



# European Union and Turkey: Towards Economic Integration

2003



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION



### **TÜSİAD: The Voice of Business in Turkey**

The Turkish Industrialists and Businessmen's Association (TÜSİAD) is the largest non-governmental organization of the Turkish private sector, including industries and services, with a representative base of 45% through its direct membership (500 direct members representing almost 1500 companies) and more than 60% together with its local and sector platforms at the national level.

TÜSİAD is committed to monitor and to promote Turkey's political, economic and institutional reform process, within the framework of the membership process to the EU and to develop linkages to the world for Turkish businesses through its representations in Brussels, Berlin and Washington DC.

TÜSİAD is a member of UNICE (Union of Industrialists and Employers' Confederations of Europe), BIAC (Business and Industry Advisory Committee of the OECD) and UMCE (Union of Mediterranean Confederations of Enterprise).

# European Union and Turkey: Towards Economic Integration

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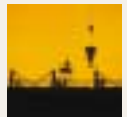
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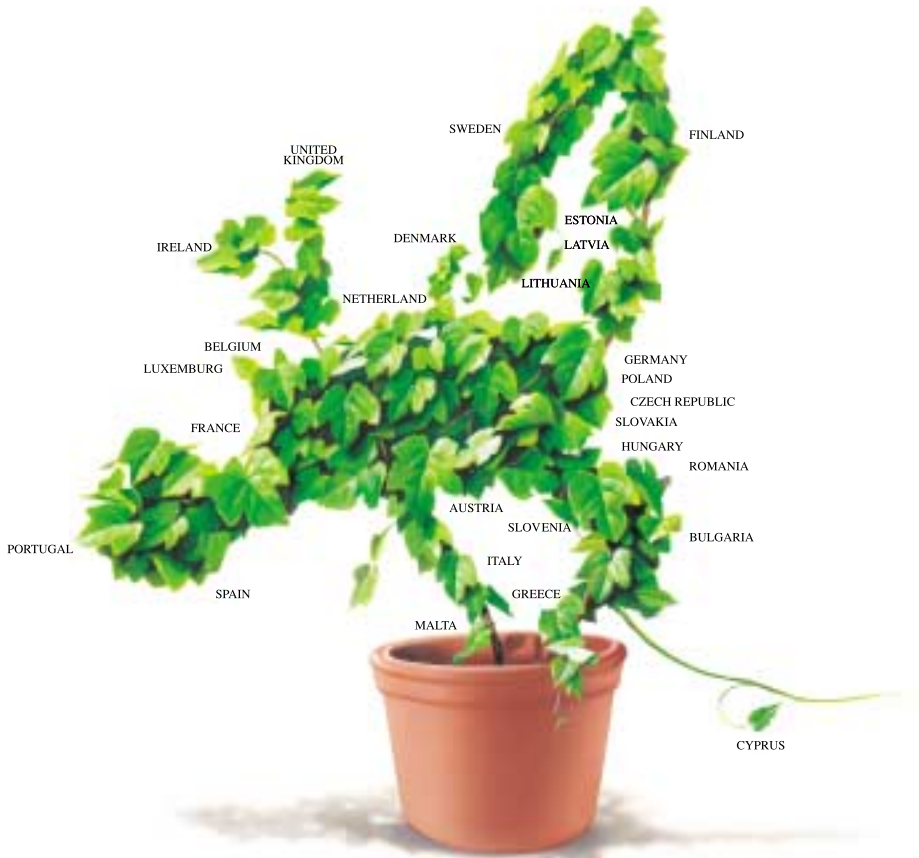
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*...It is now time for the EU to prepare its public for Turkey's membership in the EU. In this process, member countries should consider the importance of social motivation for a robust integration. Turkey's goodwill and its resolve for EU membership should not be underestimated. In the long run this would also be to the benefit of the EU as a whole...*

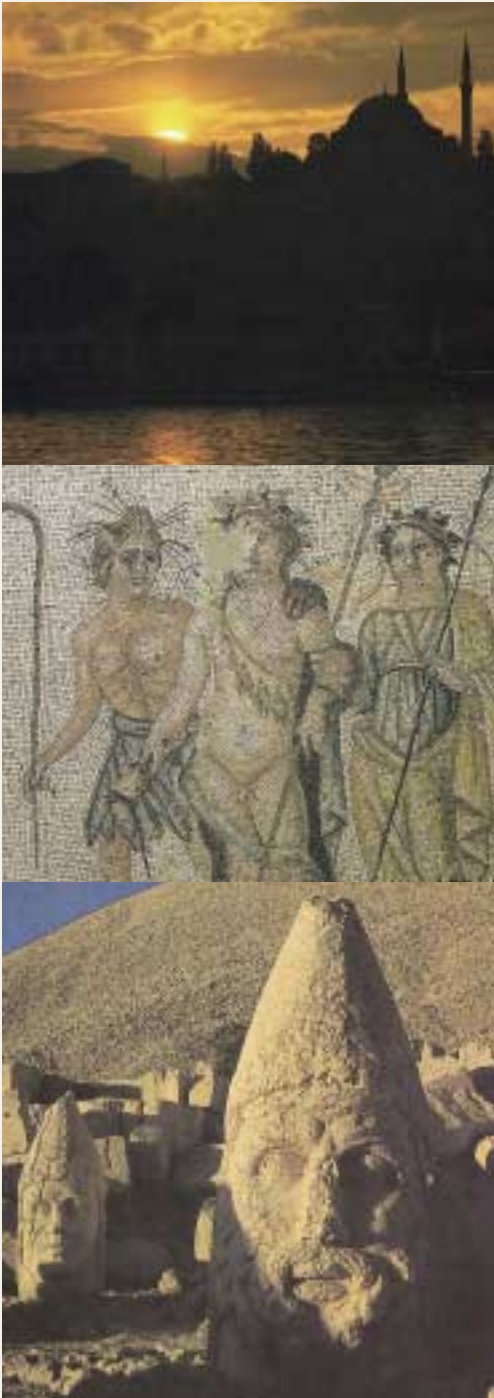
**Tuncay Özilhan**  
Chairman of the Board of TÜSİAD



*The European Union is like a plant, it grows stronger through cultivation. Turkey has now accomplished a comprehensive democratic and economic agenda. We have passed most of the necessary legislations to create the environment for action to begin. In many ways we are already accepted. We are the only country who signed the Customs Union without EU membership. We already sit on the Council of Europe. We are a member of the Organization for Economic Cooperation and Development. Ten million Europeans chose to holiday in our country last year. We are a cornerstone of NATO. We have had a constitutional tradition since 1876 and a multiparty democracy since 1946. Now we are a politically stable, young, dynamic, and culturally rich country ready to make a real contribution to European peace and prosperity. We acknowledge that we still have more to do, but there is a wide national consensus about them and we are moving forward.*



## Turkey at a Glance



**L**ocated between Europe and Asia and bordering the Mediterranean, Aegean and Black Seas, Turkey utilizes its unique geography to construct her synthesis of modernization. This synthesis of westernization, secularism and democracy in a free market environment has become all the more attractive as a model especially in the aftermath of September 11 and its consequences. Also, surrounded by the Balkans, the Caucasus and the Middle East, regions capable of exporting their problems through terrorism, Turkey is considered by many to be the front-line state of the new era. It has an extensive coastline on the economically and strategically resurgent Eastern Mediterranean, and a demonstrated ability to work with its powerful yet volatile neighbors, Russia, Iran and Syria. It will also play a constructive role in the economic and political restructuring of its other southern neighbor Iraq.

With a population approaching 70 million, Turkey is a dynamic emerging market equipped with a network of developed infrastructure and a globally competitive work force. Its unique position at the crossroads of the world trade routes and its proximity to the developing energy producing regions in the Caspian and Central Asia are factors that further raise its potential for the coming years. However, the ultimate anchor for the Turkish economy is the EU membership. As a consequence of the customs union with the EU since 1995 and the ongoing EU pre-accession process and IMF Stand-by Agreement, the economic legislative environment is in progressive alignment with the main policies and standards of the EU. The resolute implementation of the economic program not only heals the short-term imbalances in the economy, but also rapidly improves the business environment



via constructing a sound premise for sustainable growth.

Since the foundation of Turkish Republic in 1923, the population has increased almost five folds. However, especially in the last decade the population growth rate has decelerated considerably and converged to the vicinity of the developed countries. Around 2015, Turkey's population is

projected to stabilize at the level of approximately 80 millions, with an implicit growth rate equal to a replacement rate of less than 1%. The size of the adult population, in other words, "the potential active labor force" is projected to increase at a constant rate over the next two decades on contrary to the developed countries, still offering the window of demographic opportunities. In line with the Southeast Asia experience, in period of stabilized population growth and increasing households and labor supply, per capita income

and welfare may improve significantly with the right policy setting.

With respect to medium and long-term perspectives, Turkey has long suffered from the political instability. Especially in the 1990s, the short-lived and coalition governments failed to tackle with the structural deficiencies of the economy and stuck in the myopia of the short run. However, for the first time since the general elections of 1987,

#### The Milestones of Turkey's Integration with Europe

Membership to the Council of Europe	1949
Membership to the NATO	1952
Associate Membership to the EEC	1963
Application for full membership to the EC	1987
Customs Union with the EU	1996
Candidacy to the EU	1999

a single government party came to power with the elections of 2002. As the country recovered from a severe economic crisis, its political order has been transferred almost beyond recognition. A young, untested party, AKP, won the electoral sweepstakes. Although the AKP's pro-Islamic background was of concern for some observers at first, its commitment to EU accession, its determination to solve the Cyprus problem, its liability to the ongoing IMF supported economic program and its undertaking of administrative reform won the party lot of goodwill.



Politics	Economics
ANAP (Özal) Government (12/1983- 12/1987)	Transition to open economy with trade liberalization. More than 6% GNP growth on average with increasing exports.
ANAP (Özal) Government (12/1987- 11/1989)	Average GNP growth fell down to 1.5%, the structural reforms lost pace, budget deficits increased, inflation doubled and rose to 70%, financial liberalization and access to foreign savings.
ANAP (Akbulut) Government (11/1989-06/1991)	The surge in capital inflows led to vigorous economic activity but the Gulf war paused the improvement.
ANAP (Yılmaz) Government (06/1991- 11/1991)	Impulse given to economy to exit from the trough by public expenditures in the pre-election period. Public balances got worse. Real wages increased almost 60% in 1991.
DYP (Demirel)–SHP (İnönü) Coalition Government (11/1991-06/1993)	Expansionary monetary and fiscal policies and the real depreciation of TL. Real wage increase further supported domestic demand.
DYP (Çiller) – SHP (İnönü/Karayalçın/Çetinkaya) Coalition Government (06/1993- 10/1995)	Economic policies without rationale and the widening public deficits relying on short term international finance prepared the BOP crisis of 1994 and TL was devaluated 170%. April 5th stabilization program of 1994 was abandoned with the strong recovery of the economy, ignoring the structural deficits.
DYP (Minority) Government (10/1995- 10/1995)	High real interest rates, short-term capital inflows and getting worse public balances.
DYP (Çiller) – CHP (Baykal) Coalition Government (10/1995-03/1996)	The increasing conflicts in the political arena fed populism. Customs Union between the EU and Turkey started.
ANAP (Yılmaz) – DYP (Çiller) Coalition (Minority) Government (03/1996-06/1996)	The myopia increased with the political instability. No structural measures to curb inflation.
RP (Erbakan) – DYP (Çiller) Coalition Government (06/1996-06/1997)	The reactions to the establishment and the islamist coalition government reigned the agenda. One of the worst years with respect to public balances.
ANAP (Yılmaz) – DSP (Ecevit) – DTP (Sezgin) Coalition Government (06/1997-01/1999)	Customs Union with the EU cushioned the impacts of Asian Crisis. However, the Russian collapse was highly detrimental.
DSP (Minority) Government (01/1999-05/1999)	The economic contraction was 8% in the first quarter.
DSP (Ecevit) – MHP (Bahçeli) – ANAP (Yılmaz) Coalition Government (05/1999-11/2002)	The earthquakes of August 17 and November 12, deepened the declining trend in GNP. Front-loaded economic program was initiated on December 22 with the IMF. After the crises in late 2000 and early 2001, the government outlined a new economic program to build up sound premises for sustainable growth.
AKP (Gül) Government (11/2002-03/2003)	Clean-sweep of AKP in the landslide election of November 2002. While the ex-government coalition parties were left out, AKP took 66% of the seats in the parliament. Economic performance was better than expected despite the war on Iraq.
AKP (Erdoğan) Government (2003- )	Mr. Erdoğan became the prime minister after the abolishment of his ban for political activities. The implementation of the program restored confidence and the initial phase of a virtuous cycle has emerged.



## Area and Population

	Land area	Population	Inhabitant per sq km
TURKEY	769,604 sq km	67,803,927	88.2

Source: 2000 Census, State Institute of Statistics (SIS)



Youth and Europe Day TÜSIAD Photography Contest  
Second Prize, İlkin Arslan

## Population by Regions (2000)

Regions	Population
<b>Total</b>	<b>67,803,927</b>
Marmara	17,365,027
Aegean	8,938,781
Mediterranean	11,608,868
Black Sea	8,439,213
East Anatolia	6,137,414
South East Anatolia	6,608,619

Source: SIS

## Selected demographic indicators for the projection period 1990-2025

	1990-95	2000-05	2010-15
<i>Mid-period, thousand</i>			
Population	58,861	69,320	77,382
<i>Annual, thousand</i>			
Births	1,385	1,364	1,358
<i>Annual, thousand</i>			
Deaths	396	448	535
<i>Per thousand</i>			
CFR*	23.5	19.7	17.5
<i>Annual, per thousand</i>			
Population growth rate	16.8	14.9	10.9
<i>Percentage</i>			
Urbanization	55.0	69.2	77.8
<i>Percentage</i>			
Dependency Ratio**	65	53	47

\* Crude Fertility Rate

\*\* First year of the period

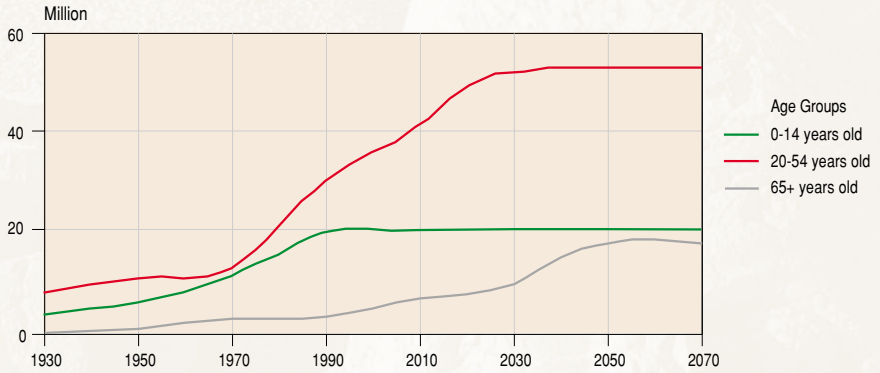
Source: SIS, TÜSIAD, "Turkey's Window of Opportunity: Demographic Transition Process and its Consequences", 1999

**Population of selected age groups (1000 persons)**

	1990	2000	2010	2015
0-4	6,610	6,586	6,640	6,667
5-14	13,328	13,149	12,775	13,278
15-64	34,022	44,410	51,408	54,394
65+	2,243	3,659	4,455	5,495
<b>TOTAL</b>	<b>56,203</b>	<b>67,804</b>	<b>75,278</b>	<b>79,834</b>

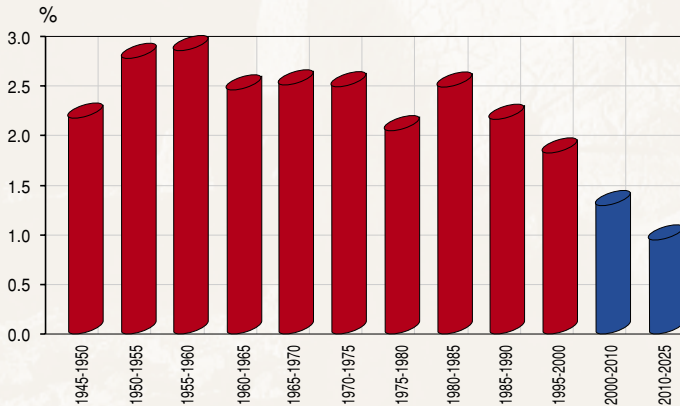
Source: SIS, TÜSIAD, "Turkey's Window of Opportunity: Demographic Transition Process and its Consequences", 1999

**Age Distribution**



Source: SIS

**Population Growth Rate**



Source: SIS, TÜSIAD, "Turkey's Window of Opportunity: Demographic Transition Process and its Consequences", 1999



### The Election to Parliament on 3 November 2002

	Party Leaders	Votes	Per cent	Seats in parliament*
<b>Turkey</b>		<b>31,528,783</b>	<b>100</b>	<b>550</b>
Justice and Development Party (Conservative)	Mr. Tayyip Erdoğan	10,808,229	34.3	363
Republican People's Party (Social Democrat)	Mr. Deniz Baykal	6,113,352	19.4	178
True Path Party (Centre-right)	Mrs. Tansu Çiller	3,008,942	9.5	-
Nationalist Movement Party (Extreme-right)	Mr. Devlet Bahçeli	2,635,787	8.4	-
Young Party (Extreme-right)	Mr. Cem Uzan	2,285,598	7.2	-
Democrat People's Party (Kurdish)	Mr. Mehmet Abbasoğlu	1,960,660	6.2	-
Motherland Party (Centre-right)	Mr. Mesut Yılmaz	1,618,465	5.1	-
Felicity Party (Islamist)	Mr. Recai Kutan	785,489	2.5	-
Democratic Left Party (Centre-left)	Mr. Bülent Ecevit	384,009	1.2	-
New Turkey Party (Social Democrat)	Mr. İsmail Cem	363,869	1.2	-
Other parties (8)		1,250,132	4.0	-
Non-party candidates		314,251	1.0	9
<b>Election turnout</b>			<b>79.1</b>	

\* Parties need to win at least 10 percent of votes at national level in order to enter parliament.

Source: State Institute of Statistics

### Selected Memberships of Turkey

ILO	(International Labor Organization)	1932
UN	(United Nations)	1945
IMF	(International Monetary Fund)	1947
WB	(World Bank)	1947
WHO	(World Health Organization)	1948
CE	(Council of Europe)	1949
NATO	(North Atlantic Treaty Organization)	1952
IFC	(International Finance Corporation)	1956
OECD	(Organization for Economic Cooperation and Development)	1960
EEC	(European Economic Community -associate membership-)	1963
OIC	(Organization of the Islamic Conference)	1969
ECO	(Economic Cooperation Organization)	1985
BSEC	(Black Sea Economic Cooperation Zone)	1992
OSCE	(Organization for Security and Cooperation in Europe)	1995
WTO	(World Trade Organization)	1995
EAPC	(Euro-Atlantic Partnership Council)	1997



## Production

In the last decade, Turkish economy had suffered from its accumulated macroeconomic imbalances, international crises and natural disasters such as the earthquakes that caused many losses of lives and severe damages. Consequently, the high growth rates of the economy in the 80s –driven by the trade liberalization- and early 90s –driven by the financial liberalization- could not be sustained. The average economic growth in the last ten years decreased to 2.5% and more dramatically, this average shrunk to 0.3% in the last five years. However, since 2002, Turkey’s comprehensive structural transformation in her economy under the support of IMF and World Bank began to be fruitful. The economy’s resilience to shocks increased, as confirmed during the war on Iraq. A path to sustainable growth is being re-paved through continuing disinflation and structural reforms that

addresses the structural imbalances. Following the 7.8% of GDP growth in 2002, 2003 is expected to be another year of high growth, which is likely to exceed the government target of 5%. The enhancement in the implementation of the economic program offers that the economy is moving towards its historical potential output level, with around 5% of GDP growths as an initial phase of exiting from the last trough. Moreover, considering the favorable demographic transformation, the export driven economy, rapidly developing information society, decreasing budget deficits, continuing disinflation and improving total factor productivity, the potential output growth is likely to exceed 7% from the medium to the long term.

Despite the sharp fluctuations in the economic activity in the last decade, Turkey is still one of the world’s ten “Big Emerging Markets.” In 1999, Turkey was



Renault Automobile Manufacturing Plant, Bursa



included in the newly established G-20 group along with other major dynamic emerging economies. With the GDP of 193 billion at current prices, Turkey is the 19th biggest economy in the world on the PPP basis and constitutes 40% of the sum of all accession countries' economies.

Once the short-term imbalances in the economy are healed permanently, Turkey's dynamic private sector, young population, regional connections and natural monopolies opening to competition will serve as accelerators of economic activity.



In line with the distribution of the population among geographical regions, the Marmara is the leading region with respect to value added produced. It accounts for almost 40% of the total GDP, and serving as the base for Turkey's biggest companies, it's the most industrialized region of Turkey. The share of agriculture in GDP declines constantly. While the agricultural sector was 26% of GDP in 1980, its share declined to 12% as of 2002. Services sector has so far been the major benefiter of the decline in the agriculture sector. However, following the crises, the most rapid recovery came from the industrial sector and it's expected to improve its share in GDP in the following years. Turkish manufacturing industry accounts for almost

20% of total gross value added and 17% of total employment. The leading sectors are chemical, petroleum and plastic products -the big players of the sector are public enterprises, which are on the privatization process, textiles and leather, food and

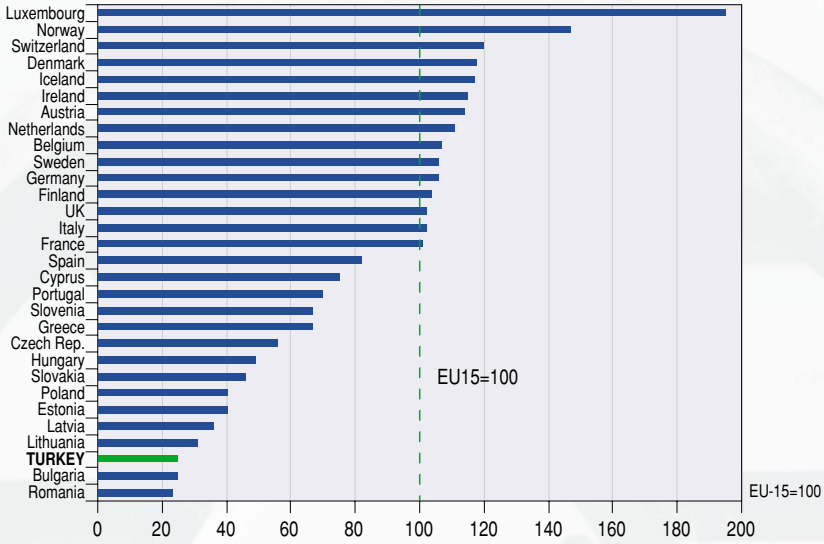
beverages, fabricated metal products, electrical machinery and equipments, motor vehicles and basic metals. Among these, textiles and motor vehicles are the biggest exporters. Facing with more competitive challenges, there is a productivity increase in the private manufacturing industry, mainly through

the exporting sectors such as motor vehicles, basic metals, electrical machinery and machinery and equipment.

Turkish industrial structure is characterized by a majority of small and medium sized enterprises. 80% of the total number of enterprises in the manufacturing industry has less than 100 employees and this accounts for 28% of total employment in the sector. Large firms with more than 500 employees is only 3.4% of total number of enterprises but account for almost 40% of the employment. However, these figures do not include small private enterprises with less than 10 employees, which constitute 95% total number of enterprises, 20% of total employment and only 7% of value added produced.

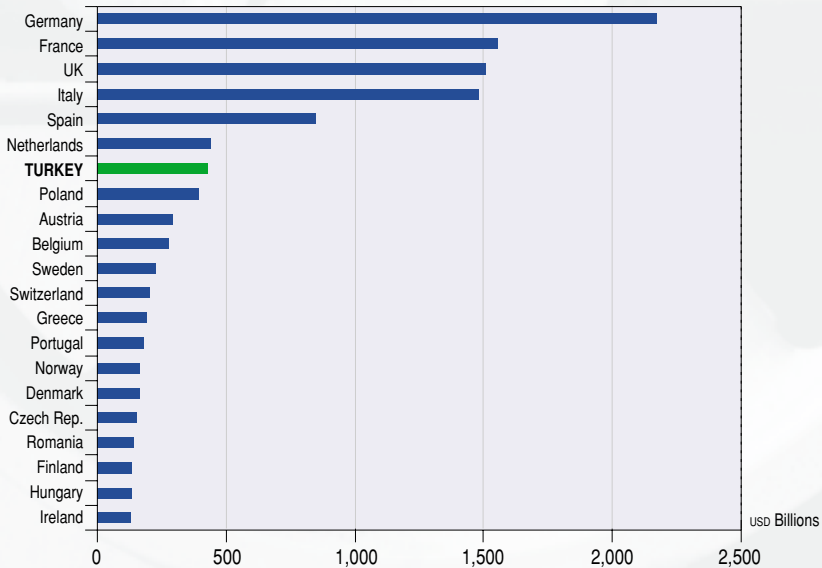


Per capita GDP Volume Indices, 2000



Source: Eurostat, Statistics in Focus, Economy and Finance, Theme 2-56, 2002.

GDP, 2002  
Purchasing Power Parity, Level

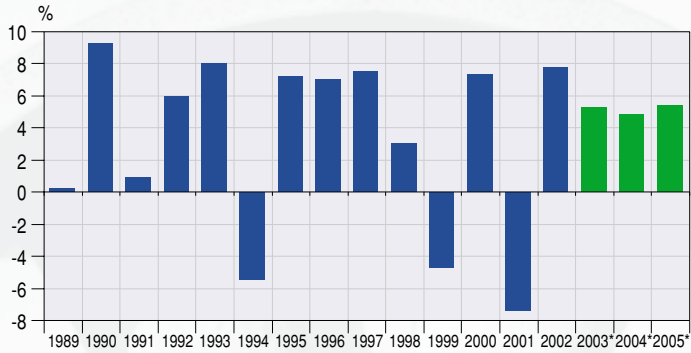


Source: World Development Indicators, July 2003.



### GDP Growth

Annual % Change



\* TÜSIAD's forecasts  
Source: State Institute of Statistics (SIS)

### Sector Shares in GDP\*

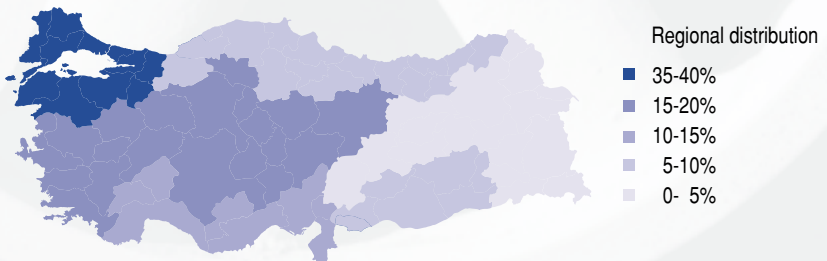
Period Average, %

	1990-1997	1998-2001	2002-2005**
Agriculture	15.7	14.7	10.2
Industry	25.6	23.8	26.9
Service	58.7	61.5	62.9

\* In current prices  
\*\* TÜSIAD's forecast  
Source: SIS, TÜSIAD

### GDP by regions

Current Prices



Source: SIS



**Industrial Production**  
*Quarterly, Seasonally Adjusted*



Source: SIS

**Manufacturing Industry's Profile, 2000**  
*Period average, Sectoral Breakdown*

	Av. No. Of Workers**	Gross Value Added*	Exports**
<b>Total Manufacturing Industry</b>	<b>633,384</b>	USD <b>37,769</b> mio	USD <b>32,673</b> mio
<b>Total Manufacturing Industry</b>	<b>100</b>	<b>100</b>	<b>100</b>
Food, Beverages and Tobacco	16	16	5
Apparel, Leather and Footwear	37	17	38
Chemical, Petroleum and Plastic Products	8	27	9
Basic Metal	6	6	9
Fabricated Metal Products	9	8	9
Motor Vehicles and Other Transport	6	8	12
Other Manufacturing	17	19	17

\* "Annual Manufacturing Industry Statistics, 2000", SIS

\*\* State Institute of Statistics, State Planning Organization 2002



## Biggest-15 Industrial Enterprises in Turkey, 2002

Ranked by net sales

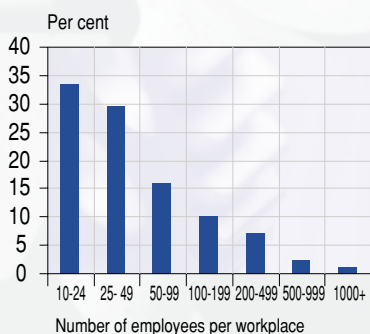
Rank	Sector	Num. of employees	Net sales USD mio
1. <i>Tüpraş</i>	<i>Chem., Petroleum, Plastic Prod.</i>	4,823	4,553
2. <i>EÜAŞ</i>	<i>Electricity</i>	11,304	2,126
3. Arçelik	Fabricated Metal Products	6,275	1,034
4. Vestel	Fabricated Metal Products	2,665	954
5. Tofaş	Motor Vehicles and Other Trans.	4,395	936
6. Ereğli Demir Çelik	Basic Metal	6,616	885
7. Oyak-Renault	Motor Vehicles and Other Trans.	3,780	810
8. <i>Türkiye Şeker Fabrikaları</i>	<i>Food, Beverages and Tobacco</i>	18,586	807
9. <i>Tekel</i>	<i>Food, Beverages and Tobacco</i>	29,353	807
10. Aygaz	Chem., Petroleum, Plastic Prod.	1,126	792
11. <i>Petkim</i>	<i>Chem., Petroleum, Plastic Prod.</i>	4,859	638
12. Beko	Fabricated Metal Products	2,894	580
13. Ford	Motor Vehicles and Other Trans.	3,973	575
14. <i>Türkiye Kömür İşletmeleri</i>	<i>Mining and Quarrying</i>	14,645	526
15. Toyota	Motor Vehicles and Other Trans.	1,481	491

*Italic: Public Enterprises*

Source: İstanbul Chamber of Industry, Turkey's Top Industrial Enterprises 2002

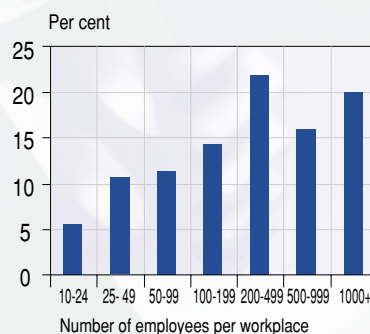
## Enterprises in Manufacturing

Distribution by size, 1999



## Employment in Manufacturing

Distribution by size, 1999



Note: The establishments employing between 1 and 9 persons in the public sector are shown in the 10-24 size groups of establishments. Data covers all establishments in the public sector and the establishments with 10 or more persons engaged in the private sector.

Source: SIS

## *The Labor Market and Wages*

|| Total Turkish labor force amounts to 23 millions, the male-female distribution of which is approximately 72% and 28% with the women participation rates on increase. Although the share of agricultural labor force has declined constantly from 50% in 1988 to 33% in 2002, it still constitutes a relatively big stake in total. Half of the agricultural labor force, or more precisely, 80% of women in the agricultural sector are in the form of unpaid family labor. Agricultural subsidies helped so far to keep this population in the rural areas, although urbanization is steadily on the rise. The sectors that are to absorb the supply coming from the agricultural sector and increasing women participation rates are manufacturing and services. Since the share of industrial sector seems to be crawling towards 20%, the services sector's absorption accounts for the most labor supply.

Considering that the share of agricultural labor force in total is 4% for EU-15 and the average for the accession countries is 15%, Romania, Bulgaria and Turkey are clear outliers, while Poland, Lithuania and Latvia are above the average countries. One critical transformation for Turkish economy is the phase from agriculture dominated labor force towards services and industry, in terms of participation rates. Despite its low level, women labor force is highly contained in the agriculture sector- 60% of total women labor force-. Therefore, through the process of urbanization, an increase in the women participation rates is crucial for Turkish economy not only to absorb excess-agricultural labor supply but also for social transformation.

When the regional employment figures are examined, it's seen that the distribution of





agricultural production and urbanization are determining factors. The lowest unemployment figures are in the Black Sea, East Anatolia, Aegean and the Central Anatolia regions. Corollary, the Marmara, the most industrialized and urbanized region, constitutes the highest unemployed people. In an overall picture, in comparison with European countries, Turkey's unemployment is the fifth highest, and half of the leading Polish rate of 20%.

Since 1999, the dispersion between the real wages in public and private sectors is evident. Through the subsequent contractions due to crises and earthquakes, private sector managed to adjust its cost structure and the excess labor supply helped to tame real wages. However, the public sector could only reacted to changing macroeconomic environment with an almost two years lag due to collective bargains and intensive backward indexation. Under the current macroeconomic program, one of the core issues is the rationalization and contraction of state intervention to the economy and introducing better governance and higher productivity to the public sector. In the private sector, productivity increases were one of the major drives that took the industry out of the trough with an increased competitiveness and

better terms of trade. For the following period, the total factor productivity increase is expected to be the main drive of increasing potential output. In a labor market view, new legislation passed from the parliament introduces more flexibility for entrepreneurs to control their cost structure. Flexible working schemes also give the advantage to react more promptly to the changing economic environment and reduces informal sector that creates unfair competition.



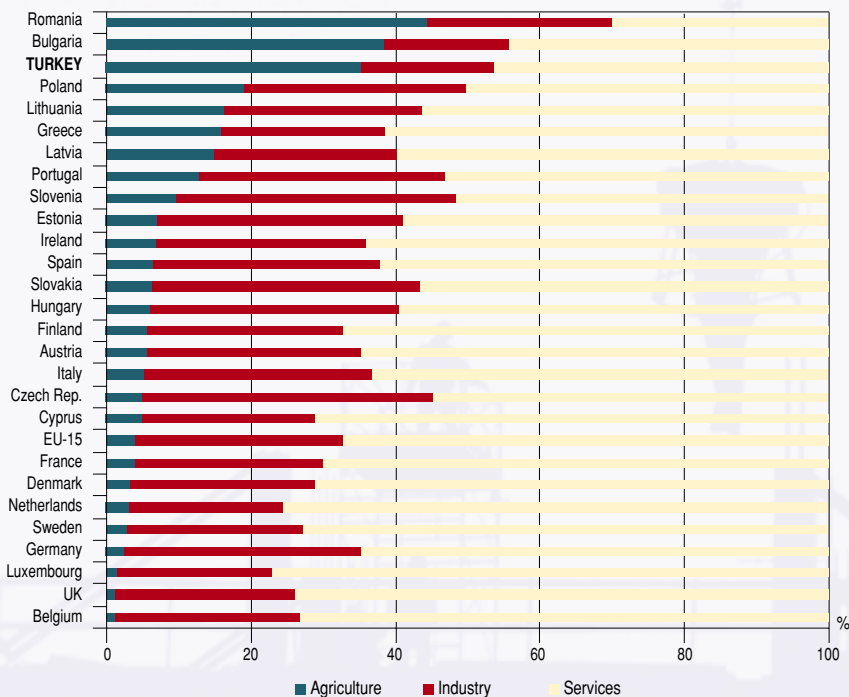
### Labour Force in Turkey, 2002

*In the Aftermath of 2001 Crises*

Population and labour force	Turkey	Urban	Rural
Population (000)	67,804	41,439	24,600
15 + Age (000)	46,650	29,526	17,124
Civilian labour force (000)	22,699	12,926	9,773
Unemployment (000)	2,412	1,847	565
Labour force participation rate (%)	48.7	43.8	57.1
Unemployment ratio (%)	10.6	14.3	5.8

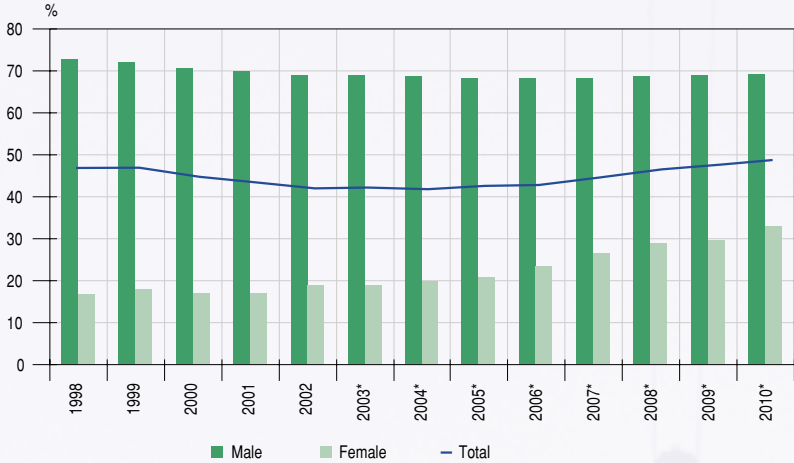
Source: Household Labour Force Survey, State Institute of Statistics (SIS)

### Sectoral Breakdown of Employment, 2001



Source: Labor Force Statistics, Eurostat

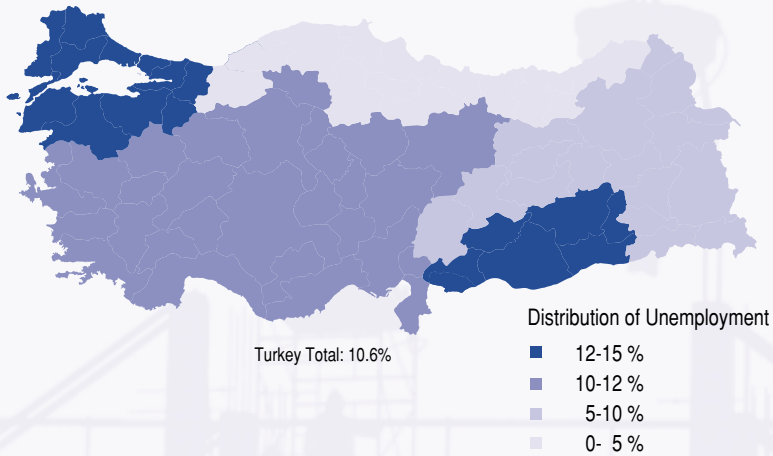
**Labour Force Participation Rates**  
*Non-agricultural, Per cent*



\* Forecast

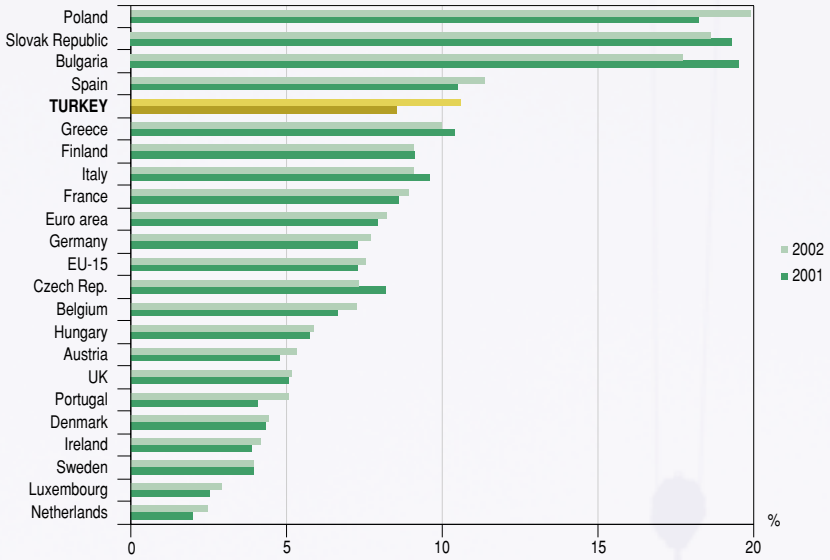
Source: TÜSİAD, "Labour Market and Unemployment in Turkey", 2003

**Unemployment by Regions**



Source: SIS

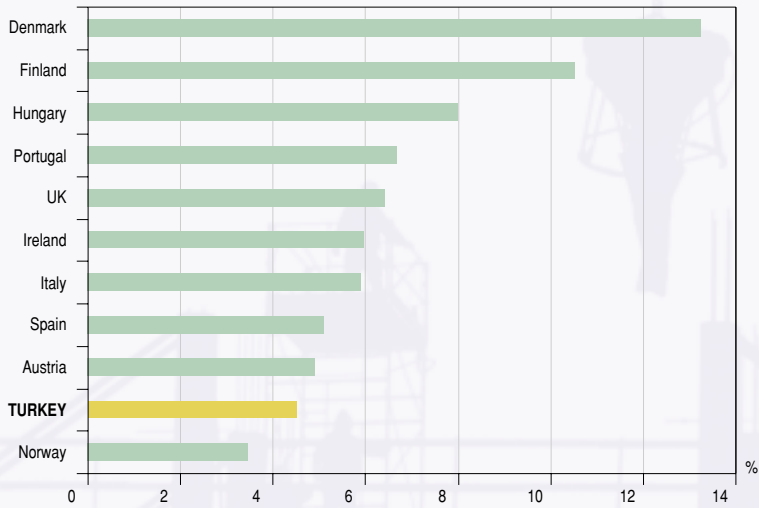
### Unemployment



Source: OECD

### Total Public Employment

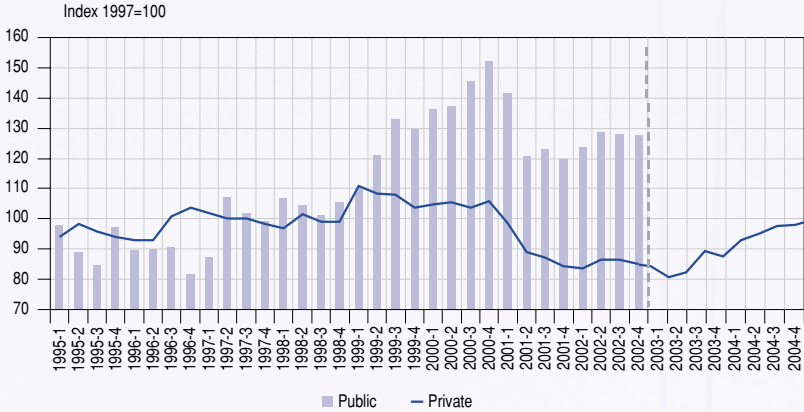
As % of Population



Total public employment: number of employees in the public sector, i.e. civil servants, employees under contract and people employed on a fixed-term basis. As far as possible, the numbers are expressed in full-time equivalent.

Source: OECD, 1997

**Real Wages\***  
Per hour



\* Series are seasonally adjusted. From the first quarter of 2003 onwards, the private sector figures are TÜSIAD's forecasts. Public wages are subject to future collective bargaining procedure.

Source: SIS

**Real Wage and Productivity\***  
Private Sector Manufacturing Industry, per worker



\* Series are seasonally adjusted. From the first quarter of 2003 onwards, the figures are TÜSIAD's forecasts

Source: SIS



## Foreign Trade

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||| Turkey has introduced a comprehensive structural adjustment program in 1980 to reconstruct the economy on a liberalised and a market-oriented premise. Besides the orthodox measures to cope with the short-term imbalances, the program introduced the liberalisation of the foreign trade regime, the removal of exchange controls, the policies to attract foreign direct investment, the financial liberalisation, and the rationalisation and contraction of state-intervention. The period between 1981-87 was marked with the commodity trade liberalisation and the export promotion. During the decade, export revenues increased at an annual rate of 15% on average, and gross domestic product rose at annual rate of 4% on average in 1981-82, and 6.4% between 1983-87.

The outward oriented and export driven growth policy was quite successful. The openness of the economy rapidly increased with the surge in imports. While the ratio of exports to GDP increased from 5.5% in 1980

to 18.7% in 1988, the openness of the economy improved from 17% to 36% in the same period. In the early 90s, the pace of international integration decelerated due to the faster expansion in the domestic markets owing the capital inflows introduced by the financial liberalization and the soared real wages. In the second half of the decade, there were severe fluctuations in the global markets, which emanated from the Asian crises in 1997 and the Russian collapse in 1998. However, Turkey could have cushioned the adversities, since the economy was adjoined to a more stable and prosperous market through the customs union with the EU.

The customs union with the EU started on January 1996, introducing the bilateral free circulation of industrial goods and processed agricultural products. With the agreement, the customs duties and charges have been abolished and the quantitative restrictions such as quotas were prohibited. Also the EU's trade





and competition rules were extended to the Turkish economy. Turkey also adopted the common tariff of the EU vis-à-vis third countries and faced with the competitive pressures. Subsequently, with an enhancement in the harmonization that brought increased competitiveness, Turkey's alignment with the *acquis* is most advanced in the areas covered by the customs union.

Turkey's main trade partner is the EU. The exports to EU constitute 51% of Turkey's total exports and the imports from EU are 45% of the total. Moreover, when the accession countries and the EFTA countries are considered, the share of exports and imports in total increases to 60% and 55% respectively. On country basis, Germany is the main trading partner by far and accounts for 17% and 14% of total exports and imports respectively on her own. While the other main export markets are the US and the UK, Italy and Russia takes the second and third rows for imports. Especially, the high share of Russia in imports, or in more general sense, the high share of CIS and Middle East countries (almost 20% of total imports) is because of Turkey's high oil and gas demand.

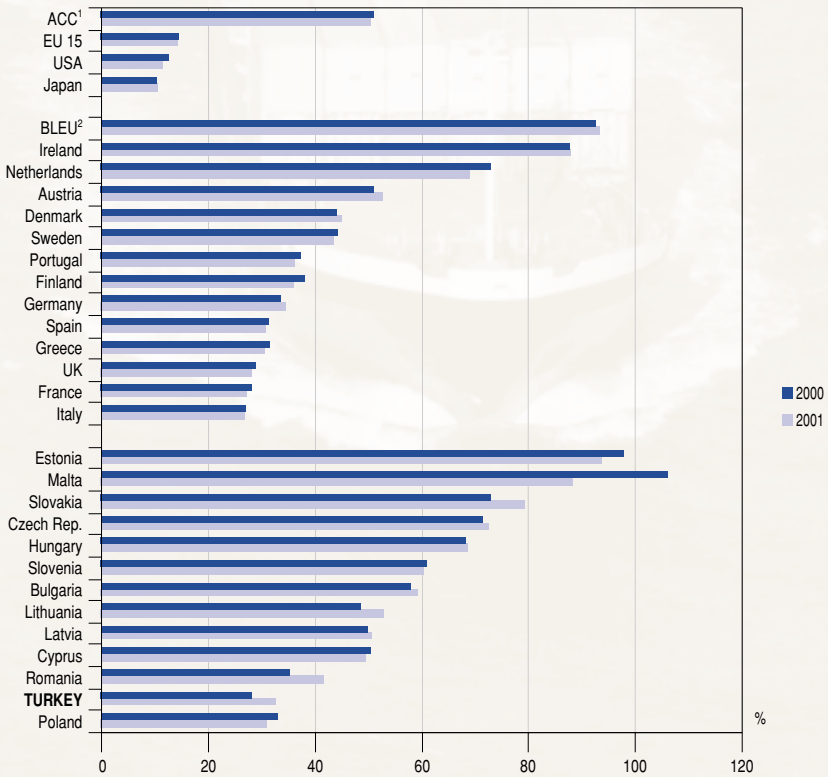
While there was an improvement in the integration of Turkish goods to international markets, a structural shift was also evident in the exported goods from the agriculture sector towards the manufactured goods. Whereas the 75% of the exported goods was agricultural products in 1970, this ratio declined to 6% in 2002. Still the biggest exporter sector is the textiles and wearing apparels. However when compared to the levels of 1995, while the total increase in exports is 60%, the textile exports increased 40% as of 2002. On the other hand, the exports of rubber-plastic and

non-metallic product doubled, exports of electrical machinery and apparatus increased 85%, exports of machinery and equipments tripled exports of motor vehicles, trailers and other transporters increased three folds and finally the exports of communication and apparatus became six folds. When the exports are analyzed with respect to chapters, it's seen that the articles of apparels are still leading. However, the exports of motor vehicles and electrical machinery have been continuously increasing. Other important chapters are the machinery and iron-steel and their articles. Among the agricultural products, the edible fruits and vegetables, nuts and dried fruits are the backbone of agricultural exports and Turkey still has leading market shares for these products.





Market Integration\*



\*Average of Total Exports and Imports of Goods and Services relative to GDP.

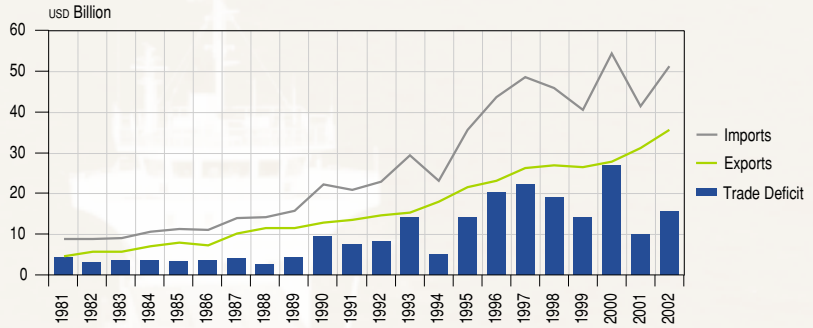
1 Acceding countries

2 Belgium and Luxembourg

Source: Eurostat

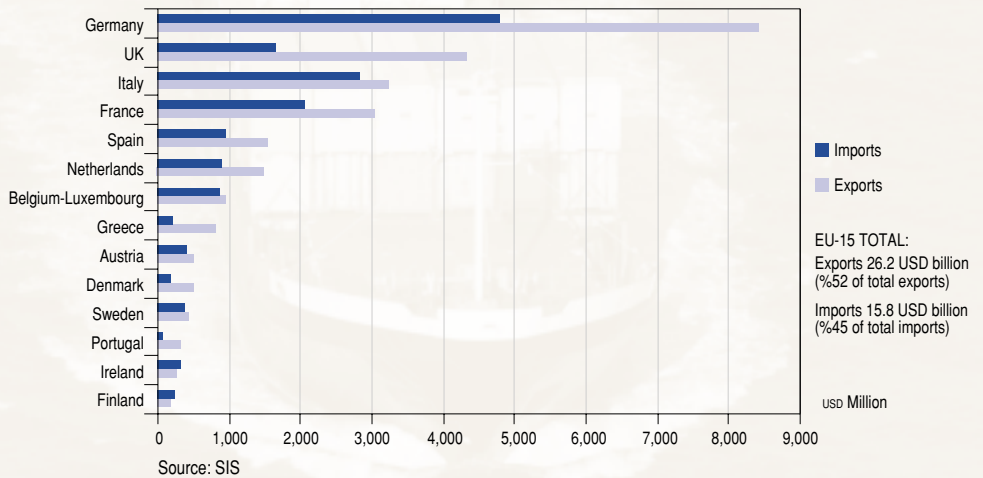


### Foreign Trade



Source: State Institute of Statistics (SIS)

### Trade with EU-15 Member States, 2002



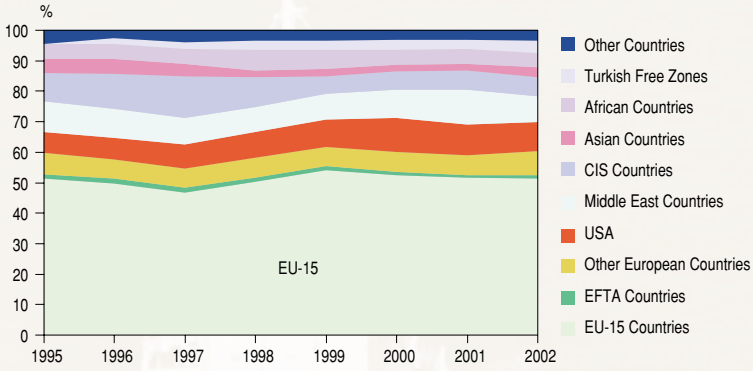
### Major Trading Partners, 2002

USD billion		USD billion	
<b>TOTAL EXPORTS</b>	<b>35.1</b>	<b>TOTAL IMPORTS</b>	<b>50.8</b>
Germany	5.8	Germany	7.0
USA	3.2	Italy	4.1
UK	3.0	Russia	3.9
Italy	2.2	USA	3.1
France	2.1	France	3.0
Russia	1.2	UK	2.4
Spain	1.1	Switzerland	2.1
Netherlands	1.0	Japan	1.4
Israel	0.8	Spain	1.4
Belgium-Luxembourg	0.7	China	1.4

Source: SIS

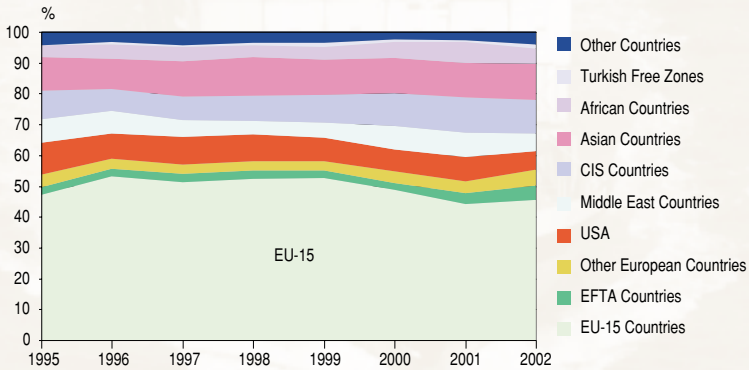


**Exports by Area**



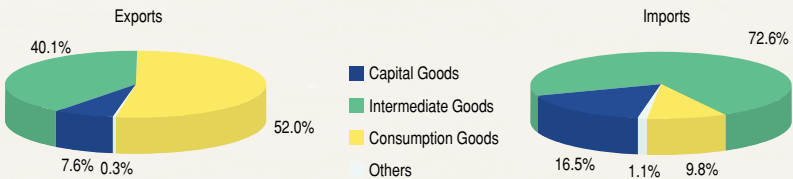
Source: SIS

**Imports by Area**



Source: SIS

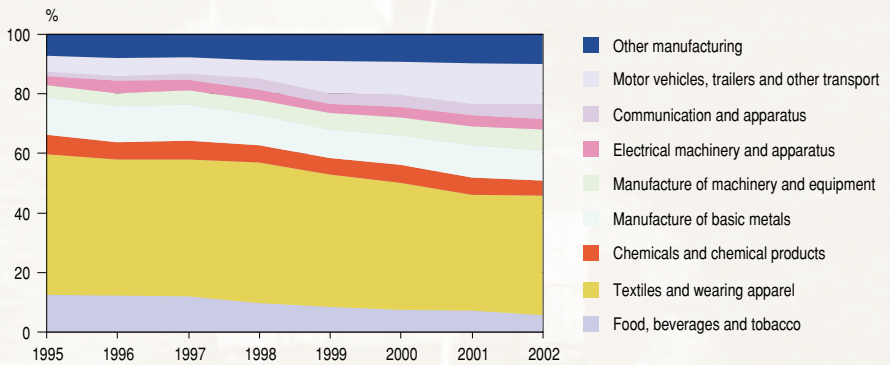
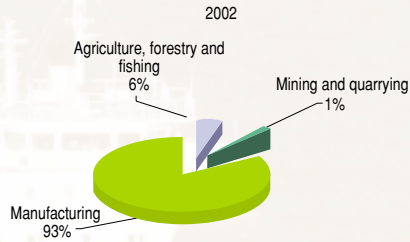
**Foreign Trade, 2002**  
*BEC Classification*



Source: SIS



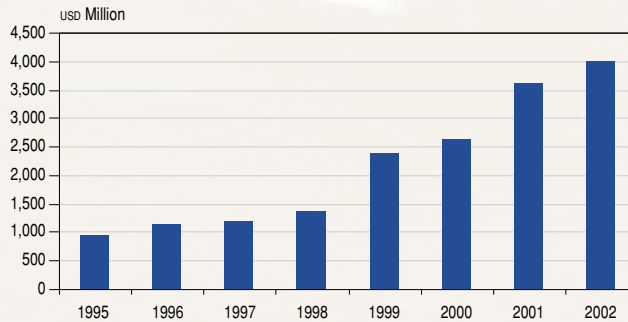
## Exports



Source: SIS

## Motor Vehicles Exports

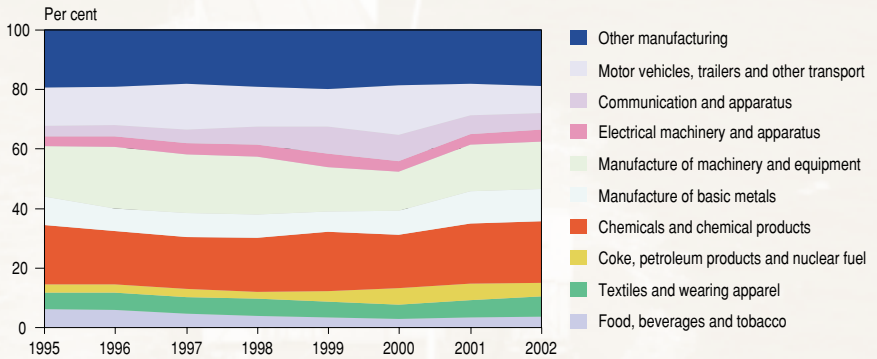
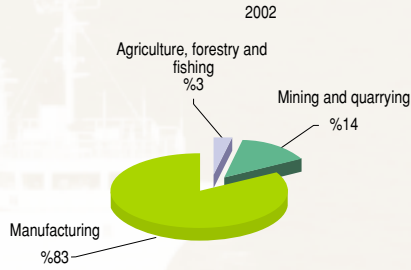
*Motor vehicles, trailers and other transport*



Source: SIS

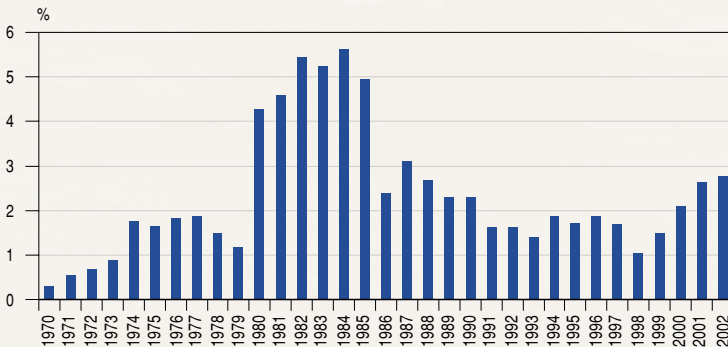


### Imports



Source: SIS

### Crude Oil Imports As % of GDP



Source: SIS



## Foreign Trade

### Selected Chapters

EXPORTS (USD million)	1996	1997	1998	1999	2000	2001	2002
<b>General Total</b>	<b>23,224</b>	<b>26,261</b>	<b>26,974</b>	<b>26,587</b>	<b>27,775</b>	<b>31,334</b>	<b>35,762</b>
Articles of apparel knitted or crocheted	3,569	3,962	4,234	3,787	3,729	3,641	4,424
Articles of apparel not knitted or crocheted	2,154	2,321	2,476	2,414	2,506	2,639	3,229
Motor vehicles, parts and accessories thereof	812	676	797	1,474	1,593	2,335	3,177
Electrical machinery and equipment	1,328	1,449	1,847	1,647	1,978	2,260	2,842
Boilers, machinery and mechanical appliances	806	982	1,164	1,272	1,418	1,745	2,124
Iron and steel	1,750	1,988	1,590	1,542	1,624	2,070	2,104
Made-up textile articles	621	806	934	944	1,021	1,055	1,245
Articles of iron and steel	506	611	662	605	697	976	1,234
Edible fruits	1,138	1,309	1,294	1,247	1,030	1,201	1,164
Cotton, cotton yarn and cotton fabrics	644	674	784	777	713	843	802

Source: State Planning Organization (SPO)

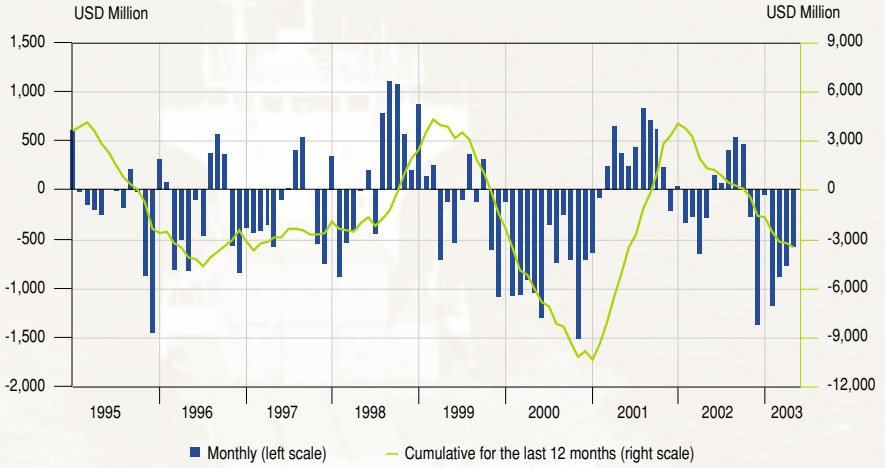
IMPORTS (USD million)	1996	1997	1998	1999	2000	2001	2002
<b>General Total</b>	<b>43,627</b>	<b>48,559</b>	<b>45,921</b>	<b>40,671</b>	<b>54,503</b>	<b>41,399</b>	<b>51,270</b>
Mineral fuels and oils	5,917	6,068	4,509	5,377	9,541	8,339	8,966
Boilers, machinery and mechanical appliances	8,463	9,154	8,928	6,390	7,817	6,304	8,073
Electrical machinery and equipment	2,966	3,850	4,401	5,098	6,113	3,636	4,334
Iron and steel	2,776	2,962	2,769	2,056	2,778	1,797	2,879
Plastics and articles thereof	1,653	1,927	1,943	1,822	2,179	1,733	2,375
Motor vehicles, parts and accessories thereof	2,693	4,130	3,728	3,094	5,467	1,827	2,326
Organic chemicals	1,572	1,704	1,627	1,626	2,037	1,625	1,873
Pharmaceutical products	412	551	720	858	1,035	1,088	1,437
Cotton, cotton yarn and cotton fabrics	721	1,045	995	671	1,080	950	1,289
Optical instruments and apparatus	974	1,079	1,145	1,027	1,242	953	1,081

Source: SPO



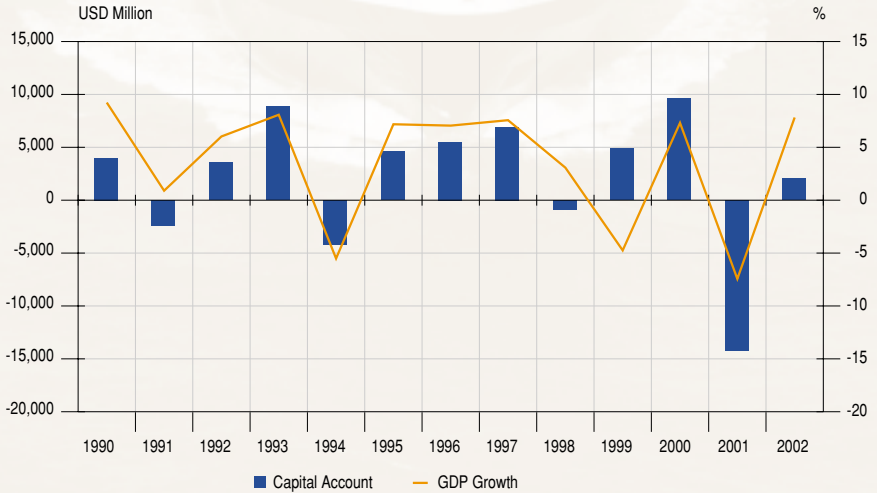


### Current Account Monthly data



Source: Central Bank of Turkey (CBT)

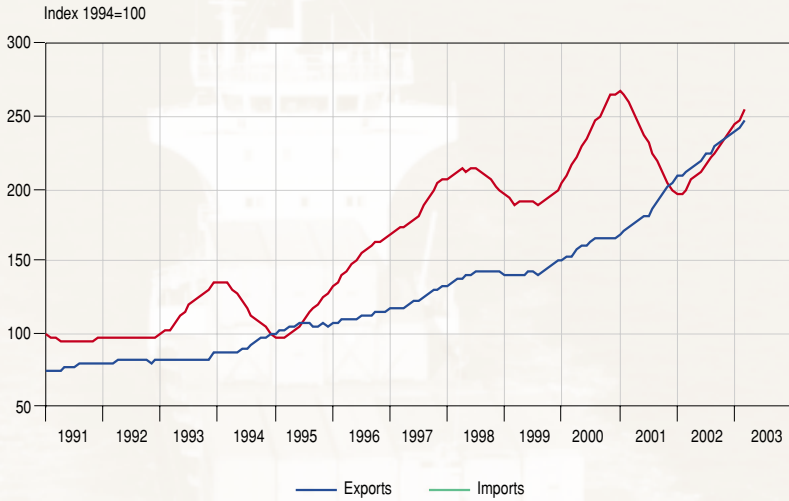
### Capital Account\* and GDP Growth



\* Excluding Reserve Changes  
Source: CBT, SIS

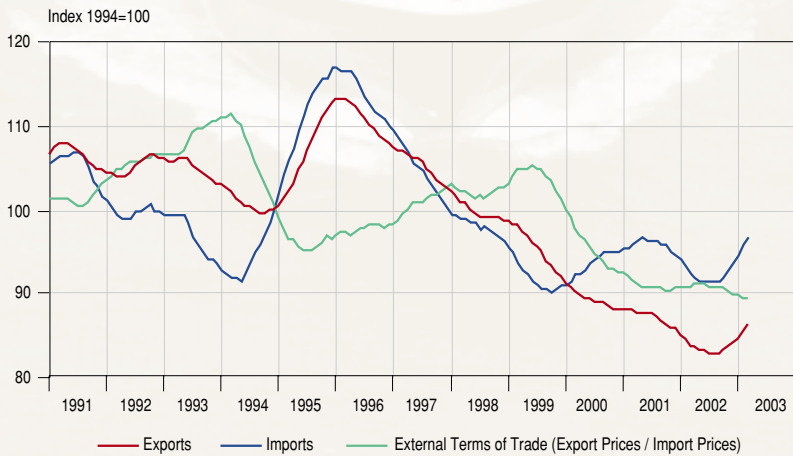


### Foreign Trade Quantity Index 12 Months Average



Source: SIS

### Foreign Trade Price Indices And Terms Of Trade 12 Months Average, Seasonally Adjusted



Source: SIS

## Banking and Capital Markets

**I**V Turkey's financial markets have gone through a series of reforms as a part of the stabilization and liberalization program that started in 1980. It can be claimed that the mode and the pace of financial reforms have progressed in leaps and bounds, mostly following pragmatic, on-site solutions to the emerging problems. However, during the phase of liberalisation, the failure of achieving structural fiscal discipline became to be detrimental in the following years.

Over the last decade, the large public sector borrowing requirements, the chronic high inflation, the use of tax advantages in favor of government debt, the deposit insurance that undermined market discipline, the lax prudential regulation and supervision, and the undercapitalized state banks all contributed to the deterioration of the Turkish banking system. Furthermore, generous deposit insurance and a lax regulatory and supervisory environment triggered moral hazard and encouraged risk seeking. Connected lending, high exposure concentrations, large foreign exchange positions allowed banks to increase risk and lenient prudential regulations allowed these risks to remain hidden.

The fragile banking system led the economic program supported by the IMF stand-by agreement to end up with twin crises, which resulted in credit crunch and severe shrinkage in banking sector in 2001. In response to severe banking crises, the government has taken a number of serious reform actions supported by the World Bank and the IMF. These included:

- (i) Significant reform of prudential regulations (such as new risk management legislation, inflation account legislation...);
- (ii) Strengthening of regulatory and supervisory authority (assurance of independency of Banking Regulation and Supervision Agency (BRSA));
- (iii) Restructuring of private and public banks (takeover of unhealthy banks by Savings and Deposits Insurance Fund (SDIF) and capital injection to SDIF and public banks);
- (iv) Recapitalization of the banking system;
- (v) Debt restructuring for the corporate sector (Istanbul approach).

The financial liberalization attempts have promoted the development of capital markets under the main objective of making the financial system more efficient by providing an alternative to banks for both the corporate sector and households via the introduction of direct finance. However, the Turkish financial sector is still dominated by banks. The share of banking sector in total financial assets was 60% as of the end of 1997 while share of private sector in capital market was 13%. In 2002 the former ratio fell to 45%



Towers of İş Bank

percent and the latter ratio fell to 8% due to the boom in government securities to cover the costs of the banking sector reform. The share of debt securities in total banking sector assets is 39% as of 2002, which still points out the high government crowding out, despite the high capital adequacy of the sector.

The results of the operational restructuring in the banking sector are evident in the aftermath of the crises. The number of banks declined from 81 in 1990 to 51 as of 2003. Following the crises and in line with the new regulations, the mergers and acquisitions gained pace and their total asset size increased to around USD 27 billion. However, Turkish banking sector is still over-branched and at a small size when compared to the EU. Although the share of public and SDIF banks continues to decline steadily to 30%, it's still three folds more than the average of EU.

In a comparison with the EU, Turkish banks have very low financial intermediation. The ratio of total assets to the GDP indicates that the sector needs to outperform the economic growth in the following years. However, it should also be noted that, the market share of foreign banks in Turkey is almost negligible, whereas it rises to an average more than 50% in the acceding countries. Therefore, a more stable economic environment and better public finances engineered by the economic program will not only contribute to the enhancement of the banking sector, but also will deepen the capital markets through enrichment of financial instruments.



### Number of Banks, Branches and Personnel in 2002

	Number of Banks	Number of Branches*	Number of Personnel
State Banks	3	2,019	40,158
Private Banks	20	3,659	66,869
SDIF Banks	2	203	5,886
Foreign Banks	15	206	5,416
Investment and Development Banks	14	19	4,942
<b>Total</b>	<b>54</b>	<b>6,106</b>	<b>123,271</b>

\* Including foreign branches

Source: Banking Regulation and Supervision Agency (BRSA)

### Turkish Banking Sector, 2002

*In USD Billions*

	Total Assets	Total Loans	Total Deposits
State Banks	45.0	5.1	32.2
Private Banks	79.3	22.7	53.5
SDIF Banks	6.2	0.7	3.8
Foreign Banks	4.4	1.4	2.0
Investment and Development Banks	6.3	2.8	..
<b>Total</b>	<b>141.2</b>	<b>32.7</b>	<b>91.6</b>

Source: BRSA

### The Initial Fiscal Costs of the Banking Sector Reform

	USD Billions	Ratio to GDP (%)
State Banks Duty Losses	19.0	12.8
Capital Support to State Banks	2.9	2.0
Resolution of SDIF Banks	21.7	14.9
-Public Resources	17.0	11.7
-Private Resources	4.7	3.2
<b>Total</b>	<b>43.6</b>	<b>29.7</b>

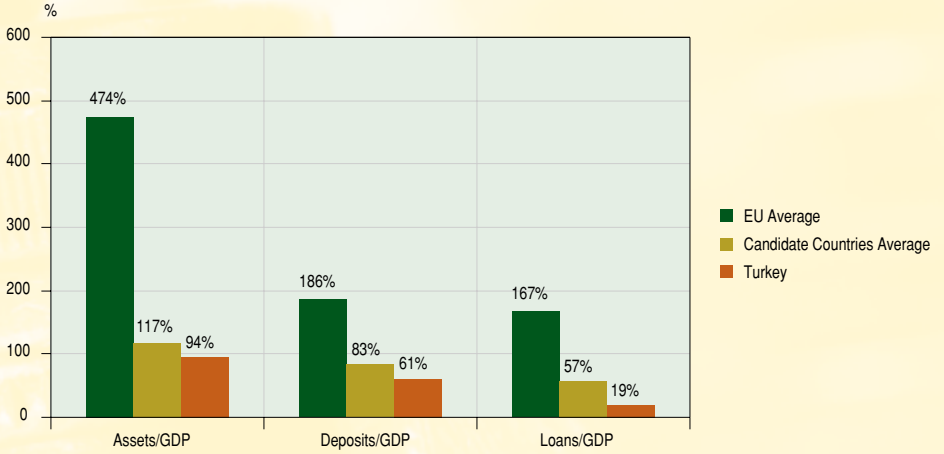
Source: BRSA

**Turkish Banking Sector, 2001**



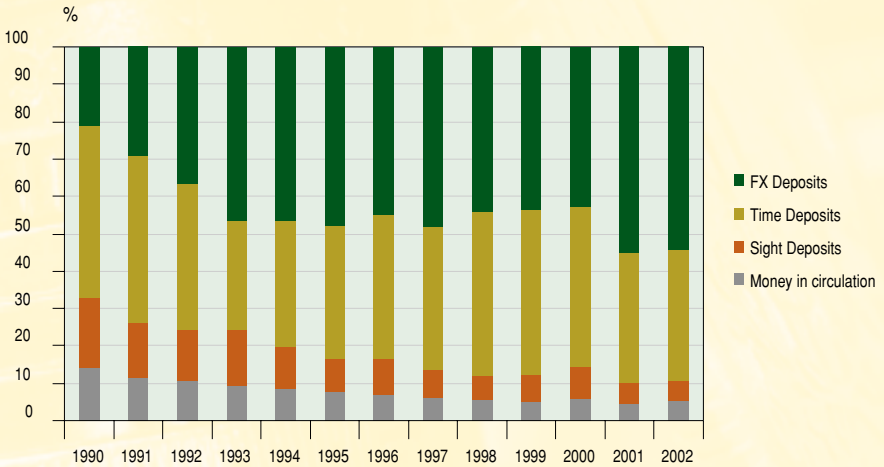
Source: BRSA

**Financial Intermediation Indicators**  
2001



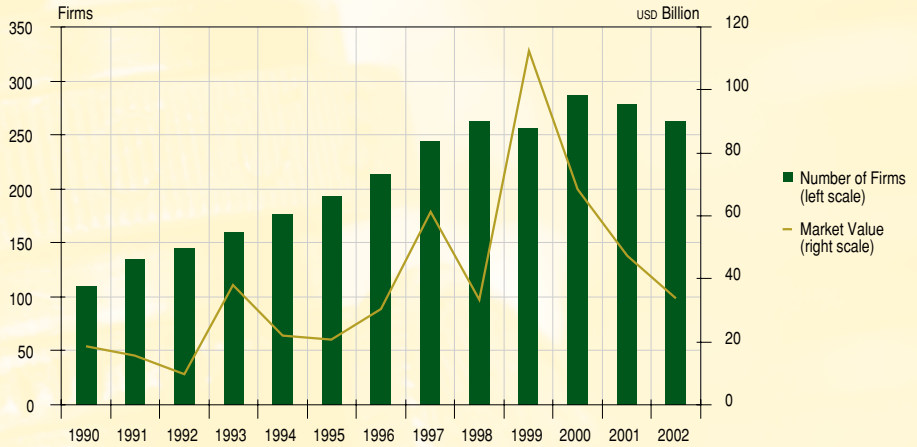
Source: BRSA

**Breakdown of M2Y**  
Year ends



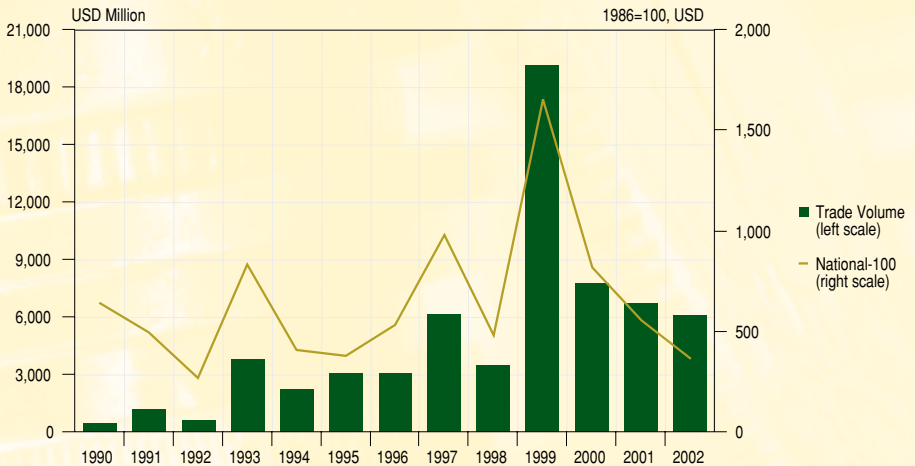
Source: Central Bank of Turkey

### Market Value and Number of Firms Listed in ISE



Source: İstanbul Stock Exchange (ISE)

### National-100 Index and Trade Volume of Stock Exchange



Source: ISE

## ***Business and Investment***

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**V** Turkey is officially a candidate country to the EU since the Helsinki European Commission of 1999. Considering that the ultimate anchor for Turkish economy is the EU membership, the start of the negotiations will be a crucial turning point in macroeconomic trends. In the lack of a clearly set calendar towards accession, Turkey cannot fully utilize the long-desired convergence in a pace comparable to the other candidate countries. It's a fact that prospective EU membership will enhance the business and investment environment in Turkey rapidly. On the other hand, it should be noted that Turkey has long suffered from the macroeconomic imbalances and the intervention of politics to the economy in the last decade. These in turn created homemade fluctuations in the economy and locked the economic decisions to the short term and hurt the business environment. Therefore, the ongoing economic program, the backbone of which has been strengthened with the structural reforms, serves to fulfill Turkish economy's long term prospects by removing macroeconomic imbalances and constructing a sound premise for a better functioning market economy. Important progress has been made in the reform of the banking and agriculture sectors, the deregulation of key markets - such as tobacco, sugar, electricity, telecommunication and gas - and a reform of the social security system has been progressing. As a result, the role of the state and of political interventions has been reduced significantly, giving way to an increasing role of private sector in the economy.

Potentially, Turkey is an attractive country for global investors. Besides the below discussed

advantages, the recently reformed FDI law offers one of the world's most liberalized regulations and have radically cut the red-tapes.

**Export and domestic market oriented investment:** Turkey is one of the few privileged countries that have the potential to attract investment both for export and as well as for their domestic market. With a population of 68 million, Turkey has a huge domestic market and among the biggest emerging markets. Moreover, Turkey enjoys a very special location at the crossroads between East and West, overlapping Europe and Asia geographically. The proxy to the new emerging markets in Middle East and Central Asia creates unique business opportunities. As a leading investor in Caucasian and Central Asian Turkic Republics and having strong cultural and historic ties with the region, Turkey offers an exclusive opportunity to develop business with these countries.

**The gateway of energy resources:** Turkey is located at the gateway of Middle East and Caspian petroleum and Central Asian natural gas to the west, which are regarded as the future energy reserves of the world. The construction of oil and





A Turkish Investment in Moscow

natural gas pipelines has become a national policy for Turkey, in its quest to harbor different points of connection. In the domestic market, network industries and natural monopolies are being introduced to market competition by the removal of sectoral entry barriers. Therefore, the energy production and distribution business opportunities are appealing. Major legislative changes in the Electricity Market Law, Natural Gas Market Law and Petroleum Market Law make the sector more attractive both for domestic and foreign investors.

**Demographic window of opportunity:** The size of the adult population, in other words, “the potential active labor force” will continue to increase at a constant rate over the next two decades on contrary to the developed countries. In line with the Southeast Asia experience, in period of stabilized population growth and increasing households and labor supply, per capita income and welfare improves significantly.

### **Business skills and high-skilled, competitive**

**labor:** Turkish economy is characterized by rather high number of market entries and exits, accounting for about 10% of the number of existing enterprises. This points not only to the high flexibility of Turkish entrepreneurs but also to a liberal regime of market access. The Turkish labor force is well known with its skills and learning capacity, and competitive labor rates offer cutting edge for industries. Entrepreneurial activity is flexible, open to foreign ideas and globalization. Turkey’s communication and transportation infrastructures are also highly supportive when compared with its competitors.

Despite her numerous advantages, Turkey has not received considerable FDI inflows in the last decade. As of 2002, Turkey’s foreign direct investment stock amounts to USD 15.6 billions, one third of which has been collected in the last three years. On the other hand, candidate countries such as Poland, Czech Republic and Hungary enjoy high FDI inflows in parallel to the Spanish and Portuguese experiences. These three candidate countries’ FDI stock has reached USD 43 billions, USD 27 billions and USD 24 billions respectively. The amount of total FDI with respect to GDP increases as high as 47% for these countries, while it’s only 8.5% for Turkey. The EU accounts for 67% of foreign capital companies operating in Turkey. Netherlands is by far the leader investing country and the followers are Germany, United Kingdom and the United States.

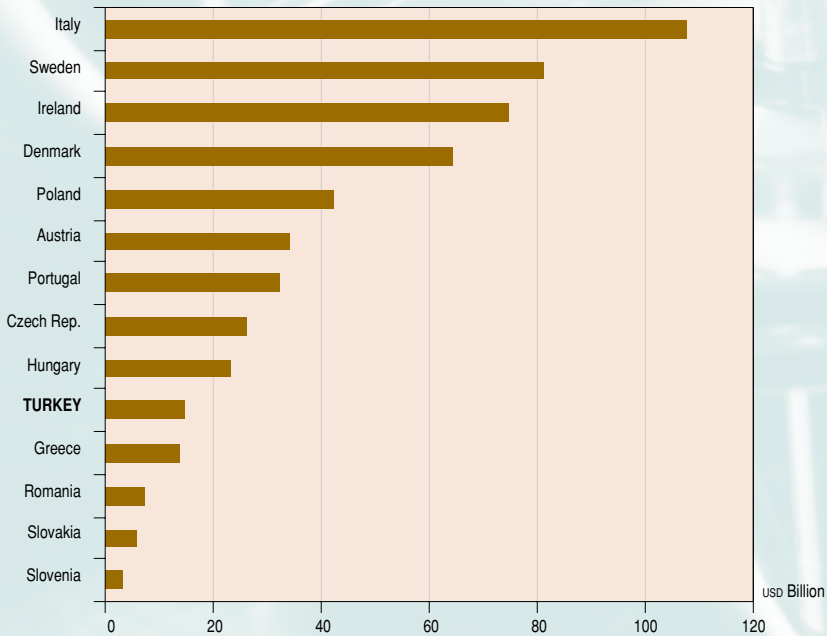
### TÜSİAD's Contribution

#### Reports and Conferences

- Business Views and Actions on the Euro-Mediterranean Partnership-2002
- 5th Euro-Mediterranean Business Summit/1-2 March 2002
- Eurasia and Europe-UNICE Position Paper-1999
- Structural Problems and Proposals for Solutions in Turkey-Russia Relations-1999
- Opportunities and Challenges in the Eurasian Area (Conference booklet)-1997
- China: The Super Economic Power Towards 2000s-1995
- Black Sea Economic Cooperation: An Economic Assessment-1992
- Corporate Governance Code of Best Practice:Composition and Functioning of the Board of Directors, December 2002
- Conference on Corporate Governance, May 2003
- Independent Regulatory Authorities: Turkish Case, December 2002
- Entrepreneurship in Turkey, December 2002
- Public Reform Survey, December 2002

### Direct Investment Stocks Inward

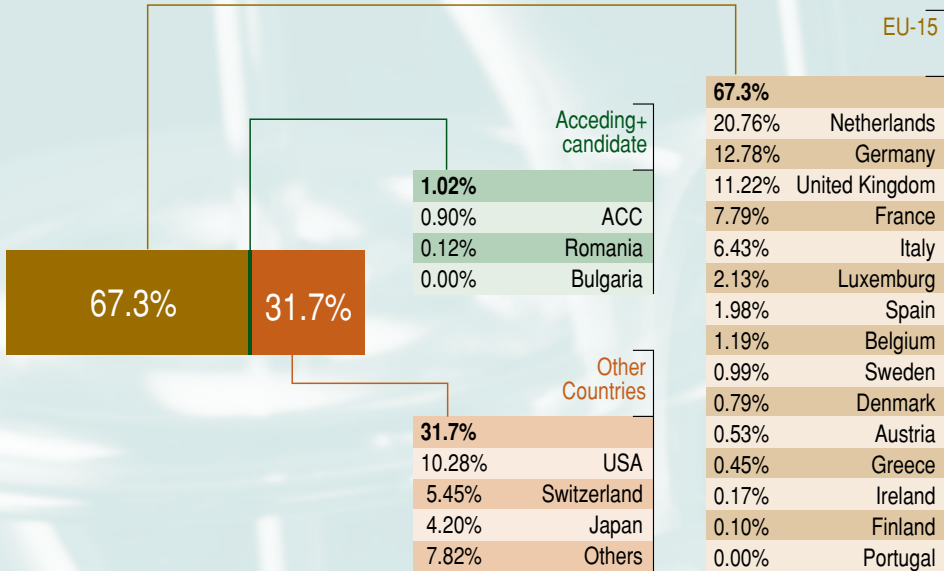
2001



Source: Institute of Management Development 2003 (IMD)

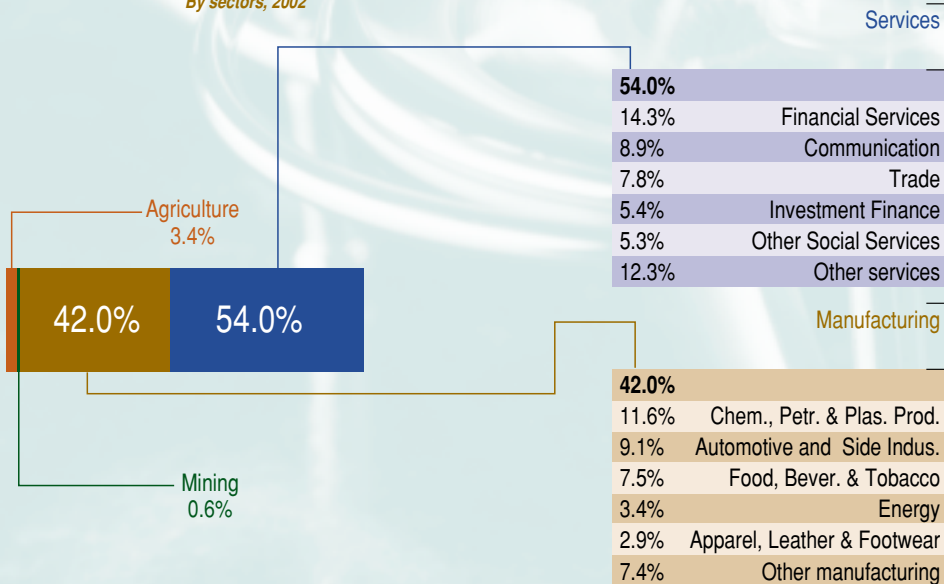


**Share of FDIs in Turkey**  
By countries, 2002



Source: Undersecretariat of Treasury

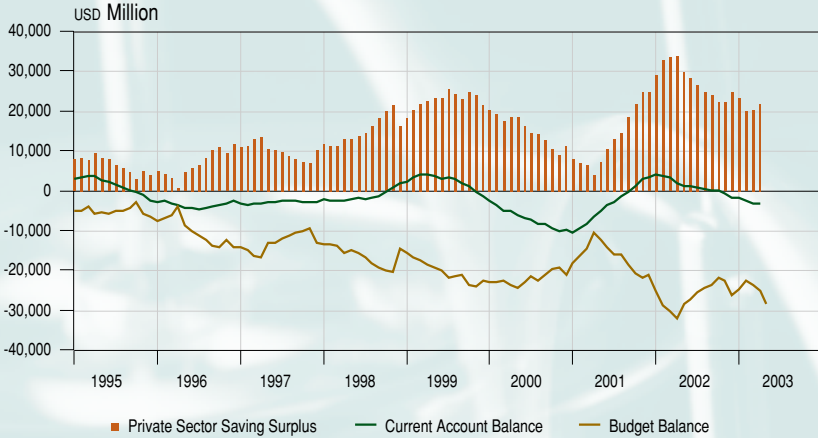
**Share of FDIs in Turkey**  
By sectors, 2002



Source: Undersecretariat of Treasury

**Saving and Investment Balance\***

*Cumulative for the last 12 months*

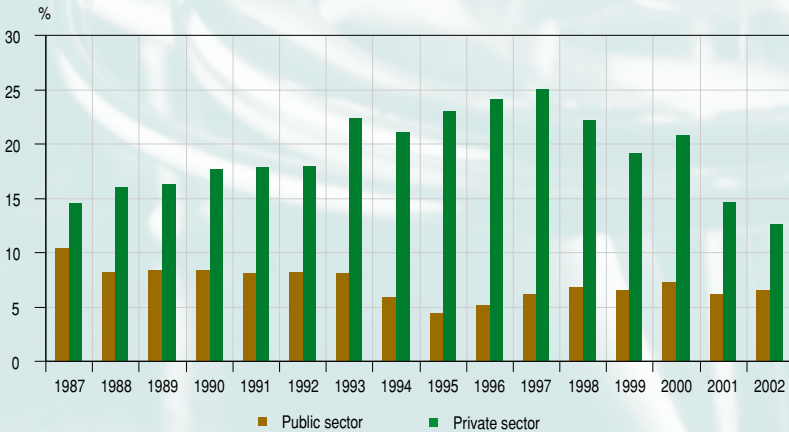


\* Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 1996.

Source: Undersecretariat of Treasury

**Gross Fixed Investments**

*As % of GDP, 1987 prices*

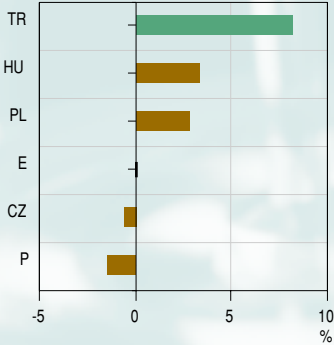


Source: Undersecretariat of Treasury

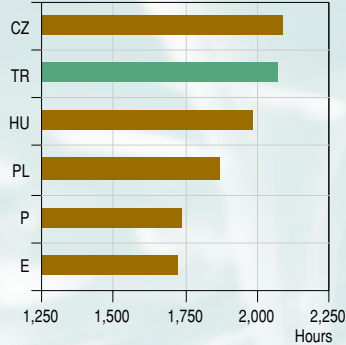


## Business Efficiency and Infrastructure

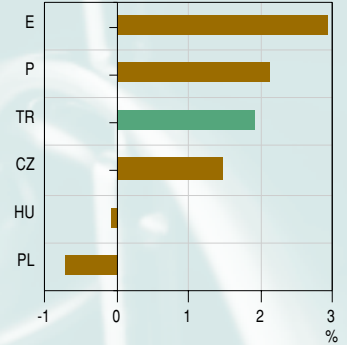
**Overall Productivity-Real Growth**



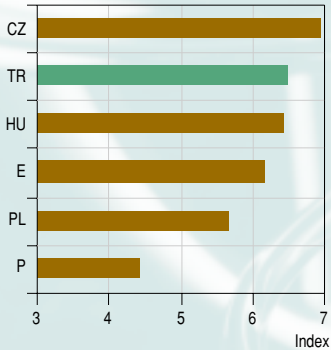
**Working hours**



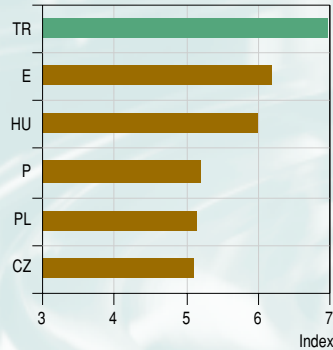
**Labor force growth**



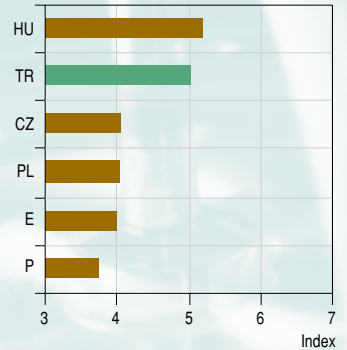
**Skilled Labor**



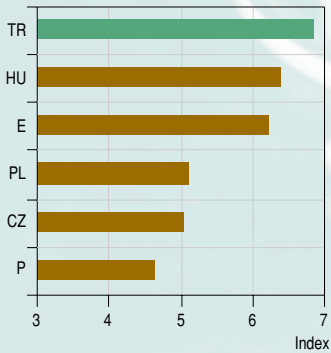
**Finance Skills**



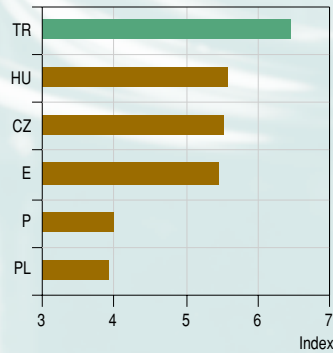
**International Experience**



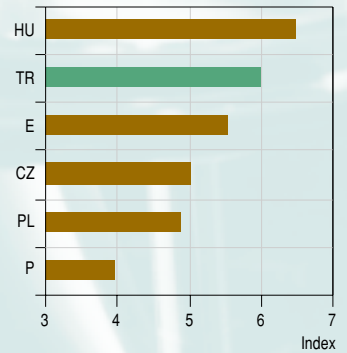
**Competent Senior Managers**



**Adaptability To Market Changes**

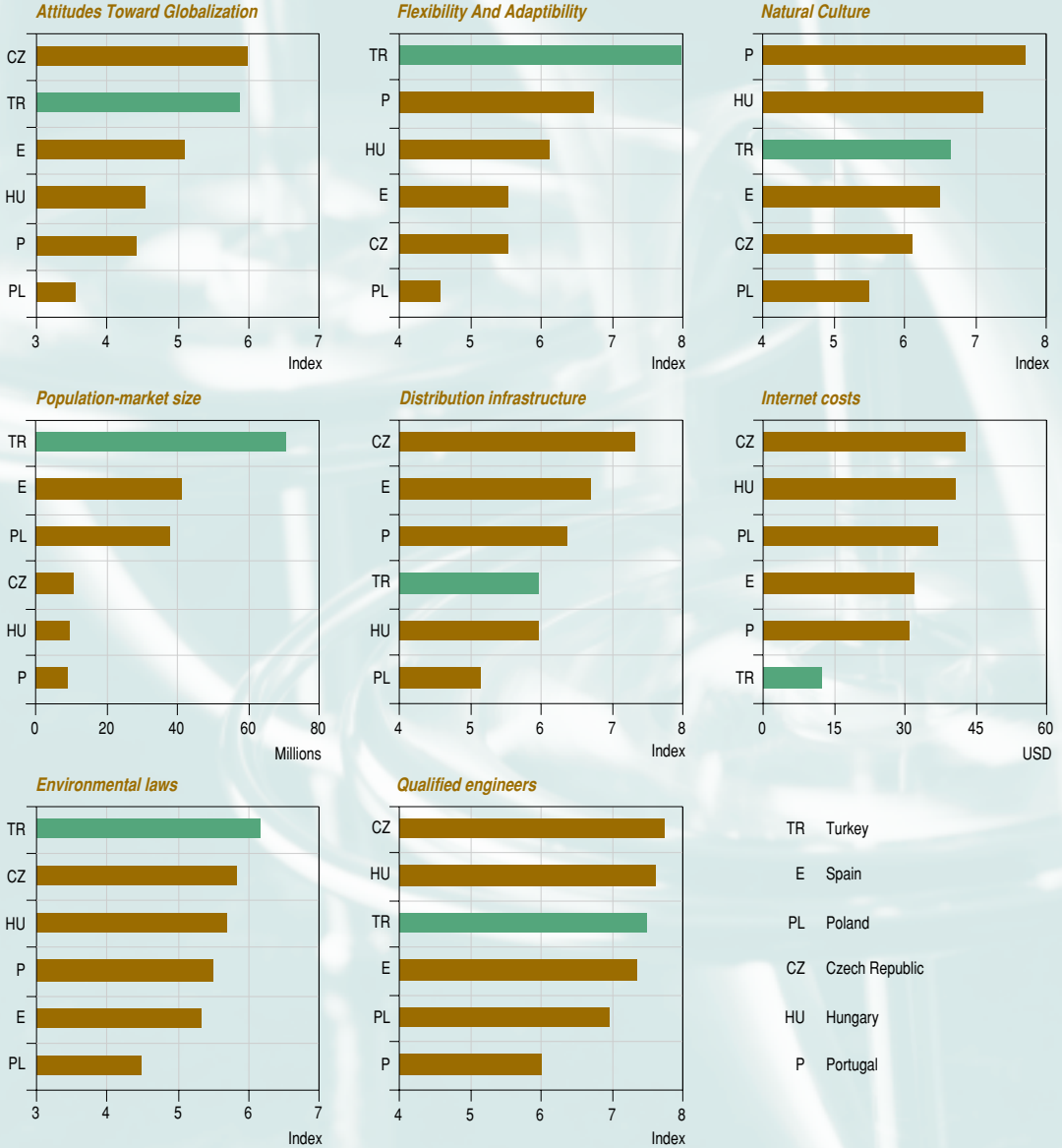


**Entrepreneurship**



The survey measures are all reported on a 0-10 scale, with 10 indicating the most positive perception.  
Source: IMD 2003

**Business Efficiency and Infrastructure**



The survey measures are all reported on a 0-10 scale, with 10 indicating the most positive perception.  
 Source: IMD 2003



## European Quality Awards Turkish Companies

1998 European Quality Awards  
Award Winner  
BEKO (Category for Subsidiary SME)

1997 European Quality Awards  
Prize Winner  
NETAŞ (Category for Large Businesses and Business Units)

1998 European Quality Awards  
Prize Winner  
NETAŞ (Category for Large Businesses and Business Units)

1997 European Quality Award  
Award Winner  
BEKSA (Category for SME)

2000 European Quality Awards  
Prize Winner  
Arçelik A.Ş. (Category for Large Businesses and Business Units)

1996 European Quality Awards  
Prize Winner  
NETAŞ

2000 European Quality Awards  
Prize Winner  
Eczacıbaşı Vİtra (Category for Large Businesses and Business Units)

1996 European Quality Awards  
Award Winner  
BRISA

2002 European Quality Awards  
Prize Winner  
Bosch Sanayi ve Ticaret A.Ş. (Category for Operational Units)



## Privatization Program 2003-2004

Firms	Sector	Status
Petkim	Petro-chemical	On progress
TÜPRAŞ	Petro-chemical	On progress
TEKEL	Beverage&Tobacco	On progress
ŞEKER	Food (Sugar)	Scheduled
ETİ	Mining	On progress
THY (Turkish Airlines)	Transportation	Scheduled
Türk Telekom	Telecommunication	Scheduled
Vakıfbank	Banking	Scheduled
GERKONSAN	Iron&Steel	On progress
SEKA	Pulp&Paper	On progress
TÜGSAŞ	Fertilizer	On progress
TÜMOSAN	Automotive	Scheduled

Source: Privatization Administration

## Economic Policy

**V**I In its 1989 Opinion on Turkey's application for EC membership, the Commission of the European Communities concluded:

"Turkey's economic and political situation, ... , does not convince it that the adjustment problems which would confront Turkey if it were to accede to the Community could be overcome in the medium term".

In its 2002 Regular Report the Commission found that:

"Turkey has made progress on the functioning of its market economy, which should improve its capacity to cope with competitive pressure and market forces within the Union, but is still undergoing the consequences of the two deeply destabilizing financial crises."

Under the IMF Stand-by Agreements, Turkey accomplished the bulk of its rigorous structural reform program since 1999, supplementing the remaining elements of a well functioning market economy. The pace of the reforms had progressed in leaps and bounds, partially due to the twin crises of 2000 and 2001. However, in the general public eye, the main culprit behind the economic turbulence and reluctance in the reforms was the politics. The nature of a three-party coalition government gave



birth to a political struggle among the ruling parties and this curbed the pace of structural reforms. Not surprisingly, the landslide election of November 2002 turned into a clean-sweep of AKP, leaving all the ex-government coalition parties and the opposition parties out of the parliament. This supports the view that, the public at large thinks that there is not a single viable policy to put the economy on a new growth path other than realizing the structural and political reforms that would sustain stability.

The aim of the economic program is two folds: (I) Improving the economy's resilience to shocks and reduce its vulnerability in the short run (II) Achieving sustainable growth via fundamental structural reforms from the medium to long run.

The costly but comprehensive banking sector restructuring, the floating exchange rate system, the implicit inflation targeting and ensuring viable public finances via high primary surpluses have been the major short term tools to heal macroeconomic imbalances. The concrete improvement in the economy had been proved by low volatility and strong performance during the war on Iraq -one of Turkey's neighboring countries-, in a time of peaked global uncertainties. As of August 2003, the inflation has declined to unprecedented levels, the vigorous growth and confidence has been restored, the private sector investments have gained pace, TL has appreciated as an indicator of growing competitiveness and Turkey has entered to an initial phase of a virtuous cycle.

The essence of the structural reforms is the establishment of a market economy with its rules and institutions, while removing the political rant



distribution mechanisms to achieve more efficient resource allocation and improve the economy's resilience to shocks. This resolute macroeconomic policy backed by IMF program offers a window of opportunity from medium to long term for Turkey to improve its potential output level and competitiveness. If Turkey can sustain the macroeconomic stability and sticks to the implementation of the structural reforms, it's likely to reap the benefits of the convergence to the EU.

The quality of structural adjustment implementation is much more important than the structural policy setting itself because, the implementation weakness always decreases the credibility of the government and curb the potential benefit of the structural renovation. In this end, Turkey is determined to further reduce the inflation and to maintain the fiscal discipline with the implementation of the public sector reform.

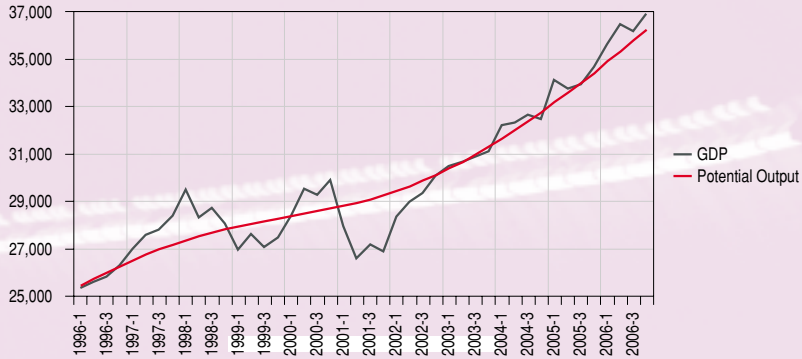
With the changing economic setting in Turkey, not only the public sector but also the corporate sector is facing a need to adapt itself to low inflation and more competitive environment. The privatization efforts, tax reform, abolishing the barriers to enter for network industries and natural monopolies, constructing regulatory authorities, agricultural reform etc. are all processes that change the face of Turkish economy. While these reform efforts aim to structure and strengthen the fundamentals of the market economy, there will be more room for entrepreneurs and the corporate sector to take initiative. However, this new environment will be a more competitive and though one to survive for the firms ignoring efficiency and technologic development.



### Real GDP and Potential Output

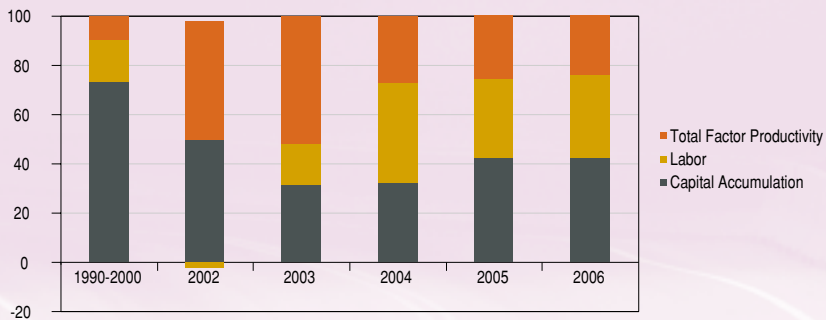
Seasonally Adjusted Series

TL Billion



Source: TÜSIAD

### The Contribution of Production Factors to Real Growth



Source: Turkey EU Pre-Accession Economic Program, 2003

### Main Economic Indicators

Period Average

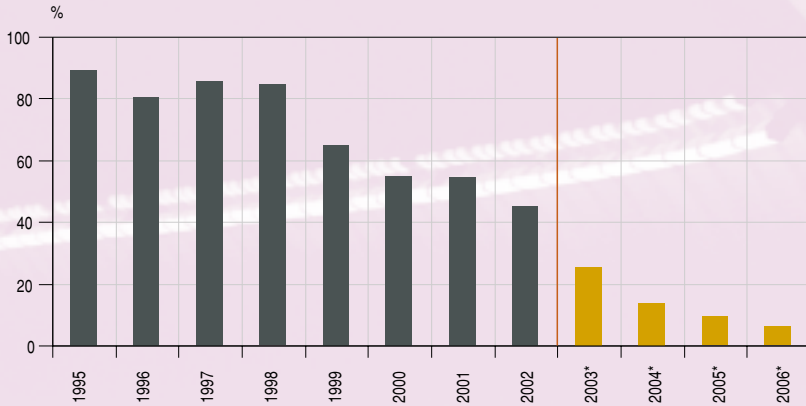
	1990-1997	1998-2001	2002	2003-2006*
GDP (% increase)	4.4	-0.8	7.8	5.1
Inflation (CPI annual av.)	79.9	58.0	45.0	13.3
Interest Rates (GDDI, simple %)	89.0	77.5	56.8	26.9
Real Exchange Rate (usd, % increase)	0.7	6.1	-15.3	-1.3
Budget Deficit/GDP	5.2	11.2	14.2	8.8
Gross Public Debt/GDP	53.7	69.2	96.3	88.5
Exports (fob)/GDP	13.3	19.4	23.3	29.6
Imports (fob)/GDP	16.6	22.3	24.1	35.1
FDI (usd million, cumulated)	5,994	5,971	1,037	7,500

\* Turkey EU Pre-Accession Economic Program, 2003

Source: State Institute of Statistics (SIS)

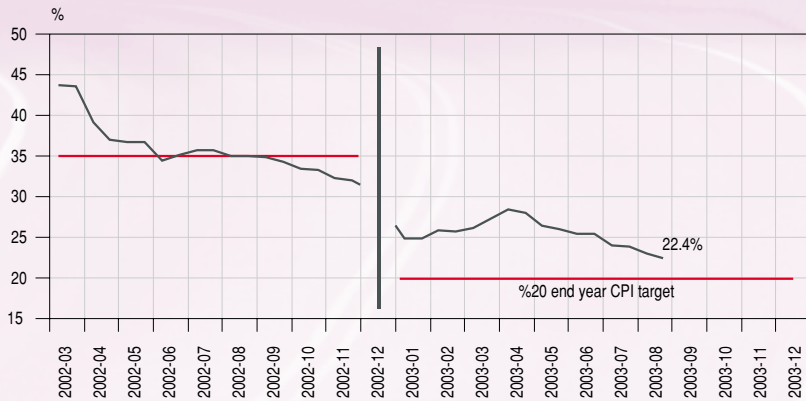


**Average Annual Inflation**  
CPI, Percentage Change



\* Turkey EU Pre-Accession Economic Program, 2003  
Source: SIS

**CBT Expectation Survey**  
End-year Inflation Expectations

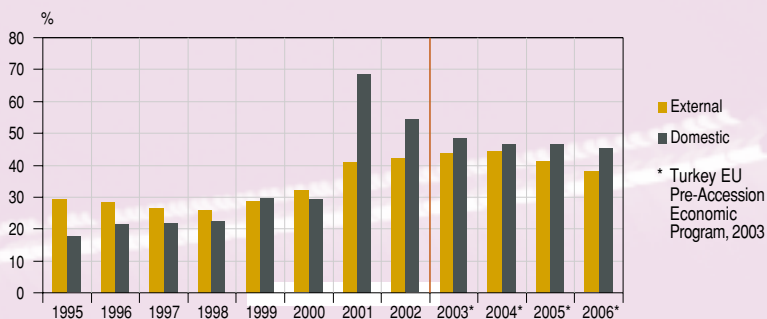


Source: Central Bank of Turkey (CBT)



### Gross Public Debt Stock

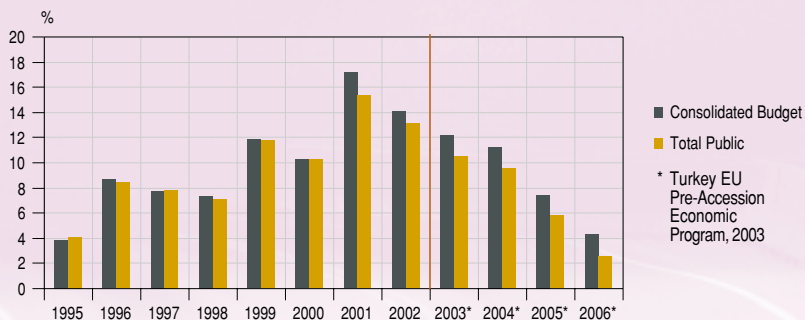
As % of GDP



Source: Treasury, TÜSİAD

### Public Sector Borrowing Requirement

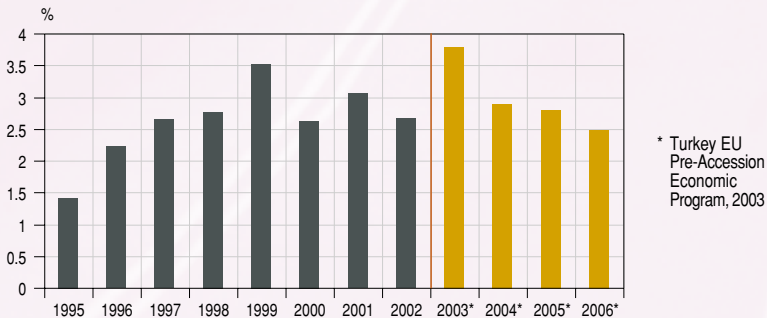
As % of GDP



Source: Treasury

### Social Security System Deficit

As % of GDP



Source: SPO



## Selection of Structural Reforms 1999-2003

### Public Sector

- Tight fiscal policy and adaptive measures to reach high primary surpluses
- The elimination of extra-budgetary, budgetary and revolving funds to increase transparency and consolidation
- The new law on public debt management that strengthened the legal framework of fiscal policy
- The new public procurement law in line with UN standards
- The establishment of an independent procurement agency
- The elimination of redundant workers in SEEs
- The implementation of general government employment monitoring system
- The enactment of indirect tax reform that introduced special consumption tax
- The enactment of first phase of the direct tax reform that introduced harmonization on direct taxes

### Social Policy and Employment

- The first phase of the Social Security Reform that introduced private pension system
- The legislation underpinning reforms in SSK, İş-Kur and Bağ-Kur excluding any provisions for amnesties
- The Economic and Social Council to develop social dialogue
- The new labor security law and labor market law

### Monetary and Incomes Policy

- The enactment of the Central Bank Law that introduced the bank's independence in pursuing price stability.
- The completion of the CB's technical preparations for inflation targeting
- The reduction of backward indexation in the wage contracts of public employment
- The rationalization of administrative prices and eliminating backward indexation

### Banking Sector

- The establishment of the banking regulation and supervision agency
- The implementation of the banking sector restructuring program on 4 main pillars:
  - Restructuring of the state banks
  - Resolution of the SDIF banks
  - Strengthening of the private banks
  - Improving the regulatory and supervisory framework
- The transfer of the regulation and supervision of the non-bank financial institutions from the Treasury to the BRSA
- The introduction of a voluntary market based framework for corporate debt restructuring - the Istanbul Approach
- The enactment of the reforms of the Execution and Bankruptcy Act

### Enhancing the role of the private sector

- The key constitutional amendments permitting international arbitration
- The privatization of big scale state enterprises (TÜPRAŞ, Petkim, TEKEL, ŞEKER, THY, Türk Telekom)
- The liberalization of key markets, independent sectoral regulatory authorities and elimination of state monopolies
  - Energy (Electricity, Natural Gas)
  - Agriculture (Tobacco, Sugar)
  - Telecommunication
- The construction and extension of direct support system as a part of the agricultural reform
- The new FDI Law in line with FIAS study to make Turkey more attractive for domestic and foreign investors
- The adoption of a strategy for increasing transparency and combating rent-seeking activities

## Progress Towards Lisbon Strategy

**TÜSİAD presents the priorities of the Turkish business community within the framework of Lisbon goals as follows:**

- Modernizing the State- Public Sector Reform
- Promoting Entrepreneurship and Innovation
- Facilitating Access to Capital
- Reducing Tax Pressure
- Investing in Education
- Improving Employment and Labour Market
- Reconciling Sustainable Development and Competitiveness

**As stated in “Accession Partnership with Turkey, April 2003” these goals will be achieved by:**

- Applying the new budget code structure that is in accordance with EU practice to all public entities, including budgetary, extra-budgetary and revolving funds, for the 2004 budget and adopt new legislation to reform the external and internal audit function.
- Accelerating the privatization of state-owned entities, taking into account the social component.
- Safeguarding the independence of market regulatory authorities.
- Continuing with market liberalization, in particular in the areas of tobacco and sugar.
- Developing and implementing a national SME strategy in line with the European Charter for Small Enterprises and the Multiannual Programme for Enterprise and Entrepreneurship, which will include the improvement of the business environment for SMEs, particularly where access to finance is concerned.
- Strengthening the enforcement record in the anti-trust field, in particular against state-owned undertakings, or undertakings having special and exclusive rights.
- Enhancing the economic dialogue with the EU, in particular in the framework of the Pre-accession Fiscal Surveillance procedures, with emphasis on appropriate measures to achieve macroeconomic stability and predictability and on the implementation of structural reforms.
- Continuing the swift implementation of the financial sector reform, in particular the alignment of prudential and transparency regulations and their surveillance with international standards.
- Modernizing and strengthening the Tax Administration with a view to increasing taxpayer's compliance and to improving the collection of tax revenues.
- Continuing the alignment of excise duties and VAT, in particular in respect of applied rates, scope of exempt transactions, and tax structure and eliminate tax measures which may result in discriminatory treatments; ensure that future legislation complies with the principles of the Code of Conduct for Business Taxation.
- Taking appropriate measures to set up a body able to perform the duties of a National Agency as well as all necessary mechanisms for the full participation and sound financial management of the Socrates, Leonardo da Vinci and Youth Programmes.
- Adopting a transposition programme of the *acquis* in the areas of labor law, equal treatment for women and men, health and safety at work, the fight against discrimination, and public health.
- Beginning to transpose and implementing the *acquis* related to the framework legislation, international environmental conventions, legislation on nature protection, water quality, Integrated Pollution Prevention Control and waste management.

Source: TÜSİAD, Turkey's National Report: A Candidate Country Experience, March 2003 Brussels. SPO, Accession Partnership with Turkey (Final Version Adopted by the Council of the EU on 14 April 2003)

Byzantian and Ottoman Empires ruled the same geographical areas -Eastern Mediterranean, the Black Sea, the Balkans and Anatolia- from the same capital, Constantinople-Istanbul for 16 centuries.

The Emperor Constantine laid the foundation of Constantinopolis in October of 324, the last Caliph Abdülmecid left Istanbul in March of 1924. During that time, new peoples made their entry into this geography: The Slavs, the Bulgars, the Turks, all mixed with the existing peoples and new communities formed.

This reading of history suggests continuity. In time, space and the evolution of societies, at least, there was a great deal of continuity.

Stefanos Yerasimos  
"Reinventing Tradition in the Ottoman and the Byzantian Empires"  
TÜSİAD Görüş Magazine  
September-October, 2002



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