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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

TURKEY
(2017-2019)

COMMISSION ASSESSMENT

Contents

1. EXECUTIVE SUMMARY

The Turkish economy registered high growth until 2015 but lost momentum going into 2016. The loss in momentum became worse during the year and was particular strong in the third quarter when the political and policy uncertainty following the attempted coup d'etat had a large impact on the business environment. The same uncertainty has weighed on economic growth, which will only slowly start to recover in the second half of 2017 as monetary conditions start to improve. However, a return to normal global monetary conditions and earlier strong loan growth will temper investment while high unemployment and inflation will initially be a drag on private consumption. Net trade, as a consequence of the lira's depreciation and public expenditures will support growth in 2017. Inflation has increased from high single figures over the past five years to low double figures in February and March 2017, largely reflecting the lira's depreciation and entrenched expectations of high inflation.

The economic scenario of a return to high growth rates appears to be overly optimistic. High growth rates were achieved in the past in a context of exceptional global financial conditions, high loan growth, strong investment in construction and increasing indebtedness among Turkish companies. At the same time, structural reforms to raise the potential growth rate have been limited and the business environment has deteriorated. The structural reforms described in the Economic Reform Programme (ERP) and macro-fiscal scenario are difficult to reconcile with Turkey's ambitions to move towards an investment- and export-driven growth path in which it climbs up the global value chain.

The main challenges for economic policy going forward are the following:

- **Domestic savings continue to fall short of investment leading to a sizeable current account deficit while the government has embarked on an expansionary trajectory regardless of the external vulnerabilities that have built up over the years.** Although some counter-cyclical budgetary policy measures are warranted given the adverse cyclical developments, the government would be well advised to build a medium-term budgetary policy framework with more realistic growth assumptions and aiming for structural budget surpluses. A more robust fiscal framework and budget process could help enhance credibility.
- **The persistently high inflation rate implies risks to macroeconomic stability and encourages rising indebtedness as well as distorting resource allocation and leading to a redistribution of wealth.** Lowering Turkey's inflation rate permanently will not only alleviate these concerns but will also benefit the development of domestic financial markets. A transparent monetary policy framework with price stability as its focus is the least costly option for transiting to a low-inflation environment. A simpler monetary policy framework in line with the central bank’s own forward guidance, published in August 2015, would go a long way in that direction.
- **The business environment has deteriorated over the past year following targeted government actions against companies, the large scale dismissal of judges and public prosecutors and political pressure on economic regulators.** Companies structurally face a considerable administrative burden in doing business. The Economic Reform Programme (ERP) includes reform plans for the recruitment of additional judges and prosecutors, along with measures to lower the cost of doing business. However, it gives no details about activities, budgets or expected outcomes.

- **Turkey's current innovation capacity is too weak to improve its industry's standing in global value chains.** Expenditure on R&D, although on the rise, is lagging behind the EU average and commercialisation of innovation is problematic. The ERP includes support for private sector technology investments, performance-based support for research institutes and the use of public procurement to stimulate R&D. A national science strategy to run until 2023 is scheduled for adoption in 2017. These plans are expected to improve innovation capacity, but budgets seem too low to guarantee a substantial impact.
- **Low skills levels of the workforce and education and training of the youth not matching labour market needs are part of Turkey's structural obstacles impeding the job creation and productivity increases necessary for upgrading the country's productive system.** The increase in the labour force is only partly absorbed by the labour market, and unemployment has increased in particular among young people including higher education graduates. Education reforms foresee a full day school system and apprenticeship-type vocational training. The large scale short term stimulation of labour demand needs to be complemented by structural reforms fostering labour market flexibility. The social assistance provision is insufficient to cover the needs of the population.

The implementation of the policy guidance jointly adopted at the Economic and Financial Dialogue of 25 May 2016 has been limited. The ERP itself provides no information on the degree of implementation, but conclusions can be drawn from other sources. The budget deficit increased and the structural balance deteriorated. A fiscal rule has not been implemented and fiscal policy making has been rather ad hoc as of recent. The monetary policy framework has not been enhanced. The Turkish central bank has used its different policy tools to raise the interest rate and tighten monetary conditions, but it has not been able to anchor inflation at a permanently lower level. Rather, the inflation rate has increased following the depreciation of the lira and lira volatility has continued. The rule of law has not been strengthened. The guidance on innovation has been partially addressed, with total R&D spending rising last year from 0.95% to 1.01 % of GDP. The labour inspectorates' capacity to tackle informal employment has not improved. On the contrary, informal employment slightly increased. Turkey has pursued the education agenda by adopting legislation on the first Turkey Qualifications Framework, for introducing the full day school system and introducing apprenticeship-type vocational training.

Overall, the programme's macro-fiscal framework seems overly optimistic. The combination of a reduction in the current account balance, a reduction in the government deficit, strong growth, sharply declining inflation and increasing investment with a shift to an investment- and export-led growth seems more like an aggregation of policy targets than a realistic scenario. The structural reform part of the ERP is limited in scope, making it difficult to assess whether the ERP matches the reform priorities identified by the European Commission. Some diagnostic elements are presented, as are some recent policy initiatives. However, the ERP contains no specific and delineated measures; it is rather a list of objectives covering the nine areas. It is unclear which priority areas Turkey considers necessary for improving inclusive growth and competitiveness.

2. ECONOMIC OUTLOOK AND RISKS

The ERP's macroeconomic scenario does not incorporate the new national accounting methodology which points to a larger but more fragile economy. According to the new methodology, the Turkish economy is about 20 % larger and has recorded significantly higher growth rates in the past five years, but slowed markedly during 2016. It is less integrated into the world economy. It has more solid headline public finance figures (a general government surplus of +1.3% of GDP and a government debt of 27.5% of GDP) and continues to post a sizeable current account deficit (3.7% of GDP). The ERP gives an overview of the main changes in the national accounting methodology but does not discuss the impact on the medium-term policy agenda and outlook. Although this is understandable given the short time between the publication of the new national accounts (12 December 2016) and the deadline for submitting the ERP (31 January 2017), a qualitative appraisal of its impact would have provided a justification for the presented medium-term economic policy programme, one reason being that the now recorded increase in savings could alleviate some earlier concerns on low domestic savings (as raised in last year's policy guidance).

The impact of the national accounts revision is most apparent in the construction sector. Before the revision, it was the sixth largest economic sector in Turkey (accounting for 4.4% of GDP). In the new accounts it has more than doubled in size and has become the economy's third largest sector (accounting for 8.2% of GDP). The share of manufacturing has risen slightly from 16% to 17% of GDP while the wholesale and retail trade have remained stable at 12% of GDP. Another notable change is the sector comprising professional, scientific and technical activities. This sector, usually associated with higher productivity and competitiveness, was 22% smaller in 2015 under the new methodology (2.4% of new GDP, previously 3.6%). These changes give the Turkish government a stiffer challenge to fulfil its ambition of pursuing an investment- and export-led growth path and of climbing up the global value chain.

The ERP projects increasing growth rates throughout the programme timeline which appear to be on the optimistic side. The ERP projects growth of 4.4% in 2017 and 5% in both 2018 and 2019. This is well above the European Commission's winter forecast and predictions from international financial institutions and market participants. The difference over the longer term is due mostly to a different estimate of the potential growth rate of the Turkish economy whereas in the nearer future Turkish authorities expect to see a larger contribution from domestic demand. The new national accounts data show private domestic demand and net foreign trade as the main reasons for the slowdown going from 2015 into 2016. In the third quarter of 2016 they together shrank the Turkish economy by 4.6% year-on year. These events aggravated a process that had started back in 2015 with a sharp deterioration in consumer confidence in the second half of 2015 and gradual but constant erosion of business confidence.

The current uncertain situation in emerging economies, which is worrying investors more generally, applies in particular to Turkey with its security issues, political and policy uncertainty and sizeable current account deficit. Moreover, the European Commission expects the significant monetary tightening that has carried on into 2017 in response to the lira's depreciation to have an impact on investment and private consumption. As political and policy uncertainty recede in the second half of 2017, after the referendum on amendments to the Turkish constitution, the European Commission expects private domestic demand to start growing again albeit at a more moderate pace then the ERP predicts. The upside risks to economic growth are private consumption, which so far has not benefited greatly from the increase in wage income in 2016, and the balance of services with tourists potentially returning more quickly to the country than currently predicted. Government consumption is expected to be the only spending category in 2017 to register growth above the historical average. The downside risks are the past high loan growth and high external debt in particular in the non-financial corporate sector at a time when very loose global monetary conditions look set to be tightened. The Turkish economy depends on foreign capital to finance its current account deficit, leaving it vulnerable to foreign financing conditions.

Box: First preliminary outlook on the basis of the available data under the new national accounts methodology (%)

	2016		2017		2018		2019	
	Prel	**ERP**	**Prel**	**ERP**	**Prel**	**ERP**	**Prel**	**ERP**
GDP growth	**2.9**	**3.2**	**3.0**	**4.4**	**3.3**	**5.0**	**4.1**	**5.0**
Contributions:								
-Final domestic demand	3.3	4.6	2.5	4.2	3.6	4.8	4.6	4.7
-Inventories	1.0	-0.2	0.0	-0.1	0.0	-0.1	0.0	-0.1
-Net trade	-1.5	-1.1	0.5	0.2	-0.3	0.4	-0.6	0.5
Budget balance*	-0.9	-1.9	-1.4	-1.6	-1.6	-1.6	-1.5	-1.0
Government debt*	26.4	32.8	24.0	31.9	26.5	31.0	22.5	29.9
Current account balance*	-4.4	-4.3	-4.6	-4.2	-4.3	-3.9	-4.4	-3.5

* percentage of GDP

The preliminary medium-term scenario under the new national accounts methodology is based on the first set of data made available by Turkstat. This dataset is neither complete nor verified. Turkstat expects to complete the gross national income registry by June 2017 after which it will be shared with the European institutions. Irrespective of the highly tentative nature and strong underlying assumptions, discussing the future development of the Turkish economy must take account of the new national accounting methodology, the new benchmark for assessing progress made by Turkey over the programme's horizon.

In this preliminary medium-term scenario for Turkey, the output gap is not expected to improve before 2018. The government balance is expected to post better figures in 2016 and 2017 mostly because weapon systems and R&D expenditures are now accounted for as investments. Under the old national accounts methodology used in the ERP, these expenditures were treated as one-time payments that could not be depreciated. The shares of these items in total expenditures are expected to increase as those of other decline.

In a rather optimistic scenario, the ERP predicts that the current account deficit will decline to 3.5% of GDP in 2019. According to the new national accounting methodology the current account deficit was 3.7% in 2016 rather than the 4.3% forecast in the ERP. The expected decline in the current account deficit between 2016 and 2019 is driven by an improvement in the trade balance. The lira's strong depreciation in late 2016 and early 2017 is indeed likely to support the trade balance and reduce the trade deficit. However, one fifth of Turkish imports consist of energy goods which have low price elasticity and risk increasing above the current forecasts. The oil price assumptions are slightly more benign than in the Winter Forecast and there is a risk of rising oil prices worsening the trade balance. In addition, according to the OECD a sizeable share of

Turkish imports – around one quarter, mostly from the euro area – relates to the global value chain. Higher import prices triggered by the lira's depreciation will raise the cost price of these goods and this will partly offset any price competitiveness gains from the depreciation. Next year, assuming the lira is less volatile, the Commission's Winter Forecast expects a resurgence in the current account deficit on the back of stronger domestic demand and rising imports.

External financing has shifted to more volatile types of capital flows. The ERP forecasts that direct investments in Turkey will strengthen over the programme horizon and that foreign currency reserves will grow, this appears unlikely, given the deteriorating business and investment climate. The country's large net foreign liabilities (negative Net International Investment of 41% of GDP, gross external debt at 46.3% of GDP according to IMF) are among the highest in large emerging market economies. In 2016 FDI inflows were 11.4% lower than in 2015. Inflows peaked in 2012 with the 2016 FDI stock 30% lower than in 2012. Portfolio flows have been volatile with equity investments displaying the highest volatility. The only foreign investment subcategories to have registered a surplus in the past two years have been loans to the non-financial corporate sector (predominantly long-term) and trade credits. Adding to the external vulnerability is the fact that foreign currency reserves are only two thirds of short-term external debt and their size has been declining since 2013. Given that funding the current account deficit is becoming more volatile, it will be challenging to reconcile the investment-led growth envisioned in the ERP with a return to normal global monetary conditions.

Monetary policy making has been challenging due to the Lira's high volatility, a strong loss in momentum in the domestic economy, high wage rises and tax-induced price increases. Inflation has exceeded the end-of-year upper band target for five consecutive years. Although the ERP expects inflation to hit the upper band on average over this year, the central bank revised its inflation forecast at the beginning of 2017. Inflation is expected to overshoot the upper target by the end of this year by 1 %pps (3 %pps above the 5 % target). The planned monetary policy reform has still been implemented only partially, resulting in an overly complex policy tool set preventing the central bank from giving clear policy signals. The central bank has used a range of policy instruments, including guiding banks towards more expensive interest rate channels (such as the late liquidity window) and quantitative tightening. The effective interest rate paid by banks for lira liquidity from the central bank increased by 200 bps between mid-January and mid-February 2017. Regardless of the negative impact on aggregate demand from the interest rate hike, inflation will experience upward pressure as a consequence of the lira's depreciation. Inflation reached double figures in February 2017. This strengthens the case for reforming the monetary policy framework. The persistently high inflation rate implies risks to macroeconomic stability and encourages rising indebtedness, as well as distorting resource allocation and leading to a redistribution of wealth. Lowering Turkey's inflation rate permanently will not only alleviate these concerns but will also benefit domestic financial markets. A transparent monetary policy framework with price stability as its focus is the least costly option for transiting to a low-inflation environment.

Turkish banks continue to have relatively sound headline risk metrics but some erosion can be expected from the recent loosening of macro-prudential regulation, exceptionally strong loan growth over recent years and deteriorating economic conditions. The capital adequacy ratio registered a solid 15 % in 2016, well above the regulatory floor of 8 %, and the ratio of non-performing loans to total loans is not high at just over 3%. Still, over the last six years bank profitability has almost halved and the International Monetary Fund suggests it is now below the cost of bank capital. The strong build-up of debt by non-financial corporations is especially worrying. These corporations have seen their liabilities surge from 30% of GDP in 2007 to over 60% in 2015 with about 45% of this borrowing in foreign currency. Less than half of these foreign exchange (FX) liabilities (40% according to the IMF) are covered by FX assets. A deterioration in the non-performing loans (NPL) ratio can be expected after years of exceptionally high loan growth. For instance, the two largest corporate sectors in terms of banks loans - manufacturing and wholesale/retail trade - have seen average annual loan growth of 21% and 34% respectively since 2005. Their NPL ratios had decreased as NPL growth was below loan growth (11% for manufacturing and 27% for wholesale/retail trade). This changed in 2016, as NPL growth was 25 pps higher in manufacturing and 29 pps higher in wholesale/retail trade. An increase in NPL's would be a sizeable risk to Turkish banks given the high loans-to-deposits ratio of around 120%. In addition, the share of restructured loans has increased which doubles the problematic assets of the banks compared to NPL's also. It is also unclear what impact the new credit guarantee fund will have on loan growth and how it is expected to affect capital adequacy in the short and long term. Given the high indebtedness it is important to guarantee the independence of the regulatory and supervisory authorities and to avoid using macro-prudential regulation for demand management.

Table 1:

Macroeconomic developments and forecasts

	2015		**2016**		**2017**		**2018**		**2019**	
	COM	**ERP**	COM	**ERP**	COM	**ERP**	COM	**ERP**	COM	**ERP**
Real GDP (% change)	4.0	**4.0**	2.2	**3.2**	2.8	**4.4**	3.2	**5.0**	NA	**5.0**
Contributions:										
- Final domestic demand	4.8	**4.8**	3.8	**4.6**	2.8	**4.2**	3.5	**4.8**	NA	**4.7**
- Change in inventories	-0.6	**-0.6**	0.2	**-0.2**	0.2	**-0.1**	0.1	**-0.1**	NA	**-0.2**
- External balance of goods and services	-0.3	**-0.3**	-1.8	**-1.1**	-0.3	**0.2**	-0.4	**0.4**	NA	**0.5**
Employment (% change)	2.5	**2.7**	2.3	**2.2**	2.2	**2.7**	2.7	**2.8**	NA	**2.8**
Unemployment rate (%)	10.5	**10.3**	10.7	**10.5**	11.2	**10.2**	11.5	**10.1**	NA	**9.8**
GDP deflator (% change)	7.5	**7.4**	10.1	**6.6**	9.0	**7.2**	7.4	**6.4**	NA	**5.9**
CPI inflation, annual average (%)	7.7	**7.7**	7.8	**7.8**	8.0	**7.0**	7.6	**5.6**	NA	**5.0**
Current account balance (% of GDP)	-4.5	**-4.5**	-5.2	**-4.3**	-4.3	**-4.2**	-4.9	**-3.9**	NA	**-3.5**
Budget deficit (% of GDP)	-0.1	**-0.1**	-1.1	**-1.9**	-2.0	**-1.7**	-1.8	**-1.6**	NA	**-1.0**
Government debt (% of GDP)	32.9	**32.9**	31.6	**32.8**	31.2	**31.9**	30.8	**31.0**	NA	**29.9**

Sources: Economic Reform Programme (ERP) 2017; Commission Winter 2016 Forecast

3. PUBLIC FINANCE

In 2016, the general government's budget deficit is estimated to have worsened. It rose from -0.1% of GDP in 2015 to an estimated -1.1% of GDP according to the ERP. The government provided sizeable stimulus to the economy and significantly increased its expenditures in the course of 2016, with government consumption rising on average by 16.2 % year on year in the first three quarters. In the third quarter, government consumption contributed 2.8 pps to GDP growth. This was a sizeable increase over the already high 1.4 pps in Q1-2016 and 1.8 % pps in Q2-2016 and offset part of the slump in private domestic demand. Still, the increase in the government budget deficit remained limited due to unexpectedly high tax revenues.

The general government expects to improve its budget balance in 2017 compared to 2016; this would seem difficult to achieve. The Grand National Assembly of Turkey adopted the 2017 budget on 16 December 2016. It is the same as the draft budget included in the Medium-Term Programme and the ERP. The general government is expected to run a deficit of 1.7 % of GDP in 2017. Government revenue will grow less steeply than last year, because of the slower pace at which the domestic tax base has been growing and because of tax rate policies. Still, the government budget and ERP are expecting nominal year-on-year increases of 13.1 % in direct taxes and 14.5 % in indirect taxes in 2017. These increases are even above the optimistic GDP growth rate forecasts (4.4 % for real GDP and 11.9 % for nominal GDP, year on year). The budget and the ERP are forecasting that social fund revenues will increase nominally by 10.6 % year on year, but they are more likely to decrease after the cut in social security contributions. The projected decline in factor incomes may be frontloaded, given that privatisation revenues are expected to peak only in 2017.

The government budget figures in the ERP do not include the impact of the new national accounting methodology. Whereas the ERP and the budget suggest the general government ran a deficit of 0.1% of GDP in 2015, Turkstat reported on 12 December that it had run a surplus of 1.3% of GDP under the new national accounting methodology (see also the text box above on the tentative preliminary outlook based on the new national accounting methodology). Given the structural nature of the accounting change, the general government budget is likely to record better figures in 2017 than those in the budget for 2017. Government expenditures are likely to increase further as the government continues its expansionary stance in public finances. Already, since the budget's adoption, the government has taken measures that will worsen its budget balance, such as a reduction in social security contributions for those employers hiring new employees in the context of the 'employment mobilisation campaign'. As a consequence, the central government's budget transfer to the social security institutions is likely to increase significantly. The wage increases agreed for this year (totalling 7.1% year-on-year) are aligned with the projected increase in staff costs of 8.0% that underlies the expenditure development. Beyond the broader political implications, the lay-offs of government employees in the second half of 2016 put government wages under downward pressure.

The cyclical component of public finance is hard to assess because of the new national accounts data. The ERP contains a broad discussion of the structural and cyclical general government balances. However, this is based on the Medium-Term Programme from October 2016. The revision of the national accounts gives a very different picture of cyclical developments. In particular, the size and volatility of the contribution of inventories to GDP growth (on the expenditure side) make it difficult to assess the appropriateness of demand management. For instance, the output gap in 2015 was -1.0% of potential GDP. However, in 2015 inventories deducted 1.1 pps from GDP growth. Therefore, without inventories the output gap would have been closed. Over the first three quarters of 2016, the opposite was the case as inventories added 1.3 pps to GDP growth. This makes it hard to assess the cyclical component of public finances.

Since it is based on a very optimistic macroeconomic scenario, the outlined fiscal strategy does not seem to be the most likely public finances trajectory in the medium term. According to the ERP, total government revenues will decline by 2.2 % of GDP over the programme horizon (from 41.9% of GDP in 2016 to 39.7% in 2019).

Taxes form the lion's share of revenues and are expected to increase marginally from 21.5% of GDP in 2016 to 21.6% of GDP in 2019, having first risen to 21.9% in 2017. However, the government underestimated the slowdown in the economy, which will impact tax collection. If the economy recovers, the projected growth in revenues in 2018 and 2019 may turn out to be conservative, as it is below projected economic growth. That would, however, presume that the recovery follows a consumption-led growth path. Such a path is more consistent with Turkey's economic history but does not reflect the investment-led growth the Turkish authorities envision.

The ERP does not sufficiently substantiate the revenue impact of the major changes announced. For instance, the government wants to increase the tax base by taking measures to reduce losses in intensive tax-loss areas and by reviewing tax exceptions and exemptions. But it does not present the expected impact or any detail. For the envisioned updating of lump-sum taxes and fees in light of the overall economic conditions and price developments, it is even unclear whether this will improve or worsen government revenues. Lastly, the biggest decline is in factor incomes, relating to income earned from assets held by the state. In the past four years this category has been relatively stable but in the medium-term scenario it is expected to be the largest driver of the decline in the tax burden. There is no explanation given for this decline. Although privatisation revenues, averaging 0.7 % of GDP per year between 2012 and 2015, suggest some divesting, the state still has large holdings of corporate assets (the Sovereign Wealth Fund alone is expected to hold USD 200 billion in state assets in the future).

The drop in total expenditures is hard to reconcile with the government's stated ambition to shift to an investment- and export-led growth path with gradual scaling-up of the value added in Turkish exports. Total expenditures are projected to drop by around 3 pps (from 43.7 % to 40.6 % of GDP). Much of this is expected to come from lower government consumption (2 % of GDP). This seems difficult to reconcile with the ambitions regarding the growth shift. Such a shift would likely necessitate an increase in expenditures in areas such as schooling, which accounts for 16 % of expenditures. In addition, the high growth in public investment implies a capital stock that will need maintenance. It is also unclear from the ERP what impact the large increase in the migrant population is having on government expenditures. Moreover, the increase in population and the economy are likely to necessitate further investment in infrastructure in the coming years, which contrasts with slowing public investments as projected by the programme. Some infrastructure funding may take place without affecting the government balance, for instance through the new Sovereign Wealth Fund. The ERP does not give information on the Fund's impact on investment.

Lower social security contributions are likely to have an impact on the social security fund beyond 2017. In addition, the falling elasticity of social spending on health and insurance with respect to nominal GDP seems incongruent with the general tendency for this elasticity to be positively correlated with nominal GDP. In 2016, social spending increased by 16.3 % year on year.

Given the downturn in the business cycle, the very optimistic underlying economic scenario, the risks to the financial system and the already mounting pressure on the budget, the challenges to Turkish budgetary policy-making have increased. The challenges are to combine prudent fiscal policy with sound structural policy measures to raise the savings rate, increase employment and strengthen Turkish competitiveness.

Table 2:

Composition of the budgetary adjustment (% of GDP)

	2015	2016	2017	2018	2019	Change: 2016-19
Revenues	40.9	41.9	41.4	40.3	39.7	-2.2
- Taxes and social security contributions	32.3	33.1	33.4	33.0	32.7	-0.4
- Other (residual)	8.6	8.7	8.0	7.2	7.1	-1.6
Expenditure	41.0	43.7	43.0	42.0	40.6	-3.1
- Primary expenditure	38.2	41.2	40.5	39.6	38.1	-3.1
of which:						
Gross fixed capital formation	4.2	4.1	4.3	4.3	4.0	-0.1
Consumption	18.3	20.0	19.2	18.6	18.0	-2.0
Transfers & subsidies	8.9	9.0	10.0	9.9	9.7	+0.7
Other (residual)	6.9	8.1	7.1	6.8	6.5	-1.6
- Interest payments	2.8	2.5	2.5	2.4	2.5	0.0
Budget balance	-0.1	-1.9	-1.7	-1.6	-1.0	+0.9
- Cyclically adjusted	-0.1	1.6	1.4	1.6	1.2	-0.4
Primary balance	2.7	0.6	0.8	0.8	1.6	+1.0
Gross debt level	32.9	32.8	31.9	31.0	29.9	-2.9

Sources: ERP 2017, Commission calculations.

Several risks to public finances are not fully recognised. The ERP reports a limited amount of identified contingent liabilities and presents a list of risks to fiscal sustainability. The size of these risks to government debt is also limited, thanks to the good starting position (27.5 % of GDP in 2015, according to the new national accounts). Nonetheless, recent policy actions such as social security contribution reductions and the new credit guarantee fund have not been taken into account. Moreover, with one third of total bank assets held by state-owned banks, the risks stemming from high loan and NPL growth are a risk to the government budget, both on the revenue side (profits from state holdings) and on the expenditure side (support for state-owned banks). The ERP does not mention the Sovereign Wealth Fund established in 2016. Still, the government wants the Fund to reach up to USD 200 billion and major state holdings have been transferred to it before any investment plan has been published. Transparent investment project appraisal and auditing will be essential to understand the risks that the Sovereign Wealth Fund may pose to Turkish public finances. All of the above risks have to be assessed in the context of adverse business cycle developments that will limit the growth of the tax base in any case.

Government debt is relatively low as a share of GDP (27.5 %) and is expected to decline over the ERP's lifetime. Although the government finances are likely to deteriorate, they are unlikely to lead to unsustainable debt dynamics. The ERP presents a sustainability analysis showing a general improvement in the sensitivity of government debt to developments in the exchange rate and in the GDP growth rate. Central government debt has reportedly also become less sensitive to interest rate changes, while at the same time increasing its remaining maturity. This strong improvement in bond characteristics might be difficult to maintain when the bonds need to be rolled over. Since the budget was presented the yield on US dollar-denominated debt has already increased by about 130 bps and on domestic government debt by about 170 bps. These yields are now at the high end of past five-year range. Finally, the Turkish government lost its last investment grade rating on 27 January 2017. This change increases the challenges for funding Turkish debt. Foreign debt was 35 % of total debt in the third quarter of 2016.

Box: Debt dynamics

Table 3:

Composition of changes in the debt ratio (% of GDP)

	2015	2016	2017	2018	2019
Gross debt ratio	**32.9**	**32.8**	**31.9**	**31.0**	**29.9**
Change in the ratio	-0.6	-0.1	-0.9	-0.9	-1.1
Contributions [1]:					
1. Primary balance	**-2.7**	**-0.6**	**-0.8**	**-0.8**	**-1.6**
2. 'Snow-ball' effect	**-1.2**	**-1.2**	**-1.3**	**-1.2**	**-0.7**
of which:					
Interest expenditure	2.8	2.5	2.5	2.4	2.6
Growth effect	-3.9	-3.3	-3.8	-3.6	-3.3
3. Other	**3.2**	**1.3**	**1.2**	**1.1**	**1.2**

[1] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences between cash and accrual data. Turkey has not provided the impact of inflation and the stock-flow adjustment but only a rest category "Other".

Source: ERP 2017, Commission calculations

Government debt is forecast to decline over the programme's horizon. The growth effect reported by the Turkish authorities in the ERP is based on nominal GDP and, therefore, incorporates the development of the GDP deflator. Since the expectation for inflation appears to be more optimistic than the expectation for GDP growth, the nominal growth effect is likely to be larger than estimated in the ERP.

The effect of the primary balance seems to be on the optimistic side. The Winter Forecast actually predicts a slight deterioration in the primary balance due to increased expenditure. The development in the 'other' category is not synchronised with privatisation revenues which are set to increase in 2017 before declining. No explanations are given in the ERP.

4. STRUCTURAL REFORMS

The ERP does not adequately analyse the main obstacles to improving competitiveness in each area it covers. The obstacles are identified in broad terms and should have been explained further. The overall diagnostic lists a number of areas in which action should be undertaken, but includes objectives rather than key obstacles. Nonetheless, the weak business and investment environment is highlighted, as are the low productivity level of the economy due to outdated production processes, the private sector's low innovation capability and low work force skills not matching labour market demands.

No specific and delineated measures have been included in the ERP, but rather a list of objectives covering the nine areas. Section 4.2 of the ERP lists 18 measures, but these do not correspond to what is outlined in other parts of the ERP. The lack of detail in terms of budget, timelines and expected outcomes make it difficult to determine what the reforms are meant to address, whether they will be effective in increasing competitiveness and on what basis prioritisation of reforms took place. The Commission assessment from 2016, in which this was also mentioned, has not been taken into account. Given the above, the reform assessments below are to a large extent based on information provided by Turkey during the Commission services assessment mission in February 2017 and other available data. As such, the area assessments are limited in scope.

One of the main obstacles to further growth and competitiveness is the further deterioration of the business and investment environment since last year due to targeted government actions against critical media, business people and political opponents through the active use of the tax authority, the financial crimes unit and courts. In addition, the government acquired effective control of a considerable number of companies by appointing trustees in their management. The large-scale dismissal of judges and public prosecutors following the attempted coup risks affecting the administrative capacity of the judicial system and its overall functioning. Market entry and exit procedures for companies are relatively lengthy and costly. Procedures for paying taxes and obtaining construction permits pose a considerable administrative burden for enterprises.

Turkey needs to create one million additional jobs per year to absorb the increase in the working age population due to large youth cohorts and increasing female labour market participation. This requires continuing high GDP growth rates which are most likely to be achieved by upgrading entire parts of the economy through further integration into the global value chains, based on innovation and a skilled workforce. Turkish companies do not benefit sufficiently from knowledge and innovations generated in the country's research institutes. Although previous reforms and increased spending on education have had a positive impact on educational attainment and enrolment rates, problems remain regarding the quality of education and the mismatch between requirements of the labour market and skills produced by the educational system. The efficient functioning of the labour market is impeded by a lack of flexibility, and undeclared work is widespread.

As the ERP provides no information on the implementation of last year's policy guidance, it is difficult to provide an assessment. However, from other available information we conclude that the policy guidance on strengthening the rule of law and the judiciary was not addressed, while the recommendations concerning research and development and employment and skills were partially implemented.

Public finance management

Turkey's institutional capacity for planning and executing the budget is relatively strong, but the process suffers from a lack of transparency. Overall, transparency of public finances is weak. The structure of budget implementation reports does not allow for a comparison with the original budget and in-year reporting is insufficient. Concerns exist over the accountability of the recently created, off-budget Sovereign Wealth Fund, which is exempt from public auditing. Overall, however, fiscal discipline has remained strong in recent years. The ERP does not include an analysis of obstacles to competitiveness and growth in the area of public finance management.

For the measure on 'rationalisation of public expenditure', performance programmes have been implemented by a large number of central and local public bodies. It is not clear whether this has resulted in more efficient and effective spending. The planned preparation of a guide for implementing cost-benefit analyses by public bodies prior to the budget allocation process may increase scrutiny on public spending.

However, no information has been provided on which bodies would use the guide or the timelines for its use.

Performance based budgeting is expected to receive a boost from what the ERP defines as "transmission of central government institutions to a budget structure involving public service programmes". The success of this measure will depend on all central government institutions implementing appropriate monitoring and evaluation procedures. Pilot projects in risk management will be organised in municipalities. Best practices will be used for the preparation of a risk management guide to be used by other municipalities. This could help in rationalising public expenditure at local level, but will depend on the extent to which the use of the guide is mandatory for all municipalities. No timelines are given for this. The ERP does not provide further information on its reform described as "public revenue quality enhancement".

Transport, energy and telecommunications markets

Turkey's transport sector is characterised by a relative lack of diversification in transport modes, whereas its energy sector relies to a large extent on imports and suffers from a lack of price competition. The ERP includes only a limited analysis of obstacles to the transport sector, but highlights the dominance in Turkey of road transport as opposed to other modes, generating environmental and traffic safety problems. Urban mobility issues constituting an increasing threat to economic efficiency are not mentioned. The diagnostic for the energy sector is very short and lacks concrete data. It focuses on the supply side and recent developments in power generation and mentions the need for more renewable energy and energy efficiency, but not the ongoing nuclear power projects. The ERP provides concrete data to describe the situation in the telecommunications market, such as telephone/broadband penetration rates and number of operators. However, it does not identify obstacles hindering growth, such as market access problems, insufficient competition in fixed markets, overregulation, high taxation and questionable cost burdens on operators and consumers.

For the transport sector, the programme envisages the preparation of a logistics outlook report suggesting actions for establishing a better logistics infrastructure and the preparation of bylaws to support railway transport liberalisation. Both measures serve relevant purposes to increase competitiveness (a multi-modal logistics system and railway liberalisation). However, no concrete information is provided on timelines for implementation and desired/measurable outcomes. As for energy, the measures are pertinent (although lacking detail) and relate to the need to decrease import dependency by increasing gas storage capacity, institutional strengthening to support energy efficiency and extending the use of equipment to make engines more energy efficient. The ERP does not provide information on the enforcement mechanism for the new law on the natural gas market, designed to deliver much-needed liberalisation in this area. There are no concrete measures for the telecom sector and the importance of eSkills for citizens and businesses is not acknowledged.

Sector development

Agricultural sector development

Key obstacles to growth and competitiveness in the agricultural sector are low productivity, lack of reliable agricultural data, as well as land fragmentation and water losses in irrigation systems. In addition, there is no overall strategy on agriculture to identify and address these shortcomings. Rural development and the impact of IPARD funds (50,000 jobs created 2011-2016) are mentioned. The diagnostic on the agricultural sector is short, but mentions some relevant obstacles to competitiveness.

The measures focus on reforming the support system from production to land-based payments and on enhancing efficiency of water use through investments in the irrigation system. The reform of the support system is meant inter alia to provide necessary greater alignment with the system of decoupled direct payments under the Common Agricultural Policy (CAP), whereas the irrigation-related measures aim to increase productivity. However, no information is provided on budgets, timelines or desired outputs. The ERP does not address protectionist aspects of Turkey's agricultural policy, an important issue not only for CAP alignment, but also for further possible liberalisation of agriculture in the framework of possible negotiations on the modernisation of the EU-Turkey Customs Union.

Industry sector development

The industrial sector suffers mainly from low productivity, low share of high value-added products and regional disparities in industrial development. The ERP identifies these as the main bottlenecks to growth in Turkey's industry sector. The ERP, however, does not contain new policy measures in this area. Instead, it mentions ongoing programmes to address differences in productivity between large firms and SMEs, the uneven regional distribution of manufacturing activity, the transformation of healthcare industries and reduction in import dependency for energy and raw materials and intermediate goods. No link is made with the issue of the skills mismatch (as covered under the education heading) and the insufficient R&D performance of business.

Services sector development

The services sector accounts for almost 70% of Turkish GDP. Its importance is also highlighted by the ERP, but it only briefly notes the drop in the substantial tourism revenues due to regional and political events and does not contain a diagnostic on structural obstacles.

Health tourism may be a market for which Turkey's services sector has a comparative advantage. However, it is disproportionately targeted in the ERP with five separate measures. No information is given on further alignment with EU legislation on the right of establishment and freedom to provide services, despite possible upcoming negotiations on modernisation of the Customs Union, including further liberalisation of the services market.

Business environment and reduction of the informal economy

The large informal economy, weak rule of law, widespread corruption and political instability remain concerns for the business environment. The ERP only recognises the informal economy as a main obstacle together with the bureaucratic processes companies face in areas such as paying taxes, dealing with construction permits, starting a business and resolving insolvency. Moreover, the ERP ignores the fundamental problem related to the Government's recent targeted actions against business people, the seizure of private companies and dismissal of large numbers of judges and prosecutors. These actions have a detrimental effect on the investment climate in Turkey. Concerns also exist over the executive branch's respect for the independence of regulatory bodies, especially in the financial sector with the use of macro-prudential regulation as a counter-cyclical policy instrument a case in point. Issues such as better regulation and the use of regulatory impact assessments are not mentioned in the ERP.

Initiatives referenced in the ERP to simplify administrative and judicial procedures have the potential to improve the business environment. To reduce the administrative burden for investors, the government plans to create a mechanism to streamline processes related to registration, land allocation and construction permits. The cost and timelines are, however, not specified.

To improve the judicial process, until the end of 2018, Turkey plans to increase the number of judges and prosecutors to levels matching international standards and create positions for judicial experts to assist with decision-making. The success of this measure will depend on the quality of the training and testing to assure that future judges and prosecutors will have the required knowledge, necessary for well-founded and impartial decision-making, also in more specific business-related areas (competition, intellectual property rights, tax law, etc.). In addition, in order to restore investors' confidence, allegations of wrongdoings by individual companies or business people need to be subject to due process with respect for the separation of powers and the independence of the judiciary.

Plans to reduce the informal economy to 21.5% of GDP by the end of 2018 (compared to 26.8% currently) seem overambitious. The action plan to achieve this contains logical measures. It is, however, not clear which measures have already been completed and which ones are still to be implemented, by when and at what cost.

Research and innovation

Turkey lacks a comprehensive strategy in support of research and development and is in need of closer cooperation between universities and economic operators to encourage innovation. The ERP highlights the relatively low (albeit growing since 2005) level of R&D spending and problems in the commercialisation of new technology. However, there is no mention of Turkey's low private sector share in total R&D expenditure (lagging more than 30% behind the EU average), despite the importance the ERP gives to technology production. The ERP does not mention the recent adoption of a new law on intellectual property rights, despite the positive effect this may have on innovation.

The ERP includes measures to support technology investments by the private sector (albeit with a low budget), performance-based support for research institutes and the use of public procurement as an instrument to stimulate R&D. A national science strategy to run until 2023 is scheduled for adoption in 2017. However, the ERP neglects the importance of the demand side. Increased cooperation between research institutes and the private sector, and the introduction by companies of new production means and related organisational measures by companies are of particular importance for the commercialisation of R&D. Using price preferences and exemptions in public procurement to stimulate R&D may be at odds with competition rules and does not seem to target SMEs and start-ups which can be important drivers of new technology.

External trade and investment facilitation

Ad hoc barriers to trade and a weak logistics infrastructure prevent further integration into global value chains. These obstacles limit the competitiveness of domestically produced intermediate goods, resulting in a preference for imported inputs over domestic ones. The ERP does not mention these challenges, but focuses on the importance of reducing import dependency.

The ERP mentions a number of general measures to reduce import dependency (without specifying timelines, budgets or expected outcomes). These include improving technological capacity and quality of domestic products, increasing consumer awareness of domestic products, encouraging preference for domestic products in public procurement, utilising domestic natural resources efficiently and decreasing production costs for energy, transport and labour. No distinction is made between sectors based on Turkey's possible comparative advantage. Whereas some of these measures may be effective, others (stimulating preferences for domestic products) may be at odds with competition legislation and Turkey's existing international obligations, such as the Customs Union with the EU. The possible upcoming negotiations on the modernisation of the latter are mentioned to stimulate trade in agriculture and services and to further open public procurement markets. If successful, this could indeed provide a stimulus for supplementary reform measures to increase competitiveness. No mention is made of the recent entry-into-force of the WTO trade facilitation agreement and the way the reduced import/export formalities foreseen by this agreement will affect Turkey's ad hoc barriers to trade noted above.

Education and skills

Low skills levels of the workforce and education and training of the youth not matching labour market needs are part of Turkey's structural obstacles impeding job creation and a productivity increase necessary for upgrading the country's production system. The ERP rightly identifies some key challenges in education, such as low levels of basic education, skills mismatch and low levels of lifelong learning, but does not link the skills dimension strategically to the development of growth sectors discussed in other parts of the ERP.

Plans to introduce the full day school system for all pupils are an important step, but should be complemented by investments in teacher training. A reform package adopted in October 2016 foresees the implementation of the full day school system for all pupils as of 2019 (currently 37% of pupils are in the two-shift system). Pre-school is planned to become mandatory, and will be introduced as a pilot in selected provinces. The package also includes new provisions on foreign language teaching. The reforms are important steps forward to give better access to education for all; however, more investments into teacher training would be necessary as well in order to ensure better education outcomes.

The forthcoming introduction of apprenticeship training can be expected to improve the school-to-work transition of young people at medium qualification level. Supportive mechanisms for quality assurance and recognition of qualifications need to be put in place. Legislation on this new type of apprenticeship training was adopted in December 2016. It provides an alternative pathway to school-based vocational education; apprentices follow five days workplace training and one day formal schooling per week, and receive a monthly salary at the level of minimum 30% of the minimum wage (around EURO 100). Two thirds of the salary is covered by the government.

The adoption of the first Turkey Qualifications Framework and relevant sub-legislation is an important step in defining common standards for all levels of the education system. The ERP however presents only one measure for the period 2017-2019 related to the evaluation of the results of the Program for the International Assessment of Adult Competencies (PIAAC).

Employment and labour markets

The Turkish demography requires the creation of one million new jobs per year. Job creation dynamics of the economy have markedly weakened in 2016 compared to previous years. The number of employed persons rose by around 400.000 during the period November 2015 – November 2016. Unemployment has steadily increased since April 2016 and reached 12.7 % in December 2016, compared to 8.2% in EU-28, with more pronounced increases for women (+3 pps) than men (+0.8 pps).

Youth (15-24) unemployment recently increased over-proportionately by 3.5 pps, pointing to particular difficulties of young labour market entrants. At 22.6% it is markedly higher than in the EU-28 (18.6%). Particularly worrying is the high share of young people not in employment, education or training (23.9 % in 2015), pointing to structural gaps in the transition from education to the labour market, especially for females (33.7% compared to 14.1% for males). Unemployment also markedly increased among higher education graduates.

Informal employment is very high; one-third of the workforce (9 million workers) does not have access to social security and no labour taxes are collected. The unregistered work rate increased between 2015 and 2016 by 1.1 pps to 33.3%. Informal employment is traditionally most pronounced in agriculture (81.7%) and on the increase in the non-agricultural sector (22.2%).

The ERP reports on a number of legislative changes introduced in 2016 for increasing labour market flexibility. A legal framework has been created for the operation of private employment agencies. Provisions on remote teleworking and the right to part time work for civil servants with small children have been introduced. Some positive effects of these measures are expected, but they might not yet be sufficient enough to further stimulate job creation.

The large scale "employment mobilisation campaign" to contain the rise in unemployment aims to create at least 1.5 million additional jobs through rebates on the social security contribution for newly recruited employees. It was put in place after the ERP submission. While this measure could improve the employment situation in the short term, structural reforms for supporting the upgrading of the labour market are needed in the longer term. In this respect, the ERP indicates as a priority the reform of the severance pay system, which impedes employees' career progression and limits companies' opportunities for recruiting experienced workers.

Social inclusion, poverty reduction and equal opportunities

Turkey continues to face significant challenges in terms of poverty and income/wealth inequality. The ERP diagnostic underlines that substantial progress has been made over the past fifteen years in reducing absolute poverty. The strong GDP increase raised prosperity levels. Average household incomes saw a real increase of 4.3% between 2014 and 2015. However, compared to the EU, Turkey's per capita income level is stagnating; after reaching 54% of the EU average in 2012, it stood at 53 % in 2015, placing the country at the bottom end of EU Member States. The GINI coefficient increased from 0.391 in 2014 to 0.397 in 2015, higher than in EU-28 and all candidate countries and potential candidates except Serbia. Regional disparities in income are strongly pronounced in Turkey, and low educational level is strongly correlated to poverty.

The current system of providing social assistance appears to leave a large proportion of poor households outside its coverage. Beneficiaries of social assistance represent only one sixth of individuals below the relative poverty rate. The link between social assistance and labour market activation measures is weak. The announced reform measures on enhancing the effectiveness of the services provided by the Public

Employment Service offices to social assistance beneficiaries is thus very relevant; however, no detailed information on the content, timing and budget of the initiative is provided in the ERP.

The ERP reconfirms the government's ambition to transform the current provision of social protection into a universal system covering the whole population. No further details on developing the content and timing of such a reform are given. The Family Social Support Programme included in the ERP 2016 continues to be rolled out.

ANNEX 1: IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2016

2016 policy guidance	Summary assessment
PG 1: Promote domestic saving by following a sufficiently restrictive fiscal stance in view of the large current account deficit.	Turkey has **not implemented** PG 1: • The primary surplus decreased from 2.7% of GDP in 2015 to 0.6% in 2016 and the structural government balance decreased from -2.0% of GDP to -3.4% of GDP.
PG 2: Reinforce the central bank's focus on price stability and credibility by simplifying the monetary policy framework.	Turkey has **not implemented** PG 2: • The central bank has used increasingly irregular policy tools, creating liquidity shortages to force banks to use the late liquidity window for higher interest rate funding.
PG 3: Strengthen the rule of law and the judiciary with a view to restoring investors' confidence.	Turkey has **not implemented** PG 3: • The rule of law and the judiciary were not strengthened. Following the failed coup, a considerable number of judges and public prosecutors were dismissed and the government took active control of some 500 companies over accusations of alleged links with forces behind the failed coup. Investigations for these companies continue.
PG 4: Enhance the comprehensive strategy in support of research and development; this should target an increase of total spending on research and development and build closer cooperation between research institutions and economic operators.	There has been **limited implementation** of PG 4: • Last year, total spending on research and development increased slightly from 0.95% to 1.01% of GDP. • However, the comprehensive strategy in support of research and development was not enhanced. • There is no evidence that closer cooperation between research institutions and economic operators was attempted or achieved.
PG 5: Enhance further the control capacity of the labour inspectorate and enable tax authorities and the social security institution to ensure a correct declaration of wages in order to reduce informality. Pursue the education agenda and improve the qualifications of low-skilled workers in order to make better use of human capital, in particular of young people.	Turkey has **partially implemented** PG 5: • The Action Plan of the Programme for Reducing Informal Economy currently being implemented does not include specific actions for enhancing the control capacities of the labour inspectorate. • The adoption of the first Turkey Qualifications Framework and relevant sub-legislation constitute an important step in defining common standards for the quality of primary, secondary and tertiary education. • Legislation has been adopted for introducing the full day school system by 2019. • The adoption of legal provisions for introducing apprenticeship-type training as an alternative to school-based vocational education and training provides the basis for preparing young people better for the needs of the labour market, thus increasing their employment prospects.

ANNEX 2: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Economic Reform Programme 2017-2019 was approved by the High Planning Council on 7 February 2017 and submitted to the Commission on the same day, one week after the deadline. Overall, adherence to the Commission Guidance note is very weak. The ERP does not contain any information on the implementation of the policy guidance from 25 May 2016, nor on the structural reform measures included in the ERP 2016-2018. The area diagnostics are largely missing from section 4.3, as are clearly delineated structural reform measures. Section 5 on budgetary implications of structural reforms is completely missing, as is table 9 on selected employment and social indicators. No written contributions from external stakeholders have been annexed to the programme.

Inter-ministerial coordination

The preparation of the ERP was centrally coordinated by the Ministry of Development. For the structural reforms part, coordination with line ministries took place. However, proposed reform priorities of line ministries were only partially taken over by the Ministry of Development, mostly in cases where these were already included in Turkey's Medium-Term Programme (on which the ERP is largely based). Line ministries were not consistently informed by the Ministry of Development on reasons why their proposed priorities were not taken over. Communication should therefore be improved.

Stakeholder consultation

No consultation with external stakeholders took place. External stakeholders should be given the possibility to comment on a draft ERP before it is finalised and adopted.

Macroeconomic framework

The set-up of the chapter on the macroeconomic framework broadly follows the outline given by the guidance note. It covers all of the main elements and goes into significant detail which helps assessing the state of the Turkish economy and its medium-term scenario. The medium-term scenario is not the most realistic scenario and does not explain differences with the Commission services forecast. The oil price assumption is broadly aligned with that of the European Commission. The statistics provided are not up-to-date with the revision of the national accounts methodology but there is a relatively detailed coverage of the situation existing before the revision.

Fiscal framework

The set-up of the chapter on the fiscal framework closely follows the outline given by the guidance note. It covers all of the main elements and goes into significant detail which helps assessing the state of the Turkish public finances and its medium-term scenario. Some more detail on parameters, data and methodology (or a reference) would be useful regarding the estimation of potential growth and the output gap as well as the government debt sensitivity analysis. The link between the reform agenda, policy priorities and public finance could have been developed significantly better.

Structural reforms

The structural reforms priorities section does not follow the guidance note and for most areas does not include a thorough diagnostic. The reporting on the implementation of the policy guidance is completely missing, whereas the reporting on the implementation of the structural reform measures for 2016-2018 is inconsistent with last year's programme.

The 2016-2018 ERP includes 18 reform measures, while the current implementation table lists 32 measures that do not correspond to those listed in the 2016-2018 ERP. The number of the reform measures in this year's ERP text itself is limited to 18, but the summary table on structural reforms contains 25 measures, exceeding the limit of 20. The reform measures are not clearly delineated, nor are they accompanied by well-defined activities planned over the programme's three-year lifetime. Clear timelines and budget information are lacking. Table 9 is completely missing and tables 10 to 12 are not appropriately filled in. Substantial information on cost, budgets and the expected impact on competitiveness is missing and the level of concrete detail is low.