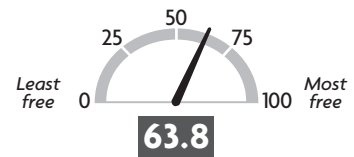




TURKEY

Economic Freedom Score



World Rank: **67**

Regional Rank: **31**

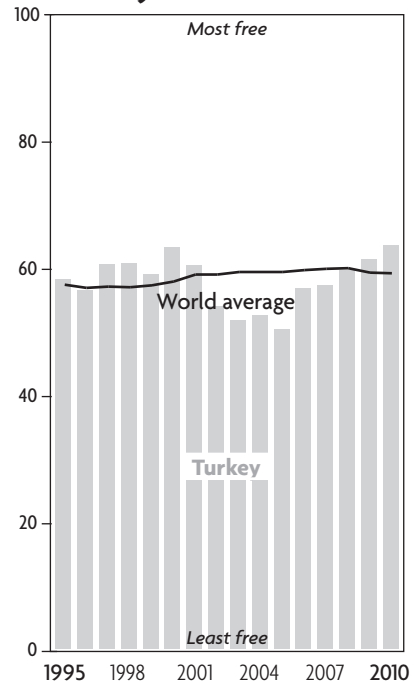
Turkey's economic freedom score is 63.8, making its economy the 67th freest in the 2010 *Index*. Its score is 2.2 points higher than last year, reflecting improved scores especially in investment freedom, freedom from corruption, and fiscal freedom. Turkey is ranked 31st out of 43 countries in the Europe region, and its overall score is higher than the world average.

Turkey has undertaken a series of reforms and accelerated its economic restructuring. The economy has recorded annual growth of about 5 percent over the past five years. The state's involvement in the economy remains considerable, but the private sector has grown more vibrant, and its role in economic development is increasing. The business environment has become more streamlined and efficient, albeit at a slow pace.

Turkey's overall economic freedom remains curtailed by lingering institutional weaknesses. Regulation and taxation, despite some improvements, remain burdensome and deter more dynamic entrepreneurial activity. The state still sets some prices and maintains state-owned enterprises. The labor market remains rigid. Property rights are usually enforced, but the judiciary is overburdened and slow. Corruption is perceived as significant.

BACKGROUND: Turkey is a secular state at the crossroads of Europe and the Middle East. With a constitution adopted in 1982 after a military coup, it is now a successful multi-party democracy. Prime Minister Recep Tayyip Erdogan has held office since 2003. The European Union agreed to accession talks in October 2005, but strong opposition from France, Germany, and Austria make Turkey's accession problematic. Turkey hopes to complete its implementation of the EU's body of law by 2014. Principal exports include foodstuffs, textiles, clothing, iron, and steel. Significant reforms are still needed to diversify and expand the economy, which is hampered by a high minimum wage. A two-decade conflict with a large Kurdish minority has cost an estimated 35,000 lives.

Country's Score Over Time



Quick Facts

Population: 73.9 million

GDP (PPP): \$1.0 trillion
 3.8% growth in 2008
 5.2% 5-year compound annual growth
 \$13,920 per capita

Unemployment: 9.4%

Inflation (CPI): 10.4%

FDI Inflow: \$18.2 billion

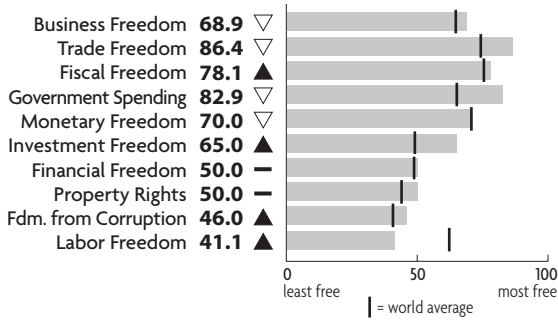
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

TURKEY'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 68.9

Turkey's regulatory environment has improved somewhat in recent years. Starting a business takes an average of six days, compared to the world average of 35 days. Obtaining a business license requires more than the global average of 18 procedures but less than the world average of 218 days, and costs are relatively low. Bankruptcy proceedings can be burdensome and lengthy.

TRADE FREEDOM — 86.4

Turkey's weighted average tariff rate was 1.8 percent in 2008. Some prohibitive tariffs for agriculture, import taxes, services market access barriers, restrictive import certification requirements for food and agriculture products, import licensing requirements, non-transparent and arbitrary standards and regulations, export-promotion programs, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Turkey's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 78.1

Turkey has a relatively high income tax rate and a relatively low corporate tax rate. The top income tax rate is 35 percent, and the top corporate tax rate is 20 percent. Manufacturing companies are exempt from corporate taxes. Other taxes include a value-added tax (VAT), a property tax, an environmental tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 23.7 percent.

GOVERNMENT SPENDING — 82.9

In the most recent year, Turkey's central government spending equaled 23.9 percent of GDP. Deregulation and privatization have somewhat increased the role of the private sector, but the energy and transportation sectors remain state-dominated. What remains of the public sector is bloated and inefficient.

MONETARY FREEDOM — 70

Inflation has been high, averaging 10.0 percent between 2006 and 2008. The government sets prices for many agricultural products and pharmaceuticals and influences prices through regulation, subsidies, and state-owned utilities and enterprises. Municipalities fix ceilings on the retail price of bread. Ten points were deducted from Turkey's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 65

Foreign and domestic capital receive equal treatment under the law, but foreign investment is restricted in a number of sectors. Foreign investment is not screened. All investors face excessive bureaucracy, weaknesses in corporate governance, and frequent changes in the legal and regulatory environment. The judicial system is undergoing reforms, but procedures can still be time-consuming. Residents and non-residents may hold foreign exchange accounts. There are few restrictions on payments and transfers. Restrictions on purchases of real estate by foreigners are based on reciprocity and acreage.

FINANCIAL FREEDOM — 50

Turkey's financial sector has undergone a period of restructuring and transformation in recent years. Since the 2000–2001 financial crisis, the government has increased transparency, strengthened regulatory and accounting standards, and improved oversight. The banking sector dominates the financial system, with the five largest banks accounting for about 60 percent of total assets. As of late 2008, there were 33 commercial banks, three of which are government-owned and hold about 30 percent of total assets. Two of the 13 development banks are majority foreign-controlled. Reorganization of the state banks has been slow. There were 26 non-life and 26 life/pension insurance companies in late 2008; foreign companies are not broadly represented. Capital markets are relatively small and dominated by government securities.

PROPERTY RIGHTS — 50

Property rights are generally enforced, but the courts are overburdened and slow, and judges are not well trained for commercial cases. The judiciary is subject to government influence. The intellectual property rights regime has improved, but protection of confidential pharmaceutical test data is insufficient, and levels of piracy and counterfeiting of copyrighted and trademarked materials remain high.

FREEDOM FROM CORRUPTION — 46

Corruption is perceived as significant. Turkey ranks 58th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. An independent public procurement board has the power to void contracts. Bribery is outlawed, and some prosecutions of government officials for corruption have taken place, but enforcement is uneven. The judicial system is viewed as susceptible to external influence and somewhat biased against foreigners.

LABOR FREEDOM — 41.1

Turkey's labor regulations are inflexible. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. The rigid labor market results in high unemployment and has contributed to the formation of a large informal sector.