## TURKISH ECONOMY: 2002-2013

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<tbody>
<tr>
<td>GDP per capita $</td>
<td>3,600</td>
<td>12,500</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Inflation rate %</td>
<td>29.7</td>
<td>7.4</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Insured Employment level Million people</td>
<td>12</td>
<td>19</td>
<td></td>
<td></td>
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<tr>
<td>Export volume Billion $</td>
<td>36.1</td>
<td>151.8</td>
<td></td>
<td></td>
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<tr>
<td>Central Government Budget Deficit /GDP, %</td>
<td>11.4</td>
<td>1.0</td>
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### Key Figures:
- **GDP per capita:** Increased 3 fold from 3,600 to 12,500 dollars.
- **Inflation:** Single-digit inflation decreased from 29.7% to 7.4%.
- **Employment:** Additional employment increased by 7 million.
- **Export:** Export volume increased 4 fold.
- **Public Finance:** Central Government Budget Deficit decreased by 10 percent points.
ECONOMIC AND POLITICAL CONTEXT

- Gezi events (May 2013)
- 17-25 December judicial coup attempt (December 2015)
- 15 July coup attempt (July 2016)
- ECB monetary tightening (2018)

Recent Developments in Relations With The USA:
- FED monetary tightening (May 2013)
- FED Interest Rate Increase (December 2013)
- Recent Developments In Relations With The USA (2018)
BALANCE – DISCIPLINE – TRANSFORMATION: 2019-2021

GDP growth target, constant prices, %

- Economic balancing between 2018-2020: 7.4%
- Fiscal discipline accompanying economic balancing: 3.8%, 2.3%, 3.5%, 5.0%
- Transformation in manufacturing and exports with a ‘value-add’ perspective: 2017 - 7.4%, 2018 - 3.8%, 2019 - 2.3%, 2020 - 3.5%, 2021 - 5.0%
POLICIES & MEASURES TO REDUCE INFLATION

Inflation Target, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation Target, %</th>
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<tbody>
<tr>
<td>2017</td>
<td>11.9</td>
</tr>
<tr>
<td>2018</td>
<td>20.8</td>
</tr>
<tr>
<td>2019</td>
<td>15.9</td>
</tr>
<tr>
<td>2020</td>
<td>9.8</td>
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<tr>
<td>2021</td>
<td>6.0</td>
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</tbody>
</table>

Policies and Measures

- The Central Bank will utilize all tools in a **decisive and independent manner** to ensure price stability.
- The Ministry of Treasury and Finance will support Central Bank’s efforts towards price stability with **strong fiscal discipline**.
- To maintain financial security and stability, a new ‘Financial Stability and Development Committee (FIKKO)’ will be established.
- ‘Collective Inflation Reduction Program’ will be launched.
- A new ‘Product Monitoring Mechanism’ and ‘National Agricultural Project’ will help to monitor price volatility closely and to reduce food inflation effectively.
- The cap of rent increase will be determined in line with **consumer price index instead of producer price index** which is more vulnerable to exchange rates.
FISCAL DISCIPLINE

Budget Deficit
% GDP, Central Government Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.5</td>
<td>1.9</td>
<td>1.8</td>
<td>1.9</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Primary Surplus Target
% GDP, Central Government Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0.3</td>
<td>0.1</td>
<td>0.8</td>
<td>1.0</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Policies and Measures

- **Public Finance Transformation Office** will be established under ‘Ministry of Treasury & Finance’ to identify saving and revenue improvement potential.

- Initially, savings and revenue potential of 76 billion TRY has been identified for 2019.

- Investment projects for which tender process has not been started or for which tender process has been started but not finalized will be suspended.

- Mega infrastructure projects will be implemented via international financing.

- Policies towards more efficient and financially sound Public-Private Partnership practices will be implemented.

- Social insurance scheme will be revised.

- Non-effective exceptions, exemptions and rebates in the tax system will be removed gradually to expand tax base and ensure tax equity.

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In order to decrease current account deficit, investments in sectors such as pharmaceuticals, energy, petrochemicals, machinery/equipment and software will be prioritized in public incentives.

Technology and R&D investments will be executed with PPP models.

The incentive scheme for exports will be restructured.

New markets, new products and new export targets will be set with a global value chain mindset.

The share of renewable energy and domestic coal resources will be increased in power generation, and localization of energy technologies will be supported through 'YEKA' model.

Oil and natural gas explorations will be accelerated.

Tourism services, including health tourism, will be diversified to increase tourism revenues.
Employment Target, Million people

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>28.2</td>
</tr>
<tr>
<td>2018</td>
<td>28.7</td>
</tr>
<tr>
<td>2019</td>
<td>29.1</td>
</tr>
<tr>
<td>2020</td>
<td>29.9</td>
</tr>
<tr>
<td>2021</td>
<td>30.9</td>
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</table>

2 million new employment

Unemployment Rate Target, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>10.9</td>
</tr>
<tr>
<td>2018</td>
<td>11.3</td>
</tr>
<tr>
<td>2019</td>
<td>12.1</td>
</tr>
<tr>
<td>2020</td>
<td>11.9</td>
</tr>
<tr>
<td>2021</td>
<td>10.8</td>
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Policies And Measures

- Severance pay reform will be implemented in alignment with all stakeholders
- Flexible employment will be introduced in the public sector
- Employment incentives will be reviewed and redesigned
- Audits will be increased to reduce informal employment
- Vocational training program will be enhanced in collaboration with the private sector
<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>2018 E</th>
<th>2019 P</th>
<th>2020 P</th>
<th>2021 P</th>
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<tbody>
<tr>
<td>GDP (billion dollars, current prices)</td>
<td>763</td>
<td>795</td>
<td>858</td>
<td>926</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>3.8</td>
<td>2.3</td>
<td>3.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>11.3</td>
<td>12.1</td>
<td>11.9</td>
<td>10.8</td>
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<tr>
<td>Current account balance/GDP (%)</td>
<td>-4.7</td>
<td>-3.3</td>
<td>-2.7</td>
<td>-2.6</td>
</tr>
<tr>
<td>CPI (End of year Change, %)</td>
<td>20.8</td>
<td>15.9</td>
<td>9.8</td>
<td>6.0</td>
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</table>
UNIQUE ASPECTS IN 2019-2021 NEW ECONOMIC PROGRAM

- Public Finance Transformation Office
- Measures for Banking and Real Economy
- Improvements in Taxation Practices
- Sectoral Project Examples
- Implementation and Monitoring of the New Economic Program
**Structure**

1. The Ministry of Treasury and Finance
2. Teams within other ministries

**Operating Model**

1. Savings- and revenue-increasing initiatives will be identified
2. Ministry level performance targets for each initiative will be set
3. Initiative roadmaps will be prepared and implemented
4. Progress against performance indicators will be monitored and reported

**Expected Impact (in 2019)**

- **60 Billion TRY SAVINGS**
  - 31 Billion TRY – Investments
  - 13.7 Billion TRY - Incentives
  - 10.1 Billion TRY - Social Security
  - 2.5 Billion TRY - Goods and Services
  - 2.7 Billion TRY - Others

- **16 Billion TRY REVENUE INCREASE**

Additional value potential is expected in following years
MEASURES FOR BANKING SECTOR AND REAL ECONOMY

**CURRENT SITUATION**

Capital adequacy ratio of banking sector %

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Adequacy Ratio</th>
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<tbody>
<tr>
<td>2014</td>
<td>16.3</td>
</tr>
<tr>
<td>2015</td>
<td>15.6</td>
</tr>
<tr>
<td>2016</td>
<td>15.6</td>
</tr>
<tr>
<td>2017</td>
<td>16.1</td>
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</table>

**MEASURES**

- **To assess financial structure and asset quality of banks, financial health assessment studies will be conducted.**
- **As a result of these assessment studies, a comprehensive set of policies will be introduced in light of global examples and Turkish past experience, which will help the banking sector to further strengthen, real economy to have access to credit at affordable rates, while creating room for credit restructuring if needed.**
- **Ultimate objective for the real economy is to restructure current credit debt and ensure the continuation of value-add production.**
- **Development Bank of Turkey will be restructured with an expanded mandate.**
- **Real Estate Bank of Turkey will be restructured to guide the development of real estate industry, according to best practices.**

Capital adequacy ratio is 16.1% and NPL ratio is 3% (July 2018)
IMPROVEMENTS IN TAXATION PRACTICES

OBJECTIVES

- Tax Base Expansion
  - Policy Decisions
    - A new real estate appraisal system will help to the completion of the real estate inventory; consequently real estate registry fees and taxes will be collected at real market values
    - Government will receive a fair share from the value increases as a result of zone plan revisions
    - There will be no further restructuring in tax and other government receivables

- Equity in Tax System
  - Effective Process Management
    - A new 'Tax Data Analysis Center', integrating different data sources and leveraging advanced analytical methods, will reduce informal economy and identify priority enforcement areas
    - Tax collection process will be further improved leveraging new technologies
SECTORAL PROJECT EXAMPLES TO CAPTURE DOMESTIC VALUE AND TO REDUCE CURRENT ACCOUNT DEFICIT

Sector focused programs will be implemented to increase domestic industrial value.

- Large-scale industrial and technological zones geared towards high-tech products.
- Integrated petrochemical industry zone.
- Increased number of clinical research centers for R&D activities of pharmaceutical and life sciences sectors.

Pharmaceuticals, petrochemicals, energy, machinery/equipment and software sectors will be prioritized to decrease current account deficit.

- Localization of 20 critical biotechnology products.
- Implementation of digital transformation roadmap.
- Cloud based electronic exports platform.
IMPLEMENTATION AND MONITORING OF THE NEW ECONOMIC PROGRAM

NEP Action Plan
- Actions
  - Benefit / cost analysis
  - Performance indicators
  - Implementation plan
- Clear roles and responsibilities

Periodic monitoring in 3-month intervals
- NEP monitoring team
- Close monitoring of targets
- Progress assessment with Ministries

Progress evaluation by end of 2019
- Impact assessment of actions
- Revision according to assessment results

New Economic Program (NEP)
FOR A POWERFUL TURKEY

ECONOMIC BALANCING

FISCAL DISCIPLINE

TRANSFORMATION IN MANUFACTURING AND EXPORTS WITH ‘VALUE-ADD’ PERSPECTIVE