181 330	190 397	2,2	5,0
PIPELINE TRANSPORTATION						
Freight Transport (Domestic) ⁽⁴⁾	Million-Ton- Km	2 842	2 130	2 265	- 25,0	6,3
Freight Transport (Transit) ⁽⁴⁾	Million-Ton- Km	9 118	32 591	56 787	257,4	74,2
Natural Gas ⁽⁵⁾	Million-Sm ³	30 308	35 882	38 387	18,3	6,98

⁽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 natural gas transportation which is imported 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 and TEN-T negotiations based on this study started in 2008.

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.

According to 2007 data, approximately 95.4 percent of inter-city passenger transport and about 91.6 percent

of freight transport are realized through highways in Turkey. This ratio is 83 percent for passenger transport and 46 percent for freight transport in EU-27 countries for 2006. For the same year, 41 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-27 average. While the average highway length for square-km is 0.414 km and average motorway length for square-km is 0.015 km in EU-25, these figures are 0.082 km and 0.003 km for Turkey, respectively. Even if, rural roads paved by asphalt were taken into account, it is seen that density of our country's highway network is approximately half of EU-27 average level.

TABLE: IV. 23– Comparison of Transport Modes Among Various Countries

Countries	Highway Density km/km ² (2005)	Motorway Density km/km ² (2005)	Railway Density km/1.000 km ² (2005)
Czech Republic	0.704	0.007	120
France	0.728	0.020	53
Germany	0.648	0.035	97
Belgium	0.514	0.057	114
Austria	0.428	0.020	68
EU-25	0.414	0.015	50
Turkey	0.082 ⁽¹⁾	0.003	11

Sources : EU Energy-Transport Statistics, General Directorate of Highways Statistics

(1) Only motorways and state and provincial roads are taken into consideration. If rural roads paved by asphalt were taken into account, this ratio would be 0.201.

Highway

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 3.1 times higher than the EU-27 average, according to 2006 data.

As of the beginning of 2008, the total length of state and provincial road network, excluding rural roads, is 63,889 km. Of this total, 3,729 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 9,393 km.

TABLE: IV.24—Situation of the Highway Network at the Beginning of 2008

(Km)

Road Class	Hot-Mix Asphaltic Concrete	Surface treatment	Stone Paved	Stabilized Earth	Soil	Impassable	Total
Motorways	2 001	-	-	-	-	-	2 001
State Roads	6 538	24 205	49	213	106	222	31 333
Provincial Roads	868	26 414	109	1 583	841	764	30 579
Total	9 407	50 619	158	1 796	947	986	63 913

Source: General Directorate of Highways

Within the framework of 15,000 km of dual highway construction target, 660 km of dual highways have been completed as of September 2008, the total length of dual highways, including motorways, reached 13,929 km. Additionally, 300 km of existing dual highways are expected to be hot-mix asphalt paved in 2008.

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 10,991 km in total and 8,697 km of this network consists of main lines. 2,274 km of the railway network is electrified and 3,098 km of the network is signalized. Transportation through the corridors between main cities is carried on an obsolete infrastructure. In Turkey, both railway density and traffic density on the existing network are low. Furthermore, percentage of 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 with their own freight cars, 2.6 percent increase in domestic freight transport were achieved in 2007 in million-ton terms. International freight transport remained at the same level of international freight transport of 2006. 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 journey time, low reliability and security issues cause demand to be inadequate for passenger transport. On the other hand, test operation is continuing through Ankara-Eskişehir section of Ankara-İstanbul High Speed Railway Project, which was started in construction 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. The infrastructure construction of Ankara-Konya High Speed Railway Project is expected to be completed in 2009 and its superstructure construction works are going on.

Draft TCDD Law and Railway Law have been prepared. However, the legislation procedure of these draft laws couldn't be started by the Ministry of Transport.

Maritime

4.7 million TEU (Twenty-Foot Equivalent Unit) containers and 235 million tonnes of cargo other than container were handled in Turkey by the end of 2007. Containers and freight handled in 2007 increased 15 percent and 17 percent subsequently, 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 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, after having shown a considerable improvement by moving from black list to grey list of the Paris Memorandum of Understanding, the record of Turkish flag continues to be on the grey list. In order to improve coastal safety; investments, especially İzmit Bay, İzmir Port/Nemrut Bay-İzmir Bay-İzmir Region and Mersin Port/İskenderun Bay Vessel Traffic Systems Project are ongoing. 2 tugboats-procurement

projects that aim to enhance sea safety at Turkish Straits will be completed by the end of 2008. Sürmene-Yeniçam Shipyard Breakwater and Light House Construction, which is being implemented with the aim of improving Turkey's position in the world shipbuilding industry, will be completed in 2008. Besides, Karasu Port is expected to be completed by the end of 2008.

TABLE: IV. 25- Container Traffic in Mediterranean Ports (2005)

Ports	Container (1.000 TEU)
Gioia Tauro – Italy	3 123
Algeciras – Spain	3 182
Valencia – Spain	2 412
Barcelona – Spain	2 069
Piraeus – Greece	1 401
Genoa – Italy	1 038
La Spezia – Italy	916
Marseille – France	911
Ambarlı - Turkey	1 186
İzmir – Turkey	784
Mersin – Turkey	596
Haydarpaşa – Turkey	340

Source: EU Energy and Transport Figures, TCDD, Ambarlı Port Statistics (2005 figures)

Air Transportation

The number of airports operated by General Directorate of State Airports Administration (DHMI) has reached 40. Thus, with the other 4 airports operated by other than DHMI, the number of civil aviation airports is 44.

Around 91 percent of the passenger traffic occurs at Atatürk, Antalya, Esenboğa, Adnan Menderes, Dalaman, Bodrum/Milas, Adana, Trabzon and Sabiha Gökçen airports. The investments for additional capacity and the projects regarding service standard improvements and the management of air traffic at these airports maintain their priorities.

In 2007, the domestic air passenger traffic was 32 million passengers with a 11 percent yearly increase, the international air passenger traffic was 38.3 million passengers with a 16.6 percent yearly increase and the total air passenger traffic was 70.3 million passengers with a 14 percent growth. Air passenger traffic in 2008 is expected to be 77 million passengers.

2. Main Objectives and Targets

The main objective in the transportation sector is timely creation of 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 provides services at high quality standards, through continuation of the dual highway construction works primarily on the main corridors having high traffic volumes, converting of the pavement of road segments with high volume of heavy traffic to hot-mix asphalt, 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.

Remaining works for the construction of Gaziantep-Sanlıurfa and Kemerhisar-Pozanti Motorways, which were projected to be opened for traffic by the end of 2008, and the linkage road works on the Bursa By-Pass project, which was initiated within the framework of Transformation of Metropolitan Crossings to By-Pass Roads policy, will be continued. Izmir By-Pass Road will be completed at the end of 2009.

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 financial 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 shall be completed as soon as possible. Necessary steps will be taken to move towards white list from grey list within the context of Paris MoU. 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.

Studies on the "Airports Master Plan" will be initiated to analyze the current situation and investment needs to guide the mid-term and long term investments. Total passenger traffic is expected to reach 81 million.

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

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 corridors which have peak hour travel demand of 15,000 passengers/hour/direction at the critical stations estimated for the project completion year. 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 exploited 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(s) In Charge	Institutions to be Cooperated	Begin/ EndYear	Description of Objectives
Priority 25. Works aimed at integration of our national transport networks with the Trans-European Transport Networks will be accelerated.				
Measure 56. Projects taking place in Transport Operational Programme will be commenced	Ministry of Transport	SPO, Undersecretariat of Treasury	End of Decem.	Construction tender of Halkalı-Kapıkule Railway Project will be realized by the utilization of IPA funds. Service tenders (feasibility, EIA, preparation of tender documents) of Irmak-Karabük-Zonguldak Railway Electrification and Signalisation, and Çandarlı and Mersin Container Ports Projects will be completed.

Priority 26. The existing road infrastructure will be improved through the construction of dual highways and increasing the standards of highways

Measure 57. The construction of dual carriage highways will be continued.	Ministry of Transport (General Directorate of Highways)	SPO	End of Decem.	To ensure the fulfillment of 15,000 kms of dual highway network target, construction works on the main corridors will be continued. Within this framework, construction of a total of 1,700 km of dual highways paved by surface treatment, hot mix asphalt and at the level of subbase will be completed.
Measure 58. Physical standards of the roads with heavy vehicle traffic will be improved.	Ministry of Transport (General Directorate of Highways)	SPO	End of Decem.	500 km 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. Additionally, 17,000 km of replacement and maintenance works will be carried out.

Priority 27. Traffic safety on the road network will be improved.

Measure 59. :Black spots on the highway infrastructure, guardrails, horizontal-vertical road markings and traffic signs will be improved on the main road corridors.	Ministry of Transport (General Directorate of Highways)	General Directorate of Security	End of Decem.	Improvement works on 69 segments having high accident potential and 91 black spots will be done. With the priority given to recently completed dual highways, 470 km of guardrail installation and repair will be done, 16,000,000 m ² of horizontal markings will be completed on 56,000 km of highways and 25 percent of vertical traffic signs will be replaced or improved.
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Priority 28. Freight transport will be concentrated on railways and maritime.

Measure 60. Connection lines to organized industrial zones, large factories and ports will be constructed with private sector contribution.	Ministry of Transport (General Directorate of Highways)	SPO	End of Decem.	İzmir Kemalpaşa Industrial Zone (KOSBİ) railway connection line and Tekirdağ-Muratlı Railway construction projects will be completed.
Measure 61. Transformation from plain rail transport approach to logistics approach will be done by establishing rail yard terminals in ports and land container terminals.	Ministry of Transport (General Directorate of Highways) (TCDD)	SPO	End of Decem.	Kocaeli-Köseköy and Hasanbey logistics centers will be completed; the construction of Palandöken, Uşak, Boğazköprü, Yenice and Gökköy logistics centers will be started.

Priority 29. TCDD will be restructured in order to increase service quality and market share and to decrease its financial burden on public.

Measure 62. New legislation will be put into force for railway sector and TCDD.	Ministry of Transport	TCDD	End of Decem.	Draft Railway Law and TCDD Law will be finalized and sent to the Parliament.
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Priority 30. Passenger transport with high-speed trains 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 63. High speed railway core network will be established with Ankara being the central city.	Ministry of Transport (TCDD)	Ministry of Transport, SPO	End of Decem.	Tender procedure for Gebze-Köseköy will be completed, the infrastructure of Ankara-Konya High Speed Railway Project will be completed, and the tender procedure of infrastructure of Yerköy-Sivas, part of Ankara-Sivas Railway Project, will be completed and the final design of Kayaş-Yerköy, part of Ankara-Sivas Railway Project, will be completed.
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Priority 31. Port capacities will be increased, ports will be transformed into logistic centres where combined transport will be realized and efficient management of the ports will be ensured

Measure 64. A port administration model will be established for Turkish ports.	Ministry of Transport (Undersecretariat of Maritime Affairs)	Ministry of Transport, SPO, Privatisation Administration, TCDD, Related Municipalities, Chamber of Shipping, TÜRKLİM	End of Decem.	A port authority will be established for Turkey based on a model which will be prepared to administer ports in coordination according to public policies by considering individual port needs.
Measure 65. Coastal Structures Master Plan will be prepared.	Ministry of Transport	Ministry of Public Works and Settlement, Undersecretariat of Maritime Affairs, Privatisation Administration, TCDD, Related Municipalities, Chamber of Shipping, TÜRKLİM, Automotive Manufacturers Association	End of Decem.	Coastal Structures Master Plan, which will determine available port sites and direct 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 completed.

Priority 32. New airport investments will be planned in order to meet the long term demand.

Measure 66. Airports Master Plan will be prepared.	Ministry of Transport (DHMI)	SPO, DLHI, SHGM	End of Decem.	Airports Master Plan will be initiated to analyze the current situation and investment needs to guide the mid-term and long term investments.
Measure 67. Site selection and feasibility studies will be started for the third airport in İstanbul.	Ministry of Transport	SPO, DHMI, Governorship of İstanbul, İstanbul Metropolitan Municipality.	End of Decem.	In accordance with the development plans of İstanbul, within the framework of development and transport plans, site selection, design and feasibility studies will be started for a new airport.

Priority 33. Models that will increase private sector participation in meeting the transportation infrastructure requirements will be developed.

Measure 68. Public-Private Partnerships Law will be enacted.	SPO	Ministry of Transport, Under-secretariat of Treasury	End of June	The law aiming at implementing new public-private partnership models and increasing the number of sectors for which public-private partnerships models can be applicable will be sent to the Assembly.
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Priority 34. 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 69 A regulation defining the the evaluation and approval process of the rail transit projects by Ministry of Transport (DG DLHI) will be prepared.	Ministry of Transport	SPO	End of Decem.	The Law No:3348 which defines the duties of Ministry of Transport requires the approval of urban rail transit projects by the DG DLHI. A regulation will be prepared to define the necessary steps to be taken in the process of approval of the projects by the Ministry
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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 unconscious use of natural resources, insufficiency of legal and institutional structure regulating environmental management and inadequacy in urban infrastructure, above stated pressure causes important environmental problems.

Within the scope of UN Framework Convention on Climate Change, while the National Coordination Board of Climate Change fulfills its tasks in a close cooperation with the relevant institutions, there is an increasing need for further capacity building on climate change issues in all relevant agencies. The ratification process of Kyoto Protocol is about to be completed and the respective law is in Turkish Grand National Assembly's agenda.

Integrating Sustainable Development into Sectoral Policies Project has been completed. Energy, Fishery, Forestry, Urbanization and Science and Technology are defined as pilot sectors for which sustainable development policy alternatives are analyzed in a integrated manner.

As of 2006, among 3.225 municipalities, 3.167 have drinking and potable water network corresponding to 98 percent of the total municipal population and 2.321 have sewerage network corresponding to 87 percent. Except from new residential areas and renewal of existing network, the demand for water and wastewater network has decreased. However, the demand for treatment plant for both drinking and waste water goes increasing.

According to 2006 statistics, 36 percent of drinking and potable water supplied by municipalities met from dams, 27 percent from wells, 27 percent from springs, 20 percent from rivers, lakes and ponds. 47 percent of 2.9 billion m³ of wastewater collected by the municipalities giving sewerage service was discharged into rivers, 40 percent into seas, 2 percent into lakes, 1 percent into soil, 3 percent into dams and 7 percent into other receiving environments. 2.43 billion m³ (47 percent) of 5.16 billion m³ water supplied was treated in plants.

54 percent of 3.4 billion m³ of wastewater collected by the municipalities giving sewerage service was discharged into rivers, 35 percent into seas, 2 percent into lakes, 1 percent into soil, 4 percent into dams and 4 percent into other receiving environments. 2.1 billion m³ (62 percent) of the discharged wastewater was treated in plants, 43 percent by biological treatment, 33 percent by physical treatment and 24 percent by advanced treatment.

Turkey is classified as a country which will become a water-stressed country. At present, due to increasing demand, drought and pollution in the water collection basin, the amount of drinking water becomes insufficient. The issues such as planning, 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 2006, 25,3 million tonnes of solid waste was collected by municipalities, 37,3 % was landfilled in 22 controlled landfill sites. In 2008, in addition to 10 sanitary landfill sites this ratio will be 41,1%. In 2006, 1 % of total solid waste (255.000 tonnes) was disposed at 4 composting facilities .

Although municipalities mostly comply with duty solid waste management in collecting and transporting phases, they are not enough effective and sensitive on disposal of solid waste. Especially wild dumping, the inaccuracy in the selection of dumping sites and inappropriate management lead to increase of problems.

Medical wastes and hazardous wastes increasing by industrialization are disposed with municipal solid waste, without taking adequate measures. As of 2004, the number of municipalities which collect, transfer and disposal of medical waste was 578, collected medical waste was 62 thousands tonnes. In 2006, 20 % of collected medical waste is incinerated, 25 % is disposed in landfill and 55% disposed with municipal dumpsites. In our country, there is a 790 thousands m³ capacity hazardous waste plant.

Solid waste minimization policy should be a priority. Also, according to separation solid waste in the resource household awareness has been needed. In national level, an efficient waste management system could not be progressed and policies into the implementation could not be constituted in that case.

Considering the bottlenecks of municipalities on project development, implementation, monitoring and evaluation and financing related to urban infrastructure, in

order to provide necessary technical and financial support, studies on restructuring of Iller Bank will be continued.

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 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 methods and tools securing appropriate land supply and planned development will be developed.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 35. Administrative, auditing and implementation capacity will be improved for the better implementation of national environmental legislation.				
Measure 70. Administrative, auditing and implementation capacity will be improved for the better implementation of national environmental legislation.	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 Decem.	In order to harmonize national environmental legislation with EU environmental acquis and implement this legislation effectively, projects on sea and coastal pollution monitoring and coastal hot spot areas as well as fragile areas will be completed, secondary legislation on environmental permission process will be completed and in order effective implementation of legal framework necessary project will be started.
Priority 36 : Studies on climate change will be continued considering national development priorities and increasing needs of population.				
Measure 71. The possible sectoral costs of combating climate change will be studied.	SPO	Members of National Coordination Board on Climate Change, other related institutions	End of Decem.	The Determination of Sectoral Costs of Combating with Climate Change" will be realized.
Measure 72. International negotiations on climate change for post 2012 will closely be monitored and proper positions consistent with Turkey's special conditions could be defined.	Ministry of Environment and Forestry	Members of National Coordination Board on Climate Change, other related institutions	End of Decem.	International discussions on better implementation of commitments under UN Convention on Climate Change for post 2012 will be completed by the end of 2009. In this context, Turkey's position will be clarified by considering our special conditions and EU accession process. For this purpose, projects like "Capacity Building for Better Management for Climate Change in Turkey" will be realized..
Priority 37: Living standards of cities will be improved.				
Measure 73. Sustainable Urban Development Strategy will be prepared.	Ministry of Public Works and Settlement	Ministry of Interior, Ministry of Environment and Forestry, Municipalities, Other Related Institutions	End of Decem.	Standards on building and environment will be improved within the framework of public interest and the strategy will include standards and methods for disaster safety related to risk mitigation and management.
Priority 38. Works on effective and integrated management of water resources will continue.				
Measure 74. Works on effective and integrated management of water resources will continue.	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 Decem.	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 39. Solid waste management will be made effective.

Measure 75. Solid waste management will be made effective	Ministry of Environment and Forestry	Ministry of Interior, SPO, Secretariat General for EU Affairs, Bank of Provinces, Municipalities	End of Decem.	According to national legislation, national and regional solid waste management plans will be prepared in order to benefit from EU funds. 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.
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G. ENHANCING R&D AND INNOVATION**1. Current Outlook**

In today's world, science, technology and innovation capacity have become most important factors of competitive advantage and socio-economic development.

As of 2006, the share of R&D expenditures in GDP is 0.76 percent in Turkey, whereas EU-27 average is 1.84 percent. As public funds allocated for this sector have been increasing since 2005, and private sector has been spending more funds for R&D purposes, the share of R&D expenditures in GDP is expected to rise.

The ratio of R&D personnel to total employment is 0.43 percent in Turkey as of 2006, which is considerably below the EU-27 average 1.33 percent. Additionally, in Turkey 33.1 percent of the R&D personnel are employed by private sector, whereas this ratio equals to 49.3 percent in EU-27 countries in year 2006.

Private sector has very important role in transferring R&D studies into products and increasing the contribution of these studies in gaining competitive power. In Turkey, the ratio of R&D expenditures realized by private sector has increased from 33.8 in 2005, to 37 percent in 2006. On the other hand, it is still below the EU-27 average of 64 percent in 2006.

In Turkey 31.4 percent of the enterprises, employing more than 10 personnel, have reported that they realized technological innovative activities during 2004-2006 period. The most important factors negatively affecting the innovative activities are stated as the high costs, shortage of monetary resources and lack of qualitative personnel.

Law No 5746: Supporting Research and Development and Innovation Activities, which aimed to regulate incentives provided in the field of R&D and innovation, has come into force after being published in the Official Gazette in 12 March 2008. Once this law

has become operative, R&D expenditures realized by private sector, and R&D personnel employed in the private sector are expected to increase in Turkey.

The most important output of the research activities pursued in the universities is the increase in the number of scientific articles published. In 2007, Turkey is in the 19th place in the Scientific Citation Index, as in 2005 and 2006.

In the Ninth Development Plan; nanotechnology, biotechnology, new generation nuclear technologies, hydrogen and fuel cell technologies; research in sectors where industry policy attaches priority to; R&D activities that aim to convert national resources into added-value; vaccine and anti-serum studies coming first, medical research aiming to increase the quality of life; information and communication technologies; and defense and space technologies are determined as the priority areas. Particularly in these areas, programmes for establishing big-scaled research laboratories and excellence centres, for providing support to basic and applied research projects, and for training up human resources are carried out.

The activities carried out by Technology Development Zones (TGB), Technology Development Centres (TEKMER), open technology incubation centres are continued to be supported. As of September 2008, the number of established Technology Development Zones is 31, among which 18 are actively operating. The number of active TGBs is expected to reach to 34, at the end of 2008.

In order to secure effective use of R&D funds and facilitate the transfer of R&D outcomes into practical applications, public institutions are promoted to initiate R&D programmes in their operational fields since 2005. Within this context, San-Tez (Industrial Thesis) in Ministry of Industry and Trade, ENAR (Energy Research Programme) in Ministry of Energy and Natural Resources, Clean Coal Technologies Research Programme in General Directorate of Turkish Coal Enterprises were initiated.

The need for enhancing the monitoring and evaluation system of the applied policies and incentive mechanisms in the field of science and technology is still continuing.

2. Main Objective and Targets

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

3. Policy Priorities and Measures

Priorities / Measure	Institution in charge	Institutions to be cooperated	Period	Description of objectives
Priority 40. 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 76. National Innovation Strategy and Action Plan will be prepared.	TÜBİTAK	Ministry of Industry and Trade, SPO, Related Public Institutions, Development Agencies, Private Sector, Local Administrations, NGOs	End of Decem.	National Innovation Strategy and Action Plan will be prepared with relevant stakeholders' participation. 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. To support cities' development and increase competitiveness of cities, the establishment of cooperation network which will cover private sector, universities, public institutions and local dynamics, and operate in innovation axe will be supported
Measure 77. To increase the R&D activities implemented by private sector will be supported.	TÜBİTAK	SPO, Related Public Institutions, Universities, Private Sector	End of Decem.	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, precompetition partnership and comprehensive R&D activities will be supported to increase technological capacity and to spread this capacity throughout sectoral level.
Measure 78. The R&D supports provided to private sector will be disseminated.	KOSGEB	Ministry of Industry and Trade, Universities, Chambers of Commerce and Industry	End of Decem.	R&D supports provided to SMEs will be disseminated and maintaining the activities to increase the R&D demand of SMEs will be provided. Studies to establish Technology Development Centres (TEKMER) and open technology incubation centres in order to ensure providing university- industry cooperation and to support A&D activities will be done. Draft Law on Amendments of The Technology Development Zone Law No.4691 will finalized by taking the views from related institutions and will be sent to the Grand National Assembly.
Measure 79. Technology Development Zones (TDZ) will be strengthened.	Ministry of Industry and Trade	Ministry of Finance, SPO, Undersecretariat of Treasure	End of Decem.	Draft Law on Amendments of The Technology Development Zone Law No.4691 will finalized by taking the views from related institutions and will be sent to the Grand National Assembly.
Priority 41. Monitoring and Impact Assessment System Studies Concerning the R&D Activities will be started.				
Measure 80. Monitoring and Impact Assessment System Studies Concerning the R&D Activities will be started.	SPO	Ministry of Finance, TÜBİTAK, YÖK, Universities, Private Sector, NGO's	End of Decem.	Monitoring and Impact Assessment System Studies Concerning the R&D Support Programs and Mechanisms will be defined. Effectiveness of programs and Mechanisms will be increased in the light of data and information gathered after monitoring and Impact Assessment Activities realized privately.
Priority 42. Researcher human capital as quality and quantity will be improved.				
Measure 81. Researcher human capital as quality and quantity will be improved	TÜBİTAK	MoNE, SPO, YÖK, Universities	End of Decem.	Current Researcher Human Capital Development Programs will be improved under the experiences. As complementary, reward and scholarship and encouragement mechanisms to promote being researcher will be developed.

Priority 43. A road map to increase the effectiveness of research infrastructure in of universities will be prepared

Priority 43. A road map to increase the effectiveness of research infrastructure in of universities will be prepared.	YÖK	SPO, TUBITAK, Universities, Related Public Institutions	End of Decem.	An R&D Infrastructure Road map will be prepared that will enable the opening of excellence centres, central laboratories and thematic research centres to the use of all researchers and the leaguig together of the researchers working on the common areas within the same centres.
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Priority 44. The effect of research activities on the academic promotion criteria will be increased.

Measure 83. The effect of research activities on the academic career promotion criteria will be increased.	YÖK	Turkish Patent Institute, Universities	End of Decem.	Improvements will be made regarding the effects of patent, project execution, cooperation with private sector on academic promotion criteria.
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Priority 45. Arrangements for founding Turkish Space Institution will be made

Measure 84. Arrangements for founding Turkish Space Institution will be made.	Ministry of Transport	Ministry of National Defense, SPO, TUBITAK, TURKSAT A.S., Telecommunications Authority	End of Decem.	An institution will be founded to execute and coordinate space-related activities and provide the conduct of R&D activities.
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H. DISSEMINATION OF INFORMATION AND COMMUNICATION TECHNOLOGIES**1. Current Outlook**

Electronic communications sector is of critical importance for accelerating transformation into an information society via effective provision of communication services, thereby improving competitiveness of the country. With the introduction of liberalization in 2004, regulations were put in place to improve competition in the sector and new players entered the sector for infrastructure and service provision.

260 operators have been authorized by the Telecommunications Authority as of September 2008. Authorization of long distance telephone service operators were initiated in 2005 to develop service based competition but the market share of 32 operators authorized in this market remains quite limited.

By-law amendment regarding the authorization of fixed telecommunication services, which was expected to introduce competition in local telephone services that comprise a very large portion of fixed telephone services market, was published in the Official Gazette in August 2007, but its execution was suspended by the Council of State. Work is carried out by Telecommunications Authority for the preparation of a new regulation. Moreover, a draft regulation regarding the authorization of mobile virtual network operators, which will pave the way for new operators

to enter the mobile telecommunications market, has been prepared.

Regulation aiming the authorization of cable platform service operators to provide electronic communication services over the cable TV network has come into force in 2005 but was cancelled by the Council of State in 2007. On the other hand, problems regarding the ownership of cable TV infrastructure between TURKSAT and cable TV operators, which were operating in this area in accordance with their revenue sharing agreements with Turk Telekom, have been brought before the Court but no decision has been taken yet.

In order to establish facilities based competition, authorizations have been made regarding infrastructure operation and 16 operators were granted relevant licenses as of September 2008. Although these operators are working on the operation of fiber infrastructures of public institutions operating in other network industries and make use of rights of way of these institutions, an infrastructure services market with satisfactory competitiveness has not emerged yet.

Studies on the development of cost models regarding the services that are provided by the incumbent operator to alternative operators have not been completed yet.

Reference offers have been published by Turk Telekom regarding local loop unbundling and bitstream

access, which enable alternative operators to provide broadband internet access services. In this respect, some operators have signed agreements with Turk Telekom and it is observed that alternative operators are becoming more active in this area.

Telecommunications Board has reduced the prices of call termination in fixed and mobile networks considerably, which are applicable since April 2008. Thanks to these reductions, costs of alternative operators concerning both services provided by Turk Telekom and calls on mobile operators have been decreased.

Central Reference Database, which will enable number portability, has been established. Mobile number portability will be introduced in November 2008 and geographic and non-geographic number portability will be introduced in May 2009.

By-law on Electronics Communications Security, which identifies the obligations of operators in ensuring security of electronic communications networks, has been effective since its publication in the Official Gazette No. 26942, dated 20 July 2008.

The new authorization plan regarding 3rd generation (3G) mobile communications licenses tender, which was cancelled at first, has been published in the Official Gazette No. 27001, dated 18 September 2008. The tender will be offered in November 2008.

It's expected that the work on regulation regarding the authorization of wireless broadband access services, which will enable alternative operators to enter the mobile broadband access market, will be completed in 2009.

The Draft Electronic Communications Law, which lays down the general framework for the needs of the sector and was prepared in line with the EU acquis and recent developments in the sector, had been approved by the Turkish Grand National Assembly but was sent back to the parliament by the President for review of some of its provisions. It is expected that the draft law will be enacted soon.

Although the number of fixed-line telephone subscribers has saturated, number of mobile telephone subscribers keeps increasing. In parallel with the rapid enlargement of the DSL infrastructure, increase in the number of broadband subscriptions is ongoing. But, the penetration level of 6,8 % achieved as of June 2008 remains low compared to EU member countries. On the other hand, no progress has been recorded in the use of cable TV and broadband cable internet services due to the problems regarding the cable TV

platform between TURKSAT and cable platform service providers.

Studies on development of competencies in satellite technologies and R&D efforts regarding production of a national satellite are being carried out within TURKSAT.

With its growing market, its contribution to competitiveness by increasing efficiency of business processes and the employment opportunities which it creates, the Information Technologies (IT) sector is one of the main sectors which will support the transformation process into the information society

Although software and services market is growing, its share in IT expenditures cannot exceed the level of 25 %, due to relatively higher growth in hardware expenditures. This figure is quite lower than the world average of 65 %.

Shortage of qualified personnel, difficulties encountered in access to finance, lack of quality awareness, low level of R&D and innovation, narrowness of domestic market and difficulties faced in expanding into foreign markets retain their dominance among main problems of the IT sector, which generally comprises of small scale firms.

Tendering process regarding the feasibility study of Informatics Valley, which will be built in order to establish a favorable environment for foreign direct investments via promotion of Turkey as a production and operations center for international IT enterprises and to support expansion of small-scale companies of the sector to foreign markets using the regional networks of international corporations was initiated in August 2008 but could not be completed due to unsatisfactory proposals. The second tender that was initiated in September 2008 is expected to be completed in a short time and feasibility study is planned to be completed in 2009.

In order to remedy the problem of qualified personnel shortage in the ICT sector, a decision has been taken by the e-Transformation Turkey Executive Board regarding the training program for developing qualified ICT workforce and necessary appointment has been made.

ICT sector maintains its stable growth after the 2001 crisis. The size of the market, which was 21,7 billion USD by the end of 2007, is expected to reach 26 billion USD in 2008 with an annual growth rate of 20 %. It is foreseen that telecommunications sector and IT sector will comprise 79 % and 21 % of the total market, respectively.

TABLE: IV. 26- Main ICT Indicators

	2006	2007	2008 ⁽¹⁾
PSTN Capacity (thousand lines)	21 100	21 772	21 300
PSTN Subscribers (thousand people)	18 832	18 201	17 500
PSTN Penetration (Percent)	25,8	24,9	23,9
Mobile Subscribers (thousand people)	52 663	61 975	65 000
Mobile Penetration (Percent)	72,2	84,9	89
Broadband Subscribers (thousand people)	2 774	4 404	5 700
Broadband Penetration (Percent)	3,8	6	7,8
Internet Penetration(Percent) ⁽²⁾	18	26,7	35,8
Cable TV Subscribers (thousand people)	1 208	1 141	1 150
ICT Market Size (billion USD)	17,9	21,7	26
- Telecommunications	13,8	17	20,5
- Information Technology	4,1	4,7	5,5

Source: Telecommunications Authority, TURKSTAT, IDC (International Data Corporation)

(1) Realization Estimate (SPO)

(2) The ratios cover 16-74 age group. The figure of 2006 is the realization estimate by the end of this year. The figures of 2007 (June) and 2008 (April) are the results of TURKSTAT Household ICT Usage Survey.

Technical studies for the legislation aiming at a gradual and controlled liberalization and restructuring of the postal sector in parallel with the EU legislations are ongoing.

In accordance with the policy of transition to DVB-T, amendments will be made on Law No. 3984 and relevant secondary legislation in order to develop legal infrastructure.

In the scope of the EU negotiations on Information Society and Media Chapter, an action plan about the regulations to be made in broadcasting sector was introduced and the road map for the amendments on Law No. 3984 and relevant secondary legislation was set.

Law No. 5767 amending Law No. 2954, which was prepared for the restructuring of Turkish Radio and Television Corporation, was enacted in June 2008

2. Main Objectives and Targets

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

In accordance with the target of improving service capability of the electronic communications sector globally in a competitive environment, which

was declared in the Information Society Strategy, regulatory role of the state will be made effective, introduction of alternative infrastructures and services will be ensured and problems adversely affecting the potential development of the market and information society services will be eliminated.

Global competitiveness of the IT sector will be improved in order to increase value added by meeting the increasing demand emerged during the information society transformation process and to position itself in external markets. In this regard, with a selective approach, the focus will be on project based 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. Informatics Valley Project will be commenced upon the completion of feasibility studies. Moreover, training programs aiming to meet qualified workforce needs of the sector and other actions identified in the Information Society Strategy will be put into practise.

In 2009, telecommunications services market and IT market are expected to grow by 17 % with respect to 2008 and reach to 24 billion USD and 6,4 billion USD, respectively. Mobile and broadband penetration are expected to reach 96 % and 10 %, respectively.

3. Policy Priorities and Measures

Priorities / Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 46. Electronic communications sector will be made more competitive by attaching importance to the provision of alternative infrastructure and services.				
Measure 85. Regulatory work regarding the authorization of wireless broadband access services will be carried out.	Telecommunications Authority	Ministry of Transport SPO	End of Sep.	Wireless broadband access services will be made available and competition in broadband access market will be improved by introducing alternatives to existing broadband infrastructures and services.
Measure 86. Regulatory work regarding the authorization of mobile virtual network operators will be completed.	Telecommunications Authority	Ministry of Transport SPO	End of Dec.	Regulations that will enable alternative operators to offer mobile services by using the infrastructures of existing operators will be completed.
Measure 87. Authorization studies on next generation mobile telecommunication services will be concluded.	Telecommunications Authority	Ministry of Transport SPO	End of Dec.	Authorization studies on next generation mobile systems, which will enable broadband access and many applications, will be completed.
Priority 47. Actions that have been determined in the Information Society Strategy aiming to establish a globally competitive IT sector will be launched.				
Measure 88. Feasibility study of the Informatics Valley will be completed.	Ministry of Industry and Trade	Ministry of Public Works and Settlement SPO, YÖK TÜBİTAK TOBB TTGV	End of Dec.	Feasibility studies of the Informatics Valley, which will be established to ensure development of Turkey as a production and operations center for international IT corporations and expansion of small-scale companies of the sector to foreign markets using the regional networks of international corporations, will be completed.
Measure 89. Certificate programs will be launched in order for the development of qualified IT workforce.	İŞKUR	SPO NGO's	End of Dec.	Qualified personnel needs of the ICT sector will be met via internationally recognized certificate programs to be launched in specified areas of expertise.
Priority 48. Postal sector will be restructured on the principles of quality, reliability and accessibility with a competitive approach and in parallel with the EU regulations.				
Measure 90. Regulations will be made to liberalize the postal services market.	Ministry of Transport	SPO Undersecretariat of Treasury PTT	End of March	The law which will entirely regulate the postal services market will be presented to the Assembly. With this law, a regulatory body which is operationally independent and separate from operators will be established and the process of gradually reducing the scope of postal monopoly will be started.
Measure 91. Necessary legal arrangement will be made to adapt Directorate General of PTT to the prospective competitive environment in the sector.	Ministry of Transport	SPO Undersecretariat of Treasury PTT	End of March	In the context of restructuring of the postal sector, a law will be presented to the Assembly to prepare DG 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 49. Broadcasting sector will be improved by taking the developments in the technology into consideration.

Measure 92. Legal infrastructure needed for transition to digital terrestrial broadcasting will be completed and technical infrastructure studies will be continued.	RTÜK	Ministry of Transport SPO Telecommunications Authority TRT	End of Dec.	Amendments on Law No. 3984 will be made for transition to DVB-T and digital and analog broadcasting will be performed simultaneously in certain cities.
Measure 93. Legal arrangements will be made for harmonization of the broadcasting sector with EU.	RTÜK	SPO	End of Dec.	Necessary amendments on Law No. 3984 will be made regarding scope, definitions, principles, right of jurisdiction, major events, freedom of reception and retransmission and promotion of independent productions..

I. IMPROVING AGRICULTURAL STRUCTURE**1. Current Outlook**

Agriculture sector, reduced by 6.8 percent in 2007, regressed to 8.9 percent share in GDP. Drought, which has been suffered all over the world in 2007 and severely felt in Turkey, is the main reason of this regression. In 2007, the share of agriculture sector in total employment reduced to 26.4 percent from 27.3 percent in 2006.

The need for transformation in agricultural structure 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

2007 statistics show that Turkey's total agricultural land is 24.8 million hectares, of which 17 million hectares are sown, 4.2 million hectares are fallow, 0.7 million hectares are used for vegetable production, and 2.8 million hectares are reserved for fruit and olive trees, tea and vineyards.

Based upon the amendment to the 2007 Soil Conservation and Land Use Law No. 4572, Directorate-General for State Hydraulic Works (DSI) programmed initially 160 thousand hectares land consolidation and on-farm development. Projects are to be started as soon as the by-law laying down principles of implementation becomes effective.

Additions to irrigated land by DSI are 69 thousand hectares for 2006, and 46 thousand hectares for 2007. However, 81 thousands hectares in 2007 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 irrigation tariffs proportional to the actual amount used appears to take greater attention.

While the average duration for completion of projects in DSI investment portfolio is 27 years in the 2008 Investment Program, allocation of additional funds during the year, especially under the Southern Anatolian Project Action Plan Scheme, reduced this duration to 15 years.

Pursuant to efforts to diversify and increase financial resources available to irrigation, the Law No. 3996 Built Operate and Transfer Model for Some Investments and Services has been amended by the Law No. 5762 in May 2008. Within this context, procedure for Manyas Plain Right Bank Irrigation Project's realization by Built Operate and Transfer Model is expected to be finalized in 2008.

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 have been prepared.

Plant Production

Yield losses in plant production which have major share in value added of agricultural sector, mainly because of climate changes which take effect on whole world nowadays and especially external factors such as drought, affect growth directly in the sector.

Sector structure with fragmented and small scale holdings along with ineffective organization

prevents to increase productivity and level of producer income. In this context, 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.

Efforts on increasing the share of organic farming areas in total agricultural land and related harmonization efforts with the EU *acquis* continue. But these public services need to be further strengthened by developing control and inspection services.

In Turkey 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.

In parallel to rising oil prices, the increase in demand for agricultural raw materials used in production of bio-fuels in international markets causes the prices of crops to rise by leading supply-demand imbalances on agricultural product markets especially oil seeds and cereals and threatens food security.

Animal Husbandry

In Turkey, productivity remains low. While average cattle carcass weight is 270–280 kg in countries, which are developed in animal husbandry, it is 200–215 kg in Turkey, and while milk yield per cattle is 5–6 thousand kg in countries mentioned above and 2-2.5 thousand kg per cattle in Turkey.

According to 2007 statistics, out of a total of 11 million heads of cattle, 40.5 percent of it is cross bred and 29.9 percent is pure-bred. Native-bred sheep, which have relatively low productivity, account for 96 percent of totally 25.5 million sheep. For the purposes of animal breeding and supply of qualified cattle bred, 2 million artificial inseminations were realized in 2006. Since supports for artificial insemination and for calf conceived by artificial insemination excluded from the scope of the support payment, number of artificial insemination decreased substantially in 2008 compared to previous year. As of September 2008, number of artificial insemination is 1.2 million and this figure is expected to reach 1.5 million at the end of the year.

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, Border Inspection Posts Project and Control of Rubies Project, which put into practice in 2007 under Turkey-EU Financial Cooperation, are expected to be completed in the end of the year 2009. In addition, Tagging and Vaccination of sheep and goats Project under Turkey-EU Financial Cooperation will be started in 2009.

Fisheries

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

Fisheries production has increased by 17 percent and become 772 thousand tones, 82 percent of which is based on capture fisheries in 2007. With the production supports provided in the recent years, aquaculture production has increased significantly. However, the amendment in the Law of Environment adopted in 2006 brought new arrangements about the areas where the fishing farms can be established in the sea and these arrangements put forth the necessity of spatial planning for the environmental and economical sustainability of aquaculture.

Draft Law on Amendments of the Fisheries Law, prepared by taking into consideration the needs of harmonization with 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, is in the agenda of Grand National Assembly of Turkey. Besides, in order to conduct controls at the landing points, offices have been established in 33 fisheries harbors and in order to increase the effectiveness of control services, works for expanding the use of vessel monitoring system based on remote sensing and infrastructural works related with the registration of fishing activities have been continuing. Additionally, in order to get information about the fish stocks, which is the basis of effective resource management, a project has being implemented within the context of EU Pre-Accession Assistance, and in this project human capacity improvement studies regarding

the establishment of stock assessment system in our country has been going on.

Even though there are large number of fisheries harbors, which are the fundamental infrastructures of the sector, they are not at the desired level of quality because of the insufficient superstructure. Additionally, it is essential to determine their present condition and needs of these facilities in order to program their usage and investments.

Forestry

Forests cover a total area of 21.2 million hectares, of which 4 percent is allocated as protected areas considering biological diversity, water and wildlife in Turkey and this figure is about 11 percent in the world. A total of 2.66 million hectares of green belt, industrial and soil protection plantations have been realized in the planning period, of which 61 thousand hectares was realized in 2007. Meanwhile, in the same period, a total area of 579,744 hectares has been damaged by forest fires, which include 11,665 hectares burned in 2007 and 29,102 hectares burned as of September 2008.

Incomplete forest cadastre works, inadequacy of protected areas and forest maintenance works, less attention given to specialization, inadequacy of the existing infrastructure related to fire combating and forest roads, lack of the studies, research works and regulations concerning occupational safety and health constitute the main issues for the sector.

Agricultural Supports

By means of Direct Income Support (DIS) scheme implemented all over the country in 2002, almost 2.6 millions of producers received payments in 2007 in registered 16.2 million hectares. Within the context of registering, monitoring and control system improved by DIS implementation, conditional area-based payments, that launched since 2004, like payments for organic farming, soil analyses, Environmentally Based Agricultural Land Protection (ÇATAK), use of certificated seed and seedling and unconditional area-based payments like fuel oil and fertilizer support were started to guide production.

The share of area based payments including DIS payments in agricultural support budget realized as 35 percent in 2008 while it was 80 percent in 2004. In 2009 when DIS payments are envisaged to abolish, the share of area based payments in agricultural support budget is expected to be approximately 28 percent. Fuel oil and fertilizer support payments are major items in area based payments besides DIS payments, and its share in area based payments was 30 percent in 2005, and this ratio is expected to reach 41 percent in 2008 and 86 percent in 2009.

Deficiency payments support implemented as crop based and named as "premium payments" are given to oil seeds having supply deficit, tea and cereals since 2005 and this scheme is going to cover also pulses in 2009. The share of deficiency payments support in agricultural support budget was 11 percent in 2004 and it is expected to realize as 32 and 38 percent in 2008 and 2009 respectively.

Animal husbandry supports which include payments for pure bred cows, calves by artificial insemination, fodder crops and milk incentive premium for five year period by Decrees 2005/8503 and 2000/467 since 2000, had a 7 percent share in total support budget in 2004 and it is expected to be 20 percent in 2008. Decree for animal husbandry supports was amended by Decree 2008/13489 and the new regulation still covers fodder crops payments and milk incentive premiums but payments are foreseen as per head for pure and cross bred cows and additional payment are envisaged for newly registered mature cows and being free from diseases cases. After above-mentioned amendment, 24 percent share is allocated for animal husbandry supports in 2009 budget.

In order to establish institutional capacity for implementation of EU Rural Development Policies, a program namely "Supports Program for Rural Development Investments" which has started in 2006 and aims to support investments in processing, handling and marketing of agricultural products of both real persons and legal entities, has been continued. The share of this implementations in support budget was 1.44 percent in 2007 and it is foreseen to be 5.4 percent including national co-finance contribution for rural development program in Pre-Accession Financial Instrument. The program needs to be differentiated based upon regional characteristics and it is also essential to consider the complementarities of this program with similar one expected to be operational in 2009 within the context of Pre-Accession Financial Instrument.

Pursuant to the Agriculture Insurance Law No. 5363, implementation of producer insurance premium support has been put into force in 2006. 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 242 thousands, and TL 55 million supports have been provided as of September 2008. TL 90 million resources are allocated for 2009. An accelerated amount of funds is allocated for insurance premium support payments although the payments were foreseen to implement initially in order to improve agriculture insurance as cited in the Agricultural Strategy Document (2006-2010). Premium supports that are seem necessary for the health of insurance system require decreasing incrementally due to the sustainability of the system.

TABLE: IV. 27 - Distribution of Agricultural Support Budget (1)

(Million TL)

	2004	2005	2006	2007	2008 (2)	2009 (3)
Area Based Agricultural Support Payments	2 480	2 353	2 653	2 525	2 063	1 533
Direct Income Support Payments	2 125	1 673	2 653	1 640	1 140	0
Area Based Additional Payments (Org. Farming, Good Practices, Solid Analy.) (4)				10		34
Gasoline	355	410	0	480	492	583
Fertilizer	0	270	0	345	352	737
Certificated Seed and Seedling				50	79	132
Environmentally Based Agricultural Land Protection (ÇATAK) (5)						7,5
Alternative Payment for Tobacco						40
Deficiency Payments	334	897	1 292	1 797	1 848	2 078
Payments to crops with supply deficits (6)	294	622	1 085	1 273	1 135	1 081
Cereal	0	205	120	435	610	795
Tea	40	70	87	89	103	136
Pulses (Dry Beans, Chick Peas, Lentil)						66
Animal Husbandary Payments	209	345	661	741	1 158	1 314
Grants for Rural Development	0	0	0	80	128	297
Agricultural Crops Insurance	0	0	2	40	55	90
Compensatory Payments	0	56	67	79	80	94
Potato Wart Support	0	13	14	23	24	24
Tea Trimming Support and Charges	0	43	53	56	56	70
Drought Support				266	535	
Others	61	57	72	26	44	94
TOTAL	3 084	3 708	4 747	5 555	5 911	5 500

(1) Definite account data of the budget of the Ministry of Agriculture and Rural Affairs for the years 2004 -2005 - 2006 and 2007.

(2) Estimate

(3) Programme

(4) Including DIS payments for 2005 and 2006. Area based payments do not include good practices payments for the year 2007 and 2008.

(5) For the year 2007 and 2008, only within the Agricultural Reform Implementation Project.

(6) Payments are made for cotton, olive oil, sunflower, soybeans, rapeseed, safflower and corn.

It is decided to give droughts payments to drought-affected farmers and to defer the payments due of their agricultural loans in T.C. Ziraat Bank and Agriculture Credit Cooperatives in Spring 2008 due to the droughts in Turkey as in 2007, within the scope of Decree 2008/13881. In this context, in 36 provinces, it is foreseen to pay total TL 535 million for farmers facing 30 percent and above crop loss and existing in the Farmer Registry System, as a drought supports for wheat, barley, lentil, chick peas, cow vetches, wild vetches and grass pea.

It is still essential to implement hazelnut support, which is provided by Turkish Grain Board (TMO) pursuant to Decree 2007/11854, with a view to improve the competitiveness at international markets and to channel unlicensed hazelnut areas to alternative crops cultivations.

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, ought to be solved by production-linked measures.

By taking into account the requirements of EU accession period, forming competition in markets and providing sustainability in sectors, program variety in agriculture supports and changes made according to shares in the budget reveal a need of adjusting imbalances between current policy framework provisions and practices.

The prices of agricultural crops increased average 20.8 percent in 2007 while they reduced about average 7.6 percent in 2006.

TABLE: IV. 28- Initial Purchase Prices of Selected Crops*

	(Prices, TL/Ton)			(Percentage Change)		
	2005	2006	2007	2005	2006	2007
1. Wheat (Bread) (1)	350	375	425	-5,5	7,1	13,3
2. Barley (White) (1)	248	265	320	-6,1	6,9	20,8
3. Corn (1) (2)	260	-	-	-21,7	-	-
4. Sugar Beet	106	90	100	6,7	-15,0	11,4
5. Hazelnut	7 450	4 000	5 150	47,5	-46,3	28,8
6. Opium Capsule	1 750	1 850	2 000	4,2	5,7	8,1
7. Tea	515	570	640	12,0	10,7	12,3

* As most of the agricultural sales cooperatives and associations have adopted the advance payment application for the purchases; the products purchased by them do not exist in the table.

(1) Excluding support premiums (2) The initial purchase price was not revealed in 2006.

TABLE: IV. 29- Developments in Agricultural Crop Prices

Crops	(Average Purchase Prices, TL/Ton)			(Percentage Change)		
	2005	2006	2007	2005	2006	2007
1. Wheat	332	350	401	-5,4	5,6	14,6
2. Barley	250	258	309	-4,6	3,3	19,9
3. Rye	235	241	283	7,3	2,8	17,3
4. Corn	242	-	-	-24,1	-	-
5. Oat	247	258	-	-	4,4	-
6. Cotton (1)	775	843	979	-14,4	8,8	16,0
7. Sugar beet	103	90	100	-4,0	-13,0	11,4
8. Sunflower	487	525	869	-5,5	7,9	65,5
9. Nut	7 187	3 953	5 015	42,7	-45,0	26,9
10. Dried fig	1 808	2 198	3 069	-1,0	21,6	39,6
11. Seedless raisin	1 399	1 402	1 706	18,5	0,2	21,6
12. Olive oil	5 758	4 449	4 269	60,9	-22,7	-4,1
13. Mohair (1)	3 094	3 920	4 790	7,8	26,7	22,2
14. Pistachio	9 602	5 375	6 647	45,7	-44,0	23,7
15. Soybean	315	490	648	-35,6	55,5	32,3
16. Opium capsule	1 730	1 850	2 021	9,6	6,9	9,2
17. Rice	649	640	660	-7,0	-1,3	3,1
18. Cocoon (1)	2 478	1 208	1 277	-17,7	-51,2	5,8
19. Red pepper	3 200	3 806	751	27,8	18,9	-80,3
20. Olive	2 323	2 169	2 394	-3,4	-6,6	10,4
21. Rose flower	2 110	1 266	1 498	-0,7	-40,0	18,3
22. Red lentil	-	605	1 000	-	-	65,2
23. Tea	515	570	640	12,0	10,7	12,2
24. Grape	215	273	226	-3,7	26,8	-17,1
25. Dried apricot	1 932	-	-	-39,3	-	-
26. Seed raisin	707	-	-	-	-	-
27. Pistachio of Siirt	542	-	-	-	-	-
28. Haricot bean	1 336	-	-	-	-	-
29. Pea	1 289	-	-	-	-	-
30. Apricot	154	362	524	-	134,4	44,7
31. Peach	189	472	799	-	150,0	69,3

(1) Excluding support payments.

TABLE: IV. 30- Quantities Purchased and Payments to Producers

Crops	Quantities Purchased (Thousand Tones)			Payments to Producers (Current Prices, Thousand TL)		
	2005	2006	2007	2005	2006	2007
1. Wheat	4 320	1 456	122	1 432 269	509 770	48 946
2. Barley	799	725	3	199 616	187 050	860
3. Rye	11	6	0	2 575	1 518	13
4. Corn	655	0	0	158 254	0	0
5. Oat	5	2	0	1 194	552	0
6. Cotton	260	264	210	201 767	222 992	205 779
7. Sugar beet (1)	9 603	6 688	6 880	989 409	599 589	687 256
8. Sunflower	530	491	173	257 966	257 835	150 566
9. Nuts*	51	202	5	366 485	799 273	24 070
10. Dried fig	5	6	2	9 643	12 917	7 058
11. Seedless raisin	41	37	30	57 205	52 316	51 000
12. Olive oil	16	11	3	89 699	50 578	11 525
13. Mohair	0,2	0,2	0,2	560	737	958
14. Pistachio	0,2	0	0	1 978	81	226
15. Soybean	9	15	8	2 753	7 526	5 119
16. Opium capsule	13	27	9	21 788	50 770	17 732
17. Rice	12	87	33	7 615	55 816	22 074
18. Cocoon	0,2	0,1	0,1	396	153	158
19. Red pepper	0	0	0	1 270	126	296
20. Olive	50	28	31	116 092	60 764	73 741
21. Rose flower	3	3	3	6 009	3 390	4 000
22. Red lentil	0	0,2	0,1	0	125	68
23. Tea	604	627	659	310 834	357 507	421 760
24. Grape	2	1	3	372	217	654
25. Dried apricot	0,5	0	0	1 002	0	0
26. Seed raisin	0	0	0	186	0	0
27. Pistachio of Siirt	0,3	0	0	179	0	0
28. Haricot bean	1	0	0	1 355	0	0
29. Pea	0,2	0	0	286	0	0
30. Apricot	0,4	0,2	0,0	59	59	11
31. Peach	0,5	0,3	0,1	93	154	111
TOTAL				4 238 910	3 231 814	1 733 981

** In 2007, only TMO purchased hazelnuts.

(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.

Food Legislation, Implementation and Sectoral Regulation

The efforts for the adoption of the EU acquis in the fields of food, feed, food hygiene, veterinary services and animal welfare, with in the scope of the benchmarks of the Food Safety, Veterinary and Phytosanitary Chapter after the completion of Screening Process with the EU, have been carried over.

It is significant that the legal arrangements on provisions of control and surveillance in the fields of food safety, veterinary and phytosanitary are fulfilled by one competent institution in the frame of the adoption of the EU acquis. In this framework, the administrative and legal controversies caused by the Metropolitan Municipalities Law No. 5216, Municipalities Law No. 5393 and Special Provincial Administrations

Law no. 5302 in food control services is expected to be resolved via the legal arrangements in the context of the benchmarks stated for Food Safety, Veterinary and Phytosanitary Chapter.

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 establishment of the National Food Reference Laboratory is going to be finalized by the end of 2008.

In the sugar sector, considering the privatization process that is planned to be completed by the end of 2009, it seems to be important to determine the investment priorities and restructuring needs of public sugar factories.

TABLE: IV. 31- Selected Indicators for Agriculture Sector

	2005	2006	2007	2008 (1)	2009 (2)
Irrigation Area Built by DSI (Net Cumulative, Million Hectares)	2,46	2,53	2,57	2,66	2,75
Land Consolidation Area by General Directorate of Agricultural Reform (Cumulative, Million Hectares)	0,16	0,18	0,22	0,24	0,30
Share of Certificated Cereal Seeds Usage (Percent)	22,9	27,0	24,2	24,7	24,7
Organic Farming Areas (Thousand Hectares)	93	100	124	127	130
Share of Cross-bred and Pure-bred Cattle in Total Cattle Population (Percent)	65,5	68,7	70,3	71,5	73,0
Industrial and Soil Conservation Plantations (Cumulative, Million Hectares)	2,52	2,60	2,66	2,72	2,77
Number of Issued Insurance Policies Under State Assisted Agricultural Insurance (Thousands)	-	12,3	219	300	400

Source: MARA, MEF, SPO, DSI, General Directorate of Agricultural Reform

(1) Realization Estimate

(2) Estimate

2. Main Objectives and Targets

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

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.

For EU harmonization and modernization of food establishments during the accession period a strategy and later a programme are going to be finalized in order to prepare those establishments to competition within the Union after full membership.

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.

3. Policy Priorities and Measures

Priorities / Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 50. Necessary institutional and administrative transformation will be given priority in agriculture sector.				
Measure 94. 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.	MARA	Ministry of Finance, Ministry of Industry and Trade, Ministry of Environment and Forestry, Ministry of Health, Ministry of Interior, SPO, UT, UFT, TOBB, TZOB	End of Decem.	The draft law which should take into account functional organization needs arising from the alignment process with EU Acquis, the need to provide services for soil conservation and land usage, agricultural research and development and extension in an integrated way, will be submitted to the TGNA after the draft law is reviewed by the related institutions.
Measure 95. A restructuring and activity programming will be prepared for TİGEM.	MARA	SPO, UT, TİGEM	End of Decem.	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.
Measure 96. 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, UT	End of March	After completing a draft law that amends the Law No.4572, it will be submitted to TGNA in order to cover regulations towards ensuring unions with sustainable financial and administrative structures and form a rational finance model and remove the transitional provisions regarding the restructuring period mentioned in that Law.
Priority 51. Agricultural support policies will be arranged in order to increase productivity in production, considering also the requirements of EU accession process.				
Measure 97. Agricultural support policies will be arranged in order to increase efficiency, productivity and quality in production, considering also requirements of EU accession process.	MARA	Ministry of Finance, Ministry of Industry and Trade, Ministry of Environment and Forestry, SPO, UT, UFT	End of Decem.	Considering the requirements of EU accession process, a strategy is going to be prepared with the objective of a support program which will be based on agricultural holdings with a clear implementing time schedule and also covering improvement of the infrastructure for administration and control system for an area based support, providing a structural change in animal husbandry, registration and conversion of more of the animal population to pure-breed in order to increase the yield and quality to increase anticipation of related parties.

Measure 98. Hazelnuts support implementation will be rationalized.	MARA	SPO, UT, UFT, Turkish Grain Board	End of Decem.	A technical study will be completed aiming an area-based income support policy implementation in hazelnut sector in order to raise the competitiveness in international markets and increase the effectiveness of public expenditures allocated to agricultural support.
Measure 99. A restructuring study will be conducted in order to enhancing the effectiveness of implementation of present agricultural credit scheme with low interest rate.	UT	MARA, SPO	End of June	A work will be realized towards to provide complementary of subsidized agricultural credit scheme with Supports Programme for Rural Development Investments and to widespread of usage of agricultural credits via increasing the effectiveness of private sector banking in the market of agricultural credits
Measure 100. Credit supports provided to Agricultural Sales Cooperatives and Unions will be rationalized.	UT	Ministry of Finance, Ministry of Industry and Trade, Ministry of Agriculture and Rural Affairs, SPO, UFT, TCMB, TCZB	End of Septem.	Legal arrangements will be fulfilled in order to establish a compensatory model for loan interests, a model which provides an alternative for the Agricultural Sales Cooperatives and Unions to use the banking system in the place of direct credit loans from Support and Price Stability Fund.

Priority 52. Services provided by the public sector in the areas of phytosanitary, animal health and food safety will be carried out within an integrated framework.

Measure 101. 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, UFT, Undersecretariat of Customs, TAPDK	End of Decem.	The draft laws that has been preparing to offer public services on plant and animal health and food safety issues in an integrated frame and to provide clear division of responsibilities between central and local control authorities, will be submitted to the TGNA after the draft laws are reviewed by the related institutions.
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Priority 53. The structure of agricultural product markets will be strengthened in order to increase their competitiveness in sector.

Measure 102. Agricultural basins will be determined.	MARA	Ministry of Environment and Forestry, SPO	End of Decem.	Agricultural production policies 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 prepared after the completion of the works on determination of basins.
Measure 103. Law on Alcohol and Alcoholic Drinks will be enacted.	TAPDK	Ministry of Finance, MARA	End of Decem.	Law on Alcohol and Alcoholic Drinks will be enacted in order to ensure harmonization with norms of EU Common Market Organization for Wine.

Priority 54. Efficient use of land and water resources will be fundamental.

Measure 104. Law on Irrigation Associations will be enacted.	Ministry of Environment and Forestry	DSİ	End of June	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 TGNA.
Measure 105. An amendment which revises regarding laws will be made in order to prevent fragmentation of agricultural lands by inheritance	Prime Ministry	MARA, Ministry of Justice, Ministry of Interior, Ministry of Finance	End of Decem.	In order to prevent fragmentation of agricultural lands by inheritance, the Draft Law amending Law on Soil Conservation and Land Use No. 5403 that revises articles in Law on Civil at the head of "Agricultural Holdings" and issues about determining minimum size of agricultural holdings in Law on Soil Conservation and Land Use No. 5403 will be submitted to the TGNA after having consensus among related institutions.

Priority 55. While giving attention to protecting the ecosystem in forestry activities, plantation works and combating with forest fires will be carried on.

Measure 106. While giving attention to protecting the ecosystem in forestry activities, plantation works and combating with forest fires will be carried on.	Ministry of Environment and Forestry	TÜBİTAK, Universities	End of Decem.	In order to combat more effectively with forest fires besides purchasing necessary machinery and equipment, forest maintenance activities will also be intensified in residential and tourism areas and controlled burning will be expanded. Plantations and related research works will be planned and carried on concerning the changing climate conditions. In 2009 a total of 32 thousands hectares of plantation will be realized.
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I. ENSURING THE TRANSFORMATION TO HIGH VALUE-ADDED PRODUCTION STRUCTURE IN INDUSTRY AND SERVICES

INDUSTRY

1. Current Outlook

Manufacturing Industry

In 2007, decreases in the growth rates of manufacturing industry production and investment have been observed, significant increases in the growth rates of exports and imports have been realized. Also in the first eight months of 2008, high growth rates in exports and imports and slowdown in the growth rate of production have been observed.

Financial crisis occurred in the USA has been influencing markets in the world particularly in the EU countries. It is expected that Turkey's exports will be affected negatively as a result of contraction in demand of EU which has significant share in Turkey's foreign trade. Furthermore, bottleneck in domestic production and employment could be realized in case of having difficulties in obtaining loans from international finance markets.

According to TURKSTAT monthly industrial production index, production of manufacturing industry increased 5.5 percent and 4.8 percent in 2006 and 2007 respectively. The sectors, which achieved highest production growth in 2007, were basic metals industry, transportation vehicles excluding automobiles, metallic goods, electrical machinery, automotive, chemicals and plastics-rubber products. Despite the general increasing trend in the production index, reductions in the electronics and information and communication devices industries were significant. In the first eight months of 2008, manufacturing industry production increased 3 percent compared to the same period of the previous year. In this period, high growth rates in electrical machinery, automotive, basic metals industries and paper products were remarkable.

According to TURKSTAT monthly manufacturing industrial tendency survey, no significant deviation in the capacity utilization rate has been observed. Private sector capacity utilization rate, which was 80.8 percent in 2007, realized as 79 percent in the first eight months of 2008.

According to SPO data, manufacturing industry private sector fixed capital investments increased 5 percent in 2007. In 2008, approximately 4 percent increase is expected. As a sign of investment tendency of companies, in the manufacturing industry the number of incentive certificates decreased by 11.7 percent and investment volume in the current prices increased by 4.9 percent in 2007. In the first eight months of 2008, the number of incentive certificates increased by 18.1 percent and investment volume decreased by 14.4 percent in current prices compared to the same period of the previous year.

According to the index of production workers, an upswing tendency in the manufacturing industry employment has been continuing with slowing down. This employment level increased 2.2 and 1.8 percent in the third quarter and the fourth quarter of 2007 respectively compared to the same periods of previous year and in 2008 increased 1.7 percent in the first quarter and 0.6 percent in the second quarter.

Total amount of exports were USD 107.3 billion and its growth rate was 25.4 percent. Manufacturing industry exports increased 26 percent and its share in the total exports reached 94.2 percent in 2007. Petroleum products, plastics and rubber products, basic metals, machinery, electrical machinery and automotive exports increased significantly in 2007. In January-August period of 2008 compared to the same period of 2007, the volume of total exports reached USD 92.5 billion with an increase of 37.4 percent and manufacturing industry exports reached USD 88.3 billion with an increase of 38.6 percent. During this period automotive, basic metals, metallic goods, non-metallic minerals and petroleum products industries are the sectors that achieved the highest increases in exports.

Manufacturing industry imports reached USD 134 billion with an increase of 21.3 percent while total imports and its growth rate were USD 170 billion and 21.8 percent in 2007 respectively. Electrical machinery, basic metals, chemicals, plastics and rubber industries, petroleum products and textiles industries are the sectors that experienced the significant increases in imports. In January-August period of 2008 compared to the same period of previous year manufacturing industry imports reached USD 108.3 billion with an increase of 27.9 percent while the volume of total imports reached USD 145.6 billion with an increase of 35.8 percent.

TABLE: IV. 32- Main Indicators of Manufacturing Industry (Percentage Changes)

	2006	2007	2008	(1)	AB-27 (2007)	(5)
Share in GDP (Current Prices)	17,2	16,6	16,9	(2)	20,1	(5)
Production Growth Rate (Fixed Prices)	5,5	4,8	3,0		3,8	
Exports Growth Rate (Current Prices)	16,6	26,0	38,6		6,9	(6)
Share in Total Exports	93,8	94,2	95,4		88,8	(6)
Imports Growth Rate (Current Prices)	17,2	21,3	27,9		7,8	(6)
Share in Total Imports	79,1	78,8	74,4		69,7	(6)
Share of Private Sector in F.C.I. (Current Prices)	46,0	45,3	45,0	(4)	-	
Industry Employment Growth Rate	-	0,5	3,3	(3)	1,9	
Number of Firms Established	14 721	14 845	10 186		-	
Number of Firms Closed	3 930	3 751	3 164		-	
Private Sector Capacity Utilization Rate	79,6	80,8	79,0		-	

Source: TURKSTAT – [(1) 8 Months, (2) 6 Months, (3) 5 Months], (4) SPO-Annual Estimation, (5) Industry Data, (6) Based on SITC

The change in intermediate 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 100.8 billion in 2007; it reached to USD 88.1 billion with an increase of 35 percent in January-August period of 2008 compared to the same period of previous year. The share of intermediate goods in total imports other than oil and natural gas, that was 69.8 percent in the first eight

months of 2007, rose up to 71.6 percent in the same period of 2008. High level of this ratio takes root from high growth in raw materials and intermediate goods imports affected by high growth rates experienced in the production and exports of some sectors, and therefore increases current account deficit. For this reason, it is important to shift to high value-added production structure in industry in order to reduce current account deficit.

TABLE: IV. 33- Structure of Manufacturing Industry Production and Exports (Percentage Share)

Technology Intensity ⁽¹⁾	TURKEY						EU
	Production			Exports			Exports ⁽⁴⁾
	2000 ⁽²⁾	2002	2007 ⁽³⁾	2000	2002	2007	2005
High	5,9	5,1	4,6	7,8	6,2	5,1	21,5
Medium-High	22,5	18,2	27,2	20,4	24,3	32,3	41,3
Medium-Low	30,4	26,7	29,9	20,5	22,8	30,0	18,1
Low	41,2	50,0	38,3	51,3	46,8	32,6	19,1
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 2004 prices

(4) EU countries that are also OECD members.

Studies continue to increase effectiveness of accreditation and market surveillance systems in Turkey. In this context draft laws that change the Law of Turkish Accreditation Agency and the Law of Turkish Standard Institute have been submitted to the Turkish Grand National Assembly.

In the structure of manufacturing production, transformation to the sectors that have medium level technology intensity has been continuing. Competing with countries such as China and India, which have cheap labor costs, has become difficult in traditional sectors like textiles, wearing apparel, leather products

and bottlenecks have been experiencing in production since 2002. On the contrary, the high increases in automotive, machinery, household appliances, basic metals and petroleum products exports especially in recent years have been motivating the rise in share of medium and high technology sectors in the manufacturing production and exports. However the shares of these sectors are still low compared to those in EU countries. Besides, draft law regulating the trade of dual goods and sensitive goods that have the possibility of interfering national interests and international safety has been submitted to the Turkish Grand National Assembly.

Main problems of industry such as high real interest rates, unfair competition resulting from informal economy, and low priced imports, the excessive bureaucracy, expensive prices of inputs supplied by public institutions compared to international prices, high rates of taxes 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.

In the framework of negotiations with EU, within the scope of closing benchmark of Enterprise and Industrial Policy Chapter, the studies on the preparation of industrial strategy to increase the competitiveness of Turkish industry and sectoral strategies are carried on by the coordination of Ministry of Industry and Trade, covering the needs as sectoral evaluations based on more detailed competitiveness analysis and increasing ownership and efficiency during the implementation of policies.

Moreover, Permanent Special Ad-hoc Committee on Enhancing Competitiveness of Industry established 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, continue the studies. In this framework, to develop proposals on the medium and long term problems of industry;

studies on logistics, vocational education and access to finance of SMEs are started first.

In the framework of prevention of unfair competition in imports in manufacturing industry, definitive measures against dumping implementations of various countries in 45 product groups, definitive measures against circumvention in 5 product groups, imposition of provisional measures in the form of security in 2 product groups, investigation of subsidy in 1 product groups, investigation of circumvention in 1 product group and dumping investigation in 16 product groups have been continued as of September 2008. 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.

Although several clustering formations at sectoral and regional level exist in Turkey in line with the developments in the world, especially with the contribution of OIZs, it is needed to define a general clustering policy. In this context, arrangement of sectoral and regional clustering maps, development of physical, economic and legal ground for the clustering initiatives by using current clustering infrastructures like OIZs and by building new models are required. Realization of clustering especially in the sectors with a disorganized formation will ensure significant benefits for our country. The Project for Developing National Clustering Policy, which is one of the works initiated to meet these needs, has being conducted by the Undersecretariat of Foreign Trade through the EU support.

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. 107 OIZs and 416 SSIEs have been completed by the credit support of Ministry of Industry and Trade by the end of 2007. In the 2008 Annual Investment Program, there are 100 OIZ and 54 SSIE projects ongoing, of which 15 OIZs and 14 SSIEs are expected to be completed by the end of 2007. Despite the fact that 87 percent of parcels have been allocated in the completed OIZs, production takes place only on the 60 percent of parcels. In cities other than the developed ones, it is observed that occupancy rate in OIZs is lower.

TABLE: IV. 34- Project and Credit Information of OIZs and SSIEs

Year	Organized Industrial Zones		Small Scale Industrial Estates		
	Amount of the Allocated Credit ⁽²⁾	Number of Completed OIZs	Amount of the Allocated Credit ⁽²⁾	Number of Completed SSIEs	Number of Completed Work Places
2003	53	7	35	14	1 516
2004	57	5	36	14	2 353
2005	102	10	55	9	679
2006	82	7	48	11	680
2007	71	15	39	13	1 847
2008 ⁽¹⁾	112	15	48	14	1 371

Source: Ministry of Industry and Trade

(1) Forecast;

(2) Million TL at 2008 prices

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 international markets. There is a need to develop cooperation between SMEs and universities/large companies and increase primary-supplier industry relations.

In order to meet the needs of SMEs, it is necessary to improve SME support system. Quality and quantity of supports of KOSGEB are insufficient when the size and importance of target group is considered. For this purpose, the need to increase service capacity of institutions serving to SMEs, particularly KOSGEB, is still valid. 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.

TABLE: IV. 35- KOSGEB Supports

(Million TL)

	2004	2005	2006	2007	2008*
Repayable Supports	53,3	55,5	6,0	4,8	4,9
Nonrepayable Supports	90,8	38,0	30,1	188,0	76,8
Total	144,1	93,5	36,1	192,8	81,7

Source: KOSGEB

* As of the September 15

Training and consultancy services directed to new entrepreneurs are provided by various institutions and business organizations, particularly KOSGEB. Financial supports for new entrepreneurs started to be given by KOSGEB and TUBITAK since 2006.

In 16 Business Development Center, which were established by KOSGEB, workplaces and training and consultancy services were provided to 330 new entrepreneurs. In the said businesses 1,565 people have been employed

Primarily in the traditional industries such as

textiles, wearing apparel, leather products and in the other branches of the manufacturing industry, supports to create trademarks in order to develop high value-added products and application of TURQUALITY system have been continued. Furthermore, within the context of export aids, Law No. 2008/2 entitled "The Communiqué about Support for Design Activities" has been put into force. In this communiqué, it is aimed at supporting the design firms and organizations in the areas such as education, marketing, promotion etc. in order to establish and develop a design culture in Turkey, and employ design activities more actively in the development of high value-added products.

TABLE: IV. 36- Electricity and Natural Gas Prices for Industry Consumption

		2003	2004	2005	2006	2007	2008 ⁽¹⁾
Electricity (cent/Kwh)	Turkey	9,9	10,0	10,6	10,0	10,9	13,2
	Average of OECD	6,8	7,3	7,9	8,8	-	-
Natural Gas (\$/10⁷ Kcal)	Turkey	228,9	230,3	304,5	352,7	440,8	513,6
	Average of OECD	220,1	253,4	320,4	335,9	321,0	-

Source: International Energy Agency (IEA)

(1) As of first quarter of 2008

In parallel with the significant increases of demand on energy inputs in international energy markets, domestic electricity and natural gas prices have risen on a large scale in the first 9 months of 2008. Additionally,

the prices of electricity and natural gas prices for industry consumption are higher than OECD averages. The negative effect of high prices of energy inputs on the industrial competitiveness is continuing

TABLE: IV. 37- Price Increases of Electricity and Natural Gas Consumed by Industry

(Changes of prices as of end of the years, in percentages)

	2003	2004	2005	2006	2007	2008 ⁽³⁾
Electricity⁽¹⁾	-6,4	0,0	0,0	0,0	-2,9	38,8
Natural Gas	-12,8	23,5	16,3	28,2	0,0	42,8
PPI⁽²⁾	13,9	15,4	2,7	11,6	5,9	11,5

Source: TEDAŞ, BOTAŞ, TURKSTAT

(1) Based on one timed, one termed, low voltage industry tariffs

(2) The datum of 2003 is Wholesale Prices Index (WPI). Since 2004, Producer Prices Index (PPI) has been used.

(3) For 9 months

In the manufacturing industry, privatisation process of industrial facilities has been almost completed. TEKEL Cigarette Facilities have been privatised while privatisation of sugar plants is still in the scope of the privatisation program.

Despite significant developments in the sub-sectors of the manufacturing industry, some problems remain unsolved. In 2007, 125.9 billion cigarettes were produced 26 percent of which was realized by the public sector. During the first six months of 2008, share of public sector in total production decreased to 19.4

percent. Negative effects of informality still persist in the tobacco and alcoholic beverages industry. The fall in the industrial production of the alcoholic beverages sector observed in the previous years continued in 2007 as well. Raki production in 2007 was realized as 42.7 million liters with an 8.2 percent decrease. In the first six months of 2008 it was realized as 23.6 million liters, corresponding to a 15.4 percent increase compared to the same period of the previous year. It is considered that this increase is related to the new product labeling system that was in effect in 2008

TABLE: IV. 38- Changes in the Main Sectors of Manufacturing Industry

(Percent)

	Production ⁽¹⁾		Exports ⁽²⁾	
	2007	2008 ⁽³⁾	2007	2008 ⁽³⁾
Total Manufacturing Industry	4,8	3,0	26,0	38,6
Food and Beverages	2,4	4,3	19,0	35,4
Textiles	2,2	-17,0	16,6	14,4
Wearing Apparel	2,2	-7,6	15,9	6,0
Leather Products	-0,6	-8,8	28,0	15,9
Petroleum Products	2,1	4,0	44,7	88,0
Chemicals	9,6	-0,2	16,5	33,6
Plastics and Rubber	11,2	1,0	30,3	30,0
Non-Metallic Minerals	-0,1	4,8	21,4	40,8
Basic Metals	11,7	8,4	32,3	98,9
Machinery	4,5	-4,7	33,7	33,7
Electrical Machinery	24,1	15,0	45,5	30,5
Electronics	-29,8	-20,5	-10,4	-4,9
Automotive	10,3	23,7	34,2	37,8

Source: TURKSTAT

(1) At 1997 prices (2) At current prices (USD) (3) 8 months data

In Turkish textiles and wearing apparel industries, downward trend of production in the last few years, except 2007, has been continued in the first eight month of 2008. However high increases in the exports of the sector has been recorded as in previous years. At the beginning of 2008, Quotas to China was abolished by EU, which is our main export market. Consequently the severe competition observed in these sectors is expected to ever rise. In tanning and leather products industry, despite the increase in exports in the first eight months of 2008, imports have increased more and production level has decreased. 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 these industries is getting harder. The only way to compete with China and other Eastern Asian countries, having low labor costs is to produce high value-added, high quality, fashionable, trademark products and employ according to just-in-time production methods. In recent years, although some companies have showed efforts in this direction, general sectoral transformation has not been realized yet. In order to contribute to these change and transformation, "Strategy and Action Plan for Textiles, Wearing Apparel and Leather Industries" has been prepared with the participation of both public and private sector representatives in 2008.

In the petroleum products sector, while the volume of the production decreased to 25 million tons with a

decrease of 1.1 percent, imports rose to 13 million tons with an increase of 10.2 and exports rose to 6.5 million tons with an increase of 5.4 percent in 2007. Domestic consumption rose to about 31 million tons with an increase of 3.5 percent.

The rate of the Special Consumption Tax on fuels and LPG products, which was fixed with the start of the free pricing process in 2004, was re-determined in November 2007. As a result of both the influence of the increases of the crude oil prices on the petroleum products and ÖTV changes, gasoline prices and diesel fuel prices increased 13.1 percent and 24 percent respectively in the first six months of 2008 compared to 2007 averages.

The average annual rate of chemical production increase in the last 5 years has been 9,6 percent and in 2007, the production increase has been 10,8 percent. Compared to the previous year, the export has increased 16.5 percent and reached to USD 4.1 million, and the import has increased 20.5 percent and reached to USD 23.6 million. The chemical industry's import ranks the first with 17.6 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. Considering that 33.6 percent of total chemical industry export is realized to the European Union, REACH Directive, which came into force on 2007, is expected to affect the chemical industry and all other industries using chemicals. Studies in order to reduce the possible negative effects of REACH Directive and to realize the harmonization with EU legislation are being carried by different institutions.

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. Foreign investments generally realized as acquisition of local firms rather than new investments, and new capacities created by foreign investments is not substantial. According to the data supplied by the Pharmaceutical Manufacturer's Association of Turkey the market has reached TL 11 billion the growth rate of the market is 17 percent by value and 10 percent by volume in 2007. Main reasons for this growth are market development by new pharmaceuticals and improvement in ease of accessing pharmaceuticals through the development in health services. In 2007 pharmaceutical industry, import is USD 4.1 billion and the export is USD 413 million. In first 5 months of 2008, imports increase 33.6 percent and exports increase 24.3 percent compared to same period of previous year. Pharmaceutical consumption per capita was USD 126 in 2007. Drugs Information System is planned to start in 2009 in order to monitor the use of drugs and prevent counterfeiting. In order to solve some problems of pharmaceutical industry, autonomous institutionalization is needed.

The high growth rates seen in the construction sector in the last years dropped down to 5 percent in 2007. With the contribution of the slowdown in the growth of the construction sector, production of non-metallic mineral products industry decreased 0.1 percent in 2007 compared to the previous year. Since the domestic demand did not increase as it was expected, the sector shifted towards foreign markets; consequently increasing the exports of the sector rose 21.4 percent, from 2.8 billion US dollars in 2006 to 3.4 billion US dollars in 2007.

In the cement industry, the volume of the production, which was 47.4 million tons in 2006, rose to 49.3 million tons in 2007 with an increase of 3.9 percent and reached its highest level up to present. Tendency of growth in the production continued in the first four months of 2008. In this period, the growth rate was 11.8 percent compared to the previous year. Cement exports (including clinker), which was 7.2 million tons in 2006, rose to 8.2 million tons in 2007 with an increase of 13.6 percent.

In the glass sector, domestic glass production increased by 15 percent and the exports rose to 839.4 million US dollars with an increase of 21.4 percent in 2007 with the contribution of the new investments put into operation recently.

International prices of steel inputs such as iron ore, coking coal and scrap has been increasing since 2002, mainly due to the increasing steel production in China. This trend continued in 2007 and in the first half of 2008. However, international steel prices have started to decline after August 2008. Global steel demand and international steel prices will be inevitably affected negatively if recession prospects in the global markets will be realized.

Turkish iron and steel industry enjoyed the potential in the domestic and export markets and continued its growth trend in 2007. Total steel production in Turkey increased by 13.3 percent and reached to a level of 26.1 million tons in this year. In terms of product groups, long production increased by 14.2 percent, flat production increased by 9.4 percent and special steel production increased by 11 percent. On the other hand, Turkish iron and steel products exports increased by 8.7 percent in terms of volume and by 33.2 percent in terms of value and reached to 13.8 million tons and 8.1 billion dollars respectively. In the first half of 2008, exports continued to increase by 19.1 percent in terms of volume and by 47.6 percent in terms of value. Increase in the value of exports has been higher than increase in the volume of exports due to the increasing international steel prices.

In machinery industry the rates of increase were 4.5 percent in production, 33.5 percent in exports and 19.9 percent in imports in 2007. High production increases observed in lifting-handling, machine tools and food industry machines. In the sector, decrease was 4.7 percent in production, but increases were 33.7 percent in exports and 12.3 percent in imports in January- August period of 2008.

The production in white goods industry has been export-oriented at a great extent and more than 50 percent of refrigerator and washing machine production together with more than 70 percent of dishwasher production have been exported. In terms of quantity the decrease rates were 2.8 percent in production, 1.8 percent in domestic sales and 12.3 percent in imports despite exports increased 0.6 percent in January- August period of 2008.

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 1.9 million and 1.8 million units respectively in the first nine months of 2008 compared to the same period of 2007. 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 exports, considerable developments have been realized in recent years. The cooperation between domestic and foreign partners, and decisions of international firms to undertake production in Turkey have effected these developments in exports. Automotive industry export reached USD 17 billion in 2007 by 34.2 percent annual average increase within 2000-2007 period. Therefore, significant progress has been achieved for being a production center in automotive industry and nearly 1.1 million vehicles were produced in 2007 with the contribution of exports. In the main automotive industry (assembler) as a unit, the production has been increased by 28.3 percent, export has been increased by 32.4 percent, import has been increased by 7.3 percent in the first eight months of 2008 and import penetration became 57.6 percent, the export to production ratio realized as 78.5 percent. Importance shall be attached to extend firm cooperations including the primary -supplier integration to achieve economies of scale in production, and export oriented growth and sustainable competitiveness.

Defense industry production increased from 1.1 billion USD to 2 billion USD between 2002 and 2007. In the same period export risen from 247 million USD to 420 million USD. 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. The most important effectiveness indicator of defence industry sector is percentages of domestic supply in Turkish Armed Forces needs whose rate is increased from 25 to 41.6 percent between 2003 and 2007.

In developed countries 85-95 percent of defense needs are supplied from domestic resources. In supplying defense needs domestic industry could not be utilized sufficiently. Also the cooperation between defense industry firms and other industry firms hasn't been developed adequately. One of the important factors, which hinder development of defense industry, is the current system, which favors the procurement of finished products rather than product development. Limited and not well focused on product development R&D budgets of the domestic firms is another reason not to meet defense demands. This situation is limiting the technologic capability and capacity of the domestic firms and hindering their contribution to defense system.

Mining

In recent years, due to the increase in world prices and global 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 2008.

The 45 percent increase in exports in 2007 mostly depends on copper, marble, chromium, feldspar and magnesium. This rise is mainly derived from the increase in mineral prices.

TABLE: IV.39- Main Indicators about Mining

	2005	2006	2007	2008		
Share in GDP (In Percent)	1,2	1,2	1,2	1,1	(1)	
Production Growth Rate (In Percent)	13,8	4,4	9,6	8,9	(2)	
Exports (Million USD, Current Prices)	810	1 142	1 661	1 508	(2)	
Exports Growth Rate (In Percent)	24,8	41	44,9	46,6		
Share in Total Exports (In Percent)	1,1	1,3	1,5	1,6		
Imports (Million USD, Current Prices) (*)	2 181	2 814	3 530	2 931	(2)	
Imports Growth Rate (In Percent)	25,9	29	25,4	-45,4	(2)	
Share in Total Imports (In Percent) (*)	1,9	2	2	2	(2)	
Import of Crude Oil and Natural Gas (Million USD, Current Prices)	14 140	19 220	21 784	22 018	(2)	
Share in Fixed Capital Investments (In Percent)	1,77	1,72	1,67	1,74	(3)	
Public Investments (Million TL)	365	547	638	853	(3)	
Private Investments (Million TL)	1 362	1 584	2 486	2 890	(3)	
Number of Firms Established	453	346	478	643	(2)	
Number of Firms Closed	39	31	23	35	(2)	
Number of Licenses Applied	15 149	18 208	17 669	13 215	(4)	
Number of Licenses Received	Exploration	9 832	12 215	11 720	8 296	(4)
	Operation	1 473	1 651	1 565	1 312	(4)
	Total	11 305	13 866	13 285	9 608	(4)

Source: (1) TURKSTAT, 6 Months, (2) TURKSTAT, 8 Months, (3) SPO, Estimation, (4) MIGEM, 8 Months
 (*) Excluding crude oil and natural gas

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 and 39 percent in 2007 and 2008 respectively. An important amount of resource will be allocated also in 2009 to sustain the continuation of current exploitation activities. Furthermore, necessary work will be started in 2009 to meet the need of a fully-equipped seismic research vessel which will be operated off shore/in our marines.

By the end of year 2007, 8.3 percent of Turkey's demand for crude oil and 2.5 percent of the demand for natural gas is met by domestic production. The recent increases in the exploration and production investments of TPAO to improve the country's demand coverage of domestic production have been maintained in 2007 and 2008. In 2007, 21,443 km of 2-dimension and 4,903 km² of 3-dimension seismic surveys as well as a total of 133,084 m of drilling operation in 81 wells were performed by TPAO with an investment expenditure of 452 million TL and as a result, 10,298 million barrel of crude oil and 421,000 sm³ of natural gas have been produced. However, the downward trend in the domestic oil and natural gas production continued in 2007 and expected to continue in 2008 due to the fact that increased exploration and production investments has not yet reflected satisfactorily to the number of new discoveries. To maximize the profit out of higher oil prices, production-increasing activities in the existing reserves especially in the on-shore regions would be given priority in 2007 and 2008.

However, in 2007, TPAO's total international production which has been reached around 49.000 barrel oil equivalent per day overshoots its 35.000 barrel oil equivalent per day domestic production. The rise in the international production emanated mainly from upsurges in production levels of the projects in Azerbaijan. To increase the domestic production, crude oil and natural gas exploration and production activities focusing on offshore areas, particularly on Blacksea, are also planned to continue in 2009. In this context, the first deep-water well in Blacksea will be planned to drill at the end of 2009.

The capacity of the underground natural gas storage facility in Trakya, which aims at absorbing seasonal fluctuations in natural gas demand and were put into operation in April 2007, will be planned to increase from 1.7 billion m³ to 2 billion m³ in 2009 with an expansion project which has started in 2008.

Coal, which meets 25 percent of the global primary energy needs, provides the highest level of fossil fuel reserves based on current data. In 2006, total coal production increased by 7.6 percent, well above the last 3 year's average growth trend of 6.9 percent. The highest portion in this rise belongs to hard coal. In the coming period, especially due to the rise in China's and India's coal demand, the world coal production is expected to increase while its growth rate slows down. As is known, coal, especially lignite is an important production commodity for Turkish mining sector. In 2007, our lignite production increased by 16 percent and reached to a level of 70,618 thousand tons. On the other hand, hard coal production increased by 5 percent and became 3,233 thousand tons. The trend of growth in coal production is expected to continue in 2008.

The license applications have begun in June 2008 in accordance with the Law No. 5686 on Geothermal Resources and Natural Mineral Waters. Moreover, the Regulation Concerning the Use of Geothermal Resource-Areas Eligible for Power Generation has become effective since October 2008. The contribution of the Geothermal Resources and Natural Mineral Waters to the economy has been expected to increase considerably in the forthcoming period.

The leading problems of the mining sector are, 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. In the new OIZ and SIS investments, sectoral specialized ones will be given priority.

In 2008, industry is expected to grow by 3.9 percent

3. Policy Priorities and Measures

Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 56. Efforts to increase industrial exports, especially of medium and high technology sectors, will be supported				
Measure 107. Resources of Eximbank will be increased; financial instruments provided by Eximbank will be diversified.	Turk Eximbank	UT, UFT, Commercial Banks	End of Decem.	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
Measure 108. Strategy for sector and country diversification in exports will be prepared.	UFT	Exporters' Association	End of Decem.	To decrease dependency on sector and country in exports, strategies will be prepared directed to making up new markets for exports.
Priority 57. Establishment of new enterprises in certain industrial zones and transfer of existing ones to these zones will be encouraged; the cooperation and clustering activities among enterprises will be supported.				
Measure 109. EU funded "National Clustering Policy Development" project will be completed.	UFT	Ministry of Industry and Trade, SPO, KOSGEB, related institutions	End of March	Within the scope of the clustering Project, clustering strategy will be developed, clustering map will be issued and road maps and strategies directed to development of the selected clusters will be developed.
Measure 110. National clustering support policy and mechanism will be developed.	Ministry of Industry and Trade	SPO, UFT, KOSGEB, Development Agencies, TOBB, Management of OIZs, Chambers of Industry and Trade, related institutions	End of Decem.	By using the outputs of the Project being conducted by UFT, support policy and mechanism directed to clustering will be developed and clustering activities will be encouraged. Also, cooperation activities of SMEs such as establishing common design/ production/ R&D/test-analysis centers in existing cluster areas, particularly in OIZs, will be supported by KOSGEB.
Measure 111. "Fashion and Textiles Business Cluster Project" will be finalized.	UFT	İTKİB	End of March	In order to train Qualified personnel and fashion designers for the sector, training courses will be organized. In the context of Techno-park Project, İstanbul Textiles-park is planned to be put in service
Priority 58. 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 112. Cooperation and partnership activities and mergers of SMEs, particularly tradesman and craftsman, will be supported.	KOSGEB	Ministry of Finance, Ministry of Industry and Trade, related institutions	End of Decem.	Enhancing size of enterprises and increasing their productivity is aimed. In this respect, cooperation among enterprises, partnership and merging activities will be encouraged.

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Measure 113. The Hezarfen Project will become widespread.	Turkish Patent Institute	Ministry of Industry and Trade, KOSGEB, OIZ, Chambers of Industry and Trade	End of Decem.	In the scope of the Hezarfen Project, which is enhancing the innovation capacity of SMEs, its second phase implementation that was started in the 1st OIZ by the Ankara Chamber of Industry will be accomplished in the end of 2008. Its third phase will be carried out in another region which will be determined outside of Ankara in 2009.
Measure 114. A study will be done to change the Law No.580 National Productivity Center.	MPM	Ministry of Industry and Trade	End of Decem.	A draft to adapt current establishing law to changing conditions will be prepared and submitted to TGNA.
Priority 59. Accreditation, conformity assessment and market surveillance systems will be activated; certification activities will be supported				
Measure 115. Product Safety Law will be enacted.	UFT	Related Public Institutions	End of Decem.	The enacted law aims at complying with the EU legislation.
Measure 116. Implementing Regulation On Product Safety Checks in Imports From Third Countries will be enacted.	UFT	Related Public Institutions	End of Decem	A regulation related to procedures and principles for product safety checks in imports from third countries, carried out in the framework set by obligations originating from WTO rules and Customs Union with the EU will be adopted.
Priority 60. Transformation to a structure, which will adapt to international competition in traditional sectors, will be supported.				
Measure 117. Iron-Steel Industry National Restructuring Programme will be finalized	UFT	Undersecretariat of Treasury, SPO, Related Institutions	End of Decem	Work on National Restructuring Programme aiming at complying with Turkey's commitments stated in the Free Trade Agreement between Turkey and European Coal and Steel Community will be completed and negotiations on the Programme with the European Commission will be finalized.
Priority 61. Permanent special ad-hoc committee' studies will be carried on to enhance medium and long-term competitiveness of industry; general and sectoral policy documents will be established.				
Measure 118. To increase the competitiveness of industrial sectors, preparation, monitoring, evaluation and developments of sectoral strategies will be performed.	Ministry of Industry and Trade	SPO, related institutions	End of Decem	To increase the competitiveness of industrial sectors, in the framework of preparation, monitoring, evaluation and developments of sectoral strategies, it is aimed to increase the institutional capacity and to make necessary legal arrangements. Textiles, clothing and leather sector strategies and action plans taken to implementation in 2008 will be monitored.
Priority 62. 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 119. The Law studies towards enactment of the R&D based procurement system will be completed.	Ministry of National Defense	The Chief of General Staff, Undersecretariat of Defence Industries	End of Decem	To create a structure based on obtaining domestic technology and capability in procurement a draft law on R&D based procurement system prepared by the Ministry and opinions of the related institutions taken. Draft Law will be finalized and submitted to the TGNA.
Measure 120. Strategy and policy documents directed to the development of a defence industry which creates domestic original solutions and competes in international arena will be prepared.	Under-secretariat of Defence Industries	The Chief of General Staff, TUBITAK, Universities, Defence Industry Institutions.	End of Decem	The rate of domestic procurement in defence system needs will be increased. For this purpose, continued preparations of -Defense Industry Strategy -Sub Sector Strategy -Part suppliers(SMEs) Integration Procedure -Defense R&D Road Map and Technology Acquisition Plan will be completed and put into application in 2009

Measure 121. A new draft law will be prepared to regulate the establishment of the Undersecretariat of Defense Industries.	Under-secretariat of Defence Industries	The Chief of General Staff, MSB, Defence Industry Institutions	End of June	A new draft law in place of the Law No.3238 will be prepared and submitted to TGNA.
Priority 63. Institutional restructuring implications in the mining sector will be performed.				
Measure 122. The law establishing MTA will be revised in order to restructure the institution in accordance with today's requirements.	MTA	Ministry of Energy and Natural Resources,	End of Decem	A report in line with the global implications in similar institutions will be prepared in coordination with the related institutions and then, necessary legislation will be submitted to the TGNA
Measure 123. An action plan aiming at restructuring of TTK will be prepared.	Under-secretariat of Treasury	Ministry of Energy and Natural Resources, SPO, TTK, Related Institutions	End of Decem	TTK will be restructured with the aim of ending its current persistent loss-generating structure and an action plan will be prepared.

SERVICES

TOURISM

1. Current Outlook

International demand for tourism has increased by 46.6 percent over the past decade, and tourism expenses increased by 97.1 percent within the same period. In 2007, the number of tourists globally reached 903 millions, while the tourism receipts showed 856 billion dollars. International passenger transport is estimated as 16 per cent of total tourism receipts reaching to 145 billion dollars. By the end of 2008, the number of tourists globally was expected to

hit 953 millions with an increase of 5.5 percent, while the tourism receipts are expected to reach 899 billion dollars with an increase of 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 2 trillion dollars. The study further envisages that the Europe will remain the top tourist-receiving region and will maintain the highest share of world arrivals with 717 million tourists although there will be a decline from 60 percent in 1998 to 46 percent in 2020.

TABLE: IV.40- World International Tourism and Tourism Receipts

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Number of tourists (millions of people)	650	687	684	701	695	766	802	846	903	953
Annual change (percent)	4,0	7,2	-0,4	2,5	-0,9	10,2	4,7	5,5	6,7	5,5
Tourism receipts (billion dollars)	456	483	472	487	533	633	678	742	856	899
Annual change (percent)	5,9	16,9	-2,3	3,2	9,4	18,8	7,1	9,4	15,3	5,0

Source: World Tourism Organization (UNWTO) * Estimate

In 2007, the tourist arrival rate of Europe was 53.6 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 81.9 million tourists followed by Spain (59.2 millions) and Italy (43.7 millions).

Turkey with a market share of 2.5 in the world tourism market and 4.6 percent in the European tourism market shows a rapid growth rate in both tourist arrivals and revenues, ranked 9th, among the top 20 tourism destinations in terms of tourist arrivals and 10th in terms of tourism receipts.

According to the data provided by the World Tourism Organization, direct employment in Turkey in 2007 is estimated to cover 3.3 millions in the tourism industry, thus directly and indirectly creating employment opportunities in 32 operation fields.

In 2007, the tourist arrivals increased to 23.3 million and tourism receipts increased to dollar 18.5 billion while the number of beds as certified by the Ministry of Culture and Tourism and by the municipalities increased to 532,000 and 420,000, respectively. The number of tourists from OECD countries and East Europe considerably rose by accounting for 56.5 and 29.4 percent respectively of foreign tourists. In 2007, among the countries which sent the largest number of tourists to Turkey, Germany ranked first with 17.8 percent, followed by the Russian Federation (10.6 percent) and the United Kingdom (8.2 percent).

In 2008 tourist arrivals are estimated at 26.5 million and tourism receipts at 22.7 billion while the number of beds as certified by the Ministry of Culture and Tourism and the municipalities are expected to hit 550,000 and 430,000 respectively. Total bed capacity is projected to hit over 1.3 million including 254,000 beds under the investment plan. By the date 31.08.2008 there are 5,603 travel agencies operating in tourism industry.

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 golfing, thermal tourism, convention, winter, cruising, health and eco-tourism activities shall be continued. There is continuous demand for recreation and pressure for construction continues on coastal areas.

Despite positive developments in 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 urbanization 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 organizations, 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 administrative and financial problems of local administrations still prevail.

The results of the forecast studies of the World Tourism Organization (UNWTO) indicates that, in most of those countries investigated, national tourism organizations are founded by public and private organizations for the promotion abroad. In Turkey there is a need for such an organization for the promotion and marketing of the country in foreign markets.

2. Main Objectives and Targets

In tourism sector, the basic objective is to form a structure which embodies the dynamics of globalization, which increases the quality of services as well as the number of incoming tourists; which targets the high income groups by diversifying the market channels; preserves the natural endowments and focusing on those diverse tourism attractions where Turkey has a comparative advantage such as golfing, thermal tourism, convention, winter, cruising, and health tourism activities.

It is expected that, the number of beds as certified by the Ministry of Culture and Tourism and the municipalities will reach to 570,000 and 435,000, respectively, the number of tourist arrivals will be 29 millions and tourism receipts will be 24.9 billion dollars in 2009.

TABLE IV.41 Developments in Tourism Sector

	2007	2008 (1)	2009 (2)	Average annual increase (percent)	
				2008/2007	2009/2008
Incoming tourists (thousand) (3)	23 341	26 500	29 000	13,5	9,4
Number of citizens going abroad (thousand)(3)	4 957	5 400	6 000	8,9	11,1
Tourism receipts (million \$) (4)	18 487	22 700	24 900	22,8	9,7
Tourism expenditure	3 260	3 600	3 800	10,4	5,6

1) Estimation

3) Statistics of Ministry of Culture and Tourism

2) Programme

4) Statistics of Central Bank.

3. Policy Priorities and Precautions

Priority / Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 64. 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 124. Touristic accommodations will be supported, and incentives will be introduced to tourism activities in the interior and undeveloped regions	Ministry of Culture and Tourism	Ministry of Finance, SPO, UT, UFT, Turkish Development Bank, Sectoral Organisations.	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 for SME's as such applied to accommodation establishments, will be provided. The quantity, regional specialities, application periods and conditions of incentives will be identified annually.
Measure 125. Planning, consultancy and investment firms serving tourism sector will be certified.	Ministry of Culture and Tourism	Sectoral Organisations	End of December	Amendments will be made on Tourism Encouragement Law and Law on Foundation and Duties of Ministry of Tourism, to diversify and to increase the quality of investments, those firms working in the field of planning, investment and consultancy will be certified.
Priority 65. All tourism investments will be undertaken in a view of protecting and improving the natural, historical, social and cultural environment.				
Measure 126. The projects in the scope of Destination Management will be supported.	Ministry of Culture and Tourism	Local Administrations, Universities, NGOs. Sector Organisations, Private Sector.	End of December	Support shall be given to the destination management projects in the field of environment protection and development of cultural and historical assets and design and marketing of touristic product.
Measure 127. Efficiency will be achieved in the protection of natural and historical environment.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, Local Administrations, NGO's	End of December	The construction of solid and liquid waste disposal and water treatment plants will be realized by starting from those which possess implementation projects. Within the context of Mediterranean-Aegean Tourism Infrastructure and Coastal Zone Management Project "ATAK", the construction of water supply and sewage systems, waste water treatment and discharge and solid waste disposal facilities will be completed.
Priority 66 : Demand will be created for Turkish tourism to maximize its share on international markets.				
Measure 128. Efficiency will be achieved through restructuring of the sector for the promotion of tourism in foreign markets.	Ministry of Culture and Tourism	Sectoral Organisations, Private Sector.	End of December	Studies for the participation of sectoral organizations to the promotion of tourism will be carried out. Legal arrangements will be made for the restructuring that will ensure the participation of touristic enterprises in the decision making process for promotion strategies as well as monitoring, control and the financing of the implementation. Moreover, according to the Promotion Strategy, a tourism portal will be established, a proper environment will be provided for the promotion of tourism establishments, intra reservation and exchange of information among sectoral actors.

Measure 129. Diversifying touristic products convenient for private tourism markets, will be ensured.	Ministry of Culture and Tourism	Local Administrations, Sectoral Organisations, Private Sector.	End of December	More emphasise will be given to convention, business and incentive tourism besides yatching, cruising, thermal and third age tourism. Within the context of development trends towards eco-tourism and active tourism, demand will be ensured. in golfing, rafting, mountaineering, skiing and special interest tourism markets.
Priority 67. The cultural, social and natural richness of the city of Istanbul will be utilized in the context of sustainable tourism development.				
Measure 130. 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, Private Sector.	End of December	Participation of the entities receiving direct or indirect revenues from tourism to the finance of promotional activities is necessary to realize dynamic, professional and financialy sound promotion.
Measure 131. 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, Private Sector.	End of December	For the metropolitan city of İstanbul, elected as European Cultural Capital for the year 2010, after solving the legal and administrative problems of the projects related to convention tourism, cultural tourism, cruising and coastal zone planning and management, their implementation will be realized.

CONSTRUCTION, ENGINEERING-ARCHITECTURE, TECHNICAL CONSULTANCY AND CONTRACTING SERVICES

1. Current Outlook

The share of construction sector in GNP, which was 5.3 percent in 2006, became 5 percent in 2007. The sector grew by 19.4 percent in 2006 and 5 percent in 2007.

The growth rate of construction sector in the first half of 2007 was 5 percent and it has been realized in the same period of 2008 as 1.9 percent.

TABLE: IV. 42- Developments in Building Sector

Years	2005	2006	2007	2008(1)
Share in GNP (in percent, current prices)	4,3	5,3	5,0	4,9
Growth rate (in percent, by 1998 prices)	21,5	19,4	5,0	1,9

Source: TURKSTAT (1) First half of 2008

The high-level credit interest rates for housing and the increased cost of materials used in construction sector continued to affect the demand negatively, especially housing sector in 2007. As a result, there was a decrease in building and occupancy permits

in terms of square meters in 2007 compared to the previous year. The rates have been, -11.7 and 7.8 percent respectively in the first half of 2008 compared to the same period of previous year.

TABLE: IV. 43- Building and Occupancy Permits and Rates of Change

Years	2005	2006	2007	2008(1)
Building Construction Permits (Thousand sq-m)	98 228	113 267	114 359	51 066
Percentage Change	52,7	15,3	1,0	-11,7
Occupancy Permits (Thousand sq-m)	47 795	53 741	58 582	28 328
Percentage Change	63,4	12,4	9,0	7,8

(1) First half of 2008 Source: TURKSTAT

Legislative efforts have continued in order to widen the implementation of Law 4708 all over the country targeting the effective supervision and quality improvements in the construction sector and to include the insurance guarantee provisions into the Law. Employment in the construction sector has continued to grow. As a matter of fact, it was 1,171 thousand in 2005, 1,189 thousand in 2006 and 1,224 thousand people in 2007.

Turkey's international contracting services reached to 19.5 billion USD in 2007. Insufficiency in certification of skilled workforce, which is necessary for both domestic and international contracting services and which will enable higher employment especially in developed foreign markets, the letter of guarantee and accreditation of technical consultancy services problems are still continuing in the sector. To solve these problems, The Council of International Contracting and Technical Consultancy Services has established a working group.

Recruitment of the required personnel to the central and provincial organizations of Market Monitor and Supervision Authority established according to the Construction Materials Regulation 2007 and circular

no YIG-15/2006-07 2008 continues. Establishment of a data basis and updating the available data for the purpose of coordinating Market Monitoring and Supervision activities also continues.

An inventory work of public and private buildings has started as a project with a view to establish a data bank for the construction sector by Ministry of Public Works and Settlement.

As indicated in the Ninth Development Plan, a study was carried out by the Public Procurement Authority to provide the outsourcing of independent technical consultants in public investments. As a result of this, a draft law amending the Public Procurement Law no. 4734 is in the agenda of Turkish Grand National Assembly.

2. Main Objectives and Targets

The technical consultancy and contracting services shall be provided in accordance with international standards through out the whole sector uniformly by removing issues in quality stemming from the insufficient control 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 68. Capital structures of companies will be strengthened.				
Measure 132. The Letter of Guarantee problem will be solved.	UFT	MoPWS, The Ministry of Justice, Eximbank, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, BRSA, BAT, related private banks 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 function in this field. The rate of requirement for letter of guarantee shall be reduced. The provision regarding the cancelling of the letter of guarantee according to domestic law will be made compatible with international rules.
Priority 69. The quality of labour force employed in the sector will be improved				
Measure 133. The formation of the accreditation system in international contracting and technical consultancy services sector will be started.	UFT	MoPWS, TURKAK, TOBB, Association of Turkish Consulting Engineers and Architects, Turkish Contractors Association, Universities.	End of December	The Working Group to be established by The Council for International Contracting and Technical Consultancy Services will start to function 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 R&D and enlarge its activities scope so as the cover other service areas in the future, if necessary.

Priority 70. Technical consultancy and contracting services will be provided at international standards of quality and reliability.

Measure 134. Building supervision will be enforced	Ministry of Public Works and Settlement	SPO, Other Related Ministries, Association of Turkish Consulting Engineers and Architects, Turkish Contractors Association, The Turkish Union of Construction Industry Employers.	End of December	Responsibility insurance system will be established necessary for an effective building supervision. To this end, necessary amendments will be made in the Law No. 4708 on Supervision of Buildings
Measure 135. A Draft Civil Construction Law will be prepared	Ministry of Public Works and Settlement	SPO, UT, 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 136. An information system specific for the sector will be developed	Ministry of Public Works and Settlement	TURKSTAT, Other Related 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 the building inventory, creating a statistical databank, preparing earthquake risk maps as well as an earthquake resistance atlas for the existing building stock.
Measure 137. The quality inspection of construction materials will be made effective.	Ministry of Public Works and Settlement	Related Ministries, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Association of Turkish Consulting Engineers and Architects, Turkish Standards Institution	End of December	Necessary labour force and equipment infrastructure required for material inspection of The Market Supervision and Control Authority which was established according to construction materials regulation prepared in the context of harmonization with the EU will be completed.

COMMERCIAL SERVICES

1. Current Outlook

The share of the commercial sector in GDP (in 1998 base prices) was realized as 15.2 percent in 2007. The wholesale and retail commercial services which had a 84 percent share in trade sector, made an important progress in the recent years. During the period of 2003-2007, as the total service sector grew up by 7.4 percent on the average, commercial sector grew up by 8 percent and wholesale and retail service sector grew up by 9.3 percent on the average.

A rapid transformation process in the wholesaling and retailing sector has been lived by putting new shopping centers, gross-markets and market chains into service. The increasing efficiency and performance achieved by using new technologies and modern management techniques and intensive international competition have been determinative on the consumer prices, growth and employment and affect the activities in the other sectors directly. Also, these developments in trade sector, on the

one hand cause traditional type businesses to disappear, on the other hand create new business possibilities.

The pressure of the competition and efficiency on the companies increases the importance of modern supply management and combined transportation systems. In order to make good use of trade potential, it is essential that the different transportation modes should be worked together in a harmony; harbours and terminals should be provided to be convenient for different functions.

Draft Turkish Commerce Law which is prepared for the emergence of new international substantial laws and law regimes, developments in the multi-sided international trade, electronic commerce, liability laws and needs for compliance with EU legislation and other new laws, is in the agenda of TGNA.

It is available to make transactions at cotton and wheat with contracts during different months of the year in Futures and Options Exchange Market (FOEM). Transaction volume in cotton was TL 800,000 (405 contracts), in wheat was 14,451,000 TL (5,546 contracts) from 2005 to August 2008.

2. Main Objectives and Targets

In order to provide efficiency in commercial sector that totally affects the whole economy, it is essential to encourage the usage of new technologies and to protect competitive structure in the sector activities.

While making new legal arrangements due to the wholesaling and retailing, it is essential to analyze the effect of wholesaling and retailing on connected sectors as well as consumers. In this context, on the one hand there will be measures to combat with unrecorded economic

activities, to protect consumers and competition, 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.

It is targeted to have high standards on reliable, cheap and fast transportation systems, to improve the logistics and combined transporting activities in order to physical flow of goods and to have simple solutions to bureaucratic processes.

3. Policy Priorities and Measures

Priority / Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 71. A sector structure, protecting the competition and consumer, supporting the production in the related sectors, preventing unregistered economy, increasing efficiency and quality, supporting a balanced development among the internal players in the sector and compatibility with hygienic regulations, will be formed by the regulations that will be done relating to wholesaling and retailing.				
Measure 138. Legislation studies aimed at regulation of retailing sector will be completed.	Ministry of Industry and Trade	Related Public Organizations, TOBB, Sectoral Organizations, Professional Associations	End of Decem.	After enactment of Draft Law Relating on Shopping Centres, Gross-Markets and Market Chains, secondary legislation studies will be finalised
Measure 139. Legislation studies about regulation of fresh vegetable and fruit trade will be completed.	Ministry of Industry and Trade	Ministry of Agriculture and Rural Affairs, Ministry of Interior, TOBB, TESK, TÜSEMKOM, The Other related Professional Associations, Sectoral Organizations	End of Decem.	After enactment of Draft Law on Regulation of Fresh Vegetable and Fruit Trade and Covered Wholesale Food Market, secondary legislation will go into effect in six month. This new regulation aims at strengthening the administrative, technical and physical infrastructure of covered wholesale food markets and restructuring them considering new conditions, setting up market recording system, minimizing unrecorded economic activities.
Priority 72. Legislation arrangements in trade sector will be finalized.				
Measure 140. Secondary legislations towards implementation of Turkish Commerce Law will be put into force.	Ministry of Industry and Trade	Ministry of Justice, Ministry of Finance, Revenue Administration, Universities, SPK, BDDK, The Banks Association, TOBB, TURMOB, TMSK	End of Decem.	After enactment of Draft Turkish Commerce Law, necessary secondary legislation and presentation studies will be started and finalized. In this context, regulation, implementing regulation and communiqué studies will be carried on.

II. FOSTERING EMPLOYMENT

A. IMPROVING LABOUR MARKET

1. Current Outlook

As of December 31st of 2007, population of Turkey is 70.6 million. According to the temporary population projections based on this figures, it is estimated that

the total population will reach to 71.4 million in 2008 with an annual growth rate of 1.13 percent and 72.2 million in 2009 with a growth rate of 1.11 percent.

TABLE:IV. 44- Shares of Age Groups in Total Population

(In Percent)

	0-14 Age Group		15-64 Age Group	
	2000	2007	2000	2007
EU- 25	16,7	16,0	66,9	67,1
Turkey	30,0	26,4	64,7	66,5

Source: TURKSTAT, EUROSTAT

Whereas the population share of the 0-14 age group within the total population is descending, the population shares of the working-age and aged groups are ascending.

Although there is a decline in population growth rate, the rapid decrease in agricultural employment, high unemployment rate, low labour force participation and employment rates, low educational attainment level and qualification of labour force and weak link between education and employment are the main problematic areas on the way of transformation to an information society with a high level of competitiveness and employment creation capacity.

Remaining behind the growth in the working age population and the labour force, employment growth had become 0.6 percent during 2000-2006 period and had showed an 1.1 percent increase in 2007. In 2007, the working age population and the labour force increased by an annual average rate of 1.5 percent and 1.2 percent respectively. However, growth in number of people unemployed and remaining out of labour force was 1.6 percent and 1.8 percent respectively. A significant decrease was achieved in the number of people remaining out of labour force who were not looking for a job but ready to work by 7.8 percent. A major part of this decrease took place in urban areas.

Transformation in the sectoral composition of employment continues to take place. The share of the agricultural sector in total employment receded from 27.3 percent to 26.4 percent and employment in this sector

decreased by 112 thousands of people in 2007 compared to the previous year. However, a new employment of 347 thousands of people in non-agricultural sectors took place in the said year. In this period highest amount of employment increase was realized in the sector of community services, social and individual services by 120 thousands of people.

The unemployment rate was 9.9 percent in 2007. On the other hand, the non-agricultural unemployment rate was recorded as 12.6 percent in 2007. The unemployment rate among young people, which is approximately twice as much as total unemployment, is quite high though it has a diminishing trend in recent years.

No progress has been recorded in labour force participation and employment rates having a lower level compared to EU averages. The low level of these rates are closely connected to meager participation and employment rates of women. The rate of labour force participation and employment among women is around one third of that of the men, and a relative increase has been observed in these rates for women living in urban areas in 2007.

In Turkey, problems such as insufficient quality of the vocational education and lack of in-service training and lifelong learning practices in particular, as well as deficiencies in capital accumulation and technological renovation processes, lead to degradation in labour productivity compared to EU averages.

TABLE:IV. 45- Main Indicators on Employment and Labour Force

(In Percent)

	Turkey				EU-25			
	2004	2005	2006	2007	2004	2005	2006	2007
Labour Force Participation Rate (LFPR) (15-64)	51,5	51,4	50,2	50,2	69,8	70,3	70,7	70,9
- LFPR (Female)	27,0	26,5	26,1	26,1	62,1	62,8	63,4	63,7
- LFPR (Male)	76,1	76,2	74,4	74,4	77,5	77,9	78,0	78,1
Employment Rate (15-64)	46,1	46,0	45,9	45,8	63,3	64,0	64,8	65,8
- Employment Rate (Female)	24,3	23,7	23,9	23,8	55,8	56,6	57,6	58,6
- Employment Rate (Male)	67,9	68,2	68,1	68,0	70,9	71,4	72,1	73,0
Unemployment Rate (15+ Age)	10,3	10,3	9,9	9,9	9,2	9,0	8,2	7,2
- Unemployment Rate (Rural)	5,9	6,8	6,5	6,9	-	-	-	-
- Unemployment Rate (Urban)	13,6	12,7	12,1	11,9	-	-	-	-
Youth Unemployment Rate (15-24)	19,7	19,3	18,7	19,6	18,3	18,5	17,1	15,3

Source: TURKSTAT, EUROSTAT

When wages, one of the most important indicators of the working life, is taken into consideration, in 2008, it is expected that average net salaries of civil servants increase 17.7 percent and average net wages of public workers increase 9.6 percent in nominal terms. In real terms, it is expected that these figures will show an increase of 6.7 percent and a decrease of 0.7 percent, respectively. In 2007, net wages of private sector workers increased 11.5

percent in nominal and 2.5 percent on a real basis.

In 2008, monthly gross minimum wage is set as 624 TL for the workers older than 16 years old, and 528 TL for the workers younger than 16 years old. In 2008, average monthly net minimum wage for 16 and older ages increased 8.7 percent in nominal terms. Net minimum wage is expected to decrease by 1.5 percent on a real basis.

TABLO:IV. 46- Developments In Labour Costs and Net Wages

	2000	2001	2002	2003	2004	2005	2006	2007	2008 (6)
LABOUR COSTS (1)									
Real Labour Costs Index (1994=100)									
Worker (3)									
Public	130,1	115,7	99,5	102,2	105,4	107,4	104,4	111,9	104,6
Private	140,8	115,9	108,9	106,3	111,1	114,9	114,0	118,3	-
Civil Servant	129,7	117,0	120,3	122,6	127,8	134,5	140,2	148,4	146,1
Minimum Wage (4)	155,8	132,9	134,9	153,9	170,8	181,8	180,7	183,6	176,0
Real Change (In Percent)									
Worker (3)									
Public	20,8	-11,1	-14,0	2,7	3,1	1,9	-2,8	7,2	-6,5
Private	13,4	-17,7	-6,1	-2,3	4,5	3,4	-0,8	3,8	-
Civil Servant	-11,7	-9,7	2,8	1,9	4,3	5,2	4,2	5,8	-1,5
Minimum Wage (4)	-13,0	-14,6	1,5	14,1	11,0	6,4	-0,6	1,6	-4,2
REAL WAGES (2)									
Real Wages Index (1994=100)									
Worker (3)									
Public	111,1	98,2	89,2	86,8	88,3	90,7	88,3	91,1	90,4
Private	119,4	95,3	94,3	93,9	97,1	97,7	97,0	99,4	-
Civil Servant	108,9	104,8	110,8	109,9	112,7	115,7	122,9	127,7	136,2
Minimum Wage (5)	132,6	113,9	123,0	127,6	158,6	165,3	163,9	162,8	160,4
Real Change (In Percent)									
Worker (3)									
Public	6,9	-11,5	-9,2	-2,7	1,7	2,7	-2,7	3,1	-0,7
Private	1,1	-20,3	-1,0	-0,4	3,5	0,5	-0,7	2,5	-
Civil Servant	-11,5	-3,8	5,7	-0,9	2,6	2,6	6,2	3,9	6,7
Minimum Wage (5)	-14,4	-14,1	8,0	3,7	24,3	4,2	-0,9	-0,7	-1,5

Source : Ministry of Finance, Ministry of Labour and Social Security, SPO, Public Sector Employer Unions and Turkish Confederation of Employer Association

- (1) Wholesale Price Index (1994=100) is used in calculations on real basis for 1994-2004 period. After the year of 2005 Producer Price Index (2003=100) is used. Annual average increase rate of Producer Price Index is estimated as 13.41 percent for 2008.
- (2) Consumer Price Index (1994=100) is used in calculations on real basis for 1994-2004 period. After the year of 2005 Consumer Price Index (2003=100) is used. Annual average increase rate of Consumer Price Index is estimated as 10.31 percent for 2008.
- (3) The data provided by Public Sector Employer Unions and Turkish Confederation of Employer Association.
- (4) The figures are annual averages of labour costs of minimum wages for 16 age and over in industry and services sectors.
- (5) The figures are annual averages of net wages of minimum wages for 16 age and over in industry and services sectors.
- (6) Estimate.

Widening the flexible working forms have great importance in increasing employment, reducing unemployment and informal employment, increasing the employment of women and the disadvantaged groups. It is necessary to foster information and awareness-raising activities towards employees and employers to promote these working forms in the labour market.

Developments in the process of transition to information society bring about changes in working relations, working types and employment profile. For this reason, adjustment capability of workers, enterprises and sectors to this transformation should be reinforced.

Law No:5763 about Amending Labour Law and Some Other Laws, which makes arrangements for increasing employment and reducing unemployment and is called as "employment package" in the public, is published in the Official Gazette and entered into force on May 26th of 2008. The said Law have provisions towards decreasing labour costs through making amendments on compulsory employment and unit requirements on employers depending on their employee numbers, increasing employment opportunities of the youth, women and disabled people, expanding active labour market programs,

improving unemployment benefits, strengthening education and employment links, discouraging informal employment practices, facilitating to open the private employment offices, regulating sub-employment relations and simplifying formalities for business opening.

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, employment opportunities will be improved, unemployment will be reduced and labour market will be made effective.

Labour market will be made effective and transformed into a structure in which a balance between flexibility and security is achieved, a wage system supporting the productive employment is established, the capacity to adapt to the transformation is enhanced, social dialogue is improved and equal opportunities for every one is provided.

3. Policy Priorities and Measures

Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 73. Effectiveness of labour market shall be ensured.				
Measure 141. By providing the balance between flexibility and security, labour market shall acquire a more flexible and a more mobile structure, activities increasing the employment, particularly for women, youth and disabled shall be expanded.	ÇSGB	MoNE, SGK, İŞKUR, KOSGEB, Vocational Qualifications Agency (MYK), Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of December	Information and awareness-raising activities towards employees and employers shall be developed to promote flexible working forms in the labour market.
Measure 142. Studies toward the Law on Occupational Health and Safety shall be finalized.	ÇSGB	Ministry of Industry and Trade, State Personnel Administration, KOSGEB, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of March	Draft Law on Occupational Health and Safety prepared for improving health and safety conditions at work shall be submitted to TGNA.
Measure 143. Legal and functional background of the Economic and Social Council shall be strengthened.	SPO	Prime Ministry, ÇSGB, Confederations of Employer and Employee Trade Unions, Confederations of Civil Servant Trade Unions, Professional Organizations, NGOs	End of June	Effectiveness of current social dialogue mechanisms in our country shall be ensured.

B. INCREASING THE SENSITIVITY OF EDUCATION TO LABOR DEMAND

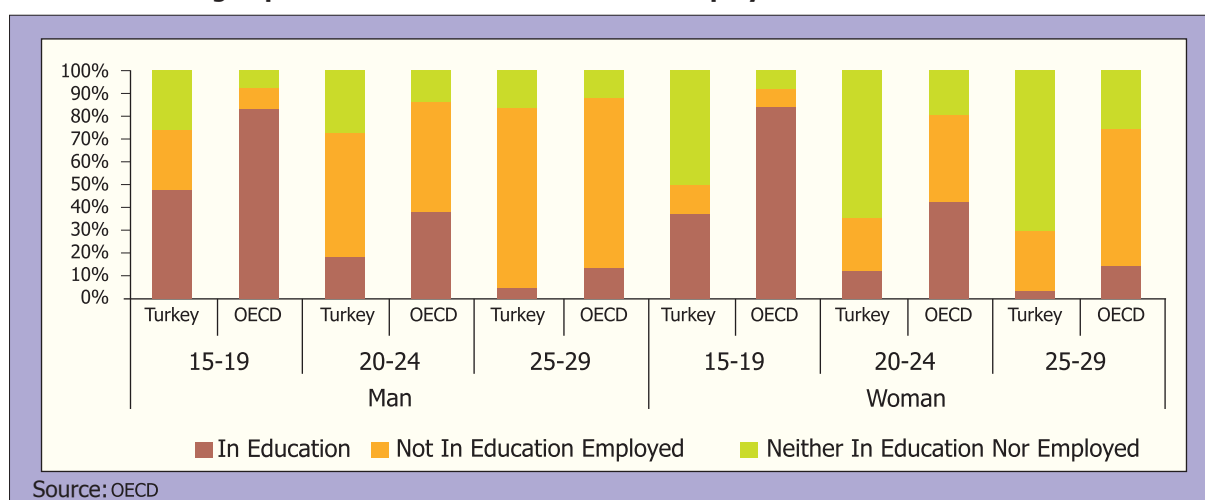
1. Current Outlook

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 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 lacking vocational education in responding the needs of labor market results in disequilibria between demand and supply of skills in the labor market. This fact simultaneously leads to unemployment and vacant positions. These problems necessitate formulation of vocational education in line with labor market demands and establishment of a national vocational qualification system.

In our country, the ratio of neither employed nor in education young population 15-29 year age group is quite high. This situation is more explicit among women. Moreover, the ratio of neither employed nor in education population is increasing in men as approached to the age 29 and it is vice versa for women. It is observed that, being inactive with respect to education and employment is more permanent for women.

GRAPH :6 - Young Population Neither in Education nor Employed



Within the scope of transition to a modular structure in education, in secondary education a flexible structure has been established that render possible passing between general and vocational schools after

9th Grade. Vocational education programs have been revised at secondary education level, but these efforts has not been reflected to Vocational Higher Schools.

TABLE: IV. 47 Educational Attainment Level of Labor Force, 2007

(Percent)

	Labor Force	Employment	Unemp-loyed	LFPR	Employment Rate	Unemployment Rate
Total	100,0	100,0	100,0	47,8	43,1	9,9
Illiterate	4,6	4,9	2,3	19,4	18,4	5,0
Less than High School	60,4	60,8	56,8	46,4	42,1	9,3
High School	21,9	21,2	28,2	56,7	49,5	12,8
- Upper Vocational Secondary	-	-	-	66,1	58,3	11,8
Tertiary	13,1	13,1	12,7	78,6	71,0	9,6

Source: TURKSTAT

In Turkey, 65 percent of total labor force, 65.7 percent of total employment, and 59.1 percent of total unemployed in 2006 are illiterate and/or have education less than high school. Low qualification level of existing labor force also reduces labor force productivity, creates imbalances between demand and supply of labor, and thereby hampers effectiveness of the labor market.

When labor force is analyzed on the basis of education, for the groups other than tertiary, unemployment rate increases as the level of education increases. The major reason for this fact is that as the level of education increases labor market participation and employment rates increases, especially for the higher schools and faculty graduates groups.

By the Law No: 5763, Provincial Vocational Education Committees and Provincial Employment Committees are merged and thus having a more active and binding

decision making structure have been aimed. By this Law, some changes have been done for Committee members, their fields of mission and authority have been extended and meeting period has been shortened.

In order to take the problems of vocational education in a coherently and coordinated manner, Vocational and Technical Education Action plan has been prepared within the coordination of MoNE for 2008-2012 period.

2. Main Objectives and Targets

By taking into account the lifelong learning strategy, which will be prepared to increase the sensitivity of education to labor demand, developing human resources in the areas demanded by the economy, and ensuring a more flexible structure in education and labor market are planned.

3. Policy Priorities and Measures

Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 74. In order to raise qualified human resources demanded by business world, the linkage between education and labour force shall be strengthened.				
Measure 144. The modular system established in vocational secondary school shall be developed and higher vocational education programs shall be compatible with that system	MoNE	YÖK, TURKSTAT, İŞKUR, National Qualifications Agency, Provincial Vocational Education and Employment Committees, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGO's	End of December	Efforts shall be increased in order to improve the adaptation of teachers to the revised curriculum. Higher Vocational Schools shall be removed from a repeating position of vocational secondary schools and program coherency and continuity shall be ensured between these schools.
Measure 145. The Life Long Education Strategy shall be completed and implemented	MoNE	Ministry of Labour and Social Security, SPO, İŞKUR, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	An efficient and effective guidance system shall be set up from preschool to higher education for activating life long learning principle. Lifelong vocational guidance system of which infrastructure has been established shall be developed.
Measure 146. Secondary legislation of National Qualifications System shall be completed and vocational standards shall be completed in prior sectors.	National Qualifications Agency	Ministry of Labour and Social Security, MoNE, İŞKUR, YÖK, Universities, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	Vocational and technical education programs shall be improved in line with the vocational standards through an effective coordination mechanism with MoNE.

C. IMPROVING ACTIVE LABOUR 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 has been increased.

İŞKUR, within the scope of active labour market policies, is conducting the matching procedures for job seekers and vacant jobs, the programs 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 more easily, the entrepreneurship trainings and employment-guaranteed training programmes.

Within the framework of the Human Resources Development Component of the Instrument for Pre-Accession (IPA), in order for women to increase their employment, to provide their access to better jobs and to decrease the difficulties in entering the labour force the Operation of "Support for Women Employment", which will be implemented by İŞKUR in Growth Poles and NUTS-II region, has been initiated in 2008.

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 order to follow the current situation and the changes, and to reveal the impacts of those on the needs of the labour market, The Research of Labour Market, which aims to determine the labour market needs, was made by Turkish Employment Agency. The Research of Labour Market will assist in identifying the sectors and occupations, and how many employees that the employers demand in today and future and the occupations that the employers experience difficulty to

employ. Moreover, it is expected that The Research of Labour Market will contribute that the active labour market policies to be implemented with respect to the needs of the economy.

Within the context of the Privatization Social Support Project II (PSSP), the services in the fields of job counseling, formal training, on-the-job training and temporary community employment programs have been furnished to 9.748 persons and 5.422 people out of those were placed in a job as of September 2008. In addition, 5 Job Development Center were established and 367 businesses were opened in those centers; and 1.721 people were employed.

The services of job search, job counseling, vocational training, adaptation of labour force and temporary community employment programs that the registered unemployed are benefiting currently will be extended to cover all the unemployed people with the Law No. 5763. The 30 percentage of the share of the government in the Unemployment Insurance Fund is allowed to be transferred to those activities and to the studies for research and planning of labour market, and thus more resources are allocated to the active labour market policies.

By the Law No. 5763, instead of net minimum wage the gross of the minimum wage will be used when calculating the unemployment allowance and thus the amount of the unemployment allowance that the registered unemployed are currently receiving is increased by approximately 40 percent. Furthermore, in order to encourage the opening-up of private employment offices, the requirement of being Turkish citizen to open-up those offices is abolished.

Within the context of the GAP Action Plan, 139.3 million TL will be transferred to the Turkish Employment Agency in the period of 2008-2012. Those resources allocated to the provinces in the South Eastern Region are expected to increase employment to a greater extent.

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 75. Resources allocated to active labour market policies shall be used effectively and these policies shall be extended.				
Measure 147. Active labour market programs shall be extended, especially for groups that encounter difficulties to enter the labour market and employment.	İŞKUR	Ministry of Justice, Ministry of Finance, ÇSGB, Undersecretariat of Treasury, Social Security Agency, YÖK, KOSGEB, KSGM, General Directorate of Youth and Sport, SHÇEK, ÖZİDA, Local Administrations, Employer and Employee Trade Unions, Professional Organizations, Provincial Vocational Education and Employment Board	End of Decem.	In order to render individuals, especially youth, females, long term unemployed, disabled and ex-convicted, having proficiencies consistent with the qualifications of those and to assist them to find jobs and establish their own business, the active labour market programs shall be prioritized. These programs improve the said groups with the services of job search and job counseling suitable for their needs, expectations and capabilities, along with the components of theoretical and practical training together with extensive labour search and professional orientation. In that regard, especially the employment guaranteed labour training and temporary community employment programs shall be given priority.
Measure 148. Monitoring and evaluation system for active labour market programs shall be set up.	İŞKUR	ÇSGB, MoNE, SPO, Undersecretariat of Treasury, Vocational Qualifications Agency, KOSGEB, Employer and Employee Trade Unions, Universities, Professional Organizations, Provincial Vocational Education and Employment Board	End of Decem.	The attainment level of the objectives envisaged and effectiveness of expenditures for these programs shall be monitored and evaluated. On the basis of these monitoring and evaluation results, the necessary steps shall be taken and the programs shall be redesigned in case of necessity
Measure 149. Private sector, employer and employee trade unions, professional organizations shall be encouraged to provide training programs	İŞKUR	Ministry of Finance, ÇSGB, MoNE, Undersecretariat of Treasury, Vocational Qualifications Agency Employer and Employee Trade Unions, Professional Organizations	End of Decem.	Private sector shall be encouraged to train in areas labour market needs the labour force. Bureaucratic processes for training shall be simplified and it shall be provided that certificates getting from these trainings are valid.
Measure 150. Private employment offices shall be made more effective and their scope of activity shall be widened	İŞKUR	ÇSGB, Vocational Qualifications Agency Employer and Employee Trade Unions, Professional Organizations, Provincial Vocational Education and Employment Board	End of June	Opening-up of private employment offices shall be encouraged and their fields of activities shall be diversified. In this regard, necessary amendments shall be done in Law No: 4857 and Law No: 4904.

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 curriculum, of teacher qualifications and alignment of education materials with curriculum regarding the quality problem.

TABLE:IV. 48 Enrollment Rates by Level of Education

	2005-2006		2006-2007		2007-2008 (5)	
	Number of Students (In Thousands)	Gross Enrollment Rate (In Percent)	Number of Students (In Thousands)	Gross Enrollment Rate (In Percent)	Number of Students (In Thousands)	Gross Enrollment Rate (In Percent) (5)
Pre-Primary Education (1)	550	19,9	641	24,0	702	29,9
Primary Education(2)	10 674	95,6	10 847	96,3	10 871	104,5
Secondary Education (2)	3 258	85,2	3 387	86,6	3 245	87,5
a) General Stream	2 076	54,3	2 142	54,8	1 980	53,4
b) Vocational Stream	1 183	30,9	1 244	31,8	1 265	34,1
Higher Education Total (3)	2 181	43,4	2 292	46,0	2 553	47,8
Formal	1 382	27,5	1 446	29,1	1 655	30,1
Non-Formal Education (4)	3 887	-	4 509	-	5 118	-

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.

(4) The number of students in non-formal education institutions is given for the end of the previous academic year.

(5) 2007-2008 enrollment rates are calculated by using the 2007 Residence Based Population Registration System Population Census Data.

Although enrollment rate of pre-primary education has reached to 29.9 percent from 19.9 percent 2005-2008 period, it is remarkably lower than both EU-27 average of 86.8 percent (calculated for 4 year-old population in 2006) and Ninth Development Plan target of 50 percent. Moreover, the regional disparities in access to pre-primary education is evident. The province which has the lowest enrollment rate of pre-primary education is Ağrı with 13.2 percent, while Amasya has the highest rate with 76.6 percent. It is known that pre-primary education has a positive impact on reducing the inequalities caused by the socio-economic backgrounds of parents and also on improving performance in further levels of education. However, in some cases it can be perceived as child care service. Hence, it is important to remove such misperceptions and to raise the awareness of this level of education.

In primary education, late enrollments, drop-outs and problems of children's, especially girls' access to education are the main factors hindering the desired level of increase in enrollment rate. At the end of 2006-2007 academic year, while the share of girls among those graduated from primary education is 46.4 percent throughout Turkey, this figure drops to 32.1 percent in Muş, which has the lowest rate among all the provinces. In 2007-2008 academic year, the number of children that are not in education although they are in the age group of primary level is 190 thousand, of which 157 thousand are girls and 33 thousand are boys. These figures reveal that four in five children who are not in education are girls in this age group.

During the last three years, enrollment rate in secondary education has increased from 85.2 percent to 87.5 percent. There are still significant

regional disparities despite the improvements in enrollment rates of secondary education. The rate of transition from primary to secondary education is 82.7 percent in average for Turkey, however, this rate is the lowest in Muş with 57.1 percent. With the extension of the duration of secondary education from 3 to 4 years, average class size has increased,

thus additional classes will be needed in 2008-2009 academic year.

Despite the recent improvements in enrollment rates at all levels of education in Turkey, these rates are still lagging behind the OECD and EU averages, especially at the non-compulsory levels of education.

TABLE:IV. 49 Enrollment Rates by Age Groups (2006) (1)

(Percent)

	3-4 Age Group	5-14 Age Group	15-19 Age Group	20-29 Age Group
Turkey	4,6	82,9	45,2	11,3
OECD Average	69,4	98,5	81,5	25,1
EU-19 Average	76,7	99,0	84,9	25,1

Source: OECD; Education at a Glance 2008

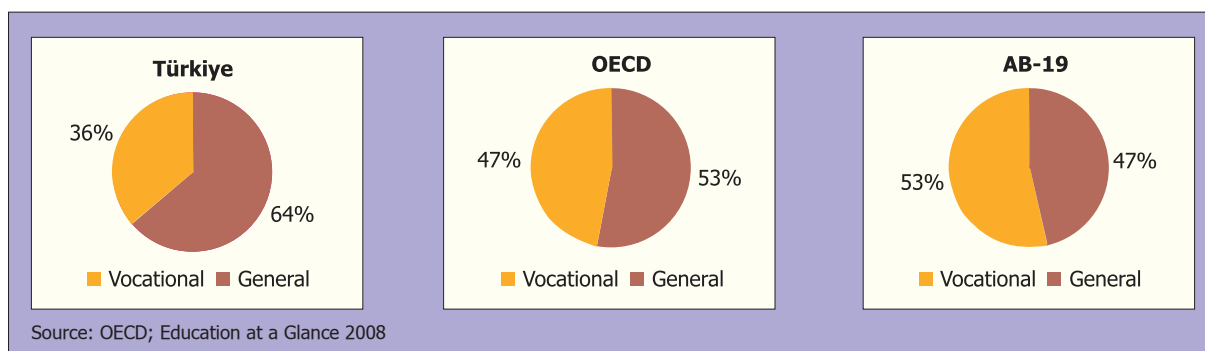
(1) Age groups in the table are used to enable international comparison.

The share of vocational education in secondary education is comparatively 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 in university entrance exam. However, through the implementation of direct entrance to vocational training schools (MYO) without examination in 2002 as well as with the impact of making the Ninth class common for both general and vocational programmes from 2005-2006 academic year and of the guidance activities, this rate started to increase and reached to 39.0 percent in 2007-2008 academic

year. Nevertheless, there are some issues hindering the increase of vocational education's share in secondary education. These issues are; transition system from primary to secondary education is not taking the skills and abilities of students into account, an effective guidance system has not been established in primary education yet, and vocational education graduates are disadvantaged concerning access to higher education.

The target of 60th Government Action Plan for the share of vocational education in total secondary education is 50.0 percent in 2012, nevertheless, even with this target Turkey is lagging behind the OECD and EU averages.

GRAPH: 7- The Share of General and Vocational Education in Secondary Education (2006)



The cumulation of candidates in demand of higher education persists stemming from 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 reduced by 7.3 percent in 2008 compared to 2007 and decreased to 1,646 thousand students. The decrease in the number of applicants is thought to be caused by the fact that most of the secondary education institutions could not have had graduates due to the extension of the duration of secondary education from 3 to 4 years. However, the rate of placement to universities has increased from 22.1 percent in 2007 to 30.7 percent in 2008. Much of the improvement in the placement rate is resulted from 28.1 percent increase in the higher education quotas. Furthermore, the decrease in the number of applicants has also improved the placement rate.

The number of graduates from secondary education as of 2006-2007 academic year was 730 thousand, of which 264 thousand were from vocational and technical education. On the other hand, in 2007, the higher education quota was 413 thousand and the number

of new enrollments was 626 thousand including open education, implying that the capacity of higher education is sufficient enough for the placement of most of the recent secondary education graduates. However, due to the fact that only 33.6 percent of the total number of applications to university entrance examination in 2007 is composed of recent secondary education graduates and that 66.4 percent is composed of the students who are applying for more than once, the issues of examining the effectiveness of the university entrance system and of all the relevant factors are aroused.

By establishment of 41 new public universities, the number of universities has reached to 130, of which 94 are public and 36 are foundation universities in order to meet the demand for higher education and to make it nationwide.

For the 25-64 age group, the rate of people completed at least secondary education is 28 percent in Turkey, while OECD and EU-19 average is 69 percent. Besides, there seems to be a balanced gender distribution regarding education in OECD and EU-19 countries, however the situation is worse for women in Turkey.

TABLE:IV. 50 Education Level of 25-64 Age Group (2006)

(Percent)

	Turkey			OECD Average			EU-19 Average		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
Primary Education and Below	67	77	71	30	32	31	30	32	31
Secondary Education	21	15	18	44	41	42	46	44	45
Higher Education	12	8	10	27	27	27	23	25	24

Source: OECD; Education at a Glance 2008

Expectancy of schooling is low in Turkey compared to OECD and EU-19 averages. Moreover, women have

longer years of education than men in those countries, but it is the reverse in Turkey.

TABLE:IV. 51 Expectancy of Schooling (2006)

(Year)

	Man	Woman	Total
Turkey	13,1	11,5	12,3
OECD Average	17,1	17,9	17,5
EU-19 Average	17,2	18,1	17,6

Source: OECD; Education at a Glance 2008

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 updating the curriculum, employing qualified sufficient number of teachers, increasing qualifications of teachers by means of in-service trainings in demanded areas, 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 using information and communication technologies effectively in schools. Within this framework, in order to improve access to opportunities of quality education,

it is important to remove the inequalities regarding individuals, schools and regions.

The number of classes has been increased by 17.5 percent in last five years, however, average class size has not been reduced sufficiently since some classes have been used as laboratories, libraries and IT class to increase quality of education. Although average class size 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 in Eastern and Southeastern Anatolia regions. That problem is more evident in city centers. Average class size is 57 in Şanlıurfa and 49 in İstanbul.

TABLE:IV. 52 Number of Student per Classroom and Student per Teacher by Level of Education

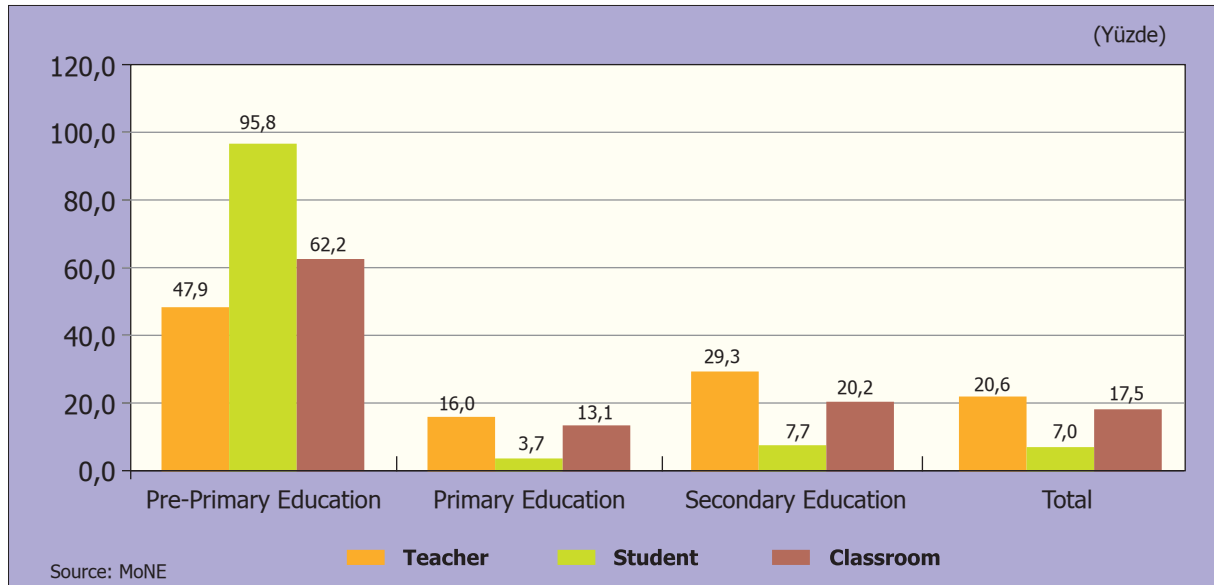
		2005-2006	2006-2007	2007-2008
Primary Education	Number of Students per Classroom	35	34	33
	Urban	44	41	40
	Rural	23	23	23
	Number of Students per Teacher	27	26	24
Secondary Education	Number of Students per Classroom	31	31	29
	Number of Students per Teacher	16	16	15
a. General High School	Number of Students per Classroom	33	32	28
	Number of Students per Teacher	18	18	16
b. Vocational and Technical	Number of Students per Classroom	29	29	29
	Number of Students per Teacher	13	14	14

Source: MoNE

The share of students in one-shift-education at primary level is still 46.3 percent in 2007-2008 academic year. Moreover, despite the improvements in the number of students in unified classes, the share of students in these classes is still 4.6 percent.

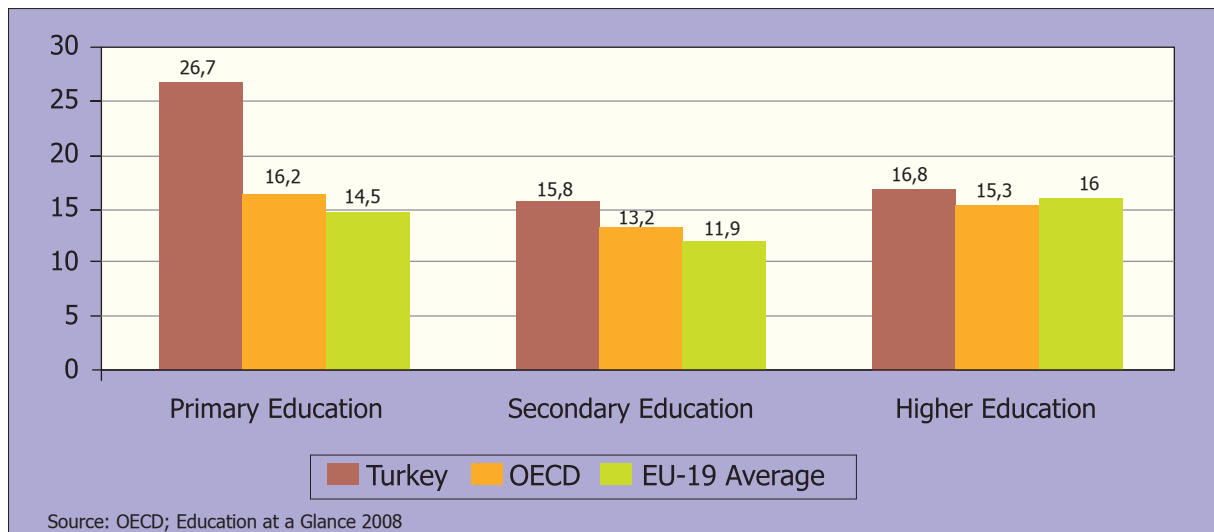
There are problems regarding balanced allocation of teachers throughout the country. The number of students per teacher in primary education is 24 throughout Turkey, but it is 36 in Şanlıurfa.

GRAPH: 8- The Rate of Increase in the Numbers of Students, Teachers and Classrooms between 2003/04 and 2007/08 Academic Period (Percent)



The increase rate of teachers is higher than that of students in the last five years, nonetheless, the number of students per teacher is significantly higher than OECD and EU averages, especially at primary level.

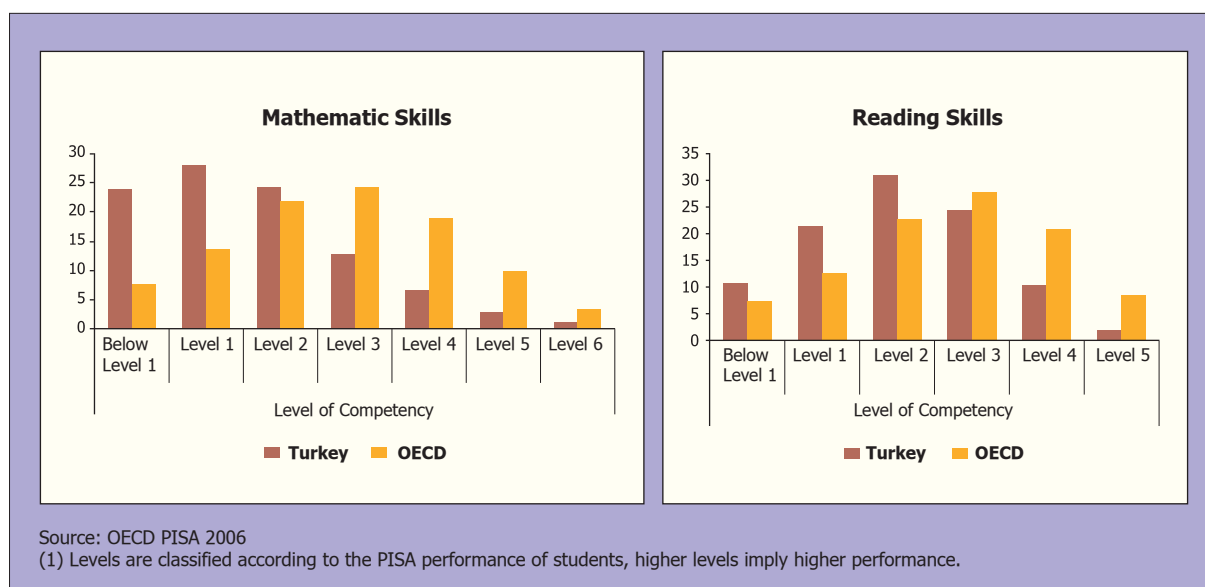
GRAPH: 9- The Number of Students per Teacher by Education Levels (2006)



The Programme for International Student Assessment (PISA) 2006 which studies the quality of education reveals that the number of students per computer is 26 in Turkey and 6 in OECD countries. 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 the process of transformation to information society, and formal and non-formal training can be supported by these technologies.

Half of the students in mathematic skills and one third of the students in reading skills are at first level or below. Hence, a significant portion of the students' basic skills is not at sufficient level.

GRAPH: 10- Reading and Mathematics Skill Levels of 15 Year-Old

It is estimated that, the share of public education expenditures in GDP would increase from 3 percent in 2008 to 3.3 percent in 2009 according to the new calculation method. These figures are below the EU-27 average of 5 percent in 2005. Despite the increasing resources allocated to education, greater importance should be attached to the quality of education.

The centralized, bureaucratic structure and current finance system of higher education, 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 2007 are 55.2 percent, 32.2 percent and 12.6 percent, respectively. High level of share of budget transfers illustrates 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 higher education finance due to the fact that higher education is a semi-public service and

its individual rate of return is greater than the social rate of return.

The high number of students per academic staff and the unbalanced distribution of academic staff nationwide and also between 4-year and 2-year programmes as well as between public and foundation universities are other important problems of higher education. In 2007-2008 academic year, the number of students per academic staff including only professors, associate professors and assistant professors is 42.8, while it is 16.9 for total academic staff. These numbers are 26.6 and 11.7 for 4-year programmes, whereas 430.3 and 63.9 for 2-year programmes respectively. While the share of formal students attending foundation universities in total students is 8.6 percent in 2008, the rate of academic staff in these universities to total academic staff is 9.9 percent. Since 33.5 percent of the total students and 46.2 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 31 in those big cities. This yields an advantageous result in favor of metropolitan areas when this figure is compared to the country average. In order to reduce the academic staff deficit and the regional disparities in the long run, the projects on training academic staff in developed universities of Turkey have been carried out since 2002.

TABLE:IV. 53 The Distribution of Students and Academic Staff in Formal Higher Education, 2007-2008 (1)

	Students		Professors, Associate Profs. and Assistant Profs.		Total Academic Staff	
	Number	Percentage	Number	Percentage	Number	Percentage
Ankara	177 802	11,0	6 605	17,5	16 086	16,7
İstanbul	268 132	16,6	8 121	21,5	17 355	18,1
İzmir	94 897	5,9	2 731	7,2	6 697	7,0
Total-Metropolitan Area	540 831	33,5	17 457	46,2	40 138	41,8
Other Cities	1 078 670	66,5	20 363	53,8	55 967	58,2
Total	1 619 501	100,0	37 820	100,0	96 105	100,0

Source: SPO, ÖSYM

(1) The other higher educational institutions and the academic staff studying in research centers are excluded. Graduate students are included.

The bed capacity of dormitories in higher education is 373 thousand as of 2007-2008 academic year, of which 204 thousand belongs to YURTKUR, 44 thousand to universities and 126 thousand to private sector. The students and families mostly prefer the YURTKUR dormitories especially because of their low cost. As of 2007-2008 academic year, while the number of idle bed capacity was 78 thousand, the number of applications was 173 thousand which yields a supply-demand rate of 45.3 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 76. Administrative structure will be reorganized in order to improve quality, efficiency and competitiveness in education				
Measure 151. Draft Law for restructuring both the central and provincial organization of Ministry of National Education will be prepared.	MoNE	Ministry of Finance, SPO, State Personnel Agency, YÖK, NGOs	End of December	Within the framework of Strengthening the Institutional Capacity of MoNE Project, the Law No. 3797 will be reviewed and a new Draft Law will be prepared in a participatory process in order to ensure that the central organization of MoNE will be responsible for determining policies, doing research and planning, guiding, leading pilot implementations and supervising and also to enable establishment of a system based on programme diversity rather than school diversity in secondary education
Measure 152. Preparatory studies for restructuring the higher education system will be completed.	YÖK	MoNE, Ministry of Finance, SPO, TÜBİTAK, State Personnel Agency, Universities, NGOs	End of December	A commission composed of the institutions to be cooperated in coordination of YÖK will be established. Studies will be done for transforming YÖK into an institution that is responsible for regulation, orientation, coordination, planning and supervising, for strengthening the institutional capacity of YÖK on the basis of expertise, and also for transforming universities into a structure which enables accountability and autonomy in administrative and financial aspects.
Measure 153. A National Strategy Paper which will guide the universities to determine the areas of specialization will be prepared.	YÖK	SPO, TÜBİTAK, Universities	End of December	The inventory of current research infrastructure and specialization areas of academic staff will be made up. Based on this inventory, the regulations will be completed ensuring that the specialization areas of researchers and universities are compatible and the research infrastructure will be used effectively. The specialization areas of the recently established public universities will be determined in relation with the socio-economic conditions of their regions and provinces; new academic staff will be trained in these areas, and necessary infrastructure will be established.
Priority 77. Access to and quality of education will be improved through meeting the needs of physical infrastructure and human capital at all levels of education, and regional disparities will be decreased.				
Measure 154. An action plan will be prepared in order to decrease the disparities among residential areas in terms of infrastructure, equipment and teacher distribution.	MoNE	Ministry of Finance, SPO, TURKSTAT	End of December	A 5 year action plan will be prepared in order to guide resource allocation and hence to converge provinces which are below the country averages in terms of class size, students per teacher and enrollment rates to average levels. At first stage, 10 provinces having the worst education indicators will be converged to country averages by implementing such action plan. Besides, the capacities of girl pensions will be increased in 10 provinces where the rates of transition from primary to secondary education are the lowest.
Measure 155. Alternative finance models will be developed at all levels of education.	MoNE	Ministry of Finance, SPO, Undersecretariat of Treasury, YÖK, SPK, YURTKUR, BDDK, The Banks Association of Turkey, Finance Institutions	End of December	Different models will be used in school construction such as public private partnership. In order to increase the contribution of students in higher education finance, the amount of tuition fees will be increased, and the scholarship and loans for low income students will be diversified. A model that enables the finance sector to give credits to lower income students under the warranty of government will be developed. The amount of scholarship and loans provided by YURTKUR will be increased and the payback period will be extended

Measure 156 Learning environment and the qualifications of teachers will be improved in accordance with the updated curriculum to increase the quality of education.	MoNE	Ministry of Finance, SPO, Universities	End of December	The learning environment will be improved through providing equipments relevant to the updated curriculum. Updated software appropriate for the new curriculum will be prepared in order for effective use of information technologies. An in-service training model which provides efficient and face-to-face training of teachers will be developed to ensure effective implementation of the new curriculum.
Measure 157. The deficiency and unbalanced distribution of academic staff will be reduced.	YÖK	Ministry of Finance, SPO, TÜBİTAK, Universities	End of December	<p>The infrastructure and other needs of the universities educating graduate students through Article 35 of Law No. 2547 will be met. Through building intelligent classes, it will be ensured to benefit from the academic staff and infrastructure of developed universities in order to reduce the effects of academic staff deficiency in the recently established public universities.</p> <p>The deficiency of academic staff in the recently established public universities will be reduced by means of increasing the number of instructors and specialists. Part-time instructions will be encouraged.</p> <p>The personal rights and status of academic staff, especially of the research assistants, will be improved in order to encourage the academic staff profession and the regulations will be made particularly to encourage the profession of academic staff in the recently established public universities.</p>

Priority 78. Inequality of opportunity will be decreased in all levels of education and activities aiming the personal development of students will be increased.

Measure 158. The children not attending the compulsory education will be enrolled.	MoNE	Ministry of Finance, Ministry of Interior, SYDGM, TÜRKSTAT, Local Administrations, NGO's	End of December	The children not-in-education are mostly composed of the ones in rural areas and of the girls. Through e-School Database and Intensified Education Programme, attendance of the above group and drop-outs will be ensured.
Measure 159. Equality of opportunity will be increased in placement to higher education.	YÖK	MoNE, ÖSYM	End of December	Studies will be carried out aiming to solve problems caused by placement of secondary vocational education graduates to higher education in the same or related areas.
Measure 160. Guiding and Extracurricular Activities for students in primary and secondary education will be increased and improved.	MoNE	İŞKUR, TOBB, TİSK, Labor Unions	End of December	In order to support personal development, attendance of students to the activities in fields of culture, art and sport will be increased. Moreover, activities to inform students in schools by the experts in their occupational fields as well as to organize work place visits and career days will be increased and improved. Share of elective courses in weekly programme will be increased in order to make such guidance and artistic activities more effective.

B. MAKING THE HEALTH SYSTEM EFFECTIVE

1. Current Outlook

In recent years, some improvements have been recorded in health indicators and accessibility of health services thanks to Health Transition Program. On the other hand, although problems related with

infrastructure, health personnel and financial issues which impede health services reach to desired level is lessen, these problems still persist.

TABLE: IV. 54 Main Health Indicators of Population

	2005	2006	2007	2008 (1)	EU (2)
Population Increase (Per Thousand)	12,6	12,4	12,1	11,8	4,8
Infant Mortality Rate (Per Thousand)	23,6	22,6	21,7	21	4,7
Total Fertility Rate	2,19	2,18	2,17	2,15	1,5
Life Expectancy at Birth (Year)	71,3	71,5	71,7	71,8	78,4

Source: SPO, WHO.

(1) SPO estimates.

(2) Latest available data has been given for EU countries.

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 per thousand in 2008. According to the same survey, infant mortality and child mortality rate differs 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.

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 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.

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 smokes and 50.6 percent of men and

16.6 percent of women smoke. Law which is accepted in 3 January 2008 in order to prevent the damage of the tobacco, smoking in closed places is prohibited with some exceptions for a transition period.

Within the scope of preventive health particularly for mother and child health, immunization and control programs have been executed and the immunization ratio has reached to 96 percent. Vaccines of measles, rubella, mumps, meningitis and lastly pneumonia are added to vaccination schedule. Malaria, typhoid and measles occurrence decreased significantly due to prevention programs. Also, "Turkey National Action Plan of Combating with Obesity" is prepared. On the other hand, World Health Organization declared that due to ageing of population, mortality caused by non-communicable diseases will increase significantly and deaths due to cancer, cardiovascular diseases and traffic accidents will be 57 percent of the total deaths by 2030. Taking into consideration ageing population of our country, diversifying preventive health services for non-communicable diseases is important.

TABLE:IV. 55- Health Infrastructure Indicators

	2005	2006	2007	2008 (1)	EU (2)
Number of Inpatient Beds	192 658	196 667	200 633	206 967	-
Number of People per Inpatient Beds	374	371	368	361	174
Bed occupancy Rate (Percent)	64,5	64,4	69,1	-	75,8

Source: Ministry of Health, SPO, WHO

(1) SPO estimates.

(2) Latest available data has been given for EU countries.

The capacity of inpatient beds belongs to the Ministry of Health with 67 percent, universities with 14.9 percent and private sector with 8 percent and 2002-2007 period, inpatient bed capacity increased 13.2 percent. Due to the activities to make the patients rooms of Ministry of Health hospitals have baths and toilets, have facilities for their escorts and make them have capacity of two patients for each room, in this period, high quality inpatient beds reached to 18 percent of the total inpatient beds.

On the other hand, problems related to distribution of inpatient beds still persist. According to the socio-economic development index of provinces, the number of persons per inpatient beds is 367 in the most developed region and 717 in the least developed region. Difference between the most and least developed region was 2.9 times in 2002, but it decreased to 1.95 times in 2007. Unbalanced distribution of inpatient beds is one of the reasons, which cause unbalanced distribution of the health personnel.

In order to strengthen emergency health services, number of emergency stations increased to 1,264. In 2002-2007 period number of well-equipped ambulances increased 1.9 times and number of people benefited from emergency health services increased 2.5 times. Almost all of the rural population covered by these services.

Demand to health services is increasing every year. In the 2002-2007 period number of outpatient services has increased 100 percent in hospitals, 87.6 percent in health posts. Increase in outpatient services are 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 state hospitals under one umbrella, facilitating usage of private sector services, improving primary level health services. On the other hand, due to ongoing problems related to infrastructure, personnel and quality in primary level, there is a continuing intense demand for the outpatient services in the hospitals. Nonetheless, executing the family medicine system and establishing effective referral chain are important to increase the effectiveness of hospitals and decrease the costs of services. The pilot study of family medicine system has been continued in 26 provinces, it is expected to be executed in 59 provinces at the end of 2009.

All of state hospitals have the patient rights units. The right to choose physician had been started at 11 hospitals in 2004 and now it is executed in 754 state hospitals and 63 dental health centre.

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. In our country, number of person per physician is 716 and it is 799 per nurse in 2007, however, in EU countries this ratios are 317 and 135 person respectively. On the other hand, although unbalanced distribution of health personnel among regions has decreased, the problem is still considerable. As a result of contractual personnel system and personnel distribution schedules executed by Ministry of Health, in 2002-2007 period, difference among regions according to their health personnel decreased such as specialist physician employment difference between worst province and the best one decreased from 1/14 times to 1/3.5 times, general practitioner difference ratio decreased from 1/9 times to 1.27 times, nurse-midwife difference decreased from 1/8 times to 1/3.8 times.

In medical schools student per academicians - excluding assistants - is 3.4, however this ratio is 22.5 in Germany, 11.8 in Italy, 5.1 in Finland. The number of graduates of faculty of medicine per 100,000 people is 9.3 in Europe and 6,6 in Turkey in 2007. Deficit of nurse is evident in Turkey, although the number of graduates of nurse per 100,000 people has increased by years, it is only 5.6 and this ratio is 26 in Europe. In order to decrease the deficit of practitioners, capacity has been increased in medical schools by 29 percent and nurse schools by 14.8 percent in 2008.

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 services has been carried on.

General Health Insurance Law, which will ensure to cover the population who does not have health insurance or are unable to pay the premium of the insurance came into force in 1 October 2008. However, in the transition period green card system will be integrated to the General Health Insurance System in 3 years.

Public health expenditures have increased from 3.2 percent of GDP in 2001 to 4 percent of GDP in 2007, and it is expected to be 3.9 in 2008. This ratio is 6.7 percent for Europe and 6.5 percent for OECD countries. The ratio of pharmaceutical expenditures to total health expenditures was 39 percent in 2000 and 41.8 percent in 2007.

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 79. Ministry of Health will be restructured.				
Measure 161. Legislative studies about restructuring of Ministry of Health will be completed.	Ministry of Health	Prime Ministry, Ministry of Industry and Trade,	End of Decem.	Studies regarding to strengthen organizing, auditing and planning roles of the Ministry of Health will be completed. Legislative studies necessary to transform Refik Saydam Hygiene Center equal to international similar institutions will be completed. Foundation Law of Turkey Pharmaceuticals and Medical Devices Institution which regulate and audit the process from production to consume of drugs and medical devices will be prepared.
Measure 162. Pilot implementation of public hospital association shall be started.	Ministry of Health	Ministry of Finance, SSI	End of Decem.	In order to make the hospital managements fiscally and administratively autonomous, 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 80. Providing of health services will be strengthened.				
Measure 163. Implementation of family medicine will be dispersed.	Ministry of Health	Ministry of Finance, Undersecretary of Treasury, SSI, Universities	End of Decem.	Family medicine system will be dispersed with referral chain implementation.
Measure 164. Health services investment plan will be prepared.	Ministry of Health	SPO	End of Decem.	A five year investment plan will be prepared to build new health institutions and improve the quality of existing institution taking into consideration regional population density transportation facilities and financing capabilities.
Measure 165. Works for equitable distribution of health personnel will be done.	Ministry of Health	MoNE, YÖK, Universities	End of Decem.	Quotas of health personnel educating institutions will be increased. Personnel distribution plan based on health institutions target population, service area, physical structure and service providing characteristics and involving concrete targets will be updated.

Measure 166. National Health Information System shall be strengthened.	Ministry of Health	SSI	End of Decem.	Pilot implementation of telemedicine project will be dispersed. Pilot implementation of Hospital Appointment and Referral Integration System will be started in 4 regions. Individuals' electronically kept primary health data in the family medicine information system will be expanded by covering hospital services. Works for enabling medicine chasing system countrywide will be completed.
Measure 167. Emergency health services shall be strengthened	Ministry of Health	Local Administrations, Universities	End of Decem.	Countrywide rate of reaching emergency calls in urban areas in 10 minutes, in rural areas in 30 minutes shall be increased over 93 percent. Coordination of 112 stations shall be enhanced through improving their communication infrastructure and number of air tent type mobile emergency health units shall be increased to 19.
Measure 168. Preventive health programs for non-communicable diseases will be prepared.	Ministry of Health	MoNE, MARA, Local Administrations, NGOs, Universities	End of Decem.	New preventive health programs will be prepared to reduce the risk factors of non-communicable diseases of which the burden of disease are expected to increase.
Measure 169. Diagnosis based medical implementations will become widespread in health institutions.	SSI	Ministry of Health, Universities	End of Decem.	Diagnosis based medical implementations, ongoing in 47 hospitals within the context of Infrastructure Development for Strengthening and Restructuring the Financial Management of Health Services Project, will become widespread.

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 possibilities and ICT, taking part within production activities and participating to decision-making processes. The said

segments consist of those who work in the agriculture and work temporarily without any social security, uneducated individuals, women, children, the aged and the disabled. In the meantime, those are the most vulnerable segments to the poverty risk.

TABLE: IV. 56 Distribution of Annual Disposable Income by the Household Quintiles, 2002-2005

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

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 continuous decline. In parallel with these developments, Gini coefficient, which is an indicator of income inequality, diminished to 0.38 in 2005 from 0.44 in 2002.

The recent economic growth and a more equal income distribution enabled the poor to benefit more from the increase realized in welfare. Proportion of the population below the food and non-food poverty line, which was 28.1 percent in 2003, fell down to 17.8 percent in 2006. 7 percent of the total decrease in poverty is associated with the rise in consumption, while about 4 percent is associated with the improvement in the income distribution. The proportion below the food poverty line, which was 1.3 in 2003, fell down to 0.7 percent in 2006.

Although there are improvements in terms of indicators, the poverty rate is above the EU average. Relative poverty rate before transfers is 31 percent and after transfers is 26 percent for Turkey, whereas the same rates are 26 percent and 16 percent respectively, for the EU. This shows that the social transfers have little impact on the alleviation of poverty in Turkey.

In fact, the amount of social transfer utilized to make up the income deficit of the poor accounts for only 20 percent of the grand total of the social transfers. This situation stems from the fact that the great proportion of the social transfers consists of the transfers under the contributory system and that a part of the poor cannot benefit from the transfers outside the contributory system.

Poverty rate is considerably sensitive to the poverty line. A significant portion of the population is concentrated around the poverty line. As a matter of fact, in 2006, as the poverty line is elevated 20 percent, poverty increases 52 percent, and as the poverty line is dropped 20 percent, poverty decreases 44 percent.

Poverty is predominant particularly among the less educated, casual employees, unpaid family workers, those who work in agriculture, and in extended families. Educational background is one of the variables that explain the poverty best. While poverty rate was 33.7 percent in 2006 for the illiterate individuals, this rate decreased to 1 percent for the individuals graduated from tertiary education institutions. Enrollment rates have increased in the recent years, however, enrollment rate of the girls have lagged behind the boys.

TABLE: IV. 57 Poorest Segments in terms of Food and Non-Food Expenditures by Various Criteria

(In Percent)

Rural	Poverty Rates				
	2002	2003	2004	2005	2006
Illiterate	34,5	37,1	40,0	33,0	32,0
Patriarchal or Extended Family	41,1	42,4	45,1	37,8	33,7
Workers in Agricultural Sector	34,3	32,7	32,0	27,3	20,2
Unpaid family workers and casual employees ¹	36,4	39,9	40,9	37,2	33,9
National Poverty Rate (Food and Non-food Poverty)	45,0	43,1	38,7	34,5	32,0
National Poverty Rate (Food and Non-food Poverty)	27,0	28,1	25,6	20,5	17,8

Source: TURKSTAT

(1) The 2002 and 2003 data belongs casual employees, 2004, 2005 and 2006 belongs to unpaid family workers.

47.3 percent of the employed women work in the agricultural sector with reference to the findings of 2007 Household Labor Force Survey. On the other hand, 38.2 percent of the employed women are deprived of social security, as being unpaid family workers. Women employed as unpaid family workers in the rural areas

are withdrawn from the labor market due to a variety of reasons: Becoming, having migrated to the city, under-qualified as compared to jobs in the urban areas, confronting problems in child, aged and disabled care in the family and the social pressures brought about by a different social milieu.

TABLE: IV. 58 Selected Indicators of Employment in 2007 (Age 15+)

(Percent)

	Female		Male		Total	
	Employ.	Labour Force	Employ.	Labour Force	Employ.	Labour Force
	Rate	Participation Rate	Rate	Participation Rate	Rate	Participation Rate
Urban	16,9	20,2	63,0	70,6	40,0	45,4
Rural	31,4	32,7	66,7	72,6	48,5	52,0
Turkey	22,2	24,8	64,3	71,3	43,1	47,8

Source: TURKSTAT

The fact that agriculture, the sector whose value added per capita is the lowest, provides the largest employment and the insufficiency of the off-farm activities are the main reasons for higher poverty in rural areas when compared to the urban. In fact, it is the reduction of urban poverty, which contributes most to the total reduction in the general poverty rate in recent years. 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 in what it obtains from national income. Decline in employment in agriculture, a sector that is predominant in rural areas, and the insufficiency of the possibilities of alternative jobs and the difficulties in the rural areas in the access to services such as education and health are the factors leading to the migration from the rural to the urban.

TABLE: IV. 59 Employment and GDP by Sectors (1)

(In Percent)

Sector	2003		2004		2005		2006		2007	
	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP
Agriculture	33,9	9,9	34,0	9,5	29,5	9,4	27,3	8,3	26,4	7,5
Industry	18,2	20,9	18,3	20,3	19,4	20,3	19,7	20,1	19,8	19,8
Services	47,9	69,2	47,7	70,2	51,1	70,3	53,0	71,6	53,8	72,7
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: TURKSTAT

The employed poor earn low wages owing to their low levels of education and the peculiarities of the agricultural sector they intensely work in, and the majority of them work temporarily and without social security. In 2006, poverty rates for the unpaid family workers and casual employees are 14.2 and 10.8 percentage points higher than the general poverty rates respectively.

Social and economic support programs are implemented for the parents of the children upon whom the court adjudicated protection on account of being needy, in order to extend services for the children who live under hard conditions in their social environment as much as possible. With respect to the institutional care, a system composed of detached premises is introduced, in order for children in need of protection to be brought up within a system of structure and relation similar to family environment. Infrastructural requirements, on the other hand, remain for the trial and correction processes of the children conflicted with law.

As of September 2008, there are 259 rest homes, which belong primarily to SHÇEK, and municipalities, other public institutions, associations, foundations and private sector, with a total capacity of 20,774 people.

Participation of family members to the economic and social life is aimed through the services provided by the family counseling centers. Efficiency of and coordination among the organizations and institutions providing family support services should be achieved.

The disabled people are facing difficulties in integration to society for reasons of not being able to participate in labor force and education. Studies of the Second Turkish Disabled Survey, which will comprise up-to-date data on the disabled and shall particularly shed light on the national policies, has been started.

Social Support Program (SODES) has been designed in a project-focused perspective in order to urgently meet

the present and to be social needs or in addition to the regular duties of public institutions under the Achievement of Social Development component of 2008-2012 GAP Action Plan, and an amount of 600 million TL has been assigned. Through the projects under SODES entitled as employment, social inclusion and culture, art and sports, it is aimed to increase employability, improvement of qualified labor force, alleviation of poverty, facilitation of the access of the disadvantaged groups of society to employment and raising their living standards, fostering cultural, artistic and sportive activities and supporting the orientation especially of the children and the youth to such kind of activities.

2. Main Objectives and Targets

The main objective is to have the social protection system 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 is to be realized by improving the participation in economic and social life of individuals and groups that are subject or prone to the risk of poverty and social exclusion.

3. Policy Priorities and Measures

Priority/ Measure	Institution In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 81. Social assistance and services targeting the poor who are capable of work shall 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 shall be supported by regular social assistances.				
Measure 170. Social programs shall be developed for the participation of the poor who are able to work.	SYDGM	Ministry of Labor and Social Security (ÇSGB), İŞKUR SHÇEK, local administrations, NGOs	End of December	Those who benefit from social assistance shall be registered in İŞKUR and they shall be presented new possibilities such as taking up a profession, counseling, joining public works programs, and micro capital support shall be given to those who can start up their own business, besides, credit possibilities targeting this segment shall be enlarged.
Measure 171. Efficiency of the social transfers aiming to alleviate poverty shall be enhanced.	SYDGM	SHÇEK, Social Security Institution (SGK), TURKSTAT, General Directorate of Foundations, local administrations	End of December	A more efficient utilization of resources shall be achieved by reaching out the poor who cannot have access to social transfers. It shall be ensured that the transfers reach target group and the poor individuals can raise their income up to the level of poverty line
Priority 82. Off-farm alternative income-generating activities shall be diversified for the poor living in rural areas.				
Measure 172. Income-generating projects at the local level shall be supported to diversify the economic resources of the poor living in rural areas.	İŞKUR	MARA, Ministry of Finance, SGK, SYDGM, local administrations	End of December	The people who live in rural areas and those who are employed in agriculture have high risk of poverty. Programs, which enhance the employability of the low-quality labor force, which have arisen due to the structural transformation in agriculture, shall be implemented.
Priority 83. Participation of women in the economic and social life shall be ensured and social awareness shall be raised with regard to prevent violence against women.				
Measure 173. National Action Plan of Gender Equality shall be put into effect.	Directorate General on The Status of Women (KSGM)	Related Public Bodies and Institutions, Confederations of Employee and Employer Trade Unions, NGOs	End of December	Training program and materials shall be designed in order to reflect gender equality in public policy and programs. They shall be aimed at policy makers, decision makers, implementing agencies and the society. Awareness-raising seminars shall be arranged through utilizing the said materials and works shall be pursued regarding the action plan, which will form basis for the public policies.

Measure 174. National Action Plan of Combat against Domestic Violence shall put into effect.	KSGM	Related Public Bodies and Institutions, Confederations of Employee and Employer Trade Unions, NGOs	End of December	Awareness raising activities shall be carried out to prevent domestic violence against women and the capacities of related institutions shall be enhanced. Findings of the field survey of KSGM on the causes and consequences of the domestic violence against women shall be reflected in the plans and programs of the related institutions. Service models shall be widened concerning the prevention of domestic violence against women.
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Priority 84. Works directed towards improving the status of children conflicted with law shall be made effective.

Measure 175. A monitoring system shall be built for the surveillance of the children and youth conflicted with law and the number and staff of juvenile courts shall be increased.	Ministry of Justice	Ministry of Internal Affairs, MoNE, SHÇEK, General Directorate of Youth and Sports (GSGM), İŞKUR, NGOs	End of December	Quality of the services targeting the children and youth directed to crime shall be improved. Ongoing programs for the correction and social restoration of the said children and youth during their conviction period shall be diversified and made effective. A monitoring system shall be built for the surveillance of the said children to be able to evaluate the impact of the mentioned activities.
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Priority 85. Private education opportunities for the disabled people shall be enhanced and home care services shall be supported.

Measure 176. Pre-school counseling and guidance services shall be developed for the disabled, and private rehabilitation centers shall be effectively inspected.	MoNE	SHÇEK, ÖZİDA	End of December	Counseling and guidance services shall be designed for the disabled concerning their to-be institution before starting primary education. Inspection of the private education and rehabilitation centers rendering service to the disabled shall be stressed
Measure 177. Institutional capacity of the SHÇEK shall be strengthened regarding home care services for the disabled people	SHÇEK	Ministry of Health, Ministry of Finance, ASAGM, ÖZİDA	End of December	A multitude of applications are made to SHÇEK to benefit from the home care services and problems are faced in the rapid assessment of the applications. Thus, institutional capacity should be strengthened by improving the efficiency of the home care services.

Priority 86. Activities aiming to the protection, awareness-raising and economically supporting the integrity of the family shall be made effective.

Measure 178. Family training programs shall be elaborated in order to relieve the socio-cultural adjustment problems arising due to the massive migration, rapid and distorted urbanization.	ASAGM	MoNE, RTÜK, SHÇEK, Local administration, Universities, NGOs	End of December	With a view to strengthen the family foundation, priority shall be given to activities of making an analysis of the training needs and curriculum development of family training; family support service models shall be designed and materials of the training programs shall be prepared. Works aiming to the accreditation of the institutions presently giving the said training shall be fulfilled.
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D. INCREASING THE EFFECTIVENESS OF SOCIAL SECURITY SYSTEM

1. Current Outlook

The rate of population covered by social insurance programs is 81.9 percent in 2007.

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 continuation of negative effects of the implementation of early retirement, increase in health expenditures, and insufficiencies of the info structure of the system. While the ratio of the amounts of transfers from the central government budget to social insurance organizations in GDP was 3.02 percent in 2006, this ratio decreased to 3.87 percent in 2007.

By the Law No. 5754 which changes the Social Insurance and Universal Health Insurance Law No. 5510 and published on official journal on 8 May 2008, the Law No. 5510 has been judged to come into force between 1 January 2008 – 1 October 2008 gradually. Also the studies for secondary regulations of Law No. 5510 are carried on. In this content Universal Health Insurance Procedures Ordinance and Social Insurance Procedures Ordinance was published on the Official Journal No. 26981 on 28 August 2008.

Since the group of people who are not employed in a job, work within the informal sector for low wages or have no premium payment affordability 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 service is not provided to the people really in need due to the reasons such as lack of objective measures and standards on the determination of the beneficiary people or groups, databases of the institutions functioning in this area has not been completed and coordination among the databases has not been provided, failure on improving an adequate cooperation both between the functioning institutions and the social security institutions as well as voluntary organizations, and lack of sufficient amount of qualified personnel.

Monthly payment that required by the Law no 2022, which regulates a program of old age and disability assistance, has increased to 80.46 TL for the elderly, 160.92 TL for the invalid and 241.38 TL for the disabled for the period of July-December 2007. As required by the Law no 2022, totally 1,244,174 number of elderly, invalid and disabled people have received 1,620 million TL payments by the end of the year 2007. The Law No. 5797 published on the Official Journal on 19 August 2008, which amends the Law No. 2022, ends the implementations of application admission and allowance associated with Law No. 2022 to be executed by local governments, and instead gives the execution authority of these operations to the Social Security Provincial Departments and Social Security Centers. According to the Law No 5757, after the organizational structure of the Social Security Provincial Departments and Social Security Centers completed, application admission and allowance operations will be executed by these Provincial Departments and Centers.

TABLE IV.60: The Population Covered By Social Insurance Programs ¹

(Person)

INSTITUTIONS	2005	2006	2007
I. INSURED AND PENSIONERS OF CIVIL SERVANTS IN TOTAL (Law No. 5510 art. 4/c)	9.481.295	9.517.053	9.335.500
1. Active Insured	2.402.409	2.420.897	2.444.680
2. Pensioners	1.595.973	1.649.998	1.698.325
3. Dependants	5.482.913	5.446.158	5.192.495
4. Ratio of Active - Passive Insured (1)/(2)	1,51	1,47	1,44
5. Ratio of Dependance (3+2)/(1)	2,95	2,93	2,82
II. INSURED AND PENSIONERS OF WORKERS UNDER SERVICE CONTRACT IN TOTAL (Law No. 5510 art. 4/a)	29.454.776	30.884.857	33.662.667
1. Active Insured	6.965.937	7.874.735	8.555.931
2. Voluntary Active Insured	266.558	271.369	269.075
3. Active Insured in Agriculture	178.178	187.951	215.340
4. Pensioners	4.308.186	4.510.701	4.763.434
5. Dependants	17.735.917	18.040.101	19.858.887
6. Ratio of Active – Passive Insured (1+2+3)/(4)	1,72	0,46	0,46
7. Ratio of Dependance (5+4)/(3+2+1)	2,97	2,71	2,72
III. INSURED AND PENSIONERS OF SELF EMPLOYED IN TOTAL (Law No. 5510 art. 4/b)	15.534.895	15.903.124	14.522.127
1. Active Insured	2.103.651	2.082.318	2.052.584
2. Voluntary Active Insured	239.388	244.105	243.931
3. Active Insured in Agriculture	1.011.333	1.049.206	1.079.785
4. Pensioners	1.600.294	1.753.025	1.817.685
5. Dependants	10.580.229	10.774.470	9.328.142
6. Ratio of Active – Passive Insured (1+2+3)/(4)	2,10	1,93	1,86
7. Ratio of Dependance (5+4)/(3+2+1)	3,63	3,71	3,30
IV. INSURED AND PENSIONERS OF THE PRIVATE FUNDS IN TOTAL (Law No. 5510 temp. art. 20)	307.161	298.266	310.850
1. Active Insured	75.685	85.352	95.341
2. Pensioners	76.027	77.979	79.388
3. Dependants	155.449	134.935	136.121
4. Ratio of Active – Passive Insured (1)/(2)	1,00	1,09	1,20
5. Ratio of Dependance (3+2)/(1)	3,06	2,49	2,26
V. GENERAL TOTAL	54.778.127	56.603.300	57.831.144
1. Active Insured	11.547.682	12.463.302	13.148.536
2. Voluntary Active Insured	505.946	515.474	513.006
3. Active Insured in Agriculture	1.189.511	1.237.157	1.295.125
4. Pensioners	7.580.480	7.991.703	8.358.832
5. Dependants	33.954.508	34.395.664	34.515.645
6. Ratio of Active – Passive Insured (1+2+3)/(4)	1,75	1,78	1,79
7. Ratio of Dependence (5+4)/(3+2+1)	3,14	2,98	2,87
VI. TOTAL POPULATION 2	68.900.000	69.700.000	70.586.256
VII. RATIO OF INSURED POPULATION (Percent)	79,5	81,2	81,9

Source: Social Security Institution, SPO.

1 Number of person. 2 For the year 2007 ADNKS data, for the years 2005-2006 the temporary projection of SPO based on 2007 ADNKS data has been used.

2009 Annual Programme

As required by the Law no 3816, health service given by Ministry of Health for people in need continues. Total green card owner is 9,132,942 people and the expenditure for green cards is 2,983 million TL for the year 2007. According to the Law No. 5510, after 1 October 2007 the people who have green card will be Universal Health insurers.

As required by the Decree Law No: 227 and related implementing regulation, General Directorate of Foundations gave 251.21 TL monthly payments to 4,287 people who are poor, disabled or orphans in the year 2007. Food services have been provided for 77,280 people at the 108 imarets, dry foodstuffs have been provided for 71.850 people, and health services have been provided for 6,020 people at the Vakif Gureba Hospital which is belong to General Directorate of Foundations and in total 606,000 TL was expended for this service 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 47.8 million TL of in-kind and cash payments were given to 28,681 people by SHÇEK in the year 2007.

According to the Ordinance for Determination of Disabled People in Need of Care and Principles of Care Service; in the context of the care services provided for the disabled people in need of care 1,435 people benefited from the private care centers and 84.759 people benefited from the home care service in the year 2007. SHÇEK paid twice of net minimum wage to private care centers and monthly net minimum wage to people who provide home care for disabled people. SHÇEK paid totally TL 46.7 million to private care centres and people who provide home care for disabled people in the year 2007.

TABLE IV.61: Social Assistance Expenditures Of The Institutions Giving Social Assistance For The Period Of 2005-2007

Institution	Type of Assistance	2005		2006		2007	
		Number of Person 4	Expenditure (Million TL)	Number of Person 4	Expenditure (Million TL)	Number of Person 4	Expenditure (Million TL)
Social Security Institution (the Pension Fund of Civil Servants)	Elderly-Invalid and Disabled Payment	1 266 268	1 003,9	1 243 878	1 284,8	1 244 174	1 620,1
Social Services and Child Care Institution	In Kind and Cash Benefits	19 735	16,0	27 319	41,0	28 681	47,8
General Directorate of Foundations	All Kind of Social Assistances	59 390	60,7	94 885	103,6	164 437	143,0
Ministry of Health (1)	Green Card	10 811 554	1 808,7	12 550 892	2 908,3	9 132 942	3 913,9
General Directorate of Social Assistance and Solidarity (The Fund) (2)	All Kind of Social Assistances	7 429 443	1 304,7	7 420 527	1 389,5	7 516 842	1 413,8
TOTAL (3),(4)		19 586 390	4 194,0	21 337 501	5 623,6	18 087 076	7 138,5
TOTAL/GDP (Percent)			0,65		0,74		0,84

Source: SPO, Social Security Institution (the Pension Fund of Civil Servants), Ministry of Health,, Social Services and Child Care Institution, General Directorate of Social Assistance and Solidarity, General Directorate of Foundations

(1)Number of person refers to the total number of person 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 do not take place within the total expenditure due to the lack of data.

(4)There might be repetition on the number of person getting social assistance.

General Directorate of Social Assistance and Solidarity (SYDGM) gives various benefits like family, health, education and disability benefits, as well as food and natural disaster benefits, and gives project supports, to the people in need through the city and country foundations. In this context, 7,420,527 people received approximately 1,389 thousand TL totally in the year 2006, 7,516,842 people received approximately 1,413 thousand TL totally in the year 2006, from SYDGM.

Need for social services and assistance continues increasingly due to the reasons like migration, urbanization, change in the family structure, population growth, and unemployment. While the ratio of total public social assistance payments to GDP was 0.74 percent in the year 2006, this ratio increase to 0.84 in the year 2007. In parallel with the increase in need for social services and assistance, the numbers of the affiliated bodies of SHÇEK, which give social services, are increasing.

TABLE IV. 62: The Number of the Affiliated Bodies of the General Directorate of Social Services and Child Care Institution and Their Capacities

Type of Institution	2005		2006		2007		2008 ¹	
	Number	Capacity	Number	Capacity	Number	Capacity	Number	Capacity
Growing-up Hostel	110	8 581	112	8 359	113	8 281	112	7 736
Child Care Centre	95	8 677	107	9 534	106	9 534	94	8 003
Rest Home	66	7 173	69	7 605	69	7 605	66	7 775
Nursing and Rehabilitation Centre for the Disabled (Day and Residential)	68	2 755	67	3 027	66	3 120	69	4 407
Community Centre	62	-	66	-	70	-	79	-
Family Consulting Centre	33	-	38	-	38	-	41	-
Woman Guest House	15	-	17	-	20	-	25	-
Child House	-	-	-	-	45	260	70	1 150
Care and Social Rehabilitation Centre	-	-	-	-	7	174	9	175

Source: General Directorate of Social Services and Child Care Institution
(1) As of September

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, an identification mechanism will be established with objective criteria, and coordination and collaboration among institutions in the system will be ensured to identify the group in need of social services and assistance. The quality of services will be improved by meeting the need for qualified personnel in the field of social services and assistance.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 87. Social insurance system will be extended to cover the entire working population, actuarial balances of the system will be considered and the system will be fully automated.				
Measure 179. Full automation of the IT infrastructure of social insurance system will be provided gradually.	SGK	ÇSGB, Ministry of Health, Ministry of Finance, SPO, Undersecretariat Treasury, İŞKUR	End of Decem.	The structure providing an effective, accessible, and sustainable service in social insurance system will be established by accomplishing fully automated IT infrastructure.

Priority 88. Social services and assistance system will be improved; common database will be set up to identify eligible people within the system; and an identification mechanism with objective criteria will be established.

Measure 180. Studies on Social Services Law will be completed.	SHÇEK	Related public institutions	End of Decem.	Within the Law which has been preparing in the field of social services, identification of basis and principles as well as models and features of social services, which are provided by public institutions, natural and legal persons, for individuals, families, groups and society who need protection, care, development, support and assistance will be determined; and methods and models of guidance and control related to regarding social service activities will be set.
Measure 181. Authorization, task and responsibilities of institutions related to social services and assistance will be clarified.	Prime Ministry	Ministry of Health, SPO, SGK, SYDGM, SHÇEK, General Directorate of Foundations, TURKSTAT, ÖZİDA, Local Administrations, NGOs	End of Decem.	By clarifying the authorization, task and responsibilities of institutions related to social services and assistance, the collaboration and communication between these institutions will be increased, dispersion and duplication in the system will be eliminated. Besides, the institutions responsible for determination of the criteria for social assistance beneficiary and for execution of studies about the integration of IT infrastructures will be determined.
Measure 182. The scoring formula used to identify the people eligible for the social assistance within SYDTF will be improved.	SYDGM	Ministry of Health, SGK, SHÇEK, TURKSTAT, ÖZİDA, General Directorate of Foundations, Local Administrations, NGOs	End of Decem.	Presently, scoring formula used to identify the people eligible for some social assistance programs, which are provided by SYDGM, will be improved in order to make the formula extended to cover the other types of social assistance provided by SYDGM.

Priority 89. Alternative care models will be supported for the children in need of protection, and institutional care services will be improved.

Measure 183. The number of children in need of protection whose care is provided by their families will be increased.	SHÇEK	MoNE, Ministry of Interior, SYDGM, TRT, ASAGM, Local Administrations, NGOs	End of Decem.	Families of the children in need of protection will be assisted with revenue generating projects as well as cash and in kind supports. For children whose care is not possible to be provided by their families, foster care will primarily be supported. Besides, education programmes will be set for related professional staff and foster families in order to increase the quality of foster care service. Informative and promotion campaigns about foster family service will be organized.
Measure 184. The model of sevgi evi and homes for children in need of protection will become widespread.	SHÇEK	MoNE, Ministry of Health, Ministry of Justice, ÇSGB, Ministry of Interior, ASAGM, General Directorate for the Youth and Sport, Universities, Local Administrations, NGOs	End of Decem.	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.
Measure 185. The number of Child Protection Care and Rehabilitation Centres and Care and Social Rehabilitation Centres will be increased.	SHÇEK	MoNE, Ministry of Health, Ministry of Justice, ÇSGB, Ministry of Interior, ASAGM, General Directorate for the Youth and Sport, Administrations, NGOs	End of Decem.	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 leads to problems for the other children living in these places. In this regard, centres that provide especially in-day rehabilitation services for this specific group of children will 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 maintained as our sectoral priorities.

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 protecting writing language accumulation of Turkish literature to world languages. In this context, the number of the published literature, which was translated into various languages, reached at 181 in 2007.

For the purpose of reviving cultural life and generalizing cultural activities all around the country, local cultural services should transfer to the local administrations and public private partnership should be improved in this area. Although the law no 5225, Promotion of Cultural Investments and Enterprises initiated a new expansion in public private partnership, due to insufficient presentation and disclosing, the sponsorship application is still not at the desired level. For this reason, the activities promoting and facilitating the sponsorship to culture and art maintains importance. Furthermore, enabling the all segments of the society benefit from cultural and artistic services is one of the primary targets. But there is still lack of sufficient data about the level and quantity of population benefiting from these services.

In the framework of measures to prevent cultural alienation, studies on websites Turkish Culture Portal which provides interaction with users is being carried on by the Ministry of Culture and Tourism. It is also vital that a National Culture Action plan will be prepared for the purpose of determination of the measures highlighting social dialog, solidarity, compromise, tolerance and strengthening our social ties with the participation of relevant public institutions, NGO's, academics and intellectuals. The problems stemming from intensive migration and unplanned urbanization

create the environments 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. On the other hand, the foundations playing an important role in our culture and in social development in our history are far from this activity today.

NGOs in general, foundations in particular have high value-added potential primarily in cultural and social policy areas. In this framework, the foundation should be studied about how much value added they potentially can create. Therefore there is a need of scientific research about the institutional roots of social aid and solidarity sentiment, which is accepted as one of the strongest aspects of our culture.

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 affluence and its transfer to the next generations will be the basis of our culture policies. The culture dimension will be taken into account while determining social and economic policies and effective participation of local administrations and NGOs to the realization of culture policies will be provided. It is targeted to necessary measures aiming to raise the individuals that will be able to integrate Turkish cultural accumulation, being enriched with the needed values and attitudes 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	Institution to be Cooperated	Period	Description of Objectives
Priority 90. Protection, promotion and improving of our cultural heritage will be given importance				
Measure 186. 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 historical artifact and cultural heritage will be ensured. In order to improve awareness of our cultural heritage the lessons about "Folk Culture" will be given at schools within the scope of a project in coordination with MoNE. Restoration of manuscript works and facsimile of them through contemporary Turkish will be done. Transferring manuscript works into digital media in Suleymaniye and Beyazit State Libraries will be accomplished.
Measure 187. Enrichment, effective and correct use of Turkish language will be enhanced.	Turkish Language Society	Ministry of Culture and Tourism, MoNE, CoHE, TRT, TÜBİTAK, RTÜK, AA, Universities	End of December	The correct and effective use of Turkish will be provided in the education, training, scientific and broadcast institutions. The use of Turkish words instead of foreign words in written press, visual media and commercial life will be promoted. Legal arrangements will be made against alienation in firms' names. Turkish sign language, dictionary and grammar will be formatted.
Priority 91. The measures will be taken in order to provide social solidarity and integration.				
Measure 188. The measures that foster tolerance and social dialogue will be taken with the aim of increasing social solidarity.	Ministry of Culture and Tourism	TURKSTAT, General Directorate of Foundations, NGO's	End of December	Social researches will be conducted in order to determine the institutions and sources that feed the culture of solidarity, tolerance and reconciliation in our society and also to bring out the factors that weaken this culture. NGOs and foundations will be informed about policy making processes and will be encouraged strengthening social solidarity. NGOs will be ensured to take active role in social services which are executed by state today.
Measure 189. Measures will be taken aiming the active participation of youth to social life as self confident, socially integrated and healthy individuals.	General Directorate of Youth and Sports	MoNE, SPO, SHÇEK, ASAGM, RTÜK, Universities, NGO's	End of December	A National Youth Strategy will be prepared by analyzing country examples especially EU countries. Establishment of youth councils will be promoted and participation of youth into decision making processes will be ensured. Youth will be oriented to art and sports in order to keep them away from violence and harmful habits. A research will be conducted concerning the purposes of usage of internet by young people in order to minimize the damages of factors threatening young and children in internet

Priority 92. Measuring, gaining economical value and effective usage of cultural products and facilities will be given importance.

Measure 190. Cultural facilities and activities will be incrementally devolved to local administrations.	Ministry of Culture and Tourism	Local Administrations, Universities	End of December	Institutions like libraries and culture centers to local administrations and universities will be devolved.
Measure 191. The share of cultural products and services in national income and exportation will be increased.	Ministry of Culture and Tourism	UFT, TRT, Private sector, Professional Organizations, Local Administrations	End of December	Improvement of culture tourism, promotion of cultural products abroad and transformation of material cultural products into export products will be ensured. 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.
Measure 192. In the field of culture Proper data will be produced in compliance with international standards.	Ministry of Culture and Tourism	TURKSTAT, Universities, NGOs, Private Sector	End of December	Field studies will be executed for the purpose of determination of using mass media like computer, internet and television for cultural purposes, average annual cultural expenditure per household and participation rate in cultural activities as main activity. Studies will be done in order to understand the profile of beneficiaries and activity types of Culture Centers, State Opera and Ballet, and State Theatres.

F. INCREASING EFFICIENCY AND QUALITY OF SOCIAL EXPENDITURES**1. Current Outlook**

There has been an increase in the ratio of social expenditures, including education, health and social protection expenditures, to GDP after 2002. Although the ratio of public education expenditures to GDP has decreased in 2003, 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. Public education expenditures have roughly remained the same level until 2009. Due to expenditures of newly established universities ratio of public education expenditures to GDP is expected to increase in 2009. 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 2001-2008, especially due to the increase in pension payments. The decrease in the ratio of social protection expenditures to GDP in 2008, is due to the fact that revenues gathered from premium restructuring implementation has decreased the deficit of social security system. 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 2001-2004 period and thanks to the measures taken in order to limit health expenditures together with real depreciation of foreign exchange rate, the ratio of health expenditures to GDP has continued to remain stable after 2004. In the afore mentioned period, despite the general rising trend of (exchange-rate adjusted) 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.

TABLE: IV. 63- Developments in Social Expenditures

(Ratios to GDP, In Percent)

SOCIAL EXPENDITURES	2001	2002	2003	2004	2005	2006	2007	2008 (1)	2009 (2)
EDUCATION (3)	3,1	3,5	3,3	3,1	3,0	3,1	3,1	3,0	3,3
HEALTH (3)	3,2	3,7	3,8	3,9	3,9	4,0	4,0	3,9	3,9
SOCIAL PROTECTION	5,7	6,3	7,2	7,0	7,3	7,2	7,3	7,0	7,4
Pensions and Other Expenditures (4)	5,3	5,6	6,4	6,3	6,5	6,4	6,6	6,2	6,4
Social Aids and Extended Payments (5)	0,2	0,2	0,3	0,3	0,4	0,5	0,4	0,6	0,8
Direct Income Support Payments	0,2	0,4	0,5	0,4	0,4	0,4	0,3	0,2	0,1
TOTAL	12,0	13,5	14,3	14,0	14,2	14,3	14,4	13,9	14,6

(1) Estimate

(2) Programme target

(3) Including the expenditures of general and annexed budgetary institutions (institutions that are under the context of central government after 2006), extra-budgetary funds, SEEs, social security institutions, revolving funds and local administrations. Additionally, green card expenditures, which should be classified as social aid expenditures, are included in the health expenditures.

(4) Including pension payments and other expenditures of social security institutions and expenditures of unemployment insurance fund.

(5) Including the expenditures of general and annexed budgetary institutions (institutions that are under the context of central government after 2006), Social Aid and Solidarity Fund excluding health and education expenditures and extended payments of Emekli Sandığı.

2. Main Objectives and Targets

It is aimed that access, effectiveness and quality in the education, health and social protection systems will be enhanced by following a cost effective approach in the forthcoming period.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institution to be Cooperated	Period	Description of Objectives
Priority 93: Cost-effectiveness of social expenditures will be enhanced.				
Measure 193. The cost-effectiveness of social aid services expenditures will be enhanced.	Ministry of Finance	Ministry of Labor and Social Security, SPO, Undersecretariat of Treasury, Social Security Institution, SYDGM, İŞKUR, ÖZİDA, Local Administrations, NGOs	End of Decem.	The resource requirement for social aid and services is rapidly increasing due to the regulations made within the context social state principle. This situation leads to a severe pressure on public sector budget balances. Effective utilization of the resources reserved for this field will be ensured.

IV. THE PROVISION OF REGIONAL DEVELOPMENT

A. INCREASING THE EFFECTIVENESS OF REGIONAL DEVELOPMENT POLICY AT THE CENTRAL LEVEL

1. Current Outlook

The needs for alleviation of the development disparities among regions and provinces, increasing the revenue levels of the underdeveloped regions, diversification of economic activities, reinforcement of local governments, encouragement of the initiatives that will mobilize the local

dynamics and potentials, development of the competition based on cooperation and usage of resources in a more appropriate and effective way have been continuing.

With the accession process to the EU, the mitigation of the development disparities both between Turkey and EU member states and among Turkey's own regions, has gained importance.

The need of qualified operational programmes, defined financial resources, development agencies at local levels and institutional infrastructure that has technical capacity for acceleration of regional development have been perpetuating.

TABLE:IV. 64- Various Indicators of NUTS-2 Regions

Regions	Socio-Economic Development Ranking (2003)	The share of Population (2007-8) (In Percent)	Annual Average Population Growth Rate 2000-2007 (In Percent)	Urbanization Rates (2007) (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 (2008)	The rate of budget revenues to expenditures (2007)
									Agriculture Sector Share (In Percent)	Industry Sector Share (In Percent)	Service Sector Share (In Percent)		
TR10 (İstanbul)	1	17,8	3,3	88,9	46,1	21,3	143	11,2	0,5	41,9	57,6	29	8,9
TR51 (Ankara)	2	6,3	1,6	92,7	25,6	7,6	128	12,1	7,5	25,2	67,3	10	1,7
TR31 (İzmir)	3	5,3	1,5	84,9	39,9	7,5	150	11,2	17,5	31,2	51,3	6	4,0
TR41 (Bilecik, Bursa, Eskişehir)	4	4,8	1,5	81,7	38,7	5,2	117	7,6	17,3	45,1	37,6	4	1,6
TR42 (Bolu, Düzce, Kocaeli, Sakarya, Yalova)	5	4,3	1,7	63,2	-9,5	7,6	191	10,7	20,0	34,6	45,4	6	7,7
TR21 (Edirne, Kırklareli, Tekirdağ)	6	2,1	1,1	66,3	43,4	2,5	127	8,0	22,9	30,0	47,1	3	1,6
TR62 (Adana, Mersin)	7	5,1	0,4	74,1	-6,9	5,8	112	16,2	26,1	21,5	52,3	3	1,5
TR32 (Aydın, Denizli, Muğla)	8	3,7	0,6	49,9	35,8	4,2	113	7,4	34,9	22,7	42,3	3	1,0
TR61 (Antalya, Burdur, Isparta)	9	3,5	-0,2	63,0	47,2	3,5	95	7,3	32,6	14,3	53,1	3	1,2
TR22 (Balıkesir, Çanakkale)	10	2,3	0,5	56,3	11,6	2,2	98	6,2	47,7	15,0	37,3	2	0,8
TR81 (Bartın, Karabük, Zonguldak)	11	1,4	-0,1	48,9	-69,1	1,6	108	5,9	36,5	23,8	39,4	3	1,4
TR33 (Afyon, Kütahya, Manisa, Uşak)	12	4,2	-0,5	60,0	-5,8	3,9	88	7,2	40,6	24	35,3	4	0,8
TR52 (Karaman, Konya)	13	3,1	-1,5	71,4	0,0	2,7	75	10,6	33,5	18,9	47,5	2	0,7
TRC1 (Adıyaman, Gaziantep, Kilis)	14	3,2	1,6	77,6	-22,9	2	65	15,1	23,3	35,2	41,5	3	0,6
TR63 (Hatay, Kahramanmaraş, Osmaniye)	15	4,0	0,7	55,9	-30,2	2,9	74	12,1	33,3	22,3	44,4	3	0,9
TR72 (Kayseri, Sivas, Yozgat)	16	3,3	-1,2	68,7	-28,6	2,4	66	11,3	26,8	23,2	50,0	3	0,6
TR71 (Aksaray, Kırıkkale, Kırşehir, Nevşehir, Niğde)	17	2,1	-1,9	59,2	-19,4	2,1	85	10,5	42,0	16,3	41,7	5	0,7
TR83 (Amasya, Çorum, Samsun, Tokat)	18	3,9	-1,3	59,3	-46,7	3,2	73	6,6	50,9	15,1	34,1	4	0,5
TR90 (Artvin, Giresun, Gümüşhane, Rize, Trabzon, Ordu)	19	3,5	-3,2	55,5	-26,1	3,1	67	5,7	52,2	11,9	35,9	6	0,5
TRB1 (Bingöl, Elazığ, Malatya, Tunceli)	20	2,3	-1,4	65,6	-27,1	1,7	67	13,7	44,1	13,6	42,1	4	0,3
TR82 (Çankırı, Kastamonu, Sinop)	21	1,0	-2,4	53,3	-39,8	0,9	70	5,0	58,8	10,3	31,3	3	0,4
TRA1 (Bayburt, Erzincan, Erzurum)	22	1,5	-3,2	59,3	-43,5	1	50	5,4	47,5	8,6	43,8	3	0,3
TRC2 (Diyarbakır, Şanlıurfa)	23	4,2	0,9	59,5	-39,5	2,2	54	12,0	26,9	16,2	56,8	2	0,3
TRC3 (Batman, Mardin, Siirt, Şırnak)	24	2,7	1,1	62,4	-46,8	1,2	46	15,7	20,0	17,5	62,5	4	0,2
TRA2 (Ağrı, Ardahan, Iğdır, Kars)	25	1,6	-0,2	48,3	-57,3	0,6	34	5,2	56	5,9	37,8	3	0,2
TRB2 (Bitlis, Hakkari, Muş, Van)	26	2,8	0,0	49,5	-39,5	1	35	8,5	48,5	10,7	41,1	5	0,2
Türkiye		100	0,6	70,5		100	100	9,9	27,3	25,4	47,3	126	

Source: SPO, TURKSTAT, MoF,

*Urban population consists of province and country population

GAP Action Plan which was prepared by the coordination of SPO and GAP Regional Development Administration, was put into force by considering the priorities that were resulted from the study named Competitiveness Agenda For GAP Region, the demands and proposals of the region. According to the context of action plan, GAP project is aimed to be terminated in the period of 2008-2012. Due to this framework, a total of 26.7 billion TL will be utilized for the completion of action plan in its planned period. The need for additional finance of the project is 19.4 billion TL of which 4.9 billion TL of this amount will be financed out of central budget and the remaining 14.5 billion TL will be utilized from the central budget. The necessary additional finance for the finalization of the Action Plan in the period of 2008-2012 is 14.5 billion TL and 1 billion TL of this amount is planned to be provided in 2008 and 13.5 billion TL will be given in the period of 2009-2012.

Economic and Social Council meetings were organized at Konya, Van, Erzurum, Samsun and İstanbul provinces in order to determine the main opportunities and obstacles of the regions, to obtain the evaluation of local shareholder for this process and to expose the local initiatives that will accelerate the process. During the meetings, new project ideas for the acceleration of regional development and the needs for finalization of projects which are in practice were discussed. Besides, pre-meetings were organized for identification of priorities and basic needs for establishment of new Development Agencies in the provinces.

The Local Administrations Allowance that is existed within the SPO's budget according to Law No.5779, which supports various projects of municipalities and special provincial administrations, is terminated by the end of 2008. By the Law No. 5779, the revenues of the local administrations are improved in real terms and stabilized by direct payments from general budget tax revenues by taking into account the social and economic index of the provinces. By this way, the economic development that is presented in Turkey generally, is aimed to be reflected at regional and local levels by the implications of local administrations.

In 2008, By the Law No. 5355 of Local Administration Units and law No. 5793 that amends the Law No. 5302 of Special Provincial Administrations, the implementation duties and authorization areas of village service units and special provincial administrations are expanded. Also, the cooperation of central government institutions and local administrations is facilitated and new opportunities for local monitoring and coordination of investments in their areas are ensured. Within this framework, by the Laws of 5779 and 5793, which complements each other, the economic opportunities, duties and responsibilities of the local administrations in their local and regional development areas are expanded. According to the

context of Law No. 5084 that regulates the incentives for investments; approximately 3.5 billion TL at current prices total new investments in Turkey have been projected within the terms of free land allocation for investments from the beginning of 2004 until the end of September 2008. It is expected that 13.3 percent of this total investments will be realized in Eastern and Southeastern Anatolian regions. During the same period, while the expected additional employment that is expected to be created within the framework of energy support incentive component will be approximately 94 thousand people, the share of additional employment of these two regions in the total employment is 21.3 percent.

Under the coordination of SPO, studies for a special support program have been started in 2008 regarding the twelve growth centers that have a high potential to provide services for their periphery and will perform as urban growth hubs. Within this scope, a series of programming studies have been conducted for Diyarbakır, that is determined as a pilot implementation area, with the wide participation of central and local actors. In this process, priority areas and the actors who will cooperate have been determined and assigned, and Support Program for Growth Centers Program Document for Diyarbakır Pilot Implementation has been prepared. Within the Program Document, strategic intervention areas, projects and activities envisaged to be implemented for Diyarbakır Province and the institutional framework have been introduced. On the other hand, it is planned to start the actual project implementations at the end of 2008 according to the High Planning Council Decision, that will constitute the basis for the studies to be implemented in the context of the programme.

Regional development program applications have been continuing to achieve practical knowledge and experience on the utilization of EU structural funds and adoption acquis funds after membership. The impact assessment studies are initiated for the finalized projects.

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 94. The framework for spatial and regional development policies for the entire country will be formed. The rules and standards of regional development strategies and plans will be determined.				
Measure 194. The regional development strategy (NRDS) will be formed	SPO	Ministry of Public Works and Settlement, Ministry of Environment and Forestry, Related Ministries, Local Administrations	End of Decem.	NRDS will be planned in order to provide national coordination, direct the applications and form a general framework for the preparation of low-scale plans and strategies. NRDS will be prepared by strategic planning methods and include national spatial development perspective.
Measure 195. The rules and standards of regional development strategies and plans will be defined	SPO	Related Ministries, Local Administrations	End of Decem.	A new form for operationally qualified regional development strategy/plan will be developed which considers the best application examples, current needs and a strategic point of view that is based upon the conditions resulted from EU accession process. The application efficiency and high scaled plan statues of regional development plans will be strengthened by parallel applications of Development Agencies.
Measure 196. GAP Action Plan will be applied effectively.	GAP Regional Development Administration	Related institutions	Through the whole year	The activities within the context of GAP Action Plan which is started to be applied in 2008, will be realized by related government institutions in its planned agenda. GAP Regional Development Administration will report the monitoring applications to GAP High Council
Priority 95. 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 197. The relationship between regional development and spatial development planning will be strengthened. The spatial planning hierarchy, the duties and responsibilities of the institutions will be redefined.	Prime Ministry	Ministry of Public Works and Settlement, Ministry of Environment and Forestry, Ministry of Interior Affairs, Related Ministries, SPO, Local Administrations	End of Decem.	According to the recent development approach, the relationship and harmony between regional plans and spatial development planning will be strengthened by subsidiarity principle. The legislation of construction and the legislation about planning hierarchy in rural and urban areas will be revised by considering the harmonization of the functions, duties and responsibilities. By these legislations, the confusion in rights, responsibilities and control mechanisms will be solved in order to be more effective in planning hierarchy beginning with regional plans. By this way, the investments especially in urban infrastructure and rural settlements will become more timely and efficient. While preparing plans, the priorities will be given to the projections of the regional development plans, new developed rural growth centers, densely constructed tourism areas, conservation areas and areas under risk of disaster.

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.

Implementation of the projects are completed under the Eastern Anatolia Development Programme, covering Bitlis, Hakkari, Muş, Van (DAKP) and NUTS-2 Regions Development Programme, covering TR83 (Amasya, Çorum, Samsun, Tokat), TR82 (Çankırı, Kastamonu, Sinop) and TRA1 (Bayburt, Erzurum, Erzincan) (SKE).

Implementations of the projects under TRA2 (Ağrı, Ardahan, Iğdır, Kars), TR72 (Kayseri, Sivas, Yozgat), TR52 (Karaman, Konya) and TRB1 (Bingöl, Elazığ, Malatya, Tunceli) NUTS II Regions Development Programme (AKKM) are planned to be completed until the end of November 2008 and implementations of the projects under TR 90 Nuts II Region Development Programme are planned to be completed until the end of November 2009.

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.

Within the framework of the SKE programme, which is one of the programmes coordinated by SPO, 373 projects were completed successfully and 47 million Euros of grant fund was used for the development of the region. The total budget of the projects, including the co-finance contribution of the beneficiaries is nearly 65 million Euros. With the projects implemented under SKE programme, 1352 people are employed temporarily or permanently and 28570 people are trained. In DAKP, 297 projects

were successfully implemented and by this way 29 million Euros of grant fund was transferred to the region. 2125 people met the opportunity of being employed in the implementation of the these 297 projects.

In the framework of the on-going AKKM programme, as at the end of September 2008 472 projects were completed successfully and the total grant amount of the completed projects is 77.5 million Euros. By these projects, of which total budgets reach to 110 million Euros with the co-finance of the beneficiaries, 2324 people are employed temporarily or permanently and 40610 people are trained.

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, in the coordination of SPO and in the framework of the development strategies and the plans of the regions which would be prepared in collaboration with Development Agencies, 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 96. 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.				
Measure 198. Growth Centers Development Programme will be generalized.	SPO	Ministry of Finance, Ministry of Interior, Ministry of Industry and, Related Local Administrations and other institutions.	End of Decem.	Implementation of the Growth Centers Development Programme that was started in order to accelerate the development of growth centers will be maintained in Diyarbakır and the implementation will be generalized in the centers that will be prioritized from the 12 chosen centers. Priority will be given to the strategic projects that will support the development potentials and local initiatives in the centers and the neighboring territories; and the coherence between programme implementations and infrastructure investments will be considered.

C. IMPROVING THE INSTITUTIONAL CAPACITY AT LOCAL LEVEL

1. Current Outlook

Studies on secondary legislation and the establishment works of the agencies are accelerated following the positive legal process about Development Agencies in 2008.

SKE and DAKP programmes, which are implemented under Turkish-EU Financial Cooperation Program, are completed. Project preparation, implementation and monitoring capacity is established in the Program Implementation Units in the Development Unions which coordinate the programme implementation, monitoring and support activities and the project offices in the Governorships. Also trainings about tendering procedures of goods, services and works according to EU procurement rules, grant project management, implementation and monitoring information system were given to grant beneficiaries.

In the DOKAP program, which covers 6 provinces, contracts were signed with successful project owners. At the beginning of 2008, implementation of 213 projects began in the context of the program. An intense information and training process has begun after the signing of the contracts. On the other hand, the monitoring framework established in order to monitor and evaluate the regional development programs funded by Turkey-EU common finance is operating at central and regional level for the on-going two programs. With the on-going monitoring activities, institutional capacity of project management, monitoring and evaluation is established and local project implementations are supported.

Provinces Coordination and Monitoring System is designed in order strengthen the efficiency and functionality of the provincial coordination boards which review the provincial public investments and trainings about the duties and process were given to Provincial Planning Directorates. Besides, human resources and technical capacities of the Provincial Planning and Coordination Directorates, which will take an active role in the local coordination activities, need to be strengthened.

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 institutions, Development Agencies and local governments having the priority, which have roles in regional development at local level will be enhanced and human resources will be developed. The financial resources of local governments will be diversified and increased.

The local cooperation and the partnership among public, private and nongovernmental organizations will be supported by Development Agencies 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 97. Development Agencies, 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.				
Measure199. Establishment of the Development Agencies will be completed and the existing agencies will be made completely functional.	SPO	Prime Ministry, Related Ministries, Local Administrations, Professional and Vocational Associations	End of Decem.	Until the end of 2008, 8 more Development Agencies will be established in addition to İzmir and Çukurova Development Agencies. Establishments of all Development Agencies in all NUTS II Regions gradually are planned. Parallel to this, a monitoring system will be designed in order to make the follow up of the project support activities of the Development Agencies, realized in line with the project support rules and mechanisms, possible by both Development Agencies and the related institutions at the center.
Priority 98. Mechanisms that will support the coordination among the institutions at local level will be developed and the capacities of the institutions will be developed.				
Measure 200. Provincial Coordination and Monitoring System (PCMS) will be improved.	SPO	Ministry of Interior, Turkish Scientific and Technological Research Institute (TUBİTAK), Governorships, Provincial Directorates, Local Administrations, Regional Directorates.	End of Decem.	Design of PCMS is already completed in order to systematically and regularly monitor the provincial level investments, identify the problems, suggest remedial actions and make the implementation of these actions possible and this system will be active in the following period. With the system, activation of the Provincial Coordination Boards will be realized and coordination problems of the local institutions among themselves and with the central institutions will be overcome. The issues discussed in the Provincial Coordination Boards will be able to be followed up from the center.
Measure 201. Provincial Planning and Coordination Directorates will be strengthened.	Ministry of Interior	SPO, Governorships, Provincial Planning and Coordination Directorates	End of Decem.	Necessary legislative arrangements will be realized in order to create the opportunity to strengthen the human resources of Provincial Planning and Coordination Directorates.

D. RURAL DEVELOPMENT

1. Current Outlook

The preparatory studies for Rural Development Plan which will formulate the priority measures and activities including the implementation and monitoring issues, are continued in accordance with the National Rural Development Strategy (NRDS) enforced in 2006.

The IPARD Programme prepared for the utilization of EU Pre-accession Rural Development Fund (IPARD Fund) in 2007-2013 period was approved by the European Commission in February 2008. The IPARD

Monitoring Committee which shall be responsible for monitoring, evaluation, and reporting of the Programme implementations was established and held its first meeting in June 2008. The studies on secondary legislations and accreditation of the central and provincial offices of Agricultural and Rural Development Support Institute (ARDSI), which is responsible for the implementation of the Program, are continuing.

The agricultural employment has been decreasing. This dissolution process, which reduced also the share of agriculture within rural employment, raised the need to improve non-agricultural employment opportunities in rural areas.

TABLE:IV. 65- Rural employment by sectors (Percent)

	Turkey		Rural	
	2006	2007	2006	2007
Agriculture	27,3	26,4	59,1	58,6
Industry	19,7	19,8	10,1	10,2
Services	53,0	53,8	30,8	31,2
Total	100,0	100,0	100,0	100,0

Source: TURKSTAT

In line with the Ninth Development Plan and the National Rural Development Strategy, it is significant 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 significant to make current supports more effective that are provided in the context of such rural development programs.

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 jointly are continuing.

Within the framework of rural development that is sub-component of the Agricultural Reform Implementation Project (ARIP), the Village Based Participatory Investment Programme (VBPIP) started in 16 pilot provinces for the 2005-2007 period was completed. In the context of VBPIP, approximately TL 74.2 million grant supports provided for 541 projects. After the completion of the VBPIP, the implementation zone of the Rural Development Investment Support Program (RDISP), which was started in other 65 provinces by national resources in 2006, extended to 81 provinces in 2008. In the RDISP, which covers the period of 2006-2010, grant supports will be provided for economic investments, agricultural infrastructure, machine and equipment purchasing.

The third stages of the both Programmes were realized in 2007. Approximately TL 40.9 million grant supports provided for 259 projects in VBPIP, and TL193.4 million for 1,168 projects in RDISP. For the component of machine and equipment purchasing which started in 2007, approximately TL 55.9 million grant supports provided for 3,660 projects in the scope of the both Programmes.

According to the Address Based Population Registration System (ABPRS) of 2007, 29.5 percent of the population, in other words 20.8 million people inhabit in villages. By September 2008, according to the data of

Ministry of Interior, there are 34,489 villages and 47,091 sub-villages settlements in rural areas of Turkey. However, the number of rural municipalities has decreased to 1,132 by the enforcement of the Law No. 5747 which altered the legal entity of 862 rural municipalities having population below 2 thousands.

In Turkey, different rural-urban definitions are being used in the studies conducted by different institutions. In addition to the different definitions for village-city settlement, the current rural definition is an output of the Research for Urban Threshold finalized in 1982 by SPO. According to the research, settlements having population less than 20 thousand are described as rural area. Accordingly, as a result of the census of ABPRS in 2007, 67.5 percent of the Turkish population settled in the urban areas, and 32.5 percent in rural areas.

Village Infrastructure Support Project (KÖYDES) launched in 2005 in all provinces except İstanbul and Kocaeli has been continuing under the auspices of provincial administrations. KÖYDES aims to solve infrastructure problems of the villages and sub-villages which have problems on road and drinking water infrastructure. 25,177 projects were completed successfully in the project by the end of 2007. While 62 percent of these projects were composed of road projects, 38 percent of them were drinking water projects. As of August 2008, 7,403 additional projects, which are composed of 63 percent for road projects and 37 percent for drinking water projects are also planned to be completed until the end of 2008. In the project, totally TL 2 billion in current prices has been allocated in 2007 and TL 500 million in 2008. Moreover, a comprehensive Monitoring and Information System has been prepared and being applied for the Project.

In order to mitigate the infrastructure problems of the rural municipalities having population less than 10 thousand, Rural Municipalities Infrastructure Support Project (BELDES) was launched in 2007. In the project, 333.5 million YTL has been allocated for drinking water and road projects of the 2.556 municipalities, where 9.6

million inhabitants were living in 2007. As of end of 2007, 4,377 projects were implemented, of which 80 percent for roads and 20 percent for drinking water. In 2008, TL 300 million was allocated for 2.553 municipalities. It is estimated that as of August 2008, 3,167 projects are planned to be implemented, of which 74 percent for roads, 16 percent for drinking water, and 10 percent for sewerage projects.

In the provinces where many terrorist acts realized in the past, for the families who left their settlements due to security concerns, but for those willing to come back, the activities under the Return to Village and Rehabilitation Project are continuing in order to ensure their returns, improve social and economic infrastructures, and their livelihoods in the settlements where they have returned. On the other hand, for the migrants who preferred to stay at the arrival settlements instead of coming back, the endeavours ensuring their participation in economic and social activities and social integration keep its importance and priority in the project.

2. Main Objectives and Targets

The main objective in rural development is enhancing sustainable working and living conditions for the rural population in a coherent way with the urban areas, on the basis of valuing local resources and potential as well as preserving natural and cultural assets. In this context, rural development policies will be implemented in a complementary way with agricultural policies so as to diminish the problems of unemployment, poverty, and other socio-economic problems arising from out-

migration which emerged by the restructuring process of agriculture.

In order to diversify, stabilize and increase the incomes of rural households; priority will be given to increase the competitiveness of agricultural enterprises, empowering the producer unions, effective usage of soil and water resources, enhancing non-agricultural activities, increasing the effectiveness of local administrations and their unions on rural development.

The administrative framework regarding the implementation, monitoring and evaluation of the IPA Rural Development Programme (IPARD) both at central and local levels will be completed in compliance with the EU Acquis so as to benefit from the IPARD fund in the period 2007-2013.

Rural definition will be revised on the basis of current conditions. In this context, village-city and rural-urban definitions will be examined and the differences among them will be removed in order to ensure a prosperous planning for the rural areas.

The activities on resettlement for the nomadic families and the families whose lands expropriated will be continued. In the collective settlements, settlement services will be improved by means of new financial models through the cooperations achieved with the landowners.

Return to Village and Rehabilitation Project will be updated. A reporting and archiving system will be established in order to monitor the implementation and enable transparency.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 99. For the all rural development implementations coordination, monitoring and evaluation tasks will be arranged within the context of Rural Development Plan.				
Measure 202. Rural Development Plan will be prepared.	Ministry of Agriculture and Rural Affairs	Ministry of Environment and Forestry, Ministry of Industry and Trade, Ministry of Public Work and Settlement, Ministry of Interior, Related Ministries, SPO, Related Institutions and Organizations, NGOs	End of June	A draft protocol was prepared between the related public institutions to able the preparations progressing in a productive and participatory manner, and ensure a healthy implementation in the future. The protocol also aims to raise the awareness on the plan document among the public institutions, private sector and NGOs. The plan which will be effective by High Planning Council Decision, will be completed in accordance with the protocol.
Priority 100. Technical, financial and institutional capacities of local authorities, their associations and other related central institutions will be strengthened in order to increase their effectiveness in rural development.				
Measure 203. Village Law will be amended.	Ministry of Interior	Related Public Institutions and Organizations	End of December	Village Law will be amended by taking into account the new progresses and changes related with administration and statute of villages.

Priority 101. In order to provide sustainable living conditions, necessary measures will be achieved for the citizens, who left their settlements due to obligatory reasons such as natural disasters, expropriation and terror, in their former or current settlements according to their initiatives.

Measure 204. National action plan will be prepared for the people who left their settlements.	Ministry of Interior	Ministry of Foreign Affairs, MoNE, Ministry of Health, Ministry of Public Work and Settlement, SPO, SHÇEK, SYDGM, Southeastern Regional Development Administration, Governorships	End of December	On the basis of the UN principles, national action plan and feasibility study will be prepared for services provided in the context of Return to Village and Rehabilitation Project to the people who left their settlements. The project and particularly its rehabilitation part will be updated by taking new necessities and demands into consideration.
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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 34,406 villages. In 2007, according to the census population municipal population was 58,581,515 and the ratio of municipal population to total population was 83 %.

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.

In July 2008, the share ratio and allocation criteria was changed according to Law About Share Given to Municipalities and Special Provincial Administrations from General budget incomes (Law No.5779). According to this regulation, in addition to population criterion, local development index and area of province, number of villages and rural population criteria for special administrations will be added as new criteria.

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 structured as transparent administrative units which take decisions on their own, create self-resources and implement projects on meeting the local and common needs in an effective, efficient and prompt manner within the principles and standards determined by central administration in line with principles of unity of the administration and the unitary structure of the state.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 102. 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 205. The studies aiming at determining minimum service standards local administration will be launched.	Ministry of Interior	Ministry of Interior Related public institutions, Local Administrations, Professional Organizations	End of March	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.

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, 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 2008, out of 104 central public administrations which should prepare strategic plan and performance programme, 94 have prepared strategic plans and 82 administrations have prepared performance programmes. Activities necessary for the process are being carried out within the 40 administrations that have to complete their strategic plans and performance programmes in year 2009.

Bylaw on the Principles and Procedures of Performance Programmes that will be Prepared by Public Administration that covers the principles and procedures of preparation of performance programmes was published by Ministry of Finance on Official Gazette of date 05.07.2008 and number 26927. Additionally, Performance Programme Preparation

Guide was prepared in order to ensure performance based budgeting works in a healthy way.

By the Decree of the Council of Ministers No. 2007/12339 on Year 2008 General Investment and Finance Programme of State Owned Enterprises (SOE) and their subsidiaries, SOEs are required to prepare strategic plans as well.

In pursuant to related laws, special provincial administrations, metropolitan municipalities and municipalities that have population of over 50.000 will prepare their new strategic plans within the six months following the local administration elections that will be held in year 2009.

2. Main Objectives and Targets

Transition to strategic management in public institutions and organizations will be carried out through a change management approach.

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(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 103. The strategic planning and performance based budgeting works at the institutional level, being conducted within the framework of the public financial management reform, will be rolled out in a scheduled manner.				
Measure 206. Bylaw on the Principles and Procedures of Strategic Planning in Public Administrations and Strategic Planning Guide for Public Administrations will be reviewed and required changes will be done.	SPO	Ministry of Finance, Related Public Administrations	End of June	Bylaw on the Principles and Procedures of Strategic Planning in Public Administrations and Strategic Planning Guide for Public Administrations which were prepared in year 2006 will be reviewed under the light of works carried out up to today and experience gained and changes required to solve problems and to make the system works more effective will be done

C. DEVELOPING HUMAN RESOURCES IN THE PUBLIC SECTOR

1. Current Outlook

Because of long-lasting inadequacies in the area of human resources development in public sector, a necessity of a serious reform exists in this area. The drawbacks in public personnel regime are seen at all stages such as recruitment, promotion, payment system and pension. There are various implementations in both payment system and the creation and arrangement 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 the revision of personnel evaluation system and 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.

In order to resolve said issues, draft Civil Service Law prepared by State Personnel Presidency was submitted to Prime Ministry. Besides, giving additional payments to public servants who do not receive thereof, by a Decree of Council of Ministers that came into force in August 2008, is an important step to remove unfairness in the public wage system.

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 are the main targets in the public sector.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 104. Personnel evaluation system will be revised within the framework of modern management conception and objective and transparent standards will be developed to measure the performance of civil servants.				
Measure 207. Personnel evaluation system will be revised within the framework of modern management conception and objective and transparent standards will be developed to measure the performance of civil servants.	State Personnel Presidency	Public Administration Institute for Turkey and Middle East, Universities	End of Dec.	Personnel evaluation system will be revised, objective and transparent evaluation standards will be developed by taking into account the features of the tasks, the studies will be carried out to implement these standards in the public sector

Priority 105. A study will be carried out for the implementation of flexible working models in the public sector.

Measure 208. A study will be carried out for the implementation of flexible working models in the public sector.	State Personnel Presidency	Universities	End of Decem.	To help the preparation of a draft law for the implementation of flexible working models, practicability of flexible working models that make appointing expert civil servants in different public institutions possible to increase efficiency and productivity in public sector through using civil servants' knowledge and experience will be examined.
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D. INCREASING THE DISSEMINATION AND EFFECTIVENESS of e-GOVERNMENT

1. Current Outlook

e-Government is considered to be the main tool for contemporary public management. The basic principles and strategies in order to establish the technical, legal and administrative infrastructures which are needed for the functioning of e-government, as well as the targets to be reached in 2010 were described in the Information Society Strategy, which was put into practice in 2006. In this context, e-government approach adopted in the Strategy is to establish a participatory, transparent and accountable government structure, by which users can reach interoperable and integrated electronic public services that are designed to focus on needs of citizens and business in a secure environment and on one-stop and from multi-platform basis. The strategy mainly concentrates on citizen oriented public service provision and realization of public management modernization by utilizing opportunities that e-government offers at the highest level.

Along with the implementation of e-Transformation Turkey Project, a significant progress has been made in refraining from discrete projects and implementations, which were leading to duplications and waste of resources; and in sharing of information and documents in safe and secure electronic environment among agencies. Establishment of e-government portal, which is expected to be in service in a short period of time, will provide significant benefits on these issues.

Within the scope of these principles and priorities, substantial progress has been made and high levels of utilization has been reached in some areas; such as unique citizenship identification number and address records and sharing these information among agencies in electronic environment, tax, e-invoice and social security applications, services regarding law enforcement and customs, budget, right of information and reaching legislative information. The studies on the land registry and cadastre information system and unique number system for legal persons, which are essential for developing new services and for integration, are underway. The standards for harmonization and effective management of electronic

records systems were identified and a Turkish Standard named "TS 13298 Electronic Document Management Standard" has come into force. Moreover, the second version of Interoperability Framework has been prepared for publishing; the studies for updating Public Internet Web Sites Guide have been ongoing. In addition, the Draft Law on Protection of Personal Data, which will serve to prevent from unlawfully processing of personal data by electronic systems and other ways, has been submitted to Turkish Grand National Assembly.

2. Main Objectives and Targets

In the perspective of efficient public management approach, the main objective is to establish e-government structure, with due technical, administrative and legal arrangements.

In the process of transforming to e-government, increasing service productivity will be the primary essence, applications that provide quick gains will be prioritized, the studies to eliminate duplications and achieving interoperability will be continued.

Provision of on-line public services will be based on the life cycles and business processes of citizens and business; and public processes will be simplified and improved within this context. In provision of electronic public services, the citizen statement will be the essence and duplicative request of information will be avoided; special care and priority will be given to the privacy of personal data.

e-Government projects and applications will be handled with a holistic approach, public ICT investment projects will be executed on the basis of inter-agency coordination and sharing of information in a secure electronic environment.

In order to ensure one-stop, continuous, secure, multi-channel and integrated public service provision e-Government Portal Project will be completed rapidly and the Portal will be enhanced with the integration of new services.

The studies of the Pilot Project on Citizenship Card that will be used by the citizens in reaching civil services such as tax, health, social security, etc. will be continued.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 106. An efficient and reliable e-government structure will be established within the framework of strategic priorities defined in the Information Society Strategy				
Measure 209. e-Government Portal will be operational and the studies to widen the services will be started.	TÜRKSAT A.Ş.	Ministry of Transportation and Communication, SPO, Related Public Institutions	End of December	e-Government portal which can be accessed to electronic public services from single point and different platforms will start to operate. Moreover, the studies to integrate new services to the portal will be carried out within the scope of a particular action plan
Measure 210. The 3rd phase of the pilot studies of Citizenship Card Project will be started.	Ministry of Interior	Ministry of Justice, Ministry of Finance, Ministry of Health, SPO, Social Security Agency, General Directorate of Security, General Directorate of Mint and Printing Plant, TÜBİTAK	End of December	In the scope of the pilot studies of Citizenship Card, which carries basic identification information that will be used for verification of identification and authorization in accessing public services; dissemination of the cards to 10 thousand citizens in the province of Bolu is ongoing. In the next phase, application will be disseminated to 300 thousand citizens in Bolu.
Measure 211. Land Registry and Cadastre Information System will be disseminated	General Directorate of Land Registry and Cadastre	Ministry of Justice, Ministry of Interior, Revenue Administration, Municipalities, Related Public Institutions and Organisations	End of December	TAKBİS, of which the installation is fulfilled in 289 land registry offices and 30 cadastre offices, will be disseminated to the other offices. The database will be integrated with the MERNİS System; and shared between the institutions and organizations that require such information such as Ministry of Justice, Ministry of Finance, municipalities and notary-publics. Moreover, citizens will be able to make several queries about their properties online.
Measure 212. 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 e-procurement infrastructure enabling realization of public procurement in electronic environment will be established and pilot applications will be initiated.
Measure 213. Legal arrangement will be prepared regarding the security of the national information.	Ministry of Justice	Ministry of National Defense, Ministry of Interior, SPO, TÜBİTAK-UEKAE (National Research Institute of Electronics and Cryptology) Related Public Institutions and Organizations	End of December	Legal arrangement will be prepared in order to provide and sustain the security of national information country-wide in the electronic media.

E. IMPROVING THE JUDICIAL SYSTEM

1. Current Outlook

In January 2008, with the Law No. 5726, witness protection was adopted. With the new law, there are adequate provisions for the testifying witnesses in criminal cases or their relatives in danger in terms of their life or properties. With this law, a big gap in that area has been filled.

In August 2008, with the Law No. 5791, The Court of Jurisdictional Disputes Law has been changed. With that law, all the authorities of High Council of Judges and Prosecutors and Turkish President has been abolished on selection member for the Civil and Criminal Panel of The Court of Jurisdictional Disputes. According to that law, The Court of Cassation, The State Council, Military High Administrative Court and The Supreme Court of Military Appeals' own general board will select member for The Court of Jurisdictional Disputes.

Many drafts law has been prepared and submitted to Turkish Grand National Assembly to improve judicial and justice services. Within this framework; The Draft Law of Civil Procedure that rearranges private law conflicts, The Draft Law on Protection of Personal Data that is a milestone to protect individual freedom, The Draft Law on Amending The Court of Cassation Law that arranges how the appellate courts decisions be appealed at The Supreme Court of Appeals, The Draft Law on Mediation that is an alternative dispute resolution method at the private law conflicts, The Draft Law on the External Securities for The Prisons and Jails that transfers external securities of prisons and jails from gendarmerie to The Ministry of Justice and Drafts Law on Association of Turkish Judges and Prosecutors that arranges the organization of judicial persons are on the agenda of commissions of Turkish Grand National Assembly.

In Turkey, as of September 2008, the number of judges and public prosecutors is 10,466 and other administrative judicial staff is 27,511. These figures are relatively below the average, especially for judges, of EU countries. Because of establishment of Regional Courts of Appeal, although not in operational, and enactment of main laws such as the Turkish Penal Code, Law on Criminal Procedure, Law on Execution of Punishments and Measures, Law on Probation and

Parole, it is expected that there will be an ever greater gap in the number of judges, prosecutors, and other judicial staff.

There are insufficiencies in capacity of prisons and detention houses. Prisons and detention houses were 384 in September 2008 with a total capacity of 97,952 persons. While the number of prisons and detention houses was 85,865 in September 2007, it reached 98,463 as of September 2008.

To provide judicial and justice services in modern, effective, and productive ways, efforts has been made to renew and construct contemporary courthouses. From the beginning 2003 to September 2008, 62 new courthouses has been completed and materialized. In addition to those, 30 new courthouses have been completed and ready to be used. Now, 32 courthouses have been continuing to be constructed.

Nevertheless, the inability to fair trial rule as a full, to adequately follow new developments in forming legal rules, to attainability of desired standards in legal education, to eliminate problems with quality and quantity of human resources in the judicial system, to meet the physical and technical infrastructure requirements sufficiently, and slow and ineffective operations of the trial process prevent in a great extent effective and equity provision of judicial services.

TABLE: IV. 66-Number of Judges and Public Prosecutors and Criminal Cases in Courts per 100.000 Inhabitants (2006)

Countries	Number of Judges	Number of Prosecutors	Criminal Cases in Courts
Germany	24,5	6,2	1 037
France	11,9	2,9	1 677
Netherlands	12,7	4,1	1 711
Spain	10,1	4,5	549
Portugal	17,4	12,5	1 664
Italy	11	3,8	2 229
Turkey	9	5,4	2 260

Source: European Commission for the Efficiency of Justice (CEPEJ) 2008 European Judicial Systems Evaluation Report.

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 regulations, which will 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 that 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(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 107. Judiciary services shall be provided more fair, fast, secure and well directed.				
Measure 214. Judicial process and services shall be transferred into the electronic environment and infrastructure and legal arrangement for the judicial network among the judiciary shall 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 transfers of judicial process and services into the electronic environment and the established network among the judiciary shall be operated in the national level at the end of 2008 and hardware capacity shall be renewed. UYAP shall be integrated with the e-government and for the smooth operation of project the new legal arrangements shall be prepared.
Measure 215. The studies on renewing and preparing main laws concerning judiciary and justice shall be completed.	Ministry of Justice	-	End of December	In relation with the judicial and justice services; the following drafts shall be prepared and submitted to Turkish Grand National Assembly. Those; -Amending Law on Administrative Procedure law, -Law on DNA Data and National DNA Data Center -Law on Appeal for the Administrative Justice -Law on Establishment on Judicial Expert -Law on Amending Execution and Bankrupt Law and Different Law - Law on Amending Surveillance Board on Prisons and Detention House Law
Measure 216. Legal regulations regarding the professional ethics rules in the framework of the international standards, with which the judicial system personnel should comply, shall be determined	Ministry of Justice	-	End of December	The legal arrangement on ethic rules that judge, public prosecutor and the other administrative judicial staff should obey, will be adopted
Measure 217. The legal arrangement to access judicial judgments for everybody shall be adopted.	Ministry of Justice	Supreme Court of Appeals	End of December	In conformity with the personal data protection, the legal arrangement shall be prepared jointly with representatives of Courts of Appeal so that judicial judgments shall be open to public by publishing them.
Measure 218. The number of judges, public prosecutors and other judicial staffs shall be increased.	Ministry of Justice	Ministry of Finance, State Personnel Agency	End of December	The number of judges, public prosecutors and other judicial staffs shall be increased in conformity with the case burden of courts and European countries standards.
Measure 219. Legal aid will be made effective and common.	Ministry of Justice	Ministry of Finance, Turkish Bar Association	End of December	On the scope of access to justice, legal aid procedure shall be simplified for people who do not have sufficient resources and aid centers will be established and easily accessible guidance documents shall be published for users.

F. ENHANCING THE EFFECTIVENESS OF SECURITY SERVICES

1. Current Outlook

Due to the organized criminal activities at national and international level, drastic changes on economic and cultural life of society and internal migration from rural to urban areas, internal security has been kept up the main issue during the year 2008.

According to the criminal data related to responsibility area of police forces at the end of 2007, public security cases has been decreased 4 percent, while organized crimes 30 percent, terrorist activities 56 percent increased respect to the year of 2006. At the same area, total 751.295 public security cases have been recorded during the year of 2007 and 124.627 cases of them has been occurred at Istanbul.

A new law on Witness Protection will have crucial role in order to fight against criminals. The secondary regulation of controlled deliveries of drugs was adopted. The infrastructure of Single Emergency Call Number (112) was established at Antalya and Isparta provinces as pilot basis.

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 content, 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(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 108. Fighting effectively against terrorism, financing of terrorist activities, financial and organized crimes and keeping up the preparation of new boarder management system.				
Measures 220. Fighting effectively against illegal migration, asylum and organised crimes	Ministry of Interior	Ministry of Foreign Affairs Gen. Dir. of Security Gen. Com. of Gendarme Gen. Com. of Coast Guard Under-secretariat of Custom	End of December	The related items of the Passport Law No: 5682 will be revised and new passports consistent with EU standards will be issued. The infrastructure of the new institution related to migration and asylum will be established. The project of construction of readmission and accommodation centers for emigrants has been placed in the investment program of national police. The communication services of national police will be converted to digital system in order to fight against criminals and this procedure will be completed at Kirikkale, Edirne and some certain part of Ankara provinces. The 79th item of Criminal Code will be revised in order to fight against illegal migration effectively.
Priority 109. The public security services concentrated on peace and security of society will be enabled.				
Measures 221. The public security services which will be focused on individual satisfaction by public supported will be provided.	Ministry of Interior	Gen.Dir.of Security Gen.Com.of Gendarme Gen Directorate of Provinces Related Special Province Administrations.	End of December	The projects concerning MOBESSE system will be enlarged to national level. The Public Supported Police Service which has been put into force at 51 provinces will be enlarged to national level. Single Emergency Call Number (112) will be enlarged to some provinces in the light of the pilot provinces application

G. DISASTERS

1. Current Outlook

The economic and social costs of natural disasters have been increasing day by day in Turkey, where 95 percent of its land, 70 percent of population and 75 percent of its important industrial facilities are under varying earthquakes risks. This situation requires that disaster management should be dealt with in a holistic approach covering risk mitigation, preparedness, and response and reconstruction/recovery phases and putting special emphasis on risk management. In order to carry out response and aid activities during and after a disaster on time and effectively, establishment of necessary structures providing coordination in central level and in line with this, making implementation directly by local administrations are of great importance. In this context, the draft law with a view of development of institutional and administrative capacity relating to disaster management and named as "The Law Related to Organization and Duties of Disaster and Emergency Management Authority" has been prepared and submitted to National Assembly.

Studies have been continuing to establish rapid, efficient and secure communication system between agencies during and after a disaster and to assess and evaluate disaster hazard.

It is needed to develop standards and guidelines relating to preparation of integrated hazard maps

3. Policy Priorities and Measures

considering all types of disaster and affecting settlements possibly. In order to be prepared these maps by local administration and with the help of central government when it is required, technical and financial arrangements are needed.

In order to make risk assessment based on hazard maps rationally, the necessity is continuing for assessment and analysis on quality of building stock, soil conditions and disaster scenarios. Preparation of risk mitigation plans and development of financing models for the preparation of these maps is required through identification and assessment of urban risks.

Development of indicators and methods should be necessary that provide preparation, implementation, monitoring and evaluation of comprehensive reconstruction plans regarding planning-finance relations.

The coverage of Decree-Law No. 587 on Compulsory Earthquake Insurance issued to decrease the burden on government in post disaster reconstruction period is needed to widespread covering all types of disasters and buildings in the country and regarding 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.

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 110. Preparation of the law on Natural Disaster Insurance will be completed.				
Measure 222. Preparation of the law on Natural Disaster Insurance will be completed.	Under secretariat 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 including sanctions, all disaster and building types, and covering the whole country, will be prepared and submitted to TGNA
Priority 111. Settlements with natural disaster risk will be prioritized at nationwide according to disaster risk level.				
Measure 223. Settlements with natural disaster risk will be prioritized at nationwide according to disaster risk level.	Ministry of Public Works and Settlement	Related Public Institutions Local Administrations	End of Decem.	In order to ensure prioritization of settlements with natural risks, basis for the preparation of integrated disaster hazard maps will be determined and the methods and standards will be developed for assessment of seismic risks of building stock.

CHAPTER FIVE

THE EUROPEAN UNION AND FOREIGN ECONOMIC RELATIONS

I. TURKEY-EUROPEAN UNION RELATIONS

1. Current Outlook

The screening process, which constitutes the first phase of the 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. It was carried out on the basis of the *acquis* chapters and was completed on 13 October 2006.

The Chapter on Science and Research was opened to negotiations and closed provisionally in 2006. The Chapters on Enterprise and Industrial Policy, Statistics, Financial Control, Consumer and Health Protection and Trans-European Network were opened in 2007 and the Chapters on Intellectual Property Law and Company Law in June 2008. Although no benchmarks were set for the Chapters on Education and Culture and Economic and Monetary Policy, negotiations have not started 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 of 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.

The fourth of the Accession Partnership Reports, which were prepared on the basis of the findings of the Progress Reports issued annually for Turkey by the European Commission since 1998, was adopted in 2008. A new National Programme is being prepared on the basis of the Accession Partnership which covers short-term and medium-term priorities that Turkey should fulfill in meeting the Copenhagen criteria.

Alongside the developments taken place in Turkey-EU relations, some developments that will

give rise to important consequences in terms of the future of the Union have occurred on the EU side. In this context, the new Treaty, which was prepared after the rejection in the referendums held in France and the Netherlands in 2005 of the Treaty establishing a Constitution for Europe containing the policies and institutional structure of the EU, was signed by the 27 Member States in Lisbon on 13 December 2007. This Treaty, which was planned to come into force on 1 January 2009 following the ratification by Member States and whose official name is "Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community", was rejected in the referendum held in Ireland in July 2008, although it was ratified by most of the Member States. At present, it is not envisaged that the Treaty will come into force before 1 January 2010.

EU financial assistance for the candidate and potential candidate countries during 2007-2013 will be provided under the Instrument for Pre-Accession Assistance (IPA) through Transition Assistance and Institution Building, Cross-Border Cooperation, Regional Development, Human Resources Development and Rural Development components. In this respect, financial assistance allocated to Turkey for 2007-2009 is 1.6 billion euro. The allocation for 2009 is 538.7 million euro.

Programming activities for 2008 under the Transition Assistance and Institution Building component of the IPA were completed and the project package was submitted to the European Commission. Within the scope of 2008 programming, which was prepared by taking into account the priorities of the Operational Programmes under the Regional Development and Human Resources Development components, work towards preparing the projects those agreed upon with the European Commission has continued.

Work towards the establishment of the monitoring system at the Ministry of Transport, Ministry of Environment and Forestry, Ministry of Industry and Trade, Ministry of Labour and Social Security and the SPO regarding the projects and Operational Programmes to be financed under the Regional Development and Human Resources

Development components of the IPA has been carried out under the coordination of the SPO.

As regards the use of the EU financial assistance provided under the Rural Development component of the IPA, preparations for institutional building have been continuing with a view to making operational the Agriculture and Rural Development Support Institution established by Law No 5648. Moreover, studies for the finalization of the Sectoral Agreement to be signed between Turkey and the European Commission for this component are underway.

On the other hand, Framework Agreement governing the financial assistance under the IPA was signed between Turkey and European Commission on 11 July 2008.

Moreover, work towards the signing of Financing Agreements concerning the Operational Programmes under Regional Development and Human Resources Development components of IPA is ongoing. In addition, accreditation process by the European Commission of the new structure established within the framework of the IPA is continuing.

2. Main Objectives and Targets

In line with the target of full membership of the EU, efforts will continue in order to increase the level of alignment in meeting the Copenhagen political and economic criteria and to ensure alignment with the EU acquis covering 35 chapters. Impact assessment analyses will be made in the fields which Turkey might encounter with difficulties in aligning with the EU acquis and the alignment process will be conducted in accordance with the results of these analyses. The main objective is to conduct the alignment process on the basis of 2008 Accession Partnership, while taking into account the priorities of Turkey.

To use the financial assistance from the EU in a way that contributes to Turkey's EU membership process at highest level is the main target. In this respect, monitoring and evaluating system will be set up regarding the assistance, which will be provided under the Regional Development and Human Resources Development components of the IPA and which aims at, inter alia, preparing the candidate countries for the Structural Funds that will be available after the accession to the EU.

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 112. Efforts will continue towards the full membership of the EU.				
Measure 224. Within the framework of accession negotiations, impact assessment analysis will be made.	SPO	Related Public Institutions	End of December	Impact assessment analysis guides relating to impact assessment analysis which will be made to determine the economic and social effects that will arise due to the alignment in the fields which Turkey might encounter with difficulties in aligning with the EU acquis will be prepared, areas will be determined and works will be started.
Measure 225. In respect of IPA, a Prime Ministry circular, which will set out the functions of the institutions, will be adopted.	Prime Ministry	SPO, Undersecretariat of Treasury, EUSG, Related Public Institutions	End of March	Competencies and duties of the institutions regarding the use of pre-accession funds provided from the EU for the period 2007-2013 will be determined with a circular of the Prime Ministry.
Measure 226. Operational Programmes under the IPA's Regional Development and Human Resources Development components will be revised and monitoring system will be set up.	SPO	Ministry of Transport, Ministry of Labour and Social Security, Ministry of Industry and Trade, Ministry of Environment and Forestry.	End of December	Transport, Environment, Human Resources Development and Regional Competitiveness Operational Programmes implemented under the Regional Development and Human Resources Development components will be revised in line with the Strategic Coherence Framework in order to use the funds provided from the EU after 2009. Moreover, monitoring system will be established in relation to the programmes concerned and the projects to be financed.

II. MULTILATERAL AND BILATERAL ECONOMIC COOPERATION

A. MULTILATERAL ECONOMIC COOPERATION

1. Current Outlook

Turkey, while progressing in its negotiation process for accession to EU, also continues to endeavor for developing its bilateral and multilateral relations with other neighboring and regional countries. Efforts for further developing economic and commercial relations with Islamic countries are also continued. Multilateral economic relations among Islamic countries are conducted under the umbrella of the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Conference (COMCEC) and in various other fora of the Organization of Islamic Conference (OIC).

One of the important projects of the COMCEC is the establishment of a Trade Preferential System among the OIC Member Countries (TPS-OIC). In this context, TPS-OIC Framework Agreement, Protocol on Preferential Tariff Scheme (PRETAS) and TPS-OIC Rules of Origin have been negotiated and finalized. 21 countries have ratified the TPS-OIC Framework Agreement. PRETAS and TPS-OIC Rules of Origin as well are submitted to the signature and ratification of the Trade Committee Member Countries, eleven countries have signed PRETAS as of October 2008 and five countries including Turkey ratified it. Moreover, seven countries including Turkey have signed Rules of Origin. It is projected that TPS-OIC project will come into force at the beginning of the 2009. For enhancing participation to the referred project, the relevant TPS-OIC Agreements will be submitted to the signature of the other member countries, in a signing ceremony during the 24th COMCEC Meeting. It is expected that the Rules of Origin Document will be also ratified by Turkey in 2009.

Efforts to advance the effectiveness of COMCEC are also maintained. In this context, the participation of experts who have international repute to the COMCEC Meetings on the current global issues and the practice of holding bilateral talks during the course of the meetings were started and the new items such as higher food and energy prices, global finance crisis and e-government implementations are added to the regular agenda items to enrich the COMCEC Agenda so as to cover current global issues. The theme of the "Improving Investment Climate in the OIC Member States" discussed during the Exchange of Views Session of the COMCEC Session in 2008.

The efforts have been also intensified in line with target to enhance the trade among the member

countries that is among the mandate of the COMCEC. Intra OIC Trade reached from USD 160 billion of 2006 to USD 200 billion in 2007 and reached to the 16.4% in 2007 from 16.3% of 2006.

International Islamic Trade Finance Corporation (ITFC) was established in order to bolster the trade among OIC countries under Islamic Development Bank (IDB) Group and started its operations at the beginning of 2008. The Company aims to provide USD 2.7 billion of credit for trade financing. The Company has signed agreements with some participation banks to provide them USD 60 million to be utilized by SME's.

Turkey's export to OIC countries in 2007 was realized as USD 20.3 billion constituting 20.4 percent of Turkey's total export. In the first 8 months of 2008, the level of exports has been USD 21.9 billion representing a 73 percent of increase as compared to the same period of the last year.

Turkey's import from the OIC countries in 2007 was realized as USD 21.5 billion constituting 12.6 percent of Turkey's total imports. In the first 8 months of 2008, the level of imports was USD 21.3 billion indicating 61.3 percent increase as compared with the same period of the last year.

The Trade and Development Bank of Economic Cooperation Organization (ECO) commenced its financial operations as of 2008.

The ECO Trade Agreement (ECOTA) came into force and studies aiming at negotiating concession lists in the framework of this Agreement are in progress.

The ECO Transit Transport Framework Agreement (TTFA) was ratified by Turkey in the year 2008.

In the field of ECO Industrial Cooperation efforts are continued for establishing the Regional Institute for Standardization, Conformity Assessment, Accreditation, and Metrology (RISCAM).

Turkey's export to ECO countries in 2007 was USD 4.7 billion constituting 4.4 percent of the total exports. In the first 8 months of 2008, the exports have raised to the level of USD 9.7 billion with an increase of 51 percent as compared with the same period of the last year.

Turkey's import from ECO countries was USD 10 billion in 2007 which was 5.9 percent of the total imports of the year. In the first 8 months of 2008, the imports have raised to the level of USD 9.7 billion with an increase of 51 percent as compared to the same period of the previous year.

Black Sea Economic Cooperation (BSEC) member countries are: Republic of Albania, Republic of Armenia, Republic of Azerbaijan, Republic of Bulgaria, Georgia, Hellenic Republic, Republic of Moldova, Romania,

Russian Federation, Republic of Serbia, Republic of Turkey and Ukraine. The number of observer countries and organizations of BSEC is increasing due to its structure that is open to the rest of the world and international cooperation. Currently, Arab Republic of Egypt, Republic of Austria, Republic of Belarus, Republic of Croatia, Czech Republic, French Republic, Federal Republic of Germany, State of Israel, Republic of Italy, Republic of Poland, Slovak Republic, Republic of Tunisia, the United States of America and the Commission of the European Communities have observer status at BSEC.

Turkey's export to BSEC countries in 2007 was USD 16.8 billion constituting 15.6 percent of the total exports. In the first eight months of the 2008, total exports have risen to the level of USD 14.7 billion indicating a 42.3 percent increase compared with the same period of the previous year.

Turkey's imports from BSEC countries in 2007 were USD 34.8 billion constituting 20.5 percent of the total imports. In the first eight months of the 2008, total imports have risen to the level of USD 33.4 billion with a 51.4 percent increase when compared with the same period of the previous year.

Developing Eight Countries (Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey) adopted "D-8 2008-2018 Road Map" containing the activities to increase trade in the next ten year among the D-8 member countries during the 6th Summit held in Kuala Lumpur, in 4-8 July 2008. During the 6th Summit, D-8 budget was approved and the regulations on future status of the D-8 Secretariat were adopted.

Turkey's exports to D-8 countries were USD 2.9 billion in 2007 representing 2.8 percent of Turkey's total exports. During the first eight months of 2008, the exports have amounted to USD 2.9 billion reflecting a 2.4 percent decrease when compared with the same period of the previous year.

Turkey's imports from D-8 countries were USD 11.2 billion in 2007 corresponding to 6.5 percent of the total imports of the year. In the first eight months of 2008, imports have declined to USD 9.7 billion indicating a 13.1 percent decrease.

2. Main Objectives and Targets

Efforts for enhancing and deepening economic and commercial relations with Islamic Countries at bilateral and multilateral level will be continued. In line with the objective of rendering the substantial increases in our exports to these countries sustainable, measures for diversification of export goods, accession to new

markets and efforts for removal of the investment and trade barriers will be continued.

In line with the goal of making the Preferential Trading System enter into force in January 2009, the initiatives and contacts with the member countries will continue to ensure that PRETAS and TPS-OIC Rules of Origin are signed and ratified by at least 10 member countries. Turkey ratified the TPS-OIC Rules of Origin and is planning to ratify the Agreement in 2009.

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, necessary efforts will be continued for reducing tariff and non-tariff barriers for the improvement of the regional trade, facilitation of transportation and shipping, improvement of investment climate, and promotion of cooperation amongst private sectors.

Support will continue for the Project Development Fund, which has been developed for BSEC to be a regional cooperation organization running on the basis of projects.

In Turkey's relations with BSEC countries, private sector will be given the support. The facilities of the BSEC Bank of Trade and Development will be used to finance the joint projects and to support the private sector in line with the programmes and policies of the Bank.

The actions required for the development of the land transportation and for the removal of the barriers to the transportation in BSEC region will be taken and joint projects will be developed for this purpose. Studies of a project for the development of a BSEC Trade Centre in Bursa will be finalized.

The required actions will be taken to better the business environment among the Member Countries of BSEC and to support the related companies' individual and collective entrepreneurship. In this context, the simplification of visa procedures for businessmen will be realized.

Turkey will continue to support the cooperation activities under D-8. The studies related to the Rules of Origin Protocol of D-8 Preferential Trade System will be finalized. Priority will be given for immediate enforcement of the "Multilateral Agreement Assistance for Mutual Administrative Matters Related to Customs Among D-8 Member Countries".

3. Policy Priorities and Measures

Priority/ Measure	Institution(s) In Charge	Institutions to be Cooperated	Begin/ End Year	Description of Objectives
Priority 113. To realize the implementation of the trade preferences systems realized on the framework of the COMCEC, ECO and D-8 activities, the efforts on the signature of the agreements, protocols and rules of origin on this issue, by our country, will be continued.				
Measure 227. The ratification procedures of the Rules of origin will be completed, the efforts toward the implementation of the ECOTA will be continued, the finalization and the ratification of the Protocol of the Rules of Procedure of the Trade Preferences System of the D-8 will be provided.	Undersecretariat for Foreign Trade	TGNA, Prime Ministry, Ministry of Foreign Affairs, SPO, Undersecretariat for the Customs	End of December	The simplification and the enhancement of trade between the member countries will be provided

B. BILATERAL ECONOMIC COOPERATION

1. Current Outlook

Turkey's relations, starting in 1991, with Turkic Republics and Communities, have continued in 2008 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, 5,177 students have received training including those 767 students trained in Turkish language at TÖMER.

TABLE:V.1- Students from Turkic Republics and Other Nationalities

Country	TÖMER	2-Year Degree	Under-graduate	Graduate	PhD	Total
Azerbaijan	81	6	222	173	176	658
Kazakhstan	113	21	207	101	38	480
Kyrgyzstan	120	28	310	161	59	678
Uzbekistan	1		14	4		19
Turkmenistan	18		522	17	6	563
Other Asian	306	36	877	222	122	1 563
Balkanica	128	43	918	102	25	1 216
TOTAL	767	134	3 070	780	426	5 177

The bid for the construction of Turkey-Georgia-Azerbaijan (Kars-Ahılkelek- Tiflis-Baku) railway's segment remaining in the Turkish territory was done in September 2007, after the signing of the business contract the construction of the railway started.

Turk Eximbank, within the framework of credit programmes targeting Turkic Republics, has allocated USD 855 millions in total during the period of 1992-2007 of which USD 335 millions as commodity credit and USD 520 millions as project credit.

Turkey's exports to Turkic Republics were USD 2.9 billion in 2007, which was 2.7 percent of the total exports of the year. In the first eight months of 2008, the amount of exports was USD 1.8 billion reflecting a 36 percent increase when compared with the same period of 2007.

Turkey's imports from Turkic Republics were USD 2.7 billion in 2007, which was 1.6 percent of the total imports of the year. In the first eight months of 2008, the imports were USD 3.3 billion reflecting a 102 percent increase when compared with the same period of 2008.

The capital outflow from Turkey to Turkic Republics was USD 3.8 billion during the period of 1996-2007. The countries received the biggest share from the capital outflow were Azerbaijan (81 percent) and Kazakhstan (15 percent). In the first eight months of 2008, the total capital outflow to the Turkic Republics has been USD 197.7 million. Azerbaijan with USD 167.6 million and Kazakhstan with USD 23.7 million were the two countries that received most of the capital outflow from Turkey.

In 2008, Turkey signed the Agreement of Mutual Support and Protection of Investments (MSPI) with Singapore and Romania. Similar agreements with India and Qatar have entered into force. Organization of Joint Economic Commission (JEC) meetings, and, signing of JEC protocols with various countries has continued in 2008.

The Interregional Cooperation Programme with Syrian Arab Republic continues to be executed.

Various country reports are being prepared for the purpose of developing 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 the realization of JEC meetings with Turkic Republics and fostering economic and commercial relations to the highest-level in this regard.

3. Policy Priorities and Measures

Furthermore, special emphasis will be given to infrastructure programmes in the implementation of the economic and cultural programmes such as transportation, communication, television broadcasting, banking, contractors' activities, agriculture and mining.

In the light of the experience gained from the cross-border cooperation programmes with neighbouring countries, implementing similar Regional Cooperation Programmes with the Turkic Republics is being targeted.

The activities within the scope of Interregional Cooperation Programmes with Syrian Arab Republic and other neighboring countries will be done in cooperation with public organizations and institutions, NGOs and relevant entrepreneurs in private sector.

Efforts will be spent for the realization of Joint Economic Commission (JEC) meetings and for the signing of Mutual Support and Protection of Investments (MSPI) agreements with the other countries and signing of Free Trade Agreements (FTA) with the other countries in accordance with Turkey's obligations deriving from the Customs Union.

Priority/ Measure	Institution In Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 114. Cultural, economic, social, and other cooperation programmes will continue between Turkey and Turkic Republics and the countries in the Eurasia region.				
Measure 228 Realization of the activities towards the Turkic Republics and the countries in the Eurasia region within the framework of a plan and programme will be ensured.	TİKA	Related Public Organisations and Institutions	End of December (Continuous)	Turkey's relations with other Turkic Republics will be continued with activities done in economic, social, cultural and similar fields.
Measure 229 Forums and education activities will be performed within the framework of the activities done by Working Group on Economy, Informatics and Culture Forum for Turkish Communities	Under-secretariat of Foreign Trade	TİKA	End of December	Organizing educational programs in the Turkic Republics and Relative communities to develop capacity in the fields of economy, culture and informatics is being targeted.
Measure 230 Interregional Cooperation Program with the Syrian Arab Republic will be continued.	SPO	Related Public Organisations and Institutions, NGO's and Entrepreneurs	End of December	Necessary studies will be continued to cooperate with the related public organisations and institutions, NGO's and related entrepreneurs. Mutual studies will be done with the Syrian Arab Republic.

C. TECHNICAL COOPERATION

1. Current Outlook

Turkey continues its observer status in the Development Assistance Committee (DAC) of the OECD

which has 23 members. Turkey's Official Development Assistance (ODA) decreased from USD 714 million in 2006 to USD 602 million in 2007. Turkey's ODA / GNP ratio decreased from 0.13 percent in 2006 to 0.09 percent in 2007.

TABLE:V.2- Turkey's Official Development Assistance (ODA)

	2003	2004	2005	2006	2007
ODA (Million USD)	66	339	601	714	602
ODA/GNP (In Percent)	0,02	0,08	0,12	0,13	0,09

Source TURKSTAT, TİKA

Although Turkey's ODA has increased through years, the need for an improvement in quality continues. The need for the realization of Turkey's assistance to developing countries in the context of middle and long-term strategies and on the basis of programmes continues as well. In recent years, though some improvements were observed in the coordination of development assistance through some actions taken by TİKA like Development Assistance Capacity Program (KAP), further improvement in coordination is still required. Efforts continue for a Draft Law for Foreign Assistance that is expected to contribute in coordination of various organizations.

Although Balkans and Central Asia continue to be the target regions of technical cooperation activities of Turkey, TİKA started to focus on Africa in its operations, in line with the opening out strategies of Ministry of Foreign Affairs and Undersecretariat of Foreign Trade to Africa. In 2007, as a result of the opening out to Africa, TİKA started to operate in 86 countries and technical cooperation projects worth a total amount of USD 60.3 million were financed by TİKA.

In 2007, a total of 190 technical cooperation activities have been realized of which 110 in Caucasus and Central Asia, 44 in Balkans and East Europe and 36 in Middle East and African countries. In 2007, Afghanistan (with 70 projects) ranked first among the countries that benefited most from the activities of TİKA, followed by Macedonia, Mongolia and Palestine.

Besides the assistance provided by TİKA, public and non-governmental organizations organized a total of 145 technical cooperation activities in 2007 with the participation of 1,977 experts and trainees. During the period of January-September of 2008, 1,376 experts and trainees participated in 124 technical cooperation activities of which 54 organized for Caucasus and Central Asia, 34 for Balkans and East Europe, 36 for Middle East and Africa and 3 for other countries and regions.

In 2008, with the support of United Nations Development Programme (UNDP) and other UN organizations, 56 technical cooperation projects have been implemented in Turkey. In these projects, gender equality, environment, ensuring good governance, fighting against poverty, improving mother and child care, strengthening the position of children and teenagers and development of program implementation capacity were the fundamental areas of activity.

As of 2008, 5 projects are being implemented within the scope of technical cooperation with Germany. A total of 6 projects are being implemented with the support of Japan International Cooperation Agency (JICA).

2. Main Objectives and Targets

Turkey's development assistance will be done to contribute the development of the less-developed and developing countries including those in the Central Asia, Balkans and African countries and on the basis of an understanding that is based on the needs of the 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 pioneering role of public institutions, joint actions will be taken in the developing countries.

Regarding the technical assistance projects implemented in Turkey, strengthening the institutional capacity will be the issue in focus.

Participation of voluntary organizations and private sector in the international technical cooperation activities will be encouraged and information and data about these activities will be systematically kept.

Efforts will be continued to employ Turkish experts in international organizations and projects for certain periods.

3. Policy Priorities and Measures

Priority/ Measure	Institution In Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 115. The quality of Turkey's development assistance and the coordination among the organizations will be improved.				
Measure 231 With regards to Turkey's development assistance to developing countries, medium term and long term strategies will be developed by taking the national priorities of Turkey and the needs of the developing countries into consideration.	TİKA	Ministry of Foreign Affairs, SPO, Undersecretariat of Treasury	End of December	Development assistance will be provided on the basis of country-specific programmes and in line with national priorities in foreign policy. New mechanisms will be established to improve the coordination among the institutions related to development assistance. The inventory of the development assistance will be improved and its harmonization with the Millennium Development Goals (MDG) and Paris Declaration will be developed. The law for the organization of TİKA will be updated with a view to ensure that it addresses the needs that emerged.
Measure 232 Turkey's technical assistance capacity will be determined, and the capacity will be evaluated in terms of efficiency.	TİKA	Ministry of Foreign Affairs, SPO, Undersecretariat of Treasury	End of December	Efficient use of the Turkey's technical assistance capacity in line with the goals in foreign policy and making an efficiency evaluation on the next step will be targeted. In this context, studies will be done to constitute a data bank of the experts that will be employed in technical cooperation activities.
Measure 233 The efforts related to the Foreign Assistance Law will be finalized.	Ministry of Foreign Affairs	Ministry of Finance, SPO, Undersecretariat of Treasury, TİKA	End of December	Draft Law on Foreign Assistance aiming at improving the coordination among the related institutions and eliminating the legal ambiguities in the field of development assistance will be submitted to the Turkish National Assembly (TBMM)