



BLACK SEA TRADE AND DEVELOPMENT BANK

TURKEY
Country Strategy
2011-2014

THESSALONIKI
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TURKEY COUNTRY STRATEGY

TABLE OF CONTENTS

TABLES:

- Table 1: Basic Macroeconomic Indicators at a Glance**
Table 2: Active BSTDB Portfolio as at end December 2010

TEXT:

- I. Recent Economic Developments and Outlook**
 - a. Real Sector*
 - b. Public Sector and Fiscal Policy*
 - c. Monetary and Financial Sector*
 - d. External Sector*
 - e. Forecast for 2011-12*
- II. Overview of Current BSTDB Portfolio**
- III. Review of Country Strategy 2007-2010**
- IV. Priorities for 2011-2014**

ANNEXES:

- Annex I: Post Evaluation of 2007-2010 Country Strategy Turkey**

Table 1: Basic Macroeconomic Indicators at a Glance for TURKEY

Key Long Term Foreign Currency Sovereign Risk Rating at 31 January, 2011:

Moody's: Ba2 | S&P: BB | Fitch: BB+

		2007	2008	2009	Est. 2010	Proj. 2011	Proj. 2012
1	Population (Million)	70.6	71.5	72.6	73.7	74.0	74.7
2	Avg Exch. Rate (Lira/ US\$)	1.30	1.29	1.55	1.50	1.57	1.59
3	Inflation (CPI Avg.)	8.8%	10.4%	6.3%	8.6%	5.7%	5.1%
4	Average monthly wages (US\$)	1,243.5	1,290.7	1,098.6	979.4		
5	GDP (Lira million)	843,178.4	950,534.3	952,558.6	1,105,101.1	1,225,200.0	1,350,500.0
6	GDP US\$ million	648,625.0	739,715.4	616,703.0	735,828.0	780,382.2	849,371.1
7	GDP per capita (US\$)	9,234.0	10,440.0	8,578.0	10,079.0	10,542.9	11,370.4
8	Real GDP growth, %	4.7%	0.7%	-4.8%	8.9%	5.3%	5.2%
9	Official Unemployment (end of period) %	10.3%	11.0%	14.0%	11.9%	12.5%	12.2%
10	Industrial Production Growth, %	5.8%	0.3%	-6.9%	12.9%	6.0%	5.5%
11	Agricultural Production Growth %	-6.7%	4.3%	3.6%	1.6%		
12	Domestic Credit Growth %	28.5%	23.5%	12.3%	43.0%		
13	Domestic Credit/ GDP	28.4%	31.1%	34.9%	40.8%		
14	Foreign Direct Investment - \$US million	22,047.0	19,504.0	8,411.0	9,071.0	8,500.0	17,500.0
15	FDI/ GDP	3.4%	2.6%	1.4%	1.2%	1.1%	2.1%
16	Central Govt. Budget Balance/ GDP, %	-1.6%	-1.8%	-5.5%	-3.6%	-3.9%	-3.3%
17	Total External Debt- US\$ million	249,425.1	280,444.1	268,763.8	290,350.2	302,713.1	302,594.0
18	Total External Debt/ GDP	38.5%	38.4%	43.7%	39.5%	40.2%	36.1%
19	Public External Debt/GDP	11.3%	10.6%	13.5%	12.1%	10.9%	
20	Private External Debt/ GDP	27.2%	27.7%	30.2%	27.4%	29.3%	
21	Exports- \$US million (Goods)	115,361.0	140,800.0	109,647.0	120,995.0	125,508.0	133,400.0
22	Imports- \$US million (Goods)	162,213.0	193,821.0	134,497.0	177,311.0	180,767.0	190,919.0
23	Trade Balance \$US mn (Goods)	-46,852.0	-53,021.0	-24,850.0	-56,316.0	-55,259.0	-57,519.0
24	Trade Balance/ GDP	-7.2%	-7.2%	-4.0%	-7.7%	-7.1%	-6.8%
25	Current Account Balance \$US mn	-38,434.0	-41,959.0	-13,991.0	-48,528.0	-46,971.0	-49,860.0
26	Current Acct. Bal./ GDP	-5.9%	-5.7%	-2.3%	-6.6%	-6.0%	-5.9%
27	Forex Reserves (end period- exc gold) US\$ m	71,568.0	69,715.0	70,689.0	80,696.0	83,779.0	80,561.0

Sources: TURKSTAT, Central Bank of the Republic of Turkey, IFS –IMF January 2011, IMF Article IV Consultation, Report No. 10/278 September 2010, EIU Country Data- Turkey January 2011.

I. Recent Economic Developments and Outlook

a. Real Sector

Turkey rebounded rapidly and impressively from the 2001 financial crisis and from 2002 on enjoyed a run of six years of strong economic growth averaging 6.8% per annum in real terms. This growth was fueled by benign global and regional conditions, but also as a result of the successful implementation of policy reforms during the crisis and sound macroeconomic management subsequently, as the government's fiscal balance steadily improved and inflation was reduced to single digits. Rising capital inflows from abroad supported this growth and facilitated private investment, which grew substantially during this period. The global financial crisis of 2008, and its attendant economic downturn, brought a halt to this period of robust growth.

The global slowdown in economic activity put strains upon a Turkish economy which over the years has become increasingly integrated in the world economy. Capital inflows from abroad froze and external demand in key markets such as the EU and neighboring states dropped sharply, while the deteriorating global economic outlook created negative expectations which hurt domestic activity. Turkey suffered a sharp decline in output in the last quarter of 2008 and the first part of 2009, on the order of 10.8%.

However, in contrast to 2001, a strong recovery began during the second quarter of 2009 and has continued into 2010. Unlike other countries in Eastern Europe, Turkey had amassed a lower current account deficit, enjoyed healthier and more soundly structured fiscal accounts, and both its public and private sectors were less dependent on continued inflows of external capital. In addition, major structural reforms implemented in recent years helped to mitigate the impact of the global downturn. GDP decline was to a large extent due to a halt in production and the drawing down of inventories. This meant that when (i) the initial panic of the crisis passed and domestic demand picked up, and (ii) the global recovery turned out to be faster and more pronounced than anticipated, Turkish firms were well placed to quickly resume production to replenish inventories, thus resulting in rapid recovery. In addition, the financial system suffered limited stress, due to substantial structural reforms and strengthened regulation and supervision frameworks.

For 2008, real GDP growth slowed to 0.7%, and for 2009 real GDP shrank 4.7% due to the contraction in the first part of the year, which was only partially made up in the second. However, this created a favorable base effect for 2010, for which real GDP growth is estimated at 8.0% as domestic demand has remained strong through most of the year, although it tailed off a bit towards the end. In particular, private consumption, which accounts for 70.6% of GDP, grew by 7.4% and gross fixed investment increased a robust 25.4%; government consumption, by way of contrast, rose a mere 1.1% in the first nine months of 2010. In terms of sector of origin, industrial production rose 13.9% (after declining 6.9% in 2009) while services, led by tourism and construction, increased 7.7% in the first nine months. These are also the two largest sectors of the economy, with industrial output generating approximately 26.1% of GDP and services, which have grown substantially over the years, generating approximately 55.7% of GDP. Agriculture, on the other hand, contracted by 0.1% in the first nine months of 2010 and has seen continued erosion of its share in GDP to approximately 10.1%.

Although poverty remains in pockets, Turkey has over the years developed a diversified economy that is integrated into European markets and the world economy to a substantial degree. Extreme poverty, defined by the World Bank as income of less than US\$ one per day, has been limited to 0.01% of the population, while the official poverty rate has steadily declined over the years, and currently stands around 10%. Unemployment declined in 2010 and 1.3 million new jobs were

created across the economy. Nonetheless, it remains a challenge, with an official rate around 12% and a large informal economy that absorbs some of the unemployed, but also keeps others from being measured in the first place. Other social indicators in areas such as basic education, child and maternal health have improved significantly over the years, while health insurance has reached 96% coverage, very close to achieving the official goal of universal coverage. Per capita income as of 2010 stood at nearly US\$ 10,000 and has risen substantially over the years to the point that Turkey is classified as an upper middle income country by the World Bank.

b. Public Sector and Fiscal Policy

Sound fiscal policy has been a key to Turkey's macroeconomic management as it emerged from the 2001 crisis and laid the basis for rapid growth. Chronic budget deficits of over 5% of GDP in the 1990s- which peaked at -12.1% during the 2001 crisis- were steadily reduced over the period up to 2008, via a mixture of structural reforms which included reform of the social security system, reform of loss making state owned enterprises including privatization, and reducing the size of the informal economy via improved tax administration and tax policy measures. As a result expenditures were put on a more sustainable track, and the revenue base was broadened in a healthy and efficient manner which did not deter private sector initiative. Turkey ran large primary fiscal surpluses and overall budget deficits were less than 2% of GDP each year between 2005-2008.

With the onset of crisis in 2008, the fiscal balance deteriorated as the economic downturn resulted in a reduction in revenues. On the expenditure side, the government adopted a package of targeted stimulus measures in early 2009 such as extended unemployment benefits, and temporary tax cuts on purchases of cars and other durables, in order to mitigate some of the negative impact from the sharp decline of private demand in the first part of the year. As a result of the stimulus measures, private consumption rebounded quickly from the second quarter onwards. As the recovery was assured, the government announced its exit strategy, and outlined a fiscal plan to decrease budget deficits and to control the public debt to GDP ratio with a Medium Term Program. The government raised key excise taxes while announcing expenditure restraints with a view to achieving fiscal consolidation within three years. Thus the budget balance ballooned to -5.5% of GDP for 2009, but is expected to fall to -3.6% of GDP for 2010 and to decline further in coming years to -1.6% by 2013.

c. Monetary and Financial Sector

In the aftermath of the financial crisis of 2001, Turkey returned to a floating exchange rate, after a period during which it had experimented with a 'crawling peg'. In April 2001, the Central Bank of the Republic of Turkey (CBRT) legally attained institutional independence and the authority to set monetary policy, and it initiated a shift to a policy focused on inflation targeting. At first, an 'implicit' targeting regime (targeting inflation in practice but not setting explicit targets) was adopted in order to give time for market expectations to adjust accordingly, and subsequently CBRT adopted explicit targets around a +/- two percentage point band. The policy succeeded in a rapid de-escalation of inflation in the years after 2001, dropping to single digits in 2005 for the first time in decades. The rate has subsequently stayed in the high single digits every year except for 2008 when it crept up to 10.4% due to rising energy and food prices, before dropping back to 6.3% in 2009 as the economic contraction relaxed inflationary pressures. For 2010, there was a pick-up in inflation to 8.6% due to increased food prices and the rising domestic demand. Targets for 2011 and 2012 are 5.5% and 5% respectively.

The CBRT's tight monetary policy has resulted in high real interest rates and a rising Turkish lira, especially against the US dollar, in recent years. The real interest rate was over 6% between 2005-2007 and peaked at over 12% for 2008. However, the lira dropped sharply in value after the onset of crisis in late 2008, which assisted in moderating some of the shock of the sudden drop in economic activity. Because inflationary pressures had receded as a result of the economic slowdown, this allowed the CBRT to cut interest rates aggressively (over 10 percentage points) in order to increase liquidity and to stimulate the economy. The lira stabilized during 2009 (with real interest rates around 2%), and lately has faced appreciation pressures as a result of rising capital inflows from abroad, since global liquidity is even looser, key global interest rates are very low- making Turkey's nominal rates more attractive- and Turkey's economic prospects are perceived very favorably.

However, the inflows have created other financial risks- namely the risk of destabilization first due to the volume of these inflows, and then increased vulnerability to sudden outflows in the event that notoriously volatile market sentiment reverses for whatever reason. As a result, CBRT has undertaken innovative but unorthodox tactics such as cutting interest rates and capping interest paid on current accounts in December 2010 and again in January 2011 in order to reduce short term inflows, while at the same time raising required reserve ratios for short-term liabilities in order to curb accelerating credit growth.

Banking Sector & Capital Markets

The banking sector in Turkey is regulated by the Banking Regulation and Supervision Agency, which consolidated the previously fragmented structure of banking regulation and supervision, and became operational in August 2000. As at end 2010, there were 49 licensed banks, of which 32 are commercial banks, 17 are development or investment banks, four are participation banks, and there is a savings and deposit insurance bank. Out of the licensed banks, there are nine state owned bank (three are commercial) and there are 24 foreign banks or branches of foreign banks (17 commercial). The five largest banks account for 60% of total assets in the banking system, a figure which rises to 83.4% for the ten largest.

During the 2008 global crisis, the Turkish banking sector demonstrated considerable resilience. Having emerged reformed and strengthened from the 2001 financial crisis, Turkish banks were solidly regulated and enjoyed strong capitalization, low foreign exchange exposure, high levels of deposit based funding, and adequate liquidity. Banks were further aided by a supportive policy environment which included cuts in official interest rates, relaxation of regulations on loan classification and provisioning. Non-performing loans increased moderately to 5.3% in 2009, but by end 2010 were back down to 3.6%. The measures helped to sustain the profits of Turkish banks in 2009 and to maintain capital adequacy ratios at healthy levels. At the end of 2010, the capital adequacy ratio of the Turkish banking system stood at 18.9%, of which approximately 90% was Tier One capital. Lending by banks to the economy slowed due to increased risk aversion, but from the second half of 2009 on, as the recovery picked up speed, looser lending standards revived lending activity. In 2009 bank lending increased by 8%, a figure which jumped to 34% for 2010.

Although Turkey's capital account is fairly liberal, there do exist restrictions such as the one which permits lending in foreign exchange to Turkish enterprises with no foreign exchange income only if the loan is for at least one year and for a minimum of US\$ five million (unless adequately collateralized).

The Istanbul Stock Exchange (ISE) is the sole entity in Turkey for securities exchange. It provides trading in equities, bonds and bills, revenue-sharing certificates, private sector bonds, foreign securities and real estate certificates as well as international securities. ISE markets are

organized under four categories. Transactions are conducted electronically, in real-time. There is a 'Stock Market' for trading in shares of publicly-held companies, an 'Emerging Companies Market' for promising up and coming firms, a 'Bonds and Bills Market' for fixed income securities trading and repo/ reverse repo transactions, and a 'Foreign Securities Market' for foreign debt securities issued by the Undersecretariat of Treasury of Turkey. Currently, 352 companies are listed on the exchange and it has grown in size and sophistication over the years, contributing to the development of both Turkish capital markets and the Turkish economy as it has become an increasingly important source of financial resource mobilization for Turkish banks and firms.

d. External Sector

Debt

Turkey's overall general government debt based on European Union standards peaked at 77.6% of GDP in 2001 as a result of the financial crisis and the economic contraction it caused. Around 68% was domestic, and the remainder was external debt. Overall public debt levels have fallen sharply mainly as a result of the rapid economic growth on the one hand, but also due to the government's success in achieving substantial primary fiscal surpluses on the other hand, thus permitting it to maintain public confidence and to reduce the debt burden further. Even during the recent crisis, when the government increased deficit spending, the public sector gross debt stock increased only 6% of GDP, from 39.5% at end 2008 to 45.5% at end 2009. At end 2010, it is estimated to have declined slightly to 42.3% of GDP¹, with the public external debt at around 11.0% of GDP. The average maturity of public debt has also grown. For Turkish Lira denominated debt, the average maturity increased from nine months in 2002 to 59 months in early 2011. The maturities for external debt have also increased, with Turkey undertaking 10 year Euro bond and 30 year US Dollar bond issues in 2011.

Gross external debt (public and private) stood at around 38.9% of GDP in the third quarter of 2010, down from 43.6% of GDP at end 2009. On current form, this level is sustainable and poses few risks for balance of payment issues, even in the event of exogenous shocks. Nevertheless, one issue that is worth noting is that the level of privately contracted debt has followed a mostly upward trend since 2005, as Turkish firms and banks have shown a growing interest in external financing.

In contrast to most Eastern European countries, Turkey avoided downgrades to its sovereign credit ratings during the 2008 financial crisis and its aftermath in 2009. After years of steady progress, with favorable macroeconomic prospects and declining debt and debt servicing levels, Turkey is on the verge of an investment grade rating (Baa3/ BBB-). At end February 2010, credit default swap (CDS) levels² on Turkish government securities were lower than those of 14 EU member countries. In 2010, Turkey received upgrades from all three major credit rating agencies: one notch to Ba2 from Moody's, one notch to BB from Standard and Poor's, and two notches to BB+ from Fitch, and it currently enjoys a positive outlook from each one.

¹ From Medium Term Economic Programme 2011-2013, October 2011.

² CDS levels represent the amount it costs for an investor to insure a specific amount of debt of a specific maturity. As the risk of default is perceived to rise, the amount required to insure the debt also rises. Thus, CDS levels are an indicator of market perceptions of the riskiness of an asset (and the degree of the issuer's creditworthiness).

Trade and the Current Account

In the decade since 2000, Turkey's international trade has grown substantially, from US\$82 billion in 2000 to US\$ 299 billion in 2010. This represents an increase of over 264%, and hides the impact on foreign trade of the 2008 global crisis, since international trade peaked at US\$ 334bn in 2008, dropping to US\$ 243 billion in 2009, and recovering somewhat last year, to levels slightly above those of 2007. Between 2000 and 2010, exports' growth (310%) was greater than the growth of imports (240%), and the trade deficit narrowed from -10.1% of GDP to -7.2%, although in nominal dollar terms the deficit widened.

Turkish export growth has become more diversified over the years and there has been improvement in its value added component. Traditional export sectors such as textiles and light industry, agricultural products and processed foods, and minerals remain important, but in recent years manufactured exports have grown as Turkey has become a global leader in areas such as consumer electronics, automotive parts, shipbuilding, and ship recycling. The lingering trade deficit is largely due to Turkey's lack of energy self-sufficiency, and consequent need to import a substantial portion of its energy needs. Chemicals and chemical products, mechanical machinery and equipment, and transport equipment are other key imports. Since these are often intermediate products, they partly reflect the levels of foreign direct investment (FDI) that Turkey has attracted in recent years. The European Union has been and remains Turkey's main trade partner over the years.

With respect to Black Sea regional trade, Turkey has, in many respects, been the biggest 'champion' over the course of the last decade. The implementation of the Customs Union with the EU in 1995 opened new market opportunities for exporters, but it also created challenges for previously protected manufacturers in Turkey who found themselves in certain cases facing stiff competition from EU based exporters. Spurred by this need, many Turkish firms have turned their attention to developing previously underserved markets in proximate countries in the Middle East, Central Asia, and of course the Black Sea Region. Between 2000-09 (the latest year for which country by country full annual data are available), Turkey's trade within BSEC grew 341% (versus 192% for its overall external trade over the same period). The closer links were reciprocal, as exports to BSEC countries increased 398% and imports increased 319%. The growth was spread out to all BSEC countries. The smallest increase in exports was to Serbia (211%) while the largest was to Romania (580%). Import growth was less geographically balanced, but it at least doubled with seven countries during this period. As a result, the level of intra-BSEC trade as a proportion of total Turkish international trade rose from 11.1% in 2000 to 16.7% in 2009 (it peaked at 20.0% in 2008).

Turkey's current account (CA) balance is linked to domestic demand. When demand is weak, the CA deficit shrinks, whereas when the demand is strong, the CA deficit tends to rise as import growth surges. Thus, despite the increase in exports, for 2010 the CA deficit rose to -5.9% of GDP from -2.3% in 2009 on the back of strong demand growth fueled further by rising capital inflows and rapid credit growth. The surge in the CA deficit is not an immediate problem but is a cause for concern looking ahead for two reasons. First, in the current unsettled atmosphere of global credit markets, lingering and/or growing CA deficits are taken as indicators of dependence of an economy on continued external capital inflows, and thus tend to raise fears about its perceived vulnerability. A decline in global liquidity availability like the one in 2008 could create problems. Second, if domestic demand growth continues at rapid rates, it is likely to fuel inflation and to adversely impact the real exchange rate, leading to an erosion of external competitiveness.

Foreign Direct Investment

After years of languishing around, or even below, 1.0% of GDP, foreign direct investment (FDI) into Turkey jumped to 2.1% of GDP in 2005 and rose further to 3.8% in 2006 and 3.4% in 2007, before dropping due to the crisis to 2.6% in 2008 and 1.4% in 2009. The rise was in large part due to the benign global environment and to improvements in Turkey's business environment, but also due to Turkey beginning accession negotiations with the EU in 2003; unsurprisingly, the majority of FDI into Turkey comes from the EU. As (i) global conditions have yet to recover fully, (ii) investor risk aversion remains high and (iii) the EU has not recovered from its post-crisis economic slump and instead has been wracked by the Eurozone crisis, FDI into Turkey for 2010 increased only slightly, compared to the previous year, and reached US\$ 9.1 billion. This stands in contrast to other capital inflows such as foreign investment in the Turkish stock and bond markets and foreign borrowing by Turkish banks and firms, which increased in 2010.

Turkish firms and banks have been among the most active investors in the BSEC Region, by some estimates having invested more than US\$ 1.5 billion over the years. Chief destinations have been Russia, Romania and Bulgaria, but Turkish firms have invested in all BSEC countries (except Armenia).

Although Turkey is an attractive investment destination with advantages such as a large internal market, decent quality labor force, and proximity to the EU and other key markets, it has fared only moderately well in business environment rankings such as the World Bank's *Doing Business 2011* report, where it ranked 65th out of 183 countries surveyed, a slip of five spots relative to its 2010 ranking. Turkey fares well in areas such as enforcement of contracts and registering property, where it is ranked in the top quartile. Its scores for starting a business, obtaining credit, protecting investors, difficulty and cost of paying taxes, and international trade practices, are also in the top half, coming in the second quartile or rankings. By way of contrast, it is in the third quartile in the other two areas assessed, dealing with construction permits and closing a business. The report indicates minor improvements over the five year period 2005-10, suggesting that recent slippage is due to improvements in other countries, and not to slippage in Turkey. Another indicator of country risk and business environment in which Turkey is rated is *Euromoney* magazine's country risk index, in which Turkey's score has risen (improved) substantially over the years, coming in 62.2 (out of a perfect score of 100) in September 2010, which ranks well above the average for the BSEC region of 52.6 but below the EU average of 75.0.

e. Forecast for 2011-12

Turkey has enjoyed several years of robust economic growth, and even the global crisis proved a temporary setback, very quickly reversed by the resumption of high growth levels. The government's objective is to maintain sustainable levels of growth and a key challenge is to avoid imbalances arising that might derail the positive trend. Encouragingly, the growth has been broad based across a number of different sectors. Although the gains from growth have been distributed more broadly in recent years, certain parts of the country still experience higher levels of relative poverty. There is still room for improvement and for targeting development priorities so as to reduce disparities, and to this end there exist economic projects and programs such as the 'Greater Anatolia Guarantee Facility Project', which seeks to address these disparities by providing special facilities to SMEs and micro-enterprises in areas where per capita income is below 75% of the national average.

Turkey is in the midst of implementation of its Ninth Development Plan covering the 2007-2013 period. This document presents the following vision: "Turkey, a country of information society,

growing in stability, sharing more equitably, globally competitive and fully completed her coherence with the European Union”. EU accession is a key objective for Turkey, and the plan includes the following strategic objectives/ development axes in order to contribute to national development and the EU accession process as well:

- Increasing Competitiveness,
- Increasing Employment,
- Strengthening Human Development and Social Solidarity,
- Ensuring Regional Development,
- Increasing Quality and Effectiveness in Public Services.

For 2011, real annual GDP growth in Turkey is expected to slow to a still robust 5.3%, and on current trend, growth for 2012-14 is currently predicted to be in the same range. However, these projections are subject to some uncertainty, as external shocks are always possible, in view of the high volatility of global energy and commodity prices, as well as the ongoing political unrest in the Middle East. It is also impossible to exclude the possibility of internal shocks. Maintaining domestic macroeconomic balances and keeping the current account deficit in check at levels which do not increase vulnerabilities or denote erosion of competitiveness will be keys to sustaining the strong performance, to mitigating against internal risks and improving the resilience of the economy to exogenous shocks.

II. Overview of Current BSTDB Portfolio

As of 31 December, 2010, the active BSTDB portfolio in Turkey amounted to 12 operations approved by the Board of Directors (BoD), involving an investment of € 242.1 million (US\$ 320.8m). Out of this total amount, 10 operations were signed for € 209.7 million (US\$ 277.8m) and the outstanding disbursements were at € 159.9 million (US\$ 211.8m). Turkey ranks first across the board in the BSTDB portfolio, with 21.2% of BoD approved operations, 20.8% of signed operations, and 24.0% of amounts outstanding in the total portfolio. Relative to the Bank’s active portfolio at the end of 2006, Board approvals increased by 62.5%, signings by 66.8%, and amounts outstanding by 118.6%.

Table 2: Active BSTDB Portfolio in Turkey as at end December 2010

All Figures in Euros Million	BoD Approval Date	Approved Amount	Signed Amount	Amount Outstanding
TurkEximbank	17-Dec-99	30.2	30.2	-
Pakel	12-Dec-03	9.8	8.3	8.3
Adana Light Rail	15-Apr-06 /18-Jan-07	34.0	34.0	31.3
Avea	9-Oct-06	18.0	8.0	7.2
Istanbul Metro	12-Jan-07	27.2	15.8	11.0
Istanbul Kadikoy - Kartal Metro	21-Apr-08	50.0	50.0	50.0
Emerging Europe Accession Fund	25-Sep-09	1.2	1.2	0.0
Istanbul Sabiha Gokcen Airport	25-Sep-09	29.0	29.0	29.0
Balkan Accession Fund	10-Aug-06	0.6	0.6	0.4
Koprubasi H/electric Power Plant	26-Feb-10	13.6	-	-
Alter Med	16-Apr-10	6.0	-	-
Alternatif Bank	3-Dec-10	22.6	22.6	22.6
Total				
		242.1	209.7	159.9

III. Review of Country Strategy 2007-2010

The current evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2007-2010 Country Strategy for Turkey. Its goal is to provide accountability to the Board of Directors and Board of Governors as well as facilitate the decision-making by the Bank's Management and Boards on the eventual update of the country strategies.

The evaluation of the respective country strategy compares the stated targets with results as of end of 2010, and provides a country-oriented analytical picture.

Performance of Turkey Country Strategy 2007-2010

The 2007-2010 country strategy for Turkey was approved by the Board of Directors in early 2007, reflecting an in-depth independent evaluation of the implementation of the BSTDB's earlier strategies, conducted by the Evaluation Office in late 2006. The country strategy was aligned with the objectives of the Bank's Business Plan 2007-2010 and was therefore evaluated in its overall context.

Overall, the implementation of the Country Strategy was Satisfactory, consistent with the Business Plan implementation. The implementation of the strategy reached the targeted number of operations at 50%. However, this was compensated by a 50% above target figure for the achieved volumes. The sector coverage, while not fully reflecting all target areas, was generally diverse and in line with the country strategy. For a more comprehensive overview, see Annex I.

IV. BSTDB Operational Priorities for 2011 - 2014

The Bank's role and priorities are defined (i) in accordance with the priorities and targets laid out in its *Medium-term Strategy and Business Plan 2011-2014* and (ii) country needs and objectives, as well as (iii) available resources, strategies and policies of BSTDB. In this respect, BSTDB will seek viable opportunities and will continue closely monitoring the developments in the Turkish economy in order to stand prepared to support bankable projects. In addition the Bank shall seek co-financing opportunities with international financial institutions (IFIs), public sector institutions and private partners.

BSTDB will focus in the next four years on providing support for the implementation of the Government program and priorities, while responding to market demand. The Bank will consider undertaking activities and providing services as may advance its purpose, paying special attention to activities promoting export of goods and services, and development of infrastructure, including energy efficiency. In addition, through selected intermediaries, the Bank would attempt to expand its financing programs in favor of SMEs.

Based on the 2011- 2014 BSTDB Business Plan, the Bank would expect to approve between three and four new operations per annum during this period, for approximately € 32-47 million per year. Over the four year period, this implies around 14 approved operations for approximately € 158 million. With the Bank determined to raise the level of commitments (signed operations) to approved operations to over 85%, the Bank expects signings for 2011-2014 to be on the order of 12 operations for € 139 million (a range of € 28-42 million per annum).

These indicative targets are based on the Base Case Scenario of the MTSBP, and given appropriate circumstances and sufficient operational opportunities the Bank would make efforts to

exceed this level. In case of higher regional economic growth rates, increased demand for Bank funding, and an improved situation in financial markets, a phased increase in the average number and size of operations would allow the Bank to move towards achieving the targets envisaged under the High Case Scenario. Moreover, at the Mid-Term Review, depending upon performance and prospects, the above targets may be revised upwards³.

Areas for BSTDB Financing:

BSTDB Trade Finance and Financial Sector Strategy for Turkey

BSTDB's Trade Finance and Financial Sector Strategy has been created in order to develop a network of financial intermediaries, through whom to deliver trade finance and SME finance products. Since BSTDB began its operations, the following products have been introduced through selected financial intermediaries in Turkey for the purpose of Trade Finance, and SME development:

- Short and medium-term Pre-export Finance product;
- Medium-term SME Finance product;
- Subordinated loan for SME financing.

The financing of trade, particularly the export of manufactured goods and equipment from Turkey to other BSEC countries, was successfully implemented in previous years through the export credit agency of Turkey, Turk Eximbank. The Bank will seek to increase the number of financial intermediaries as well as to use existing financial intermediary products effectively. In addition, the Bank invested in two funds for equity investment in the region covering Turkey as well, and small scale investments have been made in Turkey. Furthermore, the first subordinated loan to a bank for SME financing was successfully co-financed under a Master Co-operation Agreement signed with other IFIs.

A core priority for the Bank remains the provision of financial support to SMEs which undertake modernization programs of their production facilities, corporate development or investment programs. The focus of the Bank's activity will be on financing operations where such programs are expected to have high development impact and to produce sizeable positive effects on the economies of the BSEC region in terms of facilitating and expanding trade and contributing to an increase in commercial activities. This relates in particular to so-called 'second tier' firms, small but promising and dynamic enterprises which may benefit particularly from IFI assistance in order to improve their competitiveness.

The Bank hopes to find suitable partners to support the development of leasing, as well. The Bank intends to use the leasing product not only for financing capital expenditure of SMEs but also for other companies as an effective financing tool for the promotion of regional trade. Medium-term credit lines opened to leasing companies for trade related purposes will enable them to offer their customers finance for capital expenditures on imports from other countries in the region.

The Bank will continue to consider the option to take equity participations in selected financial institutions and funds, and will also seek to use quasi-equity products, such as subordinated loans.

³ Under no circumstances would targets be revised downwards unless the lower case scenario of the 2011-2014 BSTDB Business Plan were to be followed.

Energy efficiency needs to be raised, particularly through reduction of heating losses and improvements of existing systems. The Bank will consider offering energy efficiency credit facilities through selected financial intermediaries in order to finance energy efficiency investments of SMEs as well as individuals. The Bank will also keep in regular contact with complementary international financial institutions (IFIs) such as EBRD, IFC, EIB, DEG and KfW to seek ways to coordinate activities and share experiences, given the opportunities which exist for joint involvement.

Energy and Infrastructure

Turkey's growing demand for energy provides investment opportunities. Alternative energy sources such as wind, solar, and hydro power are widening the potential in this field, which also helps address environmental issues. Opportunities may appear in public private partnership projects, especially for municipal services and utilities (e.g. plants that address environmentally safe waste water treatment and distribution), but even in other sectors such as rapidly developing health services.

BSTDB's energy and infrastructure strategy in terms of financing instruments will focus on medium and long-term loans (senior or subordinated) to either locally based companies, including those with foreign participation, or foreign companies, which may utilize the loan proceeds in one or several BSEC countries. The Bank will use these instruments for the purpose of financing capital expenditures, corporate and development needs.

The Bank will also consider project opportunities where BSTDB may provide financing in the form of not only loans, but also equity and/or quasi equity instruments. The proactive marketing will be focused on the following areas, although the Bank will pay due attention to other areas as well:

- Projects involving exploration and production of hydrocarbons both onshore and offshore, including any technical applications to increase recovery;
- Projects involving construction of new or rehabilitation of existing energy transportation infrastructure (pipelines, railways, river/maritime transportation facilities, etc). The Bank will also support projects designed to improve local and regional energy and handling infrastructure, such as rehabilitation of gas/oil processing and storage facilities;
- Provision of financing for 'downstream' operations, particularly the expansion of retail networks, and upgrading of oil refineries and petrochemical facilities to increase production and improve the quality and environmental acceptability of refined products;
- Projects in the mining sector including, among others, import/export of equipment and production for further processing;
- Projects envisaging upgrading, modernization and expansion of renewable energy infrastructure, which facilitates generation, production, distribution and sale of electricity;
- Projects envisaging upgrading, modernization and expansion of conventional energy infrastructure, which facilitates electricity generation, production, distribution and sale;
- Projects, which lead to improved energy efficiency and energy conservation;
- Municipal projects with or without sovereign or municipal undertakings or guarantees where municipalities, local regional governments or companies linked to municipalities or local regional governments are in the role of the borrower or ultimate guarantor;

- Projects supporting public-private partnerships since municipal and urban infrastructure needs are broad ranging but also potentially amenable to such partnerships which could help alleviate current bottlenecks in cost-effective ways;
- Projects involving waste water, solid waste, hazardous waste treatment and sewage.

The Bank will work in cooperation with other IFIs and commercial banks in joint energy and infrastructure sector projects as an important source of institutional knowledge transfer

Transportation

As one of the largest economies in the region, Turkey has significant needs and high potential for further growth in the areas of general industries, transportation, tourism and real estate.

Due to the country's position as a natural bridge between Eastern Europe and new emerging markets of the Caucasus and Central Asia, the transportation sector remains a priority sector in Turkey. Despite the continuous investments in this sector, the needs are significant and it will continue to be a priority sector for the Turkish government. In the context of the connection between Pan-European transport corridors and Central Asia, the role of Turkey as a member of the Black Sea Economic Cooperation and the Mediterranean basin has gained more importance in the East-West and North-South connections. So the projects that contribute to development of these transport corridors will be given priority by the Bank.

Turkey's annual population growth and urbanization rates are relatively high compared to other member countries. This growth rate brings together the problems related to urban transport infrastructure. The central government provides significant support for the inner-city mass transportation projects of municipalities. Given such support, the Bank will focus on local transportation projects like metro and light rail transit systems that are implemented by various metropolitan municipalities in the country.

Turkey is also surrounded by sea on three sides and the waters of the country serve as a natural transportation route from the Black Sea to Europe, the Middle East and Africa. Thus, port investments are also very important for the development of the Turkish economy. In coming years, some post-privatization and new investments are expected to materialize in various ports. The Bank will closely follow the developments in this sector and will be involved in port investment projects to the extent possible.

Despite some investments in recent years, the railway system in Turkey needs further development. There are various speed rail line projects connecting major cities of the country. These projects are planned to be implemented under PPP structure. The Bank will support such projects wherever possible.

The rapid development in civil aviation in Turkey is expected to continue during the next years. The country's geographical position and increasing population provides an opportunity for further growth of this sector. Modernization of existing airports will be followed carefully. The Team will explore the possibility of financing such projects that are planned under BOT scheme.

The logistics sector will also be considered carefully for projects, since its further development is vital for Turkey to benefit from opportunities arising from the country's geographic location. In particular, implementation of projects that contribute to the integration of Turkey with the logistics systems of the EU and other regions, and which will enable the country to serve as a link between Europe and Asia, will make a significant contribution to the achievement of the country's industrial strategy vision.

Manufacturing

The rapid growth rates in the production sector offers wide financing opportunities for the Bank. Due to the improvement in the country's rating, competition among financial institutions to provide financing to private companies is very high. This reduces BSTDB's role of additionality, so the Bank will assign priority to industrial projects with high potential to grow and expand into international markets through exports and direct investments. Particular emphasis will be given to dynamic industries, including the automotive industry, production of machinery, health and environmental equipment, chemicals including paints, solvents, pharmaceuticals, rubber and plastic products, and packaging materials, as well as production of durable consumer goods. Environmental improvement projects will be given special attention.

Agri-business sector

Turkey produces and exports a wide range of agricultural products. Agriculture still remains the country's largest employer, accounting for about 24.7% of total employment and contributing about 8.3% to GDP formation. New investment is required so as to maintain Turkey's position as an exporter of agricultural products.

The most important agricultural exports are tobacco, dried fruit, figs, chickpeas, fresh fruit and tomatoes. Turkey also exports significant quantities of processed agricultural goods, particularly tomato paste, ketchup, canned food, nuts, confectionery, and chocolate. Hence, providing support to the agribusiness sector is very important, as it has to be export and consumer oriented, with high value added and branded products.

Tourism, Real Estate and Construction

The tourism sector has become one of the leading sectors of the Turkish economy since the early 1990's. The sector contributes significantly to foreign exchange revenues for the budget.

The geographical and historical position of the country allow the sector to grow in a very diversified way, including coastal, winter, thermal, cultural, congress and sports tourism. The Bank will contribute to the realization of feasible investments in this sector.

ANNEX I: Post Evaluation of 2007-2010 Country Strategy Turkey (approved 04.02.2007)				
2007- 2010 TARGETS			RESULTS (end of 2010)	
General	Sectors	Target operations: Number approved/ number signed; USD approved/ USD signed (million)	Actual operations: Number approved/ number signed; USD approved/ USD signed (million)	Evaluation Summary
Focus on social and economic sectors including industry, transportation, mining, telecommunications, tourism and infrastructure, providing new employment in regions where development is backed by government sponsored programs.	<p>1. Energy and Municipal Infrastructure</p> <ul style="list-style-type: none"> ▪ Medium/long-term loans to both local and foreign companies. ▪ Energy/transport infrastructure. ▪ ‘Downstream’ operations, (retail, refineries, etc.); ▪ Mining related projects/trade ▪ Municipal/infrastructure finance and public-private partnerships, e.g. water and sewage sector. <p>2. Transport</p> <ul style="list-style-type: none"> ▪ Focus on local transport (metro, etc.). <p>3. SMEs and Financial Sector</p> <ul style="list-style-type: none"> ▪ Export-related and import-substituting ▪ SMEs involved in services, such as transportation and tourism. <p>4. Manufacturing</p> <ul style="list-style-type: none"> ▪ Priority to industrial projects with high potential to grow and expand into international markets through exports and direct investments (e.g. automotive, machinery, health and environment equipment, chemicals, pharmaceuticals, packaging materials, durable consumer goods. <p>5. Agri-business sector</p> <ul style="list-style-type: none"> ▪ Export-oriented agribusiness <p>6. Telecom, IT and Media</p> <ul style="list-style-type: none"> ▪ Telecommunication infrastructure ▪ Expansion of investment programs of telecom companies in other member countries; <p>7. Tourism, Real Estate, Construction</p>	15/12 171/NA	8*/5 260**/133 *(1 removed) **(this includes an increase of 13,M USD of an old Operation Turk Exim as well as a removed operation Samsun Light Rail, of \$ 25M)	<p>1. Volume:</p> <p>Approved number: 53% Approved volume: 152% Signed number: 42% Signed volume: NA</p> <p>2.Sector coverage:</p> <p>2.1. Istanbul Metro (transport)</p> <p>2.2. Kartal Metro (transport, public)</p> <p>2.3. Emerging Europe Accession Fund (FI, equity)</p> <p>2.4. Istanbul Sabiha Gokcen Airport (transport)</p> <p>2.5. Koprubasi HPP (energy)</p> <p>2.6. Alter Med (FI equity)</p> <p>2.7. Alternatif Bank (subordinated loan)</p> <p>2.8. Samsun Light Rail (transport, removed)</p> <p>3. Performance:</p> <p>Satisfactory: Targets generally achieved (lower operation numbers compensated by higher approved volumes), adequate sector balance.</p>