



**Declaration of Outcomes
Fifth Meeting of the
Investment Advisory Council for Turkey
June 18, 2008- Istanbul**

We, the members of the Investment Advisory Council for Turkey, are honored to have been invited here today to take stock of Turkey's investment climate achievements, and to advise the Government on priorities ahead.

This fifth meeting of the IAC provides a particularly appropriate juncture to acknowledge just how much this Government has done to transform Turkey's investment climate since our first meeting in 2004. At that time, Turkey was attracting around \$1 billion a year in FDI, and had been for decades. Today, we are congratulating the Government for attracting a record USD 22 billion of foreign direct investment in 2007, making Turkey the 5th largest recipient of FDI inflows among developing countries and 16th in the world. With the very strong growth performance over the last six years, Turkey's economy is now the 17th largest economy globally, and 6th among European nations.

We heard from Mr. John Lipsky, First Deputy Managing Director of the International Monetary Fund, and Mr. Graeme Wheeler, Managing Director of the World Bank, on the importance for Turkey to continue its successful strategy of disciplined macroeconomic policy to reduce inflation and risk premia, combined with microeconomic reforms to boost productivity and growth within this framework. In this regard, they emphasized monetary policy vigilance and budgetary discipline, as well as the benefits of adopting a prudent fiscal rule. They also emphasized the importance of additional measures to improve labor market flexibility, such as liberalizing short and fixed term employment, the quality of education, and the ease of doing business. We fully concur with these assessments.

We spoke about the success of our companies' operations in Turkey. The operations represent some of our most globally competitive facilities, in terms of productivity, the quality of the labor force, and positioning as hub for regional business activities. Many of our companies have plans to increase business in Turkey. We believe there is still an enormous potential for investment that has yet to be realized in Turkey and we stand ready to pursue this potential in our own operations.

Last year we advised on measures to be taken to further improve the investment environment, and are pleased to see that these have been largely addressed, as reflected in the IAC Progress Report of 2008. We would like to highlight what we see as the most important of these accomplishments since our last meeting:

- Passage of the new R&D law, which provides a major stimulus for R&D and the development of Turkey as an export and knowledge based economy
- Adoption of the social security and universal health law
- Passage of the insurance law, which represents a significant step towards adopting best international practices and realizing fully the sector's potential
- Adoption of the employment package, opening the way for further improvements in labor market flexibility and enhancing competitiveness of companies operating in Turkey

These reforms have also brought greater harmonization and alignment with the EU Acquis, a vital policy priority for shaping the future of this country. We strongly believe that continuing along this path will be in the best interest of Turkey.

In the past four years, this Council has identified critical issues that should remain at the forefront of Turkey's strategy for improving the investment environment. We recommend that macroeconomic policies be strengthened, including efforts to contain inflationary pressures and reduce the current account deficit. In addition, the following issues will be particularly important in the year ahead:

- Improve education and training, particularly foreign language skills and technical education based on public-private cooperation, geared to private sector needs.
- Enhance dialogue between industry and universities to promote entrepreneurship, leadership and management skills
- Accelerate energy sector reforms, including automatic cost recovery pricing, diversification, deregulation and privatization
- Move forward with labor market reforms that further enhance flexibility while protecting workers
- Improve infrastructure, particularly transportation and information/communication technology as well as appropriate contractual and legal framework for PPP/BOT
- Further strengthen the implementation of legislation on intellectual property rights in accordance with international standards
- Reduce barriers to further penetration of broadband internet and PC adoption
- Improve customs procedures
- Improve public administration practices by enhancing transparency, predictability and efficiency
- Strengthen measures to reduce informality, including fighting against tax evasion
- Encourage the growth of SMEs to drive employment and expand their role in the formal economy
- Enact and implement the new commercial code to improve corporate governance and accounting standards

We have confidence in the Prime Minister's leadership in maintaining a favorable investment environment in Turkey. We value the follow up and reporting undertaken by Minister Simsek as government champion for the IAC, and appreciate the support of the YOIKK steering committee in implementing this agenda. We look forward to monitoring progress in these areas, to receiving the annual Progress Report, and to holding another IAC meeting next year.



Respectfully submitted by the members of the Investment Advisory Council for Turkey

June 18, 2008

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