

Turkey



I. Economic overview

1.1. General economic indicators

Indicators	2002	2003	2004	2005
1. GDP, EUR bln	166.53	150.84	162.74	257.9
2. GDP per capita, EUR	2,364	2,126	2,240	3,577
3. GDP growth rate, %	7.9	5.8	8.9	7.6
4. Industrial production growth rate, %	9.4	8.7	9.8	5.4
5. Annual inflation rate, %	29.8	18.4	9.3	7.7
6. Annual unemployment rate, %	10.3	10.5	10.3	10.3
7. Balance of current account, EUR mln	-1,385	-5,051	-8,348	-16,496
8. Average monthly gross salary, EUR	417	355	384	392
9. Interest rate on long-term loans (capital assets), %	62.7	46.0	24.7	16.3
10. Interest rate on short-term loans to companies, %	49.5	36.0	21.8	14.8
11. Interest rate on demand deposits*, %	48.2	28.6	22.1	20.4
12. Gross external debt stock, EUR mln	118.0	91.0	87.0	121.5
13. Foreign exchange reserves, EUR mln	24,575	21,126	19,340	35,292
14. Exchange rate of YTL for 1 EUR, end of year	1.718	1.757	1.823	1.587

Source: Undersecretariat of Treasury, State Institute of Statistics, Ministry of Labour and Social Security, Central Bank of Turkey
 Note: *Weighted average of deposit interest rates of commercial banks

1.2. Foreign trade

1.2.1. Foreign trade regime and major regulations

The most significant feature of Turkey's foreign trade policy is the Customs Union established between the EU and Turkey on 1 January 1996. This development has initiated the period needed for achieving legal infrastructural consistency of Turkey's foreign trade strategy with the EU norms, and thus both import and export regimes have been made consistent with the EU regulations

1.2.2. Customs regime, export and import quota and license system, tariffs

The Import Regime Decree effective since 1 January 2003 has been prepared by taking into consideration the agreement establishing the WTO, the Customs Union Agreement between Turkey and the EU, the free trade agreements with various countries, the preferential treatments granted under the Generalized System of Preferences (GSP) to the least developed countries and some developing countries, and also the needs and demands of the agricultural and industrial sectors in accordance with the objectives determined by the national development plans and annual programmes.

Turkey has started to apply GSP in favour of the least developed countries and some developing countries along with the Import Regime of 2002 for 2,456 products in order to make progress in complying with the provisions of the Customs Union Agreement between Turkey and the EU regarding Turkey's undertaking to

adapt the EU's GSP, to meet the needs of the industry for raw materials and semi-finished goods, and increase the competitive power of industry in international trade. The product coverage of GSP was increased to 3,056 products by the Import Regime of 2004. Necessary amendments have been made on 18 Import Communications appended to the Import Regime with regards to public order, public moral and public security, import policies in force and international agreements.

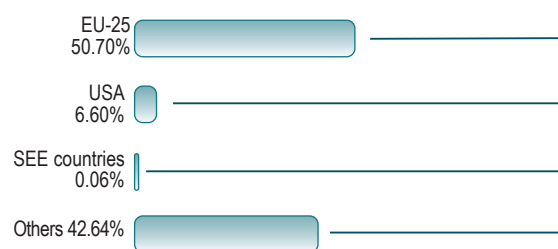
1.2.3. Exports and imports

Trade volume, EUR bln	2002	2003	2004	2005
Exports	34.4	37.5	46.3	62.1
Imports	49.2	55.0	71.5	98.5

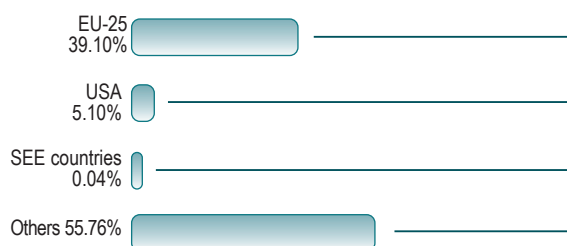
Source: Undersecretariat for Foreign Trade

1.2.4. Structure of foreign trade by regions

Exports by country groups (2005)



Source: Undersecretariat for Foreign Trade

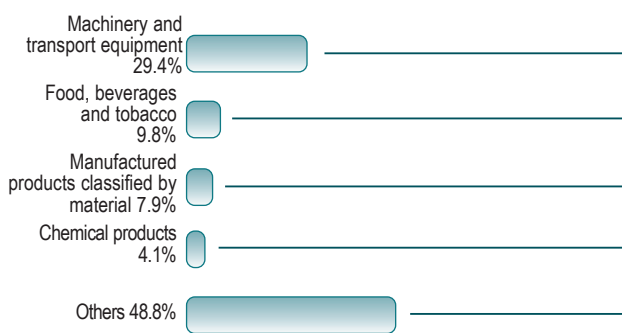
Imports by country groups (2005)

Source: Undersecretariat for Foreign Trade

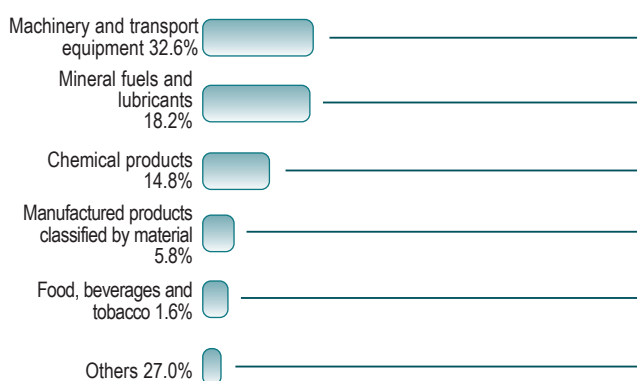
1.2.5. Major trade partners

The 10 major export partners in 2005 were: Germany (12.8%), UK (8.1%), Italy (7.4%), USA (6.6%), France (5.1%), Spain (4.9%), Iraq (3.7%), Netherlands (3.3%), Russia (3.2%), U.A.E (2.7%) and Romania (2.4%).

The 10 major import partners in 2005 were: Germany (11.6%), Russia (11.3%), Italy (6.4%), China (5.8%), France (5%), USA (4.6%), UK (4%), Spain (3%), South Korea (2.9%) and Japan (2.6%).

1.2.6. Structure of foreign trade by commodities**Exports by commodities (2005)**

Source: Undersecretariat for Foreign Trade

Imports by commodities (2005)

Source: Undersecretariat for Foreign Trade

1.2.7. Free trade agreements

Turkey has a Customs Union Agreement with the EU in force since 1 January 1996. According to the provisions of the Association Council Decision No. 1/95 (6 March 1995), Turkey is expected to align itself progressively with the preferential customs regime of the EU, which rests on the sets of autonomous regimes and preferential agreements, within five years starting from 1 January 1996. The same Decision sets out the rules and modalities of the alignment and also envisages that Turkey takes the necessary measures to negotiate agreements on a mutually advantageous basis with the countries concerned. Turkey gives priority to the adaptation of preferential agreements concluded between the EU and third countries, in which reciprocal trade provisions have been sought.

In this respect, Turkey has signed 18 preferential trade agreements to date. The Free Trade Agreement (FTA) between Turkey and the EFTA states (April 1992) has been the first step on the way to adoption of the preferential regimes of the EU. Other FTAs have been signed with the following countries:

Country	Date of entry into force	Country	Date of entry into force
Bulgaria	Jan 1999	Lithuania*	Mar 1998
Bosnia and Herzegovina	Jul 2003	Macedonia	Sep 2000
Croatia	Jul 2003	Morocco	Apr 2004
Czech Republic*	Sep 1998	Poland*	May 2000
Egypt	Dec 2005	Romania	Feb 1998
Estonia*	Jul 1998	Slovakia*	Sep 1998
Hungary*	Apr 1998	Slovenia*	Jun 2000
Israel	May 1997	Syria	Dec 2004
Latvia*	Jul 2000	Tunisia	Nov 2004

Note: *The FTAs Turkey has concluded with the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia have ceased to exist on 30 April 2004 after their accession into the EU on 1 May 2004.

FTA negotiations still continue with Faeroe Islands, Lebanon, Albania and the South African Customs Union.

1.2.8. Free trade zones

Free Zones are defined as special sites within the country but deemed to be outside the customs territory of Turkey. They are regions where the valid regulations related to foreign trade and other financial and economic areas are not applicable, or are only partly applicable, or new regulations are tested in. Free Zones are also the regions where more convenient business climate is offered in order to increase trade volume and exports for some industrial and commercial activities as compared to the other parts of the country.

Free Zones are regulated by the Free Zones Law No. 3218/1985. In general, all types of activities can be performed in the Turkish Free Zones, such as manufacturing, storing, packing, general trading, banking and insurance. Investors are free to construct their own premises, while the zones have also office space available, workshops or warehouses on a rental basis under attractive conditions. All fields of activities open to the Turkish private sector are also open to joint ventures of foreign companies.

Free zone users that operate under a production licence are exempted from income or corporate taxes until the end of the taxation period of the year when Turkey becomes a full member of the European Union. For free zone users that have obtained an operating non-production licence before 6 February 2004, the income or corporate tax exemption continues during the validity period of the operating licence. The free zone users that have obtained an operating non-production licence after 6 February 2004 do not enjoy income or corporate tax exemption. The maximum validity period of an operating licence is 10 years for tenant users and 20 years for users who wish to build their own working space in the zone. If the operating licence is for production, these terms are 15 and 30 years for tenant users and investors, respectively. Free Zone earnings and revenues can be transferred to any country, including Turkey, freely and without any prior permission and are not subject to any taxes, duties or fees. There is no limitation on the proportion of foreign capital participation in investments within the Free Zones. Trade conducted between the Turkish Free Zones and Turkey is subject to the foreign trade regime (sales to the domestic market are subject to a fee of 0.5% of the transaction value).

Since 1985, Mersin (1987), Antalya (1987), Aegean (1990), Istanbul Atatürk Airport (1990), Trabzon (1992), Istanbul-Leather (1995), Eastern Anatolia (1995), Mardin (1995), ISE Istanbul International Stock Exchange (1997), Izmir Menemen-Leather (1998), Rize (1998), Samsun (1998), Istanbul Thrace (CATALCA)(1998), Kayseri (1998), Europa (1999), Gaziantep (1999), Adana Yumurtalik (1999), Bursa(2001) Denizli (2001), Kocaeli (2001) and TUBITAK Marmara Research Center (2002) free zones have become operational.

1.3. Foreign investment

1.3.1. FDI by years and by type of investment

The net FDI inflows in Turkey have reached USD 9.68 billion in 2005 while the FDI inflows for the period 1995-2005 have amounted to USD 19.7 billion.

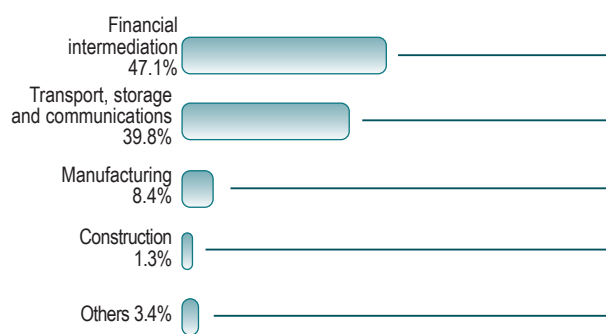
Annual FDI inflows, USD mln

	2000	2001	2002	2003	2004	2005
1. FDI capital	982	3,352	1,137	754	1,504	7,840
1.1 Equity Capital (Net)	982	3,352	617	737	1,145	8,081
1.1.1 Inflows	1,707	3,374	622	745	1,245	8,427

1.1.2 Liquidation outflows	-725	-22	-5	-8	-100	-346
1.2 Other capital	-	-	520	17	359	-241
2. Real estate (net)	-	-	-	998	1,343	1,841
FDI total (net)	982	3,352	1,137	1,752	2,847	9,681

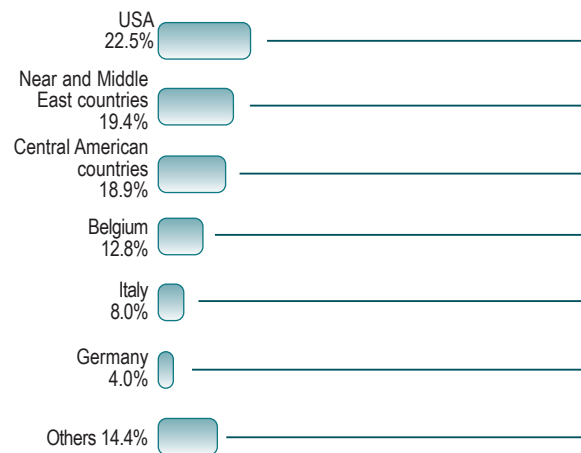
Source: Central Bank of Turkey

1.3.2. FDI by sectors (2005)



Source: Central Bank of Turkey

1.3.3. FDI by countries (2005)



Source: Central Bank of Turkey

1.3.4. Top foreign investors

The biggest companies with a foreign share in Turkey (ordered according to equity capital) are listed in the table below:

Name of the company	Origin of the foreign investor	Sector
1. Turkcell İletişim Hizmetleri A.S.	Finland	Transport, storage and communications
2. Avea İletişim Hizmetleri A.S.	Netherlands	Transport, storage and communications

3. Enerji Yatirimlari A.S.	Netherlands	Manufacturing
4.Ojer Telekomunikasyon A.S.	Lebanon	Transport, storage and communications
5. Vodafine Telekomunikasyon A.S.	United Kingdom	Transport, storage and communications
6. Finansbank A.S.	United Kingdom	Financial intermediation
7. Koc Finansal Hizmetler A.S.	Italy	Financial intermediation
8. Tofas Turk Otomobil Fab. A.S.	Italy	Manufacturing
9. Eregli Demir Ve Çelik Fab. T. A.S.	USA	Manufacturing
10. Fortisbank A.S.	Belgium and Luxembourg	Financial intermediation

1.3.5. Government institutions in the field of foreign investment

The **General Directorate for Foreign Investment (GDFI)** is the governmental institution in charge of providing foreign investor services in Turkey. GDFI is an agency of the Under secretariat of Treasury under the Ministry of State in Charge of Economy. The GDFI has been serving as the sole public body in charge of foreign direct investment in Turkey since the early 1980s.

The competency of GDFI in FDI related issues is not only a result of its close relations with foreign investors throughout the years, but is also embedded in its status as one of the eight operational General Directorates of the Treasury, which is a public body having central role in formulating and implementing economic policies of the government. The GDFI is mainly responsible for formulating and implementing the government's FDI policy. This mandate enables GDFI to carry out the following tasks:

- Guide and assist foreign investors in exploring investment opportunities in Turkey
- Provide current data and information on business climate to both potential and present foreign investors
- Process foreign investors' applications for investment incentives and issue incentive certificates for eligible projects
- Keep record of FDI inflows into Turkey
- Manage FDI related international relations of Turkey at bilateral and multilateral platforms

The GDFI also acts as a Secretariat of the Co-ordination Council for the Improvement of Investment Environment.

1.4. Investment opportunities by sectors

1.4.1. Automotive sector

The Turkish vehicle manufacturing has been successfully

transformed from a highly protected home industry with a few players into a competitive and increasingly export-oriented sector, employing over 630,000 people. It is Turkey's third largest industry after food and textiles in terms of contribution to GDP, and the second largest exporter after textiles. Exports in this sector reached about USD 9.5 billion in 2005. There are 18 manufacturers of passenger cars, light commercial vehicles, tractors, etc., as most of the companies operate with foreign partners. The total capacity is around 1,000,000 vehicles per year. The number of passenger cars and commercial vehicles exported has increased significantly in the past decade from about 85,000 in 1999 to around 560,000 in 2005.

There are five **passenger car manufacturers** in Turkey; TOFAS, OYAK Renault, Hyundai Assan, Toyota and Honda

Company name	Partner company	Units per year (2005)
1. OYAK Renault	Renault	179,669
2. Toyota	Toyota	158,566
3. TOFAS	FIAT	72,790
4. Hyundai Assan	Hyundai Motor Corp	31,402
5. Honda	Honda Motor Co.Ltd.	11,236
	Total	453,663

Source: Automotive Manufacturers Association of Turkey

Commercial vehicle manufacturers

Company name	Partner company	Units per year (2005)
1. Ford Otosan	Ford	243,423
2. Hyundai Assan	Hyundai Motor Corp	28,618
3. Karsan	Peugeot	13,146
4. B.M.C	Local	12,500
5. Temsa	Mitsubishi	8,161
6. Anadolu Isuzu	Isuzu	6,762
7. Otoyol	FIAT-Iveco	3,634
8. Otokar	KHD/Land Rover	2,590
9. M.A.N	M.A.N.	2,030
10. Mercedes Benz Turkey	Mercedes	13,916
11. Other		125,916
	Total	460,696

Source: Automotive Manufacturers Association of Turkey

The main manufacturers are predominantly located in the Marmara Region covering Istanbul, Izmit, Bursa and Adapazari. Large manufacturers, such as Ford, FIAT, M.A.N, Mercedes, Renault and Toyota have launched export-oriented projects in Turkey where the country is used as a base due to low cost, high productivity, and geo-strategic location. In addition, being quite close to the Middle East and CIS countries, new export opportunities for manufacturers arise. For example, Hyundai Assan exports passenger cars to the Middle East and North African countries. Peugeot Karsan

exports light commercial vehicles and Honda exports passenger cars to the Middle East countries, etc.

The automobile parts industry has also grown rapidly as a consequence of the developments in the automotive industry.

Leading foreign-owned component manufacturers

AE Goetze	Magnetti Marelli
Autoliv	Mannesman Sachs
Delphi	Monroe
Denso	Rieter
Exide Europe	Robert Bosch
Grammer	Sango
Hayes Lemmerz	Takashimaya N. Kagyo
Hp Chemie Pelzer	Aisin Seiki
Toyota Iron Works	Valeo
Lear Corporation	Volkswagen
Lucas	Yazaki

Source: Automotive Manufacturers Association of Turkey

1.4.2. Tourism

Turkey is one of the most popular tourist destinations in the Mediterranean region and its performance in terms of tourist arrivals and tourism revenues is substantially above the world's average. The tourist sector in the country has undergone significant development since 1983 and has registered a steady rise both in the number of tourist facilities and in bed capacity.

Turkey is offering richness of first class hotel, resort and conference facilities, easy transportation to main cities of the world, beautiful decorations and unique panorama attraction together with perfect climate and cost advantages compared to alternative destinations. Turkey is a magnificent place for meetings, events and congresses where Europe and Asia meet.

Turkey is also an important centre of winter activities and attractions with its high altitude mountains covered with snow all throughout the year. In recent years, as golf courses with international standards have opened up, Turkey has become an elite golf centre.

In addition to its rich historical and cultural heritage, Turkey displays a great wealth and a variety of natural resources. The top 4 countries sending tourists to Turkey for 2005 (with a share of 51%) have been Germany, CIS, the UK and the Netherlands.

Main facts about Turkey's tourist industry

Year	Number of foreign visitors	Change (%)	Revenue, USD billion	Change (%)
2001	11.6 mln	11.0	10.1	31.6
2002	13.3 mln	14.5	11.9	18.2
2003	14.0 mln	5.8	13.2	10.9
2004	17.5 mln	22.8	15.9	20.5
2005	21.1 mln	21.0	18.2	15.0

Source: State Institute of Statistics

In recent years, the emphasis of the Turkish tourist policy has shifted from quantity to quality (both for facilities and services), environmental sustainability and more balanced approach in spreading the positive effects of tourism, particularly among the less developed areas. Due to the lucrative character of tourism investments, the government supports them through land allocation, infrastructure development (partly financed by the state), tax allowances and credits. Foreign investors have the same rights and opportunities as the local ones.

1.5. Foreign investment regime

The foreign investment regime of Turkey is regulated by the Foreign Direct Investment Law No. 4875/2003, based on the principle of equal treatment of domestic and foreign investors. The objective of the Law is to encourage foreign direct investments, to protect the rights of foreign investors, to define investment and investor in line with international standards, and to establish a notification-based system for foreign direct investments rather than screening and approval. The FDI regime of Turkey does not stipulate any authorization procedures for inward direct investment. Protection against expropriation is explicitly mentioned in the FDI Law.

The Turkish legislation allows for the free transfer of profits, fees and royalties. The repatriation of capital in the event of liquidation or sale is also guaranteed. There is no condition for the approval of foreign credit acquisition.

Legal entities with foreign capital, established and registered under the rules of the Turkish Commercial Code can acquire real estate in the same way as Turkish nationals.

The foreign investors should observe the following specific requirements:

- They may have up to 25% equity participation in broadcasting (Establishment and Broadcasting of Radio and Television Law No. 3984/1994)
- In marinas, established by foreigners, at least one of the shareholders must be a natural person or a legal entity of Turkish nationality (Encouragement of Tourism Law No. 2634/1982) - thus, "the majority in respect of the shares of the company" is not required

- They may have up to 49% participation in civil aviation, ground-handling services and maritime navigation (Civil Aviation Law No. 2920/1983, Cabotage Act No. 815/1926 and Turkish Commercial Code No. 6762/1956);

Despite the existence of some limitations on foreign partnership in a few other sectors, such as electricity, financial corporations, education, travel agencies, employment agencies, yachting and national defence, and in several professions, such as pharmacists, customs brokers, etc., the Turkish regulations are transparent and there are no hidden barriers to entry.

Foreign investment incentives

The Turkish incentive system comprises: i) general incentive regime, ii) incentives granted to SMEs, and iii) incentives granted to less developed regions.

General incentive regime

The main incentive tools granted to investors are:

- Exemption from customs duties and fund levies - the import of machinery and equipment for investment purposes is exempted from customs duties and fund levies. The machinery and equipment, which are to be imported under this measure, must be included in special lists to be approved by the General Directorate of Foreign Investment (GDFI). Raw materials and intermediate goods cannot be imported under this provision
- VAT exemption for imported and locally purchased machinery and equipment - the VAT, which is due to be paid for both imported and locally purchased machinery and equipment, is exempted. There are lists approved by GDFI for the types of machinery and equipment that are eligible under this measure

The general incentive regime varies according to location, scale and subject of investments. In terms of application of general incentives, Turkey is divided into three types of regions:

- Developed regions - the city boundaries of Istanbul and Kocaeli, and the municipality boundaries of Ankara, Izmir, Bursa, Adana and Antalya
- First priority regions - 50 cities determined by the Council of Ministers
- Normal regions - the remaining cities

To be eligible for the incentive measures, the minimum amount of fixed investment must be YTL 400,000 for the developed regions and normal regions, and YTL 200,000 for the first priority regions.

According to the Law for Encouragement of Investments and Employment No. 5084/2004 and its amendment in Law No. 5350/2005, additional incentives are granted to investors that make investments in provinces, which have a per capita income of USD 1,500 or less.

II. Establishing business in Turkey

2.1. Forms of business and corporate governance

Company Regime	Legal framework: Commercial Code, Law No. 6762/1956. Currently, amendments have been adopted related to the company establishment.
Types of Companies	Partnership, Limited liability company (Ltd. Sti.) and Joint-stock company (A.S.).
Partnerships	Partners: Two or more individuals or legal entities. Characteristics: The civil partnerships are regulated by the Code of Obligations Law No. 818/1926 (article 520-541) as partnerships formed by at least two individuals to achieve a selected goal. Partners both have an unlimited liability for debts of the business. Since ordinary partnerships do not have a legal entity, partners, who have established ordinary partnership, must register at the Trade Registry Office as traders. There is no minimum capital requirement for both foreign and local investors. Other business partnerships, such as consortia and joint-ventures are subject to the civil partnerships' regime.
Limited Liability Company	Members: Between two and 50 shareholders. Minimum capital: YTL 5,000. Share and contribution requirements: There is no minimum requirement for a contribution of foreign partnership. It is required that 1/4 of the cash capital to be fully paid in as of the company incorporation or latest within three months thereafter. The remaining part of the capital should be paid in within a period of three years. Company management: Decisions are made by a majority vote in the general meeting. The shareholders have votes in proportion to their contribution unless provided otherwise in the articles of association. The appointed Managing Director has the authority to run the company. Specific features: A limited liability company is incorporated for a period of up to 99 years. Limited liability companies are also prohibited from engaging in banking or insurance business. Companies with more than 20 shareholders are required to hold a general meeting at least once a year and to have at least one statutory auditor.
Joint-Stock Company	Shareholders: Five or more. Minimum capital: YTL 50,000. Share and contribution requirements: There is no minimum requirement for a contribution of foreign partnership. The shares may be bearer shares or registered ones. The bearer shares are freely transferable, unless otherwise agreed on by the parties. The registered shares are transferable after an approval by the board of the company has been given, unless prohibited by the company's articles of association. Company management: The decision-making body in a joint-stock company is the general meeting of shareholders, which must be summoned at least once a year. The minority of shareholders may request the appointment of a special auditor on their behalf. A board of directors with at least 3 members is elected by the shareholders or appointed in the Articles of Association. Specific features: The shares of joint-stock companies with more than 250 shareholders are considered to have been offered to the public and these corporations are subject to the provisions of publicly held joint-stock companies. Capital Market Board regulations apply for joint-stock companies with 250 or more shareholders and joint stock companies with shares quoted on the Istanbul Stock Exchange. Companies acting as banks must have a Board of Directors consisting of 5 members and a minimum capital of YTL 20,000,000.

Branches	Foreign and domestic companies and individual merchants may register a branch in Turkey. Such branch does not exist as a separate legal entity remaining part of the foreign legal person. However, it is taxed as a non-resident company. The managers must be Turkish citizens; otherwise, they must obtain a residence permit.
Representative Offices	Foreign persons are entitled to register a representative office in Turkey after permission by GDFI. Such an entity does not have a legal personality and may not engage in commercial activities
Bankruptcy	Legal framework: Bankruptcy Law No. 2004/1932
Anti-Trust Rules	Legal framework: Law on Protection of Competition No. 4054/1994

2.2. Foreign exchange regulations

The foreign currency system in Turkey is based on Decree No. 32 on the Protection of the Value of the Turkish Currency. The import of Turkish currency and the means enabling payments in Turkish Lira is free. The export of the same is free within the following principles: residents and non-residents may freely send Turkish Lira abroad through banks and special financial institutions; travellers may freely take abroad Turkish Lira banknotes not exceeding USD 5,000.

Non-residents are free to pay, receive payments and make deposits in Turkish Lira in Turkey. Banks and special finance institutions must inform the authorities determined by the Ministry of State about transfers abroad exceeding USD 50,000, excluding payments for import and invisible transactions, as well as capital export within 30 days from the date of transfer.

The import of foreign exchange to Turkey is free. Non-residents may freely purchase foreign currency from banks, special finance institutions, authorized institutions and precious metals intermediary companies. Both residents and non-residents may freely transfer foreign currency abroad through banks and special finance institutions.

Travellers may take up to USD 5,000 or its equivalent of foreign currency notes out of the country. Residents, who present a document that they have purchased foreign exchange from banks or special finance institutions within the framework of the regulations on invisible transactions, may freely take abroad foreign currency notes whose value is exceeding USD 5,000.

2.3. Legislative framework of concessions

Within the amendment made in the Constitution in 1999, the government and the public legal entities in Turkey can provide public services through executing administrative contracts, or, if specified in the law, by executing private law contracts. Concession contracts constitute one of the aforementioned administrative contracts and are based on an old Law on Public Service Concessions, dated as of 1910, which does not have a wide area of application. The Constitution provides that

the State Council shall give its opinion within two months on the conditions and the contracts under which concessions are granted concerning public services.

Within the constitutional amendment of 1999 and the harmonization of laws following it, concession contracts can provide for the settlement of disputes arising from such contracts via national or international arbitration. International arbitration can only be referred to for disputes involving a foreign element. Likewise, the Law No. 4501 on the Principles to be Followed when Disputes Arising from Concession Licences and Contracts Concerning Public Services are Submitted to Arbitration (published, Official Gazette 23941/2000) and the International Arbitration Law No. 4686 (published, Official Gazette dated 24453/2001) set forth the rules applicable to the international arbitration procedures.

In Turkey, there are legislative acts concerning the provision of certain services by concession contracts. For example, in accordance with the Law No. 5393 on Municipalities, municipalities can transfer services concerning water, public transportation and solid waste via concession contracts which can be concluded for a period not exceeding 49 years, subject to the opinion of the Council of State and the decision of the Ministry of Interior. In addition, public transportation services can be provided by granting licenses, or by renting public transport lines or by the procurement of services. Moreover, in accordance with the Law No. 406 on Telephone and Telegram, telecommunication services or infrastructures that involve the allocation of scarce resources, such as frequencies, satellite positions and numbering, that require granting of specific special rights and obligations to each operator, or that can only be carried out by a limited number of operators, are executed via a concession contract signed with the Ministry of Transport.

Provided that it is specified in the law, it is also possible to have public services carried out via contracts of private law concluded between the administration and the capital companies. Build-Operate-Transfer (BOT), Build-Operate (BO) and Build-Lease models constitute the examples of such public-private partnership projects in Turkey.

2.4. Legislative framework of public procurement

The legal framework of the Turkish public procurement system consists of two separate laws: Public Procurement Law No. 4734 and Public Procurement Contract Law No. 4735 which were prepared by taking into account the UNCITRAL Model Law and EC Directives on Procurement. In order to guide the implementation and establish the standards in public procurement, the secondary legislation in public procurement, such as implementation regulations, administrative specifications, general specifications, typical draft contracts, and communiqués are prepared and enforced by the Public Procurement Authority (PPA) within the authorization given by the Law. PPA is a financially and administratively autonomous regulatory body responsible for regulating and monitoring the public pro-

curement system, as well as for resolving the complaints concerning the public procurement process. The decision-making organ of PPA is the Public Procurement Board where the Union of Chambers and Stock Markets and the Turkish Employers Union Confederation are given one of all ten seats each.

The principal procurement methods are open and restricted procedures. Other methods may be used under the special conditions set out in the Law. The foreign capital companies which are established in Turkey in accordance with the Turkish laws, are regarded as "domestic tenderers".

The Public Procurement Contract Law regulates the period following the signature of the contract and focuses on contract management issues in order to achieve standardisation in implementation. Form contracts are prepared by PPA and are published in the Official Gazette in order to assure uniformity.

2.5. Dispute resolution mechanisms

The Turkish Constitution has been amended so as to allow international arbitration. Disputes arising from concession agreements related to public services may be settled by means of national or international arbitration. However, international arbitration may only be triggered provided that the dispute includes a foreign element.

Arbitration, applicable to disputes arising from or in connection with commercial contracts of domestic nature, is regulated by the Civil Procedure Code (Law No. 1086). Pursuant to the Turkish law, parties may choose an arbitration settlement of their disputes either by a separate arbitration agreement or with an explicit clause incorporated into the main agreement. Parties can choose either the jurisdiction of domestic courts, or arbitration. If the latter is chosen, the procedure to be followed by the arbitration institution should be defined in the agreement unless the specific arbitration institution referred to applies its own rules.

Turkey has ratified the following major international conventions in the field of arbitration:

- European Convention on International Commercial Arbitration (OJ 23.09.1991, No. 21000)
- Convention on the Settlement of Investment Disputes between States and Nationals of Other States
- The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958)

According to the FDI Law No. 4875, for the settlement of disputes arising from investment contracts subject to private law and disputes arising from concession relations and contracts with the administration, in addition to the authorized local courts, foreign investors can refer to national or international arbitration, or other means of dispute settlement, provided that the conditions in the related regulations are fulfilled and the parties agree thereon.

Turkey has also signed bilateral investment treaties, containing provisions for international dispute settlement with 76 countries as 51 of those agreements have entered into force.

2.6. Operational costs (2005)

Nominal salary growth, % (for minimum wage)	20
Minimum wage, EUR*	370
Public social security as % of monthly salary (minimum wage)	share of employer 19.5%
Price of industrial land, EUR/sq. m in Ankara	15-80
Office rent in Ankara (average), EUR/sq. m per month	7-10
Purchase of residential estate in Ankara (average), EUR/sq. m	623-935
Water charges for industrial use, EUR/m ³	1.95
Charges for waste water, EUR/m ³	0.97
Telephone subscription monthly charge, EUR	21.8
International phone call from Turkey, PSTN Euro(including VAT)	0.1246
Electricity for large industrial users, (developed region) EUR/kWh	0.056
Natural gas for industrial users, EUR per 1,000 m ³	249

Source: Undersecretariat of Treasury

Note: In the table above the exchange rate of 1 Euro=1.6041 YTL (as of 1 January 2006) is used

III. Taxation

3.1. Direct taxation

3.1.1. Corporate income tax

Taxpayers¹	Capital companies (business corporations with capital share), co-operatives, state economic enterprises, joint-ventures, economic entities owned by foundations and associations	
Tax rate	20% standard rate	
Allowances and incentives	<ul style="list-style-type: none"> • Initial establishment and organization expenses • Annulment, merging and liquidation costs • For insurance companies, technical reserves required for insurance contracts still valid at date of inventory in the balance sheet • Active partner's share in the profits of partnerships limited by shares • Donations and aid extended to public institutions or non-profit entities, as well as municipalities, not exceeding 5% of the profit of the taxable income • All donations and aid provided for education activities 	
Depreciation	Type of asset	Annual depreciation rate, %
	Buildings	Varies from 2 to 10
	Facilities and land improvement	6.66
	Other assets	Varies from 2 to 20 ²
Treatment of losses	Carry forward of losses (including foreign source losses but subject to some procedures) over the following 5 years is allowed; loss carry-back is not permitted ³	

¹Unlimited companies and Ordinary partnerships are not subject to corporate income tax but subject to the individual income tax.

²The Ministry of Finance is authorised to increase or decrease depreciation rates for specific assets.

³Losses may only be carried-back in the case of liquidation.

3.1.2. Personal income tax

Taxpayers	Income of all natural persons explicitly enumerated in Personal Income Tax Act	
-Resident taxpayers	Worldwide income	
-Non-resident taxpayers	Source of income is in Turkey	
Taxable income	The sum of all taxable income received during the calendar year is reduced with incomes taxed with a final tax.	
Calculation of income tax	Taxable income	Tax amount
	Up to YTL 7,000	15%
	From YTL 7,001 to 16,000	YTL 1,050 + 20% of the excess over YTL 7,000
	From YTL 16,001 to 40,000	YTL 2,850 + 27% of the excess over YTL 16,000
	Over YTL 40,000	YTL 9,330 + 35% of the excess over YTL 40,000
Deductions	<p>There are two groups of deductions related to the income tax, which are deductions allowed in calculating the net result of a particular income category and deductions from the aggregate sum of all categories of income. Each income category has special provisions for deductible and non deductible items. General deductions include:</p> <ul style="list-style-type: none"> • Personal insurance premiums not exceeding 5% of the taxpayer's declared income (a minimum for the taxpayer, the spouse and children under 18 years age). This deduction is not applicable to taxpayers with limited tax liability. Contributions to the insurance investment fund cannot exceed 10% after 1 January 2004 • Qualified donations to official bodies, associations recognized by the Council of Ministers as working in public benefit and foundations - up to 5% (10% in some regions) of the taxpayer's declared income. Donations made to the abovementioned organizations for the purpose of instructing schools, dormitories, and hospitals, are deductible without limitation. 	

3.1.3. Withholding taxes

Type of income	Tax rate, %
Interest on treasury bills and treasury bonds, other bonds and bills	15
Dividends	10
Royalty from patents, know-how, etc.	15-25
Bank deposits depending on their maturity	15
Profit shares of private financial institutions	15
REPO agreements	15
Some payments from pension and provident funds, pension and insurance co-operations	5-15
Payments for agricultural goods and services to the farmers	1-4
Payments to the small businesses, which are tax exempt	2-20
Payments to the independent professionals	17-22
Profits from securities investments funds and partnerships with minimum of 25% invested in Turkish shares	0
Rents	22

3.2. Indirect taxation

3.2.1. Value added tax (VAT)

Taxable person	All persons - legal or natural, resident or non-resident
Out of scope supply	Turkey has adopted the EU definitions of place of supply of goods and services
VAT exemptions	<p>Full exemption</p> <ul style="list-style-type: none"> • Export deliveries and services performed in connection with such deliveries and services performed for the customers abroad, and roaming services provided in Turkey for the customers abroad within the framework of international roaming agreements, provided that it is on reciprocal basis • VAT paid by persons who are not residing or not having a registered office in Turkey, for goods and services which they purchase in relation to their transporting activities or which they purchase at trade affairs, exhibitions or trade shows, in which they participate as exhibitors will be refunded, provided this is on a reciprocal basis • In the cases of taxpayers whose operations consist of leasing or operating in different manners, means of transportation by sea, air and railroad, floating plants and crafts in part or completely, delivering to them for such purposes means of transportation by sea, air and railroad, floating plants and crafts and deliveries and services performed in connection with the manufacture and construction of such means and the services arisen in the form of modification, repair and their maintenance • Services rendered at harbors and airports for vessels and aircrafts • Exploring, operating, enrichment and refinery operations for gold, silver and platinum and deliveries and services provided to people engaged in petroleum exploration activities within the scope of the Petroleum Law No. 6326 • Deliveries of machinery and equipment to the taxpayer holding incentive certificate within the scope of the certificate • Deliveries of goods and construction works to those engaged in construction, renovation and expansion of harbors and airports • Planes, helicopters, ships, submarines, tanks, armed combat cars, armed personnel, carriers, missiles, rockets, weapons, ammunition, weapon parts, equipments and systems; deliveries and services related to their R&D, production, assembly, spare parts, maintenance and repairs rendered for the Ministry of National Defense, General Command of Gendarmerie, Turkish Coast Guard Command, Undersecretariat of Defense Industry, Undersecretariat of National Intelligence, Directorate General of Security, Directorate of Customs Control, for the purposes of national defense and interior security needs; deliveries and services the amounts and properties of which are determined by the abovementioned institutions and which are provided for those who carry out the said services within this scope • Transit transportation activities between Turkey and foreign countries, the transportation businesses to be decided by the Council of Ministers • Deliveries made and services performed to diplomatic representations, embassies, consulates and their members having diplomatic rights, provided this is on reciprocal basis • Deliveries and services to international institutions and foreign agents connected with such institutions, to the extent that the exemption is granted by international agreements <p>Partial exemption The input VAT cannot be deducted or reclaimed, but can be only recorded as a cost or an expense, e.g. social exemptions.</p>

VAT refund	<ul style="list-style-type: none"> If a VAT taxpayer has more input VAT than output VAT, which is not deducted in the current year, then only the VAT amount for the outputs subject to the lower rates is refunded in the following year Exporters are entitled to a VAT credit refund after having completed and delivered documents to the tax office
VAT rates	<ul style="list-style-type: none"> The standard rate is 18% The 8% rate is applied to basic foodstuffs and other goods and services The 1% rate is applied to some goods and services (supply of goods subject to leasing, raw and fibre cotton, cotton fibre waste, second hand cars, newspapers, books, raw hides and skins of bovine or equine animals, wheat, etc.)

3.2.2. Other indirect taxation

Excise duty	Specific or ad valorem depending on the type of goods delivered.
Immovable property transfer tax	<ul style="list-style-type: none"> Real estate buying and selling fee (separately for the buyer and the seller) where the tax base is the real estate tax value: 1.5% Real estate construction fee where the tax base is the real estate tax value: 1.5%

3.3. Double taxation treaties

Signatory country	Effective date	Signatory country	Effective date
Austria	24.09.1973	Turkmenistan	24.06.1997
Norway	30.01.1976	Azerbaijan	01.09.1997
South Korea	25.03.1986	Bulgaria	17.09.1997
Jordan	03.12.1986	Uzbekistan	30.09.1997
Tunisia	28.12.1987	USA	19.12.1997
Pakistan	08.08.1988	Belarus	29.04.1998
Romania	15.09.1988	Ukraine	29.04.1998
Netherlands	30.09.1988	Israel	27.05.1998
United Kingdom	25.10.1988	Slovakia	02.12.1999
Finland	30.12.1988	Kuwait	13.12.1999
TRNC	30.12.1988	Russian Federation	31.12.1999
France	01.07.1989	Indonesia	06.03.2000
Germany	31.12.1989	Lithuania	17.05.2000
S. Arabia	09.08.1990	Croatia	18.05.2000
Sweden	18.11.1990	Moldova	28.07.2000
Belgium	08.10.1991	Singapore	27.08.2001
Denmark	20.06.1993	Kyrgyzstan	20.12.2001
Italy	01.12.1993	Tajikistan	26.12.2001
U.A.E.	26.12.1994	Czech Republic	16.10.2003
Japan	28.12.1994	Spain	18.12.2003
Hungary	09.11.1995	Bangladesh	23.12.2003
Kazakhstan	18.11.1996	Latvia	23.12.2003
Macedonia	28.11.1996	Slovenia	23.12.2003
Albania	26.12.1996	Greece	05.03.2004
Algeria	30.12.1996	Syria	21.08.2004

Mongolia	30.12.1996	Thailand	13.01.2005
China	30.12.1996	Luxembourg	18.01.2005
India	30.12.1996	Sudan	31.01.2005
Malaysia	31.12.1996	Estonia	21.02.2005
Egypt	31.12.1996	Iran	27.02.2005
Poland	01.04.1997		

IV. Accounting

4.1. Accounting and auditing legislation

Turkey has made a great progress since 2002 in terms of the adoption of the international accounting standards. In 2002, a Turkish Accounting Standards Board was established as an administratively and financially autonomous public legal entity for the purpose of identifying and publishing the national accounting standards that will be applied for public benefit and that will ensure development and adoption of national accounting principles to enable accurate, reliable, balanced, comparable and comprehensible financial tables in the audited financial statements.

The Board has decided to adopt the "International Financial Reporting Standard" (IFRS) or, as formerly called the "International Accounting Standards (IAS), in order to enable integration with the international practices when executing these capacities, as well as to ensure harmonization with the European Union legislation.

Within this framework, 36 national standards in full conformity with IAS have been published in the Official Gazette since 2005.

It is foreseen that the remaining two standards will be adopted by the Board after the necessary translation process is completed and published as soon as possible. In Turkey, since the beginning of 2005, banks and public companies have been preparing their financial tables in conformity with the IFRSs. The Turkish accounting standards which have been published with an effective date starting on 1 January 2006 constitute a current legislation for these sectors.

A separate set of standards is being prepared for small and medium-sized enterprises in Turkey, in consideration of their efficiency and productivity. Following the publication of all Turkish Accounting/Financial Reporting Standards in full conformity with the international accounting/financial reporting standards, it is foreseen that a separate set of standards in full conformity with the relevant international arrangements will be published for the SMEs operating in Turkey.

4.2. Accounting principles

Accounting standards issued by the Capital Markets Board, are applicable with effect from the first interim financial statements starting from January 2005. They are in full conformity with the IFRSs. This means that the listed companies prepare and issue their financial statement starting from this date. The tax authorities have the right to examine the books even in the existence of independent audit reports.

Commercial financial statements have to comply with the books. A statutory standard of Chart of Accounts (CA) has become effective as of January 1994. The CA is obligatory for the natural persons and legal entities other than financial institutions that prepare balance sheets.

The statutory CA provides for two types of cost accounting regimes. The first is more detailed and is applicable to larger companies. The second is designed for SMEs and is simpler.

4.3. Annual financial statements

Non-listed companies

The balance sheet, income statement, activity report and dividend table have to be submitted to the annual meeting of shareholders but it is not mandatory to be published. The income statement format is identical for both listed and non-listed companies and its format is described in the statutory CA.

Listed companies

The Capital Markets Board regulations applicable as of January 2005 specify the format of the balance sheet, income statement, statement of changes in the financial position, etc. Listed companies are required to publish their balance sheet, income statement and audited reports in the trade registry gazette.

V. Donor funded programmes and projects

5.1. Main donors and programmes

World Bank

So far, the World Bank has financed 129 operations in Turkey for a total original commitment of USD 15.5 billion. The main spheres of World Bank support to Turkey are social protection and public health, water supply and sanitation, environment, agriculture, infrastructure, legal reform, public sector management and energy sector reform.

Current loans and grants

The World Bank's current portfolio in Turkey comprises 19 active investment projects, three grants, and one program of World Bank Institute (WBI) in Turkey.

Sector	Total IBRD commitment, USD mln
LOANS	
Infrastructure and Energy	
1. Energy Community of South East Europe (ECSEE) - APL#2	66.00
2. Railways Restructuring Project	184.70
3. Seismic Risk Mitigation Project	400.00
4. Renewable Energy Project	203.03
5. Anatolia Watershed Rehabilitation Project	20.00
6. Municipal Services Project	275.00
7. Industrial Technology Development (ITP)	155.00
8. Marmara Earthquake Emergency Reconstruction (MEER)	505.00
9. National Transmission Grid	270.00
Total:	2,078.73
Human Development	
10. Health Transition Project (HTP)	60.61
11. Privatization Social Support Project (PSSP)	250.00
12. Privatization Social Support Project (PSSP) 2	465.40
13. Social Risk Mitigation Project (SRMP)	500.00
14. Secondary Education Project (SEP)	104.00
15. Turkey Basic Education Project - Phase 2	300.00
Total:	1,680.01
Agriculture and Rural Development	
16. Agricultural Reform Implementation (ARIP)	600.00
Total:	600.00
Economic Management, Public Sector and Finance	
17. Programmatic Financial and Public Sector Adjustment Loan (PFPSAL-3)	1000.00
18. Third Export Finance Intermediary Loan (EFIL 3)	305.00
19. Second Export Finance Intermediary Loan (EFIL 2)	303.10
Total:	1,608.10
TOTAL LOAN AMOUNT	5,966.84
GRANTS	
1. Biodiversity And Natural Resources Management GEF Project	14.00
2. Second Phase-Out Ozone Depleting Substances (PODS 2)	8.20
3. Institution Building for Efficient Public Liability Management	0.32
TOTAL GRANT AMOUNT	22.52

European Investment Bank

EU Accession negotiations with Turkey began in October 2005. Against this background, the European Investment Bank will step-up its activity in terms of volume and, more importantly, in terms of sectors covered and instruments utilised. Reaffirming EIB's support for the accession process, the Bank is currently preparing projects in Turkey in the following areas:

- Support to SMEs
- Energy
- Earthquake risk mitigation
- Transport
- Environment

The Bank's lending activities are governed by mandates from the EU accompanied by the EIB's Pre-Accession facility for Turkey and the Mediterranean Partnership Facility, and comprise a targeted lending volume of at least EUR 2 billion in the next 2 years helping Turkey to address the many economic challenges it faces in preparing for EU membership and contributing to high and stable growth.

UNDP

A list of UNDP supported projects is presented in the table below:

Project title	Implementing institution
Democratic Governance	
Communication Automation of the Ministry of Foreign Affairs	Ministry of Foreign Affairs
Local Agenda 21 - 3rd Phase	IULA - EMME
Sector Approach for Civilian Oversight at Provincial Levels	Ministry of Interior
Local Administration Reform	UNDP (Ministry of Interior)
Support to IDP Programme in Turkey	UNDP
Women in Politics	UNDP / KADER
Support to Human Right Education of Inspectors	Ministry of Interior
Poverty Reduction	
Small & Medium Scale Entrepreneurship (SME) Development Project in Turkey's Southeast Anatolia Region	UNDP (GAP RDA)
Linking Eastern Anatolia to Progress (LEAP) Phase II	Erzurum Atatürk University
GAP Phase II	T.C. Prime Ministry GAP Regional Development Administration
PA for Microfinance Sector Development	UNDP
National Communities of Practice on Poverty	General Directorate of Social Solidarity and Assistance

Eastern and South Eastern Anatolia Development	TESEV
Environment & Sustainable Development	
Global Environment Facility (GEF)/ Small Grants Programme (SGP)	UNOPS (United Nations for Office for Project Services)
Grant Agreement For Environmental Investment Programme Small Investments Fund - Baku-Tbilisi-Ceyhan (BTC)	UNDP
PIMS 3367 CC EA: Enabling Activity for Turkeys Inc	Ministry of Environment and Forestry
PIMS 3065 IW: Black Sea Tranche (2)	UNOPS (United Nations for Office for Project Services)
Integration of Sustainable Development into Sectoral Policies	UNDP
Private Sector	
Partnership for Development with the Business Sector	UNDP
Youth Increasing the Life in their Cities	Habitat
Microsoft Project	Youth for Habitat Association
Implementation Support	
Ministry of Agriculture and Rural Affairs (MARA) - Sivas Erzincan	MARA
Implementation Support to Health Transition Project	Ministry of Health
Others	
Turkey's Technical Co-operation Among Developing Countries (TCDC) Phase II	State Planning Organization
Agricultural Reform Implementation (ARIP)	Undersecretariat of Treasury

5.2. Pre-accession funds

In December 2001, a specific pre-accession instrument was set up to assist Turkey. The support provided by the pre-accession financial assistance programme has been focused primarily on the Accession Partnership priorities which are intended to help Turkey meet the criteria for membership. The pre-accession financial assistance goes primarily towards building Turkey's institutional capacity (about 30% of available funds) and towards investment aid (70%).

On this basis, Turkey has allocated a total of EUR 149 million in 2002. In 2003, there was a provision for EUR 144 million under the national pre-accession financial assistance programme. In March 2003, a communication on strengthening the pre-accession strategy for Turkey has proposed an increase in the financial aid for 2004 to 2006. The result was the allocation of around EUR 250 million in 2004 and EUR 300 million in 2005. The 2006 programme includes amounts totalling EUR 500 million.

Useful Internet links

Prime Ministry	www.basbakanlik.gov.tr
Ministry of Industry and Commerce	www.sanayi.gov.tr
Ministry of Finance	www.maliye.gov.tr
Undersecretariat of Treasury	www.hazine.gov.tr
Undersecretariat of Foreign Trade	www.foreigntrade.gov.tr
General Directorate of Foreign Investment	www.investinginturkey.gov.tr
State Planning Organization	www.dpt.gov.tr
Foreign Economic Relations Board	www.deik.org.tr
Privatization Administration	www.oib.gov.tr/index_eng.htm
Export Promotion Center	www.igeme.gov.tr
Small and Medium Industrial Development Organization	www.kosgeb.gov.tr
State Institute of Statistics	www.die.gov.tr
Central Bank of Turkey	www.tcmb.gov.tr
Union of Chamber of Commerce, Industry, Maritime Trade and Commodity Exchange of Turkey	www.tobb.org.tr
Turkish Industrialists' and Businessmen's Association (TUSIAD)	www.tusiad.org.tr
Southeastern Anatolian Project Regional Development Administration	www.gap.gov.tr
Directorate General of Press and Information	www.byegm.gov.tr
Daily News	www.turkishdailynews.com
General Information and Links	www.turkishembassy.org/start.html
Internet Directory	startpage.turk-info.com