THE TURKISH ECONOMY

With a young, well educated, qualified and competitive work force, important domestic market, competitive and dynamic private sector, highly developed technological infrastructure in transportation, telecommunications and energy sectors; being an energy terminal and corridor in Europe, Asia, Middle East and the Mediterranean, connecting East and West, having a Customs Union with the EU since 1996 and being an accession country to the EU, Turkey is a rising economic powerhouse and a strong emerging power in the global economy.

Turkey is strategically located at the epicenter of Eurasia. This has been an asset in forging cooperative economic partnerships with its neighbourhood. Turkish membership in regional organisations such as BSEC, D-8, ECO are a reflection of the multi-pronged character and regional orientation of Turkish foreign policy in the economic sphere. On the other hand, its membership in G-20 is an indicator for its growing role as a responsible stakeholder in the global economic governance.

The Turkish economy has achieved an outstanding performance with its steady growth over the last 10 years. Sound macroeconomic strategies, prudent fiscal and monetary policies, structural reforms that the Turkish government has been pursuing in the last decade resulted in high rates of growth and increased confidence in the Turkish economy. As structural reforms have strengthened the macroeconomic fundamentals of the country, the economy grew with an average annual real GDP growth rate of 5 percent between 2002 and 2013**.** Accordingly, while Turkish GDP stood at 231 billion USD in 2002, it rose to 820 billion USD at the end of 2013. Concurrently GDP per capita soared to 10,800 USD from USD 3,500 in 2002. As such, the Turkish economy is the 17th largest in the world and the 6th largest in Europe.

Implementation of strict regulatory and supervisory regulations on banks and financial institutions provided a buffer against external shocks. Turkish experience once more demonstrated that political stability and macro economic prudence are essential for sustainable growth. Whereas many developed countries are afflicted with the aftershocks of the global economic crisis, the Turkish economy proved resilient against the turmoil of global economic downturn. While many economies have been unable to recover from the recent global financial recession, the Turkish economy expanded by 9.2 percent in 2010, and 8.5 percent in 2011, thus standing out as the fastest growing economy in Europe, and one of the fastest growing economies in the world. According to the OECD, Turkey is expected to be the fastest growing economy among the OECD members during 2012-2017 and 2018-2030 with % 5,1 and % 4,3 respectively. Due to this impressive performance and vibrant economic activities, Turkey was able to keep the unemployment rate below % 10. However, taking into account the deteriorating economic outlook engulfing our trade partners especially in Europe, economic growth was % 2.2 in 2012.However, as a result of prudential macroeconomic measures the Turkish economy expanded by % 4 in 2013. Given that EU economies are stagnating, the Turkish economic performance is noticeable.

In parallel with stable economic growth, Turkey has also reined in its public finances; ratio of external debt stock to the GDP contracted to around % 45 in 2013. Hence, Turkey has been meeting the % 60 threshold of Maastricht criterion for public debt stock since 2004. Similarly, the budget deficit decreased to % 1,2 of GDP, which is also lower than the Maastricht criterion for the budget deficit of % 3. Moreover, due to increased confidence in the Turkish economy, long term and low interest borrowing was available to both public and private sector. Thus composition and terms of external debt have been improved, relieving the government of the debt burden. Despite high growth rates Turkey was able to keep the inflation rate at around % 7. Through prudent fiscal and monetary policies the current account deficit was reduced to % 7 of GDP in 2013. While many EU member countries are afflicted with double digit unemployment rates, Turkey lowered unemployment ratio to below % 10 in an atmosphere of global economic crisis.

Reform process also included accelerating the privatization of state owned enterprises. Over the last decade, privatization efforts gained momentum. Whereas only 8 billion USD worth of public assets were privatized by 2002, the value of assets privatized during 2003-2012 period was 34 billion USD. Procedures for the privatization of 9 billion USD worth of public assets are in progress.

Cognizant of the fact that high level political dialogue, economic interdependence, cultural harmonization will serve the vision of creating a zone of peace, stability, welfare for everyone in our immediate neighborhood, Turkey has engaged its neighbors through cooperation projects. In this context, it has signed visa waiver agreements with 23 countries since 2002. Thus the number of countries to which Turkish citizens of ordinary passport holders can enter without visa has reached 65. Turkey has also instituted "High Level Strategic Cooperation Council" mechanisms with 16 countries, initiated the "Turkish-Arab Economic Forum" in 2007, established "Economic Cooperation Committee" with the Gulf Cooperation Council in 2009 etc. With a view to expanding foreign trade, Turkish Government had recourse to mechanisms to enhance its leeway in a short span of time. It has signed Free Trade Agreements with 18 countries and EFTA and negotiations are under way with 13 countries. Similarly, with a view to expanding the legal basis for fruitful economic interaction with its trade and investment partners, Turkey has accelerated the process of concluding Agreements on Avoidance of Double Taxation and the Prevention of Fiscal Evasion with 79 countries as well as Reciprocal Promotion and Protection of Investments with 92 countries. In a bid to diversify the pattern of its foreign trade, Turkey has also launched opening policies towards non traditional markets such as Africa, Latin America and East Asia. The result has been impressive. While Turkish exports were around 36 billion USD in 2002, it reached 152 billion USD in 2013. A thorough examination of our foreign trade statistics indicates that Turkey has successfully diversified its trade destinations all over the world.

Breakdown of Turkish exports by countries as percentage in 2013 is as follows:

Germany	% 9.0
Iraq	% 7,9
Iran	% 2,8
UK	% 5,8
U.A.E.	% 3,3
Russian Federation	% 4,6
Italy	% 4,4
France	% 4,2
USA	% 3,7
Spain	% 2,9
Egypt	% 2,1

Turkish imports amounted to 251 billion USD in 2013. The share of the first 10 countries from which Turkey imported most in 2013 is as follows:

Russian Federation	% 10,0
Germany	% 9,6
People's Republic of China	% 9,8
USA	% 5,0
Italy	% 5,1
Iran	% 4,1
France	% 3,2
Spain	% 2,5
India	% 2,5
South Korea	% 2,4

In parallel to its active role in the domestic economy, the Turkish private sector has made progress to open up to the world markets. Turkish contractors proved themselves quite prolific throughout the world. Turkish contractors have undertaken 6700 projects in 102 countries with a total value of 274 billion USD. At present 38 Turkish companies are included among the "Top 250 International Contractors List" with an annual turnover of 31,5 billion USD in 2013. With this figure Turkey ranked second in the world after the People's Republic of China. On the other hand Turkey is among the world's top 12 producers of building materials such as cement, glass, steel and ceramic tiles. Although the effects of global crisis in the international markets have been felt during 2012, Turkish international contracting services reached its peak with 31,3 billion USD in 2013. In 2013, Turkish contractors have undertaken 374 projects in 45 countries.

With Turkish firms becoming increasingly internationally oriented, the amount of foreign direct investments (FDI) abroad has risen exponentially. As of 2013, more than 4000 Turkish companies have invested around 30 billion USD abroad. Geographical breakdown of the Turkish investments abroad is as follows:

SAHEL (Angola, Ethiopia, Ghana, Republic of South Africa, South Sudan, Cameroon, Kenya, Madagascar, Mozambique, Nigeria, Senegal, Sudan, Zambia)
Total value of investment: 1.3 Billion USD

MIDDLE EAST (UAE, Qatar, Saudi Arabia, Oman, Palestine, Iraq, Iran, Israel, Jordan, Yemen)
Total value of investment : 4 Billion USD

NORTH AFRICA (Morocco, Tunisia, Algeria, Libya, Egypt)
Total value of investment : 900 Million USD

NORTH AMERICA (USA, Canada, Mexico)
Total value of investment : 135 Million USD

SOUTH AMERICA (Argentina, Brazil, Colombia, Chile, Venezuela)
Total value of investment : 200 Million USD

EUROPE (Germany, Albania, Austria, Belgium, Bosnia-Hercegovina, Bulgaria, Czech Republic, Denmark, Finland, France, Croatia, Holland, UK, Ireland, Spain, Sweden, Switzerland, Italy, Serbia, Montenegro, Kosovo, Greece, Slovenia, Slovakia, Poland, Portugal, Romania, Macedonia, Hungary)

Total value of investment : 14 Billion USD

ASIA-PACIFIC (Afghanistan, Australia, People's Republic of China, Indonesia, Philippines, South Korea, India, Hong Kong, Malaysia, Mongolia, Pakistan, Singapore, Thailand, Vietnam)
Total value of investment : 1.3 Billion USD

EURASIA (Azerbaijan, Belarus, Georgia, Kazakhstan, Kırgizstan, Moldova, Uzbekistan, Russian Federation, Tadjikistan, Turkmenistan, Ukraine)
Total value of investment: 8.7 Billion USD

Among the countries which have attracted Turkish investments, the Netherlands drew the largest share of Turkish foreign investments, thanks partly to its large Turkish population and liberal investment environment. Turkish investments in the Netherlands account for % 29 of total Turkish investments abroad. Azerbaijan ranks second attracting % 25 of the investments of Turkish companies. Malta ranks third with % 10 share of Turkish investments. Germany and Kazakhstan share fourth and fifth place with % 5 each, UK ranks sixth with % 4; USA, Russian Federation, Luxembourg, Romania share % 2 each.

Turkish firms did not only invest in countries like EU members, Russia, the US and China, but also in less-developed countries such as Afghanistan, Angola, Ethiopia, Ghana and Colombia. This situation was also an outcome of the government's new foreign trade strategy, which aims to diversify the country's economic and commercial partners.

Turkish companies made the highest capital transfer on the energy industry. Turkey invested around 4 billion USD on energy, 3 billion USD on banking, 3 billion USD on manufacturing, 2 billion USD on informatics and communication, 1,5 billion USD on financial services, 1.4 billion USD on trade.

Turkish Airlines (THY) is an example of successful partnership between the Turkish public and private sectors. It ranks first in the world in terms of destination country. As of 30 September 2013, it flies to 104 countries. It ranks fourth in terms of destinations. It flies to 239 destinations. It owns an important operating fleet with a total of 231 aircraft. As such it boasts to have one of the youngest fleet in the world with an average 6.6 years. As of September 2013, THY fleet carried 21.26 million international passengers, 14.94 million domestic passengers. Turkish Airlines has been chosen "Best Airline in Europe" (for the third year), "Best Airline in Southern Europe" and awarded "Best Business Class Catering" in 2013 Skytrax World Airline Awards.

Structural reforms the Turkish government has been carrying out in the last decade have improved the investment climate which in turn attracted Foreign Direct Investment (FDI). Legislation on investment was streamlined along global standards. At present Turkey has a more foreign capital-friendly legislation and transparent regulatory system. FDI legislation is based on the principle of equal treatment for domestic and foreign investors. Turkey grants all rights, incentives, exemptions, and privileges available to national businesses to foreign businesses on a most-favored-nation (MFN) basis. Turkish law accepts binding international arbitration of investment disputes between foreign investors and the state. Foreign capital entities can employ foreign personnel in Turkey. % 100 foreign ownership is permitted (except in Radio & TV Broadcasting). Foreign investors are free to repatriate their capital and profits. Turkey's legal system protects and facilitates acquisition and disposal of property rights, including land, buildings, and mortgages. Private persons of foreign nationality and foreign companies can buy property in Turkey.

Generous tax privileges for free zones and technology development zones (TZDs) have provided a stimulus to investment therein. 20 free zones are in operation in Turkey. Firms operating in free zones enjoy numerous advantages: % 100 exemptions from customs duties, % 100 exemption from corporate income tax, % 100 exemptions from Value Added Tax and Special Consumption Tax. Companies are free to transfer profits from free zones to abroad or to Turkey without restrictions. There are 37 TZDs in Turkey. Revenues derived from software development and R&D in TZDs are exempt from income and corporate taxes. The total volume of trade in free trade zones reached 23 billion USD in 2013.

Turkey introduced a new incentive scheme in April 2012 giving priority to high-tech, high-value-added globally competitive sectors. The new investment incentive covers value added tax exemption, customs duty exemption, tax deduction, income tax withholding exemption, interest rate support, land allocation and VAT refund.

As a result, Turkey has become the commercial hub of the region. Foreign companies have been using free zones as well as Turkish partners to access the EU market as well as looking for business opportunities throughout the Balkans, Central Asia, the Caucasus and the Middle East.

The outcome of the investor friendly policies was significant: whereas cumulative FDI in Turkey was around 16 Billion USD in 2002, Turkey attracted 112 billion USD worth of investment during the 2002-2013 period. Despite a decline in FDI inflows worldwide as a result of the global economic crisis, capital flows to Turkey was 19,5 billion USD in 2009, 8.4 billion USD in 2010, 15,7 billion USD in 2011, 12,4 billion USD in 2012, 12,7 billion USD in 2013. Total foreign direct investment in Turkey reached around 130 billion USD at the end of 2013. Currently more than 30.000 companies with international capital are registered in Turkey. These data indicate the resilience of the Turkish economy and the efficiency of the investment policy. This bodes well for Turkey, for it continues to be viewed by the investors as a stable economy and a profitable venue for their capital. Recent upgrade of Turkey's sovereign debt rating by Standard and Poor's indicates Turkey's attractive investment prospect.

The top 5 five countries which have invested most in Turkey during 2002-2013 period as well as the amount of their investments.

Holland	17.961 Billion USD
Austria	9.273 Billion USD
USA	8.875 Billion USD
Belgium	7.381 Billion USD
Germany	7.335 Billion USD

The top 5 countries investing in Turkey in 2013 as well as the amount of investment is as follows:

Germany	1.845 Billion USD
Holland	1.024 Billion USD
Russian Federation	868 Million USD

Azerbaijan	776 Million USD
Austria	659 Million USD

Turkey has become one of the fastest growing energy markets in the world in parallel to its economic growth registered in the last 10 years and is rapidly gaining a competitive structure. Growing energy demand, market liberalization, country's potential role as an energy terminal in its region are 3 factors playing an important role in shaping the investment opportunities in Turkey. Turkey functions as an important energy terminal in its region due to its strategic location between Asia and Europe. Turkey's vision of 2023, the centennial foundation of the Republic, envisages grandiose targets for the energy sector such as installing 5 billion m3 of natural gas storage capacity, construction of 3 nuclear power plants, full utilization of hydropower, construction of geothermal and solar power plants, increasing the share of renewables to % 30. Agreements have already been reached with the Russian Federation and Japan to construct nuclear power plants at Mersin and Sinop respectively.

Political stability and economic vitality of the private sector have paved the way for the realization of large scale infrastructural investment projects. Currently Turkey has been carrying out mega projects such as construction of Marmaray, third airport in Istanbul, third suspension bridge across the Bosphorus, Canal Istanbul, high speed train tracks, highways throughout the country etc. Marmaray stands out among these high cost projects. Marmaray is a rail transport project which connects the Asian and European part of Istanbul through railway a part of which consists of immersed tube tunnel under the Bosphorus. The first phase of the project was inaugurated on 29 October 2013, which falls on the 90th anniversary of the Turkish Republic. The Project is expected to be completed by 2015. The total cost of the project is estimated to reach 3,5 Billion Euros.

As a consequence of its rising economy and being a responsible stakeholder of the international community, Turkey actively participates in the implementation process of the Millennium Development Goals (MDG). Accordingly, Turkey has increased its development cooperation in the last decade. As a rising donor country, it contributes to the efforts for achieving sustainable development and economic and social progress in the least developed countries, hence creation of a prosperous world and a stable international order. The amount of official development assistance (ODA) provided by Turkey reached 2,5 billion USD in 2012. Unofficial figure of Turkish ODA in 2013 has reached 3 billion USD. As such Turkey ranked first among the OECD member countries which have expanded their ODA. Given that most of the donor countries have been curtailing the amount of ODA against the backdrop of the recent global economic crisis, Turkey's recent performance in this field signifies its strong political will and active involvement with the development agenda.

As an active participant in the international development cooperation process, Turkey hosted the 4th UN Conference on the Least Developed Countries on 9-11 May 2011. At the end of the conference, the Istanbul Action Programme was adopted by which the international community endorsed its cooperation and partnership commitment towards the least developed countries. Moreover, at the conference, Turkey announced an economic and technical cooperation package according to which it would allocate 200 million USD annually for the economic and technical cooperation programmes and projects in the least developed countries. Turkey will also host the Review Conference of the 4th UN Conference on the Least Developed Countries in 2015.

Tourism revenues help reduce the current account deficit of Turkey. 39 million tourists visited Turkey in 2013 and tourism revenue reached 32 billion USD. As such, Turkey ranked the 6th most visited country in the world. Turkish tourism sector's target is to be among the top 5 countries in the world in terms of attracting the highest number of tourists and receiving the highest amount of tourism revenue by 2023.

The political stability Turkey has been enjoying since 2002 has underpinned the impressive economic performance. Comprehensive market economy reforms also played a large part in this achievement. Medium Term Programme for 2013-2015, which was announced in 2012, spells out the guidelines to maintain macro economic stability, ensure sustainable growth, strengthen competitiveness, reduce current account deficit, increase domestic savings. As such, the Turkish economy is predicted to grow by % 4 in 2013 (attained), % 5 in 2014 and 2015.

2023 Vision sets out ambitious but attainable goals that Turkey would like to achieve on the 100th anniversary of the Republic. Accordingly, Turkey aims at being among the top 10 economies in the world with 2 trillion USD GDP and 25.000 USD GDP per capita, 500 billion USD exports, 10 globally-known national brands, so on and so forth.