
REPUBLIC OF TURKEY

**MEDIUM TERM
PROGRAMME
(2011-2013)**

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INTRODUCTION

The previous Medium Term Programme (MTP) covering the period 2010-2012, put in force in an environment in which the deepest contraction in the world economy was observed since World War II, fiscal and monetary policies were executed successfully in the context of Program with high political decisiveness.

MTP established the confidence of production sectors, foreign markets, consumers and investors and contributed the economy to recover rapidly by removing the uncertainties regarding to economic policies in a short time. Turkey has taken a place among a few countries declaring exit strategy from crisis in the field of fiscal policy and presenting a medium term framework for economic units. This situation gave an advantage to Turkey in capital markets in which all the economies are evaluated in terms of debt sustainability. Urgent need of medium term programs due to concerns about public deficit and debt sustainability in many countries has affirmed the fact that Turkey took timely and right steps.

Public Financial Management and Control Law no: 5018, requires annually preparation of MTPs in a three year perspective. MTP prepared for the period 2011-2013 in the context of this provision, is consequent of previous MTP and comply with the existing principles, policies and priorities.

I. DEVELOPMENTS IN WORLD AND TURKISH ECONOMY

A. WORLD ECONOMY¹

To prevent the transformation of the crisis, which affected the whole world since the second half of 2008, into an economic and financial collapse, governments and central banks took large-scale monetary and fiscal measures to normalize the functioning of the financial system, to build confidence again, and to increase the total demand. With the contribution of these measures, the contraction in the world economy in 2009 was not as high as foreseen and economic recovery began earlier than expected. World economy contracted 0.6 percent in 2009, while the estimate was 1.4 percent. On the other hand, the economic consequences of the crisis for different country groups showed significant variability. While developed countries contracted 3.2 percent in 2009, the developing and emerging market economies grew 2.5 percent due to higher growth observed in China and India.

As a result of the global economic crisis, world trade volume contracted by 11 percent, while the world trade prices of goods and services declined by 10.3 percent in 2009. The crisis also led to a worldwide slowdown of price increases significantly. In developing countries, consumer price inflation was realized as 5.2 percent in 2009 with 4 percentage

¹ The forecasts for the international economic indicators were taken from the IMF, World Economic Outlook, October 2010.

points decrease compared to the previous year. In developed countries, which were most affected from the crisis, consumer price inflation fell to the level of 0.1 percent with a decrease of 3.3 percentage points and this development raised the risk of deflation in some of these countries.

The negative effects of the economic contraction in 2009 were also observed in unemployment rates. Unemployment rate in the Euro Area rose to 9.4 percent, in the United States to 9.3 percent and in OECD countries to 8.3 percent. As of July 2010, unemployment rates in these countries increased a bit more.² Current developments and low growth expectations signal that unemployment rates may stay on these levels for a long period. Indeed, the IMF's World Economic Outlook Report released in October, estimates the unemployment rates of U.S. and the Euro Area as 9.6 percent and 10 percent, respectively, for 2011.

Macroeconomic developments confirm the expectation of slow but steady recovery for developed economies and strong growth for emerging economies in 2010. In this context, the growth rate is expected to be 2.6 percent for US, 1.7 percent for the Euro Area, 2.7 percent for advanced economies, 10.5 percent for China, 9.7 percent for India, and 7.1 percent for emerging economies in 2010. Thus, the world economic growth is estimated to be 4.8 percent.

² OECD, Harmonized Unemployment Rates, September 2010.

In 2009, in US and the Euro Area economies, the general government deficit to GDP ratios were realized as 12.9 percent and 6.3 percent, respectively, with the contribution of expansionary economic policies applied against the global crisis. This ratio is expected to fall in the United States starting in 2010, and in the Euro Area starting in 2011 and expected to decline to 6.5 percent in the United States, to 2.8 percent the Euro Area in 2015.

The gross debt stock to GDP ratios of United States and the Euro Area reached the levels of 84.3 percent and 79 percent, respectively in 2009, from the levels of 62.1 percent and 65.9 percent in 2007. These rates are expected to continue to rise in the upcoming period and reach the level of 110.7 percent in the United States and 89.3 percent in the Euro Area in 2015.

Deterioration of public deficit and debt stock has been much more serious in some European countries and concerns for the sustainability of the public debt in these countries have emerged. Lack of macroeconomic policy coordination and the fragile structure of the banking sector in European Union (EU) caused a serious loss in value of euro in international markets. This development, as expected from the beginning of the crisis, strengthened the expectations that the Euro Area's recovery from the crisis will be more gradual when compared with the world. However, outlook of the EU economy is improved relatively because of the developments that many countries experiencing debt problem declared fiscal measure packages to reduce public deficits, support

mechanism was created with the IMF's contribution for the countries of EU in difficult position, the applied stress tests did not show a significant problem in the banking system, and German economy followed a strong recovery path.

In summary, fiscal policies applied to reduce the effects of the global economic crisis, fiscal burden stemming from financial sector, and cyclical budget effects increased public deficits and debt stocks significantly. Thus, the economic crisis has become, particularly for European countries, kind of a debt crisis. Even in the long run, halting the upward trend in countries' debt stocks can be possible only with a gradual and steady improvement of public balances during the period. Therefore, fiscal tightening was prioritized in the agenda of countries in order to ensure the sustainability of public debt.

Although a general revival and growth is expected in world economies in the upcoming period, uncertainties continue due to fiscal and financial vulnerabilities stemming especially from high public deficits and weak growth performances in developed countries. In addition to the debt crisis in the EU, the fact that the EU and US unemployment rates reached high levels and became sticky, gives rise to uncertainty in global economic expectations. Recently, the decline in growth rates in the US has strengthened the negative expectations, and the US growth rate forecasts for 2010 were revised downward. Together with the rapid rise in public debts and deterioration in fiscal balance sheets, there is a possibility that the rising risk premiums

may have an impact on banking sector and affect consumption and investment decisions negatively. The fact that the monetary policy reached its limits as the policy rates approaching to zero, and high levels of public deficit narrow the additional monetary and fiscal policy options and this increases the global uncertainty.

In the short term, a decline has been recorded in the potential output levels of world economies due to the global crisis. The decline is more evident in the economies such as EU and US that were affected more from the crisis. This situation makes the solution of existing problems of unemployment and public debt burden even more difficult.

B. TURKISH ECONOMY

Global crisis affected the Turkish economy through three channels as foreign trade, financing and expectations. The Turkish economy which began to contract from the second quarter of 2008, have tended to recover since the second quarter of 2009 as a result of the measures taken to support domestic demand and output. Economic recovery was supported by timely and proper policies within the frame of MTP. With the MTP, it is declared that public deficits will be gradually reduced in three years and the public debt stock be kept under control. The practices of fiscal policy in 2009 and 2010 are in line with the MTP.

Declining uncertainties, increasing consumer confidence and improving credit conditions have raised the domestic demand via influencing consumption and investment decisions positively. The acceleration in economic recovery also continued in 2010 and in the first half of the year GDP increased by 11 percent over the same period of the previous year. So, Turkey took a place among a few fastest growing economies.

In parallel with the economic contraction in 2009, the ratio of current account deficit to national income realized as 2,3 percent with a decrease by 3,4 percentage point over the previous year. However, in 2010, current account deficit have tended to rise again with the economic recovery. In this period, no difficulties have been encountered in current account financing. With the economic recovery and increasing confidence, capital inflows have resumed since May 2009 and have increasingly continued through mainly deposit and portfolio investments.

With the uncertainty caused by the global crisis, the unemployment rate rose to 14 percent in 2009 due to the contraction in employment opportunities. However, no loss was observed in total employment. While non-agricultural employment decreased by 1 percent, agricultural employment increased by 4.5 percent, so total employment was increased by 0,4 percent.

Increase in economic activity above the expectations in the first half of 2010, declining uncertainties and measures taken to enhance employment have led to a rise in employment

opportunities and therefore the unemployment rate receded continuously to 10,5 percent as of June. Despite the increase in the labour force participation rate, a decline in the unemployment rate was observed. As of June 2010, non agricultural unemployment rate decreased by 3 percentage point to 13,4 percent, the youth unemployment rate on the other hand fell by 4,6 percentage point to 19,1 percent over the same period of the previous year. As of the same periods, non-agricultural employment rose by 6,8 percent and the number of regular and casual employee increased by 8,4 percent. With the improvements in employment opportunities, the unemployment rate in 2010 is expected to be 12,2 percent.

At the end of 2009, the rise in CPI decreased by 3,5 points compared to 2008 and realized as 6,5 percent. Marked slowdown in economic activity due to the global crisis and the decrease in commodity prices are the main factors in this situation. On the other hand, inflation began to rise in the last quarter of 2009 due to price increases caused by tax adjustments combined with the increases in unprocessed food prices and this trend increasingly continued in the first four months of 2010. By September 2010, the inflation has risen to 9,2 percent, due to continued slowdown in service inflation and increases recorded in unprocessed food prices albeit slow down in energy prices. The CPI is expected to rise 7,5 percent annually at the end of the year under current circumstances outlook.

Structural reforms in many sectors mainly

in banking sector and long-continued tight fiscal policies enabled Turkish economy to enter the global crisis with sound macroeconomic grounds and gave room to initiate policies to reduce the effects of the global crisis on Turkish economy.

Due to the stimulus packages aimed at reducing the effects of the global crisis on Turkish economy, general government deficit to GDP ratio which was 0,2 percent in 2007 has increased substantially in 2009. Public debt stock to GDP ratio, which was decreasing continuously until 2008, increased in 2009 due to the rise in public deficit and the decline in growth. Nonetheless, both public deficit and debt stock to GDP ratio realized below the expectations, particularly due to the measures taken in the middle of the year 2009, steps taken in accordance with MTP and growth above the expectations in the last quarter of 2009. In this respect, by the end of 2009, general government deficit to GDP ratio realized as 5,4 percent which was expected to be 6,6 percent; general government debt stock to GDP ratio realized as 45,5 percent which was expected to be 47,3 percent.

The improvement in public finance indicators continued in the year 2010, by the help of adherence to the measures in MTP and early and strong recovery of the economy.

These positive results in public finance, attained in an era that countries, especially the developed ones, are evaluated in terms of sustainability of public debt have given opportunity to Turkey to be rated in a better position.

These positive developments have been affirmed by many improvements in indicators of confidence and risk premium. In 2010, Turkey borrowed from domestic markets with 10 years maturity for the first time in the Republic history. The maturity of eurobonds issued in foreign markets exceeded 30 years, and the interest rate of these bonds was realized less than the rate of those bonds issued by the countries that have higher credit rates than Turkey. Similarly, the risk premium of Turkey decreased to below some developed economies and the risk perception of investors regarding Turkey has become lower. As a result of the measures developed to tackle the crisis and the resilience of the economy, Turkey's credit rating has been upgraded one grade by three credit agencies and two grades by the fourth, in a short period.

II. MAIN OBJECTIVE

The main objective of the Medium Term Programme covering 2011 – 2013 periods in line with the ultimate goal of increasing the welfare level of our country is to stabilize growth, to enhance employment, to improve public balances and to provide price stability.

Structural transformation need continues in the areas including the competitiveness of the economy, efficiency in public expenditures, good governance, state aids, education system, judicial system, informality, local administrations and regional development.

To enhance employment, policies will be given importance to increase quality of the labor force, flexibility of the labor market and participation in the labor force as well as the policies ensuring steady growth environment.

Reducing the public sector deficits will support on one hand to strengthen confidence, stability and predictability in the economy, on the other hand to increase the resources that can be used by the private sector, so it will help to realize a private sector-led growth process.

III. MACROECONOMIC POLICIES AND OBJECTIVES

A. TARGETS AND INDICATORS IN THE PROGRAMME PERIOD

In formulating the macroeconomic framework of the Programme; slow and stable growth in developed countries, but rapid economic growth in developing countries, increase in the world trade volume above its long term average, rise in net private capital inflows to emerging market economies, a smooth current account deficit financing and no drastic rises in international commodity and crude oil prices were assumed.

1. Growth and employment

- i) In the exit phase of global crisis, a rapid rise in domestic demand and production has been observed in 2010, particularly in the first half, and GDP has increased by 11 percent. The growth is expected to slow down in the second half of 2010 due to declining base effect and to end up with annual 6.8 percent increase. Growth is forecasted to be 4.5 percent in 2011 and targeted to reach 5.5 percent in 2013. Besides the underlying assumption suggesting that world economy will have recovered from all the adverse effects of the global crisis by the end of the Programme period, the main factors contributing to the accomplishment of this target will be continual convergence to potential output and adherence to policies placed in MTP.
- ii) In the Programme period, annual average

real increase is expected to be 4.4 percent in private consumption, 10.8 percent in private fixed capital investment and 3.9 percent in public spending. On the other hand, public fixed capital investment is estimated to decrease by 2.5 percent on average in this period.

- iii) In the Programme period increases in public and private savings is expected. However, private saving-investment gap, which is already negative, is estimated to increase.
- iv) In the Programme period the creation of 1.5 million additional jobs (excluding agriculture) is expected with the help of reforms aimed at increasing flexibility in labour market as well as economic growth. Due to the contraction expected in agricultural employment, total increase in employment is expected to be 1.1 million.
- v) At the end of the Programme period employment and unemployment rates are expected to be 43 and 11.4 percent respectively.

2. Public Finance

- i) Public sector deficit to GDP ratio which is estimated to be 3.4 percent at the end of 2010, is expected to decline to 1.2 percent at the end of the Programme period.
- ii) Similarly, general government deficit to GDP ratio, which is expected to be 3.7 percent in 2010, is targeted to decline to 1.1 percent in 2013.

- iii) Public sector surplus excluding interest expenditure and privatization revenues to GDP ratio which is expected to be 1 percent in 2010 is estimated to increase to 1.7 percent.
- iv) General government expenditures to GDP ratio, which is estimated to be 39.1 percent in 2010, is predicted to decline to 36.1 percent in 2013.
- v) General government non-interest expenditures to GDP ratio, which is estimated to be 34.4 percent in 2010, is expected to decline to 32.6 percent with a continuous decline throughout the Programme period.
- vi) General government revenues excluding privatization revenues which is expected to be 35 percent of GDP in 2010, is projected to be 34.3 percent in 2013.
- vii) Tax burden including social security premiums (excluding tax rebates) which is expected to realize 26.2 percent as a ratio to GDP, is estimated to rise to 26.4 percent of GDP in 2011 and decrease to 26.2 of GDP again at the end of Programme period.
- viii) General government nominal debt stock (EU definition) to GDP ratio which realized as 45.5 percent in 2009 is estimated to decrease to 42.3 percent in 2010. With a steady declining trend, this ratio is projected to further decrease to 36.8 percent by the end of Programme period.

- ix) The programmed level of 0.3 percent primary surplus of SEEs over GDP is expected to be 0.1 percent deficit since the SEE system has shrunk due to the programmed privatization and the natural gas consumption stayed below the supply.

3. Balance of Payments

- i) The recovery process in world trade and the economies of trading partners, and the positive reflection of this development in external demand is expected to continue during the Programme period. As a result, exports are expected to reach USD 160 billion at current prices with an annual average growth rate of 12.7 percent.
- ii) In line with the growth in Turkish economy, imports are expected to rise rapidly and reach USD 245 billion in 2013 with an annual average increase of 11.3 percent. Mineral fuels and oils import (chapter 27th) is expected to reach USD 53.1 billion at the end of the Programme period.
- iii) With the implementation of the policies envisaged in the Programme, a gradual increase is expected in the ratio of exports to imports and thus foreign trade deficit to GDP ratio is estimated to remain at the level of 9.3 percent.
- iv) The share of tourism revenues in GDP is

estimated to remain at the level of 3 percent during the Programme period.

- v) Despite the average growth rate of 5 percent targeted for the Programme period, the ratio of current account deficit to GDP is expected to be around 5.3 percent on average with the contribution of policies aiming to increase domestic savings.

4. Inflation

- i) The downward contribution of total demand conditions to inflation is anticipated to continue during the Programme period. Policy interest rates are expected to stay at single digit levels during the period after showing a limited increase in 2011; food inflation and oil prices are expected to be at 7 percent and 80-85 dollar level respectively. In this framework, YoY increase in CPI is projected as 7.5 percent for 2010; 5.3, 5, 4.9 percent for the years 2011, 2012, 2013 respectively.

B. MACROECONOMIC POLICIES

1. Growth and Employment

- i) Monetary, fiscal and revenues policies will be implemented in coordination to provide sound, sustainable and job creating growth in the aftermath of crisis.
- ii) The efforts aimed at increasing the domestic savings will be proceeded. Increasing public savings in the context of fiscal discipline will contribute to realization of this target.
- iii) Policies aiming at boosting private investment and exports will be proceeded for reinforcing economic revival after crisis and stable growth.
- iv) Development of physical and social infrastructure in public investments will be prioritized.
- v) Policies helping to extend job creation capacity of the economy will be prioritized. In this context, the flexibility of labour market will be increased and the quality of labour force will be improved.
- vi) The competitiveness of SME's will be reinforced and job creation capacity will be enhanced.
- vii) The contribution of local capacity and dynamics to national growth and development will be increased.
- viii) Employment and value added in rural areas will be increased by enhancing economic activities that have relatively high productivity.

2. Fiscal Policy

By reducing the public sector deficit, financial sources available for private sector will be increased to support private sector-led growth.

Administrative and legal regulations towards increasing the fiscal transparency and accountability will be continued and the implementation of the initiated reforms will be strengthened.

Conformity with international standards of public financial statistics that are of great importance in policy formation and analyzing processes will be ensured.

a. Public Expenditure Policy

In utilization of public resources, it is essential to act in accordance with pre-determined policies and priorities and to build public expenditures on firm grounds by revising activities and projects in terms of necessity, effectiveness and efficiency. Within this framework;

- i) The expenditure programs will be reviewed by the public administrations; activities and projects which do not respond to the needs and are inefficient will be eliminated, so fiscal space will be created by utilizing public resources more effectively in accordance with necessities,
- ii) The recruitment of personnel in the public sector will be made in accordance with the efforts aiming at the determination of the personnel need and increasing the competency of the

human resources and consistent with the limitations in the central government budget laws.

- iii) Without compromising the quality of health services, measures aiming at making medicine and treatment expenditures more rational will be continued. Measures aiming at eliminating financing difficulties of university hospitals will be taken.
- iv) In order to perform more efficient supervision regarding health expenditures, auditing models taking into account previous behaviors of health service providers will be developed; in risk analysis and data mining fields, software, hardware and education infrastructure will be strengthened.
- v) General health insurance system will be continued to be implemented together with the health transformation program in order to keep its financial burden at a reasonable level.
- vi) In order to make social assistance programs more effective; links between social assistance programs and employment will be set up and double utilization from social assistance programs will be prevented.
- vii) The deduction from the general budget tax revenues of the local governments on account of the liabilities to the public sector will be made regularly and the ratio of deductions will be determined in a way that it will avoid new debt creation and help reducing the debt stock.

- viii) Legal arrangements, which will ensure compliance with EU acquis regarding scope, definitions and exceptions, and enhance efficiency and transparency of the public procurement system, will be put into effect.
- ix) Concerning the arrangements and implementations leading to fiscal outcomes, impact analyses, including medium and long term reflections as well as short term, will be carried out.

b. Public Investment Policy

The effectiveness of public investments will be enhanced. The investments will be directed towards infrastructure that meets social needs having priority and supports productive activities and it will be used as an effective instrument in realizing the aims of sectoral, regional and cohesion to EU. Within this framework;

- i) Public investments will be realized effectively, productively and punctually and the existing capital stock will be used more efficiently.
- ii) Infrastructure investments in education, health, technological research, transportation, drinking water and improvement of information and communication technologies will be given priority.
- iii) Public sector investments, especially South Eastern Anatolian Project, Eastern Anatolian Project, and Konya Plain Project, will focus on economic and social infrastructure projects that aim at reducing regional development

disparities.

- iv) The required investments to realize the policies and priorities for EU membership will be accelerated.
- v) The models encouraging private sector participation in public infrastructure investments will be disseminated.
- vi) Public investment proposals and decisions will be based on sectoral research including problem and result-oriented approaches, and sound feasibility analyses and studies.

c. Public Revenue Policy

The main purpose of the public revenue policies is to contribute to investment, employment and growth, to reduce informal economy and to constitute an effective, simple and fair tax system. Promoting individual and corporate savings and capital accumulation has particular importance. Within this framework;

- i) Stability in implementation of tax policies and foresight in taxation will be essential.
- ii) Tax policies oriented to accelerate foreign direct investments, to support investment and R&D activities, to increase employment and to reduce the regional development disparities will continue to be implemented.
- iii) Exceptions, exemptions and tax deduction provisions prescribed in the tax laws will be reviewed within the framework of socio-economic policies and objectives and tax legislation will be simplified. The amount of tax

expenditure emerged due to the exceptions, exemptions and deductions will continue to be calculated.

- iv) Audits for preventing tax losses and evasion will be increased mainly on heavily taxed products.
- v) In order to ensure punctual payments of taxes and other fiscal liabilities, an effective collection system will be established.
- vi) Studies on increasing voluntary tax compliance and broadening the tax-base will be continued.
- vii) Lump-sum taxes and fees will be updated by taking the general economic environment into account.
- viii) Efforts on strengthening the audit and implementation capacity of tax administration will be continued.
- ix) Related to tax disputes, necessary arrangements will be made in the field of administrative jurisdiction.
- x) Arrangements to increase own revenues of local governments will be implemented. In order to increase own revenues of local administrations it will be benefited more from the increases in asset values led by the construction and infrastructure services.
- xi) Idle immovables belonging to the Treasury will be brought in the economy through projects developed in coordination with relevant public institutions and organizations.

d. Public Borrowing Policy

Public debt management is based on the principle of meeting financing requirement at the lowest possible cost in medium and long term, within the framework of risk level determined in accordance with the cost factors, domestic and foreign market conditions. Within the context of this policy;

- i) To avoid crowding out effect of public sector borrowing, domestic debt rollover ratio will be reduced gradually.
- ii) In order to increase transparency, taking into consideration the public's needs, funding programs and debt information will continue to be disclosed on a regular basis.
- iii) Studies on the development of new instruments and new sales methods for the purpose of expanding the investor base of Government Domestic Borrowing Instruments will be pursued.

e. Public Financial Management and Audit

In order to ensure that administrative and financial responsibilities are fulfilled as required, it is essential to realize the new financial management and auditing understanding brought by Public Financial Management and Control Law No. 5018 with all of its components. Within this context, it is essential that internal control systems are established in a healthy way and internal and external audit are conducted in coordination and effectively.

- i) To ensure an effective external audit in

accordance with Law No. 5018, the legal and human resource infrastructure of Court of Accounts will be enhanced.

- ii) The auditing activities of Court of Accounts will be expanded in the public sector. Further contribution of Court of Accounts to effective operation of internal control and audit system will be ensured.
- iii) Policies for effective implementation of the financial management, internal control and internal audit activities, which are necessary for enhancing the management responsibility in the public institutions, will be strengthened
- iv) Activities of public administrations will be based on public internal control standards.
- v) Quantity and competency of human resources will be enhanced to ensure effective rendering of required services of public financial management in public institutions.

f. State Economic Enterprises and Privatization

It is essential that SEEs will be operated in accordance with profitability and efficiency principles. Privatization activities of SEEs in line with a pre-determined schedule and strategy will be maintained decisively.

- i) A strategic management approach based on delegation, accountability, transparency, efficiency in decision making processes and performance based management in SEEs will be made widespread.

- ii) All corporate policies of SEEs will be determined so as to attain the targets foreseen in the strategic plans and in the general investment and financial decrees, and implemented effectively.
- iii) The current market value will be taken as the basis in appraisal of real estate properties of SEEs. The transfer of properties of SEEs which are not idle will be possible in such a way so as the efficiency and integrity of the SEEs and environmental health will not be adversely affected. Expropriation Law No. 2942 will be taken as a basis for evaluating acquisition of properties of SEEs requested by other public institutions and associations.
- iv) Operation units of SEEs, that continuously incur losses and could not operate profitably despite of any taken measures, will be eliminated.
- v) Measures will be taken to meet SEEs requirements for competent personnel.
- vi) It is targeted that the state will withdraw completely from electricity distribution and sugar production sectors; the share of the state in telecommunication, port, highway and bridge operation sectors will be reduced.

3. Balance of Payments

In order to ensure stable and sustainable growth environment, controlling current account deficit

and financing it by non-debt creating sources are essential.

- i) With the aim of increasing global competitiveness of firms in international trade, the production and marketing process of innovation and R&D based, high value added and branded products and services will be supported.
- ii) In order to increase market diversification in export within the context of regional strategies, trade volume with African, Asia-Pacific and similar country groups, which are relatively less influenced by the global crisis, will be increased.
- iii) Market entry projects and action plans will be prepared and carried out within the “Country Desks” aimed at promoting trade relations with the determined countries. Besides, the market entry barriers that exporters face will be identified and attempted to eliminate.
- iv) In order to decrease high dependency of production and exports on imports, domestic production capacity intensifier policies and supports will be maintained especially in intermediate and capital goods.
- v) Harmonization with EU Acquis will be improved and the supply of safe and quality products to domestic and foreign markets will be provided. Furthermore, regulations will also be made compatible with product safety audit systems

regulation of EU regarding imports from the third-world countries.

- vi) To improve export credit and guarantee schemes, the raise in Export Credit Bank of Turkey's resources will be maintained.
- vii) In the framework of "Input Supply Strategy" as a part of "Output Oriented Export Strategy", necessary amendments and adjustments will be made parallel with developments occurring in the inward processing regime, domestic production and control conditions.
- viii) For the revitalization of Silk Road, efforts to enhance the cooperation among the customs administrations on the route lying from Japan to Turkey, to facilitate trade and to accelerate border crossing will be pursued.

4. Monetary Policy

Monetary policy in 2011-2013 periods will be implemented in accordance with the inflation targeting regime. The main objective of the monetary policy is to establish and to sustain the price stability. In line with this target;

- i) The short term interest rates will continue to be used as the main monetary policy tool. The monetary policy tools other than short term interest rates can be used in the upcoming period with the aim of increasing the efficiency of monetary policy and decreasing the risks related to economy.
- ii) Inflation targets will be stated by the

Government and Central Bank for three year periods.

- iii) In cases which inflation realizations exhibit excessive deviations from the target or when any probable risk of deviation emerges, to ensure accountability and transparency of the monetary policy, the Central Bank will declare in written form to the government and announce to the public the reasons of the deviation from the target and measures that should be taken in order to converge to the original target again.
- iv) The operational framework of monetary policy enabling a flexible and effective liquidity management will continue to be followed in the Programme period.
- v) The floating exchange rate policy will continue to be pursued in the Programme period.
- vi) Foreign exchange selling auctions may be started if unhealthy price formation occurs as a result of loss of depth in exchange market. Moreover, in case of speculation depending on loss of market depth, the foreign exchange market can be intervened directly.
- vii) By considering the market conditions, foreign exchange buying auctions for foreign exchange reserve accumulation will continue within the pre-declared program.

IV. DEVELOPMENT AXES IN THE PROGRAMME PERIOD

A. ENHANCING COMPETITIVENESS

1. Improving the Business Climate

The main objective is to improve the business climate by providing a competitive structure. Within this framework;

- i) With the aim of enhancing SMEs' access to finance, efficiency of the supports will be improved and financial instruments will be diversified.
- ii) Effective supports for increasing competitiveness of SMEs, new entrepreneurs, tradesmen and artisans will be provided, monitoring and evaluation systems for these supports will be developed and coordination and cooperation between the institutions will be strengthened.
- iii) Efforts on reducing red tape, accelerating the procedures and reducing the cost of procedures with a view to improving the business environment will be maintained.
- iv) Efforts to harmonize the state aids with the EU acquis will be continued.
- v) To ensure the efficiency of the intellectual property system; short, medium and long term strategies will be determined, institutional capacity and legal infrastructure will be strengthened, efficient cooperation and coordination between institutions will be ensured, a diffused and common culture of intellectual property will be constituted in the society.
- vi) Entrepreneurship information system will be improved.

2. Reducing the Informal Economy

The main objective is to reduce the informal economy through the targets of enhancing competitiveness, preventing unfair competition and contributing to public finance. Within this framework;

- i) The Strategic Action Plan to Combat with Informal Economy will be updated. Under scope of overview of this plan, registered activities will be encouraged by strengthening institutional and social consensus against informality, auditing capacity and efficiency of the sanctions will be improved.
- ii) In order to ensure effectiveness in auditing, primarily tax auditing, in a way that also includes cross-checking among institutions, human and technological infrastructure of public institutions will be improved by attaching importance to development of implementation capacity of institutions.

3. Developing the Financial System

Confidence and stability in the financial sector will be strengthened and international competitiveness of the sector will be enhanced. Within this framework;

- i) More effective monitoring of financial markets, increasing the effectiveness of systemic risk management and improving the collaboration with related foreign authorities will be ensured.
- ii) Implementations aimed at protecting the rights of consumers and investors in the financial sector will be improved.
- iii) The regulation and supervision of financial sector will be improved in line with the

international standards, EU acquis and new works executed by the leadership of G-20 platform following the global crisis period.

- iv) Istanbul International Financial Centre Project will be implemented meticulously.

4. Improving Energy and Transportation Infrastructure

a. Energy

The main objective of the energy policy is to meet the energy needs of increasing population and growing economy in a continuous, quality and secure manner at a minimum cost in a competitive free market environment. Within this framework;

- i) Necessary measures will be taken to ensure electricity supply security and to provide the realization of electricity generation, transmission and distribution investments in parallel with the supply-demand projections,
- ii) The privatization of electricity distribution and generation facilities will be realized by considering the price structure in the market and the other sectoral priorities as well as for revenue generation.
- iii) For the purposes of creating robust resource diversity and enhancing the security in electricity supply, the efforts for the construction of nuclear power plants (NPP) will be maintained,
- iv) By considering the resource utilization targets for electricity generation declared in “Strategy Paper for Electricity Market and Supply Security”, the measures to increase the share of domestic resources in electricity generation

will be taken while electricity costs are kept at minimum levels,

- v) Dependency on natural gas and imported coal in electricity generation will be reduced. Natural gas usage for the areas other than electricity generation will be boosted through a competitive process and natural gas supply security will be ensured at the national level considering the seasonal demand variations.
- vi) The policies for minimizing the losses in electricity generation, transmission and distribution; for increasing the supporting levels as part of the Energy Efficiency Law; for making various practices such as demand-side management, high-efficient cogeneration and insulation prevalent will be implemented,
- vii) Efforts to make Turkey a transit country and a hub for the transportation of energy (oil, gas and electricity) resources in our region to the world markets will be continued.

b. Transportation

The main objective in the transportation sector is to create a transportation infrastructure which is securing a balance among modes, is compatible with modern technological and international standards and is sensitive to the environment, where transportation is conducted safely, economically and rapidly. Complementary balance between transportation sub sectors and widespread use of combined transport are essential. Within this framework;

- i) Traffic safety will be improved in all transport modes.

- ii) With utmost utilization of the EU funds, efforts for integrating national transport network to Trans-European transport, providing Turkish ports to take place on the main axes of EU Motorways of the Sea (MoS) and integration to the Single European Sky will be continued.
- iii) The ongoing dual carriage highway projects will be completed and the existing highway infrastructure will be improved by upgrading its standards.
- iv) Turkish State Railways' (TCDD) service quality will be increased and high speed train passenger transport will be expanded. In order to increase the share of rail transport and reduce TCDD's financial burden on public finance, rail transport sector and TCDD will be restructured.
- v) In freight transport, the priority will be given to rail and maritime transport; ports will become logistics centers that enable combined transport via improving hinterland connections. Appropriate port areas will be determined, hub ports will be established, effective and efficient management of the ports will be ensured.
- vi) Medium and long term capacity needs of the airports will be studied and necessary measures will be taken in order to develop regional air transport.
- vii) The efficiency and the productivity will be increased in the planning, scheduling, realization and management stages of the infrastructure projects of urban transport.

5. Protection of Environment and Improvement of Urban Infrastructure

The main objective is improving the living standards of cities, providing sustainable urban development, forming livable atmosphere and environmental protection. Within this framework;

- i) Administrative, supervision and implementation capacity for implementation of environmental legislation, which is formed to comply with the EU acquis, will be strengthened.
- ii) The actions within the scope of climate change mitigation will be taken according to National Climate Change Strategy.
- iii) Sustainable utilization of natural resources will be ensured through studies for protection, improvement and productive use of natural resources, particularly for biodiversity.
- iv) Administrative, legal and financial arrangements will be implemented in order to manage water sources effectively.
- v) Regarding solid waste management; decomposition at the source, collection, transportation, recycling and disposal stages will be evaluated both technically and financially as a whole.
- vi) The institutional capacity of municipalities towards environmental protection will be strengthened in planning, designing projects, realization and operating urban infrastructure services.
- vii) Studies will be performed for the development of spatial planning system.

- viii) Capital market instruments will be developed in order to provide sufficient resources for housing supply and demand.

6. Improving R&D and Innovation

Increasing competence in science and technology, converting this competence into economic and social benefits and improving the innovation capability of the private sector which has an important role in transforming R&D processes into products and enhancing competitiveness are the main targets of science and technology policy. Within this framework;

- i) The cooperation among the actors of national innovation system and the effective participation of private sector within the system will be promoted by taking into account their tasks and activities.
- ii) Increasing the R&D capacity and R&D demand of the private sector, particularly SMEs', will be ensured.
- iii) Programs for enhancing cooperation among private sector, universities and research institutions and pre-competitive R&D collaboration will be supported. Researcher capacity will be developed in terms of quality and quantity, considering needs of the private sector.
- iv) Functionality of programs for improving national technological competence in strategic sectors with high external dependency and for converting this competence into products will be enhanced.
- v) Establishment of excellence/expertise centers and central research laboratories within public

research institutions and universities, where advanced research is carried out, will be pursued and similar initiatives of private sector will be encouraged.

7. Dissemination of Information and Communication Technologies

The main objective is to have widespread and effective use of information and communication technologies, and accelerate the process of transformation into an information society. Within this framework;

- i) Effective implementation and monitoring of policies and strategies, which facilitate the transformation into an information society, will be ensured.
- ii) In order to develop the ICT infrastructure, a special emphasis will be given to alternative infrastructures and service provision in the electronic communications sector and thus the competition in the sector will be increased.
- iii) To establish effective competition in the electronic communications sector, the required regulations will be completed, the existing regulations will be reviewed based on the needs posed by changing technology and market structure and, timely and effective implementation of the regulations will be ensured.
- iv) In order to strengthen telecommunications infrastructure and reduce costs, the establishment of physical infrastructure, which will enable fiber-optic cable network

simultaneously with investments in facilities infrastructure will be ensured. Regional disparities in the infrastructure of information and communication technologies will be reduced and thus, all parts of society' access to information and communication technologies, especially to broadband technologies, will be increased. The widespread use of these technologies will be provided with reasonable costs.

- v) With regards to satellite technology, intensified efforts to be made to build national satellite.
- vi) In the information and communication technologies sector, public procurement will be used as a policy tool to support development of the sector.
- vii) Competent human resources will be developed in line with the needs of information and communication technologies sector. In the field of software and services, overseas expansion of the sector will be supported.
- viii) Postal sector will be restructured with a competitive approach on the principles of quality, reliability and accessibility in parallel with EU regulations, and effective regulation and supervision will be provided in the sector.
- ix) Broadcasting sector will be improved by taking the international obligations into consideration.

8. Improving the Agricultural Structure

The main objective in the agriculture sector is to develop a well organized and highly competitive structure.

re by taking into account food security and safety concerns along with sustainable use of natural resources. Within this framework;

- i) Agricultural supports will be restructured for the objective of increasing efficiency, productivity and quality in production via differentiating them on basis of area and product.
- ii) Especially in information infrastructure, transformation of institutional and administrative structure in agricultural sector will be given priority, and agricultural statistics will be improved in terms of quality and quantity.
- iii) The capacity of public institutions services regarding phytosanitary, animal health and food safety will be improved, and the modernization efforts of agricultural holdings and food industry enterprises will be supported.
- iv) Export subsidies for agricultural products will be predominantly channeled to high value added, branded and final products.
- v) Practices will be extended to increase productivity in the plant production and phytosanitary practices will be improved.
- vi) In animal husbandry, supports will be restructured to enhance the structural transformation in stabilization of meat and dairy markets and in improvement of beef husbandry. Besides, fight against diseases and pests via breeding activities, and increasing the production of quality fodder will be given priority.

- vii) Activities regarding training of producers and extension of these services in the sector will be improved.
- viii) Methods and means for effective use of land and water resources will be given priority, the scale of agricultural holdings will be increased via land consolidation efforts and required legal arrangement, and irrigation investment will be extended.
- ix) In the fisheries sector, institutional capacity for resource management system will be improved and it will be ensured that aquaculture production is performed within the framework of environmental sustainability principles.
- x) Forests will be protected and exploited considering health and needs of society within the approach of sustainable management; afforestation, rehabilitation and urban forestry will be improved; training and publicity activities having more emphasis on ecosystem and ergonomics will be intensified.

9. Ensuring the Shift to High Value-Added Production Structure in Industry and Services

a) Industry

The main objective in manufacturing industry is to accelerate the structural transformation by increasing the production of high value-added goods to increase the competitiveness and the share in the world trade. Within this framework;

- i) To become a production center in specific sectors; exports of industry will be increased, Industrial Strategy and sectoral strategies,

- which will contribute to the structural transformation, will be applied.
- ii) To reduce the production's dependency on import, sectoral policies which increase the domestic value-added will be developed.
 - iii) To ensure the production of high value-added goods, to increase the quality of industrial goods and to assure prevalence of safe products in market, installation of laboratories will be supported, conformity assessment and market surveillance systems will be activated.
 - iv) Unique design activities in the consumption based products of traditional sectors such as textile, ready-made clothing, leather, ceramics, glass, furniture and jewellery will be encouraged, creation of national and international brands will be supported.
 - v) Growth and mergers of SME's will be encouraged. In this context, productivity enhancement, business set up and development activities will be supported.
 - vi) In defense industry, a system based on domestic technology and capability acquirement will be established.
 - vii) In the mining sector, country potential will be utilized at the highest level. Importance will be attached to mining exploration activities and increasing the value-added. Oil and natural gas exploration and production activities will be accelerated locally and internationally. Efforts on required institutional restructuring will be pursued.

b. Services

Tourism

The main objective is to increase the number of tourist arrivals and receipts per tourist by forming a structure, which increases the quality of services as well as targeting high income groups through diversifying marketing channels, preserving the natural wealth while ensuring its sustainability and focusing on diverse tourism products where Turkey has relative competitive advantage. Within this framework;

- i) Tourism investments will be diversified by shifting from developed regions with intensive demand to other areas and tourism activities will be expanded to the entire year.
- ii) Tourism investments will be evaluated with an approach of protecting and improving natural, historical, social and cultural environment.
- iii) To increase the share from global tourism market, promotion activities particularly in target markets and cooperation with international organizations in the area of tourism will be given importance.
- iv) Cultural, social and natural assets of tourism regions which have high growth potentials, especially Istanbul, will be evaluated with a sustainable tourism perspective.

Construction, Engineering-Architecture, Technical Consultancy and Contracting Services

The main objective is to form a structure, which meets the requirements of the economy and social needs, is compatible with international norms, utilizes high

technology, is environmentally friendly, has high value added, employment and foreign currency income, and improved service quality, human and physical capital. In this framework,

- i) Effective supervision will be ensured.
- ii) Quality of labor will be improved.
- iii) Competitiveness of the sector in international contracting and technical consultancy will be enhanced.

Commercial Business

The main objective is to increase efficiency, trade volume and to encourage new technologies and innovation in a competitive environment. Within this framework;

- i) Shifting to high value-added service production will be supported in commercial business. A competitive environment protecting consumer, preventing informal economy, increasing efficiency and quality, regarding compatibility with hygienic regulations and supporting a balanced development among the internal players in the sector will be formed in the wholesale and retail sectors.
- ii) Logistic and combined transportation activities will be improved and bureaucratic transactions will be simplified for transporting goods with a high quality, reliable, inexpensive and expedited transportation systems.
- iii) Efforts for making electronic commerce more prevalent will be pursued.

B. FOSTERING EMPLOYMENT

1. Improving Labour Market

Within the framework of employment-oriented sustainable growth, increasing employment opportunities and reducing unemployment and enhancing the labour market in a competitive economic structure and in line with the transition towards a knowledge based society are the main objectives. In this context;

- i) New models, which will enable businesses to create additional employment and discourage informality, will be developed.
- ii) In line with the Constitutional amendments by the Law No 5982 and harmonization with EU and ILO norms and standards, legislation related to working life will be reviewed and necessary adjustments regarding social dialogue will be made.
- iii) In the labour market, supporting policies towards disadvantaged groups, particularly the youth, women and disabled will be carried on.

2. Increasing Sensitivity of Education to Labour Demand

Increasing sensitivity of education to labour demand and training labour force in accordance with the quality and quantity required by the market is the main objective. In this perspective;

- i) Coherence between the education system and the labour market will be strengthened in order to equip the labour force with the qualifications demanded by the market.

- ii) Vocational Education and Training Strategy will be prepared and Life-Long Learning Strategy will be implemented effectively.
- iii) Within the scope of compliance to the EU, National Qualifications Framework will be prepared; education and training programs will be updated and harmonized in accordance with the national occupational standards.

3. Improving Active Labour Market Policies

In order to facilitate finding jobs appropriate for individual qualifications, dissemination of active labor market programs including trainings focused on increasing the competence of labor market, public employment services and job creation, and within this context raising the quality of services provided is the main objective. Within this framework;

- i) Active labour market programs will be expanded in line with the labour demand surveys by considering the effects of those programs on the labour market.
- ii) In order to implement active labour programs effectively, the institutional capacity of Turkish Employment Agency will be improved, and the collaboration with private sector and related vocational institutions will be strengthened.

C. STRENGTHENING HUMAN DEVELOPMENT AND SOCIAL SOLIDARITY

1. Improvement of the Educational System

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 open-minded, self-confident and responsible, devoted to the principles of Atatürk, loyal to democratic values, acquainted with their national culture, able to understand different cultures and open to cross-cultural learning. Within this framework;

- i) Schooling rates in all levels of education will be raised, equipment and physical infrastructure and skills of teachers will be improved, regional and gender disparities in access to education will be reduced.
- ii) To increase quality, competitiveness, efficiency and equality of opportunities in education, efforts to restructure The Ministry of National Education and the Higher Education Council will be continued.
- iii) Alternative financing models in all levels of education will be developed; educational investments of private sector will be encouraged by focusing on quality.
- iv) To minimize the performance differences between schools at the secondary education level, the diversity in school types will be reduced and the transition system to secondary level will be restructured.
- v) The share and quality of vocational training

will be increased; arrangements will be made to ensure active financial and managerial participation of private sector and professional organizations in vocational education.

- vi) International programs to increase the exchange and mobility of students and teachers in the secondary and higher education levels will be improved and participation will be extended.

2. Improving Health System

The main objective of health policy is to ensure that all citizens will take part in economic and social life as healthy individuals and to raise their quality of life. Within this framework;

- i) Accessibility, quality and effectiveness of health services will be increased.
- ii) Preventive health services will be strengthened and made widespread.
- iii) Effectiveness of health expenditures, particularly medicine expenditures, will be increased through applications such as rational use of drugs and diagnosis-based pricing.
- iv) Ministry of Health will be restructured so as to strengthen its regulatory, planning and supervisory roles.

3. Improving Income Distribution, Social Inclusion and Combating Poverty

The main objective is to improve income distribution, to upgrade the life quality of individuals and groups who are under the risk of poverty and social exclusion and to secure their social integration by increasing the participation in economic and social life. Within this framework;

- i) Income distribution will be improved through sectoral policies and social transfers.
- ii) Employment opportunities and the accessibility of major services such as education, health and social security will be improved for the disadvantaged groups, and improvements in social and environmental conditions will be continued to enhance the participation of the disabled in economic and social life.
- iii) Social assistance and services towards the poor who can be employed will target preventing the formation of a culture of poverty and making them productive; those who can not work will be supported through regular social assistance programs.
- iv) Family training programs will be spread, more effective measures will be taken in order to prevent violence against women and children; quality of preventive, protective and rehabilitative services for vulnerable children will be increased.
- v) Required amendments will be carried out in the related legislation in order to comply with the Constitutional amendments about women, children, disabled and elderly by the Law No 5982.

4. Increasing Effectiveness of the Social Security System

The main objective is to make the social security system have a structure that covers the entire population, meet the changing needs of the society, financially sustainable and have an effective control mechanism, and provide high quality services. Within this framework;

- i) The IT infrastructure of the social security system will be strengthened; thereby, the system will have a structure which provides effective, accessible and sustainable services.
- ii) The studies on establishment of a linkage between the social assistance system and employment will be completed, and the effectiveness of the institutions in social assistance will be improved by clarifying the tasks and responsibilities of the related institutions.
- iii) To ensure effectiveness of the services delivered within the social services system, the demand for qualified personnel and intermediate staff in this field will be met and the mechanisms to raise the voluntary participation of the citizens will be set up.
- iv) The social services for the old aged will be diversified and improved.

5. Protecting and Promoting Culture and Strengthening Social Dialogue

The main objective is protecting the cultural prosperity and diversity in the social change process and transmitting them to the next generations. Accordingly, synthesis of our cultural heritage with contemporary values and, with an understanding which considers our differences as our richness, creating an environment of collaboration and tolerance in which all individuals can live within the framework of common cultural values are aimed. Within this framework;

- i) Priority will be given to social research projects to determine institutions and sources that feed the culture of solidarity, reconciliation and

tolerance in our society and to mark factors that weaken this culture.

- ii) A new structure regarding the provision of youth services will be realized.
- iii) TV series, documentaries and cartoons in print and visual media that emphasize the integrity and importance of the family and aim to strengthen family relations will be expanded.
- iv) Studies will be carried out to draw up an inventory of our domestic and overseas cultural heritage and to protect and restore this heritage and public awareness regarding this issue will be increased.
- v) In order to strengthen the economic aspect of culture sector, culture tourism will be developed and the products such as cultural films and documentaries will be encouraged.
- vi) Studies aimed at emphasizing the richness as well as increasing the recognition and dissemination of Turkish language will be supported.

D. REGIONAL DEVELOPMENT AND REDUCING REGIONAL DISPARITIES

The main objective of regional development policies is to reduce the development disparities among the regions, to improve the minimum standard of living in rural areas and to maximize the contribution of regions to national development, competitiveness and employment through increasing the regions' competitiveness.

1. Increasing the Effectiveness of Regional Development Policy at the Central Level

- i) National Strategy for Regional Development will be formulated to ensure coordination at central level in terms of regional development and competitiveness, as well as to establish a general framework for the lower-scaled plans and strategies.
- ii) Regional Development Committee will be established to improve governance by ensuring coherence and coordination between the central government and regional development policies in terms of planning, implementation and monitoring.
- iii) Regional planning studies will be carried out in all regions at NUTS II level within the framework of Regional Planning Guideline and under the coordination of development agencies.
- iv) The applicability of regional plans and programs will be monitored, the existing integrated regional development plans will be transformed into applicable programs and/or action plans through the contributions of development agencies, a consistent resource allocation planning which allows diversified funding opportunities will be conducted, monitoring and evaluation mechanisms will be set up.
- v) The Development Agencies' Management System will be enhanced together with the development agencies.
- vi) Support programs for growth poles will be disseminated.

- vii) The scope of ongoing inter-regional cooperation programs with neighbouring countries will be expanded and efforts to launch new programs will be pursued.
- v) Depending on the progress in the negotiation process, a strategic framework will be drawn for the harmonization with the EU regional development policies and preparation for the use of the structural funds.
- ix) Coordination and complementarity between the technical and financial supports of development agencies and other organizations will be considered.
- x) EU funds provided in the field of economic and social cohesion will be managed effectively through monitoring and coordination mechanisms.

2. Ensuring Development to be Based on Local Dynamics and Inner Potentials

- i) Clustering policies will be developed by focusing on competitive sectors at the regional level and highlighting local initiatives and a relevant governance and support mechanism will be established.
- ii) Regional innovation infrastructure will be developed as a model which is based on local specialization as well as university-business cooperation.
- iii) Entrepreneurship and business models which take the regional potential and local labour market characteristics into account and support economic transformation at the local

level will be developed. Therefore, required coordination and cooperation mechanisms with expertise organisations at the local level will be established through development agencies.

3. Improving the Institutional Capacity at Local Level

- i) Institutionalization of all development agencies established in the NUTS II Regions will be completed and they will be fully functioned.
- ii) The Provincial Coordination and Monitoring System (İKİS), which was established to support coordination and decision making processes between the central and local level organizations and institutions and to enhance the flow of information between the centre and the local, will be developed and made widespread.
- iii) Technical, financial and institutional capacities of local administrations and their unions will be strengthened in development practices and project/program operations.

4. Achieving Rural Development

- i) The structures concerning the monitoring and evaluation of the Rural Development Plan will be established within the framework of principles and procedures outlined in the plan. Accordingly, compliance of the rural development activities with the Rural Development Plan (2010-2013) will be ensured.
- ii) Rural development projects will be developed

in employment-oriented approach and implementation level will be determined in accordance with regional development policies.

- iii) Spatial development and regional/local development policies will be implemented by re- defining rural and urban areas.
- iv) Legislation related to settlement and construction in rural areas will be completed and implementation projects will be carried out.
- v) Village Law will be renewed.
- vi) For the citizens who had to depart from their settlements, suitable conditions will be created enabling them to sustain their lives in their initial or new settlements as they prefer.
- vii) Measures will be taken to improve and strengthen the position of women in rural areas.
- viii) Information and Communication technologies will be used effectively for the development of services in rural areas and delivering to users.

E. IMPROVING THE QUALITY AND EFFECTIVENESS IN PUBLIC SERVICES

1. Rationalizing the Authorities and Responsibilities Among Institutions

For the public agencies and institutions to perform their principal duties; the main targets are ensuring harmonization between their tasks and administrative structures, the abolition of the units whose functions are no more needed, non-establishment of new

departments except for necessary conditions arising from service requirements, the transfer of duties and authorities from the central to local administration, setting up nationwide minimum service standards for the services provided by local administrations and auditing the compliance with these standards. Within this framework;

- i) Studies on elimination of ambiguities of duties and authorities among public institutions will be continued.

2. Enhancing Policy Making and Implementation Capacity

The main objectives are to sustain the public administration reform process and the transformation necessitated by strategic management in public institutions, to shape administrative decisions with a mid and long-term approach based on strategic plans, and to structure the budget in a way that indicates the performance of public administrations, by taking into consideration the cost of policies to be implemented, parties to be affected and the opportunity costs. Within this framework;

- i) Studies on preparation of more effective, efficient and feasible strategic plans in public administrations will be carried out.
- ii) Measurement, monitoring and assessment processes will be improved within the framework of strategic plans and performance programs.
- iii) Administrative and human resources capacity of public administrations will be improved in terms of quality and quantity in line with the strategic management approach and programs will be implemented to adapt the administrative culture to the new structure.

- iv) Effective use of information and communication technologies will be ensured to support the decision making processes regarding policy formulation and implementation.

3. Developing Human Resources in the Public Sector

Main objective is to develop an effective human resources planning in public institutions and employ personnel in accordance with the quality and quantity requirements of the services. Within this framework;

- i) Studies on the establishment of public personnel information system will be conducted.
- ii) Legislative and institutional arrangements will be made to improve the public personnel system.

4. Dissemination of e-Government Applications

The main objective is to establish an e-government structure which includes the required technical, administrative and legal arrangements to provide citizens with user-focused and integrated services through various channels. Within this framework;

- i) e-Government projects and applications will be coordinated based on a holistic approach and information sharing among government agencies will be ensured.
- ii) For effective implementation of the e-government applications, the basic databases, common infrastructure and services will be developed and integrated service delivery through various channels will be provided.
- iii) Business processes in public services will be improved to reduce administrative and financial burdens, eliminate duplications and ensure interoperability.

- iv) In e-government applications, user-focus, customer satisfaction, security and privacy of personal information, participation and transparency will be ensured.

5. Improving the Judicial System

The main objective in the context of the rule of law and the supremacy of law, is to provide legal services in a faster, more fair, reliable and proper way; to continue efforts to increase the quality of judgment process and its main pillars; to enable legal rules to serve as a means of protection, improvement and enhancement of the social order. Within this framework;

- i) Legal and institutional arrangements will be made by taking EU implementations into consideration.
- ii) The required legal and institutional arrangements will be realized in the context of Judicial Reform Strategy and Action Plan.

6. Enhancing The Effectiveness Of Security

The main objective is to ensure a security services which considers the critical balance between security and freedom and regards individual, institutional and property rights, become individual-oriented; and thus, domestic security services will focus on the axes covering fighting against financial and organized crimes, illegal migration and asylum, human trafficking, using and trading drugs and terrorism. Within this framework;

- i) Importance will be attached to preventive law enforcement and intelligent services to prevent the criminal matters at the origin stage and an approach that reach, in principal, from the evidence to the offender will be regarded.

- ii) Legal, institutional and technological framework will be formulated to fight against financial and organized crimes, terrorism and financing the terrorist activities.
- iii) Fighting against illegal migration and asylum, human trafficking and smuggling, drugs using and trading will be pursued effectively and the studies on restructuring of border management will be continued.

7. Natural Disasters

The main objective is to achieve a disaster management structure that is effective, sufficient and comprehensive both at central and local levels. Within this framework;

- i) National Disaster Management Strategy and Action Plan will be prepared.
- ii) Settlements under natural disaster risk will be prioritized nationwide according to disaster risk levels, technical and financial studies to reduce the risk in a planned way will be concluded and public awareness activities will be undertaken.
- iii) Disaster insurance system, including sanctions, will be extended to nationwide by covering all disaster types and the necessary legal arrangements will be completed.
- iv) Programs will be developed for settlements and public buildings requiring transformation and retrofitting.

Annex Table 1: Main Economic Indicators

	2010	2011	2012	2013
GROWTH AND EMPLOYMENT				
GDP (Billion TL, Current Prices)	1.099	1.215	1.343	1.485
GDP (Billion Dollars, Current Prices)	730	781	847	913
GDP Per Capita (Dollars)	10.043	10.624	11.405	12.157
GDP Growth (1)	6,8	4,5	5,0	5,5
Total Consumption (1)	4,4	4,5	4,2	4,4
Public	7,6	5,6	2,1	4,1
Private	4,1	4,4	4,4	4,5
Total Fixed Capital Investment (1)	22,0	5,5	8,7	9,6
Public	28,6	-8,9	0,7	1,0
Private	20,0	10,0	10,8	11,6
Total Final Domestic Demand (1)	7,9	4,8	5,2	5,6
Total Domestic Demand (1)	9,1	5,4	5,4	5,7
Population (Midyear, Million)	72,7	73,5	74,3	75,1
Labor Force Participation Rate (%)	48,8	48,3	48,4	48,5
Employment (Million)	22,5	22,7	23,2	23,6
Employment Rate (%)	42,8	42,6	42,8	43,0
Unemployment Rate (%)	12,2	12,0	11,7	11,4
FOREIGN TRADE				
Exports (FOB) (Billion Dollars)	111,7	127,0	143,5	160,0
Imports (CIF) (Billion Dollars)	177,5	199,5	222,5	245,0
Foreign Trade Balance (Billion Dollars)	-65,8	-72,5	-79,0	-85,0
Export / Import (%)	62,9	63,7	64,5	65,3
Foreign Trade Volume / GDP (%)	39,6	41,8	43,2	44,4
Tourism Revenues (Billion Dollars)	22,5	23,8	25,5	28,0
Current Account Balance (Billion Dollars)	-39,3	-42,2	-45,1	-47,8
Current Account Balance / GDP (%)	-5,4	-5,4	-5,3	-5,2
Dollar per Barrel Crude Oil Price (Dollars / Barrel) (2)	76,8	79,9	81,8	83,1
Crude Oil Import (Billion Dollars)	9,3	10,6	11,8	13,1
Energy Import (27th Chapter, Billion Dollars)	37,8	42,9	47,9	53,1
INFLATION				
GDP Deflator	8,0	5,8	5,3	4,8
Consumer Prices (End of Year, % Change, Estimate) (3)	7,5	5,3	5,0	4,9

(1) Percentage change in fixed prices.

(2) SPO calculations using IMF estimates.

(3) The inflation targets set in December 10, 2009 were 6.5, 5.5 and 5.0 per cent for 2010, 2011 and 2012 respectively.

Annex Table 2: Selected Figures on the Public Finance

(Billion TL)

	2010	2011	2012	2013
Central Government Budget Balance	-44,2	-33,5	-32,3	-24,4
Central Government Budget Revenues	252,8	279,0	307,1	334,7
Central Government Budget Expenditures	297,0	312,5	339,3	359,1
Public Sector Primary Surplus (Program Definition)	-1,9	3,0	8,7	14,6
Central Government Budget Primary Surplus (Program Definition)	-7,4	0,4	5,4	12,3
Central Government Budget Revenues (Program Definition)	240,0	265,4	292,1	321,3
Central Government Budget Primary Expenditures (Program Definition)	247,5	264,9	286,7	309,0
Rest of the Sector Primary Surplus (Program Definition)	5,5	2,6	3,3	2,4
Public Sector Privatization Revenues	3,9	13,7	12,7	10,3

(As of GDP, %)

	2010	2011	2012	2013
Central Government Budget Balance	-4,0	-2,8	-2,4	-1,6
Central Government Budget Revenues	23,0	23,0	22,9	22,5
Central Government Budget Expenditures	27,0	25,7	25,3	24,2
Public Sector Primary Surplus (Program Definition)	-0,2	0,3	0,7	1,0
Central Government Budget Primary Surplus (Program Definition)	-0,7	0,0	0,4	0,8
Central Government Budget Revenues (Program Definition)	21,8	21,8	21,7	21,6
Central Government Budget Primary Expenditures (Program Definition)	22,5	21,8	21,3	20,8
Other Public Sector Primary Surplus (Program Definition)	0,5	0,2	0,2	0,2
Public Sector Privatization Revenues	0,4	1,1	0,9	0,7
Tax Burden Excluding the Social Security Contributions (Excluding Rebates)	19,7	19,7	19,6	19,5
Tax Burden Including the Social Security Contributions (Excluding Rebates)	26,2	26,4	26,3	26,2
EU Defined General Government Nominal Debt Stock	42,3	40,6	38,8	36,8

Note: Negative sign indicates deficit.

Annex Table 3: Public Sector Borrowing Requirement (1)

	(As of GDP, %)			
	2010	2011	2012	2013
PUBLIC SECTOR GENERAL BALANCE (PSGB) (2)	-3,4	-2,0	-1,8	-1,2
General Government	-3,7	-2,1	-1,8	-1,1
Central Government Budget	-4,0	-2,8	-2,4	-1,6
Local Governments	-0,2	-0,1	-0,1	-0,3
Extra Budgetary Funds	0,1	0,1	0,1	0,1
Unemployment Insurance Fund	0,4	0,6	0,6	0,7
Social Security Institutions	0,0	0,0	0,0	0,0
General Health Insurance	0,0	0,0	0,0	0,0
Revolving Funds	0,1	0,1	0,1	0,1
SEEs (Including SEEs under the scope of privatization)	0,3	0,1	0,0	-0,1
PSGB EXCLUDING INTEREST PAYMENTS AND PRIVATIZATION REVENUES	1,0	0,9	1,3	1,7
General Government	0,6	0,8	1,3	1,7
Central Government Budget	0,4	1,0	1,2	1,5
Local Governments	-0,1	-0,3	-0,1	-0,1
Extra Budgetary Funds	-0,2	-0,6	-0,5	-0,4
Unemployment Insurance Fund	0,4	0,6	0,6	0,7
Social Security Institutions	0,0	0,0	0,0	0,0
General Health Insurance	0,0	0,0	0,0	0,0
Revolving Funds	0,1	0,1	0,1	0,1
SEEs (Including SEEs under the scope of privatization)	0,4	0,1	0,0	-0,1

(1) Based on the State Planning Organization's Classical Public Sector General Balance definition.

(2) Indicates the difference between revenues and expenditures.

Note: Negative sign indicates deficit.

Annex Table 4: General Government Borrowing Requirement (1)

	(As of GDP, %)			
	2010	2011	2012	2013
GENERAL GOVERNMENT BALANCE (GGB) (2)	-3,7	-2,1	-1,8	-1,1
Central Government Budget	-1,8	-0,8	-0,3	0,5
Local Governments	-0,5	-0,3	-0,3	-0,5
Extra Budgetary Funds	0,3	0,7	0,5	0,5
Unemployment Insurance Fund	0,7	0,7	0,7	0,7
Social Security Institutions	-2,0	-2,3	-2,4	-2,4
General Health Insurance	-0,6	-0,3	-0,2	-0,1
Revolving Funds	0,2	0,2	0,1	0,1
GGB EXCLUDING INTEREST PAYMENTS AND PRIVATIZATION REVENUES	0,6	0,8	1,3	1,7
Central Government Budget	2,7	3,0	3,3	3,7
Local Governments	-0,4	-0,5	-0,3	-0,3
Extra Budgetary Funds	0,0	0,0	0,0	0,0
Unemployment Insurance Fund	0,7	0,7	0,7	0,7
Social Security Institutions	-2,0	-2,3	-2,4	-2,4
General Health Insurance	-0,6	-0,3	-0,2	-0,1
Revolving Funds	0,2	0,2	0,1	0,1
General Government Revenues	35,4	35,8	35,4	35,0
General Government Revenues Excluding Privatization Revenues	35,0	34,6	34,5	34,3
General Government Expenditures	39,1	37,9	37,2	36,1
General Government Expenditures Excluding Interest Payments	34,4	33,8	33,2	32,6

(1) Based on the definition of the Pre-Accession Economic Programme submitted to the EU by the State Planning Organization. In this context, the general government balance, which does not include the SEEs, is calculated by recording the public resource as a revenue item in the account of the public unit which received the flow first, as an expenditure item in the account of the public unit which performed the final expenditure. Therefore, deficit (or surplus) figures vary as to budget classifications, while the total balance figure stay the same with respect to the one calculated through the classical definition.

(2) Indicates the difference between revenues and expenditures.

Note: Negative sign indicates deficit.