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## Country Profile 2008

# Turkey

This Country Profile provides an overview of the country's politics, resources and economy. It is revised and updated annually.

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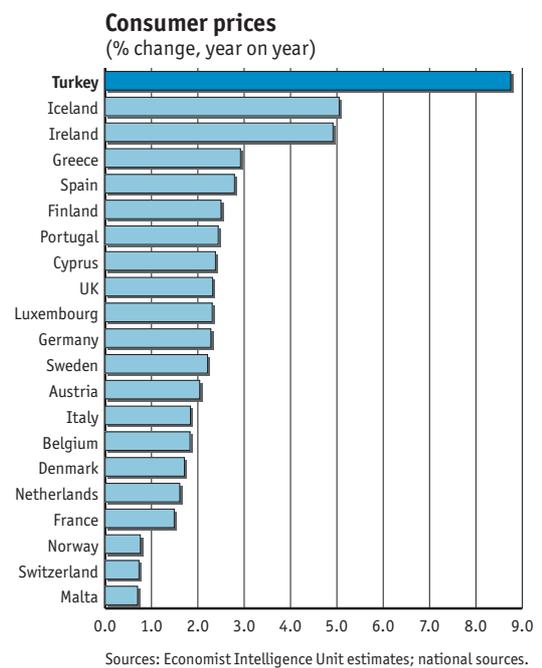
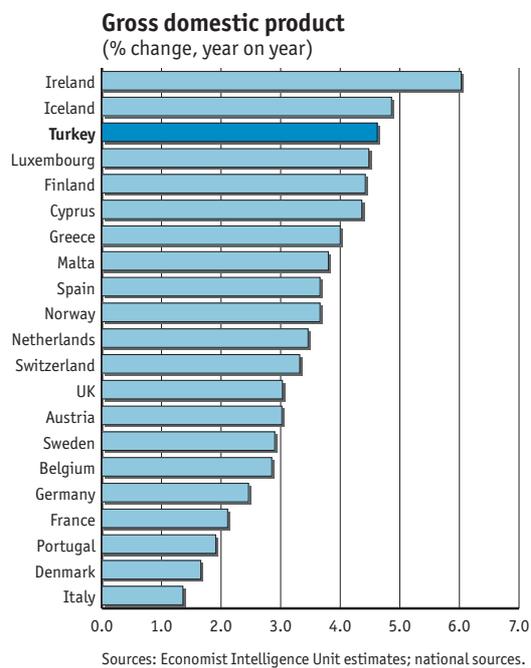
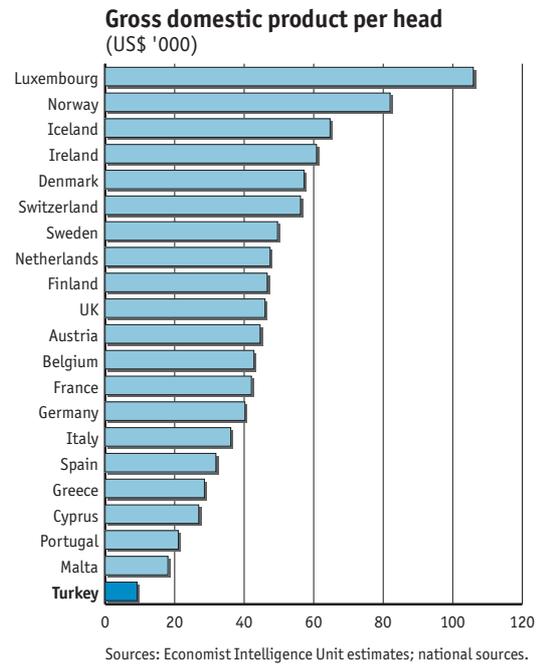
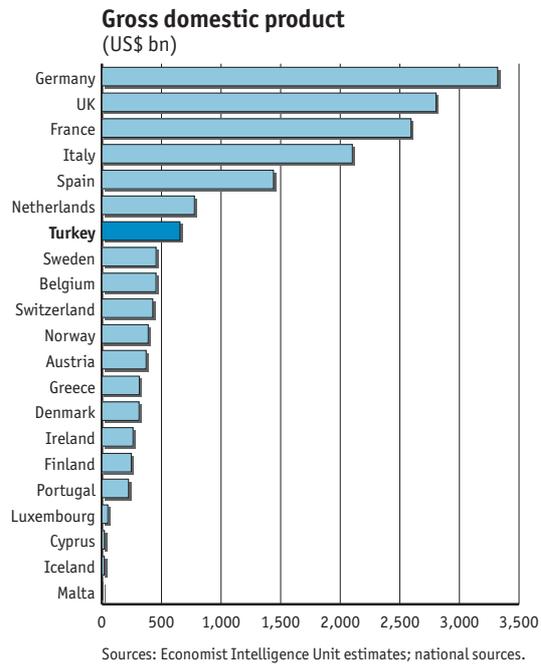


	Main railway
	Main road
	International boundary
	Main airport
	Capital
	Major town
	Other town
November 2008	



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## Comparative economic indicators, 2007



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# Contents

## Turkey

2	<b>Basic data</b>
3	<b>Highlights</b>
4	<b>Politics</b>
4	Political background
6	Political forces and institutions
10	Recent political developments
12	International relations and defence
14	<b>Demographics and resources</b>
14	Population
15	Education
16	Natural resources
16	Infrastructure
20	<b>The economy</b>
20	Economic structure
21	Economic policy
24	Economic performance
29	Regional trends
30	The external sector
33	<b>References</b>
34	<b>Appendix</b>

# Turkey

## Basic data

<b>Land area</b>	783,562 sq km (including lakes and islands), of which 30% arable, 3% orchards, olive groves and vineyards, 26% classified as forest	
<b>Population</b>	71,158,000 (mid-year estimate, US Census Bureau)	
<b>Main towns</b>	Population (2007 census)	
	Istanbul	11,174,257
	Ankara (capital)	4,140,890
	Izmir	3,175,133
	Bursa	1,979,999
	Adana	1,611,262
<b>Climate</b>	Mediterranean on the south coast, continental inland	
<b>Weather in Ankara (altitude 861 metres)</b>	Hottest month, August, 15-31°C (average daily minimum and maximum); coldest month, January, -4-4°C; driest month, August, 10 mm average rainfall; wettest month, December, 48 mm average rainfall	
<b>Language</b>	Turkish	
<b>Measures</b>	Metric system	
<b>Currency</b>	Turkish lira. Annual average exchange rate in 2007: YTL1.303:US\$1; exchange rate on November 18th 2008: YTL1.655:US\$1	
<b>Time</b>	2 hours ahead of GMT; 3 hours in summer	
<b>Fiscal year</b>	Calendar year	
<b>Public holidays</b>	January 1st; April 23rd; May 19th; three days for Ramadan and four days for Kurban or Eid (dates vary according to the Muslim calendar); August 30th; October 28th (half-day); October 29th	

## Highlights

**Politics**

- The Justice and Development Party (AKP), led by the prime minister, Recep Tayyip Erdogan, which has been in power since November 2002, won a landslide victory in the 2007 election. Tensions with the secularist elite, including the military and the judiciary, have intensified.

- The Economist Intelligence Unit's 2008 democracy index ranks Turkey 87th out of 169 countries. Turkey is among the 36 countries considered "hybrid regimes". It trails behind EU candidates Croatia (51st) and Macedonia (72nd).

- Terrorist attacks have threatened stability. Since 2003 a series of terrorist attacks has been carried out in Turkey by radical Islamist groups, left-wing extremists, Kurdish militants and Turkish nationalists.

### Demographics and resources

- Turkey has a population of about 71m, the third largest in Europe, after Russia and Germany. Population growth remains strong, but has slowed substantially since the beginning of the 1990s.

- Turkey has a young, rapidly urbanising population. The average age in Turkey is 27 years. In 2007 the urban population (comprising provincial and district centres) accounted for 70% of the total.

- Ports, airports and border crossings have improved with the help of private investment. However, major shortcomings in infrastructure include power shortages, an inadequate rail network, low personal computer ownership and Internet penetration, and high telecommunications costs.

### The economy

- The private sector has long played the major role in economic activity and in recent decades considerable privatisation has taken place in heavy industry, telecommunications and other fields. However, the state still controls key mining and energy companies, utilities and about 30% of the banking system.

- Reducing inflation, which has been perennially high since the "oil crises" of the 1970s, has been a consistent priority of economic policy. Recent IMF-backed efforts to reduce inflation have centred on tight fiscal policy and an independent monetary policy conducted by the Central Bank of Turkey.

- Low fiscal deficits, robust economic growth and debt amortisation as a result of privatisation caused the gross government debt/GDP ratio to fall from about 75% of GDP (new series) in 2001 to just over 40% in 2006.

- The Turkish economy has been prone to severe economic and financial crises. In 2001 the crawling exchange peg collapsed, the lira plummeted, inflation soared and GDP contracted by 5.7%. In 2002-07 GDP growth was solid, averaging 6.8% a year.

- In most years Turkey has run current-account deficits. The deficit has risen in recent years, from 0.3% of GDP in 2002 to about 6% in 2006-07, driven by strong domestic demand growth, high commodity prices and real appreciation of the lira.

## Politics

The Justice and Development Party (AKP), led by the prime minister, Recep Tayyip Erdogan, won a landslide victory in the general election on July 22nd 2007. The AKP has a comfortable majority of 340 out of 550 seats in parliament, but tensions with the secularist elite, including the military and the judiciary, have intensified since the election. In August 2007 the AKP managed to have its preferred candidate, the former AKP deputy leader and minister of foreign affairs, Abdullah Gul, elected by parliament to the presidency.

## Political background

Modern Turkish politics have been shaped by two crucial historical experiences: the foundation by Mustafa Kemal (who assumed the surname Ataturk, "father of Turks", in 1936) of a secular, unitary republic in 1923 and the establishment of a multiparty democratic regime since 1945. The latter has been interrupted by three periods of military rule in 1960-61, 1971-73 and 1980-83.

Until his death in 1938, Ataturk presided over a single-party state. He broke with the country's Islamic past and promoted a secular national identity. His successor as president, Ismet Inonu, managed to maintain Turkey's neutrality during the second world war (1939-45). In 1945 he ended the single-party era, allowing the Democrat Party (DP), led by Adnan Menderes, to come to power in Turkey's first genuinely free election in 1950. Meanwhile, direct territorial threats from the Soviet Union had pushed Turkey into the Western camp in the cold war; it was admitted to NATO in 1952.

Against a backdrop of growing economic difficulties, the military ousted the DP government on May 27th 1960, ostensibly because of its increasing intolerance of the opposition. The army held power until October 1961, when a general election took place following the trial and execution of Mr Menderes and two of his former cabinet members. A period of weak coalition governments followed until 1965, when the Justice Party (AP), led by Suleyman Demirel and seen as the DP's successor, won the general election. Steady economic growth maintained the popularity of the AP, which retained power in the 1969 election.

However, increased left- and right-wing terrorism led to a second putsch by the military in March 1971 and the installation of a technocratic government until 1973. In democratic elections in 1973 and 1977, none of the parties succeeded in winning an overall majority. Thus, between 1974 and 1980 Turkey was ruled by five feeble coalitions, headed alternately by the AP and the centre-left Republican People's Party (CHP), led by Bulent Ecevit. By the end of the 1970s the government and the economy seemed to be heading for total collapse, and political violence claimed about 5,000 lives. A third military takeover in September 1980 was greeted with general relief.

The leader of the 1980 coup, General Kenan Evren, established a five-man junta, which remained in power until November 1983. During this period, the military regime restored law and order through the draconian curtailment of civil rights. In November 1982 a more restrictive constitution, intended to provide stable

government, was accepted in a national referendum, and General Evren was elected president for the next seven years. Only three parties were allowed to contest the September 1983 general election, in which Turgut Ozal's new Motherland Party (Anap) won a majority.

Under Mr Ozal, who stayed in office as prime minister until 1989, parties excluded from the 1983 election emerged as important players. These included the Social Democrat Populist Party (SHP, a merger of the Social Democrat Party, and the Populist Party) and the True Path Party (DYP), set up by Mr Demirel. Mr Ecevit, who had been imprisoned for a time by the military after the 1980 coup, formed the Democratic Left Party (DSP), while the Islamist tendency was represented by the Welfare Party, led by Necmettin Erbakan. Following constitutional amendments, all these parties were allowed to contest the 1987 election, but Mr Ozal was returned to power with an increased majority.

When General Evren retired as president in November 1989, he was succeeded by Mr Ozal, who won approval in the West for his support of Kuwait following the Iraqi invasion in August 1990, but failed to turn this to domestic political advantage. In an early general election in October 1991 Anap, led by Mesut Yilmaz, lost its majority. Mr Demirel thus returned to office at the head of a coalition between the DYP and the SHP.

When Mr Ozal died suddenly in April 1993, Mr Demirel was elected president and Tansu Ciller took over as leader of the DYP and prime minister. Serious financial and balance-of-payments crises marred Ms Ciller's record in office, but she did succeed in reaching an agreement with the EU on the terms of a customs union, which came into force on January 1st 1996. In early 1995 the SHP and the CHP merged under the name of the latter, but the newly formed party remained in the government coalition only briefly. On September 20th the CHP leader, Deniz Baykal, withdrew the party from the government. Ms Ciller's resignation paved the way for a general election in December 1995.

The results of the general election confirmed the rising popularity of the Welfare Party, which received the largest share of the vote (21.4%). Principally to keep Welfare from power, Anap and the DYP formed a coalition government in February 1996, but the coalition fell apart when the Anap leader, Mr Yilmaz, agreed to parliamentary investigations into alleged malpractice by Ms Ciller during her time as prime minister in 1993-95. To avert the investigations, Ms Ciller formed a coalition with the Welfare Party. The government led by Mr Erbakan was the first Islamist-led government in Turkey's history. Mr Erbakan's moves towards creeping Islamisation (especially in education) aroused the anger of the staunchly secularist generals of the Turkish Armed Forces (TSK), as well as that of much of an emerging civil society. On June 18th 1997, in the face of repeated warnings from the military-dominated National Security Council (MGK) and mounting public protests, Mr Erbakan resigned. On June 30th Mr Yilmaz formed a minority coalition government with the DSP and outside support from the CHP. In November 1998 the CHP withdrew its support over alleged government corruption. A minority DSP government led by Mr Ecevit was formed with the external support of the DYP and Anap to steer the country to a general election in April 1999.

## Political forces and institutions

### Legislative election Jul 22nd 2007

	% of votes cast	Seats in parliament
Justice and Development Party (AKP) <sup>a</sup>	46.7	341
Republican People's Party (CHP) <sup>b</sup>	20.9	99
Democratic Left Party (DSP) <sup>b</sup>	-	13
Nationalist Action Party (MHP)	14.3	70
Democratic Society Party (DTP) <sup>c</sup>	-	20
Liberal Democratic Party (ODP) <sup>d</sup>	-	1
Independents <sup>e</sup>	5.2	5
Vacant/others	13.0	1
<b>Total</b>	<b>100.0</b>	<b>550</b>

<sup>a</sup> Formed in 2001, following the closure of the pro-Islamist Virtue Party, which was formed in 1998, following the closure of the Welfare Party. <sup>b</sup> CHP and DSP formed a joint list for the election but remain separate parties. <sup>c</sup> Candidates ran as independents to bypass the 10% vote threshold. The DTP was formed in November 2004 as a result of a merger between the pro-Kurdish Democratic People's Party (Hadep), which threatened with closure was formally disbanded, and the Democratic Society Movement (DTH) established by Leyla Zana and two other prominent Kurdish politicians after their release from prison in 2004. <sup>d</sup> The party's leader ran as an independent to bypass the 10% threshold. <sup>e</sup> Includes votes cast for the DTP and ODP candidates who ran as independents.

Source: Turkish press.

**AKP** The AKP was formed in 2001 by Mr Erdogan, a former mayor of Istanbul, and other former members of Mr Erbakan's pro-Islamist Welfare Party and its successor, the Virtue Party. Following the closure of the Virtue Party in July 2001, they moved towards an accommodation with Turkey's secularist tradition, promoting the AKP as a conservative party committed to maintaining the secularist nature of the republic. When AKP won the November 2002 general election with 34% of the votes it captured the electoral support of pro-Islamists, who had previously voted for the Welfare Party and Virtue, as well as large sections of voters who had previously voted for the two established centre-right parties, Anap and DYP, both of which failed to win seats. In the July 2007 general election the AKP won 47% of the vote, consolidating its position as the main centre-right party. During more than four years in office the AKP managed to stabilise the economy with the backing of the IMF, launched EU accession negotiations and generally avoided head-on collisions with Turkey's secularist forces. But the secularists have remained suspicious of the AKP's Islamist origins and its reasons for embracing the goal of EU membership. In 2008 the judiciary attempted to close the party. Although the constitutional court found the AKP guilty of anti-secularist activities, it narrowly voted against banning the party.

**CHP** The CHP, with about 20% of the vote in July 2007, is the main representative of the centre-left in parliament. However, the party, led by Mr Baykal, has not shaken off public suspicion that it is still wedded to *dirigiste, étatiste* methods. It has performed poorly in opposition since the November 2002 general election and failed to increase its share of the vote in the March 2004 local elections (it won about 18%) and the 2007 elections. There has been strong opposition within the party to Mr Baykal, whose authoritarian style of leadership is seen by his critics to be damaging the CHP. Other centre-left parties are thinly

supported and unlikely to play more than a marginal role so long as the centre-left remains fragmented.

**DSP** The DSP suffered a crushing defeat in the 2002 general election following the poor performance of its leader, Mr Ecevit, as prime minister in 1999-2002. It won just 2% of the vote compared with 20% in April 1999. Following Mr Ecevit's retirement in 2004 and his death in November 2006, the DSP, now led by Zeki Sezer, faced extinction. In 2007 the party formed an electoral alliance with the CHP and now has 13 members of parliament (MPs).

**MHP** The ultra-nationalist right is mainly represented by the Nationalist Action Party (MHP), under the leadership of Devlet Bahçeli. It became the second-largest party, with 18% of the vote, in the April 1999 general election, but obtained only 8.3% of votes cast in 2002. A maverick party, the Youth Party (GP), led by a millionaire businessman, Cem Uzan, cut into the MHP's vote in the 2002 election on a platform of strong nationalism and economic populism. In 2007 the MHP returned to parliament with 14% of the votes, benefiting from a rise of nationalist sentiment and a decline in support for EU membership since 2005.

**DTP** Kurdish nationalism is represented in parliament by the Democratic Society Party (DTP). To bypass the 10% threshold for party representation, the party's candidates ran as independents in 2007 and formed a parliamentary group comprising 20 MPs after the election. A lawsuit launched in November 2007 is seeking to close the DTP for its alleged ties with the militant Kurdistan Workers' Party (PKK). The DTP was formed in 2005 as a result of a merger between Democratic People's Party (Dehap), which was facing closure by the courts for allegedly supporting the PKK, and the Democratic Society Movement (DTH), set up in 2004 by three prominent Kurdish politicians—Leyla Zana, Hatip Dicle and Orhan Dogan—who had just been released after almost ten years' imprisonment, also for allegedly supporting the PKK. The DTP's pro-Kurdish predecessors have almost all been closed down. The People's Democracy Party (Hadep) was closed in March 2003 and the Democracy Party, originally a splinter group of the SHP, was closed in 1994.

**The military** The TSK, which considers itself the guardian of the secular republic, staged three coups between 1960 and 1980 and was instrumental in the removal of the Welfare Party-led government in 1997. Since the early 1980s, the TSK has wielded power mainly through the MGK, which is supposed to advise the government on security questions, but in practice has exercised considerable influence on a wider range of issues, especially in opposing Kurdish nationalism and political Islamism. Despite constitutional reforms in 2001 (as part of Turkey's bid to join the EU), which reduced the military presence in the MGK and formally reduced its authority, the military continues to play a major role in Turkish politics.

## Main political figures

### Recep Tayyip Erdogan

As mayor of Istanbul in 1994-98, Mr Erdogan won the approval of many voters who did not support his Islamist political attachments. After a brief period in prison, he broke with the leader of the pro-Islamist Welfare Party, Necmettin Erbakan, and launched the Justice and Development Party (AKP), which won the 2002 and 2007 general elections. As prime minister since March 2003 he has been relatively successful in managing the economy under IMF guidance, but in making appointments to key economic posts he has been criticised for reverting to traditional methods of political favouritism and his judgement has also been questionable on some issues, for example, temporarily backing a proposal by AKP conservatives to recriminalise adultery in 2004 and proposing in 2006 the head of an Islamic finance house, who had denounced the IMF, as governor of the Central Bank of Turkey (a choice that was vetoed by the then president, Ahmet Necdet Sezer). He continues to be viewed with deep suspicion by Turkey's secularist/nationalist elite. Since the 2007 general election his government appears to have lost its reformist momentum.

### Abdullah Gul

As deputy leader of the AKP, Mr Gul served as prime minister while Mr Erdogan was excluded from parliament between November 2002 and March 2003, after which he became deputy prime minister and minister of foreign affairs. In August 2007 he was elected as president by parliament. Secularists strongly resisted his election because of his pro-Islamist past and the fact that his wife wears an Islamic-style headscarf. He was first elected to parliament in 1995 as a member of the former Welfare Party. Following the closure of the Welfare Party in 1998, he emerged as a leader of the modernist wing of its successor, the Virtue Party. This propelled him into the second slot in the AKP, behind Mr Erdogan, when the party was launched in 2001. He is respected in EU circles, but he does not enjoy the same grass-roots appeal as Mr Erdogan.

### Deniz Baykal

The leader of the Republican People's Party (CHP), Mr Baykal was originally a member of the CHP when it was led by Bulent Ecevit in the 1970s. He emerged as a potential rival to the party leader and the standard-bearer of the left wing of the party. After the military takeover in 1980, he suffered a short period of detention, but in 1987 he re-entered parliament as a member of the Social Democrat Populist Party (SHP). Following several unsuccessful attempts to become leader of the SHP, Mr Baykal broke away from the party to re-establish the CHP in 1992. Mr Baykal has twice brought down fragile coalition governments, first in 1995 and again in 1998. In the general election of April 1999, the CHP was eliminated from parliament, and Mr Baykal was forced to resign, but was re-elected party leader in September 2000. Mr Baykal's authoritarian style and his party's poor performance in opposition limit the CHP's appeal.

### Yasar Buyukanit

General Buyukanit took over as chief of the general staff from General Hilmi Ozkok from August 2006 until August 2008. Before his appointment, it was expected that General Buyukanit would take a more hawkish line than his predecessor on such issues as the protection of secularism and policy towards the Kurds. Initially, both the government and General Buyukanit appeared anxious to avoid open confrontation, but the general became more hawkish in his statements in 2007, arguing for military intervention in northern Iraq to suppress Kurdistan Workers' Party (PKK) camps there and seeking to condition the AKP's choice of presidential candidate ahead of the April/May presidential election. In August 2008 General Buyukanit was succeeded by General Ilker Basbug. Although also a hardline secularist, he prefers to adopt a more low-key approach to the military's still-considerable role in Turkish politics than General Buyukanit.

**The judiciary** The independence of the judiciary is respected in Turkey, and rulings by the constitutional court can overturn acts of parliament. The judiciary contains many conservative elements that, like the military, are suspicious of the AKP and pro-Kurdish political groupings. The EU has been calling for reforms to increase the efficiency and effectiveness of the judicial system and has criticised the use of Article 301 of the reformed penal code to prosecute individuals for their views on issues such as the alleged Armenian genocide and the Kurdish

problem. A major criticism of the system has been that because of highly different interpretations of the law, particularly those regarding human rights and freedom of expression, decisions differ significantly from court to court. In 2003-04, through a programme sponsored jointly by the European Commission, the Council of Europe and the Ministry of Justice, the government intensified its efforts to improve the knowledge of European and international human-rights standards among a greater number of Turkish judges and public prosecutors and ensure that the European Convention on Human Rights and the rulings of the European Court of Human Rights were implemented effectively.

### **The legislature**

Turkey is a unitary, secular republic, in which power is exercised by a unicameral parliament (Meclis) and the prime minister. The prime minister is designated by the president and is customarily the leader of the largest party. Constitutionally, the prime minister must be an MP, but cabinet ministers can be appointed from outside. The constitution can be altered only by a two-thirds majority in the Meclis, with a subsequent referendum if this is ordered by the president, or by a three-fifths majority, followed by a compulsory referendum. Only the parliament can authorise deployment of Turkish troops abroad or of foreign forces on Turkish soil, except in performance of Turkey's treaty commitments to NATO.

The Meclis elects the president for a single seven-year term. He can delay, but not veto legislation. The president is supposed to be a neutral figurehead and is obliged to resign from a political party before assuming office. In practice, he has some powers of appointment and may exercise substantial influence behind the scenes, particularly in periods of governmental crisis. Following the institutional crisis in 2007 over the presidential election, the AKP amended the constitution to allow for the direct election of the president.

Parliament currently has 550 members with a parliamentary term of four years (reduced from five years in 2007), although an early election can be held if the Meclis votes to this effect. The electoral system is based on multi-seat constituencies, with parties that fail to exceed a threshold of 10% of the national vote being excluded. The 10% threshold does not apply to independent candidates. Elections are usually conducted fairly, but groups considered by the judiciary to endanger the unitary, secular nature of the state (in effect, Kurdish nationalist parties or pro-Islamist parties) have been periodically closed down.

### **Media services**

Media pluralism is limited in Turkey, despite the existence of about 40 national newspapers and 24 national television channels, because of the dominance of a few conglomerates, with interests in a range of other sectors. The main media groups are Dogan, Merkez, Cukurova, and Feza. The biggest-selling newspapers are: the mainstream nationalist dailies *Hurriyet*, *Milliyet*, *Posta* (all Dogan) and *Sabah* (Merkez), *Aksam* (Cukurova) and the liberal Islamic *Zaman* (Feza). *Cumhuriyet* is the most influential left-of-centre newspaper. The state-owned TRT held a monopoly on broadcasting until 1993. Numerous privately owned national television and radio stations have emerged since then. All major media organs also run websites. Broadcasting is supervised by an independent agency, RTUK. RTUK has yet to settle chaotic frequency allocations. Although TRT has been allowed since 2003 to broadcast programmes in languages other

than Turkish, these have been limited and generally of poor quality, leading to criticism from Kurdish groups. Parliament approved a law in June 2008 that should allow full-time state broadcasting in Kurdish, but it remains to be seen how this will be implemented.

### Democracy index (for methodology, see Appendix)

The Economist Intelligence Unit's 2008 democracy index ranks Turkey 87th out of 169 countries, up from 88th place in 2006 despite a slight fall in the score this year. Turkey trails well behind Croatia (51st) and Macedonia (72nd), which are also EU accession candidates, as well as Romania (50th) and Bulgaria (52nd), which joined the EU in 2007. Turkey is among the 36 countries considered *hybrid regimes*, reflecting the fact that although the transfer of power is a well-accepted process, the military continues to play a role in politics. Turkey's score for the *electoral process* is high. Voter turnout is high and elections are free and fair. The threshold for political parties to gain parliamentary representation is high, at 10%, although it can be circumvented by fielding candidates as independents. The political parties law falls well below European standards, with the result that parties have been banned in recent years, even if they do not use violence or advocate violence. The participation of women and minorities in national politics is low. In the current parliament there are just 50 female members of parliament (MPs) out of a total of 550 and the pro-Kurdish party, the Democratic Society Party (DTP), is facing closure by the courts. The protection of minority rights is improving, but it is still weak. Freedom of expression is not well protected as several articles of the Turkish Penal Code are still used to punish individuals for their opinions, despite amendments to the controversial Article 301 in April 2008. The right to protest is restricted.

### Democracy index

	Overall score	Overall rank	Electoral process	Government functioning	Political participation	Political culture	Civil liberties	Regime type
Turkey	5.69	87	7.92	6.07	4.44	5.00	5.00	Flawed democracy

Overall and component scores are on a scale of 0 to 10; overall rank is out of 167 countries.

## Recent political developments

- **The 1999 election produced a disparate coalition government.** Led by Mr Ecevit, the government comprised his DSP, the ultra-nationalist MHP led by Mr Bahçeli and Mr Yılmaz's Anap. It chalked up some notable early achievements: a three-year stand-by credit agreement with the IMF, signed in December 1999, and the declaration, also in December 1999, of Turkey as a candidate for EU accession, reversing a decision by the EU two years earlier. However, tensions emerged between Mr Ecevit and Ahmet Necdet Sezer, a former constitutional court judge elected president in April 2000, over the government's handling of corruption allegations. In February 2001 the tensions reached a crisis point, triggering a collapse of investor confidence and an economic and financial crisis. The crisis necessitated additional IMF support, which continued until May 2002. By mid-2002 Mr Ecevit's government had collapsed and a general election was called for November 3rd 2002.
- **The AKP has been in power since November 2002.** The AKP, led by Mr Erdogan, emerged as the clear winner of the 2002 election with 37% of the

vote, a clear sign of the public's disgust at the mismanagement and corruption of the old parties, virtually all of which failed to reach the 10% threshold for parliamentary representation. In its first 3-4 years in office the AKP was successful in achieving its two main priorities: meeting the political conditions for starting EU accession negotiations (October 2005) and establishing economic stability with the help of the IMF. Despite winning a landslide victory in the July 2007 general election, problems have mounted for the AKP in recent years. EU accession negotiations have lost momentum, the campaign of violence by Kurdish separatists has escalated and the AKP and Mr Erdogan have come under increasing pressure from Turkey's secularist elite. The government's achievements in the economic field are also looking vulnerable as a result of a sharp deterioration in global economic conditions in September-October 2008. Turkey's IMF stand-by agreement expired in May 2008 and the government is reluctant to embark on a fresh programme.

- **Tensions with the secularists have risen sharply.** With the help of a public statement by the military on their website on April 27th 2007 and a constitutional court ruling on the legal quorum in parliament on May 1st the secularist opposition parties blocked the election as president of Mr Gul, the deputy leader of the AKP and then foreign minister. Although Mr Gul was elected to the presidency in August, the secularist elite has not reduced the pressure on the AKP. In March 2008 the chief state prosecutor launched a lawsuit calling for the AKP to be closed down and its leading members, including Mr Erdogan, to be banned from party politics, alleging that the party had become a focus for anti-secularist activity. Although the constitutional court found the AKP guilty, the party narrowly escaped closure.

- **Terrorist attacks have threatened stability.** Since 2003, a series of terrorist attacks has been carried out in Turkey by radical Islamist groups, left-wing extremists, Kurdish militants and Turkish nationalists. The most devastating were the November 2003 suicide bombings in Istanbul, in which radical Islamists targeted Western interests. The Kurdish militant PKK resumed its campaign of violence in 2004 and the level of violence has steadily escalated. The war against the PKK claimed around 30,000 lives between 1984 and 1999, when the PKK declared a unilateral ceasefire. In that period the counter-insurgency campaign resulted in serious human-rights abuses by government forces, the compulsory evacuation of thousands of villages and severe disruption of the region's economy. In 2007-08 investigations began into the alleged existence of an illegal gang intent on destabilising the country to bring down the AKP government. The trial of 86 people, including several former generals and prominent civilians, began in October 2008.

For an analysis of the latest political developments, see the Economist Intelligence Unit's most recent **Turkey Country Report**.

### Important recent events

#### December 2006

The European Council suspends accession negotiations on eight of the 35 chapters until Turkey agrees to open its ports and airports to Greek Cypriot ships and planes.

**February 2007**

The murder of a Turkish-Armenian journalist, Hrant Dink, by a Turkish nationalist shocks Turkey.

**April-May 2007**

Secularists and the military block the presidential election, triggering an early general election in late July.

**July 2007**

The Justice and Development Party (AKP) wins the general election, increasing its share of the votes and broadening its appeal.

**August 2007**

The Republican People's Party (CHP) fails to persuade the other opposition parties to boycott the presidential election in parliament. Abdullah Gul, the AKP's deputy leader, is elected president.

**March-July 2008**

In March the chief state prosecutor launches a lawsuit to close the AKP for anti-secular activities. In July the constitutional court finds the AKP guilty, but narrowly votes not to close the party.

**October 2008**

The Ergenekon trial opens. Eighty-six individuals including former generals are accused of forming a gang to destabilise the country and topple the AKP.

**International relations and defence**

- **Turkey has been a committed member of NATO since 1952.** In the 1990s crises in the Balkans, Turkey shunned unilateral action, but joined UN and NATO peacekeeping missions in Bosnia and Hercegovina and the NATO air campaign in Kosovo in 1999. After initially opposing the EU's plans to establish a new European security structure outside of NATO, in December 2001 Turkey reached an agreement with the UK (negotiating on behalf of the EU) that allows Turkey to play a "decision-shaping" role in any EU-led military operations requiring the use of NATO assets.
- **Turkey began EU accession negotiations in 2005.** In December 1997, at the Luxembourg meeting of the European Council, the EU excluded Turkey from the list of candidates for enlargement. Following the installation of a Social Democratic Party-Green Party coalition in Germany in 1998 and a new *entente* with Greece, relations with the EU improved, paving the way for Turkey's inclusion as a membership candidate in December 1999. Turkey has had an association agreement with the EU since December 1st 1964 and entered into a customs union with the EU on January 1st 1996.
- **Turkey has traditionally had strong relations with the US.** The relationship was strengthened following the terrorist attacks in the US of September 11th 2001, as Turkey backed the US-led intervention in Afghanistan and the campaign against global terrorism. However, relations ran into difficulty on March 1st 2003, when parliament refused to allow US forces to use Turkish territory in the planned war against Iraq. Although now more positive, relations

have frequently been tense, mainly because of the uncertainty surrounding the situation in Iraq and the continued attacks in Turkey by the PKK, which has camps in the Kurdish region of northern Iraq. Increasingly frustrated with the failure of the US and the Iraqi government to suppress the PKK camps, the Turkish parliament authorised crossborder military action in October 2007. Turkey has since carried out selective strikes on PKK targets, mainly by air.

- **Relations with Greece began to improve after mid-1999**, but disputes over Cyprus and the Aegean Sea are still sources of tension between the two countries. The rapprochement in 1999 was helped by the generous Greek response to the Turkish earthquake disaster in August 1999 and by Greece's agreement to accept Turkey as a candidate for eventual EU membership at the European Council meeting in December of that year. The two governments have signed agreements on some non-contentious issues. However, in the Aegean, Turkey continues to oppose the potential declaration by Greece of a 12-mile limit for territorial waters and disputes the Greek claim to offshore mineral rights over almost the whole of the Aegean. When accepting EU candidacy in December 1999, Turkey agreed to the possibility of arbitration by the International Court of Justice in The Hague, if bilateral talks fail to produce a positive result. Since the change of government in Greece in 2004, Turkish-Greek relations have cooled, although the Greek government (but not public opinion) still supports in principle eventual Turkish membership of the EU.

- **Turkey has backed fresh Cyprus talks that began in September 2008**, but the differences between the Greek and Turkish Cypriots are still large. The decades-old division of the island has been a major source of tension with Greece and a major obstacle to Turkey's EU membership bid. In 2003-04 Turkey strongly supported a settlement based on UN proposals. However, in separate referendums on the island on April 24th 2004, the UN plan was rejected by about 75% of Greek Cypriots, whereas 65% of Turkish Cypriots voted in favour.

- **Turkey is seeking to play a stabilising role in the Caucasus.** Turkey has traditionally good ties with its Turkic neighbours such as Azerbaijan, as well as with Bulgaria, Georgia and other Black Sea countries. Strong economic, trade and energy links with Russia have recently helped to counterbalance underlying historic tensions over competition for influence in the former Soviet republics. Relations briefly became tense again in 2008, following the Russia-Georgia war in August. Since then Turkey has been sought to promote a dialogue and trust-building initiative, the Stability and Co-operation Platform in the Caucasus. In this context Turkey has begun tentative moves to settle a bitter dispute with Armenia over the alleged Armenian genocide by Ottoman Turks in 1915-16.

- **For many years, Turkey's relations with Syria were tense**, given Syrian support for the PKK and disputes over the Euphrates waters following the construction of the Ataturk dam in Turkey. By expelling the PKK leader from Syria in October 1998, the then Syrian president, Hafez al-Assad, removed a major bone of contention between the two countries. Although the Euphrates dispute remains unsettled, relations with Syria have moved forward.

- **Defence expenditure is high**, despite efforts to curtail it in recent years to improve Turkey's public finances. According to a London-based think-tank, the

International Institute for Strategic Studies, Turkey spent US\$11.7bn (3.2% of GDP) on defence in 2005, compared with the official figure for the defence budget of US\$8.1bn. Turkey assembles its own advanced weapons, notably the F-16 aircraft, under an agreement with a US defence firm, General Dynamics. The military is trying to move towards domestic production of arms and equipment, to avoid the threat of an arms embargo, like the one imposed by the US after the invasion of Cyprus, which lasted until 1978.

## Demographics and resources

### Population

Population	2003	2004	2005	2006	2007
Population (m)	68.1	68.9	69.7	70.4	71.2
Population (% change)	1.2	1.2	1.1	1.1	1.1

Source: US Census Bureau.

- Population growth remains strong, but has slowed substantially.** Turkey's population is an estimated 71m, the third largest in Europe, after Russia and Germany. The rate of population growth is estimated to be about 1.2% per year in the last decade. This is still strong by EU standards, but a significant deceleration compared with over 2% up to 1990 and around 2.5% in the 1970s and 1980s. The deceleration in the birth rate since the 1950s is related to an improvement in the educational level of women, migration to urban areas and a wider use of modern birth-control practices. For 2006, the Turkish Statistical Institute (Turkstat) estimates the fertility rate at 2.18%, the birth rate at 1.87% and the mortality rate at 0.63%. Infant mortality is estimated to have dropped steadily to 2.26% in 2006, but this figure remains higher than in all European countries. Life expectancy at birth is 69.1 years for men and 74 years for women. All these statistics show wide variations between regions and from rural to urban areas.
- Over 99% of the population is at least nominally Muslim.** The Greek, Armenian and Jewish communities have steadily declined. Among the Muslims, the unorthodox Alevi minority is estimated at anywhere between one-tenth and one-quarter of the total. Around 15% of Turkey's total population is Kurdish. Kurds form the majority of the population in the south-east and parts of the east, where Kurdish is commonly spoken and many villagers still cannot speak Turkish. People of wholly or partly Kurdish origin also make up a substantial minority of the populations of many major cities. Arabic-speakers, found mainly along the southern frontier with Syria, account for 1.5-2% of the total population. There are believed to be several hundred-thousand illegal immigrants living in Istanbul and other Turkish cities, mainly from poor parts of the Balkans and the former Soviet Union, as well as Iran, Iraq, Afghanistan and Africa.
- Turkey has a young, rapidly urbanising population.** The average age in Turkey is 27 years. In 2007 the urban population (including provincial and district centres) accounted for 70% of the total, compared with 65% in 2000, 60% in 1990 and 27% in 1960. There has been a high level of migration from rural

areas to major cities and, increasingly, to other regional centres. The process of internal migration and urbanisation is likely to continue for many years to come.

- **Around 25% of the population is concentrated in the Marmara region.** The Marmara region in the north-west, which includes Istanbul, easily the largest city, and Bursa, is the area of most rapid population growth (2.67% per year between 1990 and 2000, according to the 2000 census results). Another quarter of the population lives along or close to the western and southern coasts, including large cities like Izmir, Adana, Mersin and Antalya. The Black Sea region accounts for over 10% of the population, but as a result of outward migration, the population there has stabilised. The capital, Ankara (6% of the population), is the second-largest city and the largest of the inland cities, ahead of Konya. The extensive inland areas further east are more sparsely populated. The south-east, including Gaziantep, Sanliurfa and Diyarbakir, accounts for over 10% of the total population, and population growth is strong there, despite outward migration, owing to natural increase.

## Education

**Primary school enrolment is over 95%, including girls.** Compulsory schooling was raised from five to eight years in 1997, and there is a single curriculum for 6-14 year olds. Factors such as inadequate provision, traditional gender assumptions, poverty and child labour for a long time prevented full primary school enrolment. Today, enrolment falls short of 100%, especially in eastern provinces, in rural areas, in the higher grades and among girls.

**Net secondary school enrolment is much lower.** In secondary education (normally for children aged 14-18), net schooling ratios are 61% for boys and 56% for girls, again with wide regional variations. At secondary level, in addition to general high schools, there are a few schools with selective entry and a large number of vocational and technical schools. The vocational schools include the controversial religious Imam Hatip schools, which were notionally set up to train Muslim religious functionaries, but former students can be found in almost all walks of life. Secularists regard the schools as bastions of conservatism, if not as a training ground for Islamist radicals, and have opposed efforts to make it easier for graduates to study subjects other than theology at university.

**Quality needs to improve as well as participation.** In the long term, the Ministry of National Education is planning to make secondary education compulsory. It is also in the process of expanding pre-school provision. An equally challenging task is to improve the quality of education provided. PISA (Programme of International Student Assessment) tests, studies by international organisations and anecdotal evidence all clearly indicate that although a small minority of pupils—mainly those studying at private schools and state schools in wealthier areas of major cities—can attain the highest international standards, achievement in general falls below the level of all other OECD countries.

**Higher education is expanding.** Entry to university for secondary-school graduates is by national examination. Student numbers have increased rapidly, but graduate numbers are still lower than in other European countries and quality of education varies. A handful of universities, mainly in Ankara and

Istanbul, enjoy special prestige. Courses normally last four years. There has been an increase in two-year courses. The Open University plays a significant role in catering for those unable to win full-time university places. A number of the most prestigious universities and secondary schools, both public and private, use a foreign language, usually English, as the medium of education.

**Public spending on education is modest.** Education at all levels is provided primarily in the public sector, where it is in principle free, with the exception of partial university fees. Private schools educate a little over 2% of primary school pupils and 3% of secondary school students. At about 4.2% of GDP, government spending is low compared with most other European and OECD countries, especially when the age structure of the population is taken into account. High private spending on education, especially cramming school fees and voluntary contributions for extra state-school activities and expenses, supplements the modest level of government spending, but exacerbates geographical and other inequalities in provision and achievement.

## Natural resources

At 783,562 sq km (including lakes and islands), Turkey's land area is about the same as that of France and the UK combined. Approximately 264,000 sq km (34%) is agricultural land, and much of the rest can be used for grazing. However, there is also a substantial area of exposed highland, particularly in central and eastern Anatolia (Mount Ararat, in Agri province, rises to 5,137 metres). Much of this region is extremely cold in winter. Water resources are less plentiful than in western Europe, but much less scarce than in most of the Middle East. The Black Sea region is warm and wet, with over 1,000 mm of rainfall per year in many places. Other parts of the country enjoy considerable sunshine, especially in summer, with between 300 mm and 1,000 mm of precipitation annually, depending on proximity to coasts and the lie of the land. This climatic variety allows a wide range of crops to be grown.

Mineral resources include much lignite and some hard coal, iron ore, metals and salts. Turkish boron minerals are significant for international trade. Only relatively small amounts of oil and natural-gas reserves have been found and exploited, but several rivers have been or are being dammed for hydroelectricity generation, as well as irrigation. Long coastlines offer opportunities for shipping, fishing and, above all, tourism, which also benefits from warm summers, fine scenery and the presence of historical remains.

## Infrastructure

Turkey's infrastructure is broadly adequate for doing business, but extension and modernisation are required, especially in view of the expected growth of the economy and the population. Major shortcomings include the continuity and quality of the power supply, the inadequacy of the rail network, urban traffic congestion, delays at ports and customs, low personal computer ownership and Internet penetration, and high telecommunications costs. Ports, airports and border crossings are improving with the help of private investment.

**Transport statistics**

	2003	2004	2005	2006	2007
<b>Railways</b>					
Length of main lines (km)	8,697	8,697	8,697	8,697	8,697
Passenger traffic (m passenger-km)	5,878	5,163	5,036	5,277	5,553
Goods traffic (m tonne-km; incl private wagons)	9,158	10,368	10,120	11,242	12,108
<b>Sea</b>					
Passenger traffic (m person-miles; domestic)	551	621	671	753	843
Goods loaded ('000 tonne; incl domestic, excl transit)	60,374	70,041	68,640	78,783	80,383
Goods unloaded ('000 tonne; incl domestic, excl transit)	118,315	136,002	140,092	154,540	171,405
<b>Road</b>					
Length of motorway (km)	1,882	1,892	1,775	1,987	1,987
Length of state & provincial roads (km)	61,491	61,814	61,939	61,764	61,912
Passenger cars (no.)	4,700,343	5,400,440	5,772,745	6,140,992	6,472,146
Total road vehicles (no.)	7,719,587	9,026,074	9,898,059	10,936,714	11,695,611
Passenger traffic (m person-km; domestic)	164,311	174,312	182,152	187,593	209,115
Goods carried (m tonne-km; domestic)	152,163	156,853	166,831	177,399	181,330
<b>Air</b>					
Domestic passengers ('000)	9,128	14,438	20,503	28,800	31,971
International passengers ('000)	25,296	30,596	35,043	32,884	38,382
Cargo handled ('000 tonne, incl domestic)	931	1,123	1,250	1,347	1,547

Sources: Turkish Statistical Institute (Turkstat); Ministry of Transport: State Railways (TCDD); General Directorate of Highways; General Directorate of Civil Aviation; Undersecretariat for Maritime Affairs.

**Railways** There is a modest 8,697 km of railway, of which 85% was built before 1940 and over 40% predates the Republic. Most lines are single-track and circuitous, and rail travel is slow. All are owned by the loss-making state railways, TCDD. Only a few suburban lines are commercially successful and services to the east have been run at a loss. Although several ports and state enterprises producing basic goods are served by rail, rail accounts for only 4% of goods transport (20.8m tonnes/year in 2007) and 2% of passenger transport (81m journeys in 2007, including 56m suburban journeys, compared with a peak of about 140m in the late 1980s and early 1990s). Various projects have been developed in recent years to improve goods services. The Istanbul-Ankara line is being rebuilt, to run faster passenger trains and reduce the journey time between Turkey's two largest cities to three hours. A tunnel under the southern Bosphorus is nearing completion for the Marmaray project, an east-west rail link across Istanbul.

**Roads** Roads are the main means of land transport. All provincial centres and other major towns have been linked by an extensive road network, although the quality of the roads varies, and routes can be circuitous. Improvement and widening of existing roads continues. Almost 2,000 km of motorway has been built between and around major cities. The longest motorway runs from Edirne on the Bulgarian border via Istanbul to Ankara. The motorways and the two Bosphorus bridges are toll-paying and slated for privatisation.

**Ports** Sea transport is important for domestic and international trade and travel, with three of Turkey's main industrial conurbations (Istanbul-Izmit, Izmir and Adana-Mersin) located on the coast. Mersin, Izmir and Samsun are the main ports on the Mediterranean, Aegean and Black Sea coasts respectively; there are several ports in the Marmara region around Istanbul. The establishment of private

ports and the trend towards private management of the state ports, owned by TCDD, have gone some way towards mitigating overcrowding and inefficiency in recent years. The gross tonnage of the Turkish merchant marine fell in the early 2000s, but now appears stable, at about 5.2m. Import and export goods are overwhelmingly transported by sea, but the share of Turkish-flag vessels, largely private sector, is well under 30%.

**Air transport** The total number of passengers carried by air doubled between 2003 and 2007. Domestic air transport saw particularly rapid growth, partly at the expense of the intercity bus companies. Domestic flights (32m passenger journeys in 2007) are today operated at competitive prices by Turkish Airlines (THY), its Ankara-based subsidiary Anadolujet and private airlines Onur Air, Atlasjet and Pegasus. International air traffic in and out of Turkey (38m passenger journeys in 2007) is shared by THY, other national carriers, private foreign and Turkish airlines and charter companies. THY has grabbed its share of the expanding market, and in 2007 it carried 19.6m domestic and international passengers. Approximately 50% of THY is publicly owned, following secondary share offerings in December 2004 and May 2006. About 40 airports are in regular civilian use. Some are shared with the military and most are state-owned, but the newest and largest—Istanbul Ataturk, Antalya, Ankara Esenboga and Izmir Adnan Menderes—are run by private operators, as is Istanbul Sabiha Gokcen.

#### Primary energy production

	2002	2003	2004	2005	2006
Lignite ('000 tonnes)	51,660	46,168	43,709	57,708	61,484
Oil ('000 tonnes)	2,442	2,375	2,276	2,281	2,176
Natural gas (m cubic metres)	378	561	708	897	907
Hydroelectric power & geothermal power (gwh)	33,789	35,419	46,177	39,655	44,338
Geothermal heat ('000 tonnes of oil equivalent—toe)	730	784	811	926	1,081
Wind power (gwh)	48	61	58	59	127
Solar ('000 toe)	318	350	375	385	403
Wood ('000 tonnes)	15,614	14,991	14,393	13,819	13,411
Animal and vegetable waste ('000 tonnes)	5,609	5,439	5,278	5,127	4,984
Biofuel ('000 tonnes)	-	-	-	-	2

Source: Ministry of Energy and Natural Resources.

**Energy** Turkey has significant reserves of coal (mostly lignite), but has only limited reserves of oil and natural gas, so imports of these fuels are large. Besides fossil fuels, hydroelectricity is another important energy source. Turkey is also of interest as a crossroads for international energy pipelines. The energy sector has an independent regulator, the Energy Market Regulatory Agency (EPDK).

- **Oil:** Imports of crude oil amounted to 23.4m tonnes in 2007, compared with domestic production of only about 2.2m tonnes. Remaining recoverable domestic reserves are put at 141m tonnes, although onshore and offshore prospecting continues. Crude oil is refined at the privatised Tupras refineries, and refined products are marketed domestically by private companies, including multinational oil companies. There are also imports and exports of refined

products. Meanwhile, the Ceyhan area on the Mediterranean coast in the province of Adana has become a focal point of the international crude oil trade.

- **Gas:** Gas is mostly imported and transported by pipeline by the state company Botas from Russia, Iran and since 2007 Azerbaijan. Turkey also buys liquefied natural gas (LNG) from Algeria and Nigeria. In 2007 total gas imports were 36.5bn cu metres, of which 21.2bn came from Russia, 6.2bn from Iran and 4.3bn from Algeria. Electricity generation accounts for about one-half of gas consumption; industry and households in most parts of the country for the rest.
- **Coal:** Lignite is mined in many parts of the country, mostly by the state-owned Turkish Coal Works (TKI), for use in power generation. Production in 2006 was 61.5m tonnes. Reserves are put at 8.3bn tonnes and may be much higher. Hard coal, occurring mainly on the Zonguldak coalfield in the western Black Sea region, is mostly mined by the state-owned Turkish Hard Coal Board (TTK) and used for power generation and household use. Reserves are put at 1.1bn tonnes. Production in 2006 was 2.3m tonnes. In addition, some hard coal is imported.
- **Electricity:** Just over one-half of the country's electricity is now produced by the private sector under various models (build-operate, build-operate-transfer, transfer of operating rights, autoproducer). However, the largest single producer remains the state-owned company EUAS. Most privately generated electricity is sold to the state, which continues to dominate trading, transmission and distribution. The state-owned TETAS runs the transmission grid. Distribution to small users is carried out by companies with regional monopolies. Most of the distribution companies are subsidiaries of the state electricity company TEDAS, although privatisation is under way, and all are eventually to be sold off.

Public investment in power generation has long been cut back. Under liberalisation adopted in 2001, the private sector has been asked to invest, without the guarantees previously provided. The private sector has been reluctant to do this. As a result, official projections expect power shortages as of 2009, which will exacerbate the blackouts and brownouts that already occur from time to time. In the short term, this risk may be mitigated by a fall-off in demand owing to lower economic growth as a result of the global financial crisis. Sharp price hikes in 2008 may also help to balance supply and demand. The hikes followed the introduction of a new electricity pricing system. Until then electricity prices had not been adjusted in line with global energy prices.

The government is seeking to reduce dependence on imported fuel by providing incentives for investments in coal-fired power plants, hydroelectric plants and wind energy. Nuclear energy has been on the agenda for decades, so far without result. A tender in September 2008 for the construction and operation of a nuclear plant near Mersin attracted just one bidder.

For more information on the energy sector, see the Economist Intelligence Unit's most recent *Energy Industry Briefing* for Turkey.

### Telecommunications

Turkey has quite comprehensive telecommunications networks, but with room for further improvement in terms of full competition, use of new technologies and broadband penetration. The telecoms market is regulated by the Telecommunications Agency, a semi-autonomous watchdog.

- **Fixed-line telephony:** The incumbent telecoms operator, Turk Telekom, which was 55% privatised to Saudi Oger in 2005, had 17.8m fixed-line subscribers as of mid-2008—down from 19.1m at the end of 2004—and owns the national infrastructure. The fixed-line penetration rate is about 25 per 100 of population. Turk Telekom's monopoly on fixed-line voice transmission and infrastructure expired at end-2003, but it still dominates the market.
- **Mobile telephony:** Mobile telephony was launched in Turkey by private-sector companies acting initially as partners of Turk Telekom. This resulted in markets dominated by the private sector. However, Turk Telekom later sought to catch up by setting up its own mobile-phone operations. There were 63.6m mobile telephone subscribers by mid-2007, representing a penetration rate approaching 90%. There are three Global System for Mobile Communications (GSM) operators: Turkcell, with 35.4m subscribers as of mid-2008; Vodafone Turkey, formerly Telsim, with about 17m subscribers; and Avea, owned by Turk Telekom and Turkiye Is Bankasi, with about 11m subscribers.

#### Telecoms statistics

	2003	2004	2005	2006	2007
Telephone main lines ('000)	19,005	19,212	19,064	18,915	18,314
Telephone main lines (per 100 population)	27.9	27.9	27.4	26.9	25.7
Mobile subscribers ('000)	28,500	34,723	43,166	52,051	61,418
Mobile subscribers (per 100 population)	41.8	50.4	62.0	73.9	86.3
Internet users ('000)	1,623	3,260	9,379	14,048	19,614
Internet users (per 100 population)	2.4	4.7	13.5	20.0	27.6

Source: Pyramid Research.

- **Internet:** As of 2008, 24.5% of households had Internet access at home, according to Turkstat—up from 7% in 2004. In all, about 36% of the population uses the Internet, but the percentage rises to 55% for the 16-24 age group. The rapid expansion of broadband has enabled Turk Telekom to play a major role as an Internet service provider (ISP). The number of asymmetric digital subscriber line (ADSL) customers has risen from 70,000 in 2003 to 5.2m by mid-2008.

For more information on the telecoms sector, see the Economist Intelligence Unit's most recent *Telecoms and Technology Industry Briefing* for Turkey.

## The economy

### Economic structure

#### Real gross domestic product by sector

(% share of GDP)

	2003	2004	2005	2006	2007
Agriculture	11.4	10.9	10.8	9.5	8.7
Industry	28.6	28.5	28.5	28.7	28.3
Services	60.0	60.6	60.7	61.8	63.0

Source: Economist Intelligence Unit.

The private sector has long played the major role in economic activity in Turkey and in recent decades considerable privatisation has taken place in heavy industry, telecommunications and other fields. Nevertheless, the public sector continues to own and run most of the physical and social infrastructure, key mining and energy companies and utilities, some transport enterprises, about 30% of the banking system (in asset terms) and a few other miscellaneous companies such as tea and sugar processors. Further liberalisation and privatisation is envisaged in most of these areas.

Services sectors account for the lion's share of GDP (about 60%), as in most modern economies. Manufacturing for both domestic and export markets still accounts for a significant share of about 17% of GDP, but down from almost 25% in 1998. The share of agriculture, fisheries and forestry in GDP has gradually declined, but at 8.7% in 2007 is still high by European standards. Agriculture continues to provide 19% of male and 47% of female employment.

#### Nominal gross domestic product by expenditure

(% share of GDP)

	2003	2004	2005	2006	2007
Private consumption	71.2	71.3	71.7	70.5	70.7
Government consumption	12.2	11.9	11.8	12.3	12.2
Gross fixed investment	17.0	20.3	21.0	22.3	21.5
Stockbuilding	0.6	-1.0	-1.0	-0.2	0.7
Exports of goods & services	23.0	23.6	21.9	22.7	21.9
Imports of goods & services	24.0	26.2	25.4	27.6	27.0

Source: Turkish Statistical Institute (Turkstat).

Private consumer demand is the main driver of GDP growth. Since the crisis years of 1999-2002, it has accounted for over 70% of GDP. Gross fixed capital formation—which fell as low as 16% of GDP in 2001—has more recently hovered at 20-22% of GDP, with the private sector supplying about 85% of this. The contribution of net exports to GDP has turned negative. While the ratio of exports of goods and services to GDP has recently worked out at about 22%—after a peak of 27% in 2001—the ratio of imports of goods and services to GDP has reached 27%.

### Economic policy

Until 1980, although the economy was mixed, the state played a major role through its control of infrastructure, basic industries and various state enterprises. Interest rates and the use of foreign exchange were controlled; barriers to trade were high; and import substitution was widespread. After 1980, the economy began to be liberalised in line with international trends, and privatisation began. In periods of instability the IMF has played an important role in policymaking (1994-95 and almost continuously from 1998 until May 2008), seconded by the World Bank. Harmonisation of legislation with EU norms has also played a role.

Reducing inflation, which has been perennially high since the "oil crises" of the 1970s, has been a consistent priority of economic policy. The annual rate of consumer price inflation averaged over 65% in 1989-93 and 85% in 1994-99. In

2000, with IMF support, a "crawling peg" exchange-rate policy reduced the inflation rate to under 50%, but pressure on the lira became unbearable and the currency was left to float in February 2001, with the result that inflation surpassed 70% again in early 2002. Subsequent efforts to reduce inflation have been more successful, centring on tight fiscal policy and an independent monetary policy conducted by the Central Bank of Turkey. The most recent IMF stand-by accord came to an end in May 2008. A system of post-programme monitoring is in place, but the government may decide to negotiate a precautionary stand-by agreement with the IMF to help to bolster investor confidence and limit the damage to the Turkish economy from the global financial crisis.

**Fiscal policy:** Under IMF stand-by accords from 1999 to May 2008, the government committed itself to producing large primary fiscal surpluses. The primary surplus target on the consolidated government sector (CGS)—a broad measure of the public finances, which differs in certain respects from the central administration budget—was set at 6.5% of GNP, according to the old national income series (a substantial upward revision was introduced to GDP in March 2008). Between 2003 and 2006, the target was achieved or missed only narrowly. The large primary surpluses combined with strong GDP growth and the impact of declining interest rates on debt-servicing costs to reduce the overall CGS deficit from a peak of about 12% of GDP (new national accounts) in 2001 and 2002 to just 0.2% in 2006. In 2007—an election year when spending controls were relaxed—the deficit on the CGS worked out at about 1.2%.

Low fiscal deficits, robust economic growth and debt amortisation as a result of privatisation caused the gross government debt/GDP ratio to fall from about 75% of GDP (new series) in 2001 to just over 40% in 2006.

### Consolidated government finances

(YTL m unless otherwise indicated)

	2003	2004 <sup>a</sup>	2005	2006 <sup>b</sup>	2007
Consolidated central government revenue	100,250	110,721	137,981	173,483	189,617
Tax	84,316	90,077	106,929	137,480	152,832
Consolidated central government expenditure	140,455	141,021	146,098	178,126	203,501
Capital	7,180	8,050	9,805	12,098	12,915
Interest	58,609	56,488	45,680	45,963	48,732
<b>Consolidated central government balance</b>	<b>-40,204</b>	<b>-30,300</b>	<b>-8,117</b>	<b>-4,643</b>	<b>-13,883</b>
% of GDP	-8.8	-5.4	-1.3	-0.6	-1.6
<b>Consolidated central government balance excl interest</b>	<b>18,405</b>	<b>26,188</b>	<b>37,563</b>	<b>41,320</b>	<b>34,848</b>
% of GDP	4.0	4.7	5.8	5.4	4.1
<b>Consolidated government sector balance<sup>c</sup></b>	<b>n/a</b>	<b>-22,766</b>	<b>-4,222</b>	<b>-1,168</b>	<b>-9,972</b>
% of GDP	-	-4.1	-0.7	-0.2	-1.2
<b>Consolidated government sector balance excl. interest<sup>d</sup></b>	<b>n/a</b>	<b>27,812</b>	<b>28,524</b>	<b>36,159</b>	<b>29,183</b>
% of GDP	-	5.0	4.4	4.8	3.4

<sup>a</sup> Break in series: as of 2004, revenue and expenditure exclude tax rebates. <sup>b</sup> Break in series: "central administration budget, 2007 basis".

<sup>c</sup> Including capital transfers, lending and use of reserve allocations. <sup>d</sup> Consolidated central government plus state enterprises, extra-budgetary funds and social security institutions.

Source: Treasury; Ministry of Finance General Directorate of Public Accounts.

For 2008, the government adopted a slightly less tight fiscal policy, which was relaxed further in May, when it announced a new medium-term fiscal

framework. Under this framework, the CGS primary surplus is to be 3.5% of GDP in 2008, 3% in 2009, 2.7% in 2010, 2.5% in 2011 and 2.4% in 2012. The government argued that these levels are sufficiently high to ensure that the government debt stock will continue to fall until it reaches 30% of GDP in 2012. Meanwhile, the slightly looser fiscal framework would enable the government to allocate more funds to local government, speed up development work in the mainly Kurdish-inhabited south-east of the country (see Regional trends) and support employment by subsidising social security contributions. The proposed budget for 2009 was broadly in line with this framework. However, the government's revenue and interest expenditure projections appeared to be over-optimistic, given expectations of lower growth and prevailing international conditions, and not in line with IMF guidance.

### Money supply

(YTL m unless otherwise indicated)

	2003	2004	2005	2006	2007
Stock of domestic credit	194,528	231,215	276,329	347,079	415,374
Domestic credit growth (%)	16.9	18.9	19.5	25.6	19.7
M1 (% change, year on year)	45.4	24.7	48.0	58.6	11.2
M2 (% change, year on year)	14.4	20.8	25.1	32.6	15.2

Source: IMF, *International Financial Statistics*.

**Monetary policy:** Among the IMF/World Bank-sponsored reforms which followed the 2001 crisis was a new law that granted the Central Bank operational independence and the sole task of controlling inflation in line with targets to be agreed with the government. The Bank gradually adopted a "monetary targeting" policy under which a Monetary Policy Committee meets monthly to determine the level of short-term inflation rates needed to achieve its consumer price targets. Interest rates were cut, slowly at first, as inflation fell, but then more rapidly, until the overnight lending reached 13.5% at the end of 2005. By this time, year-on-year consumer price inflation had been in single figures for almost two years, and appeared stable, at under 8%, aided by tight fiscal policy and a stronger lira.

May-June 2006 saw a sharp fall in the value of the lira, forcing the Central Bank to raise its overnight borrowing rate by a total of 425 basis points to 17.5% in June-July. The strong policy move helped to restore the Bank's reputation for independence from political influence, which had come to be questioned earlier in the year because of a delay in the appointment of the governor of the Central Bank. Nevertheless, both the 2006 and 2007 inflation targets (5% and 4%) were missed and in late 2007 inflation started to rise again, mainly as a result of a drought in agriculture and high global energy and food prices. The Bank was obliged to admit that there were factors beyond its control and abandoned already forlorn hopes of reducing inflation to 4% by the end of 2008 and 2009. The Bank and government set new targets of 7.5% for end-2009, 6.5% for end-2010 and 5.5% for end-2011. Given the low level of domestic demand and falling world commodity prices, the Bank had hoped to achieve this target even though the inflation rate touched 12% in July 2008 and again in October. However, the sharp weakening of the lira in October will make the task more difficult.

**Interest rates**

(%)

	2003	2004	2005	2006	2007
Lending interest rate	48.0	35.0	26.0	28.0	27.0
Deposit interest rate	37.7	24.3	20.4	21.6	22.6
Money-market interest rate	36.2	21.4	14.7	15.6	17.2

Sources: IMF, *International Financial Statistics*.

For an analysis of the latest economic policy developments, see the Economist Intelligence Unit's most recent **Turkey Country Report**.

**Economic performance****Main economic indicators**

	2003	2004	2005	2006	2007
Real GDP growth (%)	5.3	9.4	8.4	6.9	4.6
Consumer price inflation (av; %)	25.3	10.6	10.1	10.5	8.7
Current-account balance (US\$ m)	-8,036	-15,601	-22,603	-32,774	-37,549
Exchange rate (av; YTL:US\$)	1.501	1.426	1.344	1.428	1.303
Population (m)	71.3	72.3	73.3	74.3	75.2
External debt (year-end; US\$ m)	144,351	161,052	169,279	207,854	247,186

Source: Economist Intelligence Unit, CountryData.

GDP growth, which had always been volatile, became even more so in the 1990s. There were two main boom-bust cycles. Years of high (6-9%) growth stirred by expansionary policies were followed by dramatic (4-5%) contractions of the economy in 1994 and 1999—years when the currency weakened, interest rates soared and/or fiscal policy tightened amid concern about rising government debt and the ability of the government to finance this in unfavourable international conditions (1999 also saw major earthquakes). As a result, the average GDP growth rate in the 1990s was a historically low 3.9% a year. In 2000 GDP grew by 6.8%. This was mainly the result of a consumer lending boom fuelled by the sharp fall in interest rates that greeted the IMF stand-by agreement signed in December 1999, foreseeing a semi-fixed exchange rate to defeat inflation. However, by end-2000 problems were mounting, exacerbated by a burgeoning current-account deficit and severe problems in the banking sector. In February 2001 the exchange peg collapsed, the lira plummeted and GDP contracted by 5.7%.

Economic activity bounced back in 2002-6, despite some ups and downs. Initially, the recovery was aided by strong export growth and rebuilding of inventories. Under a new IMF accord and a new government, public finances stabilised. External conditions were also favourable. There were net inflows of capital, the lira strengthened, inflation and interest rates fell, and consumer and investor spending increased, based on a renewed expansion of credit. GDP growth averaged over 7%, with a peak of 9.4% in 2004.

In 2006 pressure on the lira led to severe monetary tightening, which was never fully reversed, and a slowdown in growth in the second half of that year (see Economic policy). GDP growth slowed further in 2007 and the first half of 2008 as property and share prices fell sharply in line with global trends, and

export markets and capital inflows began to weaken. In October the lira weakened sharply and domestic interest rates rose.

**Agriculture** There is a large agriculture sector producing a great diversity of products, headed by wheat. However, much farming, especially in eastern and central areas, remains traditional and inefficient. Small farms are in the majority. Irrigation is not always available, agricultural support policies are unpredictable, the overall level of support has been low in recent years by comparison with developed countries, and the high costs of seed, fodder, fertiliser and fuel are a common complaint. However, there is a considerable, if inconsistent, level of customs protection. Turkey continues to meet most of its own needs as well as being a net exporter of various dried and fresh fruits and other products and the world's main supplier of hazelnuts. Imports of crops such as cotton, oilseeds, pulses and rice are often needed.

A major driver of growth up to and including the 1950s, the agricultural sector has since grown by an average of only about 1.5% a year. By 2007, agriculture, hunting and forestry accounted for only 8.5% of GDP (fishing accounted for 0.2%). Nevertheless, despite an ongoing process of migration to urban areas, the sector officially continued to account for 26% of employment (and 47% of women's employment). The performance of agriculture can vary considerably from year to year as a result of meteorological, cyclical and price factors: According to the GDP data, agriculture, hunting and forestry output fell by 7.2% in 2007, a year of drought in most parts of the country.

**Mining** Although Turkey has a wide range of mineral deposits, extractive industries have accounted for little over 1% of gross value added (1.2% in 2007). Efforts are being made to reduce red tape and attract investment including foreign investment, but these efforts are regarded with suspicion for nationalist and environmental reasons. Turkey possesses over 60% of the world reserves of boron, which is primarily used for fibreglass and detergents. About 90% of boron is exported. Sales of concentrates and refined products earned about US\$400m in 2007. A state-owned firm, Eti Maden (formerly Eti Holding), retains a monopoly on boron, but otherwise the state presence in the non-energy minerals sector has been minimised through privatisation.

**Industry** Manufacturing output has been a major driver of economic growth since the 1960s. Including basic processing industries like iron and steel and oil refining, it accounts for well over 90% of merchandise exports and 19% of employment. Ownership of the manufacturing industry rests almost entirely with the private sector. Tens of thousands of small firms coexist with a dozen large multi-sector conglomerates. The extent and nature of integration with the international economy varies greatly. All major automotive plants, including many parts producers, are partly owned—and often wholly or majority-owned—by multinational partners, which regard Turkey as one of their strategic bases. Investors include Ford, Renault, Fiat, Toyota, Hyundai and Honda. However, foreign investment is rare in the large textiles and clothing industries. Similarly, independent Turkish companies are in the majority in the household appliances and consumer electronics sectors. The leading company in this

sector, Arcelik, a Koc group affiliate, remains Turkey's largest industrial company, numbering Beko and Grundig among its brands. Among the major basic industrial plants set up by the state and later privatised, the steel mills Erdemir and Isdemir and the state refineries Tupras went to local interests (Oyak and Koc respectively). The petrochemicals plant Petkim was bought by a consortium including an Azerbaijani oil company, Socar. The cement industry is owned by a mixture of local and foreign groups, sometimes in partnership, and cigarette production is entirely in the hands of multinationals.

Trends in industrial production generally parallel trends in GDP growth. However, the performances of the various subsectors of manufacturing industry have diverged. Textiles and clothing production has suffered from intense foreign competition at home and abroad. Output of household appliances and electronics goods has been mixed, partly owing to a lack of technological renewal in television manufacturing, and partly because of the end of the credit-led boom in domestic sales. The automotive industry has emerged as a leading export industry in recent years. Vehicle output more than doubled between 2003 and 2007, exceeding 1.1m units, to make Turkey the world's 16th-largest vehicle manufacturer. The surge continued in early 2008, but the sharp slowdown in global and domestic demand started to take its toll in the second half of the year. The iron and steel industry, the world's 11th-largest, with output of 26m tonnes in 2007, has also recently achieved strong growth in output and exports thanks to strong global demand and ongoing modernisation and expansion. Besides the integrated plants set up by the state, there are more than a dozen private electric arc furnaces.

#### Industrial production

(% change, year on year)

	2003	2004	2005	2006	2007
Industrial production	8.5	9.4	5.9	5.9	5.2

Source: Turkstat.

#### Construction

The construction sector has traditionally been a significant source of economic activity and a driver for a number of other industries, including iron and steel, the wholly privatised cement sector, glass, ceramics, paint and furniture. Construction accounted for an annual average of 7% of gross value added in the late 1980s and early 1990s. However, this proportion declined to about 4% in the wake of the 2001 crisis. In 2004-06 the sector recovered, as construction activity grew by an average of 14% a year, and the share of construction in GDP increased to 4.7%. Lower interest rates and the rising availability of housing credits encouraged large and small-scale residential development during this period. Construction activity also benefited from private investment including speculative investment in hotels, shopping centres and office blocks. National and local government remained a significant driver of construction activity through public infrastructure investments, home-building by the state's Mass Housing Administration (TOKI), sales or allocations of land and planning decisions. In 2007 construction activity grew less rapidly than in 2004-06, by 5.7%—still above the general GDP growth rate. Falling property values in 2008 suggested that lean years might lie ahead.

In addition to innumerable small construction companies, there are dozens of larger firms capable of undertaking major contracts and/or specialist work, such as Akfen, Alarko, Dogus, Enka, Gama, Guris, Limak, Nuro, Tepe and Tekfen. Firms such as these have carried out many contracts in Russia, other Commonwealth of Independent States (CIS) countries, South Asia, North Africa, the Middle East and the Balkans. Some of Turkey's best-known conglomerates started out as building contractors, before moving into areas such as manufacturing, tourism, energy, media, telecommunications and (with mixed success) financial services.

**Services** The contribution of services to GDP rose steadily in the 1990s and now accounts for about 60%. In recent years, wholesale and resale trade has regularly contributed 12-13% of GDP and transport, storage and communications 13-14%. In 2007 the share of the services sector in employment was 48%. This breaks down into: 21% for wholesale and retail trade, hotels and restaurants; 17% for community, social and personal services; and about 5% each for transportation, communication and storage, and finance, insurance, real estate and business services.

**The retail sector is fragmented.** Local and high-street shopping are the norm, but there are now about 200 shopping centres, mostly—but by no means exclusively—in the largest cities. In food and other rapid-consumption goods, traditional outlets like corner shops and open markets are still thought to account for over 60% of retail sales, but supermarkets and hypermarkets of all formats are increasing their market share.

**Tourism has been growing rapidly.** According to balance-of-payments data from the Central Bank of Turkey, earnings from foreign visitors and Turkish citizens living abroad were a record US\$18.5bn in 2007. The number of foreign visitor arrivals was 23.3m. These figures looked set to rise by over 10% in 2008. Visitors come mainly from Western, neighbouring and nearby countries primarily for seaside holidays, but also for sightseeing, activity holidays, conferences, sports events and various other purposes. The Mediterranean region centring on Antalya receives at least one-third of Turkey's foreign visitors. Istanbul and the Aegean coastal region each account for about 20%. In 2007 Turkey received 4.1m visitors from Germany, 2.5m from Russia and 1.9m from the UK. Package-holiday companies play a key role.

**The financial services sector**, dominated by banking, contracted after the 2001 crisis, but has been growing again in recent years. Following the crisis, the number of banks fell from over 80 to about 50, state banks were refloated and commercialised—although majority stakes have still to be privatised—and a wave of mergers and acquisitions raised the share of foreign ownership to over 40% in asset terms. The banks are now closely supervised by the independent watchdog, the Bank Regulation and Supervision Authority (BRSA), under stringent laws and regulations.

International insurance companies are active in the small but growing insurance sector. Premiums per capita were just 1.7% of GDP in 2007. An insurance law was passed by parliament in June 2007, after a long delay.

The Istanbul Stock Exchange (ISE), active since 1986, is slated for privatisation. There are 287 listed companies on the main National Market, including many leading conglomerates and banks. Market capitalisation was US\$290bn at the end of 2007. However, share prices crashed in 2008, combining with a weak lira to reduce market capitalisation to US\$121bn at end-October. About 70% of the free float is held by foreign investors. The Capital Markets Board is the main body responsible for the supervision and regulation of securities markets.

### Employment trends

The number of people in employment varies according to seasonal trends, particularly in agriculture. In 2007 it averaged 21.2m, up by 1.1% on 2006. Unemployment averaged 9.9%, the same as in 2006. Another 3.2% were considered "underemployed" (in part-time or temporary work, but not by choice). Work for wages and salaries accounts for just over one-half of all employment, with around one-quarter of these jobs provided by the public sector. About 28% of the working population are classed as employers or as self-employed—a broad definition that includes, for example, street-hawkers, shopkeepers, taxi drivers, independent professionals, farmers and owner-managers in industry and services. The remainder are casual labourers (7%) or unpaid family workers on farms and in other family-run enterprises (14%).

#### Employment

	2003	2004	2005	2006	2007
Labour force (m)	23.8	24.2	24.6	24.4	23.5
Unemployment rate (%)	10.5	10.3	10.2	9.9	9.9

Source: United Nations, *FAO Yearbook*; World Bank, *World Development Indicators*; Financial & Economic Research International.

By sector, services accounted for 48% of employment in 2006, agriculture for around 26% and industry including construction for about 25%. Women make up just less than one-half of the population, but little over one-quarter of the workforce. Nearly one-half of all working women are employed in agriculture. The non-participation of urban women in the workforce is the main reason why the workforce participation rate—which measures the proportion of those working or seeking work in the population of working age—is just below 50%, compared with over 60% in most EU countries.

### Prices and earnings

#### Prices and earnings

(% change, year on year)

	2003	2004	2005	2006	2007
Consumer prices (av)	25.3	10.6	10.1	10.5	8.7
Average nominal wages	25.0	9.5	9.1	10.2	10.2
Average real wages	-0.2	-1.0	-0.9	-0.3	1.3
Unit labour costs	25.8	20.9	10.7	-1.1	14.2

Source: Economist Intelligence Unit.

Turkey experienced high double-figure inflation during the second world war, in the late 1950s and from the early 1970s to the early 2000s. In recent years, consumer price inflation has varied between 7% and 12%. Besides the level of consumer demand, inflation has clearly been affected by the exchange rate, global commodity prices, climate-related variations in agricultural production, indirect taxation and energy pricing policy. This has reduced the impact of fiscal

and monetary policy. Prevalent high inflationary expectations, the high weight of food prices—which are relatively volatile—in the consumer price index, and the lack of full and free competition in some markets can also be cited as obstacles to further reductions in inflation.

Wages for the formally employed have been broadly flat in real terms in recent years. Pay deals for public servants and workers generally reflect targeted inflation rates, but envisage added increments if inflation works out to be higher. Since a sharp increase in 2004, minimum wage increases have worked out at close to the inflation rate.

For an analysis of the latest economic performance data, see the Economist Intelligence Unit's most recent **Turkey Country Report**.

### Comparative economic indicators, 2007

	Turkey	Germany	Spain	Poland	Egypt
GDP (US\$ bn)	655.0	3,316.1	1,437.9	424.6	129.8
GDP per head (US\$)	9,205	40,210	31,858	11,138	1,719
GDP per head (US\$ at PPP)	12,450	33,510	30,504	16,312	5,355
Consumer price inflation (av; %)	8.7	2.3	2.8	2.5	9.5
Current-account balance (US\$ bn)	-37.6	255.5	-145.4	-20.1	0.5
Current-account balance (% of GDP)	-5.7	7.7	-10.1	-4.7	0.3
Exports of goods fob (US\$ bn)	115.3	1,354.1	256.7	145.3	24.5
Imports of goods fob (US\$ bn)	-162.0	-1,075.4	-380.2	-162.4	-44.9
External debt (US\$ bn)	247.1	n/a	n/a	179.7	29.1
Debt-service ratio, paid (%)	32.3	n/a	n/a	18.2	4.9

Source: Economist Intelligence Unit, CountryData.

## Regional trends

Four regions dominate industry and business. The Marmara region, including Istanbul, Izmit and Bursa, in north-west Turkey accounts for about one-third of GDP. The regions centring on Izmir in the west, the Adana-Mersin-Iskenderun triangle in the south and the capital, Ankara, are also significant areas of industrial and other business development. Outside these areas, there are few large private-sector operations. However, several cities within relatively easy reach of these areas (for example, Denizli, Konya, Kayseri and Gaziantep near the Syrian border) have attracted significant investment in sectors such as textiles, food processing and furniture. The south and west enjoy the lion's share of income from both tourism and agriculture. Antalya, on the south coast, is the leading tourist destination.

Incentives for doing business in underdeveloped regions were most recently set out in legislation approved in May 2005. Accordingly, special incentives are available for private-sector investment and employment in 49 low-income provinces (out of a total of 81). The incentives were made available to more employers under a law approved by parliament in March 2007. Such policies have failed to attract investment to some of the least-developed provinces. Incentive policies are due for revision by the end of 2008. The south-east attracts special attention, as the war between government forces and the Kurdish nationalist Kurdistan Workers' Party (PKK) in 1984-99 severely disrupted the region's economy and resulted in the depopulation of rural areas. Security

concerns and remoteness from major domestic markets continue to discourage investment in much of the region.

The South-east Anatolian Project (GAP), based around a series of dams being built on the Euphrates and Tigris rivers, was started before the violence began. It has made most progress in electricity generation, but in addition, large areas of dry land are now being irrigated. In 2008 the government pledged extra resources to accelerate work on the project. The GAP Regional Development Administration, an arm of central government, also aims to foster other infrastructure and social development. The State Planning Organisation has also produced plans for the underdeveloped East and Eastern Black Sea regions, known as DAP and DOKAP respectively.

Economic policymaking is centralised, but the largest municipalities have substantial budgets and manage a range of affiliated companies in transport, utilities and other areas. A hesitant start has been made on the formation of EU-style regional development agencies.

## The external sector

**The current account** Turkey regularly achieves a substantial surplus on its invisibles balance (net earnings from services, income–interest, profits and dividends—and current transfers). This surplus is mainly a result of earnings from tourism. In the past, the invisibles surplus has sometimes exceeded the perennial merchandise trade deficit in years of low growth, producing a current-account surplus. In most years, however, the current account has been in deficit. The deficit has ballooned along with the trade deficit, rising from 0.3% of GDP in 2002 to around 6% of GDP in 2006–07, driven by strong domestic demand growth, rising commodity prices and real lira appreciation. Despite weakening domestic demand and the decline in commodity prices in the latter part of 2008, the current-account deficit is expected to approach US\$50bn this year.

The value of Turkey's imports and exports has both grown rapidly since the 1980s, as a result of the growth of the economy, industrialisation and the liberalisation of trade (the customs union with the EU dates back to 1996). In the last five years the growth of trade has accelerated further, particularly when measured in US dollar terms. In 2007 formal exports (measured on a customs basis, excluding informal "suitcase trade", which is estimated in the balance of payments) reached US\$107bn, compared with US\$36bn in 2002. Imports were US\$170bn, compared with US\$52bn five years earlier.

The growth of exports reflects considerable efforts by Turkish companies to increase their presence in international markets and protect themselves from the uncertainty of domestic demand, as well as the use of Turkey as an export base by multinational companies, notably in the automotive industry. Western Europe, headed by Germany, is traditionally Turkey's main export market. In recent years, over 55% of the total value of exports has gone to EU countries. Middle East and North African countries have accounted for 15–20% of exports. The share of other European countries including Russia has edged up to about 10%. In 2008 the share of the EU in Turkey's exports looked set to decline to

under 50%, and the share of various other countries, especially the United Arab Emirates and some other Middle East countries, to increase.

Textiles and clothing exports played a key role in the expansion of Turkey's exports in the past, but have stagnated in recent years in the face of international competition, and now account for under 20% of exports—about the same as automotive exports. The iron and steel industry also now accounts for over 15% of exports. A wide range of other products are exported, including refined petroleum products, machinery and metal goods, chemicals, plastics, cement, household appliances, food industry products and fruit and nuts.

In US dollar terms imports continue to exceed exports, partly because of fuel imports and partly because domestic industrial production—whether for the domestic or export market—has come to be dependent on imported equipment, materials and parts. The value of imports of intermediate goods, including energy and industrial raw materials and parts, has been the equivalent of 65-75% of export earnings. Mineral fuels and oils have made up about 20% of imports in recent years, reflecting high international oil prices. Although there are some exports of refined products, about one-half of the foreign-trade deficit, on average, stems from dependence on energy imports. Other major imports include all kinds of machinery, iron and steel, cars and parts, and plastics/plastic products. Turkey has tended to export construction steel while importing sheet steel, and to export small family cars and light commercial vehicles while importing a wider range of motor vehicles.

#### Main composition of trade

(US\$ m; fob-cif)

	2003	2004	2005	2006	2007
<b>Exports fob</b>					
Agro-industry	14,995	17,338	18,667	19,441	22,594
Textiles	4,754	5,875	7,586	7,806	8,874
Iron & steel	2,969	5,360	4,973	6,273	8,352
Transport equipment	5,437	8,813	10,226	12,677	17,016
<b>Total exports incl others</b>	<b>47,252</b>	<b>63,166</b>	<b>73,476</b>	<b>85,534</b>	<b>107,214</b>
<b>Imports cif</b>					
Machinery	10,294	13,457	16,400	18,999	22,570
Transport equipment	6,411	11,796	12,332	13,294	15,096
Chemicals	11,238	15,134	17,477	19,599	23,623
Fuel	11,575	14,407	21,256	28,859	33,881
<b>Total imports incl others</b>	<b>69,340</b>	<b>97,540</b>	<b>116,775</b>	<b>139,577</b>	<b>170,057</b>

Source: Turkish Statistical Institute (Turkstat).

The EU accounted for about 50% of Turkey's imports up to 2004, but its share has since fallen to about 40%, partly owing to high oil prices. Among individual countries, Russia—a major supplier of oil and gas—has taken over from Germany as Turkey's number-one supplier. Another reason for the decline in the EU's share in Turkey's imports is the rapid rise in imports of many kinds of goods from China. China is now Turkey's third-largest supplier.

**Main trading partners**

(% of total)

	2003	2004	2005	2006	2007
<b>Exports fob to:</b>					
Germany	15.8	13.8	12.9	11.3	11.2
UK	7.8	8.8	8.1	8.0	8.0
Italy	6.8	7.3	7.6	7.9	7.0
France	6.0	5.8	5.2	5.4	3.9
<b>Imports cif from:</b>					
Russia	7.9	9.3	11.0	12.8	13.8
Germany	13.6	12.8	11.7	10.6	10.3
China	3.8	4.6	5.9	6.9	7.8
Italy	7.9	7.0	6.5	6.2	5.9

Source: Turkstat.

**The capital account**

Large trade and current-account deficits are generally covered by strong net inflows of capital. Since the declaration of full capital-account convertibility in 1989, net capital inflows have generally been positive. However, the level of capital inflows depends on international liquidity conditions and confidence in the conduct of economic policy. Moreover, capital inflows have often taken the form of short-term investments in the Turkish bond, money and stock markets and short-term loans to Turkish banks and companies, creating the potential for sudden large outflows of capital. It is on occasions when capital inflows have contracted or been reversed that the lira has depreciated, domestic demand has fallen and the current-account deficit has contracted or turned into a surplus.

Over the last few years, net capital inflows have been high, making it possible for Turkey not only to run large current-account deficits, but also to increase its foreign-exchange reserves. Net foreign direct investment (FDI) (including real estate) soared to an unprecedented US\$9bn in 2005 and went on to reach US\$19bn in 2006 and US\$20bn in 2007, before starting to decline in 2008. Turkey has also received extraordinary amounts of capital inflows under "other investments"—consisting mostly of foreign lending to private companies and banks. In 2007 this item accounted for almost US\$24bn in capital inflows. In 2008 global deleveraging and flight from risk make much lower capital inflows or even net capital outflows likely in the coming year.

For an analysis of the latest external-sector data, see the Economist Intelligence Unit's most recent **Turkey Country Report**.

**Balance of payments**

(US\$ bn)

	2003	2004	2005	2006	2007
Exports fob	52.4	68.5	78.4	93.6	115.4
Imports fob	65.9	91.3	111.4	134.6	162.0
<b>Merchandise trade balance</b>	<b>-13.5</b>	<b>-22.7</b>	<b>-33.0</b>	<b>-41.0</b>	<b>-46.7</b>
Services balance	10.5	12.8	15.3	13.8	13.9
Income balance	-5.6	-5.6	-5.9	-6.7	-7.1
Net current transfers	1.0	1.1	1.5	1.9	2.2
<b>Current-account balance</b>	<b>-7.5</b>	<b>-14.4</b>	<b>-22.1</b>	<b>-31.9</b>	<b>-37.7</b>
Capital-account balance	0.0	0.0	0.0	0.0	0.0
<b>Financial account</b>	<b>3.1</b>	<b>13.4</b>	<b>20.3</b>	<b>32.1</b>	<b>36.6</b>
Net foreign direct investment	1.3	2.0	9.0	19.3	20.1
Net portfolio investment	2.5	8.0	13.4	7.4	0.7
Other investment	3.4	4.2	15.7	11.5	23.8
Reserve assets	-4.0	-0.8	-17.8	-6.1	-8.0
Net errors & omissions	4.4	1.0	1.8	-0.2	1.1

Source: Central Bank of Turkey.

**References****National statistical sources** Turkish Statistical Institute (Turkstat)Central Bank of Turkey, *Annual Report, Quarterly Bulletin***International statistical sources** IMF, *International Financial Statistics* (monthly)IMF, *Turkey: Selected Issues*OECD, *Economic survey* (annual)**Select bibliography and websites**

There is a rich collection of books on Turkey's history and contemporary politics and society, but academic literature on the economy is disappointingly patchy, considering its importance. The following is just a selection.

Ali Carkoglu and Barry Rubin (eds), *Turkey and the European Union: Domestic Politics, Economic Integration and International Dynamics*, Frank Cass, London, 2003

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Central Bank of Turkey: [www.tcmb.gov.tr](http://www.tcmb.gov.tr)

Treasury: [www.treasury.gov.tr](http://www.treasury.gov.tr)

Turkish Statistical Institute (Turkstat): [www.turkstat.gov.tr](http://www.turkstat.gov.tr)

## Appendix

### Index methodology

#### Measuring democracy

There is no consensus on how to measure democracy. A key difference in measures is between "thin" or minimalist, and "thick" or wider concepts of democracy. The Economist Intelligence Unit's democracy index is a thick measure. In addition to measuring political freedoms and civil liberties (the essential components of any definition), other features also need to be assessed in order to determine how substantive democracy is. Our index is based on five categories: *electoral process and pluralism*; *civil liberties*; *government functioning*; *political participation*; and *political culture*. The index provides a snapshot of the current state of democracy worldwide for 167 independent states and two territories (this covers almost the entire population of the world and the vast majority of the world's independent states).

The overall index of democracy, on a 0 to 10 scale, is based on the ratings for 60 indicators grouped in the five categories. The overall index is the simple average of the five category indexes.

We use a three-point scoring system for the 60 indicators. A dichotomous 1-0 scoring system (1 for a yes and 0 for a no answer) is used for most indicators. For some indicators, a 0.5 score is possible, where a simple yes (1) or no (0) is problematic. The category indexes are based on the sum of the indicator scores in the category, converted to a 0 to 10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

The index values are used to place countries within one of four types of regimes:

1. Full democracies—scores of 8 to 10.
2. Flawed democracies—scores of 6 to 7.9.
3. Hybrid regimes—scores of 4 to 5.9.
4. Authoritarian regimes—scores below 4.

A differentiating aspect of the index is that in addition to experts' assessments we use, where available, public opinion surveys. Indicators based on the surveys predominate heavily in the political participation and political culture categories, and a few are used in the civil liberties and functioning of government categories. To view the full methodology and the complete questionnaire, visit [eiu.com](http://eiu.com).

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