

REPUBLIC OF TURKEY

**MEDIUM TERM
PROGRAMME
(2012 - 2014)**

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Necatibey Caddesi No: 108, 06100 Yücetepe /
ANKARA www.kalkinma.gov.tr •
e-mail: bilgi@kalkinma.gov.tr

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INTRODUCTION

In the last one year period, divergence between developed and developing countries in the world economy became evident, there was not a complete coordination at international economic and financial policy, especially in some developed countries, governments could not take required decisions on time, macroeconomic and financial stability could not be achieved on a global scale and the uncertainties continuously increased.

Global growth expectations have been revised downward because of increasing uncertainties and complications in the world economy. Growing concerns about sustainability of debts in some European Union countries and low economic performance of the U.S. have been effective on this progress. Uncertainties about global growth performance and overcoming the current problems in the short term remain still.

The main purpose of the medium term program which also regards the last developments in the global economy is to sustain the growth, to reduce the current account deficit, thereby to maintain macroeconomic and financial stability.

In the forthcoming period, by closely monitoring the developments in the world economy, especially in our trade partner countries, within the main frame of Medium Term Programme, necessary policy adjustments will be carried out quickly and decisively.

I. DEVELOPMENTS IN WORLD AND TURKISH ECONOMY

A. WORLD ECONOMY

Governments, with the aim of mitigating the effects of crisis and restoring confidence in markets, implemented fiscal stimulus programs, monetary policy actions and took measures to eliminate the congestion in the financial sector in 2009, and thus, a significant economic recovery was achieved at the global level in 2010. The world economy, which shrank by 0.7 percent in 2009, grew by 5.1 percent in 2010. Developing countries achieved more rapid recovery than developed countries in this period. In 2010, while developed countries recorded 3.1 percent growth,

emerging and developing countries achieved 7.3 percent of high growth performance with the considerable contributions of China and India¹.

In 2010, the world trade volume increased by 12.8 percent in parallel to growth in the economic activity, following the 10.7 percent contraction in 2009. The world trade prices of goods and services increased by 5.2 percent in 2010.

In this period, developing countries experienced significant price increases and consumer price inflation was recorded as 6.1 percent. This rate was 1.6 percent in developed countries. The demand pressure as a result of closing output gap and exceeding the pre-crisis production level in developing countries after the crisis was effective on this development.

Despite the economic recovery at the global level in 2010, improvements in unemployment rates could not be attained and unemployment rates increased in many countries. There were significant increases in unemployment rates in some EU countries such as Spain, Ireland, Portugal and Greece. The unemployment rates rose to 10.1 percent in Euro Area, 9.6 percent in the U.S. and 8.6 percent in total OECD².

The expansionary fiscal policies and burdens of banking sector have led to further deterioration in the public balance of the countries which have already problems at the beginning of the crisis. The public debt stock has increased significantly in these countries which have taken advantage of borrowing facilities created by strong euro and low interest rates. In Euro Area, the ratio of the general government gross debt stock to GDP which was 79.7 percent in 2009, has reached to 85.8 percent in 2010. This ratio has increased from 85.2 percent to 94.4 percent in the US.

Factors such as realization of growth lower than expected in the US economy in the first half of 2011, insufficient improvements in employment, reaching to the borrowing limit, high public debts and budget deficits, delays in decision making process, continuing of problems in banking sector, downgrading of credit ratings for the first time in the US history and the absence of strong medium term fiscal plan

¹ IMF, World Economic Outlook, September 2011

² OECD, Bulletin of Harmonized Unemployment Rates, September 2011

have damaged the confidence in markets and caused to lower the growth expectations of the forthcoming period. The US growth forecast for 2011, which was 2.5 percent in June 2011, was revised down to 1.5 percent in September. Thus, the growth forecast for 2012 was decreased from 2.7 percent to 1.8 percent.

The Euro Area growth forecast for 2011 and 2012 revised from 2 percent to 1.6 percent and from 1.7 percent to 1.1 percent respectively, due to failure of eliminating the concerns about financial sector and tendency of dispersion of the risks associated with sustainability of public debts from periphery countries to core countries in Europe.

Emerging and developing economies are expected to be negatively affected by weakening growth outlook for developed countries through trade and finance channels. In addition, the monetary and fiscal policies to reduce the rising inflationary pressure stemming from increase and volatility in commodity prices will slow down the economic growth in developing countries compared to 2010. In this context, emerging and developing countries are expected to grow by 6.4 percent and 6.1 percent in 2011 and 2012 respectively. China is expected to grow by 9.5 and 9 percent, and India is expected to grow by 7.8 and 7.5 percent in 2011 and 2012 respectively.

As a result of these developments, the world growth forecast for 2011 was revised from 4.3 percent to 4 percent and from 4.5 percent to 4 percent for 2012 in September, compared to the estimates made in June.

The world trade volume that grew 12.8 percent in 2010 is expected to increase by 7.5 percent in 2011 and 5.8 percent in 2012 in parallel with expected slowdown in economic activity.

The consumer inflation in developed countries is expected to be 2.6 percent in 2011 due to the effects of high-rate increases in energy and food prices and the lagged effects of the fluctuations occurred in the first months of the year. In developing countries, the consumer inflation is expected to increase to 7.5 percent in 2011 due to increasing demand pressure. The consumer inflation is estimated to

decline to 1.4 percent in developed countries and 5.9 percent in developing countries in 2012 based on the assumption of the stability in the energy and food prices.

In 2011, a significant improvement in unemployment rates is not expected because of low growth expectation and insufficient job creation. The unemployment rates for the US and the Euro Area in 2011 are expected to be 9.1 percent and 9.9 percent, respectively. The unemployment rates for the US and the Euro Area are expected to remain at the same levels in 2012.

In the short term, a significant improvement in budget balance is not expected in the US due to failure of reaching desired result in the quantitative easing measures of monetary policy and the ongoing implementation of the expansionary fiscal policy. The ratio of general government budget deficit to GDP in the US, which was 10.3 percent in 2010, is expected to fall hardly to 6 percent in 2016. The ratio of general government gross debt stock to GDP is expected increasingly to reach 115.4 percent in 2016.

It is estimated that the general government budget deficit to GDP ratio in Euro Area that reached to 6 percent in 2010 because of the deteriorated fiscal structure and high debt ratios in EU periphery countries, especially in Greece, Ireland and Italy, will decline to 4.1 percent in 2011, 3.1 percent in 2012 and 1.3 percent in 2016 with the taken measures. Despite significant variance among the EU countries, the ratio of general government gross debt stock to GDP is estimated to be 88.6 percent in 2011, 90 percent in 2012 and 86.6 percent in 2016.

After the economic crisis period, the growth dynamics, and the "global re-balancing process" in which an internal rebalancing of domestic demand from public to private sector in developed countries and from external demand to domestic demand in developing countries have not been realized as expected. However, while the main reasons of the economic crisis in 2008 were the high ratio of household and private sector debt and the fragile structure of banking sector; increased government debt and continuing fragilities in financial sector in 2011 have restricted the government fiscal intervention and fiscal space compared to 2008. In addition, the difficulties in the political decision-making processes in developed countries negatively affect overcoming the crisis.

In the following period, in order to restore global growth and economic stability, the priority policy areas are; reducing fiscal problems and high debts in the US, Japan and the Euro Area within the framework of the announced fiscal plan, continuing easy monetary policy as needed, strengthening the financial structure of banks and pursuing the structural reforms in the financial sector, commodity and labor markets.

In the Euro Area, inadequacy of short and medium term measures taken until now is a serious risk factor for financial markets. Furthermore, losses of competitiveness in real sector and structural problems in financial and labor markets in developed countries are the main challenges to overcome low growth trend in the medium and long term. In developed countries, the probability of permanency of high unemployment after the crisis and incapability of compensation of wage and income losses occurred during the crisis are serious social risk factors for decision makers in the forthcoming period. Besides, rising inflation due to domestic demand pressure and financial market fragility driven by capital flows are other risk factors for developing countries. The future trend of the oil, commodity and food prices is uncertain because of the recent fluctuations, imbalance in supply/demand and low growth expectation. This situation creates a significant uncertainty for countries that have high energy dependency including Turkey.

Even though the risks have risen at global level, global growth rate of 4 percent in 2011 would be possible depending on the condition that the measures are to be taken rapidly to restore confidence in business environment in developed countries especially in the US and EU. On the other hand, if debt crisis in EU countries couldn't be controlled, the fluctuations in financial markets increase and the crisis spreads to the asset markets in Asian countries, it is possible that the world growth rate would be lower and developed countries would fall into recession.

B. TURKISH ECONOMY

In our country, during the crisis period, all policy instruments have been implemented timely and decisively with medium-term perspective. The main goal of the fiscal and monetary policies, structural reforms and decisions on the financial sector has been to strengthen confidence and stability.

Turkish economy has recorded high growth performances in 2010 and 2011 thanks to strong medium term programme which has diminished uncertainties, healthy macroeconomic fundamentals, continuing capital inflows, low interest rates and credit expansion.

GDP growth realized as 9 percent in 2010 and 10.2 percent in the first half of 2011 and Turkey was among the countries that had highest growth rates around the world.

It is expected that growth rate will start to decline relatively in the second half of 2011 due to increasing uncertainties at a global scale. Despite the slowdown, it is forecasted that the Turkish economy will grow by 7,5 percent in 2011.

In 2010 and 2011, growth has mainly driven by private consumption and fixed capital investment. Resurgence in domestic demand led to high output increases especially in manufacturing industry, construction, trade and transportation.

Employment substantially increased due to high growth rate and measures aiming at reducing unemployment. According to seasonally adjusted data, unemployment rate which reached up to 14.9 percent in April 2009 declined to 10.3 percent as of June 2011. This decline in unemployment rate was achieved during a period when labor participation rate increased. Furthermore, employment rate that decreased to 40 percent due to the crisis increased to 45 percent by June, 2011.

According to seasonally adjusted data, total employment, which was 20.7 million people in April 2009, increased to 24.1 million people as of June 2011. Thus, 3.4 million citizens have been employed in net terms. With the contributions of employment incentive measures, according to absolute figures, between April 2009 and June 2011, non-agricultural, female and youth employment increased by 2.6 million, 1.7 million and 794 thousand people, respectively. Increases in employment, within the same periods, correspond to 11.9 percent non-agricultural unemployment rate by 6.3 percentage point decrease, 11.2 percent female unemployment rate by 3.4 percentage point decrease and 18 percent youth unemployment rate by 8.5 percentage point decrease.

Under these developments, Turkey has been one of the most successful countries among the OECD in struggling with the unemployment thanks to rapid growth and measures taken timely during the crisis exit process. While the seasonally adjusted OECD average unemployment rate increased to 8,3 percent in June 2011 by increasing 0.1 percentage point compared to April 2009, the rate decreased to 9.2 percent by declining 4 percentage point in Turkey.³

In 2010, CPI increased by 6.4 percent with 0.1 percentage point less than the targeted value. Prices of commodity and services group laid under the averages of the previous years, the core inflation was consistent with medium-term targets. Food prices followed a fluctuating course during the whole year and energy prices increased remarkably in the last quarter of the year. Domestic demand, recorded strong increases in 2010, did not have any upward pressure on the inflation thanks to continuing output gap. In January-September period of 2011, CPI realized as 6,15 percent because of accumulated import price increases, food price increases, nominal exchange rate depreciation and base effect. It is expected that existing dynamics will lead CPI to be around 7.8 percent at the end of 2011.

In 2010, strong economic growth positively affected public sector revenues and public sector borrowing requirement. Public sector borrowing requirement as a percent of GDP, which was 5.1 percent in 2009, declined to 2.3 percent in 2010. This indicates 1.1 percentage point improvement in the ratio compared to the expectation. It is expected that decisive implementation of MTP measures, restructuring of some public receivables, higher growth performance of the economy and remarkable increases in import taxes will increase public revenues. In line with these expectations, it is forecasted that public sector borrowing requirement to GDP ratio will decline to 1 percent.

Similarly, as a result of increase in performance of tax revenues and decrease in interest expenditures notably, general government deficit to GDP ratio is expected to decline to 1 percent in 2011, which receded to 3 percent in 2010.

³ OECD Harmonised Unemployment Rates, September 2011.

Public sector balance to GDP ratio, excluding interest expenditures and privatization revenues, is expected to rise to 2.2 percent in 2011, which was 1.9 percent in 2010.

As a result of these improvements in public deficit, EU defined general government debt stock to GDP ratio is expected to keep declining and to be around 39.8 percent in 2011, which declined to 42.2 percent in 2010.

In a period that the issue of public debts' sustainability has brought up in many countries, in particular Euro Area, prosperous results in public finance have made Turkey to be considered in a better position. As a result of improvements in macroeconomic indicators as well as the robustness and well-designed policies against crisis, credit rating of Turkey in TL terms was upgraded to "favorable for investment" grade (from BB+ to BBB-) and revised the outlook to positive. Additionally, the need for structural reforms lasts in order to meet the financial needs from healthy resources and to strengthen current confidence in business environment.

Despite the improvement in public sector savings as a result of the tight fiscal policy in recent years, total savings have a tendency to decline due to decrease in private sector savings. Decline in domestic savings leads external source needs to increase, thereby current account deficit as well.

Following the recovery in the economy investments have a tendency to rise, however, as a result of low domestic savings, Turkey have encountered an accelerating savings investment gap, in other words current account deficit, in 2010 and 2011.

Rapid increase in trade deficit in 2010 and decline in net tourism revenues led to current account deficit to GDP ratio to be 6.5 percent. The main factors behind high trade deficit were rapid increase in imports due to strong pace of domestic consumption and investment demand and production's high dependency on import intermediate goods; moderate increase in exports due to weakening demand in Turkey's traditional exports markets.

Current account deficit kept the tendency of increasing due to rise in foreign trade deficit driven by rapid growth in the first half of 2011. In the second half of 2011, demand for imports is expected to decelerate due to estimated slowdown in domestic economic activity and rise in exchange rate parity; and export is expected to be affected negatively by the shrinkage in foreign demand. Eventually, current account deficit to GDP ratio is estimated to reach 9.4 percent by the end of 2011.

High current account deficit stems from conjectural and structural reasons. In order to minimize conjectural factors on the current account deficit, a series of macro prudential and monetary policy measures have been taken since the last quarter of 2010.

Financial risks, derived by expansionary monetary policies implemented by advanced countries, required significant amendments in monetary policy strategy of Central Bank of the Republic of Turkey in the last quarter of 2010. New policy mix was embodied within the perspective to slowdown credit growth rate. However, in parallel with the rising concerns on global growth, global risk appetite has reduced and capital inflows to emerging countries have been affected negatively since the second quarter of 2011. Depreciation in TL caused by those developments brought inflationary pressures as well. Central Bank shifted policy stance in order to balance demand for foreign currency and to contain inflation risk. Within this perspective, Central Bank suspended foreign exchange buying auctions, initiated foreign exchange selling auctions, narrowed interest rate corridor and declined required reserve ratio for foreign exchange. Additionally, Central Bank reduced policy interest rate in order to contain the slowdown in economic activity caused by concerns about global economy.

II. MAIN OBJECTIVE

In accordance with ultimate goal of increasing the welfare level of our country, the fundamental purpose of The Medium Term program (2012-2014) is increasing employment, maintaining fiscal discipline, increasing domestic saving, reducing the current account deficit, so by this way strengthening macroeconomic stability in stable growth process.

In the programme's period, fiscal, monetary and macro prudential policies will strengthen confidence, stability and predictability and be implemented in a framework that enhances the economy's resilience to external shocks. Also, under MTP, it will be given priority to accelerate the implementation of structural reforms which solve the current account deficit problem permanently. In this context, action plan implementations that improve the investment climate will be continued, combating informality will be maintained decisively, strategies of export oriented production, input supply and export markets diversification will be completed, the efforts for Istanbul to become the International Financial Center will be accelerated, steps to reduce foreign energy dependency will be continued and lastly R&D and innovation for development programs will be carried out efficiently.

To enhance employment, policies will be given importance to improve 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.

Competitiveness of the economy, efficiency of the public expenditures, good governance, state aids, education system, judicial system, tax system, informality, structural transformation in local administration and regional development are among the main priorities of the program.

III. MACROECONOMIC POLICIES AND OBJECTIVES

A. TARGETS AND INDICATORS IN THE PROGRAMME PERIOD

While formulating the Programme's macroeconomic framework; it is assumed that the global growth will increase gradually, our trade partners' growth will be more moderate compared to global growth, capital inflow to the emerging markets will continue and international goods and oil prices will follow a stable trend.

1. Growth and Employment

- i) The rising concerns about the global growth and the public debt sustainability of some European countries increased the risk of slowdown in the global economy in 2012. In this context, the expected GDP growth rate in 2012 is 4 percent. In the years 2013 and 2014 the growth rate is targeted to reach 5

percent which indicates convergence to its potential level. It is foreseen that the growth will base on private consumption and private fixed capital investment.

- ii) In the Programme period, the real average annual growth rate is expected to be 3.3 percent in private consumption, 8.7 percent in private fixed capital investment, 2.9 percent in public spending and 3.6 percent in public fixed capital investment.
- iii) During the Programme period, it is targeted that public and private savings are increased, private and public saving-investment gap are decreased.
- 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 labor market as well as economic growth. Due to the limited decline expected in agricultural employment, increase in total employment is expected to be 1.3 million.
- v) At the end of the Programme period, employment and unemployment rates are expected to be 44.8 and 9.9 percent respectively.

2. Public Finance

- i) Public sector deficit to GDP ratio which is estimated to be 1 percent at the end of 2011 is expected to decline to 0.4 percent at the end of the Programme period.
- ii) General government deficit to GDP ratio, which is expected to be 1 percent in 2011, is targeted to decline to 0.4 percent at the end of the Programme period.
- iii) Public sector surplus excluding interest expenditure and privatization revenues to GDP ratio which is expected to be 2.2 percent in 2011 is estimated to realize at the same level at the end of the Programme period.
- iv) General government expenditures to GDP ratio, which is estimated to be 37.4 percent in 2011, is predicted to decline to 36.5 percent in 2014.

- v) General government non-interest expenditures to GDP ratio, which is estimated to be 33.9 percent in 2011, is expected to decline to 33.2 percent at the end of the Programme period.
- vi) General government revenues excluding privatization revenues which is expected to be 36.1 percent of GDP in 2011, is projected to be 35.4 percent in 2014.
- vii) Tax burden including social security premiums (excluding tax rebates) which is expected to realize 27.3 percent as a ratio to GDP in 2011, is estimated to realize as 27.1 percent in 2012 and 2013, and decrease to 26.9 percent of GDP at the end of Programme period.
- viii) General government nominal debt stock (EU definition) to GDP ratio which realized as 42.2 percent in 2010 is estimated to decrease to 39.8 percent in 2011. With a steady declining trend, this ratio is projected to further decrease to 32 percent by the end of Programme Period.
- ix) The programmed level of 0.2 percent primary deficit of SEEs over GDP is expected to be eliminated since the SEE system has shrunk due to the programmed privatization activities.

3. Balance of Payments

- i) Turkey's trade partners' economic growth is expected to be relatively higher compared to the years 2010 and 2011 and as the policies to increase exports show their effects, exports are expected to reach USD 185.1 billion in 2014 at current prices with an annual average growth rate of 11.2 percent.
- ii) The high rates of increases realized in imports during the economic growth periods will be replaced by mild increases with the policy measures that will be taken in the Programme period and imports are envisaged to reach USD 295.9 billion in 2014 with an annual average increase of 7.7 percent.
- iii) Mineral fuels and oil imports (chapter 27th) which is expected to be 49.6 billion at the end of 2011 will reach USD 56.8 billion at the end of the Programme period.

- iv) The share of tourism revenues in GDP is estimated to be at an average of 3.3 percent during the Programme period.
- v) With the contribution of policies aiming to increase domestic savings and decrease the high dependency of production structure of the economy on imports during the Programme period, the current account deficit to GDP ratio which is expected to realize as 9.4 percent of in 2011 is targeted to decrease to 7.0 percent at the end of the Programme period.

4. Inflation

- i) It is expected that the downward contribution of total demand conditions to inflation will continue in the Programme period and commodity prices substantially will rule horizontal. Policy interest rates are expected to stay at single digit levels during the period; food inflation is to fluctuate at 7 percent and oil price is to be around USD 100 level. In this framework, annual growth rate of CPI is estimated to occur closer to 5 percent which is the medium term target for 2012-2014 period.

B. MACROECONOMIC POLICIES

1. Growth and Employment

- i) Monetary, fiscal and revenues policies will be implemented in coordination to provide a growth which continues steadily, supports the employment and reaches the potential level.
- ii) It is aimed to raise the savings both by increasing the income in general economy and in the level of households, and by keeping the consumption level stable.
- iii) Within this period increasing the public savings will contribute to realization of this target. However, the main contribution will come from increase in the private savings.
- iv) Policies aiming to decrease dissipation will be implemented both in the public and private sector.

- v) Efforts to increase awareness of the savings will be carried out regularly.
- vi) Increasing the employment and decreasing the informality will contribute to the purpose of increasing the savings by raising the revenue.
- vii) Actions that facilitate and encourage the transitions from social aid system to labor market will be accelerated.
- viii) Policies aiming at boosting private investment, foreign direct investments and exports will be proceeded for stable growth.
- ix) Public investments that will support economic growth with the help of basic infrastructure and human resource development will be proceeded.
- x) The arrangements that increase the flexibility of labor market and the quality of labor force will be carried out, with the active labor policies job creation capacity of the economy will be increased.
- xi) In line with the objective of improving competitiveness and increasing the employment, supporting the SME's will be continued.
- xii) The contribution of local capacity and dynamics to national growth and development will be increased.
- xiii) Employment and value added in rural areas will be increased by enhancing economic activities that have relatively high productivity.

2. Fiscal Policy

Fiscal policy will be implemented in a way that it contributes to a growth process lead by private sector, maintaining macroeconomic stability and coping with current account deficit by pursuing revenue, expenditure and debt targets projected in the Programme.

Fiscal policy will be carried out without compromising fiscal discipline. In this context, while making arrangements which lead to fiscal outcomes; short, medium and long term impacts will be taken into consideration.

Public financial statistics that are of great importance in policy formation and analyzing processes will be published in line with international standards.

a. Public Expenditure Policy

For public administrations it is essential to use appropriations that are allocated to them effectively and efficiently in accordance with determined policies and priorities. Within this framework;

- i) The expenditure programs will be reviewed in order to ensure increase in efficiency. For this purpose, an administrative mechanism will be established.
- ii) In order to establish efficiency on health services and expenditures without compromising the quality of health services, medicine and treatment expenditures will be made more rational by preventing unnecessary drug and service consumption.
- iii) 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.
- iv) Global budget application in healthcare will be maintained with being improved.
- v) In order to increase the efficiency of social assistance programs, links between social assistance programs and employment will be strengthened. Social assistance programs will be considered as a whole and double utilization from social assistance programs will be prevented.
- vi) A fair pension adjustment system will be gradually implemented for the pensioners.
- vii) Incentive schemes for employment will be transformed into a simple and efficient structure.
- viii) The deduction from the general budget tax revenues of the local administrations 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.

- ix) Financial structure of the local administrations will be improved through supporting specific infrastructure expenditures by central government and rationalizing personnel expenditures.
- x) Regulations for increasing efficiency of public procurement system will be implemented.

b. Public Investment Policy

Main objective of the public investment policy is to meet prioritized social needs and to develop infrastructure supporting productive activities. Within this framework;

- i) Effective, productive and punctual realization of public investments and more efficient usage of existing capital stock are targeted.
- ii) Infrastructure investments in education, health, technological research, transportation, drinking water and improvement of information and communication technologies will be given priority.
- iii) Public investments, especially within the scope of South Eastern Anatolian Project (GAP), Eastern Anatolian Project (DAP), Konya Plain Project (KOP) and Eastern Black Sea Project (DOKAP), will be focused on economic and social infrastructure projects aiming at reducing regional development disparities and utilizing regional development potential.
- iv) The models encouraging private sector participation in realization of public infrastructure investments will be expanded.
- v) Public investment proposals and decisions will be based on regional master plan, sectoral strategies including analyses of problems, needs and solutions and qualified feasibility analyses and studies.

c. Public Revenue Policy

With the aim of creating a fair and efficient tax system, public revenue policy will be implemented in a manner that it encourages employment and investment,

increases domestic savings, reduces regional disparities, brings competitive power to the economy and combats with the informal economy. In this context;

- i) Stability in implementation of tax policies and foresight in taxation will be essential.
- ii) Tax policies aimed at creating a production structure which increases competitiveness of the economy, accelerating foreign direct investments and supporting R&D activities will be implemented.
- iii) Studies about simplification and rewriting of the tax legislation in line with current needs will be continued. In this context, the studies about reviewing main tax laws, primarily Income Tax Law and Tax Procedure Law, will be completed.
- iv) Tax policy will be used efficiently in case of need in struggle with factors, especially insufficient domestic savings and current account deficit, which threaten the sustainability of growth.
- v) The amount of tax expenditure emerged due to the exceptions, exemptions and deductions will be reported regularly in order to analyze social and economic impacts of revenue policies in a healthier way.
- vi) Studies on increasing tax compliance and broadening the tax-base will be continued.
- vii) Lump-sum taxes and fees will be updated by taking the general economic conditions into account.
- viii) Arrangements to increase own revenues of local administrations 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.
- ix) Necessary measures will be taken in order to utilize public sector owned immovables and to use them effectively, efficiently and economically.
- x) Measures aiming at encouraging individual and corporate savings and stimulating capital accumulation will be taken.

- xi) In the determination and implementation of tax policies, priorities concerning climate change and economizing energy consumption will also be taken into account.

d. Public Borrowing Policy

The main objective of public debt management is 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 objective;

- i) Information on borrowing such as financing programs, domestic borrowing strategies and procurement announcements will continue to be announced on a regular basis.
- ii) In order to expand the investor base of the Government Domestic Borrowing Instruments, efforts on improvement of new instruments and sales methods will continue.
- iii) In order to reduce the liquidity risk in cash and debt management, the policy of keeping sufficient reserve assets will be continued; works on more effective cash reserve management will be maintained.
- iv) Primary Dealership System practices will be continued.
- v) Policies towards ensuring a healthy secondary market yield curve and providing liquidity in trading of Government Domestic Borrowing Instruments will continue to be implemented.
- vi) Borrowing will be made mainly in TL denominated and with fixed interest rate instruments to the extent that market conditions allow.

e. Public Financial Management and Audit

It is essential to realize the new financial management and auditing understanding with all of its components formed by Public Financial Management and Control Law mainly and Court of Accounts Law and other legal regulations. Within this context,

- i) To realize strategic aims and objectives in public administrations, the coordination and efficiency of internal and external audit and decent management of internal control systems will be ensured.
- ii) To ensure an efficient external audit in the public sector, auditing activities of Court of Accounts will be expanded by strengthening implementation infrastructure of the Court of Accounts.
- iii) To strengthen management responsibility in public administrations, internal control and internal audit will be conducted more efficiently; quantity and competency of human resources of public financial management will be enhanced.
- iv) It will be ensured that the adaptation level of activities of public administrations to public internal control and audit standards will be increased.
- v) Within the process of resource allocation to public administrations, strategic plans and performance programmes will be considered as essential.

f. State Economic Enterprises and Privatization

It is essential that SEEs will be operated in accordance with profitability and productivity 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) Annual performance programmes prepared by SEEs will be monitored and evaluated closely.
- iii) Internal control system in SEEs will be established and improved based on internal control action plan.

- iv) 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 efficiently.
- v) The current market value will be taken as the basis in appraisal of real estate of SEEs. The transfer of non-idle real estate of SEEs will be possible in such a way that the productivity and integrity of the SEEs and environmental health will not be adversely affected.
- vi) Operation units of SEEs that continuously incur losses and could not operate profitably despite of any taken measures will be eliminated.
- vii) Measures will be taken to meet SEEs requirements for competent personnel.
- viii) It is targeted that the state will withdraw completely from electricity distribution and sugar production sectors; the share of the state will be reduced in electricity production, local natural gas distribution, telecommunication, port, highway and bridge operation.

3. Balance of Payments

In order to ensure stable growth, it is essential for the current account deficit to be reduced to a sustainable level and to be met by long term financial sources.

Carrying on the implementation of the action plan for improving the investment climate, increasing the efficiency and flexibility of labor market, combating efficiently with informal economy, works pursued to make İstanbul as an International Finance Center and policies to reduce dependency on imports in energy sector, will significantly contribute to fight against the current account deficit. In addition;

- i) With the aim of increasing global competitiveness of firms in international trade, production and marketing process of innovation based and R&D based, high value added and branded products and services will continue to be supported.
- ii) In order to decrease high dependency of production and exports on imports, especially for intermediate and capital goods, policies and supports enhancing domestic production capacity will be carried on.

- iii) Within the framework of Input Supply Strategy (ISS) of Turkey which will be formed on sectoral basis, in the procurement of inputs, reducing region and country based dependency, eliminating risks that might arise due to uncertainties and volatilities, and meeting the needs for the inputs that will gain importance in the future will be ensured.
- iv) Necessary measures will be taken to increase the share of domestic production in supply chains of multinational companies operating in domestic markets.
- v) In order to increase market diversity in exports, improving trade with African countries and the country groups of Asia-Pacific and Latin America will be ensured.
- vi) Market entry barriers faced by exporters will be identified, policies and measures for the elimination of these barriers will be developed and applied more efficiently.
- vii) In order to improve export credit and guarantee schemes directed to exports, Export Credit Bank of Turkey's resources will continue to be increased. In addition, awareness of financing programs directed to exporters will be increased and works will be conducted to introduce new financing tools.
- viii) The efficiency of market monitoring and inspection system in imports will be increased.
- ix) The necessary measures in Inward Processing Regime will be taken in a comprehensive manner from the view of its impacts on domestic production, exports and foreign trade balance.
- x) With the aim of raising awareness for consuming high domestic value-added and high quality products, encouraging measures, primarily including labeling, will be taken.
- xi) In public purchases, it will be ensured that domestic products are preferred.
- xii) In order to boost exports, within the context of bilateral and multilateral cooperation, Turkey's activity at both global and regional level will be

empowered and Turkey's initiatives will be enhanced to create economic welfare basins at nearby regions.

- xiii) Besides bilateral and multilateral cooperation programs to be developed with neighbor countries, within the context of joint programs and projects to be initiated under the hood of regional and multilateral organizations, technical assistance to third countries will be provided.

4. Monetary Policy

The main objective of the monetary policy is to establish and to sustain the price stability. Financial stability, as a supportive objective, will also continue to be taken into consideration. Within this framework;

- i) Monetary policy will be implemented in accordance with the inflation targeting regime.
- ii) Besides the usage of short term interest rates as the main monetary policy tool, the complementary instruments such as reserve requirements and interest rate corridor and Turkish Lira and foreign exchange liquidity applications will continue to be practiced together.
- iii) Inflation targets will be determined by the Government and Central Bank for three year periods.
- iv) 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.
- v) The operational framework of monetary policy enabling a flexible and efficient liquidity management will continue to be followed in the Programme period.
- vi) The floating exchange rate policy will continue to be pursued in the Programme period.

- vii) Foreign exchange selling auctions may be started if unhealthy price formation or excess volatility 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.
- viii) In the proper periods of 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) Efforts on easing bureaucratic procedures, accelerating procedures and lowering cost of procedures will be maintained.
- ii) Support mechanisms for increasing investments and exports, improving the competitiveness of SMEs, new entrepreneurs, craftsmen and artisans will be diversified, and efficiency of present supports will be increased.
- iii) Highly competitive cluster formations that increase innovation capacity, productivity and exports, and improve entrepreneurship will be supported.
- iv) In order to increase SMEs' access to financing; provided supports will be made efficient, financial instruments will be diversified and adaptation of SMEs to the standards of accounting and financial reporting will be ensured.
- v) In connection with the judicial reform strategy, the efficiency of the justice system will be increased within perspective for diminishing the uncertainty for investments. Innovations provided by the main laws such as the Turkish Commercial Code and Code of Obligations will be put into practice.

- vi) Monitoring and assessment systems will be developed for the public supports and coordination and collaboration between institutions will be strengthened.
- vii) Efforts on the improvement of customs infrastructure and simplification of related procedures will be maintained.
- viii) To ensure the efficiency of the intellectual property system; short, medium and long term strategies will be determined, institutional capacity, legal infrastructure and inter-institutional collaboration will be strengthened, a settled and common culture of intellectual property will be formed in the society.
- ix) Information systems and data infrastructure for businesses will be developed.

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.
- ii) Actions which support voluntary compliance of taxpayers against informality, increase the deterrence of sanctions and encourage cooperation with non-governmental organizations in order to increase the public awareness about informality will be attached importance.
- iii) In order to ensure efficiency 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 giving importance to development of auditing and implementation capacity of institutions.
- iv) Tax loss occurrence due to operations performed electronically, primarily in e-commerce, will be prevented.

3. Developing the Financial System

Legal infrastructure in the financial sector will be improved; confidence and stability in the markets will be strengthened and international competitiveness of the sector will be enhanced. Within this framework;

- i) Instruments that enable banks and private sector to work with a strong capital structure will be strengthened.
- ii) Private sector and households will be encouraged to keep their indebtedness ratio at a reasonable level and to prefer Turkish Lira as a monetary unit and longer maturity.
- iii) More efficient monitoring of financial markets, increasing the efficiency of systemic risk management and improving the collaboration with related foreign authorities will be ensured.
- iv) Transparent, fair and encouraging practices which are protecting the rights of consumers and investors in the financial sector will be supported.
- v) The regulation and supervision of financial sector will be improved in accordance with international standards, EU acquis and new works led by G-20 platform.
- vi) Efforts within the scope of Istanbul International Financial Center Strategy and Action Plan will be accelerated.
- vii) Policies aimed at improving capacity and competitiveness of the financial system will be developed, the efficiency of transaction and brokerage costs in the sector will be evaluated periodically.
- viii) In order to increase private sector savings and direct savings to the investment, personal pension system will be developed and private sector borrowing instruments will be diversified.
- ix) Financial markets and instruments will be used efficiently in order to increase domestic savings.

- x) Priority will be given to financial awareness and education owing to their contribution to the well-functioning of financial markets and to financial and economic stability and so to the welfare of the society.

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, high 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 within the supply-demand projections framework.
- 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 accelerated.
- iv) In electricity generation the necessary measures will be taken to increase the share of indigenous and renewable energy resources and the share of natural gas and imported coal will be decreased.
- v) Supports for local manufacturing of renewable energy equipments will be sustained.
- vi) Natural gas usage other than electricity generation will be expanded to all provinces through a competitive process and natural gas supply security will be ensured at the national level considering the seasonal demand variations as well.

- vii) Minimizing the losses in electricity generation, transmission and distribution, increasing the energy efficiency in buildings, transportation and industry, and improvement of financial opportunities will be provided.
- viii) 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 complementary balance among transportation modes and widespread use of combined transport; is compatible with modern technological and international standards; is sensitive to the environment and where transportation is conducted safely, economically and rapidly. 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) Dual carriage highway projects will be sustained and the highway standards will be enhanced by means of bituminous hot mixture pavements. The use of intelligent transportation systems in highway network and urban transportation will be expanded.
- 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 in the sector and reduce TCDD's financial burden on public finance, rail transport sector and TCDD will be restructured.
- v) In freight transport, 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, 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) Logistic sector structure which provides safe, cheap and rapid service will be developed and logistic centers will be established in the critical production and consumption zones to meet regional and global needs.
- viii) Efficiency and productivity will be increased in the planning, design, construction and operation stages of the urban transport infrastructure projects.

5. Protection of Environment and Improvement of Urban Infrastructure

The main objective is to improve the living standards of cities, to provide sustainable urban development, to form livable spaces and to protect the environment. Within this framework;

- i) Capacities of all related institutions will be strengthened in order to improve the efficiency in implementation of environmental legislation.
- ii) Actions in the context of climate change mitigation will be carried out within the National Climate Change Strategy framework.
- 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 regulations will be implemented in order to manage water sources efficiently.
- v) Studies for attaining adequate, clean and healthy drinking water to cities, treatment of wastewater, collecting rain water will be speed up.
- vi) In solid waste management; decomposition at the source, collection, transportation, recycling and disposal stages will be assessed technically and financially as a whole.

- vii) The institutional capacity of municipalities will be strengthened in planning, project design, realization and operating of urban infrastructure services towards environmental protection.
- viii) Supplying the housing needs to low and middle income groups will be given priority, improving healthy and sustainable living environments will be continued.
- ix) Basic principles, strategies and standards in subjects of physical planning, implementation and construction will be enhanced through increasing harmony between development and spatial development policies.
- x) Along with the re-structuring in environment and urbanization domains, in order to ensure consistency in implementation, urbanization and land development legislation will be reviewed, based on subsidiarity principle and including effective monitoring and supervision mechanisms.
- xi) Studies in National Coastal Strategy and Integrated Coastal Area Planning and efforts for protection and balanced use of coasts will be sustained.
- xii) A comprehensive legislation framework will be created in the field of urban transformation for purposes of reducing disaster risks, increasing urban life quality and forming urban aesthetics based on characteristic architecture.

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 through R&D, are the main targets of science and technology policy. Decreasing dependency to imports, developing domestic technological competence and transforming these competences into products will be supported with the mission-oriented approaches in areas with strong R&D and innovation capacity, need-oriented approaches in areas with a demand for gaining acceleration, and bottom-up approaches in other areas where creativity is promoted. Within this framework;

- i) The cooperation among the actors of national innovation system, the efficiency of private sector within the system and international cooperation in this area will be improved.
- ii) Increasing the R&D capacity and R&D demand of the private sector, particularly SMEs', will be ensured and innovation-based entrepreneurship will be supported.
- iii) Programs for enhancing cooperation among private sector, universities and research institutions and pre-competitive R&D collaboration and innovation-based clustering efforts will be supported.
- iv) Researcher capacity will be developed in terms of quality and quantity, considering needs of the private sector.
- v) Efficient usage of research infrastructure will be provided.

7. Dissemination of Information and Communication Technologies

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

- i) Information society policies and strategies will be renewed and efficient coordination, implementation and monitoring of these policies and strategies 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) In the electronic communications sector, the existing regulations will be reviewed based on the needs posed by changing technology and market structure, and timely and efficient implementation of the regulations will be ensured.

- iv) To improve the fiber-optic infrastructure, efforts on supporting local administrations and organizations establishing and operating network infrastructure will be carried out.
- v) By reducing regional disparities in the infrastructure of ICT, access of all parts of society to ICT, especially to broadband technologies, with reasonable costs will be increased.
- vi) The projects which aim to provide efficient usage of ICT by individuals and to reduce digital divide will be implemented in coordination and within a national program framework.
- vii) In satellite technologies, efforts to increase national competency and to produce national satellite will be intensified.
- viii) In the ICT sector, public procurement will be used as a policy tool to support development of the sector.
- ix) Competent human resources will be developed in line with the needs of ICT sector.
- x) In the ICT sector, efforts to support R&D activities and overseas expansion of the sector will be carried on.
- xi) Postal sector will be restructured with a competitive approach on the principles of quality, reliability and accessibility, and effective regulation and supervision will be provided in the sector.
- xii) 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 by taking into account the food security and safety concerns along with the sustainable use of natural resources. In this framework;

- i) Agricultural supports will be restructured for increasing efficiency, productivity and quality in production via differentiating them on the basis of area and product.
- ii) Market mechanisms will be developed to ensure stability in product prices and producer incomes, and producer organizations will be made more efficient.
- iii) Product markets having supply deficit will be monitored and supports for increasing production will be continued.
- iv) Transformation of institutional and administrative structure, especially in information infrastructure, in agricultural sector will be given priority, and agricultural statistics will be improved in terms of quality and quantity.
- v) The public service delivery capacity regarding phytosanitary, animal health and food safety will be improved, and the modernization efforts of the agricultural holdings and food industry enterprises will be supported.
- vi) Export subsidies for agricultural products will be predominantly channeled to high value added, branded and final products.
- vii) Practices for the purpose of increasing productivity in the plant production will be extended and phytosanitary practices will be improved.
- viii) In animal husbandry, supports will be restructured to enhance the structural transformation such as stabilization of meat and dairy markets and improvement of beef husbandry. Besides, fight against diseases and pests via breeding activities, and increasing the production of quality fodder will be given priority.
- ix) Activities regarding training of producers and extension services in the sector will be improved.
- x) Methods and means for preservation and 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 arrangements,

irrigation investment will be expanded, and irrigation systems will be modernized.

- xi) 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.
- xii) 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; activities against desertification and erosion will be accelerated.

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 middle and high technology products; application of Industrial Strategy and sectoral strategies, which will contribute to the structural transformation, will be continued.
- ii) Input Supply Strategy and Action Plan will be developed and put in action in order to reduce country and regional dependence in input supply; eliminate the risks posed by resource uncertainties and fluctuations; protect exports and meet the need for products that will become important in the future.
- iii) Recycling investments will be given special importance in sectors with high external dependence and National Recycling Strategy will be developed.
- iv) 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, legislation studies will be completed, installation of laboratories will be supported, conformity assessment and market surveillance systems will be activated.

- v) Commercialization and marketing processes of high value-added products and services based on innovative ideas and R&D will be supported.
- vi) Unique design activities mainly in 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.
- vii) Growth and mergers of SME's will be encouraged. In this context, productivity enhancement, business set up and development activities and ICT infrastructure will be supported.
- viii) In defense industry, domestic technology and capability acquirement will be enhanced.
- ix) In the mining sector, mining and geothermal resource exploration activities, oil and natural gas exploration and production activities will be accelerated locally and internationally. Importance will be attached to transformation of minerals into high value-added products.

b. Services

In the services industry, which has an increasing share in the economy, the main objectives are improving the competitiveness of our country, increasing the share of high value added areas and raising employment level of these areas, increasing and diversifying exports in the sector.

Tourism

In tourism sector, 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, targets high income groups through diversifying marketing channels, preserves the natural wealth while ensuring its sustainability and focuses 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) With an approach of green growth, tourism investments will be appraised in a manner 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 tourism organizations 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; transportation and technical infrastructure deficiencies in these regions will be rapidly resolved.

Construction, Engineering-Architecture, Technical Consultancy and Contracting Services

The main objective is to create a sector structure which hinges on quality-based competition and demand, accommodates advanced human and physical capital, utilizes high technology and produces environmentally friendly output, and becomes a trademark in international markets with its high service quality. Within this framework;

- i) Building supervision will be strengthened to ensure production in international standards that conform to science, art and health rules. In this respect, the Law on Construction Supervision will be implemented efficiently throughout the country.
- ii) The overall quality of labor in the sector will be improved by establishing a certification system for construction trades workers and contracting service providers.
- iii) It will be ensured that overseas contracting services are provided by accredited firms; and competitiveness of the sector will be enhanced through support programs on access to finance and political risk insurance.
- iv) Technical consultancy services will be utilized efficiently by increasing the quality of demand for the services. Additionally, international competitiveness of the sector will be enhanced through fostering design capabilities.

- v) Quality of construction materials production will be improved and construction material export potential of the overseas contracting services will be increased.

Commercial Business

The main objective in commercial business is to achieve high value-added production and productivity increase, to expand trade volume and to encourage new technologies and innovation. Within this framework;

- i) In the wholesale and retail sectors, an environment protecting the competition and consumer, preventing unregistered economy, increasing efficiency and quality, regarding compatibility with hygienic regulations and supporting a balanced development among different segments of the sector will be formed.
- ii) Facilities such as; fair and exhibition grounds, convention centers, cultural, tourism and accommodation establishments that support trade will be developed.
- iii) Legal arrangements for ensuring secure and widespread use of electronic commerce will be made.

B. FOSTERING EMPLOYMENT

1. Improving Labor Market

Within the framework of employment-oriented sustainable growth, increasing employment opportunities and reducing unemployment and enhancing the labor 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) Measures to prevent informal employment and to encourage additional employment will be taken.
- ii) The problem of severance pay will be resolved in consultation with social partners by constituting a fund which protects the vested rights and guarantees the severance pay of all employees.

- iii) In line with the Constitutional Amendments made by the Law No. 5982 and the harmonization process with the EU and ILO norms and standards, necessary adjustments regarding social dialogue, union rights, safety and health at work will be made.
- iv) Supporting policies towards disadvantaged groups in the labor market, particularly the youth, women and disabled, will be carried on by taking additional measures.

2. Increasing Sensitivity of Education to Labor Demand

Increasing sensitivity of education to labor demand and training labor 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 labor market will be strengthened through adopting entrepreneurship culture and equipping the basic skills and capabilities within the perspective of life long learning in order to equip the labor force with the qualifications demanded by the market.
- ii) The share and quality of vocational education will be increased. Regulations to provide active participation of private sector and business organizations both in the administrative and financial process of vocational education will be made.
- iii) By preparing National Qualifications Framework, education and training programs will be updated and harmonized in accordance with the national occupational standards.

3. Improving Active Labor 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, job counseling and job creation, and within this context raising the quality of services provided is the main objective. Within this framework;

- i) Active labor market programs will be expanded in line with the national, regional and sectoral labor demand surveys by considering the effects of those programs on the labor market.
- ii) In order to implement active labor programs efficiently, 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, loyal to democratic values, acquainted with their national culture, able to interpret different cultures, open to sharing and communication. Also they should have strong sense of arts and aesthetics and meet the requirements of the information society. Within the scope of a transition program that enhances the quality in the education system;

- i) A non-exam-oriented curriculum conversion program will be applied, in which school types are reduced and flexible transitions between programs are allowed, and sports, artistic and cultural activities are more included to improve students' mental and physical development.
- ii) Teacher training and development system will be restructured including a performance system based on teacher and student proficiency.
- iii) Education management will be restructured in order to increase quality, competition, productivity and equality of opportunity within the framework of a school centered budget and organization system.
- iv) Enrollment rates in all levels of education will be increased, hardware and physical infrastructure will be developed, ICT will be used efficiently, and gender and regional imbalances in terms of access to education will be reduced.

- v) Alternative financing models in all levels of education will be developed; educational investments of private sector will be encouraged by focusing on quality.
- 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.
- vii) Higher Education Council (YÖK) will be transformed into a body that is responsible for coordinating universities and auditing them by introducing quality standards. Competitiveness will be ensured in the higher education system by expanding administrative and financial autonomy of universities.
- viii) The need for academic staff caused by the growing number of universities and students will be met.

2. Improving Health System

The main objective of health policy is to ensure all citizens' participation in economic and social life through raising length and quality of their life. Within this framework;

- i) Accessibility, quality and efficiency of health services will continue to be increased.
- ii) Preventive health services will be strengthened and made widespread.
- iii) Informative activities and required inspections will be increased to enhance efficient and rational usage of drugs.
- iv) Regulatory, planning and auditing roles of Ministry of Health will be strengthened.
- v) Structural problems of university hospitals will be solved in a systematical and comprehensive manner.

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 their participation in economic and social life. Within this framework;

- i) Income distribution will be improved through sectoral policies and social transfers.
- ii) 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 towards the poor who can be employed will target preventing the formation of a culture of poverty and making them productive; those who cannot work will be supported through regular social assistance programs.
- iv) Family training programs and supporting services 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) In the area of social assistance and services, a system that is employment-related and comprehensively approaches to the needs of the family will be established.
- vi) To ensure efficiency of social service delivery, the need for qualified personnel and intermediate staff will be met and the mechanisms to raise the voluntary participation of the citizens will be set up.
- vii) The social services for the older people will be diversified and improved.

4. Increasing Efficiency 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 efficient 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) Financial sustainability of the social security system will be improved by enhancing the linkage between the social assistance system and employment.
- iii) Complementary pension and health insurance models will be developed.

5. Protecting and Promoting Culture and Strengthening Social Dialogue

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

- i) Priority will be given to social research projects to determine the social institutions and sources that feed the culture of solidarity, reconciliation and tolerance in our society and to mark factors that weaken this culture.
- ii) In print and visual media, programmes such as TV series, documentaries and cartoons that emphasize the integrity and importance of the family and present the important figures, places and events of our history will be expanded.

- iii) Our domestic and overseas cultural heritage will be transferred to digital environment by drawing up an inventory and studies will be carried out to protect and restore this heritage.
- iv) In order to strengthen the economic aspect of culture sector, culture tourism will be developed and the production of cultural products such as movies and documentaries will be promoted.
- v) Studies that emphasize the richness of Turkish Language and increase the recognition and dissemination of Turkish culture, art and literature all over the world will be supported.
- vi) Quality and scope of the youth services will be improved.

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 by increasing regions' competitiveness.

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

- i) National Regional Development Strategy will be completed to ensure national-level coordination for regional development and regional competitiveness, to strengthen harmony between spatial and socio-economic development policies and to establish a general framework for sub-scale plans and strategies.
- ii) Supreme Regional Development Council and Regional Development Committee, that has been set up to improve governance by ensuring coherence and coordination between national and regional development policies in terms of planning, implementation and monitoring will be operationalized.

- iii) Research, analysis and strategic studies required for preparations of NUTS-II level regional plans which will be parallel to the 10th National Development Plan period will be carried out under the coordination of development agencies.
- iv) Studies on improvement of the Development Agencies' Management System will be continued.
- v) Implementation of growth poles support programme will be continued by strengthening.
- vi) 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.
- vii) Coordination and complementarity between the technical and financial support provided by development agencies and those of the other organizations' will be considered.
- viii) EU funds to be provided in the field of economic and social cohesion will be managed effectively through established monitoring and coordination mechanisms.

2. Ensuring Development Based on Local Dynamics and Endogenous Potentials

- i) Analysis, design and effective implementation of policies aiming at enhancing regional competitiveness, in particular regional and sectoral incentive policies, will be ensured; to this end, capacity of institutions at the national and regional level will be strengthened.
- ii) Clustering policies focusing on competitive sectors at the regional level and highlighting local initiatives will be developed, and within this context, a governance and support mechanism will be established.
- iii) Regional innovation infrastructure will be developed as a model to be based on local specialization as well as university-business co-operation.

- iv) Entrepreneurship, financing, business and organization models, which take regional potential and local labor market characteristics into account and support economic transformation at the local level, will be developed; in this context, it will be ensured that development agencies establish required coordination relationships at the local level and set up cooperation mechanisms with expert organizations.
- v) For existing sectoral strategies to achieve their targets, being Industrial Strategy which will contribute to structural transformation of industry at the first place, infrastructure and potential for sectoral factors of production at the regional level will be determined.
- vi) Regulations that will strengthen “one-stop-office” function of Investment Support Offices which were established within the development agencies will be carried out.

3. Improving Institutional Capacity at the Local Level

- i) Eastern Anatolia Project, Eastern Black Sea Development Project and Konya Plain Project Regional Development Administrations will be institutionalized. For these regions, action plans will be prepared and put into implementation; and their implementation will be monitored and evaluated.
- ii) Institutionalization of regional development agencies will be completed and they will be made fully functional.
- iii) Inter-institutional coordination and decision-making processes at central and local levels will be supported, and the Provincial Coordination and Monitoring System (İKİS), which has been developed to strengthen information flow between central and local levels, will be disseminated.
- iv) Technical, financial and institutional capacities of local administrations and associations in development activities and programme/project implementation will be strengthened.
- v) Efficiency of regional development agencies in the use of funds to be allocated within the context of financial cooperation with the EU will be

improved. To this end, their institutional capacity will be strengthened, and preliminary work on preparing agencies to assume intermediary institution roles in their regions will be carried out.

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. Thus, compliance of the rural development activities with the Rural Development Plan will be ensured.
- ii) Employment-oriented rural development projects designed in conformity with the priorities of the Rural Development Plan will be implemented more effectively within the framework of the regional development policies.
- iii) Efficiency of public resources will be increased by ensuring consistency and complementarity among agriculture and rural development financial support programmes implemented by different public institutions.
- iv) Rural-urban integration within spatial development and regional/local development policies will be supported by re-defining rural and urban areas in a manner to allow the monitoring of development in rural areas.
- v) Village Law will be renewed; implementation projects will be realized by completing other legislation studies on settlement and construction in rural areas.
- vi) For the citizens who had to leave their settlements, suitable conditions will continue to be created enabling them to sustain their lives either in their old or new settlements according to their preferences.
- vii) Measures will be taken to improve and strengthen disadvantaged groups' conditions in rural areas.
- viii) Internet access will be improved and ICT will be used effectively in the development and delivery of services in rural areas.

E. IMPROVING THE QUALITY AND EFFECTIVENESS IN PUBLIC SERVICES

1. Enhancing Policy Making and Implementation Capacity

The main objectives are to sustain the public management 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, participation mechanisms will be strengthened.
- ii) Measurement, monitoring and assessment processes will be improved within the framework of strategic plans and performance programs in public management.
- 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.

2. 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 accelerated.
- ii) Legislative and institutional arrangements will be made to improve the public personnel system.

3. Dissemination of e-Government Applications

The main objective is to establish an e-government structure which provides integrated services through various channels meeting the needs of citizens and businesses. Within this framework;

- i) e-Government projects and applications will be coordinated based on a holistic approach addressing information sharing among government agencies.
- ii) For effective implementation of the e-government applications, the basic information systems, common infrastructure and services will be developed.
- iii) In transferring public services to electronic environment, business processes will be improved to reduce administrative and financial burdens, eliminate duplications and ensure interoperability.
- iv) In e-government applications, user-focus, customer satisfaction, privacy of personal information, information security, participation and transparency will be ensured.

4. 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 and economic order. Within this framework;

- i) In the Judicial System, legal and institutional amendments will be made; human and physical infrastructure will be developed by taking EU implementations into consideration as well.
- ii) Judicial Reform Strategy and Action Plan will be updated and the required legal and institutional amendments will be put into effect within this framework.

5. Enhancing the Effectiveness of Security

The main objective is the provision of security services which considers individuals', institutions' and property rights with security for freedom approach and with the support of the society. Within this framework;

- i) Importance will be given to the preventive law enforcement and intelligence services preventing the criminal matters at the origin stage, to the modernization of criminal infrastructure with from evidence to offender approach and to dissemination of Emergency Call Center (112) system across the country.
- ii) Works on developing necessary legal, institutional and technological infrastructure to fight against terrorism and financing of terrorist activities as well as organized, financial and cyber crimes will be continued.
- iii) To fight effectively against illegal migration and asylum, human trafficking and smuggling, drugs using and trading, studies on strengthening legal, institutional and technological infrastructure will be sustained and restructuring of border management will be continued.

6. 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 manner will be concluded and activities to increase public awareness will be undertaken.
- iii) Disaster insurance system will be disseminated nationwide by covering all disaster types and the necessary legal amendments will be completed.
- iv) Programs will be developed for settlements and public buildings requiring transformation and retrofitting.

Annex Table 1: Main Economic Indicators

	2011	2012	2013	2014
GROWTH AND EMPLOYMENT				
GDP (Billion TL, Current Prices)	1.281	1.426	1.572	1.733
GDP (Billion Dollars, Current Prices)	766	822	888	952
GDP Per Capita (Dollars)	10.363	10.973	11.716	12.412
GDP Growth ⁽¹⁾	7,5	4,0	5,0	5,0
Total Consumption ⁽¹⁾	6,2	3,0	3,5	3,4
Public	6,5	3,1	3,4	2,2
Private	6,1	3,0	3,5	3,5
Total Fixed Capital Investment ⁽¹⁾	19,3	6,2	8,8	8,5
Public	7,7	-0,6	7,7	3,8
Private	22,3	7,7	9,0	9,4
Total Final Domestic Demand ⁽¹⁾	9,3	3,9	4,9	4,8
Total Domestic Demand ⁽¹⁾	9,4	3,9	4,8	4,7
Population (Midyear, Million)	73.950	74.885	75.811	76.707
Labor Force Participation Rate (%)	49,9	49,7	49,7	49,7
Employment (Million)	23.925	24.257	24.752	25.264
Employment Rate (%)	44,7	44,5	44,6	44,8
Unemployment Rate (%)	10,5	10,4	10,2	9,9
FOREIGN TRADE				
Exports (FOB) (Billion Dollars)	134,8	148,5	165,7	185,1
Imports (CIF) (Billion Dollars)	236,9	248,7	272,5	295,9
Foreign Trade Balance (Billion Dollars)	-102,1	-100,2	-106,8	-110,8
Export / Import (%)	56,9	59,7	60,8	62,6
Foreign Trade Volume / GDP (%)	48,5	48,3	49,3	50,5
Tourism Revenues (Billion Dollars)	24,0	26,0	29,0	31,0
Current Account Balance (Billion Dollars)	-71,7	-65,4	-67,0	-67,1
Current Account Balance / GDP (%)	-9,4	-8,0	-7,5	-7,0
Crude Oil Price (Dollars /Barrel) ⁽²⁾	104,7	97,0	101,5	102,2
Energy Import (27 th Chapter, Billion Dollars)	49,6	49,5	53,6	56,8
INFLATION				
GDP Deflator	8,0	7,0	5,0	5,0
Consumer Prices (End of Year, % Change, Estimate) ⁽³⁾	7,8	5,2	5,0	5,0

(1) Percentage change in fixed prices.

(2) Average cost of imported crude oil that is calculated by the Ministry of Development.

(3) Figures for 2012 and 2013 are the estimations reported in the CB Inflation Report 2011-III.

Annex Table 2: Key Figures on the Public Finance

	(Billion TL)			
	2011	2012	2013	2014
Central Government Budget Balance	-22,2	-21,1	-21,7	-18,1
Central Government Budget Revenues	290,9	329,8	359,4	390,5
Central Government Budget Expenditures	313,2	350,9	381,1	408,6
Public Sector Primary Surplus (Program Definition)	15,3	15,8	19,8	26,4
Central Government Budget Primary Surplus (Program Definition)	11,8	14,8	18,2	24,2
Central Government Budget Revenues (Program Definition)	282,4	315,4	346,3	377,8
Central Government Budget Primary Expenditures (Program Definition)	270,6	300,6	328,1	353,6
Other Public Sector Primary Surplus (Program Definition)	3,5	1,0	1,6	2,2
Public Sector Privatization Revenues	4,3	12,5	12,6	12,8

(Ratio to GDP, %)

	2011	2012	2013	2014
Central Government Budget Balance	-1,7	-1,5	-1,4	-1,0
Central Government Budget Revenues	22,7	23,1	22,9	22,5
Central Government Budget Expenditures	24,4	24,6	24,2	23,6
Public Sector Primary Surplus (Program Definition)	1,2	1,1	1,3	1,5
Central Government Budget Primary Surplus (Program Definition)	0,9	1,0	1,2	1,4
Central Government Budget Revenues (Program Definition)	22,0	22,1	22,0	21,8
Central Government Budget Primary Expenditures (Program Definition)	21,1	21,1	20,9	20,4
Other Public Sector Primary Surplus (Program Definition)	0,3	0,1	0,1	0,1
Public Sector Privatization Revenues	0,3	0,9	0,8	0,7
Tax Burden Excluding the Social Security Contributions (Excluding Rebates)	20,0	20,0	20,0	19,8
Tax Burden Including the Social Security Contributions (Excluding Rebates)	27,3	27,1	27,1	26,9
EU Defined General Government Debt Stock	39,8	37,0	35,0	32,0

Note: Negative sign indicates deficit.

Annex Table 3: Public Sector Borrowing Requirement (1)

	(As of GDP, %)			
	2011	2012	2013	2014
PUBLIC SECTOR GENERAL BALANCE (PSGB) (2)	-1,0	-1,1	-0,8	-0,4
General Government	-1,0	-0,8	-0,8	-0,4
Central Government Budget	-1,7	-1,5	-1,4	-1,0
Local Governments	0,0	0,0	-0,1	-0,1
Extra Budgetary Funds	0,0	0,0	0,0	0,0
Unemployment Insurance Fund	0,6	0,6	0,7	0,7
Social Security Institutions	0,0	0,0	0,0	-0,1
General Health Insurance	0,0	0,0	0,0	0,1
Revolving Funds	0,1	0,1	0,1	0,1
SEEs (Including SEEs under the scope of privatization)	0,0	-0,3	-0,1	-0,1
PSGB EXCLUDING INTEREST PAYMENTS AND PRIVATIZATION REVENUES	2,2	1,7	1,9	2,2
General Government	2,2	1,9	1,9	2,2
Central Government Budget	1,6	2,0	2,0	2,1
Local Governments	0,1	0,0	-0,2	-0,1
Extra Budgetary Funds	-0,2	-0,7	-0,6	-0,6
Unemployment Insurance Fund	0,6	0,6	0,7	0,7
Social Security Institutions	0,0	0,0	0,0	-0,1
General Health Insurance	0,0	0,0	0,0	0,1
Revolving Funds	0,1	0,1	0,1	0,1
SEEs (Including SEEs under the scope of privatization)	0,0	-0,2	0,0	0,0

(1) Based on the Ministry of Development's Classical Public Sector General Balance definition.

(2) Indicates the difference between revenue and expenditure.

Note: Negative sign indicates deficit.

Annex Table 4: General Government Borrowing Requirement (1)

	(As of GDP, %)			
	2011	2012	2013	2014
GENERAL GOVERNMENT BALANCE (GGB) (2)	-1,0	-0,8	-0,8	-0,4
Central Government Budget	-0,5	-0,3	0,0	0,1
Local Governments	-0,2	-0,2	-0,3	-0,1
Extra Budgetary Funds	0,2	0,7	0,6	0,5
Unemployment Insurance Fund	0,7	0,7	0,7	0,7
Social Security Institutions	-1,1	-1,8	-1,8	-1,8
General Health Insurance	-0,1	0,0	0,0	0,1
Revolving Funds	0,2	0,1	0,2	0,1
GGB EXCLUDING INTEREST PAYMENTS AND PRIVATIZATION REVENUES	2,2	1,9	1,9	2,2
Central Government Budget	2,8	3,2	3,3	3,3
Local Governments	-0,1	-0,2	-0,3	-0,2
Extra Budgetary Funds	-0,1	-0,1	-0,1	-0,1
Unemployment Insurance Fund	0,7	0,7	0,7	0,7
Social Security Institutions	-1,1	-1,8	-1,8	-1,8
General Health Insurance	-0,1	0,0	0,0	0,1
Revolving Funds	0,2	0,1	0,2	0,1
General Government Revenues	36,4	36,8	36,5	36,1
General Government Revenues Excluding Privatization Revenues	36,1	35,9	35,7	35,4
General Government Expenditures	37,4	37,6	37,3	36,5
General Government Expenditures Excluding Interest Payments	33,9	34,0	33,8	33,2

(1) Based on the definition of the Pre-Accession Economic Programme submitted to the EU by the Ministry of Development. 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 revenue and expenditure.

Note: Negative sign indicates deficit.