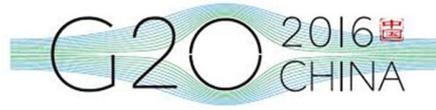


2016

GROWTH STRATEGY

TURKEY



Turkey 2016 Growth Strategy Update

A. Economic Context and Objective

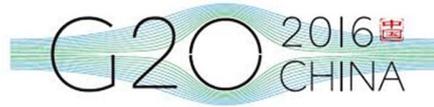
Turkey's growth rate was 4.0 percent in 2015 despite the volatility in global financial markets, increasing geopolitical tensions in the region, and two general elections held during the year. GDP and GDP per capita were realized as USD 720 billion and USD 9,261 in 2015 respectively.

Domestic demand was the main source of GDP growth in 2015 with 4.3 percentage point contribution, thanks to strong private consumption. Private sector investments increased by 2.7 percent and contributed 0.5 points while public sector investments increased by 7.6 percent and contributed 0.3 percentage points to GDP growth in 2015. However, the contribution of the net external demand was minus 0.3 points due to lower demand in the oil exporter trading partners, and conflicts faced in neighboring countries. On the production side, the main source of GDP growth was services sector, which contributed 1.6 percentage points to GDP growth in 2015, while the contribution of industry sector was 1.0 percentage point. Agriculture sector grew by 7.6 percent in 2015 mainly reflecting the low base of the previous year and contributed 0.7 percentage points to growth.

Turkey's economy grew by 4.8 percent in the first quarter of 2016 y-o-y. While agriculture and services sectors grew by 2.7 percent and 4.2 percent respectively, the industry sector (including construction) grew by 5.9 percent in the same period. In the first quarter, growth was driven by private sector with 4.7 percentage point contribution to growth. In this period, household final consumption expenditures grew by 6.9 percent. Public investment and consumption increased by 1.2 percent and 10.9 percent y-o-y respectively. Calendar adjusted industrial production has increased 3.7 percent annually in the first half of 2016. In January-July 2016 period, capacity utilization rate of manufacturing sector increased by 0.9 percentage points compared to the previous year and realized as 75.1 percent.

Turkey's inclusive and employment-based growth trend continued in 2015. Labor participation rate continued its upward trend and reached 51.3 percent. Labor force participation rate in Turkey has increased in recent years on the back of more active labor market policies and higher schooling rates that also helped acceleration of female participation rate.

In 2015, Turkey managed to create 688,000 new jobs and the employment rate realized as 46.0 percent, with a 0.5 percentage point increase compared to the previous year. Nevertheless, unemployment rate increased by 0.4 percentage points and realized as 10.3 percent, on account of a rising labor force participation rate.



Employment generation remained strong in the first five months of 2016. As of May 2016, employment increased by 2.9 percent and employment rate increased by 0.6 percentage points y-o-y. In the meanwhile, unemployment rate increased by 0.1 percentage points y-o-y and realized as 9.4 percent. On the external side, current account deficit narrowed by 0.9 percentage points compared to its level in 2014 and declined to 4.5 percent of GDP in 2015 thanks to the low levels of energy prices and improvement in gold balance. On the other hand, geopolitical tensions in neighboring countries and decline in demand in commodity-exporting countries have limited the improvement. As of June 2016, 12-month rolling deficit realized as USD 29.4 billion. The improvement in current account deficit mainly comes from the energy balance while the services balance limited this improvement especially due to deterioration in tourism revenues.

On the financing side, portfolio investments and short-term credit inflows significantly slowed while long-term inflows remained strong in both 2015 and the first half of 2016. Foreign direct investments and long-term external borrowings of banks and the private sector have been the main financing sources in this period.

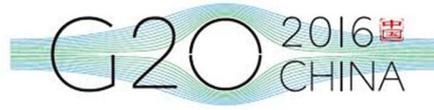
While economic activity displays a moderate and stable course of growth, backed by domestic demand supported by employment generation and minimum wage hike, weaker global demand and geopolitical developments still continue to pose downside risks.

According to the latest Medium Term Program (MTP) covering 2016-18 period, GDP growth is forecasted to be 4.5 percent in 2016 and 5 percent in 2017 and 2018. Growth is expected to be supported by investments in productive areas, which will be financed by domestic savings, and productivity increases. During this period, current account deficit is projected to decline gradually. After the recent events in July and their ongoing impacts, we expect that 2016 growth rate will be behind MTP forecast. Yet, no official revision has been made.

Within the program period, the growth strategy will be focused mainly on strengthening macroeconomic stability, enhancing human capital and maintaining efficiency in labor market, boosting the capacity for development of technology and innovation, strengthening physical infrastructure and improving institutional quality.

Turkey's key commitments, reflecting medium-term objectives, are broadly in line with those provided in Antalya. They are listed as the following:

1. Increase the ratio of general R&D expenditures to GDP 1.80 per cent by 2018 from 0.95 per cent in 2013, and the share of SMEs in R&D expenditures to 20 per cent in the same period from 17 per cent as of 2013
2. Raise employment through strengthening the link between education and employment, enhancing flexibility in labor market, improving Active Labor Market Policies (ALMPs) and developing them for target groups, and introducing conditionality for social benefits



3. Increasing woman employment through creating a balance between work and family, introducing incentive regulations and promoting entrepreneurship
4. Increase competition by reviewing the legislation and other issues which prevent business environment to improve
5. Boost trade with implementation of the WTO Trade Facilitation Agreement

Also, we have added a new key commitment for youth employment in 2016:

6. Reducing the share of young people who are most at risk of being permanently left behind in the labour market by 15% by 2025

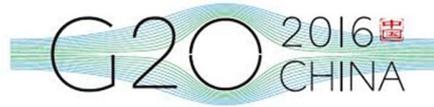
B. Macroeconomic Policy Actions to Support Growth

Monetary Policy

Primary objective of monetary policy is to achieve price stability. While aiming to keep inflation close to the target, the Central Bank of Turkey (CBRT) also aims at contributing to financial stability. Moreover, without compromising price stability, the CBRT provides support to balanced growth through providing export credits, lender of last resort facilities, supporting core liabilities and contributing to sustainable credit growth.

At the beginning of 2016, mainly due to the expectations that global interest rates will stay lower for longer, global financial conditions started to ease. Accordingly, the capital flows to emerging markets, which stayed weak throughout 2015, strengthened gradually. In Turkey, similar to other emerging markets, risk premium declined and domestic currency asserted more stable performance. In the first half of 2016, inflation displayed a marked decline mainly due to favorable developments in unprocessed food prices while awaited improvement in the underlying core inflation trend lagged, necessitating the maintenance of a tight liquidity stance. The rebalancing in the current account might decelerate in the upcoming period given that the current economic growth is fueled by domestic demand and the tourism sector is showing signs of a slowdown. Nevertheless, the current account deficit is estimated to hover around reasonable and predictable levels through the year.

The CBRT released a road map on 18 August 2015 regarding the policies to be implemented before and during the normalization of global monetary policies. Accordingly, it was announced that the operational framework of the monetary policy will gradually be simplified by making the interest rate corridor narrower and more symmetric around the one-week repo rate. Recently, the improvement in global financial conditions and the effective use of the policy instruments laid out in the road map have reduced the need for a wide interest rate corridor. In this respect, the CBRT decided to take measured steps towards simplification by lowering the marginal funding



rate by 25 basis points in March 2016, 50 basis points at each MPC meeting in April, May and June and 25 basis points in July and August MPC meetings. One-week repo auctions continue to be the main tool for CBRT funding, while the share of the marginal funding remain high. The average funding rate came down to around 8 percent in line with the cuts in the marginal funding rate, while the one-week repo rate stands at 7.5 percent.

The failed coup attempt in mid-July led to fluctuations in the markets. In response, the CBRT announced additional liquidity measures on July 17 to ensure the effective functioning of markets. The adopted measures and the favorable course of the global risk appetite are expected to render the spillovers from domestic uncertainty short-lived and limited. As of July 2016, annual consumer inflation stood at 8.8 percent. In the first months of the year, annual inflation came down thanks to the correction observed in food prices and alleviation of pass-through effect of TL depreciation. The efforts of the Food and Agricultural Products Markets Monitoring and Evaluation Committee (Food Committee) have recently been more effective in terms of fighting against the factors behind the rigidities in food prices; thus the measures taken regarding certain products such as red meat have led to sharp decreases in unprocessed food prices. However, unprocessed food prices picked up in June and July, due to fresh fruits and vegetables, which led to a rise in headline inflation. Meanwhile, the annual inflation in main core indicators gradually declined throughout the year.

In the upcoming period, the exchange rate developments, course of food and international commodity prices are expected to be the main determinants of inflation. Together with the Government's well-disciplined stance on the fiscal side, ongoing structural reform program continues to support the central bank in achieving and maintaining price stability. In the Medium-Term Program covering 2016-18, consumer inflation is projected to realize as 7.5 percent at the end-2016, and stabilize around the target of 5 percent in the medium term, supported by prudent monetary and fiscal policies and micro level reforms.

Taking into account inflation expectations, pricing behavior and the course of other factors affecting inflation, the tight monetary policy stance will be maintained as long as deemed necessary. The CBRT's current policy stance is announced to be tight against Turkish lira liquidity, stabilizing for the FX liquidity, and supportive of financial stability.

Financial Stability Measures and Macro-prudential Policies

The CBRT has continued to take additional measures to enhance financial stability and stabilize the foreign exchange (FX) liquidity along the lines of the road map. The newly adopted use of foreign exchange deposits as collateral against Turkish lira transactions aimed at enhancing the efficiency of banks' liquidity management. The maximum ratio of 50 percent that banks were able to pledge as FX-denominated collateral against their borrowings at the CBRT Interbank Money Market has been raised to 70 percent. This arrangement is expected to



counterbalance the possible stress to be experienced in credit risk pricing due to global factors and boost the demand for FX-denominated bonds issued abroad by the Treasury. Besides, following the failed coup attempt in July 15, banks were allowed to place foreign exchange deposit as collateral without limits for needed Turkish lira liquidity. Furthermore, to enhance the flexibility of the FX liquidity management, transaction limits for banks at the CBRT FX and Banknotes Markets were raised. Consequently, the sum of reserves held in Reserve Options Mechanism and FX deposits of banks at the CBRT reached a level that is considerably above the external FX liabilities of banks with less than one-year maturity.

The CBRT's policy of higher reserve requirements for short-term borrowing led to a sharp fall in banking sector short-term debt. In this respect, the share of short-term debt in banking sector external debt stock decreased to 28 percent in May 2016 from 55 percent in November 2013. Thus, the average maturity of banking sector external debt has increased by 9.8 months since November 2013. Similarly, the share of short-term resources in external finance of corporate sector has also decreased dramatically and a tendency of lengthening the average maturity of external debt has been observed recently. The average maturity of non-financial sector's external borrowings exceeded 4.5 years. In addition, both Turkish banks and corporate sector managed successfully to roll over their external debt with reasonable spreads despite unfavorable international financial conditions stemming from increased global uncertainties.

In early August 2016, the CBRT decreased Turkish Lira reserve requirement ratios by 50 bps for all maturities, and increased reserve option coefficients by 0.1 points for the second, third and fourth tranches of the FX facility and for the first two tranches of the gold facility. With these changes, approximately 1.1 billion Turkish Liras and 600 million US dollars of liquidity is expected to be provided to the financial system.

In order to support financial stability and balanced growth, the CBRT increased the export rediscount credit limits to USD 20 billion from USD 17 billion in late-July 2016. By this means, the CBRT also aims to accumulate foreign exchange reserves.

On the credit side, the CBRT's tight monetary policy stance and Banking Regulation and Supervision Agency's macro-prudential measures on non-mortgage consumer loans helped limit the credit growth. The growth rate of commercial loans continued to exceed the growth rate of consumer loans, which is considered to be favorable in terms of the external balance and inflationary pressures. The annual loan growth has slowed down to 8.9 percent recently, while the overall loan growth in FX adjusted terms realized as 9.5 percent as of August 19, 2016.

Turkish banking sector has maintained its robust position during the financial volatility stemming from the increased global uncertainties. In Turkey, banks have been supervised very closely with respect to capital adequacy, asset management and profitability levels. In this context, Basel III standards have started to be implemented gradually. As of June 2016, capital



adequacy ratio (CAR) was realized as 15.8percent and remained well above the legal rate of 8 percent and targeted ratio of 12 percent. In addition, the FX net general position of banking sector indicates the absence of exchange rate risk.

Between September 2015 and March 2016, Turkey successfully passed through the Regulatory Consistency Assessment Program (RCAP) of Basel Committee. Within this framework, the Turkish banking regulations were reviewed in terms of compliance with the Basel standards. As a result, the latest RCAP report of the Basel Committee confirms the full compliance of Turkish banking sector legislation with the current Basel standards.

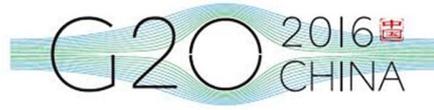
The credit quality also remained robust in this period. Non-performing loans to total loans (NPL) ratio slightly increased to 3.4percent in June 2016 from 2.9 percent in May 2013 mostly due to the aging of loans brought by the slow-down in credit growth. The overall NPL ratio is still at manageable levels despite the upward trend particularly in individual loans. The net NPL ratio after provisioning is around 0.8 percent thanks to the prudent provisioning approach.

All these measures taken in line with the road map are assessed to have increased Turkey's resilience against global volatility as well as domestic challenges. Due to the effective use of the measures presented in the road map and favorable macroeconomic developments, the implied exchange rate volatility of Turkey has declined to levels lower than most of the peer emerging market countries until mid-July. Although there has been volatility in domestic financial markets after the failed coup attempt of July 15, a quick recovery was observed thanks to the swift policy response by the government and the CBRT.

Fiscal Policy

A growth-friendly fiscal policy is being implemented while fiscal prudence is maintained. The central government budget deficit has fluctuated around 1-1.5 percent of GDP during the last years. The improvement of budget revenue performance continued in the first seven months of 2016. In this period, budget balance and primary balance were in surplus of TL 1.3 billion and TL 31.9 billion respectively.

Debt sustainability is not a source of concern. With the help of Turkey's solid growth performance, fiscal discipline, and effective debt management policies; the EU-defined general government debt stock to GDP ratio realized as 32.9 percent in 2015 and is expected to drop further to 29.5 percent in 2018.



Minimum Wage Hike

As promised during the elections, the minimum wage was raised by 30 percent in January 2016 with the consensus of the social partners. The wage hike will affect about 8 million people directly and is expected to affect other wages indirectly. Although it is still early to see the net impact of the hike, the increase in overall wages was realized as around 16 percent as of the first quarter of 2016.

C. Structural Reform Priorities

C1. Implementation of Past Growth Strategy Commitments

Turkey, building on its 10th Development Plan, prioritized its reform actions to increase productivity, boost savings and enhance inclusiveness. The key commitments in this updated growth strategy are the core products of this prioritization process. 25 transition programs have been identified under the development plan and clear deadlines were attached to each action. Furthermore, the government, following the elections last year, categorized the actions to be completed in 3, 6 and 12 months. All the actions under the 3-month category have been completed.

In December 2015, the Council for Coordination and Monitoring of Reforms was established to coordinate the reform efforts of the government institutions. The Council is the main body to ensure full, timely and consistent implementation of these reforms. Since its establishment, the Council has been holding regular meetings to fulfil its mandate. According to current findings of the Council, implementation of the reforms is well on track.

Under the employment area the two important developments are:

- The significant increase in the labor participation rate of women thanks to extensive efforts. The participation rate of women has increased significantly compared to the pre-crisis period, by around 8 percentage points from 23.6 percent in 2008 to 31.5 percent in 2015.
- In order to improve labor market flexibility and worker protection, the law no. 6715 has been enacted. The law envisages several actions to increase flexibility in the labor market including allowing different work types and reducing restrictions on flexible working, in particular allowing Private Employment Agencies to engage in temporary work relationship.



C2. New Structural Reform Measures

Employment

Severance Pay Reform: High level of informal employment in Turkey - 33.6 percent of all employed are not registered to social security in 2015- is one of the main challenges hindering productivity and growth of the country. In addition to the structural factors like high share of agricultural employment, high level of minimum wages and low institutional capacity; the rigidity of labor markets and non-wage labor costs are the main drivers of informality. This rigidity stems from employment protection laws, in particular limitations on temporary and fixed-term employment contracts and the protection of regular employment through high employer severance payments.

Hence, in addition to the already enacted law on flexibility, severance pay reform is also on the agenda. The reform primarily envisages restructuring the current system that enables individual accounts for all workers. The process is being managed by MoLSS in collaboration with the relevant stakeholders.

NEET Target of G20: Under the G20 Turkish Presidency in 2015, the Leaders of the G20 have agreed to the “goal of reducing the share of young people who are most at risk of being permanently left behind in the labor market by 15% by 2025 in G20 countries.” In line with this target, Turkey has included a new key commitment in its Growth Strategy as “Reducing the share of young people who are most at risk of being permanently left behind in the labour market by 15% by 2025”. Under the G20, Members will reflect their labor force market reforms and developments towards meeting the youth employment commitment through a self-reporting mechanism to be prepared on an annual basis with the technical assistance and inputs of IOs. Accordingly, OECD and the ILO were asked to provide assistance in monitoring progress of achieving this goal. Furthermore, G20 Leaders have also committed to continue monitoring the implementation of Country Employment Plans to reduce gender participation gap and to foster safer and healthier workplaces also within sustainable global supply chains.

Competition

Turkish Competition Authority (TCA) has been focusing on competition advocacy efforts in order to promote competition culture in the society. To this end the new measures undertaken by the TCA are explained below:

- **Scanning the legislation that is not compatible with the competition rules:** As stated in the Adjusted Growth Strategy 2015, the process of scanning the legislation that is not compatible with the competition rules was completed in 2015. The results were presented in a document, identifying the most relevant and problematic areas with a list of regulations and legislations that may have a more propensity to infringe competition. TCA has been considering a prioritization



process to handle the inconsistency between the identified legislation and competition rules. After this process, some measures may be taken to inform the relevant parties about the repercussions and possible revision of competition restricting legislation.

- **Amendment of the Act on the Protection of Competition:** A new draft has been prepared including de-minimis, settlement and commitment mechanisms. The draft is finalized by the team in TCA and submitted to the Parliament.

- **Meetings with Chambers of Commerce:** Department of External Relations, Training and Competition Advocacy has been organizing meetings with chambers of commerce in several cities. TCA aims at explaining the basics of Competition Law to local organizations and increase awareness about the benefits of competition in general.

- **Industry Reports:** TCA has been focusing on some key sectors that may present the greater rewards if major competition problems will be eradicated. To this end, Industry Reports were published highlighting the dynamics of a selected industry and focusing on the sector-specific competition problems. TCA has been planning to strengthen this initiative and publish other reports in some selected industries aiming at shedding light on the structural competition problems which necessitates multi-party action.

Trade

Please see “3. Program to Upgrade the Transportation Sector (Facilitator)” under the investment section.

Other

- **Improving the Private Pension System:** The legislation allowing for auto-enrollment of employees to private pension system was published in the Official Gazette on August 25, 2016. The aim is fostering inclusiveness of the pension system, increasing enrollment of institutions to the system and lifting welfare of people during their retirement. This step will also help reducing current account deficit through boosting national savings and rising long-term fund supply.

D. Investment

A. OVERALL INVESTMENT STRATEGY

In order to maintain a strong GDP and employment growth, Turkey needs further improvement in investment both in terms of quality and quantity. In that regard, Turkey plans to increase the investment to GDP ratio to 24.4 percent in 2018. Towards this end, Turkey embraces an ambitious agenda of large scale infrastructure projects in the fields of inter alia energy, transportation, and health. Turkey has successfully implemented Public Private Partnership (PPP) models as a means to attract private sector resources to infrastructure investments. As

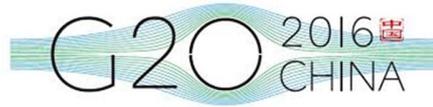


regards the developments and updates on the PPP policy and practices as an input to the “Investment Strategy 2016”, Ministry of Development (MoD) has started the related activities to realize the policies of the 10th Development Plan (2014-2018) and the 64th Government Action Plan.

One of the main objectives of those plans is directing resources to more productive areas while increasing the savings and investments in the economy to strengthen the productive capacity and achieving a sustainable growth performance. As such, high quality public sector infrastructure investments will increase production capacity by stimulating private sector investments and will also contribute to productivity based growth dynamic.

Turkey plays an important role as a joint between Europe, Middle East and the Caucasus as well as the Mediterranean, the Aegean, and the Black Seas. Building on this advantage, Turkey’s 2014-2018 Strategic Plan for Transportation aims to improve and extend transportation, maritime and communication infrastructures, and to improve institutional capacity in order to provide better quality service. Recently, PPPs are used actively for transportation projects such as Istanbul Strait Road Tube Crossing Project (Eurasia Tunnel Project), Gebze-İzmir Highway Project, Northern Marmara Highway (including third Bosphorus Bridge) and the Third Airport in Istanbul. Regarding Turkey’s recent PPP track record, there are 168 completed projects, which are currently on the operational phase where the aggregate investment amount is around USD 13 billion. Moreover, going forward, there are 32 PPP projects in the construction phase where the total investment amount is around USD 36 billion (as of end-2015). In the context of financing PPPs, the debt assumption mechanism is used as a credit enhancement tool and is seen as an effective way to ensure the sustainability of the projects. Since 2012, the debt assumption model is used for large scale transportation projects amounting to a portfolio of USD 15 billion.

One major setback the Turkish economy faces is the predominance of bank-based investment financing. Commercial banks play an important and pivotal role in the financial system. While they may lend directly to companies, they undertake longer-term funding and investment through securitization and covered bond issuance. Funds channeled through commercial banks are generally of short-term nature, whereas the securities market lies with a huge untapped potential. In this sense, Turkey Investment Fund has been established to address issues in early stage capital needs of innovation-driven enterprises. These new fund of funds and legislation for co-financing and equity-based crowdfunding will accelerate the establishment and financial support of early-stage innovation-driven enterprises by means of funding the existing or new angel groups and VCs to further support startups, also enabling smaller contributions of public and creating new banking mechanisms based on co-financing, which is a relatively new basis for risk management. Therefore, several policy measures have been taken to encourage long-term investment financing, including through the introduction of new financial instruments. Aforementioned reforms are still relatively new and although there have been some



improvements in some indicators such as institutional investor size, issues of corporate bonds and the share of private sector securities within the overall stock; the full impact of the reforms are yet to be observed.

Moreover, promoting the development of SMEs is crucial in fostering entrepreneurship, competition, innovation and growth in Turkey. SMEs face various challenges mainly induced by their small scales, information asymmetries and the riskiness of their businesses. SME financing will be facilitated by improving the environment for angel investments, venture capital, credit guarantee fund, applications of micro-finance and by exploring other capital market opportunities. Turkey has made substantial progress in promoting the access of SMEs to financing, and plans to take further steps in this field.

B. STRATEGIC ACTIONS

Investment Strategy Summary

	Facilitators	Safeguards
Investment Ecosystem	Enhancing the Business and Investment Environment Capital Market Reforms and Policies for the Banking System	
Infrastructure	Program to Upgrade the Transportation Sector	Improving the Institutional Capacity for PPPs
SMEs	Emerging Companies Market Secured Transactions Law Public Credit Guarantee Scheme Creating New Financial Instruments	Fostering Entrepreneurship and SME Development

INVESTMENT ECOSYSTEM

1. Enhancing the Business and Investment Environment (Facilitator): Turkey has taken considerable steps to create a more conducive business environment for both domestic and international investors. The recently established Regional Development Agencies will incentivize and facilitate foreign and domestic capital investments in order to better tap on regional potentials and will assume a complementary role at the regional level for the activities of Investment Support

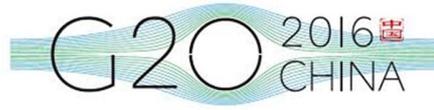


and Promotion Agency for Turkey at the national level. Turkey also aims to adopt in the short to medium run, a holistic approach and an effective coordination mechanism to reduce uncertainties hindering investment decisions. Main actions envisaged in this regard include, creation of a mechanism to facilitate and accelerate business permits and land allocation processes, integration of electronic systems, simplification of business licenses and working permits, regulations to ensure faster settlements of legal disputes, increasing the level of specialization of the legal capacity and framework for dispute resolution and increasing the public-private dialogue via high level meetings of the *Council for the Improvement of Investment Environment (YOİKK)*. Additionally, a special program “Business and Investment Environment Development Program” has been implemented as one of the 25 Priority Transformation Programs within the framework of 10th Development Plan. The consultative process of YOİKK immensely contributed to the below mentioned amendments regarding the investment climate of Turkey:

- Istanbul Arbitration Center became operational, which is an important pillar of the Istanbul International Finance Center Project.
- In December 2015, Law no. 6656 which amends some articles on setting up aquaculture facilities was adopted
- In December 2015, Law no. 6655 which amends some articles of VAT, Income Tax, Individual Pension System, General Health Insurance was adopted
- In January 2016, Law Amending the Law on Income Tax and Certain Laws
- In February 2016, Law Amending the Law on Research and Development and Certain Laws and Statutory Decrees was adopted.
- Personal Data Protection Law No. 6698 was published in the Official Gazette on April 7, 2016.
- “Law Amending Certain Laws to Improve the Investment Climate” which was published in the Official Gazette on August 9, 2016, addressed major tax issues.
- “Law on International Labor Force” was published in the Official Gazette on August 13, 2016.

2. Capital Market Reforms and Policies for the Banking System (Facilitator): After the Global Financial Crisis, Turkey has taken significant strides to address possible systemic risks that could stem from the financial system. To this end, Turkey has paced its reform package comprising financial inclusion, financial literacy, and introduction of new instruments and enhancing institutional coordination. The steps taken in this regard aim to improve resilience and efficiency of the capital markets and the banking sector, and in turn, to increase domestic savings.

As the reforms progress, there have been some improvements in some indicators such as institutional investor size, issues of corporate bonds and the share of private sector securities within the overall stock, it is obvious that the full impact of the reforms remains to be seen. In order to foster investor



trust, corporate governance regulation for listed companies is enhanced to include mandatory implementation of several corporate governance principles. In addition, Turkey has simplified the processes involved in the public issue and offer of securities, particularly for equities and bonds, in order to encourage companies to raise funds from capital markets.

Turkey has also put in place regulations on venture capital investment funds as well as real estate investment funds and investment companies. In particular, the revised regulation on real estate investment companies involves rules that introduce an alternative investment for financing of infrastructure projects especially by qualified investors. Also, as a measure to promote the long-term financing environment, new regulations regarding portfolio custody services, mutual funds, asset-backed and mortgage backed securities, covered bonds and mortgage financing companies were put into effect recently. To enable investors to access units of all funds and to increase competition between investment funds, a central electronic platform (TEFAS) for trading investment fund units was established. Also in relation to institutional investors, investment companies with variable capital were introduced as a new type of collective investor in the Capital Markets Law.

Additionally, with a view to diversify the instrument base, Turkish Sukuk regulation was revised and currently, all the five internationally acknowledged types of Sukuk are available to the Turkish market. Turkey expects further development of domestic interest-free finance market including through easing of non-financial corporations' access to Sukuk issuances as well as increasing overall awareness on related products and services.

The newly established Interest-Free Finance Coordination Board will define a vision on the non-interest finance system and provide coordination among all related institutions in the non-interest finance area.

In order to support the development of the interest-free finance sector two state-owned participation banks were established.

On the other hand, in order to contribute to the development of capital markets, on June 24th, 2016, Capital Markets Board announced a 50% discount in fees which are charged from public offerings, sukuk issuances and issuances of real-estate certificates. In April 2016, Law no. 6637 which amends tax incentives for cash capital increases was adopted. In February 2016, the European Securities and Markets Authority (ESMA) has reviewed Turkish legislation governing prospectus disclosure requirements and concluded that a prospectus drawn up against Turkish requirements can constitute a valid prospectus under the Prospectus Directive for the purposes of its approval by the home competent authority of a European Member State.



INFRASTRUCTURE

3. Program to Upgrade the Transportation Sector (Facilitator): One of the priority transformation programs in the Tenth Development Plan is dedicated to the transportation sector, which aims at increasing the contribution of logistics infrastructure to growth potential in order to achieve export, growth and sustainable development objectives of Turkey. In this vein, an Action Plan (2014-2018) has been prepared and Logistics Coordination Council was established. As such, the Plan aims to design a Port Authority Model, revise the Coastal Structures Master Plan to implement port capacities in an effective manner in view of the rising foreign trade volume of Turkey. This Program also covers the Transportation Master Plan where major transportation infrastructure investments are included, including the PPP transportation projects. The National Transportation Master Plan (2015-2018) will facilitate the development of a sustainable, safe, secure, accessible, inclusive, fast and technologically innovative transport sector and transport infrastructure that will support competitive logistics and increase the welfare of the Turkish citizens and competitiveness of Turkish economy.

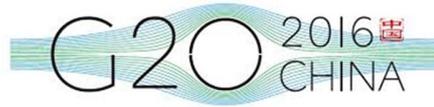
4. Improving the Institutional Capacity for PPPs (Safeguard): The Tenth Development Plan includes several policies to overcome the shortcomings of the current PPP management decision and execution processes. Main actions are defined as “to improve institutional capacity on the public side to increase the quality of the PPP process as a whole”, “to prepare a strategy paper”, “to adopt a framework law in order to compile the scattered PPP legislation”, “to strengthen the coordination of PPP policies and practices”, and “to set up an effective monitoring and evaluation system”.

The Priority Transformation Program of the Plan includes the policy of “The Rationalization of Public Expenditures”. As far as the PPPs are concerned, this policy includes the establishment of a monitoring system and framework law. In order to realize the priorities of both Development Plan and the Priority Transformation Program and also to finish the duties given in the 64th Government Action Plan, MoD has started the preparation of the Draft PPP Strategy and a Draft PPP Framework Law where the preparations of the related documents are planned to be finished by the end of 2016.

Besides there is a comprehensive PPP institutional capacity strengthening program coordinated by the MoD that is also about to start via a technical assistance project in cooperation with the World Bank to strengthen the institutional capacity of the core PPP-related public institutions in terms of contingent liability, project documentation and project management cycles.

SMEs

5. Emerging Companies Market (Facilitator): With the enactment of the recent regulations, an *Emerging Companies Market* was established at the Borsa Istanbul where the shares of the SMEs are exclusively traded. Furthermore, Borsa İstanbul, taking Nasdaq as a model, has recently created a new trading platform through which SMEs are enabled to obtain pre-IPO funds from qualified investors and angel investors. In addition, the preparations for the legislative framework for crowd funding is in progress in order to implement equity-based crowdfunding in Turkey as an alternative financial instrument for early-stage entrepreneurs. The public authority will have a central role in



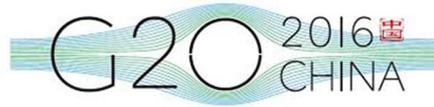
establishing and supervising the system in order to avoid the risks such as fraud, failure of investment and money laundering.

6. Secured Transactions Law (Facilitator): In Turkey, most of the financial institutions require immovable property as collateral especially for SMEs to extend credits. Preparing an appropriate legal structure through which movable assets can be effectively used as collateral will significantly improve access to finance. Therefore, Turkey has been drafting a law on secure transaction systems and collateral registries in order to ease access to finance of SMEs. This kind of secured transaction system will increase the level of credit and maturity.

7. Public Credit Guarantee Scheme (Facilitator): Started in 2009, Public Credit Guarantee Scheme aims to support SMEs. Within the system, the Treasury committed to transfer funds up to TL 2 billion to Credit Guarantee Fund. In February 2015, scope of the system has been extended in order to support SMEs that otherwise cannot secure financing from commercial lenders. In addition to SME's, women entrepreneurs, young entrepreneurs, manufacturing sector, ship building sector, travel agencies and airline companies now can also benefit from the system. In 2015, an amount of TRY 734 million credit guarantee was provided for around 900 firms. This program will be in place until the end of 2017.

8. Creating New Financial Instruments (Facilitator): Turkey has introduced a new system to encourage angel investments in 2013. It aims to encourage angel investment as a new instrument for SMEs at their early stages, increase professionalism, make angel capital an institutionalized and trustworthy source of finance, and provide state supports. In practice, Turkey licenses business angels who want to benefit from tax incentives for their investments. Accordingly, 75 percent of the participation shares of qualifying (private venture companies held by “business angels” can be deducted (the ratio is increased to 100 percent for the special supported ones) from the business angels annual income tax base. Moreover, the Government financially contributes to the venture capital funds that directly invest through the fund of funds system.

9. Fostering Entrepreneurship and SME Development (Safeguard): SMEs' capacity for further integration to global markets is aimed by improving their R&D, innovation and export capacities. SMEs will be supported by structures help in forming clusters among themselves and with larger enterprises, universities and research centers. In addition, the recently launched “Action Plan for Commercialization in the Priority Technology Areas” covers the steps needed for developing global competitiveness through increasing the number of high-tech products and brands in the priority sectors, and transforming Technology Development Zones into a sector-focused structure.



Annex 1. Past commitments – Brisbane and Antalya commitments

Brisbane and Antalya Key Commitments for Monitoring Purposes

Increase the ratio of general R&D expenditures to GDP 1.80% by 2018 from 0.95% in 2013, and the share of SMEs in R&D expenditures to 20% in the same period from 17% as of 2013			
	Interim Steps for Implementation	Deadline	Status
Detailed implementation path and status	1 – Existing mechanisms supporting cooperation between technology development zones, organized industrial zones, R&D Centers, technology platforms, sets and public and private sector research centers will be revised, efficiency of mechanisms will be assessed and new mechanisms of cooperation will be produced.	1 – December 2015	By the end of 2014, the ratio of general R&D expenditures to GDP is %1.02. (2012: %0,92 and 2013: %0,95) 1- Completed. A comprehensive law on R&D has been enacted on February 16 th , 2016. The law envisages extending the PIT incentives for the personnel in R&D design centers, for post-doc students and for the students working at University-Industry cooperation projects. There are also several articles that improve cooperation among technology development zones, universities and organized industrial zones. The law also envisages government support to joint R&D projects of SMEs.
	2 – The need for accreditation tests will be determined. In line with this, the capacity of test infrastructure will be enhanced.	2- June 2016	
	3 – Research programs to develop local products and technologies in sectors with high external dependence will be supported. The number of activities like advertisements, workshops and exhibitions will be increased in priority areas.	3 –December 2018	3- With law 6676, Particular focus will be given to the strategically important sectors in the technology development zones.

	<p>4- Actions to attract R&D oriented foreign investments (such as seminars, advertisements and exhibitions) in priority areas will be taken.</p> <p>5- Technology development zones will focus on priority sectors and efficiency in R&D activities of firms will be analyzed.</p> <p>6- Capacities of technology transfer offices regarding to industrial properties will be increased. Industrial property education, patent appointment system and patent preliminary survey will be carried out to boost industrial property rights.</p>	<p>4-December 2018</p> <p>5- June 2016</p> <p>6- December 2018</p>	<p>5- With the law 6676, thematic technology development zones will be established (with a particular focus on strategically important sectors). The software developed at these zones will be exempt from VAT and the imported products will be exempt from customs tax. Employment of foreign nationals at these zones will be facilitated.</p> <p>6 – A new patent law will be enacted by the Parliament. The draft law has been accepted by the parliamentary commission.</p>
<p>Impact of Measure</p>	<ul style="list-style-type: none"> - Increasing number of technological products and brands in priority sectors, which promotes competitiveness - Promoting the rate of total factor productivity in industry sector - Boosting share of priority sectors in production capacity and export volume of manufacturing industry - Raising number of qualified researchers and employing them in private sector more widely - Upgrading number of research centers, business incubators, technology development centers and innovation centers - Making technology development zones more sector-based - Facilitating technology transfer - Increasing number of accredited institutions in R&D from 756 (2014) to 931 (2018) - Increasing number of corporations that has R&D center certificates from 170 (2014) to 225 (2018). - Boosting R&D experiment of private sector by %100 until the end of 2018. 		

Raise employment through updated curricula for vocation schools, improving ALMPs, developing for target groups and introducing conditionality for social benefits			
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1 – Impact of Active Labor Market Programs will be assessed and redesigned.	1 – December 2015	<p>1-For the purpose of adapting to developing labor market conditions and providing more efficient services to job seekers, various amendments were made in the Regulation on Active Labor Services published on 13 March 2013 by Turkish Employment Agency to set the procedures and principles of vocational training courses, on-the-job training programs, public works and entrepreneurship training programs in the scope of active labor services carried out. The Specialized Vocational Training Centers Project (UMEM) Ability'10 Project, the largest vocational training initiative in Turkey and a unique example of Public-Private-University Partnership implemented in close cooperation of Ministry of National Education, Ministry of Labour and Social Security, National Employment Agency (ISKUR), TOBB and TOBB University of Economics and Technology has been completed as of May, 2016. The impact of the Project as a whole will be evaluated in due course accordingly.</p> <p>2-Completed. The bill has been enacted by the Grand National Assembly of Turkey. According to the legislation; social assistance beneficiaries who refuse three employment or training offers will be deemed ineligible to have social assistance benefits anymore.</p> <p>3-Completed. The bill on the improvement of the link between social assistance and employment was enacted by the Grand Assembly. The bill contains two important regulations. Firstly, the employers who employ the social assistance beneficiaries will be provided with social security premium support for up to 2 years. The second provision of the bill is the registration of social assistance beneficiaries to ISKUR.</p> <p>4-Completed. A new system named "One Touch Service" has been initiated for due assessment of situations of beneficiaries with the aim of avoiding duplications of social benefit payments. Social Assistance Information System (SAIS) has been developed in order to ensure online data sharing among related institutions for</p>
	2- Social assistance facilities utilized by unemployed people who are able to work will be diminished gradually in case they do not participate in the labor force.	2- December 2015	
	3-Social security premiums of employed people acquiring social assistance, paid by employers, will be compensated through government incentives.	3- December 2015	
	4- Information system that traces Social Benefits and Employment Records will be developed.	4- December 2015	
	5- Stretching the conditions to benefit unemployment insurance and extending length of time benefits from unemployment insurance payments.	5- January 2016	

	<p>6 – Monitoring and assessing Active Labor Market Policies across the country.</p> <p>7- Quality of vocational training will be improved in order to use public resources efficiently.</p> <p>8 –Enrolling more employees from on-the-job-training programs.</p> <p>9- Providing an appropriate education or a job for unemployed people who are able to work but get social assistance via İŞKUR.</p>	<p>6 –December 2016</p> <p>7- December 2016</p> <p>8- December 2018</p> <p>9- December 2018</p>	<p>avoiding duplication of social benefit payments. Through this system, a number of 28 separate inquiries under 13 headings can be conducted with TR Identity Numbers of citizens who apply for social assistance.</p> <p>5-Completed. By the Law No. 6663, “half time working benefit after birth and adoption” was introduced to Unemployment Insurance Law. With the amended article, half time working benefit will be paid over daily gross minimum wage to the worker (woman who gave birth a child and woman or man who adopted a child under 3 years) during the leave without pay period which is from 60 to 360 days following the birth or the adoption.</p> <p>6- Statistical data on local labor markets are monitored and evaluated in the Provincial Employment and Vocational Training Boards which are the principal policy making entities at provincial level.</p> <p>7- Completed. The Regulation on making amendments in the Regulation on Active Labor Services was published at the Official Gazette dated 12.02.2016. In the framework of the new regulation, duration of the On-the-job Training Programs was raised from 6 months to 1 year which gives employers the opportunity to familiarize with candidates to be employed, and give the unemployed and students the opportunity to learn the jobs and earn minimum wage. Moreover, all agencies, institutions and work places with at least 2 insured employees in the private sector are eligible for the on-the-job training programs. University students are eligible to benefit from the vocational training courses while high school students are eligible to benefit from the on-the-job training programs.</p> <p>8- In progress</p> <p>A total number of 159.076 people participated in 76.934 on the job training programs in 2015.</p> <p>9-In progress</p>
<p>Impact of Measure</p>	<ul style="list-style-type: none"> - Boosting productivity of labor force via more qualified jobs. - Strengthening the connection between social assistance and employment, and promoting 100.000 more people receiving social assistance to participate in labor force by the end of 2018. - The impact of raising employment measures through updated curricula for vocational schools, improvement of ALMPs, updated programs for target groups and introduction of conditionality for social benefits will be monitored through 		

	<p>institutional data base and statistics; i.e. particular attention will be given to the increased number of employed people, decreased number of social assistance beneficiaries, the number of enrolled employees from on-the-job-training programs, the number of updated curricula for vocational schools, the shortened period of unemployment. etc.</p> <p>- Unemployment insurance coverage is limited, but budget resources for active labour market policies more than doubled between 2015 and 2016. The number of participants in the subsidized on-the-job training programmes increased from 12 000 in January-February 2015 to 37 000 in the same period of 2016.</p>
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Increasing woman employment through creating a balance between work and family, introducing incentive regulations and promoting entrepreneurship			
	Interim Steps for Implementation	Deadline	Status
Detailed implementation path and status	1-Providing part-time working opportunity to mothers, following the maternity leave, for about 6 years (until the child is at primary school starting age.)	1 –December 2015	1-Completed. By the Law No. 6663, “half time working benefit after birth and adoption” was introduced to the Unemployment Insurance Law. With the amended article, half time working benefit will be paid over daily gross minimum wage to the worker (woman who gave birth a child and woman or man who adopted a child under 3 years) during leave without pay period which is from 60 to 360 days following the birth or the adoption.
	2 – Increasing the number of day care centers owned by private sector	2 –June 2016	2-In progress 3-In progress
	3 – Increasing the number of services for children and day care centers in order to reduce caring responsibilities of women.	3-December 2016	<p>“The Project on Support to Registered Women's Employment Through Child Care Services at Home” implemented by Social Security Administration and co-financed by The Republic of Turkey and the European Union was initiated in March 2015.</p> <p>With the implementation of Child Care Services at Home Project, it was aimed both at facilitating the participation or return of women back to working life who bear nursing responsibilities for their infants and also increasing the registered employment of unregistered babysitters.</p> <p>Within the scope of the Project, which will be completed in the third quarter of 2017; first 5000 applicant mothers will be provided with financial support up to 24 months with a total of over 38 million euros provided that they fulfill the required conditions.</p>

	<p>4- Preparing and implementing “Program of Women Entrepreneurship”</p> <p>5- Raising awareness by women for entrepreneurship opportunities.</p> <p>6- Providing vocational courses for women benefiting from social assistances.</p> <p>7- Enhancing the share of women in labor force employed by İŞKUR</p>	<p>4- December 2018</p> <p>5- December 2018</p> <p>6- December 2018</p> <p>7- December 2018</p>	<p>4- Project titled as “More and Better Jobs for Women: Women’s Empowerment through Decent Work in Turkey” is being implemented.</p> <p>5- A project titled as “Finance and Advise for Women in Business” was launched in 2014, targeting SMEs with a majority shareholding of women and/or managed by women. Finance and advice support is provided for the beneficiaries of the project. 6,500 female entrepreneurs have received funding and advice as of March 2016.</p> <p>Also, “Women Employment Action Plan” was finalized in December 2015 and it is supposed to be implemented by İŞKUR in 2016-2018 period.</p> <p>6- In progress</p> <p>7- In progress</p> <p>By the end of 2015, according to İŞKUR’s figures, the number of women that were placed into a job increased by 17% compared to 2014.</p> <p>The number of women in ALMPs has increased by 91% compared to 2014. The share of women in ALMPs has also increased during this period from 53% to 55%.</p>
<p>Impact of Measure</p>	<p>- Eliminating obstacles faced by all working mothers, to <i>raise labor force participation of women</i>.</p> <p>- Fostering entrepreneurship among women by means of various activities, events and incentives.</p> <p>-The impact of Increasing women employment through creating a balance between work and family, introducing incentive regulations and promoting entrepreneurship will be monitored through institutional data base and statistics. Particular attention will be given to the increased number of day-care centers in private sector, increased number of services for children and day care centers in order to reduce caring responsibilities of women, increased number of entrepreneur women, decreased number of social assistance beneficiaries among women, and raising labor market participation of women to % 34,9 and employment rate of women to %31 at the end of the Development Plan Period.</p>		

Increase competition by reviewing the legislation and other issues which prevents business environment to improve			
	Interim Steps for Implementation	Deadline	Status
Detailed implementation path and status	<p>1 – Cost of establishing a company and opening a branch will be reduced.</p> <p>2 – Number of licenses will be reduced and licenses will be simplified and harmonized.</p> <p>3 – Land allocation and permission process for <i>critical</i> investments will be accelerated.</p> <p>4- Number of judges and prosecutors will be increased to international levels. There will be expert positions to support judges and prosecutors at decision making processes.</p> <p>5- Effectiveness of the arbitration courts of employee associations will be increased through seminars and vocational educations to accelerate execution of contracts.</p> <p>6- Taking into account international procedures and needs, specialization in courts will be expanded especially for labor and commercial disputes.</p> <p>7-Laws, regulations and practices of high courts will be translated into foreign languages. A guidance including judicial procedure is will be prepared for foreigners.</p> <p>8-Time management processes will be developed for the courts to expedite trials.</p> <p>9- Indicators to evaluate business environment will be developed and surveys will be conducted.</p> <p>10- Reports will be prepared to assess Business Environment and Investment Climate in regional and national levels.</p>		<p>The process of scanning the legislation that is not compatible with the competition rules was completed in 2015. The results were presented in a document, identifying the most relevant and problematic areas with a list of regulations and legislations that may have a more propensity to infringe competition. TCA has been considering a prioritization process to handle the inconsistency between the identified legislation and competition rules. After this process, some measures may be taken to revise the legislation restricting competition, in consultation with the relevant parties.</p>

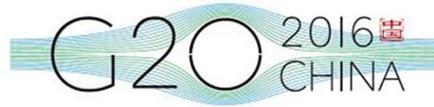
Impact of Measure	<ul style="list-style-type: none"> -Promoting ease of doing business through improving the implementation of proper laws and regulations - Increasing level of <i>foreign direct investment</i>. -Increasing share of private sector investment in GDP by % 5 until the end of 2018.
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Boost trade with implementation of the WTO Trade Facilitation Agreement			
	Interim Steps for Implementation	Deadline	Status
Detailed implementation path and status	<ul style="list-style-type: none"> 1 –Translation of the Agreement 2 – Submission of the Agreement to the relevant Committees of the Grand National Assembly 3 –Adoption of the Agreement to the General Council of the Grand National Assembly 4-Ratification of the Agreement by the Council of Ministers and publishing at the Official Gazette 		<p>Completed.</p> <p>Turkey has completed the ratification process of the Agreement on the 5th March 2016. Accordingly, Turkey has submitted its instrument of acceptance to the WTO on the 16th of March 2016.</p>
Impact of Measure	<p>- OECD’s quantitative analysis for a group of countries, which includes Turkey, shows that Turkey would see increased trade volumes and reduced trade costs from continued improvements in many areas covered by the WTO Trade Facilitation Agreement, including a full implementation of a Single Window. Besides this, on June 2015 report by the OECD on Trade Facilitation Indicators, Turkey was assigned a higher level than the OECD average in the areas of appeal procedures and governance and impartiality. Additionally, Turkey has improved its performance in the areas of information availability, advance rulings, the simplification and harmonization of documents, automation, streamlining of border procedures, internal border agency cooperation and governance and impartiality between 2010 and 2015.</p> <p>Overall, Turkey endeavors to maintain trade facilitation measures aiming at the reduction of administrative costs, waiting times for multilateral trade, enhancing the predictability and transparency of customs procedures. Thus, it has actively participated in trade-facilitation negotiations by submitting and co-sponsoring proposals on topics such as electronic payments, disciplines on fees and charges and freedom of transit.</p> <p>- OECD findings suggest that the full implementation of the Agreement could reduce total trade costs by 13% in upper middle income economies and by up to 15% in other developing countries.</p> <p>- According to the various studies, the benefits of the Trade Facilitation Agreement to world economy are calculated to be between \$ 400 billion- \$1 trillion by reducing cost of trade between %10-15. Reducing global trade costs by just 1% would increase worldwide income by more than US Dollars 40 Billion; 65% of which would accrue to developing countries.</p>		

Other Non-key Commitments

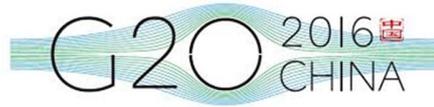
	Helping SMEs' participation in the GVCs
<p>Implementation path and expected date of implementation</p>	<p>Turkey will improve the R&D capacity and human capital structure of the SMEs and support their clustering activities.</p> <p>It is indicated in the 10th Development Plan of Turkey for the period of 2014-2018 that it is important to reach upper levels in the GVCs through creating a sustainable high technology product structure.</p> <p>In line with this policy vision, general R&D expenditures to the GDP ratio will be increased to 1.80% by 2018 from its current level of 1.01% in 2014. The share of SMEs in R&D expenditures will be increased to 20% in the same period from 17.4% as of 2014.</p> <p>Furthermore, technical trainings and consultation activities are planned for improving the human capital of the SMEs.</p> <p>In order to find joint solutions for joint problems, SMEs are encouraged to come together and establish joint procurement, design, marketing, production and services structures. Thus, the aim is increasing the capacity and competition power of the SMEs by acting together.</p>
<p>Status of Implementation and Impact</p>	<p>On track.</p> <p>Under Turkey's G20 Presidency, Report on «Inclusive Global Value Chains: Policy options in trade and complementary areas for GVC Integration by small and medium enterprises and low-income developing countries» was prepared and submitted by the OECD and World Bank Group to G20 Trade Ministers Meeting in Istanbul/Turkey on the 6th of October, 2015.</p> <p>In addition, the international agenda on GVCs, including analytical work and policy papers, are followed closely, which has helped Turkey to acquire capacities on the notion.</p> <p>The first group of the Priority Transition Programs within the framework of the 10th Development Plan of Turkey have been started to be implemented as of November 2014. These programs include action plans on Commercialization of Priority Technology Fields including actions on improving R&D and human capacities, and clustering activities of the SMEs. These plans will be implemented through January 2015 to December 2018.</p> <p>The second group of Priority Transition Programs that were launched on December 2014 also includes an action plan on Increasing Productivity in the Production Processes, which encompasses actions on improving the capacities of the SMEs and encouraging their clustering activities that are planned to be implemented through January 2015 to December 2018.</p>

	Improving and liberalizing the services sector, especially in the logistics services area
<p>Implementation path and expected date of implementation</p>	<p>Turkey aims to further increase the share it gets from global services trade, therefore favors liberalization efforts at every level.</p> <p>Thus, Turkey will continue to actively and constructively engage in trade in services negotiations (TiSA) as well as including services trade in its FTAs. Moreover, in 2017 Turkey and EU will start negotiations to update the Customs Union. Although the modalities have not been determined yet, liberalization of services is part of the package.</p> <p>In parallel of the developments in world economy, the importance and role of services trade in Turkish economy has been increasing. Services sector comprised 63.7% of the Turkish GDP in 2014 and contributed to employment by 58.4% at the end of 2014.</p> <p>With an aim to determine policies to boost the competitive power of the services sector, Turkey plans to conclude the first stage of the International Services Trade Statistics Project by 2016.</p> <p>The average estimated growth rate for 2014-2018 period is 5.5% and services sector is expected to contribute to the value added by 61.9% in this period.</p> <p>Turkey intends to re-construct its railway and port management system, eliminate logistic barriers restricting trade, and establish logistical centers abroad.</p> <p>The logistics master plan which aims to transform Turkey into a regional logistics hub is expected to be concluded by 2018. Once concluded, it is believed that it would decrease costs of companies in logistics.</p> <p>As many infrastructural problems hamper the physical trade routes, Turkey plans to build the hinterland of its ports with railroad and container transport terminals as well.</p> <p>Logistics centers are aimed to be established abroad to diminish time and storage capacity scarcities. Central Asia, South Caucasia, China and the USA are being worked on.</p> <p>Turkey has also been actively working on liberalizing transit passages and abolishing the road transit passage documents that hamper bilateral and regional trade flows.</p>
<p>Status of Implementation and Impact</p>	<p>On track.</p> <p>The countries with which Turkey is negotiating services under its FTA's are EFTA, Pakistan, Japan, Mexico, Peru, Chile, Bosnia-Herzegovina and Ukraine. Turkey is negotiating a limited-scope trade in services and investment agreement with the Russian Federation covering only services and investment topics.</p> <p>Turkey is also planning to negotiate trade in services agreements with Albania, Kosovo, Macedonia, Georgia and Malaysia in order to deepen its FTAs with these countries. Moreover, Turkmenistan, Azerbaijan, Belarus, and Kazakhstan are among the countries that Turkey has an intention to negotiate services agreements.</p> <p>Turkey has concluded services trade negotiations under its FTAs with Korea and Singapore; agreements signed on 25 February 2015 and 15 November 2015 respectively. Both agreements are under internal ratification process.</p> <p>Trade liberalization is one of the components of the EU-Turkey Customs Union Update Process, negotiations of which will commence in 2017.</p>



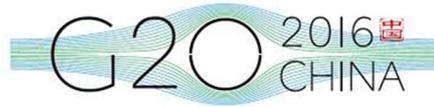
	<p>Trade in services agreements creates legal certainty and predictability which is vital for service providers and investors. These negotiations are important to constitute a secure path for our business industry. In terms of choosing negotiating partners Turkey is more inclined to focus on the region where the outward investment is dense and potential trade in services volume is high.</p> <p>The first group of the Priority Transition Programs within the framework of the 10th Development Plan of Turkey that were launched on November 2014 includes an action plan on Transition Program from Transportation to Logistics. Accordingly, the logistics master plan have been started to be prepared in 2014 and is expected to be concluded by the end of 2017. Similarly, the report on the logistics center to be established abroad will be finalized by the end of 2015 and together with the private sector these centers are planned to be established and operationalized by the end of 2017.</p> <p>This action plan also encompasses actions towards improving physical conditions and meeting infrastructural needs.</p>
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	Reducing trade restrictive measures and traditional barriers to trade
Implementation path and expected date of implementation	<p>Turkey will conclude its ongoing FTA negotiations and start new ones.</p> <p>Turkey previously signed TCAs with China, Ukraine, Azerbaijan, Iran, Lebanon, Israel and Bulgaria.</p> <p>Turkey will seek to conclude TCAs with its trading partners in the coming period so as to ensure smooth market access thereby decreasing technical barriers to trade. Besides, Turkey will be closely following the negotiations of EU with third countries on MRAs and Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAAs) so as to negotiate parallel agreements.</p> <p>Furthermore, Turkey will seek to sign “Action Plans” with aim of enhancing the implementation of TCAs.</p> <p>Turkey and the EU will commence negotiations aimed at expanding the scope of their commercial and economic ties through the upgrading of their Customs Union (CU), to include services, agriculture and public procurement, thereby also tackling the asymmetry embedded with the CU. The process will involve stakeholder meetings, impact analyses, drafting of the pre-negotiation paper and the acquisition of a mandate.</p> <p>Official negotiations are expected to start by the first quarter of 2017 and to last through 2018.</p>
Status of Implementation and Impact	<p>On track.</p> <p>Turkey has ongoing FTA negotiations with 12 countries/country blocs; namely Peru, Ukraine, Colombia, Ecuador, Mexico, Japan, Dem. Rep of Congo, Cameroon, Seychelles, Gulf Cooperation Council, Libya and MERCOSUR.</p> <p>Turkey has launched initiatives to start FTA negotiations with 10 countries/country blocs, which are the USA, Canada, Thailand, India, Indonesia, Vietnam, Central American Countries, other ACP Countries, Algeria, and South Africa.</p> <p>Negotiations towards the signing of new TCAs with important trading</p>



	<p>partners of Turkey are currently underway.</p> <p>Accordingly, Turkey has recently signed a TCA with the Turkish Republic of Northern Cyprus on August 12, 2016.</p> <p>With the objective of realizing the cooperation under the TCA, “Action Plan (2015-2017)” on the implementation of the TCA with Azerbaijan was signed on April 28, 2015.</p> <p>Moreover, “Action Plan (2016-2018)” on the implementation of the TCA with Ukraine has been signed on May 13, 2016.</p> <p>Negotiations are currently continuing regarding the revision of the MRA with EFTA states.</p> <p>Deliberations on the upgrading of the Customs Union began as of the first quarter of 2014.</p> <p>On 12 May 2015, the Senior Level Working Group (SLWG) agreed on a report outlining the scope of the upcoming negotiations.</p> <p>Impact analyses and the pre-negotiation paper are en route to be completed by the end of the first half of 2016.</p>
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	<p>The revision of the effects of “Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position” and “Regulation On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles</p>
<p>Implementation path and expected date of implementation</p>	<p>The Competition Board is expected to issue “<i>Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position</i>” and “<i>Regulation On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles</i>” in 2015.</p>
<p>Status of Implementation and Impact</p>	<p>The revision for the effects of “Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position” has been discontinued.</p> <p>Regarding the revision of the “Regulation On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles”</p> <ol style="list-style-type: none"> 1 – Study Groups were formed, 2 – Draft Regulation was prepared and sent to both internal and external stakeholders and 3 – All of the views were combined in the final product and the final product is submitted to the Competition Board. <p>The Competition Board is still reviewing the final product of this regulation.</p>

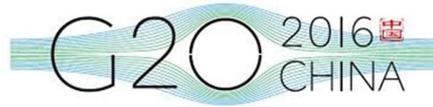


Amendment of The Act on the Protection of Competition	
Implementation path and expected date of implementation	
Status of Implementation and Impact	The draft is finalized by the sub-commission and submitted to the parliamentary commission in 2015. However, the commission couldn't complete its views on the draft in 2015 and thus couldn't send it to the parliament. The amendment has become null and void since the deadline for submission to the parliament had passed.

Investment Strategy Commitments

	Facilitators	Safeguards
Investment Ecosystem	<p>1. Enhancing the Business and Investment Environment: Main actions include:</p> <ul style="list-style-type: none"> - Creation of a mechanism to facilitate and accelerate business permits and land allocation processes, - Integration of electronic systems, simplification of business licenses and working permits, - Regulations to ensure faster settlements of legal disputes, increasing the level of specialization of the legal capacity and framework for dispute resolution and -Increasing the public-private dialogue via high level meetings of the <i>Council for the Improvement of Investment Environment (YOİKK)</i>. <p>The consultative process of YOİKK contributed to the amendments below regarding the investment climate:</p> <ul style="list-style-type: none"> • Istanbul Arbitration Center, which is an important pillar of the Istanbul International Finance Center Project, became operational. • Law on International Labor Force” was published in the Official Gazette on August 13, 2016. • “Law Amending Certain Laws to Improve the Investment Climate” which was published in the Official Gazette on August 9, 2016, addressed major tax issues. • Personal Data Protection Law No. 6698 was published in the Official Gazette on April 7, 2016. • In February 2016, Law Amending the Law on Research and Development and Certain Laws and Statutory Decrees was adopted. • In January 2016, Law Amending the Law on Income Tax and Certain Laws • In December 2015, Law no. 6656 which amends some articles on setting up aquaculture facilities was adopted • In December 2015, Law no. 6655 was which amends some articles of VAT, Income Tax, Individual Pension System, General Health Insurance was adopted 	

	<p>2. Capital Market Reforms and Policies for the Banking System: Turkey has paced the reform package comprising financial inclusion, financial literacy, and introduction of new instruments and enhancing institutional coordination.</p> <p>With the recent promulgation of the capital market reforms, there have been some improvements in some indicators such as institutional investor size, issues of corporate bonds and the share of private sector securities within the overall stock. In order to foster investor trust, corporate governance regulation for listed companies is enhanced to include mandatory implementation of several corporate governance principles. In addition, Turkey has simplified the processes involved in the public issue and offer of securities, particularly for equities and bonds, in order to encourage companies to raise funds from capital markets.</p> <p>Turkey has also put in place regulations on venture capital investment funds as well as real estate investment funds and investment companies. In particular, the revised regulation on real estate investment companies involves rules that introduce an alternative investment for financing of infrastructure projects especially by <i>qualified investors</i>. Also, a measure to promote long-term financing environment, new regulations regarding portfolio custody services, mutual funds, asset-backed and mortgage backed securities, covered bonds and mortgage financing companies were put into effect recently. To enable investors to access units of all funds and to increase competition between investment funds, a central electronic platform (TEFAS) for trading investment fund units was established. Also in relation to institutional investors, investment companies with variable capital were introduced as a new type of collective investor in the Capital Markets Law.</p> <p>Additionally, with a view to diversify the instrument base, Turkish Sukuk regulation was revised and currently, all the five internationally acknowledged types of Sukuk are available to the Turkish market. On the other hand, in order to contribute to the development of capital markets, on June 24th, 2016, CMB announced a 50% discount in fees which are charged from public offerings, sukuk issuances and issuances of real-estate certificates. In April 2016, Law no. 6637 which amends tax incentives for cash capital increases was adopted. In February 2016, the European Securities and Markets Authority (ESMA) has reviewed Turkish legislation governing prospectus disclosure requirements and concluded that a prospectus drawn up against Turkish requirements can constitute a valid prospectus under the Prospectus Directive for the purposes of its approval by the home competent authority of a European Member State.</p>	
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	Facilitators	Safeguards
Infrastructure	<p>Program to Upgrade the Transportation Sector: An Action Plan (2014-2018) has been prepared and Logistics Coordination Council was established. The Plan aims to design a Port Authority Model and revise the Coastal Structures Master Plan to implement port capacities in an effective manner in view of the rising foreign trade volume of Turkey.</p> <p>The National Transportation Master Plan (2015-2018) will facilitate the development of a sustainable, safe, secure, accessible, inclusive, fast and technologically innovative transport sector and transport infrastructure that will support competitive logistics. The Master Plan considers national and international transport development strategies and evaluates geo-strategic position of Turkey with respect to all subdivisions of transport sector in order to integrate Turkey to the international transport corridors.</p>	<p>Improving the Institutional Capacity for PPPs: The Tenth Development Plan aims to:</p> <ul style="list-style-type: none"> - Improve institutional capacity on the public side to increase the quality of the PPP process as a whole”, - Adopt a framework law in order to compile the scattered PPP legislation, - Strengthen the coordination of PPP policies and practices”, and -Set up an effective monitoring and evaluation system”. <p>MoD has started the preparation of the Draft PPP Strategy and a Draft PPP Framework Law where the preparations of the related documents are planned to be finished by the end of 2016.</p> <p>Besides there is a comprehensive PPP institutional capacity strengthening program coordinated by the MoD, which is also about to start via a technical assistance project in cooperation with the World Bank to strengthen the institutional capacity of the core PPP-related public institutions in terms of contingent liability, project documentation and project management cycles.</p>

	Facilitators	Safeguards
SMEs	<p>Emerging Companies Market: With the recent regulations an <i>Emerging Companies Market</i> was established at the Borsa Istanbul where the shares of the SMEs are exclusively traded. Furthermore, Borsa Istanbul, taking Nasdaq as a model, has recently created a new trading platform through which SMEs are enabled to obtain pre-IPO funds from qualified investors and angel investors. In addition, the preparations for the legislative framework for crowd funding is in progress in order to implement equity-based crowdfunding in Turkey as an alternative financial instrument for early-stage entrepreneurs. The public authority will have a central role in establishing and supervising the system in order to avoid the risks such as fraud, failure of investment and money laundering.</p> <p>Secured Transactions Law: In Turkey, most of the financial institutions require immovable property as collateral especially for SMEs to extend credits. Preparing an appropriate legal structure through which movable assets can be effectively used as collateral will significantly improve access to finance. Therefore, Turkey has been drafting a law on secure transaction systems and collateral registries in order to ease access to finance of SMEs.</p> <p>Public Credit Guarantee Scheme: Public Credit Guarantee Scheme started in 2009. Within the system, the Treasury committed to transfer funds up to TL 2 billion to the Credit Guarantee Fund. In February 2015, scope of the system has been extended in order to support SMEs that otherwise cannot secure financing from commercial lenders. In addition to SME's, women entrepreneurs, young entrepreneurs, manufacturing sector, ship building sector, travel agencies and airline companies now can also benefit from the system. In 2015, an amount of TRY 734 million credit guarantee was provided for around 900 firms. This program will be in place until the end of 2017.</p>	<p>Fostering Entrepreneurship and SME Development: The recently launched “Action Plan for Commercialization in the Priority Technology Areas” covers the steps needed for developing global competitiveness through increasing the number of high-tech products and brands in the priority sectors, and transforming Technology Development Zones into a sector-focused structure.</p>

Annex 2. New and Adjusted Policy Commitments since Antalya

Employment

New commitment	Minimum wage hike
Implementation path and expected date of implementation	The minimum wage was raised by 30 percent in January 2016 with the consensus of the social partners. The wage hike does affect about 8 million people directly and is expected to affect other wages indirectly.
What indicator(s) will be used to measure progress?	Overall wages of employees
Explanation of additionality or adjustment (where relevant)	Although it is still early to see the net impact of the hike, the increase in overall wages was realized as around 16 percent as of the first quarter of 2016.

New commitment	Reducing the share of young people who are most at risk of being permanently left behind in the labor market by 15% by 2025.		
	Interim Steps for Implementation	Deadline	Status
Implementation path and expected date of implementation	<p>1- Monitoring the effectiveness of labor force training programs for long-term unemployed, determination of deficiencies and taking additional measures</p> <p>2- Promoting youth entrepreneurship</p>	<p>1- Continuous</p> <p>2- Continuous</p>	<p>1. In progress</p> <p>Current situation: Turkish Employment Agency (İŞKUR), has decreased the duration of active job-seeker registration from 18 months to 12 months, with the aim of making the services more dynamic and efficient for unemployed people.</p> <p>2. In progress</p> <p>Current situation: Turkish Government has released an incentive package for the use of new young entrepreneurs, who set up their own business for the first time with the age bracket of 18 to 30 years. According to the incentive, these youngsters will be provided with TL 50,000 as grant and plus an amount of TL 100,000 interest-free credit. In addition to the financial support, the state renounces its income tax from the incentive beneficiary for a period of 3 years. Besides, one year's salary of the young people who find a job for the first time will be covered by the state within the scope of the package.</p>

	<p>3- Providing career planning, job-search assistance, matching and guidance services to youngsters</p> <p>4- Supporting youngsters with labor force trainings</p> <p>5- Developing interfaces by establishing cooperation with relevant institutions in order to foster internship and on-the-job training programs</p>	<p>3- Continuous</p> <p>4- Continuous</p> <p>5- Continuous</p>	<p>3. In progress</p> <p>An individual approach will be adopted for easing school-job transition of youngsters and individual employment action plans will be prepared for each young.</p> <p>4. In progress</p> <p>A sectoral approach will be followed while choosing the sectors of vocational training activities, practical training and on-the-job training programs will be promoted.</p> <p>5. In progress</p>
What indicator(s) will be used to measure progress?	Duration of active job-seeker registration, incentives for new young entrepreneurs, quality of vocational education and training, number of internship and on-the-job training programs		
Explanation of additionality or adjustment (where relevant)	As of May 2016, youth unemployment rate in Turkey is 17.4 percent and Turkey is taking necessary measures to reach the 15 percent youth unemployment rate. . Besides that, in monitoring of the commitment, Turkey as well as the other G20 countries have been reflecting their labor force market reforms and developments through self-reporting mechanism prepared on annual basis with the technical assistance and inputs of IOs.		

Investment

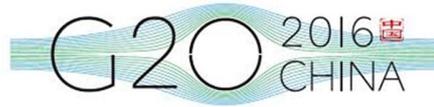
New commitment	National Transportation Master Plan (2015-2018)
Implementation path and expected date of implementation	Turkey is accelerating the PPP transportation projects via using innovative financial mechanisms in line with its comprehensive National Transportation Master Plan (2015-2018).
What indicator(s) will be used to measure progress?	Number of transportation infrastructure investments -including PPP transportation projects- considering efficiency of the PPP projects, competitiveness of logistics-intensive sectors

Explanation of additionality or adjustment (where relevant)	<p>The National Transportation Master Plan (2015-2018) will facilitate the development of a sustainable, safe, secure, accessible, inclusive, fast and technologically innovative transport sector and transport infrastructure that will support competitive logistics and increase the welfare of the Turkish citizens and competitiveness of Turkish economy. The Master Plan also considers national and international transport development strategies and evaluates geo-strategic position of Turkey with respect to all subdivisions of transport sector in order to integrate Turkey to the international transport corridors.</p>
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New Commitment	<p>Establishment of fund of funds for early stage investing in innovation-driven enterprises, as well as crowdfunding and co-financing mechanisms, and strengthening the legal infrastructure on microfinance</p>
Implementation path and expected date of implementation	<p>To be completed by the end of 2016, the Treasury has already announced the Turkey Investment Fund (fund of funds for early stage companies). Legislative work for co-financing and equity-based crowdfunding mechanisms is underway.</p> <p>We are working on draft regulation on microfinance institutions to strengthen the legal infrastructure.”</p>
What indicator(s) will be used to measure progress?	<p>Establishment of fund, fund size and new legislation.</p>
Explanation of additionality or adjustment (where relevant)	<p>These new fund of funds and legislation for co-financing and equity-based crowdfunding will accelerate the establishment and financial support of early-stage innovation-driven enterprises by means of funding the existing or new angel groups and VCs to further support start-ups, also enabling smaller contributions of public and creating new banking mechanisms based on co-financing, which is a relatively new basis for risk management.</p> <p>In Turkey, microfinance services are provided mainly by NGOs, however there is not a stand-alone regulation for microfinance. Once enacted, the new regulation is expected to strengthen the legal infrastructure.</p>

Competition

New Commitment	<p>Meetings with Chambers of Commerce and Universities</p>
Implementation path and expected date of implementation	<p>In progress. Totally, fourteen meetings were carried out. Five of them were held in the chambers of commerce and other nine meetings were held at universities.</p>
What indicator(s) will be used to measure progress?	<p>Number of meetings held.</p>
Explanation of additionality or adjustment (where relevant)	<p>TCA has been planning to include most of the cities with significant commerce or manufacturing activity. TCA aims at explaining the basics of Competition Law to local organizations and increase awareness about the benefits of competition in general.</p>



New Commitment	Industry Reports
Implementation path and expected date of implementation	In progress. Two industry reports related to cement sector and digital publishing were prepared.
What indicator(s) will be used to measure progress?	The number of industry reports that will be presented to the public.
Explanation of additionality or adjustment (where relevant)	TCA has been focusing on some key sectors that may present the greater rewards if major competition problems will be eradicated. To this end, Industry Reports were published highlighting the dynamics of a selected industry and focusing on the sector-specific competition problems. TCA has been planning to strengthen this initiative and publish other reports in some selected industries aiming at shedding light on the structural competition problems which necessitates multi-party action.

Other New Commitments

New Commitment	Improving the Private Pension System
Implementation path and expected date of implementation	<p>The legislation allowing for auto-enrollment of employees to private pension system was published in the Official Gazette on August 25, 2016. Employees, below age of 45, will be automatically enrolled into a pension plan by their employers and, will be given the opportunity to leave the system within 2 months.</p> <p>There are a total of approximately 14 million eligible employees. The implementation will begin at the beginning 2017. It is estimated that the size of the assets under management (AuM) will reach to around TL 100 billion within a 10 year period. The expected size of participants is 7.5 million and the expected state contribution is around TL 17 billion by 2028.</p>
What indicator(s) will be used to measure progress?	The number of people taking part in auto-enrollment system, volume of savings in the system, and amount of state contribution.
Explanation of additionality or adjustment (where relevant)	The aim is fostering inclusiveness of the pension system, increasing enrollment of institutions to the system and lifting welfare of people during their retirement. This step will also help reducing current account deficit through boosting national savings and rising long-term fund supply.



Annex 3. Past commitment – St. Petersburg fiscal commitment

Medium-term projections, and change since last submission (required for all members):

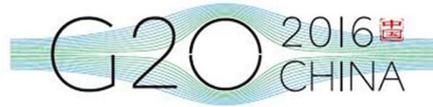
	Estimate Projections						
	2014-15*	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross Debt	33.5	32.9	31.7	30.5	29.5		
<i>ppt change</i>	0	-1.1	-1.1	-0.8	-0.5		
Net Debt							
<i>ppt change</i>							
Deficit	0.6	0.0	0.7	0.7	0.4		
<i>ppt change</i>	0	0	0.5	0.5	0.4		
Primary Balance	2.3	2.8	2.0	1.8	2.0		
<i>ppt change</i>	0	-0.1	-0.6	-0.6	-0.5		
CAPB	1.1	1.7	1.8	2.0			
<i>ppt change</i>	0.1	0					

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for growth:

	Estimate Projections						
	2014-15*	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP growth	2.9	4.0	4.5	5.0	5.0		
<i>ppt change</i>	0	1.0	0.5	0.5	0		
Nominal GDP growth	11.5	12.3	12.4	12.8	11.3		
<i>ppt change</i>	1.2	2.0	1.4	1.8	0.2		

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year. Changes (in percentage points) are the difference between the share of GDP at the 2016-18 Medium Term Plan (dated 11 January 2016) minus the share of GDP in Turkey's growth strategy 2015.



Annex 4. Pre-Brisbane commitments

Creating a sustainable energy market	
Structural reform/monetary & exchange rate policies	Action Plan
<i>Structural Reform</i>	<i>Los Cabos Action Plan</i>
Rationale for carrying forward	Improving energy efficiency reducing energy intensity and import dependence are critical to sustainable growth. Past policy commitments are still valid.
Update on Progress	<p>We target producing energy based on domestic resources, improving energy efficiency and decreasing primary energy intensity of Turkey.</p> <p>Progress will be evaluated with following performance indicators: (i) primary energy intensity (ii) decline in the energy consumption at the public buildings and (iii) use of all available domestic resources for electricity generation.</p> <p>The recent developments in this area can be listed below:</p> <p>It is planned to build two nuclear power plants in near future. Construction of the <i>Akkuyu Nuclear Power Plant</i> with about 4.800 MW installed capacity was started and it is planned to be operational in 2019. The second nuclear power plant with 4.480 MW installed capacity in Sinop will be started to build in cooperation with Japan and it is planned to be operational in 2023. Nuclear power plants will help to diversify the electricity production mix.</p> <p>The roadmap of the country about energy efficiency is determined in the <i>Energy Efficiency Strategy Paper</i>. In this paper, it is aimed to reduce the energy intensity by 20% until the end of 2023. In this context and detailed action plans were prepared for all sectors. In the 64th Government Action Plan, it is stated that “energy efficiency will be supported in buildings”. Under this goal, several meetings were held with participation of related institutions and agencies and studies about legislation and aid mechanisms regarding energy efficiency have been started recently. In addition to these, one of the goals in the 10th Development Plan is reducing energy consumption of public buildings by %10 until 2018 based on 2012 consumption indicators. In this context, the World Bank and related institutions/agencies have recently started to work on a report named “Options for Financing Energy Efficiency in Public Buildings”.</p> <p>With the new Electricity Market Law, an electricity derivative market under Borsa Istanbul and an electricity exchange market (EXIST) -which was established in September 2015- to increase flexibility and the liquidity in the electricity market. Also, studies on establishing a natural gas exchange and derivatives market are ongoing.</p> <p>Privatization of all state owned electricity distribution companies is completed by September 2013 and privatization of state owned power plants being operated by Electricity Generation Company (EUAS) have started. Privatization of 12 thermal power plants with about 6.400 MW installed capacity is completed. Also, privatization process of 3 power plants with about 3.340 MW installed capacity is ongoing. Additionally, from 2011 to end of the 2015, 50 hydroelectric power plants transferred to private sector.</p> <p>Turkey has 14.2 billion tones proven lignite reserves. Within this scope,</p>



	<p>financing process of power plants which use domestic lignite is critical issue on the Government's agenda.</p> <p>Within the target of using all available domestic energy resources, legislative studies regarding use of domestic lignite and renewables for electricity generation are ongoing. With an amendment in the New Electricity Market Law (Law No: 6446), it has been ensured that Turkish Electricity Trading and Contracting Company (TETAS) would buy electricity from domestic coal-fired power plants when necessary. Additionally, with the 18th article of the New Electricity Market Law, a purchase guarantee mechanism regarding the use of inactive state-owned lignite fields to generate electricity has been started. Turkey is geographically located in a strategic location between major gas and oil production areas of Middle East and Caspian region and major gas and oil consumption area-Europe. Considering TANAP (Trans Anatolian Natural Gas Pipeline Project) – which is the first step of the Southern Gas Corridor, current pipelines and Turkey's opportunities in Iraq, Iran and Azerbaijan's emerging natural gas and oil markets; Turkey has a big potential for becoming region's main energy hub in near future. Diversifying energy sources in Turkey will lead to better prices in Turkish natural gas and oil markets by increasing the competition in the market. Also, Turkish Stream Natural Gas Pipeline Project's negotiations between Russia and Turkey are ongoing.</p>
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Annex 5. Key Economic Indicators

Key Indicators

	2015***	2016	2017	2018	2019	2020
I. Macroeconomic Indicators						
Real GDP (% yoy)	4.0	4.5	5.0	5.0		
Nominal GDP (% yoy)	11.7	12.4	12.8	11.3		
Output Gap (% of GDP)*	-1.4	-1.0	-0.3	0.4		
Inflation (% yoy)	7.7	8.0	6.3	5.8		
General Government Fiscal Balance (% of GDP)**	0.0	-0.7	-0.7	-0.4		
Unemployment (%)	10.3	10.2	9.9	9.6		
Domestic Savings (% of GDP)	14.8	16.5	17.2	17.8		
Investment (% of GDP)	18.5	20.3	20.8	21.2		
Public Fixed Capital Investment (% GDP)	4.4	4.6	4.8	4.8		
Private Fixed Capital Investment (% GDP)	15.9	16.5	16.9	17.3		
Total Fixed Capital Investment (% GDP)	20.3	21.0	21.7	22.2		
Current Account Balance (% of GDP)	-4.5	-3.9	-3.7	-3.5		

*A positive (negative) gap indicates an economy above (below) its potential.

**A positive (negative) balance indicates a fiscal surplus (deficit).

*** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.