REPUBLIC OF TURKEY

PRE-ACCESSION ECONOMIC REFORM PROGRAM 2018-2020

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2018 Pre-Accession Economic Reform Program has been adopted by High Planning Council Decision No. 2018/ .

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BOXES

ABBREVIATIONS

AFAD	Disaster & Emergency Management Authority
ASDEP	Family Social Support Program
BASEL	New Capital Adequacy Framework
BIST	Borsa İstanbul
BREXIT	Act of Leaving by the United Kingdom from the European Union
BRSA	Banking Regulation and Supervision Agency
BOTAŞ	Petroleum Pipeline Company
CAR	Capital Adequacy Ratiomerika Birleşik Devletleri
CBRT	Central Bank of the Republic of Turkey
CGF	Credit Guarantee Fund
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPI	Consumer Price Index
DFİF	Support and Price Stabilization Fund
ECA	Export Credit Agency
ECOFIN	Economic and Financial Affairs Council
EKK	Economic Coordination Council
ERP	Economic Reform Program
EU	European Union
ESA	European System of Accounts
EUROSTAT	Statistical Office of the European Communities
FC	Forreign Currency
FED	Federal Reserve System
FTA	Free Trade Agreement
FTE	Full Time Equivalents
FX	Foreign Exchange Rate
GDDS	Government Domestic Debt Securities
GDP	Gross Domestic Product
GGB	General Government Balance
GITES	Input Supply Strategy
GIB	Revenue Administration
HPC	High Planning Council
IACS	Integrated Administration and Control System
ICT	Information and Communication Technologies
ICTA	Information and Communication Technologies Authority
IIF	The Institute of International Finance
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
İŞKUR	Turkish Employment Organization
KOSGEB	Small and Medium Enterprises Development Organization
LFPR	Labor Force Participation Rate
MERCOSUR	Common Market of South America
MPC	Monetary Policy Committee
MFSP	Ministry of Family and Social Policies
MTP	Medium Term Program
NACE	Statistical Classification Of Economic Activites in the European Community
NPL	Non-performing loans
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PPP	Public Private Partnership
R&D	Research and Development
RI	Research Infrastructure
SCA-I	Special CPI Aggregates I Index
SCT	Special Consumption Tax
SEEs	State Economic Enterprises
SMEs	Small and Medium Sized Enterprises

SNA	System of National Accounts
SSI	Social Security Institution
SODES	Social Support Program
SOEs	State Owned Enterprises
TFP	Total Factor Productivity
TAEA	Turkish Atomic Energy Authority
TCDD	Turkish State Railways
TGNA	Grand National Assembly of Turkey
TFP	Total Factor Productivity
TL	Turkish Lira
TRNC	Turkish Republic of Northern Cyprus
TUBITAK	The Scientific and Technological Resarch Council of Turkey
TURKSTAT	Turkish Statistical Institute
USA	United States of America
VAT	Value Added Tax
VET	Vocational and Technical Education
WTO	World Trade Organization
RER	Renewable Energy Resources

1. POLICY FRAMEWORK AND OBJECTIVES

Turkey, as an acceding candidate country of European Union (EU), has been preparing the Pre-Accession Economic Reform Program (ERP-Formerly Pre-Accession Economic Program) and has been submitting to the European Commission since 2001, responding to the request of the Economic and Financial Affairs Council (ECOFIN Council) dated 26/27 November 2000. In line with the framework requested by European Commission, 2017 Pre-Accession Economic Reform Program has been prepared under the coordination of Ministry of Development with the contributions of relevant ministries and institutions and approved by the decision of the High Planning Council (HPC) No. 2018/ .[1]

Pre-Accession Economic Reform Program is based on the Medium Term Program (MTP) covering the 2018-2020 period. The macroeconomic framework of ERP 2018 was formed by taking into account recent domestic and external political and economic developments, risks and expectations. In the Program period, it is assumed that global uncertainties will diminish, global growth will gradually increase, our trading partners will continue to grow, volatilities in the financial markets and geopolitical risks will decrease, the interest rate increases by the Fed will be limited, both domestic and foreign savings will contribute to the financing of growth and terms of trade excluding energy and gold will improve relatively.

ERP is prepared to realize necessary progress for raising social welfare and provide steady growth path for the Turkish economy on a more competitive base. The main objectives of ERP are to decrease inflation by preserving macroeconomic stability and fiscal discipline, to enhance employment, to provide stable, inclusive and sustainable growth path without increasing current account deficit by increasing exports. The Program is prepared particularly to support investment and production.

Growth strategy in the Program period is based on enhancing high value-added production, improving the business and investment environment and increasing the institutional capacity in the public sector. Further, a balance between domestic and external demand will be persued in the growth process. Monetary and fiscal policies will be maintained in coordination in order to sustain steady increase in economic growth at a targeted rate.

A sustainable and high growth path and a healthy employment structure are needed to ensure macroeconomic stability. In this context, the main priority of the Program is reducing the fragility against external shocks to minimum levels by ensuring strong public financing balance, maintaining permanent price stability and keeping external balance at manageable levels. In the Program period, priority will be given to reducing transaction costs on business and investment processes, easing bureaucratic processes, and enhancing legal and financial predictability to improve the business and investment climate.

In this context; increasing the export of high value added goods and services, reducing the import dependency of domestic production and exports, improving the business and

[1] High Planning Council is composed of the Deputy Prime Minister and five Ministers under the presidency of Prime Minister.

investment environment, increasing the quality of public revenues and rationalizing public expenditures and increase its productivity, making the labor market more flexible, increasing the predictability in legal arrangements, struggling with informality, good governance, the completion of structural transformation and reforms initiated in local governments and regional development areas are important.

The Central Bank of the Republic of Turkey (CBRT) will continue to use all its instruments in line with the main objective of the price stability. Growth and employment policies will be supported without contradicting price stability. The inflation targeting will be maintained as a main monetary policy regime. CBRT will continue its tight monetary policy stance until inflation reaches a path consistent with the targets.

Fiscal policy will be implemented in harmony with monetary policy targets, in a way to raise growth potential of the economy, to preserve economic stability, to keep current account deficit at sustainable levels and to support domestic savings and investments. During the program period, the share of public expenditures and revenues in national income will be limited and their efficiency will be increased. By increasing the share of tax revenues in total public revenues, public revenues will be obtained from healthy and continuous sources and public sector borrowing requirement will be kept under control.

In addition, the implementation of 25 Priority Transformation Programs included in the Tenth Development Plan which are carried out and monitored effectively as part of release calendar, will contribute to achieve ERP targets. In this context, the actions related with increasing investments and exports; reducing the current account deficit; rising the employment, productivity and competitiveness, strengthening the public finance and enhancing the quality of fiscal discipline have been handled primarily and legislation process for these actions have been speeded up.

In ERP (2018-2020), as well as the recommendations contained in the outcome report of Economic and Financial Dialogue Meeting between EU and Western Balkans and Turkey in May 2017, the reforms in the direction of increasing domestic savings, ensuring price stability, improving the investment climate, promoting research and development (R&D) to support innovative production and SMEs and improving the quality of the workforce are maintained. The macroeconomic framework compatible with the revised national income series is also included in MTP (2018-2020).

In the second chapter of ERP 2018, which has four main chapters, recent economic developments in the Turkish economy are evaluated by considering the developments in the world economy, and then the macroeconomic forecasts for the 2018-2020 period are presented. In the third chapter, fiscal policies are put forward together with forecasts and analyses regarding budget and debt management. In the fourth chapter, assessments on developments in structural reforms, budgetary impacts and reform agenda are provided.

2. MACROECONOMIC OUTLOOK

Global economic activity is gaining upward momentum especially with the growth in advanced economies. Global growth shows relatively more balanced outlook among economies and an increase in investment, employment and trade have been observed. Nevertheless, the fact that private sector investments and trade are below the needed level for sustainable productivity increase as well as wages and demand are not at the desired level have led global growth to remain below 2008 crisis level. In the medium term, more reforms for strong and sustainable growth especially in developing countries are needed.

Since the second half of 2016 with recovery in industrial production as well as business and consumer confidence, the increase in consumption and investments have led to a recovery in the global economy. On the other hand, the increasing geopolitical risks originated from the Pacific and Middle East, the political crises rooted in referendums and elections in various countries, increasing proctectionist attitudes in foreign trade and uncertainties on the outlook for negotiations on the UK's exit from the EU (Brexit) raises concerns about the global economy. On the other hand, the US tax reform is expected to have an upward effect on global growth through the national economy and trade partners. Taking all these developments and risks into account, it is estimated that the world economy, which grew by 3.7 percent in 2017, will continue to recover in 2018 and grow by 3.9 percent and maintain the same growth rate in 2019[2].

Growth in developed economies have been in a expansionary trend. However, poor productivity performance creates pressure on growth, causing it to fall below potential. Domestic demand and production gained momentum in the US since first half of 2017 and private sector investments increased due to the recovery in the energy sector. It is expected that investment and consumption will increase with the contribution of fiscal regulations that alleviate the tax burden on corporations and individuals and thus the economic growth is expected to continue in 2018 and 2019. On the other hand, the recovery in the Eurozone is seen as an important factor driving growth in developed countries. However, risks stemming from Brexit and political uncertainties repress growth expectations in the Euro Zone. Developed economies, which grew by 2.3 percent in 2017, are expected to grow by 2.3 percent in 2018 and by 2.2 percent in 2019.

Despite the weak growth in oil exporter countries, overall growth outlook in emerging and developing economies has surpassed the expectations, owing to an increase in public infrastructure investments in China and some commodity producer countries. The growth rate of of world trade volume which had lost it’s momentum after the global crisis is expected to gain pace in 2017. The trade volume, which grew by 4.7 percent in 2017, predicted to increase by 4.6 percent in 2018 and 4.4 percent in 2019through the revival in global demand and the acceleration in trade.

The agreement, at the end of November, of the Organization of Petroleum Exporting Countries (OPEC) on extending the cutback in oil production until 2018, strong demand

[2] Data on the World economy are estimates released by the International Monetary Fund (IMF) in January 2018.

from China and the fall in crude US oil inventories supports oil prices. In 2018, the oil price per barrel is expected to be 59.9 dollars.[3]

Although the global economy shows a positive outlook, there are downside risks in the medium-term. The fact that low global growth leads to a decrease in trade volume and cross-border investments, the spread of introverted policies such as protectionism are factors that may negatively affect the global trade. In addition to these, contraction of global financial conditions and excessive appreciation of the dollar, triggered by a faster than expected US interest rate hike, may have negative effects on developing economies. Increased fragility due to rapid credit growth in the Chinese financial sector and financial tension due to weaknesses in the balance sheets of other emerging market economies can be considered as other downside risks. Economic factors such as weak demand, low inflation, increasing financial vulnerabilities and low productivity growth in some developed countries, as well as non-economic factors such as geopolitical tensions, political disagreements, natural disasters and terror and security concerns are considered as downside risks in the global economy.

2.1. Recent Economic Developments

2.1.1. Real Sector

2.1.1.1. Growth

Turkish economy grew by 3.2 percent in 2016. The contribution of total final domestic demand to economic growth realized as 4.2 percentage points. Due to unfavorable geopolitical developments and decrease in tourism sector revenues, the contribution of net goods and services exports to growth in 2016 was negative. Thus, contribution of net exports to growth was negative 1.3 percentage points. The stock change contributed to 2016 growth by 0.3 percentage point.

Economy has started to gain momentum since the last quarter of 2016 and in the first nine months of 2017, GDP growth rate was 7.4 percent. In the same period; credit expansion, tax cuts, deferred premium and flexing macro-prudential measures supported domestic demand and so the growth rate. Increasing resources and effectiveness of the Credit Guarantee Fund (CGF) have also played an important role in boosting the economy by facilitating access of firms to finance.

In this period, compared to the same period of the previous year, private consumption expenditures increased by 6.1 percent while public consumption expenditures increased by 3 percent, so that total consumption expenditures increased by 5.6 percent. In the same period, total fixed capital investments increased by 7.9 percent. In the first nine months of 2017, goods and services exports increased by 13 percent and imports of goods and services increased by 5.6 percent compared to the same period of the previous year. Thus, contribution of net exports to growth was 1.4 percentage points.

When the sectoral developments are examined, it is seen that value added of industrial sector increased by 4.2 percent and value added of services sector increased by 3.4 percent, but value added of agriculture decreased by 2.6 percent due to adverse climate conditions

[3] Data on the oil price is estimate released by the IMF in January 2018.

and high base effect in 2016. As for the first nine months of 2017, the value added of agricultural sector increased by 3.3 percent and the value added of industrial sector increased by 9.5 percent. In the same period, value added of services sector increased by 7.7 percent.

Box 2.1: Recent Practices in Treasury-Backed Credit Guarantee Scheme

"The Amendment of Decree on Treasury Support for Credit Guarantee Corporations" entered into force on 10 March 2017 and with the amendment, Treasury-backed credit guarantee volume increased from 20 billion TL to 250 billion TL. Upon the protocol signed on 15 March 2017 between the Undersecretariat of Treasury and the Credit Guarantee Fund (CGF), an amount of 200 billion TL guarantee was allocated by the Treasury. Portfolio Guarantee System enables a quick loan allocation by transferring the complete autonomy to banks in decision-making process.

Treasury-backed guarantee rate is maximum 90 percent for SMEs and 85 percent for other enterprises. So by this window 90 TL in a total amount of 100 TL loan accessed by an SME is guaranteed by the Treasury. Moreover, the rate can be increased up to 100 percent for the Eximbank loans.

When the finalized figures are considered, the amount of total loan guarantees was 191.9 billion TL and total loan volume reached to 215.1 billion TL thanks to this credit guarentee system as of November 2017. In total, 360,501 credits were extended, 84 percent of which were in TL and 73 percent of which were to SMEs.

The Undersecretariat of Treasury has set an upper compensation limit of 7 percent for such loans. Therefore, the maximum cost of these loans in the budget may be 17.5 billion TL (250×0,07). As of November 2017, the maximum cost in the budget was 13.4 billion TL (191.9×0.07). For the CGF, followed under Lending account in the Central Government Budget, an appropriation of 125 million TL was foreseen for 2017 and it is predicted that this amount will increase to 825 million TL at the end of this year.

Table 2.1: GDP Growth by Sectors and Demand Components

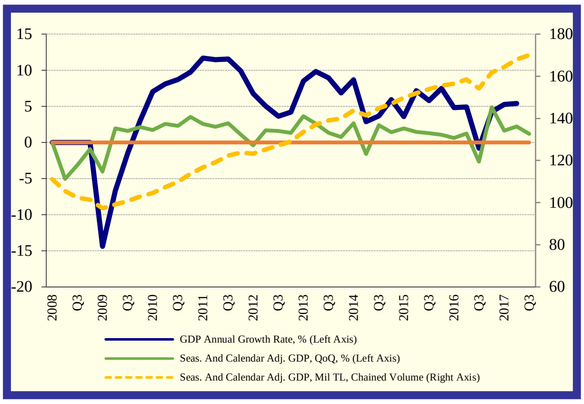
(Chained Volume, Annual Percentage Change)

	Annual		2016				2017			
	2015	2016	I	II	III	IV	I	II	III	9 Mont
GDP	6.1	3.2	4.8	4.9	-0.8	4.2	5.3	5.4	11.1	7.4
Agriculture	9.4	-2.6	-3.4	-3.4	-3.5	0.4	3.1	4.8	2.8	3.3
Industry	5.1	4.2	8.1	4.7	-1.8	5.9	6.8	7.2	14.8	9.5
Manufacturing	5.9	3.8	7.8	4.8	-3.1	5.7	6.0	7.0	15.2	9.3
Services	5.4	3.4	4.2	5.7	-0.4	4.0	5.7	5.2	12.3	7.7
Construction	4.9	5.4	2.5	12.8	2.8	3.2	5.6	5.5	18.7	10.2
Total Consumption	5.2	4.7	4.1	6.9	1.4	6.3	4.4	2.1	10.2	5.6
Public	3.9	9.5	12.4	15.0	5.8	6.1	9.3	-2.1	2.8	3.0
Private	5.4	3.7	2.5	5.2	0.5	6.3	3.4	3.1	11.7	6.1
Gross Fixed Capital Formation	9.3	2.2	6.2	2.0	0.3	1.2	2.7	8.0	12.4	7.9
Change in Stocks[1]	-1.0	0.3	0.1	1.3	0.7	-0.7	-1.1	-0.4	-0.2	-0.6
Final Domestic Demand	6.3	4.0	4.7	5.5	1.1	4.8	3.9	3.8	10.8	6.2
Total Domestic Demand	5.4	4.4	5.0	6.9	1.7	4.3	2.9	3.4	10.6	5.8
Export of Goods and Serv.	4.3	-1.9	1.9	-1.7	-9.4	2.5	10.9	10.7	17.2	13.0
Import of Goods and Serv.	1.7	3.7	2.8	7.1	2.1	2.9	0.7	1.8	14.5	5.6

Source: TURKSTAT
(1) Contribution to GDP growth

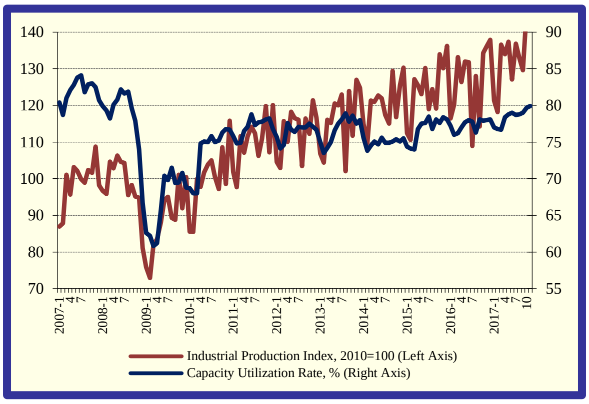
According to the leading indicators of growth, the industrial production index increased by 6.1 percent in the first 11 months of 2017 and the manufacturing industry capacity utilization rate increased by 1.1 percentage points to 78.5 percent in 2017 (Figure 2.2).

Figure 2.1: GDP Developments



Source: TURKSTAT

Figure 2.2: Industrial Productivity Indicators



Source: TURKSTAT and CBRT

2.1.1.2. Labor Market

Unemployment rate in 2016, which was estimated as 10.5 percent in ERP 2017, realized as 10.9 percent with a 0.6 percentage point annual increase. In 2016, due to impact of global and domestic uncertainties, especially the sordid coup attempt; the employment growth stayed below the labor force increase that resulted in unemployment rate to increase annually. In 2016, the labor force participation rate realized as 52 percent with a 0.7 percentage point annual increase, and the employment rate realized as 46.3 percent with a 0.3 percentage point annual increase.

Tablo 2.2: Labor Market Developments

(15+Age, Thousand)

	Annual		2016				2017		
	2015	2016	I	II	III	IV	I	II	III
Working Age Population	57,854	58,720	58,433	58,621	58,835	59,069	59,567	59,781	60,002
Labor Force Part. Rate, %	51.3	52.0	50.8	52.5	52.6	52.1	51.8	53.0	53.7
Labor Force	29,678	30,535	29,680	30,763	30,967	30,781	30,855	31,713	32,233
Employment	26,621	27,205	26,456	27,867	27,473	27,067	26,956	28,488	28,828
Unemployed	3,057	3,330	3,224	2,895	3,493	3,715	3,900	3,225	3,404
Employment Rate, %	46.0	46.3	45.3	47.5	46.7	45.8	45.3	47.7	48.0
Unemployment Rate, %	10.3	10.9	10.9	9.4	11.3	12.1	12.6	10.2	10.6
Non-Agriculture, %	12.4	13.0	12.7	11.3	13.7	14.3	14.8	12.2	12.8
Youth, %	18.6	19.6	18.6	17.4	19.9	22.6	23.3	19.8	20.6
Employment by Sector									
Agriculture	5,483	5,305	4,876	5,540	5,760	5,053	5,036	5,577	5,953
Non-Agriculture	21,137	21,900	21,580	22,327	21,713	22,013	21,920	22,911	22,876
Industry	5,332	5,296	5,276	5,386	5,224	5,316	5,251	5,386	5,437
Services	15,805	16,604	16,304	16,941	16,489	16,697	16,668	17,526	17,438

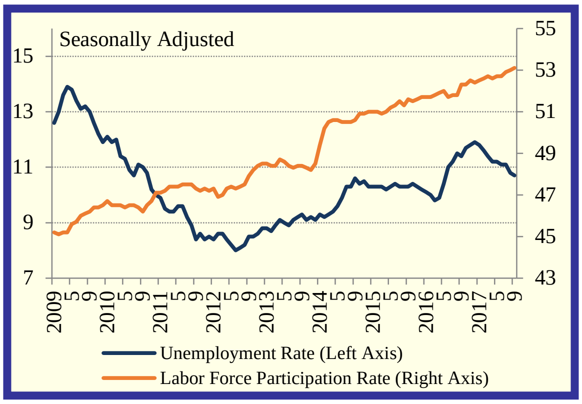
Source: TURKSTAT

In the first three quarters of 2017, industrial employment increased by 1.2 percent on average in comparison to the same period of the previous year. In the third quarter of 2017, the share of industrial employment in total employment realized as 18.9 percent with a 0.1 percentage point decrease in comparison to the same period of the previous year.

Services sector employment (including construction) increased by 3.8 percent on average in the first three quarters of 2017 compared to the same period of the previous year. In the first three quarters of 2017, within the services sector, quarterly average of total net job creation was 633 thousand, of which 96 thousand were in the construction sector. In the same period; employment in non-agricultural sector, in which 696 thousand new net jobs had been created, increased 3.2 percent annually on average.

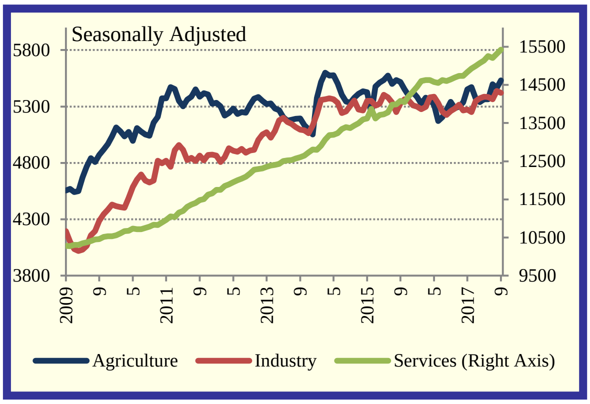
In the first three quarters of 2017, agricultural employment realized as 5,522 thousand on average through 2.4 percent annual increase. As a result, the share of agricultural employment in total employment realized as 20.7 percent in the third quarter of 2017.

Figure 2.3: Unemployment Rate and Labor Force Participation Rate (Percent)



Source: TURKSTAT

Figure 2.4: Agriculture, Industry and Services Sector Employment (Thousand People)



Source: TURKSTAT

In the first three quarters of 2017, it is observed that the upward trend in the labor force participation rate continued. In this period, the labor force participation rate realized as 52.8 percent with a 0.9 percentage point annual increase. Women are determinant in the high increases in labor participation rates. As a matter of fact, the labor force participation rate for women in the first three quarters of 2017 was 33.4 percent on average, which implies an increase of 1.1 points compared to the same period of the previous year. In this period, total employment increased due particularly to the strong employment increases observed in the services sector (including construction), but it stayed below the increases in the labor force supply. As a result of these developments, seasonally adjusted unemployment rate took the value of 10.8 percent in the third quarter of 2017 (Figure 2.3).

Analyzing seasonally adjusted figures, although industrial sector employment declined in some periods, the first three quarters of 2017 realized a recovery compared to the same period of the previous year. While employment in services sector (excluding construction) decreased somewhat in July, relatively strong employment growth was observed in the first three quarters of 2017. As a result of these developments, the upward trend in non-agricultural employment continued in January-September 2017 period. In the same period, employment in agriculture increased more than the same period of the previous year (Figure 2.4).

2.1.2. Inflation, Monetary and Exchange Rate Policies

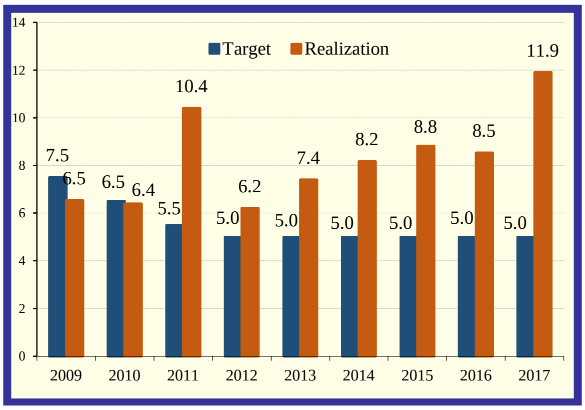
2.1.2.1. Inflation

In 2016 annual consumer inflation declined to 8.5 percent but stood above the uncertainty band (Figure 2.5). Despite a favorable food inflation, the depreciation in Turkish lira and tax adjustments contributed significantly to inflation.

Annual food inflation, which was lower than past figures in end-2016 with 5.7 percent, deteriorated in the following periods due to adverse supply conditions together with exchange rate and import price developments. In 2017, annual food inflation remained in two-digits in most of the year and reached 13.8 percent as of December. On the other hand, after accelerating in the last quarter of 2016 due to increase in international oil prices, depreciation in Turkish lira and tax adjustment in fuel products, energy inflation further increased in 2017 reaching 10.4 percent in December. The recent hike in oil prices accompanied by the depreciation of Turkish lira also exert extra pressure on energy prices.

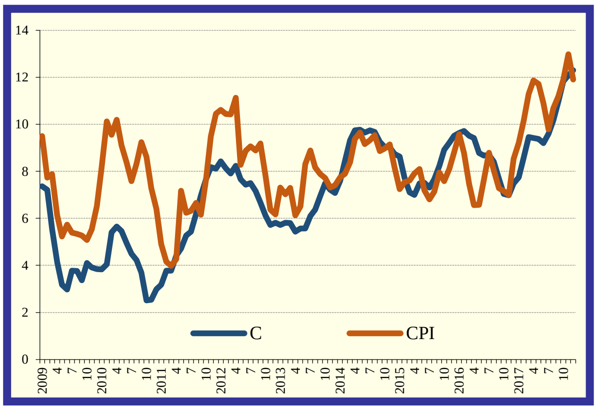
Core goods inflation, which fluctuated due to methodological change in weighting system of clothing prices, followed an upward course on the back of exchange rate depreciation throughout 2017 and climbed to 15.4 percent in December reaching historically highest level. On the other hand annual services inflation which registered gradual increases throughout the year realized at 9.5 percent in December. Despite this slow down, the outlook in services inflation remained deteriorated in 2017 due to high course of headline inflation and cost-side factors as well as improved domestic demand. All in all, the annual rate of increase in core inflation indicators B and C both climbed to 12.3 percent, while annual consumer inflation stood at 11.9 percent as of December 2017 (Figure 2.6).

Figure 2.5: Annual Inflation Targets and Realizations (CPI)



Source: CBRT, TURKSTAT

Figure 2.6: CPI and Core CPI (Annual Percentage Change)



Source: TURKSTAT

2.1.2.2. Monetary and Exchange Rate Policies

The CBRT's policy stance remained tight against the inflation outlook, stabilizing against the foreign exchange liquidity and accommodative against financial stability in 2016. In the first quarter of 2016, slight alleviation of the volatility in global markets accompanied by the active use of policy tools, the tight liquidity policy and macro-prudential policy stance reduced the need for a wide interest rate corridor. In the March-September period of 2016, the decline in inflationary pressures, tightness in financial conditions and the moderate course of global financial markets facilitated the CBRT to implement simplification in the interest rate corridor policy. Accordingly, the upper bound of the corridor (overnight lending rate) was lowered by 250 basis points from 10.75 to 8.25 percent through measured and cautious steps in the March–September period of 2016. Thus, the corridor width, which was 325 basis points in March, was narrowed down to 100 basis points in September. In this period, overnight borrowing rate (lower bound of the corridor) and the one-week repo rate was kept unchanged at 7.25 and 7.50 percent, respectively.

Toward the end of 2016, persisting uncertainties surrounding global economic policies and the upward revision of the US policy-rate expectations caused fluctuations in the exchange rate market in Turkey, as in other emerging economies. To curtail the effects of these developments on inflation expectations and the pricing behavior, the CBRT implemented monetary tightening in November 2016. Accordingly, the one-week repo rate and the CBRT overnight lending rate were raised by 50 and 25 basis points, respectively. For a more reliable evaluation of the net effects of these factors, in consideration of the benefits of the close monitoring of developments, the CBRT did not change the policy rate in December. In December 2016, one-week repo rate, the CBRT borrowing and lending rates stood at 8, 7.25, and 8.5 percent, respectively. The CBRT funding was mostly made through one-week repo auctions in 2016, and the share of the funding through the overnight lending rate was also kept high.

Throughout 2016, in addition to the abovementioned policy rate decisions, the CBRT took a series of measures on TL and FX liquidity management within the monetary policy framework. Accordingly, in order to enhance the predictability of liquidity policy and the effectiveness of liquidity management of banks, starting from 3 June 2016, the CBRT has aimed to evenly distribute the 1-week repo funding across days in determining the daily auction amount provided by the quantity auction method. In addition, on June 2016, the CBRT decided to continue with outright purchase auctions until the year-end to support effective management of TL liquidity policy. To contain the adverse effects of the sordid coup attempt on financial markets and enhance the smooth operating of markets, some additional measures have also been taken. These measures lowered the need for an unlimited collateral FX deposit facility introduced in July 2017, over time. Hence, imposition of limits to FX collateral deposits was re-started as of 11 November 2016. Moreover, TL required reserve ratios were reduced by 100 basis points in total in all maturity brackets in August and September 2016, which provided liquidity to the system.

In addition to the TL liquidity management, the CBRT also took measures to contribute to the liquidity in the FX market against exchange rate volatilities, particularly in the second half of 2016. FX required reserve ratios and reserve option coefficients were adjusted to inject additional FX liquidity to the financial system. In November 2016, the FX required reserve ratios were reduced by 50 basis points in all maturity brackets. Moreover, maturity extension and re-payment in TL options were introduced to export rediscount credits for re-payments by the year-end, limits were re-introduced for collateral FX deposits, and demand from the energy-importing public institutions were partly met by the CBRT and the Undersecretariat of the Treasury depending on market conditions. All these measures supported the FX liquidity in the market.

In January 2017, excessive volatility in exchange rates led to upside risks on the inflation outlook. Taking into account the possibility that inflation may soar remarkably in the short term given the lagged effects of exchange rate developments and volatile unprocessed food prices, the CBRT decided to deliver a more aggressive monetary tightening to hinder the deterioration in the inflation outlook. Accordingly, the overnight lending rate was increased from 8.5 percent to 9.25 percent, and the late liquidity window lending rate was raised from 10 percent to 11 percent at the January MPC meeting.

In addition to these policy decisions, in January 2017, some liquidity measures were taken to prevent the volatile exchange rates and unhealthy price formations detached from economic fundamentals from distorting the price stability and financial stability. Accordingly, the CBRT has not launched any 1-week repo auctions since 12 January 2017, which directed banks to financing resources with higher costs in the money markets. Moreover, banks' total borrowing limit at the CBRT Interbank Money Market was gradually reduced to 11 billion TL. In addition, to be implemented on the days deemed necessary, a limitation was introduced to the amount of funding provided by the CBRT through the BIST Interbank Repo-Reverse Repo Market. In early January, other than the abovementioned measures, FX required reserve ratios were reduced by a further 50 basis points in all maturities, providing the financial system with around 1.5 billion dollars additional FX liquidity. Furthermore, to enhance the flexibility and instrument diversity of the TL and FX liquidity management, the CBRT launched the Foreign Exchange Deposits against TL Deposits Market.

By April 2017, global financial conditions were relatively benign, but the FX market remained somewhat volatile. On the other hand, the Turkish lira diverged positively from other emerging market currencies in this period and recovered some of the past losses. Credit conditions began to ease thanks to accommodative macroprudential policies as well as public incentives and measures. Observing that inflation posed a threat to the pricing behavior after having soared due to the lagged effects of the Turkish lira depreciation as well as rising import prices and food prices, the MPC decided to tighten its monetary policy stance further and raised the late liquidity window lending rate from 11.75 to 12.25 percent at the April meeting. The tight monetary policy stance drove the FX volatility down.

Global economic activity has settled on a trend of recovery since June 2017. The upward revision in global growth forecasts and waning volatility help bolster risk appetite. The monetary policy normalization process in advanced economies has remained moderate because of still low global inflation rates. The elevated risk appetite and the subsided volatility in global financial markets along with favorable figures regarding global growth, kept portfolio inflows to emerging economies including Turkey strong.

In line with the positive mood in global financial markets, domestic financial conditions also continued to be supportive of economic activity in 2017. This was driven by macroprudential policies, public measures and incentives, as well as the loans guaranteed by the Treasury-backed Credit Guarantee Fund (CGF), which improved overall credit conditions. The strong acceleration in credits in the first half of the year is monitored closely with regard to the extent of its impact on the aggregate demand and economic activity. However, elevated levels of inflation and developments in core inflation indicators pose risks to the pricing behavior. This outlook necessitated the continuation of the tight stance in monetary policy. In this context, the tight stance of the monetary policy has been maintained by the CBRT during June–October 2017 period, by keeping interest rates unchanged. Moreover, due to the heavy reliance on late liquidity window facility for lending, the predictability of the monetary policy has been increased considerably during 2017.

At the beginning of November, the markets have witnessed unsound price formations that are inconsistent with economic fundamentals. Taking this development into account, with a view to support price stability and financial stability, the CBRT revised the upper limit and the tranches for the FX maintenance facility within the reserve options mechanism. Accordingly, the upper limit for the FX maintenance facility has been lowered to 55 percent from 60 percent and all tranches have been reduced by 5 points, on 6 November 2017. With this revision, approximately 5.3 billion Turkish liras was withdrawn from the market and approximately 1.4 billion dollars of liquidity was provided for the use of banks. Moreover, re-payment in TL options were introduced to export rediscount credits for re-payments by 1 February 2018, which also supported the FX liquidity in the market.

The CBRT decided to launch Turkish lira settled forward exchange sale auctions in November in order to effectively manage the real sector’s foreign exchange rate risk and to compensate for the excessive volatility that can be observed in foreign exchange rates and the maximum total amount of foreign exchange sale position is planned to be USD 3 billion until end-2017.

In addition to these policy decisions, in November 2017, some liquidity measures were taken to prevent the volatile exchange rates and unhealthy price formations detached from economic fundamentals from distorting the price stability and financial stability. Accordingly, the borrowing limits of banks in the CBRT Interbank Money Market have been reduced to zero for overnight transactions, as of 22 November 2017. With this decision, the weighted average funding rate of the CBRT came to the level of the late liquidity window lending rate of 12.25 percent, due to the provision of the entire CBRT funding through the late liquidity window lending facility.

At the MPC meeting held in December 2017, the Committee decided to tighten the monetary stance by emphasizing that the current elevated levels of inflation and recent developments in cost factors have increased the risks on expectations and the pricing behavior. Accordingly, the late liquidity window lending rate was raised from 12.25 percent to 12.75 percent and it has been stated that the tight stance in monetary policy will be maintained decisively until inflation outlook displays a significant improvement and becomes consistent with the targets.

The official reserves of the CBRT stands at 113.6 billion US dollars, as of 15 December, 2017. Of this amount, 22.5 billion is the gold reserves, and the remaining 91.1 billion is the gross foreign exchange reserves. In 2017, total reserves have increased by 7.0 percent. This increase was mainly due to the gradual rise in the amount of CBRT’s gold reserves, with the share in total reserves coming up to 20 percent in December 2017. In line with the floating exchange rate regime, instruments such as direct net FX purchases, export rediscount credits and Reserve Option Mechanism (ROM) have helped to increase gross FX and gold reserves since 2001. There may be seasonal fluctuations in gross reserves. Currently, rediscount credits are the most important reserve accumulation tool. There are no FX sales through FX selling auctions since 28 April 2016. CBRT continues to accumulate reserves when conditions are favorable. CBRT’s reserves are adequate in terms of short term risk criterion.

2.1.3. Financial Sector

2.1.3.1. Banking

The number of banks operating in Turkish banking sector is 51. As of September 2017, the sector’s total assets reached 3.1 trillion TL by increasing 20.5 percent on TL basis, and 862.4 billion dollars by decreasing 1.9 percent on dollar basis due to the depreciation of TL against dollar in one-year period. Banking assets represents 85 percent of total financial sector assets and banking assets to GDP is realized at 103.2 percent, as of September 2017.

The loans, which is the most significant contributor to asset size, grew by 23.8 percent over the same month of the previous year and raised to 2 trillion TL (580.9 billion dollar) as of September 2017. The loan growth adjusted for exchange rate was recorded at 19.5 percent. The main drivers of credit growth are easing macroprudential measures[4] , tax deductions[5] and collaterals provided by Treasury-backed Credit Guarantee Fund (CGF). In the same period, retail loans and credit cards increased by 19.8 percent and 11.6 percent while SME and corporate loans grew by 23.1 percent and 24.2 percent on a yearly basis. Meanwhile, the share of retail loans and credit cards in total loans decreased from 26.2 percent to 24.9 percent whereas the share of commercial loans raised from 73.8 percent to 75.1 percent with the help of CGF incentives.

Sector’s ratio of non-performing loans to total gross loans (NPL), having an upward trend since 2014, rose up to 3.4 percent in 2016; however, it dropped back to 3.1 percent owing to the strong credit growth during 2017. The NPL ratio, managing this average since June 2017, was registered at 2.8 percent for retail loans, 6.4 percent for credit cards, 4.7 percent for SME loans and 1.9 percent for corporate loans as of September 2017. It is evaluated that CGF loan stimulus contributed significantly to the improvement in the NPL ratio of SME loans, reaching the level of 5 percent.

Customer deposits, which is the main funding source of banks, accounted for 53.5 percent of total liabilities in September 2017, not implying a remarkable change compared to the same month of the previous year. On the other hand, the share of bank loans mostly obtained from foreign banks fell from 14.6 percent to 14 percent while the share of securities mostly issued abroad increased from 4 percent to 4.4 percent. The ratio of gross loans to total deposits, recorded at 124.2 percent in September 2016, raised to 125.8 percent

[4] Macroprudential measures on retail loans were implemented in 2014 and partially loosened in September 2017. Accordingly, maximum maturity limit in personal finance loans was expanded from 36 months to 48 months, general installment limit in personal credit cards was increased from 9 months to 12 months, and loan/value ratio in mortgage loans was raised from 75 percent to 80 percent.
[5] In February 2017, tax rates were deducted for some house sales and furniture and white goods purchases in different margins until the end of September.

as of September 2017. However, the ratio decreased to 118.2 percent when excluding the development and investment banks, which are not authorized to collect deposits.

In spite of global uncertainty and exchange rate volatility, financial soundness and performance indicators of Turkish banking sector maintain a positive trend. As of September 2017, net profit of the sector reached to 37.2 billion TL (10.5 billion dollar) by increasing 28.6 percent in annual basis. 9-month cumulative return on assets (before tax) and return on equity ratios was recorded at 1.6 percent and 12.2 percent, respectively. The sector's capital adequacy ratio (CAR) was realized as 17.2 percent, attaining its highest level since the first quarter of 2013. The main drivers of this improvement are the significant rise in profitability, new acquisitions of subordinated debts and the downtrend in credit risk due to CGF loans.

2.1.3.2. Capital Markets

Total market capitalization of corporations listed on Borsa Istanbul was 614 billion TL (174 billion dollars) by the end of 2016 while it raised to 795 billion TL (219 billion dollars) as of September 2017. Total market volume was 1,012 billion TL (280 billion dollars) by September 2017, which was 1,014 billion TL (331 billion dollars) in 2016. There is a decline in the IPOs in recent years due to negative effects of global market circumstances on emerging economies as well as domestic market uncertainties. Whereas only 2 companies went public in 2016, 3 IPO's have been successfully performed as of September 2017.

As for the private sector debt securities, total issuances reached to 103 billion TL (28 billion dollars) as of September 2017, while it was 116 billion TL (33 billion dollars) in 2016. Although these issuances have mainly been conducted by corporate banks, the sukuk has been mainly issued by private participation banks. The amount of sukuk issuance is 4.8 billion TL (1.3 billion dollars) during the first 9 months of 2017, as it was 3.4 billion TL (0.9 billion dollars) through 2016.

Listed companies in Turkey have attracted the attention of foreign investors for a while. Within the period between 2011 and 2017, the share of foreign investors in the equity custody balance has been within the ranges of 62-66 percent for corporations traded at Borsa Istanbul. This ratio was 63.4 percent in 2016 and 65.4 percent as of July 2017.

2.1.3.3. Insurance

There are 62 insurance, reinsurance and private pension companies in Turkey as of September 2017. 38 of these companies operate in non-life, 18 in life insurance and pension, 4 in life insurance and 2 in reinsurance branches. In the same period, 9-month premium production in insurance sector was realized as 35 billion TL (9.7 billion dollars) while total assets[6] of the sector were 140.3 billion TL (39 billion dollars).

Owing to the state subsidy incentive put into force since 2013 and also the new auto-enrollment system initiated at the beginning of 2017, the Private Pension System (third pillar voluntary private pension scheme) has maintained a high growth trend, reaching to 10

[6] This indicator shows the total assets of insurance and pension companies and does not include reinsurance companies. Total assets of reinsurance companies were 3.4 billion TL (roughly 1 billion dollar).

million 420 thousand participants and 77.9 billion TL (20.6 billion dollars) fund size as of 20 December 2017.

2.1.4. Balance of Payments

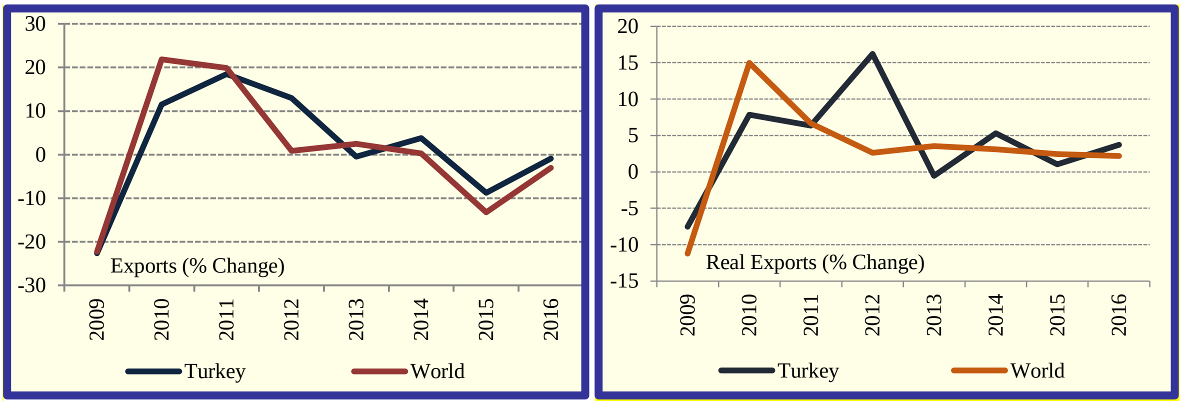
2.1.4.1. Current Account

Exports increased by 10.5 percent compared to the same period of the previous year and amounted to 115.1 billion dollars in January-September 2017 due to the effects of support for production and exports. The improvement in economic activity in the Euro Area and the positive developments in the global economy supported the increase in exports. By the same period, imports increased by 15.5 percent and realized as 169 billion dollars. In addition to these developments, the annualized current account deficit realized as 39.7 billion dollars as of September 2017 due to the improvement in the tourism sector.

In the January-September period of 2017, real exports and real imports increased by 10.4 percent and 8.2 percent, respectively, compared to the same period of the previous year. In the same period, import prices increased by 6.7 percent while export prices increased 0.3 percent. Foreign trade prices have been affected by global commodity prices as well as the depreciation of the Turkish lira.

In the first nine months of 2017, exports to the EU increased by 6 percent to 53.6 billion dollars in comparison to the same period of the previous year triggered by an economic recovery in the EU countries. In terms of destination China, Germany and Russia maintains high levels of imports. In the first nine months of 2017, the share of imports from Russia increased, while the shares of China and Germany declined.

Figure 2.7: Developments in Exports and Real Exports



Source: World Trade Organization, IMF, TURKSTAT

The decline experienced in the tourism sector in 2016 came to an end with the year 2017. In the first nine months of 2017, travel revenues increased by 17.9 percent compared with the same period of the previous year and amounted to 17.3 billion dollars. The number of tourists in the first nine months of the year increased by 28.1 percent in comparison to the same period of the previous year and was realized as 26.061 thousand persons. Despite these developments, there has been no significant change in average expenditure per capita.

2.1.4.2. Capital and Financial Account

In the first nine months of 2017, net foreign direct investment inflows decreased by 1.1 billion dollars compared to the same period of the previous year and amounted to 5.7

billion dollars. The regional political developments have been influential in this decline. In the same period, portfolio investments increased by 14.9 billion dollars and recorded an inflow of 22.5 billion dollars. Capital inflows in other investments item slowed down, decreased 5.1 billion dollars and realized as 5.8 billion dollars. Reserve assets in the January-September period of 2017 decreased by 6.1 billion dollars.

2.2. Medium Term Macroeconomic Scenario

In accordance with MTP (2018-2020), the main objectives of the ERP are to maintain macroeconomic stability, to increase human capital and labor quality, to enhance high value-added production, to improve the business and investment environment, to increase the institutional capacity in the public sector, to increase employment and improve income distribution.

In this framework; decreasing inflation, sustaining fiscal discipline and improving current account balance, raising the quality of education, enhancing the skills and productivity of the workforce, making the labor market more flexible, increasing the value added production and exports based on innovation, facilitating business and investment processes, legal foresight in business and trade disputes and structural reforms aimed at strengthening institutional capacity in the public sector are quite important.

The growth expectations in world trade volume, which lost momentum after the global crisis, the recovery in the global demand and the relative normalization in monetary policies are strenghtening positive signs in the global economy. Global economic developments affect the Turkish economy through various transmission channels. Strong economic performance in our trading partners, low oil prices, extention in the projected time span of advanced economies' monetary normalization process and the continuing capital inflows have a joint positive effect on growth, foreign trade balance and exchange rates in the Turkish economy. Probable slowdowns in capital inflows due to some unanticipated changes in advanced economy monetary policies, unexpected surges in energy prices and adverse geopolitical developments pose some downside risks to the Turkish economy.

In the medium-term; an investment and export orianted growth structure mainly financed by domestic savings and foreign direct investments, that generates high quality employment while non-accelerating in terms of inflation and current account deficit, is targeted. During the Programme period, with growth-supportive policies, by increasing total factor productivity, creating high quality jobs and improving quality and quantity of labor force, it is expected that more stable and rapid growth structure will be established.

During the Program period, inflation is targeted to converge to 5 percent by maintaining anti-inflationary monetary policy stand and fiscal discipline. When this target was set, it was assumed that administered prices and tax adjustments will be determined in accordance with inflation targets and the cautious stance of monetary policy will continue.

With the designed policies and measures, it's aimed that the production and trade structure of the economy to edge towards exports. Within this framework; channeling of economic stimulus towards areas supporting the efficient and sustainable growth, expansion in high-tech exports, maintenance of efforts to curb dependence on imported inputs and convergence to potential tourism income are foreseen.

It is aimed to limit the share of public expenditures and revenues in GDP and increase their effectiveness, obtain public revenues from steady and sound sources by increasing share of tax revenues and keep public sector borrowing requirement under control. In the ERP period; fiscal policy, in line with monetary policy targets, will be implemented in a way that it contributes to the enhancement of growth potential of the economy, maintaining economic stability, keeping current account deficit at sustainable levels while increasing domestic savings and supporting investments.

On the human capital side; the main objective is to create a labor market that is more capable and competent, able to produce ample and better job opportunities, competes in global markets and harnesses technological changes and digital revolution.

2.2.1. Real Sector

2.2.1.1. Composition of Growth

In the Turkish economy is expected to grow by 5.5 percent above 4.4 percent forecast in the previous ERP. Contributions of domestic final demand, changes in stocks and net exports to the GDP growth will be 4.7 percentage points, -0.4 percentage point and 1.3 percentage points, respectively.

On the other hand, in the first nine months of 2017, GDP growth rate has increased to 7.4 percent through the measures for boosting the economic activity that had slowed down due to unfavorable domestic and external conditions in 2016. In addition to the third quarter GDP growth realized beyond expectations, industrial production, capacity utilization and leading indicators on exports heralds a better growth performance. As a result of the accelerating industrial production, recovery in consumer and investor confidence and the positive effects of reinvigorating tourism sector on services output, all out supported by the aformentioned measures, the GDP growth in 2017 is expected to realize above the Medium Term Programme forecast.Table 2.3: Demand Components of Growth

(2009=100 Chained Volume, Percentage Change)

		Forecast			
	2016	**2017**	**2018**	**2019**	**2020**
Total Consumption Expenditure	4.7	4.4	3.9	4.2	4.1
Private	3.8	4.6	4.0	4.6	4.5
Public	10.5	2.7	3.5	2.0	1.8
Total Investment Expenditure	3.7	3.6	6.7	6.3	6.9
Gross Fixed Capital Formation	2.2	4.8	5.5	5.9	5.9
Change in Stocks (1)	0.3	-0.4	0.1	0.0	0.1
Exports of Goods and Services	-1.9	10.4	10.2	6.2	7.5
Imports of Goods and Services	3.7	4.1	6.2	3.2	4.9
Gross Domestic Product	3.2	5.5	5.5	5.5	5.5
Domestic Demand	4.4	4.2	4.6	4.8	4.9
Domestic Final Demand	4.0	4.5	4.4	4.7	4.6

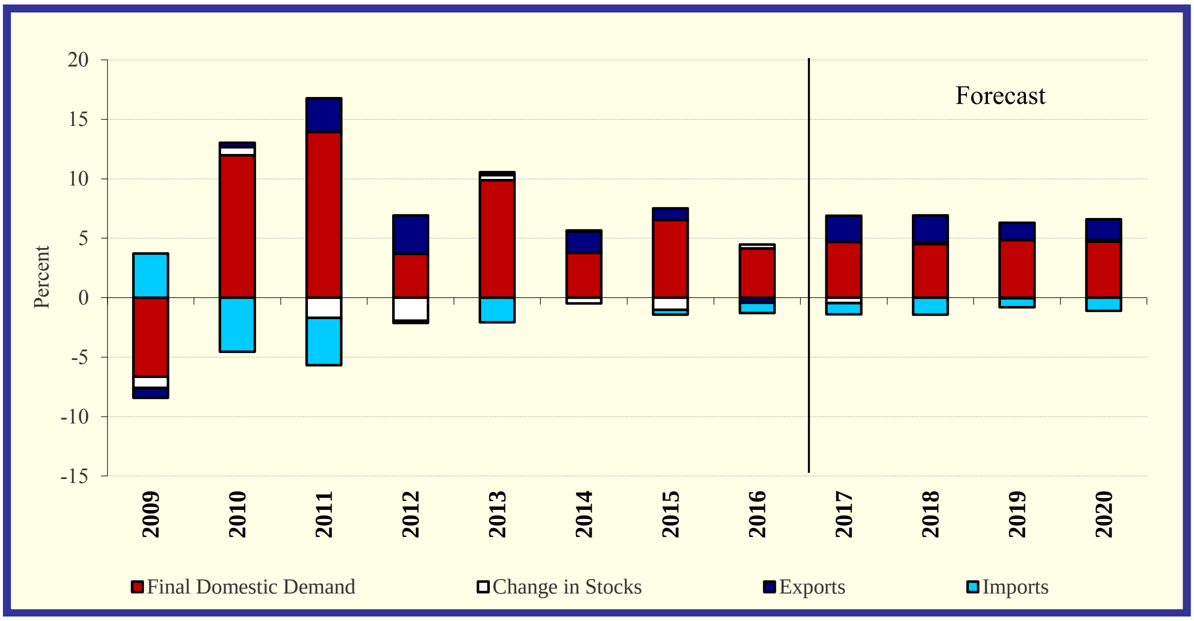
Source: Realization TURKSTAT, forecast Ministry of Development
(1) Contribution to GDP growth

Average annual GDP growth rate for the period of 2018-2020 is expected to realize as 5.5 percent. For this period; an investment and export orianted growth setup mainly financed by domestic savings and foreign direct investments, that generates high quality employment while non-accelerating in terms of inflation and current account deficit, is targeted.

Scrutinizing the demand components; it is projected that, on annual average, private and government consumption will increase by 4.3 percent and 2.4 percent respectively. In the same period, total investment expenditures are expected to rise by 6.6 percent annually on average. Thus, domestic final demand is forecasted to increase by 4.6 percent. Domestic demand is expected to increase by 4.8 percent annually on average as changes in stocks contribute positively to the growth.

Export performance is foreseen to improve with contributions of new investments and implementation of new policies that aim to increase productivity especially in industry sector. The expected recovery in tourism revenues, the favorable developments in external demand, and especially the recovery in the growth projections of the EU, which is an important export partner of Turkey, will also contribute to the export performance and export of goods and services is expected to increase by 8 percent annually on average for the period of 2018-2020. In line with domestic demand developments, imports of goods and services are forecasted to rise by 4.8 percent annually on average for the same period. Therefore, net exports will contribute positively to the growth for the Program period along with affirmative developments in domestic demand.

Figure 2.8: Contribution to GDP Growth



Source: Realization TURKSTAT, forecast Ministry of Development

Scrutinizing GDP by sectors, it is observed that value added in agricultural sector has recovered due to both base effect and favorable climate conditions. Therefore, it is expected that the value added of agriculture will increase by 4.6 percent in 2017 and increase by 4 percent annually on average in the period of 2018-2020.

It is predicted that the industrial sector will be the driving force of growth in 2017 and the increase in the value added of the sector to be 6.6 percent. This forecast is also reinforced by the fact that the average capacity utilization rate in manufacturing industry in 2017 realized at the highest level (78.5 percent) since 2008. In the ERP period, the value added in industry sector is expected to increase by 5.9 percent annually on average.

The value added in the services sector is expected to increase by 5.6 percent in 2017 with the recovery in retail trade and tourism sectors and by 5.5 percent annually on average in the period of 2018-2020.

Table 2.4: Value-Added by Sectors

(Percent)

	Actual			Forecast			
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Growth Rates (2009=100 Chained Volume)							
Agriculture	0.6	9.4	-2.6	4.6	4.0	4.0	4.0
Industry	5.6	5.1	4.2	6.6	5.7	5.7	6.3
Services[1]	6.1	5.4	3.4	5.6	5.5	5.7	5.4
GDP	5.2	6.1	3.2	5.5	5.5	5.5	5.5
Percent of GDP[2] (Current Prices)							
Agriculture	6.6	6.9	6.2	6.1	5.9	5.6	5.3
Industry	20.1	19.8	19.6	20.7	20.9	21.1	21.4
Services	61.8	61.5	62.3	61.6	61.6	61.7	61.8

(1) Construction sector included.
(2) Sum of the shares of the sectors is not equal to 100 percent since tax-subsidies are excluded.

Considering the shares of sectors in GDP, it is foreseen that the share of agriculture sector will decrease gradually over the years. The share of industrial sector is projected to increase in the program period and to reach 21.4 percent as of 2020. It is expected that the share of the services sector will be 61.8 percent by 2020, following a horizontal course.

2.2.1.2. Sources of Growth

Scrutinizing the sources of growth in Turkish economy, capital accumulation has been the main driver of growth while the contribution of employment to growth has displayed stable pattern and total factor productivity has not contributed enough to growth although it showed periodic differences (Table 2.5). As part of the analysis corresponding with the new national income series unlike the previous ERP, it is noteworthy that capital accumulation has strengthened via investment increase in the post-2009 period while growth has shown a similar structure. In this period, the contribution of TFP to growth has also increased parallel to high growth rates.

Despite the extremely unfavorable internal and external conditions experienced in 2016, Turkish economy maintained its resilience and grew by 3.2 percent. Considering the contribution of the factors of production to the weakened growth performance, capital stock and employment contribution to growth decreased slightly due to low investment and employment growth. TFP provided negative contribution to growth.

Economic activity, which increased by 5.3 percent on average in the first half of 2017, is predicted to maintain its favorable course during the rest of the year. The strong performance of the labor market is expected to prevail and the contribution of employment to growth to increase. Contribution of capital accumulation to growth is projected to be in line with the long-term trends and total factor productivity to contribute positively to growth performance in contrast to 2016.

Table 2.5: Developments in Factors of Production

(2009=100 Chained Index, Percentage)

Period	Growth Rates					Contribution to Growth		
	GDP	Capital Stock	Capital Stock*	Emp.	TFP	Capital Stock	Emp.	TFP
1998-2016	4.5	6.9	6.6	2.0	0.7	56.0	27.5	16.5
2002-2016	5.7	7.3	7.8	2.4	1.2	51.8	26.4	21.8
2002-2007	7.1	7.5	9.9	1.0	2.8	52.2	8.4	39.4
2010-2016	6.7	7.4	9.7	4.0	0.6	54.0	37.5	8.5
2018-2020	5.5	6.7	7.4	3.7	0.4	50.5	41.7	7.8

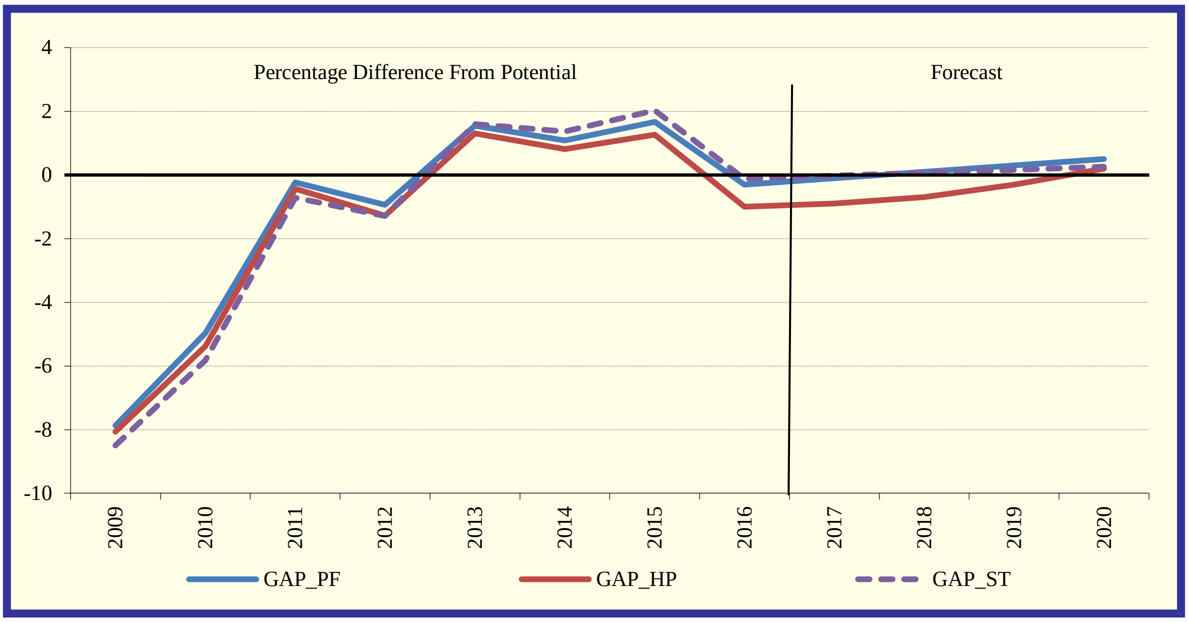
Source: Ministry of Development calculations
* Capital stock increase corrected by capacity utilization rate.

Especially with the significant contribution of the employment programs and incentives applied in the Program period; capital stock, employment and TFP are estimated to increase by 7.4 percent, 3.7 percent and 0.4 percent annually on average, respectively. Within the framework of the projected macroeconomic structure, the contributions of capital stock, employment and TFP to growth are expected to be 50.5 percent, 41.7 percent and 7.8 percent on average, respectively, in the Program period.

2.2.1.3. Potential Output and Output Gap

Losses in potential production caused by the 2009 global crisis alleviated by strong domestic demand and high investment and employment growth in the following years. The realized production level exceeded its potential. For this period, the potential production level implied by the revised national income statistics surpassed the potential production level implied by the old series. So in line with the revision, the calculations has been updated and the forecasts in the ERP 2018 differed from the previous ERP reckonings.

Figure 2.9: Output Gap



Source: Ministry of Development calculations
GAP_PF: Output gap calculated by production function method
GAP_HP: Output gap calculated by Hodrick-Prescott method
GAP_ST: Output gap calculated by split-time linear method

Due to the slowdown in economic activity in 2016, the production level declined below the potential level again. Output gap estimates based on alternative methods point out that there was no demand pressure in Turkish economy in 2016. It is projected that the output gap will diminish in some extent during 2017.

In the context of growth strategy supported by productivity expansion and investments directed to the productive areas, the annual growth rate is predicted to be 5.5 percent on average throughout the ERP period. Within the context of macroeconomic scenario, it is foreseen that negative output gap will close in the economy during the program period.

2.2.1.4. Investment-Saving Balance

Turkish economy which grew by more than 3 percent in 2016 despite the weak trend in global trade and capital flows, failed coup attempt and other adverse conditions grew by 7.4 percent during the first three quarters of 2017 compared to the same period of the previous year. In this period, a balanced growth structure based on a simultaneous expansion in export and investment spendings that also accompanied increase in consumption has been observed. The economic growth is expected to proceed in the last quarter of the year, with the increasing consumer and investor confidence as the adversities experienced in 2016 were rapidly overcome. Thus, it is expected that the ratio of total fixed capital investment expenditures to GDP will increase to 30.6 percent in 2017 and the ratio of total investments to GDP will be realized as 29.5 percent with the negative stock contribution foresight.

Table 2.6: Investment-Saving Balance

(As a Share of GDP, Percent)

			Forecast			
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Total Investment	28.4	28.2	29.5	29.7	30.2	30.4
Fixed Capital Formation	29.7	29.3	30.6	30.9	31.0	31.1
Change in Stocks	-1.3	-1.1	-1.1	-1.2	-0.7	-0.7
Total Savings	28.4	28.2	29.5	29.7	30.2	30.4
Domestic Savings	24.8	24.5	25.0	25.5	26.1	26.5
Foreign Savings	3.7	3.8	4.6	4.3	4.1	3.9

Source: Realization TURKSTAT, forecast Ministry of Development

It is foreseen that the ratio of domestic savings to GDP will increase to 25 percent besides the expected improvement in fixed capital investment increases in 2017. Depending on these developments, it is expected that the ratio of external savings to GDP will be 4.6 percent in 2017 with an increase compared to the previous year.

During the program period, it is aimed to accelerate the structural reforms and it is expected that the growth will be mainly due to private investments focused on sectors exposed to foreign trade. On the other hand, a domestic consumption structure, which is below the increase in disposable income, is foreseen within the framework of reducing the current account deficit and inflation. In addition, with the actions taken in the Program for Increasing Domestic Savings and Avoiding Waste to be completed during the Program period, domestic savings will be directed to productive areas and more efficient use of existing resources will be ensured.

In line with these policies, it is targeted that the ratio of domestic savings to GDP will rise to 26.5 percent by the end of the program period. With increasing savings rates, investments will steadily rise during the program period, reaching 30.4 percent of GDP at the end of the period. While it is expected that the increase in investments will be mostly from the private sector, it is aimed to focus on public investments to support innovative and productive investments of the private sector and infrastructure investments for increasing trade. Thus, it is aimed that the foreign savings requirement to steadily decline throughout the program period to 3.9 percent of GDP by 2020.

2.2.1.5. Labor Market

Analyzing the developments in the labor market, it is observed that high increases in labor supply is one of the main prominent factors in recent years. Accompanying this development, it is also observed that the high increases in non-agricultural employment has continued. Due to above-employment labor supply expansion, unemployment rate in 2016 realized as 10.9 percent with a 0.6 percentage point increase compared to 2015.

Tablo 2.7: Labor Market Developments

(15+ Age)

	Realization		**Forecast**			
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Working Age Population (Thousand Person)	57,854	58,720	59,863	61,028	62,199	63,388
Labor Force Participation Rate (%)	51.3	52.0	52.7	53.4	54.1	54.7
Labor Force (Thousand Person)	29,678	30,535	31,571	32,616	33,624	34,684
Employment	26,621	27,205	28,152	29,193	30,281	31,369
Agriculture	5,483	5,305	5,300	5,275	5,232	5,151
Non-Agriculture	21,138	21,900	22,852	23,918	25,048	26,219
Unemployed	3,057	3,330	3,419	3,423	3,343	3,315
Employment Increase (%)	2.7	2.2	3.5	3.7	3.7	3.6
Agriculture	0.2	-3.2	-0.1	-0.5	-0.8	-1.6
Non-Agriculture	3.3	3.6	4.3	4.7	4.7	4.7
Employment Rate (%)	46.0	46.3	47.0	47.8	48.7	49.5
Unemployment Rate (%)	10.3	10.9	10.8	10.5	9.9	9.6

Source: Realization TURKSTAT, forecast Ministry of Development

In the first three quarters of 2017, while labor force participation rate rised by an average of 0.9 point compared to the same period of the previous year, the employment rate increased by 0.5 point. The upward trend in unemployment rate observed during the first months of 2017, which is mainly attributable to strong expansion in labor supply which is beyond employment rises, have been descending for the last three months (June, July, and August). Moreover, the strong economic growth in prospect for the second half of 2017, and the ongoing and additional employment incentives introduced during 2017 imply improvements in the labor market for the remaining months of 2017 in terms of employment and unemployment rates. Thus, in the second half of 2017, employment increase is predicted to accelerate. As a result of these developments, total employment is projected to increase by 3.5 percent compared to the previous year and reach 28,152 thousands in 2017. The expected high increases in the labor force supply will limit the decline in the unemployment rate which is estimated to be 10.8 percent in 2017, down by 0.1 percentage point from the year 2016.

In the context of growth developments, non-agricultural employment increase in the period of 2018-2020 will be above the long-term average and it expected to have an annual growth rate of 4.7 percent on average. Agricultural employment is expected to decline slightly in the coming period. The unemployment rate, which is expected to follow a downward trend starting from 2017, is estimated to be 9.6 percent in 2020. The expectation of high increases in labor supply (especially of women) will continue to limit the decline in unemployment rate to some extent. The labor force participation rate that is expected to be 52.7 percent by the end of 2017 is projected to reach 54.7 percent by the end of the Program period.

2.2.2. Inflation, Monetary and Exchange Rate Policies

During the program period, The CBRT will continue to implement the inflation-targeting regime in accordance with the main objective of achieving price stability as described by the Law. The final target for the inflation rate is to be low enough to be eligible for the Maastricht Criteria. Taking account of the structural transformation in the economy, convergence process with advanced economies and the pricing behaviors inherited from the period of high inflation, a target path to ensure gradual settlement of price stability is envisaged.

To this end, the inflation target for the medium-term is set at 5 percent. In 2018, as an element of accountability of the CBRT, the uncertainty band will be kept at 2 percentage points in both directions, as in previous years. In line with the Medium Term Program, it is anticipated that inflation will gradually converge to the 5 percent target in 2018-2020 period.

The CBRT has a large set of tools in its disposal, such as one-week repo rate, the interest rate corridor, late liquidity window rate, reserve requirements and ROM. These were employed as active monetary policy tools since the end of 2010, depending on the nature of the monetary and liquidity policies. The CBRT maintains price stability as the focus of the monetary policy stance. “Inflation expectations, pricing behaviors and other factors affecting inflation will be taken into consideration in monetary policy decisions.”

Inflation will be kept at levels consistent with the target, while financial stability will also be safeguarded. Accordingly, the CBRT will not only implement a tight monetary policy stance but will also continue to work jointly with related institutions to remove structural barriers to disinflation by identifying the source of the trade-offs, raising public awareness, and guiding relevant authorities to formulate targeted solutions. It is believed that this approach will safeguard a sustainable disinflation process.

The CBRT will maintain the floating exchange rate regime in 2018. Under this regime, exchange rate is not employed as a policy tool or an anchor. The main elements determining the supply and demand for the exchange rate are monetary and fiscal policies in effect, economic fundamentals, international developments and expectations. The CBRT does not set any nominal or real exchange rate target. In case sudden movements in the exchange rate have a lasting effect on price stability, the CBRT will react appropriately through the tools in its possession. Moreover, the CBRT will not remain unresponsive should the exchange rate gets at odds with economic fundamentals evidently and pose risks to financial stability. Possible excessive fluctuations in exchange rates to stem from a loss in the market depth or speculative behaviors are monitored closely. In consideration of the fact that financial stability is one of the integral pre-requisites of price stability, the CBRT will continue to take necessary measures for the efficient functioning of the foreign exchange market.

2.2.3. Balance of Payments

2.2.3.1. Current Account

Exports are expected to be realized as 157.1 billion dollars in 2017 driven by the stimulatory measures implemented, reforms that facilitate trade, economic recovery in the EU countries, and increased domestic demand in trading partners. Imports are expected to be realized as 234.2 billion dollars in 2017 in line with the upward tendency in import and oil prices, deterioration in gold trade balance and the rapid recovery in the economy. Due to the rise in international oil prices, the energy import in 2017 is expected to realize as 35 billion dollars. Thus, current account deficit is expected to be 39.2 billion dollars in 2017. In this context, it is estimated that the current deficit to GDP ratio will be 4.6 percent in 2017.

Exports, which are expected to be 169 billion dollars in 2018, are projected to reach 195 billion dollars; while imports, which are expected to be 237 billion dollars in 2018, are estimated to reach 272 billion dollars at the end of the Program period. In the period of the ERP 2018, in real terms exports and imports are estimated to increase 5.8 percent and 4.7 percent respectively annually on average. The current account deficit to the GDP ratio is expected to be 4.3 percent in 2018 as a result of the acceleration of technology-intensive production with the impact of incentive measures, reducing dependency on imported inputs especially in energy and compensating for revenue loss in services trade. The current account deficit to GDP ratio is targeted to decline to 3.9 percent at the end of the Program period depending on sustained structural reforms and decreasing economic and political uncertainties in trading partners.

Depending on recovery in economic activity and ongoing upward trend in oil prices, energy imports are estimated to be 42 billion dollars in 2018. At the end of the ERP period, energy imports are expected to be 49 billion dollars by preserving its nominal trend. Travel revenues, which are expected to be 23 billion dollars in 2018, are estimated to reach 29 billion dollars at the end of the ERP with an increase of 13.2 percent annually on average, depending on decreasing international security concerns and the effectiveness of the support given to the tourism sector.

Considering these developments, the current account deficit to GDP ratio is projected to recede gradually towards sustainable levels during the Program period. In order to reduce the current account deficit in a structured manner, it is aimed to increase the share of exports in services trade, especially tourism, and reducing the import dependency of exports by implementation of policies and measures in the Tenth Development Plan and MTP (2018-2020). In this context, product and market diversification in exports, increasing exports of high value added goods and services, expanding span of firms in global supply chains, reducing import dependency in energy needs, enhancing financing possibilities and enabling logistics services will be main primary policy areas.

2.2.3.2. Capital and Financial Account

The recovery in global growth started in the second half of 2016 has gained momentum in the first half of 2017. Growth in emerging economies is expected to continue due to positive developments in the global financial environment and recovery in developed economies. Financial markets are in a stable course both in emerging economies as well as in developed economies due to strong gains in stock market.

Table 2.8: Balance of Payments Forecasts

(Billion Dollars)

	Realization		Forecast			
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Current Account	**-32.1**	**-33.1**	**-39.2**	**-40.0**	**-40.9**	**-41.9**
Balance on Goods	-48.1	-40.9	-47.3	-46.0	-49.2	-52.5
Total Exports	152.0	150.2	165.5	181.2	193.3	208.2
Exports (fob)	143.8	142.5	157.1	169.0	182.0	195.0
Total Imports	200.1	191.0	212.8	227.2	242.5	260.7
Imports (cif)	207.2	198.6	234.2	237.0	253.0	272.0
Balance on Services	24.2	15.4	15.6	13.6	16.1	18.3
Credit	46.5	37.3	40.0	45.1	50.2	55.3
Travel Revenues	26.6	18.7	20.0	23.0	26.0	29.0
Debit	22.3	22.0	24.4	31.5	34.1	37.0
Primary Income	-9.6	-9.2	-9.5	-9.9	-10.3	-10.7
Secondary Income	1.4	1.7	2.0	2.3	2.6	3.0
Workers' Remittances	0.7	0.6	0.7	0.8	0.9	1.0
Capital and Financial Account	**-21.9**	**-22.0**	**-27.6**	**-40.4**	**-41.3**	**-41.9**
Capital Account	0.0	0.0	-0.1	-0.1	-0.1	0.0
Financial Account (Excluding Reserves)	-10.1	-22.8	-26.7	-40.5	-41.4	-41.9
Direct Investment	-12.5	-9.7	-8.6	-10.2	-9.7	-10.5
Net acquisition of financial assets	5.1	3.1	3.4	3.9	4.4	4.4
Net incurrence of liabilities	17.6	12.9	12.0	14.1	14.1	14.9
Portfolio Investment	15.7	-6.3	-11.6	-6.1	-6.6	-22.5
Net acquisition of financial assets	6.1	1.5	1.1	0.8	0.9	0.0
Net incurrence of liabilities	-9.6	7.8	12.7	6.9	7.4	22.5
Banks	-0.9	2.1	7.8	2.3	2.3	4.9
Other Sectors	1.1	1.4	0.4	1.1	1.1	3.6
Equity Securities	-2.4	0.8	3.5	2.0	2.0	2.0
Other Investment	-13.4	-6.8	-6.5	-24.2	-25.1	-8.9
Net acquisition of financial assets	15.0	6.1	3.2	1.1	1.5	1.1
Net incurrence of liabilities	28.3	13.0	9.6	25.3	26.6	10.0
Reserve Assets	-11.8	0.8	-1.0	0.0	0.0	0.0
Net Errors and Omissions	**10.2**	**11.0**	**-1.6**	**0.0**	**0.0**	**0.0**

Source: Realization CBRT, forecast Ministry of Development

In addition, net capital inflows to emerging economies, which turned negative in 2015, have reinvigorated since 2016. Capital inflows to Turkish economy may also increase due to the gradual approach adopted in the normalization process of developed economies' monetary policies and the recovery in the global economy. In this context, implementation of policies based on foreign direct investments and financing will continue in Program period.

Within the context of the Business and Investment Climate Improvement Priority Transformation Program of MTP (2018-2020), regulations will be made in regard to legal and bureaucratic procedures and investment fields, thereby foreign direct investments will be increased and the quality of financial account will be improved. Within this context, it is expected that financial account excluding reserves to recover rapidly in 2018, follow a stable level in subsequent years and reach 41.9 billion dollars at the end of the Program period. In the Program period, direct investment inflows are forecasted to reach 14.9 billion dollars with a moderate growth trend, accordingly net direct investments are forecasted to be 10.5 billion dollars. On the other hand, in 2020, 41.9 billion dollars worth of total financial inflows is expected, composed of 22.5 billion dollars of portfolio investments and 8.9 billion dollars in other investments.

Under the assumption that the Fed's monetary policy will continue to normalize in the context and speed described within the presented framework in the end of 2016 and that the uncertainties in the Brexit process will diminish, Turkey will show a positive divergence during the subsequent period, economic confidence will rise as a result of strong fiscal stance and implemented structural reforms and the current account deficit will be financed without any serious challenge.

2.2.4. Financial Sector

2.2.4.1. Risks towards Banking Sector

Credit Risk

The non-performing loans ratio (NPL), which indicates the deterioration in credit quality, has stabilized slightly above 3 percent and points out a reasonable level compared to similar economies.[7] The ratio is not expected to pose a significant risk in medium-term thanks to a moderate increase in credit growth and recovery in economic activity. Owing to the prudent stance of the banks, special provision reserves can cover 80 percent of non-performing loans, implying a strong buffer against possible losses.

The capital adequacy ratio (CAR), which reveals the robustness of banks against unexpected losses, is well above the limits required by both Basel Committee (8 percent) and the Banking Authority of Turkey (12 percent). Moreover, banking sector's capital substantially consists of components with high loss absorption capacity, and the core CAR is 14.4 percent. Based on the CBRT analysis[8], the sector, in case of operating current profitability levels, can support a loan growth rate of 20 percent for up to 6 years and a loan growth rate of 30 percent for up to 3 years without falling under the level of 12 percent.

[7] For example; France (3.4), Brazil (3.7), Czechia (4.0), Poland (4.1), Spain (5.3), Hungary (5.4), Romania (8.3) (IMF Financial Soundness Indicators, as of June 2017)

[8] CBRT Financial Stability Report (May 2017), pg. 58

Liquidity Risk

The Liquidity coverage ratio, displaying to what extent banks can meet 30-day net cash outflows by high-quality liquid asset stocks, is 122 and 191 percent for total and foreign currency as of October 2017, respectively, well above the legal minimum requirements of 80 and 100 percent. Furthermore, sector's FX liquid assets could cover a significant amount of FX foreign debt payments that would be due within one year as of September 2017. In addition, foreign exchange deposit limits allocated to the banks as well as the FX and gold assets held at the CBRT in the scope of the reserve option mechanism provide room for banks to meet FX liquidity shocks even under the most negative scenarios.

The ratio of gross loans to customer deposits, which is a key indicator of long-term liquidity risk, raise up to 125 percent because of CGF loan incentives. According to the perspective set out in the Basel III Accord, however, long-term borrowings such as subordinated debts, long-term security issuances and debt items with a maturity over 1 year are also evaluated as stable funding sources other than deposits. In this context, the ratio of gross loans to these stable funding sources is observed to draw a flat line just under the level of 100 percent. Additionally, foreign debt maturity composition recently shifting to longer-terms curbs the liquidity risk that may arise from global developments.

Interest and Exchange Rate Risk

The CBRT analysis[9] demonstrates that the banking sector preserves its resilience against interest and exchange rate risk. To measure the sector’s sensitivity to interest rate risk, its TL and FX asset-liability positions on all balance sheet and off-balance sheet maturities have been exposed to interest rate hikes via repricing channel. Despite maturity mismatch between assets and liabilities, a TL shock up to 5 points is estimated to generate a loss up to 17 percent of capital whereas an FX shock up to 2 points is estimated to generate a more limited impact, up to 1 percent of capital.

Banks are holding their open FX positions on their balance sheets at reasonable levels and they are quite prudent in hedging these positions with off-balance sheet transactions. As a result, the FX net general position to capital ratio is 0.1 percent as of September 2017, quite below the two-sided legal threshold of 20 percent. Nevertheless, the magnitude of currency swap transactions, the primary instrument in FX risks management, increases the sensitivity of profitability to currency swap rates.

2.2.4.2. Private Sector Indebtness

Households

Households’ excessive borrowing is restricted through macroprudential measures such as loan/value ratio for mortgage and automobile loans, maturity limit for automobile and personal finance loans, installment and credit limit for personal credit cards. Also, households cannot borrow in terms of FX and at variable interest rates (except housing loans); thus, they are not exposed to exchange rate and interest rate risks.

[9] CBRT Financial Stability Report (May 2017), pg. 54-55

As of September 2017, household debt grew by 16.6 percent over a year and the ratio of household debt to household assets was registered at 47.2 percent. The increase in household liabilities can be attributed to the base effect from the previous year, partial easing in macroprudential measures and tax deductions on house, furniture and white goods purchases. According to the data on September 2017, the ratio of household debt to GDP is 17.2 percent, pointing out a quite low level compared to many countries. [10]

Real Sector

Although the use of financial leverage by real sector firms keeps growing, the ratio of total corporate credits to GDP was below the emerging economies on average as of June 2017. The continuation of the increase in the FX open position is a risk factor for the real sector; however, the CBRT continues to work for reducing this risk. Moreover, the short-term open position being close to zero indicates that firms are resistant to exchange rate shocks in the short-term. Other factors which reduce the FX risk on real sector are that the majority of the FX financial liabilities are long-term and, these liabilities mostly concentrate on large-scale companies which have significant share in exports and the capacity to manage FX risks and on public-private partnership projects which have purchase guarantees for the services.

2.2.4.3. Reforms

The regulation and supervision on Turkish banking sector are held in compliance with international standards. The current legislation on classification of credits and loan provisions in force since 2006 will be abolished and the new legislation has came to force at 1 January 2018. The loans will be classified and restructured depending on the principles of Basel Committe, and loan provisions will be determined based on “expected loss approach” of International Financial Reporting Standards.

2.3. Main Risks in Projections

Medium term outlook in the Program carries some upward and downward risks based on the developments beyond the assumptions regarding global outlook. In this context:

- Discourses on increasing protectionist trade policies in many countries, especially in the USA, may negatively affect developed and developing countries.
- High level of private sector borrowing in some developing countries, especially in China, is one of the main downside risks for global economic outlook.
- The problems that may arise in the global financial markets in the Brexit process may harm capital flows and investments.
- The revision of Customs Union agreement with EU would favorably influence foreign trade of Turkey by overcoming existing problems and removing asymmetric effects.
- In case OPEC prolongs supply agreement, the decline in global stocks would be an additional pressure on energy prices and imports despite the increase in the number

[10] For example; Georgia (30.2), Israel (41.7), South Africa (44.1), Austria (51.8), Italy (55.1), France (58.0), Canada (101.0) (IMF Financial Soundness Indicators, as of June 2017)

of active oil wells in the US. On the other hand, this situation can contribute positively to exports due to the increase in the incomes of some oil exporter countries, which are Turkey's trade partners.

- The ending of political tensions with Russia is expected to be a significant contributor to the tourism sector, in addition to the exports of goods and services.
- The developments regarding the problems and geopolitical tensions in Middle East, particularly Syria and Iraq, which is an important export market of Turkey, would create positive or negative risks on Turkish economy mainly via the trade channel.
- In addition to the risks discussed under the 2.2.4 Financial Sector Section, fluctuations in foreign exchange rates due to external and internal speculative flows may affect export and growth performance negatively. However, the CBRT indicates that it will follow closely the excessive volatility that can be observed in the exchange rates and take necessary measures against the excessive fluctuations.

3. FISCAL FRAMEWORK

Thanks to structural reforms in public financial management and strictly followed fiscal discipline; Turkish public finance has become one of the strongest aspects of the Turkish economy in line with the positive effect it had on the decision making processes of foreign investors as well as the constructive role it played in the domestic economic activity. The main aim is to preserve strong public finance structure. In this context, the objectives of public finance policies are to restrain the share of public expenditures and revenues in GDP and to increase their effectiveness, to obtain public revenues from steady and sound sources by increasing the share of tax revenues in total revenues and to keep public sector borrowing requirement in check.

In the Programme period, fiscal discipline will be pursued tightly. Fiscal policy which was loosened in 2016 and 2017 in line with the macroeconomic necessities will be re-tightened in the Programme period. Limiting the public expenditure and increasing it’s effectiveness and bolstering savings by tightening current expenditures will be main strategies. Share of tax revenues, especially from direct taxes, in total public revenues will be expanded.

Main fiscal aggregates in 2018 Pre-accession National Economic Reform Programme regarding general government balance and central government budget were prepared based on the MTP (2018-2020) and 2018 Annual Programme.

The general government balance, produced by the Ministry of Development as a part of the Turkish Financial System, consists of central government budget, local governments, social security institutions and general health insurance funds, revolving funds and Unemployment Insurance Fund. To obtain the total general government expenditure and revenue, SEEs are excluded, transactions are accounted in gross amounts and revenue and expenditure items are not subjected to any kind of netting operation.

Within the calculation process of expenditures and revenues of the sub-sectors of general government; a revenue item is accounted as income only in the accounts of the unit that obtain the revenue at first hand, similarly it is accounted as expenditure only in the accounts of the unit that makes the final spending; by applying this methodology possible double counting problems in transfer transactions between sub-sectors are avoided. As a result of this operation, the balance figures of sub-units may differ from the originally reported amounts, but the consolidated general government balance is kept unchanged. Total general government expenditure and revenue figures are produced through consolidation of sub-units’ expenditure and revenue amounts calculated by using this methodology.

While obtaining general government revenue and expenditure figures according to this methodology:

- The tax shares of local governments and funds from the general budget tax revenues and other transfers are deducted from the central government budget revenues and displayed in the balances of respective local governments or funds,

- The current transfers to the social security and general health insurance system from the central government budget are subtracted from both expenditures of the central government budget and revenues of social security and general health insurance system,
- The amounts transferred to the central government budget from revolving funds, extra budgetary funds and Unemployment Insurance Fund are deducted from the central government budget revenues and expenditures of relevant units respectively,
- Financial operations among other sub-sectors of general government except the central government budget are adjusted in a way to prevent double counting.

3.1. Fiscal Policy Strategy and Medium-Term Objectives

Fiscal policy, in coherence with monetary policy targets, will be implemented in a way that it contributes to increasing growth potential of the economy, preserves economic stability, keeps current account deficit at sustainable levels, increases domestic savings and supports investments.

In this regard, main policy priorities in 2018-2020 terms are as follows:

3.1.1. Revenue Policies

- Within the scope of revenue policies, it is essential to contribute to economic and social objectives such as improving income distribution, enhancing development and raising domestic savings while generating public revenues from sound and steady sources.
- Tax regulations will be put into practice after a detailed evaluation of their economic, social and fiscal effects.
- Income Tax Law, Tax Procedure Law and Value-Added Tax Law will be revised in a way that they contribute to investment, production, employment, exports, productivity and competitiveness.
- New tax practices which promote voluntary tax compliance, enhance service quality and place reliance on citizens will be initiated.
- Technological advancements will be utilized more in taxation and a new risk analysis center will be established in order to prevent tax evasion and avoidance.
- The effectiveness of tax and premium collection system will be improved by enhancing coordination among institutions and solving the problems encountered.
- The effectiveness of tax rebates will be increased with a taxpayer focused approach and in a way that promote production and growth.
- Works to reduce the tax burden on the areas where heavy taxation creates crowding out and informality in economic activities.
- Measures will be taken to increase own-source revenues of local governments.
- Real estate tax system will be revised.

- Policies towards effective use of idle public immovables will be implemented.

3.1.2. Expenditure Policies

- It is essential to implement government expenditure policy in accordance with multi-year budgeting approach. Public institutions and organizations will designate their appropriations in line with pre-defined policies and priorities and by examining the efficiencies and necessities of their ongoing spending programs.
- Spending programs which are concluded to be inefficient via impact analyses will be terminated.
- Creation of new spending programs as a part of the budget will be limited and initiation of new programs will depend on detailed evaluations which includes respective fiscal burden.
- Creating permanent spending programs in exchange for temporary revenues will be avoided.
- The rate of growth of current spending will be kept under control considering the growth rate of capital expenditures.
- Possible saving opportunities will be determined in current expenditures and current expenditure appropriations will be determined by using zero-based budgeting approach.
- General principles/guidelines regarding the public expenditures which have a steep upward trend, leasing and service procurements in particular, will be reviewed; cost-effectiveness and cost-benefit analyses will be conducted.
- All necessary measures will be taken to provide savings in vehicle usage in public sector by availing of cost-effectiveness analyses.
- Construction of buildings for public institutions and ministries will be limited to compulsory cases, standards will be introduced to raise usage efficiencies and extend the economic life of existing buildings.
- Information and auditing activities for health service providers will be extended in order to increase the effectiveness of health services.
- Social aids will be reviewed considering their effects on the basis of effectiveness and efficiency, overlapping in use of public funds will be prevented, coordination among institutions will be strengthen by extending auditing activities.
- So as to increase the effectiveness of local governments’ expenditures, regulations for fiscal discipline will be put into practice.

3.1.3. Public Barrowing Policies

- A sustainable, transparent and accountable debt management policy in line with monetary and fiscal policies, considering macroeconomic balances will be followed; financing need will be met at the lowest possible cost in medium and long term, in accordance with the reasonable risk level determined considering cost factors, domestic and foreign market conditions.

- Borrowing mainly in TL, using fixed rate TL instruments as the major source of domestic borrowing and decreasing the share of debt which has interest rate re-fixing period less than 12 months, are some of the main pillars of the borrowing policy.
- An another important component is increasing the average maturity of domestic borrowing as much as possible in line market conditions by decreasing the share of the debt with maturity of less than 12 months and keeping a certain level of cash reserve in order to reduce the liquidity risk associated with cash and debt management.
- Switching and the buy-back auctions may be used to ensure a balanced debt redemption profile and to increase the price efficiency of secondary market.
- Policies towards ensuring an efficient secondary market yield curve and providing liquidity in trading of Government Domestic Borrowing Instruments through re-issuance strategy will continue to be implemented.
- In order to expand the investor base of the government borrowing instruments, efforts on development of new instruments will continue.
- Primary Dealership System practices will be continued.
- Information on borrowing such as financing programs, domestic borrowing strategies and procurement announcements will continue to be announced on a regular basis.

3.1.4. Public Financial Management and Audit

- Accordance of high level policy documents, development plan in particular, and strategic plan and performance program preparation processes will be enhanced.
- Work regarding program based performance budgeting which will facilitate monitoring the effective use of public resources will be finalized.
- Scope and methodology of government financial statistics will be reviewed, statistics will be published periodically and in detail.
- Work regarding integrated public financial management information system will be finalized.
- Revolving funds system will be reformed in a way to ensure that they operate under open, transparent and accountable administrative and fiscal structure.
- Prioritizing intensive tax-loss areas, fight against informal economy will continue via increasing public awareness, voluntary compliance, data sharing and collaboration among institutions.
- Tax expenditure reports will be expanded to contain various breakdowns as well as tax type and will be published annually.

- In order to advance auditing conception and capacity and to increase the effectiveness of audits, implementation capacity of the Court of Accounts will be strengthened.

3.2. Budget Implementations in 2017

3.2.1. Developments in the Central Government Budget Revenues and Expenditures

By 2017 Budget Law, total appropriations were set at 645.1 billion TL, central government budget revenues and deficit were estimated to be 598.3 billion TL and 46.9 billion TL respectively. However, due to macroeconomic and geopolitical developments and additional needs of public institutions in the course of the year, budget expenditures and revenues are expected to be above the figures presented in the Law. At the end of the year, expenditures are expected to be 673.7 billion TL by exceeding the appropriations by 28.6 billion and the revenues are estimated to be 612 billion TL which is 13.8 billion higher than the initial projections. As a result, the budget deficit and budget deficit excluding interest expenditures are expected to be 61.7 billion TL and 4.2 billion TL respectively. Budget deficit to GDP ratio is expected to be 2 percent while program defined budget deficit to GDP ratio is expected to be 1 percent by a 0.5 point increase.

The increases in both tax and non-tax revenues will contribute to the increase in budget revenues compared to initial projections. The increase in tax revenues is mainly due to corporate income taxes and collection of VAT on imports while the increase in non-tax revenues stems from treasury interest and dividend revenues. In this context, compared to initial revenue projections, general budget tax revenues are expected to be 520.5 billion TL by a 9.4 billion TL increase and non-tax revenues are expected to be 91.6 billion TL by a 4.4 billion TL increase. GDP shares are expected to be 17.1 percent and 3 percent respectively.

Income tax collections are expected to be 108.4 billion TL, 0.5 billion TL below the budget target in 2017, and 3.6 percent of GDP.

In 2016, corporate income tax collection was higher-than-expected thanks to contribution of restructuring revenues. In 2017, despite an expected loss in corporate income tax revenues due to investment incentives, upward trend started in 2016 is projected to continue. In this context, corporate income tax collection is expected to be 53 billion TL, 6.8 billion TL above the budget estimate and 1.7 percent as a ratio to GDP.

Domestic VAT revenues are anticipated to be 54.3 billion TL, 2.8 billion TL below the budget estimate, and 1.8 percent as a share of GDP. In addition to temporary VAT cuts, higher-than-expected increase in VAT refund are the main determinants in this development.

SCT revenues from petroleum products is expected to be 63.3 billion TL, which is 2.3 billion TL below the initial budget estimate and 2.1 percent as a share of GDP. The main reason for this is the lower-than-expected increase in consumption.

SCT revenues from motor vehicles is expected to be 20.8 billion TL, which is 1 billion TL above the budget estimate. Motor vehicle sales are in line with projections, developments in exchange rates and SCT regulation put into practice in November 2016 are the main reasons behind this increase.

SCT revenues from tobacco products are expected to be 36.3 billion TL in 2017, which is 0.3 billion TL below the budget estimate whereas SCT revenues from alcoholic beverages are expected to be 9.6 billion TL, 0.9 billion TL above the budget estimate. The main drivers here are the SCT regulation put into practice in December 2016 and the increase in consumption thanks to recovering tourism.

Collection of VAT on imports is expected to be 93.3 billion TL, which is 9.5 billion TL above the budget estimate and 3.1 percent as a ratio to GDP. This increase which has made an important contribution to revenue increase stems from exchange rate depreciation and raising imports.

Due to the temporary cut amounting to 25 percent title deed transfer fees, revenues from fees is expected to be 19.1 billion TL which is 0.7 billion TL below the budget estimate and stamp tax collection is expected to be 15.2 billion TL which is same as the budget estimate.

Non-tax revenues is expected to be 91.6 billion TL in 2017, which is 4.4 billion TL above the budget estimate, and be 3 percent as a ratio to GDP. This mainly stems from higher-than-expected dividend payments by Central Bank and treasury interest revenues.

Central government primary expenditures is expected to be 616.2 billion TL, 28.6 billion TL above budget appropriation and 20.3 percent as a ratio to GDP. Additional expenditures in current transfers, current expenditures and capital expenditures are the main drivers of this development.

Total personnel expenditures, composed of personnel expenditures, state premiums to social security institutions and reserve appropriations are expected to be 190.8 billion TL, 0.5 billion TL below the initial appropriation, at the end of 2017. In 2017, general wage and salary increases have been 3 percent and 4 percent in January and July respectively, and in line with the inflation realizations public personnel had 2.92 percent additional increase starting from July.

Expenditures on purchase of goods and services, which was projected to be 52.1 billion TL in the budget, is expected to be 60.8 billon TL due to increase in security and defense spending, unforeseen needs of public administrations and increase in cost of services due to minimum wage and exchange rate developments.

Table 3.1: Central Government Budget Balance

(Percent of GDP)

	2015	2016	2017	2018*
Expenditures	**21.6**	**22.4**	**22.2**	**22.1**
Primary Expenditures	19.4	20.5	20.3	20.1
Personnel Expenditures	5.3	5.7	5.4	5.3
Social Sec. Ins. Government Premium Expenditures	0.9	0.9	0.9	0.9
Goods and Services Purchase Expenditures	1.9	2.1	2.0	1.9
Current Transfers	7.8	8.6	8.8	8.7
Capital Expenditures	2.4	2.3	2.3	2.0
Capital Transfers	0.4	0.3	0.4	0.4
Lending	0.5	0.5	0.4	0.6
Reserve Appropriation	0.0	0.0	0.0	0.2
Interest Payments	2.3	1.9	1.9	2.1
Revenues	**20.6**	**21.2**	**20.2**	**20.2**
Tax Revenues	17.5	17.6	17.2	17.4
Non-Tax Revenues	2.7	3.0	2.4	2.3
Capital Revenues	0.4	0.5	0.4	0.4
Grants, Aids and Special Revenues	0.1	0.2	0.2	0.1
Primary Surplus	1.3	0.8	-0.1	0.2
Programme Defined Primary Surplus	0.3	-0.5	-1.0	-0.6
Borrowing Requirement	**1.0**	**1.1**	**2.0**	**1.9**

Source: Ministry of Development, Ministry of Finance
* Programme

In 2017, current transfers which was projected to be 249.3 billion TL in the budget, is expected to be 267.8 billon TL by an increase of 18.5 billion TL. Transfers to health, pension and social assistance system is the main driver of the increase in current transfers while incentives and supports have also increased.

Capital expenditures is expected to be 70.5 billion TL by a 4.3 billion TL increase. Additional investments of public administrations, General Directorate of Highways in particular, is the reason behind this increase.

Capital transfers are expected to be 12.7 billion TL in 2017, 1.9 billion TL above the initial appropriation. This increase stems from allocating additional appropriations to various transportation and development projects.

Lending expenditures are expected to be 13.6 billion TL in 2017, 649 million TL above the initial appropriation. The main reasons are additional resources directed to Credit Guarantee Fund and the increase in loans for higher education.

Box 3.1: Central Government Budget Provisional Realizations (2017)

As mentioned in the beginning of this chapter, central government budget figures for the ERP 2018 are based on the MTP (2018-2020) and 2018 Annual Program. However, the realizations of central government budget for 2017 were announced during the preparation of ERP (2018-2020). In this respect, central government budget expenditures and revenues have been 677.7 billion TL and 630.3 billion TL, respectively. The budget deficit which was foreseen as 46.9 billion TL in the budget of 2017 has been 47.4 billion TL. The announced provisional budget realizations are summarized below.

	(Billion TL)
Total Expenditures	**677.7**
Primary Expenditures	**621.0**
Personnel Expenditures	162.1
Social Sec. Ins. Gov. Premium Exp.	27.3
Goods and Services Purchase Exp.	63.5
Current Transfers	271.0
Capital Expenditures	70.5
Capital Transfers	13.3
Lending	13.3
Interest Payments	**56.7**
Total Revenues	**630.3**
General Budget Revenues	**607.2**
Taxes	536.0
Property Income	19.8
Grants and Aids and Special Rev.	2.2
Interest, Shares and Fines	35.4
Capital Revenues	11.7
Collections from Loans	2.1
Special Budget Institutions	**18.9**
Regularity & Supervisory Institutions	**4.2**
Borrowing Requirement	**47.4**

3.2.2. Developments Regarding General Government Revenues and Expenditures

In 2015, general government deficit to GDP ratio declined to 0.1 percent. As for the 2016, despite an increase in general government revenues by 0.5 point, deficit to GDP ratio has raised to 1.3 percent due to the increase in general government expenditures by 1.7 points.

In 2017, general government expenditures are expected to be 35.8 percent with a 0.3 point decrease. In this period, investment expenditures and current transfers, due to social security related expenditures and incentives, are expected to increase while current expenditures are projected to decline. General government revenues are expected to decrease by 1.4 point. The reasons behind this development are the high base effect stemming from restructuring revenues in 2016, decrease in non-tax revenues and temporary tax cuts in 2017.

Table 3.2: General Government Revenues and Expenditures - 1

(Percent of GDP)

	2013	**2014**	**2015**	**2016**
Taxes	18.5	17.7	17.9	18.0
Direct	5.1	5.2	5.1	5.3
Indirect	12.8	11.9	12.2	12.1
Wealth	0.6	0.6	0.6	0.7
Non-Tax Revenues	1.6	1.9	1.8	1.8
Factor Incomes	5.0	4.9	4.8	5.0
Social Funds	8.7	8.8	9.1	9.5
Total	33.9	33.2	33.7	34.3
Privatization Revenues	0.7	0.6	0.5	0.4
Total Revenues	**34.6**	**33.8**	**34.2**	**34.7**
Current Expenditures	15.6	15.4	15.3	16.4
Investment Expenditures	3.6	3.3	3.5	3.5
Fixed Investment	3.7	3.3	3.5	3.5
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	16.0	15.7	15.5	16.2
Current Transfers	15.0	14.5	14.5	15.3
Capital Transfers	1.0	1.2	1.0	0.8
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Total Expenditures	**35.2**	**34.3**	**34.3**	**36.0**
Borrowing Requirement	**0.6**	**0.5**	**0.1**	**1.3**
Borrowing Req. Exc. Privatization Revenues	**1.3**	**1.1**	**0.6**	**1.7**
Primary Expenditures	**32.3**	**31.8**	**31.9**	**34.0**
Primary Surplus	**-2.2**	**-2.0**	**-2.2**	**-0.7**
Programme Defined Primary Surplus	**0.7**	**0.5**	**0.5**	**-1.0**

Source: Ministry of Development

In line with these developments, general government deficit is expected to be 2.4 percent of GDP in 2017 by increasing 1.1 points while program defined general government deficit is expected to be 1.6 percent by increasing 0.6 points. General government primary balance which ran a surplus of 0.7 percent is expected to run a deficit of 0.4 percent.

3.3. Medium Term Perspective

In the program period, general government revenues and expenditures are projected on the macroeconomic framework presented in MTP (2018-2020) and the following assumptions:

- Lump-sum taxes and fees will be updated by taking the overall economic conditions and price developments into account.
- Measures will be taken to reduce losses in intensive tax-loss areas and, tax exceptions and exemptions will be reviewed, thereby tax base will be broadened.
- Transaction taxes, imposing burden on economic activities, will be reviewed insofar as public financial balance allows.

- To ensure fiscal discipline, public expenditures will be prioritized, sectoral investments and incentives will be continued to support growth and current expenditures will be restrained.
- Pricing policy for SEE's products will be determined in line with the Program targets.
- Wage and salary increases of public employees were determined as 4 percent and 3.5 percent respectively for January and July 2018.
- Measures will be taken in order to make medicine and treatment expenditures more rational without compromising the quality of health services.
- Efficiency of the social programs will be reviewed and measures will be put into practice to increase their efficiency.

Table 3.3: General Government Revenues and Expenditures -2 **(Percent of GDP)**

	2017	2018	2019	2020
Taxes	17.6	17.8	17.6	17.3
Direct	5.3	5.5	5.5	5.4
Indirect	11.7	11.6	11.4	11.2
Wealth	0.6	0.7	0.7	0.7
Non-Tax Revenues	1.6	1.9	1.9	1.9
Factor Incomes	4.6	4.0	3.7	3.6
Social Funds	9.3	8.9	8.6	8.5
Total	33.1	32.5	31.8	31.2
Privatization Revenues	0.2	0.3	0.2	0.2
Total Revenues	**33.3**	**32.8**	**32.0**	**31.5**
Current Expenditures	15.9	15.5	15.1	14.5
Investment Expenditures	3.6	3.3	3.2	3.0
Fixed Investment	3.6	3.3	3.2	3.0
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	16.3	15.9	15.6	15.2
Current Transfers	15.5	15.2	14.9	14.5
Capital Transfers	0.8	0.8	0.7	0.7
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Total Expenditures	**35.8**	**34.8**	**33.8**	**32.7**
Borrowing Requirement	**2.4**	**1.9**	**1.9**	**1.3**
Borrowing Req. Exc. Privatization Revenues	**2.6**	**2.2**	**2.1**	**1.5**
Primary Expenditures	**33.8**	**32.6**	**31.5**	**30.4**
Primary Surplus	**0.4**	**-0.2**	**-0.5**	**-1.1**
Programme Defined Primary Surplus	**-1.6**	**-0.8**	**-0.4**	**0.3**

Source: Ministry of Development

In 2018, general government expenditures and revenues are expected to decrease by 1 point and 0.5 point respectively as a ratio to GDP. Consequently, general government deficit is projected to be 1.9 percent of GDP with a 0.5 point decrease.

General government primary expenditures to GDP ratio is expected to decrease from 33.8 percent to 32.6 percent and general government interest expenditures to GDP ratio is expected to be 2.2 percent by a 0.2 point increase in 2018 compared to previous year. The expected 1 point decrease in expenditures is due to the decrease in investments, current expenditures and transfers.

Despite a 0.2 point increase in tax revenues, general government revenues to GDP ratio in 2018 is expected to decrease by 0.5 percentage point and be 32.8 percent due to the decrease in factor incomes and social funds.

As a result of above-mentioned developments, general government primary balance which is expected to run a deficit of 0.4 percent in 2017 is expected to run a surplus of 0.2 percent of GDP and general government borrowing requirement excluding interest payments and privatization proceeds is projected to be 0 percent which is expected to be 0.6 of GDP in 2017.

3.4. Structural and Cyclical General Government Balance

Structural general government balance was obtained with consolidation of the balances of central government budget, local administrations, social security institutions, general health-care insurance, extra-budgetary funds, revolving funds and unemployment insurance fund.

Unlike general government balance analyzed in public finance chapter, actual general government balance does not cover the privatization revenues and one-off revenues and expenditures. Revenues and expenditures of the actual general government balance also cover temporary effects resulted from economic fluctuations. Structural general government balance reflects the revenue and expenditure levels that would be under the assumption that economy was operating at potential level.

Tablo 3.4: General Government Balance Analysis[1]

	Output Gap (Y/Y^p) [2]	General Government Balance / GDP		Primary General Government Balance / GDP		Cyclical Balance / GDP
		Actual Balance	Structural Balance [3]	Actual Balance	Structural Balance [3]	
2010	-4.97	-3.24	-1.92	1.05	2.15	-1.21
2011	-0.23	-1.59	-2.47	1.54	0.65	0.89
2012	-0.94	-1.49	-1.44	1.69	1.71	-0.04
2013	1.55	-1.94	-2.44	0.91	0.45	0.46
2014	1.08	-1.63	-1.95	0.90	0.60	0.30
2015	1.67	-1.78	-2.16	0.57	0.22	0.35
2016	-0.26	-3.13	-3.06	-1.11	-1.04	-0.06
2017	-0.06	-3.38	-3.34	-1.38	-1.34	-0.04
2018	0.09	-2.62	-2.57	-0.43	-0.37	-0.06
2019	0.28	-2.24	-2.27	0.07	0.05	0.02
2020	0.51	-1.61	-1.71	0.73	0.63	0.10

[1] It refers to balance excluded public claims restructuring, 2B Revenues, privatization and other one-off revenues and expenditures.
[2] Percentage difference from potential. The potential output is calculated using production function method.
[3] Structural balance is ratio of potential GDP.

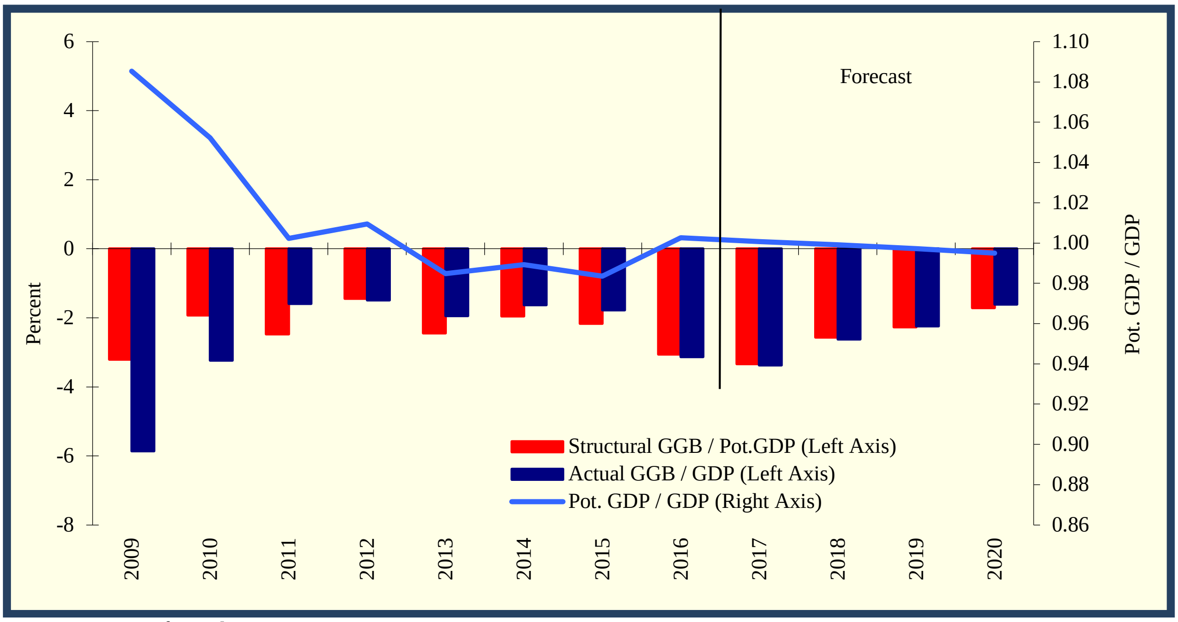
In 2016, while the ratio of the actual general government revenues to GDP rose by 0.4 percentage points compared to previous year, its expenditures increased by 1.7 percentage point. Behind the increase on the revenue side, social security balance was determinant. In addition to increase in collection of social security premiums, budget tax revenues and non-tax revenues such as interest revenues have also an impact on this rise.

While revolving funds spendings maintained their previous year level, expenditures of the other institutions increased. Despite a decline in interest payments and capital expenditures, budget expenditures, which are rised as a result of increase in current expenditures and current transfers; raises in investment and current spendings of the local governments; expenditures of the funds and social security institutions increased more than their revenues were effective in this increase. As a result of these developments, the actual general government deficit increased compared to previous year and as a share of GDP, was realized as 3.1 percent with 1.3 percentage points deterioration. Considering the developments on the structural general government balance calculated by eliminating impact of conjuncture, it is observed that the ratio of the structural general government deficit to potential GDP increased to 3.1 percent with 0.9 percentage point deterioration compared to previous year, similar to the situation of actual deficit.

In 2017, it is seen that the ratio of the actual and structural general government deficit to GDP and potential GDP consecutively, have rised by 0.2 and 0.3 percentage point compared to previous year, respectively. This increase in deficit stemmed from mainly balances of fund and central government budget. Although it is observed increases in current transfer item due to transfers to households and other social transfers, along with invoiced payments and additional allowances of the retirement fund, central government budget expenditures decreased in total mainly because of the decline in current expenditures. While this fall in central government budget expenditures was not significant, fall in tax revenues, especially indirect taxes regressed as a result of VAT reductions made through the year and tax rebates increased along with high exportation which are affected net VAT collection adversely, has an impact on increase on the budget deficit. While its revenues remained unchanged, adding negative effect of fund growing expenses, as a result of increase in the defense industry support fund expenditures, to this deterioration in budget deficit, has an upward pressure on breakdown of the general government balance. Local governments and revolving funds upward pressure on the deficit remained limited. Moreover, expenditures of social security institutions, which are decreased further, restricted negative effect of their decreasing revenues, as a consequence of diminishing social security premiums collection through limited increase in number of insured compared to previous year, and prevented general government deficit being higher. Thus, the ratio of actual general government deficit to GDP realized as 3.4 percent. It is seen that the effect of economic fluctuations on general government balance was relatively limited, however, the impact of the ratio of one-off measures to GDP reached 0.9 percent as a substantial level, despite it decreased compared to previous year. As a result of these developments, it is expected that the ratio of the structural general government deficit to potential GDP will increase to 3.3 percent.

Decline in actual and structural revenues remained more limited than their expenditures, so general government deficit, which displayed an upward trend in 2016, is expected to decrease as from 2018. In 2018, total budget expenditures are expected to decrease. Although it is observed increases in interest payments, lending and reserve appropriation allocated to requirements that may arise during the year, decrease in current expenditures, capital spendings and current transfers was determinant of this decline in budget expenditures. When this situation of expenditures is considered together with limited increase in tax revenues, it is seen an amelioration of central government budget balance compared to previous year. Despite a deterioration in balance of social security institutions, when improved fund balance is added to this development, it is expected that the actual and structural general government balances, which are deteriorated in 2017, have started to display upward trend as from 2018, with the contribution of measures taken. Local government balance, improved as a result of decline in its expenditures during the period of 2019-2020, also contributed to this process. Thus, the ratio of actual and structural general government deficit to GDP and potential GDP, are expected to realize as 2.2 percent on average in the period of 2018-2020 (Figure 3.1).

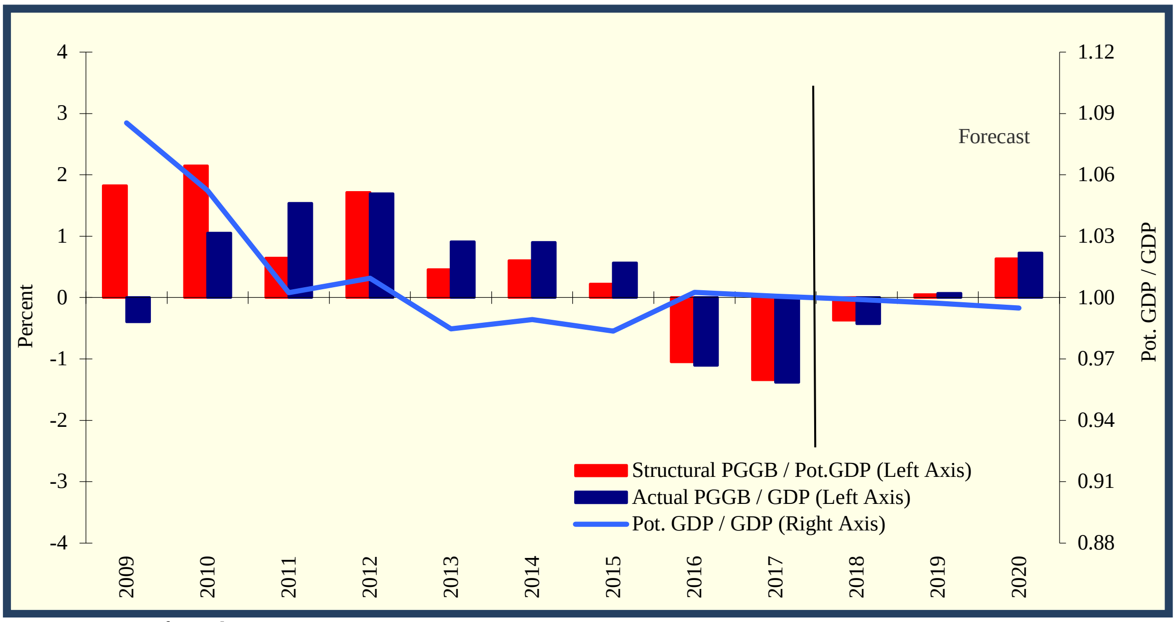
Figure 3.1: General Government Balance



Source: Ministry of Development
GGB: Public Claims Restructuring, Privatization, 2B Revenues and Other One-Off Revenues and Expenditures Excluded General Government Balance
Pot. GDP: Potential GDP

In the context of a similar analysis excluding interest expenditures, it is expected that the actual and structural general government balance, which are turned into a deficit in 2016, will begin to ameliorate as from 2018 and will have a surplus again as from 2019 (Figure 3.2). Despite a negative effect of social security balance, whose revenues decreased more than its expenditures, improvements in fund and central government budget are one of the main reasons of the recovery began in 2018. It is expected that the general government balance will begin to have a surplus again as from 2019, with the contribution of measures taken. Consequently, it is forecasted that both actual and structural primary general government surpluses to GDP and potential GDP consecutively, which were estimated to be 0.3 percent and 0.4 percent on average in the previous ERP period, will realize as 0.1 percent on average in 2018-2020 period.

Figure 3.2: Primary General Government Balance

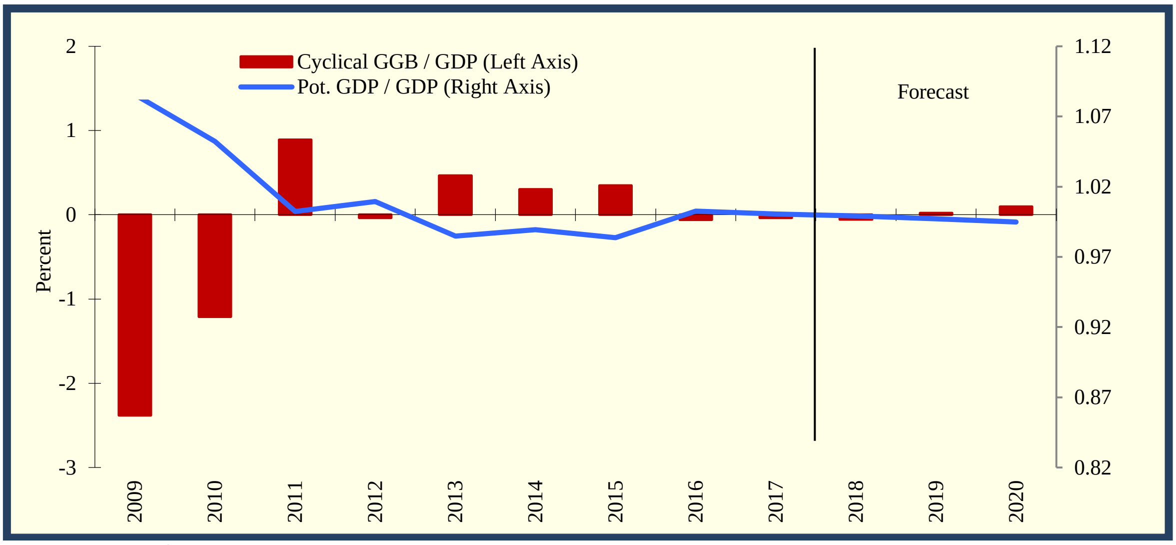


Source: Ministry of Development
PGGB: Primary General Government Balance
Pot. GDP: Potential GDP

Cyclical general government balance is calculated by subtracting the structural general government balance from the actual general government balance. Since the privatization revenues and one-off revenues and expenditures are excluded in the calculations of structural and actual general government balances, cyclical balance only reflects the impacts of conjunctural developments.

It is observed that the cyclical effect has declined as from 2009 where it was substantially high as a consequence of the divergence of GDP from its potential. Especially during the ERP period, the cyclical effect on general government is forecasted to decline remarkably together with the expected economic recovery (Figure 3.3).

Figure 3.3: Cyclical General Government Balance



Source: Ministry of Development
GGB: General Government Balance
Pot. GDP: Potential GDP

3.5. Debt Levels and Developments, Analysis of Below-the-Line Operations and Stock-Flow Adjustments

3.5.1. Current Situation

As a result of the ongoing economic program, fiscal discipline and efficient borrowing strategies, considerable improvements were observed in the EU defined general government debt stock. The ratio of EU defined general government debt stock to GDP, which was 76.1 percent at the end of 2001, declined to 28.3 percent at the end of 2016.

Table 3.5: EU Defined General Government Debt Stock

(Percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
EU Defined General Government Debt Stock	38.1	43.9	40.1	36.5	32.7	31.4	28.8	27.6	28.3

Source: Undersecretariat of Treasury

Central government total debt stock increased by 130.8 billion TL compared to its 2016 level and reached 890.8 billion TL by November 2017. In line with the policies to decrease interest rate sensitivity of the debt stock, the ratio of fixed rate debt in the total stock increased by 4.1 points compared to its 2016 level and reached 73.9 percent by November 2017.

Compared to its 2016 level, central government domestic debt stock increased by 65.9 billion TL and reached 534.5 billion TL by November 2017. When the ratio of the respective stock to GDP is considered, it is seen that it descended to 18 percent in 2016, from 18.8 percent in 2015.

Table 3.6: Central Government Debt Stock

(Percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Domestic Debt Stock	27.6	33.0	30.4	26.4	24.6	22.3	20.3	18.8	18.0
External Debt Stock	10.7	11.2	10.5	10.8	9.3	10.1	9.7	10.2	11.2
Total	38.3	44.2	40.9	37.2	33.9	32.4	30.0	29.0	29.1

Source: Undersecretariat of Treasury

The central government external debt stock has been 356.3 billion TL by November 2017. Considering the interest composition of external debt stock, the share of fixed rate debt has been 87.2 percent by November 2017.

Thanks to the decrease of short term securities' share in debt stock through their redemptions and issuance of long term securities in line with the strategic benchmarks, average time to maturity of central government debt stock increased from 3.6 year at the end of 2008 to 6.5 year by November 2017.

Table 3.7: Central Government Debt Stock by Interest Rate Type

(Million TL)

	Domestic Debt Stock			External Debt Stock	
	Fixed	Floating	Indexed to CPI	Fixed	Floating
2008	140,614	112,528	21,686	76,488	29,514
2009	155,076	137,270	37,658	81,264	30,781
2010	175,740	124,070	53,031	89,945	31,360
2011	192,358	112,118	64,302	115,172	35,120
2012	201,866	108,367	76,309	116,750	29,609
2013	212,007	94,760	96,239	148,477	34,708
2014	234,889	78,880	100,880	164,705	33,163
2015	256,394	84,281	99,450	202,236	35,884
2016	278,945	82,882	106,817	251,491	39,815
2017 November	347,438	67,500	119,564	310,703	45,566

	Total Debt Stock							
	Fixed	Floating	Indexed to CPI	TOTAL	Fixed	Floating	Indexed to CPI	TOTAL
	Million TL				Share in Total Debt Stock, Percentage			
2008	217,102	142,042	21,686	380,830	57.0	37.3	5.7	100.0
2009	236,340	168,051	37,658	442,049	53.5	38.0	8.5	100.0
2010	265,685	155,430	53,031	474,146	56.0	32.8	11.2	100.0
2011	307,530	147,237	64,302	519,070	59.2	28.4	12.4	100.0
2012	318,616	137,976	76,309	532,901	59.8	25.9	14.3	100.0
2013	360,484	129,469	96,239	586,192	61.5	22.1	16.4	100.0
2014	399,595	112,042	100,880	612,516	65.2	18.3	16.5	100.0
2015	458,630	120,165	99,450	678,245	67.6	17.7	14.7	100.0
2016	530,436	122,697	106,817	759,951	69.8	16.1	14.1	100.0
2017 November	658,141	113,066	119,564	890,771	73.9	12.7	13.4	100.0

Source: Undersecretariat of Treasury

Table 3.8: Average Time to Maturity of Central Government Debt Stock

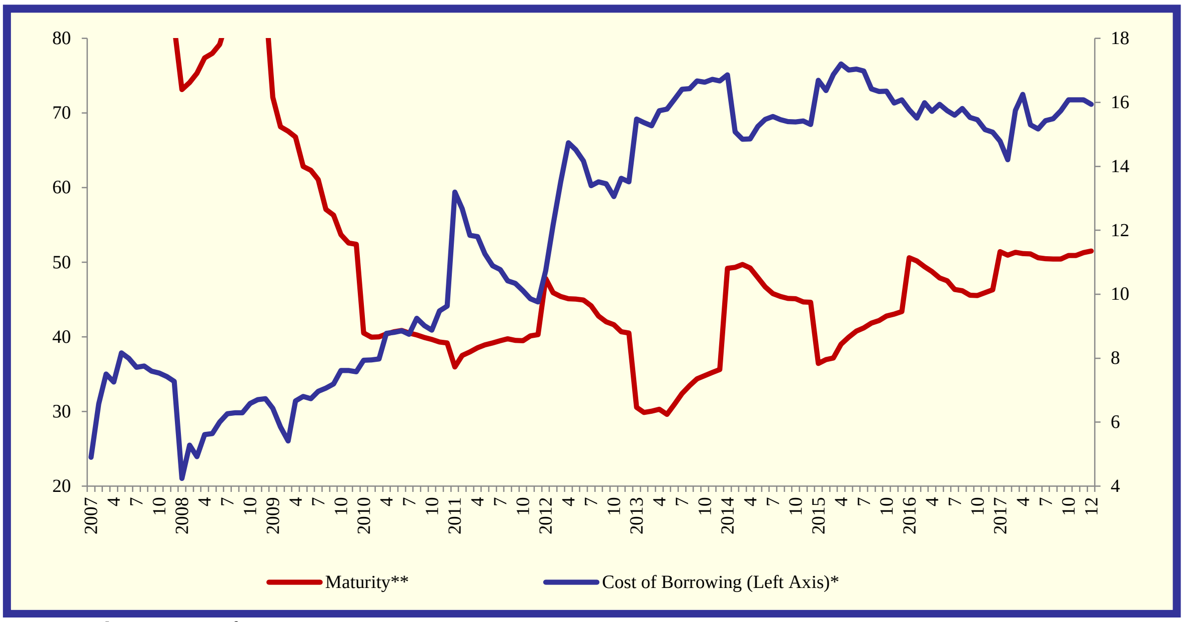
(Year)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Domestic Debt Stock	2.0	2.0	2.6	2.6	2.8	3.9	4.6	4.6	4.3	4.3
External Debt Stock	7.9	7.9	8.8	9.0	9.4	9.3	9.5	9.5	9.4	9.9
Total	3.6	3.5	4.1	4.4	4.6	5.6	6.1	6.3	6.3	6.5

Source: Undersecretariat of Treasury

In 2017, the average cost of fixed rate TL borrowing and the average maturity of cash domestic borrowing stood at 11.4 percent and 71.2 months, respectively.

Figure 3.4: Average Time to Maturity and Cost of Domestic Borrowing



Source: Undersecretariat of Treasury
(*) Cumulative cost of fixed rate TL denominated borrowing is displayed.
(**) Cumulative maturity of cash domestic borrowing is illustrated.

3.5.2. General Government Debt Stock Projections for 2018-2020 Period

As a result of the prudent fiscal policies implemented, efficient borrowing strategies and strong growth performance in the last decade, the ratio of the general government debt stock to GDP has decreased significantly. General government debt stock to GDP stood at 28.3 percent at the end of 2016. It is anticipated in the MTP (2018-2020) that the debt stock to GDP ratio will tend to decrease in the period of 2018-2020 and fall down to the level of 27.5 percent at the end of 2020.

Table 3.9: EU Defined General Public Debt Stock Estimations

(Percent of GDP)

	2016	2017	2018	2019	2020
	Realization	Forecast			
EU Defined General Government Debt Stock	28.3	28.5	28.5	28.0	27.5

Source: Undersecretariat of Treasury
* Treasury Undersecretariat
** MTP (2018-2020)

3.5.3. Contingent Liabilities

Contingent liabilities refer to obligations of which timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government. Treasury guarantees and debt assumption commitments provided in the context of Public-Private-Partnership projects are among the explicit contingent liabilities of the Treasury.

The Undersecretariat of Treasury provides repayment guarantees for foreign borrowing of public administrations (defined in Law No. 4749, Article 3) in order to minimize the investment financing costs, ensure sustainable growth and meet funding requirements of multi-year investment projects of the mentioned institutions. Furthermore, based on and limited with the provisions of the relevant law, Undersecretariat of Treasury provides investment guarantees within the scope of Built-Operate-Transfer, Built-Operate, Transfer of Operating Rights and similar financing models. As defined in Article 8/A of Law No. 4749, The Undersecretariat of Treasury can also provide debt assumption commitments for Public Private Partnership (PPP) projects. According to this mechanism, upon termination of the implementation contract and transfer of facilities to the relevant administration, the credit facilities provided for the project, including relevant financial obligations, can be undertaken.

Internal Credit Rating Model which considers the debt-receivable relationship between the institutions and the Treasury and financial statements of these institutions, was put into practice in 2006, in order to improve the management of contingent liabilities confronting the Undersecretariat of Treasury. In this context, the limit for Treasury guarantees and on-lent foreign loans, guarantee and on-lent fees and partial guarantee ratios are calculated using this model based on the expected losses from organizations in order to alleviate risks arising from contingent liabilities.

In this context, the limit covering repayment guarantees, investment guarantees and on-lent foreign loans to be provided under the Law No. 4749 is set by budget law every year. The limit has been determined as 4 billion dollars for 2017. There is also a budgetary limit for the debt assumption commitments provided for certain PPP projects and it was determined as 4 billion dollars for 2017.

In order to compensate for the losses that stem from the guaranteed/on-lent credits and to share the risk with beneficiaries, a one-time guarantee/on-lent fee is applied up to 1 percent of the total credit amount. In the partial guarantee practice, credits except export credits obtained from the international and regional organizations and foreign Official Export Insurance Agencies, are guaranteed up to 95 percent of the total liabilities. Moreover, in the case of termination of the implementation contract due to appointed company default, Treasury’s debt assumption commitment is limited with 85 percent of senior loans provided for the project. In the case of termination of the implementation contract due to reasons other than the appointed company default, Treasury’s debt assumption commitment is 100 percent of senior loans provided for the project.

Risk Account has been set up in 2003 in order to eliminate the disruptions in the cash and debt management caused by the amounts paid by the Treasury due to Treasury guarantees and budget appropriation was started to be allocated every year as of this date. As the repayments to the Risk Account is sufficient for the undertakings realized from the account no budgetary allocations, which is one of the items of the revenues of the account, has been used since 2009.

In 2016 and 2017, there has been extensive amendments in the Treasury Supported Credit Guarantee System in order to provide easier access of SMEs to financing opportunities. Moreover, scope of the beneficiaries of the system has been broadened. During the period between July 2009 and November 2017, 215.1 billion TL credit has been provided for 212,768 firms.

3.5.4. Repayment Guarantee

The repayment guaranteed debt stock has somewhat increased from its level of 12.3 billion dollars in 2016 to 13.5 billion dollars by the end of the third quarter of 2017. Guarantees provided to public banks and investment and development banks have the biggest share within the repayment guaranteed debt stock.

Despite an increasing guaranteed debt stock since 2007, the undertaking ratio decreased in the same period and it was 0.6 percent by the end of November 2017.

Regarding the payment projection of the Treasury repayment guaranteed foreign debt stock, an increase parallel to the disbursements is observed in the medium term.

Table 3.10: Projection of Treasury-Guaranteed Foreign Debt Service (*)

(Million Euro)

	Principal	Interest	Total
2017	292	68	360
2018	1,133	174	1,307
2019	1,228	172	1,400
2020+	8,792	1,335	10,127

Source: Undersecretariat of Treasury
*Based on drawings; as of September 2017, provisional

3.5.5. Investment Guarantees

In addition to repayment guarantees, Undersecretariat of Treasury has provided investment guarantees to energy and infrastructure sectors. Since 1999 no investment guarantee has been provided by the Treasury. The liabilities of the current projects will finish by 2020 unless the Treasury grants a new investment guarantee.

3.5.6. Debt Assumption Commitments

As of 2017, Treasury provided debt assumption commitments for the external loans provided for 5 PPP projects with an amount of 11.3 billion dollars. On the other hand, no obligation has been undertaken by Treasury due to these commitments.

Table 3.11: Loans Subject to Debt Assumptions

Project Name	PPP Model	Debt Assumption Agreement Date	Total Project Cost (Million USD)	Loan Amount (Million USD)
Eurasia Tunnel Project	Build-Operate-Transfer	11.12.2012	1,240	960
Odayeri-Paşaköy Section (including Third Bosphorus Bridge) of the Northern Marmara Motorway Project	Build-Operate-Transfer	13.05.2014 11.03.2016	3,456	2,318 420
Gebze-Orhangazi-İzmir Motorway Project (including the Izmit Gulf Crossing and access roads)	Build-Operate-Transfer	05.06.2015	6,312	4,956
Kınalı-Odayeri Section of the Northern Marmara Motorway Project	Build-Operate-Transfer	22.12.2017	1,335	1,040
Kurtköy-Akyazı Section of the Northern Marmara Motorway Project	Build-Operate-Transfer	22.12.2017	2,212	1,634
TOTAL			**14,556**	**11,328**

Source: Undersecretariat of Treasury

3.5.7. Treasury Receivables

The stock of Treasury Receivables has been realized as 17.9 billion TL by the end of November 2017. The local administrations have 66 percent, SOE's has 16 percent and other receivables have 18 percent shares in the Treasury's receivables stock.

Collections from municipalities, Ministry of Finance and Iller Bank created by the deductions from the tax revenue shares are in the first place of the collections for Treasury receivables with 56 percent in January-November 2017 period. In the same period, cash payments of the institutions were 44 percent. Lastly, collections received in accordance with the Law No. 6183 and duty losses constitute 0.1 percent of total collections in the mentioned period.

Table 3.12: Stock of Treasury Receivables

(Million TL)

	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Local Governments	14,395	14,682	15,082	14,519	13,036	11,349	12,163	12,329	11,867
SOE's	8,736	6,019	4,842	3,282	3,168	2,129	2,375	2,432	2,843
Other Institutions	5,021	4,587	4,551	3,970	3,789	3,221	3,197	2,831	3,197
Total	**28,152**	**25,288**	**24,474**	**21,771**	**19,994**	**16,699**	**17,734**	**17,593**	**17,907**

Source: Undersecretariat of Treasury
(*) As of November 2017, provisional

3.6. Sensitivity Analysis and Comparison with the Previous Programme

Undersecretariat of Treasury has executed debt and cash management by adopting risk based approach since 2003. In this regard, risk exposure of central government debt stock is regularly monitored and reported to the Debt and Risk Management Committee which is the highest decision making unit of debt management. Sustainability and sensitivity analyses are the most important tools for evaluation of the risk profile of the debt stock. While sustainability analysis projects the probable trajectory of the debt to GDP ratio under the changes in macroeconomic variables, sensitivity analysis puts forward the vulnerabilities of debt stock to the risks by considering the current debt structure.

As a result of debt and cash management policies based on strategic benchmarks, structure of debt stock has improved and thus the exposure of central government debt stock to exchange rate, interest rate and liquidity risk has significantly reduced. In sensitivity analysis, annual deviations of the EU defined general government debt stock to GDP level from the baseline scenario are computed under real interest rate, growth rate, exchange rate and primary balance shocks. Sensitivity of the general government debt burden to macroeconomic shocks has a downward trend since 2001 when the first sensitivity analysis was implemented. Making borrowing by mainly in TL denominated with fixed rate instruments and extending the borrowing maturities have significantly contributed to reduce in sensitivity of debt burden to market risks. While 5 percent depreciation in TL would increase the general government debt to GDP ratio by 2.1 percentage points in 2001, due to improvement in the debt structure it would only increase by 0.6 percentage points in 2016. On the other hand, 500 basis points interest rate hike would increase general government debt to GDP ratio by 0.8 percentage point in 2016 whereas it would increase by 1.6 percentage points in 2001.

Table 3.13: Sensitivity of the EU Defined General Government Debt Burden

	2001	2016
Change in real exchange rate app/dep by 5 percent	+/- 2.1 points	+/- 0.6 points
Change in TL interest rate by 500 bp	+/- 1.6 points	+/- 0.8 points
Change in GDP growth rate by 2 percentage points	+/- 1.6 points	+/- 0.5 points
Change in primary surplus/GDP ratio by 1 percentage point	+/- 1.0 points	+/- 1.0 points

Source: Undersecretariat of Treasury

3.7. Sustainability of the Public Finance

3.7.1. Public Finance Risks

Fundamental sustainability risks that might constitute obstacles to reach the determined objectives in the public finance in the 2018-2020 period are summarized below.

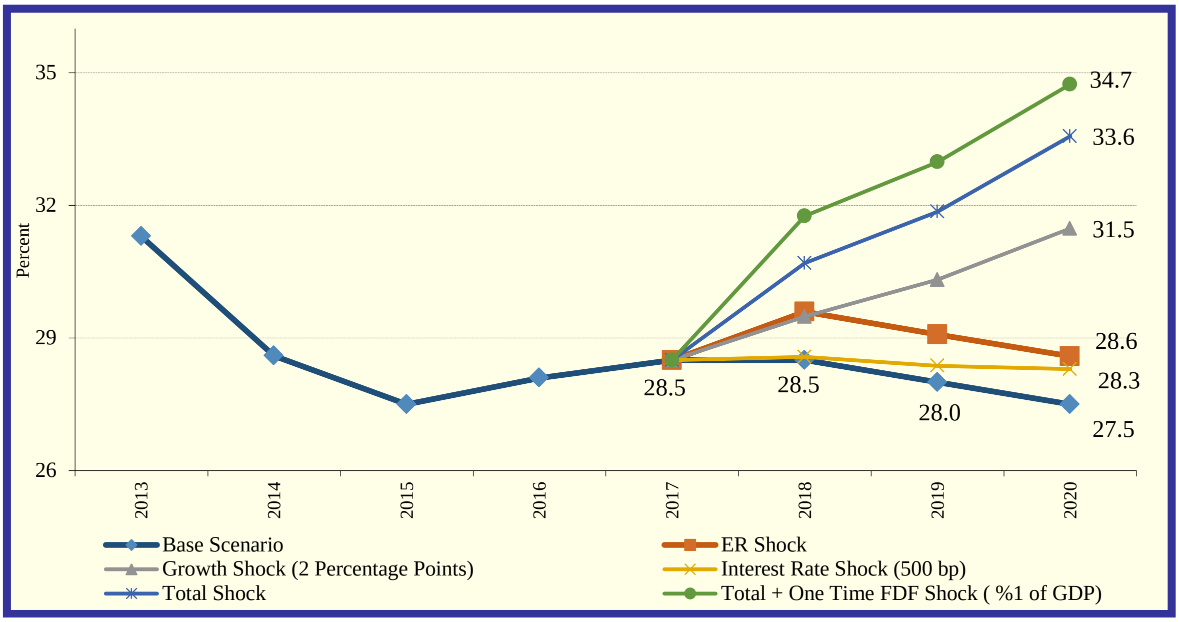
- If macroeconomic targets including growth, foreign trade, employment and inflation are missed, central government revenue performance will be affected adversely, there will be upward pressure on expenditures and a possible increase in the financing requirement.
- If social security insurance premium collections will be lower than estimates due to lower than expected growth rate and health-care expenditures could not be taken under control, social security systems deficit and the transfers to the social security institutions from the central government budget will be higher than expected.
- Persistent upward trend of primary expenditures might both reduce the flexibility of the budget and narrow down the fiscal space that could be used for discretionary policies when required.
- Monetary policy changes of the Fed and the ECB might cause an increase in public interest expenditures as well as a deviation of debt to GDP ratio from the projected levels due to interest rate and exchange rate fluctuations in local and international markets via capital flow reversals.

3.7.2. Sustainability Analysis

Sustainability analysis regarding the course of public debt burden against various macroeconomic shocks in the period of 2018-2020 is presented below.

Figure 3.5 illustrates medium term course of EU defined general government debt to GDP ratio under different scenarios. In these scenario analyses, impacts of 10 percent upward shift in the exchange rates, 2 points downward shift in the real growth rate and 500 base points upward shift in the real interest rates over the analysis period have been separately and jointly assessed. Moreover, one time primary balance shock is applied to the first year of the analysis period in addition to the combined shock scenario. In this scenario, primary balance performs 1 percent lower than the baseline scenario as a share of GDP. By doing so, possible risks such as contingent liabilities, which may lead to increase the financing needs, are analyzed. Additionally, unlike previous years, the interrelation between macroeconomic variables has also been taken into account and secondary effects of each shock scenarios on other variables are reflected into the analysis. In this context, the impact of growth shock on primary balance and inflation, together with the effects of exchange rate shock on inflation have been reflected to the analysis. Examining the scenarios stated above, compared to the baseline scenario, it is evaluated that the debt burden will record an increase of 1.1 points under the exchange rate shock; 0.8 point under the interest rate shock and 4 points under the growth rate shock in 2020. In the combined shock scenario, in which all shocks are taken into consideration together, it is expected that the debt burden may increase by 6.1 points compared to the base scenario. When primary balance shock is added to the combined shock, the level of change rises to 7.2 points.

Figure 3.5: Sustainability Scenarios



Source: Undersecretariat of Treasury

3.8. Fiscal Governance and Budgetary Frameworks

Achieving transparency and accountability, which are the basic principles of financial management, can only be possible if the policies to be implemented are disclosed to the public in a simple and understandable manner. In this context, the Citizens' Guide to the Budget, which contains information regarding the macroeconomic assumptions used to prepare the budget, the distribution of budget expenditures, the reasoning of allocated appropriations as regards to education, health and agricultural sectors and social benefits and investments, as well as information regarding fees and tax revenues, has started to be issued along with 2017 budget.

Within the context of the Chapter 32 Financial Control, Turkey has established a public internal financial control (PIFC) structure consisting of three components: financial management and control, internal auditing, and central harmonization units in these two areas. At present, the General Directorate of Budget and Fiscal Control within the Ministry of Finance serves as a central harmonization unit in the field of financial management and control and the Internal Audit Coordination Board, which has an inter-ministerial structure, serves as a central harmonization unit in the field of internal audit. The Central Harmonization Unit has three functions: legislation preparation, capacity building and monitoring. The above-mentioned PIFC structure was established through the Public Financial Management and Control Law (PFMC Law) within the framework of EU accession negotiations.

In order to enable the Central Harmonization Unit for Financial Management and Control (FMC CHU) to carry out its monitoring duty effectively, the FMC CHU continues to carry out the preparations of two different projects (addressing central budget administrations and local administrations) via EU financial assistance.

In addition, efforts to prepare a risk management manual for the use of all public administrations and to design a risk management software compatible with it continue. In this context, it is planned to update internal control standards and revise the Internal Control Manual in line with COSO 2013.

The Internal Audit Coordination Board, the central harmonization unit in the field of internal audit, conducts the “Deepening the Implementation of Public Sector Internal Audit Reforms Project”, which covers the years 2016-2018, in order to determine the needs and demands in the field of internal audit and to determine the level of implementation of the reforms. Within the scope of this project, carried out with the World Bank, a questionnaire survey was conducted for internal auditors in 2017.

Activities planned in the field of Internal Audit during 2018-2020

- The Public Financial Management and Control Law No. 5018 clarifies the concepts of internal audit and external audit and introduces a general framework. In the related legislations, the authorities, the operation fields and the functions of the concepts of internal audit, external audit and inspection are regulated. In order for the internal audit mechanism to function effectively and efficiently in public administrations, studies are planned to be carried out in order to clarify its relation with the external audit and to identify the separation of duty and role with the inspection units.
- Within the scope of the project "Deepening the Implementation of Public Sector Internal Audit Reforms" carried out with the World Bank, the results of the survey on the level of implementation of the public sector internal audit reforms will be shared through a report to be prepared and a dissemination seminar to be held. In addition, it is planned to translate the secondary and tertiary legislation of our country in the field of the internal audit into English, and bring the knowledge repertory constituted in our country to international use.
- Promoting the compliance level of public administrations to the Public Internal Audit Standards will be ensured.

- Since the internal audit and audit management activities will be carried out through the Internal Audit Software "İçDen", the activities to adopt the mentioned software in the newly established Internal Audit Departments will continue.
- External evaluation activities of internal audit function within public administrations will continue.
- “Integrated Public Financial Management Information System Project” was launched for the purpose of integrating the automation systems being used in the public entities within the scope of central government. This project will cover financial processes from budget preparations to the enactment of the final accounts. The project will allow the use of new IT opportunities, such as electronic signature and electronic documents, under the principles of interoperability.
- This project will ensure integration of the expenditure and accounting information infrastructure, improvement of control imposed on the expenditure processes, acceleration of processes concerning the financial transactions and roll-out of the application of the statistical analysis methods in the decision making processes.

4. PRIORITIES OF STRUCTURAL REFORMS (2018-2020)

4.1. Identification of Key Obstacles to Growth and Competitiveness

Sources of growth can be imagined within a three pillar framework; capital stock, labor and total factor productivity. At the current stage, productivity is the most crucial one in terms of sustainable production structure. In the Tenth Development Plan, productivity gains were emphasized to achieve high stable growth rates with establishing an innovative production structure and special importance was placed on structural policy, which would accelerate productivity gains in the Plan period.

During the time period of 2002-2006 which corresponds the intensive sectoral transformation process from agriculture to industry in Turkish economy total factor productivity contributed to growth at an average annual rate of 2.8 percentage points. However it could not maintain its increase in the following years and contribution realized as 0.2 percentage point between 2007 and 2016. It is also pointed out in the Plan that there is a big productivity gap between small and large enterprises. “Program for Enhancing Productivity in Manufacturing” is the first priority transformation program of the 10th NDP and it is a direct and strong policy response to Turkey’s productivity challenge in the manufacturing industry. There are four important observations in the Program. Firstly, small scale enterprises do not have strong motivation to grow; hence, they cannot enjoy the productivity gains that economies of scale would bring. Secondly, the value chains cannot become stronger, because of the low level of interaction between enterprises is weak. Also, technology development and utilization capacity is weak. Lastly, qualification level of the labor force is low.

It is important for Turkey to strengthen the structural reforms aiming the aforementioned problems and allocate productivity gains in the upcoming period. Importance of productivity increases is also stated in the MTP (2018-2020). Increasing productivity level in the economy requires policy interventions cutting across many areas. In this respect, improving production processes and increasing innovation capability of private sector through R&D and technology policies would play an important role in bringing industry sector into high value added production pattern.

Another determinant of long-term growth performance and improvement in competitiveness is the investment performance of Turkey. To accelerate economic growth, Turkey needs to increase the level of productive investments on one hand and to enhance the employment share in sectors that are more productive on the other. In this context, as stated in MTP (2018-2020), improving business and investment environment and overcoming fragilities such as current account deficit will strengthen our competitiveness. As a matter of fact, financing of the current account deficit has been depending on mainly short-term capital inflows. This situation makes the economy sensitive to unfavorable developments in external financing conditions.

Human capital is another important driving force for increasing competitiveness. Thus utilizing more of human capital and raising its quality will contribute to reach prosperous society structure and benefit from demographic window of opportunity at most which has been still valid for Turkey. Therefore, a competitive labor market in which decent employment opportunities are improved, young unemployment is reduced and the rules related to working life are implemented effectively, is aimed.

4.2. Summary of Reform Priorities

Policy and reform priorities of Turkey are determined in development plans, which are shaped by the active participation of stakeholders from all parts of the society. In The Tenth Development Plan there are 25 Priority Transformation Programs which are designed to provide solutions for the main structural problems essential for achieving 2023 targets and the objectives of the Plan. These Programs, which are designed for the critical priority areas of Turkish economy in 2014-2018 period, are prepared with a sectoral and inter-sectoral approach and cover 1248 actions. Monitoring and evaluation of the Priority Transformation Programs are carried out on quarterly basis under the coordination of the Ministry of Development, besides, mid-year and annual reports are prepared and submitted to the Council of Ministers.

This section, includes reform areas that support growth and competitiveness, taking into account the reform agenda for ERP 2018. The reform areas are mostly similar with the 2017 Program. The priority reform areas are briefly as follows:

Public Finance Management

1. Rationalization of Public Expenditures
2. Public Revenue Quality Enhancement

Energy, Transport and Telecom Markets

3. Energy Efficiency
4. Transformation from Transportation to Logistics

Sectoral Developments

5. Improvement of Health Tourism
6. Enhancing Efficiency of Water Us in Agriculture
7. Enhancing Agricultural Supports

Business Environment, Corporate Governance and Reduction of the Informal Sector

8. Development of Business and Investment Environment
9. Reducing Informal Economy

Technology and Innovation

10. R&D, Innovation and Technology Capacity
11. Commercialization of Priority Technology Areas
12. Structural Transformation of Healthcare Industries

External Trade Reforms

13. Reducing Import Dependency

Employment and Labor Market

14. Enhancing Labor Market Effectiveness
15. Attracting Qualified Human Resources
16. Improvement of Basic and Occupational Skills

Social Inclusion, Combatting Poverty, Promoting Equal Opportunities

17. Effective Social Transfer System
18. Family Social Support Program

4.3. Priority Structural Reform Areas

4.3.1. Public Finance Management

Rationalization of public expenditures is one of the priorities of public financial management reform. The implementation of strategic plans, a tool that enhances the quality of the public spending system, continues. Strategic plan and performance programs have been prepared and implemented by public administrations within the scope of central government, state universities, social security institutions, municipalities with population of over 50 thousand, special provincial administrations, and state-owned enterprises. The implementation of strategic plans and performance programs has been monitored with accountability reports. Preparatory studies of strategic plans and performance programs of newly established public administrations and state universities continue.

The by-law on Procedures and Principles for Strategic Planning in Public Administrations has been amended in line with experiences in strategic management and public institutions' needs. In parallel with the by-law amendment, draft guidelines have been prepared for public administrations within the scope of central government, state universities, municipalities and state-owned enterprises, and the consultation process on these draft guidelines has been completed. In addition, a set of performance indicators has been developed in cooperation with Higher Education Council and state universities for use in strategic planning at state universities.

The main objective of the by-law amendment and draft guidelines is that public administrations develop their strategic plans by taking risks into consideration and in a result-oriented manner. It is aimed to strengthen the implementation of strategic plans in public administrations with provincial organizations through provincial action plans. It is also aimed to establish a centralized system for monitoring and evaluating the strategic plans of public administrations.

In order to strengthen the linkage between plan-budget and to ensure result-oriented accountability in public administration, draft guideline for program-based performance budget prepared by Ministry of Finance has been submitted for consultation to public administrations.

Primary Reform Area: Rationalization of Public Expenditures

Analysis of Main Obstacles

In the budget system, there is a need for strengthening the connection between plan-program and budget, integrating the budget with top policy documents and policy documents of administrations and incorporating performance information into the budgeting processes in order to support decision-making processes at the governmental level.

Description of Measure: Providing a transition to a budget structure that deals with public services with program approach (Responsible Institutions: Ministry of Finance, Ministry of Development)

With this measure, it is aimed that administration budgets will be structured so as to cover the public service programs and their outputs and results, budgeting processes will be redesigned based on performance information and thus performance-based budgeting will be activated.

'The Program Structure and Program Justification Guidance Draft' prepared within the framework of the Program Based Performance Budget model developed as a result of the studies carried out since 2012 has been updated and announced to the public administrations within the scope of central government.

This measure is a part of the Rationalization of Public Expenditures Program which is one of the Priority Transformation Programs of the Tenth Development Plan. In this framework, efforts are going on to complete preparations to adopt the program budget by 2018.

Activities Planned for 2018

All the activities planned herein below will be carried out by the Ministry of Finance with the cooperation of the public administrations and the Ministry of Development.

1. Classification and redesigning of the budget by reviewing budget documents and management information systems with the program approach

2. Making necessary changes in the legislation related to the performance-based budgeting based on the program structure to be developed

3. Completion of preparatory studies for the preparation of the Program Cost Estimate and Evaluation Guide

4. Completion of preparatory studies for the preparation of the Program Monitoring, Evaluation and Reporting Guide

Expected Impact on Competitiveness/Rationale of the Measure

This measure will increase efficiency in the distribution and use of public resources by strengthening the relationship between program outcomes and resource allocation and will support decision-making processes on the distribution of total public resources so as to meet the expectations of society and the economy more efficiently.

Estimated Cost of the Activities and the Budgetary Impact

The total cost is estimated to be approximately 170.000 Euro.

Expected Impact on Employment and Gender

The program budget approach will enable that employment and gender sensitive policies will be seen in the budget and contribute to the public monitoring and evaluation of the initiatives of public administrations in this context.

Description of Measure: In order to encourage public institutions to make savings, financial support will be provided for the projects and works aimed at making savings in current expenditures.

The main purpose of 2018-2020 MTP is the protection of the strong structure of public finance; and within this scope limiting the public expenditures, increasing its efficiency and making savings in the current expenditures in public sector has been aimed. It is expected that the relevant measure will contribute to the achievement of the mentioned targets.

Activities Planned for 2018

In 2018, project applications will be evaluated and financial support will be provided to the projects deemed appropriate.

Activities Planned for 2019

In 2019, project applications will be evaluated and financial support will be provided to the projects deemed appropriate.

Activities Planned for 2020

In 2020, project applications will be evaluated and financial support will be provided for the projects deemed appropriate.

Expected Impact on Competitiveness/Rationale of the Measure

Providing financial support for projects and works aimed at making savings in current expenditures, in order to encourage public institutions to make savings.

Estimated Cost and Budget Effect of the Activities within the Scope of the Measure

The estimated total cost of the activities within the scope of the measure in 2018 budget is 5,339,000 Euro.

Potential Risks

There may be some delays in project evaluation process.

4.3.2. Energy and Transport Markets Reform

Turkey attaches utmost importance and gives priority to realizing energy market reforms and adapting the national energy legislation with the EU energy legislation. In this context, fundamental sector legislations were completed at great extent and efforts of establishing a fully competitive energy market are continuing. The studies of the liberalization of the energy market have been carried on also in 2017.

As of October 2017, the share of private sector in electricity generation has been around 84 percent. In 2017, 5 hydropower plants with the total capacity of 278 MW was transferred to the private sector. The increasing share of the private sector in electricity generation is expected to continue in the coming years.

The draft Law on Natural Gas Market which is important for the liberalization of the natural gas market including regulations restructuring the market activities is expected to be enacted.

The draft law, which includes restructing of TAEA and establishing an independent institution concerning about regulation and surveillance activities in the field of nuclear energy is expected to be enacted.

With the Amendment to Law on Utilization of Renewable Energy Resources for the Purpose of Generating Electrical Energy, a new support mechanism for renewable energy was developed. In 2017, Renewable Energy Source Areas (RESA) were implemented to enhance the utilization of renewable resources for electricity generation. In this context, the tender of the solar power plant in Karapinar RESA with the capacity of 1,000 MW was completed and R&D center with the annual production capacity of 500 MW will be established. In addition, wind power capacity of 1,000 MW wind RESA was allocated and wind turbine factory and R&D center with the annual production capacity of 400 MW will be established.

As of October 2017, share of renewable resources in total electricity generation constitutes 30.4 percent. Solar energy with production capacity of 2046 MW has an important place in the total installed unlicensed electricity generation power in the context of the Regulation on Unlicensed Electricity Generation in Electricity Market.

High quality and widespread infrastructure investments are necessary for productive investments and thus economic growth. In addition to being essential for production, with the positive externalities created, infrastructure investments support economies of scale, which is one of the main drivers for increasing productivity and economic growth.

Prominences of global demands for more secure, punctual, fast, and comfortable transport have expedited development of transportation in recent years. In accordance with this, new policies are needed to be implemented that highlight development of productive and effective transport infrastructure by means of facilitating integrated operation of transportation modes, focuse on human factor and minimize environmental damage.

With regard to modal split of transportation in Turkey, about 90 percent of the intercity passenger and freight transport are made through highways. Highway dominant structure of the transport network brings about environmental and road safety problems. Despite the achievements made with the introduction of dual-carriage ways, casualties due to traffic accidents and economic losses continue to be a major problem. Modal balance in transportation remains a challenge.

On the other hand, according to the Logistics Performance Index, which is created by the World Bank to help countries identify the challenges and opportunities they face in logistics, Turkey, despite its advancement to the 27th rank in 2012, ranked 34th in 2016.

Within Turkey's targets regarding export, growth, and sustainable development, the Transformation from Transportation to Logistics Program has been adopted as part of the Tenth Development Plan in order to increase the contribution of logistics, which has made a rapid progress in recent years, to our growth potential and to have Turkey among the first 15 countries in Logistics Performance Index. In order to strengthen Turkey’s growth performance, infrastructure investments and institutional arrangements within the context of Transformation from Transportation to Logistics Program are of particular importance.

In order to make an effective and efficient planning in the field of logistics, the Transformation from Transportation to Logistics Program focuses on legislation, urbanization, customs, infrastructure, domestic and international logistics centers, and increasing the competitiveness of firms. In order to build an effective coordination in logistics field, the Logistic Coordination Council has been established in 2016.

National Transport Master Plan of Turkey, which will facilitate the development of sustainable transport infrastructure that will support the competitiveness of Turkish economy and logistics industry, has reached the last stage. Complementary study in this field, i.e, Logistics Master Plan of Turkey, was started in 2016 and it is aimed to be finalized till the end of 2018.

With respect to large infrastructure projects in right place, time and scale to support increasing international trade, the construction of Filyos Port started in 2016 and it is planned to be finished till 2019.

With respect to railway sector, operating on a single-track rail line, low-standard rail infrastructure and disregarding freight transport reduce the effectiveness of rail transport and prevent the creation of a competitive transport market.

With the Law No. 6461 related to Turkey Railway Transport Liberalization, secondary legislation studies are proceeded in order to establish an efficient railway transport market with the participation of the private sector, decrease costs to a sustainable level and enhance competitiveness. In this context, 2 public and 2 private sector firms have acquired the authority certificate of railway train operator. Within the scope of secondary legislation studies, Regulation on Railway Coordination Board has published.

National Transport Master Plan of Turkey and Logistics Master Plan of Turkey will contain long term forecasts and solution suggestions to problematic areas of transport and logistics and will provide policies and projects in line with targets and goals to be achieved until 2035.

Reform Measures

Description of Measure: Turkish Railway Transport Liberalization

Within the scope of Law No. 6461 (Law on Turkish Railway Transport Liberalization), preparation of by-laws will be continued. Secondary legislation studies have been sustained within the scope of liberalization efforts of the railway transportation sector, which is part of the Tenth Development Plan policies. By-Law of Fullfilment of Public Service Obligation by Service Procurement, By-Law of Passenger Rights and By-Law of Interoperability efforts come to an end and partners’ views have been asked.

Activities Planned in 2018

By-Law of Fulfillment of Public Service Obligation by Service Procurement, By-Law of Passenger Rights, By-Law of Interoperability and By-Law of Infrastructure Acceptance will be announced.

Expected Impact on Competitiveness/ Rationale of the Measure

In order to provide private sector getting into railway transport market and decrease the costs, required regulations will be completed and competition power of Turkey is aimed to be improved.

Expected Impact on Employment and Gender

It is expected that employment could be increased due to the activities of infrastructure management and superstructure operations of the private sector within the scope of the liberalization studies in the railway sector.

Potential Risks

The efforts to regulate the general operation of the sector should be meticulously carried out because of the fact that liberalization efforts affect many partners in the rail sector.

4.3.3. Sector Developments

Sector composition of growth and the developments within each sector carry great importance for improving competitiveness, ensuring the sustainability of economic growth and catching up with high income countries. In Turkish economy, significant challenges as well as development potential exist in agriculture, industry and services sectors. The common challenge for all sectors is low productivity levels which restricts the competitiveness and thereby the growth potential. Hence, policies regarding increasing productivity have an important role. Specifically, considering the experience of countries, which avoided middle income trap and became among high income countries, it is observed that industry has played a central role in the development process. Therefore, in order to integrate more with global economy, get more shares from the global value chains and to reach a more competitive production structure, strengthening industry sector is vital. Services sector plays a crucial role in sustaining and improving competitiveness of the economy in tradable activities. The favorable developments within the services sector not only lead to progress in itself but also generate efficiency gains in industry sector.

4.3.3.1. Agriculture Sector

Main objective of agricultural policies is to create an agricultural sector; taking sufficient and balanced nutrition of society as a priority, based on advanced technology, less infrastructural problems, maintaining sustainable, effective and demand-driven production, highly organized and that has high productivity and international competitiveness.

To ensure food security; efficient stock management, reduction of losses in the production- marketing-retail chain, capacity building for market regulation and effective use of foreign trade tools are considered as the basis while taking farmer income and agricultural products market into account.

In the Tenth Development Plan, a wide variety of investments and work on; reduction of land fragmentation, effective use of scales of agricultural holdings, improvement of producer organizations, collection of reliable agricultural data, enhancement of marketing infrastructure, supply and consumption of safe food, stability in the agricultural markets and transformation of support system to a more product-region-producer oriented structure while considering water resources. Furthermore, the Eleventh Development Plan (2019-2023) studies has been started in which an important target will be to ensure a growing agricultural sector with improvements in agricultural policies.

In this context, there are several ongoing projects on crop production, animal husbandry, fisheries, food safety, phytosanitary and veterinary services to comply with the EU acquis. The official control system in the fields of agriculture and food is reinforced via public investments through modernization of laboratories and personnel training as well as application of new analysis methods and accreditation efforts for laboratories. Besides, work to build a risk analysis system and improvement of food safety information network are in progress. In 2017, within the scope of the official controls; food and feed sampling procedures were improved and investments for reinforcing the technical and administrative infrastructure of residue tracking of live animals and animal products are accelerated. Same efforts are aimed to be continued in 2018.

Within the context of EU Financial Cooperation, establishment of Integrated Administration and Control System (IACS) was completed and all project outputs including orthophotos and quality control of digitization studies were approved. Project on IACS Procedures has been completed and with this project training of nearly 10.000 MoFAL staff have been completed. Moreover, IACS Software and Training on OTSC and Risk Analysis Project which is planned to last in 2 years has started in August 2017. Project on harmonization of cross compliance rules started in September 2016 and planned to be completed in 2018. A project on Regulatory Impact Assessment for Decoupled Payments has started in August 2017 and it will last 15 months.

An EU Project on Development of a Strategy for Alignment with the Common Market Organisations which was approved under the IPA II-2014 will start in 28 November 2017 within the programming year. The Project has three components; first one is preparation of a strategy to set up a road map for the gradual adoption of the EU CMO rules and practices, second is capacity building (trainings for the MoFAL staff, representatives of institutions and civil society organizations on CAP and CMO rules and practices) and the last is awareness-raising. In fisheries, “Project on Implementation of Stock Assessments in Fisheries Activities” is under 2015 Action Document and expected to start in the second half of 2018. This project has two components as supply and technical assistance has total budget of 6,290,000 Euro. While 2,890,000 Euro is allocated to the supply component, the technical assistance component has a budget of 3,400,000 Euro. TA Projects “Capacity Building For Advisory Services Under the IPARD II

Programme" with a budget of 1,025,100 Euro and "Improving The Awareness of Food Processing Sector and Farmers In Terms of EU Environmental and Hygiene Standards and IPARD Support" with a budget of 800,000 Euro are expected to start in the second quarter of 2018. Another project namely "Control and Prevention of LSD" with TA and Supply components and budgets 747,500 and 13,000,000 Euro respectively will start in 2018 after AD and FA changes are achieved. As a supply project with a budget of 14,850,000 Euro, "Project on Oral vaccination against Rabies" is expected to start in 2018 as well. With regards to the Twinning Project on "Improvement of Capacity Regarding Official Controls, Animal Welfare, Zoonoses and Animal Products" has started in May 2016 and the project is planned to last for 2 years. Within the scope of the project, it is planned to provide training to 1400 personnel - working in official controls and to prepare full compliance audit procedures and multi-annual national control plan - on EU legislation, practices and laboratory analyses in the fields of food and feed safety issues.

Although there is a working farm advisory system in Turkey, it is not fully harmonized with the EU. In this framework, "Technical Assistance for the Establishment of a Farm Advisory System (FAS)" project starts at the end of November 2017.

In the agricultural sector; change in support system that allows for the formation of an organized and highly competitive structure, ensuring food safety and reliability while considering the sustainable use of natural resources is still a need. Within this scope, studies on establishment of a monitoring and evaluation system that will allow the comparison of the social and productivity-oriented benefits, the financial burden and regular measurement of the effectiveness of agricultural supports are carried out.

The new basin-based support model has been put into practice in 2017 for the area-based construction of the management and control of agricultural subsidies by differentiating them among water constraint, basin and product. In addition, in order to increase the supply of qualified breeders in livestock production, it is aimed to increase the production capacities of newly established or existing breeding sheep breeders and in this context supports are provided to investors in live animals, machinery-equipment and construction items. With livestock support; it is aimed to develop livestock production, to increase hygienic production and sustainability, to preserve and develop local genetic resources, to keep the registration systems up-to-date and to support farmers in combating animal diseases. In addition, grant aid of up to 30 thousands TL is provided to young farmers to provide young farmers with agricultural production and support new job opportunities.

Action Plan for the Program on Enhancing Efficiency of Water Use in Agriculture which is a part of Tenth Development Plan, is going to be implemented until the end of the 2018. In the context of Action Plan, the completion of land consolidation in irrigation area and of irrigation investments in economically feasible land and the revision of agricultural support policies considering water scarcity have been prioritised in the Program. The follow-up meetings of this Plan are regularly done and the developments are closely monitored in the coordination of relevant ministries.

Furthermore, cold chain investments are going to be supported in order to minimize loss rates and increase the overall quality of logistics processes in the fresh fruit and vegetable supply chain. It will be fully compliant with the international standards set out for the packaging of agricultural products, shipping to retail points and exhibiting at retail points.

In addition to building the capacity of R&D and innovation in agriculture, it is aimed to increase technology use capacity in agricultural production in order to promote agriculture to the upper level of the global value chain.

Contributing to our country to get more share in world halal goods and services market, The Halal Accreditation Authority (HAC) has been established in November 2017. It ensures that the organizations that conduct halal conformity assessment in this market operate according to national and/or international standards. With the establishment of the institution, it is expected that Turkish halal product market would grow on a predefined basis.

As another issue, it is planned to establish a monitoring system for seasonal agricultural workers and to improve working and living conditions of these workers and to prevent child labor in this context.

4.3.3.2. Industry Sector

In order to increase the international competitiveness of Turkey and its share in the global exports, gaining a high value added structure and increasing the share of high technology sectors by realizing the transformation in the manufacturing industry is the main objective of the industrial policy.

The main focuses of the transformation in the manufacturing industry are innovation and firm skills, efficient participation of regions in the production, integration among the sectors, green technology and production, and market diversification. Increasing productivity and domestic value added is targeted by means of developing green production capacity, innovation, firm skills and integration among the sectors; and ensuring the stable high growth is targeted by means of foreign market diversity and developing regional production capacities.

A shift to medium technology sectors is being observed in the production structure of manufacturing industry during the recent years. However, compared to the world average, the shares of high and medium-high technology sectors are still low. It is of great importance that the manufacturing industry will continue to be transformed into a higher value-added structure with a focus on technology, design and branding while investments in new sectors will be increased in the upcoming period. In this context, it is very important that the project-based incentive system is used effectively in the structural transformation of the manufacturing industry in order to make investments in different products and sectors and to increase FDI.

In order to strengthen the competitive position of our country and accelerate the digital transformation in the manufacturing industry, the Supreme Board of Science and

Technology (BTYK) has decided to work on smart production systems in February 2016. The Scientific and Technological Research Council of Turkey (TUBITAK) carried out a series of studies between April-November 2016 in order to determine the key and leading technologies that serve smart production systems. Work towards this new industrial revolution, which can offer great opportunities, are of great importance to initiate a high value-added investment cycle in our country and close the technology gap between developed countries.

The regional distribution of manufacturing industry improves with the contribution of applied investment incentives. Strengthening regional sectoral focus by identifying regional potentials is important for increasing manufacturing industry and regional development. The supports provided by the Program of Attraction Centers under Investment and Support Funds, which was initiated in 23 provinces in 2016, will also contribute to increasing the regional production capacity.

The share of the mining sector in Turkey in GDP was 0.8 percent in 2016. The exports of the sector in the year 2016 were 2.7 billion dollars and the imports were 19 billion dollars. Bulk of the exports consists of metals other than iron (chromium, copper, zinc, lead), natural stone, boron and feldspar minerals. While the bulk of the imports were crude oil, natural gas, hard coal and iron.

In order to reduce dependency on foreign energy and to meet the raw material demand of the industry, the resources allocated for explorations of mines, fossil fuels, and geothermal resources have been increased significantly in 2017, reaching a total of 1.2 billion TL. As a result of the studies that started in 2012, the construction of a fully equipped seismic research vessel to operate in our sea areas has been completed and trial and delivery processes are in progress.

In order to ensure that the industry has access to the raw materials and intermediate goods it needs, the Input Supply Strategy and Action Plan, which has been implemented since 2013, is updated based on our country needs. Furthermore, the general framework of policies directed to increasing domestic input ratio and domestic production is determined in Import Dependency Reduction Program, Program for Technology Development and Domestic Production through Public Procurement, Domestic Resource Based Energy Production Program, Healthcare Related Industries Structural Transformation Program in the Tenth Development Plan. Implementation of these programs continued in 2017.

4.3.3.3. Services Sector

In recent years, remarkable improvements have been achieved in subsectors of the services sector. In tourism sector, a steady increase has taken place in international tourism market and Turkey has been visited by an increasing number of tourists since the beginning of 2000s. Although number of tourist arrivals in 2015 and 2016 declined due to the events emerging recently in our region and political tensions between Turkey and our source market countries, it started to increase again in 2017. According to the data provided by the United Nations World Tourism Organization (UNWTO), in 2016 Turkey ranked 10th in terms of number of tourists and 17th in terms of revenues globally. Turkey's share, in terms of tourist entries is 2.5 percent in the international tourism market and 4.9 percent in the European tourism market in the same year. In terms of tourism revenues, these shares were realized as 1.5 percent and 4.2 percent respectively.

Since 1972, when the first overseas construction contract was secured by Turkish construction companies, over 350 billion dollars of contract have been signed and significant experince has been gained in international markets. The total value of contracts has been on a significant rise since 2003, and exceeded 30 billion dollars in years 2012 and 2013. While the total value of contracts has decreased in recent years due to the political and financial instabilities in the global economy, the Turkish overseas contracting services sector continues its business development efforts in new markets.

In recent years, there has been an increase in the demand for services abroad of patients, especially in the developed countries, due to the increase in the cost of health care services and the increase in waiting times. On the other hand, thanks to the development of information communication technologies, the global market in health tourism is steadily increasing due to the facilitation of access to information about health services abroad, the increase of transportation opportunities and the increase in inter-country mobility.

Considering the value-added and employment opportunities that health tourism will create, the Health Tourism Priority Transformation Program has been prepared in order to reveal the potential of Turkey in this market. In parallel with developments in the country's health sector in recent years, with this program, it is aimed to increase the competitiveness of Turkey by improving service quality and capacity of medical, thermal and rehabilitation services. The scope of the program is basically to develop institutional and legal infrastructure of health tourism, to improve physical and technical infrastructure, to increase the quality of health tourism services, to make effective promotion and marketing in the field of health tourism and to enhance international collaboration.

To achieve the targets of the program, primarily Health Tourism Coordination Council that will enhance an efficient coordination between institutions was established in 2015. As one of the important activities in the context of development of institutional and legal infrastructure, health tourism strategy and country/region-specific action plans have been prepared. As another important structural transformation issue, "Regulation Concerning International Tourism and Tourist Health" is enacted on 13 July 2017, which is aimed to regulate the principles and procedures related to the establishment of the minimum service delivery standards for healthcare services provided on an international level, the authorization, acreditation and supervision of healthcare organizations and intermediaries of medical tourism. However, preparartion of legislations related with old age rehabilitaton services and termal tourism still continue.

In order to improve the service quality of health tourism, primarily, qualification and quantity of human capital will be improved. Trainings and informative activities in this field will be enhanced, foreign language education will be improved and diversified, foreign student quota of universities in Turkey will be increased. Moreover, to rise the service quality standards of health tourism and enhance the physical infrastructure, qualified in-patients beds ratio will be increased from 50.7 percent in 2015 to 100 percent in 2023. On the other hand, regional indication map regarding the curative uses of termal springs has been drawn. Infrastructure activities in pre-development phase will be completed in the 5 regions, which are prioritized among thermal tourism-themed Culture and Tourism Protection and Development Zones. 3 region has been selected for the first stage and the feasibility studies are processing.

Medical achievements of Turkey will be continued to be promoted in target countries/regions in order to enhance the marketing of Turkey in Health Tourism. Call center which serve international patients operates 7 day 24 hours in 6 language (English, Arabic, German, French, Russian and Persian) was established. Health Tourism Portal having any kind of information such as price, accommodation and transportation options in health tourism will be completed and launched.

Reform Measures

Description of Measure: System will be formed for the authorization and the accreditation of institutions and organizations operating in health tourism.

Legislative/institutional arrangements of an accreditation system for hospitals, intermediary institutions and service providers operating in health tourism field will be developed and a control mechanism within the Ministry of Health will be established in order to solve the possible malpractice problems.

Expected Impact on Competitiveness

Competitiveness will be increased by improving service quality in health tourism supported with accreditation system and control mechanism.

Description of Measure: Pre-development phase studies will be completed in the 5 prior thermal tourism-themed regions.

Construction plans will be completed, and geothermal water transmission line projects will be prepared.

Expected Impact on Competitiveness

Making necessary infrastructure ready-to-use and sensitive to user preferences in selected regions will increase our competitiveness in the market.

Cost of Implementation: 3,087,000 Euro

Description of Measure: Health Tourism Portal will be launched.

Health Tourism Portal having any kind of information such as price, accommodation and transportation options for health tourism will be completed and launched.

Expected Impact on Competitiveness

Competitiveness will be improved by facilitating accessibility of the service and providing up-to-date information.

Cost of Implementation: 308,800 Euro

4.3.4. Business Environment and Reduction of Informal Sector

Improving business and investment environment is of utmost importance in increasing private investments that boost the growth. This will not only increase the easiness of doing business for domestic investors, but will also increase FDI inflows and hence Turkey will benefit more from productive and high technology international investments.

Turkey ranked 60^{th} among the 190 countries as of Doing Business 2018 Report published by the World Bank in 2017. According to the report, improvement should be done in areas such as starting a business, dealing with construction permits, getting credit, paying taxes, trading across borders and resolving insolvency.

Among problems pertinent to business and investment environment bureaucratic processes, legal processes and those related to the investment site have presented significance. Solving these problems with more effective coordination is expected to facilitate both domestic and foreign direct investment by reducing the uncertainty regarding the investment environment.

Business and Investment Climate Improvement Program concentrates on priority issues of business and investment environment and aims to eliminate uncertainties faced by investors and resolve the problems. Thus, it is intended to increase investments by improving existing mechanisms. In this framework, the Program was built on four different pillars as Improving Bureaucratic Procedures; Improving Judiciary Processes; Facilitating the Provision of Investment Location and Improving the Governance of Business and Investment Climate at Regional Level. It will be ensured that activities addressed in this program will be given priority by the Coordination Council for the Improvement of Investment Environment (YOIKK).

62 actions in the Action Plan for the Programme of Reducing Informal Economy (2015-2017) were carried out under the responsibility of 15 public institutions and the action plan has been largely completed. Some actions have already begun to produce positive results. The positive results of other actions will be possibly emerging and their effects will be possibly measured in the period of 2018-2020.

The share of the informal economy in GDP has reduced almost 6 points from 32.4 percent to 26.8 percent since 2002. As a result of the positive outcome of the current action plan and the implementation of the New Action Plan, the size of the informal economy will be further reduced during the period of 2018-2020. In the long run, it is aimed to reduce the informality rate to the European Union average.

Reform measures

Description of measure: In the process of opening a business and obtaining a working license, application differences between the central administration and the local governments and between the metropolitan municipalities and other municipalities will be eliminated and the number of required approvals and documents will be reduced and uniformity will be ensured.

Activities Planned in 2018

Public and private sector proposals will be gathered by the Prime Ministry to facilitate the process of starting a business and obtaining a working license. Then costs will be reduced and processes will be simplified by shortening them.

Expected Impact on Competitiveness/Rationale of the Measure

Improving the process of starting a business will make it easier for companies to enter the market. This will increase competition among companies on the market and increase the productivity of existing firms.

4.3.5. Research & Development and Innovation and Digital Economy

The main factor that determines the performance of an economy on both the long and the medium term is its capacity of producing technology and innovation. In this regard, one of the policy priorities in the Tenth Development Plan was defined as the technology and innovation producing capacity.

In recent years, significant improvements have been achieved in instruments and institutions needed to transform science and technology to economic and social benefits. Implementation of the public policies towards strengthening science, technology and innovation capacity, the total amount of the funds allocated to R&D and the number of researchers have increased along with R&D activities, expenditures, and researcher employment of the private sector. As a result, the share of total R&D expenditures in GDP has increased to 0.94 percent in 2016 from 0.88 percent in 2015. In addition the number of full-time equivalent (FTE) researchers has increased to 100,158 and 52.3 percent of FTE researchers were employed by private sector. Increase in incentives for R&D activities, Technology Development Zones (TDZ) and private sector R&D centers contributed to increase in private sector R&D activities, expenditure and R&D personnel employment. Moreover, the budget allocated to research infrastructures (RI) at universities has increased and as a new regulation the Law No. 6550, on Supporting the Research Infrastructures was enacted on 10 July 2014 to increase effectiveness and ensure sustainability of RIs. Within the first implementation phase of the Law No. 6550 four research infrastructures were certificated. The evaluation process for certification of additional research infrastructures will be continue.

Although important progress has been achieved in terms of improvement and expansion of the R&D activities in Turkey; further improvements are required particularly for commercialization phase of new technological products, which includes activities ranging from basic research to launching products to markets. In this context, through commercialization of R&D and innovation activities, creating globally competitive new intermediate or final technological products and brands is among the main reform areas of the Tenth Development Plan (2014-2018). In this regard, technological product investments and the commercialization of the research outputs of the universities and research centers will be supported; human resources and physical infrastructure will be enhanced; collaboration among actors of science, technology and innovation system will be increased; innovative entrepreneurship will be promoted and technology transfer mechanisms will be improved.

The Structural Transformation Program for Healthcare Industries, which foresees the transformation in high technology sectors of pharmaceutical and medical device industries is being implemented. The Health Industry Steering Committee, was established according to the Prime Ministry circular 2015/19, and is continuing its activities in the field of health industry such as investment, production, export increase, pricing, reimbursement, licensing, and public procurement for the development of technology. In this context, bidding and agreement process relating to the production of plasma products by fractionation has been completed, while the production of plasma products by recombinant DNA technology, vaccination and medicines localization projects are still in progress.

Telecommunications market size, which was 9.6 billion US dollars in 2004, increased to the level of 15 billion US dollars as of 2016 thanks to competition.

As of November 2017, 810 authorizations were granted for 459 operators by ICTA. 133 of these authorizations are in the infrastructure provision and operators are making significant contribution towards ensuring the prevalence of infrastructure in the country by building their own infrastructure.

The effectiveness of alternative infrastructure operators in the market and coverage of their fiber optic networks have been rising lately. The total length of fiber optic cables owned by alternative operators reached 63,941 km in June 2017, while this number was 9,216 km at the end of 2008. The total length of fiber optic cables owned by incumbent operator reached 240,589 km in June 2017, while this number was 107,659 km at the end of 2008.

As a result of the increased competition, there is a significant increase in the number of fiber subscribers. The number of fiber broadband subscribers increased to 2.1 million as of June 2017, from 100,000 subscribers as of June 2010.

As of June 2017, fixed telephone, mobile telephone and broadband subscriber penetration rates are 13.7 percent, 96 percent and 83.2 percent in Turkey, respectively. Meanwhile there are 1.2 million cable TV subscribers and 780,000 cable internet subscribers.

The Auction for IMT Services and Infrastructures Authorization (known as 4.5G in Turkey) was held by ICTA on 26 August 2015. IMT services are launched by 3 operators as of 1 April 2016. The number of LTE subscribers reached to 59.9 million in Turkey as of June 2017.

National Broadband Strategy and Action Plan (2017-2020) which determines minimum broadband access speed across the country, high-speed internet access targets for households as well as policies and actions to be implemented entered into force following its publication in the Official Gazette on December 21,2017.

Reform Measures

Description of Measure: Competent research infrastructures will be supported on a performance basis within the new legal framework.

The Law introduces financial and managerial reform for research centers in universities. The program will be implemented by the Ministry of Development and TUBİTAK. Performance based financial support will be provided to the competent RIs for further development.

Expected Impact on Competitiveness

The new Law will increase effectiveness and ensure sustainability of research infrastructures.

Estimated Cost of the Activities and the Budgetary Impact:

It is estimated to be 20 million Euro for 2018 and 90 million Euro for 2018-2020 period.

4.3.6. Foreign Trade Reforms

The inward flow of funds with the upswing of external financing led to increasing the availability of loans, increased domestic demand, and eventually acceleration of imports. These incidents encouraged using imported inputs in domestic production, created an adverse effect on domestic intermediate goods production. In the context of “The Program for Reducing Import Dependency”, it is considered necessary to take precautions for supporting the upgrading of technology capacity with the standards and qualities of domestically produced goods, increasing the level of knowledge and awareness among users, especially in domestic intermediate goods producers, effective use of indigenous natural resources, recycling of wastes, decreasing the production costs such as energy, transportation and labor.

Whilst taking these measures to balance the utilization of imported goods in manufacturing, creating a production structure without weakening competitiveness of the economy by channeling existing resources to ineffective industries will be given utmost consideration. The main purpose of this program is to decrease import dependence by shifting transformation of production structure in favor of high value added products.

The program consists of 4 components which cover different sectors and 66 actions that are in line with the objectives. 33 of these actions were completed.

Ministry of Economy is competent authority for the 3rd component which is “Review of the Foreign Trade Regulations”. Under this component there are 3 actions to be completed in the reporting period that are shown below:

- Trade diplomacy will be used effectively for ensuring the efficiency, sustainability and security in supply of the inputs the industry needs. (January 2015-December 2018).

- The necessary measures will be taken in order to prevent circumvention for the products where trade remedies have been implemented. (January 2015-December 2018).
- The promotion and awareness raising activities will be carried out for companies and unions in order to increase efficiency of trade remedies (January 2015-December 2018).

The EU-Turkiye Customs Union will be updated with a view to resolving structural problems for the better functioning of the Customs Union and extending the EU-Turkiye preferential economic and commercial relations to new areas such as public procurement and services.

Reform Measures

Measure Description: Update of the Customs Union

The Customs Union (CU) entered into force as a transitional arrangement prior to Turkey's full membership to the EU. However, Turkey's prolonged full-membership process has rendered the CU's flaws such as Turkey's absence from the EU's decision-making bodies pertaining to the CU, Turkey's difficulties in adopting the EU's Free Trade Agreements (FTAs) and the road transport quotas that preclude Turkey from being a full beneficiary of the CU, as structural problems.

On the other hand, due to the changing conditions in the world economy, the Customs Union remains insufficient to meet expectations of the parties. Both Turkey's and the EU's new generation FTA's include trade related areas such as services and public procurement that encourage both sides to improve their economic and commercial relationship based on this trend.

This situation brought the necessity for the update of the Customs Union. Accordingly, the formal negotiations are expected to be initiated in 2018 and to be concluded as soon as possible

Activities Planned in 2018

Negotiations will be initiated. The Ministry of Economy, together with the related government bodies, is responsible for the launch of update of the Customs Union negotiations.

Activities Planned in 2019

Negotiations will be carried on and concluded if possible. The Ministry of Economy, together with the related government bodies, is responsible for the conduct of update of the Customs Union negotiations.

Activities Planned in 2020

Negotiations will be concluded and the agreement will enter into force if possible. The Ministry of Economy, together with the related government bodies, is responsible for the conclusion of update of the Customs Union negotiations.

By nature of negotiations, it is not possible to give a concrete timetable.

Expected Impact on Competitiveness

Further liberalization and bilateral market opening in the areas of agriculture, services and public procurement are expected to increase competitiveness in Turkish economy.

Expected Impact on Employment

A shift of labor force from less efficient industries to more efficient ones and from agriculture to industry and to services is expected.

In today's world, countries have a tendency to engage in bilateral and regional FTAs because of World Trade Organization's (WTO) regulations' being not enough in today's conditions and inefficiency of the multilateral trade system to provide better market access. On the other hand, under the Customs Union, Turkey shall align its commercial policy with the EU's Common Commercial Policy. This alignment concerns both the autonomous regimes and preferential agreements with third countries. Turkey, in line with the tendency in the world for negotiating FTAs and its Custom Union obligation, negotiates and concludes free trade agreements with third countries, in parallel with the EU.

So far, Turkey has concluded FTAs with 34 countries, 11 of which were repealed due to the accession of these countries to the EU. Currently, Turkey has 21 FTAs in force; namely, EFTA, Israel, Macedonia, Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Syria, Egypt, Albania, Georgia, Montenegro, Serbia, Chile, Jordan, Mauritius, South Korea, Malaysia, Moldova, Faroe Islands and Singapore. Additionally, the FTAs signed with Lebanon and Kosovo are under ratification process. Besides, the FTA negotiation with Ghana was concluded and it is expected to be signed.

Meanwhile, there are 19 countries/country blocs that Turkey has started FTA negotiations. Turkey has been actively engaged in negotiations with 12 of them; namely Peru, Ukraine, Indonesia, Colombia, Ecuador, Mexico, Japan, Thailand, Pakistan, Sudan, Djibouti and Qatar. Turkey continues its efforts to speed up the process for our remaining ongoing FTA negotiations with Dem. Rep of Congo, Cameroon, Chad, Seychelles, Gulf Cooperation Council, Libya and MERCOSUR. Moreover, Turkey has launched initiatives to start negotiations with 8 countries/country blocs, which are the USA, Canada, India, Vietnam, Central American Countries, other ACP Countries, Algeria, and South Africa.

4.3.7. Education and Skills

In recent years, the education budget has grown both within the total budget and within the GDP. This progress has increased the enrollment rates in basic education and higher education. As of 2016-2017, the enrollment rates for different age groups are 70,4 percent (5 Age), 98.11 percent (6-9 Age), 99.2 percent (10-13 Age) and 87.4 percent (14-16 Age) respectively. In this period regional differences in terms of access also decreased. The rate of formal schooling in higher education is 42.4 percent. Investments have been increased to improve access to preschool education (4-5 years).

With the increase in access to education, the quality dimension has gained more importance. With this aim, Teacher Strategy was published, curriculum was updated, education technology investments were made and infrastructure investments for one shift education were increased. While the rate of two shift education in secondary education is 9 percent, this rate is 46 percent and 38 percent in primary and secondary schools respectively. Efforts are underway to spread one shift education in elementary and middle schools. In addition, the transition system for secondary education has been revised to increase opportunity equality and will be implemented in the 2018-2019 academic year. It is aimed to increase the basic skills and competencies with the works done.

Vocational education is emphasized in order to increase professional and technical skills as well as basic skills and competences. In secondary education, one of both students is continuing vocational and technical education. The Lifelong Learning Strategy and the Vocational and Technical Education Strategy are effectively implemented. In order to increase the attractiveness of vocational education, education support for the students in Vocational and Technical Education Institutions is continuing. Various studies are underway on the provisional protection of the Syrians for their occupation. Models have been developed that focus on specific sectors and regional needs in order to increase the relevance of the skills of higher education and vocational and technical education graduates to the employment market. In this context, specializing universities in higher education and thematic high schools in vocational and technical education are determined.

4.3.8. Employment and Labor Market

Despite the low participation rate in labor force, Turkish economy has a significant production and growth potential. Thus getting into use of this unused capacity requires efficient labor market and employment policies. Some reasons like low productivity in agriculture sector, low female participation rates and low average schooling rates of labour force are restrictive factors for economic growth. Besides, increasing quality of existing labour force would improve the productivity.

According to the new series of labour force, unemployment rate increased from 10.3 percent in 2015 to 10.9 percent in 2016. Employment rate also increased from 46 percent to 46.3 percent and labour force participation rate increased from 51.3 percent to 52 percent in the same year. Moreover, the youth unemployment rate and unemployment rate in non-agricultural sectors are 19.6 percent and 13 percent respectively in 2016. In Turkey, participation of female into employment and labour force continues to increase as well. In the same year, labour force participation rate of females increased by 1 points and become 32.5 percent. Moreover, in Turkey quality of jobs are improved too, in terms of formality and skill content. Between 2015 and 2016, almost 500,000 formal jobs were created in high value-added services such as education, financial services, manufacturing and public administration.

In recent years, schooling rates have increased significantly. Also, demand for vocational and technical education increased with the reforms especially at the level of secondary education. In 2016, 56.9 percent of the labor force, 57.5 percent of the employed people, and 51.6 percent of the unemployed people have less than high school education including the illiterate in Turkey.

In terms of enhancing labor productivity, access to education and improving education quality are critical issues. Although schooling rate has increased in Turkey, socio-economic and regional disparities continue to affect enrollment rates. Because of quality of educational outputs, gaining necessary skills and competences to individuals, improving quality of vocational and technical education, extending lifelong learning approach and updating skills in inter-temporal process keep its importance.

The youth constitutes a significant proportion of Turkish population. In fact, out of 79.8 million people living in Turkey, there are 12.6 million people aged 15-24 years old. The demographic opportunity window is still open in the country, but this opportunity is not used effectively. In particular, the proportion of youth aged 15-29 years old who are neither in employment nor in education or in training (NEET) is 28.2 percent, whereas this rate is 13.9 percent in OECD countries, on average, in 2016. Additionally, inactivity among youth females is more apparent. Indeed, the proportion of NEET among 15-29 years old female population is 41.5 percent in the same year. However, this ratio is only 16.4 percent for 15-29 years old females in OECD countries.

An important challenge for Turkish labour market is the high level of informality. In fact, almost one third of individuals are working without any social security. In particular, the structure by economic sector (level of employment by economic activity) accounts for a great proportion of informal employment. Although the share of agricultural employment is declining over more than a decade, due to seasonal boom and several incentives towards agricultural activities for youth, this share has increased in the latest months. In parallel with the rising agricultural activities, informal employment rates has increased in these months. In fact, while the informal employment is 32.6 percent in January 2017, it becomes 35.2 percent in July 2017. On the other hand, the informality rate in non-agricultural sectors do not increase accordingly. Indeed, the informal employment rate has increased by only 0.6 point in the same period. Moreover, as agriculture gradually reduces its importance in Turkish employment, a gradual reduction in informal employment is expected.

Turkey densely continues to extend migration policies to integrate migrants to labor market. Unfortunately, it cannot fully utilize the skilled international labor supply like developed countries. According to the statistics, the number of migrants who have work permits increased by 19,553 persons and reached to 64,547 persons in 2015. The number reached to 73,563 persons in 2016.

Active labor policies aimed at improving skills of the individuals who have low qualifications and difficulties in entry to the labor market, creating jobs and training the labor force maintain their importance. Hence, the resources allocated for Active Labor Program (ALMP) increased in Turkey. The expenditures made by İŞKUR within the scope of active labor program reached almost 695 million dollars in 2017.

Some of the measures that will be implemented in the following period are:

- To foster female employment and support their participation into labour force, care services will be supported and the infrastructure facilities will be strengthened.
- The profiles of young people neither in employment nor in education or in training will be determined and an individual, family and society oriented mechanism supporting their integration to the labor force and employment, will be developed.
- In order to enable the education system to meet the needs of labor markets, fact-based policies will be implemented by establishing an education-employment database.
- Job and vocational counsellors will be specialized for special target groups to improve effectiveness of ALMPs.
- Monitoring and evaluating system for ALMPs will be established through assessing the impacts of ALMPs and redesigning them in line with labor market needs.
- Active and passive employment services, mainly unemployment insurance scheme, will be provided in accordance with individuals' special needs.
- Individuals who are able to work and receiving social support will utilize active labor programs more to gain sustainable income.
- Basic skills demanded in labor market and the qualifications of young people will be determined.
- Fighting informal employment will be strengthened through regular monitoring mechanisms.

Tablo 4.1: Basic Employment and Labor Indicators

(15 +Age, %)

	Turkey			EU-28		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Labor Force Participation Rate (LFPR)	50.5	51.2	52.0	57.6	57,6	57.8
Female	30.3	31.4	32.5	51.3	51.3	51.6
Male	71.3	71.6	72.0	64.4	64.2	64.3
Employment Rate	45.5	46.0	46.3	51.7	52.1	53.2
Female	26.7	27.5	28.0	46.0	46.4	47.5
Male	64.8	65.0	65.1	57.9	58.3	59.4
Unemployment Rate	9.9	10.2	10.9	10.2	9.4	8.6
Female	11.9	12.6	13.7	10.3	9.5	8.6
Male	9.0	9.2	9.6	10.1	9.3	8.4
Youth Unemployment Rate (15-24)	17.9	18.5	19.6	21.4	20.3	18.7
Non-Agricultural Unemployment Rate	12.0	12.4	13.0	-	-	-

Source: TURKSTAT, Eurostat, OECD

4.3.9. Fostering Social Inclusıon, Combatting Poverty and Promotion of Equal Opportunities

The absolute poverty rate has decreased significantly in the last decade in Turkey. The headcount ratio at 4.3 dollars a day and below has dropped to 1.58 percent in 2015 from the level of 30.2 percent in 2002. The relative poverty rate – the share of the number of people who fall below the 60 percent of the median income in the total population- has dropped to 21.2 percent in 2016 from 25.4 percent in 2006. On the other hand, the Gini coefficient is recorded as 0.40 in 2016. The ratio of the share that the richest 20 percent quintile gets from the total disposable income to that of the lowest 20 percent quintile realized as 7.7 in 2016 which constitutes an improvement compared to the value of 8.1 in 2016.

Social transfers have a limited impact on poverty because of the majority of social transfers' being composed of premium system and lack of low income groups sufficiently benefiting from non-premium transfers. However, in order to prevent intergenerational transmission of poverty, priority has given to the education related social assistance programs, and GDP share of social assistance has been raised in the last decade. On the other hand, the need for social services and assistance still continue due to migration, urbanization, population growth, transformation in the family structure and unemployment problems. In this context, local and central government's social assistance expenditures share in GDP realized as 1.08 percent in 2016 (institutions like Ministry of Family and Social Policies, Ministry of Education, General Directorate of Foundations and YURTKUR).

Parallel to significant increase in public social assistance expenditures, works to improve the efficiency of the social assistance system still continue. Scoring Formula Project has been established in order to target the most vulnerable groups efficiently and effectively by objective criteria in the social assistance system. In order to strengthen the relation between social assistance and employment, Job Orientation Assistance and Job Starting Assistance are provided for the citizens benefiting from social assistance. For the same purpose, Regulation for Employment of Social Assistance Benefiters, which will enter into force on 1 January 2018 was published in the Official Gazette dated 22 June 2017. On the other hand, as an important step, the preparations for first National Strategy for Alleviating Poverty have been initiated.

Reform measures

Description of Measure: Family Social Support Program

It is important to improve the preventive and protective services of social assistance to ensure that social problems are prevented before they arise or they are efficiently alleviated. Within this scope, Ministry of Family and Social Policies is working on the Family Social Support Program (ASDEP) Model that holistically approaches needs of family and provides supply-based coherent services in the field of social services and assistances.

Activities Planned in 2018

Works to complete Information and Communication Technology infrastructure called Family Information System are ongoing and it will be completed in 2018. In addition, employment process of qualified personnel for ASDEP continues. In 2018, investment budget will only be used in buying computers, other expenditures will be compensated from operating budget.

Expected Impact on Competitiveness/Rationale of the Measure:

In order to provide equality for opportunities, the social protection system - considering socio-economic and local conditions- will be transformed into a structure that covers the whole population, that is efficient, that integrates disadvantaged groups into the society, and minimizes the social exclusion and poverty risks by assigning responsibilities to all part of the society and access to early childhood care will be improved.

Actual Cost of Implementation and Impact on the Annual Budget: 262,159 Euro (Only investment budget, operating budget not included)

5. INSTITUTIONAL ISSUES AND STAKEHOLDERS INVOLVEMENT

The macroeconomic equilibrium and policy framework in the ERP 2018 was established in line with the MTP (2018-2020) which was put into effect by decision of Council of Ministers and the budget proposal for 2018 which was sent to TGNA. These two policy documents were prepared with the participation of all relevant public institutions and organizations.

The content of ERP 2018, especially the structural reforms, was established within the framework of the Tenth Development Plan, which was prepared by active participation all the members of the society and prepared and approved by the TGNA. The Tenth Development Plan has been prepared with the participation of a large number of representatives from all sectors of our society, as well as public institutions and organizations, under the coordination of the Ministry of Development. More than three thousand academicians, public officials, private sector and representatives of non-governmental organizations have contributed to the study by working together with ad-hoc committees, which are formed in macroeconomic, sectoral and regional issues. Priority transformation programs which are established in the Tenth Development Plan and put into action by 2015, has established the basic framework for the preparation of the ERP 2018 structural reforms chapter. The action plans which were drawn up for each of the transformation programs that form the ERP's reform commitments were prepared under coordination of the Ministry of Development with the suggestions and recommendations of the relevant institutions.

In addition to the current policy making and implementation process, the ERP Guidelines updated by the Commission each year, the Commission's assessment documents on the previous ERP, and the comments and suggestions at the meetings between the Ministry of Development and the Commission as ERP coordinator, are shared with the relevant institutions. In the framework of these documents, contributions of related institutions which include development of past commitments and forward-looking commitments are demanded by the Ministry of Development as the ERP coordinator. In this way, all related institutions are actively involved in the ERP process and monitoring and evaluation of commitments. In addition, the ERP 2018 draft was presented to High Planning Council (HPC), consisting of five Ministers and a Deputy Prime Minister and the Prime Minister, and approved by HPC.

ANNEX TABLES

Tablo 1.a: Macroeconomic Prospects

	ESA Code	2016	2016	2017	2018	2019	2020
		Level (Mil. TL)	Rate of Change				
1. Real GDP, Chained volume	B 1 * g	1,576,365	3.2	5.5	5.5	5.5	5.5
2. GDP, at current prices	B 1 * g	2,608,526	11.5	16.4	13.5	12.4	11.6
Components of Real GDP (Chained volume, Percentage Change)							
3. Private Consumption Expenditure	P3	1,021,724	3.8	4.6	4.0	4.6	4.5
4. Public Consumption Expenditure	P3	162,511	10.5	2.7	3.5	2.0	1.8
5. Gross Fixed Capital Formation	P51	465,757	2.2	4.8	5.5	5.9	5.9
6. Changes in Inventories and Net Acquisition of Valuables*	P52+P53	---	0.3	-0.4	0.1	0.0	0.1
7. Exports of Goods and Services	P6	334,412	-1.9	10.4	10.2	6.2	7.5
8. Imports of Goods and Services	P7	368,277	3.7	4.1	6.2	3.2	4.9
Contribution to Real GDP Growth (Percentage Points)							
9. Final Domestic Demand	---		4.2	4.7	4.5	4.8	4.7
10. Changes in Inventories and Net Acquisition of Valuables	P52+P53		0.3	-0.4	0.1	0.0	0.1
11. External Balance on Goods and Service	B11		-1.3	1.3	0.8	0.7	0.7

* Contribution to growth

Table 1.b: Price Developments

Percentage Change, Yearly Average	ESA Code	2016	2017	2018	2019	2020
1. GDP Deflator	---	8.1	10.3	7.6	6.5	5.8
2. CPI	---	8.5	11.9	7.0	6.0	5.0

Table 1.c: Labor Market Developments

	ESA Code	2016	2016	2017	2018	2019	2020
		Level	Rate of Change, Percent				
1. Population (Thousand, Mid-year)	---	79,278	2.0	1.0	1.0	1.0	0.9
2. Working Age Population (Thousands)	---	58,720	1.5	1.7	1.9	1.9	1.9
3. Labor Force Participation Rate (%)*	---	52.0	0.7	0.7	0.7	0.6	0.7
4. Employment, Persons (Thousands) **	---	27,205	2.2	3.5	3.7	3.7	3.6
5. Unemployment Rate (ILO Definition)	---	3,330	10.9	10.8	10.5	9.9	9.6
6. Labor Productivity Growth	---	---	1.0	2.0	1.7	1.7	1.8

* Represents percentage point increase with respect to the previous year.
** 15+ years-old.

Tablo 1.d: Balance of Payments

Percentage of GDP	ESA Code	2016	2017	2018	2019	2020
1. Current Account	---	-3.8	-4.6	-4.3	-4.1	-3.9
- Balance of Goods	---	-4.7	-5.6	-5.0	-5.0	-4.9
- Balance of Services	---	1.8	1.8	1.5	1.6	1.7
- Balance of Primary Income	---	-1.1	-1.1	-1.1	-1.0	-1.0
- Balance of Secondary Income	---	0.2	0.2	0.2	0.3	0.3
2. Capital and Financial Account (Including Reserves)	---	-2.5	-4.4	-4.3	-4.1	-3.9
Statistical Discrepancy	---	1.3	-0.2	0.0	0.0	0.0

Source: Realization CBRT, forecast Ministry of Development

Tablo 1.e: GDP, Investments and Gross Value-Added

	ESA Code	2016	2017	2018	2019	2020
GDP, Current Prices, Billion TL	B 1 * g	2,609	3,035	3,446	3,872	4,321
Investment Ratio, Percentage of GDP, %	---	28.2	29.5	29.7	30.2	30.4
Value-Added by Sectors (Chained Volume, Percentage Change)						
1. Agriculture	---	-2.6	4.6	4.0	4.0	4.0
2. Industry	---	4.2	6.6	5.7	5.7	6.3
3. Services	---	3.4	5.6	5.5	5.7	5.4

Table. 2: General Government Budgetary Prospects

(Percent of GDP)	ESA Code	2016	2017	2018	2019	2020
Net Lending (B9) by sub-sectors*						
1. General Government	S13	1.3	2.4	1.9	1.9	1.3
2. Central Government	S1311	0.7	1.5	1.1	1.0	0.8
3. Funds	S1311	-0.2	0.1	-0.2	-0.1	-0.1
4. Local Administration	S1313	0.5	0.5	0.5	0.4	0.0
5. Social Security Fund	S1314	0.8	0.7	1.0	1.0	1.0
6. Revolving Funds	S1311	-0.1	-0.1	0.0	0.0	0.0
7. Unemployment Fund	---	-0.4	-0.4	-0.4	-0.4	-0.3
General Government (S13)						
8. Total Receipts	TR	34.7	33.3	32.8	32.0	31.5
9. Total Expenditures	TE	36.0	35.8	34.8	33.8	32.7
10. Net Lending	EDP.B9	1.3	2.4	1.9	1.9	1.3
11. Interest Payments	EDP. D41+FISIM	2.0	2.0	2.2	2.3	2.3
12. Primary Balance	---	0.7	-0.4	0.2	0.5	1.1
Components of Revenues						
13. Taxes	---	18.0	17.6	17.8	17.6	17.3
14. Social Funds	D61	9.5	9.3	8.9	8.6	8.5
15. Factor Incomes	D4	5.0	4.6	4.0	3.7	3.6
16. Other	---	2.1	1.8	2.2	2.1	2.1
17. Total Receipts	TR	34.7	33.3	32.8	32.0	31.5
Components of Expenditures						
18. Total Consumption	P32	16.4	15.9	15.5	15.1	14.5
19. Total Social Transfers	D62+D63	7.6	7.4	7.3	7.1	7.0
20. Interest Payments	EDP. D41+FISIM	2.0	2.0	2.2	2.3	2.3
21. Subsidies (1)	D3	0.6	0.6	0.6	0.5	0.5
22. Gross Fixed Capital Formation	P51	3.5	3.6	3.3	3.2	3.0
23. Other	---	9.5	9.9	9.3	8.8	8.4
24. Total Expenditures	TE	36.0	35.8	34.8	33.8	32.7

* (+) refers to deficit. (-) refers to surplus.

(1) Includes agricultural support, duty losses of SEEs and Support and Price Stability Fund.

Tablo 3: General Government Debt Developments

	ESA Code	2016	2017	2018	2019	2020
Percentage of GDP						
1. Gross Debt	---	28.1	28.5	28.5	28.0	27.5
2. Change in Gross Debt	---	---	0.4	0.0	-0.5	-0.5
Contributions to Change in Gross Debt						
3. Primary Balance	---	-0.7	0.4	-0.2	-0.5	-1.1
4. Interest Expenditure	EDP D.41	2.0	2.0	2.2	2.3	2.3
5. Current GDP Growth	---	-3.2	-4.7	-3.9	-3.5	-3.2
6. Other	---	2.5	2.7	1.9	1.2	1.5

Tablo 4: Cyclical Developments*

	2016	2017	2018	2019	2020
1. Real GDP Growth (2009=100 Chained Volume, %)	3.2	5.5	5.5	5.5	5.5
2. Net Lending of General Government / GDP (%)[1]**	1.3	2.4	1.9	1.9	1.3
3. Interest Expenditure / GDP (%)	2.0	2.0	2.2	2.3	2.3
4. One-off and Other Temporary Measures / GDP[2]	1.8	0.9	0.7	0.4	0.3
5. Potential GDP Growth (%)	5.2	5.3	5.3	5.3	5.3
6. Output Gap (Percentage Difference from the Potential)	-0.3	-0.1	0.1	0.3	0.5
7. Cyclical Budgetary Component / GDP (%) **	0.1	0.0	0.1	0.0	-0.1
8. Cyclically-adjusted Balance / Potential GDP (%) (2-7)**	1.3	2.4	1.9	1.9	1.4
9. Cyclically-adjusted Primary Balance /Pot. GDP (%) (8-3) **	-0.7	0.4	-0.3	-0.4	-1.0
10. Structural Balance / Potential GDP (8+4)**	3.1	3.3	2.6	2.3	1.7

* General Government
** (+) refers to deficit, (-) refers to surplus.
[1] Public Claims Restructuring, 2B Revenues and Other One-off Revenues and Expenditures Included General Government Balance
[2] (+) A plus sign means deficit-reducing one-off measures.

Table 5: Divergence from Previous Update

	2016	2017	2018	2019	2020
GDP Growth (Percent)					
Previous Update	3.2	4.4	5.0	5.0	---
Latest Update	3.2	5.5	5.5	5.5	5.5
Difference	0.0	1.1	0.5	0.5	---
General Government Net Lending (Percentage of GDP)					
Previous Update	1.9	1.7	1.6	1.0	---
Latest Update	1.3	2.4	1.9	1.9	1.3
Difference	-0.6	0.7	0.3	0.9	---
General Government Gross Debt (Percentage of GDP)					
Previous Update	32.8	31.9	31.0	29.9	---
Latest Update	28.1*	28.5	28.5	28.0	27.5
Difference	-4.7	-3.4	-2.5	-1.9	---

* Realization

Table 6: Basic Assumptions on the External Economic Environment Underlying 2018 Pre-Accession Economic Reform Program Framework

	2016	2017	2018	2019	2020
Exchange Rates					
Parity ($/Euro)	1.11	1.16	1.27	1.27	1.28
Real Exchange Rate (Percentage Change)*	-2.0	-9.7	0.7	-1.3	0.0
GDP Growth					
Euro Area (Real, Percentage Change) ***	1.8	2.4	2.2	2.0	-
EU (Real, Percentage Change)**	2.0	2.3	2.1	1.8	1.8
World Trade (In Real Terms)*					
World Trade Volume Increase (Percent)	2.5	4.7	4.6	4.4	-
International Prices					
EU CPI (Percentage Change)**	0.2	1.7	1.7	1.9	1.9
US CPI (Percentage Change)**	1.3	2.1	2.1	2.6	2.4
Oil Prices ($/Barrel)***	-	52.7	59.9	56.4	-

* (+) refers to appreciation, (-) refers to depreciation.
** IMF, World Economic Outlook
*** IMF, World Economic Outlook, January 2018

Tablo 7: Matrix of Policy Commitments (1000 Euro)

Policy Definition	2017	2018	2019	2020
Rationalization of Public Expenditures				
Providing a transition to a budget structure that deals with public services with program approach				
A. Period of Reform		X		
B. Net Direct Budget Impact				
B.1. Direct Impact on Budget Revenues				
B.2. Direct Impact on Budget Expenditures		170		
B.3. Possible Out-of Budgetary Finance				
B.3.1. National Co-finance of IPA Funds				
National Transport Master Plan Project				
A. Period of Reform	X	X	X	
B. Net Direct Budget Impact				
B.1. Direct Impact on Budget Revenues				
B.2. Direct Impact on Budget Expenditures	674.1	---	---	
B.3. Possible Out-of Budgetary Finance				
B.3.1. National Co-finance of IPA Funds	3,819.9	---	---	
Health Tourism				
System will be formed for the authorization and the accreditation of institutions and organizations operating in health tourism.				
A. Reform Period	X	X		
B. Net Direct Budgetary Effect	---	---		
B.1. Direct Effect on Budgetary Revenues	---	---		
B.2. Direct Effect on Budgetary Expenditures	---	---		
B.3. Possible Out-of Budgetary Finance				
B.3.1. National Co-finance of IPA Funds				
Pre-development phase studies will be completed in the 5 prior thermal tourism-themed regions.				
A. Reform Period	X	X		
B. Net Direct Budgetary Effect	-1,500	-1,587		
B.1. Direct Effect on Budgetary Revenues	0	0		
B.2. Direct Effect on Budgetary Expenditures	1,500	1,587		
B.3. Possible Out-of Budgetary Finance				
B.3.1. National Co-finance of IPA Funds				
Health Tourism Portal will be launched.				
A. Reform Period	X	X		
B. Net Direct Budgetary Effect	---	-309		
B.1. Direct Effect on Budgetary Revenues	---	0		
B.2. Direct Effect on Budgetary Expenditures	---	309		
B.3. Possible Out-of Budgetary Finance				
B.3.1. National Co-finance of IPA Funds				
Technology and Innovation				
Competent research infrastructures will be supported on a performance basis within the new legal framework.				
A. Reform Period		X	X	X
B. Net Direct Budgetary Effect				
B. 1. Direct Effect on Budgetary Revenues				
B. 2. Direct Effect on Budgetary Expenditures		20,000	30,000	40,000
B.3. Possible Out-of Budgetary Finance				
B.3.1. National Co-finance of IPA Funds				
Labor Market				
Improving Employability and Social Integration of Disadvantaged People				
A. Reform Period	X	X		
B. Net Direct Budgetary Effect	310	152		
B.1. Direct Effect on Budgetary Revenues	---	---		
B.2. Direct Effect on Budgetary Expenditures	---	---		
B.3. Possible Out-of Budgetary Finance	---	---		
B.3.1. National Co-finance of IPA Funds	310	152		

Social Inclusion				
Family Social Support Program				
A. Reform Period	X	X		
B. Net Direct Budgetary Effect	-215	175		
B. 1. Direct Effect on Budgetary Revenues	---	---		
B. 2. Direct Effect on Budgetary Expenditures	---	---		
B.3. Possible Out-of Budgetary Finance	---	---		
B.3.1. National Co-finance of IPA Funds	---	---		

Table 8: Reporting on the Implementation of the Structural Reform Measures of the ERP 2017-2019 (1000 Euro)

ERP (2017-2019) Measure 1	Carrying out activities to set up a substructure for the implementation of cost-benefit/cost-effectiveness analysis of the services provided by the public administrations during the budget allocation process
Actions planned for 2016 and 2017	Preparation of a guide on cost-benefit/cost-effectiveness analysis for the public administrations
Were the actions planned for 2016 and 2017 implemented?	Partially
Description	The scope of the guide which was prepared to lead the public administrations was outlined. A protocol was signed with a University for the preparation of the guide. Within the scope of the studies for the preparation of a guide, the draft guide prepared by the relevant university has been examined by our Ministry and a correction/development proposal, which was deemed necessary in order to achieve the desired project, has been submitted to the relevant University. The works are projected to be completed by the end of 2017.
Actual cost of implementation and impact on the annual budget	2017: 60

ERP (2017-2019) Measure 2	Ensuring the transition to a budget structure, which deals with public services with program approach
Actions planned for 2016 and 2017	1. Publication of Program Structure and Program Justifications Guide 2. Preparation of program drafts of public administrations 3. Redesign of budget classification, budget documents and management information systems 4. Program-based preparation of central government budget law draft
Were the actions planned for 2016 and 2017 implemented?	1.Partially 2.Partially 3.Partially 4.Partially
Description	1. "Program Structure and Program Justification Guidance Draft" has been updated and announced to the public administrations within the scope of central government. Thhe Guide is planned to be published until the end of 2017. 2. Workshops were organized to design programs to be included in the budgets of public administrations within the scope of central government. In this context, the program drafts are planned to be prepared until the end of 2017. 3. Draft studies have been developed to review and redesign the budget classification, budget documents and management information systems with program approach. 4. It is planned that the preparatory work that will be carried out within this scope will continue also in 2018.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) Measure 3	Financial support will be provided for the projects and works aimed at making savings in current expenditures, in order to encourage public institutions to make savings.
Actions planned for 2016 and 2017	Providing financial support for the projects and works aimed at making savings in current expenditures
Were the actions planned for 2016 and 2017 implemented?	Partially
Description	In 2016 a total of 833.000 Euros was provided as a result of the evaluation of the project applications. Project evaluation process of 2017 has not been concluded yet. The actions within the scope of the relevant measure will continue also in 2018.
Actual cost of implementation and impact on the annual budget	2017: 5,032

ERP (2017-2019) Measure 4	Risk management framework will be determined and risk management practices will be expanded.
Actions planned for 2016 and 2017	Studies on risk management will continue.
Were the actions planned for 2016 and 2017 implemented?	Yes
Description	- The Risk Management Guide will be prepared under the World Bank grant scheme. The guidelines to be prepared in this context will be presented to the use of all public administrations within the scope of Law No. 5018 including local administrations. - It was envisaged that the guide would be completed on 30.12.2016 at the grant contract published in Official Gazette on 22.12.2015 but the work could not be started due to extraordinary developments and the period was extended by 1 year. - “Request For Expression Of Interest” announcement was published in 2017 and studies on risk management are continuing. - It is envisaged that the activities mentioned within the scope of the project will continue in 2018 as well.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) Measure 5	Trainings will be organized to make internal control more effective.
Actions planned for 2016 and 2017	120 hours of vocational training will be provided to the financial services specialists and specialist assistants on different topics by the Ministry of Finance.
Were the actions planned for 2016 and 2017 implemented?	Yes
Description	- Training programs are held every year in compliance with the legislation. - Training for financial services specialists was held in Antalya between 28 March 2016 and 29 April 2016. - Trainings for financial services specialists were held in Ankara between 21 February 2016 - 10 February 2017 and 20 February 2017 - 17 May 2017.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) Measure 6	R&D studies to be carried out in Turkey in areas such as clean coal technology, gasification, liquefying, etc., for the purpose of increasing product diversification in various areas and improving coal will be coordinated, monitored and controlled. (Domestic Resource Based Energy Production Program/Activity No:7)
Actions planned for 2016 and 2017	R&D studies regarding clean coal technology is continued to be carried out.
Were the actions planned for 2016 and 2017 implemented?	Partially
Description	- Due to difficulties in the coordination of the studies in this area, improvements has been achieved slowly. - The reform will continue in 2018 as well.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) Measure 7	The Tuz Gölü Natural Gas Underground Storage Project will be taken into operation. (13. Domestic Resource Based Energy Production Program/Activity No:19)
Actions planned for 2016 and 2017	It is envisaged that the first 3 caverns will be opened to operation at the beginning of 2017 and 9 caverns will be gradually opened in 2018, 2020 and 2021.
Were the actions planned for 2016 and 2017 implemented?	-In 2016, it was decided to open additional 48 caverns in addition to the 12 caverns that are still under construction. -3 caverns started to been operated in 2017
Description	- The Tuz Gölü Natural Gas Underground Storage Project started in 2011. In 2016, the total storage capacity of the ongoing project has increased from 1 billion cubic meters to 5 billion cubic meters and the send out capacity from 40 million cubic meters/a day to 80 million cubic meters/a day. - The reform will continue in 2018 as well.
Actual cost of implementation and impact on the annual budget	4.050.000

ERP (2017-2019) **Measure 8**	General Directorate of Renewable Energy will be transformed into a powerful structure to be able to coordinate the energy efficiency studies of other organisations and institutions. (14. Energy Efficiency Improvement Program/Activity No: 1)
Actions planned for 2016 and 2017	Measures related to strengthening the institutional structure are set in the draft National Energy Efficiency Action Plans in the context of the EU compliance.
Were the actions planned for 2016 and 2017 implemented?	Partially
Description	- National Energy Efficiency Action Plans in the context of the EU compliance will be finalized in 2017. - The reform will continue in 2018 as well.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) **Measure 9**	The use of equipment increasing efficiency of motors will be extended. (14. Energy Efficiency Improvement Program/Activity No: 9)
Actions planned for 2016 and 2017	Inventory study regarding motors in the industry has been completed.
Were the actions planned for 2016 and 2017 implemented?	Partially
Description	- The mechanism of promoting energy efficient equipment will be established. - The reform will continue in 2018 as well.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) **Measure 10**	Logistics Master Plan of Turkey (LMPT) will be prepared.
Actions planned for 2016 and 2017	Logistics outlook report will be prepared and data for analysis will be gathered. By means of quantitative analysis, logistics infrastructure, which improve competitiveness, will be suggested.
Were the actions planned for 2016 and 2017 implemented?	Yes
Description	Studies of Logistics Master Plan of Turkey (LMPT) are in progress and envisaged to be finished within 2018.
Actual cost of implementation and impact on the annual budget	3.407

ERP (2017-2019) Measure 11	Within the scope of Law No. 6461 (Law on Turkish Railway Transport Liberalization), preparation of by-laws will be continued.
Actions planned for 2016 and 2017	1. By-Law of Fulfilment of Public Service Obligation by Service Procurement will be completed, 2. By-Law of Passenger Rights will be prepared, 3. By-Law of Interoperability will be completed, 4. Notified Body Notification will be prepared.
Were the actions planned for 2016 and 2017 implemented?	1. Partially 2. Partially 3. Partially 4. Yes
Description	Regulation studies are about to be finalized. Partners' opinions are gathered to announce the regulations. Reform studies will be proceeded in 2018.
Actual cost of implementation and impact on the annual budget	---

Measure 12	The domestic production of plasma products and vaccines will be provided within the scope of co-operation model to be developed.
Actions planned for 2016 and 2017	1. The project of producing plasma products from domestic plasma has been approved by Health Industries Steering Committee and is agreed to be continued under the responsibility of Social Security Institution Alternative Reimbursement Commission. The project assessments were carried out by Social Security Institution and the bidding and agreement processes were completed by the approval of Committee. The main protocols under the project were signed and the project will be put into practice in the forthcoming days after the signing of additional protocols. 2. The Health Industry Steering Committee continues assessment process within the scope of Hepatitis-A Vaccination Localization Project. The procurement method has been determined and the main criteria have been formed by the Committee. The project is planned to be put into practice in a short time.
Were the actions planned for 2016 and 2017 implemented?	1. Yes 2. Partially
Description	1. The bidding and agreement processes relating to the Plasma Project have been completed. The Plasma Procurement Protocol was signed among Social Security Institution, Ministry of Health, Turkish Red Crescent and the Company within the scope of this project. Moreover, The Protocol draft relating to the Procurement and Application of Plasma Product between Ministry of Health and Social Security Institution has been prepared and after getting the opinions of related public institutions and organizations, the finalized protocol will be submitted for signature. With the completion of protocols, the project will be put into practice in the upcoming days. 2. The Committee has accelerated its studies for the Hepatitis-A Vaccination Localization Project and plans to put this project into practice by the end of 2017. This process continues under the responsibility of General Directorate of Public Health and General Directorate of Health Investments.
Actual cost of implementation and impact on the annual budget	The reimbursement of Vaccines and Plasma products is currently made by the public. Therefore, the implementations will not place a burden on the annual budget.

ERP (2018-2020) Measure 13	System will be formed for the authorization and the accreditation of institutions and organizations operating in health tourism.
Short description of actions planned for 2017	Legislative works will be completed and accreditation standards will be created.
Were the actions planned for 2017 implemented?	Partially
Explanation	"Regulation Concerning International Tourism and Tourist Health" is enacted in 13 July 2017, which is aimed to regulate accreditation system of healthcare organizations and intermediaries in medical tourism. However, preparation of legislations related with old age rehabilitation services and thermal tourism is still proceeding. Measure will continue in 2018
Actual cost of implementation and impact on the annual budget	

ERP (2018-2020) Measure 14	Legislative arrangements including interrelations of institutions and organizations, which operate in the health tourism field, will be completed.
Short description of actions planned for 2017	Standards of service providers in medical and thermal tourism will be determined and required legislations will be revised.
Were the actions planned for 2017 implemented?	Yes
Explanation	"Regulation Concerning International Tourism and Tourist Health" is enacted in 13 July 2017, which is aimed to regulate activities in the realm of medical tourism.
Actual cost of implementation and impact on the annual budget	---

ERP (2018-2020) Measure 15	Pre-development phase studies will be completed in the 5 prior thermal tourism regions.
Short description of actions planned for 2017	Construction plans will be completed
Were the actions planned for 2017 implemented?	No
Explanation	Measure will continue in 2018
Actual cost of implementation and impact on the annual budget	

ERP (2018-2020) Measure 16	Health Tourism Portal will be launched.
Short description of actions planned for 2017	Technical terms of references will be completed and procurement will executed. Then, Portal will be developed and launched.
Were the actions planned for 2017 implemented?	Partially
Explanation	Terms of reference has been prepared. However, as needs may have been change after organizational restructuring occurred in Ministry of Health in 2017, procurement process has been postponed. Measure will continue in 2018.
Actual cost of implementation and impact on the annual budget	

ERP (2018-2020) Measure 17	Medical achievements of Turkey will be promoted in target countries.
Short description of actions planned for 2017	International conferences on Health Tourism will be participated.
Were the actions planned for 2017 implemented?	Yes
Explanation	Medical achievements of Turkey has been promoted by participating to international conferences held in 2017. However, as measure become a repetitive action for all years, it is excluded from ERP 2018.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) Measure 18	For those investments which have great significance for the economy, a mechanism will be formed in order to ensure effective administration of the procedures regarding permissions and land allocation and thus their timely realization.
Short description of actions planned for 2017	The regulatory framework will be formed regarding the mechanism which aims to provide coordination in order to quicken land provision processes, permission, registration and certificate processes required for the investments that have a great significance for the economy. In line with that, structure of the mechanism, scope of the investment and quality of the processes to be pursued will be identified.
Were the actions planned for 2017 implemented?	Yes
Explanation	➢ The Law on Supporting Investments on Project Basis and Amending Certain Laws and Decree Laws (Law No. 6745), which seeks to improve Turkey’s investment climate through a project-based investment incentives package, entered into force following its publication in the Official Gazette on September 7, 2016. ➢ With this law, the Ministerial Council has been authorized to accelerate the process of establishing the investment location and permits, licenses and documents required for starting a investment. ➢ The reform will not continue in 2018.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) **Measure 20**	Competent research infrastructures will be supported on a performance basis within the new legal framework.
Short description of actions planned for 2017	The Law introduces financial and managerial reform for research centers in universities. The program will be implemented by the Ministry of Development and TUBİTAK. Performance based financial support will be provided to the competent RIs for further development.
Were the actions planned for 2017 implemented?	Partially. 4 of the 6 selected research infrastructures were qualified as competent.
Explanation	- Data were requested for 6 research infrastructures in order to evaluate research and management competency of these infrastructures. - Site visits were carried out with expert evaluation team for these infrastructures. - 4 of them were selected as candidate for support. 2018: Competent research infrastructures will be supported within the new legal framework. 2019: Evaluation of research infrastructures for competency will be conducted. Competent research infrastructures will be supported within the new legal framework. 2020: Evaluation of research infrastructures for competency will be conducted. Competent research infrastructures will be supported within the new legal framework.
Actual cost of implementation and impact on the annual budget	---

ERP (2017-2019) **Measure 21**	The Customs Union update negotiations were targeted to be launched in 2017.
Short description of actions planned for 2017	Partially
Were the actions planned for 2017 implemented?	The necessary preparation processes and internal consultations were completed by Turkey with the aim of launching negotiations for the revision of the Customs Union in 2017. On the EU side, European Commission requested an authorization from the Council of Europe on 21 December 2016 to initiate official negotiations by the European Commission, which will negotiate on behalf of the EU. However, official negotiations have not been initiated because of the lack of certificate of authority. Official negotiations are expected to be launched in 2018 following European Commission's authorization from the Council.
Explanation	---
Actual cost of implementation and impact on the annual budget	

ERP (2017-2019) **Measure 23**	Improving Employability and Social Integration of Disadvantaged People
Short description of actions planned for 2017	1. It has been planned to sign grant contracts in October of 2016 and to commence the implementation phase in November of 2016. 2. It has been planned that the implementation of all the grant contracts will be finalised in November of 2017.
Were the actions planned for 2017 implemented?	1. Yes 2. Partially. The implementation of the grant contracts will be finalised in November of 2017.
Explanation	137 grant projects were supported. The implementation phase will be finalised in November of 2017 and thus, there is not any activity to be carried out in 2018.
Actual cost of implementation and impact on the annual budget	76.000 (in Euro)

ERP (2017-2019) **Measure 25**	Family Social Support Program
Short description of actions planned for 2017	Works to complete Information and Communication Technology infrastructure called Family Information System are ongoing and it will be completed in 2018. In addition, employment process of qualified personnel for ASDEP continues.
Were the actions planned for 2017 implemented?	Partially
Explanation	Infrastructure is still being built and many of required qualified personnel were employed. Employment process is ongoing. In 2018, investment budget will only be used in buying computers, other expenditures will be compensated from operating budget.
Actual cost of implementation and impact on the annual budget	262.159 Euro (Only investment budget, operating budget not included)