REPUBLIC OF TÜRKİYE

PRE-ACCESSION ECONOMIC REFORM PROGRAM

2024-2026

JANUARY 2024

REPUBLIC OF TÜRKİYE

PRE-ACCESSION ECONOMIC REFORM PROGRAM (2024-2026)

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ABBREVIATIONS

AI	Artificial Intelligence
ASHM	Ministry of Family and Social Services
BIS	Bank For International Settlements
BiGG	Individual Youth Enterprise
BİLSEM	Science and Art Centers
BOTAŞ	Petroleum Pipeline Company
CAR	Capital Adequacy Ratio
CBAM	Carbon Border Adjustment Mechanism
CBRT	Central Bank of the Republic of Türkiye
CEB	Council of Europe Development Bank
CEF	Center of Excellence in Finance
CHU	Central Harmonization Unit
CPI	Consumer Price Index
CV	Curriculum Vitae
DEP	Digital Europe Program
EBA	Education Information Network
EBRD	The European Bank for Reconstruction and Development
ECOFIN	Economic and Financial Affairs Council
EDIH	European Digital Innovation Hubs
EFM	Electricity Futures Market
EFTA	European Free Trade Association
EIC	European Innovation Council
EMRA	Energy Market Regulatory Authority
EPİAŞ	Enrgy Market Operation Company
ERP	Economic Reform Program
ESA	European System of Accounts
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESPR	EU Regulation on Environmentally Friendly Design Requirements for Sustainable Products
ETKB	The Ministry of Energy and Natural Resources
ETS	Emissions Trading System
EU	European Union
EUREKA	European Research Coordination Agency
EUROSTAT	Statistical Office of the European Union
EYHGM	General Directorate of Disabled and Elderly Services
FDI	Foreign Direct Investment
FMC	Financial Management and Control
FSRU	Floating Storage and Regasification Units
FTA	Free Trade Agreement
FX	Foreign Exchange
FXNGP	Foreign Currency Net General Position
GDP	Gross Domestic Product
GES	Solar Power Plant
GGB	General Government Balance
GSTC	Global Sustainable Tourism Council
HEMBA	Distance Education Centers Information Network
HOME-CARE	Direct Grant for Supporting Home Care Services for Older People
HR	Human Resources
IACB	Internal Audit Coordination Board
ICCA	International Congress and Convention Association
IMEP	Vocational Training Program for Employment
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IPR	Intellectual Property Indicators
İŞKUR	Turkish Employment Organization
KABEV	The Energy Efficiency in Public Buildings
KADEV	Earthquake Resistance and Energy Efficiency in Public Buildings

KAMAG	Public Research Support Group
KGF	Credit Guarantee Fund
KKM	Foreign Exchange Protected Deposits
KOSGEB	Small and Medium Enterprises Development Organization
KUN	Cappadocia University
LCP	Low Carbon Road Map
LFS	Labor Force Survey
LMA	Lean Maturity Assessment Analysis
MEM	Vocational Training Centers
MoH	Ministry of Health
MoIT	Ministry of Industry and Technology
MoNE	Ministry of National Education
MoTF	Ministry of Treasury and Finance
MTP	Medium Term Programme
NAIS	National Artificial Intelligence Strategy
NDC	Nationally Determined Contribution
NDD	National Data Dictionary
NDK	Nuclear Regulatory Authority
NEEAP	The National Energy Efficiency Action Plan
NEET	Not in Education, Employment, or Training
NGO	Non-Governmental Organizations
NPL	Non-Performing Loans
NPP	Nuclear Power Plant
OECD	Organization for Economic Co-operation and Development
OEE	Overall Equipment Effectiveness
ÖEO	Special Education Environments
OIZ	Organized Industrial Zones
OTA	Online Tourism Agency
PCC	The Presidency of Climate Change
PCCs	Personal Credit Cards
PIFC	Public Internal Financial Control
PIFCED	Public Internal Financial Control Education Department
PMI	World Bank Partnership for Market Implementation
PPI	Producer Price Index
PTA	Preferential Trade Agreement
RAM	Guidance and Research Centers
REE	Rare Earth Elements
RES	Wind Power Plant
RIA	Regulatory Impact Analysis
RR	Required Reserves
R&D	Research and Development
SAKOM	Health Disaster and Coordination Center Unit
SAYEM	The Industrial Innovation Networks Mechanism
SCT	Special Consumption Tax
SDGs	Sustainable Development Goals
SEEs	State Economic Enterprises
SENTRUM	Sustainable Energy-Based Tourism Application Center
SMEs	Small and Medium Sized Enterprises
SMRs	Small Modular Reactors
SOE	State Owned Enterprises
SOGEP	Social Development Support Program
SUKAP	Municipal Water and Sewerage Infrastructure Project
TEİAŞ	Turkish Electricity Transmission Corporation
TENMAK	Turkish Energy, Nuclear and Mineral Research Agency
TFP	Total Factor Productivity
TGA	Türkiye Tourism Promotion and Development Agency
TL	Turkish Lira
TOBB	The Union of Chambers and Commodity Exchanges of Türkiye
TPE	Ton Petrol Equivalent
TR-I	Turkish Sustainable Tourism Criteria

TUGEP	Technology and Product Development Projects
TURKSTAT	Turkish Statistical Institute
TÜBİTAK	Scientific and Technological Research Council of Türkiye
TURCEV	Foundation for Environmental Education
TUSSIDE	Turkish Industrial Management and Management Institute
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
VAT	Value Added Tax
VET	Vocational education and training
VQA	Vocational Qualifications Authority
WEF	World Economic Forum
YASED	International Investors Association
YEKA	Renewable Energy Resources

1. POLICY FRAMEWORK AND OBJECTIVES

Türkiye, as an acceding candidate country of European Union (EU), has been preparing the Economic Reform Program (ERP) and has been submitting it to the European Commission since 2001, responding to the request of the Economic and Financial Affairs Council (ECOFIN Council) dated 26-27 November 2000. In line with the framework requested by European Commission, Economic Reform Program (2024-2026) has been prepared under the coordination of Presidency of the Republic of Türkiye, Presidency of Strategy and Budget with the contributions of relevant ministries and institutions and approved by the President.

In consultation with all relevant institutions, ERP (2024-2026) has been prepared based on Long-Term Development Strategy (2024-2053) and 12th Development Plan (2024-2028), Medium Term Program (MTP, 2024-2026) and 2024 Presidential Annual Program. ERP, which sets out policy priorities for establishing a stable, sustainable and inclusive economic growth and solving structural problems in line with the aim of increasing the international position of our country and increasing the welfare of citizens by ensuring economic and social development, is expected to increase predictability in economic policies in the Program period.

Prepared under conditions where the world economy is fragile, global inflation inertia is high, geopolitical tensions are increasing and financial conditions are tight, ERP aims to strengthen macroeconomic and financial stability, encourage high value-added production, increase productivity and exports with a focus on green and digital transformation, and ensure a permanent improvement in the current account balance. It aims to reduce inflation to single digits at the end of the period, improve the business and investment environment, and establish a policy basis based on maintaining fiscal discipline while effectively addressing disasters.

In the second half of 2023, macroeconomic policies have been set in a mix to balance domestic demand to reduce inflation and prevent increasing risks and imbalances in the economy, while macro-prudential measures have been simplified. The immediate effects of the measures taken were positively reflected in the financial markets, and Türkiye's sovereign risk premium diverged positively compared to peer countries. While high growth rate of consumption expenditures were balanced in the third quarter of 2023, a more balanced growth composition was achieved where fixed capital investments and exports contributed to growth.

During the ERP period, a stable growth environment will be maintained while sustaining internal and external balance, and inflation will be aimed to reduce single-digit levels at the end of the period. In this period, in addition to structural transformations, a tight monetary stance and fiscal discipline will be the main macroeconomic policy tools. In this way, the fight against inflation will be strengthened, the environment of confidence and stability will be reinforced, a sound business environment will be established for productive investments that will increase employment, and the technology composition of production and exports will be improved with a focus on green and digital transformation.

The structural reform areas to be implemented during the Program period are classified under three main titles such as "competitiveness", "sustainability and resilience" and "human capital and social policies".

During the program period, it is aimed to increase technology, innovation, product quality, productivity and export in the industry, especially in priority sectors, transform industrial capacity, close the competency gap by making necessary updates in occupational standards and qualifications, improve the business and investment environment and increase competitiveness. With the policies supporting the twin transformation, a dynamic production structure that is more attractive for foreign direct investments that provides R&D and technology transfer will be created and the opportunities emerging at the global level will be utilized to the maximum extent. On the other hand, within the scope of accelerating digital transformation, strengthening electronic communication infrastructures, disseminating new generation network infrastructures, developing qualified R&D human resources in priority sectors and areas, increasing professional competence, supporting the capacity and capabilities of companies, especially SMEs, for digital technologies and effective mechanisms for financing will be established.

During the program period, in line with the 2053 net zero emission target and national development priorities, the green transformation process will be accelerated via the approach that supports greenhouse gas emission reduction, increases the capacity to adapt to climate change, prioritizes competitiveness and efficiency, considers a just transition, and develops national incentive mechanisms by making maximum use of global financial resources. In the aftermath of February 2023 earthquake, while post-earthquake reconstruction efforts are rapidly continuing, an integrated development approach that is resilient to disasters and combines regional development dynamics with port industries will be followed. Urban economies are aimed to contribute to sustainable growth by increasing the resilience of living spaces against risks caused by climate change and disasters.

In human capital and social policies, programs taking into account vocational education, competence and skills will be implemented to encourage the participation of especially NEETs in education and employment. Vocational training programs will be implemented in cooperation with industry, taking into account the results of the analysis to be conducted in pilot provinces to meet the need for qualified intermediate staff. Special programs will be developed to ensure the full, equal, safe and effective participation of women in the labor market that changes with twin transformation and to provide women and girls with the new skills and abilities that will be needed, and programs such as entrepreneurship, financial literacy and cooperatives that will increase women's participation will be extended by expanding their scopes.

ERP consists of seven main chapters. Second chapter presents the realized activities regarding the policies recommended in Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye. In the third chapter, recent economic developments in the Turkish economy are assessed by considering global developments, and macroeconomic forecasts for the 2024-2026 period are presented. In the fourth chapter, policy priorities for public finance and forecasts for fiscal balances are included. The fifth chapter includes the analysis of the main obstacles against competitiveness, sustainable and inclusive growth as well as structural reform measures that are going to be implemented in the Program period. In the sixth chapter, costs and financing of structural reform measures are presented as a summary. Finally, in the last section, information is given about the institutional issues and stakeholders involvement regarding the implementation of policy framework and reforms.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Within the scope of the Economic and Financial Dialogue between the European Commission and the Western Balkans and Türkiye, a large number of activities were carried out throughout the year to address the policy recommendations included in the joint conclusions of the Economic and Financial Affairs Council (ECOFIN) meeting held in Brussels on 26 May 2023.

Policy Recommendation 1: Keep an appropriately tight fiscal stance in 2023 to help disinflation, including by reducing budget support to state-owned enterprises in the energy sector in view of the prevailing international energy prices, while providing timely and transparent support to alleviating the consequences of the February earthquakes. Present a credible medium-term strategy to support the envisaged gradual return to a primary surplus of at least 1 percent of GDP. Expand the tax base by streamlining tax exemptions and reductions.

- It is stated in the national policy documents and legislation, particularly in the Decree Law No. 233 and the Development Plan, that the prices and tariffs of state-owned enterprises (SOEs) shall be determined according to commercial principles. The capital transfers and duty-loss payments made by the Ministry of Treasury and Finance to state-owned enterprises were made in order not to reflect all of the high costs caused by international energy commodity prices (especially natural gas and oil), which accelerated with the Russia-Ukraine war in 2022, to the final consumers (especially households and SMEs) in a short time. Despite significant increases in tariffs during this period, unpredictable increases in natural gas prices caused tariff adjustments to fall short of the desired price levels.
- The adoption of cost-based pricing as the basis for determining pricing and tariffs in energy SOEs will continue to be a priority within the scope of the objective of reducing the long-term budget burden of SOEs. In this framework, capital transfers and duty-loss payments to state-owned enterprises operating in the energy sector will be reduced by adopting cost-based pricing in the 2024-2026 period.
- Installments of interest-subsidized loans offered by Halk Bank were postponed for 6 months without interest for craftsmen and artisans whose businesses and/or enterprises were harmed by the earthquake on 6 February 2023. Interest-subsidized loan installments of craftsmen and artisans carrying out their activities in the provinces (5 cities and 2 towns) heavily damaged by the earthquake were postponed for another 6 months (1 year in total) without interest. Additionally, with another decree issued in March 2023 the scope of interest-subsidized loans has been expanded to improve access to finance. With this decree, craftsmen and artisans who received any interest or grant support up to 75,000 TL from other public institutions within the last 3 years could also benefit.
- Ziraat Bank and ACC (Agrıcultural Credit Cooperatives) postponed installments of interest-subsidized loans for a full year without interest in order to support farmers whose activities were harmed by the earthquake on 6 February 2023. Additionally,

diesel and fertilizer supports for grain products, which had been scheduled to be paid within 2024, will be able to be used via Ziraat Bank in 2023 by requesting producers for their purchases of inputs from fuel stations and fertilizer sellers. Therefore, it will be possible to use the required diesel and fertilizers in 2023 planting season.

- Under Law No. 5018 on Public Financial Management and Control, the Medium Term Programme (2024-2026), which initiated the central government budget preparation process, was published on 6 September 2023. During the programme period, a fiscal policy framework has been presented in which the primary borrowing requirement is gradually reduced and the general government primary balance is targeted to reach 1.2 percent by 2026.

Policy Recommendation 2: Reduce fiscal risks by – inter alia – gradually phasing out the FX value guarantees on lira time deposits. Revise public procurement legislation to further align it with the 2014 EU Directives on public procurement, including utilities, concessions and public private partnerships and reduce the number of exemptions that are incompatible with the EU acquis. Prepare an options paper for the possible adoption of a fiscal rule and the setting up of an independent body to monitor its implementation.

- The FX Protected Deposits (KKM) scheme introduced in December 2021 contributed to the reduction in exchange rate volatility and as of the second half of 2023, the micro and macroprudential framework has been gradually simplified in a way to enhance the functionality of the market mechanism and strengthen the monetary transmission mechanism. In this context, it was aimed to support the demand for TL-denominated assets and increase the share of TL deposits in the banking system. With these developments, the shift from FX Protected Deposits to TL deposit accounts accelerated and the ratio of this item to total deposits in terms of balance declined to 20 percent at end of 2023.
- Within the scope of the 12th Development Plan (2024-2028), preliminary activities were carried out to update public procurement legislation in line with international norms and standards with an approach that supports and prioritizes digitalization, innovation and sustainability, prepare a law covering the procurement of entities in utilities sector, establish a certification system for tenderers wishing to participate in public tenders, update the system to ensure that all public procurements are conducted on a single platform in a fast, efficient and transparent manner, establish a central platform for the digitalization of public procurement contract processes and ensuring that all public institutions and organizations carry out their transactions through this platform and develop green public procurement strategies, reducing carbon footprint by determining alternative procurement criteria.

Policy Recommendation 3: Use all tools of the central bank, including interest rates, more decisively in order to accelerate the disinflation process and bring financial conditions in line with achieving price stability over the medium term and central bank independence. Provide more guidance and efficient communication with regards to policy tools as well as the evaluations of their potential effects, and increase the efficiency of the operational framework. Improve the transparency and predictability of the financial sector regulatory framework by aligning it with international and EU standards, and enhance confidence by conducting transparent asset quality reviews and publish its methodology and outcomes.

- The primary objective of the CBRT is to achieve and maintain price stability, and all available instruments continue to be used in line with this objective. Under the inflation targeting regime, the medium-term inflation target of 5 percent set jointly with the Government has been maintained. The forecasts announced via Inflation Reports will serve as interim targets, and the monetary policy will be formulated to bring inflation to the medium-term target gradually. The CBRT's main policy instrument is the one-week repo auction rate. Ensuring that market rates remain consistent with policy rates, the CBRT continue to implement policies that support the effectiveness of the monetary transmission mechanism. In this context, all monetary policy instruments use to support price stability and financial stability. Meanwhile, the floating exchange rate regime continues and exchange rates are determined according to supply and demand under free market conditions.
- Central Bank independence is granted by Article 4 of the Central Bank Law No. 1211, which states that "The primary objective of the Bank shall be to maintain price stability" and "The Bank shall determine on its own discretion the monetary policy that it shall implement and the monetary policy instruments that it is going to use in order to maintain price stability". Hence, the Central Bank has instrument independence and it is authorized to choose its policy instruments at its own discretion as granted by the Law.
- On 15 December 2015, the European Banking Authority (EBA) issued an opinion that the supervisory and regulatory framework applicable to credit institutions, as documented in the laws and regulations of the Turkish banking sector, can be considered equivalent to that applied in the EU. The EBA published this opinion on its website following the adoption of the Equivalence Decision on 11 January 2017 at the request of the European Commission.
- The Regulation on Calculation of Liquidity Coverage Ratio of Banks was included in our legislation in 2014. The complementary Regulation on Calculation of Banks' Net Stable Funding Ratio was published and entered into force on 26 May 2023.
- Previously, the determination of risk groups and their credit limits were regulated under the Regulation on Loan Operations of Banks. These issues were transferred to the Regulation on Determination of Risk Groups and Credit Limits by considering the Basel Committee's *Standard for Measuring and Controlling Large Loans* and entered into force on 1 January 2024.

- A Draft Guideline on Effective Management of Climate-Related Risks by Banks has been prepared for the identification, measurement, monitoring and control of climate-related risks to which the banking sector may be exposed, and this guideline is planned to be put into practice by the end of 2024.
- Taking into account the Green Asset Ratio regulation published by the EBA, the "Draft Communiqué on Green Asset Ratio" has been published to define the procedures and principles for calculating the Green Asset Ratio. This is defined as a key performance indicator for the financing of environmentally sustainable economic activities, to be used to measure and improve the contribution of the banking sector to the environmental objectives set out in the EU's taxonomy.
- The legislative work being carried out to ensure compliance with the Basel III Final regulations issued by the Basel Committee has been completed and full implementation is planned in 2025 in line with the implementation schedule announced by the EU.

Policy Recommendation 4: With the aim to improving business environment, further strengthen the rule of law and, improve the regulatory environment and consultation mechanisms with business organisations and social partners on relevant new legislation. Implement legislation and enhance transparency regarding State aid to maximise the benefit of the EU-Türkiye economic and trade relationship, as well as to achieve a meaningful level-playing field. Increase the number and improve the efficiency of specialised courts for business, with a view of streamlining commercial disputes.

- With the Article 5/A added to the Turkish Commercial Code, the mediation system has started to be implemented as of 1 January 2019 in disputes regarding receivables and compensation claims in commercial cases, the subject of which is the payment of a certain amount of money.
- The “Singapore Convention”, which is the United Nations Convention on International Settlement Agreements Resulting from Mediation, was signed by 46 countries, including Türkiye, on 7 August 2019. The Convention was approved on 22 April 2021 by the decision of the President. On 11 April 2022, when the certificate of ratification was deposited to the United Nations Secretary General, Türkiye gained the status of a state party to the convention. As of 2023, the number of countries that have signed the convention has already reached to 56.
- The Singapore Convention is one of the biggest steps taken towards creating an international legal framework for the enforcement of agreements signed as a result of commercial mediation. The Singapore Convention, which enables the enforcement of agreements signed as a result of mediation within the scope of commercial disputes without the need for a court or arbitrator decision approving it in the state party, makes a significant contribution to the development of a culture of consensus in international commercial law and the revitalization of international trade.

Policy Recommendation 5: Take further steps to implement the ETS carbon pricing mechanism. Continue to ensure the steady growth of renewables (both traditional and hydrogen-based) in Türkiye's energy mix and reflect this objective in the country's subsidies policy. Prioritise energy efficiency for new and existing buildings in order to adapt to climate change, especially in light of the reconstruction efforts that will follow the devastating earthquakes of 6 February 2023.

- Activities regarding Türkiye's green transformation policies are carried out within the framework of the Green Deal Action Plan. The Green Deal Action Plan 2022 Activity Report has been published on the Ministry of Commerce website. In addition, due to the dynamic structure of the European Green Deal, work has been initiated to update the Action Plan according to new developments and priority actions within the scope of the European Green Deal.
- The Climate Change Action Plan was revised and the Climate Change Mitigation and Adaptation Action Plans (2023-2030) were finalized.
- Works have been initiated for the decarbonization of energy-intensive sectors within the scope of the Carbon Border Arrangement Mechanism (CBAM), and works are continuing to guide the industry regarding the CBAM requirements and to ensure decarbonization.
- The draft Climate Law has been prepared and efforts are continuing to develop the National Emission Trading System (ETS) in a structure compatible with CBAM.
- Türkiye aims to carry out studies about the additional costs and effects on the economy of the national carbon pricing mechanism and to develop financing tools in order to utilize the carbon pricing mechanism for financing green transition in the most effective way.
- A National Green Taxonomy is being developed in line with the European Union Taxonomy, and efforts are continuing to allocate the financial resources needed for green transformation to green investments.
- To realize Türkiye's transition to a circular economy, studies have been initiated to prepare a National Circular Economy Action Plan, which includes legislative harmonization, strengthening the implementation of measures and structural changes, as well as a Sustainable Consumption and Production Action Plan.

Policy Recommendation 6: Support the school-to-work transitions and the activation of young people who are not in education, employment or training (NEET) and incentivise female labour market participation through legislative and fiscal measures, as well as through strengthened efforts on the provision of appropriate and affordable childcare infrastructure beyond the big urban centres of Türkiye. Support investments in the care economy in the provinces affected by the Earthquakes in order to provide victims with health and care services and create employment intensive opportunities, in particular for women.

Continue increasing the participation of adults in lifelong learning, in particular to reinforce green and digital skills, in order to ensure just transition.

- According to the data published by Turkish Statistical Institute, the Lifelong Learning Participation Rate[1] in Türkiye increased from 2 percent in 2006 to 6.7 percent in 2022, showing a remarkable growth of 235 percent. In order to ensure the employability and socio-cultural development of individuals at different education and age levels in lifelong learning, efforts are continued to strengthen human, financial, physical and technological capacity and to increase the quality of services, and to increase lifelong learning opportunities and provision.
- As of 21 November 2023, there are a total of 1,032 formal adult education centers in all provinces and districts of Türkiye, including 1,001 public education centers and 31 maturity institutes. Within the period from 1 January to 21 November 2023, a total of 165,287 participants attended 3,280,455 vocational and technical courses, while 6,990,969 participants attended 369,960 general courses across these institutions.
- Under the framework of widespread education activities, course programs are continuously updated and new programs are developed according to the needs. The number of course programs, which was 321 in 2007, has reached 3,782 in 75 fields as of 21 November 2023. Additionally, awareness and skill training on new skills such as digital literacy, finance, health, ecology, and social media are organized, considering the needs of the day.
- The number of maturity institutes, that research and develop cultural values and traditional arts, preserve their characteristics without distortion, archive them, transfer them to future generations, and promote them nationally and internationally, has increased from 29 to 31 since 2022.
- On 6 May 2023, the Distance Education Centers Information Network (HEMBA) Platform was launched to provide citizens with lifelong learning opportunities through remote learning technologies, independent of time and place. The aim is to facilitate access to lifelong learning for citizens, support face-to-face education, and ensure equal opportunities in education. As of 2023, HEMBA has offered 106 different remote learning course programs, benefiting 473,639 individuals. Efforts to enrich remote education course programs and reach a larger audience are ongoing.
- In the scope of the Family School Project, which started in March 2022, it is aimed to contribute to the preservation of the health of families and, consequently, the community by empowering families, who are one of the most crucial building blocks in their children's education. The guidance provided focuses on family relationships, home management, and guiding children's behavior. Additionally, the project aims

[1] The Lifelong Learning Participation Rate in Türkiye is calculated through the Household Labor Force Survey conducted by the Turkish Statistical Institute, where individuals aged 25-64 are asked about their participation in learning activities in the last four weeks.

to transmit our national and spiritual values to our children through families. Within the scope of the project, 1,050 individuals were enrolled as Family School Trainer Trainers, and 100,825 individuals were enrolled as Family School Trainers. Following these trainings, as of 21 November 2023, Family School courses have reached 1,855,890 participants.

- The literacy campaign initiated in 2018 has been progressed during 2023. According to the data for November 2023, 23,474 literacy courses have been opened during the year and 173,168 participants attended these courses.
- Following the earthquakes that took place on 6 February 2023, within the scope of health investments in the provinces affected by the earthquake, 1 hospital, 1 city hospital, 1 emergency hospital, 1 oral and dental health center, 1 migrant health center, 8 family health centers, 1 healthy life center, 5 112 emergency health services station, 1 112 command and control center and 1 tuberculosis dispensary projects have been completed and started to serve.
- The health investments for which project design, tender and construction works are ongoing are as follows in earthquake affected areas: 44 hospitals, 5 city hospitals, 13 emergency hospitals, 14 oral and dental health centers, 45 migrant health centers, 304 family health centers, 12 community health centers, 31 healthy life centers, 3 community mental health centers, 11 health houses, 4 public health laboratories, 84 112 emergency health services stations, 1 112 command control center, 2 district polyclinics, 1 health disaster and coordination center unit (sakom), 2 rehabilitation centers for addicted patients, 1 adult detoxification center, 1 alcohol and drug treatment center, 1 child and adolescent drug addiction treatment center and 17 annex buildings.
- Within the scope of the projects implemented for the provinces affected by the earthquakes, the procurement process is ongoing for 250 mobile health clinics, 250 fully equipped medical off-road vehicles, 300 ambulances, 20 vaccine transport vehicles, 50 mobile psychosocial support vehicles, 105 home health services vehicles and 5 mobile command and control vehicles.
- After the earthquakes on 6 February 2023, a total of 11,740 healthcare professionals, including 7,549 women, were employed in 23 different branches in the affected provinces.

3. MACROECONOMIC OUTLOOK

After the Covid-19 pandemic spread worldwide, the global economy displayed a strong recovery trend in 2022 despite the delayed effects of the pandemic and other risk factors such as the Russian-Ukrainian war. This war and other geopolitical tensions caused political, economic and social problems at the global level. Food, commodity and energy supplies, of which Russia and Ukraine are the main exporters, were severely disrupted, and the war led to record-high food price and energy prices especially natural gas. Despite these unfavorable conditions, the global economy continued to recover. With the strengthening expectations of a slowdown in the global economy and the impact of Grain Initiative diplomatic efforts led by Türkiye, global food and commodity price increases were curbed. According to the International Monetary Fund (IMF) data, compared to the previous year, the USA, Germany, the United Kingdom, the United Kingdom, France and France grew by 2.1 percent, 1.8 percent, 4.1 percent and 2.5 percent, respectively, in 2022, while growth in the Eurozone was 3.3 percent. In the same period, India grew by 7.2 percent, while China grew by 3.0 percent with a relatively weak performance. Global growth was 3.5 percent in 2022. The tight monetary policy implemented on a global scale and rising geopolitical tensions caused economic activity to slow down in 2023. With this deceleration, the global economy is projected to grow by 3.0 percent in 2023 and 2.9 percent in 2024.

According to IMF forecasts, global trade in goods and services is expected to grow by 0.9 percent in 2023. The same figure is expected to recover to 3.5 percent in 2024. The course of global trade in the short and medium term will be determined by the expected weakening in global growth performance, the repercussions of the geopolitic tension on global trade, the possibility of renewed trade tensions, the development of global energy and transport costs, efforts to transition to a green economy and the availability of sustainable borrowing opportunities.

Despite the downtrend in energy and commodity prices in advanced and emerging economies, the global inflation problem has recently become more prominent on a global scale. The rigidity in core indicators suggests that the downtrend in global inflation will slow down in the upcoming period. Although tighter financial conditions have contributed to the decline in price increases, global inflation remains resilient. Uncertainties over the agreement on Black Sea Grain Initiative, geopolitic tension and energy supply-demand imbalances put pressure on food and energy prices. Weakening demand conditions support the decline in headline inflation, but core inflation remains high and prevents a decline in headline inflation.

In advanced economies, high corporate profits and tight labour markets support wage increases. This has led central banks to maintain high interest rates for the most part, while looser monetary policies are preferred in some emerging economies. Against this background, the IMF forecasts that average inflation will be 4.6 percent in advanced economies, 8.5 percent in emerging markets and developing economies, and 6.9 percent globally in 2023. Worldwide average inflation is expected to be 5.8 percent in 2024.

The increasing global inflation has led to a decline in purchasing power and lower living standards of households. The ongoing tight monetary policy implementations in the fight against inflation still have the potential to increase vulnerabilities in the world economy by causing a decline in investment and production. With the divergence of central bank policies in advanced economies, the global monetary tightening trend is expected to continue for a while, which may lead to fluctuations in the currencies of emerging economies and global economic activity. The possible effects of a long-term monetary tightening cycle in a period of high global debt levels are closely monitored both in advanced economies and in emerging economies with relatively weak balance sheets.

3.1. Recent Economic Developments

3.1.1. Growth

The Turkish economy maintained the growth momentum achieved in 2022 in 2023 as well. The strong momentum in domestic demand continued in the first two quarters of 2023, with the economy growing by 3.9 percent in the second quarter. In this period, final domestic demand contributed 12.8 percentage points to growth, while the effect of net exports of goods and services was realized as negative 6.3 percentage points. In this period, the effect of inventory changes on growth was negative 2.6 points.

In the third quarter of 2023, private consumption expenditures continued to increase on the back of the wage hikes in July 2023, and the Turkish economy grew by 5.9 percent in the third quarter of 2023 on the back of fixed capital investments. In this period, private consumption increased by 11.2 percent compared to the third quarter of 2022, while public consumption expenditures rose by 5.3 percent. Total fixed capital investments in machinery and equipment and construction increased by 14.7 percent in the same period. Net exports of goods and services had a negative impact of 2.6 percentage points on growth in the third quarter of 2023.

Table 3.1: GDP Growth by Sectors and Demand Components

(Chained Volume, Annual Percentage Change)

	Annual		2022				2023			
	2021	2022	I	II	III	IV	I	II	III	9 Months
GDP	11.4	5.5	7.8	7.6	4.1	3.3	4.0	3.9	5.9	4.7
Agriculture	-3.0	1.3	0.0	-0.2	3.7	-2.3	-2.4	0.2	0.3	-0.1
Industry	17.3	1.7	7.8	5.8	-1.1	-4.4	-1.0	-2.7	5.7	0.6
Manufacturing	18.6	4.3	9.8	8.7	1.8	-1.7	1.4	-1.9	6.2	1.8
Services[1]	13.0	8.1	10.2	10.2	6.2	6.5	5.0	4.2	5.2	4.8
Construction	-0.6	-7.1	-6.4	-9.9	-13.6	3.9	4.5	6.6	8.1	6.5
Total Consumption	13.0	16.3	16.8	18.0	16.8	14.2	15.1	14.0	10.3	13.0
Public	3.0	4.2	4.3	1.7	3.8	6.5	6.0	6.1	5.3	5.8
Private	15.4	18.9	19.6	21.5	19.5	15.8	16.9	15.4	11.2	14.3
Gross Fixed Capital Form.	7.2	1.3	2.8	3.8	-1.8	0.6	3.8	5.6	14.7	8.2
Change in Stocks [1,2]	-5.1	-7.7	-8.8	-9.9	-8.0	-4.8	-5.7	-2.6	-3.2	-3.8
Final Domestic Demand	11.5	12.5	13.2	14.3	12.2	10.9	12.5	12.0	11.2	11.9
Total Domestic Demand	6.4	5.1	4.6	4.6	4.0	6.7	7.9	11.0	9.0	9.3
Exports of Goods and Serv.	25.1	9.9	17.0	18.8	11.7	-3.3	-3.3	-9.4	1.1	-3.8
Imports of Goods and Serv.	1.7	8.6	2.8	6.5	13.3	10.4	13.7	19.8	14.5	16.0

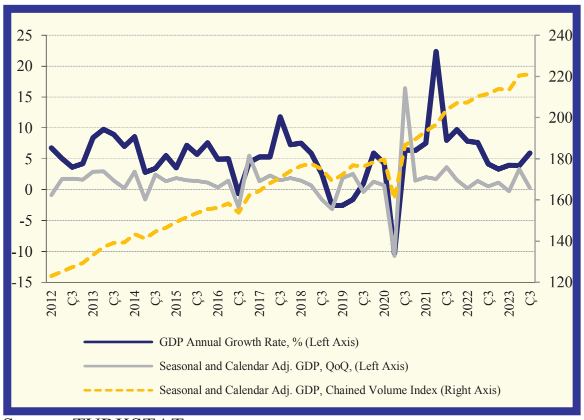
Source: TURKSTAT
(1) Presidency of Strategy and Budget calculations
(2) Contribution to GDP growth

In the first nine months of 2023, the economy grew by 4.7 percent, with private consumption, public consumption and total fixed capital investments contributing 9.8 points, 0.7 points and 2.0 points, respectively. In this period, inventory changes contributed growth negatively by 3.8 points, while net exports of goods and services had a negative impact of 4.1 points.

On the production side, the industrial sector value added increased by 0.6 percent in the first three quarters of 2023 and contributed 0.1 percentage points to growth. The services sector grew by 4.8 percent in the same period and contributed 3.1 percentage points to growth. The value added of the agricultural sector contracted by 0.1 percent in this period, not contributing to growth.

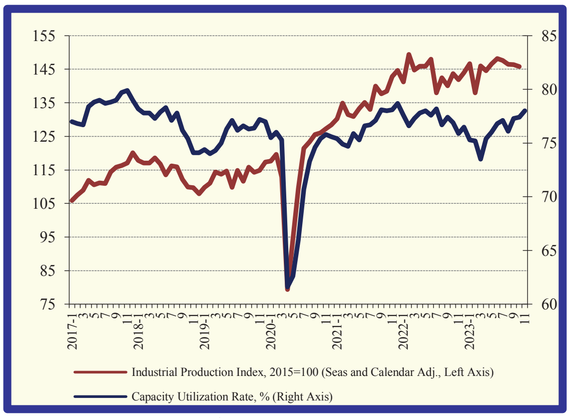
Scrutinizing the leading indicators of growth, it is observed that industrial production has accelerated largely due to the base effect as of the second half of 2023, and capacity utilization rates are in an increasing trend.

Figure 3.1: GDP Developments



Source: TURKSTAT

Figure 3.2: Industrial Production Indicators



Source: TURKSTAT and CBRT

Türkiye’s economy maintained its strong outlook in the first nine months of the year thanks to the strong domestic demand in the first half of 2023 and the vibrant tourism activities in the third quarter. The services sector was the driving force of growth in the first three quarters of the year with high increases in the value added of trade, transportation and accommodation activities and finance and insurance activities. On the other hand, the contribution of the industrial sector to growth was mild in the mentioned period due to the effect of weak external demand.

3.1.2. Labor Market

The unemployment rate in 2022 decreased by 1.6 percentage points compared to the previous year and realized 10.4 percent below ERP (2023-2025) forecast which was 10.8 percent. Despite the increase in labor force participation, the strong employment rise realized with the support of domestic and international demand were effective in decreasing the unemployment rate. In 2022, compared to the previous year, the labor force participation rate increased by 2.3 points for women and 1.1 points for men, and the total labor force participation rate increased by 1.7 points to 53.1 percent. In the same period, the employment rate increased by 2.3 percentage points to 47.5 percent.

Table 3.2: Labor Market Developments

(15+Age, Thousand People)

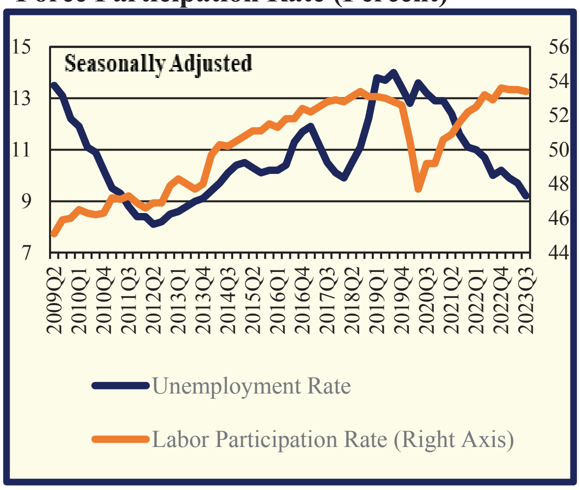
	Annual		2022				2023		
	2021	2022	I	II	III	IV	I	II	III
Working Age Population	63,704	64,679	64,334	64,560	64,793	65,026	65,214	65.352	65,494
Labor Force Part. Rate, %	51.4	53.1	51.7	53.0	53.5	54.0	52.8	53.1	53.9
Labor Force	32,716	34,334	33,282	34,234	34,661	35,089	34,443	34,718	35,315
Employment	28,797	30,752	29,418	30,765	31,160	31,556	30,856	31,507	32,043
Unemployed	3,919	3,582	3,864	3,468	3,501	3,533	3,587	3,211	3,272
Employment Rate, %	45.2	47.5	45.7	47.7	48.1	48.5	47.3	48.2	48.9
Unemployment Rate, %	12.0	10.4	11.6	10.1	10.1	10.1	10.4	9.2	9.3
Youth, %	22.6	19.4	21.0	19.0	19.1	19.0	20.1	17.1	17.1
Sectoral Distribution of Employment									
Agriculture	4,948	4,866	4,362	4,984	5,263	4,650	4,156	4,690	5,174
Non-Agriculture	23,849	25,886	25,056	25,781	25,897	26,906	26,700	26,817	26,869
Industry	6,143	6,663	6,543	6,764	6,638	6,725	6,824	6,818	6,626
Services (Construction Included)	17,705	19,224	18,513	19,018	19,260	20,181	19,876	20,000	20,243

Source: TURKSTAT

In the third quarter of 2023, the seasonally adjusted unemployment rate reached 9.2 percent, the lowest level since 2014 (Figure 3.3). In the same period, the seasonally adjusted employment rate and labor force participation rate were 48.4 percent and 53.4 percent, respectively. The seasonally adjusted labor force participation rate was 35.9 percent for women and 71.2 percent for men.

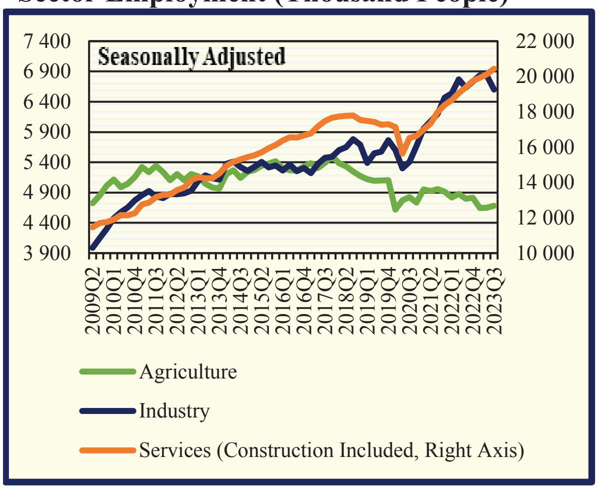
The strong employment growth observed in the Turkish economy in 2022 continued in 2023 as well. In the first three quarters of 2023, seasonally adjusted employment increased by 421 thousand, despite the effects of the earthquake disaster at the beginning of 2023 and the regulatory adjustments concerning retirement eligibility. In this period, employment increased by 561 thousand in services (excluding construction), 125 thousand in construction, and decreased by 133 thousand in agriculture and 132 thousand in industry (Figure 3.4).

Figure 3.3: Unemployment Rate and Labor Force Participation Rate (Percent)



Source: TURKSTAT

Figure 3.4: Agriculture, Industry and Services Sector Employment (Thousand People)



Source: TURKSTAT

3.1.3. Balance of Payments

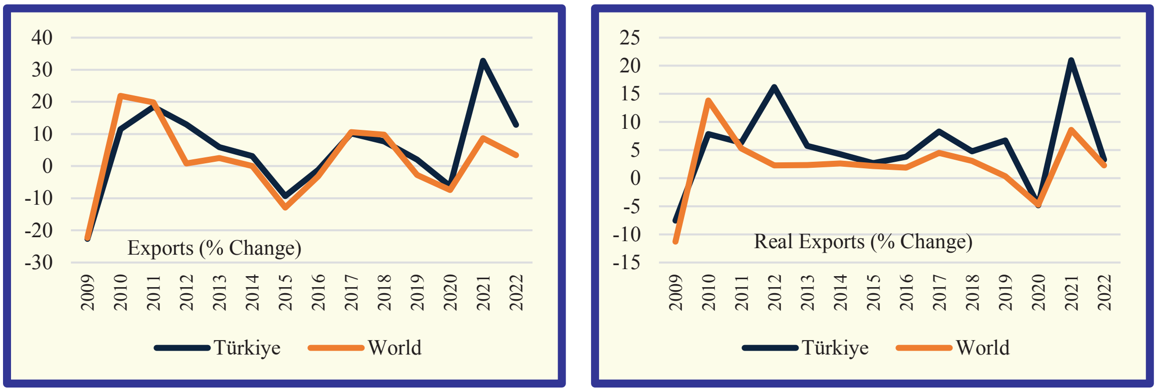
Due to the slowdown in economic activity, global trade volume and the impact of the earthquake led to a limited slowdown in export. Despite the relatively moderate course of commodity prices and the increase in other import items despite the decrease in energy imports, the downward trend in the general import level remained limited.

In the January-November period of 2023, exports increased by 0.7 percent compared to the same period of the previous year and reached 233 billion USD. As of the same period, imports increased by 0.5 percent and amounted to 332.8 billion USD, due to the slowdown in global commodity prices. In addition to these developments, despite the increase in travel revenues, the annualized current account deficit was realized as 50.7 billion USD as of October 2023.

In the January-November period of 2023, real exports increased by 5 percent and real imports increased by 20.5 percent compared to the same period of the previous year. As of the same periods, export and import prices increased by 5 percent and 0.1 percent, respectively.

Depending on the economic development in EU countries in 2023, exports to the EU in the first eleven months of 2023 increased by 1.5 percent compared to the same period of the previous year and amounted to 95.7 billion USD. In terms of imports by country, China, Germany and Russia maintain their high levels. In the first eleven months of 2023, the share of imports in total import from Russia decreased with the decrease in energy prices. The shares of China and Germany in total imports increased.

Figure 3.5: Developments in Exports and Real Exports



Source: World Trade Organization, IMF, TURKSTAT

In the first ten months of 2023, travel revenues increased by 15.8 percent compared to the same period of the previous year and amounted to 42.2 billion USD. Although the average expenditure per capita increased in the second and third quarters of 2023 compared to the previous year, the number of tourists arriving in the first nine months of 2023 increased by 13.2 percent and amounted to 44 million 605 thousand people.

In 2022, capital inflows were mainly realized through foreign direct investments and other investments. There was a net inflow of 8.7 billion USD in foreign direct investments, a net inflow of 40.4 billion USD in other investments and a net outflow of 751 million USD in portfolio investments in 2022.

In the first ten months of 2023, net foreign direct investment inflows amounted to 2.9 billion USD. In the same period of 2023, a net inflow of 1.3 billion USD was recorded from portfolio investments. A net inflow of 34.1 billion USD was realized from other investments. In the January-October period of 2023, reserve assets decreased by 10.7 billion USD.

3.1.4. Inflation and Monetary Policy

3.1.4.1. Inflation

Annual consumer inflation, which was 36.08 percent at the end of 2021, closed the year 2022 at 64.27 percent. The main determinants of the increase in inflation in 2022 were the sharp rise in global commodity and food prices caused by geopolitical developments, the significant depreciation of the Turkish lira and the accompanying deterioration in pricing behavior. Supply-side factors such as the increases in import prices on USD basis, the elevated level of global transportation costs, and disruptions in supply processes also affected the inflation developments unfavorably. The course of aggregate demand conditions facilitated the pass-through of increases in exchange rates and commodity prices to prices. Consumer inflation, which peaked in October 2022, exhibited a downward trend in the first half of 2023.

The analysis of sub-items shows that food inflation, which is one of the drivers of the increase in consumer inflation in 2022, was above the headline inflation with 77.87 percent at the end of 2022. Although annual food inflation decreased, it continued to remain above the headline inflation. The upward trend in food prices became stronger in the third quarter. This development was due to the increase in exchange rates as well as the rise in the prices of fresh fruits and vegetables above their seasonal averages as a result of adverse weather conditions and higher input costs. While fresh fruit and vegetable prices followed a favorable course in October and November, increases in other food prices remained strong. Annual food inflation closed the year at 72.01 percent.

Due to the geopolitic tensions, energy prices recorded the highest increase among subgroups with 94.43 percent in 2022, becoming one of the main drivers of the increase in consumer inflation. Annual energy inflation slowed down in the first quarter of 2023, following the decline in international energy prices. In April 2023, it was decided that the natural gas used by households between 24 April and 31 May 2023 and the first 25 cubic meters of natural gas utilization in each month in the subsequent period would be free of charge until 1 May 2024. As a result, energy prices decreased significantly in the second quarter due also to falling international energy prices as well as the discount in residential electricity tariffs, and annual energy inflation was negative in the May-July period. On the other hand, in the third quarter, the effects of VAT and SCT hikes, as well as the developments in exchange rate and international energy commodity prices, especially crude oil, caused an increase in energy prices. The effect of the rise in energy prices in this period was also reflected on producer prices besides consumer prices. Furthermore, the increase in fuel prices had direct and indirect effects on consumer inflation. In addition, the free allowance of natural gas affected energy inflation favorably in May, whereas it caused energy prices to rise in parallel with the increase in consumption in October and November. As of December, annual energy inflation stood at 27.19 percent.

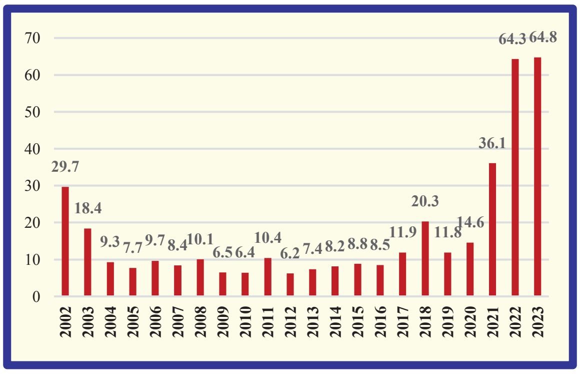
Annual core goods inflation at end-2022 was 48.96 percent. In the first quarter of 2023, price increase in core goods group slowed down slightly compared to the previous quarter due to stable course of the exchange rate and the seasonal discounts in clothing and footwear subgroup despite the adjustment in the minimum wage. Domestic demand remained brisk, and credit conditions continued to be accommodative, particularly for durables. While credit conditions became more accommodative in the second quarter of the year, price increases in durables strengthened with the increase in the exchange rate which started in May. As the price increases in durables coupled with the rise in clothing and footwear subgroup prices due to transition into the new season, price increase in core goods group went up compared to the first quarter of the year. In line with the strengthening of the rise in the exchange rate as well as minimum wage and tax adjustments, mainly the VAT hike, price increases surged across the group in the third quarter. Durable goods stood out in this respect, while clothing and footwear subgroup also posted price increases unlike its seasonal norms. Despite a slight weakening, credit flows hovered above historical averages, and the domestic demand remained strong. In these period, pass-through from costs to retail prices accelerated. In the last quarter, as pass-through from costs to retail prices was completed to a great extent, price increases weakened, particularly in durables, and items such as automobiles and white goods registered price discounts in certain months. In line with these developments, annual core goods inflation stood at 52.81 percent as of December.

Annual services inflation, which had been 55.49 percent at end-2022, remained above the headline inflation throughout 2023. Since price rigidities, backward-indexation and sensitivity to wage developments are more prevalent in the services group, the effects of macroeconomic developments are spread over time and services inflation exhibits inertia. Services sector prices surged in the first quarter of 2023. This was driven by price increases in labor-intensive sectors due to minimum wage hike as well as price increases in items with prices linked to revaluation rate and administered items. In addition to these groups, rise in food prices adversely affected restaurant-hotel subgroup, and increase in rents gained momentum due also to the earthquakes in February. In the second quarter of the year, services prices continued to increase significantly, albeit at a slower pace. This was driven mostly by lingering effects from the first quarter. Developments in food prices continued to adversely affect restaurant-hotel subgroup, while increases in rents remained strong and rise in communication services prices gained pace. Strong price increases in services sector throughout the first half 2023 strengthened in the third quarter. The second minimum wage adjustment in mid-year, depreciation of the Turkish lira as well as rise in taxes and administered prices were among the other factors that escalated price increases. Fuel prices, which were also adversely affected by the mounting global crude oil prices, exacerbated the outlook in transport services and caused quarterly inflation to surge in this subgroup. Moreover, fresh fruit and vegetable prices that increased considerably contrary to their seasonal norms aggravated cost pressures in restaurant-hotels subgroup. In addition to the increase in rents, quarerly inflation of the other services subgroup including education and health services grew. Rent and communication services subgroups came to the fore in October and November in services inflation, and annual services inflation reached 90.66 percent as of December.

After completing 2022 at 97.72 percent due to increases in global commodity prices, depreciation of the Turkish lira and supply bottlenecks, annual domestic producer inflation became 44.22 percent at the end of 2023. Although increase in domestic producer prices strengthened in certain periods as a result of wage and exchange rate developments, positive outlook in global commodity markets, natural gas in particular, and untangling of global supply chain bottlenecks alleviated cost pressures.

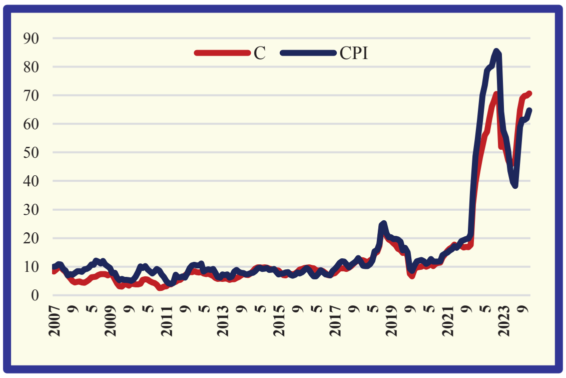
To sum up, exchange rate developments and adjusments in minimum wage and taxes were the main drivers of consumer inflation in 2023. Brisk domestic demand and convenient credit conditions, albeit weakened in the second half of the year, resulted in fast pass-through of cost pressures into retail prices. The deterioration in inflation expectations was the other prominent factor that adversely affected inflation. On the other hand, despite the favorable outlook in global commodity prices and supply chains, increases in global crude oil prices during summer months when combined with exchange rate and tax developments pushed fuel prices further up. Fuel prices dragged consumer inflation upwards both directly and also indirectly through production and transportation. The increase in food prices stemming from items with significant weights such as red meat, fresh fruits and vegetables, bread and cereals as well as milk and dairy products at certain times of the year affected headline inflation unfavorably. Against this background, annual consumer inflation reached 64.77 percent as of December 2023 (Figure 3.6). Annual inflation in the C index, one of the core inflation indicators, stood at 70.64 percent at end-2023 (Figure 3.7).

Figure 3.6: Actual Annual Inflation (CPI, %)



Source: TURKSTAT

Figure 3.7: CPI and Core CPI (Annual % Change)



Source: TURKSTAT

3.1.4.2. Monetary Policy

The Monetary Policy Committee (the Committee) decided to keep the policy rate unchanged at 14 percent in the MPC meetings between January 2022 and July 2022. Between August and November 2022, the policy rate was further cut to 9 percent. Following the earthquake disaster, the Committee cut the interest rate by 50 basis points to 8.5 percent at the February 2023 meeting. During this period, the macroprudential measures took an increasing role in maintaining financial stability.

In June, a significant change was made in the policy stance considering the necessity to create the monetary and financial conditions that would ensure a decline in the underlying trend of inflation and reach the medium-term target of 5 percent. Accordingly, the Committee decided to begin the monetary tightening process in order to establish the disinflation course as soon as possible, to anchor inflation expectations, and to control the deterioration in pricing behavior. It was also stated that the monetary tightening process would be strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved. Moreover, assessing that the effectiveness of the monetary policy would increase with the start of monetary tightening, the Committee stated that strategic investments to improve current balance will continue to be supported in order to provide the sustainability of price stability. Accordingly, the Committee raised the policy rate from 8.5 percent to 15 percent at the June meeting.

In July, the Committee evaluated that foreign direct investment, notable improvement in external financing conditions, continued increase in foreign exchange reserves and improvement in current account balance driven by rising tourism revenues will contribute significantly to price stability. In addition to policy rate hikes, the Committee made selective credit and quantitative tightening decisions to support the monetary tightening process. Accordingly, the policy rate was raised to 17.5 percent.

The Committee stated in its August meeting that the rise in the underlying trend of inflation continued and there was an additional pressure on inflation through the expectations channel stemming also from the increase in fuel prices. Subsequently, the Committee informed the public in a timely manner that inflation would rise in the short term, and at the end of the year, it would hover close to the upper bound of the forecast range provided in the July Inflation Report. In addition, assessing that regulations to increase the share of Turkish lira deposits would strengthen the monetary transmission mechanism, the Committee stated that, in addition to policy rate hikes, it would continue to make selective credit and quantitative tightening decisions to support the monetary tightening process. Accordingly, the policy rate was raised from 17.5 percent to 25 percent in August.

In September, the Committee evaluated that the that recent cost pressures stemming from wages and exchange rates as well as tax regulations have broadly passed through to inflation, and that the underlying trend in monthly inflation is on course to decline. Accordingly, the Committee stated that, with the effect of monetary tightening steps, it is determined to establish the disinflation course in 2024 in line with the July Inflation Report's path and raised policy rate to 30 percent.

In its October meeting, the Committee assessed that geopolitical developments pose a risk to the inflation outlook due to oil prices. Accordingly, the policy rate was increased from 30 percent to 35 percent. Moreover, highlighting that monetary transmission mechanism will be further strengthened by taking additional steps to increase the share of Turkish lira deposits, the Committee continued to make decisions on quantitative tightening and selective credit tightening besides policy rate hikes to support the monetary tightening process.

In the second half of 2023, outright purchase auctions were suspended in line with the quantitative tightening steps. In this period, there were periods of excess TL liquidity in the system due to exchange rate difference payments to KKM and FX transactions against Turkish lira and thus, the CBRT became a net borrower in the OMO. The excess liquidity was sterilized via various instruments to enhance the efficiency of the monetary transmission mechanism. In this framework;

• Reserve requirement was introduced on KKM accounts, and reserve requirement ratios for KKM were further raised and differentiated across maturities.

• Additional reserve requirement implementation was introduced for FX-denominated deposits, to be maintained in Turkish lira.

• Turkish lira deposit buying auctions started to be held as of 22 December 2023.

Moreover, the monetary transmission mechanism was strengthened via arrangements to increase the share of Turkish lira deposits. Within the framework of the simplification process, which was implemented gradually to safeguard the macro financial stability, it has been decided to terminate the conversion target from FX accounts to FX-protected deposit accounts and the securities maintenance and reserve requirement practice based on the Turkish lira share of total deposits in which FX-protected accounts were deemed as Turkish lira deposits. Instead, in order to reduce FX-protected deposits gradually and to support Turkish lira deposits, the CBRT decided to adopt targets for conversion of FX-protected deposits to Turkish lira deposits, renewal of FX-protected deposit accounts at a certain ratio and increasing the share of standard Turkish lira deposit accounts. Finally, in order to increase the effectiveness of the implementation, these targets were removed from the securities maintenance regulation and the practice was simplified and strengthened within the framework of the reserve requirement commission regulation. Moreover, the minimum interest rate requirement for FX-protected deposit accounts was terminated to support Turkish lira deposits. On the other hand, in order to support this process, it was decided not to open any new TL convertible FX-protected deposit accounts as of 1 January 2024 and not to renew the existing TL convertible FX-protected deposit accounts at maturity.

The credit mechanism has become functional again thanks to the gradual rate hikes supported by the simplification of the macroprudential framework. As a result, credit growth has been in line with current growth limits set within the scope of the securities maintenance practice. Meanwhile, the financing cost of rediscount credits was lowered, which promotes exports, and limits for SMEs and daily utilization were raised. In this context, the interest calculation method for export and FX-earning services rediscount loans has been revised. Thus, the total interest cost of these credits has been limited by the policy rate.

At its November meeting, the Committee assessed that the current level of monetary tightness is significantly close to the level required to establish the disinflation course. Accordingly, it was stated that the pace of monetary tightening will slow down and the tightening cycle will be completed in a short period of time. It was also evaluated that the monetary tightness will be maintained as long as needed to ensure price stability on a permanent basis. Furthermore, the Committee stated that, in addition to policy rate hikes, it would continue to make decisions on quantitative tightening in order to support monetary tightening process. Accordingly, the policy rate was raised from 35 percent to 40 percent.

In December 2023 meeting, assessing that the current level of monetary tightness is significantly close to the level required to establish the disinflation course, the pace of monetary tightening was slowed down. In this context, it has been evaluated that the monetary tightening steps are expected to be completed as soon as possible and the monetary tightness necessary for the permanent establishment of price stability will be maintained as long as necessary. In addition, it was stated that in addition to policy rate hikes, quantitative tightening will continue by increasing the variety of sterilization tools used to support the monetary tightening process. Accordingly, the policy rate was increased from 40 percent to 42.5 percent. The Committee underlined that policy decisions will continue to be determined in a way that will create monetary and financial conditions necessary to ensure a decline in underlying trend of inflation and to reach the 5 percent inflation target in the medium term, taking into account the cumulative and lagged effects of monetary tightening.

The official reserves of the CBRT has increased rapidly, especially in the second half of 2023, reaching its historical high level of 145.5 billion USD as of December 22, 2023. Of this amount, 47.9 billion USD are gold reserves, while the remaining 97.6 billion USD are foreign exchange reserves.

Monetary tightening and simplification steps taken within the micro and macro-prudential framework support the robust upward trend in reserves. Strengthening reserves is important for the effectiveness of monetary policy and financial stability. In this regard, the CBRT will continue its strategy of accumulating reserves as long as market conditions allow.

3.1.5. Financial Sector

Capital Markets

The increasing trend in the interest shown in capital markets which has been observed in recent years, in terms of both meeting the financing needs of corporations and investment choices of investors has continued in 2023. Number of equity investors has increased from 3.8 million at the end of 2022 to 8.2 million as of the end of November 2023. Corporate interest in fund raising through the equity market has continued in 2023, and a total of 50 corporations have conducted initial public offers, raising 64.7 billion TL of financing.

Due to the steep decline in equity prices in the aftermath of the 6 February 2023 earthquakes, which occurred in Kahramanmaraş and affected 11 provinces, a trading halt was implemented as of 8 February 2023 in the Borsa İstanbul Equity Market and equities and equity indices segments of the Derivatives Market for a duration of five business days. Furthermore, in order to prevent investors in the region from incurring losses, measures were implemented to provide flexibility in margin trading and expand credits extended by investment firms. These measures remained in force until 30 June 2023. Additionally, in order to preserve price stability in the equity market, procedures relating to share buybacks were facilitated; to strengthen transparency in the market, reporting requirements with respect to sale of shares by major shareholders of traded corporations were made more stringent, and an extension was provided for the publication date of annual financial statements for 2022 by traded corporations located in the region.

Following the turbulence in prices in the immediate aftermath of the earthquakes, due new listings, accommodating market conditions, increasing investor demand, and corporate performances, the ratio of market capitalization to national income of corporations traded in Borsa İstanbul increased from 41.4 percent at the end of 2022 to 50 percent as of September 2023. During 2023, issuances of private debt instruments have continued in a stable manner, and a significant increase has been observed in the size of institutional investors. The market value of outstanding private sector debt instruments in domestic markets was 216.6 billion TL at the end of 2022, and 286.7 billion TL as of the end of November 2023. Furthermore, the total value of investment funds, which was 667.8 billion TL at the end of 2022, has increased to 1,450.3 billion TL as of the end of November 2023.

In 2023, a regulatory amendment was published in order to strengthen the capital and organization of portfolio management companies. Furthermore, with the purpose of enhancing access to finance, a new regulation was published to enable corporations with a potential for development that are not yet of sufficient size to be traded in Borsa İstanbul, to issue shares without public offering to qualified investors through a capital increase, and the trading of such shares in the Borsa İstanbul Venture Capital Market.

Banking Sector

The robust credit growth fueled by the accommodative financial conditions in 2022 has been stabilized by the monetary tightening process initiated in the second half of 2023, selective credit policies and the simplification of macroprudential policy framework. The quintessential component of recent policy efforts to revise the macroprudential framework is to increase the functionality of market mechanisms, strengthen monetary policy transmission mechanism and reduce regulatory burden (Table 3.3). In line with the decisions taken after June 2023, 1-week repo interest rate, which also stands as the policy rate, has increased from 8.5 percent to 42.5 percent. In July 2023, the regulation for securities maintenance based on credit growth was revised by decreasing the monthly credit growth threshold for TL commercial loans from 3 percent to 2.5 percent, while exporting, investment, agriculture and tradesmen loans were exempted from the scope of the regulation. Furthermore, the daily limit for the rediscount credits was increased from 300 million TL to 1.5 billion TL. During the same period, decisions taken by the BRSA elevated risk-weights for general-purpose loans, personal credit cards (PCCs) and vehicle loans. In addition, the risk weight of loans extended for the purchase of second homes was increased and the loan-to-value ratio was lowered in a way to make it more difficult to utilise these loans.

Annual total loan growth rate reached to a peak level in May and displayed a downward trend since then and is at 57.4 percent at the end of the year (Figure 3.8)[2]. Peaking

[2] The weak outlook of FX loan growth observed since 2018 continued to realize in 2023 as well. The regulatory change in 2018 limiting the FX credit use, firms' tendency to sustain deleveraging, heightened awareness of the importance of FX risk management and weak dynamics of FX supply/demand conditions had all contributed to the contraction in FX loan growth.

to the highest level in February, annual TL commercial loan growth rate recorded a downward trend and declined to 48.5 percent at the end of the year due to interest rate hikes and monthly growth thresholds. When the loan composition is examined, the growth in targeted loans (TL investment, exporting, agriculture, tradesmen loans as well as the loans extended to public institutions and earthquake-affected provinces) diverged positively, whereas the loan segments that are subject to growth limits demonstrated a muted outlook. In parallel to the slowdown in loan growth indicators and the re-balancing of loan composition, retail loan growth rate also faced a deceleration on the back of the slowdown in general-purpose loans and PPCs in line with factors such as loan rate increases, monthly growth limits and the revision in risk weights by the BRSA.

Figure 3.8: Annual Total Loan Growth (%)

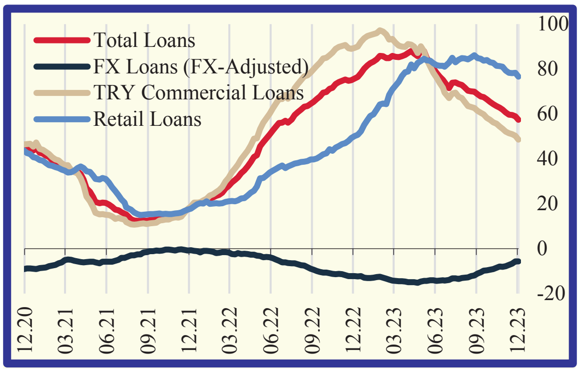
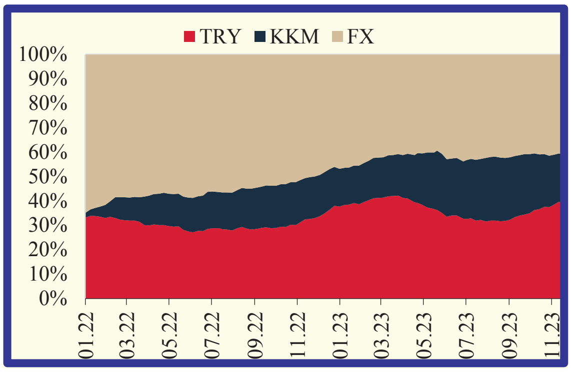


Figure 3.9: Deposit Composition



Source: CBRT

Beginning in the second half of 2023, micro and macroprudential outlook has been simplified by the CBRT to enhance the functioning of market mechanism and monetary policy transmission process (Chart 3.3). In this context, authorities aimed to support the demand for TL assets and to increase the share of TL deposits in total deposits of the banking system. Together with these developments, the transition from FX protected deposits accounts to TL deposits has accelerated with the share of KKM accounts in total deposits declining to 20 percent, while the share of TL deposits reached 40 percent at the end of 2023 (Figure 3.9).

Table 3.3: Macroprudential Simplification Steps Implemented by the CBRT

Decisions Taken	Date
Introducing the required reserves (RR) for KKM accounts, sterilizing TL liquidity by first increasing this rate by differentiating it according to their maturities and then increasing it for all maturities in September and November	July 2023 September 2023 November 2023
Reducing the monthly loan growth threshold from 3 percent to 2.5 percent for TL commercial loans (excluding export, investment, agricultural and artisan loans) and from 3 percent to 2 percent for vehicle loans in the securities maintenance practice	July 2023
Simplifying interest rate thresholds for TL commercial loans (excluding investment and export loans) in July and October, and discontinuation of all interest rate tiers as of end-2023.	July 2023 October 2023 December 2023
Termination of the macroprudential policies related with the TL deposit share including KKM.	August 2023
Termination of the securities maintenance practice according to the conversion rate from FX deposits to KKM accounts	August 2023
Increasing the RR ratios for FX deposits/participation funds and introducing additional RR to be held in TL	August 2023 November 2023

Introducing a target to increase the share of Turkish lira real person deposits (excluding KKM) in total deposits at a monthly basis.	August 2023
Setting targets for transition from FX deposits and the KKM accounts towards TL deposit accounts	August 2023
Termination of the minimum interest rate requirement for KKM accounts (converted from TL accounts)	September 2023
Discontinuation of the securities maintenance practice and introduction of commission practice in the regulations related to TL deposits	October 2023
Terminations of the securities maintenance practice applied to banks at a rate of 30 percent based on the TL flow loans extended by banks	October 2023
Setting the minimum interest rate requirement for KKM accounts (converted from FX accounts) at 85 percent of the policy rate.	November 2023
Reducing securities maintenance ratio for foreign exchange liabilities from 5 percent to 4 percent	December 2023
Setting an upper limit for maximum interest rates for credit cards and maximum commission rates for merchants	December 2023
Extending the implementation regarding securities maintenance based on loan growth, which was to be terminated on 29 December 2023, for six months	December 2023

3.2. Medium Term Macroeconomic Scenario

One of the main objectives of ERP is to increase welfare by reducing inflation to single-digit levels at the end of the period, while maintaining a stable growth environment in which internal and external balance is achieved. In this period, in addition to structural transformations, a tight monetary stance and fiscal discipline will be the main macroeconomic policy tools.

During the program period, an approach that is transparent, consistent, predictable and in accordance with international norms will be followed that are supported by structural reforms with a focus on sustainable and inclusive economic growth considering price stability and financial stability. In this way, the fight against inflation will be strengthened, confidence and stability environment will be reinforced, a sound business environment will be created for productive investments that will increase employment, and the technology composition of production and exports will be improved with a focus on green and digital transformation.

During the program period, the tight monetary stance, which is expected to balance domestic demand by affecting pricing behavior, will be supported by structural policies towards supply-side causes of inflation. In this context, practices that reduce input costs and increase supply will continue.

To ensure growth that supports investment, employment, production and exports, monetary, fiscal and income policies will be carried out in coordination and reform steps in these areas will be implemented gradually. Thus, potential growth will be increased by improving the business and investment environment and establishing a favorable structure for sustainable growth.

Special attention will be paid to the opportunities brought by green and digital transformation, focusing on increasing potential growth rates through the effective and efficient use of Türkiye's financial and natural resources, especially its human capital, in economic activity. Türkiye's international competitive position will be strengthened with sustainable, low-emission, high-technology-based production techniques by adopting integrated and environmentally friendly policies, especially in the energy, industry, transportation and agriculture sectors.

In this context, permanent improvement in the current account balance is aimed to achieve by reducing import dependency and transforming the production structure that will produce higher added value.

Supporting financial stability in line with the market economy is aimed by increasing domestic savings, ensuring efficiency in resource allocation, facilitating access to finance through the development of capital markets, disseminating financial literacy and simplifying macroprudential measures.

As for public expenditures, priority will be given to relieving earthquake region and reducing disaster risks, expenditure items outside these areas will be approached with the understanding of maximum savings, and fiscal space will be created to further increase the resilience of public finance against cyclical fluctuations. During the program period, the main aim of the fiscal policy will be to gradually reduce the public deficit and strengthen public financial sustainability, excluding expenditures for earthquake and disaster risks.

3.2.1. Growth

3.2.1.1. Composition of Growth

In 2022, the Turkish economy proved its resilience against the shocks caused by negative global developments and recorded a growth of 5.5 percent with the contribution of net exports and domestic demand. The Turkish economy, which recorded a growth above the MTP (2023-2025) forecast of 5 percent in 2022, has achieved uninterrupted growth for the last 13 years. On the other hand, expectations were deteriorated due to the disruptions in supply chains caused by the Russia-Ukraine war, as well as the increases in global energy and food prices, and negative effects were observed on the economic outlook through trade and inflation channels. With the multilateral diplomacy carried out to alleviate these impacts, these adverse effects were relatively reduced and economic activity continued its vitality. With a growth rate of 5.5 percent, led by the services sector, the Turkish economy has differentiated itself positively from member countries by reaching a growth rate well above the 2.9 percent average of OECD countries.

Despite the devastating effects of the earthquake disaster in February in the first three quarters of 2023, a growth rate of 4.7 percent was achieved, led by domestic final demand. It has been observed that the negative impact of the earthquake on GDP remained limited and the national income expansion continued although there was a variation in the provinces affected by the earthquake. During this period, private consumption expenditures recorded a strong increase of 14.3 percent. In this direction, private consumption contributed to growth by 9.8 points in the first three quarters of 2023. In the same period, total fixed capital investments increased by 8.2 percent and contributed 2.0 points to growth. Machinery and equipment investment expenditures, which are among the main drivers of potential growth, continued to increase during the first three quarters of 2023 and displayed a stable outlook, showing an uninterrupted increase for sixteen quarters. Thus, the share of this basic component that ensures sustainable growth in national income has maintained its high levels. On the other hand, net exports of goods and services contributed negatively to growth by 4.1 points in the first three quarters of 2023, due to the effect of increasing imports along with strong domestic demand. In the last quarter of 2023, with the effect of tight monetary policy, the balancing trend in demand indicators is expected to become evident and a GDP growth of 4.4 percent is expected to occur throughout the year.

Table 3.4: Demand Components of Growth

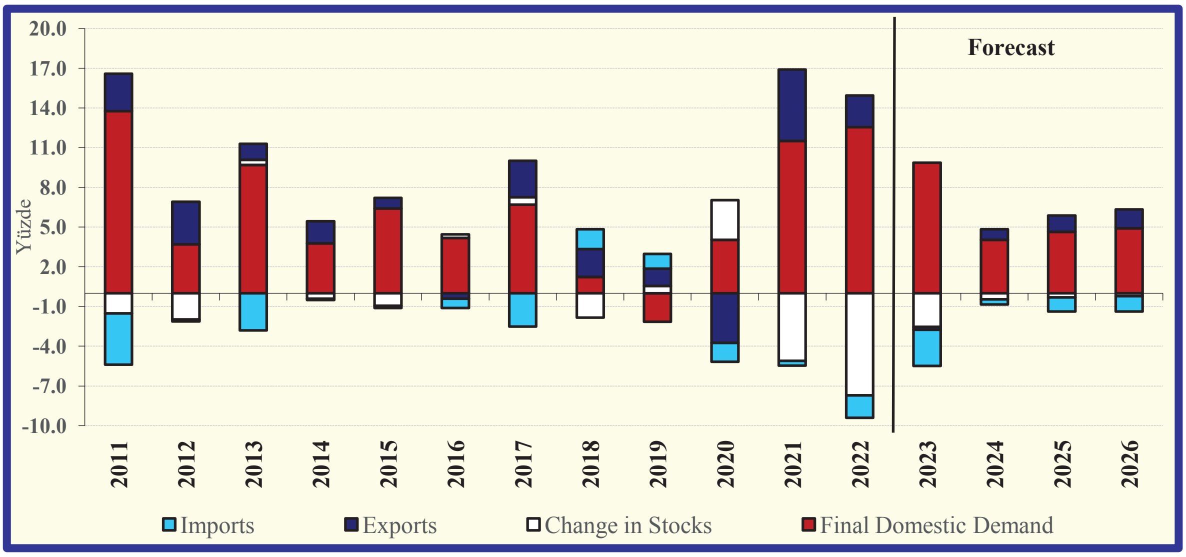
(2009=100 Chained Volume, Percentage Change)

		Forecast			
	2022	**2023**	**2024**	**2025**	**2026**
Total Consumption Expenditure	16.3	10.3	3.6	4.3	4.3
Private	17.8	10.9	3.5	4.3	4.4
Public	5.0	6.0	4.3	3.8	3.6
Total Investment Expenditure	-35.5	-9.7	3.7	5.6	8.4
Gross Fixed Capital Formation	1.3	5.5	3.6	3.8	4.7
Change in Stocks [1]	-7.7	-2.5	-0.5	-0.3	-0.2
Exports of Goods and Services	9.9	-0.9	3.3	5.2	5.9
Imports of Goods and Services	8.6	13.3	1.7	4.8	5.3
Gross Domestic Product	5.5	4.4	4.0	4.5	5.0
Domestic Demand	5.1	7.7	3.6	4.4	4.8
Domestic Final Demand	12.5	9.2	3.6	4.2	4.4

Source: Realization TURKSTAT, Presidency of Strategy and Budget and MoTF
(1) Contribution to GDP growth

In the 2024-2026 period, the growth rate is anticipated to reach an annual average of 4.5 percent with the establishment of an export-oriented and sustainable growth structure with investments in productive areas, while fight against inflation continues. Total consumption and total investment expenditures are expected to contribute 3.5 percent and 0.7 percentage points to annual average growth, respectively. Net exports are projected to contribute, on yearly average, 0.3 points to growth throughout the MTP period.

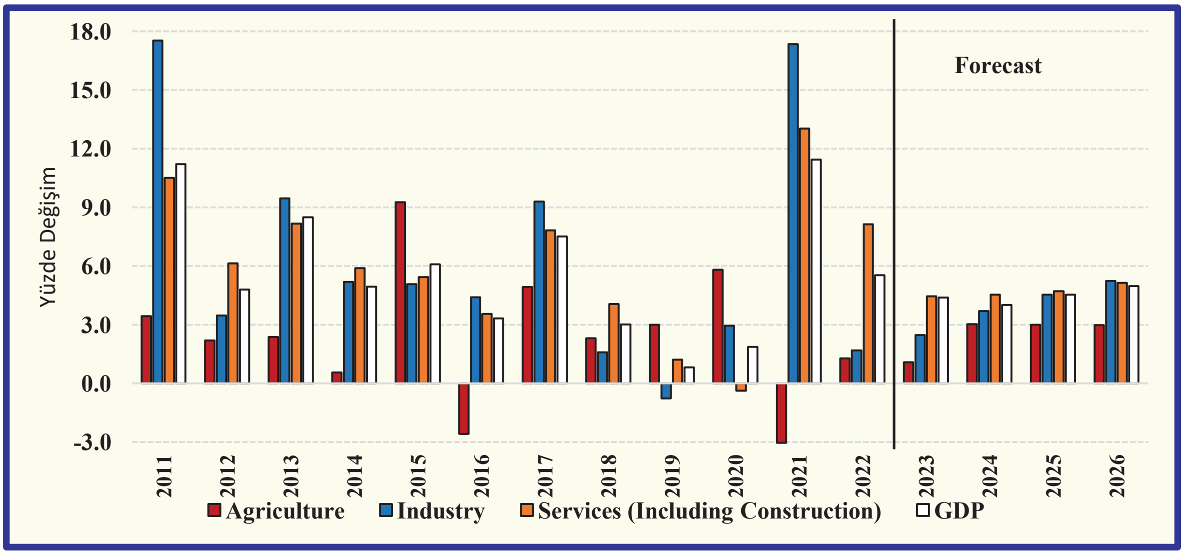
Figure 3.10: Contribution to GDP Growth



Source: Realization TURKSTAT, forecast Presidency of Strategy and Budget and MoTF

During the program period, the industrial sector is expected to grow by an average of 4.5 percent annually, with the contribution of effective industrial policies to be implemented for priority sectors within the scope of the 12th Development Plan. It is predicted that the services and agriculture sectors, including construction, will grow at 4.8 and 3.0 percent, respectively. With the sectoral prioritization approach, it is aimed to accelerate technological renewal that will make productivity expansion dynamic and to ensure structural transformation in the manufacturing industry, which is considered as the dynamic of stable growth.

Figure 3.11: Value Added by Sectors



Source: Realization TURKSTAT, forecast Presidency of Strategy and Budget and MoTF

3.2.1.2. Investment-Saving Balance

As of the end of 2022, the ratio of total investments to GDP was 35.0 percent. While the share of fixed capital investments in GDP remained at 29.2 percent, the share of stock investments was 5.9 percent. As the ratio of domestic savings to GDP was recorded at 30 percent, foreign savings were realized at 5 percent of GDP.

The ratio of total fixed capital investment to GDP is expected to be 31.5 percent in 2023. When stock investments are taken into account, the ratio of total investments to GDP increases to 33 percent.

The ratio of domestic savings to GDP is expected to be 29.2 percent in 2023, and within this framework, the use of foreign savings is expected to be 3.9 percent.

Table 3.5: Investment Saving Balance

(As a Share of GDP, Percent)

		Forecast			
	2022	**2023**	**2024**	**2025**	**2026**
Total Investment	35.0	33.0	32.6	32.7	33.0
Fixed Capital Formation	29.2	31.5	31.0	31.1	31.2
Changes in Stocks	5.9	1.5	1.6	1.6	1.8
Total Savings	35.0	33.0	32.6	32.7	33.0
Domestic Savings	30.0	29.2	29.6	30.2	30.8
Foreign Savings	5.0	3.9	3.0	2.5	2.2

Source: Realization TURKSTAT, forecast Presidency of Strategy and Budget and MoTF

Within the framework of the MTP (2024-2026), the ratio of domestic savings to GDP is expected to be 30.8 percent at the end of the program period. Along with the expected increase in private savings, the public sector is also expected to contribute to the domestic savings through the policies in order to save on public expenditure in the medium term. In this regard, it is expected that there will be a slowdown in the needs of foreign savings in line with the goal of reducing the current account deficit.

3.2.1.3. Sources of Growth

Scrutinizing the sources of growth in Turkish economy in the long run, capital accumulation has been the main driver of growth while the contribution of employment to growth has displayed a stable pattern (Table 3.6).

With the recovery in economic activity following the Covid-19 pandemic, a high growth performance was realized due to strong domestic and external demand conditions. The capital stock contributed positively to growth as a result of the increase in machinery and equipment investments and the high course in the capacity utilization rate throughout the year. Although there was a loss of momentum in total demand conditions in 2022 due to both domestic and foreign demand, capital accumulation and employment continued to support positively to growth throughout the year. In this context, capital accumulation contributed to growth by 2.2 points and employment contributed to growth by 4.1 points of 5.5 percent growth throughout the year while total factor productivity contributed negatively to growth by 0.7 points.

Despite the negative impact of the earthquake in the first quarter of 2023 and the moderate course of foreign demand, economic activity maintained its vitality thanks to the support of strong domestic demand, and a growth rate was realized at 4.0 percent in the first quarter and 3.8 percent in the second quarter. With the impact of the tight monetary policy stance, there has been a rebalancing in consumption-driven domestic demand as of the third quarter of 2023, and the fixed capital investments, which is one of the sustainable components of growth, has continued to rise. The growth, which was 4.7 percent in the first nine months of 2023 compared to the same period of the previous year, is expected to be 4.4 percent throughout the year, through rebalancing in domestic demand as of the last quarter of the year. Capital accumulation, employment and total factor productivity are anticipated to contribute positively to growth in a balanced composition.

Table 3.6: Developments in Factors of Production

(2009=100 Chained Volume Index. Percentage)

Period	Growth Rates					Contribution to Growth		
	GDP	Capital Stock	Capital Stock*	Emp.	TFP	Capital Stock	Emp.	TFP
1998-2022	4.6	6.5	6.3	2.0	0.8	55.0	26.7	18.2
2002-2022	5.5	6.8	7.1	2.4	1.2	52.2	26.1	21.7
2002-2007	7.2	7.4	9.8	1.0	2.6	54.9	8.6	36.5
2010-2022	5.9	6.5	7.7	3.2	0.9	52.4	32.2	15.4
2024-2026	4.5	4.7	4.9	2.8	0.8	43.9	37.6	18.5

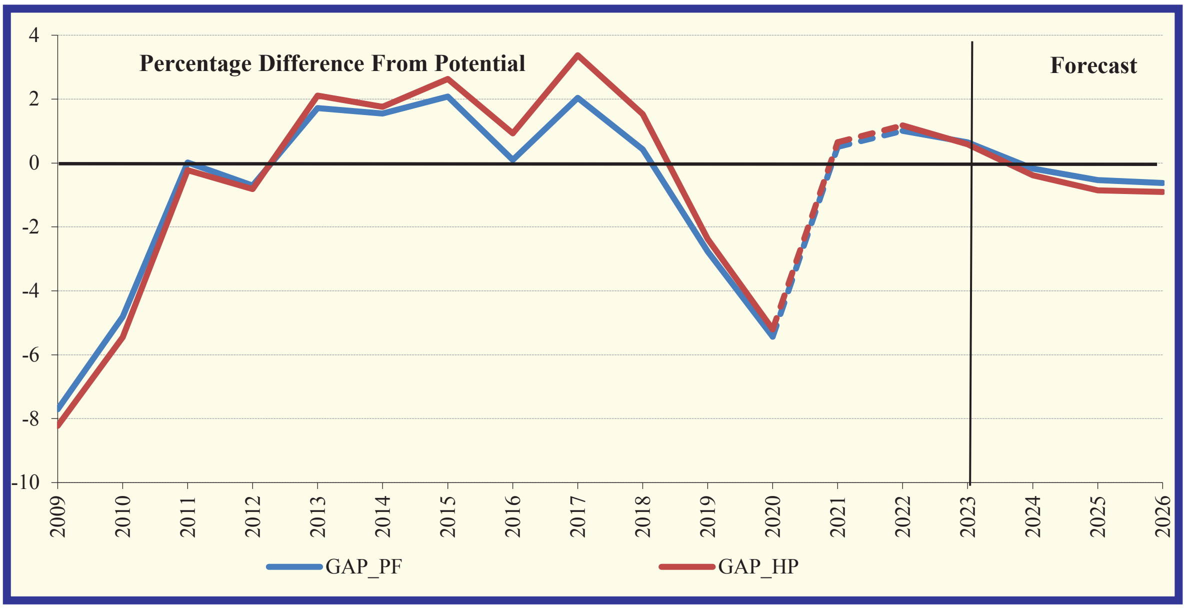
Source: Presidency of Strategy and Budget calculations
* Capital stock increase corrected by capacity utilization rate.

It is foreseen that the increase in investment, employment and productivity will maintain during 2024-2026 period thanks to the impact of policies that will support high value-added production through the continuation of the export-oriented growth strategy, which has achieved significant gains in recent years. In this period, it is estimated that growth will be at 4.5 percent with the support of resources directed to productive areas, while capital stock, employment and TFP are expected to increase by an annual average of 4.9 percent, 2.8 percent and 0.8 percent, respectively. Within the framework of the envisaged macroeconomic structure, the contribution of capital stock, employment and TFP to growth is expected to be 43.9 percent, 37.6 percent and 18.5 percent respectively, in a balanced composition.

3.2.1.4. Potential Output and Output Gap

Analyzing the output gap indicators estimated by alternative methods for evaluating the demand-side pressures on inflation and the growth cycles of the economy, the output gap has closed by moving into the positive region due to strong course of supply and demand conditions thanks to acceleration of vaccination and gradual normalization steps following the Covid-19 pandemic. Although the strong demand conditions that continue during 2022 caused the output gap to increase slightly, there is a gradual balancing in demand especially as of the third quarter of the year thanks to tight monetary policy steps taken in 2023. It is estimated that the production level is above the potential production level in 2023 under the 4.4 percent growth scenario throughout the year.

Figure 3.12: Output Gap



Source: Presidency of Strategy and Budget calculations
GAP_PF: Output gap calculated by production function method
GAP_HP: Output gap calculated by Hodrick-Prescott method

In the ERP (2024-2026) period, it is estimated that the growth will be around 4.5 percent annually on average, through the impact of maintaining the export-oriented growth strategy and increasing high-value-added production and employment. In this period, through the effect of the steps prioritizing to preserve and enhance the production potential, it is foreseen that the potential growth rate will increase as a result of strong investment and employment growth in addition to productivity gains. Within the framework of the macroeconomic scenario, the current production level is anticipated to be slightly below the potential level by 2024, depending on the projected growth rate and it is not expected any demand-side pressure on inflation during the Program period (Figure 3.12).

3.2.2. Labor Market

When the developments in the labor market are examined, it is observed that the employment increase continues and the unemployment rate declines as a result of the predominance of employment increase despite the increase in labor force participation.

In the 2024-2026 period, the increase in non-agricultural employment is expected to be 3.4 percent annually on average due to the stable growth environment after the pandemic. The pace of the increase in agricultural employment is expected to slow down in the upcoming period. Despite the increase in the labor force participation rate, the unemployment rate which is expected to decrease gradually is expected to be 9.3 percent in 2026. The expected high increases in labor supply especially among women, will limit the unemployment rate decline to some extent. The labor force participation rate, which is expected to be 53.7 percent in 2023 on average, is expected to reach 55.6 percent at the end of the Program period.

Table 3.7: Labor Market Developments

(15+ Age)

	Realization	Forecast			
	2022	2023	2024	2025	2026
Working Age Population (Thousand Person)	64,679	65,547	66,458	67,308	68,162
Labor Force Participation Rate (%)	53.1	53.7	54.4	55.0	55.6
Labor Force (Thousand Person)	34,334	35,196	36,136	37,023	37,888
Employment	30,752	31,654	32,428	33,340	34,381
Agriculture	4,866	4,590	4,561	4,530	4,500
Non-Agriculture	25,886	27,064	27,868	28,810	29,881
Unemployed	3,582	3,542	3,708	3,683	3,507
Employment Growth (%)	6.8	2.9	2.4	2.8	3.1
Agriculture	-1.7	-5.7	-0.6	-0.7	-0.7
Non-Agriculture	8.5	4.5	3.0	3.4	3.7
Employment Rate (%)	47.5	48.3	48.8	49.5	50.4
Unemployment Rate (%)	10.4	10.1	10.3	9.9	9.3

Source: Realization TURKSTAT, forecast Presidency of Strategy and Budget

3.2.3. Balance of Payments

Ongoing uncertainties regarding price stability on a global scale and increasing geopolitical risks stand out as challenging factors on the global economic outlook in 2024. This situation is expected to have a negative impact on global trade and the world trade volume will not achieve the desired momentum in the coming period. Despite this, it is foreseen that exports will increase to 302.2 billion USD at the end of the Program period, as the position of the Turkish economy in the global value chain gets stronger.

Although there has been a recovery in the tourism sector after the Covid-19 global epidemic, economic and geopolitical difficulties continue to create new uncertainties. However, with policies that will ensure the spread of qualified employment throughout the year within the scope of maintaining the high service quality in the sector, reducing informality and diversifying tourism services, as well as increasing the quality and quantity of service capacity in health tourism, travel revenues will increase to approximately 62.8 billion USD in 2026. The services balance is expected to reach 67.5 billion USD, making a significant positive contribution to the current account balance.

In order to achieve the permanent and sustainable improvement in the current account balance, conditions shaped by the focus of green transformation and digitalization will be taken into account. To increase the export potential with high value added by moving the position in the value chains to further levels, to reduce import dependency in the energy and manufacturing sector to low levels, and to diversify and increase service revenues to higher levels will be among the main priorities. In addition, with the contribution of the recent measures taken in gold imports, imports are expected to reach 414 billion USD at the end of the Program period and the current account deficit to GDP ratio will decrease to 2.3 percent.

Within the scope of practices that increase energy efficiency and reduce energy import dependency, electricity production from renewable energy sources will be increased, nuclear power plants will be included in the electrical energy production portfolio, and the storage and recovery capacities of natural gas storage facilities will be increased. Commercial and economic relations for priority sectors will be deepened and diversified within the scope of the goal of making Türkiye an energy and logistics center. Further, green transformation will continue to be one of the main determinants of a sustainable and balanced growth model. In this context, it is estimated that energy imports will decrease gradually during the Program period and will reach 75.7 billion USD at the end of the period.

Table 3.8: Balance of Payments Forecasts

(Billion USD)

	Realization		Forecast		
	2022	**2023***	**2024**	**2025**	**2026**
Current Account	**-49.1**	**-50.7**	**-34.7**	**-31.7**	**-30**
Balance on Goods	-89.6	-92.6	-84.7	-84.4	-85.5
Total Exports	253.4	250.9	268.2	284.3	303.8
Exports (fob)	254.2	254.7	267.0	283.6	302.2
Total Imports	254.0	343.5	352.9	368.7	389.3
Imports (cif)	363.7	367.1	372.8	388.9	414.0
Balance on Services	49.7	51.7	60.5	63.8	67.5
Credit	89.0	99.3	106.9	115.6	124.7
Travel Revenues	41.4	47.1	52.5	57.0	62.8
Debit	39.3	47.5	46.4	51.8	57.2
Primary Income Balance	-8.8	-10.5	-10.7	-12.0	-13.4
Secondary Income Balance	-0.4	0.6	0.2	0.9	1.4

* 2023 October, annualized
Source: Realization CBRT, forecast Presidency of Strategy and Budget and MoTF

Within the scope of the export-oriented growth target, in order to update the Customs Union, efforts will continue within the European Union (EU) institutions and member countries. The alignment of the Customs Law with the EU Customs Code reform will be closely monitored, and works will be carried out to establish EU information systems. Besides, new free trade agreements will be negotiated and efforts will be carried out to expand the scope of existing free trade agreements.

In the coming period, a competitive financial ecosystem will be created, focusing on the Istanbul Financial Center, to meet changing global and regional needs in order to increase the exports of financial services. Implementations will continue in line with the principle of free movement of capital. Healthy financing channels will be strengthened and the amount and diversity of medium and long-term resources will be increased in financing the current account deficit. Thus, acceleration will be achieved in bringing foreign savings into the economy to increase Türkiye's potential growth limits.

During the program period, global developments in trade in goods and services will be closely monitored, necessary regulations in the fields of green transition and digitalization will be rapidly implemented. In this context, Türkiye's competitiveness in foreign trade and its position in global value chains will be increased to higher levels. Thus, by achieving growth in terms of quantity and quality in the export of goods and services, the share in global exports will also be increased, leading to a gradual and sustainable improvement in the current account balance. In this period, it is aimed to improve the financing quality of the current account deficit with a perspective that will contribute to the structural transformation of the economy by taking a greater share of long-term investments that prioritize green transformation on a global scale.

3.2.4. Monetary Policy

The primary objective of the CBRT is to achieve and maintain price stability. The CBRT will continue to safeguard financial stability, which is a supportive factor for permanent price stability. Monetary policy decisions will be made by taking into account a detailed analysis of prices on macro and micro levels, inflation expectations and pricing behavior, demand factors that monetary policy can affect, supply-side developments, internal- external balance and structure of production as well as loans, liquidity and developments in all other factors affecting price stability based on an up-to-date information set, a data-driven approach and impact analyses.

Within the inflation targeting framework, the medium-term inflation target of 5 percent set jointly with the Government has been maintained. The monetary policy stance will be established to bring inflation gradually to the target. While converging to the medium-term inflation target, the targets announced by the CBRT via Inflation Report will serve as interim targets and a reference for inflation expectations. Therefore, the reference values projected to guide economic agents on the future path of inflation will be inflation forecasts in the short term and inflation targets in the medium term. In 2024, the CBRT will continue to implement the inflation targeting regime in a manner to create a foundation for sustainable price stability.

The CBRT’s main policy instrument is the one-week repo auction rate. Ensuring that market rates remain consistent with policy rates, the CBRT will continue to implement policies that support the effectiveness of the monetary transmission mechanism. In addition, selective credit and liquidity management implementations will continue to be used so that financial conditions can efficiently support sustainable components of growth such as investment, employment, production and exports.

Due to the Treasury’s borrowing structure and spending projections, continuation of the upward trend in reserves, and the outstanding TL swap transactions, there may be episodes of excess liquidity in the market in 2024. In order to safeguard the effectiveness of the monetary transmission mechanism and support monetary tightening, this excess liquidity will be sterilized via diversified sterilization instruments and the quantitative tightening process will continue.

The implementation of the floating exchange rate regime will continue, and exchange rates will be determined by demand and supply equilibrium under free market conditions. The CBRT has no commitment to any exchange rate level and will not conduct FX buying or selling transactions to determine the level or direction of the exchange rates. To ensure that the FX market operates efficiently, the CBRT will closely monitor exchange rate developments and related risk factors and continue to take the necessary measures and employ due instruments.

The CBRT gives utmost importance to strengthen the FX and gold reserves in terms of the effectiveness of the monetary policy and financial stability. Accordingly, the strategy of increasing the international reserves further as the market conditions allow will be maintained. Priorities in reserve management will remain as safe investment, liquidity and return, respectively.

3.2.5. Financial Sector

3.2.5.1. Risks Towards Banking Sector

Credit Risk

Banks have been implementing the TFRS-9 standard in their credit evaluation processes since 2018. This standard identifies and transparently classifies situations where there is a significant increase in credit risk, according to model results, regardless of whether there is a delay or not. The forbearances on loan classification introduced by the BRSA during the pandemic period expired in September 2021. With the end of these forbearances, credit classification continues to be conducted in compliance with international standards and reflects the existing credit risk in the portfolios.

In the first half of 2023, nonperforming loan (NPL) ratios continued to decline due to the flat course of NPL balances as well as the continued strong increase in TL loan volume. In the second half of the year, the NPL ratio remained flat due to the slowdown in loan growth following the tight monetary policy. As of October 2023, the total NPL ratio was 1.6 percent, the commercial NPL ratio was 1.5 percent, the consumer NPL ratio was 1.9 percent and the credit card NPL ratio was 1.2 percent (Figure 3.13).

The share of loans classified under close monitoring in total loans declined in 2022 and the first half of 2023. As of the second half of 2023, the downward trend was replaced by a flat course, mainly driven by consumer loans. It is observed that 81 percent of loans under close monitoring consist of loans that are not overdue but are classified here due to a significant increase in credit risk as per banks' TFRS-9 models. As of October 2023, the ratio of total loans under close monitoring and NPLs to gross loans decreased by 1.2 percent to 9.4 percent, while the ratio of total loans under close monitoring with missed payments and NPLs to gross loans decreased by 0.4 percent to 2.5 percent compared to end-2022.

The ratio of restructured loans to gross loans decreased by 0.8 percent compared to end-2022 to 4.7 percent in October 2023. Of the restructured loans, 91 percent are classified in the close monitoring category, 8 percent in the NPL category and a very limited portion in the first group. As of October 2023, the provision ratios for standard, close monitoring and NPL loans were 0.9 percent, 23.1 percent and 84.9 percent, respectively. Banks continued to set aside high provisions during the period of strong loan repayments. A likely worsening in the collection of loans is expected to have a limited impact on banks' balance sheets and profitability due to the high provisions already set aside.

The banking sector prudently classifies 91 percent of restructured loans under close monitoring and allocates provisions for 29 percent of these loans. Banks have maintained their prudent approach since the pandemic period. Considering all these developments, the banking sector maintains its strong asset quality outlook.

Figure 3.13: Nonperforming Loans Ratio (%)

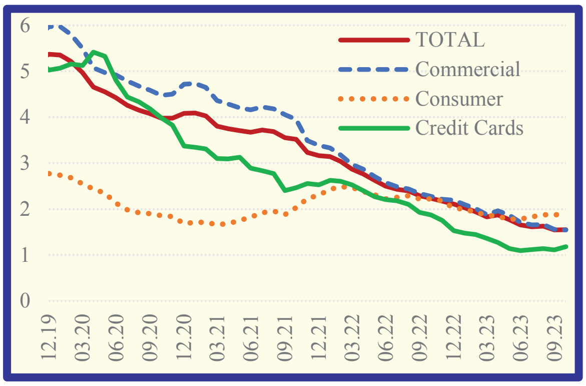
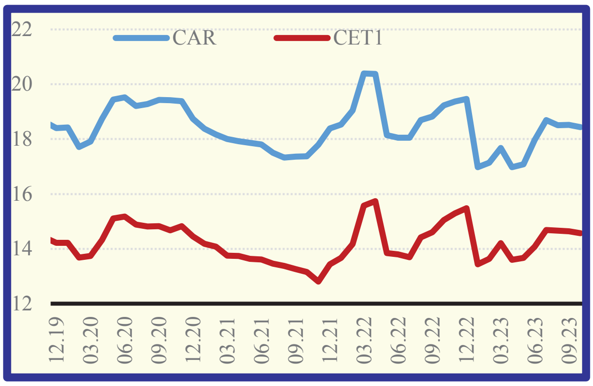


Figure 3.14: Capital Adequacy Ratio (%)



Source: CBRT, BRSA

Capital Adequacy

As of October 2023, capital adequacy ratio (CAR) of the banking sector realized as 18.4 percent (October 2022: 19.2 percent), while the common equity Tier 1 (CET1) stood at 14.5 percent level (October 2022: 15.1 percent) (Figure 3.14). In 2023, the increase of risk-weighted assets in excess of the change in equity has been the main factor for the decline in CAR of the banking sector.

Banking sector is characterized by a regulatory capital composition dominated by CET1. While approximately 79 percent of regulatory capital is composed of common equity, more than 70 percent of common equity is composed of reserves and net profit for the period.

In 2023, the increase in regulatory capital was caused by the rise in reserve funds. The contribution of the current and prior periods' net income declined compared to the level of contribution in 2022 but continued to support the capital. Additionally, the limited increase in share premiums and paid-in capital rendered support to CET1. It is observed that subordinated debt issuances of banks partly bolstered regulatory capital in 2023.

The BRSA continued to allow certain level of flexibility in the calculation of capital adequacy ratio. When the effects of such flexibilities are disregarded, sector's CAR remained above 12 percent legal threshold.

Turkish banks continued to keep additional capital in excess of standard capital. In line with Basel III regulations, banks operating in the Türkiye maintained capital conservation buffer, countercyclical capital buffer and systemic risk buffer in addition to 8 percent regulatory capital ratio. While capital conservation buffer is determined as 2.5 percent for all the banks, systemic risk buffer differs between 1 percent to 3 percent depending on the degree of systemic importance of banks. Countercyclical capital buffer is set as 0 percent. Considering all these, minimum regulatory CAR emerges as 11.5-12.5 percent for systemically important banks and 10.5 percent for the remaining ones.

Exchange Rate and Liquidity Risk

As of the second half of 2023, the developments in the KKM accounts' balance and the exchange rate movements significantly increased the share of KKM accounts in total deposits and brought about a significant increase in TL liquidity in the system. The share of the KKM accounts in total deposits reached its highest level of 26 percent in August 2023. Steps were taken to sterilize the excess TL liquidity, and in this context, over 1 trillion TL liquidity was sterilized with the gradually increased RR decisions taken for the KKM accounts.

The off-balance sheet FX position surplus rose to 47 billion USD while the on-balance sheet FX position deficit was 42 billion USD, bringing the foreign currency net general position (FXNGP) to 4.5 billion USD as of October 2023. Current level implies 5.3 percent FXNGP/capital ratio, which stays within the legal limits.[3]

In line with the simplification process, the targets prioritizing the transition from KKM accounts to TL deposits since August were effective among the sector, and KKM accounts' balance decreased by over 700 billion TL. The share of TL deposits in total deposits increased from 32 percent to 40 percent in this period, while the share of KKM accounts declined from 26 percent to 19 percent.

As of September 2023, the sector's FX liquid assets portfolio amounted to 88 billion USD[4] against its FX external debt of 106 billion USD. On the other hand, the sector's FX external debt balance with a maturity of 1 year or less, which is classified as short-term, stood at 50 billion USD and the level of FX liquid assets covering this short-term debt was 176 percent. The improvement in expectations in the second half of the year and the accompanying decline in the CDS led to an increase in FX external borrowing and roll-over rates exceeding 100 percent.

3.2.5.2. Private Sector Indebtness

Households

Household indebtedness in Türkiye has been declining in recent years due to the effect of restrictive macroprudential measures implemented in retail loans in addition to the buoyant economic activity. As of the second quarter of 2023, indebtedness is at 11.8 percent, well below the emerging countries average of 47.4 percent (Figure 3.15). While household indebtedness is declining, the composition of indebtedness is also changing. While the share of housing loans in retail loans, which was approximately 37 percent in the 2012-2019 period, decreased below 21 percent, the share of personal credit cards (PCC) increased in the same period and reached 38 percent.

While there has been limited movement in consumer loans due to the restrictive macroprudential measures implemented such as the loan/value ratio for housing and vehicle

[3] The legal limit for the FXNGP/capital ratio, which was 20 percent in the past, was reduced to 5 percent on January 9 and increased to 10 percent on March 9, 2023.
[4] The data for the FX liquid asset portfolio is as of November 2023 and consists of cash and cash equivalents, free balances in foreign correspondent bank accounts, unencumbered eurobonds and FX balances in free accounts at the CBRT.

loans and the maturity limitation for vehicle and general-purpose loans, PCC usage has recently come to the fore. Increases in consumer prices of goods and services, ease of card usage due to digitalization, and the low level of credit card maximum interest rates until the second half of 2023 have been effective in credit card balance. In addition, the fact that the majority of credit card expenditures are without installments shows that PCCs are also used as an important payment tool.

In the recent period, stronger growth has been observed in household financial assets compared to liabilities. Depending on these developments, as of the last quarter of 2023, the leverage ratio (household's financial debt/financial asset ratio) is 24 percent, well below its long-term average value of 43 percent. On the other hand, in recent years, the share of wage earners in retail loan usage has been increasing, and accordingly, wage increases support fixed interest and TL debt payment.

Figure 3.15: Household Debt/GDP (%)

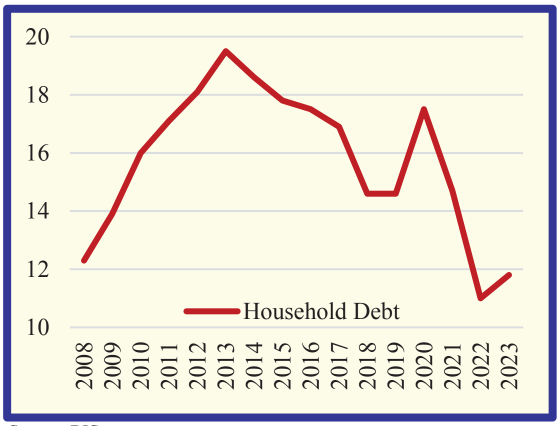
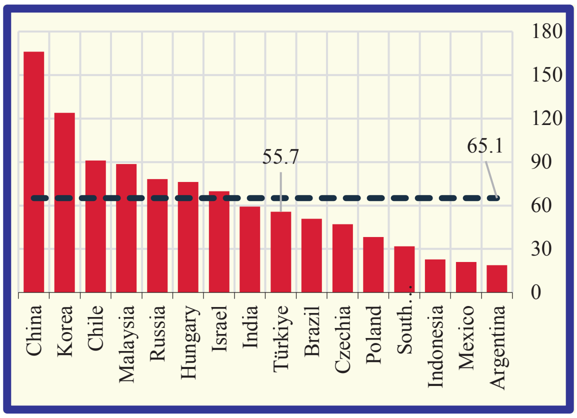


Figure 3.16: Corporate Debt/GDP (%)



Source: BIS

Real Sector

The ratio of financial debt of the non-financial firms to GDP has tended to decrease in recent years and decreased from 74.8 percent in the second quarter of 2020 to 55.7 percent as of the second quarter of 2023. In 2022 and the first half of 2023, due to strong economic activity supported by robust domestic demand and inflation, the increase in nominal GDP exceeded the increase in financial debt. As of the second quarter of 2023, the ratio for emerging economies is 109 percent (61 percent excluding China), suggesting that corporate sector's indebtedness in Türkiye is low compared to similar countries (Figure 3.16).

The FX open position of the corporate sector has been declining significantly due to the exchange rate developments and policy steps taken since 2018. The net FX open position, which was at the level of 196 billion USD as of March 2018, decreased by 121 billion to 75 billion USD as of September 2023. Total FX loans of the firms decreased from 274 billion USD in 2018 to 209 billion USD by 2023. During this period, FX external loans of the firms remained flat, while FX loans used from domestic banks were closed to a great extent. The decline in the corporate sector's net FX open position and liabilities has contributed to the management of corporate sector indebtedness. When the net FX open position is compared with exports, it is observed that the decreasing FX open position is met by increasing exports, and the net FX open position/export ratio declines.

The increase in the corporate sector's 6-month external debt rollover rates, which started from the third quarter of 2020, reached over 200 percent in the third quarter of 2022. Although it decreased in the following periods, it still maintains its level above 100 percent (110 percent) as of October 2023. External debt rollover rates, which remain at high levels, indicate that corporate sector firms' access to external financing remains strong. The short-term FX position of corporate sector continues to be in surplus, and has maintained an increasing trend. Since March 2018, it has risen from 30 billion USD to 65.5 billion USD, by an increase of 35.8 billion USD. The increase in short-term FX position surplus supports firms' short-term exchange rate risk and FX liquidity management and indicates that firms have sufficient liquid FX assets.

In addition to the decline in firms' indebtedness, the strong outlook in their debt payment capacity has also been maintained. The stability in the exchange rate and low financing costs throughout 2022 supported the strong course of the financing expense coverage ratio. The annual operating profits of the firms as of the third quarter of 2023, are sufficient to cover their 2.6 years of financial expenses.

3.3. Main Risks in Projections

The medium-term outlook set out in the program carries some upside and downside risks depending on the developments that may occur beyond the assumptions in the global outlook. In this framework:

- Increasing geopolitical tensions in addition to the Russia-Ukraine war may bring upside risks to import prices, particularly oil and commodity prices, and downside risks to economic activity and foreign trade.
- Favorable developments in the EU accession process and the revision of the Customs Union Agreement may have positive effects on foreign trade by eliminating asymmetric effects.
- Tighter external financing conditions at the global level to bring inflation down to targeted levels may restrain global growth, and additional volatility in capital markets and exchange rate pass-through may put downward pressure on economic activity.
- Adverse developments that will affect foreign capital flows to developing countries may have an impact on foreign capital inflows to Turkish economy.
- Thanks to promotional activities aimed at extending tourism activities throughout the year, which accelerated following the pandemic, tourism revenues could be higher than expected.
- Although agricultural commodity prices hover above their last decade average, the recent momentum loss in commodity prices could contribute to reduce inflation in the upcoming period.

4. FISCAL FRAMEWORK

In the 2024-2026 period, the main objective is to strengthen the stable and sustainable structure of public finances with a predictable approach and to maintain fiscal discipline. Fiscal policy will continue to be used as an effective tool within the framework of an approach based on fiscal discipline, rationalizing expenditures, supporting quality growth and sustainability of resources, effectiveness and efficiency.

Public deficit, excluding expenditures for recovery and risk mitigation following the earthquake disaster, will be kept under control through fiscal consolidation practices and public financial indicators will improve.

Efficient, effective and economical use of resources will be ensured by eliminating inefficient expenditure areas through expenditure reviews.

Selective and target-oriented incentives and support schemes will be increased and ineffective ones will be eliminated.

The social assistance system will be reviewed and re-designed in an integrated structure so as not to hinder labor force participation.

In order to strengthen fairness in income distribution and increase sustainable revenues, policies will be developed with the aim of spreading the tax base and combating informality.

Tax services will be improved in line with the principles of voluntary compliance, simplicity, applicability, predictability and transparency.

The Program's general government balance and central government budget figures are based on the policy priorities, targets and actions set out in the Medium Term Program (2024-2026) and the 2024 Presidential Annual Program.

The general government balance calculated by the Presidency of Strategy and Budget covers institutions and organizations covered by the central government budget, local governments, social security institutions and general health insurance, funds, revolving funds and the Unemployment Insurance Fund. While obtaining the total expenditure and revenue figures of the general government, SEEs are excluded from the scope, the principle of non-expenditure is taken as a basis in line with international standards, and no netting is made between income and expenditure items as a methodology.

In the calculation of expenditures and revenues of sub-units within the scope of the general government, a public revenue is recorded as revenue in the account of the unit that initially receives the revenue and as expenditure in the account of the unit that ultimately spends it. Thus, in transfer transactions between the units within the scope, it is ensured that the relevant transfer amounts are not shown as expenditure in the organization making the transfer and as revenue in the organization to which the transfer is made. As a result of this process, the balance figures by institutions change, but the total general government balance does not change. As a result of the aggregation of the expenditures and revenues of the units calculated in this way, the total expenditures and revenues of the general government and the general government balance are reached.

While calculating general government sizes, within the framework of the consolidation approach adopted;

- Shares and other transfers transferred to local administrations and funds from general budget tax revenues are eliminated from central government budget expenditures and shown in the balance of the local administration or fund to which they relate,
- Current transfers from the central government budget to the social security and universal health insurance system are being eliminated from central government budget expenditures and revenues of the social security and universal health insurance system,
- Amounts transferred to the central government budget from revolving fund enterprises, funds and the Unemployment Insurance Fund are being cleared from the central government budget revenues and expenditures of the relevant units,
- Fiscal relations between sub-institutional units within the general government, other than the central government budget, are regulated in a way to prevent duplication.

4.1. Fiscal Policy Strategy and Medium-Term Objectives

Fiscal policy will be implemented in a way to contribute to the decisive implementation of the export-led sustainable growth strategy, to reduce inflation in coordination with monetary policy, to ensure efficiency in resource utilization and allocation, and to maintain the sustainability of public finances and fiscal discipline.

The main policy priorities to be implemented in the 2024-2026 period are as follows:

4.1.1. Revenue Policies

- Efforts to broaden the tax base and increase voluntary compliance in taxation will continue in order to increase sustainable and healthy revenue sources in public financial management.
- Tax policies will continue to prioritize revenue policies that support investment, employment, production, exports and the competitive environment in line with the principles of growth and social justice.
- Tax expenditures will be reviewed and ineffective exceptions, exemptions and discounts will be removed.
- Collection performance of public revenues will be improved and tax penalties will be revised to strengthen deterrence.
- Revisions will be made to update the income, corporate and value-added tax laws and the tax procedure law to create a simple and easy-to-implement structure that supports broadening the tax base and increasing voluntary compliance on the basis

of the principles of fairness, equality, predictability and transparency in taxation, and the share of direct taxes will be increased in the medium term.

- The physical, human and technological infrastructure of the tax administration will be improved.
- Taxes that are carbon taxes will be reviewed and the economic and social impacts of carbon pricing instruments, including a complementary carbon tax, on the development and investment environment will be analyzed.
- Tax statistics and reports in this area will be published more comprehensively.
- Efforts will be accelerated to develop alternative instruments to increase domestic savings and to support the spread of capital to the mainstream.
- The fight against informality will be carried out with the effective participation of all parties by making more use of technological opportunities.
- Tax practices will be developed to recognize the informality in digital activities and increase the attractiveness of the investment environment.
- Legislative work will continue on transactions using virtual assets representing a digital value that can be traded and transferred digitally.
- Tax practices aimed at increasing efficiency in energy consumption and combating climate change and environmental pollution will continue.
- In the process of accession to the European Union, efforts will continue to harmonize with the acquis and the standards set in the tax area by other international organizations of which we are a member.
- The efficiency of services and practices offered to taxpayers will be increased, and 24/7 real-time service will be provided to taxpayers by using new generation communication channels that include the latest technological developments.

4.1.2. Expenditure Policies

- In the program period, structural changes that will ensure savings in public expenditures will be implemented, public deficit excluding earthquake and disaster risk expenditures will be reduced and the sustainability of fiscal policy will be strengthened within the framework of budget discipline.
- In February 2023, necessary measures will continue to be taken to eliminate the effects of the earthquake by rehabilitating and reconstructing the regions damaged by the earthquakes centered in Kahramanmaraş and Hatay, one of the biggest disasters of the century.
- Public expenditure policy will be based on a multi-year budgeting approach in line with the policy priorities and appropriation ceilings allocated to public administrations.
- Expenditure reviews will be systematized, inefficient spending areas will be eliminated and new spending areas will be limited.

- Public services will be provided within budgetary means and with an understanding of maximum savings.
- By rationalizing the public investment program, investments that will produce economic and social benefits by being completed in a short time will be prioritized.
- The scope of the Single Treasury Institutions Account will be further expanded in order to strengthen the Treasury cash reserve and use it more effectively.
- Public procurement legislation will be updated in line with international norms and standards with a procurement approach that supports and prioritizes digitalization, innovation and sustainability, and sectoral public procurement regulation will be implemented.
- With the understanding of rationalizing public procurement expenditures, savings-oriented central public procurement policies will be continued by expanding their scope.
- The use of public vehicles will be systematically reviewed within the framework of needs analyses, vehicle needs will be met primarily through temporary allocation or transfer of surplus vehicles, and priority will be given to domestic production and environmentally friendly vehicles by considering economy in new vehicle acquisitions.

4.1.3. Policy Borrowing Policies

Ministry of Treasury and Finance executes debt management in line with the borrowing limit determined pursuant to the Article 5 of the Law No.4749 on Regulating Public Finance and Debt Management, enacted in April 2002. This Law establishes the principles of public debt and risk management as follows:

- To follow a sustainable, transparent and accountable debt management policy in line with monetary and fiscal policies, considering macroeconomic balances,
- To meet financing need at the optimal cost levels in medium and long term, in accordance with the risk level determined considering cost factors, domestic and foreign market conditions.

Net borrowing limit is described as the amount of difference between the initial budget appropriations and estimated revenues specified in the budget law of the relevant fiscal year. In line with the same article of the Law, this limit could be increased up to five percent within the year by considering the needs and developments in debt management. In the cases where such amount is not sufficient, an additional increase of five percent may be made only by President’s decree.

Within the scope of accountable, transparent and sustainable borrowing policies which are compatible with the monetary and fiscal policies, ensuring the optimal cost target in the medium and long term at the determined risk level, strategic benchmarking policy has been continued since 2003. Depending on the cost and risk calculations, to manage the public debt efficiently against the liquidity, exchange rate and interest rate risks, the following strategic benchmarks and debt indicators will be the main pillars of the borrowing policy in 2024.

- To borrow mainly in TL denominated securities,
- To borrow in foreign currencies besides US dollar, if possible, in international markets for market diversification,
- To keep the share of debt maturing within 12 months and the share of debt stock with interest rate refixing period of less than 12 months at a certain level, by taking into account appropriate instrument and maturity composition to optimize interest payments,
- To keep a strong level of cash reserve in order to reduce the liquidity risk associated with cash and debt management.

4.2. Budget Implementations in 2023

4.2.1. Developments in the Central Government Budget Revenues and Expenditures

The 2023 Central Government Budget Law allocated an appropriation of TL 4,469.6 billion for budget expenditures, with budget revenues estimated at TL 3,810.1 billion and a budget deficit of TL 659.4 billion.

In 2023, public expenditures increased significantly due to expenditures to meet the needs of citizens affected by the earthquakes centered in Kahramanmaraş and Hatay in February, reconstruction of damaged houses, repairing necessary infrastructure damages and establishing new infrastructures, and repairing damages to the building stock of public administrations. Due to these developments, the need to revise the 2023 budget emerged and the Supplementary Budget Law was put into effect. With the Supplementary Budget Law, TL 1,119.5 billion was added to the initial budget appropriations and revenue forecast.

According to the Medium Term Program for the 2024-2026 period, budget expenditures are projected to exceed the initial budget allocation by TL 2,093.1 billion and the supplementary budget allocation by TL 973.6 billion to reach TL 6,562.6 billion by the end of the year, with a ratio of 25.8 percent of GDP.

In 2023, central government budget primary expenditures are projected to exceed the budget allocation by TL 2,012.5 billion and the supplementary budget allocation by TL 973.6 billion to reach TL 5,916.5 billion, with a ratio of 23.2 percent of GDP.

In 2023, earthquake expenditures are estimated to be 761.7 billion TL, with a ratio of 3 percent of GDP.

Central government budget revenues are projected to be TL 4,929.7 billion, TL 1,119.5 billion above the initial budget forecast and at the same level as the supplementary budget forecast. Accordingly, the ratio of central government budget revenues to GDP is expected to be 19.3 percent at end-2023.

Budget expenditures increased mainly due to earthquake expenditures, personnel expenditures, transfers to the social security system, energy subsidies and other needs. On the other hand, the increase in budget revenues was driven by the revenue measures introduced to finance earthquake expenditures and the inflationary process.

Accordingly, the year-end budget deficit forecast for the 2024-2026 Medium Term Program was revised to TL 1,633 billion. Estimated at 3.5 percent for 2023, the budget deficit to GDP ratio is projected to rise to 6.4 percent.

Table 4.1: Central Government Budget Balance 2023

	(Billion TL)		(GDP Ratio, %)	
Central Government Budget	**Budget**	**RE.**	**Budget**	**RE.**
Total Expenditures	**4,469.6**	**6,562.6**	**24.0**	**25.8**
Primary Expenditures	3,904.0	5,916.5	20.9	23.2
Interest Payments	565.6	646.1	3.0	2.5
Programme Defined Expenditures	**3,904.0**	**5,916.5**	**20.9**	**23.2**
Total Revenues	**3,810.1**	**4,929.7**	**20.4**	**19.3**
General Budget Tax Revenues	3,199.5	4,270.7	17.2	16.8
Other Revenues	610.6	659.0	3.3	2.6
Programme Defined Revenues	**3,580.4**	**4,684.3**	**19.2**	**18.4**
Budget Balance	**-659.4**	**-1,633.0**	**-3.5**	**-6.4**
Primary Balance	**-93.8**	**-986.8**	**-0.5**	**-3.9**
Programme Defined Balance	**-323.6**	**-1,232.2**	**-1.7**	**-4.8**

RE: Realization Estimate
Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

In 2023, personnel expenditures are expected to be 1,509.7 billion TL. The general salary increase rate for civil servants for 2023 was determined as 8 percent in January and 6 percent in July in the collective agreement. However, with the Law No. 7431 published in the Official Gazette dated January 13, 2023, the January increase rate was set at 30 percent. The rate of increase in July was realized as 17.55 percent including the inflation difference, and in addition to this, with the Law No. 7456 published in the Official Gazette dated July 15, 2023, it was decided to make an additional monthly net payment of 8,077 TL to all civil servants. In addition, with the Framework Agreement Protocol for Public Collective Labor Agreements for the year 2023, the lowest worker wage was increased, and in addition to this, the wage increase rate for January was set at 45 percent and the wage increase rate for July was set at 15 percent.

In 2023, expenditures on procurement of goods and services are expected to be 471 billion TL. This development was driven by rising costs and meeting the additional needs of institutions.

Current transfers, programmed as 1,682 billion TL in the 2023 budget, are expected to realize as 2,501.6 billion TL at the end of the year. The main drivers of the rise in current transfers were the transfers to the social security system due to adjustments in retirement eligibility conditions and increases in pensions, the increase in assignment fee payments to SEEs due to energy subsidies, and the rise in shares allocated to local governments and funds due to the increase in tax collections. In addition, disaster-related expenditures, social assistance payments to low-income households under the Family Social Support Program and contributions to vocational technical education were other determinants of the increase in current transfers.

Capital expenditures are expected to be 538.8 billion TL at the end of 2023, 222.9 billion TL above the initial appropriation. Additional investments to strengthen transportation and irrigation infrastructure and expenditures to repair infrastructure damage caused by earthquakes were effective in this increase.

Capital transfers, which were programmed as 37.3 billion TL in the 2023 budget and increased to 521 billion TL with the additional budget, are expected to reach 685.1 billion TL at the end of the year. The main factor in this high increase in capital transfers was the expenditures foreseen for the reconstruction of earthquake houses.

Table 4.2: Central Government Budget Expenditures 2023

	(Billion TL)		(GDP Ratio, %)	
	Budget	**RE.**	**Budget**	**RE.**
Central Government Budget Expenditures	**4,469.6**	**6,562.6**	**24.0**	**25.8**
Interest Payments	**565.6**	**646.1**	**3.0**	**2.5**
Primary Expenditures	**3,904.0**	**5,916.5**	**20.9**	**23.2**
Personnel Expenditures	952.3	1,326.5	5.1	5.2
State Social Sec. Contributions	150.4	183.2	0.8	0.7
Current Expenditures	318.7	471.0	1.7	1.8
Current Transfers	1,682.0	2,501.6	9.0	9.8
Capital Expenditures	315.8	538.8	1.7	2.1
Capital Transfers	37.3	685.1	0.2	2.7
Lending	359.2	210.4	1.9	0.8
Reserve Appropriations	88.2	0.0	0.5	

RE: Realization Estimate
Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

The lending item is expected to be 210.4 billion TL at the end of the year, remaining 148.9 billion TL below the 2023 initial appropriation. The decrease in capital transfers to SOEs was effective in this development.

Interest expenses are expected to be 646.1 billion TL that is above the initial budget appropriation.

General budget tax revenues are expected to be 1,071.1 billion TL above the initial budget estimate and 4,270.7 billion TL, at the same level as the supplementary budget estimate. Non-tax revenues are expected to be 48.4 billion TL above the initial budget estimate and 659 billion TL, at the same level as the supplementary budget estimate. As a ratio to GDP, it is estimated that tax revenues will be 16.8 percent and non-tax revenues will be 2.6 percent.

Table 4.3: Central Government Budget Revenues 2023

	(Billion TL)		(GDP Ratio, %)	
	Budget	**RE.**	**Budget**	**RE.**
Central Government Budget Revenues	3,810.1	4,929.7	20.4	19.3
General Government Revenues	3,753.9	4,873.4	20.1	19.1
Tax Revenues	3,199.5	4,270.7	17.2	16.8
Income Tax Revenues	495.0	696.4	2.7	2.7
Corporate Tax Revenues	619.1	782.2	3.3	3.1
Taxes on Foreign Trade	1,056.8	1,056.9	5.7	4.1
Domestic VAT	203.6	440.9	1.1	1.7
SCT	510.6	817.2	2.7	3.2
Petroleum and Natural Gas	85.0	196.9	0.5	0.8
Motor Vehicles	203.6	346.2	1.1	1.4
Alcoholic Beverages	55.3	63.0	0.3	0.2
Tobacco	126.0	146.3	0.7	0.6
Other Beverages	4.9	7.2	0.0	0.0
Durable Goods and others	35.8	57.7	0.2	0.2
Other Taxes	314.4	477.0	1.7	1.9
Nontax Revenues	554.4	602.8	3.0	2.4
Special Budget and Regulatory and Supervisory Ins.	56.2	56.2	0.3	0.2

RE: Realization Estimate
Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

Income tax collection is expected to be 696.4 billion TL, 201.4 billion TL above the 2023 budget initial target, and 2.7 percent of GDP. The continuation of withholding tax reductions applied to deposits in 2023 and the tax exemption applied to all employees corresponding to the minimum wage due to increases in the minimum wage above inflation have negatively affected income tax collection. On the other hand, public and private sector wage increases and other macroeconomic developments were decisive in the income tax collection being well above what was predicted in the initial budget.

It is expected that 2023 corporate tax collection will be 782.2 billion TL, 163.1 billion TL above the initial budget estimate, and will be 3.1 percent of GDP. The vitality in economic activity and the 5-point increase in the corporate tax rate were effective in this increase. In addition, due to the public financing need caused by earthquake disasters, additional taxes were introduced on some exemptions and discounts within the scope of corporate tax. On the other hand, the high performance seen in bank profits in 2022 did not continue in 2023, limiting corporate tax collection.

Domestic VAT collection is expected to be 440.9 billion TL, 237.3 billion TL above the initial budget estimate of 2023, and to be 1.7 percent of GDP. With the Presidential Decree No. 7346 published in the Official Gazette dated July 7, 2023, the increase in the VAT rate from 18 percent to 20 percent and the VAT rate from 8 percent to 10 percent, the strong course of domestic demand and the developments in macroeconomic indicators were decisive in this increase.

Special consumption tax collection is expected to be 817.2 billion TL, 306.6 billion TL above the initial budget estimate of 2023, and realize as 3.2 percent of GDP. The SCT collected from oil and natural gas products is expected to be 196.9 billion TL, exceeding the initial budget estimate of 111.9 billion TL for 2023, and to be 0.8 percent of GDP. The increases in the fixed SCT amounts collected on fuel products and natural gas by the Presidential Decree No. 7390 published in the Official Gazette dated 16 July 2023 have been the main determinant in this development.

SCT collection from motor vehicles is expected to exceed the initial budget estimate of 142.7 billion TL for 2023, reaching 346.2 billion TL which is 1.4 percent of GDP. This development was influenced by the fact that vehicle sales were above expectations and the increases in SCT amounts collected per vehicle due to exchange rate increases.

SCT collection from tobacco products in 2023 is expected to exceed the initial budget estimate by 20.3 billion, reaching 146.3 billion TL which is 0.6 percent of GDP. The SCT collection from alcoholic beverages is expected to is expected to exceed the initial budget estimate by 7.6 billion, reaching 63 billion TL which is 0.2 percent of GDP. The updates made in fixed tax amounts due to PPI realizations in January and July being above expectations and the price increases made by manufacturers for alcohol and tobacco products during the year were effective in the increases.

In 2023, VAT collection on imports is expected to realize at the same level as the initial budget estimate which is 931.4 billion TL, 3.7 percent of GDP.

In 2023, the total collection of motor vehicles tax, banking and insurance transaction tax, gambling tax, special communication tax, inheritance and transfer tax and digital service tax is expected to realize as 234 billion TL, an increase of 83.7 billion TL compared to the initial budget estimate. This increase is due to the introduction of additional motor vehicles tax due to the earthquake and the increase in the banking and insurance transactions tax rate applied to consumer loans and the games of chance tax rates.

In 2023, revenues from fees are expected to be 133.9 billion TL, 28.6 billion TL above the initial budget estimate, and 0.5 percent of GDP. This increase was due to the application of the revaluation rate higher than expected, the increase in the telephone usage permit fee brought by passengers in the second half of the year to 20,000 TL, and the increase in fixed fee amounts by 50 percent, excluding driver's license fees.

In 2023, non-tax revenues are expected to exceed the initial budget estimate by 48,4 billion TL, reaching 659 billion TL, which is 2,6 percent of GDP. It is considered that the increase in question will be mainly influenced by the high collection of treasury interest and shares received from individuals and institutions.

Within the scope of Law No. 7440, which was put into practice in 2023, a total of 125 billion TL was collected in the first nine months of 2023. When other regulations regarding the structuring of public receivables that came into force in previous years are included, a total of 134.6 billion TL structuring income was obtained in the January-September period of 2023.

Table 4.4: Central Government Budget Balance

(GDP Ratio, %)

	2020	2021	2022	2023
Expenditures	**23.8**	**22.1**	**19.6**	**25.8**
Primary Expenditures	**21.2**	**19.6**	**17.5**	**23.2**
Personnel Expenditures	5.7	4.8	4.1	5.2
State Social Sec. Contributions	1.0	0.8	0.6	0.7
Current Expenditures	1.9	1.8	1.7	1.8
Current Transfers	9.9	8.6	7.5	9.8
Capital Expenditures	1.9	1.8	1.8	2.1
Capital Transfers	0.3	0.4	0.3	2.7
Lending	0.6	1.4	1.4	0.8
Reserve Appropriation	0.0	0.0	0.0	0.0
Interest Payments	**2.7**	**2.5**	**2.1**	**2.5**
Revenues	**20.4**	**19.3**	**18.7**	**19.3**
Tax Revenues	16.5	16.1	15.7	16.8
Non-Tax Revenues	3.5	3.0	2.7	2.3
Capital Revenues	0.1	0.1	0.1	0.1
Grants, Aids and Special Revenues	0.2	0.2	0.2	0.2
Primary Surplus	**-0.8**	**-0.3**	**1.1**	**-3.9**
Programme Defined Primary Surplus	**-2.5**	**-1.5**	**-0.1**	**-4.8**
Borrowing Requirement	**3.5**	**2.8**	**1.0**	**6.4**

Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

Considering the eleven-month realizations of the 2023 fiscal year, it is evaluated that the budget deficit to GDP ratio at the end of the year will be below the MTP estimate of 6.4 percent, especially due to the fact that the revenues are realized above the forecast.

4.2.2. Developments Regarding General Government Revenues and Expenditures

Ratio of general government revenues to GDP decreased by 3 points in 2022 compared to 2021, reaching 27.8 percent. While there was a 0.4 point decrease in tax revenues compared to the previous year, there was a 2.6 point decrease in social security premium income and other general government revenues.

General government expenditures decreased by 4.9 points to 28.6 percent of GDP in 2022 compared to 2021. In this period, while investment expenditures increased by 0.3 points, current expenditures decreased by 2.2 points, current transfers by 2.8 points and capital transfers decreased by 0.1 points.

In parallel with these developments in general government revenues and expenditures, the general government deficit in 2022 decreased by 1.8 points to GDP compared to the previous year and became 0.8 percent.

It is predicted that general government revenues will increase by 2.4 points to 30.2 percent of GDP in 2023 compared to the previous year. In this context, tax revenues are expected to increase by 1.1 points and other revenues by 1.3 points. Of the expected increase in other income, 1.2 points comes from premium income and 0.1 point comes from non-tax income.

It is estimated that general government expenditures will increase by 8 points compared to the previous year and reach 36.7 percent in 2023. In this development, especially disaster-related expenses, increases in salaries and wages of public employees, regulations regarding retirement eligibility conditions, and increases in minimum pensions and holiday bonuses were effective. In this period, it is anticipated that current expenditures will increase by 2.3 points, current transfers by 3.8 points, capital transfers by 1.8 points and investment expenditures by 0.2 points.

In this context, general government deficit, which was 0.8 percent of GDP in 2022 is expected to increase to 6.5 percent in 2023. The general government non-interest borrowing requirement is expected to realize as 3.9 percent.

Table 4.5: General Government Revenues and Expenditures - 1

(GDP Ratio, %)

	2020	2021	2022	2023
Taxes	16.8	16.3	15.9	17.0
Direct	5.3	5.6	5.9	5.9
Indirect	10.9	10.2	9.7	10.7
Wealth	0.6	0.5	0.3	0.4
Non-Tax Revenues	1.8	1.7	1.4	1.4
Factor Incomes	5.2	4.7	4.2	4.2
Social Funds	8.6	8.1	6.4	7.6
Total	32.3	30.8	27.8	30.2
Privatization Revenues	0.1	0.1	0.0	0.0
Total Revenues	**32.4**	**30.9**	**27.8**	**30.2**
Current Expenditures	16.2	14.4	12.2	14.5
Investment Expenditures	2.6	2.6	2.9	3.1
Fixed Investment	2.5	2.5	2.8	3.0
Change in Stocks	0.0	0.0	0.1	0.1
Transfer Expenditures	17.6	16.5	13.6	19.1
Current Transfers	16.8	14.8	12.0	15.8
Capital Transfers	0.7	1.7	1.6	3.4
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Total Expenditures	**36.4**	**33.5**	**28.6**	**36.7**
Borrowing Requirement	**3.9**	**2.6**	**0.8**	**6.5**
Borrowing Req. Exc. Privatization Revenues	**4.0**	**2.7**	**0.8**	**6.5**
Primary Expenditures	**33.5**	**30.9**	**26.5**	**34.1**
Primary Surplus	**1.1**	**0.0**	**-1.4**	**3.9**
Programme Defined Primary Surplus	**-3.2**	**-1.5**	**-0.2**	**-5.0**

Source: Presidency of Strategy and Budget

Ratio of program-defined public sector primary deficit to GDP is expected to reach 4.9 percent from 1.7 percent in the same period. The EU-defined general government debt stock, which was 30.8 percent of GDP in 2022 below the MTP (2024-2026) forecast, is expected to increase to 33.3 percent in 2023.

4.3. Budget Plan for 2024

It is estimated that 2024 central government budget expenditures will increase by 69 percent compared to the 2023 year-end realization estimate and reach 11,089 billion TL. It is anticipated that the ratio of central government budget expenditures to GDP will be 1.2 points above the previous year's forecast and at 26.9 percent.

In the 2024 budget, 1,028.3 billion TL was allocated for the reconstruction of the earthquake zone and reducing disaster risks. The amount in question corresponds to 2.5 percent of GDP.

Table 4.6: Central Government Budget Expenditures 2024

	(Billion TL)			(GDP Ratio, %)	
	2023 RE	**2024**	**Incr. %**	**2023 RE**	**2024**
Central Government Budget	**6,562.6**	**11,089.0**	**69.0**	**25.8**	**26.9**
Interest Payments	**646.1**	**1,254.0**	**94.1**	**2.5**	**3.0**
Primary Expenditures	**5,916.5**	**9,835.0**	**66.2**	**23.2**	**23.9**
Personnel Expenditures	1,326.5	2,553.5	92.5	5.2	6.2
State Social Sec. Contributions	183.2	312.5	70.5	0.7	0.8
Current Expenditures	471.0	679.8	44.3	1.8	1.7
Current Transfers	2,501.6	4,266.7	70.6	9.8	10.4
Capital Expenditures	538.8	787.9	46.3	2.1	1.9
Capital Transfers	685.1	720.8	5.2	2.7	1.8
Lending	210.4	298.5	41.9	0.8	0.7
Reserve Appropriations	0.0	215.3			0.5

RE: Realization Estimate
Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

Total personnel expenses in 2024 have been determined by taking into account that the general salary and wage increase rate will be 15 percent in January and 10 percent in July, in line with the collective agreement, and an inflation difference will be given according to macro forecasts. In this context, total personnel expenditures, which consist of the sum of personnel expenses, state premium expenses to social security institutions and reserve funds for personnel, are estimated to be 2,886 billion TL, and their ratio to GDP is estimated to be 7 percent.

An appropriation of 679.8 billion TL is envisaged for goods and services procurement expenses in 2024. The amount in question corresponds to a level of expenditure relative to GDP that is 0.2 points lower than the previous year's estimation.

Current transfers are expected to realize as 4,266.7 billion TL in 2024, which is 10.4 percent of GDP. Approximately two-thirds of current transfer expenditures consist of transfers to the health and social security system and shares transferred from general budget tax revenues to local administrations and funds. In this context, transfers to the health and social security system are envisaged as 1,559.1 billion TL, and the shares to be transferred from general budget tax revenues to local administrations and funds are envisaged as 1,086.3 billion TL. In addition, an allowance of 518.4 billion TL was allocated for assignment expenses, especially to SOEs operating in the field of energy, and 91.6 billion TL for transfers for agricultural purposes.

Capital expenditures are programmed to be 787.9 billion TL, with a share of 1.9 percent in GDP. An allowance of 151.4 billion TL has been allocated for the construction and repair of public buildings in the earthquake zone and the repair of infrastructure damage.

It is predicted that capital transfers will be 720.8 billion TL in 2024, accounting for 1.8 percent of GDP. In this context, 649.7 billion TL was allocated to TOKİ for earthquake housing construction, 16 billion TL for social housing construction, 6.9 billion TL for KÖYDES, 2.7 billion TL for SUKAP, 1.4 billion TL for development agencies and 545 million TL for SOGEP. Additionally, 12.5 billion TL has been allocated for TUBITAK R&D projects.

For 2024, the lending item is projected to be 298.5 billion TL, 0.7 percent of GDP, of which 230.4 billion TL is composed of capital transfers to SEEs, 22.8 billion TL is composed of tuition and fee loans, and 3 billion TL is composed of loans to the Turkish Republic of Northern Cyprus. Additionally, The Credit Guarantee Fund was allocated TL 4.7 billion.

Interest expenses in 2024 are expected to be 3 percent of GDP.

In 2024, central government budget revenues are targeted to be 8,437.1 billion TL, and budget expenditures are programmed to be 11,089.0 billion TL. As a result of the revenue estimate and the anticipated expenditure size, the budget deficit is expected to be 2,651.9 billion TL and 6.4 percent of GDP.

Table 4.7: Central Government Budget Revenues 2024

	(Billion TL)			(GDP Ratio, %)	
	2023	**2024**	**Incr.**	**2023**	**2024**
Central Government Budget Revenues	**4,929.7**	**8,437.1**	**71.1**	**19.3**	**20.5**
General Government Revenues	**4,873.4**	**8,332.8**	**71.0**	**19.1**	**20.2**
Tax Revenues	**4,270.7**	**7,407.7**	**73.5**	**16.8**	**18.0**
Income Tax Revenues	696.4	1,188.9	70.7	2.7	2.9
Corporate Tax Revenues	782.2	1,275.7	63.1	3.1	3.1
Taxes on Foreign Trade	1,056.9	1,904.2	80.2	4.1	4.6
Domestic VAT	440.9	826.6	87.5	1.7	2.0
SCT	817.2	1,403.9	71.8	3.2	3.4
Petroleum and Natural Gas	196.9	451.5	129.3	0.8	1.1
Motor Vehicles	346.2	497.4	43.6	1.4	1.2
Alcoholic Beverages	63.0	107.2	70.3	0.2	0.3
Tobacco	146.3	251.3	71.8	0.6	0.6
Other Beverages	7.2	11.3	58.0	0.0	0.0
Durable Goods and others	57.7	85.2	47.8	0.2	0.2
Other Taxes	477.0	808.4	69.5	1.9	2.0
Nontax Revenues	**602.8**	**925.1**	**53.5**	**2.4**	**2.2**
Special Budget and Regulatory and Supervisory	**56.2**	**104.3**	**85.5**	**0.2**	**0.3**

RE: Realization Estimate
Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

The ratio of central government budget total revenues to GDP is expected to be 20.5 percent in 2024, with the increase in collection rates as a result of the policies implemented to ensure price, financial and macroeconomic stability, as well as the effective fight against informality. Accordingly, tax revenues are expected to increase by 1.2 points and non-tax revenues are expected to decrease by 0.1 points. It is estimated that the increase in tax revenues will mainly come from domestic goods and services taxes and taxes from international trade and transactions.

In 2024, the total collection of taxes from income, profit and capital gains is expected to be 6 percent of GDP. While corporate tax collection is expected to be at the same level as the previous year's forecast in relation to GDP, an increase in income tax collection is anticipated.

VAT collection is expected to be 2 percent of GDP in 2024. The VAT rate increases in the second half of 2023 and the increases in SCT amounts collected from fuel are the main factors of the anticipated collection increase.

In 2024, the ratio of SCT collection to GDP is estimated to be 3.4 percent. Due to the increase in fixed SCT amounts, it is estimated that the ratio of SCT collection from petroleum products and natural gas to GDP will increase by 0.3 points compared to the 2023 realization estimate, while the SCT on motor vehicles is expected to remain 0.2 points below the previous year's realization estimate. It is anticipated that the SCT collection from alcoholic beverages, tobacco products, durable consumer goods and cola sodas will remain at the same level as the previous year's forecast in 2024 as a percentage of GDP.

In 2024, the ratio of VAT collection on imports to GDP is expected to be 4.1 percent, depending on exchange rate and import forecasts and the adjustment made to VAT rates.

The ratio of banking and insurance transaction tax collection to GDP is expected to be 0.5 percent in 2024. The total collection from games of chance tax and special communication tax items is expected to be 0.2 percent by the end of 2023.

It is estimated that central government budget non-tax revenues will be 2.5 percent of GDP in 2024.

4.4. Medium Term Perspective

General government revenue and expenditure estimates for the 2024-2026 period are based on the macroeconomic framework set out in the MTP (2024-2026) as well as the following basic assumptions:

- In order to ensure fiscal discipline, public expenditures will be rationalized, their efficiency will be increased and savings will be made in current expenditures.
- Necessary measures will continue to be taken for the reconstruction of the regions damaged in the Kahramanmaraş and Hatay centered earthquakes that occurred in February 2023.
- Public personnel salary and wage increases are determined as 15 percent and 10 percent in January and July 2024.
- In order to ensure the effectiveness and efficiency of public resources and to achieve a unity of practice throughout the country, support practices will be revised

in line with the principles and principles to be determined for incentive and support practices and impact assessment studies.

- The effective fight against informality will continue, efforts to eliminate ineffective tax expenditures will continue and thus the tax base will be expanded.
- By increasing the share of tax revenues in public revenues, public revenue will be generated from healthy and continuous sources.
- No permanent expenditure will be created in response to temporary resources created by non-permanent and conjuncture-sensitive revenues.
- SOE prices will be determined in line with the program targets.

In 2024, the ratio of general government revenues to GDP is expected to increase by 1.0 points compared to the previous year and reach 31.2 percent. Compared to the previous year, it is predicted that tax revenues will increase by 1.2 points, non-tax incomes by 0.2 points, social funds by 0.4 points, while factor incomes will decrease by 0.8 points.

Table 4.8: General Government Revenues and Expenditures - 2

(GDP Ratio, %)

	2023	2024	2025	2026
Taxes	17.0	18.2	18.2	18.2
Direct	5.9	6.1	6.1	6.2
Indirect	10.7	11.8	11.7	11.6
Wealth	0.4	0.3	0.3	0.3
Non-Tax Revenues	1.4	1.7	1.6	1.6
Factor Incomes	4.2	3.4	3.5	3.5
Social Funds	7.6	8.0	7.9	7.8
Total	30.2	31.2	31.1	31.1
Privatization Revenues	0.0	0.1	0.1	0.1
Total Revenues	**30.2**	**31.2**	**31.1**	**31.1**
Current Expenditures	14.5	14.8	14.4	14.2
Investment Expenditures	3.1	2.7	2.5	2.5
Fixed Investment	3.0	2.7	2.5	2.5
Change in Stocks	0.1	0.0	0.0	0.0
Transfer Expenditures	19.1	19.8	17.3	17.0
Current Transfers	15.8	17.3	16.6	16.5
Capital Transfers	3.4	2.5	0.7	0.5
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Total Expenditures	**36.7**	**37.2**	**34.2**	**33.7**
Borrowing Requirement	**6.5**	**6.0**	**3.0**	**2.5**
Borrowing Req. Exc. Privatization Revenues	**6.5**	**6.1**	**3.1**	**2.6**
Primary Expenditures	**34.1**	**34.1**	**30.8**	**30.0**
Primary Surplus	**3.9**	**2.9**	**-0.4**	**-1.2**
Programme Defined Primary Surplus	**-5.0**	**-3.7**	**-0.4**	**0.4**

Source: Presidency of Strategy and Budget

General government expenditures are expected to increase by 0.6 points to 37.2 percent of GDP in 2024 compared to the previous year. In this period, it is anticipated that current transfers will increase by 1.5 points, current expenditures will increase by 0.3 points, and investment expenditures and capital transfers will decrease by 0.4 and 0.9 points, respectively.

In line with these developments, it is predicted that the general government deficit compared to GDP will decrease by 0.5 points to 6.0 percent in 2024. General government primary deficit decreased to 2.9 percent with a 1.0 point improvement; the programme-defined general government deficit is expected to be 3.7 percent.

4.5. Structural and Cyclical General Government Balance

Actual general government balance covers temporary effects resulted from economic fluctuations as well as one-off measures taken. However, structural general government balance, which has become crucial with adopting the multi-year budgetary process, reflects the revenue and expenditure levels under the assumption that the economy was operating at its potential level.

The actual general government balance analyzed in this section does not cover the privatization revenues and one-off revenues and expenditures. In this way, the effect of cyclical developments in economic activities is aimed to be seen clearly.

Table 4.9: General Government Balance Analysis[1]

	Output Gap (Y/Y^p) [2]	General Government Balance / GDP		Primary General Government Balance / GDP		Cyclical Balance / GDP
		Actual Balance	Structural Balance [3]	Actual Balance	Structural Balance [3]	
2016	0.10	-3.14	-3.43	-1.14	-1.42	0.28
2017	2.04	-2.95	-3.64	-1.03	-1.67	0.61
2018	0.43	-4.21	-3.99	-2.11	-1.87	-0.25
2019	-2.76	-5.69	-4.02	-3.19	-1.59	-1.56
2020	-5.44	-4.90	-1.66	-2.08	1.00	-3.14
2021	0.51	-2.82	-1.95	-0.19	0.69	-0.88
2022	1.01	0.33	-0.19	2.49	1.99	0.52
2023	0.65	-2.86	-3.75	-0.26	-1.13	0.87
2024	-0.17	-2.19	-2.65	0.91	0.44	0.47
2025	-0.53	-2.14	-2.32	1.32	1.12	0.20
2026	-0.62	-1.84	-1.87	1.84	1.79	0.04

(1) It refers to balance excluded public claims restructuring, zoning amnesty, 2B Revenues, privatization and other one-off revenues and expenditures.
(2) Percentage difference from potential. The potential output is calculated using production function method.
(3) Structural balance is ratio of potential GDP.

In 2022, especially in the last quarter of the year, in addition to the restricted increase in expenditures, the budget balance decreased compared to the previous year due to the revenues increased more than expected. In the same year, balances of social security institutions and unemployment insurance fund, whose expenditures decreased more than their revenues improved to some extent. As a result of these developments, the recovery in the ratio of structural general government deficit to potential GDP was realized as 1.8 percentage points, while the improvement in the actual general government deficit to GDP was 3.1 percentage points, compared to previous year.

In 2023, when the effect of revenues, such as zoning amnesty, tax amnesty, Central Bank's profit, is added, budget's one-off revenues reach 1.0 percent; and one-off expenditures, such as support payments and earthquake, reach 4.9 percent, as a share of GDP. In addition to them, in the same year, the privatization fund is expected to generate 0.05 percent of privatization revenue, as a share of GDP and the effect of the ratio of social security institutions premium debts restructuring to GDP is expected to be 0.24 percent. In 2023, it is seen that the influence of the economic fluctuations expansionary pressure on actual general government balance remained limited. On the other hand, the contractionary impact of one-off revenue and expenditure measures on actual balance, due to the expenditure measures increased relatively, compared to previous year, reached 3.62 percent, as a share of GDP.

Developments producing additional costs, such as natural disasters, particularly earthquakes, that occurred, regulations regarding the criteria of the eligibility for a pension, increases in retired and civil servants payments, caused a deterioration in budget balance and supplementary budget is required. In addition to the increase in interest payments, capital expenditures, which increased because of the extra investments due to the recovery of earthquakes damages and strengthening infrastructure in transportation and irrigation; increases in goods and services cost of purchases; FX- protected deposit practice; current transfers arised from increases in the duty losses of SEEs through notably energy subsidies, were effective in the increase in the budget expenditures. On the revenue side of the budget, in addition to increase in personal income tax, domestic VAT rose as a result of rate increases; the SCT collection, which increased as a consequence of uptrend in price and exchange rates and upward adjustments in SCT amounts, were influential in the revenue increases. However, increase in budget expenditures which exceed increase in budget revenues affected budget balance in a negative way. Local governments balance, whose expenditures increase more than its revenues, due to real increase in its investment expenditures; balance of social security institutions whose spending increase more as a result of increases in pensions and fund balance, whose expenditures inrease, are other reasons of the deterioration in general government balance. As a result of these developments, the ratio of structural general government deficit to potential GDP is expected to be 3.8 percent by a 3.6 point increase and primary structural balance is expected to turn into a deficit and expected to be 1.1 percent with 3.1 percentage points deterioration, compared to previous year.

In the period of 2024-2026, when the changes in the structural balances with the changes in the output gap are examined, it is seen that the projected policy implementations will amplify the economic cycle.

Table 4.10: Fiscal Stance and Output Gap[1]

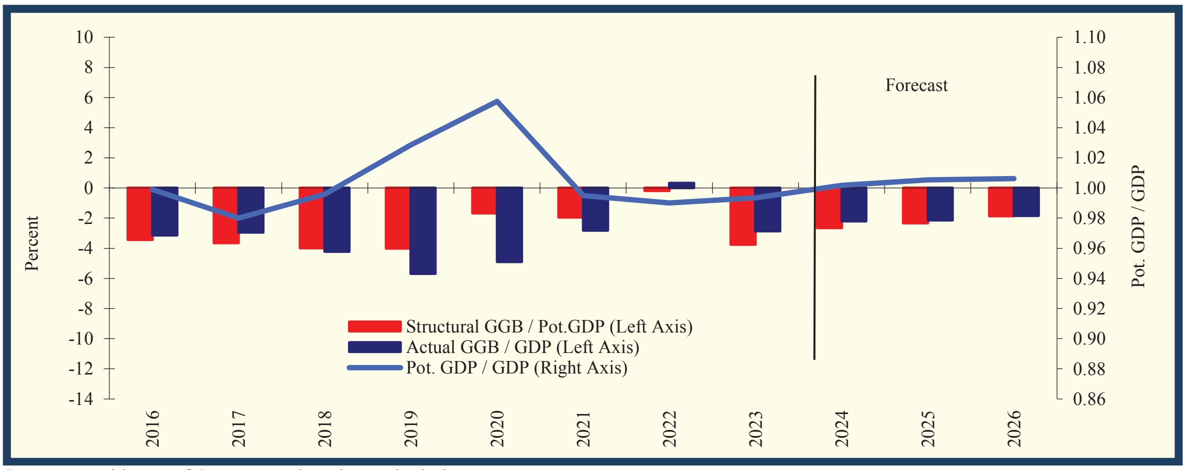
(Change from the Previous Year)

	Output Gap (Y/Y^P)	As a share of Potential GDP: Structural General Government Balance	Structural Primary General Government Balance
2016	-1.98	-0.83	-1.20
2017	**1.94**	**-0.21**	**-0.26**
2018	-1.61	-0.35	-0.19
2019	**-3.19**	**-0.03**	**0.28**
2020	**-2.67**	**2.36**	**2.59**
2021	**5.94**	**-0.29**	**-0.30**
2022	0.50	1.76	1.30
2023	-0.36	-3.56	-3.12
2024	**-0.82**	**1.10**	**1.57**
2025	**-0.36**	**0.33**	**0.68**
2026	**-0.09**	**0.45**	**0.67**

(1) Bold figures show pro-cyclical fiscal policy periods while unbolded ones show counter-cyclical fiscal policy periods.

In the period of 2024-2026, it is aimed to decrease the deficit and strengthen fiscal discipline, and it is planned to gradually decrease the borrowing requirement, with the contribution of measures taken. In this way, it is forecasted that both actual and structural general government deficit to GDP and potential GDP consecutively, will realize as 2.1 percent and 2.3 percent on average in ERP period (Figure 4.1).

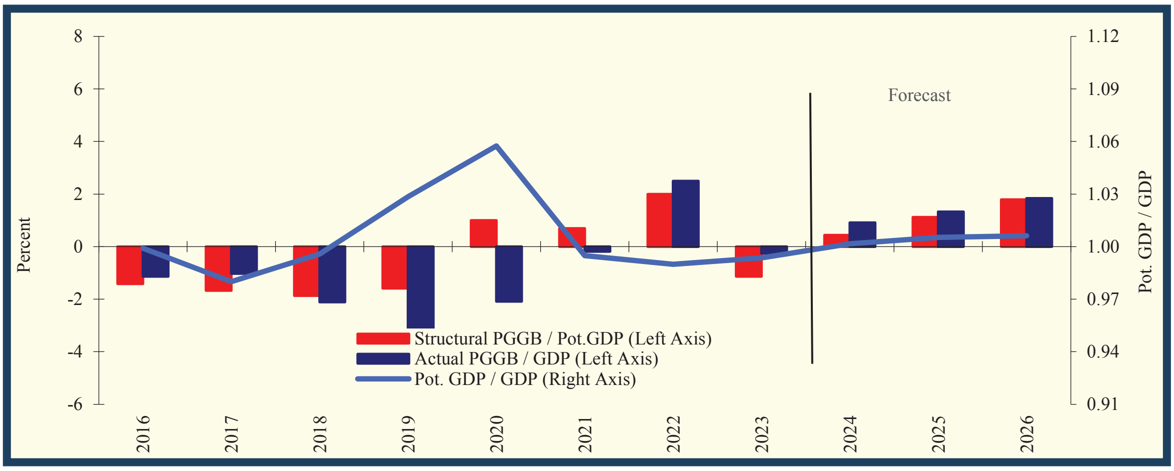
Figure 4.1: General Government Balance



Source: Presidency of Strategy and Budget calculations
GGB: Public Claims Restructuring, Zoning Amnesty, Privatization, 2B Revenues and Other One-Off Revenues and Expenditures Excluded General Government Balance
Pot. GDP: Potential GDP

The primary actual and structural general government balances, which have a deficit, are expected to tend to improve as from 2024 (Figure 4.2). Therefore, it is forecasted that both actual and structural primary general government balances to GDP and potential GDP consecutively, which were estimated to be 1.9 and 1.6 percent surplus on average in the previous ERP period, will realize, consecutively, as 1.4 and 1.1 percent on average in 2024-2026 period.

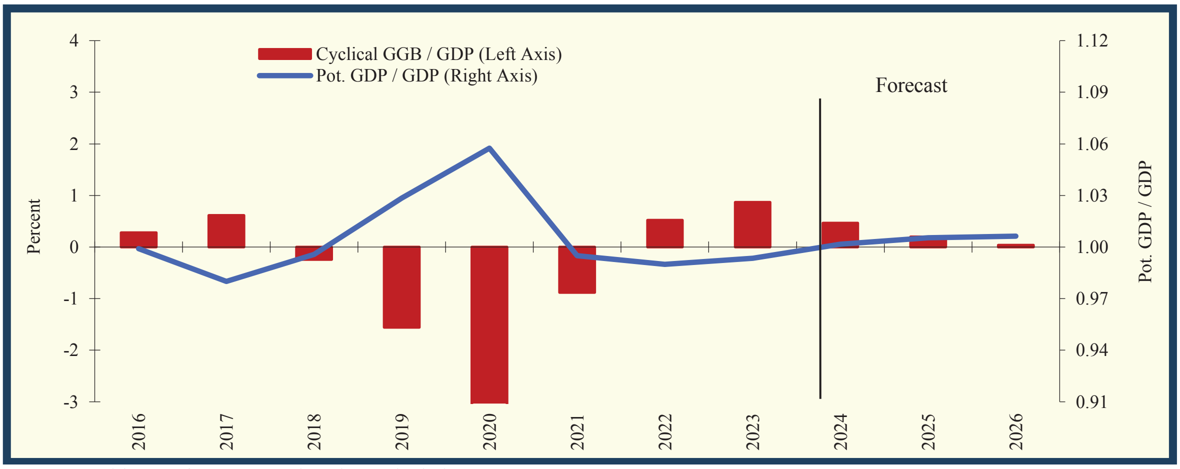
Figure 4.2: Primary General Government Balance



Source: Presidency of Strategy and Budget calculations
PGGB: Primary General Government Balance
Pot. GDP: Potential GDP

Cyclical general government balance is calculated by subtracting the structural general government balance from the actual general government balance. Since the privatization revenues and one-off revenues and expenditures are excluded in the calculations of structural and actual general government balances, cyclical balance only reflects the impacts of conjunctural developments. When the ERP period is examined, the additive effect of cyclical movements on the actual general government deficit is forecasted to be limited (Figure 4.3).

Figure 4.3: Cyclical General Government Balance



Source: Presidency of Strategy and Budget calculations
GGB: General Government Balance
Pot. GDP: Potential GDP

4.6. Debt Levels and Developments, Analysis of Below-the-Line Operations and Stock-Flow Adjustments

4.6.1. Current Situation

As a result of the ongoing economic program, fiscal discipline and efficient borrowing strategies, considerable improvements were observed in the EU defined general government debt stock. The ratio of EU defined general government debt stock to GDP, which was 75.5 percent at the end of 2001, declined to 30.8 percent at the end of 2022.

Table 4.11: EU Defined General Government Debt Stock

(Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
EU Defined General Government Debt Stock	31.1	28.4	27.3	27.9	27.9	30.0	32.6	39.6	41.7	30.8

Source: Ministry of Treasury and Finance

Central government total debt stock increased by 2,241.4 billion TL compared to its 2022 level and reached 6,276.8 billion TL by October 2023. The ratio of fixed rate debt in the total stock increased by 1.1 points compared to the end of 2022 and realized as 72.0 percent as of October 2023.

Compared to its end of 2022 level, central government domestic debt stock increased by 1,061.4 billion TL and reached 2,966.8 billion TL by October 2023. The ratio of the respective stock to GDP descended to 12.7 percent in 2022, from 18.2 percent in 2021.

Table 4.12: Central Government Debt Stock

(Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Domestic Debt Stock	22.1	20.2	18.7	17.8	17.1	15.6	17.5	21.0	18.2	12.7
External Debt Stock	10.0	9.6	10.1	11.1	10.9	12.8	13.3	14.9	19.7	14.2
Total	32.1	29.8	28.8	28.9	28.0	28.4	30.8	35.9	37.9	26.9

Source: Ministry of Treasury and Finance

The central government external debt stock has been 3,310.1 billion TL by October 2023. Considering the interest composition of external debt stock, the share of fixed rate debt has been 85.3 percent by October 2023.

Table 4.13: Central Government Debt Stock by Interest Rate Type

(Million TL)

	Domestic Debt Stock			External Debt Stock		Total Debt Stock			
	Fixed	Floating	Indexed to CPI	Fixed	Floating	Fixed	Floating	Indexed to CPI	Total
2013	212,007	94,760	96,239	148,477	34,708	360,485	129,469	96,239	586,193
2014	234,889	78,880	100,880	164,706	33,163	399,595	112,042	100,880	612,517
2015	256,394	84,281	99,450	202,237	35,884	458,631	120,165	99,450	678,246
2016	278,945	82,882	106,817	251,492	39,815	530,437	122,697	106,817	759,952
2017	348,401	67,482	119,564	298,329	42,717	646,731	110,200	119,564	876,494
2018	375,213	75,552	135,377	428,573	52,400	803,786	127,952	135,377	1,067,115
2019	464,244	118,483	172,325	518,737	55,265	982,981	173,748	172,325	1,329,054
2020	591,666	217,790	250,897	679,760	72,735	1,271,427	290,525	250,897	1,812,849
2021	695,984	333,558	291,648	1,223,648	202,981	1,919,632	536,539	291,648	2,747,819
2022	1,044,330	463,339	397,662	1,817,818	312,297	2,862,148	775,637	397,662	4,035,447
2023 Oct.	1,697,685	818,678	450,399	2,822,389	487,689	4,520,074	1,306,368	450,399	6,276,841

(Share in Total Debt Stock, Percentage)

	Domestic Debt Stock			External Debt Stock		Total Debt Stock			
	Fixed	Floating	Indexed to CPI	Fixed	Floatin g	Fixed	Floating	Indexed to CPI	Total
2013	36.2	16.2	16.4	25.3	5.9	61.5	22.1	16.4	100.0
2014	38.3	12.9	16.5	26.9	5.4	65.2	18.3	16.5	100.0
2015	37.8	12.4	14.7	29.8	5.3	67.6	17.7	14.7	100.0
2016	36.7	10.9	14.1	33.1	5.2	69.8	16.1	14.1	100.0
2017	39.7	7.7	13.6	34.0	4.9	73.8	12.6	13.6	100.0
2018	35.2	7.1	12.7	40.2	4.9	75.3	12.0	12.7	100.0
2019	34.9	8.9	13.0	39.0	4.2	74.0	13.1	13.0	100.0
2020	32.6	12.0	13.8	37.5	4.0	70.1	16.0	13.8	100.0
2021	25.3	12.1	10.6	44.5	7.4	69.9	19.5	10.6	100.0
2022	25.9	11.5	9.9	45.0	7.7	70.9	19.2	9.9	100.0
2023 Oct.	27.0	13.0	7.2	45.0	7.8	72.0	20.8	7.2	100.0

Source: Ministry of Treasury and Finance

Thanks to issuance of long term securities in line with the strategic benchmarks, average time to maturity of central government debt stock was 5.4 years by October 2023.

Table 4.14: Average Time to Maturity of Central Government Debt Stock

(Year)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 Oct.
Domestic Debt Stock	3.9	4.6	4.6	4.3	4.2	3.9	3.0	2.8	3.0	3.6	3.9
External Debt Stock	9.3	9.5	9.5	9.4	9.9	9.6	8.9	8.3	7.8	7.1	6.7
Total	5.6	6.1	6.3	6.3	6.4	6.4	5.5	5.1	5.4	5.4	5.4

Source: Ministry of Treasury and Finance

4.6.2. General Government Debt Stock Projections for 2024-2026 Period

As a result of the prudent fiscal policies implemented, efficient borrowing strategies and strong growth performance in recent years, the ratio of the general government debt stock to GDP has decreased significantly. EU-defined general government debt stock to GDP stood at 30.8 percent at the end of 2022. In the Medium Term Program covering the period 2024-2026, the EU-defined general government debt stock is expected to realize at the level of 33.2 percent by the end of 2026.

Table 4.15: EU Defined General Public Debt Stock Estimations

(Percent of GDP)

	2022	2023	2024	2025	2026
	Realization	Forecast*			
EU Defined General Government Debt Stock	30.8	33.3	35.2	34.6	33.2

Source: Ministry of Treasury and Finance
* MTP (2024-2026)

4.6.3. Contingent Liabilities

Contingent liabilities refer to obligations of which timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government. Treasury guarantees and debt assumption commitments provided in the context of Public-Private-Partnership projects are among the explicit contingent liabilities of the Treasury.

The Ministry of Treasury and Finance provides Treasury repayment guarantees for foreign borrowing of public institutions (defined in Law No. 4749, Article 3) in order to minimize the investment financing costs, ensure sustainable growth and meet funding requirements of multi-year investment projects in specific sectors such as renewable energy, infrastructure and SMEs.

There are several risk mitigation schemes for Treasury repayment guarantees such as Internal Credit Rating Model, Treasury repayment guarantee and on-lent limit, guarantee and on-lent fee and Risk Account.

Internal Credit Rating Model, which considers the debt-receivable relationship between the institutions and the Treasury and financial statements of these institutions, was put into practice in 2006, in order to improve the management of contingent liabilities confronting the model takes into account the debt-credit relationship of institutions with The Ministry of Treasury and Finance and their financial statements. In this context, the limit for Treasury guarantees and on-lent foreign loans, guarantee and on-lent fees are calculated using this model based on the expected losses from organizations.

The guarantee and on-lent limit is set by Central Government Budget Law every year. For the fiscal year 2023, the limit was 4.5 billion USD. In order to compensate for the losses that stem from the guaranteed/on-lent credits and to share the risk with beneficiaries, a one-time guarantee/on-lent fee is applied up to 1 percent of the total credit amount and these fees are accumulated under Risk Account. Risk Account has been set up in 2003 in order to eliminate the disruptions in the cash and debt management caused by the amounts paid by the Treasury due to Treasury guarantees and budget appropriation was started to be allocated every year as of this date. As the repayments to the Risk Account is sufficient for the undertakings realized from the account no budgetary allocations, which is one of the items of the revenues of the account, has been used since 2009.

As of June 2023, the the repayment guaranteed debt stock is equal to 15.5 billion USD. As of October 2023, the amount of undertakings from Treasury repayment guarantees is 15.3 million USD while it was 21.4 million USD in 2022.

The Ministry of Treasury and Finance, being transparent for its provided guarantees, publishes all related figures on institutional website monthly.

Regarding to Public Private Partnership (PPP) projects, The Ministry of Treasury and Finance can provide debt assumption commitments, as defined in Article 8/A of Law No. 4749. According to this mechanism, upon termination of the implementation contract and transfer of facilities to the relevant administration, the credit facilities provided for the project, including relevant financial obligations, can be undertaken. The scope of debt assumption commitment is limited with the senior loans of the project company pursuant to the implementation contract.

Within the scope of risk management framework, a ceiling has been introduced in the central government budget law in order to limit the debt assumption commitments for each fiscal year. For the fiscal year 2022, the limit was 4.5 billion USD.

4.6.4. Repayment Guarantee

The repayment guaranteed debt stock has slightly decreased from its level of 16.2 billion dollars in 2022 to 15.5 billion dollars by the end of the second quarter of 2023. Guarantees provided to public banks and investment and development banks have the highest share within the repayment guaranteed debt stock.

Despite an increasing guaranteed debt stock since 2007, the undertaking ratio stayed low in the same period and it was 0.5 percent by the end of October 2023.

Taking into account the payment projection of the Treasury repayment guaranteed foreign debt stock, an increase in parallel with the disbursements is observed in the medium term.

Table 4.16: Projection of Treasury-Guaranteed Foreign Debt Service (*)

(Million Euro)

	Principal	Interest	Total
2023	1,355	423	1,778
2024	1,946	902	2,849
2025	3,621	674	4,296
2026+	10,123	4,057	14,179

*Based on drawings; as of June 2023, provisional
Source: Ministry of Treasury and Finance

4.6.5. Investment Guarantees

In addition to repayment guarantees, The Ministry of Treasury and Finance has provided investment guarantees to energy and infrastructure sectors in 1990s for PPP projects. No new treasury investment guarantees have been provided since 1999 and the concession periods of the facilities came to the end as of 2020.

4.6.6. Debt Assumption Commitments

As of December 2023, Treasury provided debt assumption commitments for the external loans provided for eight PPP projects with an amount of 16.6 billion USD. There has been no termination request or debt assumption under these commitments so far.

Table 4.17: Loans Subject to Debt Assumptions

LOANS SUBJECT TO DEBT ASSUMPTION AGREEMENTS					
Project Name	**PPP Model**	**Debt Assumption Agreement Date**	**Total Project Cost**	**Loan Amount**	**Loan Amount (USD Equivalent)**
Eurasia Tunnel	Build-Operate-Transfer	11 Dec 2012	$1,239,863,000	$960,000,000	960,000,000
Gebze-Orhangazi-İzmir Motorway (including the İzmit Gulf Crossing)	Build-Operate-Transfer	5 Jun 2015	$6,312,392,047	$4,956,312,328	4,956,312,328
Çanakkale-Malkara Motorway (including 1915 Çanakkale Bridge)	Build-Operate-Transfer	16 Mar 2018	€3,159,721,036	€2,265,000,000	2,799,993,000
Ankara-Niğde Motorway	Build-Operate-Transfer	7 Jun 2018	€1,462,628,902	€1,114,962,012	1,310,749,341
Northern Marmara Motorway Kurtköy-Akyazı Section	Build-Operate-Transfer	16 Sep 2019	$3,661,656,404	$2,840,000,000	2,840,000,000
Northern Marmara Motorway Kınalı-Odayeri Section	Build-Operate-Transfer	16 Sep 2019	$2,072,257,009	$1,595,000,000	1,595,000,000
Northern Marmara Motorway Odayeri-Paşaköy Section (including Third Bosphorus Bridge)	Build-Operate-Transfer	2 Dec 2021	$3,456,244,239	$1,198,302,550	1,198,302,550
Aydın-Denizli Motorway	Build-Operate-Transfer	30 Dec 2021	€1,118,643,935	€769,939,998	869,416,246
		15 Sep 2023	€173,560,000	€100,000,000	107,340,000
				Total	**16,637,113,464**

Source: Ministry of Treasury and Finance

4.6.7. Treasury Receivables

The stock of Treasury Receivables has been realized as 26.2 billion TL by the end of October 2023. The local administrations have 39.5 percent, SOE's has 32.5 percent and other institutions have 28 percent shares in the Treasury's receivables stock.

In January-October 2023 period, cash payments of the institutions have the highest share (88.1 percent) within the collections. In the same period, deductions from Municipalities' general budget tax revenues by the Ministry of Treasury and Finance and by Iller Bank were 11.9 percent.

Table 4.18: Stock of Treasury Receivables

(Million TL)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Local Governments	11,349	12,163	12,329	11,605	11,750	11,029	10,328	10,471	8,827	10,359
SOE's	2,129	2,375	2,432	2,744	3,307	3,520	4,209	5,507	6,590	8,515
Other Institutions	3,221	3,197	2,831	3,151	3,479	3,452	3,382	4,644	5,368	7,364
Total	**16,699**	**17,734**	**17,593**	**17,500**	**18,536**	**18,001**	**17,919**	**20,622**	**20,784**	**26,238**

Source: Ministry of Treasury and Finance
* As of October 2023, provisional

4.7. Sensitivity Analysis and Comparison with the Previous Programme

Ministry of Treasury and Finance has executed debt and cash management by adopting risk based approach since 2003. In this regard, risk exposure of central government debt stock is regularly monitored and reported to the Debt and Risk Management Committee which is the highest decision making unit of debt management. Sustainability and sensitivity analyses are the most important tools for evaluation of the risk profile of the debt stock. While sustainability analysis projects the probable trajectory of the debt to GDP ratio under the changes in macroeconomic variables, sensitivity analysis puts forward the vulnerabilities of debt stock to the risks.

As a result of debt and cash management policies based on strategic benchmarks, structure of debt stock has improved and thus the exposure of central government debt stock to exchange rate, interest rate and liquidity risk has significantly reduced. In sensitivity analysis, annual deviations of the EU defined general government debt stock to GDP level from the baseline scenario are computed under real interest rate, growth rate, exchange rate shocks. Sensitivity of the general government debt stock to macroeconomic shocks has had a downward trend since 2001 when the first sensitivity analysis was implemented. Borrowing mainly in TL denominated fixed rate instruments and extending the borrowing maturities have significantly contributed to reduce sensitivity of debt stock to market risks. While 5 percent appreciation/depreciation of the Turkish Lira would have changed the general government debt to GDP ratio by 2.0 percentage points in 2002, this effect decreased to 0.9 percentage points in 2022. On the other hand, 500 basis points interest rate change would have changed the general government debt to GDP ratio by 0.6 percentage points in 2022 whereas this effect was 1.4 percentage points in 2002. Similarly due to decrease in debt stock to GDP level, effects of growth shocks on EU defined general government debt stock to GDP have decreased significantly. While the stock to GDP ratio would have changed by 1.3 percentage points in 2002 under the 2 percentage points growth shock, this effect decreased to 0.5 percentage points in 2022.

Table 4.19: Sensitivity of the EU Defined General Government Debt Burden

	2002	2022
Change in real exchange rate app/dep by 5 percent	+/- 2.0 points	+/- 0.9 points
Change in TL interest rate by 500 bp	+/- 1.4 points	+/- 0.6 points
Change in GDP growth rate by 2 percentage points	+/- 1.3 points	+/- 0.5 points

Source: Ministry of Treasury and Finance

4.8. Quality of Public Finances

The Presidential Annual Program (2024), the Mid-term Program (2024-2026) and the 12th Development Plan (2024-2028) aim to implement a large number of policies and measures prepared to increase competitiveness by registering informal economic activities, to prevent tax losses, to ensure sustainable growth and economic stability, and to ensure a more fair distribution of social income.

In order to increase the size of the registered economy, analysis and evaluation activities are carried out in order to take action instantly against taxpayers with low or non-compliant tax compliance and to prevent tax losses and evasion and unregistered economic activities, along with the implementation of the actions included in the Action Plan for the Fight against the Informal Economy for the Period 2023-2025.

In addition to determining the tax losses caused by the informal economy, studies are carried out to determine the revenue losses arising from the informal economy.

Thus, it is aimed to increase social welfare, ensure fair income distribution and economic stability, prevent unfair competition by improving other macroeconomic indicators and increase the size of the formal economy.

4.9. Fiscal Governance and Budgetary Frameworks

With the Presidential Decree No. 13, the central harmonization function in strategic management and planning issues is carried out by the Presidency of Strategy and Budget.

In public administrations within the scope of the central government which are responsible for preparing strategic plans, social security institutions, state-owned enterprises, special provincial administrations and municipalities with a population of over 50 thousand strategic plans and performance programs are prepared and implemented, and the results are monitored through activity reports.

Public administrations prepare strategic plans with participatory methods within the framework of development plans, policies and programs determined by the President, relevant legislation and the basic principles they have adopted. They prepare strategic plans in order to create their mission and vision, set goals and measurable targets, measure their performance in line with predetermined indicators, and monitor and evaluate this process.

Following the come into force of the 12th Development Plan, the Corporate Responsibilities Table regarding the goals, targets and policies included in the Plan was prepared and the level of guidance of the Development Plan to the strategic plans of public administrations was strengthened. In this context, strategic plan preparation studies for the 2024-2028 period are being carried out by ministries and affiliated and related organizations, taking into account the Development Plan.

As of December 2023, in the recent year a total of 57 strategic plans, including 19 central public administrations and 38 state universities, were evaluated by the Presidency of Strategy and Budget. The strategic plans were examined in terms of compliance with the high policy documents and the procedures and principles in the legislation on strategic planning, and feedback was given to the relevant administrations through evaluation reports.

Support services are provided by the Presidency of Strategy and Budget to develop strategic management capacity in the public sector. In this context, strategic plans prepared by public administrations are examined for compliance with high policy documents and the procedures and principles in the legislation regarding strategic planning, and feedback is provided to the relevant administrations through evaluation reports. In addition, training, workshops and meetings are held in line with the requests of public administrations obligated to prepare strategic plans.

In order to provide guidance on strategic management and to ensure information sharing, documents related to strategic management prepared by public administrations are published on the public strategic management website (www.sp.gov.tr).

In the regulatory impact analysis (RIA), whose legislative infrastructure was updated in 2022, in order to increase institutional capacity studies were carried out in 2023. The RIA Guide, which includes the basic principles that must be followed when conducting RIA, analytical methods that can be used, rules and the issues that must be included in the analysis report, was prepared and presented to the use of public administrations in February 2023. In order to ensure that the public can obtain information and be informed on a regular basis, the website with the extension https://dea.sbb.gov.tr/, specific to the RIA field, was launched in March 2023. Working meetings and trainings were organized in line with the needs of public administrations to improve administrative and human capacity regarding RIA. By participating in RIA activities at national and international levels, new RIA approaches were examined in areas where need was identified and their applicability was evaluated. Since the renewal of the RIA legislation, the RIA process has been carried out in more than 100 draft regulations.

Within the context of negotiation Chapter 32. Financial Control, Türkiye has established a sound public internal financial control (PIFC) system that consists of three pillars: financial management and control, internal audit and central harmonization units within these two areas. Currently, General Directorate of Public Financial Management and Transformation of the Ministry of Treasury and Finance carries out the duty of Central Harmonization Unit (CHU) for Financial Management and Control (FMC). It has three key functions: drafting legislation, capacity building and monitoring. In the process of accession negotiations, above mentioned PIFC structure has been established via the enactment of Public Financial Management and Control Law No. 5018.

Subparagraph of the Article 55 of Law No. 5018 is as follows, “Standards and methods regarding financial management and control processes are determined, developed and harmonized by the Ministry of Treasury and Finance, and standards and methods for internal audit by the Internal Audit Coordination Board within the framework of their duties and powers. These bodies also ensure coordination systems and provide guidance to public administrations”. The Ministry of Treasury and Finance performs the duties of central harmonization unit for internal control by monitoring the practices regarding the internal control system in public administrations, evaluating them in terms of compliance with the determined methods and standards, and making recommendations and reporting.

Internal control covers the management of risks in order to fulfill the performance needed to achieve the specified targets with the purpose of ensuring the efficient and effective use of resources allocated by the budget. As a part of the internal control system, it is important to determine and evaluate the relationship among planning, programming and budgeting and the risks associated with them. It is envisaged that the internal control system, which is to be established under the ownership of the heads of public administrations, will be implemented so as to ensure fiscal transparency and accountability. The internal control system is established, implemented, monitored and developed in accordance with the standards, regulations and methods determined by the Ministry of Treasury and Finance within the framework of internationally accepted standards. The main responsibility for the functioning and monitoring of the internal control system belongs to the heads of public administrations. The heads of administrations perform the requirements of this responsibility through authorizing officers, financial services units and internal auditors.

The Ministry of Treasury and Finance carries out the task of monitoring and evaluating the internal control systems of public administrations in order to harmonize the internal control systems of public administrations, by monitoring the functioning of financial management and control systems of the administrations within the framework of risk management, and, by evaluating the realization of the goals and objectives included in the strategic plans and performance programs and results in the accountability reports. Internal control assurance declarations, which are attached to the accountability reports containing information on the results of monitoring and evaluation of the internal control system of public administrations, constitute the basis for the evaluation of internal control practices as one of the most important accountability mechanism of internal control system.

In the 2024-2026 period, the FMC CHU will focus on monitoring and evaluation of internal control. Within this framework, “Internal Control System Monitoring and Evaluation Draft Guide” was prepared in order to evaluate the effectiveness of internal control practices and to determine their maturity level, and, to plan and conduct activities for improvement. The draft guide was implemented in three pilot institutions, namely, Ministry of Health, Ministry of Treasury and Finance, and Hacettepe University. In the 2024-2026 period, what FMC CHU planning to do is to finalize the draft guide upon the feedbacks received from these pilot institutions, and, to expand the implementation of the manual to the public sector.

For further supporting risk management practices of public administrations “Public Risk Management Draft Guide” was prepared, including detailed theoretical knowledge and examples from implementation. In the 2024-2026 period, it is planning to finalize and publish the draft guide. Moreover, in 2024-2026 period, training and guidance support will be provided to management and personnel of public administrations in order to expand the risk management approach to public administrations.

In the 2024-2026 period, it is aimed to increase the institutional capacity of public administrations regarding artificial intelligence practices in the area of internal control and internal audit, and to provide guidance to them. Within this framework, “Artificial Intelligence Practices Guide” is planned to be prepared, including national and international best practice examples in the area of internal control and internal audit.

The Action Plans for Compliance with the Public Internal Control Standards are prepared by the public administrations and the outturn of the activities specified in that plans are submitted to Ministry of Treasury and Finance biennially. Within the scope of the central harmonization function, the Compliance Action Plans for Public Internal Control Standards prepared by the public administrations are reviewed, and the practices regarding the actions are monitored. In addition, in the 2024-2026 period, within the scope of the internal control central harmonization function, training and guidance support will be provided to public administrations that have not prepared an action plan for the introduction of internal control practices. Moreover, based upon the evaluation of internal control practices of public administrations and the knowledge gathered, annual “Consolidated Internal Control System Monitoring and Evaluation Report” is planned to be prepared.

In 2023, within the scope of the activities in Public Internal Financial Control Education, the Internal Auditor Candidates Training Programme was held for successful candidates in the exam that was held on 24th November 2022. The process for the appointment of candidates who were successful in the Financial Services Assistant Expert Special Competition Exam, whose written part was held on 18th December 2022 and whose interview part was held between 24 April and 8 May 2023, has continued in the administrations. The capacity building will be developed through training and guidance activities that are aimed at increasing the effectiveness of internal control systems and internal audit practices.

For the execution of internal audit activities effectively in Türkiye, the Internal Audit Coordination Board (IACB) affiliated to the Ministry of Treasury and Finance carries out its duties specified in Article 67 of the Law No. 5018 to monitor the internal audit systems of public administrations and to serve as an independent and impartial body.

Necessary legislative studies have been carried out at all levels by the IACB in order to establish the internal audit professional practice framework in line with international standards. In addition, the number of internal auditors for public administrations within the scope of Law No. 5018 were specified by the Board, excluding regulatory and supervisory institutions, and within this scope, internal auditor positions were constituted for relevant public administrations. In order to develop the human resources capacity of the internal auditors and to meet the needs of public administrations in this field, internal auditor candidate selection exams were conducted and after these exams, certification training were provided for internal auditor candidates. IACB also supports the in-service training processes of internal auditors within the scope of continuous professional development.

Taking into account the professional improvements and advances in the field of internal auditing in the coming period, in order to strengthen the effectiveness of internal audit practices, IACB will focus on developing institutional capacity through training and guidance activities, increasing the number of internal auditors in public administrations, expanding the Internal Audit Quality Assurance and Development Programme for internal audit activities, strengthening the administrative capacities of IACB and internal audit units of public administrations, and making internal audit effective in public IT audit processes.

4.10. Sustainability of the Public Finance

4.10.1. Public Finance Risks

The main risks that may hinder the targets set for public finance in the 2024-2026 period are summarized below.

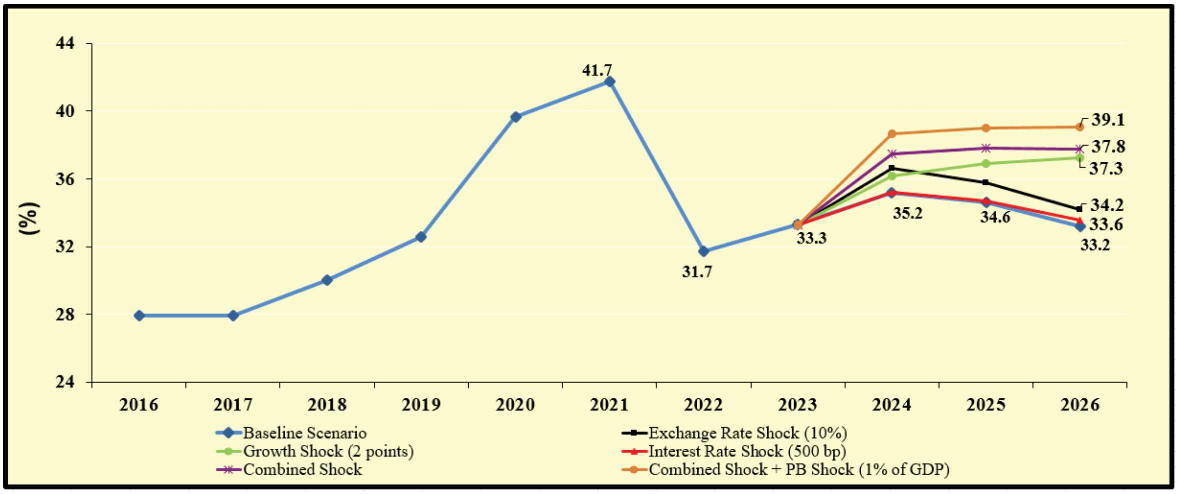
- As the reconstruction process of the earthquake zone takes longer than expected, it may cause the earthquake expenditures planned to be made in 2023 to be postponed to later periods.
- In case of deviation from macroeconomic targets, especially growth, foreign trade, employment and inflation, income and expenditure sizes may be affected by these developments and the public's financing need may increase.
- The fact that social security system premium collections remain below the forecasts due to a lower than anticipated growth rate may result in an increase in transfers from the central government budget to social security institutions.
- Decisions of the European Central Bank and the FED regarding monetary policies may cause fluctuations in interest rates and exchange rates in international and domestic markets, causing public interest expenses and debt burden to deviate from the predicted levels.
- Fluctuations in energy and other commodity prices resulting from geopolitical risks may put pressure on budget expenditures.

4.10.2. Sustainability Analysis

Sustainability analysis regarding the course of public debt stock against various macroeconomic shocks in the period of 2024-2026 is presented below.

Figure 4.4 illustrates medium term course of EU defined general government debt to GDP ratio under different scenarios. In these scenario analyses, impacts of 10 percent upward shift in the exchange rates, 2 points downward shift in the real growth rate and 500 basis points upward shift in the real interest rates over the analysis period were separately and jointly assessed. Moreover, one time primary balance shock is applied in the first year of the analysis period in addition to the combined shock scenario. In this scenario, primary balance performs 1 percent lower than the baseline scenario as a share of GDP. By doing so, possible risks, which may lead to increase in the financing needs, are analyzed. Additionally, the interrelation between macroeconomic variables has also been taken into account and secondary effects of each shock scenario on other variables are reflected into the analysis. In this context, the impact of growth shock on primary balance and inflation, together with the effects of exchange rate shock on inflation have been reflected to the analysis. Examining the scenarios stated above, compared to the baseline scenario, it is evaluated that as a percent of GDP debt stock will record an increase of 1.0 points under the exchange rate shock; 0.4 points under the interest rate shock and 4.1 points under the growth rate shock in 2026. In the combined shock scenario, in which all shocks are taken into consideration together, it is expected that the debt stock to GDP ratio may increase by 4.6 points compared to the base scenario. When primary balance shock is added to the combined shock, the level of change rises to 5.9 points.

Figure 4.4: Sustainability Scenarios*



Source: Ministry of Treasury and Finance
*Medium Term Program (2024-2026) assumptions have been used in this sustainability analysis.

5. STRUCTURAL REFORMS

5.1. Competitiveness

i. Business environment and reduction of the informal economy

a) Analysis of main obstacles

The main objective of business and investment environment reforms in Türkiye is to provide a more competitive structure to the economy by carrying out transactions with the least number of documents, in the shortest time and at the lowest cost, to further strengthen bureaucratic and legal predictability, and to ensure that the country makes investment opportunities by benefiting more from qualified international direct investments and is to become a supply and production center for domestic and international markets by increasing production, employment and exports. In this regard, important policies and measures for the business and investment environment are included in the 12th Development Plan.

The Coordination Council for the Improvement of the Investment Environment (YOİKK), which was established to improve the investment environment on a national level and consists of public and private sector representatives (TOBB, TİM, TÜSİAD, YASED, MÜSİAD, DEİK), continues its activities. In this context, in line with the public and private sector recommendations for the coming period, the priority transformation areas are protection of personal data, improvement of legislation, development of risk management, progress in international indices, creation of data policy, improvement of investment opportunities, digitalization of investment processes, resolution of investment disputes and acceleration of green transformation. Under these priority areas work is carried out regarding the actions determined.

Under the coordination of the Investment Office of the Presidency of the Republic of Türkiye, in cooperation with relevant public and private sector stakeholders, the preparations for the "2024-2028 Türkiye International Direct Investment Strategy" have started as of June 2023, and the said strategy is planned to be published as soon as possible and work is being carried out within this scope.

Within the scope of developing specialization in the judiciary, the studies will be carried out to improve the quality and quantity of judges, public prosecutors, experts and mediators, and the specialized courts will be strengthened. The efforts will be made to increase the effectiveness and dissemination of alternative dispute resolution methods, and the administrative settlement procedure will be activated in order to resolve the disputes between real and legal persons and the state in the fastest way and at the least cost. The effectiveness of the enforcement and bankruptcy system will be increased. Economic decisions and activities will be accelerated by activating judicial processes and strengthening alternative dispute resolution mechanisms, especially arbitration. The greater use of the arbitration mechanism in resolving commercial disputes will be encouraged and the structure of the Istanbul Arbitration Center will be strengthened and its global visibility will be increased.

The studies on the harmonization process of the Personal Data Protection Law with the EU acquis, especially with the European Union General Data Protection Regulation (GDPR), will be completed. The legal infrastructure will be strengthened in order to increase social consciousness and awareness in the intellectual property system, the ecosystem that supports the creation of intellectual property rights will be developed, the commercialization of these rights will be accelerated, and the studies for the effective protection of trade secrets will be completed.

The monitoring and evaluation processes of the components and actions included in the Action Plan for the Fight Against the Informal Economy for the Period 2023-2025, which was put into effect with the aim of expanding the formal economy, are reported quarterly on an annual basis. The action plan will be completed in 2025 in terms of general scope and the deadlines of the items vary.

Research, risk analysis, evaluation and coordination activities are carried out by utilizing new technological means to effectively fight against the informal economy.

With the risk-based analysis projects, it is aimed to contribute to the prevention of tax losses, evasion and informal economic activities, to increase the effectiveness of tax audits by introducing a risk-based approach, to ensure tax justice and to prevent unfair competition among taxpayers by increasing voluntary tax compliance.

When considered on a sectoral basis, the tourism sector is taking significant steps in improving the business environment and reducing informality. Recent amendments to national legislation on tourism has made it mandatory for all accommodation establishments in Türkiye to obtain license from the Ministry of Culture and Tourism. The aim of this amendment is to unify the legal status of all accommodation establishments as equally liable to the national tourism strategy. This will ensure higher standards and promote fair competition across the sector by better coordination of efforts to this end.

These efforts include; but are not limited to: establishing and implementing higher and universal standards physical infrastructure and human resources in tourism; improving and promoting the tourism offer of Türkiye as a competitive destination; enabling regions, cities and other localities to emerge as sub-destinations that are complementary components of the country as the larger destination; enhancing the safety and satisfaction of domestic and international tourists and ensuring prompt and guided action in the case of crises. Within this framework, customer complaints that have not been resolved by the businesses in tourism are processed by the ministry as a mediator and enforcer of legal rights of consumers.

In the existing legal framework, the Ministry of Tourism is responsible for planning and regulating tourism in Türkiye on par with the national economic, political and cultural policies that are sensitive to global developments as well as national priorities. In this context, sustainable tourism has been incorporated into tourism legislation as a basic requirement for all accommodation establishments.

According to the recent law that came into force on 1 January 2024, all short term rental properties requires to be registered by the Ministry of Culture and Tourism. In line with this regulation, it is provided that businesses other than tourism establishments that nonetheless offer accommodation services are unified in terms of legal standing and conformity to standards. In parallel to global trends, an increasing number of entrepreneurs offer residential units to tourism where existing accommodation establishments cannot meet all or at least some demands of the tourists. This law aims to minimize the risks such as inability to assess all touristic activities, loss of revenue, lack of unified standards, safety and security concerns while also aligning these enterprises, which did not have a legal definition until recently, with the rest of the tourism sector.

ii. State-owned Enterprises

a) Analysis of main obstacles

Although SOEs are an important policy instrument for the Turkish economy, the share of SOEs in the economy has decreased over time in line with the policy of reducing the share of the public sector in the economy. In 2000, the ratio of the value added produced by SOEs to GDP was 3.5 percent while this ratio is estimated to be 0.6 percent by the end of 2023. In parallel to this, the share of SOE investments in total public and private sector investments is estimated to decline from 5.8 percent in 2000 to 2.1 percent in 2023. In the same period, the annual average number of personnel of SOEs is expected to decrease from 435,000 to 101,000. As of 2023, the number of SOEs operating under Decree Law No. 233 and Law No. 4046 is 21.

Decree Law No. 233 on State Owned Enterprises, which entered into force in 1984, is a comprehensive legislation in which the shareholding rights of State-Owned Enterprises (SOEs) are distributed to the relevant public administrations within the framework of the needs of the period, and which includes the main elements regarding the activities and organizational structure of these enterprises. However, following the many transformations that have undergone in both the public and private sectors over time, Decree Law No. 233 may be insufficient to meet today's needs.

In this context, important steps have been taken to increase the efficiency and productivity of SOEs, which have been established long ago and have an important place in the national economy, in line with international best practices and the transformation in Tükiye, such as establishing internal control systems and subjecting them to independent audit.

On the other hand, efforts are underway to implement regulations in line with corporate governance principles in order to ensure that SOEs continue their operations as required by commercial life, to create a structure that will not allow them to become a direct or indirect burden/risk on public finances by prioritizing efficiency and productivity in their operations, to make arrangements to strengthen their institutional structures and to professionalize SOE boards of directors.

In the 2024-2026 period, it has been programmed that corporate governence reforms will be implemented for SOEs. In this context, it is programmed to make arrangements in the relevant legislation to strengthen the corporate governance approach in the senior management of SOEs. In addition to these, it is planned to increase the accountability of public enterprises and boards of directors by using performance-based measurement methods, and to establish mechanisms and implement institutional arrangements to ensure coordination among public enterprises that interact with each other in sectoral, administrative and financial areas due to their activities.

In this way, SOEs will increase their competitiveness not only within the country but also on international platforms and contribute positively to the sustainable development in the long term.

iii. Economic integration reforms

a) Analysis of main obstacles

Many new legislations have been recently introduced by the EU in areas related to the digital economy. While these legislations aim to protect privacy or ensure competition, they might have direct or indirect effects on the functioning of Customs Union (CU) as well as on Türkiye-EU bilateral trade and value chains.

Among these legislations are the ones that also determine the standards of products and services to be supplied to the EU market in terms of cybersecurity (or cyber resilience) and artificial intelligence criteria and that may fall within the context of technical legislation that Türkiye has to align under the Customs Union.

In addition, harmonizing the legislation of Türkiye with that of the EU in the digital area, in particular on the protection of personal data and also protection of trade secrets has become important to better exploit the benefit of the use of digital tools in customs and trade related areas. Indeed, the Customs Union between Türkiye and the EU includes a seamless and integrated system forming the basis of 200 billion dollars of bilateral trade and the use of integrated digital tools provides the opportunity to further enhance trade and economic relations. Other complementary areas include policies covered by the Data Act and Data Governance Act, as well as e-signatures and e-seals.

On the other hand, certain aspects of these regulations and in particular how they affect trade and investment are not yet fully clear to the stakeholders in Türkiye. Therefore, Ministry of Trade launched a project named “Technical Assistance for Legislative Alignment with the EU Digital Legislation” to examine the effects of above-mentioned legislation on Türkiye’s exports of goods and services as well as the FDI attractiveness of Türkiye together with all relevant institutions. An impact analysis report and a draft road map will be the outputs of this project. The report is expected to reveal the most important and urgent digital legislation that should be taken into consideration by Türkiye and the road map is expected to present the steps to be taken in terms of legislative work. This project will also provide a strong basis for further cooperation between Türkiye and EU in this area.

iv. Agriculture, Industry and Services

a) Analysis of main obstacles

Agriculture

In recent times, geopolitical tensions and economic fluctuations experienced globally and regionally, disruptions in the global supply chain, the Covid-19 pandemic, disasters, and food crises have further emphasized the importance of food security and food assurance both globally and in Türkiye. Effective policies aimed at developing risk management strategies for potential extraordinary situations in agricultural markets will rely on accessing reliable data and analysis. The analysis and interpretation of data related to agricultural inputs, costs, cultivation areas, production, yield, consumption, exports, and imports of agricultural products are extremely crucial for agricultural economy in Türkiye. Alongside the creation of agricultural inventory, efforts are ongoing to enhance existing information systems to better steer the agricultural sector. Within this scope, a protocol signed between the Ministry of Agriculture and Forestry and Turkish Statistical Institute has outlined institutional responsibilities for conducting agricultural censuses. Alongside the creation of agricultural inventory, the improvement of the software and hardware infrastructure of current systems is aimed at maximizing the use of agricultural information systems for estimating yields and production planning in the upcoming period.

Furthermore, in Türkiye, transitioning to a planned production period in the agricultural sector has been initiated through Law No. 7442 published in the Official Gazette dated April 5, 2023, and amending certain laws, aiming to contribute to both food supply security and environmental sustainability. The Regulation on Agricultural Production Planning has been prepared to determine the principles and procedures for the implementation of planned production, granting the Ministry of Agriculture and Forestry the authority to determine minimum and maximum production quantities on a product or product group basis considering the supply and demand quantities and adequacy levels of agricultural products, either at the agricultural basin or enterprise level. It has been stipulated that prior permission from the Ministry will be required before commencing the production of designated product or product groups, and specific sanctions will be imposed in cases where production is carried out without obtaining permission.

These developments will contribute to adopting approaches based on real and up-to-date data in the process of formulating agricultural policies in Türkiye, leading to the development of more effective policies in terms of sustainability of the agricultural sector, production planning, and food security.

Industry

It is aimed to ensure the transition to a high value-added production structure by increasing competitiveness and efficiency in all sectors of the manufacturing industry on the axis of green and digital transformation.

In line with the goal of transitioning to a technology-intensive and high value-added industry, the approach of green and digital transformation-oriented investments, supporting high-tech initiatives, creating an R&D ecosystem that brings together the industry-university-public trio, and expanding planned industrial areas is continued.

Today, in light of technological developments, Türkiye focuses on the development of domestic and national innovative technologies, support of national software, protection of critical infrastructures, and digital transformation of the manufacturing industry. In this context, policies that will increase Türkiye's global competitiveness and ensure breakthroughs in critical technologies that will ensure its economic and technological independence have been structured in the "National Technology Move" approach. In Türkiye's 2023 Industrial and Technology Strategy, 5 main components have been determined: "High Technology and Innovation", "Digital Transformation and Industrial Move", "Entrepreneurship", "Human Capital" and "Infrastructure". There are certain challenges to the digital transformation of industry in Türkiye. In this context, several needs such as guidance in the management and implementation of digital transformation, qualified human capital, and the financing burden of necessary investments come to the fore. To accelerate digital transformation in the industry in Türkiye, there have been important public support and incentive mechanisms such as consultancy services, project support, and investment incentives. On the other hand, the digital transformation speed of the industry needs to be increased to achieve the National Technology Move targets and gain an advantage in global competition in this field. In this regard, there is a need for studies that will eliminate the basic barriers identified and raise the digital maturity level of the industry to higher levels altogether.

Problems such as increasing raw material and energy prices due to the global economic crisis and unexpected payments due to high inflation, loan costs, and worsening loan conditions are the main financial difficulties experienced by SMEs. In addition to financial problems, the main obstacles for competitiveness of SMEs are that issues such as institutionalization, digitalization and improvement of production processes are left behind in SMEs. Insufficient motivation and awareness level of businesses to receive training and consultancy services in the field of productivity, as well as the lack of effective financial support mechanism, are seen as main obstacles experienced by businesses in the manufacturing industry. The need to increase production efficiency and disseminate Industry 4.0 applications continues intensely. With the implementation of Model Factories, which are successfully implemented in some countries of the world, it is aimed to strengthen the productivity ecosystem with a holistic approach. Model Factories aims to provide training and consultancy services that enable teaching and disseminating activity-based excellence principles using experiential learning techniques in a real production environment where there is freedom to make mistakes. Those centers called as Model Factories aim to change the current mindset of businesses in the fields of continuous improvement, lean production, and digital transformation; to use human, machine/equipment, raw materials, materials, time, and energy resources most efficiently, and increase their competitiveness in a short time.

The European Green Deal was adopted in 2020 by the European Commission as a set of policy initiatives aimed at making the EU climate-neutral by 2050. The EU Green Deal plans to review every existing law from a climate perspective, as well as introduce new laws on the circular economy, renovation, biodiversity, agriculture, and innovation. The Green Deal, which will have significant impacts in many areas, is expected to have a transformative effect on the

EU Single Market. The Green Deal is expected to have important consequences for Türkiye's harmonization with the EU, both as a candidate country and as a Customs Union partner. The green transformation of the Turkish economy and industry is highly important in terms of establishing inclusive and sustainable growth, maintaining and strengthening our country's competitiveness in exports to third countries, especially the EU, upgrading into global value chains, and increasing its share in international investments. In this context, the Green Deal Action Plan of Türkiye was announced in July 2021. In the plan, there are sections covering "Border Carbon Regulation, Green and Circular Economy, Green Financing, Clean, Economical and Safe Energy Supply, Sustainable Agriculture, Sustainable Smart Transportation, Combatting Climate Change, Diplomacy and Awareness Raising Activities". A green and circular economy requires that reducing greenhouse gas emissions and increasing energy and resource efficiency be taken into account when determining both investments and growth strategies. Therefore, green and circular economy goals need to be addressed together and the activities to be developed in this context need to be implemented with a holistic approach.

KOSGEB, the national organization responsible for SMEs, fulfills an important function for the development of businesses with its versatile support mechanisms for SMEs. In the context of sustainable development, two important topics, digitalization and green economy, need to be addressed in a systematic way for SMEs to adapt to today's conditions. In a free market economy, businesses can maintain their competitiveness according to the degree to which they can use their organizational, human, and technological resources and talents effectively, efficiently and uniquely. Businesses must create competitive strategies with the right information technologies, increase their business performance, and create organizational structures suitable for competitive conditions to maintain their existence. Increasing the performance of the business will create a competitive advantage and contribute to the development of the country, increasing international competitiveness and ultimately raising the welfare of citizens. The transformation caused by the fourth industrial revolution and the challenges arising from the pandemic in recent years has made it necessary for businesses to review the way they do business to maintain their competitiveness. At this point, digitalization, which can be defined as the process of transforming digitalized resources into operational results that will add new income, growth, and value to the business, has emerged as one of the most important elements in maintaining the competitiveness of businesses. Each country produces strategies and policies for the Fourth Industrial Revolution in line with its own needs, infrastructure, and plans. In this process, Türkiye aims to demonstrate its will to become one of the leading countries in technology by implementing its road map with the National Technology Move. With this approach, Türkiye plans to implement policies as a whole that will increase its global competitiveness, ensure economic and technological independence, and make a breakthrough in critical technologies.

Adapting to digital technologies is also inevitable for the sustainability of SMEs. The sustainability of SMEs directly affects the speed and flexibility of the main industry. In this context, meeting digital transformation problems and needs is possible with more effective and target-oriented work. At the same time, data is needed to develop policies that will support digital transformation, conduct impact analyses of ongoing investments, and determine joint investments to be made by digital transformation competence and innovation centers and traditional structures and organized industrial zones. Data is collected with many tools developed domestically and abroad, but these data are not sufficient to produce policies and provide input to investment decisions. From the past to the present, KOSGEB has provided many supports and services to create added value by specializing in skilled jobs by automating jobs that require unskilled labor in businesses. In recent years, it has addressed the theme of "digitalization" in depth in its call-based support programs, aiming to contribute to the digitalization of the processes of businesses operating in the manufacturing sector or to the development of digitalization products by technology-developing businesses. The support for digitalization must continue to be increased, become permanent, and increase the awareness and willingness of businesses about digitalization. In the coming period, KOSGEB plans to encourage studies on the green and digital transformation of businesses by using the knowledge and experience it has gained in the implementation processes of support and services. KOSGEB implements activities to increase the awareness and competencies of businesses on climate change, green growth, energy efficiency, resource efficiency improvements, circular economy, digital transformation, and efforts for competitiveness and sustainability in businesses. In light of all these objectives, it works by establishing national and international collaborations.

To achieve its goals within the framework of the "Türkiye Century" vision in the coming period, it aims to transform the industry into a greener and more competitive industrial structure where resources are used effectively, by realizing high value-added domestic production based on knowledge and technology. In this context, to achieve all the determined targets, the Ministry of Industry and Technology performs various activities on green transformation and digital transformation at both national and international levels. The prominent activities among these are as follows:

Instrument for Pre-Accession (IPA) III: The Ministry of Industry and Technology is responsible as the Managing Authority for the priority areas of “private sector development, trade, research, and innovation” under the 4th Investment Window-Competitiveness and Inclusive Growth of the IPA III (2021-2027). The Ministry has identified the intervention areas for IPA III in alignment with the 11th and 12th Development Plans, Medium Term Program, and 2023 Industry and Technology Strategy as; “Green and Circular Economy and Clustering”, “Entrepreneurship, Start-ups and Creative Economy”, “Digital Innovation and Transformation” and “R&D, Key Technologies and Academic Entrepreneurship”. The intervention areas also have been reflected in the Strategic Response (2021-2024) document. When viewed comparatively with the 2024-2026 ERP structural reform areas, it can be seen that these intervention areas are in direct alignment with the reform areas of “business environment”, “research, development and innovation” under the heading “Competitiveness”, “Green transition / Digital transformation” under the heading of “Sustainability and Resilience”. Based on the fact that the amount of funding under IPA has become very limited, the focus of the action proposals by the Ministry of Industry and Technology for the IPA III period is envisaged to be narrowed down to green transition and digital transformation themes in parallel to the measure for the ERP 2024-2026.

Digital Europe Programme (DEP): The Association Agreement between the European Commission and Türkiye for the Digital Europe Program (DEP) was signed on 31 August 2023 and entered into force upon its publication in the Official Gazette dated 2 November 2023 and numbered 32357. DEP, with a total budget of 7.5 billion Euros, focuses on building strategic digital capacities and expanding the use of digital technologies across Europe. The Ministry of Industry and Technology is one of the two coordinator Institutions of the DEP in Türkiye. DEP, via supporting the actions that no member country can achieve alone, aims to accelerate and shape the digital transformation of public institutions and the private sector in general and the SMEs in particular in the European and participating Countries. In the first stage, The Program will support the establishment of critical digital infrastructure and the development of innovative digital technologies of strategic importance in the field of “High-Performance Computing”, “Artificial Intelligence”, and “Data and Cybersecurity”. The second stage aims to make the established infrastructures and digital technologies accessible to SMEs, public institutions, and citizens and to expand their use. With participating DEP, it is intended that stakeholders benefit from the EU funds by taking part in the establishment processes of the digital infrastructure within Europe, the public sector and private sector, especially SMEs will have access to the digital infrastructure that will enable their digital transformation and, the digital skills of Turkish society will be improved. It is also being planned to increase the financial and managerial capacities of the European Digital Innovation Hubs (EDIH) that will be operational in Türkiye within the scope of DEP via projects funded by national and EU sources since it is envisaged that they will undertake an essential function towards the realization of the Program targets. The Ministry of Industry and Technology aims to ensure that Türkiye obtains maximum benefit from the DEP by establishing synergy between the national programs/resources and IPA projects/resources.

Harmonization with the EU Acquis: Under the Customs Union Agreement signed with the EU, our country has agreed to transpose various EU technical legislation into its domestic law. In this context, EU technical legislation is followed by relevant public institutions including the Ministry of Industry and Technology. The legislation that needs to be harmonized by the Ministry of Industry and Technology within the framework of the Customs Union obligation is affected by twin transformation, and harmonization efforts are carried out accordingly. In this regard, in 2023, during the green transformation process, the Ministry of Industry and Technology coordinated the harmonization studies for the "EU Regulation on Environmentally Friendly Design Requirements for Sustainable Products (ESPR)" and the "EU Regulation on Batteries and Waste Batteries". Various regulations regarding motor vehicles issued within the scope of the "Fit For 55" Package were also closely followed. The EU technical legislation, which the Ministry should harmonize during the digital transformation process in 2023, was also closely followed. Coordination was made for the harmonization of this legislation with the EU Artificial Intelligence Law and the New Machinery Regulation.

Low Carbon Road Maps in Manufacturing Industry Sectors: The work related to the preparation of roadmaps for the prioritized sectors (iron-steel, aluminum, fertilizer, and cement) subject to Carbon Border Adjustment Mechanism (CBAM) was carried out by the Ministry of Industry and Technology as part of the efforts to support the reduction of greenhouse gas emissions in the manufacturing industry sectors that may be subject to CBAM, in line with the

Presidential Circular No. 2021/15 on the Green Deal Action Plan published in the Official Gazette dated July 16, 2021 by the Ministry of Trade. The Action Plan, which includes 32 targets and 81 actions under 9 priority areas, envisages the development of a decarbonization roadmap for energy-intensive sectors.

In this context, the Ministry of Industry and Technology, in cooperation with the European Bank for Reconstruction and Development, carries out projects to prepare low-carbon road maps in the steel, cement, fertilizer, and aluminum sectors. With Project Steel and Project Aluminium, two road maps have been prepared on how the technological change and transformation of the sector should be carried out to achieve the target of “Fit for 55” in the steel sector in 2030 and zero carbon emissions in 2053. As a result of these studies, steel emission scenarios and aluminium emission scenarios were created under the title of reference and reduction scenario. In the Low Carbon Road Map (LCP) scenario, which is the output of the Project in question, net zero emissions will be reached by 2053 within the scope of the Paris Climate Agreement. Within the scope of the Cement Sector Project and Fertilizer Sector Project, scenarios will be developed to determine the necessary technologies, additional investments, and policy steps on a sector basis to ensure the green transformation of the cement sector and fertilizer sector and reduce carbon emissions, and the carbon emission expectation for each of these scenarios will be modeled and quantified. The results obtained will be reported under the road maps.

b) Reform measures

***Measure 1:* "Supporting the modernization of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry”**

1. Description of measure: The measure aims to support the modernization of SMEs and increase their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry. The measure is included in the 12th Development Plan (2024-2028) under measure number 428 (The development of digital transformation in the manufacturing industry will be supported) and under Article 428.2 (SMEs in the manufacturing industry will be informed and supported to use digital technologies more effectively.), 428.3 (Digitalization applications commonly needed in SMEs will be met with a central infrastructure and supporting software tools.) and 428.4 (Model factories established to increase productivity will be designed on a regional basis and to provide new services for digital transformation, and their effectiveness will be increased.) It overlaps with measures numbered 561.1 (SMEs and entrepreneurs will be supported with a focused approach within the framework of criteria such as rapid growth, technology-oriented exports, operating in the field of high technology, and increasing productivity).

There is an inclusive target entitled "Within the scope of accelerating digital transformation during the program period, strengthening electronic communication infrastructures, disseminating new generation network infrastructures, providing qualified R&D human resources in priority sectors and areas, increasing competence in technologies for digital transformation, supporting the capacity and capabilities of companies, especially SMEs, for digital technologies and creating effective mechanisms for financing will be ensured." under the title of Digital Transformation under Macroeconomic Targets and Policies in the Medium Term Program (2024-2026). This target coincides with the Measure expressed in this section of the Economic Reform Programme.

Under this measure, sub-activities have been determined to increase the efficiency and competitiveness of SMEs and ensure their digital transformation and green transformation. Detailed information about each activity and its content is given below:

Activity 1: Establishment of Model Factories (Competence and Digital Transformation Centers) to increase the productivity of SMEs and ensure their digital transformation (ERP (2023-2025) Measure 7)

Model Factories provide services in the fields of awareness-raising seminars, experiential training, learn&transform programs, and the development of university-industry cooperation projects. Trainers who will work in Model Factories are provided with 2-stage training of trainers and training and consultancy work is carried out for companies selected as pilots. The Model Factory establishment process continues with construction works, purchase of machinery and equipment, and installation of the learning line in the workshops. After the learning line is established, the training curriculum is created. Digital transformation competencies are provided to the existing line and digital transformation trainings are provided through this line. In the educational production environment offered by the Model Factory, the training program is structured on a sample product without any commercial activity. Model factories continue their activities as legal entities, as joint stock companies or economic enterprises with the contributions of local stakeholders such as chambers of industry and commerce, universities, and organized industrial zones. In principle, Model Factories, which have a non-profit structure, offer their services for a fee and are managed by a structure in which public and private sector organizations, universities, and non-governmental organizations are represented.

Based on the results of the Learn&Transform Program that Model Factories are completing, the practical training has been highly effective in the performance of the enterprises. Within the scope of the "Applied SME Competence Center (Model Factory) Project" carried out in cooperation with the Ministry of Industry and Technology and the United Nations Development Program, the "Model Factory Performance Monitoring and Evaluation System - System Design Report" was prepared by the Policy Analysis Laboratory. According to the findings of this report, the main impacts of the companies that received Learn & Transform Program from Model Factories services were 85 percent increase in capacity utilization rate, 87 percent reduction in cycle time, 75 percent space saving in the production area, 76 percent increase in production per person, 72 percent increase in Overall Equipment Effectiveness (OEE) and 68 percent reduction in cost per product. Secondary effects are; it was realized as a 58 percent reduction in electricity consumption, a 42 percent reduction in the number of defective products, a 39 percent reduction in the number of waste, a 38 percent reduction in the number of malfunctions and a 31 percent reduction in the amount of waste.

In line with the mentioned benefits, many studies are being carried out to increase the number of Model Factories and the capacities of Model Factories. For more SMEs to have access to Model Factory services, it is envisaged that the total number will be 14 with the 6

Model Factories targeted to be established in the coming period, in addition to the 8 Model Factories (Ankara, Bursa, Konya, Konya, Kayseri, Gaziantep, Mersin, Adana and İzmir Model Factory) already in operation. Planned to be opened by the end of 2024, work has started on the establishment of new Model Factories in Kocaeli, Denizli, Eskişehir, Samsun, Trabzon and Malatya. As of the first quarter of 2024, Eskişehir and Samsun Model Factories are expected to be operational.

The Model Factory Support program was established within the scope of the KOSGEB Business Development Support Program. In the Model Factory Support, which is a non-refundable support, the support rate was increased by 60 percent and the upper limit of support was increased and updated as 100,000 TL. Within the scope of the Model Factory Support, KOSGEB has provided support amounting to 9,759,089.18 TL to 149 enterprises. The purpose of this support is to contribute to making the competence gains of enterprises permanent. To contribute to determining the current situation of enterprises in terms of lean practices, identifying their problems and needs, creating road maps in this regard, and increasing their skills and capabilities in line with these road maps, the Model Factory Support under the Enterprise Development Support Program carried out by KOSGEB in 2023 was developed and updated as Lean Transformation Support. Within the scope of this non-refundable support, three types of services are offered and supported: "Lean Maturity Assessment Analysis (LMA) Service", "Model Factory Training-Consultancy Service" and "Model Factory Learn&Transform Program Service". The support rate for the Lean Maturity Assessment Analysis Service is 100 percent and the upper limit of support is 20.000 TL, the support rate for the Model Factory Training-Consultancy Service is 80 percent and the upper limit of support is 70,000 TL, the support rate for the Model Factory Learn-Turn Program Service is 80 percent and the upper limit of support is 150,000 TL, and the total upper limit of support during the Support Program is determined as 200,000 TL.

The Model Factory Trainer Training Program was carried out to develop human resources with the competence to provide services in Model Factories. More than 2,000 applicants applied to the program, and approximately 240 people successfully passed the competency assessment phase and participated in the training. A total of 233 people who completed the program were included in the Model Factory Trainer pool. This activity is financed by the Investment Program. UNDP contributes to the Model Factory establishment process coordinated by the Ministry of Industry and Technology by providing technical support.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

"Türkiye Green Industry Project" will be carried out by the Ministry of Industry and Technology, KOSGEB, and TÜBİTAK to support the sustainable and efficient green transformation of the industry in Türkiye. The project aims to provide support for the green transformation of capital companies established in Türkiye and to decarbonize the industry. The project, with a total budget of 450 Million Dollars, will be carried out with World Bank financing. There are various activities to be carried out by each project partner in the project, which is planned to last 6 years.

- KOSGEB is responsible for providing support to Ensure Energy and Resource Efficiency and Reduce Carbon Emissions of SMEs in Industry within the scope of the

"Türkiye Green Industry Project". KOSGEB will support projects related to Renewable Energy, Circular Economy and Modernization of Machinery in Industry within the scope of the component with a total budget of 250 million USD.

- A loan of 175 million USD will be provided by TÜBİTAK for projects related to green transformation. The second component targets all types of companies that engage in green innovation activities that involve the development of new green technologies, products, or processes in Türkiye or other markets. Supports that green entrepreneurs (start-ups), SMEs, large companies, or company consortiums can apply for include R&D, prototype development, standard development, new product or process development that contributes to green production, or higher energy and/or resource efficiency.
- The Ministry of Industry and Technology will also manage a budget of 25 million USD under the technical support component. In this component, technical assistance and capacity-building activities will be carried out for the Ministry and Project Partners. Thus, it will be possible to raise awareness among organizations, companies, and individuals regarding green transformation, facilitate networking with various stakeholders, and increase the national visibility of green transformation efforts.

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs

To ensure the digital transformation of SMEs, it is crucial to analyze their current status, identify digital transformation needs, and prepare unique digital transformation roadmaps based on these needs. In line with the "2023 Industry and Technology Strategy" announced by the Ministry of Industry and Technology in 2019, which aims to develop a digital transformation maturity assessment system, a software-based algorithm, the D3A digital transformation assessment and roadmap tool, has been developed by TÜBİTAK TÜSSİDE in collaboration with stakeholders. This tool aims to standardize the measurement of the digital maturity level of businesses and develop strategies related to digitization.

As part of this initiative, a hybrid training program has been prepared to train Digital Transformation Consultants who will use the D3A tool to measure the digital maturity level of businesses and create digital transformation roadmaps. A total of 111 certified Digital Transformation Consultants have completed their training and started providing services. In 2021, KOSGEB and TÜBİTAK TÜSSİDE signed a collaboration protocol covering cooperation areas to establish a mechanism for SMEs to obtain digital transformation consulting services most effectively. Within the scope of this protocol, KOSGEB has included Digital Transformation Consultancy Support in the Business Development Support Program to support SMEs in obtaining digital transformation consultancy services. The aim is to contribute to businesses in identifying their current digital status, determining problems and needs, and developing necessary strategies. This support is available for small and medium-sized enterprises operating in the manufacturing sector.

A Memorandum of Understanding titled "Collaboration for Supporting SMEs within the Scope of Digital Transformation and Disaster Intervention Initiatives" was signed between KOSGEB and the European Bank for Reconstruction and Development (EBRD) on August 2, 2023. The memorandum aims to collaborate on providing financing for investments in the digitalization of SMEs in the manufacturing sector. It is planned to provide support for interest/profit-sharing on loans to be disbursed to businesses through agreed-upon banks.

Activity 4: Supporting the green transformation of Organized Industrial Zones

The 12th Development Plan includes "designing green transformation projects for existing OIZs and Industrial Zones and promoting clean energy production and use by disseminating Green OIZs and Green Industrial Zones". The Organized Industrial Zones Law No. 4562 was amended on April 10, 2023, and the "Green OIZ definition" was added. On this occasion, the Ministry of Industry and Technology has allowed the carrying out of green OIZ projects that will ensure the integration of OIZs into the green economy. To support the development of our country, important studies are carried out in both the public and private sectors to turn concepts such as renewable energy, clean production, green infrastructure and resource efficiency into sustainable policies.

In this context, the Ministry of Industry and Technology carries out projects that contribute to the transformation of OIZs into "green/sustainable production areas" to use resources effectively and transform them into a greener and more competitive industrial structure. One of these projects is the World Bank-financed "Organized Industrial Zone Project". A loan agreement with a budget of 250.3 million USD was signed with the World Bank. In this regard, subprojects deemed suitable for the project objectives are credited for 13 years with a 3-year grace period, with a 3 percent interest rate, if they are accepted into the Annual Investment Program. Under the project, credit support is offered to 46 OIZs for 66 sub-projects. The project is planned to be completed on December 31, 2026. The development goal of the project is to increase the efficiency, environmental sustainability and competitiveness of OIZs in Türkiye. Within the scope of the Green OIZ Project, supporting the infrastructure and suitable environment for the sustainability, competitiveness and efficiency of the OIZ and technical assistance, capacity development and project management activities will be carried out.

The main components of the project are supporting the infrastructure and enabling environment for the sustainability, competitiveness and efficiency of the OIZ and technical assistance, capacity building and project management activities. The investments within the scope of the project are as follows: waste water treatment plants, waste water recovery and reuse plants, sludge drying plants, biogas plant, GES, RES, green building, digital transformation, Led lighting systems, infrastructure, environmental laboratory integrated, communication and security systems.

i. Activities planned in 2024:

Activity 1: Establishment of Model Factories (Competence and Digital Transformation Centers) to increase the productivity of SMEs and ensure their digital transformation"

- Establishing Model Factories in 4 provinces (facility construction, machinery-equipment procurement, personnel employment, service procurement for training-consultancy); Establishing, developing, and strengthening the digital transformation infrastructures of Model Factories and carrying out studies to improve their institutional capacities; Supporting 75 enterprises within the scope of KOSGEB Lean Transformation Support.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

- It is anticipated that 250 businesses will be supported by KOSGEB, and 200 businesses will be supported within the scope of increasing the renewable energy capacities of Industrial SMEs. Support will be provided on a call basis.
- The Green Industry Project aims to carry out technical assistance and capacity-building activities for the Ministry of Industry and Technology and project partners, to carry out awareness-raising activities among organizations, companies, and individuals related to Green transformation, and to increase the national visibility of Green transformation efforts.

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs

- It is expected that KOSGEB will determine the current status of approximately 200 manufacturing small and medium-sized enterprises regarding digital transformation and create road maps. It is planned to implement this support openly and continuously. It is anticipated that loan interest/profit share support will be provided to 150 businesses within the scope of providing SMEs with access to finance for their digitalization investments.

Activity 4: Supporting the green transformation of Organized Industrial Zones

- Within the scope of the Green OIZ Project, it is planned to complete the tenders for Solar Energy Power Plants, Infrastructure, Wastewater Treatment Facilities, LED lighting, and Digital Transformation Center.

ii. Activities planned in 2025:

Activity 1: Establishment of Model Factories (Competence and Digital Transformation Centers) to increase the productivity of SMEs and ensure their digital transformation"

- Establishing Model Factories in 2 provinces (facility construction, machinery-equipment procurement, personnel employment, service procurement for training-consultancy); Establishing, developing and strengthening the digital transformation infrastructures of Model Factories and carrying out studies to improve their institutional capacities; Supporting 90 enterprises within the scope of KOSGEB Lean Transformation Support.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

- It is anticipated that 250 businesses will be supported by KOSGEB, and 200 businesses will be supported within the scope of increasing the renewable energy capacities of Industrial SMEs. Support will be provided on a call basis.
- Within the scope of the Türkiye Green Industry Project, it is aimed to continue the activities in 2024 and to carry out legislation development studies regarding Green Transformation in Industry.

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs

- KOSGEB is expected to determine the current status of approximately 200 small and medium-sized manufacturing enterprises regarding digital transformation and create road maps. It is planned to implement this support openly and continuously. It is anticipated that loan interest/dividend support will be provided to 150 businesses within the scope of providing SMEs with access to finance for their digitalization investments.

Activity 4: Supporting the green transformation of Organized Industrial Zones

- Within the scope of the Green OIZ Project, it is planned to complete the tenders for investments on Wastewater Treatment Facilities, Wastewater Reclamation and Reuse Facilities, Solar Energy Power Plants, Infrastructure, Biogas Facility, Environmental Laboratory, Integrated Communication and Security System, OIZ Green Administrative Building.

iii. Activities planned in 2026:

Activity 1: Establishment of Model Factories (Competence and Digital Transformation Centers) to increase the productivity of SMEs and ensure their digital transformation"

- Establishing, developing and strengthening the digital transformation infrastructures of Model Factories and carrying out studies to improve their institutional capacities; Supporting 100 enterprises within the scope of KOSGEB Lean Transformation Support.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

- It is anticipated that 250 businesses will be supported by KOSGEB, and 200 businesses will be supported within the scope of increasing the renewable energy capacities of Industrial SMEs. Support will be provided on a call basis.
- Within the scope of the Türkiye Green Industry Project, it is aimed to continue its activities in 2024 and 2025.

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs

- It is expected that the current status of approximately 250 manufacturing small and medium-sized enterprises regarding digital transformation will be determined and road maps will be created. It is planned to implement this support openly and continuously. It is envisaged to provide loan interest/dividend support to 200 businesses within the scope of providing SMEs with access to finance for their digitalization investments.

Activity 4: Supporting the green transformation of Organized Industrial Zones

Within the scope of the Green OIZs Project, it is planned to complete the tenders for investments in Communication Infrastructure, Solar Power Plants, Wind Power Plants and LED lighting.

2. Result Indicators:

Indicator	Current Situation	2024	2025	2026
Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation				
Number of Capability and Digital Transformation Centers (Model Factory) in operation*	8	12	14	14
Number of businesses served by Capability and Digital Transformation Centers (Model Factory) that started operating**	347	450	500	550
Number of companies benefiting from KOSGEB Lean Transformation Support***	63	75	90	100
Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs				
Decrease in Electricity Consumption per Production Unit by Beneficiary Companies (%)	0	0	10	10
Decrease in Water Consumption per Production Unit by Beneficiary Companies (%)	0	0	10	10
Decrease in Non-Circular Waste by Beneficiary Companies (%)	0	0	10	10
Annual Electricity Generated from Renewable Sources Used by Beneficiary Companies (MWh)	0	0	70	70
Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs				
Number of Businesses Where the Current State of Digital Transformation is Identified and a Roadmap is Prepared	35	200	200	250
Number of Businesses Using Credit for Digitalization Investments	0	150	150	200
Activity 4: Supporting the green transformation of Organized Industrial Zones				
Energy savings from OIZ both basic and green infrastructure investments (MWh)	0	2,793	8,379	16,759
Water savings from OIZ green investments (m3)	0	662,800	1,988,400	3,976,800
Annual reduction in CO_2 emissions due to supported investments (metric ton)	0	1,843	5,530	11,060
Wastewater treated in new/upgraded facilities (m3)	0	2,920,000	8,760,000	17,520,000

* Since Model Factories are large investments, it is important to ensure that local stakeholders are fully involved in the process and to complete the infrastructure works. Taking these issues into consideration, the result indicators specified in the previous ERP have been updated.

** As stated in the main obstacles, financial inadequacies, insufficient awareness levels of companies, etc. For these reasons, it was viewed from a realistic perspective and the relevant target indicators were kept lower than the previous ERP.

*** Since it is a new support program, the number of beneficiaries has been kept low compared to the previous ERP in order to ensure that this support is heard and used by companies

3. Expected impact on competitiveness:

Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation: In model factories, increasing the awareness and competencies of SMEs on lean production and digital transformation, productivity of SMEs, and competitiveness of SMEs.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs & Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs

- Fulfilling carbon reduction targets and international commitments,
- Increasing the productivity and competitiveness, especially in the manufacturing sector, in climate adaptation and resilience, considering exposure to climate change and natural disasters,
- Increasing new business opportunities and economic diversity by maintaining and expanding access to the EU and other international markets,
- Contributing to innovation,
- Reducing investment risk and financing costs by addressing information asymmetries,
- Ensuring economic resilience and long-term growth,
- Increasing awareness of SMEs about digital transformation,
- Increasing the level of digitalization thanks to the digital transformation investments of SMEs.
- In addition to direct financial support, the Turkish Green Industry Project will create the appropriate environment for the effective management of green investments or promote remedial and regulatory reforms (including the adoption of new green standards for industry). All of these will help support a greener economy, better jobs, more exports and economic transformation and diversification.

4. Estimated cost of the activities and the source of financing:

2024: 3,756,635,000 TL – 89,774,643 Euro (Central Budget + Project Loans)

Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation 50,000,000 TL

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs 13,000,000 TL

Activity 4: Supporting the green transformation of Organized Industrial Zones 2,650,000,000 TL

2025: 5,745,725,000 TL – 112,754,985 Euro (Central Budget + Project Loans)

Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation 40,000,000 TL

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs 10,000,000 TL

Activity 4: Supporting the green transformation of Organized Industrial Zones 3,438,000,000 TL

2026: 4,024,725,000 TL – 72,611,258 Euro (Central Budget + Project Loans)

Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation 30,000,000 TL

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs 12,000,000 TL

Activity 4: Supporting the green transformation of Organized Industrial Zones 2,156,000,000 TL

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care:

Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation: In Model factories, employment is expected to increase due to the employment of the personnel required by the project in the model factories and project partners to be established. In addition, an increase in employment is expected in the manufacturing industry due to the increase in productivity in the medium and long term.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs: With the Türkiye Green Industry Project, economic growth will be achieved and employment creation will be encouraged. In the project, individuals and groups that require special policies were identified. The ability of these groups to benefit from the project will be ensured through promotional activities. It is not expected that these groups will be negatively affected by the project. Groups that require special policies are recognized as businesses run by or owned by women, and businesses managed by or owned by refugees/immigrants. Other groups that require special policies are recognized as young businesses with less than 5 years of operation, and businesses in underdeveloped regions located outside the borders of metropolitan cities.

Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs: It is expected that the activities to be carried out by KOSGEB will contribute to employment creation, but it is not foreseen that it will have a direct impact on groups that require special policies.

6. Expected impact on environment and climate change:

Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation: In Model Factories, with the lean and efficient production techniques learned in Model Factories, it is anticipated that companies will make serious improvements in resource use and waste production. With the activities of the Model Factory, it will be possible to develop new technologies for sustainable production.

Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs & Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs:

- In the Green Industry Project, based on a circular economy, manufacturing industry companies will benefit from the power of renewable energy, apply energy-efficient technologies, and pave the way for a sustainable future. It is aimed to ensure that companies transition towards a sustainable and durable future with low carbon emissions.
- It will contribute to a good quality of life by reducing health risks arising from the negative environmental effects of traditional production.
- It will help preserve biological diversity and protect national resources by increasing usage efficiency.
- Investments financed by the project will create net employment as well as improve the quality of jobs, which will help eliminate poverty by promoting prosperity and social equality.
- It will motivate new foreign direct investment flows into the sector and promote an environmentally friendly business environment that uses resources efficiently.
- It is expected that digitalization of the manufacturing processes of small and medium-sized manufacturing enterprises will reduce carbon emissions and contribute to green growth.

Activity 4: Supporting the green transformation of Organized Industrial Zones

- In the Green OIZ Project, potential subprojects are expected to have positive environmental and social impacts. The Environmental Risk of the Project is rated as "Significant". On the other hand, the social impacts of the project are expected to be lower and therefore its social risk has been determined as "Medium". It is aimed to minimize or eliminate all environmental and social impacts that may arise during implementation with the environmental and social assessment tools to be prepared (ESIA: Environmental and Social Impact Assessment and ESMP: Environmental and Social Management Plan).

7. Potential Risks:

Risk	Probability	Planned mitigating action
Activity 1: Establishment of Model Factories to increase the productivity of SMEs and ensure their digital transformation		
Insufficient demand for training and consultancy services from businesses	Medium	Awareness raising activities for businesses will be organized.
Competence of the project partners in carrying out the activities and the negative effects of the periodic situations in the country on the budget and sustainability	Medium	The Project is strengthened due to its multi-structure involving public and private sectors, international organizations and universities in terms of capability and risk management
Activity 2: Ensuring the Effective Green Transformation of Industrial SMEs & Activity 3: Ensuring the Digital Transformation of Manufacturing SMEs		
Environmental and social impacts that may arise from activities planned to ensure the green and digital transformation of SMEs	Medium	Taking protective measures by evaluating environmental and social impacts
Activity 4: Supporting the green transformation of Organized Industrial Zones		
Environmental and social impacts that may occur during the implementation of sub-projects to be carried out under the Green OIZ Project	Medium	During project implementation, minimizing or eliminating risks/impacts with the environmental and social assessment tools to be prepared

Tourism

The tourism sector is one of Türkiye's globally competitive sectors and accounts for a significant share of Türkiye's services exports. However, this sector stands out with its dependence on seasonality, complex structure that brings together different sectors, interdependence, labor-intensive structure and vulnerability to various external factors. Especially unexpected situations such as pandemics, economic crises and natural disasters can deeply affect the tourism sector.

The Covid-19 pandemic, which started in 2020, has affected the tourism sector globally and confronted the sector worldwide with an unprecedented situation. This process has brought tourism to a standstill with the introduction of national and international travel restrictions, closure of country borders, etc., and has led to a decline in Türkiye's tourism activities and therefore tourism revenues, as in many other countries around the world. Although it is estimated that it will take between 2.5 and 4 years for the international tourism market to return to the pre-pandemic levels of 2019, it shows that the recovery period may vary depending on the improvement in the perception of tourist confidence, the gradual lifting of travel restrictions and the improvement of economic conditions.

Although sustainability and competitiveness have become increasingly prominent in Türkiye's tourism strategy planning in the last 20 years and efforts have been made to mitigate the negative impacts on them and successful results have been achieved, the pandemic process has affected many businesses in the sector and emphasized the importance of economic resilience and sustainability of tourism.

In recent years, it has once again been seen that global agendas and political developments between countries can also affect the tourism sector. In 2022, due to the war between Russia and Ukraine, many different sectors, especially tourism, faced a negative impact. The process between Russia and Ukraine, two major source markets for Turkish tourism, and the resulting deepening energy and natural resource crises have negatively affected the tourism and travel industry in Türkiye, as in the rest of the world. In addition to these crises; the climate crisis, which has been increasing in recent years, has also increased its impact on the tourism sector. Increasing temperatures due to climate change and sudden and severe weather events that intensify and become destructive have led to changes in the natural ecosystem, causing sustainability to become a critical focal point.

The sector is exposed to many direct and indirect impacts from climate change, such as habitat degradation, changing rainfall regimes, forest fires, tsunamis and shortened winter sports seasons. Tourists, who are increasingly concerned about climate issues, are looking for trips with fewer emissions and less negative impacts for local communities. Changes in temperature and precipitation affect market attractiveness in most parts of the world, influencing tourist motivation, destination choice and vacation time decisions. This situation encourages the sector to take responsible and sustainable actions and to stand out with sustainable policies and certifications.

As mentioned above, the tourism sector is a highly vulnerable sector, but it continues to exist as a sector where consumer demands change rapidly, is open to innovations and changes, constantly evolving and highly competitive.

In addition to their direct negative effects, crises have significantly affected the tourism sector with the changes they have created in consumer behavior, and the rapid change in demand has made effective digital and sustainable transformation critical for the continuity of tourism activities and the competitiveness of tourism.

b) Reform measures

Measure 2:* *"Promoting Sustainable Tourism and Branding"

1. Description of measure: As the tourism sector is highly sensitive to global developments and crises, it is critical to ensure its continuity and resilience, as it plays an important role in the development of country, and to ensure its competitive position in the world. In this context, this measure includes sustainability-oriented promotion and marketing strategies that aim to protect Türkiye's existing tourism capacity, its unique historical, cultural and natural values, and to increase its brand value to reach target audiences in different market countries.

In line with the objectives of the 12th Development Plan, adopting a holistic approach in destination management planning by considering sensitivity to environmental and cultural values, protection-utilization balance and carrying capacity, harmonizing international criteria for sustainable tourism within the framework of national and local needs, increasing the participation of local people in sustainability in tourism, developing cooperation and good practices on sustainability, determining measurement tools to generate data on sustainability in tourism and creating platforms for data distribution. The priorities are to increase the adaptation capacity of the sector against the dangers and risks arising from climate change and to reduce its contribution to climate change, to ensure sustainability in product diversity, to harmonize vocational training with sectoral requirements, sustainability principles and the conditions of the age, to ensure the relationship and harmony of plan objectives, goals and policies with sustainable development goals and to adapt tourism policies to sustainable development goals.

In order to implement this measure, development of branded tourism products that will appeal to various consumer preferences that are evolving and changing with a focus on sustainability, effective digital promotion (social media, travel media, etc.) in line with the target audience, as well as traditional promotion activities are being carried out.

By deploying strategies that are put into action by economic resilience and flexibility, has focused on different markets and strengthened its portfolio with a variety of tourism products. In addition to mass tourism products focused on sea, sand and sun, different tourism products with a sustainable focus are highlighted in promoted campaigns and diversity in tourism products is emphasized. In this way, it is aimed to contribute to increasing the resilience and sustainability of tourism by extending the tourism season to 12 months and across the country.

The Safe Tourism Program, which was launched in June 2020 with the pandemic process, has ensured that tourism enterprises provide reliable services, and as of 2023, more than 12,000 facilities and vehicles have been audited by international audit firms authorized by the TGA within the scope of the program and have been awarded certificates. Due to the easing of Covid-19 measures across the country, the Safe Tourism Program became voluntary, and the criteria of the program were revised as general hygiene standards. These standards are ready to respond quickly to the needs of the industry in possible crisis situations such as Covid-19.

During the 2020-2021 pandemic period, Safe Tourism and Safe in Istanbul campaigns were launched with a focus on health and hygiene service approach in order to increase the market share and brand value of country and to instill a sense of trust in the sustainability of tourism activities, and various promotional activities, especially on digital platforms, were carried out in this context.

In addition to Istanbul is the New Cool, Turkaegean, Turkish Riviera regions, which were branded in 2021-2022 and continue to be communicated in 2023, Cappadocia, another region that will be a "brand destination" in the world, is being communicated and branded globally in the Black Sea Region, Anatolian Culture Routes, Cycling, Gastronomy and Sustainability themes in 2023.

Within the scope of updating the Safe Tourism Certification Program in line with new needs and demands, it is planned to transform the Safe and Sustainable tourism concept into an international program. Adopting the principle of sustainability in tourism planning, Türkiye has increased its efforts in this field with the cooperation agreement signed with the Global Sustainable Tourism Council (GSTC) in 2022 and launched the "Türkiye Sustainable Tourism Program" by signing a 3-year cooperation agreement with the GSTC to develop a national Sustainable Tourism Program with international standards. Türkiye has taken a pioneering step in sustainability on a global scale by becoming the first country to reach a government-level agreement with the GSTC.

Under the program, the Turkish Sustainable Tourism Criteria (TR-I) for accommodation facilities were established and officially declared "recognized" according to GSTC standards in 2022. The program includes accommodation facilities, tour operators and destinations within its broad scope. The criteria contribute to the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs).

The program is designed to be implemented in three phases: Phase 1 Certification, Phase 2 Certification and Phase 3 Certification. The first phase of the program is planned to be completed in 2023, the second phase in 2025 and the third phase in 2030, aiming to meet all international standards in the process. In the first phase, accommodation facilities will meet 30 percent of the set standards, in the second phase 70 percent and in the third phase 100 percent, aiming to ensure that all facilities are Sustainable Tourism Certified by 2030.

On November 15, 2022, Circular No. 2022/2 was published, making it mandatory for accommodation facilities to obtain at least Stage 1 Verification in the Sustainable Tourism Program until December 31, 2023. This regulation represents an exemplary and groundbreaking legal arrangement for the world. It also contributes to supporting the United Nations Sustainable Development Goals, ensuring compliance with legal regulations and commitments such as the Paris Climate Agreement, and protecting Türkiye's competitiveness in the tourism sector.

By the end of 2023, it is planned that all accommodation facilities in Türkiye will have at least a Stage 1 Sustainable Tourism Certificate. The second phase will be completed by the end of 2025, with the aim of meeting all international standards by 2030. As of December 2023, 683 accommodation properties have received a Stage 3 Certificate, 1 accommodation property has received a Stage 2 Certificate and 8,588 accommodation properties have received a Stage 1 Certificate. In total, 9,272 accommodation facilities have been registered as sustainable certified.

In order to ensure the sustainable development of the tourism sector in country, primarily in line with the aim of determining the effects of climate change on the tourism sector, taking sectoral measures against these effects and increasing the adaptation capacity to climate change, as well as determining the principles for reducing the greenhouse gas emissions and climate change effects resulting from tourism activities and facilities two service purchases were made in 2021 in order to have;

- “Report on Determining the Conceptual Framework of Climate Change and Tourism Relations on a National Scale”,
- “Report on Determination of Spatial Planning Principles Compatible with Climate Change in Tourism Areas” were completed.

These studies have revealed the mutual effects of climate change and tourism, which are increasingly felt today, and the measures and planning principles that can be taken to reduce these effects have been determined. In the upcoming period, the aim is to generate risk maps in the selected pilot regions and to conduct spatial planning studies that are adaptive to climate change.

The Ministry of Culture and Tourism plans the necessary work to protect and increase the number of Blue Flags, which is one of the most important and effective issues in terms of the sustainability of sea, sand and sun themed tourism in coastal areas, and intervenes when necessary, by taking strict measures against possible problems.

In line with the Sustainable Development Goals, to realize the principles of sustainability at the destination, projects are planned and pilots are implemented to protect cultural and natural values, ensure energy efficiency, implement renewable energy applications, separate waste, expand tourism to four seasons, bring technology and art together, and increase the welfare of the people of the region. In addition, different pollution prevention projects are implemented regionally with the awareness of environmental protection.

A "Bicycle Friendly Hotel" concept will be implemented for bicycle tourism, which protects the nature by enabling emission-free travel and at the same time makes it possible to visit the environment in harmony with nature. It is aimed to increase the number of facilities included in the concept every year.

In line with the expectations and demands of consumers in terms of cultural sustainability, "Stone Hills - Geography of the Great Transformation" was branded as "Stone Hills - Geography of the Great Transformation" to raise awareness about the region in Şanlıurfa, which is one of the most important archaeological sites in the world and includes many excavation sites such as Göbeklitepe and Karahantepe. In 2023, the Stone Hills brand was deemed worthy of an award among Türkiye’s Superbrands (Superbrands Türkiye).

The pandemic process has once again revealed the importance of digitalization and information technologies, especially in tourism, and made it one of the indispensable elements for the sustainability of tourism.

Within the scope of the goal of increasing market diversity, cooperation with global channels, which started in 2022, continues in 2023 and TV and digital promotional activities are carried out in more than 200 countries.

In addition, in 2020, there was a need to create a "sustainability inventory" in Turkish tourism, which could serve as a basis for sustainability studies by TGA, and the Sustainability Atlas of Türkiye was prepared by Cappadocia University (KUN). Within the scope of this inventory, the Sustainability GoTürkiye (https://sustainable.goturkiye.com/) microsite was created under GoTürkiye, Türkiye's official tourism platform, and launched in September 2021. In 2023, more than 50 sustainable tourism experiences in 7 regions and 81 provinces under the GoTürkiye portal are promoted in 10 different languages with a focus on sustainability.

In order to increase the number of visitors to country and to create alternative markets, it has been determined as a priority to carry out promotional and marketing activities in main market countries such as Germany, Russia and the UK, as well as Scandinavian countries, whose tourism expenditures are increasing day by day and attract attention with their sustainable tourism-oriented demands, and emerging market countries such as South American countries, Gulf countries, South Korea and India. Border and flight situations caused by the global pandemic are regularly monitored for our main markets and emerging markets, and communication activities are focused on our main markets. In promotional activities for our main and emerging markets, target audience-oriented promotional strategies are developed; in addition to digital promotional campaigns, press members, influencers, opinion leaders and tour operators from target countries are hosted, and special events and activities are organized. Social media accounts for 81 provinces were opened to promote each region of Türkiye.

Product and destination promotions are carried out in the provinces, considering the guidance of the Provincial Promotion and Development Boards established to spread tourism to all 81 provinces of Türkiye and to carry out tourism sustainability activities in destinations. With the development of Turkish tourism and raising awareness in overseas markets, joint advertising activities with local tour operators and airline companies are carried out in many countries, where the advantage of quickly directing to hot sales is used and plans are developed according to the reports received at the end of the campaign.

In 2022, advertising agreements were made with the most recognized OTA, metasearch, price comparison website (PCW) and GDS digital travel channels globally. Target countries and our tourist goal were taken into consideration in the budget distribution made according to the countries and regions where the companies are strong. In 2023, new agreements were signed with digital travel channels and investments were made in Europe, America, Scandinavia and Gulf regions, as well as APAC region for the first time. The additions in South Korea and Japan are based on a strategy to raise awareness of Türkiye.

Since 2019, the Ministry of Culture and Tourism initiated a study to improve Türkiye's current position and data sources in the Travel and Tourism Development Index published by the World Economic Forum (WEF). In this process, the necessary corrections to the index methodology and data sources were made in consultation with relevant non-governmental organizations and ministries. In the first version of this index prepared with 2019 data, Türkiye's ranking was 49, while in the version prepared with 2021 data, Türkiye's ranking increased to 45.

Since 2019, tourism sector has been greatly affected by global crises such as the pandemic and the geopolitic tension in the Black Sea region, but Türkiye has undertaken significant efforts to minimize the impact on the sector. The results of these efforts can be observed in monthly and year-end tourism statistics.

While the total number of tourists visiting Türkiye was 51.9 million in 2019, the number of tourists declined to 15.8 million and 29.4 million respectively in 2020 and 2021, due to border closures and travel restrictions during the pandemic period. In 2022, despite the negative geopolitical developments in the Black Sea region, there was no decline in the targets with intensive promotional activities and the total number of visitors to country reached 51.4 million, almost reaching the pre-pandemic level. Although 2023 started very well in terms of tourism, a major earthquake disaster occurred in February, affecting many provinces in Türkiye, and the number of tourists from some countries was negatively affected. In line with the effective strategies, this negative situation has been overcome and tourism is progressing in parallel with 2023 tourism targets, exceeding 50 million visitors by the end of October. All these developments point to the importance of a planned roadmap and strategy for the sustainability of the tourism sector.

i. Activities planned in 2024:

- To ensure that all accommodation facilities have at least a Stage 1 Sustainability Certificate and to continue working on the Sustainable Tourism Program by increasing the number of Stage 2 and Stage 3 Certificates,
- In line with Türkiye's sustainable tourism vision, by organizing promotions on TV, digital and printed media, as well as hosting press members, influencers, opinion leaders and tour operators from target countries, Türkiye's focus on alternative and especially sustainable tourism products other than sea-sand-sun tourism. Strengthening its perception and ensuring its branding in this context,
- Creating increased demand and awareness for Türkiye by establishing sustainable collaborations with airlines flying to Türkiye, tour operators and OTAs selling Türkiye and Mediterranean destinations, and agreements made with leading companies in China after China opened up to Türkiye for tourism. In this context, the effective promotion of the Turkish destination in China and the recognition of the national China-Friendly Accommodation Facilities Program prepared to meet the demands of the tourism market from China and its promotion on international platforms,
- Continuing to diversify Türkiye's tourism branding strategies by covering new destinations, tourism products and themes, taking into account sustainability

principles, creating awareness about different tourism products that can be experienced throughout Türkiye and in four seasons, under Türkiye's umbrella brand communication, gastronomy, eastern and Launching new branded destinations by implementing thematic brand communication strategies for southeastern Anatolia, sports, health and faith tourism,

- Provincial Promotion and Development Boards continue to hold meetings at least every two months, creating promotional materials specific to the needs of the provinces and continuing their work on behalf of sustainable tourism. Digital PR activities should also be actively continued in this process,
- For Gastronomy tourism, which is one of the cornerstones of sustainability in tourism and one of the leading alternative tourism products; Within the scope of Turkish Cuisine Week, in the events to be held every year in the third week of May, a special menu consisting of selected local dishes will be introduced to world cuisines and promotional activities will be carried out to increase the number of destinations in the Michelin Guide Türkiye selection,
- "Cooperation Protocol" signed with the Ministry of National Education, ensuring that participation continues on a voluntary basis in line with the demands of accommodation facilities,
- With the aim of increasing the number of blue flag beaches to more than 600 by the end of 2026, increasing the number of blue flag beaches from 551 by 2023 to 573 by the end of 2024,
- Within the scope of our sustainability goals focusing on infrastructure works in our tourism regions, "Antalya Kemer-Çamyuva Wastewater Treatment Facility and Related Infrastructure Facilities" are planned to be put into service in February 2024. In addition, feasibility studies for the construction of new wastewater treatment facilities or the rehabilitation of existing facilities will continue to meet the needs of our tourism regions, 35 infrastructure projects realized by the Ministry as of 2023, 1 infrastructure project will be put into service in 2024 and a total of 36 infrastructure projects will be realized by the Ministry by the end of 2024,
- The village of Birgi, located in the Ödemiş district of İzmir, will be a pilot destination for the creation of a "Sustainable Green Destination Model" in collaboration with natianol and international partner. It will be transformed into a Sustainable Energy-Based Tourism Application Center (SENTRUM) project to promote sustainable tourism and support local economic development.
- Within the scope of reducing the effects of climate change on the tourism sector, it aims to carry out studies including risk vulnerability and sensitivity analyzes in selected sample study areas (coastal and winter tourism centers) in 2024.

Within the scope of the activities planned in 2024, TGA, relevant Ministries, public and private sector institutions and organizations, NGOs, municipalities, academia, and sector representatives will be responsibly included in the process.

ii. Activities planned in 2025:

- Continuing to work towards the Sustainable Tourism Program by ensuring that all accommodation facilities have at least a Tier 1 Certificate, increasing the number of Tier 2 Certificates and Tier 3 Certificates, continuing to strengthen Türkiye's commitment to sustainable tourism, bringing sustainability certification to the forefront in order to create a basic sustainable infrastructure in accommodation facilities and making promotions focused on this issue,

- Focusing on the principle of sustainability within the framework of the Provincial Promotion and Development Program; Continuing the meetings of the Provincial Promotion and Development Boards, which will meet at least every two months, producing provincial films, creating content management and plans for social media accounts, conducting project-based paid social media advertisements, continuing digital PR studies for the social media accounts of the provinces, continuing brochure studies, carrying out studies on all promotional materials aimed at the needs of the provinces,
- Keeping sustainability in focus in every aspect of the brand development process and brand communication campaigns,
- Exploring new and alternative platforms for more effective and targeted brand communication to attract the attention of potential high-end tourists,
- Developing and using technology-oriented tools to attract tourists,
- Digital travel channels and Joint Advertising investments to be made for 2025 will be revised according to tourism targets and end-of-campaign reports from companies,
- Continuing sustainability-oriented studies to ensure that Türkiye is recognized as a destination for global meetings and events by 2024,
- Positioning Türkiye as a suitable destination for filming and production of movies, documentaries, TV series and music videos through collaborations with content producers with global reach and, through these productions, influencing new groups of travelers and positioning Türkiye as a must-visit country with a focus on sustainability,
- Working on sustainable projects and strategies to increase the number of overnight stays, tourist expenditures and to spread tourism to all seasons and 81 provinces,
- Developing and promoting the products on the GoTürkiye digital platform focusing on the principle of sustainability,
- "Cooperation Protocol" signed with the Ministry of National Education, ensuring that participation continues on a voluntary basis in line with the demands of accommodation facilities,
- It is aimed to review the existing frameworks and approaches to accelerate the green transition in the sector. In this context, factors such as climate-compatible spatial development principles, water use and energy consumption should be taken into consideration in planned areas,
- Increasing the number of blue flag beaches from 551 in 2023 to 595 by the end of 2025, in line with the target of increasing the number of blue flag beaches to over 600 by the end of 2026,
- Continuing feasibility studies for the construction of new wastewater treatment facilities or rehabilitation of existing facilities to meet the needs of tourism regions

and realization of a total of 36 infrastructure projects by the Ministry by the end of 2025,

Within the scope of the activities planned in 2025, TGA, relevant Ministries, public and private sector institutions and organizations, NGOs, municipalities, academia, and sector representatives will be responsibly included in the process.

iii. Activities planned in 2026:

- To ensure sustainability in the tourism sector, to continue working on the Sustainable Tourism Program by ensuring that all accommodation facilities have at least a 1st Stage Certificate, and by increasing the number of 2nd Stage Certificates and 3rd Stage Certificates,
- To continue to explore new, trendy and alternative platforms for effective and targeted brand communication to attract the attention of potential high-end tourists, in order to adopt a sustainability-focused approach in all aspects of the sustainability brand development process and brand communication campaigns,
- Positioning Türkiye as a suitable destination for filming and production of movies, documentaries, TV series and music videos through collaborations with content producers with global reach and, through these productions, influencing new groups of travelers and positioning Türkiye as a must-visit country with a focus on sustainability,
- Activities to effectively promote Türkiye's destinations that offer experiences for groups with special interests such as faith, sports, gastronomy, etc. during their travels, and to spread and distribute demand to off-season periods covering 81 provinces,
- Studies on creating high-performance, desirable brands that maximize interest and developing potential new advertising campaigns for these brands in order to observe demand and trends in sustainable tourism by regularly monitoring demand and perception on social and digital platforms for target countries and tourist segments,
- Within the scope of the Provincial Promotion and Development Programme; Continuing the meetings of the Provincial Promotion and Development Boards, which will meet at least every two months, producing provincial films, creating content management and plans for social media accounts, carrying out project-based paid social media advertisements for social media accounts, digital PR activities for the social media accounts of the provinces, to continue brochure studies, to work on all promotional materials for the needs of the provinces,
- The number of road bicycle, mountain bike and electric bicycle routes introduced on the gocyclingturkiye.com platform will be increased to 250 and the bicycle network will be spread throughout Türkiye. In parallel, carrying out various promotional activities to increase the number of facilities certified as bicycle-friendly hotels to 150 by 2026,
- The "Cooperation Protocol" signed with the Ministry of National Education ensures that the process continues to progress in line with the demands of the accommodation facilities, as participation is based on a voluntary basis.

- It is aimed to review the existing frameworks and approaches to accelerate the green transition in the sector. In this context, factors such as climate-compatible spatial development principles, water use and energy consumption should be taken into consideration in planned areas,
- Increasing the number of blue flag beaches from 551 as of 2023 to 617 by the end of 2026,
- Continuing the necessary feasibility studies for the construction of new wastewater treatment plants or rehabilitation of the existing ones in order to meet the needs of our regions where tourism is concentrated, realisation of a total of 37 infrastructure projects by the Ministry as of the end of 2026 by putting 1 infrastructure project into service in 2026,

Within the scope of the activities planned in 2026, TGA, relevant Ministries, public and private sector institutions and organizations, NGOs, municipalities, academia, and sector representatives will be responsibly included in the process.

2. Results indicators:

Indicator	Current Situation	2024	2025	2026
Number of facilities certified under the Sustainable Tourism Program (3rd level certificate)	680	1,300	2,300	4,000
Number of interactions achieved for GoTürkiye accounts on digital channels related to Sustainable Tourism	7,013,600	7,651,200	8,288,800	8,926,400
Completed Wastewater Treatment Plant During the Year	35	36	36	37
Number of Blue Flag Beaches	551	573	595	617
The Completion rate of analyzes and spatial studies that will provide tourism development compatible with climate, revealing the relationship between tourism and climate change (%)	20	30	50	70
Number of visitors to Türkiye (million)	50.2 (Jan-Oct 23)	61	65	69
Total Tourism Revenue (billion USD)	42 (Jan-Sep 23)	59.6	64.7	71.3

3. Expected impact on competitiveness: This measure is expected to increase tourism revenues from the global tourism sector, increase the share of tourism revenues in gross national product, make a positive contribution to the foreign trade balance, and contribute to the reduction of the current account deficit. The restructuring of the Türkiye brand aims to create a sustainable tourism economy by increasing Türkiye's competitiveness in the global tourism market.

Türkiye's Sustainable Tourism Program is planned in three phases, aiming to initiate sustainability practices in all accommodation facilities, regardless of size, location and capacity.

Scheduled to be completed by 2030, the first phase of the program will take place in 2023, the second phase in 2025 and the final phase in 2030, with the aim of meeting all international standards. In the first phase, accommodation facilities will comply with 30 percent of the standards set, in the second phase 70 percent and in the third phase 100 percent, and by 2030 all facilities will be Sustainable Tourism Certified. The program is expected to certify more than 22,000 hotels in Türkiye. The program is the first mandatory national hospitality program under the guidance of the GSTC and based on the GSTC Criteria. The pioneering program, thanks to the government agreement with the Global Sustainable Tourism Council (GSTC), is expected to serve as a model for other countries.

According to the World Economic Forum (WEF) Travel and Tourism Development Index 2021 report, Türkiye ranked 45th in 2021, rising 4 places compared to 2019. Thanks to the measures taken and promotions made after the pandemic, Turkish tourism is expected to perform better than other countries and rise in the competitiveness index.

4. Estimated cost of the activities and the source of financing: Possible additional costs for the activities planned under the reform measure have been calculated and it is envisaged that these costs will be financed from the budgets of the Türkiye Tourism Promotion and Development Agency (TPDA), the relevant general directorates and the Central Directorate of Revolving Funds of the Ministry of Culture and Tourism.

2024: 5,988,550,000 TL – 143,112,103 Euro

(Central Budget – Local Budget – TPDA Budget)

2025: 7,814,616,693 TL – 153,355,232 Euro

(Central Budget – Local Budget – TPDA Budget)

2026: 9,478,316,724 TL – 171,001,125 Euro

(Central Budget – Local Budget – TPDA Budget)

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: It is expected that this measure will increase employment and thus contribute to reducing poverty. In addition, the tourism sector is expected to make a positive contribution to reducing discrimination against women because it is suitable for the employment of women. This measure is also expected to contribute healthcare services through protecting the ecosystem focusing on sustainability.

As of December 2023, 3,318 people attended a total of 153 on-the-job training courses. Thanks to the "Cooperation Protocol" signed with the Ministry of National Education, we have initiated a very comprehensive practice that enables students selected from Tourism Vocational High Schools to receive intensive skill training in hotels and businesses, to graduate by speaking at least three foreign languages, to receive scholarships while studying, and to be employed after graduation. In this context, 66 schools have been converted into Tourism Technical Vocational High Schools as of 2023. This number increases every year in line with demand.

6. Expected impact on environment and climate change: The concept of sustainability has gained importance in the development of tourism products and consumer destination preferences. Emphasizing the concept in Türkiye’s promotional campaigns will contribute positively to the planning and supply creation process of the tourism sector and will contribute to the reduction of environmental pressure caused by tourism.

In order to ensure the sustainable development of the tourism sector in country, primarily in line with the aim of determining the effects of climate change on the tourism sector, taking sectoral measures against these effects and increasing the adaptation capacity to climate change, as well as determining the principles for reducing the greenhouse gas emissions and climate change effects resulting from tourism activities and facilities;

- “Report on Determining the Conceptual Framework of Climate Change and Tourism Relations on a National Scale”,
- “Report on Determination of Spatial Planning Principles Compatible with Climate Change in Tourism Areas” has been prepared.

With these studies, the mutual effects of climate change and tourism, which are increasingly felt today, have been revealed and the measures and planning principles that can be taken to reduce these effects have been determined.

It is aimed to produce risk maps and carry out spatial planning studies compatible with climate change in the pilot regions to be selected in the future.

On the other hand, the Blue Flag Program carried out by TÜRÇEV with the support of Ministry of Culture and Tourism and the Ministry of Health aims to protect and use our seas in a clean and sustainable way without damaging their ecosystem. Country currently ranks third in the world with 551 blue flag beaches.

In addition, the Ministry of Culture and Tourism, in order to eliminate polluting elements that will directly affect the quality of urban infrastructure, especially swimming water, in coastal areas; It carries out studies to ensure that infrastructure facilities such as wastewater treatment plant, deep sea discharge, sewage network and collector lines are completed immediately, and sea water quality complies with EU criteria. In this context, Serik 2nd Wastewater Treatment and Connected Infrastructure Facilities, built in Serik district of Antalya province, were completed in 2021, and Torba-İçmeler Wastewater Treatment and Connected Infrastructure Facilities in Bodrum district of Muğla province were completed and put into service in 2023. The construction of Kemer-Çamyuva Wastewater Treatment and Related Infrastructure Facilities, which we started to build at the beginning of 2023 in Kemer district of Antalya province, continues.

7. Potential risks:

Risk	Probability	Planned mitigating action
Geopolitical developments and possible natural disasters in country and in the world	Medium	Preparation of Contingency Plans to be prepared for the possible crises
Difficulties that may be experienced in accessing the financing needed for the investments that accommodation facilities must make to obtain certification.	Medium	The loan methods to be applied in agreement with the relevant public institutions and organizations and financial institutions in the coming period.

Decrease in airline traffic, border closures due to the unforeseen pandemics	Medium	Expanding the scope of the Safe Tourism Certification Program to be valid for other unforeseen epidemics or infectious diseases, making it permanent and permanent

v. Research, development and innovation

a) Analysis of main obstacles

Recently, it has been observed that issues such as resilience to environmental and technological risks, sustainability, social inclusion and competitiveness address the country’s science, technology and innovation policies. The importance of people-oriented and collaborative policies and activities that increase the capacity to develop high value-added products and services, produce solutions to social challenges, especially by focusing on green and digital transformation, has increased. In this context, studies are continuing to develop qualified R&D human resources in priority sectors and areas in order to adapt to green and digital transformation, to increase the organization and innovation capabilities of the private sector for this transformation, and to establish effective mechanisms and alternative financing sources for the financing of R&D and innovation.

R&D and innovation activities in Türkiye have increased in recent years, and the ratio of R&D expenditures to GDP realized at 1.32 percent in 2022. However, the need to increase and develop R&D and innovation activities in line with global developments and country priorities, to allocate more resources to R&D and innovation activities by both the public and private sectors, and to increase the number and quality of R&D labour force continues. In this direction, steps are being taken to increase the effectiveness of R&D and innovation activities carried out at universities and research infrastructures in the R&D and innovation ecosystem in order to support high value-added production. An important development initiated in recent years is the research university application and 23 universities have been designated as research universities. Within the framework of the Law No. 6550 on Supporting Research Infrastructures, which is one of the studies aimed at strengthening the R&D capacities of research infrastructures, seven research infrastructures are supported and the process of monitoring the performances of these infrastructures and adding two research infrastructures to the system continues.

5.2. Sustainability and Resilience

i. Green Transition

a) Analysis of main obstacles

Türkiye's green transformation efforts are aligned to the EU Green Deal. To adapt to these policy changes, Türkiye published the Green Deal Action Plan, a comprehensive road map for a green, sustainable and resource-efficient economy, in July 2021. While these efforts aim to achieve Türkiye's 2053 net zero emission target, they also aim to protect its rights arising from the Customs Union and maintain its competitiveness in the EU market.

The action plan aims to maintain and develop a high level of integration with EU policies, especially the protection of the free movement of goods, which will be greatly affected by the policies and legislation within the scope of the Green Deal, and includes a total of 32 targets and 81 actions to ensure green transformation. In the plan, the relevant institutions responsible for each action are defined and a calendar for the completion of the actions is determined.

While the Action Plan provides the general framework of the alignment to European Green Deal, more focused and sectoral work has been going on under the 20 Specialized Working Groups, which are coordinated by relevant Ministries in an inclusive and transparent manner, with the participation of all relevant stakeholders from public, private sector, academia and the civil society. The progress of the Action plan was reported and the Activity Report of Green Deal Action Plan during the year of 2022 was published in the web site of the Ministry of Trade. Furthermore, due to the dynamic structure of the European Green Deal, efforts have been initiated to update the Action Plan according to new developments and priority actions that have arisen in the context of the European Green Deal.

In line with the main objectives and actions within the Green Deal Action Plan initiated efforts for preparation of more specific documents such as national strategies on circular economy, green energy transition etc. The Action Plan also form the basis for green transition policies within the framework of other policy documents as the 12th Development Plan (2024-2028), Medium Term Program (2024-2026), which lay down the economic and social strategy of Türkiye.

During the work of the Green Deal Action Plan main obstacles in this process were identified as follows: the effects of CBAM on the competitiveness of the Turkish industry and mitigation of the additional costs of the ETS, complexity of the Green Deal legislation, which involve market access rules and may result in the erosion of the free movement of goods within the Customs Union; lack of awareness and involvement of stakeholders in specific sectors, and especially SMEs and access to finance mechanisms needed for green transition.

b) Reform measures

Measure 3: ***"Accelerating green transformation"***

1. Description of measure: Türkiye has prepared the draft Climate Law and continues to work on the development of the National Emission Trading System (ETS) in a structure compatible with the SKDM. This system is positioned as one of the most important mitigation tools. Furthermore, as stated in the Green Deal Action Plan, the National Green Taxonomy, is being developed in line with the European Union Taxonomy and it will support efforts to ensure that the financial resources needed to achieve a green transformation are allocated to green investments.

Activity 1) Establishment of the National Emission Trading System

Studies are continuing to develop a national emissions trading system (ETS) in a structure compatible with the European Union's Carbon Border Adjustment Mechanism (CBAM) as specified in the Medium-Term Program of Türkiye for the 2024-2026 period, which is positioned as one of the most important mitigation tools in our country's climate policy shaped in line with 2053 net zero emission target. In this context, the grant agreement for the Türkiye PMIF Carbon Market Development Project, within the scope of the World Bank Partnership for Market Implementation (PMI) programme was signed on 18 October 2023 and published in the Official Gazette dated 12 December 2023 in order to support the institutional and technical structure in the country. Within the scope of said project, the following studies are planned to be carried out regarding the national emission trading system set-up.

Outlining design options for the ETS;

- Preparation of draft ETS legislation
- Modeling the economic and socioeconomic impacts of ETS and building capacity in modeling
- Conducting technical studies for ETS cap determination and allocation distribution
- Development of emission intensity benchmarks for ETS sectors

For the compliance of the national ETS with the EU ETS, the "Transposition of EU ETS Legislation Project" will be implemented within the scope of the Instrument for Pre-Accession Assistance (IPA) fund, in order to preserve and further advance the competitiveness in foreign trade under the title of "Stable Growth, Strong Economy" in the 12th Development Plan. The process will be followed to establish national carbon pricing mechanisms and, as a priority, to implement an Emission Trading System (ETS) compatible with the EU.

Activity 2) Preparation of National Green Taxonomy

As part of the 2021 Green Deal Action Plan, which aims to mobilise green finance in Türkiye and support a green transformation in all relevant policy areas, national legislation is being prepared to establish a taxonomy that defines the requirements that an economic activity must meet in order to be sustainable.

The taxonomy is a classification system that translates climate and environmental objectives into criteria for specific economic activities for investment purposes. The taxonomy will provide a list of environmentally sustainable economic activities to help businesses, investors and policy makers understand which economic activities are environmentally sustainable. The taxonomy study is intended to be a tool that gives confidence to investors, protects private investors from greenwashing and helps businesses to target their investments where they are most needed.

As stated in the Green Deal Action Plan, the National Green Taxonomy, which is being developed in line with the European Union Taxonomy, will support efforts to ensure that the financial resources needed to achieve a green transformation are matched by green investments, reduce greenhouse gas emissions and adapt to the effects of climate change.

i. Activities planned in 2024:

Activity 1) Establishment of the National Emission Trading System

- Determination of design parameters of the national ETS such as scope, cap, allocation distribution, etc. along with ETS legislation
- Publication of the 2025 National Allocation Plan on a sector basis as the beginning of the pilot ETS period

Activity 2) Preparation of National Green Taxonomy

- Consultation of the draft National Green Taxonomy Regulation and Technical Screening Criteria texts with stakeholders and make necessary revisions according to the comments received.

ii. Activities planned in 2025:

Activity 1) Establishment of the National Emission Trading System

- Initiation of buying and selling (trading) of allocations in the primary and secondary markets
- Publication of the 2026 National Allocation Plan on a sector basis
- Starting work on the harmonization of the national ETS with the EU ETS by means of a project within the scope of the Instrument for Pre-Accession Assistance (IPA) program.

Activity 2) Preparation of National Green Taxonomy

- Conclusion of consultations and studies on the declarations and reports to be made by market actors on the basis of the National Green Taxonomy.

iii. Activities planned in 2026:

Activity 1) Establishment of the National Emission Trading System

- With the publication of the 2027 National Allocation Plan, the pilot implementation will be ended and the ETS first implementation period will be started.
- Evaluation the impact of ETS application on sectors

Activity 2) Preparation of National Green Taxonomy

- Publication of the National Green Taxonomy legislation

2. Result indicators:

Indicator	Current Situation	2024	2025	2026
Activity 1) Establishment of the National Emission Trading System				
Determination of ETS design parameters	-	1	-	-
Publication of the Annual National Allocation Plan	-	1	1	1
Trading of allowance in the primary and secondary markets	-	-	1	1
Launch of ETS First Implementation Period	-	-	-	1
Activity 2) Preparation of National Green Taxonomy				
Preparation of the final drafts of the Draft National Green Taxonomy Regulation and Technical Screening Criteria		1	-	-
Carrying out studies on the declarations and reports to be made within the scope of the National Green Taxonomy legislation			1	
Publication of the National Green Taxonomy legislation				1

3. Expected impact on competitiveness:

Activity 1) Establishment of the National Emission Trading System

It is expected that the implementation of carbon pricing for the emission trading system in Türkiye will accelerate the green transformation process. In this respect, the carbon pricing is considered to have a positive impact on our country's competitiveness, especially considering the impact of the EU CBAM on trade.

Activity 2) Preparation of National Green Taxonomy

Through the declarations and reports to be made as part of the National Green Taxonomy, market participants will have easier access to financing from investors with environmental and social sensitivities. This will encourage green investment and accelerate the development of green technologies and products. This will create new business opportunities and increase competition.

4. Estimated cost of the activities and the source of financing:

Activity 1) Establishment of the National Emission Trading System

2024: 1,250,000 USD (World Bank) + 1,000,000 Euro (IPA Fund)

2025: 1,000,000 USD (World Bank) + 1,000,000 Euro (IPA Fund)

2026: 1,000,000 USD (World Bank) + 800,000 Euro (IPA Fund)

Activity 2) Preparation of National Green Taxonomy

2024: 480,000 Euro (IPA Fund)

2025: 960,000 Euro (IPA Fund)

2026: 960,000 Euro (IPA Fund)

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: The results obtained from the international literature indicate that emission trading system applications have positive environmental and economic effects. ETS is expected to encourage companies to reduce emissions in a cost-effective manner and invest in carbon-saving technologies. On the other hand, ETS is thought to pave the way for the development of low-carbon technologies. While ETS is thought to provide employment gains by increasing productivity and public revenues, it will also have positive effects on public health through emission reductions. In these aspects, ETS is considered to be a flexible, adaptable and politically applicable instrument.

6. Expected impact on environment and climate change:

Activity 1) Establishment of the National Emission Trading System

With the activation of the national emission trading system, which is determined as a reduction tool in Türkiye's updated nationally determined contribution (NDC), it is expected that policies for the market-based and cost-effective reduction of greenhouse gas emissions will be strengthened, and an important step will be taken in terms of contributing to the global fight against climate change.

Activity 2) Preparation of National Green Taxonomy

Markets will be created for new environmentally friendly technologies and products. New business models and collaborations will be developed to improve environmental performance. Supporting efforts to reduce greenhouse gas emissions and adapt to the effects of climate change.

7. Potential risks:

Risk	Probability	Planned mitigating action
Activity 1) Establishment of the National Emission Trading System		
Difficulty in compliance of compliance entities with the ETS	Medium	Ensuring close cooperation and coordination with all stakeholders during the ETS design and implementation process
Activity 2) Preparation of National Green Taxonomy		
A lack of feedback from institutions and stakeholders	Low	Increasing communication with stakeholders in the preparation process of National Green Taxonomy

ii. Digital Transformation

a) Analysis of main obstacles

While the significant achievements in the adoption of digital government services and digital technology applications in public institutions, there is room for development in cooperation and harmonization in inter-agency data sharing. Challenges in ensuring data governance, especially in the context of legislation, constitute a significant obstacle. Sharability of public data is a critical element for value-added policy development, supporting service delivery and strengthening the data economy. Data asymmetry across and within sectors has the potential to hinder sustainability by limiting the development of competition.

In this context, with the New Data Strategy, it is of utmost importance to effectively establish a Public Data Space and securely share Public Sector Data. However, data security and privacy concerns pose a critical challenge for the protection of sensitive information in the public sector. Moreover, the lack of standardized data sharing protocols between different institutions and data integrity issues are other factors that make it difficult to implement the strategy effectively. Therefore, key challenges need to be overcome diplomatically for the successful implementation of the new data strategy.

b) Reform measures

***<u>Measure 4:</u>* "Developing data-driven policies and services through secure sharing and use of public sector data with the public data space to be activated in line with the new data strategy" (ERP (2023-2025) Measure 9)**

1. Description of measure: The measure was planned in line with the aim of increasing data analytics skills in public institutions in line with the National Artificial Intelligence Strategy 2021-2025 (NAIS) and the measure "Public data space infrastructure will be implemented to increase institutional capacity through inter-institutional advanced data analytics and artificial intelligence projects" included among the Digital State policies in the 12th Development Plan (2024-2028). Within the scope of the measure, data governance, which is critical for the organization of digital transformation in the public sector, is also addressed, and the technical, administrative, legal and human resources actions in different top policies in the field of data are evaluated holistically in a unified and related manner. As new activities are added to the measure every year, it is an iteratively evolving measure.

The measure will enable data storage, sharing and processing through a technical infrastructure and platform planned to guarantee reliable and data sovereignty among public institutions. Within the scope of the studies called Public Data Space, the National Data Dictionary compatibility of the data of public institutions is ensured and structural and reference metadata studies are carried out. Thus, it has the feature of directing and standardizing the data management of all public institutions. The technical infrastructure and platform planned with this measure defines data governance roles and responsibilities and data relationship in line with advanced standards and guidelines.

In addition, a protocol is being prepared by examining Türkiye's current situation and good country practices for the legal regulation proposals needed to carry out data sharing, processing and reuse between public institutions in a responsible and reliable manner.

In addition to the data infrastructure works in public institutions, it is also planned to prepare a transition plan for institutions to be included in the Public Data Space by conducting maturity analysis for human resources and legislation within the scope of the measure. In line with the transition plan, capacity improvement will be realized in public institutions through human resource training and skill building trainings. These trainings will focus on data governance, advanced analytics and artificial intelligence techniques, including the use of the Public Data Space, and good practice examples from EU member states will be utilized for training content. In line with the transition plan, infrastructure capacity improvements will be made in public institutions and activities to expand the use of the Public Data Space will be initiated. The scope of the KAMAG 1007 "Public Artificial Intelligence Ecosystem" call, which is currently ongoing for public institutions, will be expanded and projects for the use of the Public Data Space will be included in the scope of the calls, and dissemination activities will be activated in line with the transition plan.

On the other hand, in line with the data strategy supported by the top policy documents and included in the scope of the measure, it will be ensured that all activities to be carried out regarding data governance in Türkiye will be realized in a holistic manner with coordination and harmony.

Thus, with the implementation of this measure, public institutions will be enabled to develop/improve existing or new policies/products/services based on data by using advanced analytical and artificial intelligence techniques by utilizing each other's data within the framework of reliability and privacy principles in line with their authorities. This will facilitate the accessibility of public sector data, secure data sharing, and the transition to a data-driven policy, economy and society.

i. Activities planned in 2024:

- The "Data Governance Current Situation and Needs Assessment" document for the AI Ecosystem has started to be prepared and the improvement process continues with monthly consultation meetings with the NAIS Data Governance Working Group.
- It is planned that the draft protocol prepared within the scope of the pilot implementation will be submitted to stakeholders for their opinions and finalized. In this context, the data sharing process will be initiated.
- Based on the AI projects carried out in the pilot implementation of the Public Data Space, draft architecture maturation studies have started and technical requirements for software and data analysis libraries are ongoing, and in this direction, the "Public Data Space Reference Architecture" will be prepared.
- In line with the reference architecture (including identity and role management, API libraries, virtual machine, code libraries, code libraries and problem repository and service layer) will be improved together with the institutions involved in the Public Data Space pilot application, which was created by taking into account the EU data space interoperability framework and the "AI Data Governance Current Situation and Needs Assessment" document.

- A maturity analysis will be conducted for data, infrastructure, human resources and legislation in public institutions and a transition plan will be prepared for institutions to be included in the Public Data Space.
- In line with the transition plan, capacity improvement will be realized through Human Resources (HR) trainings in public institutions. These trainings will focus on data governance, advanced analytics and artificial intelligence techniques, and good practice examples from EU Member States will be utilized for training content.
- In line with the transition plan, infrastructure capacity will be improved in public institutions and activities will be initiated to expand the use of the Public Data Space.

ii. Activities planned in 2025:

- In line with the transition plan, HR trainings and capacity improvement efforts will continue in public institutions.
- The scope of KAMAG 1007 "Public Artificial Intelligence Ecosystem" call will be expanded and projects for using the Public Data Space will be included in the scope of the call and dissemination efforts will continue in line with the transition plan.

iii. Activities planned in 2026:

- Technical improvement studies will continue for the needs of the Public Data Space.
- Incentive mechanisms will be expanded for joint artificial intelligence and advanced analytics projects involving the public, private sector and universities, which will be realized through the use of the Public Data Space in priority areas to be determined.

2. Result indicators:

Indicator	Current Situation	2024	2025	2026
Number of public employees trained in data governance, advanced analytics and artificial intelligence	0	25	100	200
Number of people working in central management in data governance, advanced analytics and artificial intelligence	200	250	350	400
The number of institutes involved in the Central Public Data Space	4	10	50	60
The number of projects launched through the Central Public Data Space	1	3	10	20

3. Expected impact on competitiveness: Private sector, universities and research centers will have easy access to public data through a standardized framework. The Public Data Space is expected to facilitate joint projects across sectors. The "AI Data Governance Current Situation and Needs Assessment" document and the "Data Governance Framework Recommendation Report for Türkiye" realized in cooperation with UNDP are expected to support the establishment of sectoral data spaces. In this way, competitive advantage will be gained by developing high value-added products and services.

4. Estimated cost of the activities and source of financing:

2024: In order to establish the Central Public Data Space, to employ new experts, to develop domain expertise in line with the Transition Plan and to improve the capacity of public institutions and to provide project calls, the development of technology infrastructure, human resources costs (wages), training, consultancy and guidance service purchases will be covered. (10,450,000 TL – 249,730 Euro) (Central Budget)

2025: Covering human resources employment costs, strengthening the technical infrastructure, and procurement of training and guidance services in order to increase the number of institutions and datasets that will participate in the Public Data Space (18,572,500 TL – 364,470 Euro) (Central Budget)

2026: Provision of funds for the realization of joint projects through collaborations with public, private sector and universities in the Public Data Area, and procurement of training and guidance services for capacity building (21,239,063 TL – 418,840 Euro) (Central Budget)

5. Expected impact on employment, poverty, equality, gender and health care: It will support increased employment in public institutions, especially in data expertise. It will increase demand for new digital skills. The sharing of public data will create opportunities to increase data-driven collaborations with universities and private sector organizations and provide solutions for different sector problem areas. The measure is gender neutral.

6. Expected impact on the environment and climate change: Although no direct impact is expected in the short term, the implementation of the measure will facilitate the access of researchers and relevant public institutions to environment and climate focused datasets. An important basis will be provided for raising awareness and investigating the relationship between different policy areas and environment and climate. Data from different sectors will be analyzed together with environment and climate related data to develop data-driven innovative policies in areas such as sustainability, combating climate change, green and digital transformation. On the other hand, recent studies have documented that the infrastructures used for AI studies have a negative impact on the environment and climate change as they require high amounts of energy. It is expected that the negative impact on the environment and climate change will be reduced by using these infrastructures in an optimum way.

7. Potential risks:

Risk	Probability	Planned mitigating action
Lack of legislation on data sharing by public institutions.	Medium	Transforming the protocol created within the scope of the pilot study carried out in the Public Data Area into a draft legislation for public institutions by making use of other related current situation and guidance documents.

iii. Energy Market Reforms

a) Analysis of main obstacles

The two main factors shaping the Türkiye’s energy sector are considered to be rapid demand growth and import dependency. In this regard, top priority is decreasing the import dependency by improving security of supply and utilizing domestic and renewable energy sources to the maximum extent in an environmentally sound manner.

Türkiye attaches utmost importance and gives priority to realizing energy market reforms and adapting the national energy legislation fully with the EU energy legislation. In this context, fundamental sectoral laws were completed at great extent and efforts for establishing a fully competitive energy market are ongoing. Adapting to the needs and necessities of the EU Green Deal is another important milestone for Türkiye. Within this context for accomplishment of green energy transition, increasing energy efficiency in industry, buildings and energy production and transmission; increasing the share of renewable energy in energy mix; support the utilization of hydrogen; integration and digitalization of the energy systems to provide sustainable and uninterrupted energy supply and resilient energy market are the main targets of the Turkish energy sector.

Electricity and natural gas markets were liberalized to provide the platform for the commercial transactions. In order to ensure supply and system security, Ancillary Service Market and Capacity Mechanism are included to electricity market activities.

An amendment was made to the Electricity Market Licensing Regulation and published in the Official Gazette dated 8 March 2020 and numbered 31062 to allow electricity generation projects which have more than one renewable resource. In addition, the By-Law on Storage Activities in the Electricity Market, prepared by EMRA, was published in the Official Gazette in May 2021 and entered into force, allowing generation or supply companies to establish electricity storage units or facilities. In addition, the RES-G (YEK-G) system and the Organized RES-G (YEK-G) Market, based on the proof, disclosure and tracking of electrical energy produced from renewable energy sources, were opened by Energy Market Operation Company (EPIAS) in June 2021. These regulation are expected to provide an increase in the capacity of renewables in electricity generation and a decrease in the carbon emission level.

As of January 2023, the eligibility threshold was lowered to 1,000 kWh/year. The corresponding theoretical degree of market opening on demand side is calculated as 98.1 percent.

The electricity futures market (EFM) was opened by EPIAS on 1 June 2021. The EFM will enable market participants to preserve their positions and protect themselves from market price fluctuations and anticipate futures price expectations (price discovery). Moreover, it will provide price signals for investors and hence will support long-term security of supply. Likewise, market operations on the Natural Gas Futures Market were started as of 1 October 2021.

On 19 September 2019 in Official Gazette No. 30893, the Rules and Procedures for the Spot Pipeline Gas Import was published and the legal basis was provided to import spot pipeline gas with yearly, quarterly and monthly agreements in order to welcome new suppliers and lower prices.

Türkiye's total underground natural gas storage capacity is 5.8 billion m3 consisting of the Northern Marmara Natural Gas Underground Storage Expansion Project with a storage capacity of 4.6 billion m3 and withdraw capacity of 75 million m3/day and the Tuz Gölü Natural Gas Underground Storage Project with a storage capacity of 1.2 billion m3 and withdraw capacity of 40 million m3/day. In addition, the total natural gas entry capacity of Türkiye has exceeded to 447 mcm/day with the underground storage capacity increase and other investments.

The dissemination of the Floating Storage and Regasification Units (FSRUs) is a significant step towards ensuring the diversity of resources and routes in natural gas markets. In this context, Hatay-Dörtyol terminal, which is second FSRU terminal of Türkiye, has become operational by Petroleum Pipeline Company (BOTAŞ) in February 2018. Türkiye's third FSRU terminal in the Gulf of Saros has been completed and put into operation. Thus, the regasification capacity of the LNG has exceeded 161 mcm/day with the upgrades to the terminals.

TANAP has become operational in June 2018 and has started to supply natural gas to Türkiye and as of November 2019, the construction works were completed and the pipeline became ready for the gas flow to Europe. Trans-Adriatic Pipeline, which will carry gas to Europe has been completed as of November 15, 2020. The commercial gas flow to Europe began by 31 December 2020. The construction of the TurkStream Pipeline, which will carry Russian gas to Türkiye and Europe under Black Sea has been completed and the pipeline has been put into operation as of 1 January 2020.

BOTAŞ has been preparing to transfer its experience in natural gas and oil to green energy transformation. In this context, preliminary preparations have been initiated for green hydrogen transportation, distribution, storage and commercialization. It is considered that an incentive mechanism is needed to create a green hydrogen ecosystem and develop green hydrogen technologies. In this regard, negotiations have been initiated by BOTAŞ for national and international collaborations in 2023. Supply of electrolyzers to produce green hydrogen and its derivatives, Ammonia/Methanol, by using renewable energy sources such as wind, solar, offshore wind, and wave/bottom current at BOTAŞ facilities can be considered as a starting step for green energy transformation. In addition, it is on the agenda to investigate the opportunities of green energy trade by sea through converting BOTAŞ terminals in industrial zones where the use of fossil fuels is intense, into green ports. In 2024, it is planned to analyze BOTAŞ's role in carbon capture and storage, which is another green transformation technology for greenhouse gas emission reduction.

IPA 2018 BOTAŞ "Feasibility of Reducing the Amount of Gas Burned in Flare with Flare Gas Recovery (FGR)" project is a technical assistance project to ensure the recovery of pilot gas and waste gas generated during ship unloading with the Flare Gas Recovery System at BOTAŞ LNG Operation Directorate. The procurement unit of this project is the World Bank. The tender process is expected to start.

IPA 2023 BOTAŞ “Boosting Green Hydrogen in Türkiye” project has passed the relevance criterion. If the project passes the maturity stage and receives approval, the contract is expected to be signed in 2025. Some of the outputs of the project are the analysis of Türkiye's green hydrogen production and consumption potential, recommendations for the preparation of hydrogen legislation, creation of a hydrogen network plan, feasibility analysis of the hydrogen value chain in the Tuz Gölü underground storage facility and trainings, seminars and field visits to improve institutional capacity on hydrogen.

The foundation of the first unit of Akkuyu Nuclear Power Plant (NPP) which will consist of 4 VVER 1200 type reactors with a total installed capacity of 4,800 MW was laid on April 3, 2018 and construction activities started. The nuclear fuel for Unit-1 is already in Project Site, so the first unit is scheduled to be commissioned in last quarter of 2024.In terms of the Sinop NPP Project, technical and commercial feasibility studies were completed and it has been determined that the site is suitable for NPP construction. On the other hand, Environmental Impact Assessment (EIA) regarding the Project was approved on September 11, 2020 and the EIA process was completed. The Site Approval application for Sinop NPP has been made to the Nuclear Regulatory Authority (NDK) by Türkiye Nükleer Enerji A.Ş., as the owner, and the detailed review and assessment process has commenced by NDK.

Within the scope of the efforts for our country to reach the net zero emission target of 2053, a Türkiye Hydrogen Technologies Strategy and Roadmap has been developed to establish the infrastructure of hydrogen technology, which is rapidly developing in the world, in our country with a focus on developing electrolyzers using domestic and national capabilities. In addition, draft roadmaps for Türkiye Carbon Capture, Utilization, and Storage Technologies, as well as Türkiye Solar Energy Technologies, have been prepared as part of the initiatives to reach our 2053 net-zero emission goal.

Since hydrogen must be produced from renewable sources or nuclear energy to contribute to decarbonisation, studies are ongoing in order to develop new technologies that will allow hydrogen to be produced in different and more efficient ways in the medium term, including fossil fuels combined with carbon capture, and advanced nuclear technologies such as next-generation small modular reactors (SMRs).

Rare Earth Elements (REE) are called “green elements” due to their use in clean and renewable energy technologies and are in the class of critically important raw materials. While the worldwide demand for REEs was around 170,000 tons in 2018, it is estimated that this amount will reach 220,000 tons in 2025 and 400,000 tons in 2035, especially with the increase in demand for clean energy and new generation electric vehicles. Therefore, it is also important to recover REE from secondary sources (NiMH battery, permanent magnet, electronic waste and fluorescent lamp, etc.) in order to develop the circular economy by providing a sustainable raw material supply. With the projects carried out in our country, it is focused to obtain REE from primary and secondary sources in an environmentally friendly and economic manner and on the production of high-tech end products containing REE.

“The Protocol to amend the Convention on Third Party Liability in the field of Nuclear Energy of 29 July 1960 (2004 Paris Protocol) as amended by the Additional Protocol dated 28 January 1964 and the Protocol dated 16 November 1982” entered into force on January 4, 2022.

"The Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management" "signed by Türkiye on October 6, 2021, entered into force on May 21, 2023. NDK is the contact point regarding this Convention.

Primary energy consumption of Türkiye in 2022 has developed in a rate of 6.2 percent compared to the previous year and realized as 0.132 toe/2015 USD. The energy intensity of Türkiye has decreased in a rate of 31 percent in last 22 years.

Türkiye aims to reduce primary energy consumption by 14 percent by 2023 in the period of National Energy Efficiency Action Plan (NEEAP) (2017-2023) through 55 actions addressing the principal energy sectors, namely, buildings and services, energy, transport, industry, and technology, agriculture and cross-cutting areas. In this direction, a cumulative saving of 23.9 Mtoe is projected for 2023, requiring an investment of 10.9 billion USD.

Within the scope of the first National Energy Efficiency Action Plan, it was calculated that a total of 1,010 million USD was invested in energy efficiency in 2022 alone, and as a result of the investments realized during the year, 743 ktoe of primary energy savings were achieved, which is 260 million dollar in monetary terms. It is calculated that between 2017 and 2022, a total of 7.5 billion USD was invested in energy efficiency with 2017 prices and a cumulative energy savings, which has a cumulative monetary value of 1.8 billion USD, is obtained.

The studies of the Türkiye's second Energy Efficiency Strategy Paper for the period 2024-2030 and the second National Energy Efficiency Action Plan (NEEAP) of her covering the period 2024-2030 have been commenced and 9 workshops held on with the wide participation of relevant stakeholders from public and private sectors, academicians and NGOs. The Opening and the Start-Up Workshops were realized as online and the 7 others, which are Energy Efficiency in Agriculture, in Transport, Financing, in Municipality Services and Heating and Cooling Sector, in Buildings, in Supply Side and in Industry were realized as face to face.

The Final Evaluation Workshop have been arranged in January 2023 and so the workshop series are ended. As a result of these workshops; the new Strategy Paper and the second NEEAP studies, which will cover 2024-2030 period, have been completed by the end of 2023. The studies are submitted to the Presidency at the end of 2023 and the studies will be so completed.

Programmed under IPA 2018, in the context of equipment purchase project titled "Energy Efficiency Pilot Applications in Municipalities Project", the bid of three 100 percent electric buses and charging stations purchase is completed and the buses are on the roads since April 2022 and used actively. Thanks to the regenerative braking system, used in these mentioned buses, providing electricity recovery, if a bus, yielding energy and emission savings, supposed to make 50,000 km annually, preferring electrical bus instead of diesel in new bus purchases it is expected that the additional cost will be paid back in a period of 5 or 6 years. The monitoring of these buses is continuing in a period in 6 month intervals. As these buses have more energy and emission savings and are more silent and comfortable compared to conventional buses; citizens have given positive opinions.

With the Presidential Circular of August 15, 2019, numbered 2019/18, it has been defined a 15 percent energy savings target until the end of 2023 for the public buildings which have an obligation to appoint energy manager according to Energy Efficiency Law for the purpose of regaining the energy savings potential in public sector to the economy. A guide has been published by the Ministry of Energy and Natural Resources to explain the works and transactions to be carried out by public institutions. According to the “Savings Target and Implementation Guide in Public Buildings” the obtained savings from energy efficiency measures applied annual bases for reference energy consumptions of buildings/campuses; having a construction area equal or more than 10,000 m2 or having annual energy consumption of 250 toe, which have been constructed before January 1, 2014, have been monitored by Ministry of Energy and Natural Resources. The obtained savings amount within the scope of the mentioned Circular will be determined in the first half of 2024 as a result of notifications made. Until now approximate savings more than 50 percent obtained in training and office buildings and 30 percent in hospital buildings where extensive improvements have been made. In municipality services pilot implementations realized directed to providing energy efficiency like efficient pump, electrical bus usage.

In line with net zero emission target for 2053, it is aimed to define a second energy savings target for public institutions as at least 30 percent until 2030 in order to make energy efficiency works sustainable in the public sector; so the Presidential Circular of 2019/18 have been updated with the new Circular numbered as 2023/15 such that the existing energy savings target for public institutions to be 30 percent until the year 2030. In this way, it is aimed to save 211 million USD/year, 300,000 toe energy saving and 1 million tons of CO_2eq emission reduction in return for the public investment of 1,480 million USD.

In this context “Savings Target and Implementation Guide in Public Buildings (2024-2030)”, which describes the works and transactions to be carried out by public institutions, have been published in the official web site of MENR. The applicable Energy Efficiency measures have been explained in the mentioned Guide for public buildings and 3 different models have been addressed for the realization of investments: central budget, energy performance contracts and international financing: So public buildings can realize their energy efficiency investments by their own sources, by energy performance contracts or by applying to the Energy Efficiency in Public Buildings (KABEV) Project which is carried out by Ministry of Environment Urbanization and Climate Change and supported by World Bank. For the works of municipalities, the ILBANK has been addressed. In this direction, the legislative infrastructure for energy performance contracts has been completed and as a World Bank-supported KABEV project, a total of 60,489 toe savings have been achieved with the energy efficiency measures implemented in public buildings in 2019, 2020, 2021 and 2022. The economic equivalent of the said savings has been determined as 42 million USD/year at the current stage.

Additional to the KABEV Project; the projects of KADEV, having a budget of 250 million USD (Earthquake+Efficiency), and KAYEP, having a budget of 450 million USD (Solar Energy Power Plant implementation), have been commenced. The second phase of KABEV Project with a budget of 300 million USD to be commenced also by Ministry of Environment, Urbanisation and Climate Change. Other financing mechanisms for realization of energy efficiency potential and targets of public buildings have also been developed. In this scope; by making investments by private sector and by repayment of the initial investment costs of energy efficiency or renewable energy projects with savings to be made in the following years, the necessary legislation and technical infrastructure have been created for the application of energy performance contracts in public sector.

According to the Presidential Decree No. 2850 of Procedures and Principles Related to Energy Performance Contracting in Public, published in the Official Gazette of August 20, 2020, “Communique for Energy Efficiency Rehabilitation of Public Buildings” have been published in the Official Gazette of April 15, 2021 No. 31455 that enables signing long term contracts for energy efficiency rehabilitation in public buildings. This communique defines the details of Decree and the drafts of contract, technical specifications and audit report format are annexed. With the amendment published in the Official Gazette of March 18, 2022 No. 31782, the MENR will be able to define inflation rate for unit energy prices, which constitute the basis for the payments.

In addition, in order to make the practices more widespread, in the light of the experiences gained from the tenders, a legislative amendment was made by exchanging views with the relevant institutions and sector representatives and the regulation containing the following issues was published in the Official Gazette on 23 June 2023:

- The minimum investment amount have been decreased from 2 million Turkish Liras to 1 million Turkish Liras. Also the payback period duration have been decreased from 2 years to 1 year.
- In accordance with the nature of the work, a provision that amendments could be made by the administration in the specification and contract has been added in the tender phase.
- The maximum limit defined for unit energy cost have not been changed but in any case no more payment will be made than annually provided savings.
- The necessary technical and financial capabilities required to participate in the tender have been relaxed and in accordance with the nature of the work, it was allowed to be defined at the specification phase by the administration.
- The validity criteria of the work experience certificate have been relaxed.
- Also for the energy efficiency measures, a price difference mechanism based on updated energy costs has been allowed to be defined.
- A provision has been added for insurance of energy savings.

As a result of the publication of the Communiqué on the Implementation of Energy Performance Contracts in the Public Service and its annexes, prepared by MENR, for the projects of public institutions, providing energy savings, there are no legal obstacles to sign energy performance contracts of 15 year duration. Also for the development of technical infrastructure, different trainings programs are arranged and the measurement and verification experts are certified and lots of guide are prepared and published. The loans to be granted in the scope of energy performance contracts have been included to the loans within the scope of Credit Guarantee Fund (KGF) for the purpose of facilitating to access finance. Up to now a tender for Solar Energy Power Plant installation of 5 MWe in the city of Van by the General Directorate of Highways has been contracted with Energy Performance Contracts model which envisages saving sharing for 14 years and commissioned in July. In Alanya Alâeddin Keykubat University Kestel Campus, a roof top solar energy installation of 1.3 MWe has been contracted under Energy Performance Contracts model and will be commissioned in January 2024. A tender of solar energy installation of 900 kWe on the Gazi Mustafa Kemal Atatürk Stadium in Tire Municipality has been contracted and this project will also be completed in January 2024. In addition, legislative improvement studies are continuing in order to make the practices more widespread.

The Protocol on Danish-Turkish Strategical Sector Partnership Cooperation (SSC) on heating and cooling, signed in 2017, the first phase of "Energy Efficient and Low Carbon Heating and Cooling Project" was carried out between the years 2018 and 2019 and the second phase between the years 2020 and 2022. With the studies realized in the first and second phase of the Project, the support has been given to develop efficient and low carbon heating and cooling. Within this context, the political gap analyses and the mapping and estimation study for the demand of heating and cooling demand in Türkiye have been completed. Also cost benefit analyses, impact assessment, political option analyses and capacity building studies have been realized for regional heating/cooling. In the third phase of the Project, which has been commenced in the second half of the year 2023, it has been planned that the preparation of various templates and capacity building directed to the preparation of heating plans in national and local scale by using the outcomes of first and second phase and good examples of implementation. Within this context, realization of case studies have been conducted. Also the studies of updating heat maps, prepared in the previous phases, and supporting the activities with various trainings and site visits are in the context of the third phase.

By making amendment on the Regulation of organizing energy efficiency contests, based on purchasing savings obtained from energy efficiency projects, the legislation and technical infrastructure for organizing contest have been created. The first energy efficiency contest will be organized in the following period.

Türkiye aims to increase the share of domestic and renewable energy in the total power generation. Renewable Energy Resources Zone (YEKA) has been introduced for this purpose. Within the scope of the YEKA model, 6 competitions have been held so far: Karapınar YEKA-1 Solar Power Plant (GES) with an installed power of 1,000 MWe, YEKA Wind Power Plant (RES)-1 with an installed power of 1,000 MWe, YEKA RES-2 with an installed power of 1,000 MWe and YEKA GES-3 with an installed capacity of 1,000 MWe, YEKA GES-4 with an installed capacity of 1,000 MWe and YEKA RES-3 with an installed capacity of 850 MWe. Karapınar YEKA-1 Solar Power Plant has been completely installed and commissioned as of February 2023. 10 projects have received pre-licenses, 1 project has received license and 16.8 MWe was commissioned as of December 2023 in YEKA RES-2. All projects in the YEKA RES-1, 71 projects in YEKA GES-3 have received pre-licenses. Among YEKA GES-4 projects, 100 MWe of Bor-2 GES project and 95.8 MWe of Bor-3 GES have been commissioned as of December 2023. 19 of 20 YEKA RES-3 projects corresponding to 820 MWe have received pre-licenses. Studies are going on for other projects.

Studies are ongoing with the World Bank to complete the tender preparations for IPA 2018 "Improvement of TEİAŞ's Planning and R&D Capacity" project. The pre-tender preparations are ongoing with Word Bank for IPA 2019 "Offshore Wind Site Investigations" project.

Under IPA 2018, a technical consultancy project was developed for increasing energy efficiency in buildings and households in Türkiye. Within the scope of the project, it is planned to carry out legislative gap analysis, preparation of the draft eco-design and labelling regulation and specifications for public procurement, monitoring and audit reports on buildings, demand response reports and report on sustainable energy efficiency in the upcoming two years. The budget of the project, which will be implemented with the service procurement model, is 506,300 Euros and is expected to contribute to the development of the energy efficiency market.

iv. Transport Market Reforms

a) Analysis of main obstacles

The road-oriented growing transportation system in Türkiye has led to the allocation of resources to the highway and there has been excess supply in the road network, which is currently at high service level. In this framework, the National Transport and Logistics Master Plan, which aims to create a balanced and complementary transport system based on factors such as transport costs, accessibility and traffic safety, was revised and published.

The issue of road traffic safety in Türkiye constitutes an important socioeconomic problem area and measures to prevent traffic accidents maintain their importance. In this context, the Presidential Circular No. 2021/2 on the Road Traffic Safety Strategy Document (2021-2030) and the Road Traffic Safety Action Plan (2021-2023) was published on February 3, 2021.

As of the end of 2023, the existing railway network in Türkiye is 13,919 km, of which 2,251 km is high-speed train lines, 9,235 km is conventional main lines, 2,396 km is secondary lines and station roads. 58 percent of the total network is signaled and 52 percent is electrified, with the projects to be completed in the coming years, it is expected that the electrical and signaled line lengths will increase significantly.

According to the data of the General Directorate of Maritime Affairs, as of the end of 2022, 12.4 million TEU containers and a total of 542.6 million tons of cargo were handled in Türkiye. In 2023, the total container handling amount is expected to be 12.3 million TEU with a decrease of approximately 0.8 percent, and the total amount of cargo handling is expected to be 520 million tons with a decrease of approximately 4.2 percent. The small-scale, inefficient and dispersed port infrastructure in Türkiye raises logistics costs, while causing excessive competition in the sector, reducing the profitability of port operators and preventing quality port infrastructure. In this context, port investments in Türkiye will be evaluated from a holistic perspective. In addition, studies on reducing greenhouse gases arising from the maritime sector and supporting green maritime are ongoing.

In 2022, passenger traffic at airports increased by 73.3 percent to 103.5 million passengers on international lines, increased by 14.4 percent to 78.3 million passengers on domestic lines and increased by 41.9 percent in total to 181.8 million passengers compared to the previous year.

At Sabiha Gökçen Airport which served more than 35 million passengers a year in the pre-pandemic period, the superstructure facilities with a closed area of 19 thousand m2, the expansion of passenger and cargo aircraft aprons and the construction projects of the air traffic control tower have been completed. The construction of the second runway and three new taxiways was completed and put into service in December 2023. Çukurova Airport will have an annual capacity of 9 million passengers in the first stage, whose infrastructure works have been completed by DHMI and whose superstructure works are continuing within the scope of PPP will be put into service as of January 2024. Due to the congestion at Trabzon Airport, where the number of international passengers has increased significantly recently and this increase is expected to continue, the tender for the expansion project in the existing superstructures was held in 2023 and the work in question is planned to be completed by the end of 2024. In addition, the infrastructure works tender for the Trabzon New Airport Project, which will be built on the sea embankment in the area where the current airport is located, is expected to be completed in 2024. Within the scope of the first phase works of Esenboğa Airport, whose tender was made with the PPP model, the excavation and filling works of the third runway are continuing.

The second stage/first phase works of Istanbul Airport, which serves approximately 64.5 million passengers in 2022 and is the busiest airport in Europe and among the top ten airports in the world in 2023, started in August. Within the scope of the work in question, the fourth main runway in the East-West direction is planned to be put into service in 2026 at the airport, where operations continue with three main and two spare runways in the North-South direction. In addition, investments will be started to increase the terminal building capacity by 30 million passengers/year by the end of 2024, according to the actual number of passengers.

Approximately 88 percent of airline passenger traffic takes place at Istanbul, Antalya, Ankara-Esenboğa, Izmir-Adnan Menderes, Dalaman, Bodrum-Milas, Adana, Trabzon and Istanbul Sabiha Gökçen Airports. Investments to increase the capacity of existing airports that have reached their capacity limit, raising service standards, increasing flight safety and projects related to air traffic management remain priorities for the sector. On the other hand, the superstructure works of the Bayburt-Gümüşhane and Yozgat Airports projects, whose infrastructure works have been completed, continue.

5.3. Human Capital and Social Policies

i. Education and Skills

a) Analysis of main obstacles

As the main indicator of a society's access to education, schooling rates are among the prerequisites for equality of opportunity in education. At the beginning of the 2000s, enrolment rates in Türkiye were below OECD countries except for primary education, especially in early childhood education. Although Türkiye has recently approached the OECD average with significant improvement steps, there is still a need for improvements in both the number of schools, the number of preschool education staff and schooling rates.

It is observed that there are differences between regions in terms of outcomes based on academic performance. In this context, it is important to reduce the differences in proficiency levels between regions and schools in order to ensure equality of opportunity in education. In order to achieve a sustainable education that adapts to the technological, economic and social transformation in the world, it is essential to update the curricula at all levels in order to develop knowledge and skills such as analytical thinking, critical thinking, improved problem solving skills, high self-confidence, responsibility, entrepreneurship, openness to innovations and creativity.

Recently, migration to developed countries has become much more common due to the reasons such as war, climate change and natural disaster. This migration movement has a strong impact on schools and this situation calls for a redefinition of the role of both decision-makers, teachers and other staff working in schools, and parents. As students with migrant backgrounds face language barriers in adapting to education, they also face a number of problems in learning. There is a need for more comprehensive studies on Syrian and other refugees' access to quality education.

b) Reform measures

Measure 5:* *"Skill-based updating of curriculum at all levels within the scope of green and digital transformation and developing a system for recognizing previous learning by strengthening vocational training centers"

1. Description of measure: In line with the objectives stated at the Articles 658 and 669 in the 12th Development Plan and "providing inclusive and quality education for all" in the Sustainable Development Goals of the United Nations Development Program, the curricula at the basic education level from pre-school to 8th grade will be renewed with a skill-based holistic approach, with priority given to basic courses.

Vocational and technical education is an effective tool in accelerating employment and providing a balanced supply-demand. Therefore, VET programs are constantly updated in a dynamic process in order to train qualified workforce that meets sector expectations. In VET, National Occupational Standards (NOS) prepared by the Vocational Qualifications Authority (VQA) will also be taken into account along with the competencies required by sector demands. Efforts to prepare teaching materials that are suitable for the updated curriculum content will continue.

Moreover, the aim is to train individuals equipped with digital skills in parallel with the "Digital and Green Skills" policy, which is one of the priorities of the 2019-2024 period within the scope of the European Union Strategies.

Vocational training centers are programs where students gain knowledge, skills and competence by receiving training in real business environments. Studies will be carried out to enroll more students in these programs. In addition, studies will be carried out to recognize and certify professional skills acquired through non-formal or informal learning, so that more people will be able to obtain certification.

i. Activities planned in 2024:

- Audits for My School-Clean Certificate renewals of the schools that received those certificates during Covid-19 will be carried out.
- Program development efforts will continue. Simultaneously, textbook writing activities for pre-school, 1st and 5th grades will be carried out and other teaching materials will be prepared. Then, program development, textbook writing and material preparation processes will continue for the following classes.
- The framework teaching programs of the fields and branches used in vocational and technical secondary education institutions will be updated to meet the requirements of green development, new job opportunities, digital and green skills in line with sector demands, changing and developing technology, legislation and national occupational standards and national qualifications prepared by VQA,
- Preparing printed teaching materials suitable for vocational and technical secondary education program contents.
- Preparing application videos,
- Creating augmented reality, simulation and animation content,
- Diversification of methods for recognition and certification of professional skills acquired through non-formal or informal learning.
- To direct individuals to vocational training centers within the scope of the Program for Facilitating Access to Employment for Syrian and Host Communities through Quality Apprenticeship and Vocational Training in Türkiye (Vocational Training Program for Employment - IMEP) home and workplace visits, promotional activities, guidance and career planning studies will be carried out.

ii. Activities planned in 2025:

- Textbook writing and material preparation processes will continue for 2nd, 3rd and 4th grades at the primary school level and 6th, 7th and 8th grades at the secondary school level.
- The framework teaching programs of the fields and branches used in vocational and technical secondary education institutions will be updated to meet the requirements of green development, new job opportunities, digital and green skills in line with sector demands, changing and developing technology, legislation and national occupational standards and national qualifications prepared by VQA,

- Preparing printed teaching materials suitable for vocational and technical secondary education program contents.
- Preparing application videos,
- Creating augmented reality, simulation and animation content,
- Diversification of methods for recognition and certification of professional skills acquired through non-formal or informal learning.
- To direct individuals to vocational training centers within the scope of the Program for Facilitating Access to Employment for Syrian and Host Communities through Quality Apprenticeship and Vocational Training in Türkiye (Vocational Training Program for Employment - IMEP) home and workplace visits, promotional activities, guidance and career planning studies will be carried out.

iii. Activities planned in 2026:

- Textbook writing and material preparation processes will continue for 2nd, 3rd and 4th grades at the primary school level and 6th, 7th and 8th grades at the secondary school level.
- The framework teaching programs of the fields and branches used in vocational and technical secondary education institutions will be updated to meet the requirements of green development, new job opportunities, digital and green skills in line with sector demands, changing and developing technology, legislation and national occupational standards and national qualifications prepared by VQA,
- Preparing printed teaching materials suitable for vocational and technical secondary education program contents.
- Preparing application videos,
- Creating augmented reality, simulation and animation content,
- Diversification of methods for recognition and certification of professional skills acquired through non-formal or informal learning.
- To direct individuals to vocational training centers within the scope of the Program for Facilitating Access to Employment for Syrian and Host Communities through Quality Apprenticeship and Vocational Training in Türkiye (Vocational Training Program for Employment - IMEP) home and workplace visits, promotional activities, guidance and career planning studies will be carried out.

2. Results Indicators:

Indicators	Current Situation	2024	2025	2026
Number of Curricula Prepared with Skill-Based Holistic Approach	0	3 pieces for primary school 1st grade (Turkish, Mathematics, Life Sciences) 4 for the 5th grade of secondary school (Turkish, Mathematics, Science, Social Studies)	11 for all other grades in primary school 12 units for all other grades in middle school	---
Number of Textbooks Prepared with Skill-Based Holistic Approach	0	14	46	---
The Number of Updated/Added Curriculum in Vocational and Technical High Schools (MTAL)	53 Framework Curriculum for 114 Fields	5	53	5
The Number of Updated/Added Curriculum in Vocational Education Centers (MEM)	39 Framework Curricula for 193 Fields	10	10	10
The Number of Printed Educational Materials	670	250	250	250
Number of Augmented Reality Content Simulations and Animations	164	70	25	25
Number of individuals certified within the scope of prior learning	237,866	50,000	50,000	50,000
Number of students enrolled in the Vocational Education Center Program (9th Grade)	147,302	3,000	5,000	5,000

3. Expected impact on competitiveness: If it is assumed that individuals who have been educated with the program prepared with a skill-based holistic approach have acquired the skills required by the age, its effect on competitiveness can be seen.

Students who grow up with the new knowledge and equipment required by the age will be more compatible with the qualifications needed by the labor market and will contribute to increasing competitiveness in production in the medium term.

4. Estimated cost of the activities and the source of financing:

2024: Total estimated cost 67,065,830 TL - 1,602,634 Euro (Central Budget + UNICEF grant + FRiT (The EU Facility for Refugees in Türkiye))
2025: Total estimated cost 23,854,990 TL - 468,134 Euro (Central Budget + FRiT)
2026: Total estimated cost 22,332,500 TL - 402,907 Euro (Central Budget + FRiT)

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: The reform measure is not expected to have a direct impact on employment, poverty, equality, gender and health services.

6. Expected impact on environment and climate change: The reform measure is not expected to have a direct impact on the environment. The measure is therefore environmentally neutral. However, in the K-12 Skills Framework, which forms the basis of the developed curriculum, the theme of "livable environment" stands out as a main area of the values model that is intended to be imparted to students. Additionally, in branch programs prepared with a skill-based approach, environment and climate change can be emphasized in accordance with the course and skill. This may positively affect children's ability to comply with the rules in their social lives and acquire environmental protection behavior.

7. Potential risks:

Risk	Probability	Planned mitigating action
Disruption of the tender process in the preparation of digital content	Low	Giving importance to planning and coordination for the healthy progress of the process

ii. Employment and labour markets

a) Analysis of main obstacles

With the changes to be experienced in production processes as a result of the digitalization of sectors, especially industry, it is expected that the most destructive effects will be on working life and employment, profession-job preferences and business models.

As for all countries and institutions, it has vital importance for Türkiye and considering the labor-intensive production structure, it is necessary to be prepared for this process of change and transformation.

Increasing the positive expectations of young people for the future, closing the gap between technology and qualified labour force, getting out of the middle income trap by increasing global competitiveness and developing new policies, especially in the field of education, by properly identifying the effects of the increasingly digitalised labour force are significant components for Turkish economy to combat unemployment effectively.

It is observed that the Turkish economy has recently achieved a rapid and stable growth momentum. This trend has brought a high employment growth and an intense job creation process. In addition to the driving force of high growth, labour supply is also supported by structural factors such as rapidly increasing female labour force participation and social security reforms. In order to ensure that this potential does not remain idle and is utilized efficiently, it is crucial that the labour market has a competitive structure and functions properly. On the other hand, creating job opportunities that will ensure a certain level of welfare for the society as a whole and supporting vulnerable segments of society in the labour market are also among the important priorities. In this context, a reform infrastructure was adopted aiming to reach a competitive and well-functioning labor market and taking the social inclusion into account. It is aimed to harmonize social assistance policies with labour market dynamics and simultaneously support vulnerable segments of society in the labour market.

In order to diversify employment services and play an active role in job placement, importance is attached to the organisation of Employment Fairs and Career Days, and these activities have been carried out in increasing numbers since 2010.

Employment fairs are organised to bring together workers, employers, and related organisations under one roof, to enable employers to evaluate labour demands, provide the opportunity of preliminary interview between candidates and company representatives, to create an employment environment and to increase the recognition of İŞKUR's services by citizens. In these fairs, social parties, local governments, universities, other related institutions and organisations, industrialists, business managers and supply and demand sides of labour at local level come together, and a permanent and institutional communication mechanism on vocational training, employment and human resources is established among all parties. During the fairs, various seminars and presentations are organised to provide information on job seeking skills and employment opportunities.

With the impact of digitalisation and the Covid-19 pandemic, the application of virtual employment fair has been launched since 2019.

Virtual fairs comprise a powerful network that allows job seekers and employers to meet in a virtual environment, provides the opportunity of preliminary interview between candidates and company representatives, creates an employment environment, and increases the recognition of İŞKUR's services by citizens, and saves time and cost for both parties. With these virtual fairs, it is ensured that the participant companies meet with job seekers throughout Türkiye. In addition, people can access the virtual fairs simultaneously from mobile devices or tablets.

At this point, it is aimed that all job-seeking groups, primarily groups requiring special policies, can meet with employers to ensure their participation in the labour force by benefiting from the "Virtual Fairs" application.

Within the scope of active labour market programmes, on-the-job training programmes are implemented by İŞKUR to increase the employability of the labour force.

As of 2023, on the basis of the days they actually participate in the programme and for those participating in the on-the-job training program, İŞKUR will provide:

- 438.55 TL per day for participants with the status of job seeker, 328.91 TL for students (except for universities), 163.59 TL per day for those receiving unemployment benefits,
- General health insurance and occupational accident and disease insurance premiums throughout the programme period.

Young people registered to İŞKUR benefit intensively from on-the-job training programmes, and as of 2022, 46 percent of those who benefit from on-the-job training programmes are young people aged 15-24. This rate has increased to 51 percent as of November 2023.

With the 4,000 Job and Vocational Counsellors recruited in 2012 and 2013, İŞKUR made the job and vocational counselling services available to wider audiences in a more effective way. Today, the effectiveness of the abovementioned services is increasing day by day with the appointment of job and vocational counsellors both within and outside the Agency. As of the end of November 2023, 4,668 job and vocational counsellors are working in İŞKUR.

Job and vocational counsellors provide all requested counselling services to job seekers, employers and students considering to their needs and according to the portfolio system. This situation requires the counsellor to focus on many tasks and individuals, rather than a single activity or individual. In order to prevent this problem, studies on the Profile Based Consultancy System have been initiated and the main purpose of the transition to this system is to increase the quality of counselling services.

In the period of more than 8 years from the date when job and vocational counsellors started their duty until today, İŞKUR reached many job seekers, employers and students, mediated in finding jobs and provided career guidance and information with more than 40 million individual interviews, more than 6 million workplace visits, 190 thousand school visits.

At the current stage in counselling services, which are considered to have reached very good levels in quantitative terms with the current system and personnel structure, there is a need to take new steps to increase the efficiency and quality of job and vocational counselling services and to shift to a system based on individual-oriented service provision. Based on the experiences gained in this process, and as a result of the meetings and evaluations held with Human Resources managers, private employment agencies, job seekers and other stakeholders, it was decided to switch to the Profile Based Consultancy System, which focuses on the individual and aims to provide services in accordance with the individual's profile.

Within the scope of Profile Based Consultancy, job and career counsellors have been divided into 5 branches below:

- Job Seeker Counsellor,
- Employer Counsellor,
- Vocational Counsellor,
- Job Coach for Persons with Disabilities,
- Job Club Leader

and a target group-oriented consultancy service has been initiated to be provided, specific to the individual's situation.

b) Reform measures

Measure 6: ***"Enhancing and improving the employment services in line with the needs of the labour market"***

1. Description of measure: İŞKUR follows up the developments in the labour market; implements effective practices in a flexible structure in line with the demands of job seekers, employers and sector representatives. In this scope, İŞKUR restructures and modernizes all of its services, primarily matching services, according to the necessities of this era. In addition to the target group-oriented diversification of the services to meet the need for qualified and experienced labour force, İŞKUR carries out significant resource transfers to train the labour force for future professions. İŞKUR also takes measures to protect the labour force at risk of unemployment, ensure effective provision of temporary income support and reintegrate those into employment.

Measures foreseen under the title of "Employment and Working Life" in the 12. Development Plan

- (697) Participation of groups requiring special policies in the labour market will be ensured with an adequate income, where registered, occupational health and safety conditions are provided.
- (698.5) Activities will be carried out to increase awareness of young people on careers and facilitate their access to employment opportunities.
- (695.1) Within the framework of the transformation in labour market, skill development activities will be carried out to meet the need for semi-qualified and qualified labour force.
- (698) Employment of young people will be increased and working conditions will be improved.
- (698.4) The effectiveness of programmes for supporting the access of young people not in employment nor education or training will be enhanced.
- (698.5) Activities will be carried out to raise the awareness of the youth on careers and facilitate their access to employment opportunities.

Measures foreseen under the title of "Employment" in the Medium-Term Programme:

- Vocational and technical education curricula will be updated in co-operation with the private sector. Private sector participation, including management and financing, will be increased to ensure the dissemination of internship and on-the-job training programmes.
- In order to encourage the participation of young people who are not in employment nor education or training, programmes that consider their vocational training, competence and skills will be implemented.
- Programmes and activities that will foster young people's awareness on careers regarding the professions of future will be expanded.

In the draft Strategic Plan of İŞKUR for the period of 2024-2028, several measures have been foreseen in particular for women, youth and persons with disabilities whom considered to be groups that require special policies in the labour market.

Virtual fairs are the events that bring all parties together in a virtual environment in order to contribute to increase employment by establishing a strong network between job seekers, employers, other public institutions and organizations, local governments, universities and non-governmental organizations for the aim of increasing effectiveness and recognition of İŞKUR.

Virtual fairs, which emerged with technological development in the early 2000s, unlike traditional fairs, allow job seekers and employers to meet in virtual environment and save time and cost.

Job seekers register by logging into the system online, upload their CVs to the system, and have the opportunity to browse the virtual stands of employers. Participation is free of charge for job seekers and employers. The first stage of the virtual fair is the collection of applications and candidate-search by public employment services in line with the needs of employers. At this stage, evaluation tests are applied to job seekers, and according to the results of the tests, the skills of job seekers and labour needs of companies are matched and direct guidance is rendered in a way appropriate for both parties.

Thus, the employers do not have to examine all CVs that are suitable for them or not. Job seekers who are deemed qualified can examine the virtual stands of the companies, get more information, watch videos about the company and upload CVs for eligible positions.

Since the fairs are online and there are no physical restrictions, companies have opportunity to give information almost in every respect such as vacancies, promotion possibilities, compensations and corporate culture on their stands. Employers or human resources experts are assigned to the virtual stands. Before online interviews, details of the job are explained to jobseekers online or verbally. Job seekers can ask all their questions to employers like in face to face fairs and interviews are performed via video camera. Job seekers can visit the fairs from their houses or anywhere, day or night anytime they want, search for vacancies, make applications or participate in an interview room that the company which organises the fair prepared in office environment. Virtual employment fairs offer numerous opportunities such as sharing video and material and live chat which meet the needs of information era. Today, those technological opportunities provide convenience for both job seekers and employers and that system widespreads day by day.

<u>The advantages of participating in virtual fairs for job seekers:</u>

- It provides easy access as it is easy to enter the fair environment from home or office.
- Multiple interviews can be made at the same time.
- Job seekers have access to many employment opportunities.
- In a virtual environment, it provides the opportunity to meet the current employees of the company that the person wants to work for and leave a positive impression on potential colleagues.
- By enabling job seekers to contact company representatives and to be informed about vacancies, it provides an opportunity for them to re-organise their CVs according to the required qualifications instead of just leaving their CVs electronically.
- Online fairs provide an alternative way for job seekers to communicate online with potential employers.
- It provides the opportunity to reach smaller companies.
- Job opportunities in other geographical regions becomes available.
- It allows job seekers to expand their networks through virtual forums.
- It provides easy access to a larger qualified labour force from different geographical regions and an expansive pool of candidates at a very low cost as it offers an opportunity to interview candidates.
- It offers employers the opportunity to meet extraordinary candidates from different disciplines.
- It provides the opportunity to reach a high number of candidates with different qualifications without incurring any cost for the announcement of job postings.
- Compared to the traditional employment fairs, it saves money as it is less costly in terms of both participation fee and transportation expenses, which makes the participation more attractive for small and medium-sized enterprises.
- It provides convenience and comfort as there is no need to transport to the fairgrounds and it is accessible from the office at any time of the day.
- Since more than one candidate can be interviewed at the same time, it saves time compared to traditional fairs.
- Virtual fairs also include tele-seminars and webinars which provide clues for job seeking strategies for job seekers.

Through on-the-job training programmes, it is ensured that people, who do not have professional or work experience gain professional and work experience, and thereby their employability is increased. In this way, people who are seeking for a job but cannot find due to lack of work experience, gain work experience and employers have the opportunity to train the labour force they need.

On-the-job training programmes are implemented in private sector workplaces with at least five employees. Within the scope of the programme, employers can use quotas up to 30 percent of the number of employees.

On-the-job training programme is implemented for maximum 6 months in workplaces and professions in the IT sector and manufacturing industries, and maximum 3 months in other sectors. On the other hand, it is implemented for a period not less than the minimum duration of the MoNE Lifelong Learning Modules in dangerous and very dangerous professions.

The duration of on-the-job training programmes is maximum 9 months for young people aged 18-29 who participate in on-the-job training programmes to be organised in areas such as cyber security, cloud computing, game developing and coding, which are seen as the professions of our era and the future.

Programmes can be planned for minimum 5 and maximum 8 hours per day and maximum 45 hours per week not to exceed 6 days.

As it is known, with the new ways of doing business brought by developing technological and industrial trends, it is of great importance for the labour force to adapt to these changes in this period when the concepts of digitalisation and green economy come together and reveal the twin transformation, together. In this context, it is aimed to increase the qualified labour force, and raise the level of global competitiveness of Türkiye through organising on-the-job training programmes in these fields for the upcoming period.

Within the scope of the policies and measures stated in the top policy documents, it is aimed to expand on-the-job training programmes and to enable young job seekers, especially young people requiring special policies, to benefit more from these programmes.

The job and vocational counselling services provided by İŞKUR contributes comparing the characteristics of individuals with the qualifications and conditions required by professions and jobs and helps the individual to choose the job and profession that best suits his/her wishes and situation, to benefit from training opportunities related to the chosen profession, to be placed in a job, and to solve problems related to job adaptation is provided systematically.

i. Activities planned in 2024:

- 70 virtual employment fairs will be held.
- 30,000 young people aged 15-24 will benefit from On-the-Job Training Programmes.
- 1,387,500 individual interviews for female job seekers will be applied.
- Individual counselling for young people with NEET potential will be provided for 61,000 persons.
- Within the scope of coaching for persons with disabilities, 280,500 individual interviews will be held.

ii. Activities planned in 2025:

- It is planned that 73 virtual employment fairs will be held,
- It is aimed that 35,000 young people between the ages of 15 and 24 will benefit from On-the-Job Training Programmes.
- 1,415,000 individual interviews for female job seekers will be applied.
- Individual counselling for young people with NEET potential will be provided for 62,000 persons.
- Within the scope of coaching for persons with disabilities, 286,000 individual interviews will be held.

iii. Activities planned in 2026:

- It is planned that 76 virtual employment fairs will be held,
- It is aimed that 40,000 young people between the ages of 15 and 24 will benefit from On-the-Job Training Programmes.
- 1,443,500 individual interviews for female job seekers will be applied.
- Individual counselling for young people with NEET potential will be provided for 63,500 persons.
- Within the scope of coaching for persons with disabilities, 291,000 individual interviews will be held.

2. Results Indicators:

Indicator	Current Situation	2024	2025	2026
Number of Virtual Fairs	115	70	73	76
Number of Visits to Virtual Fairs	553,067	40,000	42,000	44,000
Number of Participants in Virtual Fairs (employer)	2,567	500	525	550
Number of Young People Benefiting From On-the-job Training Programmes	23,798	30,000	35,000	40,000
Number of individual interviews applied for female job seekers	6,826,606	1,387,500	1,415,000	1,443,500
Number of people benefited from individual counselling for young people with NEET potential	659,582	61,000	62,000	63,500
Number of individual interviews applied under coaching for persons with disabilities	1,361,710	280,500	286,000	291,000

* Realisation data (current situation) is cumulative and includes the years 2019 – 2023 (November).
* The number previously given for the Number of Participants in Virtual Fair is the number of views and has been revised as the number of visits.
*The targets for 2024 - 2025 and 2026 are not cumulative but year-based.

3. Expected impact on competitiveness: Regarding the measure, groups requiring special policies in working life are composed of people who experience difficulties in starting jobs or continuing working life and whose integration to labour markets is more difficult.

With this Programme;

- No need for transportation to fairgrounds and access from the office at any time of the day provide convenience and comfort.
- Since employers can interview with more than one candidate simultaneously, time is saved.
- Participation is free of charge for job seekers and employers. Therefore, the cost of job seeking and job posting is eliminated.
- Employer can reach more target groups.
- When evaluated together with the job club activities carried out during the fairs;

- Participants are enabled to gain motivation for job seeking,
- Participants are supported to start the best possible job in the shortest time,
- An idea that there is a suitable job for any person who desires to work is created for participants,
- Job seekers are shown how to find jobs,
- Self-confidence of people is raised.

4. Estimated cost of the activities and the source of financing:

2024: 1,625,621,400 TL – 38,848,485 Euro (Unemployment Insurance Fund)
2025: 2,275,869,960 TL – 44,662,020 Euro (Unemployment Insurance Fund)
2026: 2,991,143,376 TL – 53,964,105 Euro (Unemployment Insurance Fund)

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Virtual Fairs as platforms for bringing job seekers and employers together in a way to include groups requiring special policies such as women, youth, the disabled, long-term unemployed, ex-convicts which increase the accessibility of matching system.

Transition to employment for young people who are disadvantaged in labour market will be facilitated by increasing the employability of labour force through on-the-job training programmes.

In the scope of job and vocational counselling, services are provided for women, NEETs, persons with disabilities who require special policies in the labour market.

6. Expected impact on environment and climate change: In this context, any negative impact regarding implementation of the measure is not foreseen. Fairs organised in a virtual environment provide savings in energy use, paper and fuel consumption.

7. Potential risks:

Risk	Probability	Planned mitigating action
Insufficient number of staff in some provinces may hinder preparations and planning for fair.	Low	The number of qualified relevant personnel in the provinces will be increased through trainings planned.
Insufficient promotion of fairs may cause low demand for fairs.	Medium	The level of awareness on the programs will be increased through cooperation to be ensured within the framework of the social dialogue mechanism.
Insufficient labour supply in the labour market due to regional differences and employers' reluctance to participate in virtual fairs at a sufficient level.	It is a low risk for provinces with corporate companies, and high risk for provinces with small companies.	Awareness of virtual fair activities will be increased.

iii. Social Protection and Social Inclusion

a) Analysis of main obstacles

Türkiye has a deeply committed on the global policies declared in SDG goals and EU social protection and social inclusion strategies in order to create "Better Life" for the citizens. Therefore, SDG1 (No Poverty), SDG2 (Zero Hunger), SDG3 (Good-Heath and Wellbeing), SDG4 (Quality of Education), SDG5 (Gender Equality) and SDG10 (Reduced Inequalities "European Pillar of Social Rights", "European Pillar of Social Rights Action Plan" and Porto Social Commitment are under scope of Türkiye while designing and implementing social protection and social inclusion policies.

Within this framework, Türkiye has been scene to significant advances in social policy, marked not only by major achievements in struggle against poverty and human development, but also by human wellbeing and equality as a fundamental principle starting with 2000s. New emphasis has been placed on the family that is the cornerstone of Turkish society and that benefits from the protection of the Constitution, further strengthening the idea inherited from the past. Assigning the family central position in social policies became the most significant feature of social policy being implemented in Türkiye.

Türkiye has especially extensive experiences on designing and implementing of poverty alleviation programs for almost 40 years. All social assistance programs are based on right-based approach and strong legal codes and administrative circulars, and run with strong and functional software program. The programs are grouped in six pillars covering fifty-six programs; Family Assistance, Education Assistance, Health Assistance, Sheltering&Food Assistance, Disability & Old Age Assistance and Project Supports. These fifty-six programs have a wide range of coverage of all kinds of vulnerabilities in Türkiye. These programs cover almost all vulnerable communities, households, and settlements. Türkiye is one of countries that have developed its social assistance system from digitization to digitalization and finally to digital transformation. By this transformation, Türkiye has;

- created a standardization across all social protection programs throughout the delivery,
- increased performance in benefits & service delivery,
- provided confidentiality of all data under PDPL (Personel Data Protection Law),
- reduced the time, cost, bureaucracy and paper-work significantly,
- increased transparency and accountability and prevented double-dibbing,
- provided easy access through e-government portal & fully automated payments,
- just started using tablets for data collection, scanning and monitoring by all foundations in all districts,
- started on-line social assistance application on e-state portal

Social assistance programs are designed on the policy of «positive discrimination» for women and children. Women and children in communities and regions requiring special policies are principally targeted vulnerable groups in social assistance programs in order to prevent intergenerational poverty.

Türkiye Family Support Program is a cash and regular assistance program that has been put into effect in order to support and protect our citizens in need in the face of the increases in the cost of goods and services as a result of the global developments experienced in the last two years, especially the coronavirus pandemic. The citizens, who meet the conditions determined for this Program and whose monthly income per person in the household is below 1/3 of the net minimum wage, are supported in cash and regularly for a 12-month period. In addition to citizens requiring special policies who are supported by social assistance programs, it is aimed to support citizens (working as a civil servant, notary public or headman in their household or working abroad, borrowing abroad or within the scope of private funds) below a certain income level who can not benefit from these assistances because they do not meet the conditions determined specifically for social assistance programs. In other words, for the first time in Türkiye, it is aimed to provide cash and regular support only by considering income, without seeking an additional thematic criteria (disability, old age, having a relative in the military, etc.).

Workers in State Enterprises, who were out of scope in the previous regulation, are included in the Program. Within the scope of the "Child Support Component", additional payments in every month depending on the number of children in eligible households and monthly paid unit amounts were put into effect.

As of 2019, electricity consumption support has been put into practice. If the consumption unit amount increases, the payment amount is determined according to the monthly income per person in the household within the scope of the program.

As a requirement of Türkiye's social state understanding, the "Natural Gas Consumption Support" Program, where applications are received through the e-government portal with the aim of increasing the human development level of citizens, has been initiated. The amount of support provided within the scope of the program is determined on the basis of the thermal map according to the climatic conditions of the region. Citizens residing as household or tenants and living in residential households, whose application conditions are suitable, can benefit from the support. The said support is provided by the Social Assistance and Solidarity Foundations to whom within the scope of the law on Social Assistance and Solidarity No. 3294 or which are in temporary need and are unable to meet their basic needs.

Under the condition that the people in need, who benefit from the Pre-school/Nursery Class Assistance and Social Assistance programs implemented in 2022, register their children between the ages of 3-5 in a Pre-school/Nursery Class affiliated with the Ministry of National Education, the expenses they are obliged to pay for each child are covered by the Ministry of Family and Social Services. Payments are made directly to the Ministry of National Education.

Service provision in social assistance has been taken one-step further and the online social assistance application period has started. During the online social assistance application period, which we set out with the vision of Digital Türkiye, our citizens can apply for social assistance via e-Government.

In the Integrated Social Assistance Information System Database, there are socioeconomic data of beneficiaries collected from 29 different institutions and household visits. The Business Intelligence and Data Warehouse Project was implemented in 2022 for the effective use of this data, realization of simulations and budget projection studies. With this project, which is still in the testing phase, prospective social risk estimations and social assistance needs assessments will be made, including the use of artificial intelligence. Thus, it is aimed to carry out our preventive and protective social assistance activities more effectively.

One of the main goal of the MoFSS is to integrate the social services and social assistance programs by using digital systems. In this scope, Family Information System and Integrated Social Assistance System were connected. If vulnerable people who take social assistance need social services, they are referred to social services center on digital base.

The main objectives of Türkiye are to determine policies and strategies at national level for persons with disabilities and older persons to participate in social life by benefiting from human rights without discrimination, to develop and diversify social service activities carried out for persons with disabilities and older persons, and to ensure cooperation and coordination with relevant institutions in the field.

The Presidential Circular on the precise implementation by all stakeholders of the first "National Action Plan on the Rights of Persons with Disabilities" prepared, which is the implementation tool of the 2030 Barrier-Free Vision Document between 2023 and 2025, was published in the Official Gazette dated February 2, 2023 and numbered 32092. With the National Action Plan, 316 activities have started to be implemented within the scope of 107 action areas for 31 goals that mainstream disability and consider the needs of persons with disabilities arising from disability, with strong coordination in all areas, multilateral cooperation and participation of civil society organizations representing PwDs.

Monitoring and Evaluation Board for the Rights of Persons with Disabilities was established in line with Presidential Circular No. 2021/23 in order to carry out legislative studies on issues related to the protection, development, and strengthening of the rights of PwDs, to make recommendations on measures to be taken in cases of violations of rights, to prepare strategy documents and action plans on the subject and to provide opinions on the prepared, and to ensure inter-institutional cooperation and coordination on the rights of PwDs. The Board, which consists of senior representatives of all relevant public institutions and civil society organizations working in the field of disability, continues its activities.

Studies are carried out to raise awareness and increase the level of knowledge and awareness, with the concept of “Accessibility Workshops”. In this context, 78 Workshops have been held since 2021 under the headings of "pavements", "pedestrian crossings", "stops (bus and tram)" and "web content".

Working life is one of the most basic means of taking part in social life for persons with disabilities as it is for everyone. The quota method is applied as the main method for the employment of persons with disabilities, and efforts are underway to diversify employment models in addition to this method. The sheltered workplace model is implemented and in this context, sheltered workplaces are supported by the Government in order to ensure the employment of persons with disabilities, which is challenging in the open labour market. Employment of persons with disabilities as public personnel and workers in governmental institutions is carried out through a centralized exam, EKPSS. As the number of persons with disabilities working as public personnel remained below the quota, a separate and centralized exam, EKPSS, was introduced in 2012 to enable persons with disabilities to be appointed as public personnel. In addition to EKPSS, persons with disabilities can also enroll in other exams. EKPSS is conducted by considering the educational status of candidates with disabilities and the disadvantages posed by disability groups. The exam questions are prepared to test the knowledge, abilities and skills of persons with disabilities based on their level of learning and perception, language development and verbal communication difficulties, and the exam is held in appropriate environments, in consideration of the disability groups and accessibility of the candidates.

Ageing Vision Document and the first National Action Plan on the Rights of Older Persons has been prepared, which sets out the vision of building a society for all ages where older persons can realize their rights, receive services in accordance with their needs and demands and pass on their life experiences to future generations. Therefore, 183 activities determined within the scope of 51 action areas for 16 goals that consider the age-related differentiated needs of older persons will be implemented.

The Survey on the Profile of Older Persons Türkiye will be conducted for the first time in order to create social indicators that holistically address services for older persons and the needs of older persons in Türkiye, to obtain evidence-based data, and to plan protective and preventive activities in line with the data obtained. The target audience of the study includes public institutions, civil society organizations and local governments that develop policies and services on older persons, demography and family structure, as well as institutes, academics, researchers, policy makers and practitioners working on the issue.

In Türkiye, which is in the process of "demographic transformation" referred to as the pace of population ageing, the age structure of the population has changed shape with the decrease in fertility and mortality rates, developments in healthcare, increase in the standard of living, welfare level and life expectancy. The globally observed and accelerating process of ageing brings with it issues such as variable burden of diseases, increasing health and long-term care expenditures, loss of labor force, spending of existing savings, income security, realization of rights and accessible living spaces for older persons, adaptation to the digital age, and the impact of climate change on older persons. Therefore, the aim is to provide demographic and socioeconomic data disaggregated by age and sex in the formulation of social policies for older persons by revealing the possible effects of ageing within a significant transformation of the population. Accordingly, the Survey on the Profile of Older Persons including demographic and socio-economic data disaggregated by age and sex, will be conducted.

The main perspective in care services for persons with disabilities is to prioritize the long-term care of persons with disabilities together with their families, without separating them from their social environment. With this, the option of institutional care is also offered to PwDs who cannot be cared at home. Long-term care services for PwDs are diversified, improved, and expanded through community-based services such as home care allowance, social assistance, day care services, respite care and Hope Homes. Within the framework of developing services for PwDs with different needs, studies are being carried out to expand specialized autism centers in order to provide qualified service to persons with autism in care institutions. Family-oriented care services for older persons are updated and improved according to the changing demographic structure. In this context, community-based care services are emphasized with practices that support care with the family. Social assistance, day care services, as well as residential care for older persons are provided in a complementary manner.

A care model to support and strengthen the PwDs, older persons and their families is the day care centers where half or full day services are provided. Within the scope of community-based care services, also in order to strengthen the participation of PwDs and older persons in social life to increase their quality of life and to support their psychosocial needs day care services are provided. These centers also provide the opportunity for relatives who provide full-day care services to PwDs or older persons to participate in the active labour market.

Home care allowance, which is carried out within the scope of the Additional Article 7 of the Social Services Law No. 2828, was initiated with the idea of supporting the PwDs who are provided care by their families. In order to benefit from this service; persons with disabilities must have severely disabled/fully dependent Health Board Report and income per capita in the household should be less than 2/3 of the minimum wage.

Older persons have been educated within the framework of education structures that are known as the “third age universities” in the literature and operate under different names such as 60+ Refreshment University within the campuses of different universities in Türkiye. Aforementioned education programs have been created specifically for the needs of individuals aged 60 and over. Diversification and dissemination of such training programs within the scope of lifelong learning is supported by the Ministry of Family and Social Services. Within the scope of the 60+ Refreshment University education program, theoretical and practical trainings are given together. The trainings/courses in the programs based on the same foundations in various universities vary according to the demands of the participating students and universities/campuses, taking into account regional differences.

It is known that there is an urgent need to develop opportunities for the older persons to continue contributing to society by ensuring their participation in every segment of social and economic life. Especially in the digital transformation process, which has accelerated with the pandemic, it is more important than ever in current conditions for older persons to recognize, learn and use the technological tools they will need. It is aimed to expand the digital and financial literacy trainings developed for older persons throughout the country to include all older persons who receive or do not receive institutional care services.

v. Health Care

a) Analysis of main obstacles

As a result of the progress made in health service provision in recent years, developments have occurred in many areas, especially in the fields of physical infrastructure, human resources, access to service, family medicine, maternal and child health, number of hospital beds, preventive health, institutional structuring, fight against infectious diseases, patient and physician rights. In addition, efforts continue to eliminate differences in the inter-regional distribution of physical infrastructure and health personnel, to ensure the sustainability of financing in the field of health, to increase the quality of service delivery and to strengthen preventive health services.

As a result of improvements in services for maternal and infant health, there is a significant improvement in data regarding maternal and infant health. While the maternal mortality rate per hundred thousand live births was 14.5 in 2017, it decreased to 12.6 in 2022. As of 2020, the same rate was 10.8 and 8.8 per hundred thousand live births in the OECD and the EU, respectively. On the other hand, the infant mortality rate, which was 9 per thousand live births in 2017, showed a more horizontal course and reached 9.1 in 2022. The DaBT 3 vaccination rate, which is an important factor in reducing infant deaths, was 99.5 percent in 2022. The infant mortality rate per thousand live births was 3.6 and 3.1 in the OECD and EU, respectively, as of 2021.

The healthcare infrastructure has improved in terms of patient bed capacity and quality of patient beds, and the number of beds per ten thousand people, which was 27.9 in 2017, became 30.7 in 2022. While the ratio of the number of qualified beds to all beds excluding intensive care beds was 61.3 percent across the country in 2016, it increased to 80.9 percent in 2022, and in the same years, the ratio reached to 79.6 percent from 52.2 percent in the hospitals at the care of Ministry of Health. With the improvement of the health infrastructure and easier access to services, the number of applications to a physician per capita, which was eight in 2021, reached 10 in 2022.

In 2022, the total number of physicians in our country was 194,688, the total number of dentists was 42,359, the number of nurses was 243,565 and the number of midwives was 59,632. In the same year, the number of physicians per hundred thousand people was 228, while the number of nurses and midwives was 356. For 2021, these numbers are 402 and 886 in the EU and 372 and 932 in the OECD, respectively. While the number of nurses and midwives per physician is 2.2 in the EU and 2.5 in the OECD average, in our country this rate will be 1.56 in 2022 and efforts to increase the number of healthcare personnel will continue.

5.4. Summary of Reform Measures

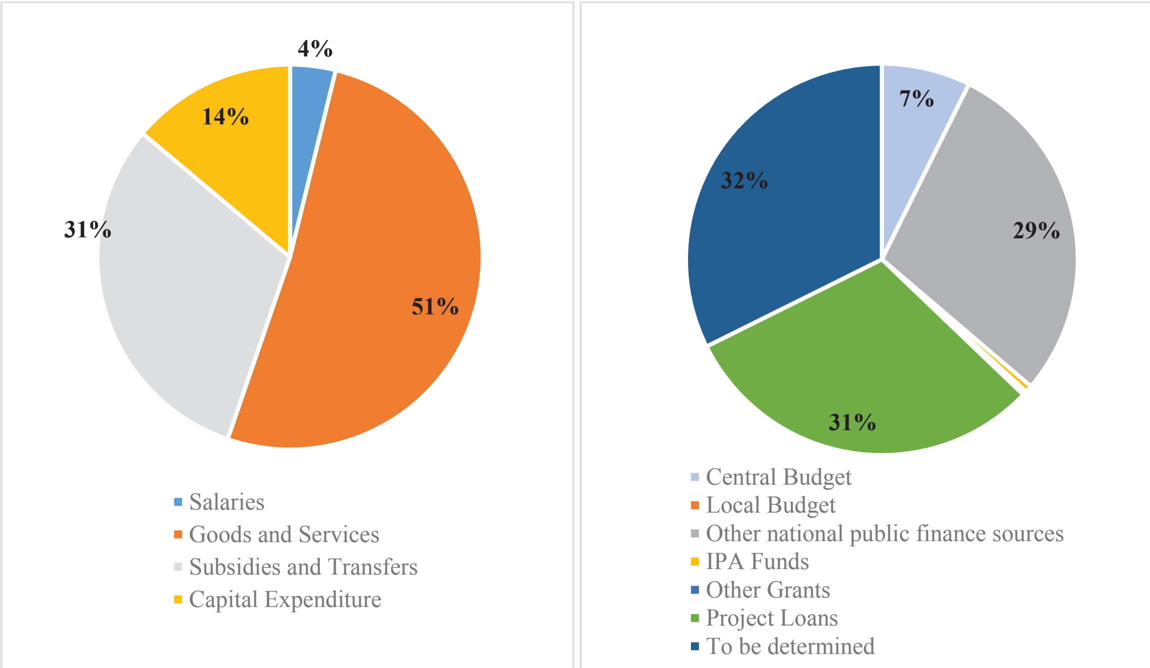
Reform Measures	Basis	Institution	ERP (2023-2025) Measure Number*
Competitiveness			
Supporting the modernization of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry	12th Development Plan, MTP (2024-2026)	The Ministry of Industry and Technolohy, KOSGEB, TÜBİTAK	7
Promoting sustainable tourism and branding	12th Development Plan	The Ministry of Culture and Tourism, Tourism Development Agency	11
Sustainability and Resilience			
Accelerating green transformation	12th Development Plan, MTP (2024-2026)	The Ministry of Environment, Urbanization and Climate Change	8
Developing data-driven policies and services through secure sharing and use of public sector data with the public data space to be activated in line with the new data strategy	12th Development Plan	Digital Transformation Office, the Presidency of the Republic of Türkiye	9
Human Capital and Social Policies			
Skill-based updating of curriculum at all levels within the scope of green and digital transformation and developing a system for recognizing previous learning by strengthening vocational training centers	12th Development Plan	The Ministry of National Education	13
Enhancing and improving the employment services in line with the needs of the labour market	12th Development Plan	The Ministry of Labour and Social Security,, İŞKUR	2

*All measures are updated according to European Commission Guidance, it shows the relevant measures from ERP (2023-2025).

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

A total of 6 structural reform measures will be implemented in the ERP (2024-2026). Approximately 892 million Euros additional costs are envisaged for the implementation of these measures. Analyzing the breakdown of the cost, goods and services have the highest share about 459 billion Euros. 51 percent of the cost items consist of goods and services, 31 percent of subsidies and transfers, 14 percent of capital expenditure and lastly 4 percent of salaries. Considering the financing sources, 32.3 percent of this additional cost is planned to be covered from the item to be determined. The high share of the item to be determined is due to the fact that the TGA budget is included under the item to be determined in the measure number 2 ***“Promoting sustainable tourism and branding***”. It is planned that 30.5 percent of the financing resources will be covered by project loans (Figure 6.1).

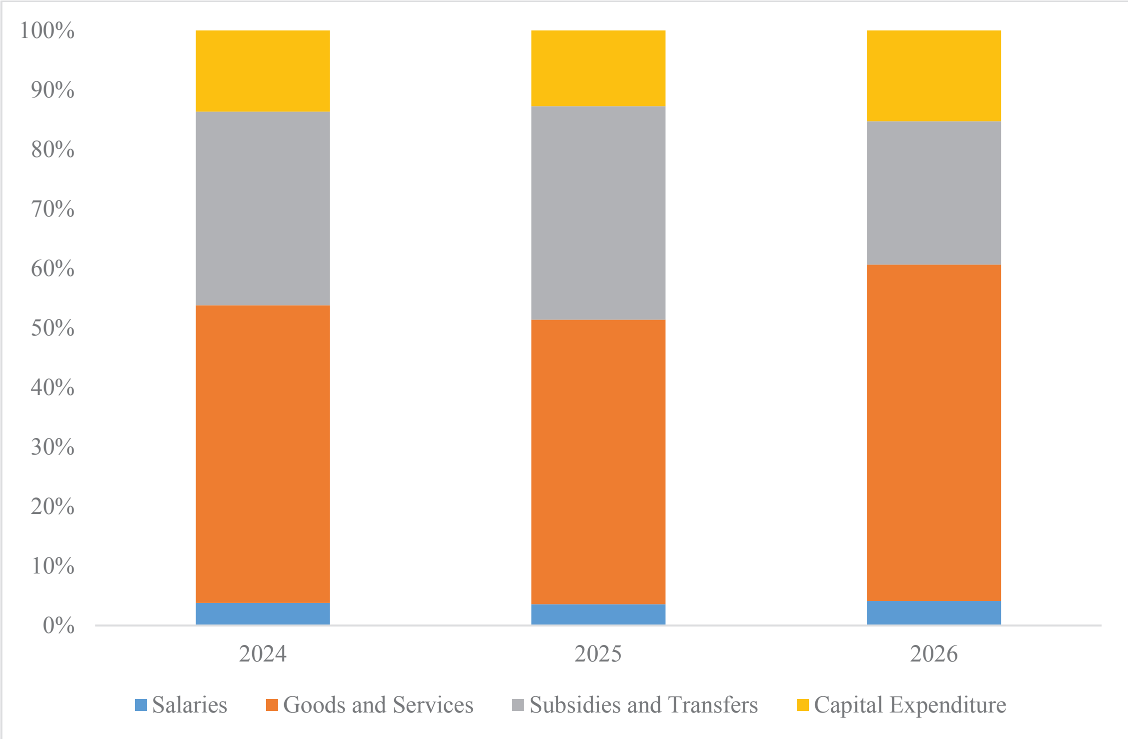
Figure 6.1: Expected Cost and Financing of Structural Reforms (Euro)



No significant change is foreseen in the shares of cost items by years (Figure 6.2). The highest share of cost items stand out as the goods and services. Throughout the programme, measures that will mostly cause goods and services and subsidies and transfers related cost are included.

In the program period, the resources transfer mostly to the measure numbered 2 “***Promoting sustainable tourism and branding***” and numbered 1 “***Supporting the modernization of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry***”, respectively. In this context, a reform agenda has been determined in which both economic and social developments are prioritized for sustainable development process, efficiently. In the medium and long term, it is expected to increase both employment and competitiveness through these measures in Turkish economy.

Figure 6.2: Expected Cost by Years (Euro)



7. INSTITUTIONAL ISSUES AND STAKEHOLDERS INVOLVEMENT

Development plans are the main policy documents setting out medium to long-term economic and social policy priorities in Türkiye. They have a guiding role in ensuring that existing resources are used efficiently and that resources are directed to the highest value added areas in economic and social terms through managing Türkiye's sustainable development process with a strategic approach. In this direction, the 12th Development Plan, which is a roadmap for the upcoming 5-year period from the perspective of 2053, has been prepared by taking into account the opinions of different segments of society. During the preparation of the 12th Development Plan (2024-2028), 87 different ad-hoc committees and working groups were set up in order to obtain the opinions and suggestions from various parts of society. Approximately 8,500 representatives from the public sector, private sector, academia and non-governmental organisations participated in these meetings and contributed to the ongoing studies. In addition, high-level participatory meetings were held with relevant public institutions, academia, civil society organisations, professional associations and the business community. An online citizens' survey was conducted with the participation of some 43,000 citizens. Based on the results of these participatory meetings and the citizens' survey, the draft plan was prepared under the coordination of the Presidency of the Republic of Türkiye Presidency of the Strategy and Budget and shared with the relevant institutions for their comments. After the final revisions, the latest version of the Plan was submitted to the TGNA by the President of the Republic of Türkiye and approved by the General Assembly of the TGNA on 31 October 2023, and entered into force after being published in the Official Gazette on 1 November 2023.

In consultation with all relevant institutions, ERP (2024-2026) has been prepared based on Long-Term Development Strategy (2024-2053) and 12th Development Plan (2024-2028), Medium Term Program (MTP, 2024-2026) and 2024 Presidential Annual Program. The ERP (2024-2026), which is prepared in accordance with the top policy documents with the contributions of all relevant public institutions and organisations under the coordination of Presidency of the Republic of Türkiye, the Presidency of Strategy and Budget, is submitted to the European Commission after the approval of the President.

Following the update of the ERP guideline by the European Commission, a launch meeting is organised traditionally each year with representatives of the relevant public institutions and organisations. At these meetings, organised by the ERP country coordinator, the documents previously submitted to the institutions for the ERP process (ERP assessment, policy guidance, updated guideline, etc.) are presented and opinions are exchanged on expectations and possible contributions. In addition, several workshops will be organised throughout the year in cooperation with the Presidency of the Republic of Türkiye Presidency of the Strategy and Budget and the Centre of Excellence in Finance (CEF) to ensure that the contributions to be prepared for the structural reform part of the programme are in line with the guidelines. As part of the preparations for 2023, successful workshops were held on 5-6 July 2023 and 4-5 December 2023 with the participation of all relevant public institutions and organisations in cooperation with CEF. At the December workshop, the framework of measures was improved by making suggestions on the scope of measures and their compliance with the current guidelines. In the process that followed the meeting, the institutions' work on improving the measures in the ERP was carried out in mutual communication with the strategy and budget experts. As a result of these consultations, the updated contributions were finalized as of January 2024.

The contributions of the institutions, including past realizations and commitments for the future within the framework of the main policy documents, were all submitted to the Presidency of Strategy and Budget as an ERP coordinator in the aftermath. In this way, all related institutions are actively involved in the ERP process, monitoring, and evaluation of commitments.

ANNEX TABLES

Table 1.a: Macroeconomic Prospects

	ESA Code	2022	2022	2023	2024	2025	2026
		Level (Billion TL)	Rate of Change				
1. Real GDP, Chained volume	B 1 * g	2122.0	5.5	4.4	4.0	4.5	5.0
2. GDP, at current prices	B 1 * g	15011.7	106.9	69.7	61.5	28.6	19.0
Components of Real GDP (Chained volume, Percentage Change)							
3. Private Consumption Expenditure	P3	1565.8	17.8	10.9	3.5	4.3	4.4
4. Public Consumption Expenditure	P3	188.4	5.0	6.0	4.3	3.8	3.6
5. Gross Fixed Capital Formation	P51	513.8	1.3	5.5	3.6	3.8	4.7
6. Changes in Inventories and Net Acquisition of Valuables*	P52+P53	---	-7.7	-2.5	-0.5	-0.3	-0.2
7. Exports of Goods and Services	P6	534.2	9.9	-0.9	3.3	5.2	5.9
8. Imports of Goods and Services	P7	436.1	8.6	13.3	1.7	4.8	5.3
Contribution to Real GDP Growth (Percentage Points)							
9. Final Domestic Demand	---	---	12.5	9.9	4.0	4.6	4.9
10. Changes in Inventories and Net Acquisition of Valuables*	P52+P53	---	-7.7	-2.5	-0.5	-0.3	-0.2
11. External Balance on Goods and Services	B11	---	0.7	-2.9	0.4	0.2	0.3

* Contribution to growth

Table 1.b: Price Developments

Percentage Change, Yearly Average	ESA Code	2022	2023	2024	2025	2026
1. GDP Deflator	---	96.0	62.6	55.3	23.1	13.4
2. CPI	---	64.3	65.0	33.0	15.2	8.5

Table 1.c: Labor Market Developments

	ESA Code	2022	2022	2023	2024	2025	2026
		Level	Rate of Change, Percent				
1. Population (Thousand, Mid-year)	---	84,980	1.0	1.1	1.1	1.1	1.0
2. Working Age Population (Thousands)	---	64,679	1.5	1.3	1.4	1.3	1.3
3. Labor Force Participation Rate (%)*	---	53.1	1.7	0.6	0.7	0.6	0.6
4. Employment, Persons (Thousands) **	---	30,752	6.8	2.9	2.4	2.8	3.1
5. Unemployment Rate (ILO Definition)	---	10.4	-1.6	-0.3	0.2	-0.3	-0.7
6. Labor Productivity Growth	---		-1.2	1.4	1.5	1.7	1.8

* Represents percentage point increase with respect to the previous year.

** 15+ years-old.

Table 1.d: Balance of Payments

Percentage of GDP	ESA Code	2022	2023	2024	2025	2026
1. Current Account	---	-5.4	-4.0	-3.1	-2.6	-2.3
- Balance of Goods	---	-9.9	-9.9	-7.6	-7.0	-6.5
- Balance of Services	---	5.5	5.1	5.4	5.3	5.1
- Balance of Primary Income	---	-1.0	-1.0	-1.0	-1.0	-1.0
- Balance of Secondary Income	---	0.0	0.0	0.0	0.1	0.1
2. Capital and Financial Account (Including Reserves)	---	-2.6	-4.5	-3.1	-2.6	-2.3
Statistical Discrepancy	---	2.9	-0.5	0.0	0.0	0.0

Source: Realization CBRT, forecast Presidency of Strategy and Budget and MoTF

Table 1.e: GDP, Investments and Gross Value-Added

	ESA Code	2022	2023	2024	2025	2026
GDP, Current Prices, Billion TL	B 1 * g	15011.7	25482.6	41159.2	52941.7	62996.5
Investment Ratio, Percentage of GDP, %	---	35.0	33.0	32.6	32.7	33.0
Value-Added by Sectors (Chained Volume, Percentage Change)						
1. Agriculture	---	1.3	1.1	3.0	3.0	3.0
2. Industry	---	1.7	2.5	3.7	4.5	5.2
3. Services	---	8.1	4.4	4.5	4.7	5.1

Table. 2: General Government Budgetary Prospects

(Percent of GDP)	ESA Code	2022	2023	2024	2025	2026
Net Lending (B9) by sub-sectors*						
1. General Government	S13	0.8	6.5	6.0	3.0	2.5
2. Central Government	S1311	0.6	5.8	5.4	2.2	1.6
3. Funds	S1311	-0.1	0.2	0.0	-0.1	-0.1
4. Local Administration	S1313	0.3	0.3	0.0	0.0	0.0
5. Social Security Fund	S1314	0.3	0.4	0.9	1.2	1.3
6. Revolving Funds	S1311	-0.1	0.0	0.0	0.0	0.0
7. Unemployment Fund	---	-0.2	-0.2	-0.4	-0.3	-0.3
General Government (S13)						
8. Total Receipts	TR	27.8	30.2	31.2	31.2	31.2
9. Total Expenditures	TE	28.6	36.7	37.2	34.2	33.7
10. Net Lending	EDP.B9	0.8	6.5	6.0	3.0	2.5
11. Interest Payments	EDP. D41+FISIM	2.2	2.6	3.1	3.5	3.7
12. Primary Balance	---	1.4	-3.9	-2.9	0.4	1.2
Components of Revenues						
13. Taxes	---	15.9	17.0	18.2	18.2	18.2
14. Social Funds	D61	6.4	7.6	8.0	7.9	7.8
15. Factor Incomes	D4	4.2	4.2	3.4	3.5	3.5
16. Other	---	1.4	1.4	1.7	1.6	1.6
17. Total Receipts	TR	27.8	30.2	31.2	31.2	31.2
Components of Expenditures						
18. Total Consumption	P32	12.2	14.5	14.8	14.4	14.2
19. Total Social Transfers	D62+D63	4.8	6.1	6.9	6.9	6.9
20. Interest Payments	EDP. D41+FISIM	2.2	2.6	3.1	3.5	3.7
21. Subsidies (1)	D3	0.4	1.5	1.5	0.3	0.3
22. Gross Fixed Capital Formation	P51	2.9	3.1	2.7	2.5	2.5
23. Other	---	6.1	8.9	8.2	6.6	6.1
24. Total Expenditures	TE	28.6	36.7	37.2	34.2	33.7

* (+) refers to deficit, (-) refers to surplus.
(1) Includes agricultural support. duty losses of SEEs and Support and Price Stability Fund.

Table 3: General Government Debt Developments

	ESA Code	2022	2023	2024	2025	2026
Percentage of GDP						
1. Gross Debt	---	30.8	33.3	35.2	34.6	33.2
2. Change in Gross Debt	---	---	2.5	1.9	-0.6	-1.4
Contributions to Change in Gross Debt						
3. Primary Balance	---	-1.4	3.9	2.9	-0.4	-1.2
4. Interest Expenditure	EDP D.41	2.2	2.6	3.1	3.5	3.7
5. Current GDP Growth	---	-32.9	-23.2	-21.7	-9.9	-6.3
6. Other	---	21.2	19.2	17.6	6.3	2.4

Table 4: Cyclical Developments*

	2022	2023	2024	2025	2026
1. Real GDP Growth (2009=1000 Chained Volume, %)	5.5	4.4	4.0	4.5	5.0
2. Net Lending of General Government / GDP (%)1**	0.8	6.5	6.0	3.0	2.5
3. Interest Expenditure / GDP (%)	2.2	2.6	3.1	3.5	3.7
4. One-off and other temporary measures / GDP2	-1.1	-3.6	-3.8	-0.9	-0.7
5. Potential GDP Growth (%)	5.0	4.8	4.8	4.9	5.0
6. Output Gap	1.0	0.7	-0.2	-0.5	-0.6
7. Cyclical Budgetary Component / GDP (%) **	-0.5	-0.9	-0.5	-0.2	0.0
8. Cyclically-adjusted balance / Potential GDP (2-7)**	1.3	7.4	6.5	3.2	2.5
9. Cyclically-adjusted primary balance / Potential GDP (8-3)**	-0.9	4.8	3.4	-0.2	-1.1
10. Structural balance / Potential GDP (8+4)**	0.2	3.8	2.7	2.3	1.9

*General Government
** (+) refers to deficit. (-) refers to surplus.
[1] Public Claims Restructuring. Privatization. Zoning Amnesty. 2B Revenues and Other One-Off Revenues and Expenditures Included General Government Balance
[2] A plus sign means deficit-reducing one-off measures.

Table 5: Divergence from Previous Update

	2022	2023	2024	2025	2026
GDP Growth (Percent)					
Previous Update	5.0	5.0	5.5	5.5	---
Latest Update	5.5	4.4	4.0	4.5	5.0
Difference	0.5	-0.6	-1.5	-1.0	---
General Government Net Lending (Percentage of GDP)					
Previous Update	3.2	3.5	2.4	1.4	---
Latest Update	0.8	6.5	6.0	3.0	2.5
Difference	-2.4	3.0	3.6	1.6	---
General Government Gross Debt (Percentage of GDP)					
Previous Update	36.7	35.2	33.6	32.1	---
Latest Update	31.7	33.3	35.2	34.6	33.2
Difference	-5.0	-1.9	1.6	2.5	---

* Realization

Table 6: Basic Assumptions on the External Economic Environment Underlying 2024 Pre-Accession Economic Reform Program Framework

	2022	2023	2024	2025	2026
Exchange Rates					
Parity ($/Euro)	1.05	1.10	1.14	1.16	1.16
Real Exchange Rate (Percentage Change)*	-16.0	1.5	-7.8	0.3	0.0
GDP Growth					
Euro Area (Real. Percentage Change) **	3.3	0.7	1.2	1.8	1.7
EU (Real. Percentage Change)**	3.6	0.7	1.5	2.1	2.0
World Trade (In Real Terms)**					
World Trade Volume Increase (Percent)	5.1	0.9	3.5	3.7	3.6
International Prices					
EU CPI (Percentage Change)**	9.3	6.5	3.7	2.4	2.2
US CPI (Percentage Change)**	8.0	4.1	2.8	2.4	2.2
Oil Prices ($/Barrel)	100.8	82.3	86.7	85.9	84.9

* (+) refers to appreciation, (-) refers to depreciation.
** IMF World Economic Outlook, October 2023

Table 7a: Contingent Liabilities. CGF

	Measures	Date of adoption	Amount of Guarantees TRY (Exchange with the Approval Date)	Maximum amount of contingent liabilities (% of GDP)
In response to Covid-19	Business Continuity Support	30.03.2020 / 31.12.2020	115,478,621,240	1.7370
	Operating Expenses Support (OPEX)	30.03.2020 / 31.12.2020	28,149,766,822	0.4234
	Check Payment Support	30.03.2020 / 31.12.2020	6,890,351,935	0.1036
	Eximbank Loan Support	30.03.2020 / 31.12.2020	2,642,378,024	0.0397
	2020 Nefes Loan	23.04.2020 / 31.12.2020	2,381,784,158	0.0358
	Eximbank Stock Financing Support	27.04.2020 / 31.12.2020	12,960,000	0.0002
	Development Investment Bank of Türkiye Loan Support Package	14.07.2020 / 31.12.2020	1,170,472,916	0.0176
	Financial Support Program	27.08.2020 / 5.02.2021	6,462,041	0.0001
	Tourism Support Package	27.09.2020 / 31.10.2021	3,689,319,297	0.0555
	Micro SMEs Lifeline Loan	23.10.2020/ 1.11.2021	1,261,668,038	0.0190
	2021 Nefes Loan	31.05.2021 / 31.07.2021	3,392,024,915	0.0510
	Personal Loan	30.03.2020 / 31.12.2020	33,496,037,526	0.5039
		Total	198.571.846.910	
Others	Additional Employment Support Package*	24.09.2021 / 01.07.2022	5,564,852,187	0.0837
	Manufacturing Based Import Substitution Support Package*	24.09.2021 / 31.12.2023	61,746,700	0.0009
	Cold Air Unit Refrigerated Vehicle Support Package*	24.09.2021 / 31.12.2022	0.0000	0.0000
	Turwib	30.03.2020 / 30.03.2022	62,930,720	0.0009
		Total	5.689.529.607	

* Figures indicate amount of guarantess before 2022

Table 8a: Social Scoreboard Indicators

	Data source	2019	2020	2021	2022	2023
Equal opportunities						
1. Adult participation in learning during the last 12 months,age **18+**	TurkStat	---	---	---	22.9	---
2. Share of early leavers from education and training, age **18-24**	Eurostat	31.0	28.7	26.7	---	---
3. Share of population with basic overall digital skills or above, age **16-74**	Eurostat	---	36	---	30	---
4. Young people neither in employment nor in education or training (NEET rate), age **15-24**	LFS	29.5	32.0	28.4*	27.2*	---
5. Gender gap in employment rate, age **20-64**	LFS,Male	73.2	70.1	73.6*	75.9*	---
	LFS,Female	34.4	32.0	34.1*	37.1*	---
6. Income quintile share ratio - S80/S20	Eurostat	8.35	9.20	8.80	---	---
Working conditions						
7. Employment rate, age **20-64**	LFS	53.8	51.1	53.9*	56.5*	---
8. Unemployment rate, age **15-74**	LFS	13.7	13.1	12.0*	10.5*	---
9. Long-term unemployment rate, age **15-74**	LFS	3.2	3.3	3.7*	2.5*	---
10. Gross disposable income of households in real terms, per capita	---	---	---	---	---	---
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	Eurostat	33.1	34.1	34.0	---	---
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (**0-17**)	Eurostat	43.2	43.4	45.2	---	---
13. Impact of social transfers (other than pensions) on poverty reduction	Eurostat	8.94	9.45	13.51	---	---
14. Disability employment gap	Eurostat	---	---	---	---	---
15. Housing cost overburden rate	Eurostat	10.5	10.2	11.6	---	---
16. Children aged less than 3 years in formal childcare	Ministry of Family and Social Services	---	806 (under institutional care) 746 (under foster care)	553 (under institutional care) 635 (under foster care)	---	---
17. Self-reported unmet needs for medical care	Eurostat	3.0	1.9	2.3	---	---

* The series is not comparable with previous years due to the regulations in the definition, scope and design of the questionnaire with the year 2021 in LFS.

Table 8b: Other Selected Indicators

	Data source	2019	2020	2021	2022	2023
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	TurkStat	12.6	13.0	10.8	---	---
2. Public healthcare expenditure in % of GDP	TurkStat	3.6	3.9	3.9	3.1	---
3. Household out-of-pocket payments as a % of total health expenditure	TurkStat	16.7	16.0	15.9	18.5	---
4. Percentage of population not covered by insurance*	Social Security Institution	1.2	1.5	1.2	0.8	---
5. Ratio of doctors per 1000 inhabitants	MoH / TurkStat	1.93	2.05	2.17	2.28	2.41**
6. Ratio of nurses per 1000 inhabitants	MoH / TurkStat	2.38	2.72	2.75	2.86	2.93**
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions (%)	TurkStat	9.04	11.05	7.26	---	---
8. Greenhouse gas emissions per capita (tonnes CO_2 eq.)	TurkStat	6.2	6.3	6.7	---	---
9. Generation of waste excluding major mineral wastes (tonnes)	TurkStat	---	77,538,834***	---	---	---
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	Eurostat, TurkStat	88.3	90.7	92.0	94.1	---
11. Share of total population using internet [NB: population 16-74]	Eurostat, TurkStat	74.0	77.7	81.4	83.4	---
Energy						
12. Energy imports dependency (%)	Eurostat	70.0	70.6	70.9	---	---
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	(toe per thousand 2015Euro) Ministry of Energy and Natural Resources	0.161	0.161	0.161	0.156	0.147
14. Share of renewable energy sources in final energy consumption (%)	Ministry of Energy and Natural Resources	7.5	7.6	7.6	7.5	---
Transport						
15. Railway Network Density (meters of line per km2 of land area)	General Directorate of Turkish State Railways	13.24	13.24	13.45	13.59	---
16. Motorization rate (Passenger cars per 1000 inhabitants)	TurkStat	150	157	162	167	---
Agriculture						
17. Share of gross value added (Agriculture. Forestry and Fishing)	TurkStat	7.1	7.5	6.2	7.2	---
18. Share of employment (Agriculture. Forestry and Fishing)	TurkStat	18.2	17.7	17.2	15.8	---
19. Utilised agricultural area (% of total land area)	Ministry of Agriculture and Forestry	49.0	49.1	49.5	50.0	---
Industry (except construction)						
20. Share of gross value added	TurkStat	24.4	25.6	29.2	29.5	---
21. Contribution to employment (% of total employment)	LFS	25.3	26.2	27.5****	27.7****	---

Services	

22. Share of gross value added	TurkStat	68.5	66.9	64.7	63.3	---
23.Contribution to employment (% of total employment)	LFS	56.5	56.2	55.3****	56.5****	---
Business Environment						
24. Global Competitiveness Index Score	World Economic Forum	61.6	62.14	---	---	---
25. Estimated share of informal economy in GDP (as % of GDP)	IMF	---	---	---	---	---
Research. Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)	Eurostat/ TurkStat	1.32	1.37	1.40	---	---
27. R&D expenditure – EUR per inhabitant	Eurostat/ TurkStat	109.3	103.1	115.7	---	---
Trade						
28. Export of goods and services (as % of GDP)	Turkstat	33.1	29.1	35.7	38.6	---
29. Import of goods and services (as % of GDP)	Turkstat	30.1	32.2	35.3	42.6	---
30. Trade balance (as % of GDP)	Turkstat	3.0	-3.1	0.4	-4.0	---

*Social Security Coverage and Registered Under the General Health Insurance are included.
** As of November 2023.
***Data are compiled from health institutions, manufacturing industry establishments, thermal power plants, organized industrial zones and mining establishments.
****The series is not comparable with previous years due to the regulations in the definition, scope and design of the questionnaire with the year 2021 in LFS.

Table 9a: Cost of Structural Reform Measure (Euro)

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
“Supporting the modernization of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry”					
2024			89,774,643		89,774,643
2025			112,754,985		112,754,985
2026			72,611,258		72,611,258
“Promoting sustainable tourism and branding”					
2024	10,252,080	96,833,164		36,026,860	143,112,103
2025	10,908,349	103,031,772		39,415,111	153,355,232
2026	12,033,293	113,657,115		45,310,717	171,001,125
“Accelerating green transformation”*					
2024	257,912	2,321,209			2,579,121
2025	282,236	2,540,121			2,822,356
2026	262,207	2,359,862			2,622,069
Developing data-driven policies and services through secure sharing and use of public sector data with the public data space to be activated in line with the new data strategy					
2024	19,716	92,006		138,009	249,730
2025	31,031	132,021		201,417	364,470
2026	35,660	151,716		231,464	418,840

* The cost distribution will be finalised after the tender process and it is assumed that 10% of the expenditures will be made from salaries and 90% from goods and services.

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
“Skill-based updating of curriculum at all levels within the scope of green and digital transformation and developing a system for recognizing previous learning by strengthening vocational training centers”					
2024				1,602,634	1,602,634
2025				468,134	468,134
2026				402,907	402,907
“Enhancing and improving the employment services in line with the needs of the labour market”					
2024		38,848,485			38,848,485
2025		44,662,020			44,662,020
2026		53,964,105			53,964,105

Table 9b: Finance of Structural Reform Measure (Euro)

Year	Central Budget	Local Budget	Other National Public Finance Sources	IPA Funds	Other Grants	Project Loans	TBD	Total
“Supporting the modernization of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry”								
2024	1,505,550					88,269,092		89,774,643
2025	981,208					111,773,777		112,754,985
2026	757,734					71,853,524		72,611,258
“Promoting sustainable tourism and branding”								
2024	18,318,722	35,846,433					88,946,949*	143,112,103
2025	19,466,192	39,248,305					94,640,734*	153,355,232
2026	21,497,147	45,103,242					104,400,736*	171,001,125
“Accelerating green transformation”								
2024				1,480,000	1,099,121			2,579,121
2025				1,960,000	862,356			2,822,356
2026				1,760,000	862,069			2,622,069
Developing data-driven policies and services through secure sharing and use of public sector data with the public data space to be activated in line with the new data strategy								
2024	151,152						98,578	249,730
2025	220,600						143,870	364,470
2026	253,508						165,332	418,840

*It indicates the budget of TPDA.

Year	Central Budget	Local Budget	Other National Public Finance Sources	IPA Funds	Other Grants	Project Loans	TBD	Total
“Skill-based updating of curriculum at all levels within the scope of green and digital transformation and developing a system for recognizing previous learning by strengthening vocational training centers”								
2024	1,508,717				93,918			1,602,634
2025	409,262				58,872			468,134
2026	348,783				54,124			402,907
“Enhancing and improving the employment services in line with the needs of the labour market”								
2024			38,848,485					38,848,485
2025			44,662,020					44,662,020
2026			53,964,105					53,964,105

Table 10: Reporting on the implementation of the Structural Reform Measures of ERP 2023-2025

	ERP (2023-2025) Measure 1: Future Professions	Stage of reform implementation (0-5)*
Activities planned for 2023	On-the-job training program and vocational courses in the future jobs within the scope of active labor force programs will continue.	**5**
Description of implementation and explanation if partial or no implementation	The active labor market programs organized under the measure called Future Jobs focus on new digital skills and occupations emerging from Industry 4.0 and adapt to the ever-changing needs of the labor market. As of October 2023, the number of beneficiaries of vocational training courses and on-the-job training programmes organised in the Occupations of the Future is 80158 people. In this context, the effectiveness of existing programs is a sufficient basis for achieving the targeted results. The decision not to rewrite the measure titled "Future Jobs" for the 2024-2026 period is based on the fact that İŞKUR's vocational training courses and on-the-job training programs in the digital transformation process are prioritized in national policies and programs.	

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	ERP (2023-2025) Measure 2: Virtual Fairs	Stage of reform implementation (0-5)*
Activities planned for 2023	Following the dissemination of Virtual Fairs throughout Türkiye in 2023, action will be taken to establish more than one platform in the provinces where the need arises. In this context, 20 virtual employment fairs are planned to be held in 2023, including the metropolises with high potential.	**5**
Description of implementation and explanation if partial or no implementation	Through the İŞKUR Virtual Event Platform, a total of 57,028 people, including 946 companies in 78 provinces, participated in virtual fairs in 2023. In 2023, regional virtual employment fairs were organized with 56 provinces participating. In addition, 22 provinces participated in virtual IT fairs. Virtual fairs will be opened throughout Türkiye in 2024. In this context, 70 virtual employment fairs are planned to be held.	

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	ERP (2023-2025) Measure 3: Access to preschool education will be provided based on equal opportunity principle	Stage of reform implementation (0-5)*
Activities planned for 2023	The My Playbox set will be distributed to the children of families living in unfavorable areas, and the implementation of the set will be followed by regular monitoring and evaluation visits of the preschool teacher. Equipment, stationery and material support will be provided to the playrooms of 210 pre-school education institutions and public education centers in places where foreign children are concentrated, and training will be organized for teachers and parents in these institutions. "Mobile Teacher Class" and "Transportation Center Kindergarten Class" pilot practices will be implemented in the 2022-2023 academic year in order to ensure that children in settlements where classrooms cannot be opened due to low age population have access to pre-school education. The 365 Days of Story set developed by the Ministry of National Education will be distributed to all official pre-school classrooms by the end of the 2022-2023 academic year. One free meal will be provided in official pre-school education institutions. Cash support will be provided to the school where children benefiting from social assistance are provided for nutrition, cleaning services and educational materials for the implementation of the education program.	**5**
Description of implementation and explanation if partial or no implementation	The My Playbox set was distributed to 13,200 children living in unfavorable conditions with limited or no access to early childhood education services, and the implementation of the set was monitored with regular monitoring and evaluation visits of the preschool teacher. Equipment, stationery and material support were provided to the playrooms of 210 pre-school education institutions and public education centers in places where foreign children are concentrated, and training was organized for teachers and parents in these institutions. In the 2022-2023 academic year, the travel teacher class model was implemented with 950 children in 178 education centers in 32 provinces and 47 districts, and the transportation center kindergarten model was implemented with 3490 children in 237 education centers in 41 provinces and 103 districts. 365 Days Story Set has been delivered to all official preschool classrooms. In the 2022-2023 academic year, one-meal nutritional support was provided to 60,000 children across the country, and in the second semester, nutritional support was provided to all children attending public pre-school education institutions. In the 2022-2023 academic year, cash support was provided for nutrition, cleaning services and educational materials for the implementation of the education program to the school where students live in households benefiting from social assistance and receive education from official pre-school education institutions. All activities have been completed. With the studies carried out, the gross schooling rate for 5-year-olds was reached to 95.21 percent in a short time.	

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	ERP (2023-2025) Measure 4: Specialized Institutional Guidance and Inspection branches will be established depending on school and program types	Stage of reform implementation (0-5)*
Activities planned for 2023	• Improvement of electronic-based audit and monitoring activities, along with the centralized control of compliance audits for schools/institutions to minimize workforce, time loss, etc., detection and prevention of deviations in the curriculum, and the provision of guidance services as needed and requested in accordance with needs • Employment of 450 Assistant Education Inspectors • Organizing in-service training for 1,900 education inspectors/inspector assistants • The assignment of Ministry inspectors to accompany the process of in-service training and on-the-job training for education inspectors and inspector assistants as part of the implementation of the professional development process	**4** **5** **5** **5**
Description of implementation and explanation if partial or no implementation	• The E-Investigation module, which handles the tracking of electronic-based inquiry processes, has been completed and is being utilized at full capacity. • The e-Coordination module, developed for the centralized monitoring and coordination of all tasks and processes of the education inspectors' presidencies within provincial national education directorates; the e-Administration module, created to input and track expenditures related to all guidance, inspection, examination, investigation, and preliminary examination activities carried out at the Ministry's central organization and the e-Monitoring modüle that aims to continuously monitor, evaluate, and provide guidance services for all components of the education system from school to district and province up to the Ministry are currently in the programming phase. • The e-Audit module, designed to systematically plan the audits of all organizations under the Ministry's supervision according to the newly developed guidelines, to ensure the dynamic processing of data and to generate reports contributing to policy development based on the entered and field-acquired data is in the final stages of programming and is expected to be implemented in the near future. • The written and oral stages of the Assistant Education Inspector competition exam have been conducted. 365 successful inspector assistant candidates based on the results of the written and oral exams have been listed. • In-person and online in-service training sessions have been organized for 4126 Ministry inspectors, education inspectors and assistants, Administrative staff of the Inspection Board Presidency, and Assistant Directors of Provincial National Education Directorate/District National Education Directorate Branch Directors/School/Institution Managers. In order to support the professional development of the mentioned personnel, ongoing in-service training activities are being conducted. • In the 9 provincial national education directorates where there were no education inspectors but appointments were made for education inspector assistants in the year 2023, guidance, coordination, and ensuring integrity in the tasks and processes carried out by the directorates of education inspectors have been provided through assignments from Ministry inspectors. This allows education inspectors to work on-site with Ministry inspectors. To ensure the smooth continuation of tasks and processes, communication between Ministry inspectors and inspector assistants is being maintained.	

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	ERP (2023-2025) Measure 5a: Prioritizing technological product investments to increase the technology level and export capacity of SMEs and supporting the commercialization of R&D projects	**Stage of reform implementation (0-5)***
Activities planned for 2023	• With the SME Technological Product Investment Support Program, it is planned to support the investment projects of enterprises in order to ensure the production and commercialization of products resulting from R&D and innovation activities and products in the field of medium-high or high technology that will contribute to the current account. • With the SME Technological Investment Support Program, it is planned to support the projects of 119 SMEs by the end of 2023. The support program is not call-based and is always open to application.	**5**
Description of implementation and explanation if partial or no implementation	• With the SME Techno-Investment Support Program, SMEs were supported to invest in technology areas and the production and commercialization of products that will contribute to the current account of the domestic industry. Regarding the projects, support decisions were taken for 36 enterprises and approximately 38.5 million TL support payments were made to 50 enterprises whose support process started in 2023. • The implementation has been completed since the support program will be abolished and the target group will be evaluated under a new support program.	

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	ERP (2023-2025) Measure 5b: Enhancing the R&D and innovation activities of SMEs; and the development and implementation of mechanisms to encourage and facilitate technology based and innovative SMEs access to finance, participation in mentoring and cooperation networks	Stage of reform implementation (0-5)*
Activities planned for 2023	Projects/activities will be supported by opening a call within the scope of TÜBİTAK's relevant programs.	**5**
Description of implementation and explanation if partial or no implementation	• Among the support programs carried out by TÜBİTAK for the private sector, the 1501 TÜBİTAK Industrial R&D Projects Support Programme, which received the highest number of applications, and the 1507 TÜBİTAK SME R&D Start-up Support Programme were transformed into call-based programs in 2020. Within the scope of the calls opened in 2023, 707 SMEs' projects with a budget of 1.88 billion TL were decided to be supported. • Regarding mentorship supports, within the scope of BiGG+ SME Mentor Interface Call, 20 Mentor Interface Organizations were found eligible for support in 2022. Those Interface Organizations are obliged to provide mentorship services to about 850 SMEs. In this regard, services continued to be provided to SMEs in 2023. Additionally, several improvements were realized in the programme in 2023 and in order to foster the success ratio of the Turkish SMEs in European Innovation Council's Accelerator Programme, new award mechanisms have been defined and additional 20 hours of mentorship service was defined for the training of the SMEs' EIC applications. • In 2023, the BiGG Investment Call, business idea applications were received by 147 implementing organizations, which act as the main interface between entrepreneurs and TÜBİTAK. Within the scope of this call, 2,885 business idea applications were received and 515 of them were evaluated in terms of the adequacy of the business plans for a successful start-up establishment. As a result of the evaluations, 153 business plans were awarded the Seal of Excellence. To date, a total of 2140 companies have been established within the scope of the program. The company establishment processes of the start-ups that received the seal of excellence (153) in 2023 are continuing. • With the 1509 TÜBİTAK International Industrial R&D Projects Grant Programme, 25 projects were supported in 2023, and 28 SMEs took part in the supported projects. • 1709 EUREKA-Eurostars calls in 2021, 2022 and 2023's first period, and 14 projects were entitled to be supported after the international evaluation processes were completed. In these 14 projects, 21 SME-scale organizations are involved. In the second call in 2023, 45 projects were received in the pre-application period and 5 projects were decided to be supported as a result of the international evaluation. • Within the scope of the "Industry Innovation Networks Mechanism (SAYEM)", there are 38 capital companies, including 19 SMEs and 19 large-scale organizations, 20 universities and 2 research centers and 1 public research institute in four consortiums that continue their activities as of December 2023. A total of 78 projects are being carried out under these platforms in areas such as smart home products, smart cities, additive manufacturing, and healthcare products. • Within the scope of the Türkiye Green Industry Project, which is coordinated by the Ministry of Industry and Technology with the support of the World Bank, declaration of intent call for expert organizations within the context of 1831 Climate-informed and Green Innovation Technology Extension Programme, 1832 Call for Green Transformation in Industry and 1833 SAYEM Green Transformation Call were opened as of December 2023. • Within the scope of the Tech-InvesTR Program, five funds, three abroad and two in Türkiye, have been established and started their investments. These funds have started to invest in the commercialization of R&D results. The funds established under the Tech-InvesTR programme invested in 78 different startups operating in the fields of healthcare technologies, artificial intelligence, machine learning, fin-tech, marketplace, mobile game development, payment platform, and wearable technologies, blockchain and logistics operation processes. The total amount invested by the funds reached 1.44 billion TL based on the CBRT's foreign exchange sales rates dated 30.11.2023.	

	• Within the scope of TUBİTAK's 1702 Patent Based Technology Transfer Support Programme, 53 out of 67 applications were accepted from 2020 to the end of 2023. With the accepted projects in the Patent-Based Technology Transfer Support (Patent License), we have provided support for the transfer of 66 patented technologies to the industry, with a total value exceeding 58 million TL. • In the TÜBİTAK's 1707 Order-Based R&D Projects Programme, 15 out of 33 project applications made within the scope of 1707 Order-Based R&D Projects Programme was supported in 2023. Within the scope of the 1707 Order-Based R&D with BiGG partnerships call, 2 project applications were made and one of them was entitled to be supported. • Technology-Focused Industrial Movement Programme projects are supported by the end-to-end R&D and Production (or direct Production) funding mechanisms for the development of medium-high and high technology-based products. R&D projects focusing on products, included in the Priority Product List announced by MoIT, are provided grant support by TÜBİTAK within the scope of the "1511 Research Technology Development and Innovation Projects in Priority Areas Grant Programme". The investment support needed for the continuation of these projects is provided by the Ministry of Industry and Technology and KOSGEB. • In 2021, the Mobility Call, Structural Transformation in Production Call, Health and Chemical Products Call and Digital Transformation Call were launched. In total, 170 investment projects were supported and 94 of these projects started from the R&D phase and granted by TÜBİTAK. In 42 of the 94 projects with R&D support defined, the companies are in SME scale. • Within the scope of 1515 Frontier R&D Laboratory Support Programme, 10 Frontier R&D Laboratories have been supported. One of these is an SME-scale organization, and efforts are underway to increase the participation of SMEs.

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	ERP (2023-2025) Measure 6: Performance-based support of the research infrastructures supported under law 6550 within the new legal framework	Stage of reform implementation (0-5)*
Activities planned for 2023	Studies will be carried out to increase the number of research infrastructures qualified under the Law. In this context, competency assessment of research units within universities will be carried according to Law 6550 following the applications of University Rectorate's.	**5**
Description of implementation and explanation if partial or no implementation	Annual performance evaluations have been conducted for seven research infrastructures that obtained competencies in 2017 and 2020 within the scope of the law, and their funds have been transferred. The process of including two research infrastructures, whose Competency evaluation process is ongoing, under the scope of Law No. 6550 has been completed, and they have been included in the support program. Competency evaluation panels have been conducted for two research infrastructures that applied for qualification evaluation. In the context of the Law No. 6550 on Supporting Research Infrastructures, research infrastructures that have been certificated under the Law has been continued to be supported in a performance-based system and studies carried out to introduce new research infrastructures into the system. As of December 2023, there are nine centers within the scope of Law No. 6550 on Supporting Research Infrastructures. The research areas of the research infrastructures in the scope are presented below: • Nanotechnology • Biomedicine and Genome Research • Micro Electro Mechanical Systems • Solar Energy Technologies • Accelerator Technologies • International Law of the Sea • Rail System Technologies and Test Analysis Infrastructure • Sky Observation and Device Development for Space Technologies Annual performance monitoring and evaluation of research infrastructures within the scope of the Law are carried out on the basis of the following indicators; annual appropriations to infrastructures are determined and transferred according to performance realizations. • Human Resources • Numerical and Budget Sizes of the Projects, • Publication, Patent and IPR Indicators • Financial Income and Expenses • Strategic Product and Service Portfolio	

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	ERP (2023-2025) Measure 7: Establishing Model Factories (SME Competency and Digital Transformation Centers) and Innovation Centers to increase the efficiency of SMEs and their digital transformation	**Stage of reform implementation**
Activities planned for 2023	Model Factory in 3 provinces will be established. 60 enterprises will be supported by KOSGEB within the scope of Model Factory support.	**3**
Description of implementation and explanation if partial or no implementation	• As a result of the lack of full involvement of local stakeholders in the process and the delay in infrastructure works, the number of Model Factories that became operational did not reach the value specified in the previous ERP. • In 8 Model Factories in operation, Learn and Transform services have been provided to more than 400 companies, Experiential Training services to approximately 450 companies, Project Implementation services to more than 140 companies, and awareness trainings to more than 1800 companies. Looking at these numbers, the number of businesses receiving service from the Model Factories determined in the previous ERP has been achieved. • The number of companies benefiting from KOSGEB Model Factory Support is 149, and the target set in the previous ERP has been achieved. • In 2022, planning studies for the establishment of Model Factories in 6 provinces (Eskişehir, Kocaeli, Samsun, Denizli, Malatya and Trabzon) were initiated and Eskişehir and Samsun Model Factories are planned to be operational by the first quarter of 2024. Due to the earthquake disaster in our country, there have been delays in the establishment of new Model Factories. In Malatya, Samsun, Denizli, Trabzon, Eskişehir and Kocaeli, work has been carried out in communication with Model Factory stakeholders, and cooperation protocols have been signed between the executing organizations in these provinces and the Ministry of Industry and Technology. As defined in the protocols, construction works will start after the executing organizations make their headquarters buildings ready. In this process, machinery and equipment requirements and qualified human resources employment processes are defined by the Ministry and UNDP.	

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	ERP (2023-2025) Measure 8: Technical Assistance for the Green Deal Action Plan	Stage of reform implementation (0-5)*
Activities planned for 2023	• Meetings of the Working Group and specialized working groups will continue to be held in order to monitor the actions set out Action Plan. • A general conference with the participation of 1,000 people will be held with the public institutions and organizations, private sector and NGOs in order to provide information and to raise awareness about the activities within the scope of the Action Plan. • In line with sectoral needs, thematic seminars and workshops will be organized with the participation of relevant public institutions and organizations, NGOs, employee association and universities. It is envisaged that these events will have 250 people. After the workshops, reporting, including policy recommendations, will be conducted to measure efficiency and its results will be shared with the stakeholders. • Information on national and international financial resources will be compiled.	**5** **0** **5** **3**
Description of implementation and explanation if partial or no implementation	• 34 meetings were held under specialized working groups at the technical level and the Green Deal Working Group convened once at the Deputy Minister level in order to monitor the developments and determine new areas of action • The conference could not be held due to the Kahraman and Hatay earthquakes occurred in February 2023. • 9 webinars were held in order to inform the public and private sector on Carbon Border Adjustment Mechanism and the reporting requirements as of October 2023. The webinars were held on a sectoral basis in order to address the specific questions and had 100 participants on average. Therefore around 1000 stakeholders were informed about CBAM requirements. Video recordings of the webinars were made accessible in the Green Deal segment of the website of the Ministry of Trade. Two webinars were held on EU Deforestation Regulation also on a sectoral basis. Webinar series were organized in collaboration with West Anatolian Exporters' Association on Green Deal in general, CBAM, Circular Economy and Sustainable Agriculture. Apart from all these, Ministry of Trade participated more than 100 thematic seminars, conferences, panels, webinars, workshops organized by sectoral organizations or universities in order to provide information about Green Deal issues. • The Ministry of Trade initiated a Green Deal segment on its website in order to provide up to date and brief information about the Green Deal legislation and strategies of the EU. Information on national and international finance opportunities for green transition will be disseminated via Ministry of Trade's website first quarter of 2024.	

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	ERP (2023-2025) Measure 9: Increasing the secure sharing and accessibility of public sector data with new data strategy	Stage of reform implementation (0-5)*
Activities planned for 2023	• Preparation of a Recommendations Report on Data Governance in the AI Ecosystem. • Administrative, legal, and technical needs for data governance in the AI ecosystem will be identified, and a reference model will be offered. • “AI Data Governance Framework” will be prepared. • The "Public Data Space Reference Architecture" will be produced in accordance with the pilot implementation. • Stakeholders will be identified based on the TURKSTAT's infrastructure for the establishment of a Public Data Space and the pilot implementation process will be initiated.	**4**
Description of implementation and explanation if partial or no implementation	• Significant progress has been made in the preparation of the "Data Governance Current Situation and Needs Assessment" report for the AI ecosystem. Monthly consultation meetings with the NAIS Data Governance Working Group continue to improve the report.The protocol prepared specifically for the Public Data Area created for the pilot application has reached the consultation stage. • Although not included in the previous activity plan, cooperation with the United Nations Development Programme (UNDP) was realized during the year. Thus, with the participation of public institutions, private sector, universities and NGOs, a review and recommendation report on data governance framework for Türkiye was prepared. This framework, which will be introduced with a launch in a short time, is a basis for the new data strategy. • KAMAG 1007 "Public Artificial Intelligence Ecosystem" call was launched for capacity development for the use of public data in the context of advanced analytics and AI projects. • For the establishment of a Public Data Space, stakeholders were identified based on the infrastructure of the Turkish Statistical Institute (TURKSTAT) and pilot implementation started. Work within this scope is ongoing. • In the pilot, work on structural and reference metadata management was completed. National Data Dictionary (NDD) compatibility was ensured. • In line with the pilot implementation, the administrative and legal process within the scope of the public data space has started to be designed and a draft protocol has been prepared to be submitted to stakeholders for their opinion. The consultation process is ongoing. • Draft architecture maturation studies have started through artificial intelligence projects carried out within the scope of the pilot implementation, and technical requirements determination studies for software and data analysis libraries are ongoing.	

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	ERP (2023-2025) Measure 10: Supporting R&D, P&D and technological development activities in the field of energy, nuclear and mining technologies by Technology and Product Development Projects Support Program (TUGEP)	**Stage of reform implementation (0-5)***
Activities planned for 2023	Three calls will be opened to support projects/activities in line with TENMAK priorities.	**3**
Description of implementation and explanation if partial or no implementation	In 2023, eight project calls have been opened prioritizing our country's needs: Hydrogen Technologies and Fuel Cell Call: • Clean Hydrogen Production Technologies • Storage Technologies • Fuel Cell Technologies Carbon Capture, Utilization, and Storage Technologies Call: • Carbon Capture Technologies • Carbon utilization technologies • Carbon Storage Technologies Digitalization in Energy Call: The application period for the Hydrogen Technologies and Fuel Cell Call and Carbon Capture, Utilization, and Storage Technologies Call has ended. The evaluation of project applications is ongoing. Supported projects have not yet been announced. The application process for the Digitalization in Energy Call is ongoing.	

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	ERP (2023-2025) Measure 11: Increasing tourism market share and brand value	Stage of reform implementation (0-5)*
Activities planned for 2023	• Updating the GoTürkiye platform and promoting Türkiye's destinations and experiences • For market diversity, TV and digital promotional activities will continue to be carried out through global channels in more than 200 countries as of 2022 • To host international congresses, events and exhibitions in Istanbul, Antalya and Izmir by choosing Türkiye as the European ICCA Destination Partner in the 2022-2023 period. • Attending events that provide direct access to luxury tourism and destination wedding professionals • Transforming the Safe Tourism Certificate Program into the Safe and Sustainable Tourism concept as an international program, taking into account the current needs and demands of the sector, and promoting the program abroad • Increasing the number of certified tourism facilities within the scope of the Sustainable Tourism Program and establishing a basic sustainable infrastructure in all accommodation facilities in order to raise awareness of Türkiye as a sustainable destination	**4**
Description of implementation and explanation if partial or no implementation	In February 2023, Türkiye experienced a major earthquake disaster that affected many provinces and the tourism sector was negatively affected by this situation. In addition, the geopolitical developments in Middle East in October also negatively affected the tourism sector. These events have caused some activities to be cancelled, postponed or rescheduled to minimize the impact on the industry.	

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	ERP (2023-2025) Measure 12: Raising Awareness of Hygiene, Healthy Eating, Nature Protection, Food Waste Prevention in Schools and Institutions	Stage of reform implementation (0-5)*
Activities planned for 2023	Schools that have already received the My School-Clean Certificate will undergo certificate renewal inspections. Additionally, within the framework of the "Control Guide for Access to Safe Food and Development of Healthy Eating Habits in Educational Institutions" training and subsequent certification activities will be conducted. Furthermore, schools will be awarded the Basic Level Zero Waste Certificate. In line with objectives related to climate change, sustainability, and environmental and nature protection, various activities will be implemented in our schools.	**5**
Description of implementation and explanation if partial or no implementation	Under the Ministry of National Education's Certification Services Directive, over 50,000 schools will be completed "My School-Clean" certification activities by the end of 2023. Moreover, in collaboration with the Turkish Standards Institute, the Ministry of National Education has developed the "Control guide for Access to Safe Food and Development of Healthy Eating Habits in Educational Institutions" to promote healthy eating in educational settings. By the end of 2023, the initiative to provide the Basic Level Zero Waste Certificate to roughly 35,000 schools is expected to be fulfilled. Additionally, ISO 14001 Environmental Management System Certification has been initiated for the first time in the schools, coordinated by the Ministry of National Education's Standardization and Quality Unit, aligning with climate change objectives and the commitment to sustainability and environmental protection.	

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ERP (2023-2025) Measure 13: Digital skills in VET curricula		Stage of reform implementation (0-5)*
Activities planned for 2023	• The dynamic updating of educational programs in line with sectoral demands, evolving technology, and national occupational standards prepared by VQA • In order to enable all relevant fields to benefit from it as part of future professions, printed teaching materials and digital content suitable for the curriculum of elective vocational courses such as "Artificial Intelligence", "Robotics Coding" and "Digital Technologies" are being prepared • Preparation of program studies and the creation of printed educational materials and digital content tailored to the curriculum for Aviation and Space Technology, Cybersecurity, and Agriculture fields • Preparing printed teaching materials suitable for vocational and technical secondary education program contents. • Preparing application videos • Creating simulation and animation contents	**5**
Description of implementation and explanation if partial or no implementation	• With the evolving technological advancements in vocational and technical education, VET programme is being updated in collaboration with the industry, providing education in 53 fields and 114 branches. Teaching programs are constantly updated in line with the needs of the industry and developing technologies within the framework of cooperation with the industry. In 2023, 5 vocational and technical Anatolian high school programs and 10 vocational education center programs have been prepared/updated. In addition, elective courses on entrepreneurship have been added to all vocational and technical secondary education programs. All vocational and technical secondary education programs and course materials are published digitally at http://meslek.eba.gov.tr/. • Introduction to Programming and Algorithm, Robotic Coding, Programming Languages, Mobile Application Development, Artificial Intelligence Applications" modules have been added to the "Information Technologies and Software" course in Secondary Education. All students can take this course as an elective. • The framework teaching programs for Aviation and Space Technology, Cybersecurity, and Agriculture have been updated. The course materials for these fields have also been prepared and published on website. • In 2023, 360 printed teaching materials have been prepared in accordance with the contents of vocational and technical secondary education programs. • Simulation, animation, and application videos were generally prepared to ensure the continuity of vocational and technical education during the pandemic. With the disappearance of the effects of the pandemic, instead of simulation, animation, and application videos, augmented reality content has been prepared. The "Supporting Vocational and Technical Education with Augmented Reality Application" (MET-UP) project has been prepared in cooperation with MEB-UNICEF, and 80 augmented reality contents have been prepared within the scope of the project in 2023.	

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	ERP (2023-2025) Measure 14: Improving special education services, guidance and psychological counseling services	Stage of reform implementation (0-5)*
Activities planned for 2023	• Strengthening the physical environments of Science and Art Centers (BİLSEM), • Strengthening the physical environments of Guidance and Research Centers (RAM), • Strengthening the physical environments of Special Education Environments (ÖEO), • Providing in-service training to teachers and administrators, • Preparation of materials regarding special education and guidance services, • Preparation of digital content regarding special education and guidance services,	4
Description of implementation and explanation if partial or no implementation	• In 2023, workshops with new equipment and materials were opened in 30 Science Art Centers (BİLSEM) to develop the interests and abilities of specially gifted students. • In 2023, the physical environment of 20 Guidance and Research Centers (RAM) was strengthened. • In 2023, 17 skill practice areas were established in special education practice schools. 14 vocational training workshops were established. The physical environment of 50 hospital classrooms has been improved. The physical capacity of 33 special education boarding schools was strengthened. • In 2023, in-service training was provided to 1,920 teachers face-to-face and 126,383 teachers online in the field of special education. • In 2023, 1,630 material sets were prepared for the field of special education and guidance. Approximately 65,000 materials were produced for material sets prepared in four different areas. These materials were sent to special education classes, special education kindergartens and educational support rooms. 15,000 students benefited from the sent material sets. • In 2023, 150 digital contents were prepared for the field of special education and guidance, and the number of views of the prepared digital contents is 5,500.	

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	ERP (2023-2025) Measure 15: Dissemination of Family-Oriented Social Services Models	Stage of reform implementation (0-5)*
Activities planned for 2023	Children in need of social and economic support will continue. The number of children benefiting from Foster Family Service while in institutional care will be increased.	4
Description of implementation and explanation if partial or no implementation	Number of Children Benefiting from Social and Economic Support Service: 164,005 Number of Children Benefiting from Foster Family Service: 9,535	

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	ERP (2023-2025) Measure 16: Increasing the Access of Syrian Nationals under Temporary Protection to Health Services	Stage of reform implementation (0-5)*
Activities planned for 2023	• Start construction of up to 65 Extended/Migrant Health Centers and renovation of up to 52 Extended/Migrant Health Centers • Renovation and upgrading of 110 Physiotherapy and Rehabilitation Units in selected public hospitals • Procurement of 113 items under 30 lots within the scope of medical equipment procurement component for hospitals and Physiotherapy and Rehabilitation Units • Establishment of a Project Technical Support Office under the Ministry of Health • Procurement and distribution of 100,000 maternity kits and 500,000 basic hygiene kits	**2** **2** **5** **5** **4**
Description of implementation and explanation if partial or no implementation	• While all construction and renovation works were planned to start in 2023 and be completed before the end of the project, the negative effects of the earthquakes on February 6, 2023 on the construction sector caused delays in the project. In 2023, the tender processes for all constructions were initiated. However, the tender processes were interrupted due to the fluctuation in construction costs. All tenders are expected to be completed in 2024 and construction works are planned to be completed by mid-2025. • Under the medical equipment procurement component for hospitals and Physiotherapy and Rehabilitation Units, 113 items were procured under 30 lots. • Since the bids submitted to the service procurement tender for the establishment of the project technical support office did not meet the required qualification, the tender was canceled. Due to the long duration of the tender processes, the consultants planned to be recruited within the scope of the tender for the project support office were provided by Council of European Development Bank (CEB). • Procurement of maternity kits and basic hygiene kits has been completed.	

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Annex 2 Table: Links between Reform Areas and Relevant Policy Documents

Reform measures ERP 2024-2026	Commission Assessment of Key Structural Challenges in ERP (2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable Development Goals 2020-2030	European Green Deal	European Digital Agenda	IPA III projects supporting this reform
“Promoting Sustainable Tourism and Branding”				SDG 8.9 and 12b: Develop and implement tools to monitor sustainable development impacts to achieve sustainable tourism that creates jobs and promotes local culture and products by 2030	2.1.5. Accelerating the shift to sustainable and smart mobility 2.1.7. Preserving and restoring ecosystems and biodiversity		
“Supporting the modernization of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry”		5. It is suggested that the share of renewable energies in Türkiye's energy structure should continue to be increased and this aim should be reflected in the country's subsidy policy. 6. It is recommended to	The activities and projects within the scope of this measure on Green Transformation, Clean Energy, and Digitalization mentioned in the Enlargement Package will contribute to the development and modernization of SMEs in Türkiye.	SDG 6. Clean water and sanitation SDG 8. Decent Work and Economic Growth SDG 9. Industry, Innovation and Infrastructure SDG 10.Reduced Inequalities SDG 12. Responsible Consumption and	2. Transforming the eu’s economy for a sustainable future 2.1. Designing a set of transformative policies 2.1.2. Goal to provide clean, affordable, and secure energy	Model Factories and Digitalization Support programs to increase capacity contribute to digitalization and innovation policies in the industry.	Support for the Digital Transformation of Manufacturing Industry

		continue to increase the participation of adults in lifelong learning, especially by strengthening green and digital transformation skills in order to ensure a just transformation		Production SDG 13. Climate Action SDG 17. Partnership for Goals	2.1.3. Goal to drive industry for a clean and circular economy		
“Accelerating green transformation ”	4. Key structural challenges and reform priorities iii.improving energy security, primarly by supporting the economies green transation	5. Take further steps to implement the ETS carbon pricing mechanism.		SDG 13. Climate Action	Reform of the EU Emissions Trading System Carbon Regulation Mechanism at the Border		

"Developing data-driven policies and services through secure sharing and use of public sector data with the public data space to be activated in line with the new data strategy"	To maintain its competitiveness, Türkiye's needs to accelerate its green and digital transformations as well as improve business and investment environment.					It supports the objectives of the EU Data Strategy to share and add value to public data and the 5th Strategic Priority of the Digital Europe Program. 2.2.3. Enhancing interoperability through coordination	
"Skill-based updating of curriculum at all levels within the scope of green and digital transformation and developing a system for recognizing previous learning by strengthening vocational training centers"		6. It is recommended to continue to increase the participation of adults in lifelong learning, especially by strengthening green and digital transformation skills in order to ensure a just transformation		SDG 4. Quality Education 4.1. By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education, resulting in relevant and effective learning outcomes		2.6.1. Digital literacy and skills	

“Enhancing and improving the employment services in line with the needs of the labour market”	4. Key structural challenges and reform priorities i. increasing employment, in particular of women and young people, and to be registered in employment	6. Support the school-to-work transitions and the activation of young people who are not in education, employment or training (NEET) and incentivise female labour market participation through legislative and fiscal measures, as well as through strengthened efforts on the provision of appropriate and affordable childcare infrastructure beyond the big urban centres of Türkiye.	Chapter 19: Türkiye should reverse the trend and invest in more re- and upskilling of its labour force through targeted active labour market policies.	8. Decent Work and Economic Growth 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including young people and persons with disabilities, and fully embracing the principle of equal pay for equal work			

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