



REPUBLIC OF TURKEY
MINISTRY OF
TREASURY AND FINANCE

NEW ECONOMY PROGRAM

Balance-Discipline-Transformation 2019-2021

20.09.2018

TURKISH ECONOMY: 2002-2013



Growth

GDP per capita
\$

12,500

3,600

2002

2013

3

FOLD
INCREASE



Inflation

Inflation rate
%

29,7

7,4

2002

2013



Employment

Insured Employment
level
Million people

12

2005

19

2013

7

MILLION
ADDITIONAL
EMPLOYMENT



Export

Export volume
Billion \$

151,8

36,1

2002

2013

4

FOLD
INCREASE



Public Finance

Central Government
Budget Deficit /GDP,
%

11,4

1,0

2002

2013

10

PERCENT
POINT
DECREASE

SINGLE-
DIGIT
INFLATION

7

ECONOMIC AND POLITICAL CONTEXT



BALANCE – DISCIPLINE – TRANSFORMATION: 2019-2021

GDP growth target, constant prices, %



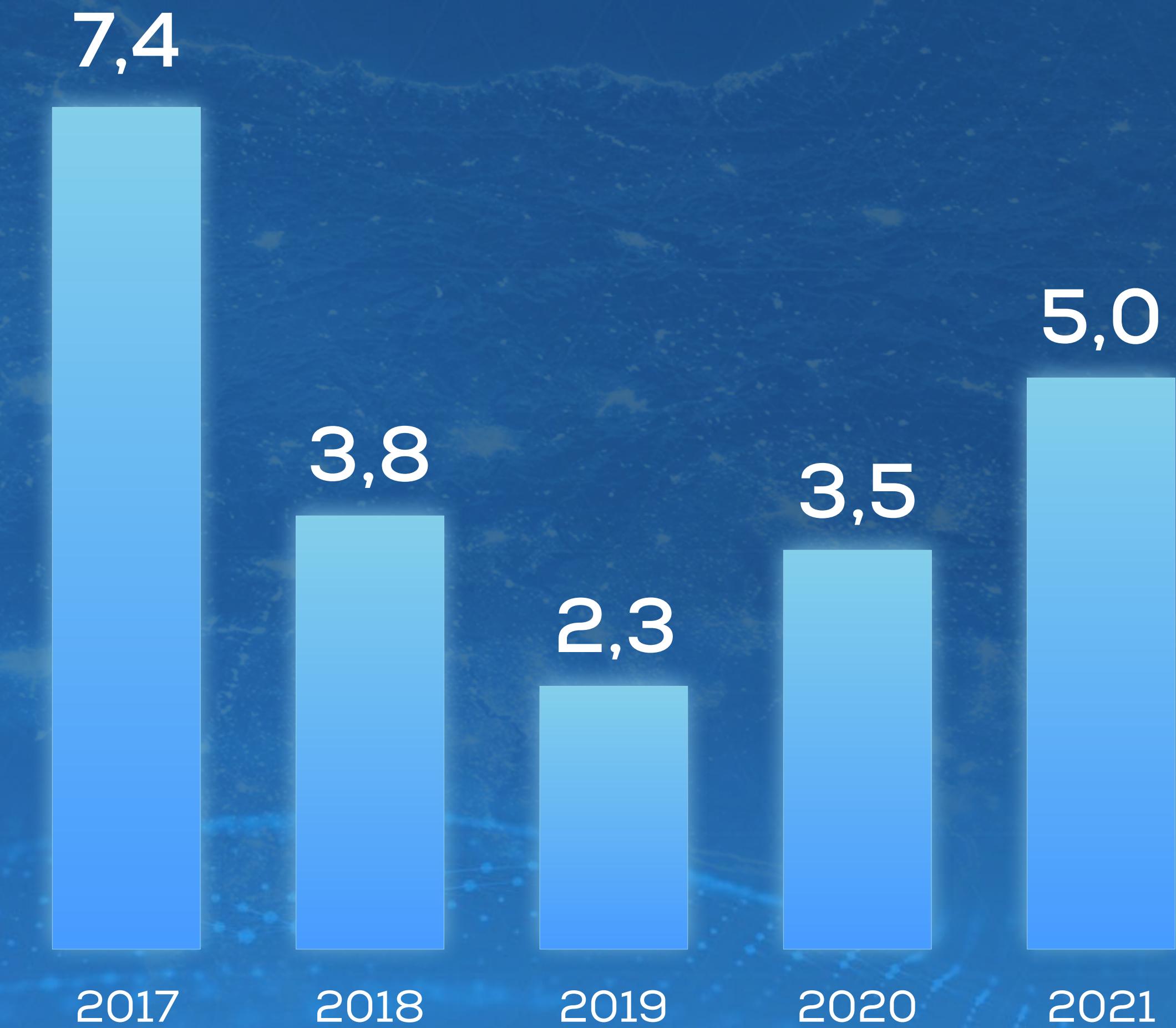
Economic
balancing between
2018-2020



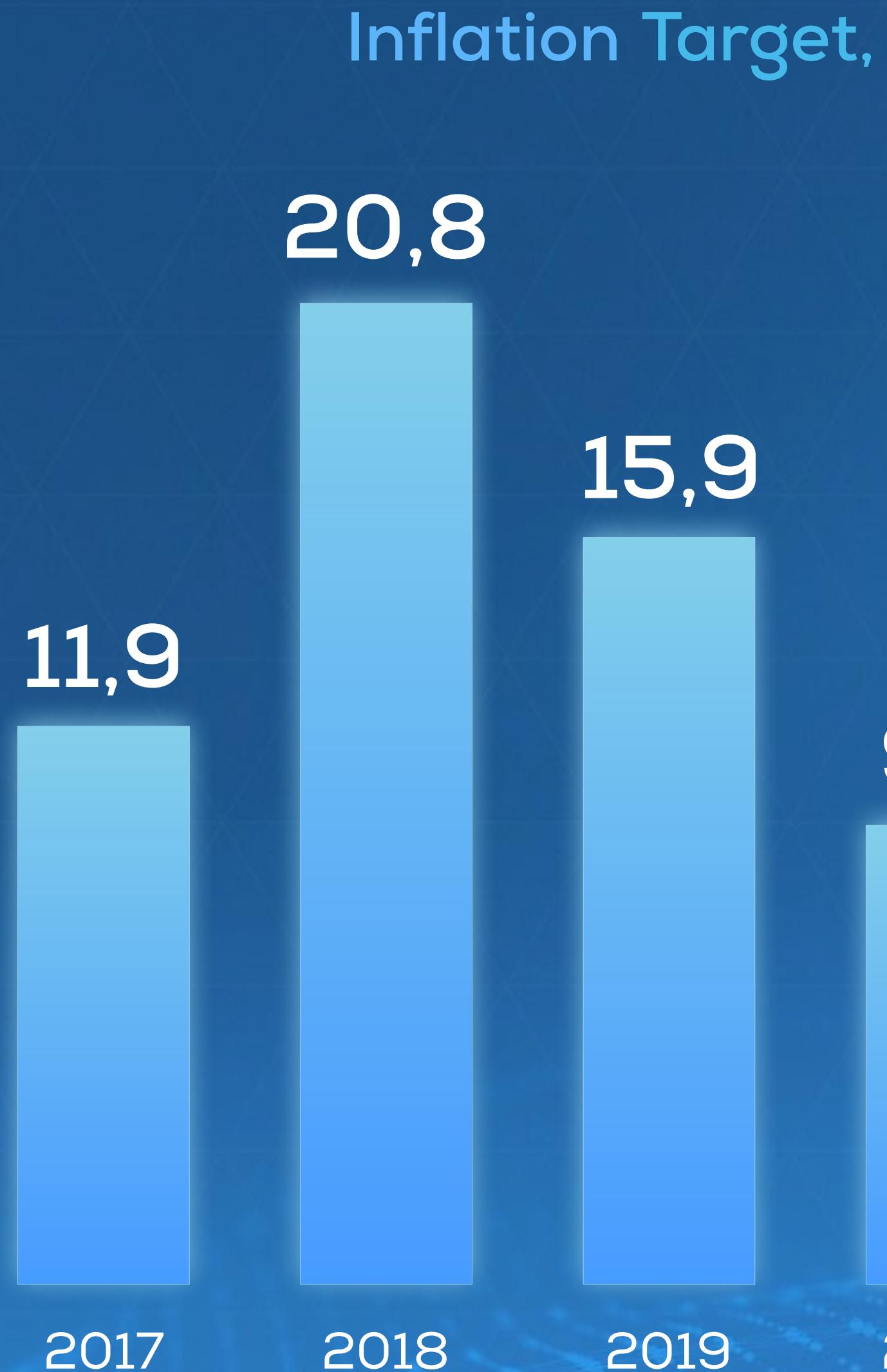
Fiscal discipline
accompanying
economic balancing



Transformation
in manufacturing
and exports with a
'value-add' perspective



POLICIES & MEASURES TO REDUCE INFLATION



Policies and Measures

The Central Bank will utilize all tools in a **decisive** and **independent manner** to ensure price stability

 The Ministry of Treasury and Finance will support Central Bank's efforts towards price stability with **strong fiscal discipline**

 To maintain financial security and stability, a new '**Financial Stability and Development Committee (FIKKO)**' will be established

 '**Collective Inflation Reduction Program**' will be launched

 A new '**Product Monitoring Mechanism**' and '**National Agricultural Project**' will help to monitor price volatility closely and to reduce food inflation effectively

 The cap of rent increase will be determined in line with **consumer price index instead of producer price index** which is more vulnerable to exchange rates

FISCAL DISCIPLINE

Budget Deficit

% GDP, Central Government Budget



Policies and Measures

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



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



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



Mega infrastructure projects will be implemented **via international financing**



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



Social insurance scheme will be revised



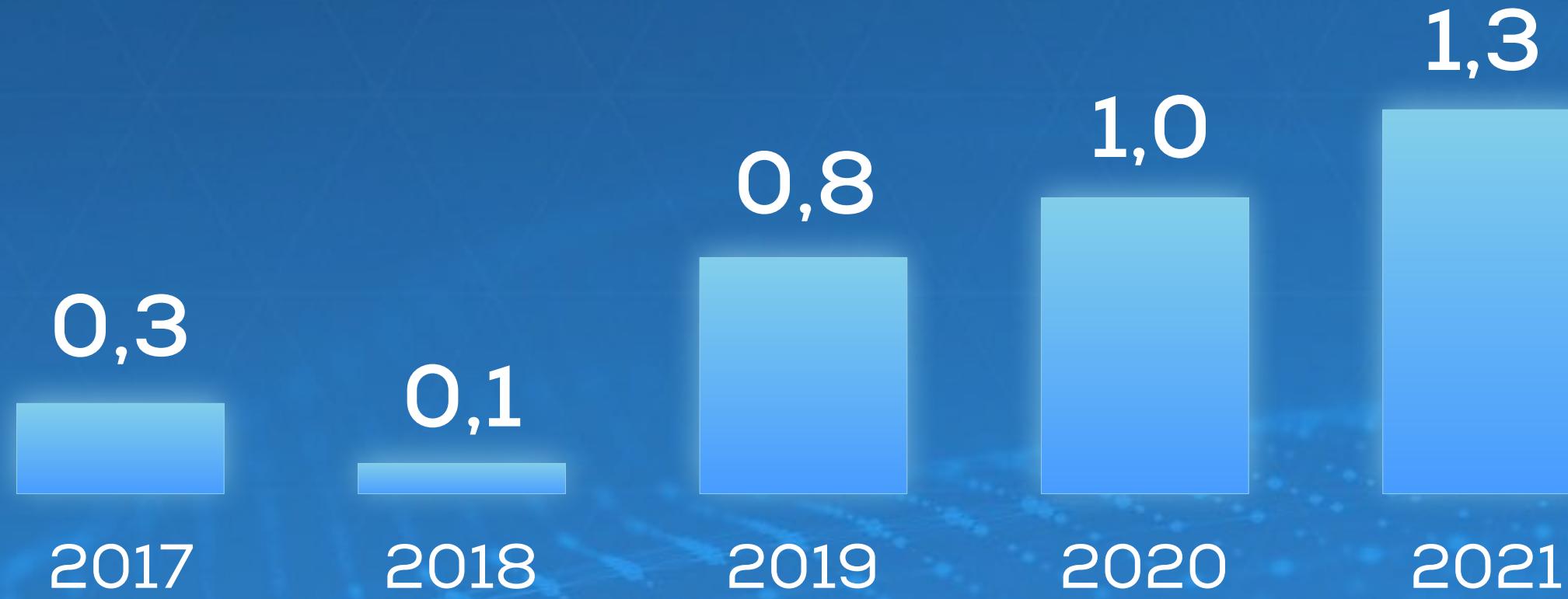
Non-effective **exceptions, exemptions and rebates** in the tax system will be removed gradually to expand tax base and ensure tax equity



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Primary Surplus Target

% GDP, Central Government Budget



REDUCTION IN CURRENT ACCOUNT DEFICIT

Current Account Deficit Target, % GDP



Policies and Measures



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



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



The incentive scheme for exports will be restructured



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



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



Tourism services, **including health tourism**, will be diversified to increase tourism revenues

INCREASE IN EMPLOYMENT

Employment Target, Million people



Policies And Measures

-  Severance pay reform will be implemented in alignment with all stakeholders
-  Flexible employment will be introduced in the public sector
-  Employment incentives will be reviewed and redesigned
-  Audits will be increased to reduce informal employment
-  Vocational training program will be enhanced in collaboration with the private sector

Unemployment Rate Target, %



SELECTED MAIN ECONOMIC INDICATORS

	2018 E	2019 P	2020 P	2021 P
 GDP (billion dollars, current prices)	763	795	858	926
 GDP growth (%)	3,8	2,3	3,5	5,0
 Unemployment rate (%)	11,3	12,1	11,9	10,8
 Current account balance/GDP (%)	-4,7	-3,3	-2,7	-2,6
 CPI (End of year Change, %)	20,8	15,9	9,8	6,0

UNIQUE ASPECTS IN 2019-2021 NEW ECONOMIC PROGRAM



PUBLIC FINANCE
TRANSFORMATION OFFICE



MEASURES FOR BANKING
AND REAL ECONOMY



IMPROVEMENTS IN
TAXATION PRACTICES



SECTORAL PROJECT
EXAMPLES

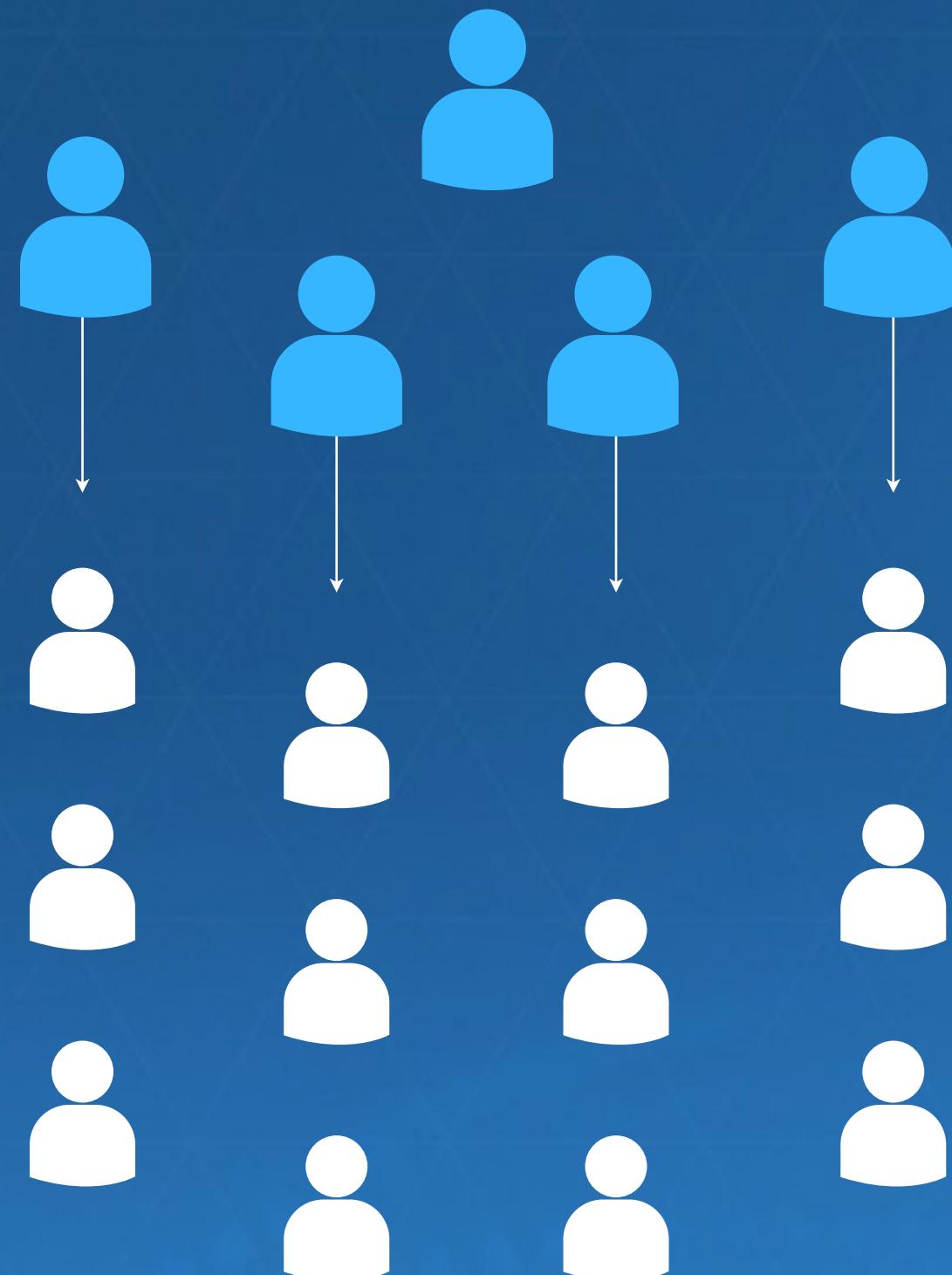


IMPLEMENTATION AND MONITORING OF
THE NEW ECONOMIC PROGRAM

PUBLIC FINANCE TRANSFORMATION OFFICE

Structure

The Ministry of Treasury and Finance



Teams within other ministries

Operating Model



Savings- and revenue-increasing initiatives will be identified



Ministry level performance targets for each initiative will be set



Initiative roadmaps will be prepared and implemented



Progress against performance indicators will be monitored and reported

Expected Impact (in 2019)

60

BILLION TRY SAVINGS

- 31 Billion TRY – Investments
- 13,7 Billion TRY – Incentives
- 10,1 Billion TRY – Social Security
- 2,5 Billion TRY – Goods and Services
- 2,7 Billion TRY – Others

16

BILLION TRY REVENUE INCREASE

Additional value potential is expected in following years

MEASURES FOR BANKING SECTOR AND REAL ECONOMY

CURRENT SITUATION

Capital adequacy ratio of banking sector %



MEASURES



To assess financial structure and asset quality of banks, financial health assessment studies will be conducted



As a result of these assessment studies, a comprehensive set of policies will be introduced in light of global examples and Turkish past experience; which will help banking sector to further strengthen, real economy to have access to credit at affordable rates, while creating room for credit restructuring if needed



Ultimate objective for the real economy is to restructure current credit debt and ensure the continuation of value-add production



Development Bank of Turkey will be restructured with an expanded mandate



Real Estate Bank of Turkey will be restructured to guide the development of real estate industry, according to best practices



Capital adequacy ratio is 16.1% and NPL ratio is 3% (July 2018)

IMPROVEMENTS IN TAXATION PRACTICES

OBJECTIVES

TAX BASE EXPANSION



EQUITY IN
TAX SYSTEM



IMPLEMENTATION AREAS

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

- ▶ A new 'Tax Data Analysis Center', integrating different data sources and leveraging advanced analytical methods, will reduce informal economy and identify priority enforcement areas
- ▶ Tax collection process will be further improved leveraging new technologies

SECTORAL PROJECT EXAMPLES TO CAPTURE DOMESTIC VALUE AND TO REDUCE CURRENT ACCOUNT DEFICIT



Sector focused programs will be implemented to increase domestic industrial value

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

Large-scale industrial and technological zones geared towards high-tech products

Integrated petrochemical industry zone

Increased number of clinical research centers for R&D activities of pharmaceutical and life sciences sectors



Localization of 20 critical biotechnology products

Implementation of digital transformation roadmap

Cloud based electronic exports platform

IMPLEMENTATION AND MONITORING OF THE NEW ECONOMIC PROGRAM



FOR A POWERFUL TURKEY



**ECONOMIC
BALANCING**



**FISCAL
DISCIPLINE**



**TRANSFORMATION IN
MANUFACTURING AND
EXPORTS WITH 'VALUE-
ADD' PERSPECTIVE**