REGULATORY REFORM IN TURKEY

Turkey has made tremendous progress on the way of integrating with the world economy since the establishment of the Republic in 1923. Looking at where we stand, we see that Turkey now has a more market oriented and competitive economy, resilient both to domestic and external shocks.

Up until 1980s state kept a heavy hand in main sectors of the economy. The failure of state involvement in delivering sustainable growth in late 1970s resulted in a move from import substitution policies to liberal economic policies in 1980s. Export led growth strategy; trade and financial liberalization, and privatization efforts were the defining features of the period. With the capital account liberalized in 1989, the Turkish economy went through a rapid change and achieved a certain degree of integration with the world economy.

High public deficits and concomitant chronic inflation together with the relatively slow pace in taking regulatory measures under an open capital account made the economy vulnerable to external and internal shocks in 1990s. Consequent 1994 foreign exchange crisis; 1997 Asian and 1998 Russian crises and the earthquakes in 1999 had serious impact on the economy.

By the end of the 1990s, it was obvious that the macroeconomic imbalances had to be dealt with permanent measures. Therefore in late 1999 the government embarked upon a comprehensive economic reform program to address the long standing structural problems of the economy, to cut inflation to single digits and to achieve sustainable growth.

In fact, Turkey's structural reform efforts date back to 1980s. Privatization efforts started in 1984 to move to a market-oriented economy and reduce the State Owned Enterprises' (SOEs) burden on the public finances. While significant progress was achieved in 1980s, the momentum did not continue in

1990s. With the introduction of the new economic program in 1999, privatization has been revitalized and some important blue-chip state assets have been privatized in the last few years.

Opening up of some sectors dominated by the state to private sector underlined a need for a competition policy. The Competition Law, complying with the European Union (EU) standards, was adopted in 1994 as a part of the economic reform efforts. The Law provided necessary legal infrastructure for functioning of a Competition Board and the full enforcement of the competition policy.

As economy was moving towards a private sector driven structure, regulation policy has become more important. With a view to separating the ownership, policy making and routine supervision functions in the liberalized sectors such as telecommunications, electricity and natural gas, Turkey has opted for independent sectoral regulation model. Agriculture sector was no exception to the general regulation policy. The boards to regulate tobacco and alcoholic beverages and sugar markets were established alongside with a brand new direct income support policy replacing old system of agricultural subsidies.

Turkey aims at complying with the OECD best practices in its recent sectoral reform efforts. Significant progress was made lately in restructuring the overall electricity sector. Electricity Market Law of 2001 regulates the competition and privatization policies in electricity production and distribution (wholesale or retail). The State shall play a regulatory role by means of an independent Energy Market Regulatory Authority (EMRA) and keep the ownership of transmission, which is a natural monopoly.

Progress in regulatory reform in telecommunication sector has been substantial. Turkey has made great strides in 2000, by the establishment of the Telecommunication Authority as an independent regulatory body and the adoption of new modalities concerning the privatization of Turk Telecom. As

market forces were allowed to play the main role, the sector developed itself significantly. Competition in mobile telephone communication sector has already proved to be beneficial for the consumers with lower prices and new services.

Above mentioned efforts will also help increasing the foreign direct investment (FDI) flows to Turkey. Along with the sectoral liberalization, Turkey endeavors to create an attractive environment for investment through a total overhaul of its FDI regulations.

Financial sector restructuring was one of the main pillars of the structural reform agenda. As underlined by the financial crises of November 2000 and February 2001, a sound financial sector is a pre-condition for the overall economic stability. The banking reform was skillfully handled under challenging circumstances. The strengthened independence of The Central Bank of Turkey and the establishment and the efficient functioning of the Banking Regulation and Supervision Agency (BRSA) were crucial in this respect. Now Turkey's financial sector operates on a sounder basis and definitely less vulnerable to external and domestic shocks.

Good governance and transparency are indispensable components of a successful reform program. In this respect, improving transparency, accountability and effectiveness in public expenditures were embedded in the Turkey's reform program strategy. In view of this, fiscal transparency has been enhanced by the elimination of budgetary and extra budgetary funds and by introduction of internationally accepted standards in budgeting process. More on this front was achieved by the adoption of the Public Procurement Law. The law complies with the EU and the United Nations standards and ensures competition, equal opportunity, accountability and effective supervision.

The fight against corruption is also an essential part of the agenda. Transparency has increased with the prospects of the EU accession. A national

strategy to improve governance and combat corruption was adopted by the Council of Ministers in 2002. Significant reforms have been made to ensure a merit-based recruitment of the civil servants without any political influence. By the end of 2001, Turkey has put into effect some constitutional amendments regulating particularly the relationship between the government and the citizens and the issues of civil rights.

After going through this intensive reform period, the review on Turkey carried out by OECD has helped to identify priority areas for further reform and provided a new ground for an objective evaluation of the results of current reforms.

The coordination of the review has been carried out by the Prime Ministry, with wide-ranging contributions from public institutions and agencies, universities, representatives of the private sector and non-governmental organizations.

Prime Minister's Office issued a circular which launched review studies and established a "Regulatory Reform Coordination Committee" under the chairmanship of the Deputy Undersecretary of the Prime Ministry. Six working groups were formed to assist the OECD team with the review. The working groups comprised representatives from the private sector and non-governmental organizations as well as the public sector officials. It set an unprecedented example of excellent public-private partnership and collaboration.

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Yours Faithfully,