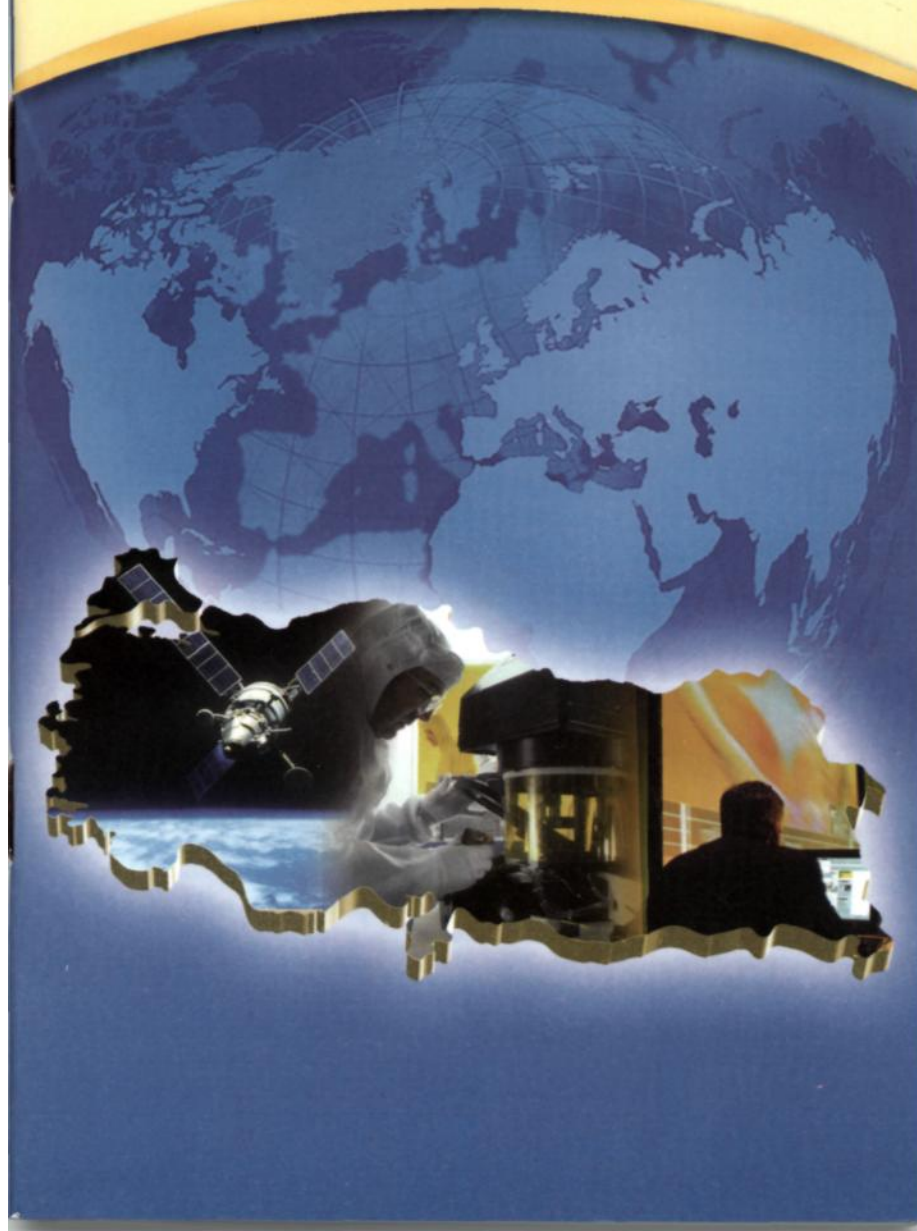


MEDIUM-TERM PROGRAMME

2006-2008



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PROGRAMME**

(2006-2008)

Medium Term Programme (2006-2008), prepared by Undersecretariat of State Planning Organization, was accepted by the decision of Council of Ministers, no 2005/8873 dated 23/05/2005 and was published in Official Gazette (2nd repeated) on 31/05/2005 no 25831.

INTRODUCTION

The first Medium-Term Programme to cover the period 2006-2008 has been prepared with a view to formulating the public policies and henceforth allocating the resources on the basis of the strategic objectives in conformity with the Law No.5018, dated 10/12/2003 on Public Financial Management and Financial Control. This Programme, designed as a road map to enhance predictability both for the public and the private sector, shall contribute further to the confidence and stability by strengthening the positive economic and social developments achieved in recent years on a more solid basis.

The Medium-Term Programme, which presents a coherent and consistent set of objectives, policies and priorities on various topics, covers the basic development axes and main sectors, in addition to macro policies.

In the programme, priorities to be focused on within a three-year period have been determined to facilitate the realization of long-term objectives. The objectives and priorities of the programme will be taken into account in the preparation of the budgets of ministries and government agencies, in the realization of administrative and legal arrangements and in the decision-making and implementation processes of the agencies. Tangible measures, projects and activities that will be helpful in implementing the relevant priorities will be formed with the contributions of the public agencies and institutions.

All measures and activities regarding implementation

will be specified together with the costs involved, the agencies in charge as well as those to cooperate and the time schedule. The implementation phase of these measures and activities will be open to public monitoring and assessment. Thus, efficiency, accountability and transparency in the formulation and implementation of public policies shall be enhanced. Furthermore, in the implementation of the programme, flexibility will be extended to the agencies as much as possible.

The programme, with its dynamic content extending over a three-year period, will be updated on an annual basis considering the implementation results and changes in overall circumstances. In this context, programme implementation and external developments, which might have an impact on the programme, will be carefully monitored and taken into consideration. The State Planning Organization is responsible for the monitoring and evaluation of the compliance of implementation with the objectives and priorities of the Programme and informing the Council of Ministers regarding the implementation.

The Programme, the first year of which will be the starting year of the negotiations for the EU membership, will be a major instrument for achieving high and sustainable growth. Thus, the welfare of the society will be increased on the one hand and convergence towards the EU averages in terms of the development level will be attained on the other. It is expected that convergence in terms of economic and social indicators will accelerate Turkey's EU membership.

The Programme will also reinforce Turkey's efforts in regional organizations and bilateral relations alongside the EU, by strengthening this mainstream orientation. The realization of the priorities mentioned in the Medium-Term Programme will also contribute to Turkey's position in the international arena as it advances towards the goal of information society in an environment of global competition.

The Programme, which integrates a competitive economic structure with effective social policies, will also have an important function in terms of allowing all segments and regions of the society to reap the benefits of growth in a balanced manner. The development process to be sustained through a solid social structure, broad-based participation and qualified human resources will be reinforced with substantial restructuring in the public sector and will be managed effectively.

During the next period,

in accordance with Article 18 of Law No. 5018, the Medium-Term Financial Plan, which is to be consistent with the basic objectives, priorities and macro targets of the Medium-Term Programme will be prepared and put into effect by a decision of the High Planning Council.

The agencies will prepare their proposals for the measures and the budgets in accordance with Article 18 of Law No. 5018, on the basis of the objectives and priorities mentioned in the Medium-Term Programme and within the appropriation proposal ceilings given in the Medium-Term Fiscal Plan. The budget negotiations with the agencies will be conducted in this context.

I. BASIC OBJECTIVE

The primary objective of the Medium-Term Programme is to improve the life quality of the Turkish people, caring for all segments of the society in an environment where Turkey's socio-economic development is accelerated on the road to the EU membership.

The current political stability, reforms so far realized, the young, educated and entrepreneur human capital, internationally competitive industry, a functioning market economy, and natural resources as well as the cultural values all will commonly contribute to the increase in social welfare.

In order to contribute to the primary objective of the Programme, achieving progress on,

- ensuring sustainable growth in a stable environment,
- enhancing the competitiveness of the economy,
- improving human resources,
- strengthening social inclusion,
- reducing regional development disparities,
- wide-spread adoption of good governance in the public sector and,
- improving the physical infrastructure,

and the completion of the continuing structural reforms by virtue of the effective use of Turkey's social and economic resources are the priority areas.

II. MACROECONOMIC POLICIES AND OBJECTIVES

The macroeconomic priorities of Medium-Term Programme include consolidating confidence and stability in the economy, ensuring high and sustainable growth, increasing employment, reducing inflation to levels compatible with those in the developed countries, eliminating the public sector borrowing requirement by the end of the programme period, and maintaining the decreasing trend in the public debt-to-GNP ratio.

A. MACROECONOMIC POLICIES

a. Growth and Employment

1. It is essential that economic growth and employment increase shall be materialized through the initiative of the private sector. Public sector will create the appropriate environment for the private sector through regulatory framework and infrastructural expenditures.
2. In this framework, continuation of the increases in production and exports of goods and services will be provided and competitiveness and resilience of the economy to external shocks will be enhanced.
3. In order to attain a stable economic growth path, it is important to attain total factor productivity growth beside labour productivity growth. To this end, progress will be achieved in the fields of macroeconomic stability, institutional structure and the investment

environment.

4. Favorable circumstances that will allow the enterprises to operate on the basis of long-term planning in a foreseeable environment will be created, particularly through reducing the uncertainties arising from public policies.

b. Fiscal Policy

To maintain macroeconomic stability, fiscal and monetary policies will be kept in harmony. During the implementation period, fiscal discipline will be vigilantly pursued. The primary surplus policy that will ensure a reduction in the rate of interest and the public debt-stock-to-GNP ratio will continue.

Public Expenditure Policy

The reform measures, which aim to increase the effectiveness, transparency and accountability in public expenditures and which significantly contribute to sustain the fiscal discipline, will continue to be implemented with particular concern.

During the programme period, the following policies will be implemented regarding expenditures:

1. The implementation of the secondary regulations, which are necessary according to Public Financial Management and Control Law, and the delegation of authorities regarding ex-ante control and internal auditing to the agencies in charge of expenditures will be ensured until the end of the transition period.
2. Strategic planning and performance budgeting practices, which have been introduced to enhance the policy formulation capacity and accountability of the institutions, will be expanded.
3. By taking budget constraint into account, the

institutions will reallocate their resources in accordance with the predetermined priorities. In this framework, the activities and projects, which have lost their priority, will be eliminated.

4. The accrual based government accounting and analytical budget code classification will also be put into implementation by the agencies outside the central government as of the year 2006.
5. In the public sector, wages and salaries will be increased by the rate of inflation.
6. Social expenditures will be redesigned to maximize their social benefits in line with social targets and priorities and the share of social expenditures in total public expenditures will be increased.
7. A single pension system, which ensures unity in norms and standards and is refined from the payments that are not financed by premiums, will be introduced while providing financial sustainability and long term actuarial accounts in balance. As a result, the deficit in the pension system as a percentage of GNP will be reduced.
8. To keep the financial burden of the general health insurance at moderate levels, the implementation of the general health insurance applied together with health reform program will be monitored closely and appropriate measures will be adopted.
9. The share of agricultural support and its distribution among various means of

agricultural support will be determined in accordance with the Agricultural Strategy Document.

10. Allocations made from various sources to meet the expenditures of local administrations will be integrated and using of these resources based on objective criteria and definite aims will be ensured.

Public Investment Policy

The efficiency of public investments will be increased and investments will be directed towards infrastructure that meets prior social needs and supports productive activities. In this framework,

11. The rationalization studies aiming at the realization of public investments in efficient, productive and timely manner will be continued.
12. Investments on education, health care, technological research, transport, irrigation, drinking water and e-Government will be given priority.
13. Public investments will be an effective instrument for regional development and for reducing interregional development disparities.
14. The investments, which are essential to implement the policies and priorities set forth for the EU membership, will be accelerated.
15. In public infrastructural investments, the models that increase private sector participation will be improved.
16. The proposal and decision of public investments will be based on qualified

feasibility studies and analyses and sector studies, which covers the analyses of problems.

State Economic Enterprises and Privatization

It is essential that state Economic Enterprises (SEEs) will be privatized in line with a pre-determined timing and strategy; however, they shall be operated productively until privatized.

17. Measures to increase the flexibility of SEEs in the decision-making process and to reduce the number of agencies and institutions that have power to intervene in the SEEs will be taken. In this framework, accountability standards will be established; an autonomous organization structure that balances the competence and responsibility will be developed.
18. SEEs will determine the prices of goods and services they produce by a competitive and market-oriented approach.
19. SEEs will function so as to attain the foreseen targets of the general investment and financial decrees. In this context, SEEs will be forced to follow pricing and financial policies; that increase the productivity, that reduce the inventory, production and marketing costs, and that is also sensitive to cost adjustments resulting from the international price movements.
20. The immovable properties of SEEs which are kept idle will be revalued at their market value and their operating units which incur losses will be liquidated, by taking their functions into account.

21. Implementation of measures aiming to reduce the idle employment in SEEs will continue; however, the need for qualified personnel will be met.
22. During the privatization process, by giving special importance to the usage of capital markets, the diffusion of capital ownership and thus the deepening of capital markets shall be ensured.
23. The provisions of the public procurement legislation, which impede the SEEs to compete freely in the market, will be reviewed.

Borrowing Policy

24. The main objective of the borrowing policy is to finance the public sector borrowing requirement with the least cost by taking into account the risks, maturity of debt and its composition in terms of currencies and the interest rate.
25. To reduce liquidity risks, which may arise in cash and debt management the policy of holding adequate amount of reserves, will continue.

Tax Policy

The main aim of the tax policy is to establish an efficient and simple taxing system that supports growth and employment policies, reduces the informal economy and, at the same time, is in harmony with the macroeconomic policies. In this context,

26. Stability in tax policy is essential to enable the private entrepreneurs to make long-term planning and to increase their ability to predict.

27. Tax legislation will be simplified by reassessing all tax exemptions allowances and deductions in tax laws, starting with the income tax.
28. In the context of reducing the tax burden on financial intermediary services, banking and insurance transactions tax will be reduced in the year 2007.
29. To improve and simplify the income tax structure, untaxed wage income will be included into the tax coverage.
30. Studies towards introducing a system that is simple, efficient and in line with the EU practices by revising the corporate tax system will be completed in a short period.
31. Corporate tax rates will continue to be reduced in the years 2006 and 2007 by taking into account the developments in public finance.
32. The arrangements on the harmonization of taxes on financial instruments will start to be implemented as of 2006.
33. The arrangements introduced to rise the own revenues of local administrations will be implemented.

c. Monetary Policy and Price Stability

Establishing price stability and making it sustainable by further reducing the inflation rate will be the basic objective of the monetary policy. To this end,

1. As of the beginning of the year 2006, explicit inflation targeting will be introduced which shall enhance the reliability of price stability target.
2. For purposes of institutionalizing the decision-

making mechanism and rendering it more transparent, decisions pertaining to the interest rate in the Monetary Policy Board, will be determined by majority voting and be binding. The summary of the minutes of the Board will be announced to the public and quantitative forecasts on inflation will be published instead of an assessment report on the monetary policy.

3. The Central Bank, with a view to guiding expectations and determining the costs for funding will carry on using the short term interest rate as the main instrument of the monetary policy, actively.
4. The floating exchange rate policy, by which the macroeconomic balances and the exchange rate supply-demand dynamics are coming into fore within exchange rate movements, will be further pursued.
5. In case of an excess supply of foreign exchange in the market, the Central Bank shall be able to sterilize the foreign exchange supply surplus through regular buying auctions to accumulate foreign exchange reserves.
6. In cases of excess volatility in the foreign exchange rate, the Central Bank will intervene in the foreign-exchange market with no intention of affecting the long-run equilibrium rate.

d. Balance of Payments

The basic objective is the sustainability of the current account deficit and financing it with guaranteed sources. In this framework,

1. In order to establish an export structure, which will support the sustainability of exports growth, adequate and efficient support mechanisms focusing on quality goods and goods of high value-added will be devised.
2. With a view to increasing exports in the context of bilateral and multilateral trade relations, mechanisms will be developed to ensure coordination among the public sector, the private sector and non-governmental organizations, to improve possibilities for exporters to enter the market and to increase their existing market shares.
3. A new exports strategy plan will be prepared for the 2007-2009 period.
4. The impact of imports on the economic structure within the scope of interior processing regime will be analyzed and appropriate measures will be taken if needed.
5. Demands for the allocation of autonomous tariff quotas in industrial products will be negotiated with the EU.
6. Mechanisms will be developed to eliminate technical barriers to trade by giving priority to neighboring countries and to those countries which are among Turkey's major trading partners and to those that have a significant trading potential.
7. To reduce the dependency of domestic production on imports in the medium-term, policies will be developed to produce intermediate inputs used by the domestic industry under competitive conditions. In this

context, efforts will be made to support the production of high technology oriented intermediate inputs in domestic markets by means of ensuring the expansion and increase of R&D activities in industry.

8. Alignment with the EU technical legislation, which is Turkey's obligation under the Customs Union, will be accelerated; the administrative, technical and physical infrastructure necessary for the efficient implementation of the aligned legislation will be established; and surveillance and control in imports will be made effective.

B. TARGETS AND INDICATORS DURING THE PROGRAMME PERIOD

a. Growth and Employment

1. During the programme period, an average growth rate of 5 per cent per annum is targeted.
2. During the programme period, the private consumption expenditures are expected to grow by 4.1 per cent, private fixed capital investments by 11.8 per cent, public consumption expenditures by 0.6 per cent and public fixed capital investment by 2.3 per cent on real average annual basis.
3. During the Medium Term Programme period, it is estimated that 1.6 million new jobs will be created as a result of employment policies aiming to increase employment opportunities.

b. Public Finance

1. It is targeted that the public sector borrowing requirement to GDP ratio, which is expected to

- be 4.1 per cent in the year 2005, will fall to 0.1 per cent in the year 2008.
2. It is targeted that the general government expenditures to GDP ratio, estimated to be 47.4 per cent in the year 2005, will drop to 42.3 per cent in the year 2008.
 3. It is foreseen that the general government non-interest expenditures to GDP ratio, estimated to be 35.5 per cent in the year 2005, would be 35.7 per cent in the year 2008.
 4. It is targeted that the general government interest payments to GDP ratio, estimated to be 12 per cent in the year 2005, will decline to 6.6 per cent in the year 2008.
 5. It is expected that the general government revenues to GDP ratio, estimated to be 42.9 in the year 2005, will be 42 per cent in the year 2008.
 6. It is foreseen that the tax burden including social security premiums to GDP ratio, expected to be 31.7 per cent in the year 2005, shall be 31.1 per cent in the year 2008.
 7. During the 2006-2008 period, a total of 9 billion dollars of privatization revenue is targeted.
 8. Agricultural subsidies provided in the context of the general budget as a percentage of GNP, estimated to be 0.72 per cent in the year 2005, are expected to rise to 0.85 per cent in the year 2008.
 9. Within the framework of the studies of rationalization of the investment programme, average completion time of the investment

stock which is estimated to be 6.6 years in the year 2005 is aimed to be lowered to 5 years in the year 2008 by the means of reduced number of the new projects to be included in the Investment Programme and increased share of the investments' allocation in the budget.

10. Gross public debt stock to GDP ratio will continue to decline. During the 2006-2008 period, a decline of 10 percentage points is targeted.

c. Balance of Payments

1. Assuming that the increase in world trade volume in recent years will continue during the programme period, Turkey's exports are expected to reach 106 billion dollars in the year 2008 by growing annually with an average of 12.2 per cent in real terms.
2. Imports are estimated to grow by 9.3 per cent annually on real basis to reach 147 billion dollars in the year 2008 under the assumptions that the crude oil prices which are expected to show a partially increasing trend in the year 2006 will slowdown to some extent in the years 2007 and 2008, the foreign exchange rates will relatively be stabilized leading to no real appreciation in the New Turkish Lira and the large increases in the imports of consumption and investments goods during the 2002-2004 period will have a relatively slowing down effect on investment and consumption demand over the medium-term.
3. Tourism revenues are expected to reach 23.7 billion dollars in the year 2008.

4. In line with these projections, the current account deficit is envisaged to fall to 12.9 billion US dollars in the year 2008 (which is equivalent to 3.1 per cent of GDP) recording a significant improvement in the medium-term.
5. Foreign direct investments, estimated to be around 5 billion dollars annually in the medium-term, are expected to play a significant role in financing the current account deficit.

D. Prices

1. In line with the basic objective of attaining the EU averages and the Maastricht criteria in inflation rates, the rate of increase in CPI is expected to fall to 5 per cent in the year 2006 and to 4 per cent in the year 2007 and keeping 4 per cent level in the year 2008.
2. During the next period, productivity increases and improvement in the competitive environment will lead to decreasing unit costs in production in the medium and long term and reduce price rigidities arising from structural problems such as inefficient production or monopoly power in some sectors.
3. The future trend in the prices of raw materials, in particular, the primary commodities and crude oil, as a result of growing demand from China; the pattern of the domestic demand; the rigidity of prices in the services sector; probable developments in international financial markets and relative stability in the exchange rate will be the factors that may influence the inflation dynamics.

III. DEVELOPMENT AXES IN THE PROGRAMME PERIOD

A. IMPROVEMENT OF HUMAN RESOURCES AND INCREASING EMPLOYABILITY

To attain a highly competitive economy and to sustain development, the quality of education will be improved, the relationship between education and employment will be strengthened and employment opportunities will be increased. In order to reinforce the employment increase induced by growth as a result of the implementation of macro economic policies, active employment policies will be introduced. In this context,

1. In order to improve quality of education, the curriculum will be updated along with the principles of innovation and research capability, an effective guidance and orientation system will be established and infrastructure regarding teaching staff, premises and information technology will be strengthened.
2. In vocational training, efforts for transition to a modular and flexible system necessary for training the manpower required by the market will be accelerated.
4. In order to raise manpower with the quality needed by the business world, the mechanisms that will strengthen the cooperation between education and labour market will be set up.

4. Vocational proficiency system which is based on professional standards, examination and certification system will be established and appropriate measures will be taken for its implementation.
5. Division of labour and cooperation between vocational higher schools and vocational and technical secondary schools on the basis of curriculum complementarity will be established, and applied educational training will be ensured in cooperation with industry.
6. Employability will be increased through special emphasis on active employment policies. In this framework, intensive and extensive training for entrepreneurship will be provided, programmes with employment guarantee will be made more widespread, and vocational counseling and guidance services will be maintained in an effective and widespread manner.
7. The components and programmes of the higher education will be updated in accordance with the regional, national and international developments and requirements, as well as the transition process to knowledge-based society.
8. The training of human resources required for information and communication technologies will be supported, particularly for maintaining employment for the unemployed educated young population, by means of using distant and non-formal education opportunities.

9. Necessary arrangements will be made to make the labour market more flexible.

B. SOCIAL INCLUSION AND COMBATING POVERTY

The basic objective is to increase the active participation of the individuals and groups that are subject to poverty and social exclusion or face this risk in economic and social life and secure social solidarity and integration by upgrading their life quality.

It is essential that a social protection network which covers the entire population and integrates the disadvantaged groups into the society be formed, accessibility to services rendered by the government be increased, migrating segments be integrated with the rest of the population and all segments of the society take responsibility in all these areas. In this framework;

1. The accessibility to education and health of the disadvantaged groups will be enhanced.
2. To reduce the risk of social exclusion, the coverage of the social security system will be enlarged and general health insurance system will be introduced. To make the social security system financially sustainable, an effective control system based on full automation will be formed. Preventive health care services will be linked with health insurance, and referral chain will be implemented effectively.
3. In order to render social services and assistance effectively to the people in need, the arrangements; ensuring cooperation among

the relevant institutions, enhancing the initiative of local administrations and non-governmental organizations, and stipulating the objective criteria in determining the people in need and satisfying their demands will be made.

4. In social assistance, priority will be given to those activities which will prevent the formation of culture of poverty, enhance employment opportunities, enhance employability and transform individuals from being needy to productive and financially self sufficient.
5. Necessary measures will be taken to reduce the unemployment risk of the poor and unqualified people who have arisen due to the structural transformation in agriculture.
6. Necessary steps will be taken to ensure the integration of the segments of the society, which are exposed to social exclusion as a result of migration, will be ensured through increasing their employability.
7. Women's participation in economic and social life will be secured and necessary measures will be taken to remove their disadvantageous status, particularly in education. The efforts towards the prevention of violence, particularly towards women, will be increased.
7. Efforts directed towards improving the status of children who live under depressed

conditions and integrating the children who are under risk will be strengthened.

9. For children who are in need of protection, the model of childcare under family surveillance will be supported; and ameliorative measures shall be introduced in cases institutional care service is needed.
10. Social and physical facilities will be improved for the handicapped, vocational education opportunities and counseling services aiming to their employment will be developed.
11. Services, which aim to socialize the convicted persons, will be made effective.

C. ENHANCING THE COMPETITIVENESS OF ENTERPRISES

The basic objective is to bring render the enterprises to possess high technological capability and qualified labour force, adaptable to the changing conditions and have competitiveness in domestic as well as global markets. Within this framework;

1. Entrepreneurship, quality, productivity, innovation and effective utilization of technology by enterprises will be supported, particularly in the SMEs.
2. Financial instruments will be diversified to enable the enterprises and entrepreneurs to have access to funds at favorable conditions.
3. Physical infrastructure and technology and information infrastructure, serving the needs

of enterprises, will be improved and clustering and network formation among enterprises will be supported.

4. Efforts aiming to reduce bureaucracy and accelerate the procedures with a view to improving the business and investment environment will be finalized.
5. Input costs, particularly in energy, will be lowered; taxes and social security premium costs on employment will be reduced without worsening the actuarial balances of the social security system; other liabilities which, through rising labour costs, encourage informal economy will be reviewed and revised; the impact of new regulations on the competitiveness of enterprises and sectors will be taken into consideration.
6. An efficient state aid system which is in line with the EU acquis and which takes into account the regional and sectoral priorities will be established.
7. Principles of good governance and institutionalization will be supported in enterprises.
8. Creation of trademark on a national and international scale will be supported.
9. In order to enhance the competitiveness of enterprises, the certification system and its infrastructure and market surveillance will be improved and aligned with the EU acquis.

10. Efforts to improve the professional and technical skills of workers in enterprises will be supported.

D. REGIONAL DEVELOPMENT AND REDUCING REGIONAL DEVELOPMENT DISPARITIES

The basic objective of regional development policies is the evenly distribution of economic development and social welfare across the country with reliance upon local initiatives and dynamics.

Equal opportunity, good governance and participation, cost sharing, transparency and accountability, effectiveness, productivity and sustainability will be taken as principles in the implementation of regional development policies.

The policies, which mobilize the local potential, will be focused on to accelerate regional development. In this framework;

1. Spatial and regional development policy framework to cover the entire country will be formed; and subsequently, principles, standards and framework of spatial development strategies and plans at lower scales (provincial and regional) will be identified.
2. Regional plans and programmes will be prepared in an operational manner; the existing integrated regional development plans will be converted into operational programmes; fund allocations will be made

consistent with these plans, and monitoring and evaluation mechanisms will be set up.

3. At the local level, institutional structures, primarily the development agencies, will be established; capacities of the existing structures will be strengthened; and division of labor between the central and local institutions will be made effective.
4. On the basis of labor market analysis to be conducted in appropriate regions, employability will be improved within the scope of practices, which improve the quality of labor, promote entrepreneurship and support clustering of enterprises, in line with the demand for human resources and SME policies.
5. Historical, cultural and natural assets which present local characteristics will be prioritized and utilized within the scope of regional programmes by taking into consideration of the balance between conservation and utilization.

With a view to confining interregional migration tendencies within the regions, ensuring the evenly spatial distribution of population and proper urbanization pattern:

5. The cities, which have characteristics of a regional center, will be identified, and through an analysis of interregional migration tendencies, the strategies and policies will be

developed to direct migration tendencies to those centers.

7. The basic migration-related problems of cities, which are under the pressure of massive migration, will be identified, and physical and social infrastructure will be improved in areas, which suffer most from migration.
8. With respect to physical planning, the duties and competencies of local and central agencies will be clearly defined and an efficient auditing mechanism will be set up.

For the purpose of reducing socio-economic disparities between rural and urban areas by increasing welfare in the rural areas;

9. A consistent rural development policy framework will be established at the national level; central and local institutional structures will be strengthened and an effective division of roles among these structures will be ensured for the implementation of this policy.
10. Special projects aiming to promote cooperation in rural areas, strengthen local capacity and support local/rural development initiatives, diversify and improve alternative non-agricultural income-generating activities will be designed and implemented.
11. In the provision of public services and public investments in the rural areas, by giving priority to central settlements, which on account of their locations have the potential of

development and providing services to the surrounding settlements, the infrastructure of these central settlements will be improved.

12. Alternative models will be developed for the provision of public services to scattered settlement units in order to ensure cost effectiveness and accessibility.

13. In case of their arbitrary claim, necessary measures will be taken to provide sustainable living conditions for the citizens in their initial or new settlements, who departed from the settlements they lived for such force measures as natural disasters, nationalization and terrorism.

E. GOOD GOVERNANCE IN THE PUBLIC SECTOR

For providing effective governance in Turkey's economic and social development process, it is the main objective that the public administration in Turkey should be able to provide citizen-focused, high quality, effective and rapid services and have the contemporary concept, philosophy, structure and functioning towards flexibility, transparency, participation, accountability and predictability.

In this context, the abolition of the units whose functions are no more needed; no formation of new departments unless indispensable, the employment of the appropriate personnel consistent with the needs of the task in terms of quantity and quality; a balanced distribution of duties and responsibilities between the

central and local administration; an adoption of citizen-focused philosophy; and utilization of information and communication technologies shall be essential. Within this framework;

1. Transparency in public administration will be increased and struggle against corruption will be effectively ensured.
2. Strategic planning and work on performance budgeting to be carried out at the level of institutions will be expanded within the framework of public financial management reform.
3. Public personnel regime will be restructured, and programmes aiming to increase the capacities of public personnel will be introduced.
4. An efficient and reliable e-government structure will be established within the context of e-Transformation Turkey Project; the use of e-government services will be promoted, and effectiveness of preparation and coordination procedures of public information and communication technology investments will be made effectively.
6. Operations and procedures of public agencies will be subject to process analysis and workflow will be accelerated by the elimination of unnecessary paper works and red-tape formalities.

6. Works aiming to improve customs procedures will be accelerated.
7. To improve the quality of legislative arrangements, methods and instruments such as regulatory impact analysis will be used.
8. With a view to rendering the judicial services more fair and rapid, funds allocated to the justice system will be increased, the shortage of judges, prosecutors and other judicial personnel will be reduced and the judges and prosecutors will be trained in the field of EU law.
9. Works aiming to render the system of execution of sentences and institutions compatible with international standards will be accelerated.
10. Nationwide standards for the services provided by local administrations will be determined, and the compliance with these standards will be audited by central government.
11. The revenue structure of local administrations will be strengthened in proportion to local and common tasks and services to be transferred from the central government.
11. In the provision of security services, the policy will be the prevention of crime before its occurrence and finding out the criminal on the basis of evidence. The supervision of the police and effectiveness of its services will be increased.

13. Organized and financial crimes, financing of terrorism, immigration and asylum and trafficking in human beings will be effectively tackled.
14. Disaster administration, comprising the period preceding to, at the time of, and the aftermath of the disaster will have an integrated structure by means of the removal of the interfering powers and responsibilities of the relevant institutions and the existing legislation will be revised.
15. Standards for urban planning and construction of buildings will be improved to ensure security against disasters, supervision of planning for zoning and construction work will be ensured, responsibilities and penalties will be explicit and distribution of tasks among institutions will be reviewed and revised.
16. Work on land registration and cadastral survey will be finalized and an information system will be established.
17. Mechanisms for social dialogue in working life, particularly in the public sector, will be made effective and widespread.

IV. SECTORAL POLICIES

A. EDUCATION AND TRAINING

The main objective of the education policy is to bring up individuals of the information society with well-developed thinking, perceiving and problem-solving capabilities. They should also be loyal to democratic values, devoted to the principles of Atatürk, self-confident, open-minded, responsible, acquainted with their national culture and able to evaluate different cultures. The reorganization work directed towards this goal will continue at an increased pace at all levels, the quality of education will be improved, and accessibility to education will be widespread.

1. Pre-school education which is important for an individual's physical, social, mental and psychological development will be made widespread.
2. To improve the quality of primary and secondary education, the curriculum will be revised to make creativity, research, teamwork, original and initiative thinking the essential elements of education and training system.
3. An effective guidance and orientation system that contributes to persons' individual and social development and prepares them for life will be introduced.
4. In secondary education, diversification in terms of programmes rather than of schools

will be essential. Secondary education will have a flexible structure that promotes equal opportunity and allows for horizontal and vertical transfers in the context of programme unity and continuity.

5. In-service training of the teaching and managerial staff, necessary for restructuring in education will be carried out rapidly.
6. Information technologies will be used extensively and effectively in education.
7. The need for buildings, equipments and teaching personnel will be met in such a way as to reduce disparities among settlement areas at all levels.
8. To improve the quality of education and satisfy the need for building and equipment in a short period of time, initiatives on the part of local administrations will be supported.
9. Higher Education Council will be made to function as a long-term planning and coordination unit.
10. It will be ensured that higher education institutions will be more competitive through specialization by means of strengthening their administrative, financial and academic autonomies.
11. It will be ensured that higher education institutions shall create funds by means of producing services and the students will participate more in the financing of education.

12. An effective system of tuition fees, scholarships and loans will be introduced for students who need support.
13. The private sector will be encouraged to take part at all levels of education.

B. HEALTH

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 to raise their quality of life. Health care services will be provided on an egalitarian and just basis, fitting to the needs and expectations of the people, of high quality, efficient, aiming to reduce disparities among regions and socio-economic groups and compatible with the needs of contemporary life, with priority given to preventive health care.

1. In accordance with the principle that “protection/prevention precedes treatment”, preventive health services will be made effective and widespread in order to avoid economic losses and increase the quality of life.
2. In the distribution of health infrastructure and personnel, interregional disparities will be reduced.
3. To meet the infrastructure needs in a cost-effective way in a short period of time, local administrations will be encouraged to take initiatives.

4. Regulations for the separation of the provision and financing of services will be completed.
5. Ministry of Health will be restructured so as to strengthen its organizational, planning and control powers.
6. An effective referral system will be introduced through the implementation of family practitioners system at a national scale, which is closely integrated with the primary health service units.
7. With a view to improving the service quality, hospital management will be made autonomous and competitive and both certification and accreditation system in health agencies will be instituted.
8. The principle of “Rational Use of Medicine” will be made more effective with a view to ensuring that the patients receive the proper medication in terms of time and dose at the lowest cost, depending upon their clinical examination and individual peculiarities.
9. In the context of preventive and primary health services, mother and childcare, reproductive health and fight against contagious diseases will be given importance.
10. Health care services for the aged, home-care services and mobile health services will be improved.
11. Adequate number of willing and skillful manpower will be employed through manpower planning in the sector.

12. In the provision of health care services, patients' rights and satisfaction will be essential.
13. National Health Information System will be made more effective.
14. Health investments of the private sector will be encouraged.

C. ENVIRONMENT AND URBAN

INFRASTRUCTURE

The basic objective is to attain a higher level of environmental protection, by protecting human health, natural resources and aesthetic values, on the basis of sustainable development principles. It is also a basic objective to meet the emerging urban infrastructure needs with the aim of making urban cities clean, secure and high quality centers of life, in parallel with rising population and economic, social and technological developments.

1. Following the assessment of the infrastructure and financial need for the implementation of the environment legislation adopted in the framework of alignment with the EU acquis, the priorities regarding implementation and negotiating position will be determined, and administrative capacity required for the management and control will be developed.
2. Work directed towards the preservation, development and putting in economic use of Turkey's biological diversity and genetic resources will be accelerated.

3. The necessary arrangements regarding the allocation, use, development and protection against pollution of water resources will be made by securing a more efficient management.
4. In the light of existing studies, urban infrastructure needs of the country will be identified and prioritized, taking also into account the regional development concerns, and a finance strategy will be adopted, which covers the cooperation between the public and private sectors, as well as a time schedule designed for environmental cohesion.
5. The Provinces Bank (İller Bankası) will be restructured according to current circumstances and its financial structure, human resources, and institutional capacity will be improved. The Bank's technical and financial support capability will be ensured with a view to allowing the local administrations to use the financial aid from the EU and other international funds.

D. SCIENCE AND TECHNOLOGY

The basic objective of science and technology policy is to become capable in science, technology and innovation and to transform this capability into economic and social value.

In this framework;

1. In the field of science and technology, a national innovation system will be formed

enhancing cooperation among institutions and the effectiveness of the private sector in the system.

2. The private sector will be supported to increase its capacity and demand for R&D.
3. The supports to the private sector to develop its cooperation with the universities and other research institutions will be increased and made more effective.
4. University and industry cooperation will be improved and R&D activities of universities shall be increased and directed towards the demand by the market.
5. Public institutions will be supported to enable them find solutions to their needs and problems through R&D.
6. R&D supports directed towards reducing the defense industry's dependency on abroad will be increased.
7. The transmission of the technologies developed for the defense industry to other sectors, universities, research institutions and SMEs shall be ensured.
8. Cooperation with the leading countries, in particular with the EU, in the field of R&D, and relevant international organizations will be enhanced.
9. Social awareness, particularly in primary and secondary education, with respect to science, technology and innovation will be increased.

10. Measures aiming at increasing the flexibility of R&D expenditures in the budget and public procurement system will be adopted.

E. AGRICULTURE

The basic objectives include a balanced and adequate nutrition of the expanding population considering food security and the formation of an organized and competitive agricultural structure, which is sustainable in economic, social and environmental terms.

To this end, policies that lead to demand-driven agricultural production shall be implemented, farm income shall be raised and stabilized, soil and water resources shall be conserved and utilized effectively, the reduction of population and employment pressure on agriculture by means of non-agricultural measures consistent with rural development policies shall be ensured.

In this framework;

1. Agricultural supports will be restructured in the context of the Agricultural Strategy (2006-2010) Document.
2. Information infrastructure concerning the implementation of agricultural policies will be set up and the administrative structure will be improved.
3. In accordance with “farm to table” food safety principle, the conditions of agricultural production at farm level and official food control system at processing level will be

improved.

4. To enhance competitiveness in agricultural exports, export subsidies will be channeled to higher value-added and branded final products.
5. In milk and meat markets, measures aiming to stabilize production will be taken.
6. Domestic sugar regime, the administration and control of quotas, in particular, as stipulated by Sugar Law, no 4634, will be rearranged.
7. Efficiency in agricultural production will be increased with improvements in input use and training-extension services.
8. Priority will be given to the methods and instruments, which aim at the efficient utilization of soil and water resources.
9. Land consolidations will be expedited and agricultural enterprises will be supported for increase in scale and use of modern management techniques.
10. Technological efficiency and agricultural R&D support in agricultural enterprises will be increased.
11. With regard to irrigation, public project stock will be rationalized, projects will accordingly be re-prioritized and adequate funds will be allocated to the priority projects.
12. Fight against forest fires, insects, diseases and other disasters ruining the eco-system, including man-made ones, will be carried out;

protected areas will be extended; afforestation works will be accelerated preferring endemic species while conserving present forests and multi-purpose use of forests will be targeted.

F. MANUFACTURING INDUSTRY AND MINING

The main objective is reaching to an export-oriented, dynamic and competitive structure in the manufacturing industry. In this framework, particularly in the sectors that competitiveness is comparatively high, policies will be directed towards enhancing innovations and increasing utilization of advanced technology, and policies in the other sectors will be directed towards upgrading the prevailing structural aspects, which is necessary for global competition.

The share of information and technology-intensive industries such as defense, aviation, machinery, chemicals, electronics and software, and biotechnology in manufacturing industry will be increased.

In mining sector, increasing supply security of raw material and increasing the value-added in the economy through domestic processing are the basic objectives.

1. Through the development and rapid diffusion of technology, generation of high value-added, relying on skilled labour and thereby enhancement of industrial competitiveness at the international level will be achieved.
2. Besides the efforts to increase the exports of traditional sectors, efforts to raise the level of exports of new industrial sectors to be

developed, will continue.

3. Industrial information system will be established.
4. Prevailing supports to modernization of industrial enterprises will be improved.
5. Establishment of enterprises in pre-specified industrial areas and transferring of existing ones to those areas will be encouraged.
6. Sectoral and institutional restructuring efforts will be implemented.
7. Measures aiming to reduce the adverse effects of ending many years applied quantitative restrictions as of 2005 in textiles and clothing, will be taken.
8. In the mining sector, meeting the needs of industrial and energy inputs with high quality on a reliable and economic basis will be ensured.
9. Efforts will be undertaken towards enhancing the efficiency and productivity of public agencies in the mining sector, and privatization strategies for these agencies will also be determined by taking into account their sectoral and regional roles.
10. To rehabilitate the domestic mining sector, legislations regarding the sector will be completed. A harmonization between mining activities and environmental issues will be ensured, taking also its economic contributions into account.

G. ENERGY

The main objectives of energy policies are to meet the energy requirements of the growing population and developing economy in a continuous, uninterrupted way with a high quality and reliable supply system. This will be achieved, through a transparent market structure, where competitive forces are active and private sector investments are dominating.

In this framework;

1. With a view of keeping the dependence on external resources at acceptable levels for energy supply safety reasons, priority will be given to the utilization of domestic resources and to the issue of energy efficiency, and the necessary legal arrangements will be made.
2. Within the scope of the prevalent activities in the Electric Energy Sector Reform and the Privatization Strategy Document, the electricity production plants and distribution companies will be privatized in such a manner as to help forming a competitive market rather than generating revenue.
3. The integration of the national electric transmission system with the European transmission system allowing trans-border energy trade will be ensured.
4. Use of natural gas will be made widespread through a competitive process and its supply safety at the national level will be guaranteed regarding seasonal variation in demand.

5. Efforts towards making Turkey the transit route in connecting the centers of energy (natural gas, electricity and oil) production in our region to Europe will continue.

H. TRANSPORTATION AND COMMUNICATIONS

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

Accelerating the transformation into information society, and thereby contributing to the enhancement of Turkey's competitive power and welfare, by means of widespread and effective use of information and communication technologies, is the main objective.

Government will assume an effective regulatory role towards the goal of improving the service capacity of the electronic communication sector in a competitive environment within global markets; the factors, which affect adversely the potential growth of the market and the widespread use of information society services, will be eliminated.

In this framework;

1. In meeting the transportation infrastructure requirements, models that increase the

participation of the private sector will be developed.

2. Efforts directed towards integrating our transport network, which links EU countries with the Caucasian countries, the Central Asia, South Asia and the Middle East Countries, to Trans-European Transport Network will be accelerated by making maximum use of EU funds.
3. The existing highway infrastructure will be improved by the completion of the ongoing dual carriage highway projects and by upgrading their standards.
4. Traffic safety in highways will be increased.
5. In freight transport, the share of maritime and railways will be increased.
6. Turkish State Railways will be restructured in order to increase the quality of service and railways' share in the sector and to reduce its financial burden on the public sector.
7. Hub ports will be established, and effective management of the ports will be ensured.
8. Flag, port and coastal state controls will be improved, and efforts will be made to encourage the Turkish citizens to prefer the Turkish Flag for the fleet they own.
9. Regional air transport will be improved.
10. To meet the needs of the urban transportation infrastructure, solutions compatible with the own sources of municipalities and national

standards will be developed.

11. The electronic communication sector shall be made more competitive.
12. The information and communications technology infrastructure will be improved and the use of Internet will be made widespread to assist the transformation into information society.
13. The postal sector will be restructured within the competitive framework, in line with the principles of speed, quality, reliability and accessibility, and in accordance with the EU regulations.

I. TOURISM

In tourism sector, the basic objective is to form a structure which embodies the dynamics of globalization, which increases the quality of services as well as the number of incoming tourists; which targets the high income groups by diversifying the market channels; preserves the natural endowments and focusing on those diverse tourism attractions where Turkey has a comparative advantage. To this end,

1. Tourism investments will be diversified and measures will be taken for expanding the tourism season to the entire year by means of a shift of investments from developed and congested areas to others.
2. The number of tourists and revenue per capita shall be increased through an improvement in

the services provided and in the profile of incoming tourists.

3. All tourism investments will be undertaken in a view of protecting and improving the natural, historical, social and cultural environment.
4. The infrastructure needs of towns and urban centers, which are in close proximity to areas where tourism activities are concentrated, will be given priority.
5. Changes in demand will be continuously monitored and promotion activities will be introduced in line with changing circumstances.
6. Diversification of tourism products for specific tourism markets will be ensured.
7. The cultural, social and natural richness of the city of Istanbul will be utilized in the context of sustainable tourism development.

ANNEX TABLE: MAIN MACROECONOMIC INDICATORS

	2006	2007	2008
GROWTH AND EMPLOYMENT			
Total Consumption ⁽¹⁾	3.5	3.6	3.7
Public	0.6	0.7	0.5
Private	4.0	4.1	4.2
Total Fixed Capital Formation ⁽¹⁾	9.8	10.1	8.3
Public	2.8	0.8	3.4
Private	12.4	13.2	9.8
Changes in Inventories ⁽²⁾	-0.1	-0.0	-0.0
Total Exports of Goods and Services ⁽¹⁾	11.0	10.6	10.4
Total Imports of Goods and Services ⁽¹⁾	9.3	9.8	8.9
GDP Growth ⁽¹⁾	5.0	5.0	5.0
GDP (Million YTL, Current Prices)	536,259	588,155	642,266
GDP (Billion Dollars, Current Prices)	364.9	392.5	422.4
GDP Per Capita (Dollars)	4,981	5,289	5,621
GDP Per Capita (PPP, Dollars)	8,880	9,476	10,129
Population (Thousand)	73,254	74,208	75,154
Labour Force Participation Rate (%)	48.7	48.7	48.7
Employment (Thousand)	22,670	23,131	23,590
Unemployment (%)	10.0	9.8	9.6
Total Factor Productivity Growth (%)	1.6	1.6	1.5
FOREIGN TRADE			
Exports (FOB) (Billion Dollars)	84.1	93.7	105.8
Imports (CIF) (Billion Dollars)	122.6	133.7	146.8
Trade Balance (Billion Dollars)	-38.5	-40.0	-41.0
Current Account Balance / GDP (%)	-4.0	-3.5	-3.1
Trade Volume / GDP (%)	56.7	57.9	59.8
PUBLIC FINANCE (Per cent)			
General Government Revenues ^{(3) (4)} / GDP	44.0	42.7	42.0
General Government Expenditures ^{(3) (4)} / GDP	46.8	44.2	42.3
General Government Borrowing Requirement ^{(3) (4)} / GDP	-2.7	-1.5	-0.3
General Government Interest Expenditures ^{(3) (4)} / GDP	9.3	7.7	6.6
Public Sector Borrowing Requirement ⁽⁵⁾ / GDP	-2.6	-1.4	-0.1
Public Gross Debt Stock / GDP	71.5	68.2	63.5
Public Net Debt Stock / GDP	56.5	52.8	47.8
INFLATION			
GDP Deflator	6.0	4.5	4.0
End Year CPI	5.0	4.0	4.0

(1) Real percentage changes.

(2) Contribution to growth.

(3) Includes public agencies under the general budget, administrations under the private budget, regulating and auditing institutions, social security institutions, local administrations, revolving funds and other funds.

(4) As it has been the first year of application of Law No.5018, the institutions with private budget could not be fully reflected into the accounts.

(5) Includes General Government and SEEs.