

BUSINESS ENVIRONMENT IN TURKEY

İbrahim H. ÇANAKCI
Undersecretary of Treasury

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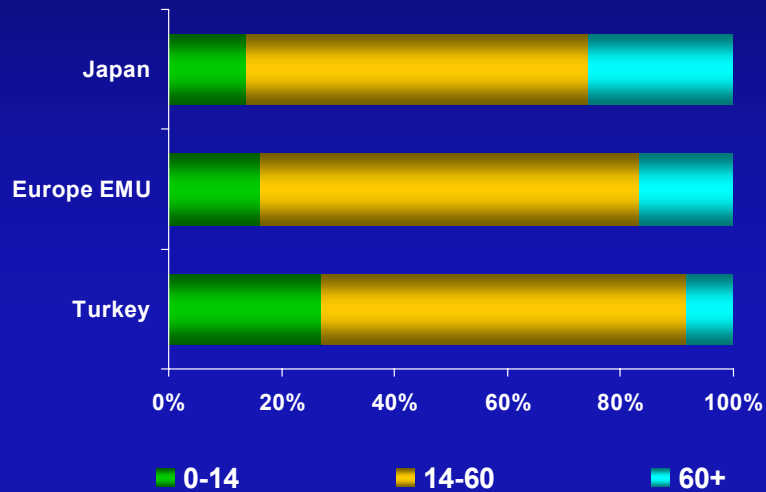
CONTENT

- **TURKEY'S POTENTIALS AND KEY CHALLENGES**
- **POLICY ACTIONS TO MEET THE CHALLENGES**
- **GAINING GROUND & PROSPECTS**

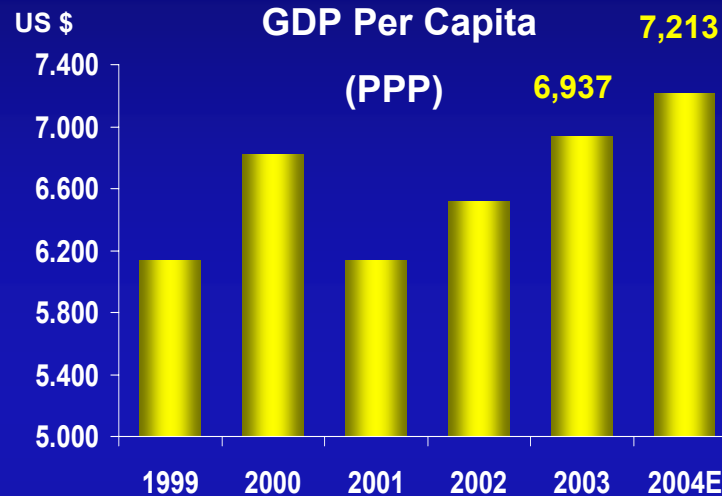
TURKEY'S POTENTIAL AND KEY CHALLENGES

Turkey's Potential

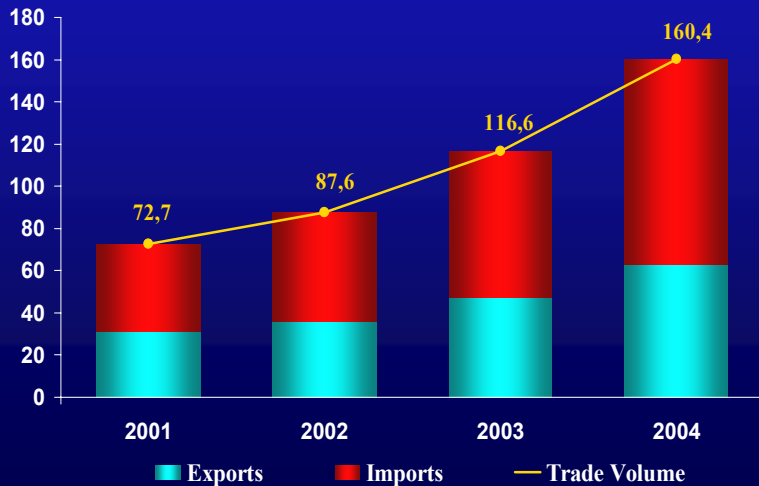
Demographic Profile



Economic Profile



Increasingly Open Economy

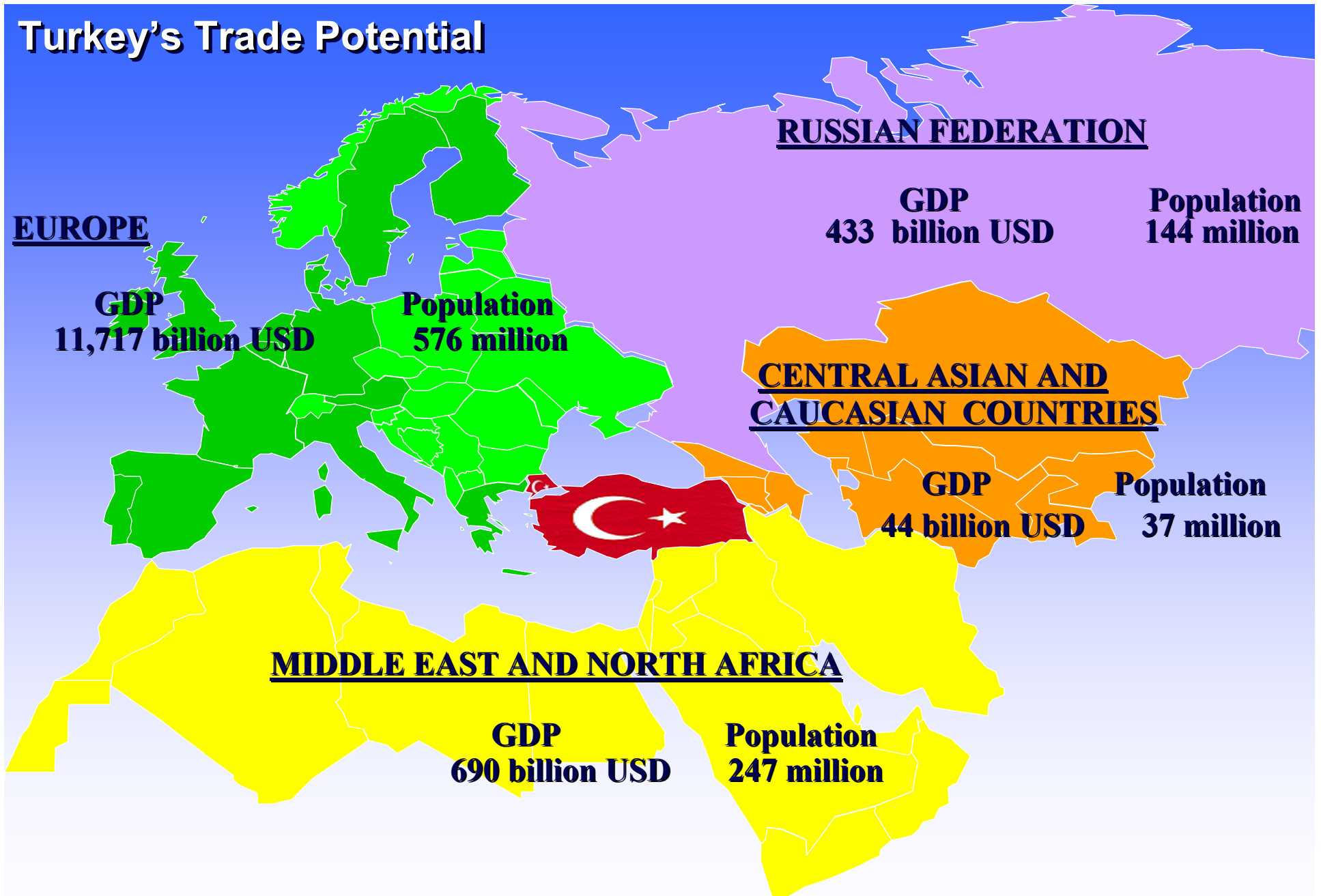


Capital Market Integration

Freedom to invest in stock and bonds

	<u>RANKING</u>	<u>SCALE 1-7</u>
✓ TURKEY	✓ 9	✓ 6.8
✓ USA	✓ 17	✓ 6.7
✓ ITALY	✓ 26	✓ 6.5
✓ BRAZIL	✓ 39	✓ 6.3
✓ POLAND	✓ 42	✓ 6.2
✓ RUSSIA	✓ 71	✓ 5.1

Turkey's Trade Potential



Despite this huge potential, an underperforming economy in 1990s...

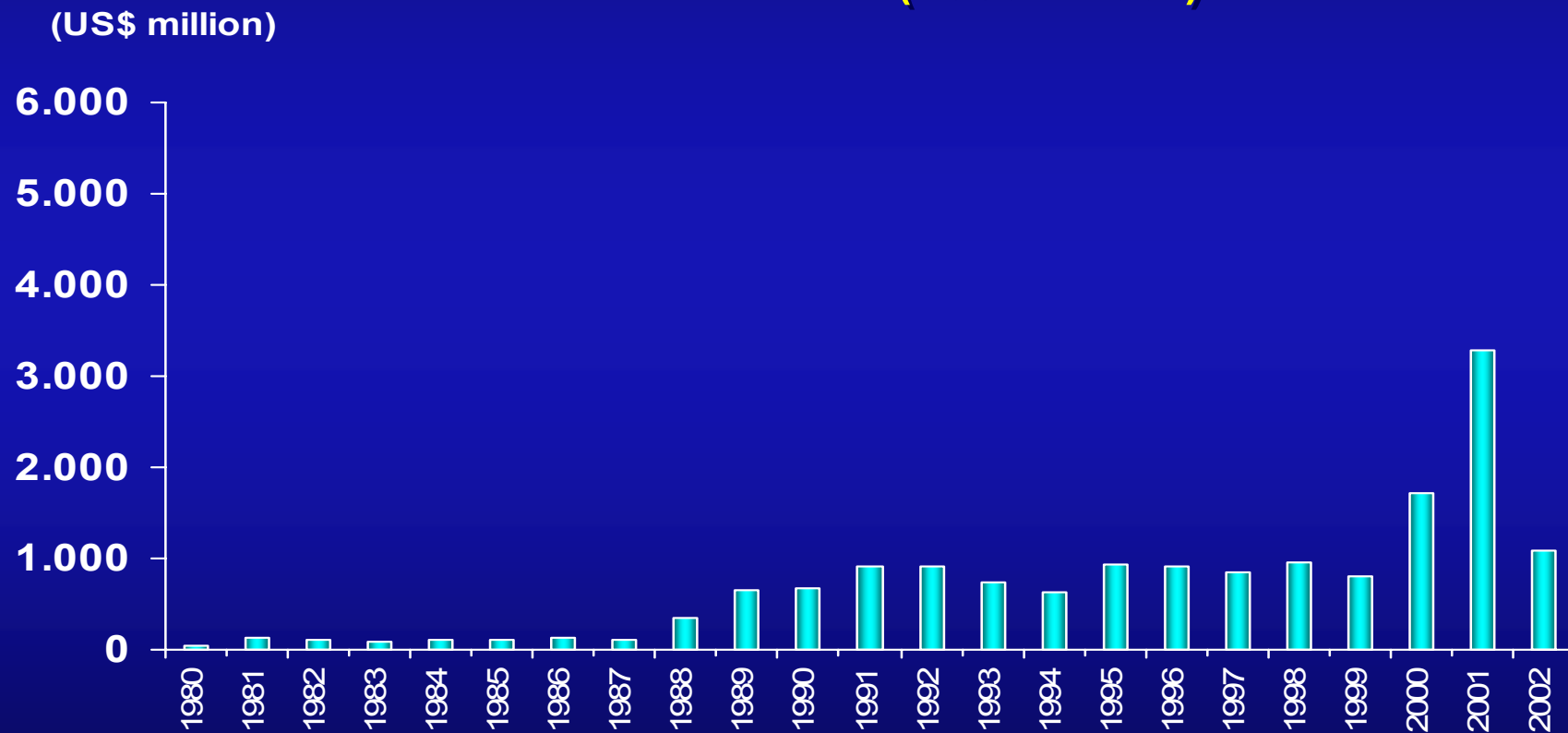
During 1990s.....

Turkish economy was characterized by:

- **Boom and bust cycles in growth**
- **High and chronic inflation**
- **High public sector deficit**

Foreign Direct Investment in Turkey

Annual FDI Inflow (1980 – 2002)



Key Challenges

- **Fully Utilize Turkey's Potential For Sustainable High Growth**
- **Enhance Competitiveness Of Turkish Economy In The Global Markets**
- **Increase Investment And Bring FDI Inflows To The Level Of Peer Countries**

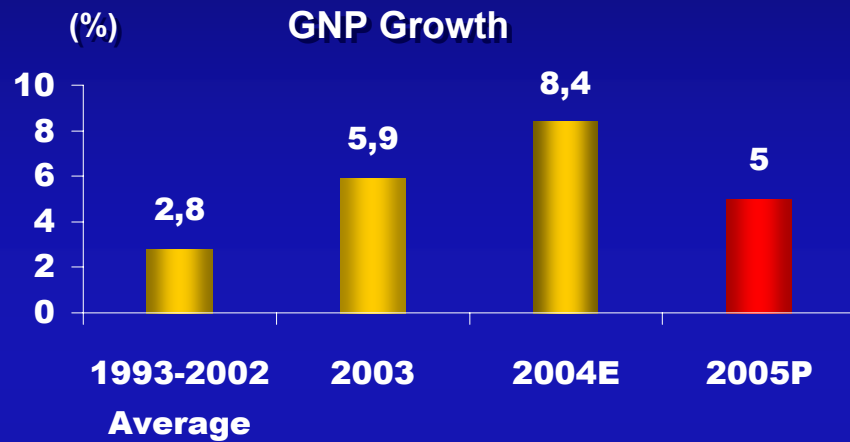
POLICY ACTIONS TO MEET THE CHALLENGES

TURKEY'S PROGRAM FOR CREATING AN ENVIRONMENT MORE CONDUCTIVE TO BUSINESS

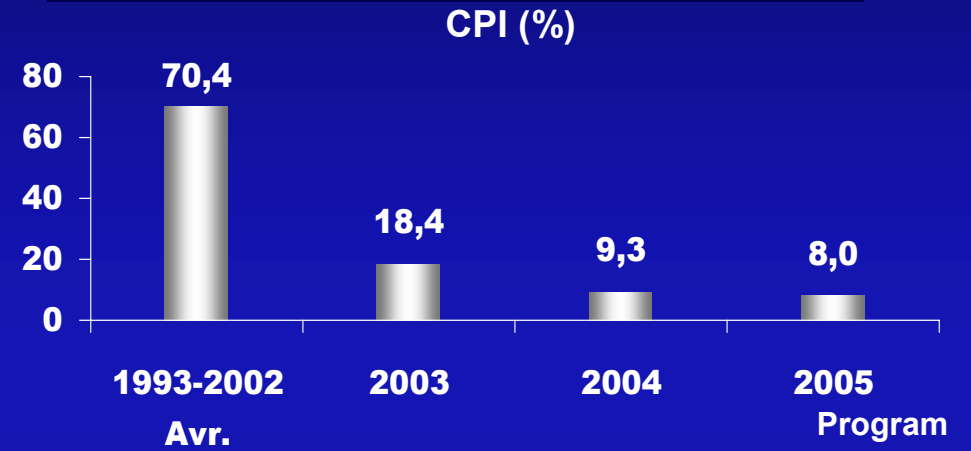
- **RESTORING MACROECONOMIC STABILITY**
- **IMPLEMENTATION OF WIDE RANGE OF STRUCTURAL
REFORMS**
- **REMOVING ADMINISTRATIVE BARRIERS AND REDUCING RED
TAPE**

Macroeconomic Stability

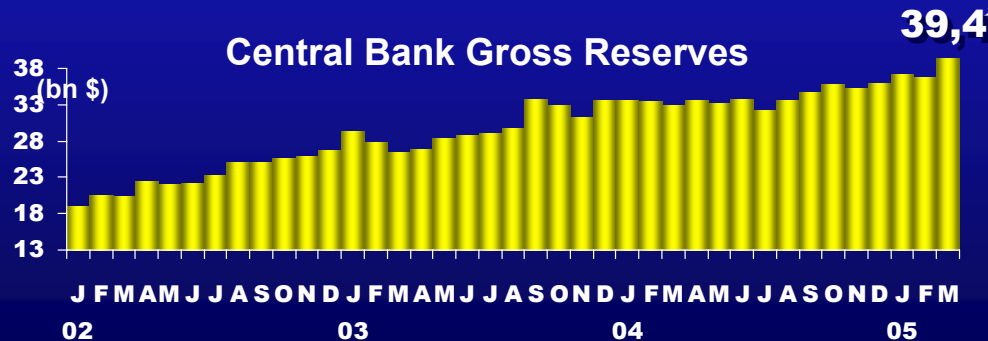
Strong Growth Path



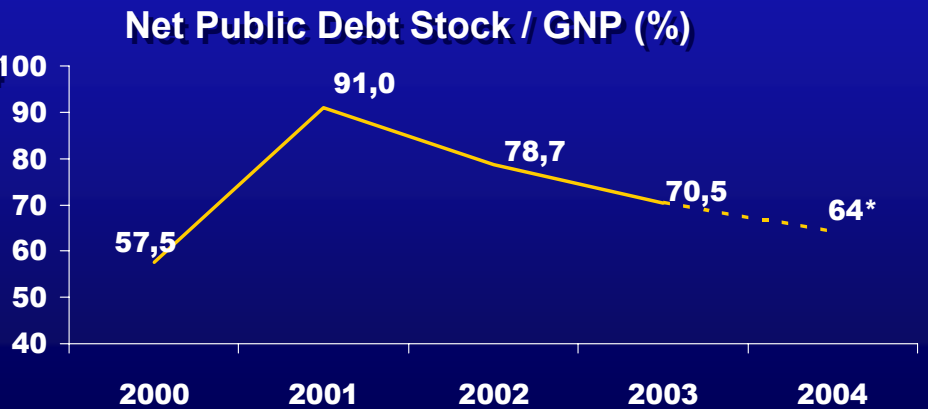
Single-Digit Inflation



Strong Reserve Position



Declining Debt



(*) Estimate

Structural Reforms So Far...

Public Sector Reform

- ✓ Financial Management and Control Law
- ✓ Public Procurement Law
- ✓ Rationalizing Public Sector Employment
- ✓ Rationalizing Public Sector Budget & Investment
- ✓ Code of Ethical Conduct for Civil Servants
- ✓ Law on Freedom of Information for Citizens

Financial Sector Reform

- ✓ Banking Regulation and Supervision in line with EU Standards
- ✓ Strengthening the Private Banks
 - CAR-Capital Adequacy Ratio-Improvement
 - Vulnerabilities Reduced
 - Consolidation Encouraged
- ✓ State Bank Reform
 - Financial Restructuring
 - Operational Restructuring
 - Preparation for Privatization
- ✓ Improving the Resolution of Non-Viable Banks
 - Strengthened Institutional Capacity for Resolution
 - Accelerated Resolution of Intervened Banks
 - Faster Recovery of Assets

Enhancing the Role of Private Sector

- ✓ Opening the Key Markets to Competition and Regulation by Independent Agencies
 - Energy Market
 - Tobacco Market
 - Telecommunication Market
 - Sugar Market
- ✓ Boost to Privatization
 - TUPRAS (Petroleum Company)
 - Several Small Companies and Assets
 - TEKEL (Monopoly of Alcoholic Beverages)
 - THY (Turkish Airlines)
- ✓ Reduced Administrative Barriers & Red Tape

Key Features of Turkey's Reform Program to Remove Administrative Barriers and Red Tape

- ✓ **Strategy Based on Full Screening & Problem Diagnosis**
- ✓ **Strong Public and Private Sector Collaboration**
- ✓ **Pursuing Pragmatic & Solution-oriented Policies**
- ✓ **Relying on International Experience & Perspective**
- ✓ **Strong Political Ownership to Coordinate These Efforts under a Functioning Institutional Framework**

Institutional Framework For Investment Environment

**Coordination Council for
Improvement of Investment
Environment (YOİKK)**

IAC

Technical Working Groups

**Location of
Investment**

**Customs and
Standards**

Licensing

**Taxes and
Incentives**

**Investment
Promotion**

**Company
Establishment**

Employment

**Intellectual Property
Rights**

**Foreign Direct
Investment
Legislation**

SMEs

Major Achievements to Improve Investment Environment

New FDI Regime

- ✓ **No Approval Requirement**
- ✓ **No Minimum Capital Requirement**
- ✓ **National Treatment**
- ✓ **Guarantee to Transfer Proceeds**
- ✓ **Key Expatriate Personnel**
- ✓ **Protection Against Expropriation**
- ✓ **Access to Real Estate**
- ✓ **International Dispute Settlement**

Major Achievements to Improve Investment Environment

New Procedures for Setting up Business:

Simplified and Streamlined



Achievement has been registered internationally

Starting a Business Indicators

	Turkey		OECD Average
	Before the Reform	After the Reform	
Number of procedures	13	6	6
Time (days)	38	9	25

Source: World Bank, Doing Business in 2004 AND 2005

Major Achievements to Improve Investment Environment

Progress on the recommendations of IAC

➤ *Remove red tape and bureaucracy, with a focus on procedures at the sectoral level...*

- ✓ Progress in streamlining procedures for the mining and petroleum sector
- ✓ Time required to obtain Environmental Impact Assessment brought down
- ✓ Draft Law to create “one-stop-shop” at provincial level prepared
- ✓ Inspections and permissions related agro-sector simplified

➤ *Improve implementation of laws and dispute resolution mechanisms...*

- ✓ A new Commercial Code being drafted
- ✓ Priorities of Corporate Law, Intellectual Property Rights, Industry Property Rights specified in National Program
- ✓ National Justice Network Project aiming at electronic connection of service units

Major Achievements to Improve Investment Environment

Progress on the recommendations of IAC

- *Develop a corporate tax regime and incentive structure comparable to those of competitor countries...*
 - ✓ Tax reform underway to fight informal economy and to bring a predictable *taxation system*
 - ✓ New provisions in the *Corporate Tax Law* reduce the tax burden
 - ✓ Scope of *Corporate tax exceptions* expanded

- *Increase efficiency of customs; particularly import procedures and licensing*
 - ✓ *Technological infrastructure of Customs* improved
 - ✓ *Comprehensive Amendment on the Customs Code* drafted
 - ✓ Significant improvements in *reducing cargo dwell times and transaction costs*
 - ✓ The automated *BILGE* system improved
 - ✓ Improvement in *Risk Analyses System*

Major Achievements to Improve Investment Environment

Progress on the recommendations of IAC

- *Create an investment promotion capacity*
 - ✓ Capacity improvement of General Directorate of Foreign Investment
- *Improve infrastructure*
 - ✓ Priority infrastructure needs identified
- *Invest in education and training*
 - ✓ Share of education expenses in the budget increased
- *Secure the availability of land for investment*
 - ✓ Land allocation to the investment sites improved
 - ✓ Legislation amended to increase the effectiveness of the Industry Zones
- *Protect intellectual property rights more effectively*
 - ✓ Measures taken to protect the intellectual property rights

Major Achievements to Improve Investment Environment

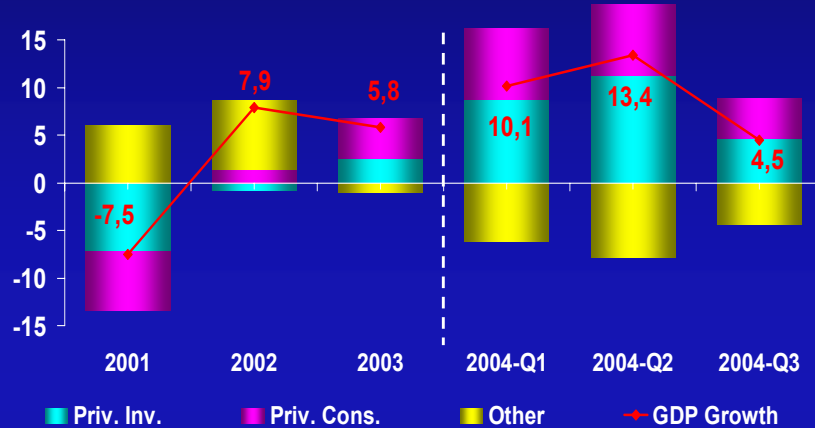
Progress on the recommendations of IAC

- *Strengthen research and development base of country*
 - ✓ To encourage R&D, expenses to be deducted from the tax base
 - ✓ Incentives to operate in the Technology Development zones increased
- *Harmonize standards and regulations with the European Union*
 - ✓ Standards prepared by State Institute of Standards harmonized with EU
- *Strengthen the role of SMEs in the economy*
 - ✓ SME access to finance improved
 - ✓ KOSGEB (Small and Medium Industry Development Organization) restructured
- *Accelerate the privatization program*
 - ✓ Tenders planned for the first half of 2004 realized

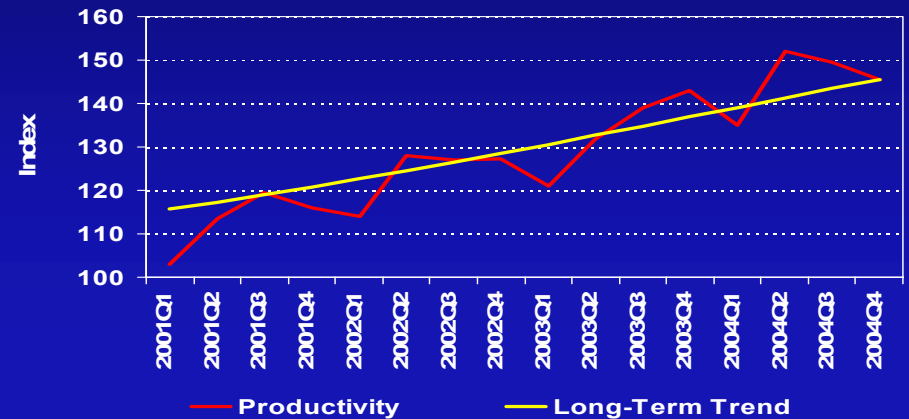
GAINING GROUND AND PROSPECTS

Robust Private Sector Activities

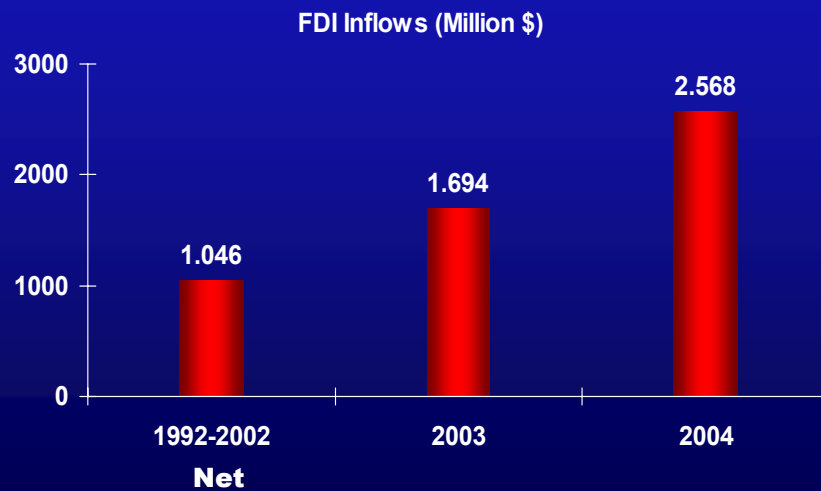
Sources of Growth



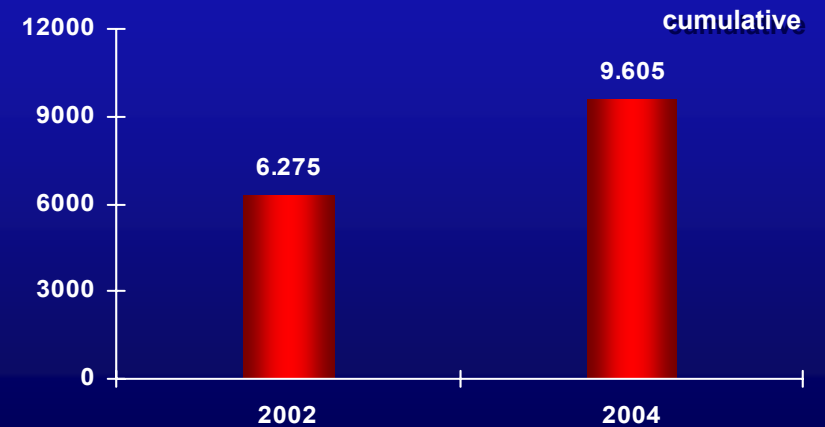
Productivity in Private Sector Man. Industry



FDI Performance



Number of Foreign Participated Firms



New Medium-Term Economic Program

Key Features

- ✓ **Strong Ownership**
- ✓ **Social Consensus**
- ✓ **EU Convergence (EU Pre-accession Economic Program)**
- ✓ **Basis for a New Stand-By Arrangement**

Macroeconomic Objectives

- ✓ **Sustainable High Growth**
- ✓ **Price Stability and Single Digit Inflation**
- ✓ **Debt Reduction**

Macroeconomic Policies

- ✓ **Continuation of Prudent Fiscal Policies**
- ✓ **A Monetary Framework focused on Price Stability**
- ✓ **Floating FX regime**

New Medium Term Macroeconomic Framework

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Inflation (CPI %)	8	5	4
Growth (%)	5	5	5
General Gov't Deficit (% of GDP)	4.4	2.1	0.5

Structural Reform Agenda

Creating a Self Sustaining Social Security System

- Unification of three social security institutions
- Establishment of universal health insurance with a view to minimize cost to government
- Transfer of social assistance functions to one institution

Strong Financial Sector: Engine of Growth

- Improved regulatory and supervisory framework
- A new road-map for restructuring and privatization of state banks
- A strengthened institutional capacity and a new strategy for asset resolution
- Transfer of non-bank financial institutions to the BRSA

Reforming the Tax System

- Tax administration reform to combat the informal economy and to improve compliance and efficiency of tax collection
- Simplification and streamlining of the tax system
- Rationalization of financial transaction taxes

Further Developing the Infrastructure For A Competitive Market Economy

- Competitive Real Sector
- Competitive Financial Sector
- Privatization of Major Companies
- Continue to Enhance the Business Friendly Environment

Ongoing Initiatives and Forthcoming Events

- **E-transformation Turkey Project**
- **Investment Climate Assessment Survey**
- **Second Investment Advisory Council Meeting**