Republic of Turkey

2010 ANNUAL PROGRAMME

Undersecretariat of State Planning Organization

Republic of Turkey

Ninth Development Plan
(2007 - 2013)

2010 ANNUAL PROGRAMME

Undersecretariat of State Planning Organization

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INDEX

TABLES

GRAPHİCS

ABBREVIATIONS

ABPRS: Address Based Population Registration System
AMATEM: Alcohol and Drug Research, Treatment and Training Center
AOÇ: General Directorate of Atatürk Forestry Farm
ARDSI: The Agricultural and Rural Development Support Institute
ASAGM: General Directorate of Family and Social Research
BAĞ-KUR: Social Security Institution of Craftsmen, Tradesmen and Other Self-Employed
BAT: Bank Association of Turkey
BEC: Black Sea Economic Cooperation
BITT: Banking and Insurance Transactions Tax
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
ÇAYKUR: Directorate General of Tea Enterprises
ÇSGB: Ministry of Labor and Social Security
DAP: Eastern Anatolian Project
DGD: Direct Income Support
DHMİ: General Directorate of State Airports Authority
DIS: Direct Income Support
DISF: Defense Industry Support Fund
DLHİ: General Directorate for the Construction of Railways, Seaports and Airports
DMİ: State Meteorological Service
DMO: State Supply Office
DOKAP: Eastern Black Sea Development Project
DSİ: State Hydraulic Works
EBF: Extra-budgetary fund
EBK: Meat and Fish Products Corporation
ECO: Economic Cooperation Organization
ECOTA: ECO Trade Agreement
EDAŞ: Electricity Distribution Company
EGO: Electricity, Gas and Bus Services Company
EİEİ: Electrical Power Resources Survey and Development Administration
EMEKLİ SANDIĞI: Pension Fund for Civil Servants
EPDK (EMRA): Energy Market Regulatory Authority
ERDEMİR: Ereğli Iron and Steel Works Co.
ETI Maden: Directorate General of ETİ Mine Works

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
IDB: Islamic Development Bank
IPA: Instrument for Pre-Accession Assistance
ISE: Istanbul Stock Exchange
ITCA: Information Technology and Communications Authority
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
KAYS: Development Agencies Management System
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
MBF: Cost Based Pricing MEF: Ministry of Environment and Forestry
MENR: Ministry of Energy and Natural Resources
MOBESE: Mobile Integration of Electronic System
MoFA: Ministry of Foreign Affairs
MoEF: Ministry of Environment and Forestry
MoF: Ministry of Finance
MoI: Ministry of Interior

MoIT: Ministry of Industry and Trade
MoND: Ministry of National Defense
MoNE: Ministry of National Education
MoPWS: Ministry of Public Works and Settlement
MoT: Ministry of Transport
MPC: Monetary Policy Committee
MPM: National Productivity Centre
MSPI: Mutual Promotion and Protection of the Investments
MTA: Mineral Research and Exploration
MYK: Vocational Qualification Agency
MYO: Vocational Training School
NABUCCO: Turkey-Bulgaria-Romania-Hungary-Austria Natural Gas Pipeline Project
NGO: Non-Governmental Organization
NRDS: the national regional development strategy
NUTS: The Nomenclature of Territorial Units for Statistics
OIC: Organization of the Islamic Conference
OIZ: Organized Industrial Zones
ODTÜ: Middle East Technical University
ÖİB: Privatization Administration
ÖSYM: Student Selection and Placement Center
ÖZİDA: Prime Ministry Administration for Disabled People
PA: Privatization Administration
PBAT: The Participation Banks Association of Turkey
PETKİM: Turkish Petrochemical Co.
PİGM: Directorate General of Petroleum Affairs
PMUM: Financial Balancing and Settlement System
PPP Law: Public Private Partnership Law
PRETAS: Protocol on Preferential Tariff Scheme
PTT: Telecom and Postal Services co.
RISCAM: Regional Institution for Standardization, Conformity Assessment, Accreditation, and Meteorology
RTÜK: Radio and Television Supreme Council
RUSF: Resource Utilization Support Fund
SAN-TEZ: Industry Thesis
SCT: Special Consumption Tax
SDIF: Saving Deposit Insurance Fund
SEE: State Economic Enterprise
SFDA: Super Foreign Exchange Deposit Account
SGK: Social Security Agency
SHÇEK: Social Services and Child Care Institution
SMEs: Small and Medium Enterprises
SPO: State Planning Organization

SPSF: Support and Price Stabilization Fund
SSI: Social Security Institution
SSİE: Small Scale Industrial Estates
SSK: Social Security Institution
SSSF: Social Solidarity and Support Fund
SYDGM: General Directorate of Social Assistance and Solidarity
TAEK: Turkish Atomic Energy Authority
TAKASBANK: ISE Settlement and Custody Bank Inc.
TAKBİS: Land Registry and Cadastral Information System
TAPDK: Regulatory Authority for the Markets of Tobacco, Tobacco Products and Alcoholic Beverages
TCA: Turkish Court of Accounts
TCDD: Turkish Railway Company
TCIP: Turkish Catastrophic Insurance Pool
TDİ: Turkish Maritime Administration
TEDAŞ: Turkish Electricity Distribution Company
TEİAŞ: Turkish Electricity Transmission Company
TEKEL: Turkish Tobacco Co.
TEKMER: Technology Development Centre
TEMSAN: Turkish Electromechanics Industry
TESK: Turkish Confederation of Craftsmen and Artisans
TETAŞ: Turkish Electricity Trade and Agreement Co.
TGB: Technology Development Zones
TGNA: Grand National Assembly of Turkey
THY: Turkish Airlines Company
TİGEM: General Directorate of Agricultural Enterprises
TİKA: Turkish International Cooperation and Development Agency
TİM: Turkish Chamber of Exporters
TİSK: Turkish Confederation of Employer Associations
TKİ: Turkish Lignite Company
TMO: General Directorate of Turkish Grain Board
TNSA: Population and Health Survey of Turkey
TOBB: Chambers and Commodity Exchanges of Turkey
TOKİ: Housing Development Administration of Turkey
TÖMER: Turkish and Foreign Language Research and Application Center
TPAO: Turkish Petroleum Company
TPIC: Turkish Petroleum International Company
TPPD: Petroleum Distribution Company
TPSOIC: Trade Preferential System among the OIC Member Countries
TRT: Turkish Radio TV
TRUP: Agricultural Reform Implementation Project
TSA: Turkish Sugar Authority
TSE: Turkish Standards Institution
TSPAKB: The Association of Capital Market Intermediary Institutions of Turkey
TŞFAŞ: Turkey Sugar Factories Co.
TTA: Tobacco, Tobacco Products, Salt and Alcohol Enterprises Co.
TTB: Turkish Medical Association
TTFA: ECO Framework Agreement of Transit Transportation
TTGV: Technology Development Foundation of Turkey

TTK: Turkish Coal Institution
TURKAK: Turkish Accreditation Agency
TURKKONFED: Turkish Enterprise and Business Confederations
TURKSTAT: Turkish Statistical Institute
TÜRMOB: Union of Chambers of Certified Public Accountants of Turkey
TÜBA: The Turkish Academy of Sciences
TÜBİTAK: The Scientific and Technological Research Council of Turkey
TÜDEMSAŞ: Turkish Railway Machines Industry Inc.
TÜLOMSAŞ: Turkish Locomotive and Engine Inc.
TÜPRAŞ: Turkish Petroleum Refineries Corporation
TÜRKLİM: Port Operators Association of Turkey
TÜRKSAT: Satellite Communication and Cable TV Company
TÜSEMKOM: The Federation of Fruit and Vegetable Brokers
TÜSİAD: Turkish Industrialists' and Businessmen's Association
TÜVASAŞ: Turkish Wagon Industry Corporation
TZOB: Union of Turkish Chambers of Agriculture
UCTE: Union for Coordination of Transmission of Electricity
UFT: Undersecretariat for Foreign Trade
UIF: Unemployment Insurance Fund
UMA: Undersecretariat of Maritime Affairs
UNDP: United Nations Development Programme
UNIDO: United Nations Industrial Development Organization
UT: Undersecretariat of Treasury
VAT: Value Added Tax
VHS: Vocational High School
WHO: World Health Organization
YOIKK: Coordination Committee of Investment Climate Reform
YÖK: The Council of Higher Education
YTL: New Turkish Lira
YURTKUR: General Directorate of Higher Education Credit and Hostels Institution

CHAPTER ONE

MACROECONOMIC GOALS AND POLICIES OF 2010 ANNUAL PROGRAMME

I-MACROECONOMIC GOALS

In the framework of macroeconomic priorities, main targets that were presented at 2010-2012 Medium Term Programme and targets of the year 2010; with removing the negative effects of global crisis on Turkish economy, basic macroeconomic goals of the 2010 Annual Programme are to bring economy into growth process again, increase employment, keep inflation at single digit levels compatible with medium term targets of inflation and take steps towards restoring the deteriorated public balances.

II. MACROECONOMIC POLICIES

A. GROWTH AND EMPLOYMENT

i. Monetary and fiscal policies, provided that they do not conflict with the price stability objective of the Central Bank, will be implemented in coordination in a way to support economic growth and stability.

ii. With the aim of eliminating the negative effects of crisis and establishing a sustainable growth structure again, new policies will be executed to increase private sector investment, export and employment.

iii. With the aims of accelerating recovery process and increasing the durability of economy against the crisis, institutional and structural reforms that will enhance international competitiveness and efficiency, increase the quality of the labour force and raise the elasticity of labour market will continue.

iv. Collateral support provided by the Treasury to credit guarantee fund will be used effectively in order to make credit channels effective and meet collateral and financing requirements of SMEs'.

v. Through elimination of uncertainties stemming particularly from public sector policies, a foreseeable business environment which favors private sector to make long-term plans will be created.

B. FISCAL POLICY

1. Public Expenditure Policy

i. The legal base for the fiscal rule will be accomplished during the year and public financial management will be pursued according to the specified fiscal rule beginning from the 2011 budget period.

ii. The regulations that will create fiscal implications will be realized by taking into consideration their short-term, medium-term and long-term effects.

iii. The employment of new personnel in the public sector will be pursued in line with the specified rules.

iv. The public expenditures will be reviewed in line with the determined priorities, the unproductive expenditure programmes which have lost their priority will be eliminated and fiscal space will be created.

v. In order to increase the efficiency of the social aids, the studies regarding the restructuring of the social aids system by taking the system as a whole will be continued.

vi. Measures will be continued in order to make medicine and treatment expenditures more rational without compromising the quality of the health care services.

vii. General Health Insurance System will be continued to implement with Health Transformation Programme in order to keep the fiscal burden brought by the system at a reasonable level.

viii. The claw-back ratio of local governments for arrears repayment from the general budget tax shares will be implemented regularly and the ratio will be decided at the level which will prevent the local governments to create new arrears and help them to decrease the debt stocks.

2. Public Investment Policy

i. The efforts targeting efficient use of the current capital stock and effective, productive and punctual realization of public sector investments would be sustained.

ii. Infrastructure investments in education, health, technological research, transportation, drinking water and improvement of ICT technologies would be assigned priority.

iii. Public investments, primarily South Eastern Anatolian Project, Eastern Anatolian Project, Konya Plain Project, would be concentrated on economic and social infrastructure projects targeting to reduce inter-regional development.

iv. The investments, which are essential to implement the policies and priorities set forth for the EU membership, will be accelerated.

v. Models that encourage private sector participation in realization of public infrastructure investments will be made widespread.

vi. The proposals of and the decisions on public investments will be based on sectoral researches, which include problem and solution analysis, and qualified feasibility studies and analyses.

3. Public Revenue Policy

i. The regulations to ensure simplicity and stability in the tax legislation and implementations will be enacted.

ii. Lump-sum taxes and fees will be updated taking into account the general economic conditions.

iii. The studies to determine the financial amount of tax expenditures will be finalized.

iv. The studies will be emphasized to strengthen the capacities of public administrations in order to guarantee the efficiency of audits primarily concerning tax audit including cross-control between agencies.

v. The audits to prevent tax losses and evasion will be increased especially for the products with high taxation rate.

vi. Regulations will be put into effect in order to increase own revenues of local governments.

4. Public Borrowing Policy

i. It will be continued to keep reserves at a sufficient level with the aim of mitigating the liquidity risk that might arise in cash and debt management.

ii. 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).

iii. Financing instruments compatible with the investor demands will be developed with the aim of improving public borrowing opportunities and decreasing costs.

5. Public Financial Management and Audit

i. The Court of Account's legal and human resources will be strengthened to provide an efficient external audit in accordance with the Law No. 5018.

ii. It will be ensured that the audit activities of the Court of Accounts will be extended in the public sector, and the Court of Accounts will contribute more to the healthy functioning of the internal control and audit systems.

iii. The measures for the efficient implementation of financial management, internal control and internal audit activities which are necessary for the improvement of the responsibility of the management in the public organizations and agencies will be strengthened.

iv. The efforts to enhance fiscal transparency in the public finance will be continued.

TABLE: I. 1- Main Economic Aggregates

	2004	2005	2006	2007	2008	2009 [1]	2010 [2]
GROWTH AND EMPLOYMENT (Percentage Change)							
Total Consumption	10.4	7.0	5.0	5.2	-0.2	-2.3	2.5
Public	1.6	1.4	9.9	5.4	3.2	4.4	2.4
Private	11.5	7.6	4.5	5.2	-0.5	-3.1	2.5
Total Fixed Capital Investment	27.4	17.8	13.4	4.4	-3.7	-17.2	7.7
Public	-8.2	34.2	2.1	12.7	7.6	0.4	10.3
Private	36.5	15.0	15.7	2.9	-5.9	-21.0	7.0
Change in Stocks[3]	-1.9	0.1	-0.1	0.6	0.3	-1.7	0.2
Total Exports of Goods and Services	11.2	7.9	6.6	7.3	2.3	-6.1	4.2
Total Imports of Goods and Services	20.8	12.2	6.9	10.7	-3.8	-11.7	5.4
GDP	9.4	8.4	6.9	4.7	0.9	-6.0	3.5
GDP (Million TL, Current Prices)	559,033	648,932	758,391	843,178	950,098	946,678	1,028,802
GDP (Billion USD, Current Prices)	393.0	483.9	530.6	647.9	731.1	607.9	641.3
Per Capita National Income (GDP,USD)	5 802	7 056	7 643	9 221	10 285	8 456	8 821
Per Capita National Income (PPP, GDP, USD)	10,177	10,386	12,688	13,455	14,041	13,136	13,647
Population (Thousand Person)	67,734	68,582	69,421	70,256	71,079	71,897	72,698
Labour Force Participation Rate (Percent) [4]	46.3	46.4	46.3	46.2	46.9	47.6	47.4
Civilian Employment (Thousand People) [4]	19,632	20,067	20,423	20,738	21,194	20,959	21,267
Unemployment Rate (Percent) [4]	10.8	10.6	10.2	10.3	11.0	14.8	14.6
FOREIGN TRADE (Billion USD)							
Exports (FOB)	63.2	73.5	85.5	107.3	132.0	98.5	107.5
Imports (CIF) [5]	97.5	116.8	139.6	170.1	202.0	134.0	153.0
Foreign Trade Balance	-34.3	-43.3	-54.1	-62.8	-70.0	-35.5	-45.5
Current Account Balance / GDP (Percent)	-3.7	-4.6	-6.1	-5.9	-5.7	-1.8	-2.8
Trade Volume / GDP (Percent)	41.2	39.5	42.8	42.8	45.7	38.2	40.6
PUBLIC FINANCE (Percent)							
General Government Revenues [6] / GDP	31.5	32.9	34.8	33.6	33.1	33.5	35.7
General Government Expenditures [6] / GDP	35.6	33.0	33.4	33.8	34.7	40.1	40.3
General Government Borrowing Requirement [6] / GDP	4.1	0.1	-1.4	0.2	“1.6	6.6	4.7
General Government Interest Expenditures [6] / GDP	10.4	7.2	6.1	5.9	5.6	6.4	6.0
Public Sector Borrowing Requirement [7] / GDP	3.6	-0.1	-1.9	0.1	1.6	6.4	4.2
IMF Defined Public Sector Primary Surplus [7] / GDP	5.4	4.5	4.8	3.0	1.6	-2.1	-0.3
EU Defined Gen. Gov. Nominal Debt Stock/ GDP	59.2	52.3	46.1	39.4	39.5	47.3	49.0
PRICES (Percent Change)							
GDP Deflator	12.4	7.1	9.3	6.2	11.7	6.0	5.0
CPI Year End	9.4	7.7	9.7	8.4	10.1	5.9	5.3

(1) Realization estimate,
(2) Programme target,
(3) Given as percentage contribution to growth
(4) Revised according to new population projections
(5) Non-monetary gold imports are included.
(6) Includes consolidated budget (2004-2005)/ central government budget (2006-2010), local administrations, unemployment insurance fund, social security institutions, revolving funds and extra-budgetary funds and universal health insurance scheme.
(7) Includes general government and SEEs
.

6. State Economic Enterprises and Privatization

i. Management of State Economic Enterprises (SEEs) in accordance with profitability and productivity principles is essential.

ii. The privatization process of SEEs under a certain schedule and strategy will be maintained decisively.

iii. A strategic management approach founded on delegation, accountability, transparency, efficiency in decision processes and performance based management will be made widespread among SEEs.

iv. All management policies of SEEs will be determined in order to attain the foreseen targets set in strategic plans and general investment and financial decrees, and implemented efficiently.

v. 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.

vi. The current market value will be taken as the basis in appraisal of SEEs' idle real estate properties.

vii. Problems of SEEs' operating units that incur losses will be resolved by taking their functions into account.

viii. Implementation of measures aimed to reduce the idle employment in SEEs will continue, however measures will be taken to meet SEEs' needs for qualified personnel.

C. MONETARY POLICY AND PRICE STABILITY

i. In 2010, the monetary policy will be carried out within the framework of inflation targeting and the inflation target will continue to be set jointly by the Government and the Central Bank.

ii. While the short term interest rates will be the main monetary policy tool, other monetary policy tools will also be used effectively.

iii. Monetary policy decisions will be taken by Monetary Policy Committee via monthly meetings which will be held with a pre-announced schedule, except emergency cases.

iv. Monetary policy decisions will be set by taking into consideration the medium term inflation outlook and the local and global risks in line with this outlook.

v. Inflation Report will continue to be the main communication tool for the monetary policy and accountability mechanism.

vi. To ensure the accountability and transparency of the monetary policy, 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.

vii.Central Bank will continue to implement a floating exchange rate regime in 2010. 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.

viii. Central Bank may conduct pre-determined foreign exchange buying auctions in order to accumulate reserves when FX supply increases more than the FX demand. In addition to this, foreign exchange selling auctions may be held in case of improper price formation depending on the loss of depth in FX market.

ix. Developments in the exchange rates will be monitored closely by CBRT. Central Bank may intervene the market directly in case of improper price formation in FX rates depending on speculative actions stemming from the loss of depth in FX market.

D. BALANCE OF PAYMENTS

i. In order to achieve sustainable export growth, production and marketing stages of high value added and branded goods and services, which are based on innovation and R&D will be supported.

ii. 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.

iii. In the context of market diversification strategy in exports, initiatives for free trade agreement with Africa, Caribbean, Pacific and Gulf Cooperation Council countries will continue and increase in exports to these countries will be achieved.

iv. In order to reduce import dependency of production and exports, policies and supports, that will increase domestic production capacity particularly in intermediate goods and investment goods, will be continued.

v. In the context of compliance with EU technical legislation, studies for legislation, mainly on Product Safety Law, will be done in order to ensure the supply of high quality and safe products to domestic market.

vi. To increase the funding opportunities in the face of global crisis, credit and collateral supports for production and export will continue.

vii.With the aim of developing competitive, high value added and new technology featuring products and directing them towards exports by product differentiation, Chemical Sector Export Strategy and Fashion and Textile Cluster Project for the textile and apparel sector will be implemented

CHAPTER TWO

MACROECONOMIC DEVELOPMENTS AND TARGETS

I.DEVELOPMENTS IN THE WORLD ECONOMY

The world economy, which grew steadily over 4.5 percent after 2004, could not sustain this trend due to the global financial crisis, whose first signals emerged in 2007, and grew only by 3 percent in 2008.

In October 2008 when the 2009 Annual Programme was prepared, IMF forecasted 3 percent growth for the world economy in 2009. However, as the financial crisis has deepened and turned into an economic crisis, it is expected that world economy will experience the greatest contraction after the Second World War and world output will decline by 1.1 percent in 2009.

Especially because of the high growth rate in China and India, 3.8 percent growth rate is estimated for the last quarter of 2009 in developing countries. On the other hand, 1.3 percent contraction is expected for developed countries in the same period. In 2009, 1.7 percent growth in developing countries and 3.4 percent contraction in developed countries are expected. [1]

The revival of global economic activity is anticipated to start as of 2010. The expected revival basically depends on temporary and short-term policies such as fiscal stimulus packages of governments, supportive expansionary monetary policies of Central Banks and replacement of depleted stocks. Bearing this fact in mind, it is obvious that the implementation of medium-term policies, supported by structural reforms, for the improvement of the deteriorated fiscal structure is a necessity to ensure sustainable growth in the medium-term.

In the period ahead, it is considered that the increase in demand will stay limited in developed economies because households desire to replace their lost savings. It is expected that households' demand for durable goods will increase in the long term very slowly.

It is expected that the commodity prices will increase moderately in 2010, following the significant decline in 2009. As of May 2009, year-on-year inflation rate in developed countries came down below zero particularly due to the decline in oil prices. Consequently, year-on-year world inflation rate was down to 1 percent in July 2009. The expectation that the output gap will stay at highly negative levels for the coming period due to financial crisis leads to the expectation that inflation rate will also stay at low levels.

[1] IMF, World Economic Outlook, October 2009

The deterioration in global economy, started in last quarter of 2008, is also substantially felt in the international trade volume. The international trade volume, which had been rising by more than 7 percent since 2004, increased only at 3 percent in 2008. It is expected that recovery will start and international trade volume will increase at 2.5 percent in 2010, after 11.9 percent contraction in 2009.[2]

Unemployment rates, which started to rise as of 2009, are expected to increase further in 2010. In United States, the unemployment rate climbed by over 4 percentage points during the past year to a 26-year high of 9.7 percent in August and is projected to exceed 10 percent by early 2010. In Euro area unemployment rate increased by 2 percentage points and reached 9.5 percent in August 2009. In Germany, year-on-year increase in unemployment rate remained at 0.8 percentage points as of August 2009. It is asserted that existence or non-existence of the protective legal regulations is one of the causes of differences between countries.

In global recovery period, one of the most significant risks of developed countries is the fiscal structure, which is seriously deteriorated due to the stimulus packages. The ratio of total public deficit to the GDP in USA was 6.1 percent in 2008 and this ratio is expected to reach 13.5 percent at the end of 2009.[3] The ratio of public deficit in developed countries, which was 1.2 percent in 2007, is estimated to be 8.9 percent in 2009 and 8.1 percent in 2010. Similar deteriorations in public deficits can also be observed in developing countries. It is predicted that developing countries, which had a 0.4 percent public surplus, will have public deficits at 4 percent and 2.9 percent in 2009 and 2010 respectively.[4]

General government debt stocks of developed countries are anticipated to increase significantly in 2009 and 2010 in parallel with the increases in public deficits. The ratio of general government debt stock to the GDP in United States increased from 63.1 percent in 2007 to 70.5 percent in 2008 and it is expected to be 99.8 percent in 2009 and 112 percent in 2010[5]. In this respect, general government debt stock of developed countries, which was 73.2 percent in 2007, is estimated to be 91.9 percent in 2009 and 99 percent in 2010. On the other hand, a significant deterioration is not expected in public debt stocks of developing countries and it is predicted that the increase in public debt stocks will be limited with 1 or 2 points in 2009-2010 period.

External capital inflows, which have played an important role in financing the developing countries in recent periods, ceased and the direction of flows turned back in 2009. In 2007 net financial inflow to developing countries was 617.5 billion US Dollars and this amount is decreased to 109 billion US Dollars in 2008. It is projected that the net capital outflow will be 190 billion US Dollars in 2009 and will cease and come approximately to zero level in 2010.[6]

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[2] MF, World Economic Outlook, October 2009
[3] IMF, The State Of Public Finance, July 2009
[4] IMF, World Economic Outlook, October 2009
[5] IMF, The State Of Public Finance, July 2009
[6] IMF, World Economic Outlook, April 2009

It can be deduced from recent data that global economy entered into a recovery period. It is expected that global economic recovery will start at the last quarter of 2009 and world output will increase by 0.8 percent compared with the same period of previous year.[7]

Different regions of world entered into recovery period at different times and their recovery paces are also different. This increases the importance of global cooperation. In this context, it is required that pursued policies should not jeopardize financial stability and fiscal sustainability.

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

(Percentage change)

	2007	**2008**	**2009 (*)**	**2009**	**2010**
WORLD OUTPUT	5.2	3.0	3.0	–1.1	3.1
Developed Countries	2.7	0.6	0.5	–3.4	1.3
USA	2.1	0.4	0.1	–2.7	1.5
Japan	2.3	–0.7	0.5	–5.4	1.7
Euro Area	2.7	0.7	0.2	–4.2	0.3
Germany	2.5	1.2	0.0	–5.3	0.3
Developing Countries	8.3	6.0	6.1	1.7	5.1
Africa	6.3	5.2	6.0	1.7	4.0
Middle and East Europe	5.5	3.0	3.4	–5.0	1.8
Commonwealth of Independent States	8.6	5.5	5.7	–6.7	2.1
Asia	10.6	7.6	7.7	6.2	7.3
Latin America	5.7	4.2	3.2	–2.5	2.9
Middle East	6.2	5.4	5.9	2.0	4.2
WORLD TRADE VOLUME	7.3	3.0	4.1	–11.9	2.5
IMPORTS OF GOODS AND SERVİCES					
Developed Countries	4.7	0.5	1.1	–13.7	1.2
Developing Countries	13.8	9.4	10.5	–9.5	4.6
CONSUMER PRICES (Annual Averages)					
Developed Countries	2.2	3.4	2.0	0.1	1.1
Euro Area	2.1	3.3	1.9	0.3	0.8
Developing Countries	6.4	9.3	7.8	5.5	4.9
UNEMPLOYMENT RATE (Percent)					
Developed Countries	5.4	5.8	6.5	8.2	9.3
Euro Area	7.5	7.6	8.3	9.9	11.7
LIBOR (Six Month, Percent, in USD)	5.3	3.0	3.1	1.2	1.4

Source: IMF, World Economic Outlook, October 2009
(*) IMF, World Economic Outlook, October 2008

In the direction of decisions in G-20 London Summit on April 2009, in G-20 Pittsburg Summit on September 2009 a strategic framework was established towards robust, sustainable and balanced global growth which is necessary for a resistant global financial system. Furthermore, G-20 group was declared as the basic forum of international economic cooperation. In the same summit, advisory decisions have been taken for all member states related to fiscal policies which take into consideration both short-term elasticity and long-term sustainability and structural reforms that aims to increase potential output. Besides, an agreement emerged on implementations of policies for the purpose of reducing imbalances among countries related to the balance of payments. In this framework, member countries having continuous high level external deficits declared that they will take measures towards

[7] IMF, World Economic Outlook, October 2009

fiscal consolidation and increase private savings while strengthening their exporting sectors. In addition, it became clear in these meetings that by way of increasing global cooperation in the medium and long run, global financial architecture should be organized in a structure preventing repeat of current crisis and decreasing risks.

II-DEVELOPMENTS AND TARGETS IN TURKISH ECONOMY

After a rapid growth period, with the additional effect of political uncertainty, slowdown tendency that started in Turkish economy from the second quarter of the 2007, accelerated from the second half of the 2008 when the effects of global crisis started to be perceived and then gave way to contraction. While the average yearly growth rate of Turkish economy was 6.9 percent in 2003-2007 periods, economy grew by 0.9 percent in 2008 and contracted by 10.6 percent in the first half of the 2009 compared to same period of previous year.

Global economic crisis affect Turkish economy through three channels. These channels can be summarized as; contraction in foreign trade facilities, tightness in the finance and liquidity conditions and deterioration in expectations.

Global economic crisis negatively affected domestic demand additional to foreign demand. Because EU countries, which constitute nearly half of our export, felt the effects of crisis intensively, export performance of Turkey declined significantly. Especially in the export oriented sub sectors such as vehicles, base metal, iron-steel, machinery-equipment and radio-TV communication exportation reduced rapidly in the real terms and domestic production was affected negatively. When taking into consideration the fact that 94 percent of Turkish total export is composed by manufacturing goods, it can be seen that the rapid reduction in export has an important share in high rate production contraction recorded in industry sector added value. With effect of rapid increase in the import dependency of domestic production and export in the recent years, contraction in imports became deeper. Decline in price of crude oil and commodities in international markets also were effective in reduction of import.

The general feature of Turkish economy in the contraction periods is declining imports parallel to exchange rate increase, increasing exports and thus turning the current account balance to surplus. However, in the current crisis process, because of the demand reduction all over the world, exports also decreased significantly in addition to imports. Because of that, although there will be a reduction with the contribution of international energy and commodity price reduction, current account balance is expected to give deficit in 2009.

Another channel that the economic crisis affected Turkish economy is tightness on the financing and liquidity conditions. 2002-2007 periods became a period that liquidity abundance was seen and consequently high growth rates were attained in whole world. At this period, Turkish economy that has saving shortage structurally, reached to high growth rates by attracting significant foreign capital as a result of structural reforms, macroeconomic stability and fiscal discipline. In addition, Turkish Lira, as other developing countries' currencies, significantly appreciated relative to US dollar parallel to increase in global asset prices as a result of loose monetary and financial policies in developed countries. This situation caused an increase in current account deficit by encouraging import and a tendency in private sector towards foreign resources and by this way increased the importance of foreign finance in the economy. In such an environment that foreign resource has a critical role, decrease in capital inflow to Turkey as a result of global crisis obstructed the finance of growth. Also, in this period, because of the contraction in domestic loans, firms had difficulty in access to finance.

Uncertainty environment caused by crisis, affected negatively the anticipatory expectations of economic units by damaging the confidence in markets and this situation caused adjournment of consumption and investment decisions and significant deceleration of economic activity.

As a result of these developments, GDP growth rate realized as negative 6.5 percent in the last quarter of 2008 and negative 14.3 percent in the first quarter of 2009. In the second quarter of 2009 the constriction rate of GDP decelerated and realized as 7 percent. In the second half of the 2009, especially in the last quarter, recovery is expected to continue.

This contraction in the economy, as in the most of the countries, caused a reduction in employment and an increase in unemployment in our country. Besides the existing structural problems in labor market, crisis-induced uncertainties hinder the new job creation. Unemployment rate is expected to continue its high levels for a while and for the next period the effect of anticipated limited economic recovery on labor market is expected to emerge.

For removing the negative effects of crisis on economy, by taking into consideration the suggestions of private sector agents, some support packages put in place to recover economy and fight against the unemployment. The cost of support packages, which contain various income and expenditure measures, to budget is expected to be around 0.8, 2.1, and 1.6 percent of GDP for the years 2008, 2009 and 2010 respectively.

In 2009, an important deterioration in public finance occurred with the effect of the support packages opened with the aim of recovering economy and especially the contraction observed in the economy. This deterioration, to a large extent, arises from the reduction in tax and social security premium revenue caused by the rapid decline in consumption, imports and employment. Also, increase in some expenditure items made contributions to this deterioration.

These developments in economy have caused an increase in the ratio of EU defined general government nominal debt stock to GDP which had decreased permanently in the recent period. This ratio which was 39.5 percent at the end of 2008 is expected to increase to 47.3 percent in the end of 2009.

Besides the sharp decline in global demand and reduction in energy and commodity prices by the effect of global crisis, contraction in domestic demand in our country brought the reduction in inflation and inflationary expectations. This conjuncture established a ground for the Central Bank to lower policy interest rates rapidly. As a result, short term interest rates and GDDI interest rates declined to their lowest levels at recent years.

The effect of global crisis on Turkish banking system remained very limited. Different from many other countries, resource transmission from public sector to banking sector or intervention did not become necessary in Turkey.

Expectations about the world economy have a critical importance for the Turkish economy when the openness of the economy and the importance of foreign resources for the finance of growth are taken into consideration. A rapid recovery in the world economy and capital inflows in the next period will accelerate the recovery period of Turkish economy from the global crisis.

A. GROWTH AND EMPLOYMENT

1. GDP and Sectoral Growth Rates

a) Current Outlook

In 2008, Gross Domestic Product (GDP) increased by 0.9 percent in real terms. In this year; while agricultural value added increased by 3.5 percent, growth rates of industry and services value added were realized as 1.1 and 0.4 percent, respectively. While the increases in GDP were 4.9 percent in the first half of the 2008, economy contracted by 2.7 percent in the second half of the year when the effects of the global economic crisis have been started to be perceived.

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

	Quarters									
	2008				2009		Annual			
	I.	II.	III.	IV.	I.	II.	2007	2008	2009 (1)	2010 (2)
	(Constant Prices, Percentage Change)									
Agriculture	5.4	-0.3	5.4	2.4	0.2	6.6	-6.7	3.5	2.7	3.0
Industry	9.0	5.0	0.7	-9.6	-19.1	-8.7	5.8	1.1	-8.5	4.4
Services	6.5	2.3	0.1	-6.5	-13.2	-7.7	6.0	0.4	-6.2	3.3
GDP	7.2	2.8	1.0	-6.5	-14.3	-7.0	4.7	0.9	-6.0	3.5
	(Current Prices, Percentage Share)									
Agriculture	3.8	6.0	12.6	7.2	3.9	6.9	7.6	7.6	8.3	8.3
Industry	20.3	20.7	18.8	19.1	19.4	19.9	20.0	19.7	19.2	19.3
Services	75.9	73.3	68.6	73.7	76.7	73.2	72.4	72.7	72.5	72.4
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

Manufacturing industry which contracted by 10.8 percent at the last quarter became effective on the decrease in industry sector growth rate in 2008. The contraction on construction sub-industry in 2008 at a rate of 8.2 percent became the main factor that restricts the value added increases in services sector. The high increases in financial intermediation at a rate of 9.1 percent made positive contribution to service sector growth rate in 2008.

While the real GDP contracted by 14.3 percent in the first quarter of the 2009, a recovery was seen in the second quarter and the contraction in economy realized as 7 percent. By this way, in the first half of the 2009 GDP contracted by 10.6 percent. Thus, in the first half of the year; while agricultural value added increased by 4.3 percent, industrial and services valued added declined by 13.8 and 10.4 percent, respectively. The most contracted sector in the first half of the 2009 was whole sale and retail trade with a rate of 20.6 percent.

Industrial production, in January-August period of 2009 decreased by 15.9 percent compared to the same period of the previous year. Capacity utilization ratio, another leading indicator, of manufacturing industry decreased by 12.1 percentage points in the January-September period of 2009 compared to the same period of 2008, and realized as 68.3 percent.

TABLE: II. 3- Per Capita GDP

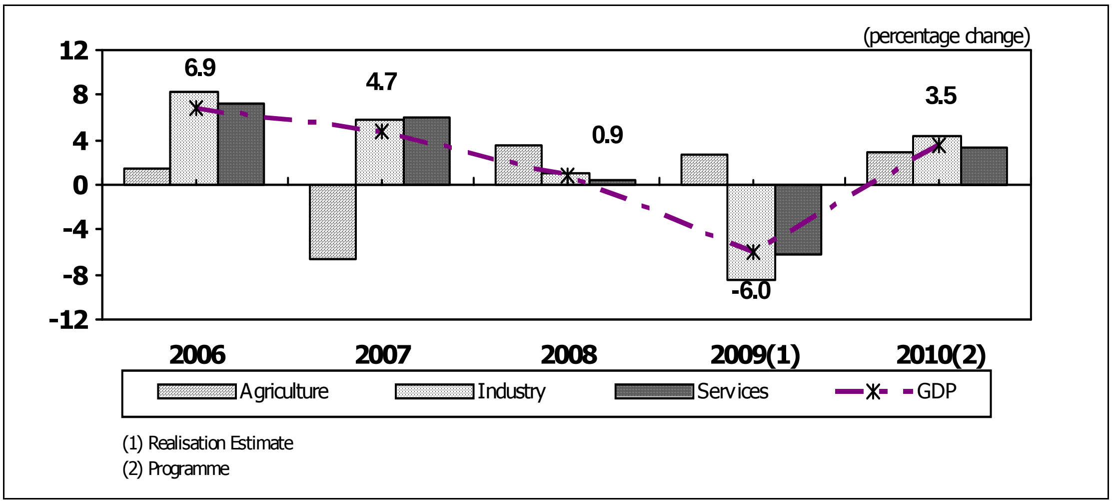
Years	Mid-Year Population (1) (Thousand Person)	(Current Prices)			(1998 Prices)			Purchasing Power Parity (PPP) (USD/TL) (3)	PPP Per Capita GDP (USD)
		GDP (Million TL)	Per Capita GDP TL	Per Capita GDP USD (2)	GDP (Million TL)	Per Capita GDP TL	Per Capita GDP USD (2)		
1998	62,464	70,203	1,124	4,322	70,203	1,124	4,322	0.131	8,573
1999	63,366	104,596	1,651	3,953	67,841	1,071	4,117	0.202	8,171
2000	64,259	166,658	2,594	4,158	72,436	1,127	4,335	0.283	9,159
2001	65,135	240,224	3,688	3,016	68,309	1,049	4,033	0.427	8,618
2002	66,009	350,476	5,310	3,529	72,520	1,099	4,225	0.612	8,667
2003	66,873	454,781	6,801	4,548	76,338	1,142	4,390	0.772	8,800
2004	67,734	559,033	8,253	5,802	83,486	1,233	4,740	0.811	10,177
2005	68,582	648,932	9,462	7,056	90,500	1,320	5,075	0.831	11,386
2006	69,421	758,391	10,925	7,643	96,738	1,394	5,359	0.861	12,688
2007	70,256	843,178	12,002	9,221	101,255	1,441	5,542	0.892	13,455
2008	71,079	950,098	13,367	10,285	102,164	1,437	5,527	0.952	14,041
2009(4)	71,897	946,678	13,167	8,456	96,034	1,336	5,137	1.002	13,136
2010(5)	72,698	1,028,802	14,152	8,821	99,395	1,367	5,258	1.037	13,647

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

b) Targets for the Year 2010

The Turkish economy which grew permanently since the first quarter of 2002 has started to contract since the last quarter of the 2008 with the effect of global economic crisis. The contraction in economy continued in the first half of 2009. The growth rate of GDP is expected to become positive as of the last quarter of 2009, and then to increase gradually. In this framework, the GDP which is expected to contract 6 percent in 2009 is targeted to increase 3.5 percent in 2010.

GRAPH:1- Sectoral Growth Rates (Constant Prices)



The growth rate of agricultural value added which is expected to be 2.7 percent in 2009, is projected to be 3 percent in 2010.

Industrial sector value added, the most severely effected sector by the economic crisis, is expected to decrease by 8.5 percent in 2009. After the second half of the 2009, limited increase in industrial production, improvements in consumer confidence level and an increase in capacity utilization rate all give signs of recovery. In addition to this, because of the export-oriented structure of the industry sector, recovery is expected to be gradual and parallel to external market conditions. In this framework, industry sector value added is expected to increase by 4.4 percent in 2010.

It is expected that the value added of services sector will decrease by 6.2 percent in 2009; increase by 3.3 percent in 2010. With the expected recovery in economy since the last quarter of 2009, especially trade and transportation sectors are expected to make positive contributions to growth.

2. Employment

a) Current Outlook

In 2008, compared to 2007, employment increased by 456 thousand people and realized as 21,194 thousand people; during the same period the unemployment rate rose from 10.3 percent to 11 percent. In 2008, labor force participation rate realized as 46.9

percent by an increase of 0.7 points compared to the previous year. In the same period, the employment rate was also increased.

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

(Age 15+, Thousand Person)

	2004	2005	2006	2007	2008
Working Age Population	47,544	48,359	49,174	49,994	50,772
Labour Force	22,016	22,455	22,751	23,114	23,805
Employment	**19,632**	**20,067**	**20,423**	**20,738**	**21,194**
Non-Agricultural Employment	13,919	14,913	15,516	15,871	16,178
Non-Unpaid Family Worker Employment	16,264	17,225	17,745	18,110	18,510
Agriculture	5,713	5,154	4,907	4,867	5,016
Industry	3,919	4,178	4,269	4,314	4,441
Services	10,000	10,735	11,247	11,557	11,737
Construction	966	1,107	1,196	1,231	1,241
Unemployed	2,385	2,388	2,328	2,376	2,611
Labour Force Participation Rate (Percent)	**46.3**	**46.4**	**46.3**	**46.2**	**46.9**
Employment Rate (Percent)	41.3	41.5	41.5	41.5	41.7
Unemployment Rate (Percent)	**10.8**	**10.6**	**10.2**	**10.3**	**11.0**
Non-Agricultural Unemployment Rate (Percent)	14.2	13.5	12.7	12.6	13.6
Youth Unemployment Rate (Percent)	20.6	19.9	19.1	20.0	20.5
Underemployed	860	702	776	689	779

Source: TURKSTAT, Household Labor Force Survey Results
* The numbers are revised according to the new population projections.

In 2008, agricultural, industrial and services sectors employment expanded by 3.1 percent, 2.9 percent and 1.6 percent, respectively. The rise of employment in the services sector was particularly affected by 10.8 percent increase in employment level of financial institutions sub-branch. Also, the increase of employment in the agricultural sector, which was not experienced in previous years, considered to be come from individuals, who were previously working on agricultural activities and got back into their work in agriculture by reason of the crisis. In 2008, the shares within the total employment were 23.7 percent for agriculture, 21 percent for industry and 55.3 percent for services sectors.

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

(Age 15+, Thousand Person)

	Urban			Rural		
	2006	2007	2008	2006	2007	2008
Working Age Population	34,787	35,275	35,697	14,387	14,719	15,075
Labour Force	15,391	15,635	16,063	7,360	7,479	7,742
Employment	13,518	13,764	14,010	6,905	6,973	7,184
Agriculture	630	597	647	4,277	4,269	4,369
Industry	3,652	3,682	3,744	616	632	696
Services	9,235	9,486	9,618	2,012	2,071	2,119
Unemployed	1,873	1,871	2,053	455	506	558
Labour Force Participation Rate (Percent)	44.2	44.3	45.0	51.2	50.8	51.4
Employment Rate (Percent)	38.9	39.0	39.2	48.0	47.4	47.7
Unemployment Rate (Percent)	12.2	12.0	12.8	6.2	6.8	7.2
Underemployed	471	415	472	305	274	307

Source: TURKSTAT, Household Labor Force Survey Results
* The numbers are revised according to the new population projections.

In 2008, compared to the previous year, urban employment increased by 1.8 percent, while rural employment increased by 3 percent. Increase in agricultural employment was effective in the expansion of rural employment. Also, the urban unemployment rate was 12.8 percent and rural unemployment rate was 7.2 percent in 2008.

In 2008, while the ratio of casual and regular employees within total employment was increased, the ratio of self-employed decreased and unpaid family workers within the total employment remained the same level compared to the previous year.

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

(Age 15+, Thousand Person)

	2006		2007		2008	
	Number of People	**Percent**	**Number of People**	**Percent**	**Number of People**	**Percent**
Casual and Regular Employees	12,028	58.9	12,534	60.4	12,937	61.0
Self-Employed	5,717	28.0	5,575	26.9	5,573	26.3
Unpaid Family Workers	2,678	13.1	2,628	12.7	2,684	12.7
Total	20,423	100.0	20,738	100.0	21,194	100.0

Source: TURKSTAT, Household Labor Force Survey Results

* The numbers are revised according to the new population projections.

For the average of Turkey, the unemployment rate for the three month period of June, July and August of 2009 (July period) realized as 12.8 percent, with an increase by 2.9 percentage point, compared to the same period of the previous year. In the same period, non-agricultural unemployment rate, with a rise of 3.8 percentage points, realized as 16.3 percent and unemployment rate among young population, with a rise of 4.3 percentage point, realized as 23.2 percent. The number of employed in the given period, increased by 50 thousand people and realized as 22,213 thousand people.

TABLE: II. 7- Developments in the Labour Market as of July Months

(Age 15+, Thousand Person)

	2008 (*)	**2009**
Working Age Population	50,833	51,714
Labour Force	24,587	25,480
Employment	**22,163**	**22,213**
Agriculture	5,607	5,971
Industry	4,517	4,136
Services	12,039	12,106
Construction	1,395	1,404
Unemployed	2,425	3,267
Labour Force Participation Rate (Percent)	**48.4**	**49.,3**
Employment Rate (Percent)	43.6	43.0
Unemployment Rate (Percent)	**9.9**	**12.8**
Non-Agricultural Unemployment Rate (Percent)	12.5	16.3
Youth Unemployment Rate (Percent)	18.9	23.2

Source: TURKSTAT, Household Labor Force Survey Results

* The numbers are revised according to the new population projections.

In the 3-months period covering June, July and August 2009, the labour force participation rate increased in both men and women and realized as 49.3 percent. In the same period, the agricultural employment increased by 364 thousand people compared to the same period of the previous year. In July period, while increase in employment was 67 thousand in services, industry sector employment decreased by 381 thousand.

In 2009, it is estimated that labour force participation rate will be realized as 47.6 percent and the unemployment rate will be realized as 14.8 percent.

b) Targets for the Year 2010

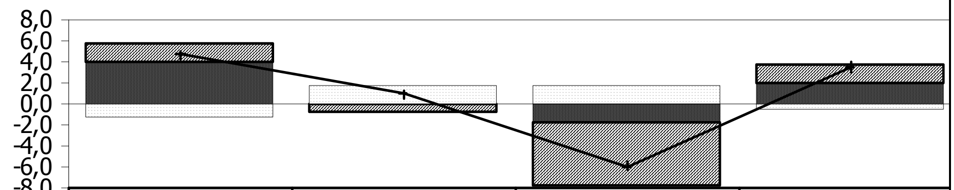
In parallel to the forecasted growth and buoyant investments in 2010, total employment is expected to increase by 308 thousand people whereas the unemployment rate is expected to be 14.6 percent.

3. General Balance of the Economy

a) Current Outlook

While total domestic demand decreased by 0.8 percent in real terms in 2008, GDP grew by 0.9 percent owing to the positive 1.7 percentage points contribution of net exports to GDP growth. Not only the increase in exports of goods and services but also the decline in imports of goods and services has contributed to realize positive contribution of net exports of goods and services to GDP growth. In 2008, the private consumption decreased by 0.5 percent and public consumption increased by 3.2 percent. When the private consumption expenditure is analyzed in terms of sub-sectors, it is observed that the decline in the growth rates of clothing-footwear, furniture-furnishings, recreation-culture and restaurants-hotels sub-sectors have been offset by the increase in the growth rates of food and beverages, housing-electricity-gas, health, education and various goods and services sub-sectors, which resulted in the limited contraction of the private consumption expenditure. While private sector fixed capital investment declined by 5.9 percent for the whole year, which started to decline beginning from the second quarter of 2008, public sector fixed capital investment increased by 7.6 percent in 2008.

GRAPH:2- Contributions to GDP Growth



	2007	2008	2009(1)	2010(2)
Net Exports	-1,2	1,7	1,8	-0,4
Investment	1,8	-0,6	-6,0	1,8
Consumption	4,1	-0,1	-1,8	2,0
GDP	4,7	0,9	-6,0	3,5

(1) Realization Estimate (2) Program

The contraction tendency of total domestic demand, which was observed since the third quarter of 2008, continued in the first two quarters of 2009 and then total domestic demand contracted by 15 percent in the first half of 2009 compared to the same period of the previous year. The contraction of total domestic demand can be attributable to the decline in the private consumption as well as the sharp decline in the private fixed capital investment despite public consumption and public fixed capital investment increased at the same time. In the first half of 2009 compared to the same period of the previous year, the contribution of net exports to GDP growth realized as positive 5.2 percentage points due to the 10.6 percent decline in exports of goods and services and 25.9 percent decline in imports of goods and services. As a result of these developments, GDP contracted by 10.6 percent in the first half of 2009.

The volume of economic activities, which dropped to the deepest point in the first quarter of 2009, has changed the direction towards upper levels since the second quarter of the year although the contraction trend of the economy has been going on. In the light of the foresight of continuation of the increasing trend in the economic activities and the improvement in the economic indicators in the second half of the year relative to the first half of the year, GDP is estimated to decrease by 6 percent due to the 7.6 percent decline in the total domestic demand and positive 1.8 percentage points contribution of net exports to GDP growth. In 2009, total consumption is estimated to decline by 2.3 percent due to 3.1 percent decline in private consumption and 4.4 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 rise of 1.2 percentage point compared to the previous year, will reach a level of 11.2 percent while the share of private consumption, with a 1.2 percentage point rise, will realize as 73.4 percent.

In 2009, private fixed capital investment is expected to decline by 21 percent, which is the most contracted component of the demand side of the economy, while public fixed capital investment is expected to rise by 0.4 percent. In this regard, a 17.2 decline is expected in total fixed capital investments in real terms and its share within GDP in current prices will become 16.9 percent, with a 3.3 percentage point decline compared to the previous year. In 2009, the contribution of changes in stocks to GDP growth is estimated to realize as negative 1.7 percentage points.

In 2009, the share of private disposable income in GDP is anticipated to increase to 90.2, with showing 2,8 percentage points increase compared to the previous year. In 2009, since the share of private saving in GDP will reach to 16.8 percent with showing 1.7 percentage points increase and the share of private investment in GDP falls to 11.4 percent with showing 6.5 percentage points decline at the same time, private saving-investment difference is expected to realize as positive 5.4 percent of GDP, which was negative 2.7 percent in 2008.

TABLE: II. 8- General Balance of the Economy (Current Prices)

	2007	2008	2009 (1)	2010 (2)	2007	2008	2009 (1)	2010 (2)
	(Million TL)				(Shares in GDP)			
Total Consumption	706,237	781,894	801,285	869,892	83.8	82.3	84.6	84.6
Public	83,231	95,463	106,237	115,145	9.9	10.0	11.2	11.2
Private	623,007	686,431	695,048	754,747	73.9	72.2	73.4	73.4
Total Investment	180,454	210,339	148,692	174,112	21.4	22.1	15.7	16.9
Public	33,038	40,602	40,919	44,262	3.9	4.3	4.3	4.3
Private	147,416	169,737	107,773	129,850	17.5	17.9	11.4	12.6
Fixed Capital Investment	183,416	191,815	160,200	181,290	21.8	20.2	16.9	17.6
Public	32,534	39,123	38,376	44,477	3.9	4.1	4.1	4.3
Private	150,881	152,692	121,824	136,813	17.9	16.1	12.9	13.3
Change in Stocks	-2,961	18,524	-11,508	-7,178	-0.4	1.9	-1.2	-0.7
Public	504	1,479	2,543	-215	0.1	0.2	0.3	-0.0
Private	-3,465	17,045	-14,050	-6,963	-0.4	1.8	-1.5	-0.7
Total Domestic Demand (Total Resources)	886,692	992,233	949,978	1,044,004	105.2	104.4	100.3	101.5
Net Exports of Goods and Services	-43,513	-42,135	-3,300	-15,202	-5.2	-4.4	-0.3	-1.5
Exports of Goods and Services	188,225	227,253	216,386	240,504	22.3	23.9	22.9	23.4
Imports of Goods and Services	231,738	269,388	219,686	255,705	27.5	28.4	23.2	24.9
GROSS DOMESTIC PRODUCT (GDP)	843,178	950,098	946,678	1,028,802	100.0	100.0	100.0	100.0
Net Factor Incomes	-9,296	-10,434	-13,539	-13,575	-1.1	-1.1	-1.4	-1.3
Net Current Transfers	2,931	2,559	2,752	3,465	0.3	0.3	0.3	0.3
GROSS NATIONAL DISPOSABLE INCOME (GNDI)	836,814	942,224	935,891	1,018,692	99.2	99.2	98.9	99.0
PUBLIC DISPOSABLE INCOME	103,517	111,856	82,066	101,351	12.3	11.8	8.7	9.9
Public Consumption	83,231	95,463	106,237	115,145	9.9	10.0	11.2	11.2
Public Saving	20,287	16,393	-24,171	-13,794	2.4	1.7	-2.6	-1.3
Public Investment	33,038	40,602	40,919	44,262	3.9	4.3	4.3	4.3
Public Saving-Investment Difference	-12,752	-24,209	-65,091	-58,057	-1.5	-2.5	-6.9	-5.6
PRIVATE DISPOSABLE INCOME	733,297	830,368	853,825	917,342	87.0	87.4	90.2	89.2
Private Consumption	623,007	686,431	695,048	754,747	73.9	72.2	73.4	73.4
Private Saving	110,290	143,936	158,777	162,595	13.1	15.1	16.8	15.8
Private Investment	147,416	169,737	107,773	129,850	17.5	17.9	11.4	12.6
Private Saving-Investment Difference	-37,126	-25,801	51,003	32,745	-4.4	-2.7	5.4	3.2
Memo Item:								
Total Domestic Savings	130,577	160,330	134,605	148,800	15.5	16.9	14.2	14.5

Source: SPO
(1) Realization Estimate
(2) Program

The share of public disposable income in GDP is expected to decline to 8.7 percent with showing 3.1 percentage points decline in 2009. In this development, main determinants would be the deterioration of current transfers and social funds. The share of public saving-investment difference in GDP, which was negative 2.5 percent in 2008, is expected to realize as negative 6.9 percent in 2009 due to the decline of the share of public saving to GDP from positive 1.7 percent in 2008 to negative 2.6 percent in 2009 although there is no change in the share of public investment in this year.

TABLE: II. 9- General Balance of the Economy (At 1998 Prices)

	2007	2008	2009 (2)	2010 (3)	2007	2008	2009 (2)	2010
	(Million TL)				(Percentage Change)			
Total Consumption	79,687	79,548	77,701	79,637	5.2	-0.2	-2.3	2.5
Public	7,598	7,844	8,192	8,388	5.4	3.2	4.4	2.4
Private	72,089	71,705	69,509	71,249	5.2	-0.5	-3.1	2.5
Total Investment	26,207	25,549	19,460	21,226	7.1	-2.5	-23.8	9.1
Public	4,299	4,702	4,813	5,044	16.6	9.4	2.4	4.8
Private	21,908	20,847	14,647	16,183	5.4	-4.8	-29.7	10.5
Fixed Capital Investment	26,342	25,364	21,012	22,634	4.4	-3.7	-17.2	7.7
Public	4,248	4,570	4,589	5,062	12.7	7.6	0.4	10.3
Private	22,094	20,794	16,423	17,572	2.9	-5.9	-21.0	7.0
Change in Stocks (1)	-136	185	-1,552	-1,408	0.6	0.3	-1.7	0.2
Public	51	132	224	-18	0.1	0.1	0.1	-0.3
Private	-187	53	-1,776	-1,390	0.5	0.2	-1.8	0.4
Total Domestic Demand (Total	105,893	105,097	97,161	100,864	5.7	-0.8	-7.6	3.8
Net Exports of Goods and	-4,639	-2,934	-1,127	-1,468	-1.2	1.7	1.8	-0.4
Exports of Goods and Services	25,275	25,852	24,284	25,312	7.3	2.3	-6.1	4.2
Imports of Goods and Services	29,914	28,786	25,411	26,780	10.7	-3.8	-11.7	5.4
GROSS DOMESTIC PRODUCT)	101,255	102,164	96,034	99,395	4.7	0.9	-6.0	3.5
Net Factor Incomes	-1,292	-1,248	-1,489	-1,434	-6.6	-3.4	19.3	-3.7
Net Current Transfers	378	273	318	363	7.1	-27.7	16.4	14.0
GROSS NATIONAL	100,341	101,190	94,864	98,324	4.8	0.8	-6.3	3.6
PUBLIC DISPOSABLE INCOME	12,413	12,013	8,318	9,782	-6.6	-3.2	-30.8	17.6
Public Consumption	7,598	7,844	8,192	8,388	5.4	3.2	4.4	2.4
Public Saving	4,815	4,169	127	1,394				
Public Investment	4,299	4,702	4,813	5,044	16.6	9.4	2.4	4.8
Public Saving-Investment	516	-533	-4,687	-3,650				
PRIVATE DISPOSABLE INCOME	87,929	89,177	86,545	88,542	6.7	1.4	-3.0	2.3
Private Consumption	72,089	71,705	69,509	71,249	5.2	-0.5	-3.1	2.5
Private Saving	15,840	17,472	17,036	17,293	14.0	10.3	-2.5	1.5
Private Investment	21,908	20,847	14,647	16,183	5.4	-4.8	-29.7	10.5
Private Saving-Investment	-6,068	-3,374	2,389	1,110				

Source: SPO
(1) Percentage changes indicate contribution to GDP growth
(2) Realization Estimate
(3) Program

b) Targets for the Year 2010

In 2010, while total domestic demand increases by 3.8 percent in reel terms, GDP is targeted to growth by 3.5 percent due to the negative 0.4 percentage point contribution of net exports to GDP growth.

In 2010, private sector consumption expenditures and public sector consumption expenditures are anticipated to increase by 2.5 percent and 2.4 percent, respectively. In this year, private fixed capital investment and public fixed capital investment are expected to grow by 7 percent and 10.3 percent, respectively.

When the situation is analyzed in regards with contribution to growth, it is observed that private consumption contributes by 1.8, public consumption by 0.2, private fixed capital investment by 1.2 and public sector fixed capital investment by 0.5 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 0.2 percentage points.

In 2010, the ratio of public disposable income to GDP is estimated to realize as 9.9 percent, with 1.2 point increase relative to previous year. In 2010, public saving-investment balance is expected to realize as negative 5.6 percent owing to the improvement in share of public saving in GDP, which increases from negative 2,6 percent to negative 1.3 percent compared to previous year, while the share of public investment to GDP stays at the previous year's level. In 2010, the ratio of private disposable income to GDP is estimated to realize as 3.2 percent due to the 1.2 percentage points rise in private investment and 1 percentage point fall 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. Because, on the one hand some of the value added created in the country is transferred to non-residents via profit transfers, interest and wage payments, residents get some incomes from non-residents on the other. These kinds of incomes are called as factor incomes in the balance of payments statistics. When we add factor incomes to GDP, we obtain Gross National Income (GNI) concept. On the other hand, there are some transfers between residents and non-residents which are unrelated to usage of production factors. These kinds 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, we reach Gross National Disposable Income (GNDI) concept. GNDI denotes all income that can be used by residents and is used in the calculation of savings. In other words, when we subtract total consumption from GNDI, we get total domestic savings.

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 = Consumption Expenditures + Investment Expenditures + Exports of Goods and Services – Imports of Goods and Services

GNI = GDP + Net Factor Incomes from abroad

Net Factor Incomes from abroad = Incomes received from abroad by residents – Incomes paid to nonresidents

GNDI = GNI + Net Current Transfers from abroad

Net Current Transfers from abroad = Current Transfers from abroad by residents – 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 also saving-investment balance of the economy. The general balance of the economy is prepared to show public and private sector figures separately and in this context the sum of public disposable income and private disposable income gives us GNDI. When we subtract consumption figures from disposable incomes for public and private sectors, we obtain savings for both sectors and the sum of public savings and private savings gives us total domestic savings. In theory, total savings is equal to total investment at the end of the period. In this regard, when the total domestic saving falls short of total investment there will be foreign saving inflow to the economy while total investment exceeds total domestic saving 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 2009, public sector fixed capital investments are expected to rise by 0.4 percent in real terms. The distribution of public sector fixed capital investments are expected to be realized within the following percentages; 51.1 percent by the central budget institutions, 31.5 percent by local administrations, 11.9 percent by SEEs, 2.5 percent by the institutions under the scope of privatization, 0.9 percent by the Bank of Provinces and 2.1 percent by revolving funds and social security administrations.

In 2009, compared to year 2008, it is expected that the shares of transportation and other services will fall; energy and housing would remain at the same level; agriculture, mining, manufacturing, tourism, education and health would rise in the public sector fixed capital investments.

In 2009, as a result of ongoing global crisis, private sector fixed capital investments are expected to fall by 21 percent in real terms. It is particularly expected that the shares of mining, energy, transportation, housing and other services will rise whereas the shares of agriculture, manufacturing, tourism, education and health will fall in total of private sector fixed capital investments.

b) Targets for the Year 2010

In 2010, public sector fixed capital investments are expected to increase by 10.3 percent in real terms. It is expected that public sector fixed capital investments will be realized at the rates of 47.1 percent by central budget institutions, 32.1 percent by local administrations, 16.4 percent by the SEEs, 1.4 percent by the institutions under the scope of privatization, 0.8 percent by the Bank of Provinces and 2.2 percent by revolving funds and social security institutions.

In 2010, compared to the figures of 2009, within public sector fixed capital investments the shares of agriculture, mining, tourism, education and other services are expected to increase; manufacturing, energy and transportation are expected to fall and those of health and housing are expected to remain at the same level.

In 2010, as a result of expected recovery in economy, private sector fixed capital investments are expected to rise by 7 percent in real terms. Within this total, it is expected that the shares of energy and housing sector will fall, agriculture, transportation, tourism, education and health sectors will increase, and the rest will not change significantly.

TABLE: II. 10- Public Sector Fixed Capital Investments (2008)

(Current Prices, Million TL)

Sectors	Central Admin.(1)	SEEs	Institutions Under Scope of Priv.	Bank of Provinces	Rev. Fund+ SGK	SUBTOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	2,136	23	1	0	96	2,256	10.1	743	2,999	8.3
Mining	103	523	0	0	0	627	2.8	1	628	1.7
Manufacturing	18	139	41	1	0	199	0.9	155	355	1.0
Energy	1,120	803	1,120	0	0	3,043	13.7	358	3,401	9.4
Transportation	6,244	1,513	1	0	33	7,790	35.0	5,848	13,638	37.8
Tourism	100	0	0	0	2	102	0.5	29	130	0.4
Housing	97	0	0	0	0	97	0.4	457	555	1.5
Education	3,182	0	0	0	44	3,226	14.5	79	3,305	9.1
Health	1,131	0	0	0	391	1,523	6.8	458	1,980	5.5
Other Services	2,972	0	0	411	26	3,409	15.3	5,725	9,133	25.3
Economic	1,560	0	0	28	26	1,613	7.2	500	2,114	5.9
Social	1,413	0	0	383	0	1,795	8.1	5,224	7,020	19.4
Total	17,104	3,002	1,163	412	591	22,272	100.0	13,853	36,124	100.0
Percent. Shares	76.8	13.5	5.2	1.8	2.7	100.0				
Percent. Shares	47.3	8.3	3.2	1.1	1.6	61.7		38.3	100.0	

Source: SPO
(1) Excluding labour cost

TABLE: II. 11- Public Sector Fixed Capital Investments (2009) (1)

(Current Prices, Million TL)

Sectors	Central Admin.(2)	SEEs	Institutions Under Scope of Priv.	Bank of Provinces	Rev. Fund+ SGK	SUBTOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	2,675	58	1	0	99	2,834	11.8	621	3,454	9.8
Mining	148	805	0	0	0	954	4.0	1	955	2.7
Manufacturing	22	289	43	1	1	355	1.5	133	488	1.4
Energy	1,142	1,182	824	0	0	3,147	13.1	162	3,309	9.4
Transportation	5,511	1,848	17	0	80	7,456	31.0	4,557	12,013	34.2
Tourism	146	0	0	0	3	149	0.6	33	182	0.5
Housing	140	0	0	0	0	140	0.6	396	536	1.5
Education	3,440	0	0	0	50	3,490	14.5	222	3,711	10.6
Health	1,111	0	0	0	481	1,592	6.6	410	2,002	5.7
Other Services	3,601	6	0	299	17	3,924	16.3	4,534	8,458	24.1
Economic	1,975	6	0	20	17	2,018	8.4	461	2,480	7.1
Social	1,626	0	0	279	0	1,905	7.9	4,073	5,978	17.0
Total	**17,937**	**4,188**	**885**	**300**	**730**	**24,040**	**100.0**	**11,068**	**35,108**	**100.0**
Percent. Shares	74.6	17.4	3.7	1.2	3.0	100.0				
Percent. Shares	51.1	11.9	2.5	0.9	2.1	68.5		31.5	100.0	

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

TABLE: II. 12- Public Sector Fixed Capital Investments (2010) (1)

(Current Prices, Million TL)

Sectors	Central Admin.(2)	SEEs	Institutions Under Scope of Priv.	Bank of Provinces	Rev. Fund+ SGK	SUBTOTAL	Percentage Shares	Local Govts.	TOTAL PUB.SECT.	Percentage Shares
Agriculture	3,422	139	0	0	106	3,667	13.2	713	4,380	10.7
Mining	104	1,316	0	0	0	1,420	5.1	1	1,421	3.5
Manufacturing	36	278	21	2	1	335	1.2	162	497	1.2
Energy	1,374	1,452	550	0	0	3,376	12.1	180	3,556	8.7
Transportation	4,327	3,511	12	0	118	7,968	28.6	5,452	13,420	32.8
Tourism	180	0	0	0	3	182	0.7	40	222	0.5
Housing	156	1	0	0	0	157	0.6	484	641	1.6
Education	4,036	0	0	0	25	4,060	14.6	275	4,335	10.6
Health	1,311	0	0	0	467	1,778	6.4	502	2,279	5.6
Other Services	4,343	13	0	328	184	4,869	17.5	5,353	10,222	24.9
Economic	2,186	13	0	30	177	2,401	8.6	565	2,966	7.2
Social	2,157	0	0	298	8	2,469	8.9	4,788	7,256	17.7
Total	**19,288**	**6,710**	**583**	**330**	**903**	**27,813**	**100.0**	**13,162**	**40,975**	**100.0**
Percent. Shares	69.3	24.1	2.1	1.2	3.2	100.0				
Percent. Shares	47.1	16.4	1.4	0.8	2.2	67.9		32.1	100.0	

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

TABLE: II. 13- Sectoral Breakdown of Total Fixed Capital Investments (1)

(Current Prices, Million TL)

	2008			2009 (2)			2010 (3)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	3,374	3,709	7,083	3,942	1,145	5,087	5,001	1,322	6,324
Mining	646	2,600	3,246	982	2,376	3,358	1,440	2,795	4,234
Manufacturing	358	70,700	71,058	492	53,188	53,679	504	59,756	60,260
Energy	3,598	5,826	9,424	3,517	6,825	10,343	3,805	5,017	8,822
Transportation	14,733	28,608	43,341	13,017	26,106	39,123	14,206	30,701	44,906
Tourism	148	12,161	12,309	208	9,352	9,560	255	10,802	11,057
Housing	572	12,370	12,942	561	10,637	11,198	670	10,834	11,504
Education	3,863	1,913	5,775	4,338	1,177	5,515	5,068	1,792	6,860
Health	2,179	7,689	9,867	2,204	4,293	6,497	2,518	6,311	8,828
Other Services	9,654	7,116	16,770	9,114	6,724	15,838	11,011	7,483	18,494
TOTAL	**39,123**	**152,692**	**191,815**	**38,376**	**121,824**	**160,200**	**44,477**	**136,813**	**181,290**

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

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

(Current Prices, Percentage Shares)

	2008			2009 (2)			2010 (3)		
	Public	**Private**	**Total**	**Public**	**Private**	**Total**	**Public**	**Private**	**Total**
Agriculture	8.6	2.4	3.7	10.3	0.9	3.2	11.2	1.0	3.5
Mining	1.7	1.7	1.7	2.6	2.0	2.1	3.2	2.0	2.3
Manufacturing	0.9	46.3	37.0	1.3	43.7	33.5	1.1	43.7	33.2
Energy	9.2	3.8	4.9	9.2	5.6	6.5	8.6	3.7	4.9
Transportation	37.7	18.7	22.6	33.9	21.4	24.4	31.9	22.4	24.8
Tourism	0.4	8.0	6.4	0.5	7.7	6.0	0.6	7.9	6.1
Housing	1.5	8.1	6.7	1.5	8.7	7.0	1.5	7.9	6.3
Education	9.9	1.3	3.0	11.3	1.0	3.4	11.4	1.3	3.8
Health	5.6	5.0	5.1	5.7	3.5	4.1	5.7	4.6	4.9
Other Services	24.7	4.7	8.7	23.7	5.5	9.9	24.8	5.5	10.2
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) Realization estimate
(3) Programme target

2. Public Sector Investment Implementation

In Turkey, a significant amount of public investment is required for providing 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 environment, complying with the EU criteria, closing the gap between the developed countries and Turkey and reducing the inter-regional development disparities.

Considering the average of shares of public fixed capital investments of general government in GDP for the period 2002-2009 in Turkey, it is observed that the ratio is less than EU averages. Considering that the mentioned countries have relatively small land and less population than Turkey, have higher development levels, covered infra-structural needs to a great extent and sustained higher GDP, additional public investment is required in Turkey.

In the implementation of public investments in 2009; investments, which will enhance the economic and social infrastructure, were given emphasis considering the priorities on sectoral, regional and project basis.

TABLE: II. 15- Ratio of Public Fixed Capital Investments of General Government to GDP

(Percentage)

Countries	2002	2003	2004	2005	2006	2007	2008	2009
Belgium	1.7	1.7	1.6	1.8	1.6	1.6	1.6	1.8
Germany	1.7	1.6	1.4	1.4	1.4	1.5	1.6	1.9
Ireland	4.2	3.8	3.5	3.5	3.7	4.4	4.3	4.4
Greece	3.7	4.2	3.7	2.9	3.0	3.0	2.5	3.0
Spain	3.5	3.6	3.4	3.6	3.7	3.8	3.9	4.7
France	2.9	3.1	3.1	3.3	3.2	3.3	3.3	3.5
Italy	1.7	2.5	2.4	2.4	2.3	2.3	2.2	2.5
Luxembourg	5.0	4.6	4.2	4.5	3.6	3.4	4.5	4.6
Malta	4.5	5.1	3.9	4.9	4.1	4.0	3.8	3.4
Netherlands	3.5	3.6	3.2	3.3	3.3	3.3	3.5	3.5
Austria	1.3	1.2	1.1	1.1	1.1	1.0	1.1	1.1
Portugal	3.5	3.1	3.1	2.9	2.4	2.3	2.5	2.5
Slovenia	3.0	3.3	3.5	3.2	3.7	3.7	3.7	4.4
Slovakia	3.2	2.6	2.4	2.1	2.2	1.9	1.9	2.0
Finland	2.7	2.9	2.9	2.6	2.4	2.5	2.6	2.8
Euro Area Average	**3.0**	**3.0**	**2.9**	**2.9**	**2.8**	**2.8**	**2.9**	**3.1**
Bulgaria	2.7	2.5	2.9	4.2	4.2	4.8	5.7	6.7
Czech Republic	3.9	4.5	4.8	4.9	5.0	4.7	5.2	5.4
Denmark	1.8	1.6	1.9	1.8	1.9	1.7	1.8	2.0
Estonia	4.9	4.2	3.8	4.0	5.1	5.4	6.0	6.2
Latvia	1.3	2.4	3.1	3.1	4.6	5.7	6.2	5.6
Lithuania	2.9	3.0	3.4	3.4	4.1	5.2	5.5	5.0
Hungary	4.9	3.5	3.5	4.0	4.4	3.6	3.1	3.1
Poland	3.4	3.3	3.4	3.4	3.9	4.1	4.9	5.5
Romania	3.1	3.2	3.0	3.9	5.1	5.7	5.8	6.3
Sweden	3.2	3.1	2.9	3.0	3.1	3.1	3.3	3.6
England	1.4	1.6	1.7	0.7	1.8	1.8	2.0	2.7
EU Average	**3.1**	**3.1**	**3.0**	**3.1**	**3.2**	**3.3**	**3.5**	**3.7**
USA	**2.8**	**2.7**	**2.5**	**2.5**	**2.5**	**2.6**	**3.6**	**4.3**
Japan	**4.8**	**4.3**	**3.9**	**3.6**	**3.3**	**3.1**	**2.9**	**3.2**
Turkey	**4.6**	**2.9**	**2.4**	**2.9**	**2.9**	**3.1**	**3.4**	**3.2**

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

In 2009, excluding local administration investments and labour cost part of investments, in terms of 2009 prices, 2,332 public investment projects of which total value is TL 245.8 billion, cumulative expenditure as of end 2008 amounts to TL 110.9 billion and 2009 initial appropriation is TL 21.5 billion, have been implemented.

TABLE: II. 16– Public Investments in Turkey (2001-2009) (1)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of Projects	5,047	4,414	3,851	3,555	2,627	2,525	2,710	2,759	2,332
Total Value of Project (Current Prices, Billion TL)	105.2	166.8	187.1	196.1	206.7	200.4	209.3	219	245.8
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	110.9
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	21.5
Number of Multi-Year New Projects in the Investment Programme	286	128	134	149	137	155	161	180	279
Total Programme Appropriation / Total Value of project (%)	6.5	6.3	6.7	6.1	7.8	8.7	8.2	7.8	8.7
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	5.3

(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 2009 Investment Programme, 627 out of 2,332 projects, with an amount of TL 4.4 billion are projects those planned to be launched and completed during the year. Furthermore, 279 multiyear new projects with a total value of TL 10.3 billion and annual appropriation of TL 1.1 billion have been taken into the investment programme.

In 2009 Investment Programme, in the allocation of TL 21.5 billion to the 2,332 public investment projects, transportation-communication sector is in the first place with 24.2 percent, followed by other public services sector with 19.4, education sector with 15.9, energy sector with 13.1, agriculture sector with 12.9 and health sector with 7.6 percent. Mining, manufacturing, tourism and housing sectors claim 7 percent of the 2009 Investment Programme.

In 2009 Investment Programme, for 2,332 public investment projects amounting to TL 245.8, total cumulative expenditure as of end 2008 was TL 110.9 billion and the remaining project stock is TL 134.9 billion. In this situation, under the assumptions that 2009 appropriation is fully utilized, the current year level appropriation is maintained and no additional projects are taken into the investment programme in the following years, 5.3 years is estimated as average completion time for the remaining stock.

TL 15.2 billion, which corresponds to 70.6 percent of total investment appropriation amounting TL 21.5 billion, is allocated for central budget in year 2009. Other Public Services sector including general administration, security, justice, drinking water, environment, technological research sectors etc. has the largest share with 22.4 percent of central budget, followed by education sector with 22.4 percent of central budget.

It is predicted that 14.9 percent of total investment appropriation corresponding TL 3.2 billion would be financed with foreign project credits. In 2009 Investment Programme, 83 projects totaling TL 80.1 billion are considered to be financed partially or totally 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, however 26 projects worth of TL 9.1 billion in terms of 2009 prices remain with trace allocation in 2009 Investment Programme.

In Turkey, despite the improvements attained through rationalization efforts in recent years, project stock, especially for irrigation sector, is still considerably large contrary to the limited financial resources. Insufficiency of systematic project cycle management approach and the capacity of public institutions' project preparation, implementation, and monitoring and evaluation units causes 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 modernization expenditures for effective utilization and protection of its current capital stock.

In order to establish safe and lively cities by preventing and reducing damages of probable natural disasters, public investments are essential to develop damage reducing strategies and to implement these strategies in all 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: 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, implement, monitor and evaluate for 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 prioritization of projects with the help of strategic planning in public institutions and the strategies set in the strategy documents, benefiting from public-private partnerships models, leaving local services to the local administrations and thus implementing the local administration principal.

In addition to sectoral and regional set of priorities, ongoing projects below would be prioritized in 2010;

- Those projects, which would be able to be completed by the end of 2010,
- 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 utilization and protection of current 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,
- Projects which are in compliance with the e-Transformation Turkey Project and Turkish Information Society Strategy.

C. BALANCE OF PAYMENTS

1. Current Account Balance

a) Current Outlook

Global crisis, which had impact on foreign trade of Turkey in the last quarter of 2008, have caused a considerable decline in goods and services import and export in 2009. Due to the shrink in GDP and decline in commodity prices, current account deficit fell to USD 6.6 billion with a decrease of 81.2 percent in the first eight months of 2009 compared to same period of the last year.

Foreign Trade Balance

Foreign trade deficit, which was USD 53.3 billion in January-August period of the year 2008, fell to USD 23 billion in the same period of 2009. Higher level of decline in imports compared to decline in exports has been effective in this development. In this framework, export/import ratio advanced to 73.8 percent from 63.4 percent. In the same period foreign trade deficit decreased by 66.9 percent and fell from USD 41.6 billion to USD 13.8 billion.

TABLE: II. 17- The Foreign Trade of Turkey and the Factors Affecting the Foreign Trade

(Percentage Change)

	2007	2008	2009 (1)	2010 (2)
Exports (Billions of USD)	107.3	132.0	98.5	107.5
Imports (Billions of USD)	170.1	202.0	134.0	153.0
Exports	25.4	23.0	-25.4	9.1
Imports	21.8	18.8	-33.7	14.2
Export Price Index	12.7	15.5	-15.4	3.5
Import Price Index	9.7	20.0	-22.9	7.2
Real Exports	11.3	6.5	-11.8	5.4
Real Imports	11.1	-1.1	-13.9	6.5
Manufactured good prices	9.0	8.6	-9.1	3.1
Oil Prices	10.7	36.4	-36.6	24.3
Non-fuel Primary Commodity Price Index	14.1	7.5	-20.3	2.4
Crude Oil Barrel Prices(3) (US Dollar)	71.1	97.0	61.5	76.5
GDP Growth Rate	4.7	0.9	-6.0	3.5
Industry Growth Rate	5.8	1.1	-8.5	4.4
Domestic Demand Growth Rate	5.0	-1.1	-5.6	3.8
World Growth Rate	5.2	3.0	-1.1	3.1
World Goods and Services Export	7.3	3.0	-11.9	2.5
Euro Area Growth Rate	2.7	0.7	-4.2	0.3
Euro Area Goods and Services Import	5.5	0.9	-13.6	-1.2
Real Exchange Rate (1 USD + 1,5 Euro)	10.7	2.0	-8.5	-1.0
Productivity	2.8	-0.5	-6.5(4)	0.3
Productivity (Developed Economies)	3.2	-0.1	-2.6	1.8
Unit Labour Cost (USD)	2.5	0.6	-0.3(4)	0.9
Unit Labour Cost (Developed Economies)	0.3	3.3	4.9	0.2

Source: TURKSTAT, SPO, IMF World Economic Outlook, October 2009
(1) Realization estimate
(2) Programme target
(3) Annual average of spot prices of Brent, Dubai and West Texas crude oil
(4) As of June, annualized

Export

In January-August period of 2009, export realized as USD 64.6 billion by decreasing 30.1 percent compared to the same period of the previous year. In the mentioned period, export of manufactured goods, that account for 94.3 percent of total export, decreased by 30.9 percent. In this decrease, declines of 47.1 percent in motor vehicles exports, 53.5 percent in basic metals exports and 28.9 percent in machinery and equipment exports became main determinant. In the same period, mining sector export declined by 38.2 percent while agricultural sector export increased by 8.2 percent.

Despite the sharp decline in oil prices in the second half of the 2008, the share of oil exporter countries in the total export volume of Turkey increased. High rate of decrease in import demand of EU countries in the first eight months of 2009 also affected this fact.

TABLE: II. 18- Exports by Country Groups and Chapters

(Billions of USD)

	Annual		January – August	
	2007	**2008**	**2008**	**2009**
TOTAL EXPORTS	**107.3**	**132.0**	**92.4**	**64.6**
EU COUNTRIES (EU-27)	**60.4**	**63.4**	**45.5**	**28.7**
OTHER COUNTRIES	**46.9**	**68.6**	**46.8**	**35.9**
Black Sea Economic Cooperation	16.8	20.9	14.7	7.6
Organization for Economic Co-operation	4.7	6.2	4.1	3.7
New Independent States	10.1	13.9	9.5	5.4
Turkish Republics	2.9	3.7	2.4	2.1
Islamic Conference	20.3	32.6	21.9	18.7
The First Five Countries in Export Volume				
Germany	12.0	13.0	9.2	6.2
France	6.0	6.6	4.8	3.8
Italy	7.5	7.8	5.8	3.6
United Kingdom	8.6	8.2	5.8	3.5
Iraq	2.8	3.9	2.3	3.4
The First Five Chapters in Export Volume				
87. Vehicles other than railway	15.9	18.3	13.9	7.3
84. Machineries, mechanical appliances, boilers and ; parts thereof	8.8	10.3	7.3	5.2
72. Iron and steel	8.4	14.9	11.0	5.1
71. Pearls, precious stones, coin	2.6	5.4	3.5	4.7
61. Articles of apparel and clothing acc. knitted	8.0	7.8	5.6	4.5

Source: TURKSTAT

Export volume is projected to become USD 98.5 billion with a 25.4 percent decrease in 2009. In the same period, export prices are expected to decline by 15.4 percent and thereby decrease in real export will be 11.8 percent.

TABLE: II. 19- Sectoral Breakdown of Exports (ISIC.Rev.3)

	(Billion USD)			(Percent Share)			(Percent. Change)	
	2008	**2009 (1)**	**2010 (2)**	**2008**	**2009 (1)**	**2010 (2)**	**09/08**	**10/09**
TOTAL EXPORTS	**132.0**	**98.5**	**107.5**	**100.0**	**100.0**	**100.0**	**-25.4**	**9.1**
Agric., Forest., Fishery	4.2	3.7	3.8	3.2	3.7	3.6	-12.6	5.0
Mining and Stone Quarrying	2.2	1.5	1.7	1.6	1.5	1.5	-32.7	14.3
Manufacturing Industry	125.2	93.0	101.6	94.8	94.4	94.5	-25.7	9.2
Other	0.5	0.4	0.4	0.4	0.4	0.4	-21.2	4.2

(1) Realization estimate
(2) Programme target

Import

In January-August period of 2009, import volume fell to USD 87.6 billion by a 39.6 percent decrease compared to the same period of previous year. Deepening of economic contraction, due to the global crisis, which emerged in the second half of 2008 was the main reason of the decline in import demand. In this period, consumption and investment goods import decreased at a smaller rate than that of total import volume while the decline in intermediate goods became 43.9 percent due to the shrink in export and production and the drop in commodity prices.

In January-August period of 2009, the share of import from oil exporter countries in the total import decreased due to declining fuel prices. The share of import from EU countries in total import rose to 39.9 percent in January-August period of 2009 from 37.4 percent compared to the same period of 2008.

In 2009, import is estimated to reach USD 134 billion by a 33.7 percent decrease. Import prices are expected to decrease by 22.9 percent and decline in real import will be 13.9 percent.

TABLE: II. 20- Composition of Imports According to Broad Economic Categories (BEC)

	(Billion USD)			(Percent Share)			(Percent. Change)	
	2008	2009 (1)	2010 (2)	2008	2009 (1)	2010 (2)	09/08	10/09
TOTAL IMPORT	**202.0**	**134.0**	**153.0**	**100.0**	**100.0**	**100.0**	**-33.7**	**14.2**
Capital Goods	28.0	20.5	23.5	13.9	15.3	15.4	-26.8	14.6
Intermediate Goods	151.7	95.3	110.4	75.1	71.1	72.2	-37.2	15.9
Consumption Goods	21.5	17.6	18.4	10.6	13.1	12.0	-18.1	4.5
Other	0.7	0.6	0.7	0.3	0.5	0.5	-10.8	11.1
Fuel (27th Item)	48.3	26.1	34.5	23.9	19.5	22.5	-46.0	32.1
Excluding Fuel	153.7	107.9	118.5	76.1	80.5	77.5	-29.8	9.8

(1) Realization estimate
(2) Programme target

The sharp increase of energy prices from 2001 till the mid of 2008 affected fuel import and current account negatively. When energy price impact is neglected, the ratio of current account deficit to GDP drops to 1.9 percent from 5.7 percent as of year 2008 and to 0 percent from 3.2 percent as of the first half of 2009. In 2008, nominal energy import rose by 42.5 percent due to increase in energy prices, although real energy import decreased compared to the previous year. In 2009, import of these goods is estimated to decrease by 46 percent owing to fall in energy prices and contraction in production

TABLE: II. 21 The Effect of Energy Prices on Current Account Deficit

(Billion USD, Annualized)

	2007	2008	2009-Q1	2009-Q2
Current Account	-38.2	-41.7	-31.1	-20.7
Net Fuel Import (27th item)	-28.7	-40.7	-37.8	-32.3
Foreign Trade Balance Excluding Fuel	-34.1	-29.2	-20.5	-15.2
Net Fuel Import by 2002 Prices	-12.2	-12.1	-12.0	-11.8
Current Account without Fuel Price Impact	-21.7	-13.0	-5.3	-0.3
Current Account Balance / GDP (%)	-5.9	-5.7	-4.5	-3.2
Net Fuel Import / GDP (%)	-4.4	-5.6	-5.5	-5.0
Foreign Trade Excluding Fuel / GDP (%)	-5.2	-4.0	-3.0	-2.4
CA without Fuel Price Impact /GDP (%)	-3.3	-1.9	-0.8	0.0
Current Account without Fuel / GDP (%)	-1.5	-0.1	1.0	1.8
Fuel Price index (2003=100)	223.9	321.0	300.1	260.7
Crude Oil Price (barrel/ dollar)	68.1	97.1	89.7	74.6

Source: SPO, TURKSTAT, CBRT

Oil barrel prices reaching USD 143 in July 2008 fell to USD 40 with a sharp decline in the beginning of 2009, but in the first half of 2009 rose by more than 50 percent due to recovery signs and OPEC's persistence to restrain oil supply. Nevertheless, in 2009 oil prices and commodity good prices are estimated to decline by 36.6 and 20.3 percent respectively relative to 2008 average.

Balance on Services, Income and Current Transfers

In January-August 2009 period, tourism revenues reached USD 14 billion with 3.8 percent decrease in comparison with the same period of the previous year. Tourism income is estimated to reach to USD 21 billion in 2009. Despite the shrinking foreign demand, transportation expenses decreased more than the revenues and net transportation revenues increased. As a result of these developments, for the period January to August of 2009, the balance on services has maintained the level in the same period of 2008.

In January-August 2009 period the deficit in income balance decreased to USD 5.3 billion by dropping 6.7 percent compared to the same period of the previous year. In January-August 2009 period total amount of interest payments including the bond repayments by the general government and the banks which is recorded under portfolio investments account, were realized as USD 7.3 billion. Thus, current account deficit excluding interest payments which was USD 27 billion in January-August period of 2008 turned to current account surplus of USD 732 million in the same period of 2009.

By the end of first eight months of 2009, current transfers yielded a surplus of USD 1.2 billion.

TABLE: II. 22- Current Account Balance

(Billion USD)

	2007	2008	2009(1)	2010(2)
CURRENT ACCOUNT BALANCE	**-38.2**	**-41.7**	**-11.0**	**-18.0**
BALANCE ON FOREIGN TRADE	**-46.7**	**-53.0**	**-21.4**	**-31.0**
Exports f.o.b.	114.3	137.1	102.0	113.7
Exports f.o.b.	107.3	132.0	98.5	107.5
Shuttle Trade, Adaptation	7.1	5.1	3.5	6.2
Imports f.o.b.	-156.1	-187.8	-125.0	-141.4
Imports c.i.f.	-170.1	-202.0	-134.0	-153.0
Freight and Insurance, Adaptation	13.9	14.2	10.3	8.2
BALANCE ON SERVICES	**13.3**	**17.5**	**17.3**	**19.2**
Credit	28.6	34.8	32.8	35.8
Debit	-15.3	-17.3	-15.5	-16.6
Tourism	15.2	18.4	16.2	18.3
Credit	18.5	22.0	21.0	22.5
Debit	-3.3	-3.5	-3.8	-4.2
BALANCE ON INCOME	**-7.1**	**-8.2**	**-8.7**	**-8.4**
Credit	6.4	6.9	5.8	6.9
Debit	-13.5	-15.0	-14.4	-15.3
Investment Income	-7.0	-8.1	-8.6	-8.3
Direct Investments	-2.1	-2.6	-2.5	-2.5
Portfolio Investments	0.4	1.0	-0.1	1.3
Other Investments	-5.3	-6.5	-6.5	-7.0
Interest Income	2.2	2.0	2.0	2.1
Interest Expenditure	-7.5	-8.5	-8.5	-9.1
Long Term	-6.8	-7.8	-7.8	-8.4
CURRENT TRANSFERS	**2.2**	**2.0**	**1.8**	**2.2**

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

b) Targets for the Year 2010

In 2010 total exports, with a 9.1 percent increase, is projected to reach USD 107.5 billion while total imports is projected to reach USD 153 billion with an increase of 14.2 percent. In this context, the foreign trade deficit is projected to realize as USD 45.5 billion in 2010. In 2010 it is projected that, USD 6.2 billion shuttle trade revenue and USD 8.7 billion freight and insurance income will be generated and thus foreign trade balance, as shown in the balance of payments, will yield a deficit of USD 31 billion.

In 2010 export prices are projected to increase by 3.5 percent and import prices by 7.2 percent. Thus, the real growth of exports and imports of Turkey is projected to be 5.4 percent and 6.5 percent respectively.

In 2010 while tourism revenues are projected to reach USD 22.5 billion, tourism expenditures are projected to reach USD 4.2 billion. In 2010 credit and debit side of total services is expected to reach USD 35.8 billion and USD 16.6 billion respectively. Thus, balance on services would result in a surplus of USD 19.2 billion.

In 2010 while a deficit of USD 8.4 billion is projected in the balance on income, a surplus of USD 2.2 billion is projected in current transfers. Thus, current account deficit is projected to be USD 18 billion in 2010. The ratio of current account balance to GDP, which is expected to be 1.8 percent in 2009, is forecasted to increase by 2.8 percent in 2010.

2. Capital and Financial Account

In the second half of 2008, as a result of the meltdown occurred in financial assets in national and international markets and crisis of confidence, international capital flows substantially shrunk and this process negatively affected Turkey as well as other countries. In addition to these developments, due to the contradiction in Turkish economy, capital inflows into Turkey decreased considerably. Thus, capital inflows which realized as USD 35.3 billion in 2008, has turned into capital outflow of USD 4 billion as of August 2009 in annualized terms. In mentioned decrease, equity sales and domestic borrowing security sales of foreign investors and net loan payer position of banks and non-bank private sector due to contraction in international credit markets particularly in the last quarter of the 2008 were the main determinants. Besides, foreign direct investment inflows to Turkey shrunk as well with substantial decrease in foreign direct investment inflows to developing countries.

Due to slowdown in capital flows to developing countries that stem from global economic crisis, foreign direct investment inflows which realized as USD 15.8 billion in 2008 came down to USD 10 billion as of August 2009. Purchase of real estate by non-residents accounted for USD 2.2 billion of the total FDI amount. In the first eight months of 2009, net foreign direct investment flows amounted to USD 5 billion corresponding to a decrease of 53.7 percent compared to the same period of the previous year. Although foreign direct investments, known as non-debt creating flow, decreased in mentioned period, it financed 76 percent of the current account deficit.

The deterioration in risk perception and expectations resulted from global crisis caused the portfolio investments outflows in Turkey as well as in other countries. As of August 2009, in annualized term, net portfolio investment outflow became USD 4.5 billion. At the same period, inflows in equities and outflows in government domestic borrowing securities under the liabilities item of portfolio investments became USD 0.2 and 2.4 billion, respectively. In the period of May-August 2009, increase in risk appetite and optimistic expectations about future in the international markets reflected in portfolio investment to Turkey positively and thereby foreign investors invested total of USD 3.3 billion in portfolio instruments in the first eight months of 2009.

TABLE: II. 23- Capital and Financial Account

(Billions of USD)

	2007	2008	2009(1)	January-August 2008	January-August 2009
Current Account Balance	**-38.2**	**-41.7**	**-13.3**	**-34.9**	**-6.6**
Capital Flows by Types (excl. reserves)	**44.7**	**35.3**	**-4.0**	**39.5**	**0.2**
Direct Investment (net)	19.9	15.8	10.0	10.8	5.0
Portfolio Investment (net)	0.7	-5.1	-4.5	1.3	1.8
Equity Securities	5.1	0.7	0.2	2.3	1.8
Debt Securities	-3.3	-5.1	-6.0	-0.2	-1.2
Other Investments (net)	24.0	24.6	-9.4	27.4	-6.6
Capital Flows by Debtor(2)	**24.7**	**19.5**	**-14.0**	**28.7**	**-4.8**
Public Sector	**-7.8**	**-2.9**	**-3.5**	**1.7**	**1.1**
Private Sector	**32.5**	**22.4**	**-10.5**	**27.0**	**-5.9**
Banks	-1.5	-1.3	-6.5	4.3	-0.9
Long-Term	7.3	0.7	-5.7	4.2	-2.2
Non-Bank	34.0	23.7	-4.0	22.7	-4.9
Long-Term	25.7	2.7	-3.8	20.0	-6.5
Reserve Assets(3)	**-8.0**	**1.1**	**4.4**	**-2.7**	**0.6**
Net Error and Omissions	**1.6**	**5.3**	**12.9**	**-1.9**	**5.7**
For Information					
Foreign Dir. Inv. (net)/Current Account Balance	-52.2	-37.9	-75.1	-30.9	-76.0
Net Error and Omissions / Current Account Balance	-4.2	-12.7	-96.9	5.5	-87.0

Source: CBRT
(1) As of August, Annualized
(2) Foreign direct investments is not counted in the part of capital flows by debtor since it is considered as an item which don't create debt and is unable to identified clearly the separation between public and private sector in inflows of FDI while net equities purchasing of foreign investors in Istanbul Stock Exchange is take into accounted in long-term capital flows.
(3) "–" sign indicates rise.

Other investment items, which indicate credit and deposit relationship of public and private sector with abroad, became USD 24 billion and USD 24.6 billion in 2007 and 2008 respectively, amounted to USD 9.4 billion of outflow as of August 2009 in annualized term. Difficulties in accessing to foreign credit facility by private sector, due to liquidity squeeze and tightness in credit conditions in the international markets, have been effective on considerable decrease of other investments, especially in private sector credit.

Examined the developments of capital flows by debtor excluding foreign direct investments as of August 2009 in annualized term, it is observed that both public and private sector were in net debt payer positions. In fact, outflow amount in external balance of public sector became USD 3.5 billion while outflow amount in external balance of private sector became USD 10.5 billion of which USD 6.5 billion from banks and USD 4 billion from non-banks sector. 90.1 percent of outflow of USD 10.5 billion in private sector resulted from its net payer position of long- term credits.

USD 17.3 billion financing requirement resulted from current account deficit and capital outflows were financed by official reserves and net error and omissions amounted to USD 4.4 and 12.9 billion respectively.

3. External Debt Stock

Total external debt stock, which has an increasing trend since 2002, recorded decline by the second quarter of 2009 due to global financial crisis. Thus, total outstanding external debt which was USD 278.1 billion by the end of 2008 declined to USD 268.6 billion in the first half of 2009. This is accounted mainly by the recorded decrease in the private sector outstanding external debt by USD 9 billion in this period.

The ratio of external debt stock to GDP which was 37.5 per cent in 2008 increased to 38.7 percent by 1.2 points rise in the first half of 2009.

TABLE: II. 24- Selected Indicators on External Debt Stock

(Billions of USD)

	2004	2005	2006	2007	2008	2009*
Total External Debt	**161.0**	**169.7**	**207.6**	**249.4**	**278.1**	**268.6**
Short Term External Debt	32.2	38.3	42.6	43.2	50.5	47.8
Medium-Long Term External Debt	128.8	131.4	165.0	206.3	227.6	220.8
Public Sector External Debt	75.7	70.4	71.6	73.5	78.3	78.2
CBRT External Debt	21.4	15.4	15.7	15.8	13.9	13.5
Private Sector External Debt	63.9	83.9	120.3	160.1	186.0	177.0
Financial Institutions	21.7	33.3	49.2	58.5	63.0	58.6
Non- Financial Institutions	42.2	50.6	71.1	101.6	123.0	118.4
Percentage Shares						
Short Term Ext. Debt / Total Ext. Debt	20.0	22.6	20.5	17.3	18.2	17.8
Public Sect. Ext. Debt/ Total External Debt	47.0	41.5	34.5	29.5	28.1	29.1
CBRT Reserves (net) / Short Term Ext. Debt	116.9	137.0	148.5	177.2	147.0	146.1
Total External Debt Stock / GDP	41.2	35.2	39.4	38.4	37.5	38.7

Source: Undersecretariat of Treasury
*As of end of June

D. INFLATION AND MONETARY-EXCHANGE RATE POLICY

1. Inflation

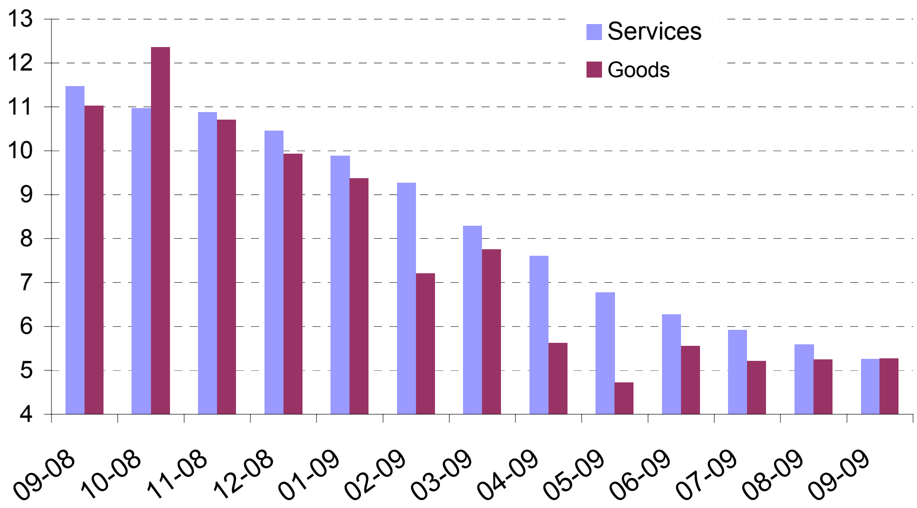
In 2008 Consumer Price Index (CPI) and Producer Price Index (PPI) rose by 10.06 and 8.11 percent respectively. Annual consumer inflation increased by 1.7 percentage points relative to previous year and realized above the inflation target, the highest level of last five years. In this progress, the high rates of increases seen in the majority of the year in food and energy items with respect to supply side shocks became effective. The increases seen in the commodity prices caused inflation to rise rapidly all over the world in 2008 and in that period similar tendency was seen in our country.

GRAPH:3- Price Developments

CPI and Special CPI Aggregate -(I) (Annual Percentage Change)	**PPI and Manufacturing Industry Prices** (Annual Percentage Change)
	

With the effect of distinct slowdown in the world economy and deepening in the global crisis, decline tendency that has started to be seen in the inflation since the last quarter of the 2008 has continued in 2009 by getting strength from cost based effects and slowdown on economic activity. The annual consumer inflation that reduced to 7.89 percent in the first quarter of the year became 5.73 percent in the end of the second quarter. Though the rate of fall decelerated by the effect of measures taken for ensuring the public fiscal balance in the third quarter of the year, annual inflation declined to 5.27 percent as of September.

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



It is monitored that the decline in the CPI in the first nine months of the 2009 spread to all sub items. Especially, the contribution of food and energy prices to inflation reduced to 2.2 percentage points on annual base as of September by recording distinct reduction compared to 2008. In this progress, the reflection of decline in international commodity prices on energy and processed food prices became effective. Similarly, in the services price growth rate, a slowdown that has spread to sub items has drawn the attention. In this group, with the sharp decline in the economic activity and conversion of supply side shocks effect to positive, annual inflation rate declined to 5.26 percent in September, which is historical lowest level.

The sharper contraction of total demand than expected and the temporary tax reductions made in the framework of domestic demand activator fiscal measures caused inflation in main good and services groups to decline faster than the anticipated. As a result of these developments, by September, the growth rate of CPI realized below the lower limit of predetermined uncertainty band that composed around the path compatible with year end target.

The annual increase in special CPI aggregate CPI-H, excluding energy, unprocessed food, alcoholic beverages, tobacco and gold declined to 2.44 percent, the CPI-I index which is computed by subtraction of processed food from CPI-H declined to 3.37 percent. While the temporary changes in the rate of Private Consumption Tax and Value Added Tax became effective in these low levels, main indicators have noted that reduction on the main tendency of inflation was protected independent from tax reductions.

As of September 2009 the annual change in PPI realized as 0.47 percent. Agriculture prices and the industry prices became 4.08 and -0.32 percent respectively. Though Turkish Lira depreciated compared to 2008, distinct decline in commodity prices blocked it to compose significant cost side pressures on consumer prices.

2. Monetary and Exchange Rate Policy

a) Current Outlook

The monetary policy in 2009, alike from the beginning of 2006, has been implemented based on the principles of inflation targeting regime. Accordingly, the inflation target for the end of 2009, calculated by the annual percentage change of the Consumer Price Index (CPI), has been determined by the Central Bank and Turkish Government jointly as 7.5 by June 3, 2008. In addition, quarterly 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. When the inflation developments are considered for the first three quarters of 2009, a significant drop in inflation was observed because of the effect of sharp slowdown in global demand as a result of global crisis. Thus, inflation stayed below the lower limit of the uncertainty band.

TABLE: II. 25- Inflation Path Consistent With Target in 2009 and the Uncertainty Band

	March	June	September	December
Upper Limit of Uncertainty Band	11.7	10.8	10.5	9.5
Path Consistent With the Target	9.7	8.8	8.5	7.5
Lower Limit of Uncertainty Band	7.7	6.8	6.5	5.5
Realized Inflation	7.89	5.73	5.27	-

Source: CBRT, TURKSTAT

In 2009, mainly the global economy developments have been influential on inflation and monetary policy. Domestic inflation rates demonstrated a declining trend in the last period of 2008 because of the weakening demand and cost pressures and this trend continued during the first nine months of 2009. In line with these developments, Central Bank started to cut interest rates in November 2008 and continued during 2009.

TABLE: II. 26- Monetary Policy Committee (MPC) Decisions in 2008 September-2009 October Period

Dates for MPC Meetings	Decision on Interest Rates	Interest rate*
18 September 2008	No Change	16.75
22 October 2008	No Change	16.75
19 November 2008	-0.50	16.25
18 December 2008	-1.25	15.00
15 January 2009	-2.00	13.00
19 February 2009	-1.50	11.50
19 March 2009	-1.00	10.50
16 April 2009	-0.75	9.75
14 May 2009	-0.50	9.25
16 June 2009	-0.50	8.75
16 July 2009	-0.50	8.25
18 August 2009	-0.50	7.75
17 September 2009	-0.50	7.25
15 October 2009	-0.50	6.75

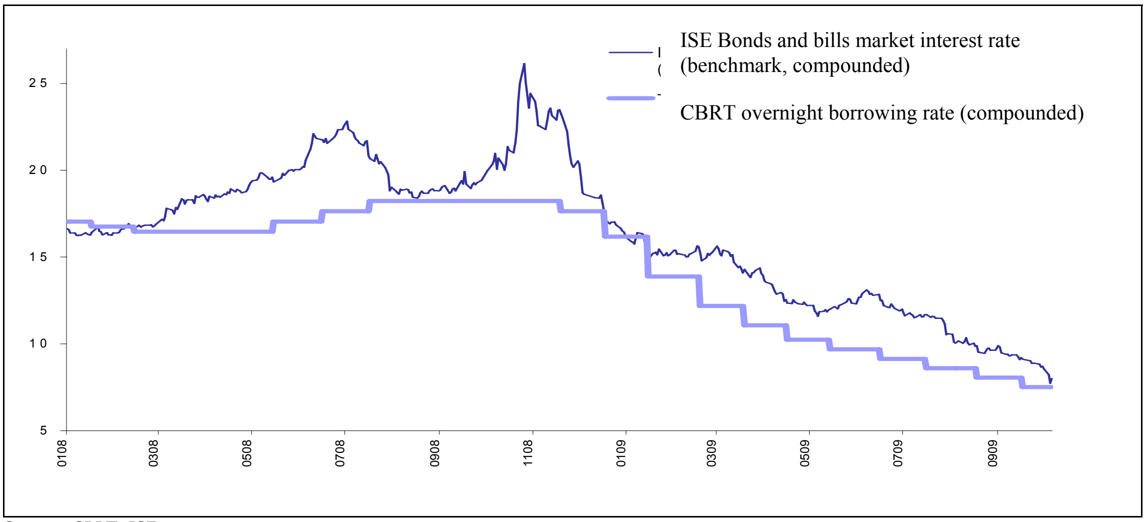
Source: CBRT
(*)Overnight borrowing rates used in the Interbank Money Market and the Repo and Reverse Repo Market of the Istanbul Stock Exchange.

Data, published in the first months of 2009, pointed out that the effects of global crisis on economic activity deepened. In this context, Central Bank accelerated the rate cuts and the policy interest rate has been reduced by 525 basis points in the first four months of year 2009.

Although the signs were taken regarding the partial recovery of economic activity since May 2009, policy interest rate cuts continued until October because of the uncertainty in the strength and the permanence of the recovery in domestic demand. Thus, in the first ten months of 2009, a total of 825 basis points interest rate cut was realized. Despite this reduction in interest rates, rapid contraction in demand conditions, decline in commodity prices and the tax reductions within the scope of financial measures resulted to a sharp decline in inflation. June and September inflation rates remained below the target path.

Since the data released on inflation and economic activity have vindicated the necessity of the rapid cutting process on policy interest rates, impact of the interest rate decisions on market rates have strengthened and thereby market rates declined in a significant amount in parallel to policy rates. In addition, the medium-term inflation expectations exhibited a significant decrease in the first quarter of 2009 and followed a horizontal course for the rest of the year with the impact of the decline in inflation rate.

GRAPH:5- Monetary Policy Decisions and Market Interest Rate



Source: CBRT, ISE

Preserving the main objective of ensuring price stability, in order to avoid the negative effects of the global financial crisis on Turkish economy and financial stability, Central Bank took measures since mid 2008 to overcome the liquidity squeeze in TL and FX markets to ensure orderly functioning of these markets and to restrict the contraction in economic activity. In this context, Liquidity Support Facility conditions for the banks were revised and implementing regulation which determines principles and procedures to use this facility has been posted at the CBRT website on January 29, 2009. Accordingly, under extraordinary situations, credits would be available to banks as advance payments with one month maturities for a maximum period of one year, at the lending rate set for the intraday transactions carried out at the Interbank Money Market. With the aim of enhancing the sound functioning of the banks' liquidity management and transfer mechanism, in addition to the one-week maturity repo auctions which are the basic funding instruments, it was agreed that it would be useful to resort to repo transactions with maturities up to 3 months when necessary, actively beginning from June 19, 2009.

By the regulations held in November 2008 and February 2009, the maturity of the FX deposit borrowed within the pre-determined borrowing limits by banks from the Foreign Exchange Deposit Markets in terms of US Dollar and Euro was extended gradually from one month to three months. Moreover, the lending rate for transactions in which the Central Bank is a party was reduced gradually from 10 percent to 5.5 percent for US Dollar and 6.5 percent for Euro.

To ensure smooth operation of the market through supporting FX liquidity Central Bank launched foreign exchange selling auctions with daily amount of USD 50 million beginning from 10 March 2009. The favorable developments in global markets have eased the concerns pertaining to the depth of the foreign exchange market and CBRT decided to suspend the foreign exchange selling auctions as of April 3, 2009. As of the aforementioned period, USD 900 million was sold in total in the eighteen auctions.

To continue the arrangements made in 2008 in order to mitigate the adverse effects of the global financial turmoil on the corporate sector, it was targeted to widen the use of export rediscount credits and facilitate access to more firms. As of 20 March 2009, the pre-shipment financing facility provided via Turkish Eximbank began to be extended, along with export companies and manufacturer-export companies, also to manufacturing companies that manufacture final products for export purposes and export them via export companies, but do not qualified as an export company.

Foreign exchange buying auctions which were suspended in order to enhance the foreign exchange liquidity conditions of Turkish banks in 16 October 2008 were decided to resume as of 4 August 2009 with the regained strength of the liquidity and risk appetite and relative stability of FX market as a result of positive expectations related to the global economy. The maximum daily amount to be purchased in auctions has been set as USD 60 million, with USD 30 million of auction amounts and USD 30 million of optional selling amounts. Central Bank bought USD 2.29 billion foreign currency via auctions during the period from January 1, 2009 to October 15, 2009. As of October 2, 2009, gross FX reserves of Central Bank realized as USD 70.1 billion.

TABLE: II. 27- 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	100	-	-	7,484
2009*	2,290	900	-	-	1,390

*By the end of October 15, 2009
Source: CBRT

As a result of both the reduced foreign funding facilities of the banking sector and the increased prudence of banks due to the global crisis, credit supply has deteriorated. Credit demand, on the other hand, has recessed because of the slowing economic activity and uncertainties. These developments, in turn, have resulted in contraction of the credit market. Meanwhile, subsequent policy rate cuts since November 2008 have recently started to weigh more on market and retail bank interest rates and with the support of the measures on Turkish Lira and foreign currency liquidity taken by the Central Bank of the Republic of Turkey (CBRT) coupled with the favorable developments regarding risk perceptions in global markets, a recovery has started to be observed in credit growth, albeit modestly. In this conjuncture, in order to support the upward trend in credit growth by way of reducing intermediation costs and injecting permanent liquidity into the market, in addition to the measures that have already been taken by the Bank, the Turkish Lira required reserve ratio, which was 6 percent, has been reduced by 1 percentage point to 5 percent in October 2009. By this reduction in the Turkish Lira required reserve ratio, a permanent liquidity that is equivalent to approximately TL 3.3 billion has been provided to the banking system.

In January-September 2009 period, Central Bank net foreign assets decreased in terms of both dollar and TL. Net domestic assets also decreased during the same period. Currency issued one of the main liability accounts on the Central Bank balance sheet, reached TL 35 billion with an increase of 16 percent in the first nine months of 2009. At the same period, banks free deposits fluctuated between TL 16.2 billion and TL 24.3 billion. Public sector deposits and liabilities on open market operations fluctuated from TL 1 billion to TL 12.8 billion and from TL -17.7 billion to TL 5.7 billion, respectively. As a result of the fluctuations mentioned above, Central Bank Money, which is the total of its TL liabilities, fluctuated between TL 49.1 billion and TL 58.7 billion and as of September 2009 realized as TL 49.1 billion.

TABLE: II. 28- Selected Monetary Aggregates and Items in Central Bank Balance Sheet (1)

	2007	2008	2009		
	Dec.	Dec.	March	June	September
			(Million TL)		
Monetary Aggregates (2)					
M2	345,028	434,205	446,073	452,895	467,959
M3	370,078	458,384	473,495	480,465	494,704
			(Million TL)		
Net Foreign Assets	68,611	91,212	95,940	87,006	88,139
Net Domestic Assets	16,166	-718	-4,352	-3,094	-2,942
GDDI Portfolio	16,789	13,763	13,507	10,665	8,941
Revaluation Account	5,070	-6,204	-9,881	-5,851	-3,753
Central Bank Money	54,691	54,001	58,692	51,562	49,142
Currency Issued	27,944	32,725	34,936	35,094	37,968
Banks' Free Deposits	16,748	22,934	16,316	23,583	16,155
Liabilities on OMO	4,369	-2,836	5,666	-12,716	-8,671
Public Sector Deposits	5,472	54,001	58,692	51,562	49,142
			(Million USD)		
Net FX Position	32,905	36,301	38,241	35,314	35,336
Net Foreign Assets	58,602	60,509	58,195	56,216	59,796
Net FX Reserves	70,527	69,542	66,108	64,444	69,941
FCDA and SFDA (-)	15,814	13,583	12,963	13,081	13,440
Domestic FX Liabilities	25,697	24,209	19,954	20,902	24,460
Public Sector Deposits in FX	10,430	10,406	7,059	8,367	11,387
Banks' FX Deposits	15,267	13,803	12,894	12,535	13,073

Source: CBRT
(1) Data obtained by the last Friday of each month.
(2) New presentations were used for M2 and M3.

As of the end of September 2009, the new definitions of M1, M2 and M3 monetary aggregates expanded nominally in rates of 17.1 percent, 7.8 percent and 7.9 percent respectively relative to 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 and time deposits. In the expansion of M2, increase in both FX and TL saving deposits was the key factor. Changes in repo and money market funds was limited, as a result, increase in M3 exhibited a level close to M2.

a) Targets for the Year 2010

The monetary policy will continue to be implemented within the framework of inflation targeting regime in 2010. In this context, 2010 year-end target has been set as 6.5 percent. The operational framework of monetary policy will be announced to the public with the policy document titled "Monetary and Exchange Rate Policy for 2010" at the end of 2009. In the said document, three-month inflation path consistent with the 2010 year-end inflation target and inflation target for the end of 2012 determined jointly with Government will be announced.

CHAPTER THREE

DEVELOPMENTS AND TARGETS IN PUBLIC FINANCE

I. GENERAL GOVERNMENT

1. Current Outlook

In Turkish public finances the overall public sector comprises of public institutions and administrations within the scope of the central government budget, local governments, social security institutions and General Health Insurance, revolving funds, extra-budgetary funds, unemployment insurance fund and the SEEs. The definition of general government is obtained 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 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.

The global crisis significantly affected public financial performance in Turkey in a negative direction. According to the declining growth rates together with the tax rate cuts in order to stimulate reel sector, tax revenues was realized under the budget projections considerably, privatization proceeds also remained below the targets. On the other hand expenditures have continued to realize in accordance with the appropriated level in the budget independently of the growth performance. Moreover some additional spending initiatives were taken in some expenditure items so as to reduce the effects of crisis. As a result of the economic downturn the premium collections of the social security system was realized below its projections and a noteworthy increase in the social security deficit was observed.

Pre-accession economic programme (PEP) defined general government balance which ran a surplus of 1.4 percent as a share of GDP and a deficit of 0.2 and 1.6 percents respectively in 2007 and 2008 owing to the decline in one-off revenues, indirect taxes and privatization proceeds together with the increase in the primary expenditures compared to 2006.

As for 2009, tax rate cuts and expenditure increasing interventions by means of using supports-incentives and immediate spending increase policies for the purpose of mitigating the effects of fiscal crisis on real sector together with the decline in general government revenue collections resulted in an increasing general government borrowing requirement compared to the previous years.

Compared to the previous year in 2009, general government borrowing requirement is estimated to rise to the level of 6.6 percent as a ratio to GDP with an increase of 5 points. The bottom line of this case is the rise of central government budget borrowing requirement. An increase of 4 points is estimated in PEP defined central government budget borrowing requirement in 2009 compared to 2008. This increase is mainly stemming from the rise in primary expenditures and the decrease in central government budget indirect taxes and privatization proceeds particularly.

Borrowing requirements of the institutions under the framework of general government accounts which are outside the central government budget; extra-budgetary funds, unemployment insurance fund and general health insurance; are also expected to rise in 2009. This case is especially arising from the decline in fund's privatization revenues, the increase of the rate 1/4 to 3/4 in calculation of transfers from unemployment insurance fund's interest revenues to the central government budget in order to use at GAP Action Plan and investments for economic and social development projects solely in 2009 and 2010 by the Law No. 5921 dated August 11, 2009 and the decline in premium collections owing to the decrease in registered employment.

SPO defined public sector general balance including SEEs is estimated to give a deficit of 1.6 percent as a share of GDP in 2008 and this deficit is expected to rise up to 6.4 percent in 2009.

Moreover, IMF defined public sector primary surplus, realized 1.6 percent as a share of GDP in 2008, is expected to turn into a primary deficit of 2.1 percent in 2009.

2. Targets for the Year 2010

Depending on the economic recovery after the crisis, the ratio of general government tax revenues to GDP is estimated to rise 1.8 points compared to the previous year and realize as 19.5 percent of GDP in 2010. 0.9 points increase in SCT, 0.4 points increase in import VAT and 0.2 points increase in domestic VAT as a share of GDP are the main determinants of the increase in projected tax revenues.

With a decline of 0.4 points compared to the previous year, general government factor incomes are estimated to be 5.4 percent of GDP. The estimation of 0.3 points decrease in portfolio and participation revenues of the Treasury and 0.1 points decrease in revenues from interests, loans and concessions are the major determinants in 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 is estimated to realize as 7.7 percent of GDP with a 0.4 points increase in 2010 compared to the previous year. In this projected increase in 2010, the estimation of rising social security premium collections resulting from the increase in registered employment has been determinant.

In addition to these developments, as a result of privatization revenues which are projected to rise 0.6 points compared to the year 2009, general government total revenues as a share of GDP is estimated to rise from 33.5 percent to 35.7 percent.

General government primary expenditures are estimated to rise the level of 34.4 percent of GDP with an increase of 0.6 points in 2010 compared to the previous year. This increase is resulting from the rise in general government transfer expenditures. Despite a decrease of 0.4 points in interest expenditures, the increases in non-interest transfer expenditures of central government budget and social security institutions have been determinant in the increase of current transfers.

In this framework general government deficit, estimated to realize 6.6 percent of GDP in 2009, is considered to be 4.7 percent of GDP in 2010. Moreover, general government balance excluding interest expenditures and privatization proceeds, which gave a deficit of 0.6 percent of GDP in 2009, is estimated to run a surplus of 0.3 percent in 2010.

SPO defined public sector general balance including SEEs is estimated to give a deficit of 6.4 in 2009 and it is projected that this deficit will decrease by 2.2 points and fall back to 4.2 percent as a share GDP in 2010.

Besides, in 2010 IMF defined public sector balance is estimated to give a deficit of 0.3 percent as a share of GDP.

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

	(Current Prices, Millions TL)					(Ratio to GDP, In Percent)				
	2006	2007	2008	2009 (1)	2010 (2)	2006	2007	2008	2009 (1)	2010 (2)
Taxes	**142 353**	**156 815**	**172 645**	**167 770**	**200 507**	**18,8**	**18,6**	**18,2**	**17,7**	**19,5**
-Direct	39 541	47 143	55 706	55 104	59 838	5,2	5,6	5,9	5,8	5,8
-Indirect	98 660	104 942	111 542	107 088	133 331	13,0	12,4	11,7	11,3	13,0
-Wealth	4 151	4 730	5 398	5 578	7 339	0,5	0,6	0,6	0,6	0,7
Non-Tax Revenues	18 991	17 699	18 671	22 199	21 632	2,5	2,1	2,0	2,3	2,1
Factor Incomes	46 135	48 808	53 379	54 568	55 153	6,1	5,8	5,6	5,8	5,4
Social Funds	44 399	48 319	61 459	68 737	79 206	5,9	5,7	6,5	7,3	7,7
TOTAL	**251 878**	**271 640**	**306 154**	**313 273**	**356 499**	**33,2**	**32,2**	**32,2**	**33,1**	**34,7**
-Privatization Revenues	11 958	11 795	8 185	4 291	10 404	1,6	1,4	0,9	0,5	1,0
TOTAL REVENUES	**263 836**	**283 434**	**314 339**	**317 564**	**366 903**	**34,8**	**33,6**	**33,1**	**33,5**	**35,7**
Current Expenditures	110 401	126 367	150 401	169 428	184 442	14,6	15,0	15,8	17,9	17,9
Investment Expenditures	22 446	26 747	32 363	30 130	33 926	3,0	3,2	3,4	3,2	3,3
-Fixed Capital	22 316	26 199	31 960	30 035	33 682	2,9	3,1	3,4	3,2	3,3
-Change in Stocks	130	548	403	95	244	0,0	0,1	0,0	0,0	0,0
Transfer Expenditures	120 446	131 899	147 213	180 530	196 685	15,9	15,6	15,5	19,1	19,1
-Current Transfers	112 929	126 885	140 604	173 157	190 475	14,9	15,0	14,8	18,3	18,5
-Capital Transfers	7 517	5 014	6 609	7 373	6 210	1,0	0,6	0,7	0,8	0,6
Stock Revaluation Fund	0	0	0	0	0	0,0	0,0	0,0	0,0	0,0
NON-INTEREST EXPENDITURE	**206 726**	**235 573**	**277 159**	**319 350**	**353 547**	**27,3**	**27,9**	**29,2**	**33,7**	**34,4**
TOTAL EXPENDITURES	**253 294**	**285 013**	**329 977**	**380 088**	**415 054**	**33,4**	**33,8**	**34,7**	**40,1**	**40,3**
BORROWING REQUIREMENT	**-10 543**	**1 579**	**15 638**	**62 524**	**48 151**	**-1,4**	**0,2**	**1,6**	**6,6**	**4,7**
PRIMARY BALANCE	**-57 110**	**-47 861**	**-37 180**	**1 786**	**-13 356**	**-7,5**	**-5,7**	**-3,9**	**0,2**	**-1,3**
BORROWING REQUIREMENT	**-45 153**	**-36 067**	**-28 995**	**6 077**	**-2 952**	**-6,0**	**-4,3**	**-3,1**	**0,6**	**-0,3**

Note: General government includes the central government budget, local governments, revolving funds, unemployment insurance fund, social security institutions, and extra-budgetary funds.
(1) Estimate
(2) Programme

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

	2006	2007	2008	2009 (2)	2010 (3)
	(Current Prices, Million TL)				
Central Government Budget Borrowing Requirement (1)	4 643	13 708	17 432	62 824	50 134
SEEs Borrowing Requirement	-3 725	-1 027	-247	-1 680	-5 434
-Operating	-1 327	-1 503	-612	-1 139	-4 999
-Institutions Within the Scope of Privatization	-2 398	477	364	-541	-435
Local Governments Borrowing Requirement	1 015	3 848	6 018	2 754	2 764
Revolving Funds Borrowing Requirement	-393	-957	-653	-401	-459
Social Security Organizations Borrowing Requirement	-889	-783	53	0	0
Unemployment Insurance Fund Borrowing Requirement	-5 717	-6 986	-7 647	-3 092	-4 043
Borrowing Requirement of Extra-Budgetary Funds	-9 202	-7 251	436	439	-245
TOTAL PSBR	**-14 268**	**553**	**15 391**	**60 844**	**42 717**
TOTAL PSBR (Exc. Interest Expenditures)	**-61 337**	**-49 892**	**-38 438**	**-771**	**-19 656**
TOTAL PSBR (Exc. Privatization Revenues)	**-2 310**	**12 347**	**23 576**	**65 135**	**53 121**
TOTAL PSBR (Exc. Interest Expenditures + Priv. Revenues)	**-49 379**	**-38 097**	**-30 254**	**3 520**	**-9 251**
	(Share in GDP, In Percent)				
Central Government Budget Borrowing Requirement (1)	0,61	1,63	1,83	6,64	4,87
SEEs Borrowing Requirement	-0,49	-0,12	-0,03	-0,18	-0,53
-Operating	-0,17	-0,18	-0,06	-0,12	-0,49
-Institutions Within the Scope of Privatization	-0,32	0,06	0,04	-0,06	-0,04
Local Governments Borrowing Requirement	0,13	0,46	0,63	0,29	0,27
Revolving Funds Borrowing Requirement	-0,05	-0,11	-0,07	-0,04	-0,04
Social Security Organizations Borrowing Requirement	-0,12	-0,09	0,01	0,00	0,00
Unemployment Insurance Fund Borrowing Requirement	-0,75	-0,83	-0,80	-0,33	-0,39
Borrowing Requirement of Extra-Budgetary Funds	-1,21	-0,86	0,05	0,05	-0,02
TOTAL PSBR	**-1,88**	**0,07**	**1,62**	**6,43**	**4,15**
TOTAL PSBR (Exc. Interest Expenditures)	**-8,09**	**-5,92**	**-4,05**	**-0,08**	**-1,91**
TOTAL PSBR (Exc. Privatization Revenues)	**-0,30**	**1,46**	**2,48**	**6,88**	**5,16**
TOTAL PSBR (Exc. Interest Expenditures + Priv. Revenues)	**-6,51**	**-4,52**	**-3,18**	**0,37**	**-0,90**

Note: Negative sign indicates surplus.
(1) General Health Insurance is included.
(2) Estimate
(3) Programme

TABLE: III. 3- Public Sector General Balance of the Year 2007

(Current Prices, Million TL)

	Central Gov. Budget	Local Governments	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs Operating	SEEs Scope of Privatization	SEEs TOTAL	TOTAL PUBLIC
1. Taxes	133 348	15 790	3 125	0	0	-78	152 186	-323	-128	-451	151 735
a. Direct	39 826	4 366	3 125	0	0	-78	47 240	-323	-128	-451	46 790
b. Indirect	93 522	11 424	0	0	0	0	104 945	0	0	0	104 945
2. Non-Tax Revenues	13 859	3 592	523	0	0	-273	17 702	-714	0	-714	16 987
3. Factor Incomes	16 124	5 666	-156	4 163	3 296	2 484	31 577	4 107	247	4 355	35 932
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	**63 323**	**23 630**	**2 710**	**6 986**	**829**	**2 134**	**99 612**	**3 708**	**200**	**3 908**	**103 519**
II. CURRENT EXPENDITURES	**-64 879**	**-16 946**	**-1 405**	**0**	**0**	**0**	**-83 231**	**0**	**0**	**0**	**-83 231**
III. PUBLIC SAVINGS	**-1 556**	**6 684**	**1 305**	**6 986**	**829**	**2 134**	**16 381**	**3 708**	**200**	**3 908**	**20 289**
IV. INVESTMENT	**-15 505**	**-12 859**	**0**	**0**	**-46**	**-1 097**	**-29 506**	**-2 780**	**-752**	**-3 532**	**-33 038**
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	-500	-490	-233	219	-14	-504
V. SAV.- INV. DIF.	**-17 061**	**-6 175**	**1 305**	**6 986**	**783**	**1 037**	**-13 125**	**928**	**-552**	**376**	**-12 750**
VI.CAPITAL TRANS.	**3 353**	**2 333**	**5 946**	**0**	**0**	**-28**	**11 604**	**660**	**202**	**863**	**12 467**
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	-384	531	0	0	0	-28	118	-1 276	-31	-1 307	-1 189
VII. CASH-BANK/	**13 708**	**3 842**	**-7 251**	**-6 986**	**-783**	**-1 009**	**1 522**	**-1 589**	**350**	**-1 238**	**283**
1. Change in Cash-Bank	0	1 752	-2 178	0	0	-796	-1 222	-685	-23	-708	-1 930
2. Foreign Borrowing (Net)	-2 478	401	219	0	0	0	-1 857	315	-3	312	-1 545
- Repayments	-15 538	-386	-79	0	0	0	-16 002	-9 202	-17	-9 219	-25 222
- Loans	13 060	787	298	0	0	0	14 145	9 518	14	9 532	23 677
3. Domestic Borrowing/Lending (Net)	16 186	1 695	-5 292	-6 986	-783	-161	4 659	-1 134	503	-631	4 028
4. Stock Changes Fund	0	-6	0	0	0	-52	-58	-85	-127	-212	-269
BORROWING REQ.	**13 708**	**3 848**	**-7 251**	**-6 986**	**-783**	**-957**	**1 579**	**-1 503**	**477**	**-1 027**	**553**

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

TABLE: III. 4- Public Sector General Balance of the Year 2008

(Current Prices, Million TL)

	Central Gov. Budget	Local Governments	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs			TOTAL PUBLIC
								Operating	Scope of Privatization	TOTAL	
1. Taxes	145 184	18 698	3 541	0	0	-68	167 354	-811	5	-806	166 548
a. Direct	46 899	5 437	3 541	0	0	-68	55 808	-811	5	-806	55 003
b. Indirect	98 285	13 261	0	0	0	0	111 546	0	0	0	111 546
2. Non-Tax Revenues	16 461	3 522	229	0	0	-305	19 908	-1 049	0	-1 049	18 859
3. Factor Incomes	15 653	6 000	37	4 175	2 912	1 877	30 653	4 725	-1 193	3 532	34 186
4. Social Funds	0	0	0	2 450	-28 793	0	-26 343	0	0	0	-26 343
5. Current Transfers	-106 539	-2 037	-943	1 022	25 850	0	-82 647	1 230	23	1 253	-81 394
I. PUBLIC DISPOSABLE INCOME	**70 759**	**26 183**	**2 864**	**7 647**	**-31**	**1 503**	**108 925**	**4 095**	**-1 165**	**2 931**	**111 856**
II. CURRENT EXPENDITURES	**-72 646**	**-20 692**	**-2 125**	**0**	**0**	**0**	**-95 463**	**0**	**0**	**0**	**-95 463**
III. PUBLIC SAVINGS	**-1 887**	**5 491**	**739**	**7 647**	**-31**	**1 503**	**13 463**	**4 095**	**-1 165**	**2 931**	**16 393**
IV. INVESTMENT	**-20 103**	**-14 252**	**0**	**0**	**-21**	**-831**	**-35 207**	**-5 207**	**-188**	**-5 395**	**-40 602**
a. Fixed Capital	-20 103	-14 264	0	0	-21	-570	-34 959	-3 002	-1 163	-4 165	-39 123
b. Change in Stocks	0	13	0	0	0	-261	-249	-2 205	975	-1 230	-1 479
V. SAV.- INV. DIF.	**-21 990**	**-8 760**	**739**	**7 647**	**-53**	**672**	**-21 744**	**-1 111**	**-1 353**	**-2 464**	**-24 209**
VI.CAPITAL TRANS.	**4 558**	**2 755**	**-1 175**	**0**	**0**	**123**	**6 261**	**2 152**	**1 573**	**3 725**	**9 986**
1. Taxes on Wealth	3 680	1 717	0	0	0	0	5 398	0	0	0	5 398
2. Other Transfers	2 381	510	-1 175	0	0	0	1 716	2 353	1 484	3 837	5 552
3.Exp. and Inc of Assets	-1 503	528	0	0	0	123	-853	-201	90	-112	-964
VII. CASH-BANK/	**17 432**	**6 005**	**436**	**-7 647**	**53**	**-795**	**15 484**	**-1 040**	**-221**	**-1 261**	**14 223**
1. Change in Cash-Bank	0	3 395	1 344	0	0	-245	4 494	-219	-82	-301	4 193
2. Foreign Borrowing (Net)	3 461	1 245	89	0	0	0	4 794	-1 313	281	-1 032	3 762
- Repayments	-11 011	-474	-65	0	0	0	-11 551	-3 302	-1	-3 302	-14 853
- Loans	14 472	1 719	154	0	0	0	16 345	1 988	282	2 270	18 615
3. Domestic Borrowing/Lending (Net)	13 971	1 378	-996	-7 647	53	-408	6 350	921	165	1 086	7 436
4. Stock Changes Fund	0	-13	0	0	0	-142	-154	-429	-585	-1 014	-1 168
BORROWING REQ.	**17 432**	**6 018**	**436**	**-7 647**	**53**	**-653**	**15 638**	**-612**	**364**	**-247**	**15 391**

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

TABLE: III. 5- Public Sector General Balance of the Year 2009 (1)

(Current Prices, Million TL)

	Central Gov. Budget	Local Governments	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs Operating	SEEs Scope of Privatization	SEEs TOTAL	TOTAL PUBLIC
1. Taxes	140 166	18 673	3 521	0	0	-57	162 303	-1 203	0	-1 203	161 100
a. Direct	46 026	5 721	3 521	0	0	-57	55 211	-1 203	0	-1 203	54 008
b. Indirect	94 139	12 953	0	0	0	0	107 092	0	0	0	107 092
2. Non-Tax Revenues	20 613	3 861	127	0	0	-359	24 242	-2 109	0	-2 109	22 133
3. Factor Incomes	16 027	6 518	57	1 434	2 719	1 852	28 608	6 102	708	6 810	35 418
4. Social Funds	0	0	0	671	-33 649	0	-32 977	0	0	0	-32 977
5. Current Transfers	-133 900	-2 438	-1 588	986	30 955	0	-105 985	2 214	163	2 377	-103 608
I. PUBLIC DISPOSABLE INCOME	**42 905**	**26 615**	**2 117**	**3 092**	**26**	**1 437**	**76 191**	**5 003**	**871**	**5 875**	**82 066**
II. CURRENT EXPENDITURES	**-83 196**	**-20 920**	**-2 121**	**0**	**0**	**0**	**-106 237**	**0**	**0**	**0**	**-106 237**
III. PUBLIC SAVINGS	**-40 290**	**5 694**	**-5**	**3 092**	**26**	**1 437**	**-30 046**	**5 003**	**871**	**5 875**	**-24 171**
IV. INVESTMENT	**-21 205**	**-11 372**	**0**	**0**	**-26**	**-754**	**-33 356**	**-6 562**	**-1 001**	**-7 563**	**-40 919**
a. Fixed Capital	-21 205	-11 368	0	0	-26	-704	-33 303	-4 188	-885	-5 073	-38 376
b. Change in Stocks	0	-4	0	0	0	-50	-53	-2 373	-116	-2 489	-2 543
V. SAV.- INV. DIF.	**-61 495**	**-5 677**	**-5**	**3 092**	**0**	**683**	**-63 402**	**-1 559**	**-130**	**-1 688**	**-65 091**
VI.CAPITAL TRANS.	**-1 329**	**2 926**	**-434**	**0**	**0**	**-243**	**920**	**2 651**	**633**	**3 284**	**4 204**
1. Taxes on Wealth	3 724	1 854	0	0	0	0	5 578	0	0	0	5 578
2. Other Transfers	-3 881	624	-434	0	0	0	-3 691	3 444	649	4 093	402
3. Exp. and Inc of Assets	-1 172	449	0	0	0	-243	-967	-793	-16	-809	-1 776
VII. CASH-BANK/BORR.	**62 824**	**2 751**	**439**	**-3 092**	**0**	**-439**	**62 482**	**-1 093**	**-503**	**-1 596**	**60 886**
1. Change in Cash-Bank	0	1 133	546	0	0	18	1 697	1 083	-19	1 064	2 761
2. Foreign Borrowing (Net)	5 808	864	88	0	0	0	6 761	-476	91	-385	6 375
- Repayments	-7 105	-459	-65	0	0	0	-7 629	-3 399	0	-3 399	-11 028
- Loans	12 913	1 324	153	0	0	0	14 390	2 922	91	3 013	17 403
3. Domestic Borrowing/Lending (Net)	57 016	756	-195	-3 092	0	-419	54 066	-1 746	-613	-2 359	51 707
4. Stock Changes Fund	0	-3	0	0	0	-39	-42	46	38	84	43
BORROWING REQ.	**62 824**	**2 754**	**439**	**-3 092**	**0**	**-401**	**62 524**	**-1 139**	**-541**	**-1 680**	**60 844**

Note: General Health Insurance is included in the SSIs accounts.
(1) Estimate

TABLE: III. 6- Public Sector General Balance of the Year 2010 (1)

(Current Prices, Million TL)

	Central Gov. Budget	Local Governments	EBFs	UIF	Social Security	Revolving Funds	GENERAL GOVERNMENT TOTAL	SEEs Operating	SEEs Scope of Privatization	SEEs TOTAL	TOTAL PUBLIC
1. Taxes	166 332	23 155	3 858	0	0	-58	193 286	-1 975	-154	-2 129	191 157
a. Direct	49 891	6 261	3 858	0	0	-58	59 951	-1 975	-154	-2 129	57 822
b. Indirect	116 441	16 894	0	0	0	0	133 335	0	0	0	133 335
2. Non-Tax Revenues	18 182	3 377	397	0	0	-334	21 622	-722	0	-722	20 901
3. Factor Incomes	13 146	6 971	0	1 229	3 704	1 879	26 929	9 852	-568	9 284	36 213
4. Social Funds	0	0	0	1 708	-35 307	0	-33 599	0	0	0	-33 599
5. Current Transfers	-143 994	-2 708	-1 722	1 107	31 776	0	-115 542	2 186	35	2 221	-113 321
I. PUBLIC DISPOSABLE INCOME	**53 665**	**30 796**	**2 532**	**4 043**	**174**	**1 487**	**92 696**	**9 341**	**-687**	**8 654**	**101 351**
II. CURRENT EXPENDITURES	**-88 540**	**-24 301**	**-2 304**	**0**	**0**	**0**	**-115 145**	**0**	**0**	**0**	**-115 145**
III. PUBLIC SAVINGS	**-34 875**	**6 494**	**228**	**4 043**	**174**	**1 487**	**-22 449**	**9 341**	**-687**	**8 654**	**-13 794**
IV. INVESTMENT	**-22 789**	**-13 495**	**0**	**0**	**-174**	**-882**	**-37 340**	**-6 856**	**-66**	**-6 922**	**-44 262**
a. Fixed Capital	-22 789	-13 492	0	0	-174	-729	-37 184	-6 710	-583	-7 293	-44 477
b. Change in Stocks	0	-3	0	0	0	-153	-156	-147	518	371	215
V. SAV.- INV. DIF.	**-57 664**	**-7 001**	**228**	**4 043**	**0**	**605**	**-59 789**	**2 485**	**-752**	**1 732**	**-58 057**
VI.CAPITAL TRANS.	**7 530**	**4 243**	**17**	**0**	**0**	**-64**	**11 726**	**2 627**	**1 259**	**3 886**	**15 612**
1. Taxes on Wealth	3 998	3 341	0	0	0	0	7 339	0	0	0	7 339
2. Other Transfers	4 229	403	17	0	0	0	4 649	3 167	350	3 517	8 165
3. Exp. and Inc of Assets	-696	499	0	0	0	-64	-261	-540	909	369	108
VII. CASH-BANK/BORR.	**50 134**	**2 759**	**-245**	**-4 043**	**0**	**-542**	**48 063**	**-5 112**	**-507**	**-5 618**	**42 444**
1. Change in Cash-Bank	0	577	4	0	0	-325	256	233	-18	215	471
2. Foreign Borrowing (Net)	1 689	603	96	0	0	0	2 388	4 060	160	4 220	6 608
- Repayments	-11 548	-472	-71	0	0	0	-12 090	-1 350	0	-1 350	-13 440
- Loans	13 237	1 075	166	0	0	0	14 478	5 410	160	5 570	20 048
3. Domestic Borrowing/Lending (Net)	48 445	1 585	-345	-4 043	0	-135	45 506	-9 292	-577	-9 869	35 637
4. Stock Changes Fund	0	-6	0	0	0	-82	-88	-113	-71	-184	-272
BORROWING REQ.	**50 134**	**2 764**	**-245**	**-4 043**	**0**	**-459**	**48 151**	**-4 999**	**-435**	**-5 434**	**42 717**

Note: General Health Insurance is included in the SSIs accounts.
(1) Programme

A. CENTRAL GOVERNMENT BUDGET

1. Current Outlook

The weight of the central government budget, which is the most important policy instrument for the public sector, in terms of total revenue and expenditure volume, has increased as a result of full implementation of the Law No. 5018 from the beginning of 2006 which caused expansion of the budget scope, the display of the share of local governments and funds as transfer expenditure in the budget and also caused to the transfer of a certain share of interest revenues of Unemployment Insurance Fund and privatization proceeds to use under the scope of GAP Action Plan after 2008. This situation has been strengthened by tax deductions, stimulatory measures, expenditure increasing policies and subsidies which are done within the context of central government budget.

In 2009, it is expected that central government total revenues will be 21.5 percent, tax revenues will be 17.3 percent and non-tax revenues will be 4.2 percent as a share of GDP.

Due to economic contraction resulting from the global crisis in 2009, tax revenues have declined significantly. Temporary VAT and SCT reductions in certain goods in order to stimulate domestic demand, has intensified the downward trend of the tax collection despite the consumption of goods subject to tax have increased. On the central government budget revenue performance, the effect of decreasing imports and employment along with the contraction in the national income will be TL 35.8 billion, privatization revenues being under the programmed level will be TL 9.8 billion, tax reductions will be TL 4.7 billion and the other revenue losses will be TL 0.6 billion. On the other hand, a partial improvement in the revenues is expected due to a TL 2.5 billion transfer from Unemployment Insurance Fund and TL 3.6 billion gain coming from the revenue measures taken during the year, especially from SCT on tobacco and fuel.

Besides, the share of indirect taxes in total taxes, which was 66.1 and 64.9 percent respectively in 2007 and 2008, is estimated to realize as 64.3 percent and the share of direct taxes is expected to increase to 35.7 percent in 2009.

TABLE :III. 7- Revenue Measures Taken Against the Global Crisis and Have An Impact on the Budget

Private Taxes:
Law on Inclusion of Some Assets to the National Economy No. 5811 has been put into practice so that, with the help of tax reductions and exemptions, some domestic and external assets are intended to be brought into the national economy.
In equity earnings, 10 percent withholding tax rate applied to domestic investors has been reduced to zero. Thus, the difference between domestic and foreign investors has been eliminated.
Taxes on Companies:
As required by the new incentive model, discounted income and corporation tax legislation has been enacted and regulation that allows

establishing easement on real estates belonging to the Treasury has been made.
Implementation period of Incentive Law No. 5084 that was implemented in 49 provinces and ended on 31/12/2008 has been extended for one year.
Application enabling 18 months installment with 3 percent interest of expired tax debts as of 31/10/2008 has been going on.
Earnings arising from disposal of warehouse receipt that are regulated under the Agricultural Products Licensed Warehousing Law have been exempted from income and corporate tax until 31/12/2014.
SMEs that merge until 31/12/2009 and meet the conditions set out in law will be benefited from corporate tax exemption or up to 75 percent of corporate tax discounts.
BITT exemption was put into practice for earnings arising from capital market transactions of security investment partnership and security investment funds.
Consumption Taxes on Goods and Services
Special communication tax imposed on wired, wireless and mobile internet services has been reduced from 15 percent to 5 percent.
SCT imposed on motor vehicles has been temporarily reduced.
SCT imposed on household goods and various electronic household goods have been temporarily reduced.
Value added tax (VAT) imposed on sales of houses above 150 m^2 has been temporarily discounted from 18 percent to 8 percent.
VAT imposed on new workshop sales has been temporarily discounted from 18 percent to 8 percent.
VAT imposed on furniture sales has been temporarily discounted from 18 percent to 8 percent.
VAT imposed on information technology products has been temporarily discounted from 18 percent to 8 percent.
VAT imposed on machinery and equipment has been temporarily discounted from 18 percent to 8 percent.
The ratio of transaction fees imposed on land registry transactions has been reduced from 15 per thousand to 5 per thousand temporarily.
Some transaction fees imposed on land registry operations have been decreased permanently.
Other Revenue Measures:
Motor vehicles tax, penalties and delay interest cancellation opportunity was brought in the cases of scrapping of vehicles for 1979 and older models.
RUSF cut on consumer loans, that are not used for commercial purposes and given to individuals from banks and financing companies, has been reduced to 10 percent from 15 percent.

TABLE:III. 8-Expenditure Measures Which are Taken Against the Global Crisis and Have An Effect on the Budget

Public Consumption and Investments:
Additional appropriation is allocated for road investments.
A certain ratio of interest revenues of Unemployment Insurance Fund and proceeds of Privatization Fund is used for GAP and other social and economic development investments. By Law No. 5921 which amends Law No. 4447, the allocation ratio of the Unemployment Insurance Fund interest revenues is increased from ¼ to ¾ for 2009 and 2010.
In order to eliminate imbalances personal and financial rights among public employees, salary improvements were made.
Transfers to the Households:
Unemployment Insurance Fund payments were increased by 11 percent as a result of considering gross value instead of net value in payment calculations.
Transfers to the Companies:
The amount of short-term working allowances was increased by 50 percent, and its duration was increased from 3 months to 6 months.
Additional fund is provided for SPSF and KOSGEB.
Duration of incentives for energy supports which are regulated by the Law No. 5084 is extended for one year.
Financial support for interest expenses of firms and cash support for firms moving their businesses to certain regions are provided by the Law No. 5084
Regulation regarding to allocation of TL 1 billion funds to credit guarantee agencies by government was enacted.
In order to reduce labor costs of employers, a regulation was made regarding 5 points of employer share of social security premium to be paid by Treasury.
Contributions to Employment and Social Security Premiums:
Within the scope of employment package, an arrangement by which Treasury will compensate the employer share of the insurance premium of disabled employees was made.
Within the scope of employment package, starting from May of 2008, a regulation regarding reduction of social security payments for youth and women employees and its compensation by Treasury was made.
Transfers to the Rest of the Public Sector:
Transfers from central government to local governments were increased.
Other Expenditures:
Paid-in capital of Eximbank was increased.

In 2009, the ratio of central government expenditures and interest expenditures to GDP are estimated to realize as 28.2 and 5.9 percent respectively. At the end of the year, primary expenditures is expected to realize as 22.3 percent, TL 9.6 billion above the initial budget target.

Personnel expenditures, government premiums to SSIs, and personnel contingencies appropriated as TL 64.9 billion in central government budget is estimated to realize as TL 63.5 billion and 6.7 percent as a ratio to GDP.

Expenditures on goods and services except defense and security are estimated to realize TL 2.3 billion above the appropriation. Respective situation has arisen from green card expenditures and the additional appropriation needs of line ministries and agencies like Ministry of National Education, Ministry of Health, General Directorate of Highways, and DSİ to be used for physical and humane projects.

In 2009, duty loss payments for SEEs and capital transfers are estimated to realize TL 961 million and TL 1.8 billion above the deducted budgetary appropriation respectively. The main reasons for respective situation are capital increase of Eximbank in context of stimulus package, closure of TMO's previous years' losses, and additional capital transfers to SEEs; particularly to TCDD, TMO, and Çaykur.

Treasury compensations for offsetting the deficits of SGK are expected to realize TL 9.6 billion above the appropriation. This situation mainly stem from decline in Social security premium collection due to the decrease in the registered employment which resulted from the crisis in the real sector and proceeds that were received due to the restructuring of social security debts by the Law No. 5797 and realized below the expected level. In this context, the effect of the economic contraction on SSI premium collection and restructuring is expected to be TL 7.1 billion in 2009.

In 2009, resources transferred from the tax revenues of the general budget to local governments is expected to realize TL 4.4 billion below the central government budget estimations due to the decline in tax performance.

In accordance with temporary 6^{th} article of the Law No. 4447, which is changed with the Law No. 5921 dated August 11, 2009, the ratio of interest revenues of Unemployment Insurance Fund, which will be transferred to be used in GAP Action Plan and other social and economic development investments, is increased from ¼ to ¾ for 2009 and 2010. Therefore, an extra resource of TL 2.5 billion to be used for those projects is expected to be created. Additionally, capital expenditures is expected to realize TL 3.8 billion above the deducted budgetary appropriation due to TL 1.3 billion additional needs of the line ministries and agencies.

Furthermore, in 2009, indemnification payments due to the terrorism, expenditures under the framework of the law related to the disabled and Treasury incentives by Law No. 5084 continued to create expenditure pressures.

In accordance with these developments mentioned above, total revenues are expected to be TL 44.8 billion under the central government budget target while total expenditures are estimated to realize TL 7.6 billion over its initial appropriation, thus budget deficit which was targeted to be TL 10.4 billion is now expected to realize as TL 62.8 billion. Within this context, IMF defined central government budget deficit is expected to realize as TL 20.8 billion, corresponding to 2.2 percent of the GDP.

As regards to the debt management, TL denominated discounted cost of domestic borrowing which was at the level of 18.6 percent in December 2008, followed a decreasing trend depending on the developments in the international markets and the interest rate cuts done by Central Bank and realized as 7.5 percent as of October. Similarly, average maturity of domestic borrowing denominated in cash, which was 32 months in 2008, realized as 36 months by the end of October 2009.

In order to organize amortization profile, TL 5.9 billion worth of bonds were repurchased by the repurchasing and clearing transactions under the framework of active debt management policies applied in 2009.

In 2009, tax-exempt revenue indexed bills which are transferred to budget as a new financial instrument are issued in order to increase domestic savings, develop financial instruments and broaden the investor base of domestic government bonds. In this context, in January and April 2009, tax-exempt revenue indexed bills of TL 1.2 billion and USD 49.1 billion were issued respectively.

Consequently, total central government budget debt stock which is composed of TL 320.6 billion domestic and TL 110.5 billion external debts, realized as TL 431.1 billion by the end of September 2009.

Additionally, public net debt stock which was TL 268 billion and 28.2 percent of the GDP by the end of 2008, increased to TL 284.5 billion at the end of the first half of 2009.

TABLE: III. 9- Developments in Domestic Debt Stock of Central Government Budget

	(Current Prices, Millions of TL)				Ratio to GDP, In Percent)		
	2006	2007	2008	2009 (*)	2006	2007	2008
Total	**251, 470**	**255, 310**	**274, 827**	**320, 630**	**33,2**	**30,3**	**28,9**
Bonds	**241, 876**	**249, 176**	**260, 849**	**304, 708**	**31,9**	**29,6**	**27,5**
Cash	198, 783	214, 448	234, 713	282, 735	26,2	25,4	24,7
Non-Cash	43, 094	34, 728	26, 136	21, 974	5,7	4,1	2,8
Bills	**9 ,594**	**6 ,134**	**13, 978**	**15, 922**	**1,3**	**0,7**	**1,5**
Cash	9, 594	6, 134	13, 978	15, 922	1,3	0,7	1,5
Non-Cash	0	0	0	0	0,0	0,0	0,0

(*) As of the end of September.

2. Targets for the Year 2010

In 2010, it is forecasted that the effects of economic crisis will decline and within the scope of economic growth, a proportional improvement in fiscal balances will be achieved.

In line with the recovery in tax revenues, in 2010, ratio of central government revenues to GDP is expected to rise by 1.5 points compared to the year 2009, and improve to 23 percent.

Tax revenues estimation for the year 2010 has been made under the assumptions that lump-sum SCT rate will be updated, previous year's tax debts of energy SEE's will be paid and any new regulations that lead to revenue loss will not be enacted.

As applied in 2009, three fourth of interest revenues of Unemployment Insurance

Fund and cash surplus of Privatization Fund will be recorded as income in budget in 2010. On the other hand, treasury portfolio and affiliate income are expected to fall in 2010 compared to the previous year. Within this framework, in 2010, ratio of non-tax revenues to GDP is expected to remain at the previous year's level and amount to 4.2 percent of GDP.

In 2010, compared to the previous year, primary expenditures are estimated to rise by 0.1 point as a ratio to GDP and interest expenditures are estimated to reduce by 0.3 points. Thus, central government budget expenditures, programmed as TL 286.9 billion, are targeted to decrease by 0.3 points compared to the previous year's level and realize as 27.9 percent of the GDP.

In 2010, civil servants' salaries will be raised by 2.5 percent in January and 2.5 percent in July.

By the provisional 4th article of the Social Insurance and General Health Insurance Law No. 5510, due to the drug and treatment expenses that shall be paid to SGK for the civil servants who were employed before the social security reform, state premium expenses that will be paid to the social security institutions in 2010 are expected to be TL 11.1 billion and 1.1 percent of GDP with an increase of 0.3 points compared to the 2009 predictions. Similarly, due to the transfer of treatment and drug expenses of public employees to SGK and keeping the expenditure on purchase of other goods and services at TL 11 billion which was the nominal level of 2009, expenses on goods and services are programmed to fall by TL 2.2 billion and realize as TL 25.2 billion. Thus, the share of expenditures on goods and services in GDP is projected to decrease to 2.4 percent with a decline of 0.4 points.

In 2010, due to the increase in tax revenue performance of central budget, revenue share that is allocated to local governments and funds from central budget revenues are estimated to increase. Within this context, the abovementioned expenditure item is expected to rise to 2.3 percent of GDP, by 0.2 points rise with respect to 2009 year-end prediction.

In 2010, funds from Unemployment Insurance Fund and Privatization Fund will be continued to transfer to the central government budget in order to use for investments within the scope of GAP Action Plan and other investments for economic and social development. Within this context, for the year 2010, programmed total capital expenditure is TL 19.8 billion and capital expenditure to be used under GAP Action Plan is TL 5.4 billion. Thus, it is estimated that the share of capital expenditures in GDP will be 1.8 percent in 2010.

Under the framework of revenue and expenditure expectations explained above, central government budget deficit, which is predicted as TL 62.8 billion and 6.6 percent of GDP in 2009, is targeted to decline to TL 50.1 billion and to the level of 4.9 percent of GDP in the year 2010. IMF defined central government primary deficit is targeted to be 0.8 percent of GDP.

As regards to the debt management, the practice of strategic benchmark will be pursued in the forthcoming periods as it was in the previous years. Within this context, in 2010, in order to alleviate interest rate and exchange rate risks that could be faced at the implementation process of borrowing policy; extending the interest renewal period, borrowing by TL-type instruments mainly, extending the average maturity of borrowing within market conditions and reduction of domestic debt turnover rate are targeted.

In 2010, studies towards regular announcements of financing programmes and debt information and efforts to enhance transparency in debt management will be continued. Related to the domestic borrowing that constitutes main proportion of annual borrowing requirement, with the aim of making current amortization more organized, it is projected that repurchase and cleaning operations will be continued in a manner consistent with strategic criteria and in the context of active debt management.

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

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

Keeping sufficient level of reserves throughout the year is targeted with the aim of mitigating the liquidity risk that might arise in cash and debt management. Furthermore, efforts that are initiated for more effective management of cash reserves will be maintained.

TABLE: III. 10- The Central Government Budget Figures

	(Current Prices, Millions of TL)			(Percentage Change)		(Percentage Share)			(Share in GDP, in Percent)		
	2008	2009 (1)	2010 (2)	2009	2010	2008	2009 (1)	2010 (2)	2008	2009 (1)	2010 (2)
EXPENDITURES	**227 031**	**266 752**	**286 928**	**17,5**	**7,6**	**100,0**	**100,0**	**100,0**	**23,9**	**28,2**	**27,9**
01 – Personnel Expenditures	48 856	56 313	60 349	15,3	7,2	21,5	21,1	21,0	5,1	5,9	5,9
02 – Government Premiums to SGK	6 408	7 187	11 110	12,2	54,6	2,8	2,7	3,9	0,7	0,8	1,1
03 – Exp. On Goods and Services	24 412	27 386	25 186	12,2	-8,0	10,8	10,3	8,8	2,6	2,9	2,4
04 – Interest Expenditures	50 661	55 500	56 750	9,6	2,3	22,3	20,8	19,8	5,3	5,9	5,5
05 – Current Transfers	70 360	92 358	102 173	31,3	10,6	31,0	34,6	35,6	7,4	9,8	9,9
06 – Capital Expenditures	18 516	18 662	18 928	0,8	1,4	8,2	7,0	6,6	1,9	2,0	1,8
07 - Capital Transfers	3 174	2 866	3 426	-9,7	19,6	1,4	1,1	1,2	0,3	0,3	0,3
08 - Lending	4 644	6 480	6 903	39,5	6,5	2,0	2,4	2,4	0,5	0,7	0,7
09 – Reserve Appropriations	0	0	2 103			0,0	0,0	0,7	0,0	0,0	0,2
REVENUES	**209 598**	**203 928**	**236 794**	**-2,7**	**16,1**	**100,0**	**100,0**	**100,0**	**22,1**	**21,5**	**23,0**
1 – General Budget	**203 027**	**197 227**	**229 927**	**-2,9**	**16,6**	**96,9**	**96,7**	**97,1**	**21,4**	**20,8**	**22,3**
01 – Tax Revenues	168 109	163 561	193 324	-2,7	18,2	80,2	80,2	81,6	17,7	17,3	18,8
02 – Non-Tax Revenues	23 248	25 981	21 591	11,8	-16,9	11,1	12,7	9,1	2,4	2,7	2,1
03 – Capital Income	8 127	2 761	10 649	-66,0	285,6	3,9	1,4	4,5	0,9	0,3	1,0
04 – Grants and Aids Received	3 543	4 923	4 362	39,0	-11,4	1,7	2,4	1,8	0,4	0,5	0,4
2 – Rev. From Spec. Budget and Reg. And Sup. Agencies	**6 572**	**6 701**	**6 867**	**2,0**	**2,5**	**3,1**	**3,3**	**2,9**	**0,7**	**0,7**	**0,7**
BUDGET DEFICIT	**-17 432**	**-62 824**	**-50 134**	**260,4**	**-20,2**				**-1,8**	**-6,6**	**-4,9**
MEMO:											
Non-interest Expenditures	176 369	211 252	230 178	19,8	9,0				18,6	22,3	22,4
Primary Balance	33 229	-7 324	6 616	-122,0	-190,3				3,5	-0,8	0,6
IMF-defined Primary Balance	17 238	-20 838	-8 547	-220,9	-59,0				1,8	-2,2	-0,8

Note: Revenue surpluses from the regulatory and supervisory agencies are subtracted from general budget non-tax revenues.
(1) Estimate
(2) Programme

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 2008, revenues of local administrations, as compared to the previous year realization, increased by 13.4 percent and reached TL 30.4 billion while the expenditures reached TL 36.5 billion with an increase of 18.8 percent. As a result of the rapid increase in local government expenditures in 2008, local governments' deficit reached to 0.63 percent of GDP by increasing 0.18 percentage point compared to year 2007.

Increasing expenditures before the local elections and large-scale investment expenditures on urban infrastructure mainly on urban transport are the main reasons of the rise in local governments borrowing requirements in year 2008

In 2009, revenues of local governments are expected to rise to TL 31.5 billion by increasing 3.6 percent with respect to previous year and thus share in GDP is estimated to be 3.33 percent. On the other hand, local government expenditures are expected to decline to TL 34.3 billion by decreasing 6 percent from the previous year's level and its share in GDP is expected to realize as 3.62 percent. Thus, borrowing requirement of local governments is expected to decline with respect to its level in 2008 and realize as 0.29 percent of GDP.

In 2009, despite the contraction in the economy and the collection of electricity and gas consumption tax by central government, the revenues of local governments are estimated to rise a little in real terms. Increase in transfers from general budget tax revenues to local governments provided by Law No. 5779 and the high share of revenues in municipalities and dependent administrations own-income that are insensitive to economic growth like property tax and incomes obtained from sales of privileged services that have no substitution have prevented the reduction of local governments' income in an economic recession environment. Furthermore, decrease in investment spending due to the narrowing financing opportunities resulting from excessive deficits of 2008 and a rapid downward trend of the borrowing requirement after the elections which had increased before the local elections will be the other important factors leading to decline in borrowing requirement in 2009.

Although the balance of local governments is estimated to run a surplus in the 2009 Annual Programme, the unrealized revenues which are expected from privatization and the sale of land amounting to 2.4 billion TL and the decrease in the general budget tax share revenues with approximately 3.6 billion TL below the expected amount due to the decline in the general budget tax revenues are the main factors that result in the transformation of the local government balance into a deficit.

With the Law No. 5747 the regulations regarding the issue of population scale in municipalities were enacted but due to judicial decisions, the law could not be implemented substantially. Although the related section of the Law that abolishes the legal entity of municipalities whose population has fallen under 2.000 and converts them into village were not implemented, the arrangements that enable the establishment of new district municipalities and the modification of borders of some metropolitan district municipalities with the aim of restructuring the metropolitan system by removing the first stage municipalities in the borders of metropolitan municipalities were implemented after the local elections. Therefore, the number of municipalities which was 3,225 before the restructuring has declined to 2,948.

2. Targets for the Year 2010

In 2010, it is estimated that revenues of local governments will amount to TL 37.2 billion, expenditures will realize as TL 40 billion and thus local governments' deficit will be TL 2.8 billion.

TABLE: III. 11- Resources Transferred from the Tax Revenues of the General Budget to Local Governments

	(Current Prices, Millions of TL)				(Ratio to GDP, In Percent)			
	2007	2008	2009(1)	2010(2)	2007	2008	2009(1)	2010(2)
Municipalities	7 048	8 369	8 610	10 167	0,84	0,88	0,91	0,99
Metropolitan Municipalities	4 921	5 787	5 792	6 760	0,58	0,61	0,61	0,66
Special Province Administrations	1 316	1 673	1 870	2 211	0,16	0,18	0,20	0,21
TOTAL	**13 285**	**15 829**	**16 273**	**19 138**	**1,58**	**1,67**	**1,72**	**1,86**

(1) Estimation
(2) Programme target

TABLE: III. 12- Local Governments' Revenues and Expenditures (1)

	(Current Prices, Millions of TL)				(Ratio to GDP, In Percent)			
	2007	2008	2009(2)	2010(3)	2007	2008	2009(2)	2010(3)
REVENUES	**26 851**	**30 447**	**31 531**	**37 247**	**3,18**	**3,20**	**3,33**	**3,62**
1.Taxes	17 257	20 415	20 527	26 496	2,05	2,15	2,17	2,58
2.Non-Tax Revenues	3 592	3 522	3 861	3 377	0,43	0,37	0,41	0,33
3.Factor Incomes (Net)	5 666	6 000	6 518	6 971	0,67	0,63	0,69	0,68
4.Capital Transfers (Net)	335	510	624	403	0,04	0,05	0,07	0,04
EXPENDITURES	**30 699**	**36 465**	**34 284**	**40 011**	**3,64**	**3,84**	**3,62**	**3,89**
1.Current Expenditures	16 946	20 692	20 920	24 301	2,01	2,18	2,21	2,36
2.Investment Expenditures	12 865	14 264	11 374	13 501	1,53	1,50	1,20	1,31
a. Fixed Capital	12 869	14 264	11 368	13 492	1,53	1,50	1,20	1,31
b. Changes in Stocks	-4	0	6	9	0,00	0,00	0,00	0,00
3. Current Transfers	1 418	2 037	2 438	2 708	0,17	0,21	0,26	0,26
4. Expropriation and Increase in Fixed Assets	-531	-528	-449	-499	-0,06	-0,06	-0,05	-0,05
REV. – EXP. DIFFERENCE	**-3 848**	**-6 018**	**-2 754**	**-2 764**	**-0,46**	**-0,63**	**-0,29**	**-0,27**

(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

In 2010, the regulation for increasing own-revenues of municipalities and special province administrations and the collection of electricity and gas consumption tax by municipalities again will be effective on the rise in local governments' revenues. The claw-back ratio on revenue share of local administrations from general budget tax revenues, which are in return to reconciliation, municipalities' other debts to public, tax and current liabilities like social security premiums, is projected to be determined at the level that will prevent the creation of new debts and reduce the debt stock.

C. REVOLVING FUNDS

1. Current Outlook

There are two types of institutions under the definition of revolving funds. The administrations operating under the central government budget are involved in the first group. The second group includes, organizations which have their own budgets and cannot be classified in the first category i.e. General Directorates of TRT, National Lottery Administration, YURTKUR and Directorate of AOÇ.

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 2008, is expected to realize as 0.04 percent in 2009. The ratio of profits of revolving funds to GDP realized as 0.13 percent in 2008 and it is also expected to become 0.13 percent in 2009.

TABLE: III. 13- Financing Balance of the Revolving Funds

	2007	2008	2009 (1)	2010 (2)
	(Current Prices, Million TL)			
A. TOTAL REVENUES	**18,799**	**22,241**	**23,024**	**25,817**
- Operating Income	18,473	21,742	22,503	25,337
- Retained Funds	326	498	520	480
- Budget Transfers	0	0	0	0
B. TOTAL EXPENDITURES	**17,842**	**21,588**	**22,623**	**25,358**
- Operating Expenses	16,314	20,364	21,171	23,938
- Investment Expenditures	597	570	704	729
- Increase in Stocks	552	403	89	235
- Increase in Fixed Assets	28	- 123	243	64
- Direct Taxes	81	72	60	61
- Transfers to Funds	269	301	356	331
C. REVENUE-EXPENDITURE DIFFERENCE	**957**	**653**	**401**	**459**
	(Ratios to GDP, In Percent)			
A. TOTAL REVENUES	**2.23**	**2.34**	**2.43**	**2.51**
- Operating Income	2.19	2.29	2.38	2.46
- Retained Funds	0.04	0.05	0.05	0.05
- Budget Transfers	0.00	0.00	0.00	0.00
B. TOTAL EXPENDITURES	**2.12**	**2.27**	**2.39**	**2.46**
- Operating Expenses	1.93	2.14	2.24	2.33
- Investment Expenditures	0.07	0.06	0.07	0.07
- Increase in Stocks	0.07	0.04	0.01	0.02
- Increase in Fixed Assets	0.00	-0.01	0.03	0.01
- Direct Taxes	0.01	0.01	0.01	0.01
- Transfers to Funds	0.03	0.03	0.04	0.03
C. REVENUE-EXPENDITURE DIFFERENCE	**0.11**	**0.07**	**0.04**	**0.04**
Memo: Profits / GDP (In Percent)	0.24	0.13	0.13	0.13

(1) Estimate
(2) Programme target

2. Targets for the Year 2010

In 2010, the ratios of net budget surplus and profit of the revolving funds to GDP are expected to become 0.04 percent and 0.13 percent, respectively.

D. SOCIAL SECURITY INSTITUTIONS

1. Current Outlook

Social Security Institutions comprise Social Security Institution (SSI), Employment Agency (İŞKUR) and Unemployment Insurance Fund. Only investments of Unemployment Insurance Fund are included in social security institutions revenue-expenditure balance, and the balance of Unemployment Insurance Fund is displayed in a separate table.

Budget transfers to the social security institutions, which decreased in 2000 after the social security reform launched in 1999 and followed an increasing trend in the succeeding years, is expected to realize as 5.68 percent of GDP in 2009. Factors like outstanding decrease in premium payment tendency in 2009 - which has been decreasing since the last quarter of 2008 due to global crisis- decrease in number of active insurees, realization of health care expenditures over the expectations, and introduction of transfers from budget to SSI under the scope of 5 point premium reduction in 2009 have been effective in approximately 2 percent increase of this ratio compared to previous year.

TABLE: III. 14- Social Security Institutions Revenue-Expenditure Balance

	2007	2008	2009 (1)	2010 (2)
	(Current Prices, Million TL)			
A. REVENUES	**54,591**	**64,682**	**72,225**	**83,622**
- Premium Collections	45,092	56,146	56,680	66,037
B. EXPENDITURES	**79,632**	**90,584**	**103,180**	**115,398**
- Insurance Payments	52,736	59,647	68,229	76,203
- Health Expenditures (3)	20,045	25,404	28,990	32,842
- Investment Expenditures (4)	46	21	26	174
C. REVENUE-EXPENDITURE DIF.	**-25,041**	**-25,902**	**-30,955**	**-31,776**
D. BUDGET TRANSFERS	**25,824**	**25,850**	**30,955**	**31,776**
- Budget Transfers (5)	33,063	35,133	53,792	57,694
E. FINANCING DEFICIT	**- 783**	**53**	**0**	**0**
	(Ratios to GDP, In Percent)			
A. REVENUES	**6.47**	**6.81**	**7.63**	**8.13**
- Premium Collections	5.35	5.91	5.99	6.42
B. EXPENDITURES	**9.44**	**9.53**	**10.90**	**11.22**
- Insurance Payments	6.25	6.28	7.21	7.41
- Health Expenditures (3)	2.38	2.67	3.06	3.19
- Investment Expenditures (4)	0.01	0.00	0.00	0.02
C. REVENUE-EXPENDITURE DIF.	**-2.97**	**-2.73**	**-3.27**	**-3.09**
D. BUDGET TRANSFERS	**3.06**	**2.72**	**3.27**	**3.09**
- Budget Transfers (5)	3.92	3.70	5.68	5.61
E. FINANCING DEFICIT	**-0.09**	**0.01**	**0.00**	**0.00**

(1) Estimate
(2) Programme target
(3) It is assumed that the health expenditures of active civil servants will be transferred to SSI at the beginning of 2010, and the health expenditures of green card owners will not be transferred to SSI in program period.
(4) The investment expenditure of İŞKUR is included and the value of investment expenditures is added to the total revenues in order to hinder a change in revenue – expenditure difference.
(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 since 2009.

It is estimated that TL 53.8 billion transfers to social security institutions; including additional payment, state contribution, SSK 5 points premium reduction transfer, disabled premium incentive transfer, invoiced payments and additional allowances; will be made in 2009. The ratio of total budget transfers to GDP is expected to realize around 5.68 percent.

In 2009, although it has been presumed to increase Alienated SSK and Alienated Bağ-Kur pensions by 4.89 percent in January and 3.76 percent in line with the preceding six month cumulative inflation forecast, since inflation was under the expected target in relevant periods, mentioned increase realized as 3.84 percent in January and 1.82 percent in July.

The gross minimum wage, which is one of the most fundamental parameters affecting social security premium revenues, has been increased to TL 666 from TL 638.7 with a rise of 4.3 percent for January 1st – June 30th 2009 period. Afterwards, it has been increased to TL 693 with a rise of 4.1 percent for July 1st – December 31st 2009 period.

Within the scope of the studies conducted by SGK in order to implement the social security reform, Law No. 5754 on Amending the Law on Social Insurances and General Health Insurance and Some Other Laws and Statuary Decrees has been enacted in 2008.

The most important step of the social security reform regarding the legal framework has been completed following October 1st 2008 by the full implementation of Law No. 5510 as changed by Law No. 5754, which was published on Official Gazette of May 8, 2008. Within the scope of this law, legal framework for transition to the implementation of general health insurance system has been established while 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. The studies conducted for establishing technical and administrative infrastructure required for the transfer of the health expenditures of budgetary institutions and green card holders to SGK 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, which was published on Official Gazette of August 19, 2008. In this framework, health expenditures of the active civil servants is planned to be transferred to SGK by the beginning of 2010. Furthermore, health expenditures of some segments including the Members of Parliament, military men with low ranking, arrested and convicted people will still be compensated from central government budget. When the transfer of the health expenditures of the green card owners to SGK has been completed, general health insurance system will have been fully implemented.

Under the scope of Laws No. 5754 and 5797 by restructuring the social security premium receivables, TL 6,676 million revenue was gathered in 2008. In this framework, it is expected that TL 1,779 million revenue will be gathered in 2009.

By Law No. 5763 on Changing the Labor Law and Some Other Laws, known as "Employment Package" on general public, published on Official Gazette of May 26, 2008, arrangements directly related to the social security field have been made. By the Law, to be effective by the date of publication; for employees who are working with service contract, provided that they have not worked as a registered employee in last 6 months prior to the enforcement date, it was arranged that the employer's share of disability, old-age and death insurance premiums of men aged 18 to 29 and all women regardless of their ages who were employed additionally over the current number of employees at a workplace within the one-year period, 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 SGK. Moreover, it was arranged that to be on charge by October 1, 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.

By Law No. 5838 on Changing Some Laws, published on Official Gazette of 28 February, 2009, the window of opportunity to benefit from the youth and women premium incentive was extended one more year (until May 26, 2010) and provision to benefit from the incentive was adjusted as not having been a registered employee in 6 months prior to the enforcement date or 2008 December and 2009 January.

In 2009, it is expected that TL 3,357 million transfer from the central government budget under the scope of 5 points premium incentive for employees working with service contract; TL 81 million transfers from Unemployment Insurance Fund under the scope of the youth and women employment premium incentive will be made to SGK.

Within 2009, corresponding with the real estates belonging to SGK, TL 810 million total revenue of which, TL 737 million coming from the transfer of two lands to Ministry of Health, TL 73 million from transfer of a land to the Ministry of Finance has been collected.

The pharmaceutical and treatment expenditures of SGK which were respectively TL 8,858 and TL 10,267 million in 2007, reached to TL 10,717 and TL 13,953 million in 2008. It is expected that pharmaceutical and treatment expenditures of SGK will be realized as TL 13,000 and TL 15,354 million, respectively in 2009.

In 2009, the arrangements stated below have been made in order to get the pharmaceutical and treatment expenditures under control:

By Social Security Institution Treatment Aid Implementation Notice which has been effective since 1 October 2008, co-payments have begun to be collected for outpatients treated at health service providers except the primary healthcare. Collection of TL 3 co-payment in the second step official health institutions, TL 4 co-payment in education and research hospitals, TL 6 co-payment in university hospitals and TL 10 co-payment in private health agencies and institutions has been regulated. However, on 3 April 2009, the implementation of co-payment in private hospitals has been suspended due to the decision of Council of State numbered as 2008/11388. Afterwards, with SGK Notice No. 2009/77, to be effective from the date of June 2, 2009, it has been declared that, in all hospitals, TL 2 co-payment will be collected for treatment of outpatients until required arrangements are made by the institution. Then, by Law No. 5917, published on Official Gazette of 10 July 2009, it is regulated that the amount of co-payments paid to the healthcare service provides can be differentiated by taking into account factors like the step where the applied healthcare service provider is positioned, whether healthcare service provider operates publicly or privately, whether people applied from the prior step provider with a referral or not. Depending on this, by Notice on Changing Year 2008 Social Security Institution Health Implementation Notice, published on Official Gazette of 18 September, 2009, to be in effect by the date of 1 October 2009, co-payments of TL 2 in primary healthcare institutions and family medicine inspections, TL 8 in secondary and tertiary official healthcare institutions, and TL 15 in private health institutions are set to be collected. Moreover, it is arranged that when patients apply to the pharmacy without prescription related to the treatment, no co-payment will be collected for first step and family medicine examinations, and the amount of co-payment in official and private healthcare service providers will be discounted by TL 3.

By the Decision on Changing the Decision Related to Pricing of the Human Medicine which is annexed to the Decree No. 2009/15434, to be in effect by the date of 18 September 2009, it is regulated that each year 5 to 10 member countries of European Union will be determined as reference countries and announced by Ministry of Health with a notice; the sales price to the warehouses for original products whose generic is introduced to the market, will be determined as 60 percent of the reference price which was previously 100 percent of reference price; the sales price to the warehouses for generic products will be determined as 60 percent of the reference price which was previously 80 percent of reference price; band system will be implemented in order to monitor periodic euro value, which constitutes the basis in converting prices of pharmaceuticals to TL.

Moreover, beginning from 2010, the scope of the global budget approach, which has been applied since 2006 within the context of the agreement reached with the Ministry of Health, has been extended to include university hospitals as well.

In 2009, Unemployment Insurance Funds premium revenue, interest income and state contribution are expected to realize as 0.31, 0.57 and 0.10 percent of GDP respectively. In this framework, total revenue is estimated to realize as 0.99 percent of GDP. The total expenditure of the Fund, which started to pay unemployment benefits and provide health aid to its insured since March 2002, is expected to reach TL 6,290 million in 2009.

By Law No. 5763, in 2009-2012 periods, the transfer of 25 percent of interest income of Unemployment Insurance Fund to the central government budget, primarily for the financing of the investments within the scope of GAP Project, is regulated. By Law No. 5921, published in Official Gazette of 18 August 2009, transfer rate of 25 percent has been increased to 75 percent exclusively for the years 2009-2010. In this context, it is expected that TL 4,042 million will be transferred to the central government budget in 2009.

TABLE: III. 15 -Revenue-Expenditure Balance of Unemployment Insurance Fund

	(Current Prices, Million TL)				(Ratios to GDP, In Percent)			
	2007	2008	2009 (1)	2010 (2)	2007	2008	2009 (1)	2010 (2)
A. REVENUES	**7,390**	**9,587**	**9,382**	**9,054**	**0.88**	**1.01**	**0.99**	**0.88**
- Premium Revenue	2,413	3,090	2,919	3,320	0.29	0.33	0.31	0.32
- State Contribution	814	1,022	986	1,107	0.10	0.11	0.10	0.11
- Interest Income	4,100	5,367	5,389	4,531	0.49	0.56	0.57	0.44
B. EXPENDITURES	**404**	**1,940**	**6,290**	**5,011**	**0.05**	**0.20**	**0.66**	**0.49**
- Insurance Expenditures	324	475	1,328	883	0.04	0.05	0.14	0.09
- Other Expenditures	81	1,464	4,961	4,128	0.01	0.15	0.52	0.40
- Transfers to CGB (3)	0	1,300	4,042	3,398	0.00	0.13	0.42	0.33
- Short Time Benefit	0	0	319	196	0.00	0.00	0.03	0.02
- Other	81	164	600	534	0.01	0.02	0.07	0.05
C. REVEN.-EXPEN. DIF.	**6,986**	**7,647**	**3,092**	**4,043**	**0.83**	**0.80**	**0.33**	**0.39**
D. TOTAL FUND ASSETS	**30,712**	**38,359**	**41,451**	**45,494**	**3.64**	**4.04**	**4.38**	**4.42**

(1) Estimate
(2) Programme target
(3) Transfers that will be made to central government budget for the financing of the investments within the scope of GAP Project are shown in this item.

By Law No. 5838, upper limit for utilization period of short time benefits is increased to six months from three months and the amount of benefits is also increased by 50 percent. Moreover, by Decree No. 2009/15129 of Council of Ministers, it is decided that duration of short time working will be extended for another six months provided that previous practice of short time working has ended, new appropriateness determination has been made for requests except for continuing short time working and extension requests for same people. In the first 9 months of 2009, average number of people who utilized short time benefits in each month realized as 42,098, which was total of 40 and 650 in 2007 and 2008, respectively. It is estimated that TL 319 million short time benefits expenditure will be made from Unemployment Insurance Fund in 2009.

Consequently, in 2009 the total assets of the fund are estimated to reach to 4.38 percent of GDP, corresponding to TL 41.5 billion.

2. Targets for the Year 2010

It is assumed that minimum wage will increase by 3 percent in both January and July 2010 and pensions will increase by 4 percent in January and 2.4 percent in July corresponding to the preceding six months cumulative inflation estimation. In 2009, arrears restructuring revenue is expected to be TL 503 million.

It is assumed that health expenditures of active civil servants will be transferred to SGK by 2010, but the health expenditures of green card holders will not be transferred to SGK in the program period. Accordingly, health expenditures cover the expenditures of Alienated SSK, Alienated Bağ-Kur, Alienated Emekli Sandığı, active civil servants, children under 18 and those who are not compulsory insured but have ability to pay health insurance premium.

Social security institutions' total revenues, total expenditures and deficit are estimated to be TL 83.6 billion, TL 115.4 billion and TL 31.8 billion respectively in 2010. As ratios to GDP, revenues, expenditures and deficit are targeted as 8.13, 11.22 and 3.09 percent, respectively.

It is estimated that the total budget transfers to social security institution would be TL 57.7 billion, corresponding to 5.61 percent of GDP, in 2010, including invoiced payments, additional allowances, additional payment to pensioners, state contribution, SSK 5 points premium reduction incentive and disabled premium reduction incentive.

In 2010, for Unemployment Insurance Fund, it is expected that the ratios to GDP would be 0.32 percent of premium revenues, 0.44 percent of interest revenues and 0.11 percent of state contribution. In accordance with the Law No. 5921, it is assumed that TL 3.398 billion which is 75 percent of Fund's interest revenue will be transferred to the central government budget for the financing of the investments within the scope of GAP and TL 137 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 SGK in 2010. Moreover, it is estimated that TL 196 million short time benefits expenditure will be made. Within this context, Fund's expenditures are expected to reach TL 5,011 million. Consequently, it is estimated that the total fund assets would reach TL 45.5 billion corresponding to 4.42 percent of GDP in 2010.

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.

The resources of the funds followed in the public sector general balance in 2009 are expected to reach a level of TL 3.7 billion, corresponding to 0.39 percent of GDP, and the expenditures are expected to reach a level of TL 4.1 billion, corresponding to 0.44 percent of GDP. Hence, the deficit of the fund system is expected to reach 0.05 percent of GDP.

As the result of the ongoing privatization processes, revenue of TL 2.2 billion in cash is expected to be collected by the Privatization Fund in 2009.

TABLE: III. 16 - Revenues and Expenditures of Funds (1)

	(Current Prices, Million TL)				(Ratios to GDP, In Percent)			
	2007	2008	2009 (2)	2010 (3)	2007	2008	2009 (2)	2010 (3)
A. Fund Revenues	**9,594**	**3,807**	**3,705**	**4,271**	**1.14**	**0.40**	**0.39**	**0.42**
- Tax Revenues	3,125	3,541	3,521	3,858	0.37	0.37	0.37	0.37
- Non-Tax Revenues	523	229	127	397	0.06	0.02	0.01	0.04
- Factor Incomes (Net)	0	37	57	0	0.00	0.00	0.01	0.00
- Current Transfers (Net)	0	0	0	0	0.00	0.00	0.00	0.00
- Capital Transfers (Net)	5,946	0	0	17	0.71	0.00	0.00	0.00
B. Fund Expenditures	**2,343**	**4,243**	**4,144**	**4,026**	**0.28**	**0.45**	**0.44**	**0.39**
- Current Expenditures	1,405	2,125	2,121	2,304	0.17	0.22	0.22	0.22
- Factor Payments (Net)	156	0	0	0	0.02	0.00	0.00	0.00
- Fixed Capital Invest.	0	0	0	0	0.00	0.00	0.00	0.00
- Current Transfers (Net)	782	943	1,588	1,722	0.09	0.10	0.17	0.17
- Capital Transfers (Net)	0	1,175	434	0	0.00	0.12	0.05	0.00
C. Reven.-Expen. Dif.	**7,251**	**- 436**	**- 439**	**245**	**0.86**	**-0.05**	**-0.05**	**0.02**
D. Financing	**-7,251**	**436**	**439**	**- 245**	**-0.86**	**0.05**	**0.05**	**-0.02**
- Use of External Debt	298	154	153	166	0.04	0.02	0.02	0.02
- External Debt Payment	-79	-65	-65	-71	-0.01	-0.01	-0.01	-0.01
- Int. Debt-Lending (Net)	-5,292	- 996	- 195	- 345	-0.63	-0.10	-0.02	-0.03
- Change in Cash-Bank	-2,178	1,344	546	4	-0.26	0.14	0.06	0.00
Memo:								
Privatization Rev.	5,953	5,147	2,212	4,885	0.71	0.54	0.23	0.47
Fund Rev. Except Priv. Rev.	3,641	-1,340	1,493	- 614	0.43	-0.14	0.16	-0.06

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

2. Targets for the Year 2010

In 2010, Privatization Fund is expected to raise a total of TL 4.9 billion of revenue from the ongoing privatization process.

In 2010, fund resources are expected to realize as TL 4.3 billion corresponding to 0.42 percent of GDP, whereas, fund expenditures are expected to realize as TL 4 billion corresponding to 0.39 percent of GDP. Thus, the ratio of financing surplus of the fund system, which is TL 245 million, to GDP is expected to realize as 0.02 percent.

II. STATE ECONOMIC ENTERPRISES

1. Current Outlook

It is estimated that the ratio of financial surplus of SEEs, including the enterprises in the privatization portfolio, to GDP, which was 0.03 percent in 2008, will increase to 0.18 percent in 2009. Main factors of this increase, which is realized despite the shrinking demand caused by the global crisis, are an increase in capital transfers from budget and Privatization Fund, a raise in duty loss payments, and implementation of Cost Based Pricing (MBF) among energy SEEs throughout the 2009, which was applied in the second half of 2008.

Within the activities of YOIKK, studies, which were initiated to provide accountability, transparency and flexibility of SEEs in decision making process, reduce interventions over SEEs and establish performance-oriented management approach in SEEs, are carried on. In this sense, strategic plans of ÇAYKUR and ETİ Maden which comprehend 2009-2013 periods had been approved and put into effect in 2009. Other SEEs' strategic plan studies for 2010-2014 periods, are expected to be substantially completed by the end of 2009.

Cost Based Pricing Mechanism; which took effect by the High Planning Council Decision No. 2008/T-5 dated February 14, 2008; was maintained decisively in 2009. Thus;

TEDAŞ and TETAŞ, which had TL 382 million and TL 983 million primary deficits respectively, and BOTAŞ which had primary surplus of TL 293 million, will run surpluses of TL 346 million, TL 33 million and TL 1.838 million respectively in 2009, according to the estimates.

Because of theft and loss, TEDAŞ could invoice only 86 percent of electricity it had bought. Due to fact that payment/accrual ratio of company's receivables is 91 percent; the company could not attain required cash stock and had difficulties in carrying out its liabilities to EÜAŞ and TETAŞ. In this way EÜAŞ and TETAŞ can not repay their loans to BOTAŞ. Moreover, because of the debit-receivable problem, the enterprises, which involve in energy supply chain, had difficulties in paying for energy supplied from private sector via PMUM or "build-operate" and "build-operate-transfer" contracts. These companies are also strained to pay their taxes to Ministry of Finance.

The process of offsetting the debit-receivable problem among the energy companies could not have reached a conclusion. Also BOTAŞ's receivables from EGO (Başkent Gaz) which will be collected after the privatization of Başkent Gaz by the Law No: 5669, could not have been collected because of the tender bidders' violation of fulfillment of their obligation. By the same law, Başkent Gaz privatization will be held by Privatization Administration. The subject receivable is expected to be collected after the completion of privatization process.

As a result of demand downfall caused by global crisis, in 2009 BOTAŞ faces a risk of getting into "take-or-pay" obligation which is included in natural gas import contracts.

Distribution of free coal to poor families is continued. While 1.6 million tones of lignite coal from TKİ and 20 thousand tones of hard coal from TTK were distributed in 2008, it is expected that 1.9 million tones of lignite and 25 thousand tones of hard coal will be distributed in 2009.

Total amount of privatization operations, whose sale/transfer transactions were completed, which was USD 8.94 billion in 2008, realized as USD 1.83 billion as of October 2009. Total amount of privatization operations, for which tender process has been completed but agreement or sale/transfer processes are still undergoing, is USD 2.35 billion.

The privatization operations whose sale/transfer transactions completed during January – October 2009 period are consisted of; transfer of the operating rights of Başkent and Sakarya Electricity Distribution Companies and privatization of several real estates belong to TTA, TETAŞ, DMO and TŞFAŞ. The sale/transfer transactions of TCDD İzmir, Derince, Samsun and Bandırma Ports, Meram Electricity Distribution Company and several real-estates belong to TTA, for which tenders are already done, are expected to be completed. Furthermore, sale/transfer approval and contract processes of Aras Electricity Company, whose tender was made in 2008, are expected to be completed.

Privatization tender bulletins of Yeşilırmak, Çoruh and Osmangazi Electricity Distribution Companies and tender bulletins of privatization through asset sale of Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba Sugar Factories, which are belonged to TŞFAŞ, as C portfolio group, are commenced. Moreover tender bulletins of assets belong to TTA and İzmir Çamaltı salt mine are ongoing.

Tender for privatization of lottery games through licensing was cancelled since the buyers did not improve their bids in the auction. Studies are ongoing for another tender until the end of 2009.

By the Decree of the Council of Ministers No. 2009/14668, it was regulated that TMO could abate its hazelnut stocks by selling them domestically and abroad in the forms of with shell, without shell, processed, product, oil or by storing them for later use as oil.

By the Decree of the Council of Ministers No. 2009/15095, the Decree about the Purchase and the Sale of Cereals came into effect firstly after the year 2006 and with subjected Decree a general regulation was made on determining the price and purchase-sale bases of cereals for TMO. With this Decree, it was regulated that TMO would purchase not only from the producers and producer cooperatives directly or by the mediation of associations but also, different from the Decree issued in 2006, first time from commercial men and corporations. Besides, in the context of TMO intervention purchases, for the period of 2009/2010, the price of Anatolian hard red wheat was revealed as 500 TL/tone and price of durum wheat as 525 TL/tone for the period of June-August. It was decided to increase the purchase prices each month gradually till November.

By the Decree of the Council of Ministers No. 2009/15202, the Decree of the Council of Ministers No. 2006/10865 about the Purchase and the Sale of Hazelnuts was abrogated and the duty of TMO for the purchase of hazelnuts was abated.

By the Decree of the Council of Ministers No. 2008/13450, TMO was allowed to import 700 thousand tones of wheat, 300 thousand tones of maize without customs duty. Within the framework of this Decree, which was valid until the end of May 2009, 224 thousand tones of wheat were imported in 2009. Besides, TMO was allowed to import 100 thousand tones of rice with the Decree of the Council of Ministers No. 2008/13503 and 100 thousand tones of red lentil with the Decree of the Council of Ministers No. 2008/13833, without customs duty. Within the scope of the Decrees of the Council of Ministers, in 2008, 31 thousand tones of rice, 36 thousand tones of red lentil, 9 thousand tones of red split lentil; in 2009, 22 thousand tones of rice were imported.

2. Targets for the Year 2010

For 2010, the ratio of the financial surplus of SEEs, including the SEEs within the privatization portfolio, to GDP is programmed to be 0.53 percent. This financial surplus will be attained with the realization of transfers from Privatization Fund and price adjustments projected in General Investment and Financial Program. However, due to the costs derived from purchasing of some agricultural products by SEEs, which will not be transferred to related institutions as duty losses; it will be hard to reach the financial surplus target.

The enterprises which completed the strategic planning efforts in 2009, that aim to spreading the strategic management approach among SEEs and approved their plans to SPO; will implement their plans in 2010 – 2014 term.

The theft and loss ratio of TEDAŞ is targeted to fall to 14 percent in 2010.

Tenders for privatization regarding to electricity distribution areas are predicted to be finalized by the end of 2010.

In 2010, 3.9 million tones of wheat, 9 million tones of sugar beet and 600 thousand tones of non-dried tea leaf are programmed to be purchased.

TABLE: III. 17- Financing Balance of SEEs Subject to Decree Law No. 233

	2008	2009(1)	2010(2)
	(Current Prices, Million TL)		
A. TOTAL REVENUES	75,204	75,980	86,706
I. Operational Incomes	66,301	66,370	77,427
1. Revenues from Goods and Services Sales	59,567	61,394	72,587
2. Other Incomes	6,734	4,976	4,840
II. Retained Funds	5,307	3,911	3,919
1. Depreciation	2,886	3,028	3,221
2. Reserves	2,421	883	698
III. Budgets and Funds	3,597	5,699	5,360
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	74,592	74,841	81,707
I. Operational Expenditures	66,882	64,179	71,493
1. Cost of Goods and Services Sold	54,568	52,338	61,179
2. Other Expenses	12,314	11,841	10,315
II. Investment Expenditures	3,002	4,188	6,710
III. Change in Stocks	2,633	2,327	260
IV. Revaluation	201	793	540
V. Direct Taxes	969	1,520	2,084
VI. Dividend Payments	892	1,793	613
VII. Other Expenditures	14	41	8
C. REVENUES – EXPENDITURES DIFFERENCE	612	1,139	4,999
D. FINANCING	-612	-1,139	-4,999
I. Change in Cash-Bank	-219	1,083	233
II. Domestic Borrowing (Net)	921	-1,746	-9,292
III. External Borrowing (Net)	-1,313	-476	4,060
	(Ratio to GDP, In Percent)		
A. TOTAL REVENUES	7.92	8.03	8.43
I. Operational Incomes	6.98	7.01	7.53
1. Revenues from Goods and Services Sales	6.27	6.49	7.06
2. Other Income	0.71	0.53	0.47
II. Retained Funds	0.56	0.41	0.38
1. Depreciation	0.30	0.32	0.31
2. Reserves	0.25	0.09	0.07
III. Budgets and Funds	0.38	0.60	0.52
IV. Other Income	0.00	0.00	0.00
B. TOTAL EXPENDITURES	7.85	7.91	7.94
I. Operational Expenditures	7.04	6.78	6.95
1. Cost of Goods and Services Sold	5.74	5.53	5.95
2. Other Expenses	1.30	1.25	1.00
II. Investment Expenditures	0.32	0.44	0.65
III. Change in Stocks	0.28	0.25	0.03
IV. Revaluation	0.02	0.08	0.05
V. Direct Taxes	0.10	0.16	0.20
VI. Dividend Payments	0.09	0.19	0.06
VII. Other Expenditures	0.00	0.00	0.00
C. REVENUES – EXPENDITURES DIFFERENCE	0.06	0.12	0.49
D. FINANCING	-0.06	-0.12	-0.49
I. Change in Cash-Bank	-0.02	0.11	0.02
II. Domestic Borrowing (Net)	0.10	-0.18	-0.90
III. External Borrowing (Net)	-0.14	-0.05	0.39

(1) Estimate
(2) Programme

TABLE: III. 18- Financing Balance of the SEEs in the Privatization Portfolio

	2008	2009(1)	2010(2)
	(Current Prices, Million TL)		
A. TOTAL REVENUES	31,006	27,209	24,327
I. Operational Incomes	28,482	25,619	23,398
1. Revenues from Goods and Services Sales	25,602	23,242	21,191
2. Other Income	2,880	2,377	2,207
II. Retained Funds	1,017	777	544
1. Depreciation	544	388	261
2. Reserves	474	389	283
III. Budgets and Funds	1,507	813	385
IV. Other Income	0	0	0
B. TOTAL EXPENDITURES	31,370	26,668	23,891
I. Operational Expenditures	30,692	25,687	24,510
1. Cost of Goods and Services Sold	23,141	20,981	19,725
2. Other Expenses	7,552	4,706	4,785
II. Investment Expenditures	1,163	885	583
III. Change in Stocks	- 390	78	- 446
IV. Revaluation	- 90	16	- 909
V. Direct Taxes	- 5	0	154
VI. Dividend Payments	0	0	0
VII. Other Expenditures	0	1	0
C. REVENUES – EXPENDITURES DIFFERENCE	- 364	541	435
D. FINANCING	364	- 541	- 435
I. Change in Cash-Bank	- 82	- 19	- 18
II. Domestic Borrowing (Net)	165	- 613	- 577
III. External Borrowing (Net)	281	91	160
	(Ratio to GDP, In Percent)		
A. TOTAL REVENUES	3.26	2.87	2.36
I. Operational Incomes	3.00	2.71	2.27
1. Revenues from Goods and Services Sales	2.69	2.46	2.06
2. Other Income	0.30	0.25	0.21
II. Retained Funds	0.11	0.08	0.05
1. Depreciation	0.06	0.04	0.03
2. Reserves	0.05	0.04	0.03
III. Budgets and Funds	0.16	0.09	0.04
IV. Other Income	0.00	0.00	0.00
B. TOTAL EXPENDITURES	3.30	2.82	2.32
I. Operational Expenditures	3.23	2.71	2.38
1. Cost of Goods and Services Sold	2.44	2.22	1.92
2. Other Expenses	0.79	0.50	0.47
II. Investment Expenditures	0.12	0.09	0.06
III. Change in Stocks	-0.04	0.01	-0.04
IV. Revaluation	-0.01	0.00	-0.09
V. Direct Taxes	0.00	0.00	0.01
VI. Dividend Payments	0.00	0.00	0.00
VII. Other Expenditures	0.00	0.00	0.00
C. REVENUES – EXPENDITURES DIFFERENCE	-0.04	0.06	0.04
D. FINANCING	0.04	-0.06	-0.04
I. Change in Cash-Bank	-0.01	0.00	0.00
II. Domestic Borrowing (Net)	0.02	-0.06	-0.06
III. External Borrowing (Net)	0.03	0.01	0.02

(1) Estimate
(2) Programme

TABLE: III. 19- Selected Indicators of the SEEs

	Total, Excluding the Enterprises in			Total, Including the Enterprises in		
	2008	**2009 (1)**	**2010 (2)**	**2008**	**2009 (1)**	**2010 (2)**
Total Number of Personnel	150,917	151,597	150,119	209,936	202,980	187,683
- Civil Servants and on-Contract	75,006	76,153	75,953	88,882	86,980	83,414
- Worker	75,911	75,444	74,166	121,054	116,000	104,269
Total Personnel Expenditures (3)	5,519	5,941	6,285	7,943	8,169	8,078
- Civil Servants and on-Contract	2,268	2,443	2,593	2,704	2,810	2,869
- Worker	3,251	3,498	3,693	5,238	5,358	5,209
Revenues form the Sales of	59,567	61,394	72,587	85,169	84,636	93,778
Accrual of Duty Losses (3)	1,245	2,347	3,323	1,246	2,347	3,323
Operational Profit – Loss (3)	2,580	7,212	11,159	761	6,992	10,822
Interest Payments (3)	986	874	848	1,011	876	866
Period Profit – Losses (3)	664	4,538	9,256	-1,546	4,469	8,145
Factor Incomes (3)	4,725	6,102	9,852	3,532	6,810	9,284
Dividend Payments (3)	892	1,793	613	892	1,793	613
Fixed Capital Investments (3)	3,002	4,188	6,710	4,165	5,073	7,293
Budget and Fund Transfers (3)	3,597	5,699	5,360	5,104	6,512	5,745
Borrowing Requirement* (3)	-612	-1,139	-4,999	-247	-1,680	-5,434
Borrowing Requirement* (3) (4)	2,985	4,560	362	4,856	4,832	311
Borrowing Requirement* (3) (5)	-1,060	-1,396	-5,423	-593	-1,879	-5,836
Borrowing Requirement*/ GDP	-0.06	-0.12	-0.49	-0.03	-0.18	-0.53
Borrowing Requirement* (4)/GDP	0.31	0.48	0.04	0.51	0.51	0.03
Borrowing Requirement* (5)/	-0.11	-0.15	-0.53	-0.06	-0.20	-0.57
Personnel Exp./Revenues (In	8.96	9.37	8.37	9.11	9.43	8.39
Interest Payments/Revenues (In	1.65	1.42	1.17	1.19	1.04	0.92

* (-) sign indicates the financing surplus
(1) Estimate
(2) Programme
(3) Current prices, million TL
(4) Excluding budget and privatization fund transfers
(5) Excluding interest revenue and expenditures.

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.

Turkey ranked 61st out of 133 countries according to global competitiveness index of World Economic Forum in 2009.

According to this study, Turkey is ready to evolve from productivity driven stage to innovation driven stage of development thanks to its large and relatively sophisticated market, which is functioning efficiently and dominated by private sector.

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

Indicators	2006	2007	2008*	2009
The Number of Countries	125	131	134	133
Global Competitiveness Index	59.	53.	63.	61.
- Basic Requirements	67.	63.	72.	69.
- Efficiency Enhancers	56.	51.	59.	54.
- Innovation and Sophistication Factors	44.	48.	63.	58.

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	2009
Basic Requirements				
Institutions	54.	55.	80.	96.
Infrastructure	61.	59.	66.	62.
Macroeconomic Stability	101.	83.	79.	64.
Health and Primary Education	75.	77.	78.	74.
Efficiency Enhancers				
Higher Education and Training	58.	60.	72.	73.
Goods Market Efficiency	43.	43.	55.	56.
Labor Market Efficiency	114.	126.	125.	120.
Financial Market Sophistication	85.	61.	76.	80.
Technological Readiness	50.	53.	58.	54.
Market Size	18.	18.	15.	15.
Innovation And Sophistication Factors				
Business Sophistication	42.	41.	60.	52.
Innovation	49.	53.	66.	69.

Source: World Economic Forum's Global Competitiveness Reports.

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. Compared with other countries, Turkey has recorded an improvement in its macroeconomic stability component, moving up from 79th in 2008 to 64th in 2009, which stemmed partly from other countries' weakening as a result of global crisis. On the other hand, some more basic issues must still be tackled, such as upgrading the quality of infrastructure, especially ports and the electricity supply, improving the human resources base through better primary education and better healthcare, addressing the inefficiencies in the labor market, and reinforcing the efficiency and transparency of public institutions.

The main objective is to provide the firms with a structure which has a high technological capability, a qualified labor force and adapts rapidly to changing conditions and is competitive in national and international markets. Within this framework, it is necessary to make improvements in rankings in the components such as macroeconomic stability, 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

The year 2009 became the year in which most severe contraction in global economic activity had been experienced since the World War II.

Global crisis influenced export performance negatively and exports, especially led by the locomotive sectors had begun to fall seriously since November 2008. This decline in exports influenced production and employment negatively which had contributed to growth performance significantly in recent years.

Resulted from the crisis in global financial markets, similar to other emerging market countries, also in Turkey net capital outflows were observed since the beginning of October 2008. Consequently, real sector experienced difficulties about accessing foreign financing which had been easier in previous years.

As in the whole world, global crisis increased uncertainties also in Turkey. Rising of uncertainties led to postponement of investment and consumption decisions and to slow down in economic activity seriously. As a result of these developments, in 2009 the economy is expected to contract by 6 percent. However, by the beginning of 2010 besides expected relative recovery in world economies, with relative improvement in producer and consumer confidence and increase in financing facilities, the economy is expected to tend to recover again.

This shrink in the economy, as in many countries, caused to decrease in employment and increase in unemployment also in Turkey. As in the world economies, the repercussion of the expected recovery in 2010 and afterwards, to employment market is forecasted to have a time lag also in Turkey.

Crisis also led to some positive improvements in current account balance, inflation and total foreign debt stock. Imports decreased more than the fall in exports, so that serious decline was realized in current account deficit. However, from 2010 onwards current account deficit is expected to tend to rise tolerably in parallel with the growth in the economy.

Due to contraction of demand in the world, not only significant declines in commodity prices, but also shrinking domestic demand contributed to the rate of inflation to tend to decrease. Depending on foreign credit, domestic demand and production conditions, inflation is expected to preserve its downward trend though limited in the future.

As a result of improving supervision and audit framework, prudent approach in applications and restructuring of the banking sector, the impact of the global crisis on the sector became limited.

Global crisis influenced public fiscal performance negatively in Turkey. Depending on the fall in growth and discounts made towards supporting real sector, tax revenues became significantly below of the budget estimates. On the other hand, expenditures, independent of growth, continued to realize on the level forecasted in the budget. Furthermore, increments in some expenditure items were made in order to reduce the impacts of the crisis. Resulted from these developments budget deficit, debt burden and domestic debt rollover ratio of the Treasury increased more than the level forecasted.

Public sector with its revenue and expenditure policies undertook an effective role in mitigating the effects of global crisis on the economy. Of these policies, short term ones focused on increasing consumption expenditures and removing the bottlenecks in the credit system. On the other hand, medium term policies concentrated on increasing production, investment and exports permanently in the economy. Accordingly, overcoming the crisis and managing the growth period afterwards is aimed to be realized under the leadership of the private sector.

In order to strengthen the predictability and increase the resources to be used by the private sector which are required for the sector to take sound investment and production decisions, gradual reduction of the public sector borrowing requirement and preserving price stability is of importance.

In the Program period, a comprehensive structural reform program will be implemented in order to increase competitiveness and to maintain the recovery in growth and in fiscal balances.

2. Main Objectives and Targets

Resolving the effects of global crisis on Turkey is closely related with the developments in the world economy. Targets in the Program were determined by also taking the forecasts regarding foreign economic conjuncture into consideration. The basic macroeconomic priorities of the Program 2010 are to ensure the transition of the economy to the sustainable growth period again, to increase employment, to maintain the downward trend in inflation and to put the public balances in order which were deteriorated by the effects of global crisis. Implementing fiscal and monetary policies in harmony is of crucial importance in terms of meeting the Program targets. To this end, the Program includes short term measures and medium term structural reforms.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 1. Cooperation and coordination concerning the economy will be strengthened.				
Measure 1. Important arrangements bearing economic outcomes will be submitted to Economy Coordination Committee (EKK) for evaluation.	Prime Ministry	Economy Coordination Committee (EKK)	Through the year	Important arrangements effecting macroeconomic and financial stability that will be realized, will be submitted together with impact analysis to EKK for final evaluation.
Measure 2. In priority areas, preparing sectoral and thematic strategies will be prepared.	SPO	All related parties	Through the year	In sectoral and thematic areas strategy documents that exhibit the roadmap of change and transformation will be prepared and put into implementation.
Priority 2. Studies towards increasing growth potential of the economy will be made.				
Measure 3. Study towards rising individual and institutional savings and accelerating capital accumulation process in Turkey will be made.	SPO	Ministry of Finance, Undersecretariat of Treasury, Central Bank, Turkish Statistical Institute, NGOs	End of December	A comprehensive and detailed report regarding the subject will be prepared.
Priority 3. Measures will be taken in order to sustain fiscal discipline.				
Measure 4. An arrangement will be done in order to regulate fiscal rules in public finances.	Ministry of Finance	SPO, Undersecretariat of Treasury	End of March	Public finances will be conducted in harmony with the fiscal rules starting with the year 2011. Necessary improvements will be done in public financial management system in order to implement, monitor and supervise the rules.
Priority 4. Measures will be taken in order to use public resources efficient and effectively.				
Measure 5. A study will be done in order to determine the inactive public personnel.	State Personnel Presidency	SPO, Undersecretariat of Treasury, Ministry of Finance, and other related institutions	End of December	Inactive personnel will be determined at an institutional basis and personnel needs will be met firstly from this resource.

Measure 6. Current public expenditures will be directed to the fields of priority.	Ministry of Finance	SPO, Undersecretariat of Treasury and other related institutions	Through the year	At current expenditures, under the supervision of Ministry of Finance, necessities and saving opportunities of existing activities and programmes will be questioned and expenditures with inferior necessity will be avoided carefully. Appropriations will be used in order not to create debt.
Measure 7. Public investments will be prioritized and made efficient.	SPO	Public institutions	End of March	Resources allocated to the public investments will be directed towards economic and social infrastructure investments of high priority.
Measure 8. Studies on Draft Public Private Partnership (PPP) Law will be finalized.	SPO	Ministry of Transportation, Undersecretariat of Treasury	End of December	The draft Law to enforce new PPP models which enables to apply PPP models in more sectors will be submitted to the TGNA.
Measure 9. The use and procurement of vehicles and allowance system in public institutions will be rearranged.	Ministry of Finance	Public Institutions	End of June	New Vehicle Law and Allowance Law that are appropriate to the contemporary requirements and needs will be prepared in order to increase effectiveness, transparency and accountability in public expenditure management.
Measure 10. Revolving fund institutions will be restructured.	Ministry of Finance	Public Institutions	End of December	In order to make a framework regulation for revolving funds institutions, ensure sustainability and associate revolving funds with the budget, Draft Revolving Funds Law will be prepared and secondary legislation will be revised.
Measure 11. Operations on Treasury immovables will be developed and updated under the framework of Automation Project of National Property (MEOP).	Ministry of Finance	Public Institutions	End of December	The renovation efforts on MEOP will be continued. Exchange of information in electronic platform will be ensured with TAKBİS and other public institutions. For data and information management of immovables, Geographical Information System will be used.

Measure 12. Administrative capacity will be increased in order to assess the Treasury immovables.	Ministry of Finance	Public Institutions	End of December	Administrative capacity will be enhanced by education of existing personnel on assessment of the Treasury immovables and immovable assessment system will be restructured.
Measure 13. Treasury immovables which are allocated to the public institutions and not used for their primary purpose of allocation will be determined and reassessed.	Ministry of Finance	Public Institutions	End of December	It is aimed that the idle immovables which are allocated to public institutions and not used for their primary purpose of allocation will be determined and brought in economy back through liquidation and other methods.
Priority 5. Efforts will continue so as to constitute a simple, foreseeable, fair and broad-based tax system.				
Measure 14. Income tax system will be rearranged.	Ministry of Finance	SPO, Undersecretariat of Treasury, Revenue Administration, Tax Council, Occupational Chambers	End of June	Within the scope of studies for establishment of an effective and efficient tax system, new Income Tax Law; which is compatible with free market economy, encourages investments and employment, and reduces unregistered economy by increasing tax adaptation; will be put into practice.
Priority 6. Measures will be taken in order to perform fiscal management, internal control and internal audit functions effectively.				
Measure 15. Central harmonization unit for internal audit will be established.	Ministry of Finance	Prime Ministry, SPO, Undersecretariat of Treasury, Ministry of Interior, Internal Audit Coordination Board	End of June	In order to improve and coordinate the public internal audit system, Internal Audit Coordination Board attached to the Ministry of Finance will be reorganized as an independent and objective unit to perform its central harmonization unit function as it was expressed in the Law No. 5018.
Measure 16. Education and certification activities in internal auditing will be accelerated.	Internal Audit Coordination Board	Ministry of Finance	End of June	In order to increase the number of auditors in public sector to be assigned, education and certification activities will be accelerated under the responsibility of Internal Audit Coordination Board.

Priority 7. TCA's legal and human resource infrastructure will be enhanced in order to conduct an efficient external audit system in harmony with the Law No. 5018.				
Measure 17. In order to enhance an efficient external audit system consistent with the Law No. 5018, required legal regulations regarding TCA will be done.	TCA		End of June	The TCA Law Proposal under the agenda of TGNA will be enacted thus duties, authorities and responsibilities related to the external audit will be harmonized with the international standards on this field.
Measure 18. Education activities will be intensified in order to increase the audit capacity of TCA.	TCA		Through the year	TCA auditors will be educated both on audit standards and technical issues about the institutions under their auditing responsibility and scope of education will be broadened.
Priority 8. It will be ensured that the audit activities of TCA will be broadened among the public sector and further contribution by TCA on healthy operation of internal control and audit system will be secured.				
Measure 19. TCA's audit activities will be broadened among the public sector.	TCA		Through the year	In order to ensure fiscal discipline and improve efficiency of public expenditures TCA's audit activities consistent with international standards will be broadened among the public sector.
Measure 20. Required attempts toward a healthy operating internal control and audit system will be done by TCA.	TCA		Through the year	In order to acquire expected yields from the audit activities of TCA, internal control systems must be constructed upon international standards and internal audit must also be put into practice. In this framework, necessary attempts will be done by TCA for a healthy operating internal control and audit systems.
Priority 9. Measures will be taken in order to improve the fiscal structure and enhancement of fiscal discipline of local authorities.				
Measure 21. An arrangement to increase own-source revenues of municipalities and special province administrations will be put into force.	Ministry of Interior	Ministry of Finance, SPO, Undersecretariat of Treasury	End of December	By increasing own-source revenues of municipalities and special province administrations' fiscal structure and administrative responsibility will be improved.

Measure 22. Measures will be taken in order to prevent the local governments creating new arrears.	Undersecreta riat of Treasury	Ministry of Finance, SPO, Bank of Provinces	End of June	Claw-back ratio from the general budget tax shares of local governments for arrears repayment , which are in return to reconciliation, municipalities' other debts to public, tax and current liabilities like social security premiums, will be decided at the level which will prevent the local governments creating new arrears and help them to decrease their debt stocks.
Priority 10. Accountability, transparency, flexibility in the decision-making process and strategic management approach will be the basis for the SEEs' operations.				
Measure 23. SEE Corporate Governance Law will be prepared.	UT	SPO, ÖİB, CMB, SEEs	End of December	In the context of works commenced for public owned companies, a law will be prepared so that accountability, transparency, flexibility in the decision-making process and strategic management perception will be the basis for their operations.
Measure 24. The debit/receivable problem among SEEs will be resolved.	UT	Ministry of Finance, ETKB, SPO, ÖİB and Energy SEEs	End of March	The draft of Draft Law, concerning the debit/receivable problem, will be completed.

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 January 2009. 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.

As a result of the entering into force of Law Nr. 5838 on February 28, 2009, some modifications have been made in the procedures carried out by public institutions in order to improve business environment and to reduce bureaucracy. In this context, some provisions were introduced concerning the accession of related public institutions to the data concerning the information on the liabilities of firms by excluding this information from the scope of commercial secret disclosure and it was stipulated that it would be adequate to inform the Social Security Institution on entering and leaving work.

Medium Term Strategic Targets for Turkey Investment Support and Promotion Agency was published in December, 2008 which was prepared by Turkey Investment

Support and Promotion Agency taking into consideration the views and recommendations of the private sector.

The regulation prepared by the Ministry of Environment and Forestry aiming to follow up applications for entire environmental permits and other procedures in electronic environment, was published on April 29, 2009 and will be put into force starting from the year 2010. Furthermore, the studies are being carried out to bring together all kinds of permits concerning environmental issues as a single permit under the name of "Environmental Permit".

All the Decrees by Council of Ministers were published by July 2009 concerning the establishment of Development Agencies and there are continuing efforts to finalize their establishment. Investment Support Offices which aim to shorten and simplify the investment process by supporting investors during permit and license procedures, are planned to be widely established and made operational.

Studies are carried out under the coordination of the Ministry of Industry and Trade regarding the development of an entrepreneurship information system which contributes to the investors and other users in the markets to make more reasonable decisions, by collecting, updating and presenting the industry and trade sectors' data in an integrated, systematic and coherent manner

In World Bank's "Doing Business 2009" report which is prepared annually to provide measures for business environment regulations and their enforcement and to make comparisons across countries, Turkey was ranked 73 out of 183 countries with respect to business startups.

Furthermore, according to the UNCTAD's World Investment Report 2009, Turkey was ranked as 20th worldwide and 9th among developing countries with the record of 18 Billion US Dollars of foreign direct investment flow in 2008.

In general, from the start-up of investments until the stage of doing business, issues such as intensive bureaucracy, ambiguity and redundancy of the permits, approvals and licenses are ongoing problems in our country despite various regulations introduced.

In parallel with the effective implementation of the Act No. 4054 on the Protection of Competition and increase of competition culture in the society, the number of applications made to the Competition Authority and finalized cases has been increasing progressively. Out of all cases opened during 1999-2008, 1451 of them involved mergers & acquisitions and privatizations, 820 involved infringements of competition and 391 involved exemptions and negative clearances.

At the beginning of 2008, important and deterrent amendments were made regarding the administrative fines under the Act No. 4054. In 2009, two bylaws on the procedures and principles regarding these amendments were issued, as well as guidelines on the application of the relevant articles of the Act No. 4054 on technology transfer agreements, and a new and more comprehensive guideline on vertical agreements. Furthermore, in order to ensure more flexibility and legal clarity as regards the implementation of the Act No. 4054 and to further align the Turkish competition legislation with the EU legislation, a comprehensive bill of amendment was drawn out and forwarded to the Turkish Grand National Assembly.

TABLE: IV. 3- Business Climate Indicators

Year	Country	Starting a Business		Hiring Difficulty	Registering Property		Enforcing Contracts		Closing a Business	Paying Taxes	
		Procedures (Number)	Duration (Day)	Difficulty Index	Procedures (Number)	Duration (Day)	Procedures (Number)	Duration (Day)	Duration (Year)	Number	Ratio to Gross Profit (%)
2008	Turkey	6	6	44	6	6	35	420	3,3	15	45,5
	OECD Average	5.8	13.6	25.2	4.7	35.7	30.4	452.7	1.7	14.2	44.1
2009	Turkey	6	6	44	6	6	35	420	3,3	15	44,5
	OECD Average	5.7	13.0	26.5	4.7	25.0	30.6	462.4	1.7	12.8	44.5

Source: World Bank

Intellectual property system is another area that affects enhancement of the innovation capacity and competitiveness of the enterprises. In Turkey for 2008, the total number of filings is 7.137 for patents, 2.986 for utility models, 74.991 for trademarks and 29.954 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, however for patents it is about 30 percent. In patents, which are the indicators for the innovation and invention capacity of countries and critically important in the industrial property rights, the comparison of intensity of resident patent filings with the other countries is presented in the Table.

The Coordination Council of Intellectual and Industrial Property Rights which is established by the Prime Ministerial Circular No.2008/7 is assigned to settle short, medium and long term strategies belonging to the intellectual property rights. In this context, studies to form a national strategy document for intellectual property rights have been started by coordination of the Council.

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	2007	2005	2006	2007	2005	2006	2007
USA	702.50	742.36	800.17	16.76	17.46	18.57	0.67	0.68	0.72
Japan	2 ,879.79	2, 716.58	2,610.13	95.08	87.42	82.35	3.06	2.70	2.48
Belgium	49.34	46.45	42.73	1.54	1.42	1.28	0.08	0.08	0.07
Germany	586.48	582.84	581.67	18.67	18.05	17.53	0.78	0.77	0.74
Poland	53.14	56.55	62.75	3.86	3.86	4.01	0.73	0.73	0.78
China	71.71	93.30	116.10	17.61	20.63	22.84	1.58	1.72	1.82
India	4.13	4.79	--	1.85	1.98	--	0.29	--	--
Turkey	12.88	14.69	24.50	1.19	1.28	2.07	0.26	0.24	0.39

Source: WIPO Statistics Database (based on purchasing power parity of 2005)

The works on the establishment of legal and administrative structures for the monitoring and supervision of the state aids in order to harmonize the state aid system with the European Union Acquis and ensure transparency and efficiency in this respect, has been commenced under the responsibility of the Undersecretariat of the Treasury.

Decree of the Council of Ministers of State Aids in Investments concerning with the new investment incentives system has come into force at 16.07.2009 by being published in the Official Gazette. Within the framework of this new system, tax deductions, employer contributions for insurance premiums, free land allocation, VAT exemption and customs duty exemption are being provided for the large investment projects; for the investments in the sectors defined on a regional basis, the incentives for large investment projects plus interest incentives are being provided. Besides, incentives for the shifts in textile, clothing and leather sectors are given in these regions. In this new system every sector has been determined individually according to the NUTS-2 classification and according to the development level and the regions are divided as four regions. By this way, sectoral incentives and incentives to the large investment projects for the less developed regions are higher compared to the relatively developed ones.

The law no 5084 which was adopted to promote the investments and employment and expired at the end of the year 2008 is prolonged for a year by the law no.5838.

Due to the global economic crisis starting in 2008, reduction of demand, decrease in exports, delays in receivables charges and factors such as increase in credit costs caused serious problems. At the beginning of these problems, capitalization takes the first place. Despite the increasing financial needs of SMEs, from the beginning of the first quarter of 2008 a decreasing trend has begun in SME credits. In the first half of the 2009, SME credits had the highest rate of non-performing loan ratio with 6,6 percent.

Since 2004, in credit programs of KOSGEB, banks provide credits to SMEs without any interests or with low interest rates. Because of the crisis, additional source has been allocated to the KOSGEB to sustain these credit programs and KOSGEB has provided an amount of TL 162 million interest support which has enabled 20.972 enterprises to get an amount of TL 1,4 billion credits in 2008.

KOSGEB provides supports in improvement of quality, technology, entrepreneurship, market research, improvement of exports, regional development, education, counseling and in the area of international cooperation besides the credit supports. In this context, KOSGEB provided an amount of TL 18 million in 2007 and an amount of TL 43 million in 2008.

TABLE: IV. 5- Credit Support Information of KOSGEB

Year	Number of Credits	Credit Amount (Million TL)	Interest Support Amount (Million TL)
2006	4,384	322	60
2007	33,949	1,363	164
2008	20,972	1,413	162
2009*	3,967	1,059	25

Source: KOSGEB
*As of the end of September

From 2006 to the June of 2009, credits supplied to the tradesmen, craftsmen and SMEs by Halkbank has increased by 79 percentage points and nearly reached to TL 11 billion.

TABLE: IV. 6- SME Credits of Halkbank

(Current Prices, Million TL)

	2006	2007	2008	2009*
Commercial Credits	913	2,137	1,184	2,275
Entrepreneur Credits	2,678	1,376	6,479	3,431
Tradesmen Credit	2,637	6,377	2,781	5,423
Total	6,228	9,890	10,444	11,129

Source: Halkbank
(*) As of June

In 2009, several arrangements were made to make SME supports more common and to increase the scale of enterprises. With the amendment on KOSGEB law, it is ensured that in addition to the enterprises in industry sector, enterprises in service sector benefit from KOSGEB supports. Besides by a decree of Cabinet ministers, SMEs that will merge until the end of 2009 will have a tax reduction.

Capital amount of Credit Guarantee Fund Corporation (KGF A.S.), which was established to solve the guarantee problems of SMEs, and increased from TL 60 million to TL 240 million in 2009. Moreover, number of branch offices increased and reached to 18. These positive developments provided an increase in the number of enterprises which are provided guarantees and in the amount of guarantees. However the need for developing credit guarantee mechanism is continuing.

TABLE: IV. 7- Guarantee Information and the created credit volume of KGF A.Ş.

(Million TL)

Year	Number of Guarantee	Amount of Guarantee	Credit Volume
2005	298	37.3	56.7
2006	317	46.9	74.9
2007	305	53	75.4
2008	1,138	284.6	402.6
2009*	1,837	352	492

Source: KGF A.Ş.
* As of the end of June

To decrease the negative effects of global crisis in financing of SMEs and to strengthen the credit guarantee system; on June of 2009 an arrangement was made to enable Undersecretariat of Treasury to provide a support reaching TL 1 billion to KGF A.Ş. and the other credit guarantee foundations.

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 the end of September 2009, there are 1.924.064 tradesmen and craftsmen. At this period, while 121.372 tradesmen and craftsmen have opened a business, 69.874 of them closed their businesses.

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

Year	Number of tradesmen and craftsmen starting a business	Number of tradesmen and craftsmen closing a business
2006	249,265	105,817
2007	171,236	118,776
2008	166,815	117,808
2009*	121,372	69,874

Source: Ministry of Industry and Trade

(*) As the end of September

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, infrastructure is enhanced and widespread institutionalization is ensured.

Supports aiming to improve the business climate and to develop the SMEs will be modified so that, they will encourage growth, new investments and have a selective structure.

3. Policy Priorities and Measures

Priority / Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 11: For the purpose of solving the increasing financing problems of SMEs, measures will be taken, means of enterprises' access to finance will be increased, and financial tools will be diversified.				
Measure 25. Efficiency of Credit Guarantee Fund will be increased.	Undersecretariat of Treasury	KOSGEB,TOBB, Commercial Banks	End of Dec.	To meet SMEs' financial needs and to expand credits, Credit Guarantee Fund which is provided guaranty by Undersecretariat of Treasury will be ensured to function better.
Measure 26. Credit guarantee and venture capital systems will be improved and disseminated.	KOSGEB	Ministry of Industry and Trade, SPO, TOBB, TKB, TTGV	End of Dec.	To better KGF A.Ş.'s business processes, corporate structure and performance of supports, studies will be done. To improve the venture capital system, number of enterprises benefiting from İstanbul Venture Capital Fund will be increased.

Measure 27. To improve supports being provided to SMEs, studies will be done and Project based support programs will be enhanced.	KOSGEB	Related Institutions and Organizations	End of Dec.	A Project related to impact analysis will be conducted by KOSGEB. With the outcomes of this project, improvements in the supports will be realized. Programs will be carried out to support SMEs' projects aiming to increase the size and to develop the SME's.
Measure 28. SME Strategy and Action Plan will be revised.	KOSGEB	Related Institutions and Organizations	End of June	SME Strategy and Action Plan which is ending at the end of 2009, will be revised in a way to include the services sector.
Priority 12: Efforts to reduce bureaucracy, accelerate the transactions and reduce the transaction costs with a view to improve business environment will be continued.				
Measure 29. Within YOİKK Framework, duty implementation of scheduled action plans, which are prepared by Technical Committees, by charged institutions will be monitored.	Undersecretariat 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.
Priority 13. In the intellectual property system; institutional capacity and legal infrastructure will be strengthened, and effective cooperation will be achieved among institutions.				
Measure 30. Legal arrangements for amending legislation on Patent and Utility Model, Integrated Circuits Topographies and Geographical Indications will be made.	Turkish Patent Institute	Ministry of Industry and Trade, Ministry of Justice	End of December	It is aimed to update and change the industrial property legislation for harmonizing the EU legislation, international developments and for removing difficulties arising from domestic implementations. In this context, relevant draft laws will be submitted to the TGNA.
Measure 31. The preparation of the Law on Turkish Patent Authority will be completed.	Turkish Patent Institute	Ministry of Industry and Trade	End of December	The Draft Law on Turkish Patent Authority, which will be prepared for the aim of transforming the TPI more efficient and effective institutional structure, strengthening its institutional capacity, arranging the institution of power of attorneys, and establishing of the Patent Academy will be submitted to the TGNA.

Measure 32. The related unit, which is responsible for copyright issues, of the Ministry of Culture and Tourism will be transformed to the effective institutional structure.	Ministry of Culture and Tourism	SPO	End of December	A Draft Law, which will be prepared by the aim for enhancing the present institutional capacity, for raising the enforcement to the international standards and for realizing an effective coordination, will be submitted to the TGNA.
Measure 33. Amendment on the Law on Intellectual and Artistic Works, No.5846 will be made.	Ministry of Culture and Tourism	Ministry of Justice	End of December	A Draft Law, which will be prepared by the aim of amending articles not harmonizing with the EU legislation and rearranging some articles creating problems in national implementation, will be submitted to the TGNA.
Priority 14. Entrepreneurship information system will be developed.				
Measure 34. Entrepreneurship information system will be developed.	Ministry of Industry and Trade	Ministry of Energy and Natural Resources, Ministry of Labour and Social Security, SPO, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, EPDK, Ministry of Finance (Revenue Administration), TURKSTAT TOBB, TESK, other related institutions.	End of December	An information system involving industry and trade data will be developed to be utilized in developing industrial and trade related strategies and policies. The information in the system will be shared with related institutions considering confidentiality issues. In addition, industry and trade map of Turkey will be prepared and decision support systems will be developed based on this map.
Priority 15. Studies to enhance business climate aiming at increasing the competitiveness of tradesmen and craftsmen and to support change and transformation will be conducted.				
Measure 35. Tradesmen and Craftsmen Strategy and Action Plan will be put into implementation.	Ministry of Industry and Trade	SPO, Ministry of Finance, Undersecretariat of Treasury, ÇSGB, TESK, Other Related Institutions	End of Dec.	Prepared tradesmen and Craftsmen Strategy and Action Plan will be implemented effectively, monitored and evaluated in cooperation with the related institutions.

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 as well as high tax and premium rates in the past , and other administrative, financial, legal burdens, and also structural and social reasons such as corruption, unguided urbanization, most enterprises being small scaled, high unemployment, general perception about inefficient and wasteful public expenditures, excessive bureaucratic formalities, high levels of cash use in the economy, inefficiency of the supervision system, lack of coordination among institutions, frequent issuance of amnesties which erode both sense of justice in the society and sensitivity to meet obligations to the public, and inability to create social and political will in combating against informality.

Increasing informal activities result in the emergence of unfair competition among individuals and enterprises, deterioration of income distribution, decrease in voluntary compliance to taxation and reduce in the tax awareness in the society. The spread of informal economy causes the normalization of informality problem and strengthening of legitimate perception by the society and therefore results in the harming of social values.

Studies on informal economy show that the dimension of this problem in our country is considerably high compared to those of developed economies. 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 it is perceived that 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 due to the untaxed informal economic activities 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, fight against smuggling, protection of intellectual property rights and provision of incentives towards increasing employment in underdeveloped provinces have been put in place. Especially, in order to increase voluntary compliance to taxation of registered tax-payers, as regards income tax , by progressive stages, number of tariff segments decreased to four from seven in last ten years, tax rate for top tariff segment have been decreased gradually to 35 percent from 55 percent, the application which is known as tax refund for wage earners has been suspended and minimum living allowance has been introduced. The corporate tax rate has also been decreased to 20 percent from 30-33 percent in the same period. In many sectors, mainly in education, health and tourism, significant deductions have been made in value added tax rates in recent years. These regulations have considerable importance in formation of an infrastructure in the field of combating against informal economy.

The Draft Law, prescribing unification of tax audit units and was prepared in 2008 in order to increase the efficiency of tax audit, is still on the agenda of TGNA.

"The Strategic Action Plan to Combat with Informal Economy" has been put into action by the Circular of Prime Ministry No. 2009/3, published on Official Gazette dated February 5, 2009. In this Action Plan, encouraging the formal activities, strengthening audit capacity and increasing the dissuasiveness of the sanctions, maintaining and strengthening social and institutional consensus have been determined as the objectives of the strategy to combat informal economy. In order to reach these targets, various objectives and actions have been determined and each action and the related performance indicator have been scheduled to a specific calendar. The realization reports of the action plan which have been prepared for 3-month periods have not been shared with the related parties yet.

The studies on the determination of the amount of tax loss/evasion and on the development of Central Risk Analysis Model to identify risky tax-payers within the scope of objective risk factors have been carried on by the Revenue Administration Department.

In order to prevent smuggling of petroleum products studies particularly on tax audits have been carried and a progress report was prepared. Moreover, as of the end of June 2009, operations to connect the pumps in filling stations to payment recording devices have been completed.

Offices dealing with the combat against informal employment have been founded under all provincial directorates of SSI in order to collect statistical information on informal employment and to control the registry of workers to social security system via the information obtained from banks as well as other public organizations and institutions.

Recently, the results mentioned below have been obtained from audits and controls regarding combat against informal employment:

Under the scope of widespread and intense tax audits performed by the Revenue Administration, 12,458 and 11,064 informally employed workers were identified in 2007 and 2008 respectively.

By the actions taken on the basis of information and notifications collected through the call center referred "Informal Employment and Social Security Information Line" , 11 thousand unregistered employees have been identified. As a result of the audits carried out by public auditors, 803 unregistered employees and 189 unregistered enterprises have been identified.

In order to ensure uniqueness and collaboration among institutions while preventing employment of unregistered and foreign illegal workers in line with their regulations, the Joint Action Protocol was signed. Implementation of the Protocol has resulted the achievements stated below:

The forms attached to Implementing by-law issued on the basis of Identification Notification Law No. 1774 have been sent to SSI since July 2008 and 18,098 unregistered employees and 441 unregistered businesses have been detected from the information received about 191,217 employees as of September 2009.

Ensuring that the porter examination lists prepared by provincial directorates of health have been sent to SSI since June 2008, 14,917 unregistered employees and 171 unregistered enterprises have been detected from the information received about 97,297 employees as of September 2009.

In accordance with the Communiqué About Implementation of Article Eight Paragraph Seven of Law No. 5510, published in Official Gazette dated 28 September 2008, occupational information of the clients along with their ID numbers have been gathered from banks and 14 public institutions, and registration controls have been made since October 2008. In this framework, as of September 2009, 277,983 unregistered employees and 7,314 unregistered enterprises have been detected and their registrations have been made.

2. Main Objectives and Targets

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

Under the scope of the Strategy to Combat with Informal Economy, fight against unregistered economy will be continued in 2010. In this framework, coordination among institutions will be strengthened in order to increase the effectiveness of the implementation.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 16. Under the scope of the Action Plan and Joint Action Protocol, fight with informality will be carried out efficiently.				
Measure 36. The Strategic Action Plan to Combat with Informal Economy will be continued to implement.	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 December	The Action Plan will be monitored quarterly and assessed with collaborated institutions. The social sensibility for combating informality will be increased. Audits to prevent tax loss and fraud shall be increased. Collaboration among institutions regarding implementation will be strengthened.
Measure 37. Joint Action Protocol signed to increase the efficient collaboration and coordination among institutions in order to combat unregistered employment will be continued to implement.	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 December	The results of Joint Action Protocol signed in order to achieve uniqueness within the framework of the regulations of the institutions regarding prevention of unregistered employment and employment of foreign illegal workers and to improve collaboration among institutions, as well as the improvements achieved within this scope will be monitored on numerical basis.
Priority 17. Implementations, to strengthen and to make more effective the supervisory dimension of the combat with informal economy, will be put into practice and the necessary legal arrangements will be made.				
Measure 38. Studies will be started to make information appropriate for joint use, which are placed on forms and reports used in business audits carried out by Ministry of Finance and Social Security Institution employees.	Revenue Administration	Social Security Institution	End of March	Under the scope of fight against informal employment, in order to form a cross control mechanism, studies for renewal of the format of the call rolls, prepared by the personnel of Ministry of Finance, who have the authority to call the roll in accordance with the Tax Procedure Law, to meet necessities; existence of Tax Identification Number of businesses on reports taken by SSI, and sharing of these information among Revenue Administration and SSI will be started.
Measure 39. The Tax Procedure Law will be rearranged.	Ministry of Finance	Revenue Administration, Tax Council, Chambers of Professionals, Related Public Institutions	End of December	Increasing the dissuasiveness of the tax penalties, right of tax payers, principles of settlement and evaluation of disputes will be made compatible with modern tax systems.

Measure 40. In taxation system, taxpayer services will be activated.	Revenue Administration	Ministry of Finance, Ministry of Industry and Trade, Social Security Institution	End of December	All kinds of returns, statements and forms will be revised and composing guides will be prepared. An electronic billing system integrated with the banking system will be established. Opportunities for forming, storing and transferring of the documents except bills in electronic environment will be created, required legal and technical framework will be formed.
Measure 41. Central Risk Analysis Model will be implemented in selection of tax-payers to be audited.	Revenue Administration	Ministry of Finance	End of December	Central Risk Analysis Model, developed to identify risky taxpayers from the center and to set for examination based on objective criteria, will be implemented.
Measure 42. Enjoining enterprises employing illegal workers from participating in public tenders for a certain period will be regulated.	Ministry of Labor and Social Security	Ministry of Finance, Social Security Institution, Public Procurement Authority	End of June	An amendment, stating that 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, will be made in the Public Procurement Law.
Priority 18. An effective struggle will be carried out against smuggling.				
Measure 43. The effects 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, Undersecretariat of Customs, UFT, EPDK, Related NGOs	End of December	The results of the measures taken in order to prevent smuggling of petroleum products will be reported quarterly and will be sent to related institutions.

D. DEVELOPING THE FINANCIAL SYSTEM

1. Current Outlook

As of the end of 2008, the total assets of the financial sector increased by 22.9 percent to TL 823.8 billion compared to the previous year. During the same period, total assets in terms of dollar has decreased by 5.4 percent and attained the level of USD 544.8 billion. The ratio of the total asset size of the financial sector to GDP, which was 78.5 percent in 2007, increased to 86.7 percent in 2008. Banking sector has the highest share in the total asset size of the financial sector with 88.9 percent share. Total assets of mutual funds have decreased in nominal terms and consequently its share in the financial sector has decreased by 1 percentage point to 2.9 percent in 2008 compared to that in 2007. In 2008, the shares of insurance and pension, financial leasing, factoring and consumer finance companies in the financial sector have been realized as 3.4 percent, 2.1 percent, 0.9 percent and 0.6 percent respectively.

Banking

The growth of Turkish banking sector continued in 2009, although the growth rate slowed down related to the developments in domestic and foreign markets. In spite of the contraction effect of the decrease in domestic demand, the developments in alternative distribution channels helped the market enable to continue growing. On the other hand, the effect of global crisis on Turkish banking sector has remained limited compared to many countries' financial sector. Turkish banks' not having toxic assets and having strong capital structures, the restructuring implemented in the banking sector after the crisis in 2001 and more prudential regulatory and supervisory approaches adopted in recent years have been effective to a large extent in this development.

With the closing of one foreign owned bank branch in 2009, the number of banks operating in Turkish banking sector decreased by 1 and realized as 49 as of September 2009 compared to the end of 2008. 32 of these banks are deposit banks, 13 of them are development and investment banks and 4 of them are participation banks. While there has been a limited increase in the number of branches, there has been a decline in the number personnel in the first half of 2009. The number of branches increased from 9,304 to 9,374 and the number of personnel decreased from 182,667 to 182,468 during the period of December 2008 and June 2009.

TABLE: IV. 9- Financial Sector Asset Size (2008)

	Million TL	Million USD	Shares in Sector (In Percent)	Ratios to GDP (In Percent)	Number of Firms
Banks	**732,536**	**484,385**	**88.9**	**77.1**	**50**
Deposit Banks	683,823	452,174	83.0	72.0	33
Development and Investment Banks	22,943	15,171	2.8	2.4	13
Participation Banks	25,770	17,040	3.1	2.7	4
Insurance and Pensions	**27,895**	**18,445**	**3.4**	**2.9**	**62**
Non-life	13,045	8,626	1.6	1.4	36
Life-Pension Companies	13,461	8,901	1.6	1.4	24
Reassurance	1,389	918	0.2	0.1	2
Financial Leasing Companies	**17,211**	**11,381**	**2.1**	**1.8**	**50**
Factoring	**7,794**	**5,154**	**0.9**	**0.8**	**80**
Consumer Finance Companies	**4,680**	**3,095**	**0.6**	**0.5**	**10**
Authorized Institutions (1)	**521**	**345**	**0.1**	**0.1**	**756**
Authorized Individual Lenders (2)	**95**	**63**	**0.0**	**0.0**	**28**
Financial Intermediaries	**4,163**	**2,753**	**0.5**	**0.4**	**104**
Investment Trusts	**4,963**	**3,282**	**0.6**	**0.5**	**50**
Real Estate Investment Trusts	4,269	2,823	0.5	0.4	14
Mutual Funds (3)	**23,979**	**15,856**	**2.9**	**2.5**	**340**
Type A	596	394	0.1	0.1	126
Type B	23,376	15,457	2.8	2.5	209
Total (4)	**823,836**	**544,757**	**100.0**	**86.7**	**746**

Source: BRSA, CMB, UT, TSPAKB, Pension Surveillance Centre
(1) Aggregates are given as the value of the paid-in capital.

(2) Aggregates are available as the value of the total capital.
(3) The values include funds of funds and capital protected funds. Details of those funds are not provided.
(4) Total number of firms is given by excluding the data for those of authorized institutions and authorized individual lenders.

There has not been a significant change in the concentration of banking sector in terms of asset size in the first half of 2009. The share of the 5 largest banks in the sector increased from 60.1 percent to 60.3 percent and the share of the 10 largest banks increased from 82.8 percent to 83.3 percent. When the developments in the share of functional groups are analyzed, it is observed that there has been a decrease in the share of deposit banks and development and investment banks while the share of participation banks increased to some extent. In this context, the share of deposit banks realized as 92.9 percent, the share of participation banks as 3.9 percent and the share of development and investment banks as 3.3 percent in total assets of the sector as of June 2009. In terms of ownership, the share of public banks increased from 30.5 percent to 32.3 percent, while the share of domestic private banks decreased from 52.5 percent to 51.4 percent and the share of foreign banks decreased from 17 percent to 16.2 percent in this period. In the same period, the share of foreign capital in the sector is 19.9 percent including the foreign shares smaller than 50 percent and 39.5 percent including also the shares in ISE.

Balance sheet growth of banking sector slowed down in 2009 compared to previous years. When the 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 768.2 billion with a 4.9 percent increase in terms of domestic currency and increased to USD 503.5 billion with a 4.4 percent rise in US dollar terms as of June 2009 compared to the end of 2008. The ratio of total asset size of the sector to GDP increased by 5.2 points from 77.1 percent to 82.3 percent with the effect of the contraction in GDP in this period.

While there was a slowing trend in the rise of banking sector credits in 2008, this trend turned into stagnation in 2009 especially with the effect of the decline in SME credits. Turning of banks into less risky placements with the effect of global crisis, the rise in credit standards and the decline in credit demand because of economic recession were effective in this development. In this context, banking sector credit volume increased by only 0.2 percent to TL 368.2 billion in the first half of 2009. When the users of the credits are analyzed, it is seen that during the period December 2008 and June 2009, SME loans has decreased by 6.9 percent from TL 85.3 billions to TL 79.4 billion, consumer credits and credit cards has increased by 3 percent from TL 117.1 billion to TL 120.7 billion and other commercial and corporate loans has increased by 1.9 percent from TL 165 billion to TL 168.1 billion.

The stagnation of credits was also reflected in credits to total assets ratio, which increased significantly in previous years, and therefore this ratio which was 50.2 percent at the end of 2008 declined to 47.9 percent in June 2009. Nonetheless, the ratio of banking sector credits to GDP that was 38.7 percent in 2008 increased to 39.4 percent mainly because of the recession in GDP as of June 2009. On the other hand, the ratio of non-performing loans to total loans rose from 3.7 percent to 4.9 percent during the period December 2008 and June 2009.

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

	2007	2008	June 2009
Basic Aggregates			
Total Assets (Billions of TL)	581.6	732.5	768.2
Credits (Billions of TL)	285.6	367.4	368.2
Deposits (Billions of TL)	356.9	454.6	467.6
Number of Banks	50	49	49
Number of Branches	8 122	9 304	9 374
Number of Personnel (Thousands)	167.8	182.7	182.5
Performance Indicators			
Net Profit (Billions of TL)	14.9	13.4	11.0
Profit Before Tax /Average Total Assets (Percent) (2)	3.4	2.5	2.8
Net Profit / Average Shareholders' Equity (Percent) (2)	21.7	16.8	18.4
Credit / Deposit (Percent)	80.0	80.8	78.7
Credit / Total Assets (Percent)	49.1	50.2	47.9
Risk Indicators			
Capital Adequacy Ratio (Percent)	18.9	18.0	19.2
Balance Sheet FX Position (Billions of USD)	-10.0	-3.0	-7.5
Net General FX Position (Billions of USD)	-0.2	-0.0	0.4
Non-Performing Loans (NPL) (Gross) / Credits (Percent)	3.5	3.7	4.9
NPL (Net) / Credits (Percent)	0.5	0.8	1.0
Securities Portfolio / Total Assets (Percent)	28.3	26.5	28.9

Source: BRSA

(1) 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 2009.

Because the banks has switched to less risky investments in the first half of 2009, the securities portfolio became one of the assets that showed highest increase among the banks' placements. Therefore, the share of securities portfolio in total bank assets, which was in a declining trend in recent years, rose from 26.5 percent at the end of 2008 to 28.9 percent in June 2009. The share of securities portfolio to total assets realized as 39.5 percent in public banks, 26.9 percent in domestic private banks and 14 percent in foreign banks as of June 2009.

When the liability structure of the banking sector is regarded, it is observed that there has been a limited increase by 2.9 percent in the first half of 2009 in deposits, which form the major resources of the banks, from TL 454.6 billion at the end of 2008 to TL 467.6 billion. On the other hand, the share of deposits in the liabilities of banks declined from 62.1 percent to 60.9 percent in the same period. The TL-FX composition of deposits didn't change much in the first half of 2009 and the share of TL deposits became 64.7 percent and the share of FX deposits became 35.3 percent as of June 2009. On the other hand, the maturity of deposit continued to be short. In that context, the share of deposits whose maturity is shorter than or equal to 3 months in total deposits has been 91.6 percent as of June 2009.

The upward trend in the ratio of credits to deposits since 2002, has been interrupted since the last quarter of 2009. The ratio of credits to deposits, which was 80.8 percent in 2008, became 78.7 percent in June 2009. In terms of bank groups, this ratio is 84.4 percent for domestic private banks, 60 percent for public banks, and 104.7 percent for foreign banks.

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 7.1 percent from USD 23.6 billion at the end of 2008 to USD 22 billion in June 2009. With this decline, the share of these loans, which became an important source of financing for the sector, in total balance sheet decreased from 4.9 percent to 4.4 percent in the first half of 2009.

The capital adequacy ratio of the banking sector, which decreased in recent years because of the rapid expansion of the credits and rise in risk weighted assets, has increased in the first half of 2009 with the stagnation in credits and the rise in equity. The capital adequacy ratio of the sector increased by 1.2 points to 19.2 percent compared to the end of 2008. While the capital adequacy ratio has been 23.1 percent for the public banks, 17.9 percent for the private banks and 18.3 percent for foreign banks; in reference to functional groups this ratio has been 17.9 percent in deposit banks, 58 percent in investment and development banks and 15.1 percent in participation banks as of June 2009.

As of June 2009, balance sheet FX open position of banking sector increased by USD 4.5 billion compared to the end of 2008 to USD 7.5 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 was US 16 million at the end of 2008 and USD 357 million in the first half of 2009; and the ratio of net FX position to capital is significantly lower than the regulatory limits.

The net profit of the Turkish banking sector, increased by 33.1 percent from TL 8.3 billion to TL 11 billion in the first half of 2009 when compared to the same period of the last year. In this period, the increase in net interest margin was the main cause of the rise in banking sector profits. While the cut in short-term interest rates implemented by the Central Bank was reflected in the interest rates of deposits which are mainly short-term, it wasn't reflected in credit interest rates in the same proportion; and this lead to an increase in interest margin of banking sector. While the rise in interest from loans, the interest from securities held to maturity and capital markets transaction profits are the main determinants of the rise in profits; the decline in the interest from securities available for sale and the rise in the provision for non-performing loans affected the profitability performance negatively. The rise in profitability can be also seen in the return on assets and return on equity ratios. In this context, return on assets based on profit before tax, which was 2.5 percent in 2008, increased to 2.8 percent in June 2009 in annualized terms and return on equity increased from 16.8 percent to 18.4 percent in the same period.

Since the last quarter of 2008 taking into account the current conjuncture, regulations have been made in order to limit the effects of global crisis and improve the lending opportunities of banking sector by preserving the solvency of debtor firms and households.

Beginning from September 2008, in order to eliminate the negative effects of abrupt changes in the interest rates of treasury bills and government bonds on banks' balance sheets, BRSA allowed banks to transfer Treasury bills and government bonds that are classified in other categories to the portfolio of "securities held to maturity" whose value is not affected by the change in interest rates.

With a view to strengthen the capital structure of banking sector, a restriction was imposed by BRSA on the banks' distribution of profits and a requirement was set to take approval from BRSA for the distribution of the profits.

A temporary change was made in provisions regulation by BRSA with the regulation published in Official Gazette in 23 January, 2009. With this change, the time that has to pass before classifying a loan in the "loans and other receivables under close monitoring" was determined as 30 days. In addition, the application of particular provision for a loan, that is classified as bad loan because one of the loans of the same client was classified became a bad loan but that has no problems in payment, was left to the discretion of the banks till 1 May, 2010 and it was allowed to take the loans out of bad loans classification if the late payments have been realized. Moreover, it was allowed to restructure some of the loans that were classified as bad loans. This amendment of regulation was put into effect as of 1 October, 2008.

Credit scopes and limits were increased by Eximbank in 2009 and the maturities were extended in short-term credits. In addition, the nominal capital of Eximbank was increased from TL 1 billion to TL 2 billion in order to enable Eximbank to further support exports.

With the "Law on Disregarding the Records of Overdraft Cheques, Protested Bills, and Credit and Credit Card Debts", it was enabled to erase individuals' and legal entities' overdraft cheque, protested bill, credit card and other credit debt records from the records kept by Central Bank in case these debts are paid within 6 months after this law was put into effect or are restructured.

By adding a provisional article to the Law No. 3167 on the Regulation of Payments by Cheque and Protection of Cheque Bearers with the Law No. 5848 Amending Some Laws which was promulgated in Official Gazette in 28 February, 2009; it was ruled that it is invalid to submit a cheque to the drawee bank for payment before the date of issue that is written on the cheque.

With the "Decree Amending the Decree No. 32 on the Protection of the Value of the Turkish Currency" that was promulgated in the Official Gazette in 16 June 2009, it was enabled that the firms that do not have income in foreign currency could also use foreign currency loans from domestic banks provided that the maturity of these loans are more than 1 year and the amount of the loans are greater than USD 5 million. Moreover, the maturity limit, which was set as 18 months for the loans used by firms that have foreign currency income, was removed with the above mentioned regulation. In addition to these, with this regulation it was ruled that consumers can not use foreign currency indexed loans from domestic and foreign financial institutions.

With the "Law Amending the Law No. 5909 on Regulating Public Finance and Debt Management" which was promulgated in the Official Gazette on 24 June, 2009, transfer of up to 1 billion TL from the Treasury to credit guarantee institutions was provided in order to ensure the effective functioning of credit system by improving SME's opportunities of finance. Additionally, with the Decree of Council of Ministers No. 2009/15197 on the Procedures and Principles Regarding the Treasury Support to Credit Guarantee Institutions that was promulgated in the Official Gazette on 15 July, 2009, procedures and principles are determined for the activation of up to 1 billion TL support by Treasury to credit guarantee institutions of which banks and financial leasing companies are partners.

Law No. 5915 Amending Bank Cards and Credit Cards Law was promulgated in the Official Gazette in 7 July 2009. With this Law, it was enabled that new payment plans can be determined for the credit card debts that were given notice for payment, that executive proceedings were started for or that were classified as non-accruing loans as of 31 March 2009.In addition to this, an authority was given to BRSA to increase the minimum payment, which is 20 percent, up to 40 percent by taking the positive opinions of Treasury and CBRT. Within the scope of this Law, the number of cards for which banks signed protocols with their clients is 509,253, the number of clients with whom banks signed protocols is 458,424 and the amount of debt is TL 1.5 billion. In the same period, the number of cards of which the signed protocols are cancelled is 18,538, the number of clients is 17,839 and the amount of debt is 62.9 million TL.

Furthermore, the enforcement date of "Financial Restructuring Framework Agreement" which was put into force in accordance with the Law No. 5569 on Restructuring the Debts of Small and Medium Sized Firms to Financial Sector, has ended as of April 2009. In the context of this restructuring known as Anatolian Approach, a total number of 120 small and medium sized firms, which provide employment to 2,779 people, have been taken under the scope of restructuring. Debt restructuring agreements were signed with 105 of these firms and a total debt of TL 200.1 million was restructured.

The international cooperation between regulatory and supervisory institutions has been strengthened within the framework of G-20 platform in 2009. In this context, active participation of BRSA to the international working groups was provided, the experiences of Turkish banking sector's crisis management and restructuring were shared with international public, the BRSA became a member to Basel Banking Supervisory Committee and Turkey to Financial Stability Board .

In addition to international cooperation, important steps were taken in 2009 to strengthen the cooperation and dialog between domestic authorities. For this purpose, "Systemic Risk Cooperation Protocol Regarding Financial System" was signed between Treasury, BRSA, Saving Deposits and Insurance Fund and Central Bank and was put into effect, Financial Sector Commission Portal was formed and brought into the use of members and "The Project on Informing Customers", which was initiated by BRSA in cooperation with related institutions to inform the consumers was completed and a guide for customers was prepared. Furthermore, the studies on reviewing and reducing the factors that prevent banking sector from attaining international competitiveness and from operating in a profitable, efficient and rational manner are going on. Besides, regarding risk management, Risk Bulletin aiming to monitor the regulatory studies and other operations of both international institutions and domestic authorities was started to be published in 2009.

Capital Markets

Due to ongoing global financial crises, remarkable deteriorations in capital market indicators have been observed. The number of companies traded in Istanbul Stock Exchange (ISE) as of August 2009 has been realized at 314. The ratio of total market capitalization to GDP of the corporations listed on the ISE decreased to as low as 19.2 percent as of June 2008 and was realized at 27.1 percent as of June 2009. Similarly, the total market value of the ISE listed companies' shares of those only traded in public decreased to as low as TL 61.6 billion as of end of 2008, showed increasing trend starting as of February 2009 and increased to TL 111.2 billion as of August 2009. The share of stocks held in foreign investors' portfolio within the total value of the stocks traded in ISE has realized at 66.6 percent at the same period.

Number of mutual funds which exhibit increasing trend as of end of the last 3 years, has decreased from 349 as of August 2008 to 324 as of August 2009. During the same period, the asset value of the mutual funds has increased by TL 5.8 billion and reached to TL 30.9 billion.

The growth rate of the number of participants in pension funds has decreased compared to previous years. As a matter of fact, the number of participants increased at a rate of 38.1 percent in 2007, 22.4 percent in 2008 and 9.8 percent in the first 8 months in 2009. On the other hand, the net asset value under pension funds' management, which realized as TL 6.3 billion at the end of 2008, reached to TL 8.3 billion as of end of August 2008.

Considering the other companies that operate in the capital markets, especially the increase in the assets value of portfolio management companies is remarkable. As a matter of fact, this value has increased by TL 8 billion as of August 2009 compared to that of the end of 2008 and reached to TL 38.7 billion. During the same period, whereas the number of independent auditing firms has decreased by 2 and reached to 95, the number of real estate appraisal companies increased by 8 and reached to 58 and the number of rating institutions increased by 1 and reached to 9.

In the first 8 months of 2009 compared to the same period of 2008, the increase in transaction volume of the Bonds and Bills Market Outright Purchases and Sales Market and Repo-Reverse Repo Market, in which predominantly Government Domestic Bills are traded, increased 34 percent and 6.3 percent and realized at TL 293.2 billion and TL 2,028 billion respectively. During the same period, the transaction volume of Stock Market has increased by 30.1 percent and realized as TL 300.7 billion.

Considering the developments in initial public offerings that improve the depth of capital markets, there has been no initial public offering in 1 year starting from August 2008.

The transaction volume of Takasbank Money Market decreased by 4.3 percent and realized at TL 23.8 billion as of the first 8 months of 2009 compared to the same period of 2008. In this period, the transaction volume of Securities Lending and Borrowing Market increased by 59.5 percent and realized at TL 1.4 billion.

The transaction volume of Turkish Derivatives Exchange (TurkDex) increased by 47.3 percent in the first 8 months of 2009, compared to the same period of 2008, and reached to TL 211 billion. 79.4 percent of the total transaction volume has been recorded at the contracts based on the stock indices. Majority of the transaction volume of the contracts based on the stock indices has been due to the contracts based on ISE-30 stock exchange index.

Emerging Companies Market has been established following Istanbul Stock Exchange Emerging Companies Market Communiqué has been published in Official Gazette in 18 August 2009 and come into force. The communiqué determines the principles and procedures of this market. It is aimed with this market that companies, which has emerging and growing potential, have transparent and regular environment for the trading of the securities that are issued in order to provide funds from capital markets.

TABLE: IV. 11- Capital Markets Indicators

	Unit	2006	2007	2008	August 2009
Corporations Registered by CMB	Number of	605	593	570	554
Corporations Listed on the ISE	Number of	329	332	323	321
Corporations Traded on the ISE	Number of	316	319	317	314
Corporations Traded off the ISE	Number of	13	13	6	7
Market Value (of Shares Traded on the ISE)	Million TL	75,569	112,468	61,581	111,187
Foreign Share (of Shares Traded on the ISE)	Percent	65.26	72.37	67.46	66.57
Market Capitalization	Million TL	230,038	335,948	182,025	313,279
Market Capitalization/GDP (1)	Percent	30.33	39.84	19.16	27.10,
Financial Institutions	Number of	140	145	145	144
Financial Intermediaries	Number of	100	104	104	103
Banks	Number of	40	41	41	41
Mutual Funds	Number of	295	305	349	324
Net Asset Value	Million TL	22,228	26,727	25,065	30,929
A and B Type Mutual Funds	Number of	289	297	340	314
Net Asset Value	Million TL	22,012	26,381	23,979	29,343
Exchange Traded Funds	Number of	6	8	9	10
Net Asset Value (2)	Million TL	216	346	1,086	1,586
Pension Funds	Number of	102	104	121	128
Corporations	Number of	11	10	12	12
Participants	Number of	1,141,428	1,576,273	1,928,964	2,118,763
Net Asset Value	Million TL	2,815	4,566	6,323	8,278
Foreign Mutual Funds	Number of	60	60	80	73
Net Asset Value	Million TL	74	90	54	80
A and B Type Investment Trusts	Number of	30	33	34	33
Net Asset Value	Million TL	540	689	553	680
Real Estate Investment Trusts	Number of	11	13	14	14
Net Asset Value	Million TL	2,481	4,118	4,269	4,470
Venture Capital Investment Trusts	Number of	2	2	2	2
Net Asset Value	Million TL	127	174	141	175
Portfolio Management Companies	Number of	19	19	23	24
Net Asset Value	Million TL	25,964	31,190	30,738	38,721
Independent Auditing Firms	Number of	94	96	97	95
Real Estate Appraisal Companies	Number of	13	26	50	58
Rating Institutions	Number of	7	8	8	9

Source: CMB, Central Registry Agency Inc., TURKSTAT, ISE, Pension Monitoring Centre
(1) The value for August 2009 is as of end of June 2009.
(2) It indicates the nominal value.

TABLE: IV. 12- Transaction Volume in Capital Markets

(Million TL)

	2006	2007	2008	August 2008	August 2009
Bonds and Bills Market					
Outright Purchases and Sales Market Transactions Volume	381,772	363,949	300,995	218,808	293,241
Repo-Reverse Repo Market Transactions Volume	2,538,802	2,571,169	2,935,317	1,908,540	2,027,962
Stock Market					
Transactions Volume	325,151	387,777	332,615	231,202	300,735
Total Public Offering Revenue	1,240	4,364	2,373	2,373	0
Takasbank Money Market					
Transactions Volume	44,983	40,196	38,059	24,854	23,794
Securities Lending and Borrowing Market					
Transactions Volume	769	1,401	1,333	905	1,443
Gold Exchange					
Transactions Volume in TL	227	1,014	165	144	157
Transactions Volume in USD (Millions of USD)	4,409	6,507	9,152	6,702	5,186
Transactions Volume in YTL and USD (Tones)	232	327	334	239	178
Futures and Options Exchange					
Transactions Volume	17,386	116,869	207,963	143,275	210,990
Transactions Volume (Thousands of Contracts)	6,629	24,457	54,473	33,466	57,775
End-period Open Interest (No. of Contracts)	198,074	234,713	209,382	217,608	218,438

Source: ISE, Istanbul Gold Exchange, TurkDex, Takasbank

TABLE: IV. 13– Selected Aggregates of the Insurance Sector

	2006	2007	2008
Basic Aggregates (Billions of TL)			
Asset Total	**18.6**	**23.4**	**27.9**
Non-Life Companies	9.1	11.4	13.0
Life/Pension Companies	8.4	10.7	13.5
Reinsurance	1.1	1.2	1.4
Concentration Indicators by Assets (In Percent)			
Share of First Five Companies	43.7	47.1	42.1
Share of First Ten Companies	63.8	66.0	63.0
Performance Indicators (In Percent)			
Net Profit for Financial Year (Millions of TL)	263	698	972
Non-Life Companies	141	424	594
Life/Pension Companies	74	201	246
Reinsurance	48	73	132
Net Profit / Total Assets	1.4	3.0	3.5
Net profit / Paid-in Capital	4.7	9.1	12.6
Technical Indicators (In Percent)			
Premium Retention Ratio			
Non-Life Companies	64.7	67.7	68.6
Life/Pension Companies	91.4	92.4	91.9
Technical Profit Ratio			
Non-Life Companies	0.5	2.6	4.4
Life/Pension Companies	8.7	12.7	-5.9
Financial Profit Ratio			
Non-Life Companies	3.5	3.6	4.1
Life/Pension Companies	9.4	11.6	13.6

Source: Treasury

Insurance

By the end of 2008, there have been 36 non-life, 24 life-pension and 2 reinsurance firms in the insurance market and 53 of these firms have been actively in operation.

Evaluating the potential in Turkish insurance sector, foreign firms witnessed increasing interest to invest in this area during the last years. Especially firms with high share in insurance market, because of the hundred percent market penetration and impossibility of increasing capacity in their own country, inclined to Turkey. The low insured ratio in all branches of insurance sector in one hand, witnessed legislative infrastructure consistent with EU norms which started with the law numbered 5684 and the secondary legislation in the other hand, has attracted foreign capital. During this process, arbitration system and the standards which aim strengthening the financial structure, technical provision position and supervision have been initiated in the insurance sector.

As a result of these developments, the 2008 crisis which caused some insurance companies go bankruptcy and put many others into trouble both in USA and the world, has created limited effect on Turkish insurance sector, because financial asset insurance was not widely used and insurance companies had invested mostly in government bonds and Treasury bills as opposed to risky areas. In fact the legal framework in Turkey, allowing limited premiums to be invested in risky areas such as foreign exchange and stock-exchange market, helps the companies to be less affected from financial crisis. Under these circumstances, Turkey having an insurance market which does not give much place to risky products, keeps the situation of the country given reinsurance capacity by the worldwide reinsurance companies. After all these developments, out of 62 companies, as being 22 non-life and 19 life pension, totally 41 companies became directly or indirectly foreign firms. So, nearly 63 percent of the capital in the insurance sector and 59 percent of the market share belongs to the foreign firms.

According to the consolidated balance sheets of insurance and private pension and reinsurance companies, the total asset of the sector in Turkey, which increased 19.2 percent and reached 27.9 billion TL in 2008 compared with the previous year. In the total volume of the assets, non-life insurance firms have 47 percent, life pension firms have 43 percent and life companies have 5 percent share. The financial assets have the highest share in total assets of non-life and life firms whereas receivables from main operations are the largest item of the life pension firms. Because of the structure of the system, while premium receivables from intermediaries is the main source in non-life, receivables from insured has the major share of premiums receivables of life and life pension companies.

In total assets of the sector, 65 percent of financial assets and financial investments are blocked on behalf of Turkish Treasury to secure all liabilities regarding the insurance contracts of companies, the remaining 35 percent consists of assets in free portfolio. 86.5 percent of financial assets consist of government bonds and Treasury bills.

In 2008 net profit of non-life companies and life pension companies increased by 40 percent and 22.4 percent respectively and thus the ratio of net profit of the sector to total assets realized as 3.5 percent. During the same period the ratio of net profit to owners' equity (ROE) increased by 38.2 percent reaching 12.6 percent. As the ratio of premium retention ratio of non-life and life pension branches maintained the level over 60 percent, the ratio of paid loss to premium increased by 10 point compared with the previous year and reached 75 percent in 2008.

According to the liabilities of the consolidated balance, the ratio of technical provisions of life and non-life branches reached 81 percent, as the payables on operation of life pension branch had the biggest share.

Analysis of the market concentration indicators according to the size of assets without taking into consideration of branches, implies decrease in the concentration in 2008.

In 2008 industrialized countries had the biggest share of 88 percent in global premium volume of USD 4,270 billion, which represent the first decrease in real premium production since 1980, because of the effects of the crisis. Turkish insurance sector took 36th place within 88 countries with a share of 0.21 percent in global premium production and took 76th and 65th places in terms of the ratio of premium volume to GDP and premium volume per capita respectively.

According to the table prepared consistent with the branches set up by the new law, direct premium produced by the companies, increased by 8 percent and reached 11.6 billion TL in 2008. In recent years, premium production increased over the rate of growth of GDP except in the years of crisis, in spite of crisis premium production continued to develop consistent with growing trend in 2008. However, the number of policies written decreased by 2 percent and became 37.5 million. Increase in premium production in spite of decrease in the number of policies may be interpreted as better quality of service or a reflection of the imperfect competition in the market.

TABLE: IV. 14- Share of the Instruments in Financial Assets (2008) (Million TL)

Million TL

	Non-Life	Life/Pension	Life	Reinsurance	Total
Government Bonds/Treasury Bills	2,772	3,537	785	482	7,576
Stocks	77	54	2	11	143
Mutual Funds	65	64	2	3	134
Others	44	734	120	0	898
Total	**2,958**	**4,388**	**909**	**496**	**8,752**

Source: Treasury

Although the shares may change from year to year, 73 percent of premium was produced by agents, 12 percent by banks and 8 percent by brokers in 2008.

Despite the great financial crisis, individual pension system completing its fifth year in 2008, continued to grow and reached 1.75 million participant and 6 billion 322 million TL fund collection. As the pension funds in USA and Europe suffered from heavy losses during this period, Turkish individual pension funds grew 35 percent which indicates the confidence in the system as well as the potential of the system in the long term.

Almost 75 percent of total participants of pension system consist of individuals. Group pension contracts have 10 percent tax exemption and this ratio is considered unsatisfactory. Increase in this rate which is applied in Spain as 100 percent, is expected to be an important encouraging tool of group contracts. Furthermore, the absence of vesting in the group pension plans was a great deficiency in this area. A new regulatory improvement during this year brought the ability to include a vesting clause in employers' group pension contracts, which necessitates maximum five year of justification period for the participants in order to be paid back the employers' participation into the participation plan, is expected to have positive impacts. This regulatory provision, intended to increase loyalty of employees to the company as well as increase corporate participation since the employers are also justified to be paid back under certain circumstances. Another provision is that the contract shall take effect on the thirtieth day of signing the proposal form, which allows the right to withdraw from the contract within a 30 day grace period, is also evaluated a positive development in the system

TABLE: IV. 15- Direct Premium Generation in the Insurance Sector

	(Million TL)			(Percentage Share)			(Percentage Change)	
Insurance Branches	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**	**2007/2006**	**2008/2007**
Non-Life	**8,090**	**9,370**	**9,995**	**85.4**	**87.6**	**86.5**	**15.8**	**6.7**
Health	949	1,163	1,288	10.0	10.9	11.1	22.6	10.7
Accident	319	428	503	3.4	4.0	4.4	34.2	17.5
Land Vehicles	2,751	3,181	2,839	29.0	29.7	24.6	15.6	-10.8
Air Vehicles	49	24	31	0.5	0.2	0.3	-51.0	29.2
Sea Vehicles	63	71	99	0.7	0.7	0.9	12.7	39.4
Transport	269	280	305	2.8	2.6	2.6	4.1	8.9
Fire and Natural Disasters	1,503	1,640	1,784	15.9	15.3	15.4	9.1	8.8
General Damages	559	730	774	5.9	6.8	6.7	30.6	6.0
Land Vehicle Liabilities	1,399	1,578	2,006	14.8	14.7	17.4	12.8	27.1
Air Vehicle Liabilities	23	30	31	0.2	0.3	0.3	30.4	3.3
Sea Vehicle Liabilities	0	0	0	0,0	0,0	0,0	0,0	0,0
General Liabilities	151	182	226	1.6	1.7	2.0	20.5	24.2
Credit	8	13	34	0.1	0.1	0.3	62.5	161.5
Fidelity Guarantee	0	0	0	0.0	0.0	0.0	0.0	0.0
Financial Loss	20	20	40	0.2	0.2	0.3	0.0	100.0
Legal Protection	25	28	32	0.3	0.3	0.3	12.0	14.3
Life	**1,384**	**1,331**	**1,565**	**14.6**	**12.4**	**13.5**	**-3.8**	**17.6**
Total	**9,474**	**10, 701**	**11,560**	**100.0**	**100.0**	**100.0**	**13.0**	**8,0**

Source: Treasury

Turkey, as a country located in a high risk region, compulsory earthquake insurance put into application in order to reduce burden of government and citizens, could only cover 27 percent of the total 14.9 million insurable dwellings, during the last eight years. The Marmara region, the most risky one among others, has 30 percent of insured ratio. The reasons that prevent earthquake insurance to spread widely out, might be defined as follows: there exists no penalty clause for citizens who do not take insurance contract and no consciousness about the necessity of earthquake insurance. Until now total claims of 19.9 million TL losses has been paid for 229 earthquakes occurred, by Turkish Catastrophe Insurance Pool.

In order to provide the coverage the risks threatening the agricultural sector, Agricultural Insurance Law was enforced and insurance pool was established. According to law, insurance companies transfers all risks and premiums to the pool, government contributes to premiums which is determined by Council of Ministers on annual basis and TARSIM, established with equal share as a corporation by the insurance companies, carries out all tasks of the pool. In this context, 260,944 contracts and TL 98.4 million premiums were generated and TL 44.1 million losses were paid in 2008. At the end of 2008, 66,187 farmers, 4.4 million hectares agriculture field and 71,955 animals have been covered by subsidized agriculture insurance.

Non-Bank Financial Institutions under the Surveillance of BRSA

Under the scope of non-bank financial institutions, which have been regulated and supervised by BRSA according to Banking Law No. 5411, a total of 134 leasing, factoring and consumer financing companies operate as of September 2009.

During the period of December 2007- September 2008, by giving operation license to one leasing companies and canceling the operation license of 3 leasing companies, the number of leasing companies decreased to 48 as of September 2009. In this period, while the number of branches of leasing companies remained as 18, the number of personnel decreased from 1,557 to 1,541.

In the first half of 2009, the total asset size of the leasing companies decreased from TL 17.1 billion to TL 15.4 billion with a 9.9 percent decline as a result of the contraction in leasing receivables. As of June 2009, the sector has a 1.7 share in GDP.

When the sectoral distribution of leasing operations is analyzed, it is observed that a structure mainly based on service and industrial sector has not changed much in the first half of 2009. As of June 2009, 46.3 percent of leasing receivables belongs to services sector and 45.7 percent of the receivables belong to industrial sector. In the liability side, 6.7 percent rise in equity capital and 13.9 percent decline in loans borrowed have been remarkable developments in the first half of 2009. The net profit of leasing sector decreased by 31.2 percent from TL 320 million to TL 220 million in the first half of 2009 compared to the same period of the previous year, with the effect of decline in the volume of leasing transactions and the developments in tax regulations.

In the first 9 months of 2008, by giving operation license to 2 factoring companies and canceling the operation license of 6 factoring companies, the number of factoring companies decreased to 76.

As of June 2009, compared to the end of 2008, the total assets of factoring companies reached to TL 8.4 billion from TL 7.8 billion with a 7.9 percent rise. The ratio of the assets of factoring companies to GDP became 0.9 percent in this period. The increase in factoring receivables from TL 5.6 billion at the end of 2008 to TL 6.5 billion by the half of 2009 was effective in the rise of total assets. When the sectoral distribution of factoring operations in the first half of 2009 is considered, it is seen that of the total receivables, 53.3 percent of them corresponds to industrial sector, 30.5 percent of them corresponds to services sector and 3.2 percent of them corresponds to agricultural 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 62.8 percent to 67.9 percent in the first half of 2009 and the share of equity capital did not change much and became 28.6 percent as of the first half of 2009. The net profit of factoring companies decreased by 21.3 percent from TL 200 million to TL 158 million in the first half of 2009 compared to the same period of the previous year.

The number of consumer financing companies has been 10 as of September 2009. During the period of December 2008 and June 2009, the total assets of consumer financing companies declined from TL 4.7 billion to TL 4.6 billion with a 1.8 percent fall with the effect of the decline in financial loans. The ratio of the total balance sheet size of these companies to GDP has been 0.5 percent as of June 2009. The share of financial loans in total assets of consumer financing companies has been 85 percent. As of June 2009, service sector is the sector that takes the largest share in these credits with TL 3.7 billion of credits. In the same period, 38.3 percent of the credits were lent to households and individual firms that are not SMEs and 30.1 percent of the credits were lent to SMEs. In the liability side, financial debt is the most significant financing account with an 80 percent share. In the first half of 2009, net profit of consumer financing companies decreased remarkably by 85.8 percent from TL 29 million to TL 4 million compared to the same period of the previous year, especially with the effect of the fall in non-consumer financing income.

The adaptation process of the operations of leasing, factoring and consumer financing companies to the relevant regulations continued and the license of companies that could not adapt to new regulation were canceled in 2009.

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.

Making Istanbul to be an international financial center is targeted in the direction of the published Istanbul International Financial Center Strategy Document and Action Plan.

3. Policy Properties and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 19. New markets and tools will be developed and the depth of the financial system will be increased.				
Measure 44. Capital Market Law will be amended.	CMB	MoF, SPO, UT, CBRT, BRSA, BAT, PBAT	End of December	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 45. Financial instruments will be developed to benefit from the capital accumulation of Gulf countries.	CMB	MoF, UT, CBRT, BRSA, BAT, PBAT	End of December	By analyzing 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 46. The Law No. 1567 Regarding the Protection of the Value of Turkish Currency will be made more applicable to the present conditions.	Undersecretariat of Treasury	Ministry of Justice, CBRT, BRSA, CMB	End of December	A draft law will be prepared to redeterminate the articles in Law No. 1567 related to punishment in a more concrete and detailed way in the context of the legislation in force and to change them in a manner that incorporates new needs, and this draft law will be sent to the Prime Ministry.

Priority 20. Works which aim to strengthen the confidence and stability in financial markets will be accelerated.				
Measure 47. Government domestic debt instruments and liquidity instruments will be dematerialized.	CMB	UT, CBRT, BRSA, Central Registry Agency Inc., ISE, Takasbank, BAT, TSPAKB and related institutions	End of December	Works on transaction principles and necessary regulations for the integration to registry system of repo-reverse repo transactions in which GDDIs are subject will be finalized. Regulation amendment drafts will be prepared in order to eliminate judicial uncertainties arising from judicial and administrative authorities' cautionary judgment, confiscation and related legal and administrative demands that will be given directly to Central Registry Agency Inc. related to GDDIs.
Priority 21. The regulation and supervision of the financial sector will be improved in accordance with the international standards.				
Measure 48. The regulatory framework for the institutions, markets and instruments under the surveillance of BRSA will be strengthened.	BRSA		End of December	It will be ensured that the institutions, markets and instruments under the surveillance of BRSA will be regulated and supervised in a prudential approach, the adoption studies for CRD regulations will be completed, and current regulations will be reviewed in the context of good regulatory principles and international rules and standards.
Measure 49. The efficiency and effectiveness of the surveillance and supervision of banks and non-bank financial institution under the surveillance of BRSA will be enhanced with new approaches and instruments.	BRSA	Undersecretariat of Treasury, CMB	End of December	Works will be done related to the improvement of consolidated supervision.
Measure 50. Gradual harmonization with 28 core principles of International Agency of Insurance Supervision will be ensured.	Undersecretariat of Treasury		End of December	The studies on this issue continue. In 2009 harmonization to 3 principals in the scope of Regulation on Internal Systems, ICP 27 for Fraud, ICP 10 for Internal Control and ICP 11 for Market Analysis is about to be done. Furthermore, harmonization to ICP 28 for Anti-money Laundering and combating the financing of terrorism, and ICP 26 for Public disclosure, openness and transparency is planned to be done in 2010.

Measure 51. Amendments in the Law on Individual Pension Savings and Investment System will be made.	Undersecretariat of Treasury	CMB, Pension Monitoring Center, Association of the Insurance and Reinsurance Companies of Turkey	End of December	The draft bill, amending the Law No. 4632 in order to solve the issues in implementation stage concerning the pension system, will be submitted to the Prime Ministry.
Priority 22. Istanbul international financial centre project will be implemented.				
Measure 52. Implementation of Istanbul International Financial Center (IFC-Istanbul) Strategy and Action Plan will be monitored.	IFC-Istanbul Coordination Office	Related ministries and governmental institutions, related associations, institutions in the sector, NGO's	End of December	Actions identified in IFC-Istanbul Strategy and Action Plan which published and came into force in Official Gazette in 2 October 2009 will be monitored and it will be ensured that these actions will be implemented according to predetermined timetable.
Measure 53. Capital Market Strategy Document will be prepared.	CMB	MoF, SPO, UT, CBRT, BAT, PBAT	End of December	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 in line with the IFC-Istanbul Strategy Document and Action Plan.

E. DEVELOPMENT OF ENERGY AND TRANSPORT INFRASTRUCTURE

ENERGY

1. Current Outlook

Since 2002 strong and stable economic growth together with rise in social wealth had lead to substantial increase of energy consumption. During the last six years primary energy consumption had increased 36 percent and electricity consumption had increased 49 percent. However, since the last quarter of 2008, at which global economic crisis started to affect Turkish economy profoundly, deceleration in economic activities together with energy price increases due to cost based pricing energy mechanism caused the energy demand to fall down. After the 2001 crisis, the second and the largest drop in electricity demand for the last thirty years was observed in 2009.

As a result of the continuation of economic slowdown, primary energy consumption is expected to decrease by 6.7 percent due especially to fall in oil and natural gas demand in 2009. Thus, 106.5 million tons of oil equivalents (mtoe) of primary energy consumption in 2008 is expected to decrease to 99.4 mtoe in 2009 and energy consumption per capita is expected to decrease from 1,423 kgoe to 1,312 kgoe during the same period.

Against the steady increase of natural gas demand during the last years, in 2009 it is expected to decrease by 9 percent with respect to previous year and fall to 30.8 mtoe. However, the share of natural gas in primary energy consumption will exceed 30 percent.

Following the improvement in hydrological conditions the use of hydraulic resources increased. Hydroelectricity production is expected to rise by 9.1 percent in 2009. Demand slump is expected to lead to a 16 percent fall in liquid fuels based electricity generation which has a comparatively very high production cost.

A relative improvement in energy imports is expected due to the negligible change in primary energy production against a decrease in primary energy consumption. Primary energy production is expected to be 28.4 mtoe in 2009 whereas it was 29.2 mtoe in 2008.

Total installed capacity of power plants rose to 44,300 MW in 2009, by an increase of 5.9 percent, from 41,818 MW as of the end of 2008. Although that capacity exceeds the demand, due to the problems faced during operation of power plants in full capacity and lower water levels in dams, convenience of installed capacity does not reflect into reliable spare capacity. Therefore, demand slump should be taken as an opportunity for plant rehabilitations to ease the supply-demand balance for the following years.

It is possible that energy demand would reach high levels if Turkey gets over the crisis fast, in line with various economic forecasts and achieves potential growth rates. For this reason; investments are required to be planned henceforth to support the demand growth and should be realized stably to eliminate the medium and long-term electricity supply shortage risk, which was suppressed as a result of demand slump induced by global economic crisis and.

Electricity consumption levels in 2008, which was 6 billion kWh lower than the programme estimate of 2008, and in 2009, which is 4 billion kWh lower than that of 2008, clearly exhibits the effect of crisis on demand.

Compared to the level of 2008, electricity generation in 2009 is expected to fall from 198,4 billion kWh to 194,8 billion kWh, by a decrease of 1.8 percentage points. Share of fuels in electricity generation in 2009 is expected to be 48 percent for natural gas 21,4 percent for lignite and 18,6 percent for hydro.

The share of natural gas in total electricity generation, which increased rapidly from 1990, is expected to reach 48 percent in 2009 from that of 17.7 percent in 1990. Around 58 percent of electricity production is dependent on imported resources including other imported fuels besides natural gas. That much dependence on natural gas almost all of which is imported and large part of that dependence being on a single country constitutes a significant supply security risk besides that being the main reason behind the persistent electricity price increases seen in last two years.

Economic crisis manifested the imbalance in fuel mix of electricity generation. On the one side gas dominated generation mix render it almost impossible to control the cost of electricity which is a main input for industry and an important expense for households, on the other side gas import increases the foreign currency spending of economy significantly. Although gas prices in international markets are decreasing and internal demand diminishing because of crisis and price rise, natural gas purchases depends on "take-or-pay" agreements limits any possibility of improvement in local sales prices.

In addition to the problems such a natural gas over dependent system creates, possibility of a change in electricity generation mix in the medium-term is limited. Therefore, efforts towards the renewal of natural gas purchase agreements were initiated to sustain the long-term supply security in international gas market environment working mainly through bilateral agreements.

Net electricity imports of 2003 and before turned into net exports after 2004 and net export is estimated to be 0,5 billion kWh in 2009.

There has been significant progress in the area of electricity sector liberalization and distribution privatizations in the framework of Electric Energy Sector Reform and Privatization Strategy Paper dated 2004. In this context; legal infrastructure has been improved, balancing and settlement mechanism has been implemented, volume of wholesale market has increased substantially, market opening has approached to almost 50 percent, transitional contracts has been signed between state owned enterprises to adapt them to free market conditions, price equalization mechanism has been implemented for national uniform tariff, DSİ-owned hydroelectric power plants was transferred to EÜAŞ, EÜAŞ portfolio generation companies has been formed, TEDAŞ has been put into privatization programme and restructured into 20 regional distribution companies and transitional period-tariffs for these regions were set, privatization of 140 MW of generation and two large distribution companies was completed, bids for two distribution companies was called and cost-based pricing mechanism has been initiated. As per 2008 figures, as a result of privatizations, share of private sector in electricity distribution, in total theft-loss and in generation are 20,1 percent, 10 percent and 50,6 percent respectively.

Above-mentioned Strategy Paper was expanded and revised as 18 May 2009 dated and 2009/11 numbered High Planning Council Decree Electric Energy Market and Supply Security Strategy Paper in the light of achieved progress and faced energy supply security risk.

With the new Strategy Paper, improvement of market structure in line with principle of supply security sustainability, creation of capacity mechanism, establishment of a new market operator other than TEİAŞ, increasing of market openness to 100 percent by 2015, setting of electricity tariffs towards the aim of increasing the conservation and efficiency, privatization of distribution in a large scale by 2010, sale of shares of public companies operating in the market in private companies, finalization of generation portfolio groups, stand-alone privatization of some power plants according to their rehabilitation needs and possibility of building new capacity beside them, initiation of generation privatization in this year, capacity building in TEİAŞ, promotion of generation investments in high consumption regions through transmission tariffs and enhancement of transmission capacity between Turkey-UCTE and neighboring countries are aimed.

Furthermore, targets for electricity generation mix are foreseen. Accordingly, share of nuclear energy is aimed to be at least 5 percent by 2020; share of renewable energy (including large hydro) is aimed to be 30 percent by 2023. To ensure the realization of those targets it is important to monitor the license issuance and development of generation capacity.

Positive results of the implementation of Law on Utilization of Renewable Energy Resources for the Purpose of Generating Electrical Energy (law no: 5346) are being obtained. Wind turbine capacity is expected to increase by 1,8 times and that of geothermal power plant capacity by 2,7 times in 2009. Total electricity production from those resources is estimated to be 1,7 billion kWh by increasing 1,7 times in the same year. Thus, the share of wind and geothermal generated electricity is estimated to reach around 1 percent.

As per Law no 5784 in the case of multiple applications for a wind resource area a tender by the transmission company is foreseen. In this context, secondary regulations were completed and wind energy investments are expected to be accelerating in the coming years.

One bid of around 4800 MWe comprising 4xVVER-1200 type nuclear reactor designs was submitted to the contest held on 24 September 2008 for the aim of building of 5000 MWe (4000+/-25%) of nuclear power plant capacity as per Law on Building and Operating of Nuclear Power Plants and Sale of Energy Generated Thereof (Law no: 5710). Bid evaluation process is expected to be complete by year-end.

Secondary regulation preparation studies which are foreseen by Energy Efficiency Law (Law no: 5627) aims at rational use of energy at every step from production to end-use and gives incentives to that end, were completed in a large scale.

In 2009 Turkey has taken an important step towards being a main transit route for international energy flow. Nabucco Intergovernmental Agreement has been signed in Ankara on 13 July 2009.

Construction studies for natural gas storage facilities in the context of studies towards ensuring natural gas and oil supply security has been continued in 2009.

Infrastructure works in Ceyhan Energy Qualified Industrial Zone is being continued towards the goal of making Ceyhan an international energy center following the putting into operation of 50 million tons/year capacity Baku-Tiblisi-Ceyhan crude oil pipeline in 2006.

2. Main Objectives and Targets

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

In 2010, strengthening legal and institutional infrastructure in the field of nuclear energy will be continued. 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, will be finalized.

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 will be continued.

Curbing of electricity demand increase through demand-side management measures and efficient use and expansion of existing electricity supply through supply-side measures are aimed. For the medium and long-term supply security, it is crucial that licensed and under-construction power plants are in commission as planned. However, credit crunch and cost increases due to global economic crisis are likely to impact investments negatively.

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

Global concerns regarding energy security are on the rise. In this context, regarding the energy security being at the high of the international agenda, policy towards making Turkey a reliable transit country and a hub would be furthered.

In 2010, economy returning to growth path 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 6.5 percent to 105.8 mtoe and per capita primary energy consumption by 5.3 percent to 1,381 kgoe.

Primary energy production of 28.4 mtoe in 2009 is expected to rise by a small amount to 29.2 mtoe in 2010. Import dependency in primary energy is expected to be 72.4 percent in 2010.

The increase in the primary energy demand would be met through increases in the consumption of all energy sources. However, largest percentage rise of 9.2 percent due mainly to the electricity sector demand would be in natural gas consumption. In 2010, 75 percent of the increase in electricity generation is programmed to come from natural gas.

Electricity consumption, which is expected to be 194.3 TWh in 2009, would rise to 202 TWh in 2010 growing 4 percent with respect to previous year. Thus, per capita electricity consumption would increase from 2565 kWh in 2009 to 2637 kWh in 2010.

Total installed power plant capacity would increase by 3.8 percent to 46,000 MW in 2010. Electricity generation, by increasing 4 percent, would rise to 202.5 TWh. Main fuel shares of this amount would be 49.1 percent for natural gas, 20.1 percent for lignite and 17.8 percent for hydraulic. Share of wind and geothermal electricity is expected to rise to 1.3 percent.

TABLE: IV. 16- Primary Energy Consumption and Fuel Shares

('000 toe)

	2008		2009 (1)		2010 (2)	
	Quantity	Share (pct)	Quantity	Share (pct)	Quantity	Share (pct)
COMMERCIAL ENERGY	101,712	95.5	94,600	95.2	101,080	95.5
Hard Coal	16,427	15.4	16,165	16.3	16,861	15.9
Lignite	15,217	14.3	15,031	15.1	15,891	15.0
Petroleum Products	31,784	29.8	27,652	27.8	29,312	27.7
Natural Gas	33,807	31.7	30,764	31.0	33,603	31.8
Hydroelectricity	2,861	2.7	3,121	3.1	3,354	3.2
Renewable Energy	1,645	1.5	1,910	1.9	2,102	2.0
Electricity Import (Export)	-29	-0.0	-43	0.0	-43	0.0
NON-COMMERCIAL ENERGY	4,813	4.5	4,760	4.8	4,711	4.5
Wood (1)	3,679	3.4	3,610	3.6	3,591	3.4
Animal Waste and Plant Residue (1)	1,134	1.1	1,150	1.2	1,120	1.1
T O T A L	**106,525**	**100.0**	**99,360**	**100.0**	**105,791**	**100.0**
Per capita consumption (kgoe)	1,423		1,312		1,381	

(1) Estimate, (2) Forecast

TABLE: IV. 17- Power Plants Installed Capacity, Production Capacity and Electricity Generation by Fuel

Installed Capacity: MW; Production Capacity, Generation: GWh

	2008			2009 (1)			2010 (2)		
	Installed Capacity	Production Capacity	Generation	Installed Capacity	Production Capacity	Generation	Installed Capacity	Production Capacity	Generation
Hard Coal	1,986	15,500	15,858	2,121	16,550	15,400	2,170	16,930	16,700
Lignite	8,109	52,000	41,858	8,245	52,760	42,000	8,250	52,800	40,700
Fuel-Oil	1,745	10,470	7,209	1,772	10,630	9,300	1,840	11,040	6,300
Diesel,LPG,Naphtha	48	340	310	48	340	1,290	52	360	300
Natural Gas	13,428	100,700	98,685	14,662	109,965	96,000	15,428	115,710	99,500
Multi-fuel (*)	2,219	15,500		2,331	16,275		2,340	16,380	
Biogas-waste	60	300	220	81	405	210	90	450	400
THERMAL	27,595	194,810	164,139	29,260	206,925	164,200	30,170	213,670	163,900
HYDRO	13,829	49,740	33,270	14,302	51,080	37,000	14,800	53,160	36,000
Geothermal	30	195	162	80	520	400	80	540	450
Wind	364	1255	847	658	2,259	1,400	950	3,254	2,150
T O T A L	**41,818**	**246,000**	**198,418**	**44,300**	**260,784**	**194,800**	**46,000**	**270,624**	**202,500**

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

TABLE: IV. 18- Electricity Consumption by Sectors

	2008		2009 (1)		2010 (2)	
	GWh	**Share (pct)**	**GWh**	**Share (pct)**	**GWh**	**Share (pct)**
Households	39,584	20.0	41,500	21.4	42,824	21.2
Commercial Buildings	23,903	12.1	24,400	12.6	25,250	12.5
Official Buildings	7,344	3.7	7,450	3.8	7,272	3.6
General Lighting	3,970	2.0	4,050	2.1	4,040	2.0
Industry	74,850	37.8	69,200	35.6	73,326	36.3
Others	12,296	6.2	12,400	6.4	12,524	6.2
NET TOTAL	161,947	81.8	159,000	81.8	165,236	81.8
Own consumption and Losses	36,138	18.2	35,300	18.2	36,764	18.2
GROSS T O T A L	198,085	100.0	194,300	100.0	202,000	100.0
Net per capita consumption (kWh)	2,164		2,100		2,156	
Gross per capita consumption (kWh)	2,647		2,565		2,637	

(1) Estimate, (2) Forecast

TABLE: IV. 19- Energy Production and Consumption

	Unit	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (1)	2010 (2)
PRIMARY ENERGY												
PRODUCTION	ktoe	27,621	26,159	24,884	23,779	24,170	26,472	28,045	27,455	29,192	28,380	29,210
CONSUMPTION	ktoe	81,193	75,883	78,322	83,936	87,778	90,077	99,313	107,257	106,525	99,360	105,791
Per capita consumption	kgoe	1,204	1,111	1,131	1,196	1,234	1,249	1,377	1,468	1,423	1,312	1,381
ELECTRICITY												
INS.CAPACITY	MW	27,264	28,332	31,846	35,587	36,824	38,843	40,565	40,836	41,818	44,300	46,000
Thermal	MW	16,070	16,640	19,586	22,990	24,160	25,917	27,443	27,296	27,625,	29,340	30,250
Hydro	MW	11,194	11,692	12,260	12,597	12,664	12,926	13,122	13,540	14,193	14,960	15,750
GENERATION	GWh	124,922	122,725	129,400	140,580	150,698	161,956	176,300	191,568	198,418,	194,800	202,500
Thermal	GWh	94,010	98,653	95,668	105,190	104,556	122,336	131,929	155,362	164,301	157,200	164,350
Hydro	GWh	30,912	24,072	33,732	35,390	46,142	39,620	44,371	36,206	34,117	37,600	38,150
IMPORT	GWh	3,786	4,579	3,588	1,158	464	636	573	864	789	700	800
EXPORT	GWh	413	433	435	587	1,144	1,798	2,236	2,422	1,122	1,200	1,300
CONSUMPTION	GWh	128,295	126,872	132,553	141,151	150,018	160,794	174,637	190,010	198,085	194,300	202,000
Per capita consumption	kWh	1,903	1,857	1,914	2,011	2,109	2,230	2,391	2,602	2,647	2,565	2,637

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

TABLE: IV. 20- 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	15,858	8.0	41,858	21.1	7,519	3.8	96,685	49.7	220	0.1	164,139	82.7	33,270	16.8	1,009	0.5	198,418	100.0
2009*	15,000	7.7	41,600	21.4	6,320,	3.2	93,600	48.0	300	0.2	156,820	80.5	36,300	18.6	1,680	0.9	194,800	100.0
2010**	16,000	8.2	40,700	20.1	6,600	3.3	99,500	49.1	400	0.2	163,900	80.9	36,000	17.8	2,600	1.3	202,500	100.0

*Estimate, **Forecast

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	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 54. Studies towards determining the renewable energy resource potential and developing and expanding the applications would be continued.	EİEİ	MENR, TEİAŞ, TEDAŞ, MTA, DSİ, DMİ, TÜBİTAK-MAM, DG Cadastre and Land Registry, Universities	End of December	To supply the peak energy demand potential determination and project studies regarding pumped-storage hydroelectric power plants would be done. Technical evaluations of the wind plant applications to EMRA would be realized, coordinates, potential, network connection and transport access situations and land ownership information of wind energy resources areas will be supplied to investors. Solar Energy Map would be improved and Biomass Map would be prepared.
Measure 55. Effective mechanisms to increase energy efficiency and conservation would be developed by completing the secondary legislation about energy efficiency.	MENR	MoF, 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 56. Current NPP contest will be completed and studies for new contests will be done.	MENR	SPO, UT, EMRA, TAEK, TETAŞ, Related institutions	End of September	Studies on new NPP contests will be done based on the increasing energy demand. NPP build project would be executed in such a way that will serve to the ultimate goal of self-sufficiency in nuclear technology in the long-run.
Measure 57. Legal framework for the regulation and audit of nuclear activities would be established and necessary institutional structure would be completed.	MENR	TAEK	End of March	Draft Law regarding the implementation of duties of regulation and audit of nuclear activities by an independent institution and the re-regulation of duties and responsibilities of TAEK would be sent to TGNA.
Measure 58. Electricity supply security would be monitored and necessary measures would be taken.	MENR	SPO, EMRA, UT, Related institutions	End of December	Necessary measures for turning of licenses into investments and completion of ongoing investments as planned would be taken. Investments for increasing efficiency and for rehabilitation of power plants would be accelerated with the opportunity stemming from crisis. Electricity supply security would be evaluated continuously as foreseen by Law no. 5784. 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 59. Privatization of electricity distribution companies would be continued.	PA	MENR, TEDAŞ	End of December	Privatizations of public electricity distribution would be completed in 2010 in a large scale.
Measure 60. Studies towards privatization for electricity generation would be continued.	PA	MENR, EÜAŞ	End of December	Privatization of some individual power plants selected according to their rehabilitation needs and the potential of additional units would be evaluated. Status of portfolio generation companies, which are currently in number of 6 and privatization methodology of generation group would be determined. First step of privatization is expected to be done in 2010.
Priority 25. Natural gas usage will be expanded competitively and natural gas and oil supply security will be ensured at the national level by taking into account seasonal demand variations.				
Measure 61. Draft Law regarding the change of Natural Gas Market Law will be prepared.	MENR	SPO, UT, BOTAŞ, EMRA	End of December	Regulation of private sector imports and deregulation of market and measures that should be taken during emergency and crisis situations are aimed.
Measure 62. National Petroleum Stock Agency will be established.	MENR	MoF, SPO, UT, EMRA, Petroleum Directorate General	End of March	To ensure the continuity of petroleum markets, to prevent the risks during emergency and crisis situations, to satisfy the obligations stemming from international agreements about emergency petroleum stocks, a national stock agency will established in order to keep the national petroleum stocks and effective management of those stocks.

TRANSPORT

1. Current Outlook

The facts that physical infrastructure of railway and maritime transport is not materialized on-time in accordance with the increasing transport demand 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 for the sake of short-term concerns. Competitiveness of railways, which operate on an obsolete infrastructure, keeps at low level. Financial models, which would stimulate the construction of large-scale ports in maritime transport sector, could not be effectively put into practice. Consequently; limited funds, a highway dependent system and ever increasing demand have created an unfavorable transport system, which has turned into a vicious cycle.

Regarding the EU Accession process, Trans-European Networks (TEN) chapter was opened to negotiations in 2008. On the other hand, the feasibility studies for the projects under the Operational Program for Transportation are still in progress.

TABLE: IV. 21- Developments in Transport Modes

					Annual Increase(%)	
	Unit	**2007 (1)**	**2008 (2)**	**2009 (*) (3)**	**2008 (2/1)**	**2009 (3/2)**
RAILWAY TRANSPORTATION						
Passenger Transport (Domestic)	Million-Passenger-Km	3,999	3,552	3,303	-11.2	-7.0
Freight Transport (Domestic)	Million-Ton-Km	8,439	9,186	8,455	8.9	-8.0
Freight Transport (International)	Million-Ton-Km	1,316	1,367	957	3.9	-30
MARITIME TRANSPORTATION						
Freight Transport (Domestic)[1)]	Million –Ton-Km	6,500	7,110	7,050	9.4	-0.8
Freight Transport (International)[1)]	Million –Ton-Km	848,300	858,700	828,500	1.2	-3.5
Turkish Maritime Fleet (300 Grt and above)	Thousand DWT	7,225	7,481	8,293	3.5	10.9
AIR TRANSPORTATION						
Passenger Transport (Domestic)[(2)]	Million-Passenger-Km	5,924	6,417	7,378	8.3	14.9
Passenger Transport (international)[(2)]	Million-Passenger-Km	24,327	27,848	34,186	14.5	22.7
HIGHWAY TRANSPORTATION[(3)]						
Passenger Transport (Domestic)	Million-Passenger-Km	209,115	206,098	208,490	-1.4	1.2
Freight Transport (Domestic)	Million-Ton-Km	181,330	181,935	185,881	0.3	2.2
PIPELINE TRANSPORTATION						
Freight Transport (Domestic) [(4)]	Million-Ton-Km	2,340	2,112	2,743	-9.7	29.8
Freight Transport (Transit) [(4)]	Million-Ton-Km	33,249	45,804	56,038	37.7	22.3
Natural Gas [(5)]	Million-Sm3	35,881	37,349	34,692	4.1	-7.1

(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.
* Realization Forecast

High fuel consumption, air pollution, 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. Lack of national standards and criteria binding for all municipalities hinders the prioritization of the high-cost rail transit system projects.

According to 2008 data, while nearly 91.8 percent of goods are transported by highways, road transport covers approximately 95.4 percent of all passenger transport in Turkey. These ratios are 46 percent for freight transport and 83 percent for passenger transport in EU-27 countries for 2007. For the same year, the share of sea and inland water transport was 41 per cent of all freight transport in EU-27 countries.

It is observed that Turkey has significantly lower network density of highway, motorway and railway than EU-27 average. While the average highway length for square-km is 0.41 km, average motorway length for square-km is 0.015 km and average railway length for square-km is 0.05 km in EU-27, these figures are 0.082 km, 0.003 and 0.011km for Turkey, respectively. Even if, rural roads paved by asphalt are taken into account, it is seen that density of our country's highway network is approximately half of EU-27 average level.

TABLE: IV. 22- Comparison of Transport Modes Among Various Countries

Countries	Highway Density km/km^2 (2006)	Motorway Density km/km^2 (2006)	Railway Density km/1,000 km^2 (2006)
Czech Republic	0.704	0.008	122
France	0.732	0.020	54
Germany	0.648	0.035	96
Belgium	0.515	0.058	117
Austria	0.426	0.020	69
EU-27	0.410	0.015	50
Turkey	0.082(*)	0.003	11

Sources : EU Energy-Transport Statistics, General Directorate of Highways
(*) Only motorways, state and provincial roads are taken into consideration. If rural roads paved by asphalt were taken into account, this ratio would be 0.201.

Highways

The fact that approximately 90 percent of all freight is carried out on highways increases 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 figures, casualties per 100 km length of the road due to road traffic accidents in Turkey are roughly 3.2 times higher than the EU-27 average, according to 2007 data.

As of the beginning of 2009, the total length of state and provincial road network, excluding rural roads, is 64,033 km. Of this total, 3,546 km is unpaved (stabilized earth, soil or impassable). While 92 percent of freight transport is carried out on highways, the total length of roads having hot-mix asphalt pavements capable of handling heavy axle loads stands at 10,012 km.

TABLE: IV. 23–Situation of the Highway Network (*)

(km)

Road Class	Hot-Mix Asphaltic Concrete	Surface Treatment	Stone Paved	Stabilized Earth	Soil	Impassable	Total
Motorways	2,010	-	-	-	-	-	2,010
State Roads	6,908	23,876	60	157	104	206	31,311
Provincial Roads	1,094	26,431	108	1,443	758	878	30,712
Total	10,012	50,307	168	1,600	862	1,084	64,033

Source: General Directorate of Highways
(*) By the end of 2008

As of September 2009, 1,441 km of dual carriageways were constructed and the length of the multi-lane road network including motorways has been reached to 16,799 km. This figure is expected to reach to 17,058 km at the end of the year. As of September 2009, 407 kms of hot-mix asphalt pavements have been completed. Additionally, 500 kms of hot-mix asphalt pavement is expected to be applied mostly on the existing dual carriageways till the end of 2009.

As of September 2009, 13.7 million m^2 of horizontal markings, 70.5 thousand m^2 of vertical markings, 822 km of guardrail installations and traffic signalization at 63 junctions on the state and intercity roads were completed as a part of increasing road safety priority. It is expected that by the end of the year, 18.6 million m^2 of horizontal markings, 112.4 thousand m^2 of vertical markings will completed and 100 junctions will be signalized. Elimination of 134 black spots and improvements at 85 road segments having high accident risk potential have been targeted within the year.

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 11.005 km in total and 8,699 km of this network consists of main lines. 2,282 km of the railway network is electrified and 3,029 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 51.6 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 shifting to block train operation, procurement of new and effective freight cars and encouragement of private sector to carry with their own freight cars, 8.9 percent increase in domestic freight transport and 3.9 percent increase in international freight transport were achieved in 2008 in million-ton terms. New railway investments which will have a positive effect on the freight transportation are being made. Studies for the construction of 12 logistics centers continue within the scope of shifting from railway transport to logistic transport. Samsun-Gelemen logistics center is opened for operation. Eskişehir-Hasanbey and İzmit-Köseköy logistics centers are expected to be put into operation until the end of 2009 with the completion of the first phase. Construction of Muratlı-Tekirdağ railway line that will serve international trains is to be completed until the end of 2009 and Kemalpaşa Railway Connection Line which will connect an important industrialized centre, Kemalpaşa, to the railway network is going on.

Long journey time, low reliability and security issues cause inadequate demand for passenger transport. On the other hand, high speed rail operation at Ankara-Eskişehir section of Ankara-İstanbul High Speed Railway Project, which will provide high-speed, safe and comfortable travel between Ankara and İstanbul, began on 13th March 2009. Studies for construction of Eskişehir-Köseköy section which began in 2008 are in progress. The tender dossier concerning the Köseköy-Gebze section was prepared. After completing necessary studies, Köseköy-Gebze Section will be tendered. The infrastructure and superstructure construction works of Ankara-Konya High Speed Railway Project are going on.

Maritime

5.1 million TEU (Twenty-Feet Equivalent Unit) containers and 259 million tones of cargo other than container were handled in Turkey by the end of 2008. Containers and freight handled in 2008 increased by 14% and 9% respectively, compared to the previous year. Nearly 5.5 times increase in container traffic from 2001 to 2008 is quite remarkable. Since large-scale port investments were not realized on time, the increasing demand pressure has led to the construction of many small-scale ports and piers. Since the economies of scale could not be attained in ports, freight traffic has been dispersed and a low amount of cargo tonnage has been handled per port when compared to that of the EU Mediterranean Ports.

TABLE: IV. 24- Container Traffic in Mediterranean Ports (2006)

Ports	Container (1.000 TEU)
Algeciras – Spain	3 263
Gioia Tauro – Italy	2 835
Valencia – Spain	2 615
Barcelona – Spain	2 315
Ambarlı – Turkey	1 446
Piraeus – Greece	1 413
Genoa – Italy	1 146
La Spezia – Italy	1 087
Marseille – France	950
İzmir – Turkey	848
Mersin – Turkey	644
Haydarpaşa – Turkey	400

Source: EU Energy and Transport Figures, TCDD Statistics, Ambarlı Port Statistics

For the aim of implementing large-scale ports that will meet the increasing traffic, feasibility studies and other technical documents for Çandarlı Port at Aegean Sea, Filyos Port at Black Sea and Mersin Container Port at Mediterranean Sea were commenced. Regarding maritime safety, the record of Turkish flag moved from the grey list to the white list of the Paris Memorandum of Understanding in 2009, after showing considerable improvement. In order to enhance sea safety at Turkish Straits, 2 tugboats were procured in 2009. Sürmene-Yeniçam Shipyard Breakwater and Light House Construction, which was being implemented for the aim of enhancing Turkey's position in the world shipbuilding industry, was completed.

Air Transportation

The number of airports operated by General Directorate of State Airports Administration (DHMİ) has reached 40. Thus, with the other 5 airports operated by other than DHMİ (Batman airport operated by Batman Special Provincial Administration, Eskişehir Anadolu Airport operated by the Anadolu University, İstanbul Sabiha Gökçen, Zonguldak Çaycuma, Antalya Gazipaşa Airports operated by private companies), number of civil aviation airports is 45.

Domestic and international terminals in Atatürk, Esenboğa and Antalya Airports and international terminals in Adnan Menderes and Dalaman Airports are operated by private sector. The passenger traffic share of terminals which are realized by Public Private Partnership models reached to 54 % in domestic and 94 % in international flights.

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 improved capacity and increased service standards at these airports and projects related with the management of air traffic maintain their priorities within the sectors.

In 2008, the domestic air passenger traffic was 35.8 million passengers with a 12.2 percent yearly increase, the international air passenger traffic was 43.6 million passengers with a 13.7 percent yearly increase and the total air passenger traffic was 79.4 million passengers with a 13.0 percent growth. Total of air passenger traffic in 2009 is expected to rise to 83 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 operation of the transportation modes and widespread utilization of combined transport are essential.

The fundamental objectives of highway transport are to keep up the dual carriageway construction primarily on the main corridors having high traffic volumes, to transform the pavements on the road segments into hot-mix asphalt pavement type where heavy traffic volume is high, to improve the traffic safety infrastructure and enforcement mechanisms, to eliminate the black spots in order to build a road network, which is safe and in harmony with other transport modes and provide services at high quality standards

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.

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 left to the private sector.

New large scale and hub ports will be constructed to provide continuous and efficient flow of increasing trade and facilitate Turkey's position as a transit country. For this purpose, with the ongoing Coastal Structures Master Plan, feasibility studies and technical documents for Mersin Container, Çandarlı and Filyos Ports will be completed. Particularly, necessary steps will be taken for the implementation of Çandarlı Port Project in the Aegean Region. Efforts will be continued for Turkish ports to take place on the main axes of EU Motorways of the Sea. The completion of projects regarding maritime safety shall be given priority. Necessary measures will be taken to preserve Turkish flag's position at the white list within the context of Paris Memorandum of Understanding. The diminishing role of the government in the port operations implied more emphasis on its regulatory role. To ensure fulfillment of this role a port administration model will be developed.

Total passenger traffic volume is expected to reach 88 million passengers in airlines and airports in 2010. Airports Master Plan, with system planning approach, will be initiated to analyze the current situation and prioritize investment needs to guide the mid-term and long term investments.

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 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 In Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 26. With utmost utilization of the EU funds, efforts will be continued for Turkish Ports to take place on the main axes of EU Motorways of the Sea, to integrate with the Single European Sky and to integrate our national transport network with the Trans-European Transport Network.				
Measure 63. Projects taking place in Transport Operational Programme will be commenced.	Ministry of Transport	SPO, Undersecretariat of Treasury	End of December	Tendering process for the mature projects under the Operational Programme will be commenced. Construction of Çandarlı Port Project shall be started.
Priority 27. The existing road infrastructure will be improved by the construction of dual highways and by increasing the standards of highways.				
Measure 64. The Construction of dual highways will be continued.	Ministry of Transport (General Directorate of Highways)		End of December	1,971 kms of dual highways including pavements will be constructed.

Measure 65. Physical standards of the roads having heavy vehicle traffic will be improved.	Ministry of Transport (General Directorate of Highways)		End of December	603 kms of hot-mix asphalt paved road will be constructed on the routes where the average daily heavy vehicle traffic volume is higher than 1,000.
Priority 28. Traffic safety will be improved in all modes of transport.				
Measure 66. Flag, port and coastal state control will be improved.	Undersecretariat of Maritime Affairs	Turkish Naval Forces, Turkish Coast Guard Command, DG of Coastal Safety	End of December	Vessel Traffic Services (VTS) will be extended and integration with the existing systems (i.e. Automatic Identification System – AIS, Long Range Identification and Tracking System – LRIT, Turkish Straits VTS) will be accelerated.
Measure 67. Weight control operations will be more effective.	Ministry of Transport	DG Land Transport, DG Security, GC Gendarmerie	End of December	The number of weight-dimension control stations will be increased and 3 million vehicles will be inspected.
Measure 68. Guardrails, horizontal-vertical road markings and traffic signs will be improved on the main road corridors.	Ministry of Transport (General Directorate of Highways)		End of December	With the priority given to recently completed dual highways, 850 kms of guardrail installation and repair, 19, 2 million m2 of horizontal markings, 330 kms of fence will be completed. 90 uncontrolled junctions will be transformed to the signal controlled.
Measure 69. Black spots on the highways will be improved	Ministry of Transport (General Directorate of Highways)	General Directorate of Security TCDD	End of December	Improvement works on 90 segments having high accident potential and 146 black spots will be done.
Priority 29. Railway and maritime modes will be promoted for the freight transport; ports will be transformed into logistic centers via improving hinterland connections where combined transport will be realized. Available port sites will be determined, large-scale and hub ports will be established, effective and efficient management of the ports will be ensured.				
Measure 70. A port administration model will be established for Turkish ports.	Undersecretariat of Maritime Affairs	Ministry of Transport, SPO, Privatization Administration, TCDD, Related Municipalities, Chamber of Shipping, TÜRKLİM	End of December	A port administration model will be established to prevent fragmentation in port management and to implement national policies by considering individual port needs.

Measure 71. Coastal Structures Master Plan will be prepared.	Ministry of Transport	Ministry of Public Works and Settlement, Undersecretariat of Maritime Affairs, Privatization Administration, TCDD, Related Municipalities, Chamber of Shipping, TÜRKLIM, Automotive Manufacturers Association	End of June	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.
Measure 72. Logistics approach will be achieved by establishing rail yard terminals in ports or land container terminals.	TCDD	SPO	End of December	The logistics centers for which the project preparation and expropriation works are completed will be constructed.
Measure 73. Connection lines to organized industrial zones, large factories and ports will be constructed with private sector contribution.	Ministry of Transport	SPO	End of December	İzmir Kemalpaşa Industrial Zone (KOSBİ) railway connection line will be completed.
Priority 30. TCDD will be restructured in order to increase service quality and market share and to decrease its financial burden on public.				
Measure 74. New legislation will be put into force for railway sector and TCDD.	Ministry of Transport	SPO, Undersecretariat of Treasury, TCDD	End of December	Draft Railway Law and TCDD Law will be finalized and sent to the Parliament.
Priority 31. 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 75. Ankara centered railway core network will be established.	TCDD	Ministry of Transport, SPO	End of December	Tender procedure for Gebze-Köseköy will be completed and the construction works will start. The infrastructure of Ankara-Konya High Speed Railway Project will be completed, the construction works at Yerköy-Sivas section of Ankara-Sivas Railway Project will continue, and the final design of Kayaş-Yerköy section will be completed.
Priority 32. In order to determine the medium and long term capacity needs of airports, related studies will be initiated.				

Measure 76. Airports Master Plan will be prepared.	DHMİ	SPO, DLHİ, SHGM, Universities	End of December	Airports Master Plan will be initiated with system planning approach to analyze the current situation and investment needs to guide the mid-term and long term investments.
Measure 77. Site selection and feasibility studies will be started for the third airport in İstanbul.	Ministry of Transport	SPO, DHMİ, Governorship of İstanbul, İstanbul Metropolitan Municipality, DHMİ, SHGM	End of December	In accordance with the development plans of Istanbul, within the framework of development and transport plans, site selection study will be completed. Design and feasibility studies will be started for a new airport.
Priority 33. 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 78. A regulation defining the evaluation and approval process of the rail transit projects will be prepared.	Ministry of Transport	SPO	End of December	The Law No:3348 which defines the duties of Ministry of Transport requires the approval of urban rail transit projects by the DG DLHİ . A regulation will be prepared to define the necessary steps to be taken in the process of approval of the projects by the Ministry.

F. PROTECTION OF ENVIRONMENT AND IMPROVEMENT OF URBAN INFRASTRUCTURE

1. Current Outlook

Economic growth, population increase, pseudo urbanization, consumption patterns and technological development put a growing pressure on 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 and need for urban infrastructure becomes more significant.

Climate change, which is one of the global environmental problems, is expected to affect economic and social life through its causes and results. It is important to adapt to new conditions created by climate change, improve the capacity to combat climate change and meet financial requirements.

The studies being carried out under the framework of United Nations to determine post-2012 policies to combat climate change are closely followed. In this context, as of 26 August 2009 Turkey has been a party to the Kyoto Protocol, which regulates the reduction of greenhouse gas emissions by industrialized countries according to scheduled commitments.

In the context of European Union accession negotiations, harmonization and strategy development studies to meet the benchmarks set for the Environment Chapter have almost been completed and negotiations in this chapter are expected to be opened. Furthermore, projects and programs are being carried out to strengthen the institutional capacity regarding the alignment with environmental acquis and implement the legislation.

The study on integrating sustainable development into sectoral policies in pilot sectors is completed. The need to expand this study to all sectors and developing a set of indicators and indices to monitor and evaluate sustainable development still exists.

There are several coordination and capacity problems in relation to the implementation of the National Biodiversity Strategy and Action Plan, which was updated in 2007.

Spatial planning system, rapid population growth, illegal constructions, inadequate technical infrastructure, high disaster risk, safety and such other matters in residential areas are the problems lasting from past to present. The difficulties, which are concentrated more in urban areas and socio-economic differences, affect quality of life negatively.

In accordance with the results of Urbanization Council, which was organized in 2009 to assess the dynamics of urban development and to create livable residential areas within the framework of sustainability principles, preparation of The Urban Development Strategy and Action Plan is continued.

The need for urbanization in the field of integrated and efficient spatial planning with plan implementation, monitoring, auditing system and also a central structure that provide this mechanism continues. The definition of "urban" must be reconsidered taking the changing conditions and needs into account.

Lack of legislation and institutional arrangements in principles, objectives, implementation and auditing about urban transformation in our country caused to a perception of transformation as a change only in physical environment and this leads to ignorance of social, economic and environmental dimensions.

Developing proper construction and finance models, increasing purchasing power of households, creating planned urban and housing environments trough provision of land with completed social and technical infrastructure, providing effective control on planning and building construction, developing urban and housing data base depending on geographical information systems are still important in order to supply housing demand especially to solve the housing problems of low level income groups. Financial resources of Housing Development Organization (HDO) are primarily allocated to housing construction. 275.000 housing units are about to be completed together with their social and technical infrastructure out of 383.597 which have been started to be constructed during January 2003-September 2009 period by HDO. In addition, completion credits are given for 56.000 housing units in the same period.

As of 2008, 98 percent of municipal population have drinking and potable water network, 87 percent have sewerage network. Except from new residential areas and renewal of existing network, the demand for drinking and potable water network has decreased.

Drinking water treatment plant demand has increased as water supplied from dams, rivers, lakes and ponds cannot be used for drinking water without any treatment and wells and springs have become polluted gradually. Besides, since the percentage of population served by wastewater treatment plant is 42, demand for wastewater treatment plant is increasing.

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. Absence of planning, monitoring, evaluation and sanctions, insufficiency of common database and data flow, lack of coordination among institutions and insufficient R&D are the main problems faced in water management.

Unbilled water amount, which also includes losses and leakages, is nearly estimated as 55 percent, even though it is unable to acquire reliable data on drinking water losses in our country. Works have to be started in order to use water resources efficiently by decreasing the water losses and leakages in the water supply system.

Illegal settlement in the water basin protection zones and discharge of wastewater without treatment make the supply of hygienic and potable drinking water difficult. For this reason, studies to prepare river basin plans, which covers long term protection programs and measures in order to protect water resources for any kind of use, prevent from pollution and increase the quality of polluted water resources, have been started by the Ministry of Environment and Forestry.

In 2009, it has been estimated that 52% of approximately 27 million tones of municipal solid waste collected in Turkey is disposed in 41 sanitary landfill sites, and 1,2% of total solid waste is disposed in 4 composting plants.

In transferring the medical wastes from temporary storage to disposal facilities, metropolitan municipalities are responsible in metropolitan areas, and municipalities and authorized persons or institutions are responsible in other areas. As of 2008, 22% of approximately 95 thousands medical wastes was disposed in the storage sites having store grounds constructed in compliance with the Regulation of Hazardous Waste Control, 19% was disposed in two incineration plants, 14% was disposed in six sterilization facilities, and 45% was disposed in a specific part of municipal dumpsites.

In our country, there are six hazardous waste facilities, three being incineration plants and the other three being sanitary landfill sites. While two of these sanitary landfill sites dispose just their own wastes, İzmit Metropolitan Municipality landfill site having 790 thousands m^3 capacity is receiving wastes coming from all industries throughout the country. Total annual capacity of hazardous incineration plants are 60 thousands tones.

Although municipalities mostly comply with their solid waste management duties regarding collection and transportation, they are not effective and sensitive enough on disposal of solid waste. Especially wild dumping, the inaccuracy in the selection of dumping sites and inappropriate management lead to increase of problems.

In the production of solid waste, the amount of waste should be decreased first. Also, it is still necessary to raise public awareness about separating waste at its source in order to make it ready for collection. Studies have been launched to establish an effective national waste management system. In this scope, Solid Waste Master Plan has been completed for municipal wastes, and studies of National and Regional Waste Management Plan including other types of waste are underway.

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 Bank of Provinces are continued.

2. Main Objectives and Targets

In line with sustainable development principles, achieving an adequate environmental protection level and transforming settlement areas 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 development rules will be rearranged considering high quality environment, efficiency in implementation, distribution of the authorization, audit and resilience to disaster. Furthermore, methods and tools securing appropriate land supply and planned construction will be developed.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 34. Administrative, auditing and implementation capacity will be improved for the better implementation of environmental legislation.				
Measure 79. Projects to improve the measurement, monitoring, auditing, control and reporting infrastructure will be carried out, in order to better implement the 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 Public Institutions	End of December	Taking into account the harmonization of national environmental legislation with the EU environmental acquis, capacity development studies on particularly protecting water, air and soil as well as preventing pollution will be continued.
Priority 35. Studies on combating climate change will be continued considering national development priorities and increasing needs of population.				
Measure 80. National Action Plan on Climate Change will be developed in line with the National Climate Change Strategy to be prepared.	Ministry of Environment and Forestry	Members of National Coordination Board on Climate Change	End of December	Main policies and operational fields to combat and adapt to climate change will be determined in order to ensure that the related institutions act coherently.
Priority 36: Living standards of cities will be improved and sustainable urban development will be achieved.				
Measure 81. Sustainable Urban Development Strategy and Action Plan will be completed.	Ministry of Public Works and Settlement	Ministry of Interior, Ministry of Environment and Forestry, SPO, Municipalities, Other related public institutions	End of June	In the Strategy and Action Plan, the policies and activities for the solution of legal, technical and administrative problems will be determined for the creation of healthy, well-balanced and secure cities.

Measure 82. Principles of urban transformation plans and projects the will be determined.	Ministry of Public Works and Settlement	SPO, HDO, Other related public institutions, Local governments	End of December	Urban transformation models and legislation studies for their financing will be finalized.
Measure 83. Arrangements will be made to develop necessary institutional and legal infrastructure and increase the effectiveness of control mechanisms related to urbanization at central level.	Ministry of Public Works and Settlement	SPO, HDO Other related public institutions, Local governments	End of December	Authorization and responsibilities related to urbanization and residential housing will be defined; legislation and institutional structure will be reorganized.
Priority 37. Studies on effective and integrated management of water resources will continue.				
Measure 84. A strategy and an action plan for the effective and integrated management of water resources will be prepared.	Ministry of Environment and Forestry	Ministry of Foreign Affairs, Ministry of Health, Ministry of Agriculture and Rural Affairs, SPO, DSI, Bank of Provinces	End of December	A strategy and action plan covering legal and institutional arrangements to build an integrated management of water resources including ground and surface water resources will be prepared.
Priority 38. Solid waste management will be made effective, domestic waste management will be evaluated as a whole, and the method of sanitary landfill will be preferred.				
Measure 85. Solid waste management will be made effective, and sanitary landfill method based on union model will be preferred for disposal of domestic wastes.	Ministry of Environment and Forestry	Ministry of Interior, SPO, Bank of Provinces, Local Administrations	End of December	Waste management plans at national and regional level will be completed. Institutional capacity building and public awareness raising studies will be carried out to bring those solid wastes, which can be recycled, into the economy by separating them at its source.
Priority 39. Capacity of the municipalities will be enhanced on planning, preparing projects, realizing and operating urban infrastructure services for environment protection.				

Measure 86. Bank of Provinces will be restructured.	Bank of Provinces	Ministry of Interior, Ministry of Finance, Ministry of Environment and Forestry, SPO, Undersecretariat of Treasury, BRSA, CMB	End of December	By improving financial structure, human resources and institutional capacity of Bank of Provinces, it will be made to provide technical and financial supports to facilitate the use of EU grants and other international resources by local authorities.
Measure 87. Training programs will be organized to develop institutional and technical capacity of municipalities.	Bank of Provinces	Ministry of Interior, Ministry of Public Works and Settlement, Ministry of Environment and Forestry, SPO, TODAİE, related municipalities, Union of Municipalities of Turkey	End of December	Municipalities will be trained in necessary fields such as more effective operation of current facilities, strengthening fiscal management, resource planning and prioritization, qualified and effective service supply.

G. FOSTERING OF R&D AND INNOVATION

1. Current Outlook

Today, science, technology and innovation capacity has turned out to be one of the most prominent factors of competitiveness and sustainable development. R&D and innovation activities are especially important to overcome the economic crisis and to take advantage of new opportunities.

The percentage of R&D expenditures in Gross Domestic Expenditure in Turkey was 0.71% in 2007, while EU-27 average is 1.85percent. The ratio of R&D expenditures of private sector to the Gross Domestic Expenditures increased from 33.1 percent in 2005 to 41.3 percent in 2007. However, this ratio still falls behind the EU-27 average of 55% in 2006, indicating the ongoing need for increasing capacity and demand for R&D of private sector; especially of SMEs.

While 0.52 percent of total labour force and employment is composed of R&D personnel in Turkey in 2007, this ratio is at the level of 1.44 % for EU-27 countries. The ratio of R&D personnel employed in private sector to total number of full-time equivalent R&D personnel has increased from 30.4% in 2005 to 38.2 percent 2007. Nonetheless, this ratio was 48.8% in EU-27 in 2007. The ratio of women researchers in total number of full-time equivalent researchers, which is an important criterion for gender equality in occupational life, was calculated as 34% in 2007 in Turkey, which was above the EU-27 average of 28%.

TABLE: IV. 25- Main Science and Technology Indicators of Turkey

		2003	2004	2005	2006	2007
Gross Domestic Expenditure on R&D (GERD) as a percentage of GDP		0.61	0.67	0.79	0.76	0.71
GERD (Current prices- Million TL)		2,197	2,898	3,835	4,400	6,091
GERD (PPP*- Million USD)		2,920	3,653	4,373	4,883	6,578
R&D Expenditure per Capita (PPP – USD)		41.6	51.4	60.7	69.2	93.2
Gross Domestic Expenditure on R&D (% financed by)						
	Higher Education	66.3	67.9	54.6	51.3	48.2
	Industry	23.2	24.2	33.8	37	41.3
	Government	10.4	8	11.6	11.7	10.6
FTE** Total R&D personnel		38,308	39,960	49,252	54,444	63,377
FTE Total R&D personnel by sectors (%)						
	Higher Education	63.2	61.9	51.6	49.1	46.6
	Industry	20.5	22.1	30.4	33.1	38.3
	Government	16.3	16	17.9	17.8	15.1
FTE R&D personnel per ten thousand total employment		18.1	18.3	22.3	26	29.9
Total scientific publications from Turkey		12,432	15,426	16,697	18,902	21,930
The international ranking of Turkey in terms of scientific publications		22	21	19	19	18

Source :Turk-Stat, TUBITAK
*PPP: Purchasing Power Parity
** Full-time Equivalent

In order that the research human force be developed in number and skills, it is essential to provide recruitment of domestic and international high-profile researchers in Turkey. As of 2006, the ratio of international researchers to total number of researchers in the age group of 25-65 is around 6%, whereas this ratio in Turkey is estimated to remain below 0.1%.

Private sector undertakes a significant role in improvement of competitiveness by transformation of R&D activities into products. In recent years, an increase is observed in the R&D activities of private sector, for the incentives provided for them and also for their raised awareness on the necessity of R&D and innovation activities for the competitiveness.

Since the entry into force of Law on Supporting R&D Activities coded 5746, prepared for setting the incentive regimes in the area of R&D and innovation activities, 52 companies have admitted to Ministry of Industry and Trade by June 2009 and they pledged on employing 8.538 R&D personnel and making R&D investments worth of 3,160 million TL.

It is determined that 31.4% of enterprises involving 10 or more employees conducted technological innovative activities in the period of 2004-2006, and the three most prominent factors affecting innovative activities negatively are, respectively, high costs, financial inadequacies and the lack of skilled personnel.

In order to improve R&D-based production competence several programs are carried out. One program involves the establishment of large-scale research centers in priority areas, which primarily consist of biotechnology, nanotechnology, new generation energy technologies, primary focus areas of industry policy, R&D activities aimed for increasing the added value of domestic resources, health research, information and communication technologies, defense and space. In the context of other programs, common research laboratories are being founded in developing universities; basic and applied research projects are being supported; and researcher upbringing programs are continued.

Supporting the activities of Technology Development Zones (TDZ), techno parks executed by Ministry of Industry and Trade, and of Technology Development Centers (TDC) and without-wall incubators, executed by KOSGEB, are being continued. By August 2009, 36 TDZs and 20 TDCs have been decided to be established and currently 20 TDZs and 18 TDCs are active in operation. The total number of companies in TDZs has reached to 1,189 by the end of August 2009.

It is important to support the programs devoted to development of products and technologies with the utilization of home-grown products and technologies especially in industries highly dependent on foreign outsourcing such as defense, health and energy in order to maintain the effective use of R&D investments and facilitating the application of their results. In this context, the R&D support programs of public institutions in specific areas under their responsibilities have been under implementation since 2005, and the further development of these programs are aimed.

2. Main Objectives and Targets

The main objective of science and technology policy is fostering the innovativeness of private sector, develop great competence in science and technology, and transform this competence into socio-economic benefits.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 40. National Innovation System, which increases the cooperation between the institutions and relative activity of the private sector within the system will be set up.				
Measure 88. National Innovation Strategy and Action Plan will be prepared.	TUBITAK	MoIT, SPO, Related Public Institutions, Development Agencies, NGOs, Local Administrations	End of December	National Innovation Study and Action Plan, which will define the authority and responsibilities of institutions, and ensure the inter-agency cooperation and coordination, will be prepared with the participation of relevant stakeholder organizations.
Measure 89. Regional innovation systems will be defined and supported.	TUBITAK	SPO, TOBB, YOK, Related Public Institutions, Development Agencies, Universities, NGOs	End of December	In order to support regional development and increase competitiveness of provinces/regions, establishment of cooperation networks including private sector, universities, public institutions and local dynamics will be supported. The methodology related local innovation systems will be completed, the analysis for identifying the possible pilot provinces / regions will be determined.
Priority 41. R&D capacity and demand of private sector, especially SMEs, will be increased.				

Measure 90. Increase in R&D activities carried out by the private sector will be supported.	TUBITAK	MoIT, SPO, TOBB, KOSGEB, Related Public Institutions, Universities, Development Agencies	End of December	Improvement of innovation culture and increased demand for R&D will be obtained through increasing the support for R&D activities conducted by private sector. .
Measure 91. R&D support s provided for SMEs will be activated and expanded. .	KOSGEB	MoIT, Turkish Patent Institute, KOSGEB, Universities, Industry and Trade Chambers, Development Agencies	End of December	Supports provided for SMEs for strengthening the R&D and innovation capacity, and for protection of intellectual property rights will be activated and expanded. Activities to create more demand for R&D by SMEs will be maintained. Seed and venture capital applications will be activated and expanded in order to support the R&D financing of SMEs.
Priority 42. Programs in order to improve the cooperation between universities and research institutions and pre-competitive R&D collaborations will be supported				
Measure 92. Technology Development Zones will be strengthened. .	MoIT	MoF, SPO, UT, TUBITAK, TOBB	End of June	Draft on the amendment of Technology Development Zones Law No. 4691 will be finalized and consigned to the Parliament. .
Measure 93. Commercialization of research results and technology transfer applications will be activated.	YÖK	MoIT, SPO, Universities, TUBITAK, Turkish Patent Institute, TOBB	End of December	Legislation related to intellectual property rights of research results will be drawn up. Technology Transfer Office model suited to Turkey will be finalized and pilot scale application will be launched.
Measure 94. Research programs devoted to development of products and technologies with the utilization of home-grown technologies, in industries that are highly dependent on foreign outsourcing will be supported and activated.	SPO	MoIT, Ministry of Health, MoND, MENR, TUBITAK, Universities	End of December	R&D support programs will be improved in the public institutions which are responsible for industries highly dependent foreign outsourcing such as defense, health and energy. The Priority will be given mainly to these areas in the projects of TARAL Program conducted by TUBITAK and in the supports for research infrastructure.
Priority 43. Taking into account the needs of the private sector, researcher human power, primarily in the areas of technology, will be enhanced in terms of quality and quantity.				

Measure 95. Academician Development Programs will be activated and expanded.	YÖK	MoF, MoNE, SPO, State Personnel Presidency, TUBITAK	End of June	Coordination of Academician Development Programs, conducted in homeland and abroad and aim to meet the need for faculty members of the newly established universities, will be provided and expanded.
Measure 96. Qualified researchers from abroad will be encouraged to work in Turkey.	TUBITAK	MoF, MoNE MoI, SPO, State Personnel Presidency, YOK, Universities	End of December	Necessary financial, legal and administrative arrangements will be made in order to make Turkey attractive for the well-qualified researchers from abroad.
Priority 44. Establishment of research centers will be supported in order to strengthen the R&D-based production capability.				
Measure 97. An R&D road map study that will activate research infrastructures in Turkey will be finalized.	SPO	MoIT, MoF, YOK, TUBITAK, Universities, Related Public Institutions, Industry and Trade Chambers, KOSGEB	End of December	Turkey Road Map of R&D Infrastructures will be finalized in order to ensure the focused establishment of new and prospective public, private and university research centers on the priority areas and specified locations; and also provides working together of researchers to enable the efficient use of resources.
Measure 98. Advanced research centers serving nation-wide will be established and integration of them with the EU Research Infrastructures will be provided.	SPO	YOK, Universities, TUBITAK	End of December	Advanced Research Centers open to all researchers will be established in the universities and public research centers which possess concentrated population of researchers on the related research fields, mainly on the priority areas, in order to create enough capacity and capabilities to produce new technologies. Integration of established centers with the EU Research Infrastructure will be provided.

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.

Within the scope of Turkey's EU accession process, position Paper of Turkey, which was prepared following the explanatory and bilateral screening meetings held in June and July 2006 regarding "Information Society and Media Chapter", was sent to the European Commission in October 2008 and this chapter was opened to negotiation in December 2008.

Electronic Communications Law, which has been prepared in line with the EU acquis, was published in the Official Gazette dated 10/11/2008 and its provisions other than those related to the authorization regime came into force at this date. Provisions of the Law on authorization regime became applicable 6 months after the date of publishing. After the Law came into force, studies on harmonizing the secondary legislation with this Law have been initiated. To this end, 6 By-Laws were put into force as of October 2009.

332 operators have been authorized by the Information Technology and Communications Authority (ITCA) as of October 2009. Those operators that had been authorized to provide long distance telephone services previously were authorized to provide fixed telephone services, which also covers local telephone services, after "Authorization By-Law on Electronic Communications Sector" came into force in May 2009. Thus alternative operators were enabled to get into the local telephone services segment of the market, which has a large share in the overall fixed telephony market. 57 operators were authorized in this field, as of October 2009. The share of alternative operators in the overall fixed telephony market and the share of revenues they generated from market segments, in which they operate, to total market segment revenue reached 9% and 30% respectively by second quarter of 2009.

After the Authorization By-Law became effective, 9 operators were authorized as mobile virtual network operators as of October 2009. These operators are expected to increase competition in the mobile services market, where number of operators is limited due to scarce resource utilization, thereby improve innovative service provision over mobile communication platforms.

Principles regarding broadcasting service and other services to be provided over cable TV network are re-determined with the Authorization By-Law and 8 operators were authorized in this field as of October 2009.

In order to establish infrastructure based competition, 37 operators were authorized in the field of infrastructure operations as of October 2009. Although these operators began establishing their own infrastructures and working on the operation of fiber infrastructures of public institutions operating in other network industries and utilizing these institutions' rights of way, a satisfactory competitive market has not emerged yet in infrastructure services.

Regarding unbundled access to the local loop and bitstream access that enables alternative operators to provide broadband internet access services, reference offers were updated and some wholesale tariffs were cut by the incumbent operator Türk Telekomünikasyon A.Ş. in September 2009. Share of alternative operators in broadband access market is 6.6%, as of June 2009. This figure is significantly lower than the EU average, which is around 54%, and indicates that the level of competition in broadband access market is relatively lower compared to EU and introduced regulations have not provided the expected impact yet.

Interconnection charge tariffs were re-determined by ITCA to be effective as 01/05/2009. In-zone and out-zone interconnection, local interconnection charge were determined to be applied in the fixed telecommunication network, however in-zone and out-zone charges were not changed. Call termination charges in mobile networks were cut approximately by 30%. Since interconnection charges directly affect the cost of inter-network calls to the consumer, these cuts are expected to have a positive impact on user tariffs.

Mobile number portability was introduced in November 2009 and approximately 4 million subscribers have ported their numbers as of 30/06/2009. Geographic and non-geographic number portability in the fixed network has become legally effective in September 2009.

Authorization process, regarding 3rd generation (3G) mobile communication services, was completed at the end of April 2009 and these services were launched in August 2009.

Number of fixed telephone subscribers reduced to 17.5 million in the end of 2008, which was around 19 million in 2005. Mobile telephone services became a stronger alternative to fixed telephone services since the introduction of tariffs by mobile telephone operators that render calls to other networks, including the fixed network, attractive and this process accelerated the decrease in the number of fixed telephone subscribers. After number of mobile telephone subscribers reached 65.8 million at the end of 2008, it declined to 63.6 million particularly due to the cancellation of some secondary subscriptions by the introduction of mobile number portability and implementation of mobile tariffs which promote calls to other networks.

Although number of broadband subscribers, which achieved rapid growth in the previous period, continues to increase, growth rate of broadband subscribers' number has reduced. As of June 2009, number of broadband subscribers was around 6.2 million. But the penetration rate of 8.7 percent remains low compared to EU countries. 98 percent of broadband subscribers use ADSL technology and number of those using cable internet technology, the alternative broadband infrastructure, is around 99 thousand. Number of cable TV subscribers remained around 1.15 million for a long time. Due to the legal problems among TÜRKSAT and cable platform service providers regarding the cable TV platform, no notable progress could be achieved in both cable internet, which constitutes an important alternative to ADSL services, and cable TV usage.

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

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

The software and services market preserved its 2008 level in 2009, when the effects of the global economic crisis were intensively observed, its share in overall IT market was below 30%. This figure is considerably lower than the world average of 65%. Establishment of the services market is particularly important in order to disseminate usage of the general purpose technology IT and benefit from the opportunities offered by these technologies.

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 is mainly comprised of small scale firms.

Feasibility studies 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, is currently being carried out. Following the decision on location selection, 2nd phase of the study will be initiated.

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. Training topics have been determined and training programs are expected to be initiated until the end of 2009.

TABLE: IV. 26- Main ICT Indicators

	2007	2008	2009(1)
PSTN Capacity (thousand lines)	21,772	22,921	23,000
PSTN Subscribers (thousand people)	18,201	17,502	16,700
PSTN Penetration (%)	24.9	24.5	23.4
Mobile Subscribers (thousand people)	61,975	65,824	62,000
Mobile Penetration (%)	84.9	92.1	87
Broadband Subscribers (thousand people)	4,404	5,986	6,500
Broadband Penetration (%)	6	8.4	9
Internet Penetration(%)(2)	26.7	35.8	38.1
Cable TV Subscribers (thousand people)	1,141	1,145	1,150
ICT Market Size (billion USD)	21.7	23.8	21.8
- Telecommunications	17	16.7	15
- Information Technology	4.7	7.1	6.8

Source: ITCA, TURKSTAT, IDC (International Data Corporation)
(1) Realization Estimate (SPO)
(2) The ratios cover 16-74 age groups.

ICT market size reached USD 23.8 billion by the end of 2008. Market size is expected to shrink to USD 21.8 billion in 2009 as a consequence of the global crisis. Telecommunications sector and IT sector are expected to account for 69% and 31% of the overall market, respectively.

Technical studies for the legislation aiming at gradual and controlled liberalization, competition, separation of policy setting, regulatory and operating institutions and restructuring of the postal sector in parallel with the EU directives are ongoing.

In the scope of transition to digital terrestrial broadcasting, Law No. 3984 and relevant secondary legislation has to be amended and the draft law is being prepared by RTUK. The draft includes regulations which harmonizes the Turkish legislation with the EU acquis and sets the legal infrastructure of new technologies in broadcasting sector as well.

2. Main Objectives and Targets

Main objective is accelerating the process of transformation into an information society via dissemination and effective usage of information and communication technologies; and hence, contributing to increasing 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 dissemination of information society services will be eliminated.

Studies on authorization of wireless broadband access services that will enable alternative operators to get into the mobile broadband market will be completed.

Global competitiveness of the IT sector will be improved in order to create more value by meeting the increasing demand emerged during the information society transformation process and to position itself in external markets. Within this scope, 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 feasibility study will be completed and the Project will be commenced and studies will be carried out regarding other actions identified in the Information Society Strategy.

Preparation studies of the new information society strategy that will be applied after the Information Society Strategy, which is predicted to be completed in 2010, will be initiated taking into consideration the EU approach and policies in this field.

The legal and technical infrastructure for transition to digital terrestrial broadcasting will be accomplished and analog terrestrial broadcasts will be terminated until 2015.

Regulatory works will be continued regarding harmonization with the EU acquis within the framework of Information Society and Media Chapter, which was opened to negotiation in 18/12/2008.

In 2010, telecommunications services market and IT market are expected to grow by 10% with respect to 2009 and reach to USD 16.5 billion and USD 7.5 billion, respectively. Mobile and broadband penetration are expected to reach 90% and 11%, respectively.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 45. Electronic communications sector will be made more competitive by attaching importance to the provision of alternative infrastructure and services.				
Measure 99. A strategy will be developed to establish network infrastructures while physical infrastructures are being built, that enable fiber optic cable networks to be installed in parallel with these infrastructures.	Ministry of Transport	Ministry of Energy, Ministry of Environment and Forestry, SPO, ITCA, Relevant Public Institutions	End of December	Approach and implementation proposals; that promote establishment of fiber optic cable networks or physical infrastructures enabling this establishment during the building phase of infrastructures like highways, railways, natural gas and energy transmission and distribution lines, water and sewer networks, thereby contribute to developing national telecommunication infrastructure; will be determined
Measure 100. Legal and administrative processes regarding the authorization of wireless broadband access services will be completed.	ITCA	Ministry of Transport	End of December	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 101. Studies will be conducted regarding freeing of the 450-470 MHZ frequency band.	ITCA	Ministry of Transport, General Directorate of Security, Metropolitan Municipalities, Universities	End of December	Studies will be conducted in order to use 450-570 MHz frequency band more effectively and release space in the frequency spectrum for new services.
Measure 102. Feasibility study on the establishment of "Public Security and Emergency Aid Communication System" will be completed.	Ministry of Transport	Relevant Public Institutions	End of December	Feasibility study on establishment of the infrastructure that will enable uninterrupted communication service provision for meeting public security and emergency aid needs will be completed.
Priority 46. Legal regulations necessary for the establishment of effective competition environment in the sector will be completed.				
Measure 103. "Naked ADSL" practice will be made applicable.	ITCA	Ministry of Transport, Competition Authority	End of June	"Naked ADSL" practice that is currently being applied in several countries and enables consumers to use ADSL service without the necessity to subscribe to fixed telephone service will be made applicable.
Measure 104. Legal regulation will be made on the principles and procedures regarding violation of competition.	ITCA	Ministry of Transport, SPO, Competition Authority	End of December	Principles and procedures to be applied in identifying practices hindering competition and in case of violations of competition in the telecommunications sector will be determined.
Priority 47. Technology transfer will be promoted via establishment of a favorable environment for foreign direct investment.				
Measure 105. Implementation studies of Informatics Valley Project will be initiated.	Ministry of Industry and Trade	Ministry of Public Works and Settlement, SPO, YÖK, TÜBİTAK, TOBB, TTGV	End of December	In line with the feasibility study of the Informatics Valley, which will be built in order to promote 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, implementation studies will be initiated.
Priority 48. Training programs will be carried out to develop qualified human resources in the fields of expertise that ICT sector needs.				
Measure 106. Certificate programs will be launched for development of qualified IT workforce.	İŞKUR	SPO, NGOs	End of December	Qualified personnel needs of the ICT sector will be met via internationally recognized certificate programs to be launched in specified areas of expertise.
Priority 49. Implementation results of the Information Society Strategy will be assessed and new policies and strategies will be identified for post-2010.				

Measure 107. Preparatory studies will be initiated regarding the information society strategy to be implemented after 2010.	SPO	Relevant Public Institutions	End of December	Preparation studies, regarding the new information society strategy to be implemented after the Information Society Strategy that will end in 2010, will be initiated, taking EU policy and approach in this field into consideration.
Priority 50. Postal sector will be restructured on the principles of quality, reliability and accessibility with a competitive approach in parallel with the EU regulations and effective regulation and supervision in the sector will be ensured.				
Measure 108. Regulations will be made to liberalize the postal services market in a gradual and controlled manner and to establish a competitive environment in the sector.	Ministry of Transport	SPO, Undersecretariat of Treasury, PTT	End of March	The draft of a new law which will entirely regulate the postal services market will be submitted to the Assembly. According to that law, a regulatory body, which is operationally independent and separate from operators, will be established and the process of reducing the scope of postal monopoly will be initiated.
Measure 109. Necessary legal arrangement will be made to adapt 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 submitted to the Assembly to prepare PTT to the prospective competition in the postal market by defining structure and functioning of PTT's organization.
Priority 51. Broadcasting sector will be improved by taking the developments in technology into consideration and the transition to digital terrestrial broadcasting in parallel with EU countries will be ensured.				
Measure 110. Amendments needed for transition to digital terrestrial broadcasting will be made and technical infrastructure studies will be continued.	RTÜK	Ministry of Transport, SPO, ITCA, TRT	End of December	Frequency plans will be prepared and necessary amendments on Law No. 3984 and relevant By-Laws will be made for switch-over.
Measure 111. Legal arrangements will be made for harmonization of the broadcasting sector with EU.	RTÜK	SPO	End of June	With the purpose of harmonization with Audiovisual Media Services Directive, necessary amendments on Law No:3984 and secondary legislation will be made regarding scope, definitions, principles, right of jurisdiction, major events, freedom of reception and retransmission, commercial communication and promotion of independent productions.

Measure 112. Legal regulation will be prepared for harmonization with EU acquis on conditional access.	Ministry of Culture and Tourism	Ministry of Justice, Ministry of Industry and Trade, Undersecretariat of Foreign Trade, Undersecretariat of Customs, RTÜK, ITCA	End of December	In order to prevent illegal access to services based on conditional access and provide due penal sanctions, legal regulation aiming at harmonization with EU Directive No. 98/84/EC, will be made.

I. IMPROVING AGRICULTURAL STRUCTURE

1. Current Outlook

Agriculture sector grew 3,5 percent in 2008. In addition to this, the share of agriculture sector in GDP decreasing gradually in 2003-2007 period from 11,4 percent to 8,9 percent, realized 9,2 percent in 2008. Furthermore, the share of agriculture sector in total employment was recorded 23,7 percent in 2008.

The need for transformation in the sector persists due to structural problems such as fragmented lands, small scale holdings and organizational deficiencies.

In order to prevent fragmentation of agricultural lands by inheritance, finalization of the amendment works related to Turkish Civil Law and Law on Soil Conservation and Land Use No. 5403 is essential.

In order to provide reliable agricultural statistics which are critically important for agricultural policy formulation, the needs for strengthening the administrative capacity of MARA at central and local level in cooperation with Turkish Statistical Institute (TURKSTAT), such as ensuring the complementary in both data collection and data processing, and also information systems like Farm Accountancy Data Network and National Farmer Registry System, continue.

Land and Water Resources

2008 statistics indicate that Turkey's total agricultural land is 24.5 million hectares, of which 16.4 million hectares are sown, 4.3 million hectares are fallow, 0.8 million hectares are used for vegetable production, and 3 million hectares are reserved for fruit and olive trees, for tea and vineyards.

Following the amendment to the Soil Conservation and Land Use Law No.5403 in 2007, the by-law on the "Conservation and Use of Agricultural Lands and Land Consolidation" which lays down the principles of implementation of the law has been officially released on July 24, 2009. In this context, processes of contracts on a total of 25 thousand hectares of land consolidation projects of Directorate-General for State Hydraulic Works (DSI) are expected to be concluded by year-end.

Irrigated land increased by DSI by 46 and 65 thousand hectares in 2007 and 2008 respectively. However, 81 thousands hectares in 2007, and 119 thousand hectares in 2008 could not be irrigated due to shortages in water resources. 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.

Within the context of GAP Action Plan, put into implementation in 2008, it is targeted that 1 million 60 thousand hectares additional area will have been irrigated by the end of 2012. In achieving this objective, timely completion of Dams of Silvan, Çetintepe and Kocali, and land consolidations on the routes of irrigation main canals and areas of irrigation networks is of crucial importance.

Efforts to diversify and increase financial resources available to irrigation by implementing build-operate-transfer model in irrigation sector, and realize 10,821 hectares Manyas Ovası Sağ Sahil and 12,720 hectares Ödemiş Beydağ Irrigation Projects within the context of Law no.3996, could not be concluded mainly due to the macroeconomic conjuncture in which international difficulties in the financial sector have transformed into a crisis in 2008.

As of May 31, 2009 debts, resulting from electricity consumption in agricultural irrigation, have been restructured by Law no.5917 of June 25, 2009.

Plant Production

After the drought experienced in 2007, yield increase in plant production affected the growth positively in 2008 which had relatively more rainy days.

Sector’s structure with fragmented and small scale holdings along with ineffective organization prevents to increase productivity and level of producer’s income.

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.

The revenues, obtained from warehouse receipt that are issued in the scope of Licensed Warehousing for Agricultural Products Law, are exempted from income and corporate taxes until the end of 2014 by the Law on Amendments on Income Tax Law and Some Other Laws dated June 16, 2009 and No. 5904 for the aim of supporting the improvement of licensed warehousing system for agricultural products of which legal infrastructure is created by the Law No. 5300 enacted in 2005.

For the purpose of enhancing the activities for organic agriculture, it is important to improve control and inspection services primarily, to increase the institutional capacity of public sector, to provide strong statistical structure for production by strengthening it in coordination with Farmer Registration System and to monitor the trade.

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. Plant protection products are obligated to be sold with prescription by the Regulation on Procedures and Principles for Prescription Sales of Plant Protection Products enacted in June 12, 2009, especially for the aim of eliminating the problems such as drug residue on fresh vegetables and fruits’ exports recently.

Animal Husbandry

Animal productivity levels of Turkey are low compared to other countries which are developed in animal husbandry and according to TURKSTAT's 2009 data, average cattle carcass weight is 215 kg and milk yield per cattle is 2700-2800 kg/lactation. These amounts are nearly 270-280 kg carcass and 5000-6000 kg/lactation in developed countries.

41 percent of total cattle population is cross bred and 32,7 percent of it is pure-bred. Native-bred sheep, which have relatively low productivity account for 95.8 percent of sheep population. In this framework, 2.1 million artificial inseminations were realized for the purpose of animal breeding and supply of qualified cattle bred in 2008. As of the end of September 2009, number of artificial insemination is 1.3 million and this figure is expected to reach 1.7 million at the end of the year.

In 2008, poultry meat production, which has an export advantage, became 1.1 million tones by increasing 2.1 percent compared to the previous year. 96.8 percent and 3.2 percent of this amount are chicken and turkey meat, respectively. In 2008, chicken egg production increased by 3.7 percent compared to 2007 and realized about 13.2 billion units.

However there have been a significant increase in the supply of roughage production, which is the most important factor affecting the profitability in bovine and ovine animal husbandry, by supporting policies; improvement of fodder crops in terms of quality and variety, and increase of their productions have remained important for the sector.

While emphasizing protective measures to reduce the adverse 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, Control of Foot and Mouth Disease Project, Avian Influenza and Human Pandemic Preparedness and Response Project which put into practice in 2007 under Turkey-EU Financial Cooperation are expected to be completed at the end of 2010. In the same context, the works for implementing second phase of the Control of Rabies Project and Control of Foot and Mouth Disease Project will be launched after 2010.

Fisheries

Fisheries production has decreased by 16,3% and become 646 thousand tones in 2008. The reason of this decline is the anchovy production, which was increased dramatically in 2007, has got back to its normal level observed in previous years. The share of the aquaculture production in total production has been increased to 23,5% by increasing 8.8% and in order to ensure the environmental sustainability of the sector, according to the Environment Law numbered 2872, appropriate locations for establishment of fishing farms in the sea are determined and moving activities have been realized.

In the capture fisheries, it is important to overcome the deficiencies of infrastructure. In this context, offices have been established in 34 fisheries harbors in order to conduct controls at the landing points, infrastructure to monitor the fishing vessels longer than 15 meters by using remote sensing has been established in order to increase the effectiveness of control services and additionally the information systems for the registration of vessel and fishing activities have been improved. Besides, an IPA project that aims especially at improving human capacity and the determining legal and physical infrastructural needs regarding the establishment of stock assessment system will be completed in 2010.

Draft Law on Amendments of the Fisheries Law, prepared by taking into consideration the needs of harmonization with EU acqui and comprising measures in order to increase the effectiveness of protection and control services, to constitute sustainable fisheries and to produce high quality products compliant with the market needs, is in the agenda of TGNA.

Even though there are a 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. It is essential to focus on maintenance, renewal and improvement of superstructure of these facilities after determining their present conditions and needs.

Forestry

Forests cover a total area of 21,2 million hectares in Turkey. Since 1963 a total of 2.7 million hectares of green belt, industrial and soil protection plantations have been realized, 66 thousand hectares of which was realized in 2008. Meanwhile, since 1963 584.911 hectares forests have been damaged by forest fires, which include 29.749 hectares burned in 2008.

Insufficiency in maintenance works in plantation areas and in natural forests, particularly the areas susceptible to forest fires, inadequate use of mixed seedlings aiming at biological diversity in plantation works and lack of attention given to specialization and training in forestry activities affects the success of plantation and fire combating activities negatively.

To protect the forest areas efficiently, it is essential to monitor and control the adverse effects of mining and quarrying permits on forests in cooperation with related institutions; to give the required importance to raise the awareness of public concerning the benefits of forests and the multiple destructive effects of forest fires and to make use of our richness about biological diversity and nature monuments more in the status of protected areas. In addition, the need for an urgent finalization of land registry activities concerning the forest cadastre works continues.

Agricultural Supports

By means of Direct Income Support (DIS) scheme implemented all over the country in 2001, almost 2.6 millions of producers received payments in 2008 in registered 16.2 million hectares. Within the context of registering, monitoring and control system co-designed by DIS scheme, 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 so as to guide production.

The share of area based payments including DIS payments in agricultural support budget realized 35 percent in 2008 while it was 80 percent in 2004. In the year of 2009 when DIS payments were abolished, the share of area based payments in agricultural support budget is expected to be approximately 27 percent. These payments are envisaged to take a share of 39 percent. The cause of this increase envisaged for 2010 is the new hazelnut support policy that is implemented by Resolution 2009/15201 on Income Area Based Support to Hazelnut Producers and Making Compensating Payment to the Producers that Change to Alternative Products, dated July 14, 2009.

Fuel oil and fertilizer support payments, the major items other than DIS payments in area based payments have a 30 percent share in area based payments in 2005, this ratio is expected to be 87 percent in 2009 and 58 percent in 2010.

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 covered 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 40 and 32 percent in 2009 and 2010 respectively.

Animal husbandry supports, which were implemented for five year period since 2000, have been implemented annually as of 2008. The share of these supports in total support budget, which had 7 percent in 2004, is expected to be 22 percent in 2009 and to remain its level in 2010.

The implementation of the Supports Programme for Rural Development Investments, covering 2006-2010 period and regarding to support for processing, evaluation and marketing of the agricultural products, have been carried on. The share of these implementations in the support budget was 1.44 percent in 2007 and it is foreseen to be 5.40 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 complementary of this program with interest rate cut credits and credit implementation similar one expected to be operational in 2009 within the context of Pre-Accession Financial Instrument.

Pursuant to the Agriculture Insurance Law No. 5363, the number of issued insurance policies, related to the risks under assurance especially on the subjects such as hail, frost, and animal life, are estimated to 310 thousands and to provide 61 million TL supports as of end of the 2009. An accelerated amount of funds is allocated for insurance premium support payments from budget 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 incremental reduction due to the sustainability of system.

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

(Current Prices, Million TL)

	2005	2006	2007	2008	2009(2)	2010(3)
Area Based Agricultural Support Payments	**2,353**	**2,653**	**2,525**	**2,040**	**1,227**	**2,190**
Direct Income Support Payments	1,673	2,653	1,640	1,140	0	0
Area Based Additional Payments (Org. Farming, Good Practices, Solid Analy.) (4)			10		32	106
Gasoline	410	0	480	492	469	555
Fertilizer	270	0	345	352	596	704
Certificated Seed and Seedling			50	56	119	60
Environmentally Based Agricultural Land Protection (ÇATAK) (5)					7	9
Alternative Payment					4	49
- Tobacco					4	8
- Hazelnut						41
Deficiency Payments	**897**	**1,292**	**1,797**	**1,848**	**1,790**	**1,818**
Payments to crops with supply deficits (6)	622	1,085	1,273	1,135	948	1,058
Cereal	205	120	435	610	670	630
Tea	70	87	89	103	113	115
Pulses (Dry Beans, Chick Peas, Lentil)					59	15
Animal Husbandry Payments	**345**	**661**	**741**	**1,095**	**1,003**	**1,252**
Grants for Rural Development (7)	**0**	**0**	**80**	**109**	**277**	**155**
Agricultural Crops Insurance	**0**	**2**	**40**	**47**	**61**	**70**
Compensatory Payments	**56**	**67**	**79**	**80**	**85**	**76**
Potato Wart Support	13	14	23	24	22	11
Tea Trimming Support and Charges	43	53	56	56	63	65
Drought Support			**266**	**547**		
Others	**57**	**72**	**26**	**43**	**55**	**44**
TOTAL	**3,708**	**4,747**	**5,555**	**5,809**	**4,498**	**5,605**
Southeastern Anatolia Project Action Plan Rural Development and Animal Husbandry Supports (8)					**85**	**108**
TOTAL					**4,582**	**5,713**

(1) Definite account data of the budget of the Ministry of Agriculture and Rural Affairs for the years 2004-2008.
(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.
(7) 5,01 million TL of 2010 Budget amount is a provision for grant of IPARD Agency.
(8) Of the amount of 2010, 87,6 million TL is allocated for Southeastern Anatolia Project Action Plan's rural development and animal husbandry projects and 20 million TL is allocated for animal husbandry projects in the scope of Eastern Anatolia Project's.

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

When the requirements of EU accession period, ensuring competition in markets and providing sustainability in sectors is taken into account, it is of important that agriculture supports will be differentiated founded on product and area and their implementation and control will be based on areas. It is also essential that complementation among different support programmes implemented by different institutions will be ensured and income levels of institutions will be taken into account in the budgeting process.

The prices of agricultural crops which are subject to activities of Agricultural Sales Cooperatives and Associations and State Economic Enterprises, increased at an average of 20,8 and 9,5 percent in 2008 and 2009 respectively.

TABLE: IV. 28- Initial Purchase Prices of Selected Crops*

	(Prices, TL/Ton)			(Percentage Change)		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
1. Wheat (Bread) (1)	375	425	500	7.1	13.3	17.6
2. Barley (White) (1)	265	320	375	6.9	20.8	17.2
3. Corn (1) (2)	-	-	430	-	-	-
4. Sugar Beet	90	100	108	-15.0	11.4	8.0
5. Hazelnut (3)	4,000	5,150	4,000	-46.3	28.8	-22.3
6. Opium Capsule	1,850	2,000	2,200	5.7	8.1	10
7. Tea	570	640	737	10.7	12.3	15.2

* 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 and 2007.
(3) Initial purchase prices of Giresun quality hazelnut.

TABLE: IV. 29- Developments in Agricultural Crop Prices

Crops	(Average Purchase Prices, YTL/Ton)			(Percentage Change)		
	2006	2007	2008	2006	2007	2008
1. Wheat	350	401	464	5.6	14.6	15.7
2. Barley	258	309	-	3.3	19.9	-
3. Rye	241	283	-	2.8	17.3	-
4. Corn	-	-	409	-	-	0.0
5. Oat	258	-	-	4.4	-	0.0
6. Cotton (1)	843	979	940	8.8	16.0	-4.0
7. Sugar beet	90	100	114	-13.0	11.4	14.1
8. Sunflower	525	869	827	7.9	65.5	-4.8
9. Nut	3,953	5,015	4,230	-45.0	26.9	-15.6
10. Dried fig	2,198	3,069	3,931	21.6	39.6	28.1
11. Seedless raisin	1,402	1,706	1,686	0.2	21.6	-1.2
12. Olive oil	4,449	4,269	3,968	-22.7	-4.1	-7.0
13. Mohair (1)	3,920	4,790	4,814	26.7	22.2	0.5
14. Pistachio	5,375	6,647	3,117	-44.0	23.7	-53.1
15. Soybean	490	648	608	55.5	32.3	-6.2
16. Opium capsule	1,850	2,021	2.184	6.9	9.2	8.1
17. Rice	640	660	832	-1.3	3.1	26.0
18. Cocoon (1)	1,208	1,277	1,527	-51.2	5.8	19.5
19. Red pepper	3,806	751	909	18.9	-80.3	21.0
20. Olive	2,169	2,394	2,643	-6.6	10.4	10.4
21. Rose flower	1,266	1,498	1,712	-40.0	18.3	14.3
22. Red lentil	605	1,000	-	-	65.2	-
23. Tea	570	640	737	10.7	12.2	15.2
24. Grape	273	226	277	26.8	-17.1	22.2
25. Dried apricot	-	-	-	-	-	-
26. Seed raisin	-	-	-	-	-	-
27. Pistachio of Siirt	-	-	-	-	-	-
28. Haricot bean	-	-	-	-	-	-
29. Pea	-	-	-	-	-	-
30. Apricot	362	524	-	134.4	44.7	-
31. Peach	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)		
	2006	2007	2008	2006	2007	2008
1. Wheat	1,456	122	8	509,770	48,946	3,715
2. Barley	725	3	0	187,050	860	0
3. Rye	6	0	0	1,518	13	0
4. Corn	0	0	823	0	0	336,687
5. Oat	2	0	0	552	0	0
6. Cotton	264	210	166,5	222,992	205,779	156,435
7. Sugar beet (1)	6,688	6,880	8,355	599,589	687,256	952,064
8. Sunflower	491	173	367.9	257,835	150,566	304,414
9. Nuts (2)	202	5	300.8	799,273	24,070	1,272,469
10. Dried fig	6	2	3.7	12,917	7,058	14,543
11. Seedless raisin	37	30	35,5	52,316	51,000	59,843
12. Olive oil	11	3	8.2	50,578	11,525	32,541
13. Mohair	0.2	0.2	0.14	737	958	674
14. Pistachio	0	0	0.3	81	226	935
15. Soybean	15	8	12	7,526	5,119	7,294
16. Opium capsule	27	9	10	50,770	17,732	21,840
17. Rice	87	33	0,5	55,816	22,074	416
18. Cocoon	0.1	0.1	0.12	153	158	183
19. Red pepper	0	0	0.8	126	296	727
20. Olive	28	31	37.2	60,764	73,741	98,327
21. Rose flower	3	3	2.7	3,390	4,000	4,623
22. Red lentil	0.2	0.1	0	125	68	0
23. Tea	627	659	650	357,507	421,760	479,120
24. Grape	1	3	0.6	217	654	166
25. Dried apricot	0	0	0	0	0	0
26. Seed raisin	0	0	0	0	0	0
27. Pistachio of Siirt	0	0	0	0	0	0
28. Haricot bean	0	0	0	0	0	0
29. Pea	0	0	0	0	0	0
30. Apricot	0.2	0.0	0	59	11	0
31. Peach	0.3	0.1	0	154	111	0
TOTAL				3,231,814	1,733,981	3,743,301

(1) Indicates the purchase value. Of this total, approximately 40 percent is paid in current year while 60 percent is paid in the following year.
(2) In 2007, only TMO purchased hazelnuts.

Food Legislation, Implementation and Sectoral Regulation

The efforts for the adoption of the EU acquis in the fields of food, feed, food hygiene, plant health, veterinary services and animal welfare within the scope of the benchmarks of Chapter 12 on "Food Safety, Veterinary and Phytosanitary" succeeding the completion of Screening Process with the EU, have been carried on. In the scope of the mentioned legislation, it seems important to fulfill the services provided by the public sector in an integrated framework and to provide distribution of labor between the competent ministry and municipalities for surveillance and food control services.

As a part of the work carried out to fulfill the benchmarks of Chapter 12, a strategy document has been prepared to improve the laboratory structure of MARA and a detailed classification study has been completed to clarify the situation of food establishments considering their compliance to the EU food legislations.

Improvement of food control infrastructure in Turkey by completion of the establishment of National Food Reference Laboratory and formation of risk analysis and information network systems for food safety continued. It is aimed to eliminate the deficiencies of the Reference Laboratory and to put it into operation with full capacity.

In the sugar sector, considering the privatization process that is planned to be completed by the end of 2010, it is important to determine the investment priorities and restructuring needs of the public sugar factories.

TABLE: IV. 31- Selected Indicators for Agriculture Sector

	2006	2007	2008	2009 (1)	2010 (2)
Irrigation Area Built by DSI (Net Cumulative, Million Hectares)	2.53	2.57	2.64	2.72	2.82
Land Consolidation Area by General Directorate of Agricultural Reform (Cumulative, Million Hectares)	0.18	0.22	0.24	0.56	0.86
Share of Certificated Cereal (Wheat-Barley) Seeds Usage (Percent)	27.0	24.2	23.0	24.0	24.0
Organic Farming Areas (Thousand Hectares)	100	124	109	125	130
Share of Cross-bred and Pure-bred Cattle in Total Cattle Population (Percent)	68.7	70.3	73.7	77.0	80.5
Industrial and Soil Conservation Plantations (Cumulative, Million Hectares)	2.60	2.66	2.73	2.77	2.81
Number of Issued Insurance Policies Under State Assisted Agricultural Insurance (Thousands)	12.3	219	264	310	350

Source: MARA, MEF, SPO, DSI, General Directorate of Agricultural Reform
(1) Realization Estimate
(2) Programme
(3) Transition culture area is included.

2. Main Objectives and Targets

The main objective of agricultural policy is to build a well organized and highly competitive structure considering food security and safety aspects, and sustainable usage of natural resources.

Necessary institutional and administrative transformation will be given priority in the accession period to EU.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 52. Necessary institutional and administrative transformation will be given priority in agriculture sector.				

Measure 113. Decree Law on the 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, Undersecretariat of Treasury, UFT, TOBB, TZOB	End of December	The draft law which will 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 completed.
Measure 114. Restructuring studies for the enterprises of TİGEM will be completed.	MARA	SPO, Undersecretariat of Treasury, TİGEM	End of March	A strategy will be completed 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 115. An amendment will be made in the Law No. 4572 on Agricultural Sales Cooperatives and Unions.	Ministry of Industry and Trade	Ministry of Agriculture and Rural Affairs, SPO, Undersecretariat of Treasury	End of June	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.
Measure 116. Problems related to the quality and quantity of agricultural statistics will be eliminated, information infrastructure and administrative structure for the implementation of agricultural policies, will be improved.	MARA	TURKSTAT	End of December	By taking EU requirements into consideration, the Farmer Registration System will be improved by transforming it to the Farm Registration System. Including data collection and data processing, information systems like Farm Accountancy Data Network, GIS and Animal Identification System will be operated complementarily. Administrative capacity of MARA at central and local level will be improved in cooperation with TURKSTAT.
Priority 53. Agricultural support policies will be rearranged in order to increase productivity in production				

Measure 117. 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, Undersecretariat of Treasury, UFT	End of December	A strategy, which covers differentiation of agricultural support based on agricultural products and areas, provides area based administration and control of supports, ensures the complementation among various support programs, considers the income level of agricultural holdings while setting the support level, includes a time schedule that increases the anticipation of related parties, will be prepared.
Measure 118. Improvement of beef and dairy husbandry will be ensured in a balanced manner.	MARA	Ministry of Finance, SPO, Undersecretariat of Treasury, Producer Organizations	End of December	In order to improve the productivity and quality, and to increase the meat production in a stable manner by eliminating the possible supply surplus of dairy production, improvement of beef husbandry will be supported especially through regional programmes.
Measure 119. Credit supports provided to Agricultural Sales Cooperatives and Unions will be rationalized.	Undersecretariat of Treasury	Ministry of Finance, Ministry of Industry and Trade, Ministry of Agriculture and Rural Affairs, SPO, UFT, TCMB, TCZB	End of March	Legal arrangements will be fulfilled in order to establish a compensatory model for loan interests, which provide an alternative for the Agricultural Sales Cooperatives and Unions to use the banking system instead of direct credit loans from Support and Price Stability Fund.
Priority 54. 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, Undersecretariat for Foreign Trade, Undersecretariat of Customs, TAPDK	End of December	The draft laws that have 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.
Priority 55. The structure of agricultural product markets will be strengthened in order to increase their competitiveness in sector.				
Measure 121. The administrative arrangements in sugar sector will be completed, sugar quota management and control mechanism will be made effective.	Min. of Industry and Trade	MARA, Sugar Authority	End of December	Sugar Law will be revised in parallel with the privatization process, considering the changes in the EU sugar policy.

Measure 122. A strategy will be prepared in order to improve and disseminate organic agriculture.	MARA	Ministry of Environment and Forestry, SPO, UFT, Undersecretariat of Customs, TURKSTAT, Export Promotion Center (İGEME), Development Agencies, Producer Organizations, NGOs	End of December	In order to enhance the activities for organic agriculture a strategy, which covers improvement of control and inspection services primarily, enhancement of the institutional capacity of public sector, provision of strong statistical structure for production by strengthening it in coordination with Farmer Registration System, improvement of training and extension services and monitoring of the trade, will be prepared.
Priority 56. Land and water resources will be used efficiently.				
Measure 123. Law on Irrigation Associations will be enacted.	Ministry of Environment and Forestry	DSI	End of December	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 submitted to the Grand National Assembly.
Measure 124. In order to prevent fragmentation of agricultural lands by inheritance, a legal arrangement which amends the regarding laws will be made.	Prime Ministry	Ministry of Agriculture and Rural Affairs, Ministry of Justice, Ministry of Interior, Ministry of Finance	End of December	The draft Law amending the issues about determining minimum size of agricultural holdings in Law on Soil Conservation and Land Use and agricultural holdings articles in Law on Civil will be submitted to the TGNA.
Priority 57. In forestry activities, especially preservation of ecosystem will be emphasized; efforts to combat with forest fires and plantation will be carried on.				
Measure 125. In forestry activities, especially preservation of ecosystem will be emphasized; efforts to combat with forest fires and plantation will be carried on.	Ministry of Environment and Forestry	TÜBİTAK, Universities	End of December	In order to combat more effectively with forest fires besides purchasing necessary machinery and equipment, forest maintenance activities will be intensified especially in the areas susceptible to forest fires and conservation activities including the establishment of firebreaks and forests resistant to fire will also be intensified. Plantations and related research works will be planned and carried on concerning the changing climate conditions.

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

INDUSTRY

1. Current Outlook

Manufacturing Industry

The final effects of the global crisis on manufacturing industry which took effect in Turkey starting with the last quarter of 2008 has shown itself as contraction in exports and internal demand. While most of the firms have been affected by the crisis, this effect has been more intensive on small firms. Difficulties in accession to the finance have been an important factor in this situation. Also, with the effect of the crisis, difficulties were experienced in collection of the debts on time and this has negatively affected the finance structure of the small firms, especially. As a result of the reduction in sales due to the crisis, there has been a great decrease on capacity utilization rate and some firms have taken advantage of the short term employment support in order to mitigate the effects of the crisis period.

According to TURKSTAT monthly industrial production index, the production of manufacturing industry increased 6.6 percent in 2007 and decreased 1.8 percent in 2008. While the sectors, with lowest production growth in 2008, were textiles, wearing apparel, leather products, machinery and electronics; food, wood products, furniture and automotive were the main sectors achieving an increase in production growth. In the first eight months of 2009, the monthly production index decreased 17.7 percent compared to the same period of the previous year. In this period, the sectors which were mostly affected by the crisis are textile, petroleum products, plastics, basic metals, machinery, electrical machinery and automotive.

According to TURKSTAT monthly manufacturing industrial tendency survey, a decrease in the capacity utilization rate has been observed. Private sector capacity utilization rate, which was 77 percent on average in 2008, realized as 67.8 percent on average in the first eight months of 2009. Although the effects of the global crisis are still felt intensively, in many sectors especially beginning with March 2009, a relative recovery is being observed compared to the previous month in the capacity utilization rate.

According to SPO data, manufacturing industry private sector fixed capital investments increased 4 percent in 2008. In 2009, approximately 25 percent decrease is expected. As a sign of investment tendency of companies, in the manufacturing industry the number of incentive certificates increased by 3.7 percent and investment volume at current prices decreased by 17.9 percent in 2008. In the first eight months of 2009, statistics about the incentive certificates receding in greater amounts, the number of incentive certificates decreased by 64.7 percent and investment volume decreased by 60.7 percent at current prices compared to the same period of the previous year.

According to TURKSTAT Household Labour Force Survey results, in 2008 total employment level increased 2.2 percent and number of people employed in the manufacturing industry increased 3.6 percent. With the effect of the global crisis, the decrease observed in manufacturing industry employment level beginning with August 2008, continued in the first five months of 2009. Despite the small increases in May and June, in the first six months of 2009, manufacturing industry employment level receded 8.9 percent compared to the same period of previous year.

TABLE: IV. 32- Main Indicators of Manufacturing Industry (Per cent)

	2007	2008	2009[2]	2008 EU-27
Share in GDP (Current Prices)	16.8	16.2	15.7[3]	20.1[5]
Production Growth Rate (Fixed Prices)[1]	6.6	-1.8	-17.7	-1.9
Exports Growth Rate (Current Prices)	26.0	23.8	-31.0	4.8[6]
Share in Total Exports	94.2	94.8	94.3	90.9[6]
Imports Growth Rate (Current Prices)	21.3	12.2	-36.7	8.6[6]
Share in Total Imports	78.8	74.4	78.3	88.4[6]
Fixed Capital Investment (FCI) Growth Rate (Fixed Prices)	5.0	4.0	-25.0[4]	-
Share of Private Sector in FCI (Current Prices)	45.3	46.3	43.7[4]	-
Industry Employment Growth Rate	0.5	3.6	-8.9[3]	-0.1
Number of Firms Established	14,845	13,478	8,273	-
Number of Firms Closed	3,751	4,257	3,246	-
Private Sector Capacity Utilization Rate	80.7	77.0	67.8	72.0[7]

Source: TURKSTAT [(1) 2005=100 Series, (2) 8 months, (3) 6 months] (4) SPO-Annual Estimation (5) Industry Data, (6) Based on SITC (7) 2009, first 9 months average.

Total amount of exports were USD 132 billion and its growth rate was 23.1 percent in 2008. Manufacturing industry exports increased 23.8 percent and its share in the total exports reached 94.8 percent in 2008. Food, petroleum products, chemicals, plastics and rubber products, non-metallic mineral products, basic metals, machinery and electrical machinery exports increased significantly in 2008. In January-August period of 2009, due to the contraction of external demand caused by the global crisis, compared to the same period of 2008, the volume of total exports realized as USD 64.6 billion with a decrease of 30 percent and manufacturing industry exports realized as USD 60.9 billion with a decrease of 31 percent. During this period textiles, wearing apparel, leather, petroleum products, basic metals, machinery, electrical machinery and automotive industries are the sectors with the highest decreases in exports.

Manufacturing industry imports reached USD 150.2 billion with an increase of 12.2 percent while total imports and its growth rate were USD 201.9 billion and 18.8 percent in 2008 respectively. Food, Tobacco products, petroleum products, chemicals, basic metals, metal products and electrical machinery are the sectors that experienced the highest increases in imports in 2008. In January-August period of 2009 compared to the same period of previous year manufacturing industry imports reached USD 68.6 billion with a decrease of 36.7 percent while the volume of total imports reached USD 87.6 billion with a decrease of 40 percent. Petroleum products, chemicals, plastics, basic metals, metal products, machinery and automotive industries are the sectors with the highest decreases in imports.

The change in intermediate goods other than oil and natural gas, having a large share in total imports, is significant. High level of this ratio during previous years took 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 increased current account deficit. While imports of goods other than oil and natural gas displayed the value of USD 119.5 billion in 2008; it fell to USD 50.8 billion with a decrease of 42 percent in January-August period of 2009 compared to the same period of previous year. The share of intermediate goods in total imports other than oil and natural gas, that was 71.6 percent in the first eight months of 2008, declined to 66.7 percent in the same period of 2009. Downturn in the production of our country caused by global economic crisis was reflected as decrease in imports of intermediate goods other than oil and natural gas.

TABLE: IV. 33- Structure of Manufacturing Industry Production and Exports

(Percentage Share)

Technology Intensity[1]	TURKEY				EU
	Production		Exports		Exports[3]
	2002	2008[2]	2002	2008	2006
High	5.1	4.1	6.2	3.1	21.6
Medium-High	18.2	24.8	24.3	30.9	41.1
Medium-Low	26.7	32.1	22.8	37.7	19.1
Low	50.0	39.0	46.8	28.3	18.3
Total	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT, OECD STAN Database
(1) Based on OECD Science Technology and Intensity Scoreboard.
(2) SPO estimation based on 2006 prices.
(3) EU members that are also OECD members.

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 labour costs, has become difficult in traditional sectors like textiles, wearing apparel, leather products and bottlenecks have been being experienced 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 technology sectors in the manufacturing production and exports. However the shares of high and medium-high technology sectors are still low compared to those in EU countries.

Main problems of industry such as high credit costs, unfair competition resulting from informal economy and low priced imports, the excessive bureaucracy, higher prices of inputs supplied by public institutions compared to international prices, high rates of taxes continue. Furthermore difficulties, which are mostly structural, such as insufficiency to promote technology, lack of rapid diffusion of modern technology, insufficiency in qualified labour force, limited production capability in high value added products, the need of modernization in the production and management infrastructure of facilities, obstacles in access to information about the capacity and potential of the industry by the investors must be solved.

Within the scope of closing benchmark of Enterprise and Industrial Policy Chapter in the framework of negotiations with EU, preparation of industrial strategy to increase the competitiveness of Turkish industry, covering the needs as sectoral evaluations based on more detailed competitiveness analysis and increasing ownership and efficiency during the implementation of policies is expected. To this end, the draft Industrial Strategy for Turkey and its Action Plan has been prepared in coordination of the Ministry of Industry and Trade and works continue to develop the final document. In addition, works on preparing sectoral strategy documents with the aim of improving competitiveness of respective industries continue.

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 2008 and 2009. 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 have been carried out first.

Studies continue to increase effectiveness of accreditation and market surveillance systems in Turkey. In this context draft laws that amend the Law of Turkish Accreditation Agency and the Law of Turkish Standard Institute have been submitted to the Turkish Grand National Assembly. 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. On the other hand in order to comply with the current EU legislation studies on the Draft Product Safety Law have been continued.

In the framework of prevention of unfair competition in manufacturing industry imports, as of October 2009, accurate measures against dumping from various countries in 53 product groups, accurate measures against neutralizing the measure in 6 product groups, compensation measures against subsidy in 1 product group, dumping investigation in 6 product groups, review of final investigation in 6 product groups and investigation of neutralizing the measure in 6 product groups have still continued. Measures against prevention of unfair competition based on price in imports stemming from East Asia especially China have been intensified in textile, chemicals, forest products, rubber and metal products sectors.

With the aim of elimination of problems because of increasing imports of manufacturing industry, in the framework of Conservation Measures on Imports Legislation, as of October 2009, in the products of spectacle frames and some bags, yarn and electrical instruments protection measures have been implemented against all countries as additional financial obligations. Also, in order to extend the time of protection measures, of which implementation period ended, against all countries in some electrical appliances, shoes, salt and motorcycles, review investigations have been opened and provisional measures have been taken as additional financial obligations. On the other hand, to monitor imports closely, in the framework of Conservation Measures on Imports Legislation, surveillance is implemented in 99 product/product groups against all countries.

As being a successful method in increasing competitiveness of firms, clustering has become spread in recent years. In Turkey, while there are formations having the potential of clusters as Organized Industrial Zones (OIZ), it is required to transform them into competitive clusters and to compose new competitive clusters. For this purpose there is a need to develop a national clustering strategy.

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. By the end of 2008, there are 120 OIZ and 429 SSIE which are completed by the credit support of Ministry of Industry and Trade. When the rate of occupancy of OIZ is checked, despite the fact that 95 percent of parcels have been allocated in the completed OIZs, production takes place only on the 67 percent of parcels. In the scale of cities, in cities other than the developed ones, rate of occupancy of OIZs is low.

TABLE: IV. 34- Project and Credit Information of OIZs and SSIEs

	Organized Industrial Zones		Small Scale Industrial Estates		
Year	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	62	7	41	14	1,516
2004	64	5	40	14	2,353
2005	107	10	58	9	679
2006	84	7	49	11	680
2007	79	15	43	13	1,847
2008	121	15	41	13	1,271
2009(1)	115	15	46	7	704

Source: Ministry of Industry and Trade
(1)Estimate
(2)Million TL at 2009 prices

Low level of awareness and capacity of branding, quality, 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.

To derive benefit from knowledge capacity of universities and large scaled firms, there is a need to develop cooperation between SMEs and universities/large companies and increase primary-supplier industry relations.

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, Turkish Design Advisory Council was established by the Decree of Council of Ministers No. 2009/15355, and began to work aiming to determine design strategies and policies, to create high value-added designs and to make Turkish designs preferable in the international area.

TABLE: IV. 35- Electricity and Natural Gas Prices for Industry Consumption

		2004	2005	2006	2007	2008	2009 (1)
Electricity (¢/Kwh)	Turkey	10.0	10.6	10.0	10.9	13.9	12.7
	Average of OECD	7.3	7.8	8.6	9.4	-	-
Natural Gas ($\$/10^7$ Kcal)	Turkey	230.3	304.5	352.7	440.8	572.9	551.5
	Average of OECD	253.7	320.2	335.4	338.5	432.1	-

Source: International Energy Agency (IEA)
(1) First quarter

In parallel with significant demand increases in international energy markets, domestic electricity and natural gas prices rose on a large scale in 2008. On the other hand, beginning from the second half of 2008 energy prices tended to decline as a result of the crisis. Accordingly, prices of domestic electricity and natural gas have been reduced during the first half of 2009. However, electricity and natural gas prices for industry consumption in

Turkey are still higher than OECD averages and this situation continues to affect the industrial competitiveness negatively.

TABLE: IV. 36- Price Increases of Electricity and Natural Gas Consumed by Industry

(Percentage change of prices as of end of the years)

	2004	2005	2006	2007	2008	2009(2)
Electricity (1)	0.0	0.0	0.0	-2.9	51.7	-0.5
Natural Gas	23.5	16.3	28.2	0.0	84.7	-39.3
Producer Prices Index	15.4	2.7	11.6	5.9	8.1	3.6

Source: TEDAŞ, BOTAŞ, TURKSTAT
(1) Based on one timed, one termed, low voltage industry tariffs
(2) First 9 months

In the manufacturing industry, privatization process of industrial facilities has been almost completed. Privatization studies of sugar plants which are still in the scope of the privatization program have been continued.

Significant developments and some problems in the subsectors of the manufacturing industry draw attention.

In 2008, total cigarette production was realized as 135 billion; the public sector's share accounting for only 9.3 per cent. In 2009, due to the privatization of TEKEL in 2008, cigarette production was realized solely by the private sector. During the first six months of 2009, 66.3 billion cigarettes were produced, with no significant change in volume compared to the same period of 2008.

Despite negative influences of informality in the alcoholic beverages and tobacco industries, the alcoholic drinks industry exhibited significant increases in production in 2008, especially in the wine, liquor and vodka production. A label based monitoring system which was put into effect for alcoholic beverages and tobacco products are considered to be effective in the said increase. In 2008, wine production increased by 59.2 percent, liquor production by 144.4 percent and vodka production by 54.2 percent. Rakı and beer production during the same period increased by 4.1 and 10.2 percents, reaching 47.3 and 998.1 million liters respectively. During the first nine months of 2009, with the adverse effects of the global economic recession reflected in the domestic market, beer and rakı production declined by 4.2 and 4.5 percents respectively compared to the same period of the previous year while the high growth rates observed in the production of vodka, wine and liquor have also slowed down.

In the textiles and clothing industry, new quotas put by the EU, which is our main export market, on Chinese exports has ended in the end of year 2008. Together with the adverse effects of global economic crisis textiles and clothing industry production and export have decreased considerably. However, with the effects of global crisis started to lessen, starting from April 2009 sector production has increased compared to the previous month of the year. However, sector production is below last year's level. Similar to this, sector export has decreased compared to last year but rate of decrease has slowed down relatively in the last months. However in August 2009, recovery in production and exports could not be maintained. In the first eight months of year 2009, rate of decrease in the imports of the clothing industry has been below the rate of decrease in the manufacturing industry. This situation is an indication of difficulty in competing of the sector with imported products.

TABLE: IV. 37- Changes in the Main Sectors of Manufacturing Industry

(Percent)

Sectors	Production(1) 2008	Production(1) 2009(3)	Exports(2) 2008	Exports(2) 2009(3)	Imports(2) 2008	Imports(2) 2009(3)
Total Manufacturing Industry	-1.8	-17.7	23.8	-30.9	12.2	-36.7
Food and Beverages	4.1	-3.2	25.4	-9.0	41.4	-24.0
Textiles	-10.7	-16.6	4.8	-24.2	-4.2	-28.4
Wearing Apparel	-12.0	-13.0	-2.4	-23.5	40.1	-9.7
Leather Products	-5.3	-11.3	8.6	-26.1	9.7	-36.2
Petroleum Products	-2.4	-28.3	48.8	-59.3	45.7	-34.7
Chemicals	-0.3	-5.0	23.1	-23.2	14.3	-31.6
Plastics and Rubber	-3.3	-16.3	20.9	-22.8	10.8	-35.0
Non-Metallic Minerals	-1.8	-17.6	27.2	-18.9	0.5	-39.1
Basic Metals	-2.0	-22.0	82.8	-32.9	14.8	-59.4
Machinery	-4.8	-17.0	21.6	-24.6	-0.5	-33.6
Electrical Machinery	0.5	-22.2	21.2	-25.7	16.3	-22.8
Electronics	-26.1	-22.7	-17.7	-23.0	-8.6	-24.3
Automotive	5.9	-43.8	13.8	-47.7	2.8	-45.3

Source: TURKSTAT
(1) Monthly Industry Production Index (2005=100)
(2) At current prices (USD)
(3) First 8 months data

In the leather and leather goods industry, sector production and exports has decreased in the first eight months of 2009. Slow down in the rate of decrease of exports has affected the increase of sector production in the period of April-July 2009. However, production and exports considerably decreased again in August. Almost half of the sector imports are made from China and the share of China in imports has increased.

In textiles, leather and clothing industries competition based on cost advantage has become more difficult. To compete with countries which have low labour cost such as China and other East Asian countries, it is essential to produce high value-added, high quality, fashionable, branded products and make production on time. In recent years, although some companies have showed efforts in this direction, general sectoral transformation has not been realized yet. Countries such as China and India which based their competitiveness on factors such as low labour cost and noncompliance to environmental and social standards, are trying to improve their competitiveness by giving importance to branding and quality. With these developments it is expected that high level of competition in these sectors is going to increase in the coming years. To sustain and improve competitiveness in these sectors, a new incentive scheme has introduced. In this regard there is also an incentive measure which supports relocation from developed regions to under developed regions within country. In this scope, firms can benefit from support for transport expenses and social security premiums, reduction in corporate tax rate and land allocation.

Production of petroleum products in 2008 decreased by 5.1 percent and realized as 22.8 million tons and capacity utilization rate fell by 5.4 percentage point to 86.1 percent compared to the previous year. This decline in production is largely due to decreases in the demand for the petroleum products resulting from increases of crude oil prices during the first half of 2008 and the global crisis afflicted during the last quarter of 2008. In 2008, foreign trade of petroleum products increased significantly in value and reached high levels, because of very high increases of the prices of petroleum products during the first half of the year. In 2008, exports of petroleum products increased by 48.9 percent and rose to 7.3 billion dollars and imports increased by 46.1 percent and rose to 13.7 billion dollars compared to the previous year. During the first half of 2009, decline in domestic and foreign demand became more apparent, resulting in significant decreases in productions. In this term, productions dropped by 34 percent and realized as 7.5 million tons compared to the same term in the previous year. During the first 8 months of 2009, exports fell by 59.3 percent and decreased to 2.1 billion dollars and imports fell by 34.8 percent to 6.4 billion dollars. While gasoline, aviation fuels and fuel oil productions exceeding the domestic demand are exported, diesel fuels and LPG that could not be met with the local productions are imported.

With the objective of ensuring transparency, equality and stability in providing the consumers with the goods and the services that are supplied into the petroleum market in a safe and economical competition environment, "The Petroleum Market Pricing System Regulation" aiming at regulating the procedures and the principals related to formation and implementation of the prices of some market goods and services and declaration of these prices to the related authority and the public has been published in the Official Gazette No. 27024, dated 14 October 2008.

The average annual rate of chemical production decreased by 0.3 percent in 2008 while it increased by 8.7 percent in 2007. In 2008, the export increased by 23.1 percent and reached to USD 5 billion, and the import increased by 14.3 percent and reached to USD 27 billion. The chemical industry's import ranks the first with 18 percent in the manufacturing industry. The chemical industry is dependent on imports in terms of raw material, and the imports of basic chemicals and plastics in primary forms and of synthetic rubber which are intermediate goods rank in the first two levels among chemical industry's imports. The chemical industry is highly dependent on import raw material and the industry is becoming more dependent on imports as the demand is not fully met by domestic production and the new investments are plant extension type and have small capacity. Constructing specialized industrial zones and supporting sectoral clustering model may motivate the investors to invest since the environmental issues will be solved and investment places will be provided under competitive conditions. In line with the REACH Directive which was put into implementation by EU in 2007, applications for pre-registration ended in 2008 and registration of the first group of substances will end at the end of November 2010. REACH Directive is considered to have negative effects on chemical industry and all other manufacturing industries using chemicals as raw material. Studies to reduce adverse effects of REACH Directive, and approximation of legislation with EU legislation are being carried out by various institutions.

World pharmaceutical market has reached to USD 773 billion with 8.1 percent increase in 2008. Turkey is the thirteenth biggest market in the world with a share of 1 percent. According to the data supplied by the Pharmaceutical Manufacturer's Association of Turkey, the market has reached to USD 9.3 billion in terms of value and 1.4 billion in terms of volume with the growth rates of 9 percent and 5 percent respectively in 2008. According to TURKSTAT data, pharmaceutical industry import was realized as USD 5 billion and the export as USD 497.3 million in 2008. Global crisis has also affected the pharmaceutical industry negatively. In the sector, which showed 15 percent growth on average for the last five years, domestic production increased by 1 percent, imports decreased by 14.6 percent and exports decreased by 3 percent in the first 8 months of 2009 compared to same period of the previous year.

New pricing regulations have been put into force as a measure to decrease the burden on government budget arising from the implementations facilitating access to pharmaceuticals. In order to increase production, firms realizing new investments or having excess capacities are seeking for contract manufacturing possibilities or trying to increase export by receiving certificate of Good Manufacturing Processes. Therefore the number of certificates obtained for production facilities and products from EU, US and other countries' health organizations is increasing. Studies for establishing The Turkish Pharmaceutical and Medical Devices Institution have continued.

The construction sector, which is the main factor determining the demand for the nonmetallic minerals industry products, decreased by 8.2 percent in 2008 and 19.9 percent in the first half of 2009 with the effect of the crisis. Because of the decline in the domestic demand, nonmetallic minerals industry focused on foreign markets in 2008 and as a result of these situation exports of the sector increased by 27.2 percent to USD 4.3 billion in 2008 from USD 3.4 billion in 2007. On the other hand, exports declined during the first 8 months of 2009 because of the negative effects of the crisis on foreign markets. Exports of the sector dropped by 18.9 percent to USD 2.5 billion in the same period in 2009. The production of the cement sector, which is included in the nonmetallic minerals industry, increased by 4.4 percent to 51.4 million tons in 2008, reaching its highest level. In 2008, exports to Russia in particular, Syria and Iraq increased significantly; in the same year cement -including clinker- exports increased by 53.2 percent to 12.5 million tons, which was effective on the increase in the production. Production of the cement sector declined by 2.4 percent in the first 7 months of 2009.

Iron and steel industry has been among the industries which were seriously affected from the crisis. As a result of the global economic crisis, both global and domestic demand for steel has diminished and product and raw materials prices have plummeted. In the first 8 months of 2009, world crude steel production decreased by 18.1 percent to 759.5 million tons. In this period, steel production in most of the developing countries contracted by around 50 percent, whereas steel production in countries such as China and India increased slightly as a result of relatively strong domestic demand in these countries. Turkey experienced a modest decrease in its steel production compared to most of the other countries. In the first 8 months of 2009, Turkey's crude steel production decreased by 14.9 percent to 16.4 million tons. With this production level, Turkey has become the 9th largest steel producer in the world.

Total steel products consumption of Turkey decreased by 10 percent in 2008 and was realized as 21.4 million tons in 2008. In this year, consumption of long products decreased by 16 percent due to the contracting of the construction industry. In 2008, decrease in the domestic demand was offset by the increase in the exports and Turkey's finished steel production increased slightly to 26.7 million tons. Contraction in the domestic demand continued in 2009 and total steel products consumption decreased by 35.5 percent in the first 7 months of the year. On the other hand, Turkish iron and steel products exports increased by 21.8 percent in terms of volume and by 81.5 percent in terms of value in 2008 and reached to 16.8 million tons and USD 14.7 billion respectively. However, exports decreased by 7.3 percent in terms of volume and 49.8 percent in terms of value in the first 7 months of 2009.

In machinery industry, the rates of decreases were 4.8 percent in production, 0.5 percent in exports and the rate of increase was 21.6 percent in imports in 2008. Despite the decrease in total production, production increases were observed in special purpose machinery, internal combustion engines excluding transportation vehicles, non-domestic cooling and ventilation equipments, ovens and furnaces. In the sector, the rates of decreases were 16.3 percent in production, 24.8 percent in exports and 33.3 percent in imports in January- August period of 2009.

In household appliances industry, exports attained USD 3.3 billion while imports reached USD 1.1 billion in 2008. In January-August period of 2009, exports realized as 1.8 billion USD with a decrease of 17.4 percent and imports descended to USD 486.3 million with

33.5 percent decrease. The production has been export-oriented at a great extent and more than 70 percent of refrigerator, washing machine and oven production together with more than 50 percent of dishwasher production have been exported. In terms of quantity the decrease rates were 3.4 percent in production and 6.8 percent in domestic sales while exports increased by 1.6 percent and imports by 14.3 percent in January- August period of 2009.

Production and exports of electronics industry declined at a rate of 26 percent and 17.7 percent respectively in 2008. The decline in production and foreign trade tended to continue for the first eight months of 2009 due to the crisis. As a measure put into force against crisis, TVs had been kept exempt from the special consumption tax (SCT) -which is 6.7 percent- for a temporary period of March-June 2009. Also, during the period of March-September 2009, VAT for computers had been reduced to 8 percent from a level of 18 percent. As a result of these measures and favorable developments in especially western European markets, relative improvements in the production figures compared to the same months of the previous year have been observed. Exports in July and August 2009 have been higher than those in the same months of 2008. The production and export figures of TVs which as a product group constitute the highest share of production within the electronics industry have continued to decline since 2005. According to TESID's figures, production of TVs have declined from 20.5 million units in 2004 to 9.3 million units in 2008 and exports declined from 17.9 million units to 7.5 million units in the same period. According to ECID's figures, in the first 9 months of 2009, the number of TVs produced decreased by 4.9 percent and the number of TVs exported increased by 1.6 percent as compared to the same period of 2008. The share of CRT TVs in exports has continued to decline.

In automotive industry, due to the cooperation between domestic and foreign partners and decisions of international firms to undertake production in Turkey, considerable developments have been realized in exports in recent years. Automotive industry exports reached USD 19.3 billion in 2008 by 31.8 percent annual average increase during 2000-2008 periods. Therefore, a significant progress has been achieved for being a production centre in automotive industry. 1,147,110 vehicles were produced with the contribution of exports in 2008. However, these positive developments have not been continued for the recent periods and the sector has been affected significantly from the crises because of decreasing domestic and foreign demand. Although the decrease in SCT has made positive contribution to expand the internal market particularly for automobile, the production has decreased by 39.2 percent, export has decreased by 45.7 percent, import has decreased by 9.2 percent in terms of unit, and internal market has diminished by 6.0 percent in the main automotive industry (assembler) in the first eight months of 2009. Import penetration became 55.7 percent, the export to production ratio realized as 70.9 percent. Importance shall be attached to continue the firm cooperation including the primary-supplier integration to achieve economies of scale in production, and export oriented growth and sustainable competitiveness in the sector.

Defense industry production rose from USD 1.1 billion to USD 2.3 billion and annual average rate of increase was 13.1 percent between 2002 and 2008. In the same period R&D expenditures from equities reached from USD 49 million to USD 228 million in 2008 with a 29.2 percent increase. In this period, export has risen from USD 248 million to USD 576 million in 2008 with a 15.1 percent average annual increase. In the period between 2002 and 2008, main activities carried out to develop domestic production and design capabilities have been tank, helicopter, warship and surveillance purposed satellite production and design projects. The ratio of domestic procurement of the needs Turkish Armed Forces, which is the most important effectiveness indicator of defense industry sector, increased from 25 percent in 2003 to 44.2 percent in 2008.

In developed countries, 85-95 percent of defense needs are supplied from domestic resources. In Turkey defense procurement is largely dependent upon external sources. Also the cooperation between defense industry firms and other industry firms has not been adequate. The current procurement system needs to direct efforts towards product development. Main reasons that domestic firms could not meet defense requirements are the limited R&D budgets, inadequate focus on product development and limited technology production capability and capacity of the domestic firms as a result.

Mining

Global crises, which impacts have been become apparent on mining sector from the beginning of the last quarter of 2008, caused sharply decrease especially in the price of crude oil, natural gas and metallic mining, decrease and suspension in production in existing sites, restriction of firms' investment and job cutbacks. As a result of these developments affected mining sector, production and export tended to decrease from the beginning of November 2008. However, the demand and price increases in recent years which continue at the beginning of 2008 led to annual increase in production and export. But, decreasing trend which has started in the last period of 2008 has continued in 2009, export, import and production decreased by 38.2 percent, 46.7 percent and 6.4 percent respectively according to the first 8 months of 2009 data.

The 29.7 percent increase in exports in 2008 mostly depends on chromium, marble, copper, boron and feldspar. This rise is mainly derived from the increase in mineral prices. Coal, crude oil and natural gas dominated import items.

TABLE: IV. 38- Main Indicators of Mining Industry

		2007	2008	2009	
Share in GDP (In Percent)		1.2	1.4	1.2	(1)
Production Growth Rate (In Percent) (2005=100)		8.3	7.5	-6.4	(2)
Exports (Million $) (Current Prices)		1,661	2,155	932	(2)
Exports Growth Rate (In Percent)		45	29.7	-38.2	(2)
Share in Total Exports (In Percent)		1.5	1.6	1.4	(2)
Imports (Million $) (Current Prices) (*)		3,530	4,541	2,769	(2)
Imports Growth Rate (*) (In Percent)		25	29	-5.5	(2)
Share in Total Imports (*) (In Percent)		2	2	3.2	(2)
Import of Crude Oil and Natural Gas (Million $) (Current Prices)		21,784	31,109	10,518	(2)
Share in Fixed Capital Investments (In Percent)		2.87	1.76 (3)	1.74	(4)
Public Investments (Million TL)		651	928 (3)	979	(4)
Private Investments (Million TL)		2,470	2,842(3)	3,225	(4)
Number of Firms Established		1,198	953	554	(2)
Number of Firms Closed		85	105	120	(2)
Number of Licenses Applied		17,669	17,297	5,966	(5)
Number of Licenses Received	Exploration	11,720	11,075	3,816	(5)
	Operation	1,565	1,967	1,107	(5)
	Total	13,285	13,042	4,923	(5)

Source: TURKSTAT [(1) 6 Months, (2) 8 Months], SPO [(3) Estimation, (4) Programme], MIGEM [(5) 7 months]
(*) Excluding crude oil and natural gas

Coal, which meets 25 percent of the global primary energy needs, provides the highest level of fossil fuel reserves based on current data. In 2008, total coal production increased by 6.2 percent. The highest portion in this rise belongs to hard coal. In 2008, while hard coal production increased by 7.4 percent, lignite production increased only by 0.4 percent. In the forthcoming 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. Lignite production which is predominantly carried by public sector, increased by 16 percent in 2008 compared to the previous year and reached to a level of 86.1 million tons. On the other hand, hard coal production increased by 3.5 percent and became 3.3 million tons. Considering the first 6 months data, in 2009 lignite production is expected to decrease and hard coal production is expected to continue at the level of the previous year.

Due to the demand decreases as a result of crisis, Turkeys' crude oil import decreased by 6.9 percent and receded to the level of 21.8 million tons in 2008. On the other hand, the amount of import increased from USD 11.8 billion to USD 15.6 billion. But in the first 8 months of 2009, it attracted attention that the quantities of import decreased by 37.9 percent while the value of import decreased by 67.6 percent. In spite of the fluctuation in the prices and the decrease in consumption, Turkeys' crude oil production increased by 1.2 percent in 2008 compared to the previous year and reached to a level of 2.2 million tons, and demand coverage ratio of domestic production increased to 9 percent. However, the effect of crisis on natural gas demand was similar to its effect on petroleum but it was more limited. Turkeys' natural gas import was 37.3 billion m^3; production was 1 billion m^3 and consumption was 36, 8 billion m^3 in 2008. In this context, consumption, production and import increased by 3.7 percent, 13.5 percent and 2.3 percent respectively compared to 2007 and the demand coverage ratio of domestic production increased to 2.8 percent in 2008, while it was 2.4 percent in 2007. When the impact of the crisis has become more apparent in 2009, according to the first 8 months realization, natural gas import increased by 14 percent as a quantity and increased by 36.5 percent as a value.

To increase the domestic coverage ratio, which is currently at very low levels, of oil and natural gas demand, Turkish Petroleum Company (TPC) has continued to sustain its increasing investment trend in exploration and production in 2008 and 2009, as in the previous years. In 2008, TPC realized 417 km^2 of 3D and 12,618 km of 2D seismic operations, of which 11,536 km was in land and the rest was in off-shore and deep waters, besides, 119.000 m of drilling activities in 63 wells in total. As a result, it has kept its previous years production levels by producing 10.3 million barrels of oil and 496,000 m^3 natural gas in 2008. In addition to new oil discoveries, transfer of Beykan-Kurkan oil field, as required by law, to TPC played an important role in sustaining the last year's production levels. The total domestic and international hydrocarbon production of TPC decreased to 25,3 million barrels of oil equivalent (b.o.e.) in 2008, after reaching its peak at 30.6 million b.o.e. in 2007. This is mainly due to TPC's decreasing shares in the Azerbaijan projects after moving from development phase to normal production phase, although TPC has sustained its domestic production level. In order to increase the domestic production, oil and natural gas exploration operations will be continued also in 2010, concentrating in deep waters mainly in the Black Sea. To this end, in addition to the off shore drillings, two deep-water drilling projects, one of them is a joint Project with Petrobras, are programmed in 2010 in the Black Sea.

Silivri underground natural gas storage facility was built to sustain the supply security of natural gas and to absorb the seasonal demand fluctuations, and started to operate in April, 2007. The North Marmara and Değirmenköy Underground Natural Gas Storage Facilities Capacity Expansion Project aiming at increasing the storage, injection and re-production capacity of the Silivri facility continue. After the Project is finalized, the current storage capacity is expected to increase from 1.7 billion m^3 to 3 billion m^3, while the injection and re-production capacities are expected to increase to 25 million m^3/day and 50 million m^3/day from the current levels of 10 million m^3/day and 14 million m^3/day respectively.

In recent years, MTA focused on mining and geothermal resource exploration investments to recover the domestic reserves, to meet the energy demand from domestic resources, to exploit the domestic mining reserves and to improve the research techniques in line with the new technologies. In parallel to increasing research and exploration activities, purchasing of drilling machine/equipments, for geothermal resource explorations, for the deeper drillings, and outsourcing for the shallow drillings have been chosen. Therefore, contribution was made to the capacity building and expertise of the private companies in drilling services sector. Specialization of MTA in deeper drillings which require special expertise has been adopted as a priority. Besides, works for meeting the need of a fully equipped seismic research vessel has been started in 2009. In this framework, the resources allocated for the MTA's research investments has been increased considerably in recent years and will be continued in 2010 for the projects and activities that already started.

2. Main Objectives and Targets

Acceleration of structural transformation by increasing high value-added production in manufacturing industry is the main objective.

Improving the raw material supply safety and enhancing the sector's contribution to the economy by increasing the value-added through processing minerals domestically are the main objectives in mining. 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 and required institutional restructuring efforts will be pursued.

In order to increase the effectiveness of OIZ investments, priority will be given to the completion of ongoing projects; supports will be provided to increase occupancy rates of existing ones. In the new OIZ and SSIE investments, sectoral specialized ones will be given priority.

In 2010, industry is expected to grow by 4.4 percent.

3. Policy Priorities and Measures

Priority /Measure	Institution in Charge	Institutions to be cooperated	Period	Description of objectives
Priority 58. Efforts to increase industrial export and to ensure its structural transformation will be supported especially in medium and high technology sectors.				
Measure 126. Sectoral strategies and action plans will be prepared to increase the competitiveness of industrial sectors.	Ministry of Industry and Trade	SPO, related institutions	End of December	Monitoring, evaluation and development of prepared strategies will be ensured and sectoral strategies will be prepared also for other sectors of which strategies are not completed. In this scope, it is aimed to increase institutional capacities and make legal arrangements.

Measure 127. Studies will be done in order to increase the utilization of medium-long term project credit.	Turk Eximbank	UT, UFT, Commercial Banks	End of June	Examples of best practices across the world will be examined in order to support exports of investment goods, of which production stages take long time; a suggestion report will be prepared to solve the problems of current system and to increase the credit utilization of the sector.
Measure 128. Studies will be done to amend the Law On National Productivity Centre.	MPM	Ministry of Industry and Trade	End of June	A draft to adapt current establishing law to changing conditions will be prepared and submitted to TGNA.
Priority 59. Growth and mergers of SMEs will be supported. In this context, activities oriented to improvement of productivity, creation and developing of businesses will be supported.				
Measure 129. Culture of partnership activities of SMEs, particularly tradesmen and craftsmen, will be developed and projects about this subject will be supported.	KOSGEB	Ministry of Finance, Ministry of Industry and Trade, other related institutions	End of December	To enhance size of enterprises and increase their productivity, project based supports will be provided in cooperative working and problem solving.
Measure 130. Productivity improvement projects at the province level will be spread nationwide.	MPM	Governorships, Chambers of Industry and Trade	End of December	It is planned to implement Productivity Improvement Projects in seven provinces (Muğla, Denizli, Aydın, Çanakkale, Hatay, Osmaniye and Kilis) in 2010.
Measure 131. The Hezarfen Project will become widespread.	Turkish Patent Institute	Ministry of Industry and Trade, KOSGEB, OIZs, Chambers of Industry and Trade	End of December	In the scope of the Hezarfen Project, which is enhancing the innovation capacity of SMEs, its third phase implementation that is started in Konya will be accomplished in the end of 2009 and its project implementation will be carried out in another region to be determined outside of Ankara in 2010.
Priority 60. Conformity assessment and market surveillance systems will be activated in order to increase the quality of industrial goods.				
Measure 132. Product Safety Law will be enacted.	UFT	Related Public Institutions	End of December	It is aimed to comply with the EU legislation with the said Law.
Priority 61. In defense industry a system will be established to acquire domestic technology and capability.				
Measure 133. A new draft law will be prepared to regulate the establishment of the Undersecretariat for Defense Industries.	Undersecretariat for Defense Industries	The Chief of General Staff, Ministry of National Defense	End of June	A new draft to replace the Law No. 3238 will be prepared and submitted to TGNA.

Measure 134. SME information centre will be established for defense industry.	Undersecretariat for Defense Industries	Ministry of National Defense	End of December	An SME information center will be established for the effective use of SME capabilities by the main and subcontractors employed in the defense system projects.
Measure 135. Environmental test capability inventory will be established in the defense industry.	Undersecretariat for Defense Industries	The Chief of General Staff, Ministry of National Defense, TÜBİTAK, Universities	End of December	The defense industry will obtain an accredited infrastructure which complies with all needs of contracts by establishing environmental test capability inventory. A study regarding use of test capabilities by the sector will be done.
Measure 136. A system to monitor and evaluate defense industry strategies and policies will be formed.	Undersecretariat for Defense Industries	The Chief of General Staff, Ministry of National Defense	End of December	Domestic acquisition rate of defense system needs will be increased. For this purpose, Defense Industry and Sub-Sector Strategies, Defense R&D Road Map and Technology Acquirement Plan will be put into application and followed-up.
Priority 62. The potential of Turkey in mining will be utilized at maximum level, the national and international crude oil and natural gas exploration and production activities will be accelerated, necessary institutional structuring implications will be performed.				
Measure 137. The law establishing MTA will be overviewed in order to restructure the institution in accordance with today's requirements.	MTA	Ministry of Energy and Natural Resources,	End of December	A report in line with the global implications in similar institutions will be prepared in coordination with the related institutions and then, legislation prepared in this framework will be submitted to the TGNA.
Measure 138. An action plan aiming at restructuring of TTK will be prepared.	Undersecretariat of Treasury	Ministry of Energy and Natural Resources, SPO, TTK, Related Public Institutions	End of December	An action plan will be prepared with the aim of ending TTK's loss-generating structure and TTK will be restructured.
Measure 139. A draft law changing the existing Mining Law will be prepared.	Ministry of Energy and Natural Resources,	Ministry of Finance, Ministry of Environment and Forestry, SPO, Undersecretariat of Treasury, Related Public Institutions	End of June	The Mining Law will be amended with the aim of eliminating the problems in applications.

SERVICES

TOURISM

1. Current Outlook

International demand for tourism has increased by 24.3 percent over the past decade, and tourism expenses increased by 67.5 percent within the same period. In 2008, the number of tourists globally reached 922 millions, while the tourism receipts realized as USD 944 billion, excluding international passenger transport. International passenger transport is estimated as 16 per cent of total tourism receipts reaching to USD 165 billion. Due to the severe negative impact of the global economic crisis and all associated causes and effects, exacerbated by concerns about the outbreak of the influenza A(H1N1) virus, the international tourist arrivals have suffered a sharp decline and by the end of 2009, the number of tourists globally is expected to reach 850 millions with a decrease of 7.8 percent, while the tourism receipts are expected to reach USD 891 billion with an decrease of 5.6 percent.

The forecast study "2020 Tourism Outlook" of the World Tourism Organization estimates that by the year 2020, international tourist arrivals will hit 1.5 billion and total tourism receipts will reach USD 2 trillion. The study further envisages that the Europe will remain to be the top tourist-receiving region and will maintain the highest share of world arrivals with 717 million tourists although there will be a decline in the share from 57.5 percent in 2000 to 46 percent in 2020.

In 2008, the tourist arrival rate of Europe was 52.9 percent of the world tourism activities. However, there was a decrease in the number of long-distance flights. France was the top tourist-receiving country with 79.3 million tourists followed by Spain with 57.3 million and Italy with 42.7 million.

TABLE: IV. 39- World International Tourism and Tourism Receipts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 *
Number of tourists (millions of people)	687	684	702	695	766	804	846	904	922	850
Annual change (percent)	7.2	-0.4	2.6	-1.0	10.2	4.9	5.2	6.9	2.0	-7.8
Tourism receipts (billion dollars)	483	472	487	533	633	678	742	856	944	891
Annual change (percent)	16.9	-2.3	3.2	9.4	18.8	7.1	9.4	15.3	10.3	-5.6

Source: World Tourism Organization (UNWTO)
* Estimate

Turkey with a market share of 2.4 percent in the world tourism market and 4.5 percent in the European tourism market shows a rapid growth rate in both tourist arrivals and revenues, ranked 7th in terms of tourist arrivals among the top 20 tourism destinations and 9th in terms of tourism receipts.

According to the data provided by the World Tourism Organization, direct employment in Turkey in the tourism industry, which creates employment opportunities in 32 operation fields directly or indirectly, has been estimated as 3.4 million in 2008.

In 2008, the tourist arrivals increased to 26.3 million and tourism receipts increased to USD 21.9 billion while the number of beds as certified by the Ministry of Culture and Tourism and by the municipalities increased to 550,000 and 425,000, respectively. The number of tourists from OECD countries and East Europe considerably rose and the ratio of tourist arrivals from the said regions within foreign tourists realized as 55.8 percent and 21.7 percent respectively. In 2008, among the countries which sent the largest number of tourists to Turkey, Germany ranked first with 16.8 percent, followed by the Russian Federation with 10,9 percent and the United Kingdom with 8,2 percent.

In 2009 tourist arrivals are forecast at 26.5 million and tourism receipts at 21 billion while the number of beds as certified by the Ministry of Culture and Tourism and the municipalities are expected to hit 570,000 and 432,000 respectively. Total bed capacity is projected to hit over 1.3 million including 250,000 beds under the investment plan. There are 5,932 travel agencies operating in tourism industry by the end of the August 2009.

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.

There is a continuous pressure due to human activities aggravated by negative impacts of climate change on coastal areas, in which tourism activities are concentrated because of their climatic, geographic and morphologic features. In tourism sector which will be affected negatively from climate change, a new coastal zone management model, taking into account the what changes in the structure, products and the use of space are required, has to be created.

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 have been continued. However, excessive demand and pressure for construction on coastal areas continue.

A certification system, which ensures standardization in tourism training, joint evaluation by the state and the sectoral organizations, achieving efficiency and quality in labour in line with international criteria and determination of the skill levels necessary for employment, has not been implemented yet.

It is common in the sector that some tour operators have grown significantly with horizontal and vertical integrations and determine the prices and conditions unilaterally. This problem affects tourism revenues adversely in Turkey.

In the implementation of the Mediterranean-Aegean Tourism Infrastructure and Coastal Management Project (ATAK) which was inaugurated to prevent environmental deterioration, there are problems in using the foreign credits and in organization of local administrations.

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 partnership 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, increases the quality of services as well as the number of incoming tourists, targets the high income groups by diversifying the marketing channels, preserves the natural endowments and focuses on those diverse tourism attractions where Turkey has a comparative advantage such as golfing, cruising, thermal tourism, convention, winter, and eco-tourism activities.

It is expected that, the number of beds certified by the Ministry of Culture and Tourism and the municipalities will reach to 600,000 and 450,000, respectively, the number of tourist arrivals 28 million and tourism receipts USD 22,5 billion in 2010.

TABLE: IV. 40 Developments in Tourism Sector

	2008	2009 (1)	2010 (2)	Average annual increase (percent)	
				2009 / 2008	2010 /2009
Incoming tourists (thousand) (3)	26,337	26,500	28,000	0.6	5.7
Number of citizens going abroad (thousand) (3)	4,892	5,000	5,400	2.2	8.0
Tourism receipts (million $) (4)	21,951	21,000	22,500	-4.3	7.1
Tourism expenditure (million $) (4)	3,506	3,750	4,200	7.0	12.0

1)Estimation
2)Program
3)Statistics of Ministry of Culture and Tourism
4)CBRT data

3. Policy Priorities and Measures

Priority /Measure	Institution in Charge	Institutions to be cooperated	Period	Description of objectives
Priority 63. Tourism activities 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 140. Tourism activities will be supported in the interior and underdeveloped regions.	Ministry of Culture and Tourism	Ministry of Finance, Undersecretary of Treasury, Undersecretary of Foreign Trade, State Planning Organization, Turkish Development Bank	End of December	The quantity, regional disparities, application periods and conditions of incentives will be identified.
Measure 141. Planning, consultancy and investment firms serving tourism sector will be certified.	Ministry of Culture and Tourism	Sectoral Organizations	End of December	Amendments will be made in Tourism Encouragement Law and Law on Foundation and Duties of Ministry of Tourism.

Measure 142. Infrastructure and superstructure investments will be carried out according to physical plans.	Ministry of Culture and Tourism	Ministry of Public Works and Settlement, Ministry of Environment and Forestry, Local Administrations	End of December	Physical planning operations will be completed primarily in the suitable areas for investment and investments will be carried out according to these physical plans.
Priority 64. All Sector Investments will be undertaken in a view of protecting and improving the natural, historical, social and cultural environment.				
Measure 143. Destination Management projects will be supported.	Ministry of Culture and Tourism	Special Provincial Administrations, Municipalities, Universities, NGO's.	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 tourism products.
Measure 144. Efficiency will be achieved in the protection of natural and historical environment. Solid waste and waste water will be treated in Culture and Tourism Development Regions.	Ministry of Culture and Tourism	Ministry of Environment and Forestry, Local Administrations, NGO's.	End of December	The construction of waste water treatment plants and solid waste sanitary landfill will be realized within the limits of allowances by giving priority to those which are ready for implementation. Within the context of ATAK, the construction of waste water treatment plants, discharge plants, solid waste sanitary landfill, composting plants and sewerage systems will be completed.
Measure 145. Quality of labor-force will be increased in tourism sector.	Ministry of Culture and Tourism	Ministry of National Education, Local Administrations.	End of December	Legal amendments will be made for the certification of tourism sector employees.
Priority 65 : It will be given emphasis on promotion in order to create demand for Turkish tourism and thus maximize its share in international markets.				
Measure 146. Restructuring of the sector will be done for the promotion of tourism in foreign markets.	Ministry of Culture and Tourism	Sectoral Organizations	End of Decem ber	Studies fort he participation of sectoral organizations to the promotion of tourism will be continued. 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.
Measure 147. Promotional activities will be held in accordance with changing conditions by following change in demand continuously.	Ministry of Culture and Tourism	Sectoral Organizations.	End of Decem ber	In line with the 2023 Tourism Strategy, creation of a convenient environment for on-line reservation, promotion of tourism accommodation facilities and sharing information among different actors of tourism industry by overcoming the problems related to tourism portal, will be achieved.

Measure 148. Diversifying touristic products convenient for private tourism markets, will be ensured.	Ministry of Culture and Tourism	Sectoral Organizations, Local Administrations.	End of December	More emphasize will be given to convention, business and incentive tourism besides yachting, cruising, thermal and third age tourism. Within the context of development trends towards eco-tourism and active tourism, demand will be ensured in golfing, rafting, mountaineering, skiing and special interest tourism markets.
Priority 66. The cultural, social and natural assets of İstanbul and other regions with high tourism potential will be evaluated in the context of sustainable tourism development.				
Measure 149. Istanbul brand will be presented to the international tourism market.	Ministry of Culture and Tourism	Governorship, Local Authorities, Sectoral Organizations,	End of December	To realize dynamic, professional and financially sound promotion, participation of the entities receiving direct or indirect revenues from tourism will be ensured to support the finance of promotional activities.
Measure 150. The implementation of tourism development projects prepared for Istanbul will be realized.	Ministry of Culture and Tourism	Governorship, Local Authorities, Sectoral Organizations,	End of December	For the metropolitan city of İstanbul, entitled as European Cultural Capital for the year 2010, the implementation of the projects related to coastal zone planning and management, cruising, convention tourism and cultural tourism will be realized.
Measure 151. Culture and eco-tourism related activities will be maintained in identified tourism corridors.	Ministry of Culture and Tourism	Governorships of cities, Local Authorities, Sectoral Organizations,	End of December	In Phrygian and Lycian corridors, Silk Road, and other selected tourism itineraries, cultural heritage will be protected and touristic product development and marketing will be supported.

CONSTRUCTION, ENGINEERING-ARCHITECTURE, TECHNICAL CONSULTANCY AND CONTRACTING SERVICES

1. Current Outlook

The construction sector is one of the important sectors of the economy as it mainly uses domestic capital and labor force and it has input-output relations with many other sectors. The GNP share of the sector in current prices, which was 4.9 percent in 2007 and 4.7 percent in 2008, became 4.3 percent in the first six months of 2009.

After having significant growth rates, especially in 2005 and 2006, until 2008, the construction sector has been seriously affected from the global crisis since 2008. The sector contracted by 8.2 percent with the effect of the crisis which started to affect it since the first quarter of 2008. Since the beginning of 2009, the growth rate of the sector reached to negative 20 percent.

TABLE: IV. 41- Developments in the Construction Sector

Years	2006	2007	2008	2009(1)
GDP Share (percentage, current prices)	4.7	4.9	4.7	4.3
Growth Rate (percentage, 1998 prices)	18.5	5.7	-8.2	-19.9

Source: TURKSTAT
(1)First six months of 2009.

Similarly, housing demand showed a significant decline starting from 2008. Building construction permits, which had increased by 15.5 percent and 1.8 percent in 2006 and 2007 respectively, decreased by 17 percent in 2008 and 13 percent in the first six months of 2009. On the other hand, there is an increase in the occupancy permits by 11.9 percent in 2008 and 20.2 percent in the first six months of 2009

TABLE: IV. 42- Building Construction and Occupancy Permits and Their Rates of Change

Years	2006	2007	2008	2009 (1)
Building Construction Permits (Thousand, m^2)	122,910	125,067	103,846	47,750
Percentage Change	15.5	1.8	-17.0	-13.0
Occupancy Permits (Thousand, m^2)	57,207	63,403	70,957	42,376
Percentage Change	13.7	10.8	11.9	20.2

Source: TURKSTAT
(1)First six months.

In parallel to the contraction experienced in the sector starting from 2008, employment in the construction sector also showed a decline during the same period. Employment in the sector which was 1,379 thousand in May 2007, decreased to 1,359 thousand in 2008 and further to 1,296 thousand in the same month of 2009.

Showing an increasing trend starting from 2003, the total contract value of the international contracting services reached to USD 23.6 billion in 2008. However, the insufficiency in the implementation of certification of skilled workforce has continued, which is necessary for both domestic and international contracting services and which creates higher employment especially in developed foreign markets. Also, problems relating to letters of guarantee and accreditation of contracting and technical consultancy services are still in place. To solve these problems, a working group was established by the Council of International Contracting and Technical Consultancy Services.

In order to provide credit and guarantee supports and political risk insurance to international contracting services by the Turkish Eximbank, Decree of the Council of Ministers No. 2009/15198 was published in the Official Gazette and put into force.

Legislative efforts have continued in order to widen the implementation of Law No. 4708 countrywide, which targets to increase the effectiveness and quality of supervision in the construction sector, and to include the insurance guarantee provisions into the Law.

Efforts have continued for the recruitment of the required personnel and completing the technical infrastructure of the central and provincial organizations of Market Monitoring and Supervision Authority established according to the Construction Materials Regulation enacted in 2007 and Circular No. YIG-15/2006-07 in 2008. Activities for the establishment of a database for the purpose of coordinating market monitoring and supervision and updating the available data are also in progress.

An inventory work of public and private buildings has been started by the Ministry of Public Works and Settlement with the aim of establishing a data bank for the construction sector.

As indicated in the Ninth Development Plan, a study was carried out in 2008 by the Public Procurement Authority to provide the use of independent technical consultants in public investments. Accordingly, necessary amendments in the Public Procurement Law No. 4734 were made.

2. Main Objectives and Targets

The main objective in the sector is to achieve, with the collaboration and participation of all the stakeholders, a competitive and sustainable sector structure in terms of production and service quality, and to strengthen its critical role in the competitiveness and development of the country.

Within this framework, technical consultancy and contracting services will be provided in accordance with international standards and widened by eliminating the quality issues stemming from the inadequate supervision and lack of qualified workforce. Required measures will be taken to increase the market share of Turkish construction services in the world.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be cooperated	Period	Description of objectives
Priority 67. Competitiveness of the international contracting and consulting services will be strengthened.				
Measure 152. A formulation will be developed towards the solution of the letter of guarantee problem.	UFT	MoPWS, The Ministry of Justice, UT, Eximbank, BRSA, BAT, PBAT, Turkish Contractors Association, The Turkish Union of Construction Industry Employers	End of December	The ratio requirements in the balance sheets of banks for letters of guarantee shall be reduced. The provisions regarding the canceling of letters of guarantee according to domestic law will be made in line with international rules.
Measure 153. An accreditation system will be developed in the international contracting and consulting services sector.	UFT	MoPWS, TURKAK, TOBB, Association of Turkish Consulting Engineers and Architects, Turkish Contractors Association, The Turkish Union of Construction Industry Employers, Universities.	End of December	Compatibilities, expertise levels and expertise areas of the firms operating internationally will be determined to make sure that those firms that contribute to the competitiveness and prestige of the Turkey provide services in the international arena.
Priority 68. Supervision in the sector will be strengthened.				

Measure 154. A liability insurance system will be established for effective supervision.	**MoPWS**	Ministries, SPO, The Turkish Union of Construction Industry Employers, Turkish Contractors Association, Association of Turkish Consulting Engineers and Architects.	End of December	The implementation of the Construction Supervision Law No. 4708 will be extended countrywide and liability insurance system will be included in the Law.
Measure 155. Effective quality inspections of construction materials will be ensured.	MoPWS	Ministries, UT, Turkish Standards Institution, Universities, The Turkish Union of Construction Industry Employers, Turkish Contractors Association, Association of Turkish Consulting Engineers and Architects.	End of December	Efforts to meet human resources needs and technical needs for material inspection of the Market Supervision and Control Authority will continue. Legal arrangements will be made for the on-the-site supervision and control of construction materials.
Priority 69. Quality of the labor force employed in the sector will be improved.				
Measure 156. A system will be developed to certify the expertise level of intermediate labor force.	MoPWS	Ministry of Labor and Social Security, Turkish Standards Institute, Universities, The Turkish Union of Construction Industry Employers, Turkish Contractors Association, Association of Turkish Consulting Engineers and Architects.	End of December	Intermediate labor force in the sector will be certified according to their expertise areas and levels so as to improve the quality of sector employment and thus the quality of output and production.

Measure 157. It will be ensured that the building contracting services will be given by those who have the required level of competence.	MoPWS	Ministries, SPO, Turkish Consulting Engineers and Architects, The Turkish Union of Construction Industry Employers, Turkish Contractors Association.	End of December	A Civil Construction Law will be enforced which stipulates the definition of building contracting and minimum working conditions for contracting services. Also a regulation will be enacted on the registry and assignment of a certificate of competence number for building contractors. Within this framework, an information system will be established for the contracting and consulting sector. Criteria for the competencies of building contractors will be formulated and the registries of building contractors will be kept based on these issue. All contractors will be given a certificate of competence number and the numbers will be recorded on electronic base.

COMMERCIAL SERVICES

1. Current Outlook

The instability in global markets affected consumption and investment decisions negatively and resulted contraction in GDP and different sectoral activities in Turkish economy. One of the most affected economic sectors by global crises has been commercial services sector. The contraction in commercial sector, which started in the third quarter of 2008 and continued in 2009, has been 20.6 percent in the first six months of 2009. The share of the commercial sector in GDP at constant prices realized as 15.2 percent in 2007, 14.9 percent in 2008. This rate is expected to decrease some more in 2009 depending on the level of contraction.

Commercial services sector is extremely affected from the developments in other connected sectors and it also directly affects activities in those sectors because of its close link with them. Also, the structural change going on in the sector, on the one hand, causes traditional type businesses to disappear, on the other hand, creates new business opportunities.

The pressure of the competition and efficiency on the sector 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; harbors and terminals should be provided to be convenient for different functions.

Amendments in the Turkish Commercial Law and Law of Obligations, which are main laws and regulate the commercial activities to a large extend, are carried out to meet the demands of current social and economic conditions. Also, it is still essential to make institutional and legal arrangements in order to supervise the commercial applications in the market and to set a well functioning market structure in line with EU standard.

On the other hand, by the help of amendments on relevant tax laws, the earnings arose from exchanging of agricultural product bond which is submitted to the producers in return the products delivered to licensed commodity warehouses is excluded from income tax and corporation tax until December 31, 2014. Also, VAT exclusion has been ruled when the products are first time delivered to licensed commodity warehouses and first time traded at commodity exchanges. The whole contracts and agricultural product bonds which are arranged between warehouse operator and depositor are excluded from stamp duty. By this regulation, it is aimed at encouraging licensed commodity warehouse system.

It is available to make transactions at cotton and wheat contracts having different maturities in Turkish Derivatives Exchange. Transaction volume in cotton was TL 800,000 (405 contracts), in wheat 14,465,000 TL (5,551 contracts) from 2005, when TurkDex launched its activities, to September 2009.

2. Main Objectives and Targets

In commercial sector, main objectives are set out as; to provide efficiency in a competitive environment, to expand the business capacity, to encourage the usage of new technologies and innovation. It is essential to increase competition capacity and the level of quality and efficiency of SMEs in this sector.

As making new legal arrangements for the wholesale and retail commercial services, it is essential to analyze elaborately the effects of wholesale and retail commercial services on connected sectors as well as consumers. Within this framework, measures will be taken to combat with informality, to protect consumer and competition, to increase efficiency and quality, to comply with hygienic rules. On the other hand, it will be encouraged that commercial businesses will be transformed from its small scale structure, which is heavily dominated by merchants and handicrafts, to a modern structure by scale enlarging policies.

It is targeted to eliminate the difficulties in functioning of market and to increase the business capacity by making new institutional structures and amending regulations. In the context of protecting consumer rights, new regulations will be made aiming harmonization to EU Acquisition and elimination of problems in implementation, controlling unfair trade applications, expanding consumer rights.

Towards achieving physical flow of goods through reliable, cheap and fast transportation systems with high standards, it is aimed to improve the logistics and combined transporting activities and to deal with bureaucratic procedures with one-stop office approach.

3. Policy Priorities and Measures

Priority/ Measure	Institution In Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 70. A sector structure, protecting the competition and consumer, supporting the production in the related sectors, preventing informal 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 related to wholesaling and retailing.				

Measure 158. 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, Other Professional Associations, Sectoral Organizations	End of December	Following the enactment of Draft Law on Regulation of Fresh Vegetable and Fruit Trade, secondary legislation studies will be completed. This new regulation aims at strengthening the managerial, technical and physical infrastructure of covered wholesale food markets, setting up market recording system, minimizing informal economic activities.

II. FOSTERING EMPLOYMENT

A. IMPROVING LABOUR MARKET

1. Current Outlook

As of December 31st of 2008, population of Turkey is approximately 71.5 million. According to the temporary forecasts based on the results of Address Based Population Registration System (ABPRS) it is estimated that mid-year total population will reach to 71.9 million in 2009 and 72.7 million in 2010.

TABLE: IV. 43- Shares of Age Groups in Total Population

(In Percent)

	0-14 Age Group		15-64 Age Group	
	2000	**2008**	**2000**	**2008**
EU - 25	16.7	15.7	66.9	67.1
Turkey	30.0	26.3	64.7	66.9

Source: Turkstat, Eurostat

In Turkey, population share of the 0-14 age group within total population is decreasing whereas population shares of the working-age and aged groups are increasing. However, increase in employment had become more than the increase in the working-age population in 2008. In 2008 working-age population increased by an annual average rate of 1.6 percent whereas employment increased by 2.2 percent with respect to the previous year. In addition, the labor force has significantly increased with the participation of the individuals who had been out of the workforce before and are the member of the households whose incomes have been reduced due to the global financial crisis. Nevertheless, a great amount of those individuals are unemployed. Indeed, the labor force and the unemployment level increased by an annual average rate of 3.0 percent and 9.9 percent, respectively. The number of people out of the labor force who are not seeking a job but are ready to work increased by 6.2 percent.

With the effect of global financial crisis, which emerged during the end of 2008 and considerably affected the Turkish labor market, the number of people unemployed increased significantly. The unemployment rate was 11 percent in 2008. Moreover, in 2008 non-agricultural and youth unemployment rate increased to 13.6 percent and 20.5 percent, respectively. The increase in the number of unemployed is affected by the dismissals because of the crisis and the raise in the number of housewives seeking jobs. Thus, female unemployment rate increased from 11 percent to 11.6 percent in 2008. The most important impact of the crisis on Turkish labor market has been the increase in the number of women seeking jobs and rise in female labor force participation. Indeed, women's labor force participation rate increased by 0.9 percentage points to 24.5 percent compared to previous year. Besides, the global crisis reversed the process of dissolution of the agricultural employment. Thus, with respect to the previous year share of the agricultural employment increased from 23.5 percent to 23.7 percent in 2008.

The labour productivity in Turkey, while showing some growth in recent years, has been low compared to the EU averages owing to the problems such as low quality of the vocational education and insufficiencies of in-service training and lifelong learning practices, as well as deficiencies in capital accumulation and technological renovation processes in particular. In Turkey, labour productivity calculated as GDP per hour worked (in PPP terms) had increased from 10 dollars to 14 dollars during the period 2002-2008 according to ILO figures. The aforementioned data corresponds to USD 35 in France, USD 32 in England, USD 30 in Germany, USD 29 in Italy and USD 23 in Spain in 2008.

TABLE: IV. 44- Main Indicators on Employment and Labor Force

(In percent)

	Turkey			EU-25		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
Labor Force Participation Rate (LFPR) (15-64)	50.2	50.2	50.8	70.7	70.9	71.4
- LFPR (Female)	26.1	26.1	26.9	63.4	63.7	64.3
- LFPR (Male)	74.4	74.4	74.8	78.0	78.1	78.4
Employment Rate (15-64)	45.9	45.8	45.9	64.8	65.8	66.3
- Employment Rate (Female)	23.9	23.8	24.3	57.6	58.6	59.4
- Employment Rate (Male)	68.1	68.0	67.7	72.1	73.0	73.2
Unemployment Rate (15+ Age)	10.2	10.3	11.0	8.2	7.2	7.0
- Unemployment Rate (Rural)	6.2	6.8	7.2	-	-	-
- Unemployment Rate (Urban)	12.2	12.0	12.8	-	-	-
Youth Unemployment Rate (15-24)	19.1	20.0	20.5	17.1	15.3	15.5

Source: TURKSTAT, EUROSTAT

In 2009, it is observed that average net salaries of civil servants increased by 15.0 percent and average net wages of public workers increased by 5.7 percent in nominal terms. In real terms, it is expected that civil servant salaries will increase by 8.3 percent and wages of public workers will decrease by 0.5 percent. In 2008, net wages of private sector workers is expected to increase by 12.2 percent in nominal terms and by 1.6 percent in real terms.

In 2009, monthly gross minimum wage is set as 679.5 TL for the workers older than 16 years old, and 578.25 TL for the workers younger than 16 years old. In 2009, average monthly net minimum wage for 16 and older ages increased by 9.0 percent in nominal terms. Net minimum wage is expected to increase by 2.7 percent in real terms.

In 2009, unionization rate was 59 percent for workers subject to Law No: 2821 on Trade Unions and 57 percent for public employees subject to Law No: 4688 on Trade Unions of Civil Servants.

Law No: 5838 is enacted in 2009, in order to alleviate the negative impacts of the economic crisis on enterprises and employment. According to the Law, maximum period of short time working benefit is extended from 3 months to 6 months, the Cabinet is allowed to further extend this period by 6 months and the amount of the benefit is increased by 50 percent for the years of 2008 and 2009.

The need for reforming the current state dominated structure of the Economic and Social Council, which is established to enhance social dialogue in the country, with a view to improve its functionality and effectiveness, still remains.

Studies towards amending the current labour legislation in the process of the EU harmonization, particularly the Law No: 2821 on Trade Unions and the Law No: 2822 on Collective Bargaining, Strike and Lockout, in line with the ILO Conventions No: 87 and 98 are underway.

The need for removing the problems faced in the implementation of the Law No: 4688 on Trade Unions of Civil Servants, which sets out the rules for union rights of civil servants, still remains.

The need for reforming the public personnel system in order to allow determination of employment forms and salaries of public employees on the basis of the work, merit, productivity, severance, and career, still remains.

The need for enacting an Agricultural Labor Law, covering the employees in agriculture and forestry and taking into account the specific features of agriculture in our country, still remains.

In 2008, it is prohibited to employ workers who do not have vocational education regarding the work performed, in hard and dangerous works, by the Law No: 5763. Within the scope of preventing occupational accidents and diseases, the need for expanding the occupational health and safety trainings, in a way to cover apprentices as well, still remains.

TABLE: IV. 45- Developments In Labour Costs and Net Wages

	2001	2002	2003	2004	2005	2006	2007	2008	2009(6)
	LABOUR COSTS (1)								
	Real Labour Costs Index (1994=100)								
- Worker (3)									
. Public	115.7	99.5	102.2	105.4	107.4	104.4	111.9	105.2	112.4
. Private	115.9	108.9	106.3	111.1	114.9	114	118.3	118.5	-
- Civil Servant	117	120.3	122.6	127.8	134.5	140.2	148.4	147	164,7
- Minimum Wage (4)	132.9	134.9	153.9	170.8	181.8	180.7	183.6	177.1	190.7
	Percentage Real Change on Preceding Year								
- Worker (3)									
. Public	-11.1	-14	2.7	3.1	1.9	-2.8	7.2	-6	6.8
. Private	-17.7	-6.1	-2.3	4.5	3.4	-0.8	3.8	0.2	-
- Civil Servant	-9.7	2.8	1.9	4.3	5.2	4.2	5.8	-0.9	12
- Minimum Wage (4)	-14.6	1.5	14.1	11	6.4	-0.6	1.6	-3.6	7.7
	REAL NET WAGES (2)								
	Real Net Wages Index (1994=100))								
- Worker (3)									
. Public	98.2	89.2	86.8	88.3	90.7	88.3	91.1	89.3	88.9
. Private	95.3	94.3	93.9	97.1	97.7	97	99.4	100.9	-
- Civil Servant	104.8	110.8	109.9	112.7	115.7	122.9	127.7	136	147,3
- Minimum Wage (5)	113.9	123	127.6	158.6	165.3	163.9	162.8	176.6	181.2
	Percentage Real Change on Preceding Year								
- Worker (3)									
. Public	-11.5	-9.2	-2.7	1.7	2.7	-2.7	3.1	-1.9	-0.5
. Private	-20.3	-1	-0.4	3.5	0.5	-0.7	2.5	1.6	-
- Civil Servant	-3.8	5.7	-0.9	2.6	2.6	6.2	3.9	6.5	8,3
- Minimum wage (5)	-14.1	8	3.7	24.3	4.2	-0.9	-0.7	8.5	2.7

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 periods. After the year of 2005 Producer Price Index
(2003=100) is used. Annual average increase rate of Producer Price Index is estimated as 1.2 percent for 2009.
(2) Consumer Price Index (1994=100) is used in calculations on real basis for 1994-2004 periods. After the year of 2005 Consumer Price Index (2003=100) is used. Annual average increase rate of Consumer Price Index is estimated as 6.2 percent for 2009.
(3) The data is provided by Public Sector Employer Unions and Turkish Confederation of Employer Association. Data for 2008 is the estimate for private sector worker wages.
(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 minimum wages for 16 age and over in industry and services sectors.
(6) Estimate.
Note: As of 2008, minimum living allowance is included for real wages of single workers.

Globalization and transition to information society bring about changes in working relations and working types. In this framework, the need for reinforcing the adjustment capability of workers, enterprises and sectors to this transformation in a way to increase employment, still remains.

2. Main Objectives and Targets

Improving employment opportunities, reducing unemployment and increasing effectiveness of the labour market are main objectives towards a competitive economy and transformation into an information society within the framework of a sustainable and employment oriented growth.

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 productive employment is established, employment opportunities adjusting to the technological changes and developments and equal rights and chances for everyone, particularly with a view to enable gender based equality are provided.

3. Policy Priorities and Measures

Measure/ Priority	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 71. Effectiveness of labour market shall be ensured.				
Measure 159. A national employment strategy and action plan taking changing market conditions into account with a macro perspective shall be prepared.	MoLSS	MoF, MoNE, SPO, UT, SSI, Vocational Qualifications Authority (MYK), KOSGEB, Confederations of Employer and Employee Trade Unions, Universities, Professional Organizations, NGOs	End of December	An integrated employment strategy that considers the market conditions changing with the global financial crisis shall be prepared. Besides, in line with the prepared employment strategy an action plan towards stimulating the labour market and increasing employment shall be prepared.
Measure 160. Necessary amendments in the field of collective labour law shall be made in line with international norms and standards.	MoLSS	MoF, SPO, UT, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of June	Necessary amendments shall be made in Laws No: 2821 and 2822 in the context of the ILO Conventions No: 87 and 98.
Measure 161. Economic and Social Council shall be restructured in order to increase the effectiveness of the social dialogue mechanisms in our country.	SPO	Prime Ministry, MoLSS, Confederations of Employer and Employee Trade Unions, Confederations of Civil Servant Trade Unions, Professional Organizations, NGOs	End of December	Legal and functional background of the Economic and Social Council shall be strengthened and its state dominated structure shall be changed.
Measure 162. Studies on legislation about Occupational Health and Safety shall be finalized.	MoLSS	MoIT, State Personnel Presidency, KOSGEB, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of December	Legislation on Occupational Health and Safety, drafted on the basis of EU and ILO norms, shall be finalized.

B. INCREASING THE SENSITIVITY OF EDUCATION TO LABOR DEMAND

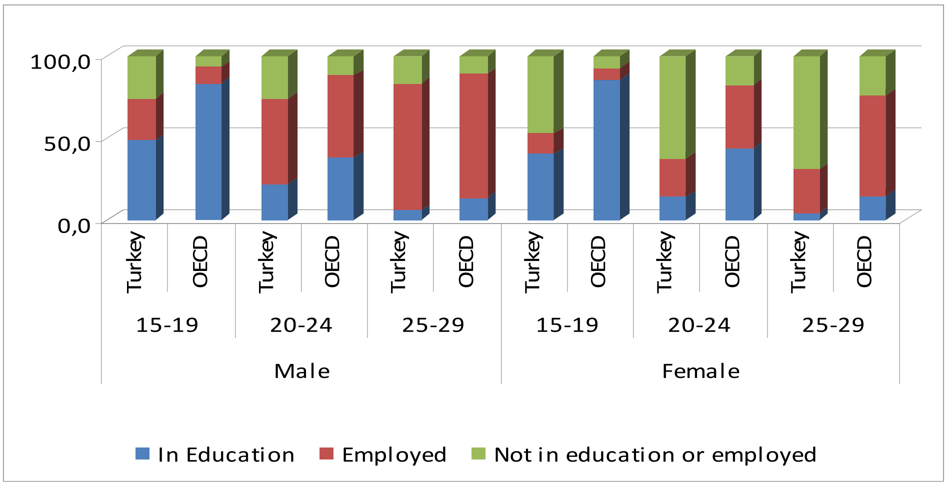
1. Current Outlook

Turkey, as regards its demographic structure, has serious opportunities for creating employment for its 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 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 putting the national vocational qualification system into implementation.

In our country, the ratio of young population neither employed nor in education in 15-29 year age group is quite high compared to OECD. It is observed that this situation is more explicit and being neither employed nor in education is more permanent among women than men.

GRAPH:6- Young Population Neither in Education nor Employed, 2008



Source: OECD

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. However, problems have been arising due to the causes such as insufficiencies of the services of vocational consultancy and orientation, and lack of public awareness about the issue. Vocational education programs have been revised at secondary education level. In addition, in order to reflect these efforts to vocational higher schools Human Resources Development Project through Vocational Education (IKMEP) is continued.

In Turkey, 63.2 percent of total labor force, 63.6 percent of total employment, and 60.1 percent of total unemployed in 2008 are illiterate and/or have education less than high school.

Imbalances between demand and supply of labor due to low qualification and productivity of labor force hamper effectiveness of the labor market.

TABLE: IV. 46- Educational Attainment Level of Labor Force, 2008

%

	Labor Force	Employment	Unemployed	LFPR	Employment rate	Unemployment Rate
Illiterate	4.3	4.5	2.4	18.1	17	6.3
Less than High School	58.9	59.1	57.7	44.9	40.1	10.7
High School	22.1	21.6	26	56.1	48.8	12.9
Vocational and Technical High school	10.5	10.4	11.2	65.0	57.4	11.7
Tertiary	14.7	14.8	13.9	77.6	69.6	10.3
Total	**100.0**	**100.0**	**100.0**	**46.9**	**41.7**	**11.0**

Source: TURKSTAT

When labor force is analyzed on the basis of education levels, for the groups other than tertiary, the unemployment rate increases as the level of education increases. Major reason for this fact is that the tendency to participate in labor market and employment increases as the level of education increases.

Life-long Learning Strategy Document has been accepted by the decision of Higher Planning Council dated 05.06.2009 and put into implementation. Besides, in order to conduct implementations and undertake vocational and technical education integrally, the studies on the preparation of the Vocational Education and Training Strategy Document covering 2008-2012 are underway.

Following the establishment of the Vocational Qualifications Agency, which is a step for national qualifications system, the studies on developing occupational standards according to the demands of labor market and making students receive certificates through assessments, have been started.

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 aimed.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 72. In order to raise qualified human resources demanded by business world, the linkage between education and labor force shall be strengthened.				

Measure 163. The modular system established in vocational and technical secondary school shall be developed and higher vocational and technical education programs shall be compatible with that system.	MoNE	MoLSS, YÖK, İŞKUR, MYK, Provincial Vocational Education and Employment Council, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGO's	End of December	In-service training activity 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 those schools.
Measure 164. Strategy for Vocational and Technical Education will be prepared.	MoNE	MoLSS, SPO, İŞKUR, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	A strategy and an action plan focusing on strengthening the compliance of labor force demand and vocational education, improving the quality, developing the status, diversification of financial resources and ensuring participation of business sector in the management will be prepared. A lifelong vocational guidance mechanism will be developed within the scope of Occupational Information, Guidance and Counseling System.
Measure 165. Studies concerning the development of occupational standards in prioritized sectors and the reinforcement of the National Qualifications System will be accelerated.	MYK	MoLSS, MoNE, Universities, YÖK, İŞKUR, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGO's	End of December	Vocational and technical education programs shall be harmonized with the improved vocational standards through an effective coordination mechanism.

C. IMPROVING ACTIVE LABOR MARKET POLICIES

1. Current Outlook

The global financial crisis has had a great impact on labor market. The employment level has decreased and unemployment has increased with the reduction in output based on the decrease in domestic and foreign demand. This situation increases the importance of active labor market policies, which aim to increase skills and earnings of labor force, particularly for low skilled groups having difficulty in entering the labor market and contain public employment services, job creation and training of labor force. The countries in EU and OECD, which have been mostly affected by the global crisis, give priority to active labor market programs in dealing with the unemployment and the resources allocated to those programs are increased. In our country, the resources allocated to active labor market programs being conducted by İŞKUR have been increased with the Law No: 5763.

TABLE: IV. 47- The Expenditure for Active Labor Market Programs Being Conducted by İŞKUR and the Number of Beneficiaries of those Programs in the Period 2005-2009.

Years	Expenditure (Thousand TL)	Number of Beneficiaries
2005	21,716	11,473
2006	15,174	17,106
2007	29,672	33,597
2008	35,602	32,206
2009*	144,736	163,732

Source: İŞKUR
*As of 13.10.2009.

İSKUR, within the scope of active labor market programs, is conducting finding jobs for unemployed, the programs for vocational training and labor force adaptation, the provision of vocational orientation and 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, employment-guaranteed trainings and temporary community employment programs. The increase of the resource devoted to the active labor market programs conducted by İŞKUR leads to a rise in the number of beneficiaries of those programs.

Since 2007, The Research of Labor Market, which aims to determine the labor market needs, is being made by Turkish Employment Agency. The Research of Labor Market will assist in identifying the sectors and occupations, and the number of 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 Labor Market will contribute to the implementation of the active labor market programs with respect to the needs of the economy.

Privatization Social Support Project (PSSP), which was implemented in the period 2006-2009, has been completed. Within the context of PSSP II, the services in the fields of job counseling, formal training, on-the-job training and temporary community employment programs have been furnished to 9,649 persons and 4,896 people out of those were placed in a job. In addition, 11 Job Development Centers were established and 290 firms were opened in those centers; and 1,618 people were employed.

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, started in 2007 with the co-finance of Turkey and the EU, has continued.

The operations of Support for Women Employment, Reduction in Youth Unemployment and Increase in the Quality of Public Employment Services, which have a total budget of € 57 million, have been implementing within the framework of the Human Resources Development Component of the Instrument for Pre-Accession (IPA).

2. Main Objectives and Targets

Developing and extending active labor market policies in line with the requirements of labor 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 73. The active labor market programs shall be extended effectively with the requirements of labor market and the impacts of those programs on labor market shall be evaluated.				
Measure 166. The access of people, especially the ones encountering difficulties to join the labour market and being dismissed due to the crisis, to active labor market programs shall be increased.	İŞKUR	MoF, Ministry of Justice, ÇSGB, MoNE, UT, SGK, YÖK, SYDGM, KOSGEB, KSGM, GSGM, SHÇEK, ÖZİDA, Governorships, Local Administrations, Development Agencies, Confederations of Employer and Employee Trade Unions, Professional Organizations, NGOs	End of December	In order to make individuals, especially youth, women, long term unemployed, disabled, ex-convicted and the ones being dismissed due to the crisis, to obtain skills appropriate for their qualifications and to assist them to find jobs and establish their own business, the active labour market programs for those people that provide services of job search and professional orientation along with the components of theoretical and practical training together shall be extended.
Measure 167. Monitoring and evaluation system for active labor market programs shall be set up.	İŞKUR	ÇSGB, MoNE, SPO, UT, MYK, KOSGEB, Development Agencies, Local Administrations, Employer and Employee Trade Unions, Universities, Professional Organizations	End of December	The studies that provide the regular monitoring, according to program type and province, of efficiency and effectiveness of active labour market programs shall be completed. The active labour market programs shall be redesigned by taking the results of those monitoring and evaluation studies into account.
Measure 168. The share of private sector, employer and employee trade unions, and professional organizations in the labor force training activities conducted by İŞKUR shall be increased.	İŞKUR	MoF, ÇSGB, MoNE, UT, MYK, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	The increase of the share of private sector, employer and employee trade unions, and professional organizations in the labour force training activities will be encouraged. The informative activities for those, especially for SMEs, shall be extended.

Measure 169. The effectiveness of Private Employment Agencies in the job matching process shall be increased.	İŞKUR	ÇSGB, MYK, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	The arrangements for diversification of the activities of Private Employment Agencies shall be made.
Measure 170. The programs aiming at creating short-term employment shall be extended.	İŞKUR	ÇSGB, MEB, Under secretariat of Treasury, MYK, Confederations of Employer and Employee Trade Unions, Professional Organizations	End of December	In order to compensate the income reductions of the ones especially being dismissed due to the crisis and to provide temporary jobs for those, the programs creating short-term employment such as public works programs shall be extended.
Measure 171. Institutional capacity of İŞKUR shall be improved.	İŞKUR	MoF, ÇSGB, SPO, UT, State Personnel Presidency	End of December	In order to provide the active labour market programs being conducted effectively and the increase of the quality of İŞKUR's services, the needs for improvement of physical environment and human resources of Province Employment Offices shall be met.

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, improvement of qualifications of teachers and alignment of education materials with curriculum regarding the quality problem.

TABLE: IV. 48- Enrollment Rates by Level of Education

	2006-2007		2007-2008		2008-2009	
	Number of Students (In Thousands)	Gross Enrollment Rate (In Percent)	Number of Students (In Thousands)	Gross Enrollment Rate (In Percent) (5)	Number of Students (In Thousands)	Gross Enrollment Rate (In Percent) (5)
Pre-Primary Education (1)	641	24.0	702	29.9	805	33.9
Primary Education (2)	10,847	96.3	10,871	104.5	10,710	103.8
Secondary Education (2)	3,387	86.6	3,245	87.5	3,837	76.6
a) General Stream	2,142	54.8	1,980	53.4	2,272	45.4
b) Vocational Stream	1,244	31.8	1,265	34.1	1,565	31.3
Higher Education Total (3)	2,292	46.0	2,553	47.8	2,889	54.2
Formal	1,446	29.1	1,655	30.1	1,747	35.3
Non-Formal Education (4)	4,509	-	5,118	-	5,765	-

Source: MoNE, ÖSYM
(1) Calculated for age group of 4-5.
(2) Open education students are included.
(3) Universities and other educational institutions are included. Graduate students are excluded. Calculated for age group of 17- 20.
(4) The number of students in non-formal education institutions is given for the end of the previous academic year.
(5) Enrollment rates are calculated by using the Residence Based Population Registration System Data since 2007-2008 academic years.

While illiterate people constitute 10 percent of the population in Turkey, this rate is even higher among females.

TABLE: IV. 49- Literacy Rate by Gender (15 +) (*)

	Total (In thousands)	Percent	Male (In thousands)	Percent	Female (In thousands)	Percent
Illiterate	4,863	10.0	967	4.0	3,897	15.8
Literate	43,807	90.0	23,077	96.0	20,730	84.2
Total	48,670	100.0	24,043	100.0	24,627	100.0

Source: TURKSTAT
(*)2008 Residence Based Population Registration System Data is used. The population whose data on literacy is missing, is excluded.

Although enrollment rate of pre-primary education has risen from 24 percent to 33.9 percent in the last three years, it is remarkably lower than EU-27 average of 88.4 percent (calculated for 4 year-old population in 2007). Moreover, the regional disparities in access to pre-primary education are evident. The province which has the lowest enrollment rate of pre-primary education is Ağrı with 14.6 percent, while Amasya has the highest rate with 91.1 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. Hence, it is important to raise the awareness on this level of education. Efforts are carried on to extend obligatory pre-primary education initiated in 32 pilot provinces to all provinces in the forthcoming period.

In primary education, late enrollments, drop-outs and problems of children's in rural areas, especially girls' access to education are the main factors hindering the desired level of increase in enrollment rate. In 2007-2008 academic years, while the share of girls among those graduated from primary education was 46.8 percent throughout Turkey, this figure has dropped to 34.7 percent in Muş, which has the lowest rate among all the provinces. In 2008-2009 academic years, three in five children who are out of education system are girls although they are in the age group of primary education.

Despite the increase in the number of students in secondary education, the enrollment rate has decreased to 76.6 percent due to the increase in the age population caused by the extension of secondary education to four years. There are still significant regional disparities despite the improvements in enrollment rates of secondary education. Ağrı with 32.6 percent has the lowest enrollment rate in secondary education. The rate of transition from primary to secondary education is 85.2 percent in average for Turkey, however, this rate is the lowest in Mardin with 61.1 percent.

TABLE: IV. 50- Enrollment Rates by Age Groups (2007) (1)

(Percent)

	Ages 3-4 (2)	Ages 5-14	Ages 15-19	Ages 20-29
Turkey	6.7	84.3	47.2	11.9
OECD Average	71.2	98.6	81.5	24.9
EU-19 Average	78.9	99.1	84.4	24.8

Source: OECD
(1) Age groups in the table are used to enable international comparison.
(2) It gives the ratio of the students aged four and under to the students aged 3 and 4.

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.

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 years 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 9th class common for both general and vocational programmes from 2005-2006 academic years and of the guidance activities, this rate started to increase and reached to 40.8 percent in 2008-2009 academic years. 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. In addition, it is expected that demand for vocational and technical education will rise incrementally until it reaches 50 percent of the EU and OECD average with the abolition of the various coefficient practice in university entrance exam. In the forthcoming period, the efforts will gain more importance to enhance the coherence between vocational and technical education and labour market.

There have been significant improvements at higher education level parallel to those in basic levels of education. In this context, two important steps have been taken in order to improve access to higher education in recent years. The first one is the establishment of 41 new state universities, 15 of which were established in 2006, 17 in 2007 and 9 in 2008. Meanwhile, the establishment of foundation universities has also been encouraged. 5 new foundation universities were established in 2007, 5 in 2008 and 9 in 2009, reaching 19 new foundation universities in aggregate. Consequently, universities have been spread to all provinces, and total number of universities has reached to 139, of which 94 are state and 45 are foundation universities.

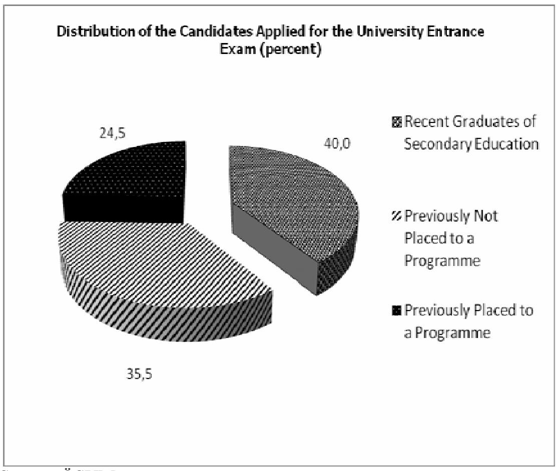
The second important step to improve access to higher education is the increase of quotas in formal higher education, which is 28.1 percent in 2008 and 16.6 percent in 2009.

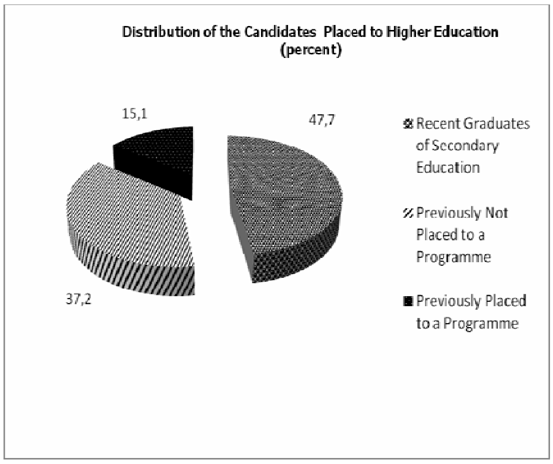
Parallel to the increase in quotas, the number of students placed to formal higher education has also increased, and reached to 529 thousand in 2009. Hence, the targets of the 9th Development Plan in terms of formal as well as total enrollment rate in higher education which were set as 33 and 48 percent have been exceeded, and they reached to 35.3 and 54.2 percent respectively.

On the other hand, 1.451 thousand candidates applied for university entrance examination in 2009. However, only 40 percent of the applicants (583 thousand) are recent graduates of secondary education, and the remaining is composed of the candidates who were or were not placed in previous exams as well as the ones who have graduated from a higher education programme.

It is conspicuous that the capacity of higher education is sufficient for the placement of most of the recent graduates of secondary education when higher education quotas are compared with the number of recent graduates. In addition, only 47 percent (252 thousand) of the candidates placed to formal higher education programmes are recent graduates.

GRAPH:7- Distribution of the Candidates Applied for the University Entrance Examination and Placed to Higher Education



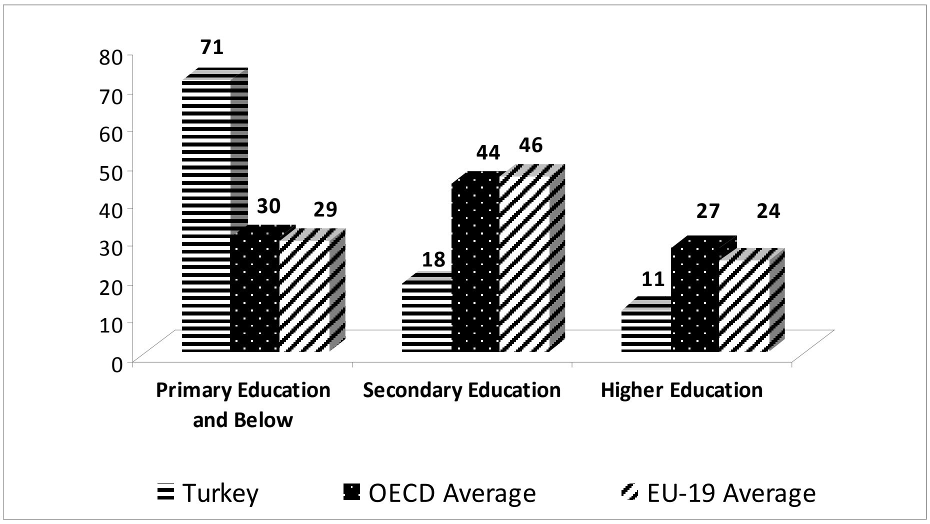


Source: ÖSYM

Out of the total candidates, the fact that the higher ratios of the candidates that are applying for more than once although they were placed in the previous exams and of the ones who were not able to be placed to any programme, highlights the problems of the effectiveness of the university entrance system and of the quality of the orientation and professional guidance at the secondary education level as well. These problematic issues indicate that the transition from secondary to higher education level should be dealt with in a comprehensive manner.

The rate of the population in 25-64 age group received at least secondary education is 29 percent in Turkey, while OECD and EU-19 average is 70 percent.

GRAPH:8- Education Level of 25-64 Age Group (2007)



Source: OECD

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 (2007)

(Year)

	Male	Female	Total
Turkey	13.4	11.9	12.7
OECD Average	17.2	17.9	17.6
EU-19 Average	17.2	18.1	17.6

Source: OECD

There also remain 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 16.5 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 classes 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 rates, and in

Eastern and Southeastern Anatolia regions. This problem is more evident in city centers. Average class size is 53 in Şanlıurfa and 49 in İstanbul.

TABLE: IV. 52- - Number of Students per Classroom and per Teacher by Level of Education

		2006-2007	2007-2008	2008-2009
Primary Education	Number of Students per Classroom Urban Rural Number of Students per Teacher	34 41 23 26	33 40 23 24	32 38 22 23
Secondary Education	Number of Students per Classroom Number of Students per Teacher	31 16	29 15	31 17
General High School	Number of Students per Classroom Number of Students per Teacher	32 18	28 16	29 18
Vocational and Technical High School	Number of Students per Classroom Number of Students per Teacher	29 14	29 14	33 16

Source: MoNE

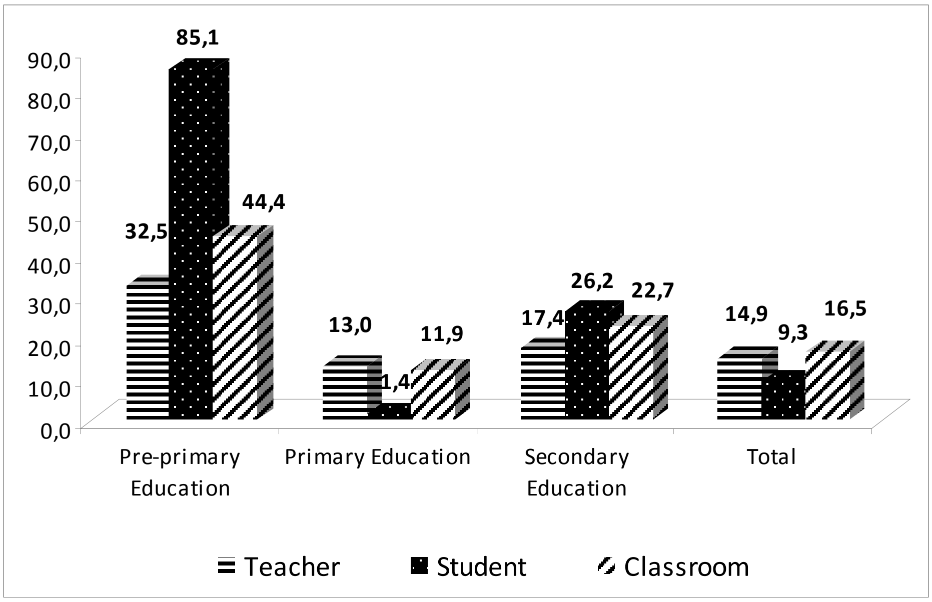
Despite the improvements in the recent years, physical infrastructure problem in education is still significant. The number of students per classroom in primary education is above the OECD and EU averages.

Although there is certain improvement in the share of students in one-shift education at primary level, still 47.3 percent of the students are in one-shift education in 2008-2009 academic years. Moreover, despite the improvements in the number of students in unified classes, the share of students in these classes is still 3.6 percent.

There are problems regarding balanced allocation of teachers throughout the country. The number of students per teacher in primary education is 23 throughout Turkey, but it is 35 in Şanlıurfa.

GRAPH:9- The Rate of Increase in the Numbers of Students, Teachers and Classrooms between 2004-2005 and 2008-2009 Academic Periods

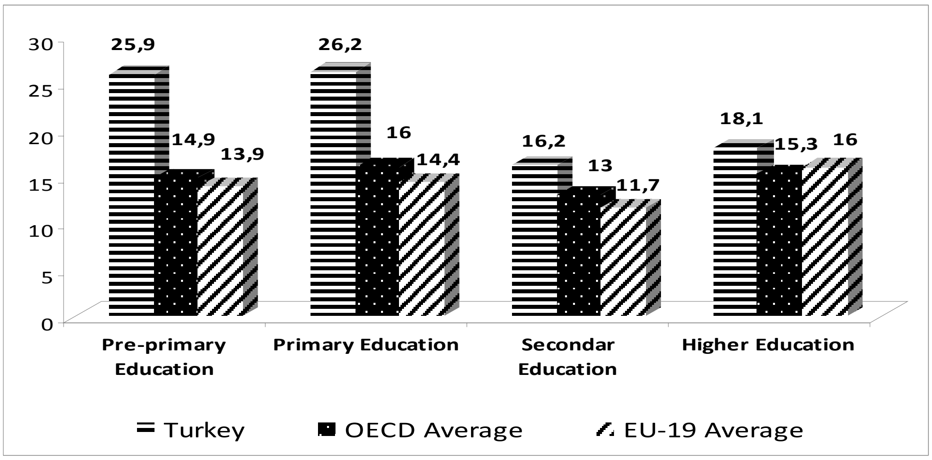
(Percent)



Source: MoNE

The increase rate of teachers is higher than that of students in the last five years, nonetheless, the number of students per teacher especially in pre-primary and primary education level is significantly higher than OECD and EU averages.

GRAPH:10- The Number of Students per Teacher by Education Levels (2007)



Source: OECD

Despite the quantitative improvements at basic levels of education, regional disparities in terms of the educational opportunities of students continue to be a major problem.

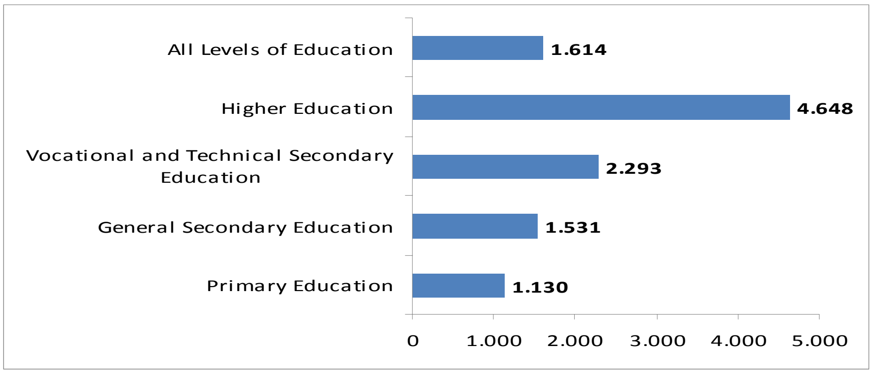
The Programme for International Student Assessment (PISA) 2006 which studies the quality of education reveals that half of the students in mathematic skills and one third of the students in reading skills are at low achievement levels. Hence, a significant portion of the students' basic skills is not sufficient.

According to the new calculation method it is estimated that, the share of public education expenditures in GDP will be 3 ,8 percent in 2009 and is estimated to be 4 percent in 2010. These figures are below the EU-27 average of 5 percent in 2006.

Public expenditure on education per student in higher education level is four times of the expenditure per student in basic education level in Turkey. Public expenditure at all levels of education is low compared to OECD and EU countries; on the other hand, the imbalance between the basic levels of education and higher education should be eliminated.

GRAPH:11- Expenditure per Student in Public Education Institutions (2006)

(US Dollars)



Source: OECD

The quality of higher education is negatively influenced by the facts that higher education administration system including The Council of Higher Education (YÖK) has not been restructured and also the administrative and financial autonomy of universities have not been ensured. Besides, lack of quality assessment and accountability systems, high number of students per academic staff, low income generation capacity of universities and inadequacy of the physical infrastructure are the other major problems influencing the quality.

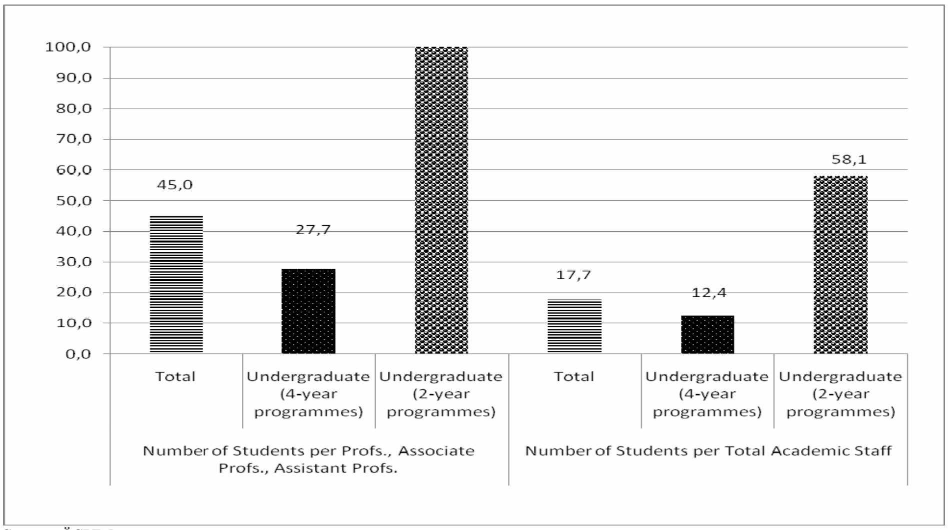
It is still important that YÖK should be transformed into an institution which is responsible for planning and coordination on the basis of expertise, and professional management principles should be adopted in higher education administration. In addition, lump-sum-like budget models allowing universities to make performance-based flexible expenditures should be implemented.

The share of higher education in GDP is 0.8 percent, whereas it is 1 percent in OECD and 1.1 percent in EU-19. It is necessary to review the financial structure of higher education due to the insufficient public resources allocated.

The shares of budget transfers, revolving funds and other private resources in the total revenues of universities in 2008 are 53.9 percent, 33 percent and 13.1 percent, respectively, indicating that a great portion of the financial requirements of the state universities is met from the central government budget and income generation capacity of universities is low. Thus, it is required that universities improve cooperation with industry, produce value added projects and develop mechanisms responding to the needs of the society. 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 primary and secondary levels of education.

The high number of students per academic staff and the imbalanced distribution of academic staff among the universities are other problems of higher education.

GRAPH:12- The Number of Students per Academic Staff, 2008-2009



Source: ÖSYM

While the share of students in formal education attending foundation universities in total students is 8.3 percent in 2009, the rate of academic staff in these universities to total academic staff is 10.3 percent. Since 32.4 percent of the total students and 51.7 percent of total professors, associate professors and assistant professors are concentrated in three metropolitan cities, the number of students per professor, associate professor and assistant professor is 28.2 in those cities.

TABLE: IV. 53- The Distribution of Students and Academic Staff in Formal Higher Education, 2008-2009 (*)

	Students		Professors, Associate Profs. and Assistant Profs.		Total Academic Staff	
	Number (thousand)	Percent	Number (thousand)	Percent	Number (thousand)	Percent
Ankara	185	10.3	8	20.7	19	19.4
İstanbul	293	16.4	9	23.7	20	20.8
İzmir	99	5.5	2	7.3	7	8.0
Total-Metropolitan Area	577	32.2	20	51.7	48	48.2
Other Provinces	1 204	67,8	19	48,3	52	51,8
Total	1 781	100,0	37	100,0	100	100,0

Source: ÖSYM
(*)The other higher educational institutions and graduate students are included.

Owing to the recent expansion in higher education, the issue of meeting the physical requirements of newly established state universities has become a substantial priority area. Although there is a strong need for additional physical spaces, it is equally important that available physical infrastructure should be used more effectively.

The need for dormitories rises parallel to the increase in the number of universities as well as the formal higher education quotas. The bed capacity of dormitories in higher education is 426 thousand as of 2009-2010 academic years, while 230 thousand of this capacity belongs to YURTKUR, 50 thousand to universities and 146 thousand to the private sector. The number of idle bed capacity was 98 thousand, whereas the number of applications was 255 thousand which yields a supply-demand rate of 38.6 percent. Moreover, the students and families mostly prefer the YURTKUR dormitories especially for cost and security reasons. YURTKUR dormitories have been serving with 100 percent capacity in the recent years due to the increase in quality standards of the new dormitories and the renewal of the old ones. In this regard, it seems to be essential in the forthcoming period to diversify the financial resources and therefore to improve the institutional capacity of YURTKUR, considering that the need for dormitories and scholarships-loans will increase depending on the expansion in higher education.

Internationalization has become a major trend in higher education due to the fact that individuals now have greater opportunities to live, work and pursue education in other countries in the globalization process, and that sharing the global knowledge has become substantially important with the advent of the knowledge based economy. In line with this trend, the number of international students has reached to nearly 3 million in the world, and USA gets the greatest share with 20 percent of those students, while this rate is 0.7 percent for Turkey. Hence, it is critical to get the necessary support by increasing the awareness of the internationalization dimension in higher education, to eliminate the policy deficiency of Turkey in this field, and to transform the existing structure in order to make Turkey a student importing country via increasing its share in the total international students worldwide.

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, put value on art and has high skills will be brought.

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, decision-making 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. Students will be provided with 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 74. Administrative structure will be reorganized in order to improve quality, efficiency and competitiveness in education.				
Measure 172. Draft Law for restructuring both the central and provincial organization of Ministry of Education will be prepared.	MoNE	MoF, SPO, State Personnel Agency, YÖK, NGOs	End of December	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 173. Preparatory studies for restructuring the higher education system will be completed.	YÖK	MoNE, MoF, SPO, TÜBİTAK, State Personnel Agency, Universities, NGOs	End of December	Studies will be done in order to transform YÖK into an institution that is responsible for regulation, orientation, coordination, planning and supervising and to strengthen the institutional capacity of YÖK on the basis of expertise, and to transform universities into a structure which enables accountability and autonomy in administrative and financial aspects.
Measure 174. A Strategy Paper will be prepared for guiding universities to determine the areas of specialization.	YÖK	MoNE, MoIT, SPO, TÜBİTAK, Universities, Regional Development Agencies, Local Governments, Professional Organizations, NGOs	End of December	Based on the research infrastructure and academic staff inventory which will be developed, it will be ensured that the specialization of universities is compatible with their regional potential. In this context, academic staff and expenditure policies will be used effectively.
Priority 75. 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 175. An action plan will be prepared in order to decrease the disparities among residential areas in terms of infrastructure, equipment and teacher distribution.	MoNE	MoF, SPO, TURKSTAT, Local governments	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 176. Alternative financing models will be developed at all levels of education.	MoNE	MoF, SPO, UT, 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. The amount of tuition fees in higher education will be increased.
Measure 177. Regulations will be made to meet the need for dormitories and to improve the scholarship-loan facilities.	YURTKUR	MoF, MoPW, SPO, UT, YÖK, TOKİ	End of December	By strengthening the institutional capacity of YURTKUR, regulations will be made to use public-private partnership model for the construction and management of dormitories and to diversify the scholarships and loans provided for students through cooperation with the finance sector.
Measure 178. Learning environment and the qualifications of teachers will be improved in accordance with the updated curriculum.	MoNE	MoF, 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 to effectively use of information technologies. An in-service training model which provides efficient training for teachers will be developed to ensure effective implementation of the new curriculum.

Measure 179. The deficiency and imbalanced distribution of academic staff will be reduced.	YÖK	MoF, SPO, TÜBİTAK, Universities	End of December	The infrastructure and other needs of the universities educating graduate students through Article 35 of Law No. 2547 will be primarily met. In order to reduce the effects of academic staff deficiency in the recently established public universities, it will be ensured to benefit from the academic staff and infrastructure of developed universities by also using distance education. The academic staff deficiency 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. The personal rights and status of the research assistants will be improved, and regulations will be made to encourage the profession of academic staff particularly in the recently established public universities.
Measure 180. Quality assurance system at basic levels of education will be developed.	MoNE	YÖK, Universities, Vocational Qualifications Agency, TÜRKAK, NGOs	End of December	Basic criteria and indicators of the quality assurance system in education system will be determined. Qualifications of teachers, managers, and controllers will be defined and improved. Training will be given to specified personnel from both central and provincial organization. Quality Certificate will be given to schools/institutions which are able to satisfy certain grades in the quality assurance system.
Priority 76. Inequality of opportunity will be decreased in all levels of education and activities aiming the personal development of students will be increased.				
Measure 181. The children not attending the compulsory education will be enrolled.	MoNE	MoF, MoI, SYDGM, TURKSTAT, Local Administrations, NGO's	End of December	Capacities of the school administrations will be strengthened in order to monitor the reason-bound non-attendance of the students through e-school database to prevent drop-out and non-attendance, and also to develop school-based policy and strategies. Provincial fact reports on attendance and access will be developed and analyzed.

Measure 182. Guiding and Extracurricular Activities for students in primary and secondary education will be increased and improved.	MoNE	İŞKUR, Labour and Employer Unions Confederations, TOBB	End of December	In order to support their 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 like work place visits, career days and experts' conferences about occupational fields will be increased and improved. Share of elective courses in weekly course programme will be increased in order to make such guidance and artistic activities more effective. The preference of the elective courses will be monitored and impact analyses will be made.
Priority 77. The international programmes concerning the student and academic staff exchange and mobility at secondary and tertiary level of education will be extended and developed. The grant programmes to enable the international students and scientists to join the education activities in our country will be extended and new programmes will be developed. In line with this approach, the essential regulations in the administrative structure will be made.				
Measure 183. The administrative structure of Center for European Union and Youth Programmes (National Agency) will be reorganized.	SPO	MoNE, MFA, YÖK, Universities	End of December	The studies will be completed to put into force the Draft Law on reorganizing the administrative structure of the National Agency in order to conduct student and academic staff exchange programmes also with non-EU member countries.
Measure 184. A strategy paper will be prepared to improve the international student policy of Turkey for enhancing internationalization dimension in higher education.	SPO	MoNE, MoF, MFA, YÖK, YURTKUR, TİKA, Center for European Union and Youth Programmes, Yunus Emre Institute, TÖMER	End of December	Taking the best practices into account, a strategy paper will be prepared in order to transform the existing structure of the international student programmes conducted by different institutions and organizations into a central administrative structure serving properly.

B. MAKING THE HEALTH SYSTEM EFFECTIVE

1. Current Outlook

Thanks to the policies and studies including Health Transformation Program implemented in recent years, positive improvements have been recorded in service provision, accessibility to services, main health indicators and people's satisfaction level from health services. On the other hand, problems regarding physical infrastructure, regional and rural-urban disparities of health personnel distribution, and financial sustainability of the health services have been persisting.

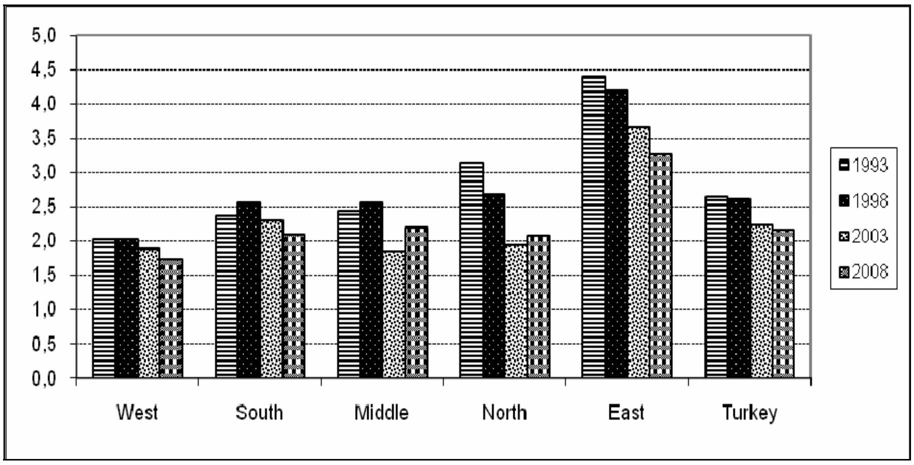
TABLE: IV. 54- Main Health Indicators of Population

	2005	2006	2007	2008	OECD (3)	EU-27(3)
Population Growth Rate (Per Thousand)(1)(2)	12.6	12.4	12.1	11.8	2.8	4.8
Infant Mortality Rate (Per Thousand) (1)(2)	23.6	22.6	21.7	17.6	5.1	4.7
Total Fertility Rate (1)(2)	2.19	2.18	2.17	2.15	1.65	1.5
Life Expectancy at Birth (Year)(1)	71.3	71.5	71.7	71.8	78.9	78.4
Maternal Mortality Rate (Per hundred thousand live births)	28.5				8.5	5.9

Source: SPO, WHO
1)Data between 2005-2007 are forecasted by SPO, based on Demographic and Health Research of Turkey (TDHR).
2) 2008 data is based on DHR (2008).
3)2006 data.

The Turkey Demographic and Health Survey (TDHS)-2008, which has been carried out each 5 year since 1968, have been completed. According to TDHS-2008, total fertility rate has been decreased to 2.16 , which is very close to recovery ratio of 2.15. Fertility rate in rural areas is higher than that in urban areas but, difference between rural and urban area is getting closer by years.

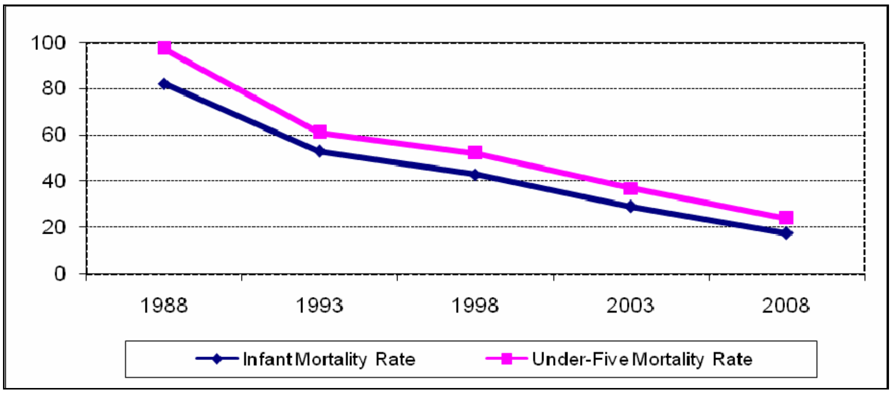
GRAPH:13- Total Fertility Rate Distribution of Regions (1993-2008)



Source: 1993-2008 TDHS, Hacettepe University

Improvement of education level and rising first-marriage age contributed to structural change of age-specific fertility rate by periods. In the period of 1978-2003, while the 20-24 age groups had the highest age-specific fertility rate, this figure switched to 25-29 age groups for the first time according to TDHR-2008. In other words, delay of fertility is one of the critical results of transformation of fertility structure in Turkey.

GRAPH:14- Infant and under five age mortality rates (1,000 live birth)



Source: 1993-2008 TDHS, Hacettepe University

Infant and under five age mortality rates per thousand live births decreased sharply to 17.6 and 23.9, respectively in 2008. Infant and under five age mortality rates declined parallel to rising income and education levels of mothers. Mortality rates in rural areas are higher than urban areas, also these rates in east and south regions are higher than the other regions.

Proportion of women received antenatal care and births delivered at a health facility, which are essential for maternal and infant health care, increased as a result of conducted studies. In 2008 rate of women received antenatal care increased to 92 percent, which was 80.2 percent in 2003, and rate of births delivered at a health facility recorded as 78.2 and 89.7 percent in 2003 and 2008, respectively. However, the share of births delivered at home is 20.4 percent in rural areas and 5.4 percent in urban areas. Considering the education level of mothers, proportion of home delivery among mothers received high school and higher education is around 0.3 percent while the proportion is 28.3 percent for mothers did not received education.

84.8 percent of mothers and 89.7 percent of babies have taken postnatal care at least one time within two months after the delivery. Receiving postnatal care for both mother and her child is positively correlated with education and income levels.

The rate of fully immunized child increased to 74 percent in 2008 from 54 percent in 2003. The rate of measles and BCG vaccine, which were 83 percent and 96 percent in 2003, increased to 79 percent and 88 percent in 2008, respectively. Various programs regarding immunization have also affected immunization rates improved significantly in last five years. However, education level of mothers has positive impact on immunization of children. Immunization rate of children whose mothers are at least high school graduates is 80 percent, whereas it is 50 percent for mothers with no education.

World Health Organization (WHO) states that depending on aging population, mortality caused by non-communicable diseases will increase significantly and 56 percent of total deaths will be caused by cancer, cardiovascular diseases and traffic accidents by 2030. Taking as a consideration of increasing proportion of aging population in Turkey, it is very crucial to diversify preventive health services against non-communicable diseases. In the context of cancer preventing and screening programs, the number of "Cancer Screening and Training Centre" increased to 120 around the country. Turkey Chronic Respiratory Diseases ((Asthma-CRD) Preventing and Control Program 2009-2013 Action Plan has been prepared.

According to WHO, tobacco consumption, which is the reason of 10 percent of total adult death, is the second major cause of death in the world. In order to prevent from adverse effects of tobacco products, the use of cigarette and tobacco products are prohibited in the indoor areas with the law enacted on 3 January 2008

Infrastructure of health services, especially in terms of inpatient bed capacity of hospitals in Turkey has been improved in the recent years. In the period of 2005-2008, inpatient bed capacity of hospital is increased by 6 percent. Out of the total bed capacity, 62.7 percent of inpatient beds belong to Ministry of Health, 16.9 percent and 11.2 percent to universities and private sector, respectively and 9.2 percent to Ministry of Defense and other public institutions. For the hospitals of Ministry of Health, the works of transforming the existing rooms to rooms having at most 2 inpatient beds with bathroom and WC, have been carrying on. The number of qualified inpatient beds in the hospitals of Ministry of Health was 17,319 in 2007 and reached to 22,786 in 2008, which is 19 percent of total inpatient beds. The rate of qualified inpatient beds to total capacity of Turkey is 22.4 percent in 2008.

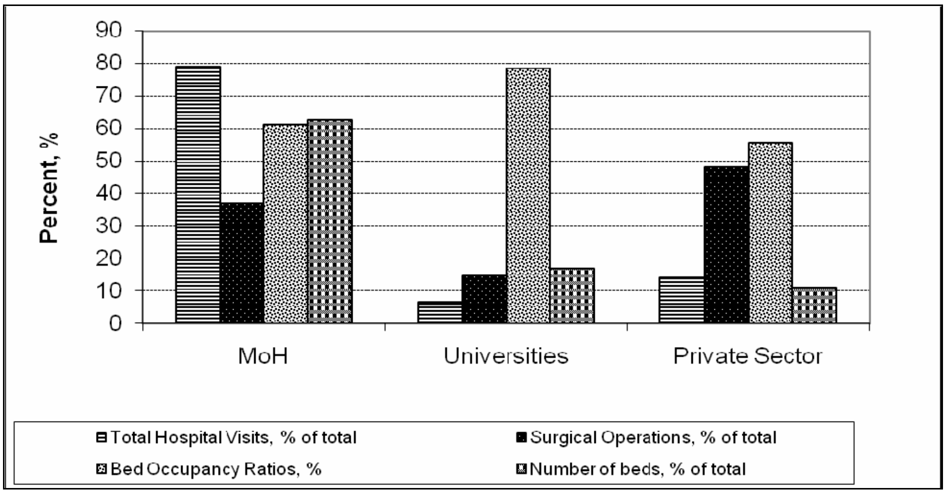
TABLE: IV. 55- Inpatient Beds and Occupancy Rates by Years

	2005	2006	2007	2008	2009(2)	OECD	EU-27 (3)
Inpatient Beds (1) (Thousand)	192.6	196.6	200.8	204. 1	208. 9		-
Inpatient Beds per 10.000 People	28.1	28.3	28.6	28.7	29.1	57	57
Bed Occupancy Rate (Percent)	64.5	64.2	61.7	63	-	74.5	76.3

Source: Ministry of Health, SPO, WHO
(1) Incentive care beds are included.
(2) SPO estimates.
(3) 2006 data.

Demand for health services increases every year. In the period of 2006-2008, total visits to hospitals increased by 26 percent while visits to private hospital grew by 149 percent. Increase in demand for services are caused particularly through reducing differences in services by gathering all state hospitals under one organization and facilitating the usage of private sector services.

GRAPH:15-Selected Indicators Regarding Hospitals by Institutions.



Private hospitals, which have 11.2 percent of total number of inpatient beds, perform 26 percent of major surgical operations and 48.1 percent of total surgical operations in 2008. On the other hand, turnover ratios of beds in private hospitals, hospitals of Ministry of Health and universities are 110.5, 49.9, and 43.1 percent, respectively in 2008. Besides, examining the ratio of the number of major operations to the number of beds organizations have, private sector is higher than Ministry of Health and universities by 2.1 times and 2.2 times, respectively.

Despite the improvement in the bed capacity, problems regarding distribution of hospital beds through country still exist. Depending on the socio-economic development level of cities, the number of beds per 10,000 people, except beds belonging to Ministry of National Defense and intensive care beds, is 24.9 in the most developed region and 15.4 in the least developed region. The number of beds for 10,000 people in the most developed region is 1.62 times higher than least developed region in 2008, which were 2.9 in the year 2002. The unbalanced allocation of hospital beds through the country is one of the factors of unbalanced distribution of health personnel.

In Turkey, the number of physicians working actively per 10,000 people is 14.3 and the number of nurses per 10,000 people is 13 in 2008. On the other hand, the number of physicians and nurses per 10,000 people are 31.8 and 73.1 in Europe and 27 and 86 in high-income-level countries of WHO, respectively. The average numbers of health personnel in Turkey, where the deficit of nurses is observed prominently, are below the average of EU and high-income-level countries of WHO.

In order to reduce the deficit of physicians, the capacity of medical schools is increased by 56 percent to 7,408 students in 2009, which were 4,751 in 2007. Capacity of nurse school is increased from 5,674 to 6,607 at the same period. The number of nurse graduates per 100,000 people is 6.1 in Turkey and 28.6 in EU in 2008. Since nurses serve in public health centers and clinics, the increasing number of nurses in the health system will have positive impact on improving the quality of services and providing cost-efficiency in the long term. Besides, increasing the capacity of nurse schools also have crucial role on reducing the ratio of doctors to nurses, which is 1,3 in Turkey.

Although improvements have been realized in terms of unbalanced distributions of health personnel over the country, this issue is still crucial. Through the compulsory duties, studies on the distribution of personnel and giving incentives to health personnel to work at the places in needs; the ratio of the best and the worst cities in terms of the number of specialists is reduced to 1/7 from 1/24.6, in terms of number of practitioners is decreased to 1/ 2,7 from 1/ 7,4 and in terms of the number of nurses reduced to 1/ 3.9 from 1/6.4 during the period of 2002-2008.

Executing the family medicine system and establishing the effective referral chain have significant impact on increasing the efficiency and reducing the costs of the hospitals. The family medicine system, which is currently implemented in 40 provinces, is expected to be executed all over the country.

Through studies related to improvement of the emergency health care services, the number of emergency health stations increased from 977 in 2005 to 1,308 in 2008 and the number of fully equipped ambulances rose from 1,328 in 2005 to 2,029 in 2008.

Public health expenditures increased from 3.2 percent of GDP in 2001 to 4.5 percent of GDP in 2008, and are expected to be 5 percent in 2009. This ratio is 6.7 percent for EU-27 and 6.4 percent for OECD countries. The ratio of pharmaceutical expenditures to total health expenditures realized as 39 percent in 2000 and 40.3 percent in 2008.

Out of pocket payments for treatment could cause impoverishment especially for low-income households. According to results of Life Satisfaction Survey, the proportion of financing the health expenditures of households from social security system, out of pocket, green card and private insurance are 72, 14.9, 10.4 and 1.3 percent respectively. The main reason behind the decrease of out-of-pocket financing ratio from 28.2 percent in 2004 to

14.9 percent in 2008 is the huge decrease of out-of-pocket financing ratios in the rural regions from 34.6 percent in 2004 to 15 percent in 2008.

Tele-Medicine Project, developed for the purpose of supporting the hospitals with inadequate health personnel, preventing unnecessary referrals and providing cost efficiency in health services, has been started and pilot implementations in radiology and pathology has been continued. Studies related to monitoring pharmaceuticals has been carried on and the usage of the datamatrix system to trace drugs, avoid fake drugs and packages, gather the clinic data regarding security of drugs has become compulsory on 1 October 2009. All drugs will have to be sold with datamatrix as of 1 January 2010.

According to Life Satisfaction Survey, the ratio of people thinking the quality of health services as problematic reduced from 43.1 percent to 22.6 percent in the period of 2004-2008. It is observed that improvement in the health services during this period has increased the satisfaction level of citizens.

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 78. Accessibility of health services will be increased.				
Measure 185. Implementation of family medicine will be dispersed.	Ministry of Health	MoF, UT, SGK, Universities	End of December	Family medicine system will be dispersed all over the country.
Measure 186. Health services investment plan will be finalized	Ministry of Health	SPO	End of December	A five year investment plan will be prepared to build new health service institutions and improve the quality of existing institution considering the regional differences, population density, transportation facilities and financing capabilities.
Measure 187. Studies related to increase the number of health personnel and equitable distribution of them through the country will be done.	Ministry of Health	MoNE, MoF, YÖK,DPB, Universities	End of December	The capacity of universities educating health personnel, primarily schools of nurses, will be increased. Health personnel distribution plan based on target population, service area, physical structure and characteristics of services, and covering concrete targets of health institutions will be updated and Human Resources in Health Strategy Plan will be prepared.

Measure 188. Legislative studies related to restructuring of Ministry of Health will be completed.	Ministry of Health	MoIT, SPO, SGK, Universities, Local Administration s	End of December	Restructuring studies to strengthen the organizing, auditing and planning roles of the Ministry of Health will be completed. Legislative studies necessary to strengthen the function of Refik Saydam Hygiene Center about the public health will be completed. Foundation Law of Turkey Pharmaceuticals and Medical Devices Institution which regulate and audit all process about drugs and medical devices will be prepared.
Measure189. Pilot implementation of public hospital association will be started.	Ministry of Health	MoF, SGK	End of December	In order to make the hospital managements financially and administratively autonomous, after the acceptance of draft law of implementation of public hospitals association, pilot implementation will be started in 3 provinces.
Measure 190. National Health Information System will be strengthened.	Ministry of Health	SGK, Universities	End of December	Pilot implementation of Hospital Appointment and Referral Integration System will dispersed. Individuals' electronically data regarding primary health in the family medicine information system will be expanded by covering hospital services. Studies for medicine tracking system will be completed. Implementation of tele-medicine will be dispersed.
Measure 191. Home care services will be improved.	Ministry of Health	SHÇEK, Local Administration s , NGOs	End of December	Regulations and standards regarding home care services shall be set up.
Measure 192. Organ and tissue transplantation services will be strengthened.	Ministry of Health	All Health Institutions	End of December	Required infrastructure and regulations to increase the number of cadaver donors will be provided. Monitoring system for patients and alive donors after the transplantation will be established.
Priority 79. Preventive health services will be strengthened and become widespread.				
Measure 193. Emergency health services will be strengthened.	Ministry of Health	Universities, Local Administrations	End of December	Countrywide rate of reaching emergency calls in urban areas in 10 minutes, in rural areas in 30 minutes will be increased over 93 percent. Coordination of 112 stations will be enhanced through improving their communication infrastructure.
Measure 194. Preventive health programs for non-communicable diseases will be prepared.	Ministry of Health	MoNE, MARA, SHÇEK, SGK, TAPDK, Universities, Local Administrations, NGOs,	End of December	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 195. Immunization ratio will be increased.	Ministry of Health	Universities, Local Administrations	End of December	Immunization program will be updated according to the needs and immunization ratio will be reached 90 percent.
Measure 196. In order to control the communicable diseases, diagnosis, notification and monitoring functions of Ministry of Health will be strengthened.	Ministry of Health	Universities, Local Administrations	End of December	Communicable disease early warning system shall be established. In order to improve the diagnosis of communicable disease, laboratory capacity of the country will be developed. Standard incidence definition guide will be updated. International surveillance network will be joined.
Priority 80. Efficiency of health expenditure will be increased.				
Measure 197. Diagnosis based reimbursement will become widespread in health institutions.	SGK	Ministry of Health, MoF, Universities	End of December	Pilot implementations of diagnosis based reimbursement within the context of Infrastructure Development for Strengthening and Restructuring the Financial Management of Health Services Project will become widespread
Measure 198. Ministry of Health's hospitals will be used jointly by universities.	Ministry of Health	YÖK, SPO, Universities	End of December	In order to use resources effectively, regulations enabling Ministry of Health and suitable universities, which were newly established or will be established, jointly use hospitals shall be prepared.

C. IMPROVING INCOME DISTRIBUTION, SOCIAL INCLUSION AND COMBAT WITH POVERTY

1. Current Outlook

The fact that inequality of income distribution and monetary poverty are high and that certain segments of society are subject to social exclusion in terms of benefiting in particular from health and education services, cultural possibilities, taking part within production activities and participating decision-making processes weakens social justice and the solidarity culture and this leads to some social problems.

In Turkey, those who work in the agriculture and work temporarily without any social security, uneducated individuals, women, children, the aged and the disabled receive the lowest share in the income distribution, and are the most vulnerable groups who are at risk of poverty and social exclusion.

TABLE: IV. 56- Distribution of Annual Disposable Income by the Household Quintiles (1)

(In Percent)

Quintiles	2002	2003	2004	2005
Lowest 20 Percent	5.3	6.0	6.0	6.1
Second 20 Percent	9.8	10.3	10.7	11.1
Third 20 Percent	14.0	14.5	15.2	15.8
Fourth 20 Percent	20.8	20.9	21.9	22.6
Highest 20 Percent	50.1	48.3	46.2	44.4
Total	100.0	100.0	100.0	100.0
Gini Coefficient	**0.44**	**0.42**	**0.40**	**0.38**

Source: TURKSTAT

TURKSTAT will announce the results of income distribution by the Household Income and Life Conditions Survey data as of 2006. Since the first results of this survey have not been announced yet, the last data for the income distribution is for the year 2005.

Turkey is one of the countries whose income distribution is the worst among OECD members. However, 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 from 0.44 in 2002 to 0.38 in 2005.

A more equal income distribution and economic growth and has 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 18.6 percent in 2007. The majority of the decrease in poverty is associated with the rise in total consumption rather than the improvement of the distribution of the consumption among individuals. The proportion below the food poverty line, which was 1.3 in 2003, fell down to 0.5 percent in 2007.

Although there are improvements in terms of indicators, the poverty rate is above the EU average. In 2005, relative poverty rate before transfers is 28 percent and after transfers is 25 percent for Turkey, whereas the same rates are 26 percent and 16 percent respectively, for the EU. These figures show that the social transfers have little impact on the alleviation of poverty in Turkey. This situation stems from the fact that a great proportion of the social transfers consist of the transfers under the contributory system and that a part of the poor cannot benefit from the transfers outside the contributory system.

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 best explain the poverty. Poverty rate which was 34.8 percent in 2007 for the illiterate individuals was as low as 1 percent for the individuals graduated from tertiary education institutions. Enrollment rates increase in the recent years, however, enrollment rate of the girls lag behind the boys. This is one of the most important reasons why women are more vulnerable to the risk of poverty.

TABLE: IV. 57- Poorest Segments in terms of Food and Non-Food Expenditures by Various Criteria

(In Percent)

	Poverty Rates					
	2002	2003	2004	2005	2006	2007
Rural	34.5	37.1	40.0	33.0	32,0	32,2
Illiterate	41.1	42.4	45.1	37.8	33,7	34,8
Patriarchal or Extended Family	34.3	32.7	32.0	27.3	20,2	24,3
Workers in Agricultural Sector	36.4	39.9	40.9	37.2	33,9	30,2
Unpaid family workers and casual employees (1)	45.0	43.1	38.7	34.5	32,0	27,6
National Poverty Rate (Food and Non-food Poverty)	**27.0**	**28.1**	**25.6**	**20.5**	**17,8**	**18,6**

Source: TURKSTAT, Household Budget Surveys
(1) The 2002 and 2003 data belong to casual employees; 2004, 2005 and 2006 data belong to unpaid family workers.

42.1 percent of the employed women work in the agricultural sector with reference to the findings of 2008 Household Labor Force Survey. On the other hand, 34.4 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. However, women who are left outside the labor force also may start to look for a job in order to contribute to the decreasing household income during periods of crisis.

TABLE: IV. 58- Selected Indicators of Employment in 2007 (Age 15+)

(In Percent)

	Female		Male		Total	
	Employment Rate	Labour Force Participation Rate	Employment Rate	Employment Rate	Employment Rate	Employment 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 comparison 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 period 2003-2007. 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 and the insufficiency of the possibilities of alternative jobs and the difficulties in the rural areas in the access to services such as education, health and social assistance are the factors leading to the migration from the rural to the urban.

TABLE: IV. 59- Employment and GDP by Sectors (1)

(Current Prices, Percentage Share)

Sector	2003		2004		2005		2006		2007	
	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP
Agriculture	33.9	9.9	34	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
(1) GDP in current producer prices.

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 security. In 2007, poverty rates for the unpaid family workers and casual employees are 9 and 8.5 percentage points higher than the general poverty rates respectively.

In order to increase the quality of life of children who are under risk and live under hard conditions and to integrate them to the society, the social and economic support programs for families of the children upon whom the court adjudicated protection on account of being needy or who already are under a decision of protection are implemented and the services for the children in need of protection are preferred to be given to in their own social environment as much as possible. Within this framework, as of September 2009, 24.423 children are being brought up by their own families owing to the support of cash/in kind assistance. Where institutional care is obligatory, a care system in which the children in need of protection can be brought up within a system of structure and relatedness that is similar to the family environment. According to the findings of The Child Labor Research, 5.9% of the children in the age group 6-17 are employed, 68.5% of those cannot continue their education and 40.9% of those work in agriculture. This reflects the importance of the activities targeted at the elimination of the child labor whose worst forms existed as working in the street, in heavy and dangerous, mobile and temporary agricultural jobs. Necessities, on the other hand, remain for the amendment of trial and rehabilitation processes of the children conflicted with law.

As of October 2009, there are 264 retirement homes, which belong primarily to SHÇEK, and municipalities, other public institutions, associations, foundations and private sector, with a total capacity of 21,299 people.

Participation of family members to the economic and social life is aimed to be increased 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. By the Law number 5763, entitled as Labor Law and Law about the amendment on certain laws, decreed that Undersecretary of the Treasury shall cover the total of the employer share of the social insurance premium for the compulsory employment of the disabled, and 50% of the said share for the employers who employ the disabled over the contingency and those who employ the disabled even though they are not obliged to do so. In this context, the number of the working disabled with social security whose employer share of social security premium covered by Undersecretary of the Treasury, is 30,100 and the total payment is 3,831 thousand TL as of August 2009.

A project-focused Social Support Program (SODES) has been designed under the Achievement of Social Development component of 2008-2012 GAP (Southeastern Anatolian Project) Action Plan. Under SODES, 398 projects have been financed with a total budget of 42 million YTL in 2008, under the titles such as employment, social inclusion and culture, art and sports. As of 2009, 778 projects have been financed with a total amount of 92 million YTL.

2. Main Objectives and Targets

The main objective is to enhance the participation in economic and social life of individuals and groups that are subject or prone to the risk of poverty and social exclusion, to improve their life quality and to integrate them to the society.

Social safety net shall have 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.

3. Policy Priorities and Measures

Priority/ Measure	Institution In Charge	Institutions to be Cooperated	Begin/End Year	Description of Objectives
Priority 81. The accessibility of major services such as education, health, employment and social security shall be improved for the disadvantaged groups.				
Measure 199. Pre-school counseling and guidance services shall be developed for the disabled, and private rehabilitation centers shall be effectively audited.	MoNE	SHÇEK, Administration for the Disabled People (OZIDA)	End December	Counseling and guidance services concerning the institutions providing education for disabled shall be enhanced before starting primary education. Auditing of the private education and rehabilitation centers rendering service to the disabled shall be stressed.

Measure 200. Job possibilities targeting the disabled shall be developed.	OZIDA	MoF, ÇSGB, Ministry of Health, UT, SHCEK, ISKUR	End December	Expansion of the protected working places shall be secured having completed the legal procedures regarding the Governmental support to the protected work places where working environment specially arranged for the disabled, and easily accessible vocational training and counseling services shall be presented to the disabled.
Measure 201. Income-generating projects at the local level shall be supported to diversify the economic resources of the poor living in rural areas.	ISKUR	MoF, MARA, Ministry of Interior, SPO, SGK, SYDGM, local governments	End December	Programs which enhance the employability in off-farm labor activities, of the unqualified and poor labor force which has emerged due to the dissolution of agriculture, shall be implemented. Besides, the programs like Rural Development Investment Support Program, SODES, and Agricultural Cooperatives Support Project shall be continued.
Measure 202. National Action Plan of Gender Equality shall be implemented effectively.	KSGM	Universities, Related Public Bodies and Institutions, Confederations of Employee and Employer Trade Unions, NGOs	End December	Training programs targeting all sections of the society shall be designed within the framework of National Action Plan of Gender Equality.
Priority 82. 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 203. Social programs shall be developed for the participation of the poor who are able to work.	SYDGM	ÇSGB, SGK, ISKUR, SHCEK, KOSGEB, Local Governments, NGOs	End December	The persons who apply for social assistance and capable of work shall be offered possibilities such as taking up a profession, counseling, temporary community employment programs and capital support shall be given to those who can start up their own businesses. For the persons capable of work, registration in İSKUR shall be compulsory to be able to benefit from social assistances, having made the necessary amendments in legal procedures.
Measure 204. Programs towards the section of formal workers shall be designed to diminish their risk of poverty and to facilitate their reach to the minimum living standards.	SYDGM	MoF, ÇSGB, ISKUR	End December	Necessary legal arrangements shall be made in order to benefit those who work formally but in the meantime who are poor or under the risk of poverty (especially those who have children).

Measure 205. Efficiency of the social transfers aiming to alleviate poverty shall be enhanced.	SYDGM	MoNE, SGK, SHÇEK, TURKSTAT, General Directorate of Foundations, ISKUR, Local Governments	End December	Social transfers shall be ensured to reach the target group and the poor individual's income shall be raised to the level of poverty line.
Measure 206. SODES shall be expanded.	SPO	Ministry of Interior	End December	SODES, that has been implemented in Southeastern Anatolian region, shall be put into implementation also in the provinces where the level of socio-economic development is low, whereas the need to social integration high.
Priority 83. Family support services shall be made widespread, violence against women and children shall be combated more intensively, and the quality of preventive, protective and rehabilitative services towards disadvantaged children shall be improved.				
Measure 207. Family training programs shall be elaborated in order to relieve the socio-cultural adjustment problems arising due to the changing social structure, rapid and distorted urbanization, and massive migration.	ASAGEM	MoNE, RTÜK, Presidency of Religious Affairs, SHCEK, Local Governments, Universities, NGOs	End December	With a view to strengthen the family foundation in a changing society, the training needs of family will be analyzed; a curriculum of family training shall be designed. Within this framework, models of family support services and training programs shall be prepared.
Measure 208. National Action Plan of Combat against Domestic Violence shall be efficiently implemented.	KSGM	Universities, Related Public Bodies and Institutions, Confederations of Employee and Employer Trade Unions, NGOs	End December	Awareness raising activities shall be carried out to prevent domestic violence against women and the capacities of related institutions shall be enhanced. Works regarding to reflect the findings of the field survey made by KSGM on this issue in the plans and programs of the related institutions shall be realized. Service models shall be extended concerning the prevention of domestic violence against women.
Measure 209. A surveillance system shall be established towards the children and youth conflicted with law, and the number of juvenile courts and their staff shall be increased.	Ministry of Justice	Ministry of Interior, MoNE, SHCEK, GSGM, ISKUR, NGOs	End December	Quality of the services targeting the children and youth conflicted with law shall be improved. During the conviction period, ongoing programs for the rehabilitation and social inclusion of the children and youth directed to crime shall be diversified and made effective. A surveillance system shall be established towards those children to be able to evaluate the impact of the aforementioned activities.

Measure 210. Activities towards ensuring the efficient implementation and sustainability of the Time-Dependent Policy and Program Framework for the Prevention of Child Labor shall be maintained.	ÇSGB	Ministry of Health, Ministry of Interior, MoNE, GSGM, ASAGEM, TURKSTAT	End December	Circular of the Prime Ministry shall be issued concerning the implementation of the Time-Dependent Policy and Program Framework for the Prevention of Child Labor. Works related to updating 2006 Child Labor Survey shall be carried out.

D. INCREASING THE EFFECTIVENESS OF SOCIAL SECURITY SYSTEM

1. Current Outlook

The rate of population covered by social insurance programs is 80.2 percent in 2008.

TABLE: IV. 60- The Population Covered By Social Insurance Programs

(Person)

INSTITUTIONS	2006	2007	2008
I. INSURED AND PENSIONERS OF CIVIL SERVANTS IN TOTAL (Law No. 5510 art. 4/c)	**9,517,053**	**9,335,500**	**9,484,111**
1. Active Insured	2,420,897	2,444,680	2,464,206
2. Pensioners (retired, invalid, widow, widower, orphan)	1,649,998	1,698,325	1,756,760
3. Dependants	5,446,158	5,192,495	5,263,145
4. Ratio of Active - Passive Insured (1)/(2)	1.47	1.44	1.40
5. Ratio of Dependence (3+2)/(1)	2.93	2.82	2.85
II. INSURED AND PENSIONERS OF WORKERS UNDER SERVICE CONTRACT IN TOTAL (Law No. 5510 art. 4/a)	**30,884,857**	**33,662,667**	**32,855,431**
1. Active Insured	7,874,735	8,555,931	8,834,808
2. Voluntary Active Insured	271,369	269,075	247,583
3. Active Insured in Agriculture	187,951	215,340	202,000
4. Pensioners (retired, invalid, widow, widower, orphan)	4,510,701	4,763,434	5,024,696
5. Dependants	18,040,101	19,858,887	18,546,344
6. Ratio of Active – Passive Insured (1+2+3)/(4)	0.46	0.46	0.50
7. Ratio of Dependence (5+4)/(3+2+1)	2.71	2.72	2.54
III. INSURED AND PENSIONERS OF SELF EMPLOYED IN TOTAL (Law No. 5510 art. 4/b)	**16,383,589**	**15,021,197**	**14,603,926**
1. Active Insured	2,082,318	2,052,584	1,897,906
2. Voluntary Active Insured	244,105	243,931	235,069
3. Active Insured in Agriculture	1,049,206	1,079,785	1,127,744
4. Pensioners (retired, invalid, widow, widower, orphan)	1,753,025	1,817,685	1,965,247
5. Dependants	11,254,935	9,827,212	9,377,960
6. Ratio of Active – Passive Insured (1+2+3)/(4)	1.93	1.86	1.66
7. Ratio of Dependence (5+4)/(3+2+1)	3.85	3.45	3.48
IV. INSURED AND PENSIONERS OF THE PRIVATE FUNDS IN TOTAL (Law No. 5510 temp. art. 20)	**298,266**	**310,850**	**323,218**
1. Active Insured	85,352	95,341	105,707
2. Pensioners (retired, invalid, widow, widower, orphan)	77,979	79,388	81,042
3. Dependants	134,935	136,121	136,469
4. Ratio of Active – Passive Insured (1)/(2)	1.09	1.20	1.30
5. Ratio of Dependence (3+2)/(1)	2.49	2.26	2.06
V. GENERAL TOTAL	**57,083,765**	**58,330,214**	**57,266,686**
1. Active Insured	12,463,302	13,148,536	13,302,627
2. Voluntary Active Insured	515,474	513,006	482,652
3. Active Insured in Agriculture	1,237,157	1,295,125	1,329,744
4. Pensioners (retired, invalid, widow, widower, orphan)	7,991,703	8,358,832	8,827,745
5. Dependants	34,876,129	35,014,715	33,323,918
6. Ratio of Active – Passive Insured (1+2+3)/(4)	1.78	1.79	1.71
7. Ratio of Dependence (5+4)/(3+2+1)	3.02	2.90	2.79
VI. TOTAL POPULATION [2]	**69,700,000**	**70,586,256**	**71,419,174**
VII. RATIO OF INSURED POPULATION (Percent)	**81.9**	**82.6**	**80.2**

Source: Social Security Institution, SPO.
1 Number of people.
2 For the year 2007 and 2008 ADNKS data, for the year 2006 the temporary projection of SPO based on 2007 ADNKS data has been used.

The revenues of the social insurance system can not meet the expenses and this causes a financial gap in the system. The most important reasons of the financial problem of the social security system are the negative effects of the early retirement implemented in the past, increase in health expenditures, and insufficiencies of the information technology infrastructure of the system. In order to close the financial gap, the ratio of the amounts of transfers from the central government budget to the system in GDP was 3.92 percent in 2007, this ratio decreased to 3.70 percent in 2008.

The studies, started by the Social Security Institution, about the automation of all the social insurance procedures continue.

By the Law No. 5838 dated at 18 February 2009, notifications to start up and transfer a workplace, employ and fire a worker which had been made separately to Ministry of Labor and Social Security, SGK and İŞKUR were combined and the bureaucratic procedures on employers were reduced.

In order to provide effective and sufficient services to the people in need within the social assistance system, the studies about creating objective criteria and increasing the communication and coordination between the institutions functioning in this area continue. In this context in order to make the social assistance programs carried on with the resources of Social Assistance and Solidarity Fund have targeting mechanisms with objective criteria, Formulation Project has been started by General Directorate of Social Assistance and Solidarity (SYDGM) in 2009.

The Unified Social Assistance Services Project has been started by SYDGM in 2009 and it is planned to be completed until 2012. In the first phase of this project, it is aimed to be realized the communication between SYDGM and Social Assistance and Solidarity Foundations through the infrastructure of the information technology and Social Assistance and Solidarity Foundations make the investigations about applications for social assistance programs electronically. The Social Assistance Information System (SOYBİS) Project which aims to identify the vulnerability of applicants and to avoid repeated benefits, has been started as a part of Unified Social Assistance Services Project. Within the context of SOYBIS Project some protocols signed with Ministry of Health, Ministry of Education, Ministry of Agriculture and Rural Affairs, SGK, General Directorate of Population Citizenship Affairs, General Directorate of Property and Land Registry, İŞKUR, General Directorate of Social Services and Child Protection Agency (SHÇEK), General Directorate of Foundations and Revenue Administration Department. The information about applicants to Social Assistance and Solidarity Foundations can instantaneously be interrogated online by those institutions.

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 provincial and district foundations. In this context, 1,413 thousand TL in 2007 and 1,797 thousand TL in 2008, was paid by SYDGM.

According to the Law no 2022, which regulates a program of old aged and disability assistance, SGK puts on monthly payment for old aged and disabled in need. As required by the Law no: 2022, 1,305,321 old aged, invalid and disabled people have received 1,193 million TL payments in total as of July 2009.

As required by the Law no 3816, health benefits given by Ministry of Health for people in need continues. 9,225,745 people are green card owners and the expenditure for green cards is 4,031 million TL as of 2008. With the Law No. 5754, it is envisaged that the implementations regarding the registrations and processes for the people suitable for Green Card will be started by SGK latest 1 July 2011.

As required by the Decree Law No: 227 and related implementing regulation, General Directorate of Foundations gave 297.36 TL monthly payments to 3,730 people who are poor, disabled or orphans and gave 50 TL to the students who are poor and in primary or secondary education as of October 2009. As of September 2009, cooked food provided for 78,450 people, and dried food provided for 58,650 people at the 108 imarets. Besides, health benefits provided for 4,668 people at the Vakıf Gureba Hospital affiliated to General Directorate of Foundations and 771.6 thousand TL was spent for this service.

In-kind and cash benefits are given primarily to children in need of protection and vulnerable people and families by SHÇEK. In this context, monthly payment per person given by SHÇEK increased to 212.50 TL in the second half of the year 2009, which was 203.32 TL in the first half of the year. In accordance with the Regulation of In-Kind and Cash Payments, totally 62.3 million TL of in-kind and cash payments were made to 24,995 people by SHÇEK as of September 2009.

TABLE: IV. 61- Social Assistance Expenditures of the Institutions Giving Social Assistance

		2006		**2007**		**2008**	
Institution	*Type of Assistance*	**Number of Person [4]**	**Expenditure (Million TL)**	**Number of Person [4]**	**Expenditure (Million TL)**	**Number of Person [4]**	**Expenditure (Million TL)**
Social Security Institution	Elderly-Invalid and Disabled Payment	1,243,878	1,284,823	1,244,174	1,758,304	1,266,174	2.018.629
Social Services and Child Care Institution	In Kind and In Cash Benefit	27,319	41,000	28,681	48,255	30,909	59.300
General Directorate of Foundations	Vulnerability Payment (orphans and disabled or orphans)	3,642	7,770	4,287	11,617	4,433	13.728
	Food Services	81,850	61,442	149,130	98,261	149,530	98.005
	Treatments of Poor Patients in Vakıf Gureba Hospital	4,055	491	6 020	568	5 268	726
	Scholarship (poor students in the primary and secondary education)	3,000	351	5,000	2,002	10,000	4.555
Ministry of Health [1]	Green Card	12,550,892	2,910,000	9,132,942	3,913,000	9,225,745	4.031.000
Ministry of Education	Scholarship (poor students in the primary and secondary education)	122,464	57,668	140,268	85,003	172,940	113.137
Yurtkur [2]	Scholarship (poor students in the high education)	135,497	204,167	168,923	298,530	181,490	320.823
Social Assistance and Solidarity Foundations [3]	All Kind of Social Assistances	-	1,389,548	-	1,413,757		1.797.080
Municipalities [4]	All Kind of Social Assistances	-	365,834	-	436,275	-	519.034
TOTAL		-	6,323,094	-	8,065,572	-	8,975,910
TOTAL/GDP (Percent)		-	**0.83**	-	**0.96**		**0.94**

Source: Ministry of Health, Ministry of Education, SPO, Social Security Institution, General Directorate of Social Assistance and Solidarity, Ministry of Finance General Directorate of Public Accounts, Social Services and Child Care Institution, General Directorate of Foundations, Yurtkur.

(1)Number of person refers to the total number of person who has green card by the end of year 2006, number of person refers to the total number of person whose green card is active.

(2)The amount of assistance universities give to their students from their own budgets is not included.

(3)There is no information about the number of beneficiary persons.

(4) The numbers which are announced by Ministry of Finance General Directorate of Public Accounts and are in the Transfers to Household item in the classification of Budget Expenditures of Municipalities in respect of EKod 4 have taken into account. There is no information about the number of beneficiary persons.

Need for social services and assistance continues increasingly due to the reasons like migration, urbanization, change in the family structure, population growth, and unemployment. This need becomes more apparent about old aged and the care of them with change in the family structure and demographic ageing. While the ratio of total public social assistance payments to GDP was 0.96 percent in 2007, this ratio is 0.94 in 2008.

In accordance with the Act for Determination of Disabled People in Need of Care and of Principles of Care Services, based on the every kind of income, the context of the care services provided for the disabled in needs whose average amount of income per household member is less than the 2/3 of the average minimum wage, 1,735 people benefited from the private care centers and 191,816 people benefited from the home care service as of September 2009. 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 1.9 million TL to private care centers and 95.2 million TL to people who provide home care for disabled people as of September 2009. Besides, the disabled children who need private education are trained and the cost of this services are paid by Ministry of Education. In 2008, 205,831 disabled people benefited from private education and totally 830,961,428 TL was paid for this service by Ministry of Education.

TABLE: IV. 62- Social Service Expenditures Of The Institutions Giving Social Services For The Period of 2006- 2008

Segments of Society		**Institution**	**2006**	**2007**	**2008**
Children		SHÇEK	109,486	150,666	166,851
Old Aged		SHÇEK	61,367	86,199	97,555
Disabled	Institutional Care	SHÇEK	58,475	88,768	109 488
	Home Care Benefit (1)	SHÇEK	5	43,696	399 899
	Private Care Centers(2)	SHÇEK	-	1,203	5 435
	Private Education (3)	Ministry of Education	44,477	684,710	830 961
Young		SHÇEK	81,258	97,193	106,032
Society-Family-Woman		SHÇEK	6,433	9,479	12,330
Other		SHÇEK	48,862,358	57,071	62,355
Total			**410,363**	**1,218,985**	**1,790,906**

Source: SHÇEK, Ministry of Education.
(1) Implementation began in December 2006.
(2) Implementation began in March 2007.
(3) The number for 2006 shows the period of June-December as Ministry of Education had the authorization for paying the cost of private education service in June 2006.

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. The general occupancy rate of the subsidiaries of SHÇEK is 71.1 as of September 2009.

TABLE: IV. 63- The Number of the Affiliated Bodies of the General Directorate of Social Services and Child Care Institution and Their Capacities

Institution type	2006		2007		2008		2009 [1]	
	Number	Capacity	Number	Capacity	Number	Capacity	Number	Capacity
Child House	99	8,766	95	8,111	94	7,708	89	7,904
Growing-up Hostel	110	8,283	110	8,065	108	7,470	110	7,331
Sevgi Evi and Child House [2] (Ages between 6-12)	37	811	57	885	73	1,256	115	1,476
Sevgi Evi and Child House [2] (Ages between 13-18)	9	131	18	309	26	418	38	549
Rest Home	69	7,605	69	7,605	66	7,775	81	8,126
Nursing and Rehabilitation Centre for the Disabled (Day and Residential)	67	3,027	66	3,120	69	4,407	71	4,733
Society Centre	66	-	70	-	79	-	82	-
Family Consulting Centre	38	-	38	-	41	-	41	-
Woman Guest House	17	339	23	477	26	573	29	604
Care and Social Rehabilitation Centre (BSRM) [3]	-	-	8	182	16	424	15	308
Protection and Care Rehabilitation Centre (KBRM)[3]	-	-	-	-	-	-	6	217

Source: SHÇEK.
(1) As of September 2009.
(2) Child houses are not in the statute of an independent institution and they are exhibited as separate flats.
(3) While the protection, care and rehabilitation centers (KBRM) were institutionalized together with Care and Social Rehabilitation (BSRM) before 2009, they were institutionalized separately in 2009.

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 84. 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 211. Full automation of the IT infrastructure of social insurance system will be provided gradually.	SGK	MoF, ÇSGB, Ministry of Health, SPO, UT, İŞKUR	End of December	An effective, accessible, and sustainable service providing structure in social insurance system will be established by accomplishing fully automated IT infrastructure.

Priority 85. 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 212. The Draft Law of Social Services will be prepared.	SHÇEK	Ministry of Interior, Local Administrations, NGO's	End of December	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, real and legal persons, for individuals, families, groups and society who need protection, care, development, support and assistance will be determined; and principles and procedures of guidance and audit of implementations regarding social service activities will be set.
Measure 213. Activities related to increase voluntary participation of the citizens to social services will be carried on.	SHÇEK	RTÜK, Directorate of Religious Affairs, ASAGEM, KSGM, ÖZİDA, Local Administrations, NGO's	End of December	It is needed to make publicity for social services, primarily preventive family services, provided by SHÇEK and to emphasize the importance of civil voluntary in generating those services. Instructive and incentive activities about voluntary participation to social services will be carried on.
Measure 214. 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 December	In order to improve the collaboration and appropriateness in the social assistance system, the authorization, tasks and responsibilities of the related institutions will be redefined with the coordination of Prime Ministry.
Measure 215. 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 December	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. In this context, the Project of Improving Scoring Formulation to Identify the Social Assistance Beneficiaries will be completed.
Measure 216. The shortage of qualified personnel and intermediate staff in the area of social services will be eliminated.	SHÇEK	MoNE, MoF, YÖK, DPB, İŞKUR, Universities	End of December	Emphasize will be given to vocational trainings related to qualified caring stuff needed on the area of social assistance, and about the issue of training social worker the needs of academic personnel and physical conditions of the recently established departments at the universities will be meet.
Priority 86. Alternative care models will be supported for the children in need of protection, and institutional care services will be improved.				

Measure 217. Alternative care models for the children in need of protection will be improved.	SHÇEK	MoNE, ÇSGB, Ministry of Interior, Ministry of Justice, Ministry of Health, SYDGM, TRT, ASAGM, GSGM, Local Administrations, NGOs	End of December	The number of children in need of protection whose care is provided by their families will be increased; families of those children will be supported through revenue generating projects as well as cash and in-kind benefits. For children whose care is not possible to be provided by their families, foster care will primarily be supported. The models of Sevgi Evi (home for love) and homes for children in need of protection will become widespread, and institutions providing services for the children in need of protection will be designed so as to contribute to the development and social adaptation of the children.
Measure 218. The number of Child Protection Care and Rehabilitation Centers and Care and Social Rehabilitation Centers will be increased.	SHÇEK	MoNE, Ministry of Justice, Ministry of Health, ÇSGB, Ministry of Interior , ASAGM, GSGM, Universities, Local Administrations, NGOs	End of December	Accommodation of the children, who have emotional, sexual and physical abuse, drug addiction, lives on streets, and are directed to crime, in growing-up hostels leads to problems for the other children living in those places. In this regard, centers, which provide especially in-day rehabilitation services for this specific group of children, will be established.
Priority 87. To increase the participation of disabled in economic and social life, improvement of the social and physical milieu conditions will be continued.				
Measure 219. Studies related to improvement of the social and physical milieu conditions in order to enable the disabled to participate more actively in economic and social life will be accelerated.	ÖZİDA	Ministry of Interior, Local Administrations	End of December	In accordance with Law On Disabled People And On Making Amendments In Some Laws And Decree Laws, the period of seven years related to take measures needed for all the buildings and places open to public as well as public transportation services convenient for accessibility of the disabled will be ended at 2012 so it is needed to speed up the works about this issue and to prepare an action plan to monitor these studies.
Priority 88. The in-care services for old aged will be improved.				
Measure 220. Supportive services related to meeting the daily needs of the old aged living alone will be improved.	SHÇEK	Local Administrations, NGO's	End of December	In order to meet the daily needs of the old aged living alone, supportive services will be given to those concerning house cleaning, daily care and shopping. Those kinds of services which are recently given by the municipalities will be extended.
Measure 221. Institutional care services for the old aged people will be improved.	SHÇEK	Local Administrations	End of December	The number and quality of the institutions giving residential and daily care services will be increased.

E. PROTECTING AND PROMOTING CULTURE AND STRENGTHENING SOCIAL DIALOGUE

1. Current Outlook

Strengthening cultural infrastructure, making cultural activities widespread, 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 the main priorities.

The studies on translation and publication support are ongoing in the scope of "The Expansion of Turkish Literature to Abroad Project (TEDA)" which was started in 2005 by Ministry of Culture and Tourism, aiming at publicity of Turkish culture, art and literature abroad and entitling accumulation of Turkish writing language in the world languages. In this context, the number of the published literature which was translated into various languages reached to 319 as of 2009.

For the purpose of reviving cultural life and making cultural activities widespread all around the country, the devolution of local cultural services to the local administrations, and public private partnership are required. Although the Law No 5225, Promotion of Cultural Investments and Enterprises, initiated a new expansion in public private partnership; the sponsorship application is still not at the satisfactory level due to insufficient presentation and promotion. For this reason the policies enabling, initiating and facilitating the sponsorship activities are considered as important. On the other hand, the project for "Supporting Culture Related Public Investments" was started in 2009 in order to provide local administrations to give local cultural services.

In the framework of measures to prevent cultural alienation, studies on preparing Turkish Culture Portal, which enables the interaction with users, are being carried on by the Ministry of Culture and Tourism. Moreover, it is vital that a National Culture Action Strategy to be prepared for the purpose of determining the measures highlighting, social dialog, solidarity, compromise and tolerance and will strengthen our social boundaries; with the participation of NGO's, academics and intellectuals.

Problems stemming from intensive migration and urbanization develop circumstances that damage social integrity and harmony. In this context, there is a need for local administrations and NGO's to concentrate on activities that enhance social solidarity, and culture of living together. On the other hand, the foundation which are occupying an important place in our culture and played an active role in social development in our history, today they are far from this activity. Foundations, which are named NGO in general, have high value-added potential particularly in cultural and social policy areas. Therefore there is a vital need of measures to be taken that foundations would support social development more.

Rapid transformation process in each area of life influences negatively relationships within the family and society. Starting age of harmful habits like smoking, alcohol and drugs is fewer than 11 year old. This phenomenon threats the young and therefore whole society. Issues related to youth such as education, unemployment, social security, social participation, participation in decision-making processes, alienation, social sensitivity, individual development, self esteem and fighting against harmful habits necessitate an effective coordination among institutions.

Rapid cultural transformation makes the concept of family more important. Policies aspiring to strengthen the institutional body of family, to improve its social status and to raise living standards of family members become basic priorities to complete economic development with social development.

2. Main Objectives and Targets

Throughout the social change progress protection, promotion and improvement of our cultural richness and its transfer to the next generations, and in the frame of respect for diversities and our common cultural values, creation of an environment of tolerance and solidarity for all individuals 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. Necessary measures will be taken to raise the individuals that will be able to integrate our cultural accumulation, being enriched with the needed values and attitudes of present century in a self-confident manner. To integrate young people into society, raised them as healthy individuals and to ensure their active participation in to social life, youth policies that are needs oriented, sustainable, holistic, applicable, compatible with the structure of the society, enabling the youth to actualize their potential and considering the demands of the diverse young groups will be created and implemented on the basis of fundamental rights and freedoms.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institution to be Cooperated	Period	Description of Objectives
Priority 89. Protection, promotion and improving of our cultural heritage will be given importance.				
Measure 222. Protection and promotion of our cultural heritage and rising public awareness on this issue will be provided.	Ministry of Culture and Tourism	MoNE, TIKA, The Presidency of Religious Affairs, General Directorate of State Archives, General Directorate of Foundations, Yunus Emre Institute, Local Administrations, Universities and NGOs	End of December	Protection of our domestic and foreign historical artifact and cultural heritage will be ensured originally. Ongoing restoration of our foreign historical artifact will be completed primarily. Primary and secondary school students to visit the historical and cultural sites will be provided. Restoration of manuscript works and facsimile of them through contemporary Turkish will be done. Transferring manuscript works into digital media in Süleymaniye and Beyazıt State Libraries will be accomplished. Establishing new museums will be provided.
Measure 223. Enrichment, effective and correct usage of Turkish language will be provided.	Turkish Language Society	Ministry of Culture and Tourism, MoNE, YÖK, TRT, TÜBITAK, OZİDA, RTÜK, AA	End of December	The correct and effective usage of Turkish will be provided in the education, training, scientific and media institutions. The usage of Turkish words instead of foreign words in written press, visual media and commercial life will be stimulated. Legal regulation will be made for estrangements of business names. Composing of Turkish sign language, its dictionary and grammar will be provided.

Priority 90. Increasing social solidarity and strengthening of family structure will be provided.				
Measure 224. 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 weakens this culture.	Ministry of Culture and Tourism	TÜİK, Presidency of Religious Affairs, General Directorate of Foundations, NGO's, Universities	End of December	Studies will be conducted regarding the contents of researches by the means of a platform that will be composed of the related social partners, which have a role for identifying and solving the social problems.
Measure 225. Preparing programs about the importance and integrity of family will be provided.	ASAGM	Ministry of Culture and Tourism, TRT, RTÜK, Universities, Private Sector	End of December	For strengthening the relationship within the family, having healthy relations of youth and children with their families and the society, publications, cartoons and other media programs will be promoted.
Priority 91. The effective utilization of cultural facilities and economical dimension of cultural sector will be strengthened by improving cultural tourism and promoting cultural products such as movies and documentaries.				
Measure 226. The places that are suitable for cultural tourism will be promoted. The supports given to domestic film industry will be increased.	Ministry of Culture and Tourism	UFT, TRT, Private Sector, Local Administrations, Professional Organizations	End of December	The efforts for promotion of our cultural places in Turkey and abroad will be diversified and increased. Studies will be done to increase financial supports given to domestic film industry by Ministry of Culture and Tourism, and increase and diversify domestic film awards.
Measure 227. Cultural facilities and activities will be incrementally transferred to local administrations.	Ministry of Culture and Tourism	UFT, TRT, Private Sector, Professional Organizations, Local Administrations,	End of December.	Structures such as libraries and culture centers will be transferred to local administrations and universities.
Priority 92. Youth services will be restructured in a way to compromise all youth issues, and improve youth's sense of belonging and their self-confidence.				
Measure 228. Youth services will be restructured and delivered in a more effective and coordinated way so that the youth grows up as socially integrated, self confident and healthy individuals.	GSGM	SPO, Local Administrations and NGO's	End of December	A National Youth Strategy will be formulated. The authority and assignments of the organization that is responsible for the implementation and coordination of youth services will be respecified. During the implementation of the activities and services that are youth oriented, coordination among the relevant public institutions and NGOs will be provided, cooperation between local administrations and central government will be increased, NGO activities regarding the youth will be supported.

Measure 229. Activities aiming the active participation of youth to social life and preventing youth from violence and harmful habits will be followed up.	GSGM	SPO, MoNE, local administrations and NGO's	End of December	Youth will be oriented to art and sports in order to keep them away from violence and harmful habits, which have become widespread. In this context, the programs will be extended and the infrastructure of the amateur sports will be improved.

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 exempted from tax and the contribution of private sector to education has increased. Public education expenditures have roughly remained at the same level until 2009. Due to both contraction of the economy and expenditures of newly established universities ratio of public education expenditures to GDP is expected to increase in 2009. It is expected that education expenditures to GDP will increase by 0.2 points further in 2010 since the pace of recovery in the economy will be below the rate of increase in nominal education expenditures due to continuing expansion effect of new universities. Although the ratio of education expenditures to GDP increases, quality problems regarding access difficulties such as low level of education enrolment rate and interregional differences, and insufficiency of physical infrastructure, revision of curriculum, improving teachers' qualifications of and synchronization of education materials with curriculum persist their importance.

Social protection expenditures increased considerably in the period of 2002-2008, especially due to the increase in pension payments. The contraction of the economy due to global economic crisis was the main reason of the increase in the ratio of social protection expenditures to GDP in 2009 is. Despite the fact that the social protection expenditures have raised, problems such as social exclusion, poverty and inequality of income distribution stand out in this field.

Although health expenditures have increased in 2002-2007, the ratio of health expenditures to GDP did not increase significantly as a result of the measures limiting health expenditures and real depreciation of foreign exchange rate. In 2008 and 2009, the ratio of health expenditures to GDP has increased rapidly due to gradual increase in awareness to benefit from health services depending on the coverage enlargement in prior years, increase in pharmaceutical expenditures resulting from appreciation of foreign exchange rate and interruption of economic growth due to global economic crisis. It is expected that in 2010 the ratio of health expenditures to GDP will remain stable in levels of 2009, as the coverage of global budgeting is extended to include university hospitals in addition to the public hospitals and the measures are taken regarding treatment and pharmaceuticals. In 2002-2009, despite the generally rising trend of (exchange-rate adjusted) health expenditures, problems regarding the physical infrastructure and health personnel in terms of both quantity and imbalanced distribution among regions are still prominent.

TABLE: IV. 64- Developments in Social Expenditures

(Ratios to GDP, In Percent)

	2002	2003	2004	2005	2006	2007	2008	2009(1)	2010(2)
EDUCATION (3)	**3.5**	**3.3**	**3.3**	**3.2**	**3.1**	**3.2**	**3.4**	**3.8**	**4.0**
HEALTH (3)	**3.7**	**3.8**	**4.0**	**4.0**	**4.1**	**4.1**	**4.5**	**5.0**	**5.0**
SOCIAL PROTECTION	**6.3**	**7.2**	**7.0**	**7.3**	**7.1**	**7.4**	**7.2**	**8.3**	**8.6**
Pensions and Other Expenditures (4)	5.6	6.4	6.3	6.5	6.4	6.7	6.5	7.5	7.7
Social Aids and Extended Payments (5)	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.7	0.8
Direct Income Support Payments	0.4	0.5	0.4	0.4	0.4	0.3	0.2	0.1	0.2
TOTAL	**13.5**	**14.3**	**14.3**	**14.5**	**14.3**	**14.6**	**15.1**	**17.1**	**17.6**

(1) Estimation.
(2) Programme target.
(3) Including the expenditures of consolidated and annexed budgetary institutions (institutions that are under the scope 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 non-interest expenditures of unemployment insurance fund.
(5) Including the expenditures of consolidated and annexed budgetary institutions (institutions that are under the scope of central government after 2006), Social Aid and Solidarity Fund excluding health and education expenditures and extended payments of Pension Fund for Civil Servants.

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 a cost effective approach in the forthcoming period.

IV. ENSURING REGIONAL DEVELOPMENT

A. INCREASING THE EFFECTIVENESS OF REGIONAL DEVELOPMENT POLICY AT THE CENTRAL LEVEL

1. Current Outlook

Alleviating development disparities among regions and provinces, increasing the revenue levels of the relatively underdeveloped regions, diversifying economic activities, supporting local governments, encouraging initiatives that will mobilize the local dynamics and potentials, developing institutional capacity and competition based on cooperation and using resources efficiently and effectively remain important.

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 become prominent.

In order to boost regional development, operational programmes, financial resources, effective work of development agencies at the local level and institutionalization are required.

Within the context of the GAP Action Plan which was prepared under the coordination of SPO and GAP Regional Development Administration, GAP project is to be completed in the period of 2008-2012. In this framework, a total of 26.7 billion TL will be spent for activities and projects included in the GAP Action Plan in this period. 7.3 billion TL of this amount is composed of ordinary funds that were previously planned considering the current trends and ongoing project pipeline. 4.9 billion TL of the additional financing requirement of 19.4 billion TL for the Action Plan will be financed from sources other than the central budget. The remaining amount of 14.5 billion TL will be allocated from the central budget. Approximately 1 billion TL of this amount was provided in 2009 and 13.5 billion TL will be provided in the period of 2009-2012. In this context, for the projects in the scope of GAP Action Plan, 1.6 billion TL were spent by the end of 2008 and the cash realization ratio is 84%. As for 2009, approximately 2.7 billion TL were allocated and it is expected to be spent by the end of 2009.

In order to identify the main opportunities and constraints of the economic and social development process in the regions, to take the assessments of local stakeholders and to reveal the initiatives that will accelerate this process, as a continuation of the Economic and Social Council meetings of 2008, Economy Coordination Board meetings were organized in Konya and Şanlıurfa with participation of all relevant national and local partners. During the meetings emphasis was given to new project ideas for the acceleration of regional development and the ongoing projects in need of speeding up.

With the "Decree on State Aids in Investments" numbered 2009/15199 published in the Official Gazette No. 27290, dated 16 July 2009 a comprehensive sectoral-regional incentive system has been initiated in Turkey. In the new system, Turkey has been grouped into four regions with respect to the Socio-Economic Development Index (SEGE). Sectors to be supported for each region have been determined separately. Gradually increasing Incentives with varying factors for each region have been described. Besides regional and sectoral application, additional support mechanisms providing more advantage for large-scale investments have been introduced.

TABLE: IV. 65- Various Indicators of NUTS-2 Regions

Regions	Socio-Economic Development Ranking (2003)	The share of Population (2008) (In Percent)	2007-2008 Annual Average Population Growth Rate (In Percent)	Urbanization Rates (2008) *	The Contribution of the Regions to GDP (2001) (In Percent)	GDP Per Capita Index Values (2001)	Unemployment Rate (2008) (In Percent)	The Sectoral Structure of Employment (2008) Agriculture Sector Share (In Percent)	Industry Sector Share (In Percent)	Service Sector Share (In Percent)	The Number of Universities (2009)	The rate of budget revenues to expenditures (2008)
TR10 (İstanbul)	1	17,8	1,0	99,0	21,3	143	11,2	0,4	40,1	59,5	32	8,5
TR51 (Ankara)	2	6,4	1,8	96,6	7,6	128	11,8	2	25,6	72,5	12	1,7
TR31 (İzmir)	3	5,3	1,5	90,9	7,5	150	11,8	7,5	31,5	61	7	4,2
TR41 (Bursa, Eskişehir, Bilecik)	4	4,8	2,2	87,0	5,2	117	10,3	13,2	42,6	44,3	4	1,5
TR42 (Kocaeli, Sakarya, Düzce, Bolu, Yalova)	5	4,4	2,8	79,7	7,6	191	10,8	17,1	35,2	47,7	6	7,5
TR21 (Tekirdağ, Edirne, Kırklareli)	6	2,1	3,0	66,7	2,5	127	11,2	20,2	34,6	45,2	3	1,6
TR62 (Adana, Mersin)	7	5,1	0,7	82,5	5,8	111	16,8	24,8	22,9	52,2	4	1,4
TR32 (Aydın, Denizli, Muğla)	8	3,7	2,1	56,3	4,2	113	10,8	27,3	20,5	52,1	3	0,9
TR61 (Antalya, Isparta, Burdur)	9	3,5	2,2	67,0	3,5	95	8,9	33,7	15,1	51,3	3	1,1
TR22 (Balıkesir, Çanakkale)	10	2,2	0,7	56,7	2,2	98	7,5	38,2	21,1	40,8	2	0,8
TR81 (Zonguldak, Karabük, Bartın)	11	1,4	0,4	48,8	1,6	108	6,9	46,4	20,9	32,7	3	1,5
TR33 (Manisa, Afyon, Kütahya, Uşak)	12	4,1	-0,9	60,6	3,9	88	8,3	35,4	26,5	38,1	4	0,7
TR52 (Konya, Karaman)	13	3,1	0,7	71,6	2,7	75	10,2	33,3	22,6	44,2	4	0,6
TRC1 (Gaziantep, Adıyaman, Kilis)	14	3,2	2,5	78,6	2,0	65	16,4	32,1	33	35,1	5	0,5
TR63 (Hatay, Kahramanmaraş, Osmaniye)	15	4,1	2,2	55,6	2,9	74	15,8	29	27,2	44	3	0,9
TR72 (Kayseri, Sivas, Yozgat)	16	3,2	0,2	72,8	2,4	66	11,4	28,5	24,8	46,5	5	0,6
TR71 (Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir)	17	2,1	0,8	59,7	2,1	85	10,1	27,3	19,2	53,7	5	0,7
TR83 (Samsun, Tokat, Çorum, Amasya)	18	3,8	-0,3	61,4	3,2	73	7,4	49,7	15,4	34,9	4	0,5
TR90 (Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane)	19	3,5	0,7	53,8	3,1	67	5,8	51,1	13,4	35,5	6	0,5
TRB1 (Malatya, Elazığ, Bingöl, Tunceli)	20	2,3	1,6	65,9	1,7	67	14,5	33,2	18,2	48,7	4	0,3
TR82 (Kastamonu, Çankırı,Sinop)	21	1,0	0,6	53,2	0,9	70	6,7	49,6	15,6	35,2	3	0,4
TRA1 (Erzurum, Erzincan, Bayburt)	22	1,5	-1,3	59,9	1,0	50	6,3	50,7	9,3	40	3	0,2
TRC2 (Şanlıurfa, Diyarbakır)	23	4,3	2,8	63,2	2,2	54	14,1	33,4	16,8	49,6	2	0,3
TRC3 (Mardin, Batman, Şırnak, Siirt)	24	2,7	2,0	62,1	1,2	46	17,4	25,8	19,3	54,6	4	0,2
TRA2 (Ağrı, Kars, Iğdır, Ardahan)	25	1,6	0,3	46,2	0,6	34	5,6	70,2	5,1	24,7	4	0,2
TRB2 (Van, Muş, Bitlis, Hakkari)	26	2,8	1,8	48,4	1,0	35	14,2	34,3	13,7	52,5	4	0,1
Turkey		**100**	**1,3**	**75,0**	**100**	**100**	**11**	**23,7**	**26,8**	**49,5**	**139**	**0,9**

Source: SPO, TURKSTAT, MoF, Urban population consists of province and country popilation

2. Main Objectives and Targets

Regional development policies, taking into consideration EU alignment, will serve to the purposes of contributing to national development, competitiveness and employment by increasing the efficiency of the regions on the one hand and reducing development disparities among the regions on the other hand. They will also bring the domestic migration movements into a stable structure compatible with social, economic and urban development and provide a balanced distribution of the welfare across the country.

A Regional Development Committee will be established. Main functions of this committee will be;

- To ensure coordination at local and central level for the management of regional development policies,
- To steer national strategy for regional development,
- To contribute to the preparation and approval processes of regional development strategies ,
- To harmonize sectoral, thematic and regional policies at national level.

The legal and technical framework for spatial development will be formulated at national level, regional development strategies will be prepared in cooperation with local authorities and the scope, principles and standards of the subscale -regional and provincial- plans and strategies will be determined.

In order to increase business opportunities and quality of life in the regions and to improve accessibility and intra- and inter-region interactions, spatial prioritization and concentration will be ensured in public investments and in the supply of service. The social and physical infrastructure will be reinforced particularly in the cities with high potential.

The development levels and potentials of the regions will be taken into consideration in formulating public policies for local and regional development. Tools which increase investment, production and employment will be developed such as selective and spatially focused state aids, venture capital, credit guarantee funds, micro-credit institutions and input costing.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 93. A Regional Development Committee will be established in order to ensure consistency and coordination between central and regional development policies.				
Measure 230. A Regional Development Committee will be established.	SPO	Ministry of Finance, Undersecretariat of Treasury, Ministry of Interior, Ministry of Public Works and Settlement, other related Ministries and Public Administrations	End of December	A committee that will conduct the functions of steering National Strategy for Regional Development and harmonizing sectoral, thematic and regional policies at national level will be established.
Priority 94. The policy framework for spatial and regional development will be formulated. The principles and procedures of regional development strategies and plans will be determined.				

Measure 231. National Strategy for Regional Development (NSRD) will be prepared.	SPO	Ministry of Public Works and Settlement, Ministry of Environment and Forestry, other related Ministries, Local Administrations	End of December	NSRD will be prepared in order to ensure coordination in terms of regional development, provide guidance for the implementations and form a framework for the preparation of subscale plans and strategies. NSRD will also determine spatial development perspective at national level.
Measure 232. The principles and procedures of regional development strategies and plans will be defined.	SPO	Related Ministries, Local Administrations	End of December	A preparation guide for regional development strategies and regional plans will be developed. Decisiveness of regional development plans will be strengthened to steer the applications of Development Agencies.
Measure 233. GAP Action Plan will be implemented effectively.	GAP Regional Development Administration	Related institutions	End of December (Continuous)	The activities within the context of GAP Action Plan which was started in 2008, will be continued by related public institutions in its planned agenda. GAP Regional Development Administration will monitor the implementations and report to GAP High Council periodically.
Priority 95. Distribution of tasks and responsibilities among local and central organizations regarding spatial development planning will be clearly defined and an efficient audit mechanism will be established.				
Measure 234. The links between regional and spatial development planning will be strengthened. The spatial planning hierarchy, the tasks and responsibilities of the institutions will be redefined.	Prime Ministry	Ministry of Public Works and Settlement, SPO, Ministry of Environment and Forestry, Ministry of Interior, other related Ministries, Local Administrations	End of December	The legislation of construction in rural and urban areas will be revised. An effective planning hierarchy will be defined to make the investments particularly in urban infrastructure and rural settlements be realized more timely and efficiently. Priority will be given for planning of growth poles, developing rural central settlements, tourism areas under heavy construction risk, conservation areas and disaster-prone areas.

B. ENHANCING DEVELOPMENT BASED ON LOCAL DYNAMICS AND INTERNAL POTENTIALS

1. Current Outlook

Along with the regional and local development policies designed and executed by the central government, support to local development initiatives based on local dynamics and endogenous potential has also gained importance in recent years. One of the priorities in this field is to develop local development initiatives through implementation of the projects and activities within the framework of regional development plans and strategies with a participatory approach.

In line with activation of local development initiatives in the priority regions designated in this framework and alignment of the regional development policies and their implementations to EU, significant experiences were gained from regional development programs financed within the framework of the Turkey-EU financial cooperation.

Implementation of the projects was completed under TR82, TR83 and TRA1 NUTS II Regions Development Programme (SKE), Eastern Anatolia Development Programme and TRA2, TR72, TR52 and TRB1 NUTS II Regions Development Programme (AKKM). Implementations of the projects under TR 90 Nuts II Region Development Programme (DOKAP) will have been completed until the end of 2009. Within the framework of these programmes 1428 projects were supported and 211 million Euros were utilized in 33 provinces and 9 NUTS II Regions. Besides, there are also other EU-Turkey co-financed programmes coordinated by GAP Regional Development Administration. Studies related to impact assessment of these programmes will be carried out in the forthcoming period.

Projects implemented under TRA2, TR72, TR52 and TRB1 NUTS II Regions Development Programme (AKKM) was completed by the end of November 2008. Within the framework of the programme 479 projects were completed successfully and 82,5 million Euros of grant fund were absorbed. By these projects, of which total budgets reach to 114 million Euros with the co-finance of the beneficiaries, 2,575 people were employed temporarily or permanently and 40,284 people were trained.

In the framework of TR 90 NUTS II Region Development Programme (DOKAP), activities of 178 projects were completed and implementation of 27 projects is going on. All of the 79 projects under the Local Development Initiatives component of the programme were completed. 21 of the 27 ongoing projects in the programme are under the SME component and 6 out of 27 are under the Tourism and Environment Infrastructure component. The total budget of the projects, including the co-finance contribution of the project beneficiaries is nearly 36 million Euros. By these projects, 12,77 people were employed temporarily or permanently and 15,800 people were trained.

In the framework of the Turkey-Bulgaria Cross Border Cooperation Programme, implementations of the Joint Small Projects Fund Programmes for the years of 2003, 2004, and 2005 were finalized successfully. Under these programmes 35 projects with a total budget of approximately 1.4 million Euros were completed. In the framework of the 2006 Joint Small Projects Fund Programme, the implementation of 17 projects with a total budget of 650 thousand Euros was initiated in December of 2008. 10 of them were completed by the end of September 2009. Within the context of development and improvement of cooperation networks between both sides of the border region which is the common goal of the programmes, important outputs have been realized and the programmes contributed to the development of local capacity.

Studies for a special support program that was started in 2008 regarding the 12 growth centers that have a high potential to provide services for their periphery and will perform as growth poles have been pursued in 2009 as well. Within this scope, "Support Program for Growth Centers: Diyarbakır Pilot Implementation Program Document", in which priority areas and the actors to be collaborated were defined, was prepared in 2008 as a result of three years effort. The responsible institutions and organizations were transferred approximately TL 15 million by the High Planning Council Decision in the scope of projects initiated in 2008 and covered by the programming document. As for the implementation year of 2009, approximately TL 18.2 million were transferred to responsible institutions and organizations by High Planning Council Decision for the ongoing projects of 2008 and for the projects to be initiated in 2009.

2. Main Objectives and Targets

Regional development policies and implementations will be based on the local dynamics and endogenous potential, will be differentiated across relatively less developed regions and regions with high potential for development and will be supported with innovative, multi-dimensional and diversified tools. Implementations will be prepared under the coordination of SPO and in collaboration with development agencies and will be supported with sufficient financial resources.

Particularly in underdeveloped regions, in a way to support specialization at the local level human resources will be developed, entrepreneurship will be encouraged, and measures which will accelerate local employment will be adopted. Innovative policies specific to the regions will be determined in coordination with local institutions and supported. Tools for financing regional development will be developed especially in regions with high potential. Especially in cities with high development potentials, an environment helping the firms and universities to work in collaboration will be created. Regional dimension of national innovation strategies will be developed.

Clusters, based on local specialization, supporting innovation and improving the competitiveness will be supported in collaboration with development agencies by focusing on competitive sectors and bringing local initiatives forward.

In the light of experiences gained from regional development programmes implemented under the Turkey-EU financial cooperation, the project preparation and implementation capacity will be improved and regional resources will be utilized in the priority areas of the regions by achieving local actors' support through project and activity supports by development agencies.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institution to be Cooperated	Period	Description of Objectives
Priority 96. In relatively less developed regions, to attract the migration flow into these regions the attraction centers with the potential of providing services for their peripheries that will perform as the attraction centers and urban growth poles will be developed.				
Measure 235. Support Program for Growth Centers will be extended.	SPO	Ministry of Finance, Ministry of Interior, Related Central and Local Administrations.	End of December	Implementations carried out in Diyarbakır will be extended to other 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.
Priority 97. National clustering policy framework, governance and support model will be formulated.				
Measure 236. A governance model establishing the policy framework in local and central level for clustering will be formulated.	SPO	Ministry of Industry and Trade (MoIT), Undersecretariat of Foreign Trade, Turkish Scientific and Technological Research Institute (TÜBİTAK), Development Agencies, other related organizations and institutions	End of December	Guidance and coordination mechanisms which is necessary to determine the principles of cooperation and division of responsibilities between institutions and organizations as of competitiveness, innovation and internationalization components will be established by forming clustering strategy. In this context, the projects conducted by MoIT and Undersecretariat of Foreign Trade will be exploited.

C. IMPROVING THE INSTITUTIONAL CAPACITY AT LOCAL LEVEL

1. Current Outlook

Establishment of development agencies covering all 26 NUTS II regions was completed with the establishment of 16 development agencies by the Council of Ministers Decree No. 2009/15236. These agencies will start their activities upon the completion of recruitment processes and provision of necessary physical equipment.

Regional development programmes which were co-financed in the context of Turkey - EU financial cooperation, ensured establishment and improvement of project preparation, implementation and monitoring capacity in the Development Unions and the Governorships which coordinate these programmes. This capacity established at the local level will be transferred to development agencies and will be improved by their own resources.

Provincial Monitoring and Coordination System (PMCS), which is designed to monitor the provincial level investments systematically and regularly, determine problems, propose solutions and ensure the feasibility of them, is supported in the framework of "Support Program to Public Institutions' Research and Development Projects" of TÜBİTAK and the first versions of the system are planned to be launched. The need to improve human resources and technical capacities of the Provincial Planning and Coordination Directorates, which will take an active role in PMCS project as well as planning and coordination activities at provincial level in general, is continuing.

2. Main Objectives and Targets

Towards forming and carrying out regional development policies, the specialization level, project preparation, implementation, monitoring, evaluation and coordination capacities of institutions that play a role in regional development, particularly development agencies and local administrations, will be enhanced and their human resources will be developed.

The local cooperation and the partnership among public, private and non-governmental organizations will be supported by development agencies, and building cooperation networks and exchanging information especially concerning the best practices through these networks will be encouraged.

Development Agencies Management System (KAYS) will be established in order to strengthen the institutional functioning of development agencies and to support budgeting, accounting, programming, project and activity supporting and monitoring, human resources management, stakeholder database management, archive and document management, activities of investment support offices, performance management and regional plan studies. Process modeling and software studies of KAYS, which will also enable SPO to effectively carry out coordination related with Development Agencies, have been initiated.

The flow of information and cooperation among central and local institutions in planning, implementation, monitoring and evaluation phases will be made more efficient. 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 98. Institutionalization of development agencies will be completed, cooperation among local and central institutions will be improved.				
Measure 237. Institutionalization studies of development agencies will be completed.	SPO	Governorships, local administrations, professional associations, development agencies	End of December	Recruitment and equipment needs of newly established development agencies will be met, agencies will become operational.
Measure 238. Development Agencies Management System will be established.	SPO	Development agencies	End of December	Process modeling and software studies of KAYS, which will support internal operations of development agencies and general coordination of SPO, have been initiated. In this scope, project and support activities of agencies, budgeting process and modules related with other processes will be completed.
Measure 239. Provincial Coordination and Monitoring System (İKİS) will be improved.	SPO	Ministry of Interior, other related Ministries and Public Institutions, TUBİTAK, Governorships, Local Administrations	End of December	The improvement of İKİS project, which is designed to monitor the provincial level investments systematically and regularly, determine problems, propose solutions and ensure the feasibility of them, will be continued.
Measure 240. Authority and capacity of Provincial Planning and Coordination Directorates will be strengthened.	Ministry of Interior	SPO, Governorships, Provincial Planning and Coordination Directorates	End of December	Legislative arrangements will be prepared in order to strengthen and diversify the human resources of Provincial Planning and Coordination Directorates. Their technological infrastructure capacity will be renewed and project preparation capacity will be strengthened in parallel with İKİS project.

D. RURAL DEVELOPMENT

1. Current Outlook

The preparatory studies for Rural Development Plan covering the priority measures and activities are continued in accordance with the strategic aims and priorities defined in the National Rural Development Strategy (NRDS) enforced in 2006. Principal and functions of structures related to implementation, monitoring and evaluation of Rural Development Plan are being prepared in cooperation with related institutions.

The Project titled as "Technical Support Project for Establishing Credit Mechanism for Rural Investments" was carried out by the cooperation of MARA and Dutch Government in order to tackle the accessibility of the beneficiaries to financial resources within the scope of IPA Rural Development Programme (IPARD) implementation. Moreover the Project titled as "Technical Support Project for the Identification of the Rural Areas" was realized through the co-financing of MARA and the Dutch Government. The project was designed for IPARD implementations and therefore covered the definitions under the agri-environment measure of IPARD Programme.

The agricultural employment has continued to decrease. This 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. 66- Rural Employment by Sectors (Percent)

	Turkey			Rural		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
Agriculture	27.3	26.4	26.2	59.1	58.6	57.9
Industry	19.7	19.8	19.9	10.1	10.2	10.7
Services*	53.0	53.8	53.9	30.8	31.2	30.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT
(*) Construction sector is included in the services sector.

In line with the Ninth Development Plan and the NRDS, directing the outgoing labour force from agricultural sector to non-agricultural sectors and to improve quality and skills of this labour force through the implementation of active labour market programs in accordance with the demands of labour market still keeps its importance. In this context, the need to make current supports provided under the scope of rural development projects and programmes efficient is going on.

Of the projects co-financed by national and international resources, the implementations of the integrated projects contributing to rural development, such as Sivas-Erzincan Development Project (2004-2012), Anatolian Watershed Rehabilitation Project (2004-2012) and Diyarbakır-Batman-Siirt Development Project (2008-2012) continue.

Within the framework of rural development sub-component of the Agricultural Reform Implementation Project (ARIP), the Village Based Participatory Investment Programme (VBPIP) started in 16 provinces in 2005. After the completion of the VBPIP in 2007, the implementation area of the Rural Development Investment Support Program (RDISP), which was started in the remaining 65 provinces by national resources in 2006, was extended throughout the country. In the scope of RDISP, which covers the period of 2006-2010, grant supports are provided for projects covering machine and equipment purchasing, integrated irrigation by pressure as well as the processing, packaging, and storing of agricultural products.

Approximately 187.3 million TL grant supports were provided for 791 projects in the 4th phase of the RDISP in 2008. Additionally, for supporting machine and equipment purchasing which started in 2007, approximately 54.8 million TL grant supports were provided for 8,674 projects in 2008.

According to the figures of Ministry of Interior, there are 34,388 villages and 46,919 sub-villages settlements in Turkey as of 2009. The number of rural municipalities having population below 2,000 has decreased from 2,011 to 1,976 by the enforcement of the Law No. 5747.

According to the figures of the Address Based Population Registration System (ABPRS), when population threshold of 20.000 which differentiates rural and urban areas taken as basis, 32.5 percent in 2007 and 30.8 percent in 2008 of the population settled in rural areas.

TABLE: IV. 67- Urban and Rural Population Distribution in 2007 and 2008

	Turkey		Urban		Rural	
Years	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Population distribution (thousand)	70,581	71,517	47,608	49,515	22,973	22,002
Population share (percent)	100.0	100.0	67.5	69.2	32.5	30.8

Source: TURKSTAT, ABPRS figures.

Village Infrastructure Support Project (KÖYDES) which launched throughout Turkey in 2005 excluding İstanbul and Kocaeli provinces, whose aim is rapidly to carry out implementation of infrastructure projects of the villages which have road and drinking water problems under the auspices of provincial administrations has been going on. 8,939 projects of which 63 percent road projects and 37 percent drinking water projects were completed by the allocation of TL 500 million in 2008. In the context of the implementations carried out in 2008; construction of 16,037 km village roads were completed of which 9,113 km were asphalt roads. Furthermore, 3,647 drinking water projects were completed in total, 169 of which were the units which do not have sufficient drinking water network. In 2009, TL 500 million has been allocated for the projects and implementations are still continue. As of September 2009, 7,577 projects in total, of which 65 percent road projects and 35 percent drinking water projects are expected to be completed.

Under the management of Ministry of Public Works and Settlements, seminars were conducted regionally in 2008 and 2009 on the topics of zoning, disasters and coastal management for the experts and technical staff from municipalities, special provincial administrations, and provincial directorates of the ministry. In those seminars exchange of views and knowledge with the experts on current legislations and implementations were realized, on-site solutions were offered for the implementation problems and cooperation was ensured among central and local authorities. 1,182 experts from 47 provinces participated to those five seminars conducted in the Eastern and the Central Black Sea, the Central Anatolia, the Eastern Anatolia, and the Southeastern Anatolia regions.

In order to improve the life quality of the rural population, preserve local identities, and ensure sustainability of cultural merits, "Project for Determining of Local Characteristics of Architecture in Rural Areas, Preparing a Guide Book and Representative Architectural Projects" has been implemented by the cooperation of Ministry of Public Works and Settlements and Mimar Sinan Fine Arts University. Kayseri was selected as pilot province for the implementation.

In the provinces where many terrorist events occurred 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 (RVRP)" are ongoing in order to ensure their returns, improve social and economic infrastructures where they have returned, or sustain their livelihoods in their current settlements.

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 making best use of 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 particularly unemployment and poverty as well as other socio-economic problems arising from outmigration which emerged from the restructuring process of agriculture sector.

In order to diversify, stabilize and increase the incomes of rural households; priority will be given to increasing the competitiveness of agricultural holdings, empowering the producer unions, using soil and water resources effectively, increasing the effectiveness of local administrations and their unions on rural development.

Non-agricultural economic activities undertaken by small and medium sized enterprises, such as rural tourism, traditional handcrafts, processed agricultural and food products will be supported for increasing production in every kind of economic activities and encouraging rural population to be employed in their own rural regions. Additionally, new rural development projects will be designed focusing on employment and their implementation scales will be determined compatible with regional development policies.

The implementation of the IPARD Programme will be initiated after completing the accreditation process of administrative structures of responsible bodies for implementation, monitoring and evaluation. Secondary legislations necessary for implementation of the Programme will be completed following the ratification of the Sectoral Agreement between European Commission and Turkey.

In the provinces where IPARD Programme will be implemented, the harmonization among the grant schemes to be initiated both by development agencies and IPARD Programme on agriculture and rural development will be provided.

The resettlement of the nomadic families and the families whose lands expropriated will be continued. Regarding collective settlement issues, settlement services will be improved by means of new financial models through collaboration with the land-owners.

RVRP which has been carried out for the citizens, who left their settlements due to obligatory reasons, will be updated to improve their living conditions in their former or current settlements. Reporting and archiving system will also be established in order to monitor the project implementations and ensure transparency.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 99. Coordination, monitoring and evaluation tasks of all implementations related to rural development will be arranged within the context of Rural Development Plan.				
Measure 241. The structures related to the implementation, monitoring and evaluation of Rural Development Plan will be established.	Ministry of Agriculture and Rural Affairs	Ministry of Environment and Forestry, Ministry of Industry and Trade, Ministry of Public Works and Settlements, Ministry of Interior, SPO, other related public institutions, NGOs	End of March	In the context of protocol signed by Ministry of Agriculture and Rural Affairs, SPO and related public institutions, Rural Development Plan will be completed and put into implementation following the approval of High Planning Council.
Priority 100. Technical, financial and institutional capacities of local authorities, their associations and related central institutions will be strengthened in order to increase their effectiveness on rural development.				

Measure 242. A draft proposal to renew the Village Law will be prepared.	Ministry of Interior	Related public institutions and organizations	End of December	A draft proposal on Village Law will be prepared by taking into account the new progresses and changes related to administration and statute of villages.
Priority 101. Necessary measures will be taken for the citizens, who left their settlements due to obligatory reasons, in order to provide sustainable living conditions in their former or current settlements.				
Measure 243. Sub-projects will be prepared in the context of RVRP supports, which is designed for the citizens who left their settlements due to obligatory reasons.	Ministry of Interior	Ministry of Foreign Affairs, Ministry of National Education, Ministry of Health, SPO, SHÇEK, SYDGM, GAP Regional Development Administration, Governorships	End of December	RVRP will be updated by taking relevant UN principal guidelines into consideration. An archiving and reporting system will be established in order to improve the effectiveness of project implementations.
Measure 244. Resettlement process of families whose places expropriated will be made more effective.	Ministry of Public Works and Settlements	Housing Development Administration of Turkey (TOKİ), State Hydraulic Works (DSİ)	End of December	Because of difficulties in obtaining land and the high cost of constructing buildings by means of tendering, a more effective service will be achieved in cooperation with the land owners through credit methods.

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 restoring the public administration to a structure, perspective and functioning which undertakes modern concepts such as flexibility, transparency, participation, accountability, consistency and that can supply citizen and result-oriented, high-quality, effective and efficient services has continued.

In this framework, on the one hand problems such as lack of coordination and cooperation among public agencies and institutions, lack of harmonization in the duties and authority of public agencies and institutions and their organizational structure, inability to realize effective human resources planning to enable the public employees to attain competency are experienced and, on the other hand deficiencies in concrete service areas such as justice, internal security, disaster management and land registry and cadastre are exist. Moreover, on the subject of making public service applications efficient, it is important to utilize information and communication technologies as a tool to facilitate achievement of public administration.

A. RATIONALIZING THE TASKS AND AUTHORITIES AMONG THE INSTITUTIONS

1. Current Outlook

Sound regulations regarding 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.

However, conflict about authority and duties among public agencies and institutions exist in some sectoral and thematic fields. 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 2009, there are 81 special provincial administrations, 2,948 municipalities and 34,388 villages. In 2008, according to the address based population registry system, municipal population was 59,166,727 and the ratio of municipal population to total population was 82,7 %.

In the context of regulations towards duty, authority, resource allocation and servicing relations between central and local governments, to attain a certain level of service across the country, necessity of determination of required standards by central government and auditing the compliance with these standards have been still existed.

Works on building administrative, financial and technical capacity that will carry out increasing duties given by new legal arrangements in local administrations are going on.

Local administration’s deficiency in defining their service priorities and financial means directs them to get into debt for other projects as well as investment projects that require large-scale finance and transfer of technology.

2. Main Objectives and Targets

In order to enable public agencies and institutions to perform their principal duties; ensuring harmonization between tasks and administrative structures, the abolition of the units whose functions are no more needed, non-establishment of new departments except necessary conditions arising from service requirements, making legal arrangement about procedure and principles binding public agencies and institutions, duty and authority transfer 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 auditing the compliance with these standards are the main targets.

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. Duties and authorities amongst public agencies will be re-examined and institutional set-up will be strengthened where required.				

Measure 245. Institutional set up regards to coordination of transformation to an information society will be strengthened.	SPO	Prime Ministry, Ministry of Interior, Ministry of Transportation, Public Agencies, NGOs	End of June	To manage effectively the transition process of information society both at central and local government level, required institutional setup will be developed by reconsidering the institutional setup suggested in the Information Society Strategy under coordination of e-Transformation Turkey Executive Committee.
Priority 103. Legal arrangement that covers the principles which public agencies and institutions obey in their operations will be made.				
Measure 246. General Administrative Procedure Law will be enacted.	Ministry of Justice	-	End of December	Works on draft General Administrative Procedure Law will be completed and it will be submitted to Turkey Grand National Assembly
Priority 104.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 247. The studies aiming to determine minimum service standards of local administrations will be launched.	Ministry of Interior	Related public institutions, Local Administrations, Professional Organizations	End of December	To provide services with certain quality and standards all over the country, necessary work will be done for the determination of principles and criteria by related ministries and for rendering the appropriate services complied with these standards by local administrations.

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 that will last by the end of 2010 determined in the "Bylaw on the Principles and Procedures of Strategic Planning in Public Administrations". Within this framework, as of September 2009, out of 145 central public administrations which should prepare strategic plan and performance programme, 135 have prepared strategic plans. Performance programme preparations for 2010 are underway in these administrations.

"Bylaw on the Principles and Procedures of Performance Programmes that will be prepared by Public Administrations" which covers the principles and procedures of preparation of performance programmes was published by Ministry of Finance on Official Gazette dated 15.07.2009. In line with the Bylaw, Performance Programme Preparation Guide was revised in order to ensure performance based budgeting works are carried out properly.

State Owned Enterprises (SOE) is required to prepare strategic plans by the Decree of the Council of Ministers in 2008 and 2009 General Investment and Finance Programmes of SOEs. Within this framework, as of October 2009, in 2 out of 19 SOEs strategic plans have been completed whereas studies are in progress in the remaining 17.

Strategic planning and performance based budgeting implementation is also continuing in local administrations. Special provincial administrations, metropolitan municipalities and municipalities whose population is over 50.000, pursuant to the relevant laws, are required to renew their strategic plans within six months after the local elections which was held in March 2009. Local administrations are continuing efforts towards strategic plans in this context.

2. Main Objectives and Targets

It will be ensured that the budget is structured in a way to indicate performance of public administrations by considering; maintaining of transformation in public administrations required by strategic management, shaping administrative decisions with a mid-term and long-term approach based on strategic plans, opportunity cost, affected groups and cost of policies to be implemented.

Current administrative and human resources capacity in the public administrations will be improved in terms of quality and quantity in line with strategic management approach and programs will be implemented in order to adapt administrative culture to the new structure.

3. Policy Priorities and Measures

Priority/Measure	Institution In Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 105. Strategic planning and performance based budgeting works at institutional level, being conducted within the framework of the public financial management reform, will be rolled out in a scheduled manner.				
Measure 248. Strategic Planning Guide for Public Administrations will be reviewed and required changes will be made.	SPO	Ministry of Finance, Related Public Administrations	End of March	By reviewing the Strategic Planning Guide for Public Administrations under the light of works carried out and experience gained so far, necessary changes will be made in order to make the system function more effectively.

Priority 106. Current administrative and human resources capacity in the public administrations will be improved in terms of quality and quantity in line with the strategic management approach.				
Measure 249. The capacity building program aiming at enhancing the managerial capacity for strategic management in public administrations will be completed.	SPO	Ministry of Finance, Public Administration Institute for Turkey and Middle East, State Personnel Presidency, Turkish Institute For Industrial Management, Universities, NGOs	End of December	Aiming at effective implementation of strategic management, the research project initiated by SPO in order to develop a capacity building model for improving the theoretical knowledge and practical expertise of public managers will be completed. In line with this model, training programs for public managers will be implemented.
Priority 107. An information system to serve all public institutions within the central administration will be developed.				
Measure 250. Aiming to increase the efficiency of financial management processes and to support the decision making process by means of ICTs, electronic systems regarding financial management will be restructured and enhanced.	Ministry of Finance	Related Public Administrations	End of December	An information system which will serve all public institutions within the central administration will be built in order to consolidate the functions of the separate information systems (KBS-Say2000i, e-BUDGET and SGB.net) in a central structure, to manage all stages of the financial process (budgeting, appropriation, accrual, expenditure, accounting, reporting and auditing, final accounts) from preparation stage of budgets to Turkish Court of Accounts' statement of general conformity over a central system, to support the strategic plan, performance programme and legislation studies.

C. DEVELOPING HUMAN RESOURCES IN THE PUBLIC SECTOR

1. Current Outlook

Because of long-lasting inadequacies in the area of human resources improvement in public sector, a necessity of a serious reform exists. 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 recently amended 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 solve said issues, draft Civil Service Law prepared by State Personnel Presidency was submitted to Prime Ministry.

Works on Public Personnel Information System (PER-NET) Project that aims the consolidation of public personnel registry system in a single database and allowing the access of related institutions have been started by State Personnel Presidency and directive for the implementation of the project with the pilot institutions was submitted to Prime Ministry.

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, increasing participation of public personnel to administrative decision-making process and improving public personnel system are the main targets in the public sector.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 108. Studies will be carried out to improve public personnel system in terms of legislative and institutional aspects.				
Measure 251. Studies will be conducted to improve public personnel system legislation.	State Personnel Presidency	Ministry of Finance Other public institutions	End of December	Studies will be carried on to adapt public personnel legislation to the differentiating needs in line with recent developments and changes.
Measure 252. Studies will be conducted to renew the institutional administrative structure of public personnel system.	State Personnel Presidency	Ministry of Finance SPO	End of December	Legislation studies that have been started to restructure State Personnel Presidency and ensure it to perform its duties efficiently will be completed.
Measure 253. Personnel evaluation system will be revised and objective 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 December	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

Measure 254. A study will be carried out for the implementation of flexible working models in the public sector.	State Personnel Presidency	Universities	End of December	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.

D. INCREASING THE DISSEMINATION AND EFFECTIVENESS of e-GOVERNMENT

1. Current Outlook

e-Government which is considered to be the main tool for contemporary public management lies in the focus of efforts on increasing the quality and effectiveness of public service provision. In order to establish technical, legal and administrative infrastructures which are needed for functioning of e-government, basic principles and strategies as well as the targets to be reached by 2010 were described in the Information Society Strategy, which was put into practice in 2006. The strategy mainly concentrates on citizen-focused public service provision and realization of public management modernization by utilizing opportunities that e-government offer at the highest level. 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 from multi-platforms through secure and single contact point.

Along with the e-Transformation Turkey Project that has been implemented since 2003, a significant progress has been achieved in refraining from discrete projects and implementations, that were leading to duplications and waste of resources; and in sharing of information and documents in safe and secure electronic environment within and among agencies.

To this effect, substantial progress has been made and high levels of usage 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 and social security applications, services regarding law enforcement, judiciary, security, customs, budget, right to information and reaching legislative information. e-Government Portal aiming at providing one-stop, continuous, secure and multi-channel public services became operational in 18 December 2008.

Extensive principles have been put on provision of public services at the first level and the closest place to users and through electronic environment, informing citizens of the services, defining service standards, easing access of handicapped to public services, requiring data and document from citizens for service provision etc. with the By-Law on Procedures and Principles to be Followed in Public Service Provision which was published in Official Gazette dated 31.07.2009 and No.27305.

The studies on the Land Registry and Cadastre Information System is underway while Unique Number System for Legal Persons has almost been completed, which are essential for developing new services and for integration. System for Online Enrollment to Schools has been put into implementation while studies on e-health, online environment permits, e-procurement, e-notary and vehicle registration services are ongoing. Besides, the Second Version of Interoperability Framework was published. Codification process of the Draft Law on Protection of Personal Data, forwarded to Turkish Grand National Assembly in 2008, which will provide privacy of personal data as preventing from unlawful processing at personal data by electronic systems and other ways, is ongoing.

2. Main Objectives and Targets

The main objective is to establish e-government structure which contains required technical, administrative and legal arrangements within the conception of efficient public management.

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.

In provision of electronic public services; services will be based on the needs of citizens and business, business processes will be simplified and modified within this context and decision making processes will be made effective through ICTs. Besides, 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.

e-Government Gateway which has been put into implementation to ensure one-stop, continuous, secure, multi-channel and integrated public service provision will be enhanced with new services.

The studies of the pilot project on Citizenship Card that will be used by citizens for verification of identification in reaching public services such as health, social security and civil services primarily will be completed and become widespread.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 109. Business processes of e-government services targeting the needs of citizens and the business community will be improved in terms of reduction of administrative burden, elimination of duplications and ensuring interoperability.				
Measure 255. The pilot studies of Citizenship Card Project will be completed and the dissemination studies 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 (UEKAE)	End of December	In the scope of the 3rd phases of pilot scheme of Citizenship Card, that will be used in verification of identification and authorization in accessing public services and carries basic identification information and biometric elements; the dissemination of the cards to 300 thousand citizens will be completed. In the next phase, nationwide dissemination process will be started regarding the results of the pilot phase.

Priority 110. Applications improving the service efficiency, leading to quick gains and savings, basic databases and common infrastructure and services will be prioritized; public information and communication technology projects will be carried out with an approach based on principles of coordination among public institutions and sharing of information in secure environments.				
Measure 256. The infrastructure of Electronic Public Procurement System will be established and disseminated.	Public Procurement Agency	Ministry of Justice, Ministry of Interior, State Supply Office	End of December	On e-procurement infrastructure enabling realization of public procurement in electronic environment, the basis for the applications regarding e-catalogues, frame contracts, tenders will be established; these applications will be disseminated based on the results of pilot applications carried out on this platform.
Measure 257. The feasibility study will be carried out in order to establish Public Secure Network.	TÜRKSAT	Ministry of Transport, SPO, Relevant Agencies	End of December	A feasibility study will be carried out to establish the backbone of e-government architecture by constituting a shared communication infrastructure in order to avoid unduly wide area network investments and covering the needs of public agencies in this regard and internet access.
Measure 258. Studies regarding setting up of Information Systems Disaster Recovery Management Centre will be speeded up.	TÜRKSAT	Relevant Public Institutions	End of December	An Information Systems Disaster Recovery Management Centre will be set up according to the common needs of public institutions, systems and information back-ups will be established for beneficiary organizations in order to continue performing their critical functions in case of emergency.
Priority 111. Number of services provided over the e-Government Gateway will be increased.				
Measure 259. Public services provided on e-Government Gateway will be enhanced regarding the principle of user-centricity.	TÜRKSAT	Ministry of Transport, SPO, Relevant Agencies	End of December	Integration of public services to the e-Government Gateway will be carried out by regarding the principles of citizen centricity, in order to improve the efficiency of shared public services and within the scope of a particular action plan.
Priority 112. **In order to establish trust in e-Government, studies to establish legal infrastructures regarding confidentiality of personal data and information security will be carried out and usage of e-government services will be improved.**				
Measure 260. Studies will be started regarding the signing of the Council of Europe ETS 185 Cyber Crime Convention and the ratification of the ETS 108 and 181 Conventions related to the protection of personal data.	Ministry of Justice	Ministry of Foreign Affairs, General Directorate of Security	End of December	Studies will be launched aiming to be a signatory to the Council of Europe's Cyber Crime Convention for an efficient combating and ensuring international cooperation about cyber crime. Also, after the enactment of the Law on the Protection of Personal Data, the studies will be initiated through the ratification of the Conventions (ETS 108 and 181) related with the protection of individuals with regard to automatic processing of personal data.

Measure 261. Legal regulations will be made related to national information security.	Ministry of Justice	Ministry of National Defense, Ministry of Interior, SPO, TÜBİTAK (UEKAE)	End of December	The study of legislation regarding the country-wide security of national information in the electronic environment will be completed.
Measure 262. Studies aiming to the alignment of e-commerce related regulations with the EU acquis will be completed.	Ministry of Justice	Ministry of Industry and Trade, SPO, Undersecretariat of Foreign Trade, ITCA, Relevant Public Institutions	End of June	Studies regarding the sales of goods and services through electronic channels will be conducted in order to ensure the harmonization of regulations with the EU regulations.

E. IMPROVING THE JUDICIAL SYSTEM

1. Current Outlook

In 2009, with the Law No. 5918, to fulfill Turkey's international commitments, Turkish Criminal Law, Criminal Procedure Law and Law on Misdemeanors have been amended.

In 2009, "Judicial Reform Strategy" prepared by Ministry of Justice and related institutions has been submitted to the Cabinet. "Judicial Reform Strategy Action Plan" which contains required activities, calendar and budget necessary for achieving the targets and aims stated in the strategy has been prepared by Ministry of Justice.

In Turkey, as of September 2009, the number of judges and public prosecutors is 10,993 and other administrative judicial staff is 27,290. These figures are relatively below the EU averages, especially for judges.

There are insufficiencies in number and capacity of prisons and detention houses. The number of prisons and detention houses are 367 as of September 2009 with a total capacity of 104,565 people.

To provide judicial and justice services in a modern, effective, and productive manner, studies on renewing and constructing contemporary courthouses have been continued. From the beginning of 2003 to September 2009, 77 new courthouses were completed and materialized. In addition to those, while 35 new courthouses were completed and ready to use, 25 courthouses are on construction.

In spite of these developments, because the judgment process could not operate efficiently and fast, problems seen in the accessibility of justice, right to a fair trial could not adequately actualized, intended standards could not be achieved in law education, deficiency in physical and technical infrastructure and quality and quantity problems related to human resources of justice could not be removed; efficient and fair operation of justice has been hindered.

TABLE: IV. 68-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; within the context of the rule of law and the supremacy of law, legal and institutional regulations which will ensure the fast, fair, reliable and proper operation of the judging process will be made. 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, determination of professional ethics and conduct rules in line with the international standards, alleviation of the deficiency of technical and physical infrastructure of judicial service units and transfer of judicial services into the electronic environment and integration of National Judicial Network Project (UYAP) and other public information projects will be ensured.

3. Policy Priorities and Measures

Priority/ Measure	Institution In Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 113. To provide fairer, fast, secure and well-directed judiciary services, legal and institutional arrangements shall be made with considering the EU practices.				
Measure 263. The professional ethics and conduct rules of judicial staff will be stated according to international standards.	Ministry of Justice		End of December	The legal arrangement on ethic and conduct rules that judge, public prosecutor and the other administrative judicial staff should comply shall be adopted.

Measure 264. National Judicial Network Project (UYAP) has been completed. That project transferred the judicial process with services into the electronic environment. To integrate between UYAP and other public bodies' information projects necessary works shall be completed.	Ministry of Justice		End of December	Integration between the National Judicial Network Project (UYAP), which transferred judicial process with services into the electronic environment and the established network among the judiciary in 100% percent, and information projects of other public bodies primarily Security General Directorate and General Command of Gendarmeries shall be completed.
Measure 265. Works on preparation and renovation of basic laws related with judiciary and justice would 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 266. The legal arrangement for making judicial judgments accessible for everybody will be made.	Ministry of Justice	Supreme Courts	End of December	Conforming to individual data protection, the legal arrangement shall be adopted that judicial judgments shall be open to public by publishing them.
Measure 267. The number of judges, public prosecutors and other judicial staffs will be increased.	Ministry of Justice	Ministry of Finance, State Personnel Organization	End of December	The number of judges, public prosecutors and other judicial staffs shall be increased considering the case burden of courts and European countries standards.
Measure 268. Legal aid will be made efficient and widespread.	Ministry of Justice	Ministry of Finance, Turkish Bar Association	End of December	On the scope of access to justice, legal aid procedure will be simplified for people who have low level of income and on that issue, aid centers and easily accessible guidance documents will be established for users.

Measure 269. Studies on reorganizing High Council of Judges and Prosecutors and evaluating judicial staff promotion system will be conducted.	Ministry of Justice		End of December	High Council of Judges and Prosecutors shall be reorganized according to the principles of objectivity, impartiality and transparency within the perspectives of international documents and against to High Council of Judges and Prosecutors decisions an effective challenge system and appeal to judiciary shall be brought. In addition to that, including note system, judicial persons promotion system shall be re-evaluated.
Measure 270. The cases that Court of Cassation and Council of State competent as a first instance court will be reduced.	Ministry of Justice	Court of Cassation, Council of State	End of December	To have competency of Court of Cassation and Council of State as a first instance court are not accord with that courts quality. Also, that situation increases the burden of workload of those courts. To eliminate that negative situation the cases that Court of Cassation and Council of State competent as a first instance court shall be reduced to a minimum.
Measure 271. Works towards development of pre-judgment solution procedures in administrative justice disputes will be made.	Ministry of Justice		End of December	On some issues, especially administrative courts give their decisions by expert-witnesses, the works shall be made to solve preventively the disputes within the administration by boards that would be established.

F. ENHANCING THE EFFECTIVENESS OF SECURITY SERVICES

1. Current Outlook

A study to extend the MOBESE, which is crucial to fight against criminals, to the country wide has been continued. The establishment of the system has been completed at 44 provinces and at 30 provinces works on establishment has been going on. The restructuring works on Crimes Analysis Centers which extracts crime tendency profile across the country by making crime and criminals analysis has been carried out. The institutional framework of Emergency Call System (112) that aims to combine all emergency calls under single number has been completed in pilot provinces namely Antalya and Isparta. The legal regulation draft that constitutes juridical basis of this application has been submitted to examination of related institutions. Works to enhance the institutional capacity of TUBİM has been continued. Studies aiming to satisfy the technological needs of Preventive Security Forces and to extend criminal infrastructure that provides to reach accused from evidence across the country have been carried out.

2. Main Objectives and Targets

Besides the execution of security services which oversee the security of individuals, institutions and property and behaves in the context of universal human rights; the internal security services will be carried out in the context of fighting against the illegal migration and asylum seekers, human smuggling and trafficking, using and trading drugs, organized and financial crimes, terrorist activities and finance of them.

3. Policy Priorities and Measures

Priority/ Measure	Institutions in Charge	Institutions to be Cooperated	Timing	Description of Objectives
Policy 114. Studies on restructuring the external border management system and fighting against terrorist activities and financing of them, illegal migration and asylum seekers, financial and organized crimes, using and trading drugs will be carried on.				
Measure 272. Some regulations will be put into effect in order to fight against terrorist activities and financing of them and illegal migration and asylum seekers.	Ministry of Interior	Ministry of External Affairs, Gen.Dir. of Security, Gen.Com.of Gendarme, Gen.Com.of Coast Guard	End of June	The related items of Passport Law No. 5682 and the 79th item of Criminal Code will be revised in order to fight against illegal migration effectively. The institutional and juridical infrastructure of new organization will be completed for fighting against terrorist activities.
Measure 273. Institutional capacities will be enhanced at fighting against financial and organized crimes and the implementation of action plan, prepared for restructuring the border management, will continue.	Ministry of Interior	Ministry of Education, Undersecretariat of Customs, Gen.Dir. of Security, Gen.Com.of Gendarme, Gen.Com.of Coast Guard, Gen.Dir. of Social Services.	End of December	Studies for converting the analog communication systems to digital one for preventing the intervention of organized criminals will continue. The capacity of TUBİM will be enhanced in order to fight effectively against drug using and trading. 2nd Phase Action Plan of Border Management will be implemented in the view of consequences of the first one.
Policy 115. Provision of public security services directed to provide community peace and security will continue.				
Measure 274. Studies for establishing the technological infrastructure needed for provision of public supported and individual-based security services will continue.	Ministry of Interior	Gen.Dir. of Security, Gen.Com.of Gendarme, Gen.Dir. of Provinces, Related Provinces.	End of December	The efforts to extend MOBESE to the country-wide will continue. Studies for the extension of Emergency Call System (112), which has been completed at Antalya and Isparta Provinces, to country wide will be accelerated. Efforts towards to extension of Public Supported Security Forces to the country wide will continue.
Policy 116. Studies for emphasizing Preventive Security Forces to prevent crimes before occurring and for strengthening technological infrastructure required in tracking criminals will be carried on.				
Measure 275. Efforts to strengthen technological infrastructure of preventative security forces will continue.	Ministry of Interior	Undersecretariat of National Intelligence, Gen.Dir. of Security, Gen.Com.of Gendarme,	End of December	The technological infrastructure need of intelligence units will be provided and the necessary coordination and collaboration between them will be acquired. The restructuring studies ensuring Crime Analyzing Centers work efficient will be completed.
Measure 276. Criminal infrastructure will be extended to the country-wide.	Ministry of Interior	Gen.Dir. of Security, Gen.Com.of Gendarme	End of December	The machine-equipment need of Criminal Lab. and Examination Departments will be provided.

G. DISASTERS

1. Current Outlook

The frequency and severity of natural disasters have been increased in the world as well as in our country, as a result of unplanned urbanization and degradation in climate and environmental conditions; economic and social costs have been reached intense levels. 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. Instead of disaster management focusing on response activities, risk mitigation that aims to reduce human and capital losses by assessing current disaster risks, has become the most important component of disaster management applications. In addition to this, it is considered that risk mitigation activities against natural hazards are integral part of sustainable development.

In order to achieve sufficient, effective and integrative institutional, administrative and legal structure in disaster management in Turkey, the main agencies responsible for disaster management, which are Prime Ministry General Directorate of Emergency Management, Ministry of Interior General Directorate of Civil Defense and Ministry of Public Works and Settlement General Directorate of Disaster Affairs, was joined under the Disaster and Emergency Management Presidency and reorganization has been ongoing.

Studies have been continuing to establish rapid, efficient and secure communication system between agencies and institutions during and after a disaster.

Considering the international developments in disaster management, preparation of National Disaster Management Strategy and Action Plan to demonstrate our country's approach is a priority.

Integrated hazard maps covering all types of hazards that may affect a settlement have not been produced and also existing hazard maps have not been updated. In this context, it is needed to develop standards and guidelines relating to preparation of integrated hazard maps considering all types of disasters that may affect settlements including climate change.

Analysis on quality of building stock, soil conditions and disaster scenarios are still necessary for the proper determination and evaluation of disaster risks according to hazard maps and consequently for the preparation of risk mitigation plans rationally.

Preparation of risk mitigation plans and development of financing models for the preparation of these plans is necessary through identification and assessment of urban risks.

The number of Compulsory Earthquake Insurance policies reached 2.850.000 cumulatively, as of October 2009.

The share of insured residential housing to the total residential housing stock reached 20 percent. However, the insurance system could not become widespread, since the state has once more assigned to construct disaster housing by special acts issued after the earthquakes of various years, taking out an insurance is not a common culture of the society, the collaterals and premiums are not differentiated with respect to the risk, and there are no sanctions for people who do not take out any insurance.

TABLE: IV. 69- Change in Policy Numbers and Amount of Premiums

Years	Policy Number (Thousand)	Change in Policy Number (%)
27/09 - 31/12/2000	159	-
2001	2,428	-
2002	2,128	- 12.4
2003	2,022	- 5.0
2004	2,090	3.4
2005	2,417	15.6
2006	2,555	5.7
2007	2,618	2.5
2008	2,844	8.6
2009*	2,847	

Source: TCIP
(*) As of 18th October 2009

In this context, it is necessary to ensure that Decree-Law No. 587 on Compulsory Earthquake Insurance covers sanctions as well as all types of disasters countrywide.

It is necessary to develop indicators and methods to prepare, implement, monitor and evaluate the reconstruction/rehabilitation plans that take the link between plans and budget into account.

Ensuring people's participation in all processes and raising their awareness on hazards and risks mitigation are necessary to improve the effectiveness of disaster risk mitigation activities.

2. Main Objectives and Targets

A sufficient, effective and integrated institutional, administrative and legal structure will be realized in disaster management at local and central levels.

3. Policy Priorities and Measures

Priority/Measure	**Institution in Charge**	**Institutions to be Cooperated**	**Period**	**Description of Objectives**
Priority 117: National Disaster Management Strategy and Action Plan will be prepared.				
Measure 277. National Disaster Management Strategy and Action Plan will be prepared.	Disaster and Emergency Management Authority	Related public institutions, local governments	End of December	The activities in the processes of risk mitigation, preparation, intervention and reconstruction will be appraised taking responsible authority-activity-budget" link into account. This will increase the effectiveness of disaster management.

Priority 118: Settlements under the risk of natural disasters nationwide will be prioritized with respect to the level of disaster risk. Technical and financial studies to mitigate risks will be completed based on a plan.				
Measure 278. Principals of integrated disaster risk mapping will be determined.	Disaster and Emergency Management Authority	Related public institutions, local governments	End of December	Standards for the creation of an integrated disaster risk map will be determined and guidelines will be prepared.
Measure 279. Settlements under the risk of natural disasters nationwide will be prioritized with respect to the level of disaster risk.	Disaster and Emergency Management Authority	Related public institutions, local governments	End of December	In order to ensure the prioritization of settlements with respect to their disaster risk levels, methods and standards will be developed particularly to assess seismic risks of the building stock.
Priority 119: A disaster insurance system will be developed.				
Measure 280. Law on Natural Disaster Insurance will be enacted.	Undersecretariat of Treasury	Ministry of Public Works and Settlement, Disaster and Emergency Management Authority, Turkish Catastrophe Insurance Pool, Association of the Insurance and Reinsurance Companies of Turkey	End of December	Law on Natural Disaster Insurance including sanctions and all disasters nationwide will be enacted.

CHAPTER FIVE

THE EUROPEAN UNION AND FOREIGN ECONOMIC RELATIONS

I. TURKEY-EUROPEAN UNION RELATIONS

1. Current Outlook

Accession negotiations between Turkey and the European Union have started as of 3 October 2005 in line with the Presidency Conclusions of the European Council of 17 December 2004.

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, Company Law, Information Society and Media and Free Movement of Capital in 2008. In 2009, the Chapter on Taxation was opened to negotiations.

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, Transportation, Customs Union and External Relations until Turkey fulfills its commitments related to Additional Protocol signed on 29 July 2005 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 findings of the Progress Reports issued annually for Turkey by the European Commission since 1998, was adopted in 2008. A new National Program Regarding the Undertaking of the European Union acquis has been adopted, by the Council of Ministers Decision that entered into force on 31 December 2008, on the basis of Accession Partnership Document, which covers short-term and medium-term priorities that Turkey should fulfill in meeting the Copenhagen criteria.

In order to execute accession process to EU more effectively, the Law No. 5916 on the Organization and Duties of the General Secretariat of the European Union has entered into force.

EU financial assistance for the candidate and potential candidate countries during 2007-2013 period will be provided under the Instrument for Pre-Accession Assistance (IPA) through Transition Assistance and Institutional Structuring, Cross-Border Cooperation, Regional Development, Human Resources Development and Rural Development components. In this respect, financial assistance allocated to Turkey for 2010 is 653.7 million euros.

Under the Transition Assistance and Institutional Structuring component of the IPA, Financing Agreements concerning the 2008 programming were signed. Programming activities for 2009 were completed and the project package has been submitted to the European Commission.

Financing Agreement concerning Turkey- Bulgaria Cross-Border Cooperation Programme under Cross-Border Cooperation component of the IPA was signed and the implementation process of the Programme has been started.

As regards to the Operational Programmes under the Regional Development and Human Resources Development components, programming activities towards the projects those agreed upon with the European Commission have been continued.

Regarding the Regional Development and Human Resources Development components of the IPA, studies for the establishment of an integrated Monitoring Information System have been carried out under the coordination of the SPO with the participation of Ministry of Transport, Ministry of Labour and Social Security, Ministry of Industry and Trade, Ministry of Environment and Forestry and Undersecretariat of Treasury.

Regarding the use of financial assistance provided under the Rural Development component of the IPA, preparations for institutional structuring have been going on with a view to operationalize 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, the new institutional framework established for the Regional Development and Human Resources Development components of the IPA was accredited by the European Commission in 2009. Studies towards completion of the accreditation process of the Rural Development component continue. Furthermore, Financing Agreements concerning Environment, Regional Competitiveness and Human Resources Development Operational Programmes were signed. Studies for the signing of Financing Agreement concerning Transport Operational Programme are being carried out.

In addition, a performance evaluation study has been undertaken by the SPO, as the Strategic Coordinator, in order to determine fund allocation ratios for Environment, Transport and Regional Competitiveness Operational Programmes for the period 2010-2011.

Studies for the finalization of the Prime Ministry Circular which determines the roles and responsibilities of the institutions within the framework of the Decentralized Implementation System of the IPA for the period 2007-2013 have being carried out under the coordination of the European Union Secretariat General.

2. Main Objectives and Targets

In accordance with the target of full EU membership, 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. The main objective is to conduct the alignment process on the basis of 2008 Accession Partnership Document, while taking into account the priorities of Turkey.

To absorb the EU financial assistance in a way to contribute to accession process of Turkey at highest level is the main target. In this respect, an integrated Monitoring Information System will be set up regarding the monitoring of the assistance provided under the Regional Development and Human Resources Development components of the IPA, which aims at, inter alia, preparing the candidate countries for the Structural Funds that will be available after accession to EU. In this regard, systematic monitoring activities will be carried out at the levels of Strategic Coherence Framework, Operational Programme and operations.

3. Policy Priorities and Measures

Priority/ Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 120. Efforts will continue towards the full membership of the EU.				
Measure 281. Within the framework of accession negotiations, impact assessment analysis will be conducted.	EUSG	Prime Ministry, SPO, Related Public Institutions	End of December	Impact assessment analysis studies will be started in order to determine the economic and social effects stemming from the alignment particularly in the fields which Turkey might encounter with difficulties in harmonizing with the EU acquis.
Measure 282. Monitoring system regarding the Operational Programmes under the Regional Development and Human Resources Development components of the IPA 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 March	An integrated, IT based Monitoring Information System will be established for monitoring of the projects financed through Environment, Transport, Regional Competitiveness and Human Resources Development Operational Programmes implemented under the Regional Development and Human Resources Development components.

II. MULTILATERAL AND BILATERAL ECONOMIC COOPERATION

A. MULTILATERAL ECONOMIC COOPERATION

1. Current Outlook

Efforts for developing economic and commercial relations with Islamic countries are 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 platforms of the Organization of Islamic Conference (OIC).

One of the important projects of the COMCEC is the establishment of a Preferential Trade 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. 22 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, seventeen countries have signed PRETAS as of October 2009 and 9 countries including Turkey ratified it. Moreover, twelve countries including Turkey have signed Rules of Origin, Turkey's ratification procedures of the referred project continue. When the number of ratifying countries reaches ten, agreement will go into force. For enhancing participation to the said project, the relevant TPS-OIC Agreements will be submitted to the signature of the other member countries, in a signing ceremony during the 25th COMCEC Meeting.

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 current global issues and the practice of bilateral talks during the course of the meetings were started and new items such as global finance crisis, food security, fluctuations on prices of goods and developments in global energy markets are added to the regular agenda items to enrich the COMCEC Agenda so as to cover current global problems. The theme of the "Effect of Food Crisis on the Economies of the OIC Member Countries" was discussed during the Exchange of Views Session of the COMCEC in 2009.

2009 is the 25th Anniversary of the COMCEC, an Economic Summit will be held in İstanbul on 9 November 2009 within the context of the Meeting with the participation of the Presidents of States and Governments of the Member States and İstanbul Declaration is expected to be adopted.

The efforts have been maintained in line with the target to enhance the trade among the member countries that is under the responsibilities of the COMCEC. Intra-OIC trade regressed from 16.4 percent in 2007 to 16 percent in 2008 with the effect of global economic crisis.

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 to operate at the beginning of 2008. The company provided USD 2.5 billion of credit for trade financing among the COMCEC Member Countries in 2008 and 85 percent of this has been realized for intra OIC trade. The Company has signed financing agreements with some participation banks to provide them USD 60 million to be utilized by SME's.

It is aimed that Islamic Countries Standards and Metrology Institute Statute (SMIIC) which has already been ratified by nine countries will go into force after Turkey's ratification and start operating in 2010.

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 2008, this amount increased by 60.4 percent and reached USD 32.6 billion constituting 24.7 percent of Turkey's total exports. In the first 8 months of 2009, the level of exports to OIC countries decreased by 15 percent as compared to the same period of the last year and was realized as USD 18.7 billion dollars.

Turkey's import from OIC countries in 2007 was realized as USD 21.5 billion constituting 12.6 percent of Turkey's total import. In 2008, the level of import was realized as USD 29.2 billion representing 14.4 percent of Turkey's total import. In the first 8 months of 2009, the level of import has been USD 11 billion representing 51 percent decrease as compared to the same period of the last year.

20th Meeting of the Regional Planning Council of Economic Cooperation Organization (ECO) will be held in February, 2009.

The Trade and Development Bank of Economic Cooperation Organization which started its financing activities, continues its operations in providing credit support for SME's and short term trade financing.

Following the entry into force of the ECO Trade Agreement (ECOTA), studies aiming at negotiating concession lists in the framework of this Agreement have been also in progress in 2009.

The Turkish Union of Commerce and Commodity Exchanges (TOBB) which undertook the duty of ECO Chamber of Commerce and Industry Secretariat (ECO-CCI) in November, 2007 for three years has maintained its operations.

Cooperation has been initiated among ECO Export Development Centers, efforts of cooperation among customs administration and central banks have being continued.

Studies of preparation for new ECO Transportation and Communication Action Program covering 2009-2015 years have been continued. Problems have been determined on trial run realized in August, 2009 on Islamabad-Tehran-İstanbul Railway route. Moreover, studies related to the construction of the Van Lake Crossing are underway. 8th Meeting of the Ministers of Transportation will be held in Kyrgyzstan in 2010.

ECO Seed Association (ECOSA) has been established in Turkey in 2009 and started operating. Three regional programmes are underway regarding the harmonization of legislation on seeds. Furthermore, studies on defining sub-project coordinators within the framework of ECO Regional Food Security Program have been maintained.

Within the framework of the establishment of the Regional Institute for ECO Standardization, Conformity Assessment, Accreditation and Metrology (RISCAM), Turkey signed RISCAM Regulation in March, 2009.

2nd Meeting of ECO Ministers of Tourism was realized in Antalya on 22-23 October 2009. A series of new action Program has been adopted in order to develop cooperation in the field of tourism.

In line with the studies carried out in Iran, Pakistan and Turkey, a Technical Study Report for connection of electric transmission network of ECO member countries with each other has been prepared and contribution of other member countries is expected.

Legal arrangements for establishing ECO Training Institute were concluded in 2008 and ECO Science Council has started activities in Pakistan.

Turkey's export to ECO countries in 2008 was USD 6.3 billion constituting 4.7 percent of the total export. In the first 8 months of 2009, export has fallen to the level of USD 3.7 billion with a decrease of 10.4 percent as compared to the same period of the last year.

Turkey's import from ECO countries was USD 13.2 billion in 2008 representing 6.5 percent of the total import. In the first 8 months of 2009, import has fallen to the level of USD 4.1 billion with a decrease of 57 percent as compared to the same period of the last year. The ratio of exports to imports which was 47 percent in 2008, has raised to 90 percent in the first 8 months of 2009 by the effect of the decrease in import.

Organization of the Black Sea Economic Cooperation (BSEC) was established by a Declaration issued during İstanbul Summit, with the initiatives of Turkey in İstanbul on 25 June, 1992. The BSEC has 12 member countries, which are Republic of Albania, Republic of Azerbaijan, Republic of Bulgaria, Republic of Armenia, Georgia, Hellenic Republic, Republic of Moldova, Romania, Russian Federation, Republic of Serbia, Republic of Turkey and Ukraine. The BSEC Charter which was signed by the Presidents of States or Governments in Yalta on 5 June, 1998 entered into force on 1 May, 1999 and BSEC has become a regional economic cooperation organization.

Turkey's export to BSEC countries in 2008 was USD 20.9 billion constituting 15.8 percent of total export. In the first 8 months of 2009, total export has fallen to the level of USD 7.6 billion by a decrease of 48.4 percent as compared to the same period of the last year.

Turkey's import from BSEC countries was USD 45.6 billion in 2008 representing 22.6 percent of total import. In the first 8 months of 2009, total import has fallen to the level of USD 18 billion by a decrease of 46.3 percent as compared to the same period of the last year.

Developing Eight Countries -Bangladesh, Indonesia, Iran, Malaysia, Egypt, Nigeria, Pakistan and Turkey- have revised and approved "D-8 2008-2018 Road Map", named as D-8 Action Plan, which defines the areas to cooperate in the coming 10 years and the methods of cooperation during the 6th Summit held in Kuala Lumpur in Malaysia. Priority areas for cooperation and development of joint projects have been defined as trade, industry, information and communication, finance, banking and privatization, agricultural development, science and technology, combating poverty and development of human resources, agriculture, energy, health, tourism and culture. According to the objectives defined in Road Map, taking measures to increase trade and provide full implementation of D-8 Trade Agreement has been envisaged.

Turkey's export to D-8 countries was USD 4.3 billion in 2008 representing 3.2 percent of Turkey's total export. In the first 8 months of 2009, export has risen to the level of USD 3.8 reflecting 31 percent increase compared with the same period of the last year.

Turkey's import from D-8 countries was realized as USD 13.6 billion in 2008 corresponding to 6.7 percent of the total import of Turkey. In the first 8 months of 2009, import has declined to USD 4.6 billion reflecting a 52.6 percent decrease.

2. Main Objectives and Targets

In line with the objective of rendering substantial increases in our exports to Islamic countries sustainable, efforts for diversification of export goods, accession of new markets and removal of trade barriers will be continued. Priority will be given for cooperation in investment in order to attract capital accumulation from certain Islamic countries as foreign direct capital investments into Turkey.

In accordance with the objective of making TPS-OIC Preferential Trade System enter into force in 2009, initiatives 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 is planning to ratify the Agreement in 2009. On the other hand, Turkey is following and promoting ratification process of other signatory countries closely.

Within the framework of Turkey's Strategy for Expansion in Africa, efforts to reduce poverty in OIC countries and capacity building programs such as cooperation in production and processing of cotton will be supported.

In ECO region, efforts will be continued for reducing tariff and non-tariff barriers for the improvement of regional trade, facilitation of transportation and shipping, promotion of cooperation amongst private sector, effective implementation of existing projects to establish a secure and sustainable cooperation infrastructure. Furthermore, an effective cooperation infrastructure will be established in ECO region in the areas of energy, environment and human development.

In the scope of BSEC, efforts will be continued for the development of regional cooperation strategies, determination of comparative priorities of the region, determination of priority sectors for mutual investments and the cost and benefits of regional cooperation, realization of the objective of increasing economic role to be played by the region at global level and increasing the efficiency of BSEC.

Support will be continued for the Project Development Fund, which has been developed for BSEC to be a regional cooperation organization running on the basis of projects, and within this framework the effectiveness of KOSGEB will be increased.

In Turkey's relations with BSEC countries, it is going to be continued to give importance to private sector. 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 Programs and policies of the Bank.

Required measures will be taken to improve business relations among the Member Countries of BSEC and to support related companies' individual and collective entrepreneurship. In this context, the simplification of visa procedures for businessmen will be realized.

Efforts will be continued for improving postal services, civil aviation and existing cooperation of broadcasting institutions among BSEC Member Countries

Turkey will continue to support the cooperation activities under D-8. Studies related to the Rules of Origin Protocol of D-8 Preferential Trade System will be finalized. Member countries will be provided to participate fruitfully to studies on the issues of civil aviation and patents and intellectual properties. Moreover, efforts for the establishment of a Seed Bank in Turkey and the sharing of environmental data will be accelerated.

With a view to overcome present economic crisis and meet the requirements of new global economy, Turkey, in G-20 group which has gained a top forum quality gradually, will pursuit closely the policies, measures and reform proposals developed in the body of G-20 and are in cooperation in the areas of national responsibilities and obligations.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be Cooperated	Period	Description of Objectives
Priority 121. To realize the implementation of the preferential trade systems realized in the framework of the COMCEC, ECO and D-8 activities, efforts for signing the agreements, protocols and the rules of origin on this issue by Turkey will be continued.				
Measure 283. Efforts to facilitate and increase trade among member countries will be accelerated.	Undersecretariat of Foreign Trade	Prime Ministry, Ministry of Foreign Affairs, SPO Undersecretariat of the Customs	End of December	Ratification procedures of TPS-OIC Rules of Origin will be completed. Efforts for the functioning of ECOTA will be continued. Rules of Origin Protocol of D-8 Preferential Trade System will be finalized.
Measure 284. Ratification procedures of Islamic Countries' Standards and Metrology Institute (SMIIC) Statute will be completed.	Ministry of Industry and Trade	Prime Ministry, Ministry of Foreign Affairs, Turkish Standards Institute	End of December	Standards will be harmonized among member countries. Common standards will be prepared. A common certification system will be developed.

B. BILATERAL ECONOMIC COOPERATION

1. Current Outlook

Turkey's relations, starting in 1991, with Turkic Republics and Communities have continued in 2009 consistent with the medium and long term interests of Turkey and the region.

Under the Great Student Project executed by the Ministry of Education, undergraduate and graduate education has been offered for the students from Turkic Republics and Turkish or relative nations. In this context, 5,508 students have received training, 692 of them are Turkish language students at TÖMER.

For the construction of 76 km. segment of Turkey-Georgia-Azerbaijan (Kars-Ahılkelek-Tiflis-Baku) railway project, construction land delivery has been made to contractor company in May, 2008. Groundbreaking ceremony of the project was performed with the participation of the Presidents of Turkey, Azerbaijan and Georgia on 24 July, 2008.

Turk Eximbank, within the framework of credit Programs for Turkic Republics, has allocated USD 855 millions in total during the period of 1992-2007 of which USD 355 millions as commodity credit and USD 520 millions as project credit. In 2008, any credit was not released to these countries within the framework of this credit program.

TABLE: V. 1- Students from Turkic Republics and Other Nationalities (2009)

Country	TÖMER	2-Year Degree	Undergraduate	Graduate	PhD	Total
Azerbaijan	61	3	252	139	186	641
Kazakhstan	106	22	189	122	41	483
Kyrgyzstan	64	35	308	149	68	624
Uzbekistan	16	-	19	4	-	39
Turkmenistan	18	-	554	15	9	596
Other Asian	305	56	1,000	245	122	1,728
Balkans	122	74	1,030	132	39	1,397
TOTAL	692	190	3,352	806	465	5,508

Turkey's export to neighboring countries was USD 33.4 billion in 2008 representing 25.4 percent of the total export. In the first 8 months of 2009, export to neighboring countries has declined by 28 percent with the level of USD 17.8 billion when compared with the same period of the last year.

Turkey's import from neighboring countries was USD 58.7 billion representing 29 percent of the total import. In the first 8 months of 2009, import has realized at the level of USD 22.2 billion by decreasing 92 percent when compared with the same period of the last year. Oil and natural gas imports from the Russian Federation constitute the major part of our import.

When Turkey's trade structure with neighboring countries is examined, it is seen that Russia is the most important trade partner of Turkey with 19 percent share in export and 54 percent in import. Romania and Iraq follow Russia with 12 percent share each in export and Iran with 14 percent share and Ukraine with 10 percent in import.

Turkey's export to Turkic Republics was USD 3.8 billion in 2008 corresponding 2.8 percent of the total export of the same year. In the first 8 months of 2009, the amount of export was USD 2.1 billion indicating 15 percent decrease as compared with the same period of the last year.

Turkey's import from Turkic Republics was USD 4.3 billion in 2008 indicating 2.1 percent of the total import of the year. In the first 8 months of 2009, the amount of imports was USD 1.7 billion indicating 50 percent decrease as compared with the same period of the last year.

The capital outflow from Turkey to Turkic Republics was USD 4.1 billion during the period of 1992-2008. The countries received the biggest share from the capital outflow were Azerbaijan (83 percent), Kazakhstan (14 percent), Turkmenistan (1 percent), Uzbekistan (1 percent) and Kyrgyzstan (1 percent). In the first 8 months of 2009, the total capital outflow to Turkic Republics has been USD 369.3 million. Uzbekistan with USD 356.7 million and Azerbaijan with USD 10.6 million have been the two countries that received most of the capital outflow from Turkey.

In 2009, Turkey signed the Agreement of Mutual Support and Protection of Investments (MSPI) with Czech Republic. MSPI Agreements signed with Singapore, Romania and Qatar entered into force. Organization of Joint Economic Commission (JEC) meetings and signing of JEC Protocols with various countries have been continued.

Implementation studies of the Interregional Cooperation Programs with Syrian Arab Republic have been continued by extending its scope.

Along with some other neighboring countries and regions, efforts for inauguration of interregional and mutual cooperation Programs with non-neighboring countries have continued.

Various country reports are also being prepared for the purpose of developing Turkey's bilateral relations with neighboring countries in the area of economy, social and cultural relations and informing the private and public sector regarding these issues in 2009.

2. Main Objectives and Targets

Activities initiated for improving Turkey's relations and cooperation with Turkic Republics in all fields will be executed more effectively through better financial and administrative coordination.

Efforts will be made for realizing JEC meetings with Turkic Republics and fostering economic and commercial relations to the highest level in this regard.

Furthermore, special emphasis will be given to infrastructure programs in the implementation of economic and cultural Programs such as transportation, telecommunication, television broadcasting, banking, contracting activities, agriculture and mining.

In the light of experience gained from the cross-border cooperation programs with neighboring countries, the implementation of similar Regional Cooperation Programs with Turkic Republics is being targeted.

The activities within the scope of interregional or mutual cooperation Programs with Syrian Arab Republic and other neighboring countries and also with countries which are not neighbors will be done in cooperation with public organizations and institutions, NGO's and relevant entrepreneurs.

Efforts will be made for the realization of Joint Economic Commission (JEC) meetings and for the signing of Mutual Support and Protection of Investments (MSPI) Agreements with other countries and signing of Free Trade Agreement (FTA) with the other countries in accordance with Turkey's obligations deriving from the Customs Union.

3. Policy Priorities and Measures

Priority/Measure	Institution in Charge	Institutions to be cooperated	Period	Description of Objectives
Priority 122. Cultural, economic, social and other cooperation programs will continue between Turkey and Turkic Republics.				
Measure 285. Activities will be developed for Turkic Republics and Eurasia countries	TİKA	Related Public Organizations and Institutions	End of December (Continuous)	Turkey's relations with Turkic Republics will be continued with activities realized in economic, social, cultural and similar fields within a certain plan and program.

Measure	Responsible	Cooperating	Deadline	Explanation
Measure 286. The scope of Interregional Cooperation Program between Turkey and Syrian Arab Republic will be expanded.	SPO	Related Public Organizations and Institutions	End of December (Continuous)	Cooperation will be established with related public organizations and institutions, NGO's and related entrepreneurs. Geographic scope of the program will be enlarged by including additional provinces.

C. TECHNICAL COOPERATION

1. Current Outlook

The observer status of Turkey continues in the Development Assistance Committee (DAC) of the OECD which has 23 members. Turkey's Official Development Assistance (ODA) increased from USD 602 million in 2007 to USD 780 million in 2008. Turkey's ODA/GNP ratio increased from 0.09 percent in 2007 to 0.1 percent in 2008.

TABLE: V. 2- Turkey's Official Development Assistance

	2004	2005	2006	2007	2008
ODA (Million USD)	339	601	714	602	780
ODA/GNP (in percent)	0.08	0.12	0.13	0.09	0.1

Source: TİKA

Although Turkey's ODA has increased through years, the need for improvement in quality of ODA maintains. 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 programs 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. Studies related to expert inventory which may be utilized in provision of Development Assistance continue with the support of UNDP.

Due to diversification of the needs and demands with historical and cultural reasons in countries which Turkey provide assistance, Turkey's Development Assistance present more diversity in sectors as compared with other OECD countries. TİKA, which is the main implementing institution of the issues of development assistance, should make prioritization within development projects and focus on certain areas.

According to 2008 figures, Turkey's development assistance for all regions has increased. The Caucasus and the Central Asia have received the biggest share from the development assistance with USD 445.4 million. Assistance for African countries, which have become important in recent years, has recorded 67 percent increase and ODA reached USD 51.7 million in 2008.

In 2008, Afghanistan was the country which Turkey realized the most of ODA with USD 141.9 million. The second country was Pakistan with USD 84.3 million while Kazakhstan was the third with USD 61.5 million. In 2008, Turkey extended assistance to 131 countries which were in OECD's list receiving development assistance. As of September 2009, TİKA, which is Turkey's Technical Assistance Organization, has 23 Program Coordination Offices in 20 countries.

In 2008, the organization realized the most of ODA is the Ministry of Education. 18.7 percent of Turkey's ODA was realized by the Ministry of Education. This rate was 34 percent in 2007. TİKA continues to increase its share within development assistance. TİKA's share in total ODA which was 12 percent in 2007 has increased to 16.1 percent in 2008. The third organization is the General Directorate of Security with 15.5 percent share.

TİKA reserved 80 percent of its sources to projects which are carried out in social infrastructure and services sectors in less developed and developing countries in 2008 and has shown an approach consistent with reaching Millennium Development Goals of the UN. 11 percent of the above mentioned sources were used in economic infrastructure and services sectors. Furthermore, in 2008, for the purpose of maintaining cooperation and implementation of joint projects with other technical cooperation and international development organizations, cooperation agreements with UNIDO and IDB and a project agreement with United Nations Development Program (UNDP) Turkey Office have been signed.

In 2008, with the support of UNDP and other UN organizations, 71 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 2009, 4 projects are being implemented within the scope of technical cooperation with Germany. A total of 7 projects are being implemented with the support of Japan International Cooperation Agency (JICA).

In 2009, in the context of bilateral technical cooperation, 152 short period courses have been allocated to Turkey. Of these courses, 46 were allocated by India, 42 by Japan, 40 by Singapore and 24 by Malaysia.

2. Main Objectives and Targets

Turkey’s development assistance will be done so as to provide contribution to the development of the less-developed and developing countries mainly those in the Central Asia, Balkans and African countries on the basis of an understanding that is based on the needs of recipient country, the fields in which Turkey has a considerable expertise and Turkey’s priorities in foreign policy. In the context of South-South cooperation, with pioneering role of public institutions, joint actions will be taken with the developing countries.

Participation of voluntary organizations in the international technical cooperation activities will be encouraged and information and data on these activities will systematically be 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
Priority123.The quality of Turkey’s development assistance and the coordination among the organizations will be developed.				

Measure 287. With regard to Turkey's development assistance to developing countries, medium and long term strategies will be developed by taking the national priorities of Turkey and the needs of developing countries into consideration.	TİKA	The Ministry of Foreign Affairs, SPO, Undersecretariat of Treasury	End of December	Development assistance will be provided on the basis of country-specific programs 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 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 amended with a view to ensure that it addresses the need that emerged.
Measure 288. Study for the determination of Turkey's technical assistance capacity and the evaluation of the efficiency of this capacity will be completed.	TİKA	The 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 conducted to constitute a database of the experts who will be employed in technical cooperation activities.
Measure 289. Capacity of implementing institutions for development assistance will be increased.	TİKA	Related Public Organizations and Institutions	End of December (Continuous)	In implementations of development assistance that require top level sectoral expertise, participation of relevant sectoral institutions will be increased under the coordination of TİKA, and training programs for the said institutions will be realized for this purpose.
Measure 290. The Draft Law on Foreign Assistance 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 problems in the field of development assistance will be submitted to the Turkish Grand National Assembly (TGNA).
Priority 124. Emphasis will be given to the improvement of capacity related to development assistance which Turkey received.				
Measure 291. Focusing will be provided in line with Turkey's needs in cooperation with UN institutions.	SPO	Ministry of Foreign Affairs, Related Public Organizations and Institutions	End of December	In preparations of 2011-2015 period country programs of UN institutions, the areas in which UN expertise is required will be defined with the participation of relevant institutions. Within the framework of these priorities, capacity increase in national and international level in defined areas and the development of human resources in this context will be focused on.

Measure 292. An inventory study will be made for public personnel receiving training in the context of technical and financial cooperation projects.	State Personnel Presidency	Prime Ministry, The Ministry of Foreign Affairs, SPO, European Union Secretary General	End of December	Inventory record will be collected for public personnel who are sent abroad for short–term training or participating in training provided by international institutions and a system will be formulated to keep records regularly.