



Republic of Turkey  
Ministry of Economy



# Foreign Direct Investment & Investment Climate in Turkey

Ministry of Economy  
General Directorate for Incentives  
Implementation and Foreign Investment

December 2016



## Presentation Content

- **Economic Outlook**
- **Foreign Direct Investment Figures**
- **Foreign Direct Investment Regime**
- **Investment Climate & Policies**
- **Investment Incentives**

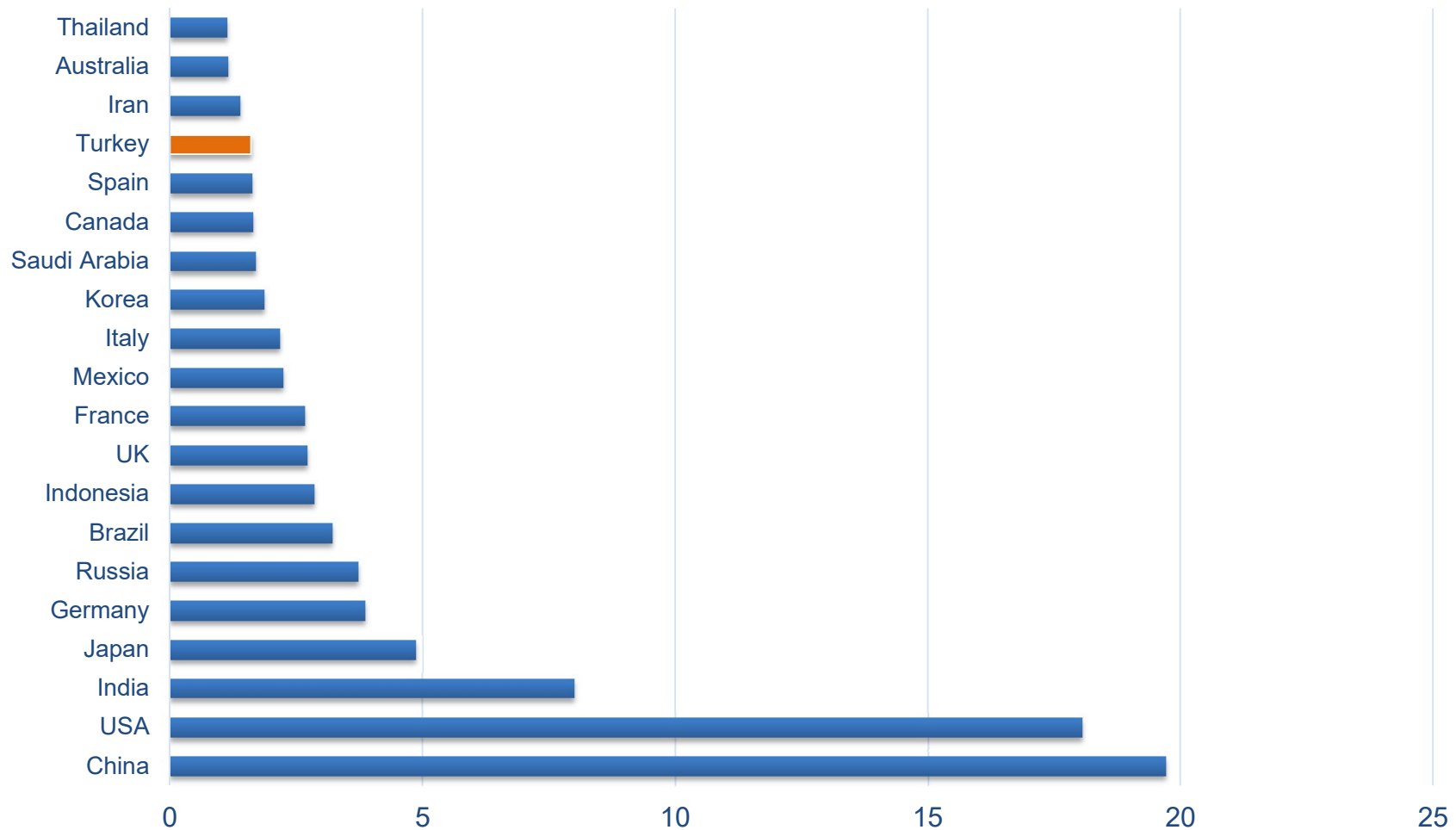


# Economic Outlook



# World's Top 20 Economies

(GDP based on Purchasing Power Parity, Trillion Dollar, 2015)

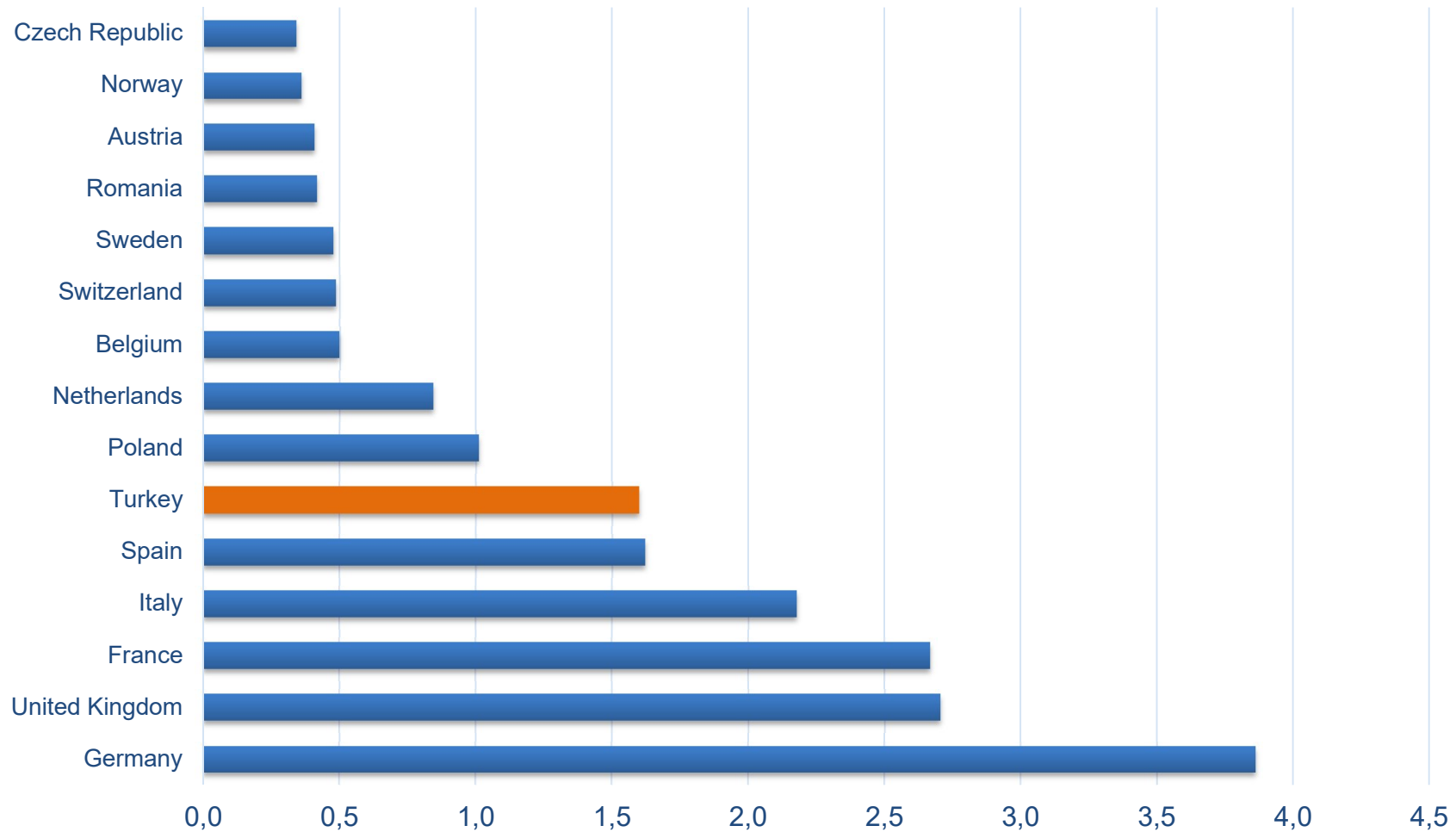


Source: IMF, World Economic Outlook, October 2016



# Europe's Largest Economies

(GDP based on Purchasing Power Parity, Trillion Dollar, 2015)

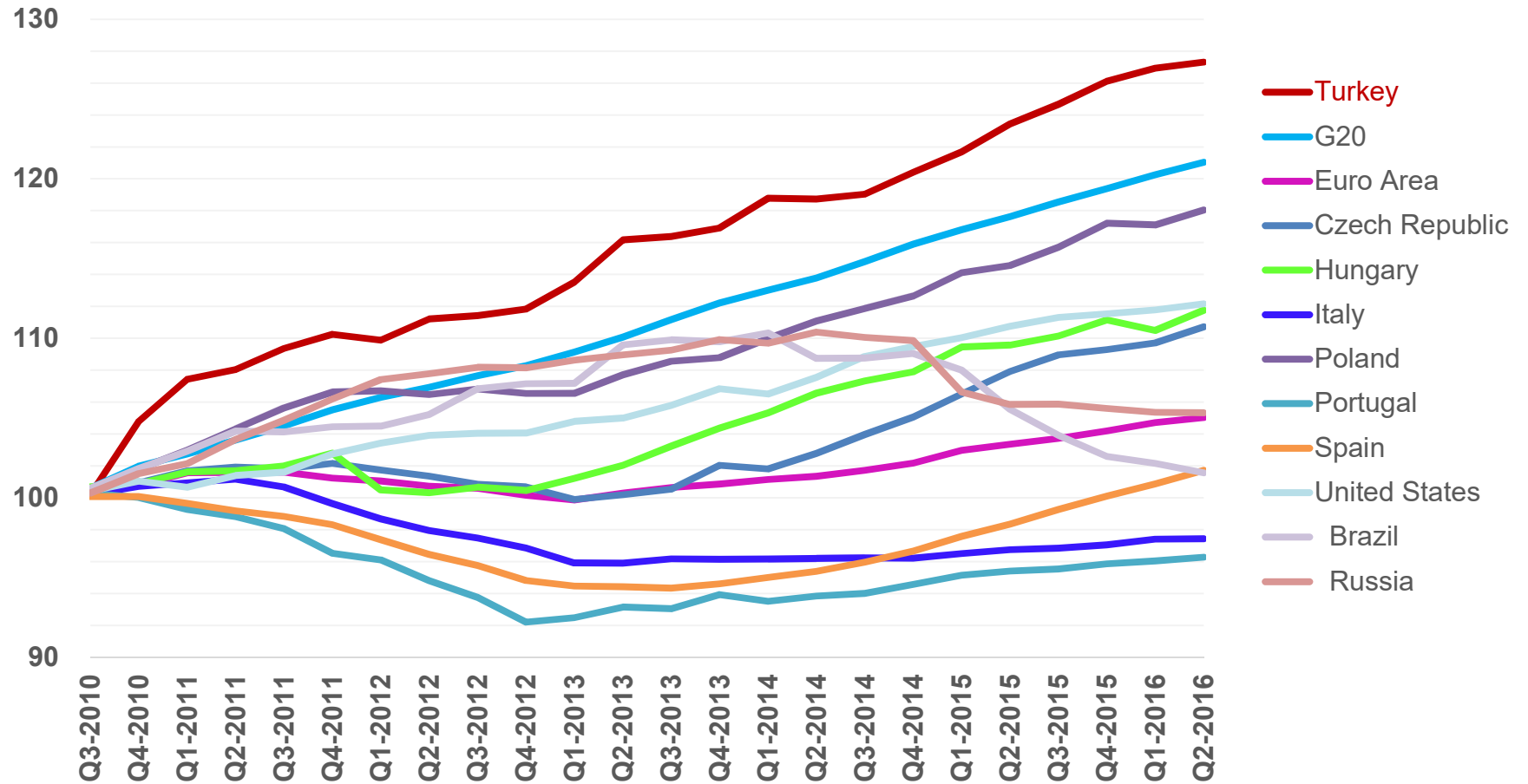


Source: IMF, World Economic Outlook, October 2016



# Growth Performance

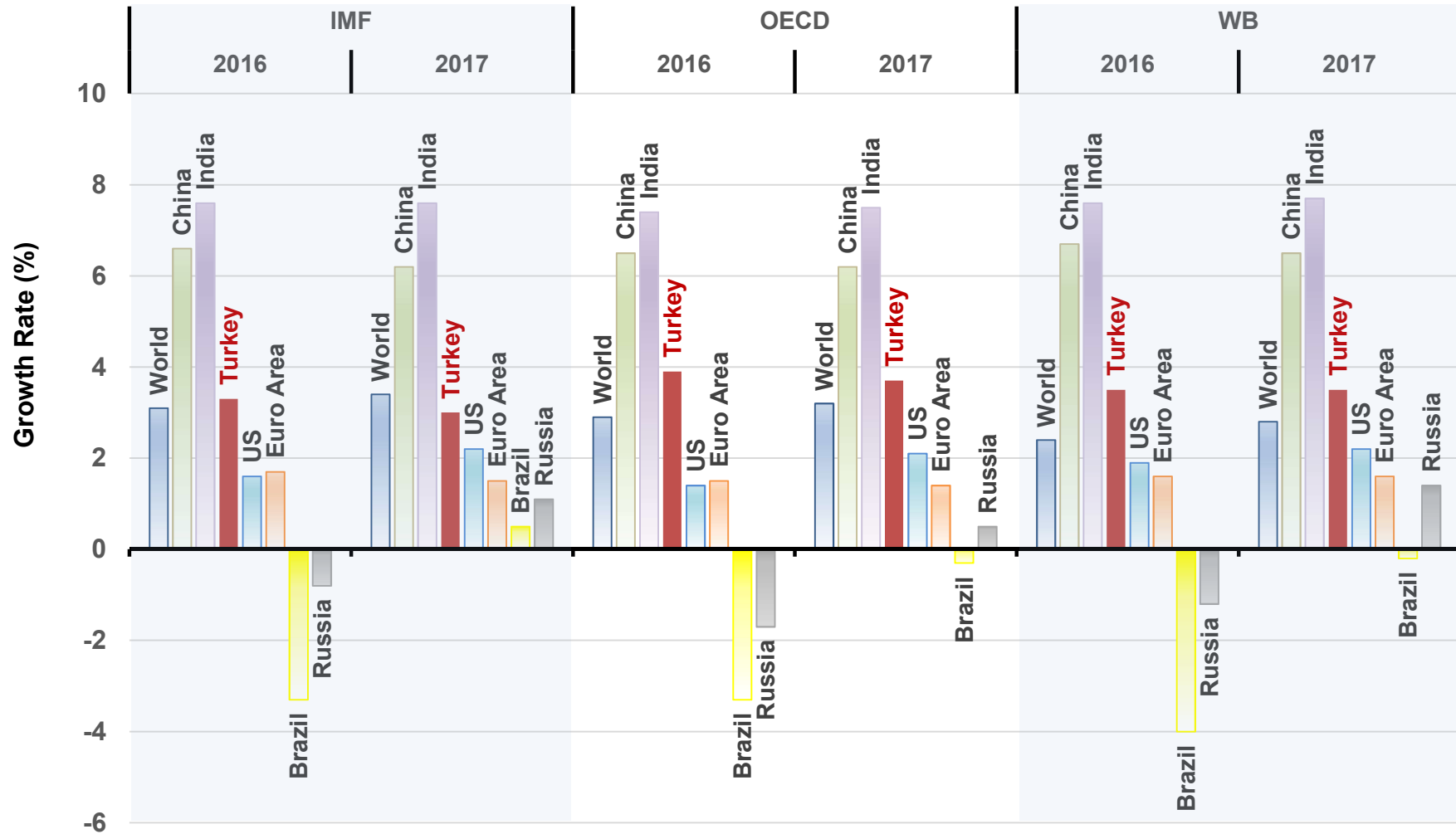
*Real GDP Growth (2010=100)*



Source: OECD



# Growth Forecasts of International Organizations

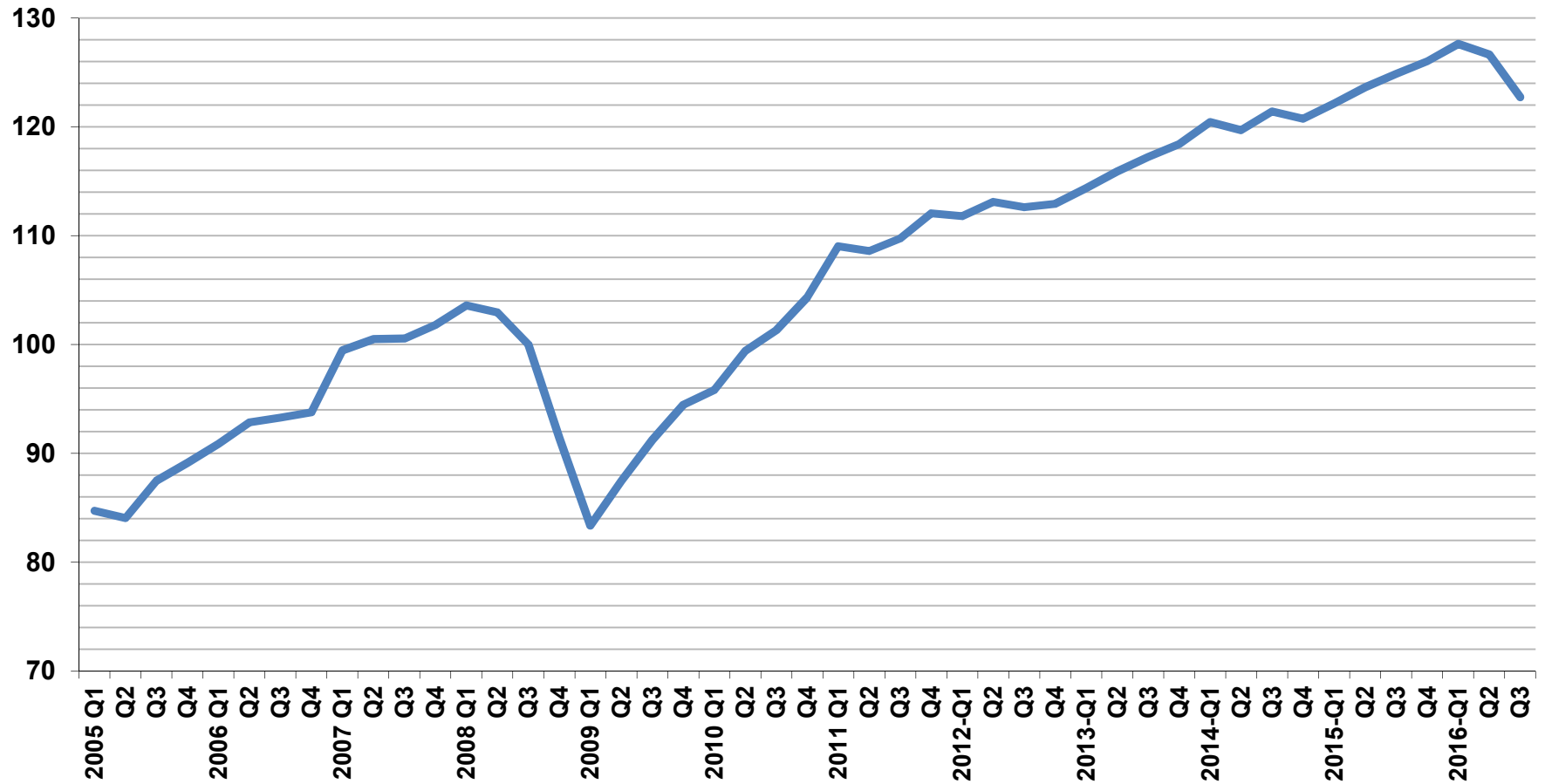


Source: IMF, OECD Interim Outlook, WB Global Economic Report



# Industrial Production Index

*(Seasonally Adjusted)*



Source: TURKSTAT





# Capacity Utilization Rate of Manufacturing Industry

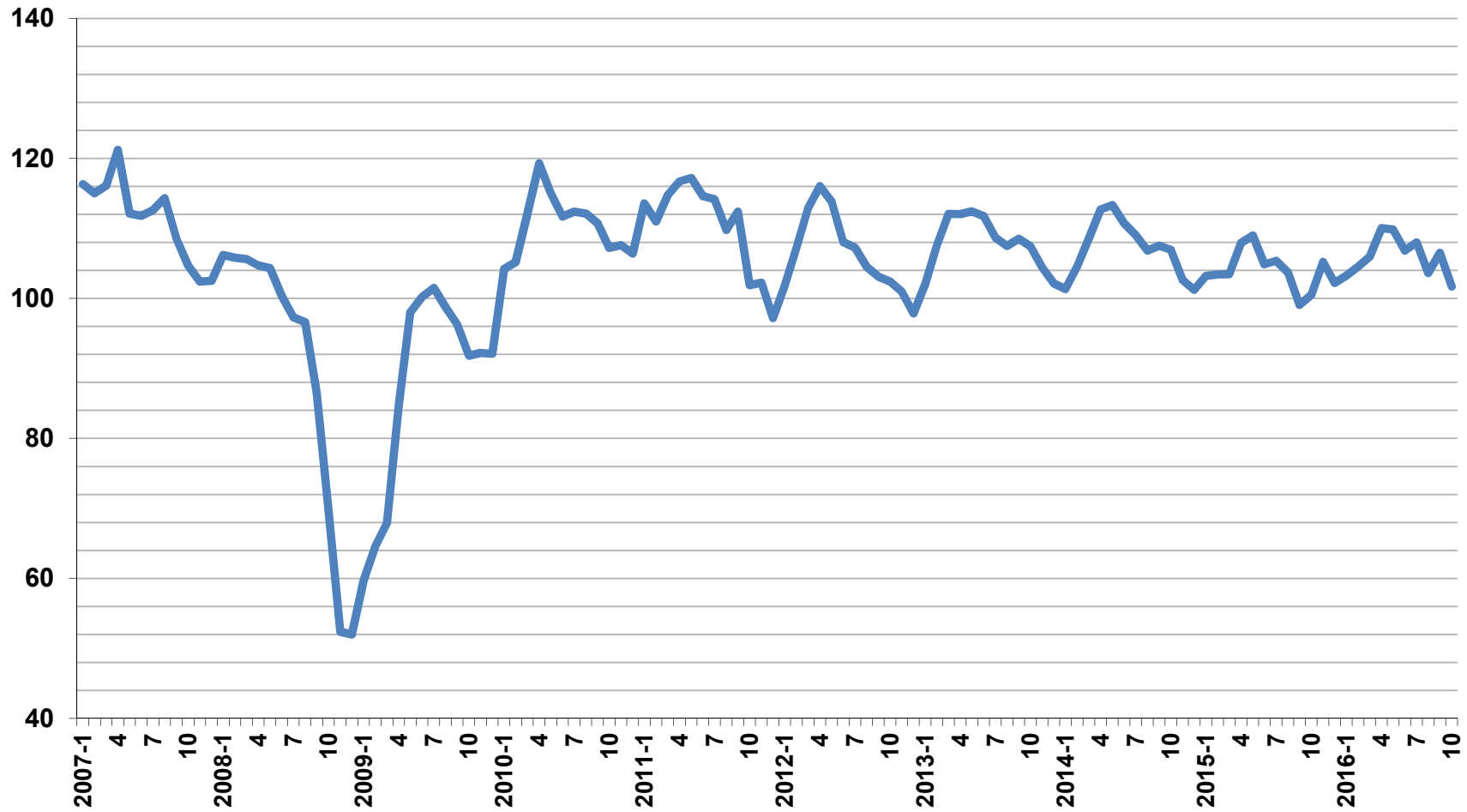
(Seasonally Adjusted, %)



Source: CBRT



# Real Sector Confidence Index

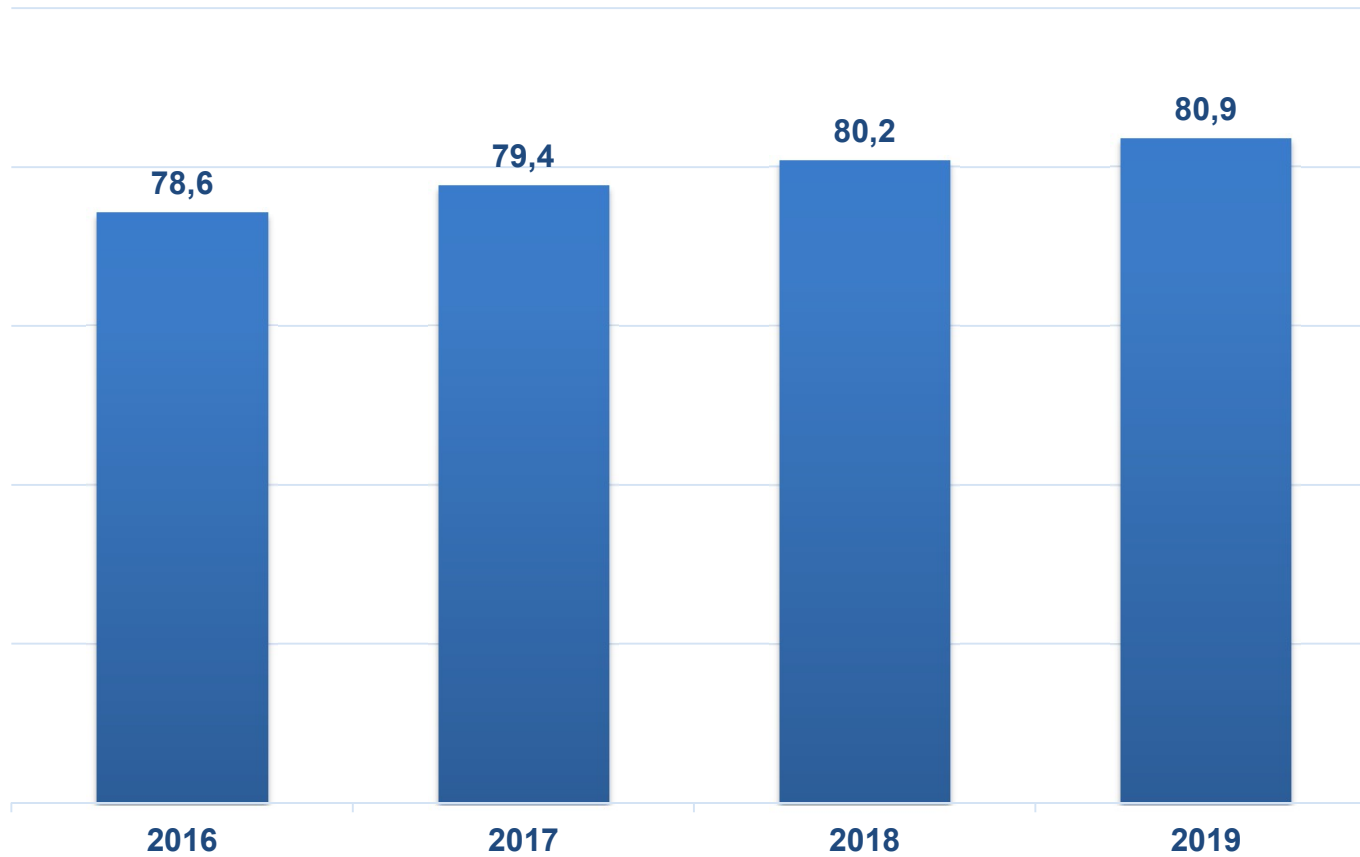


Source: CBRT



# Population Prospects

(Million People)

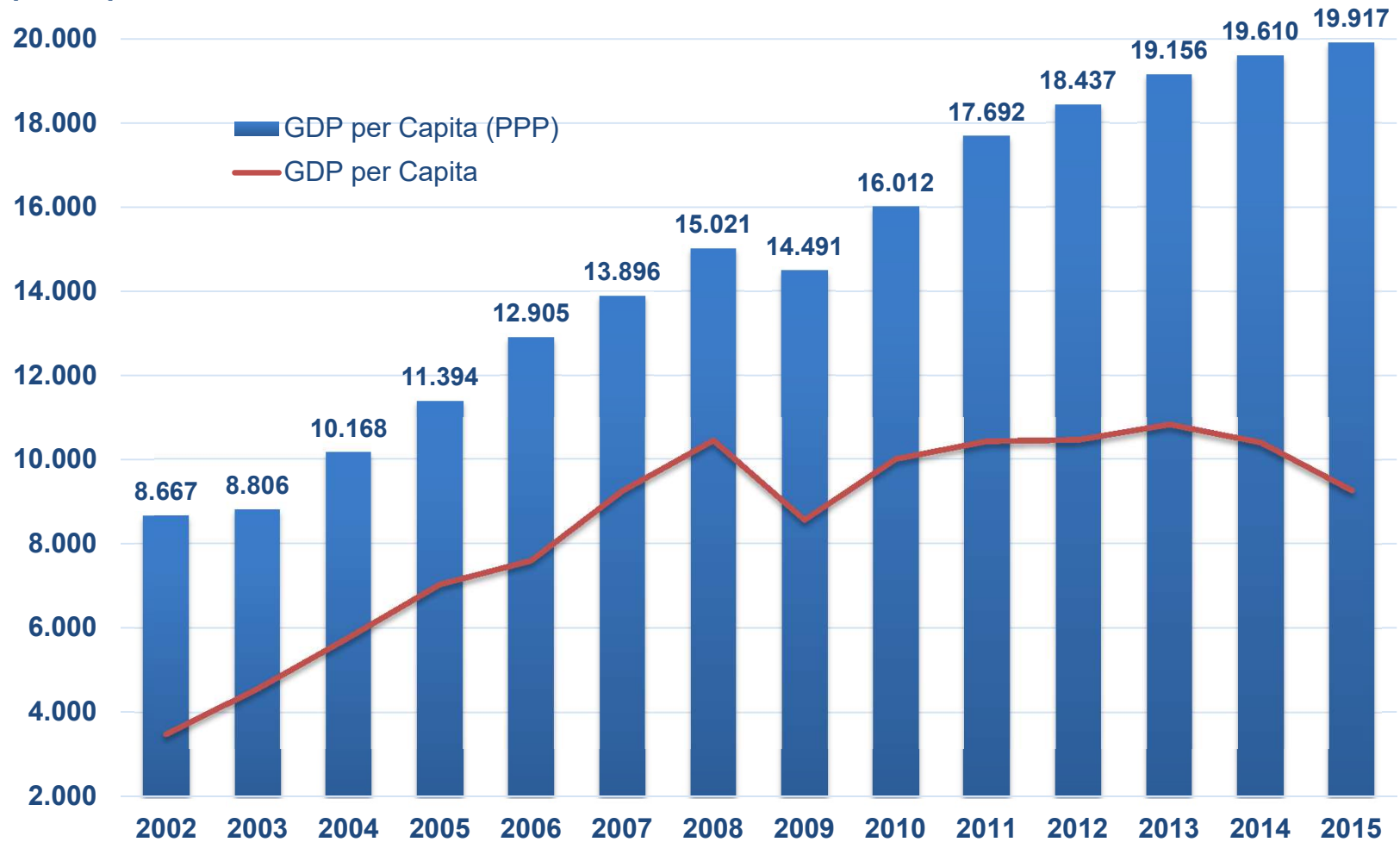


Source: Ministry of Development, Medium Term Economic Programme 2017-2019, October 2016



# GDP per Capita (USD)

(USD)

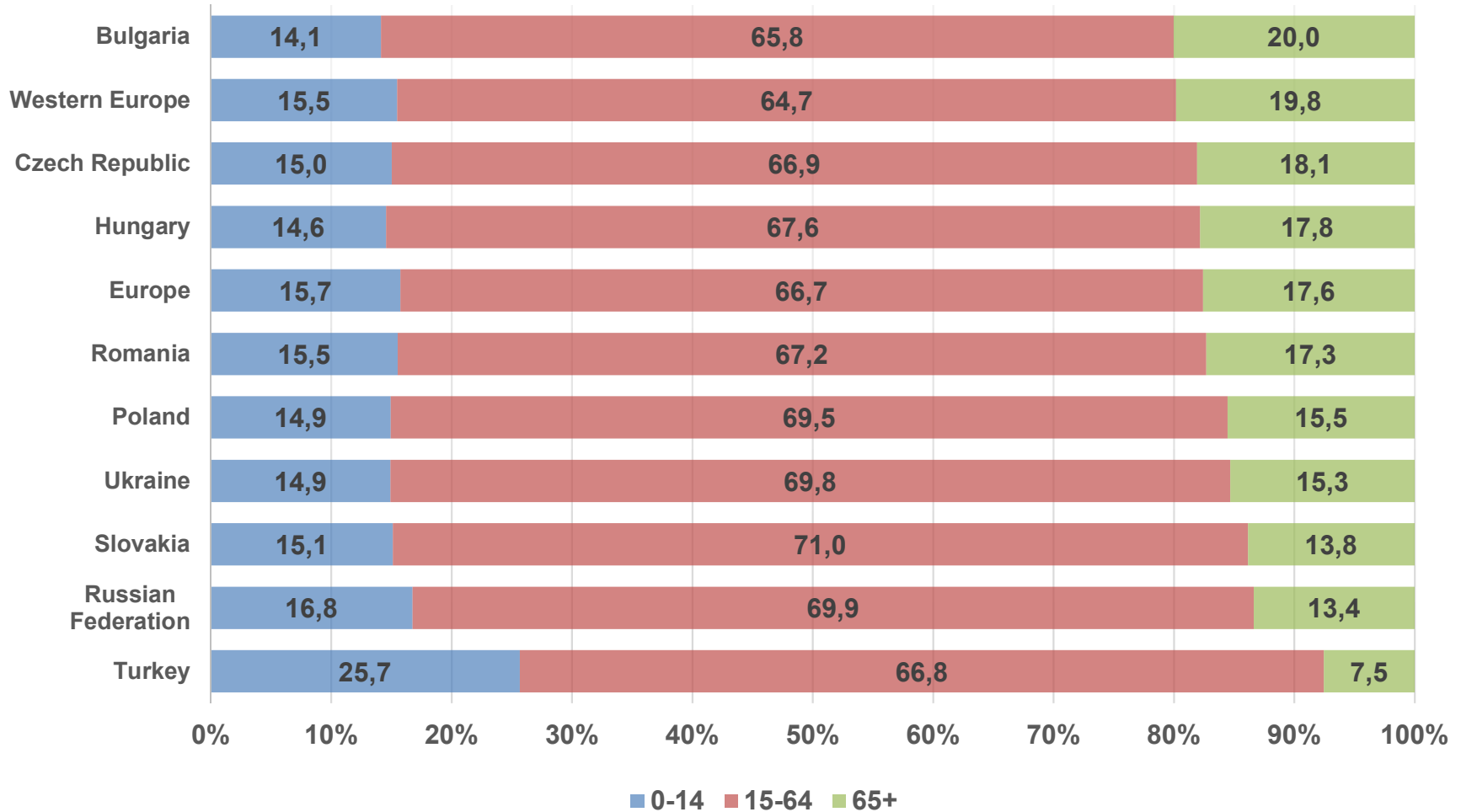


Source: WB, TURKSTAT



# Demographic Prospect

## Demographic Profile\* (2015)



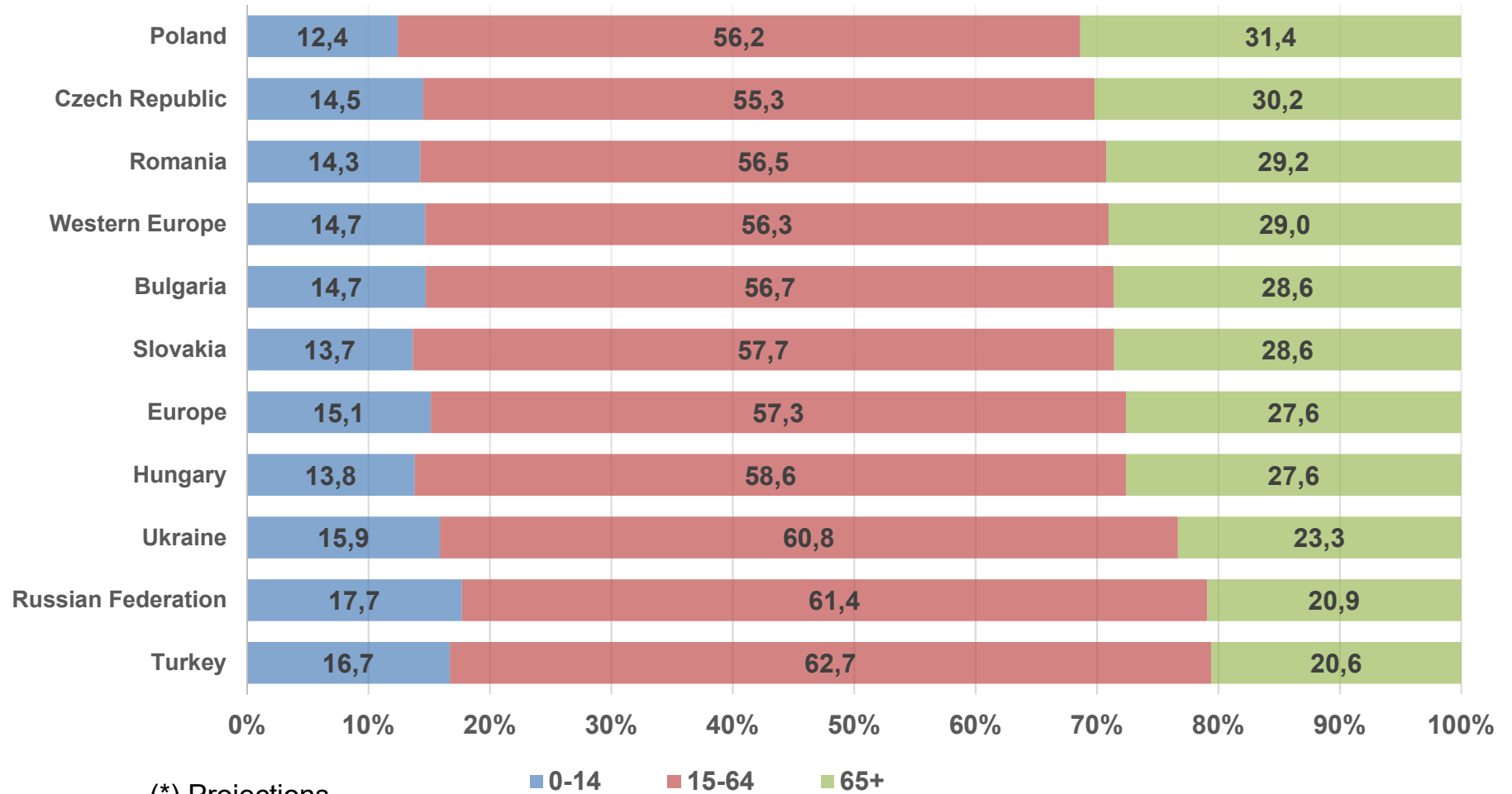
(\*) Projections

Source: UN



# Demographic Prospect

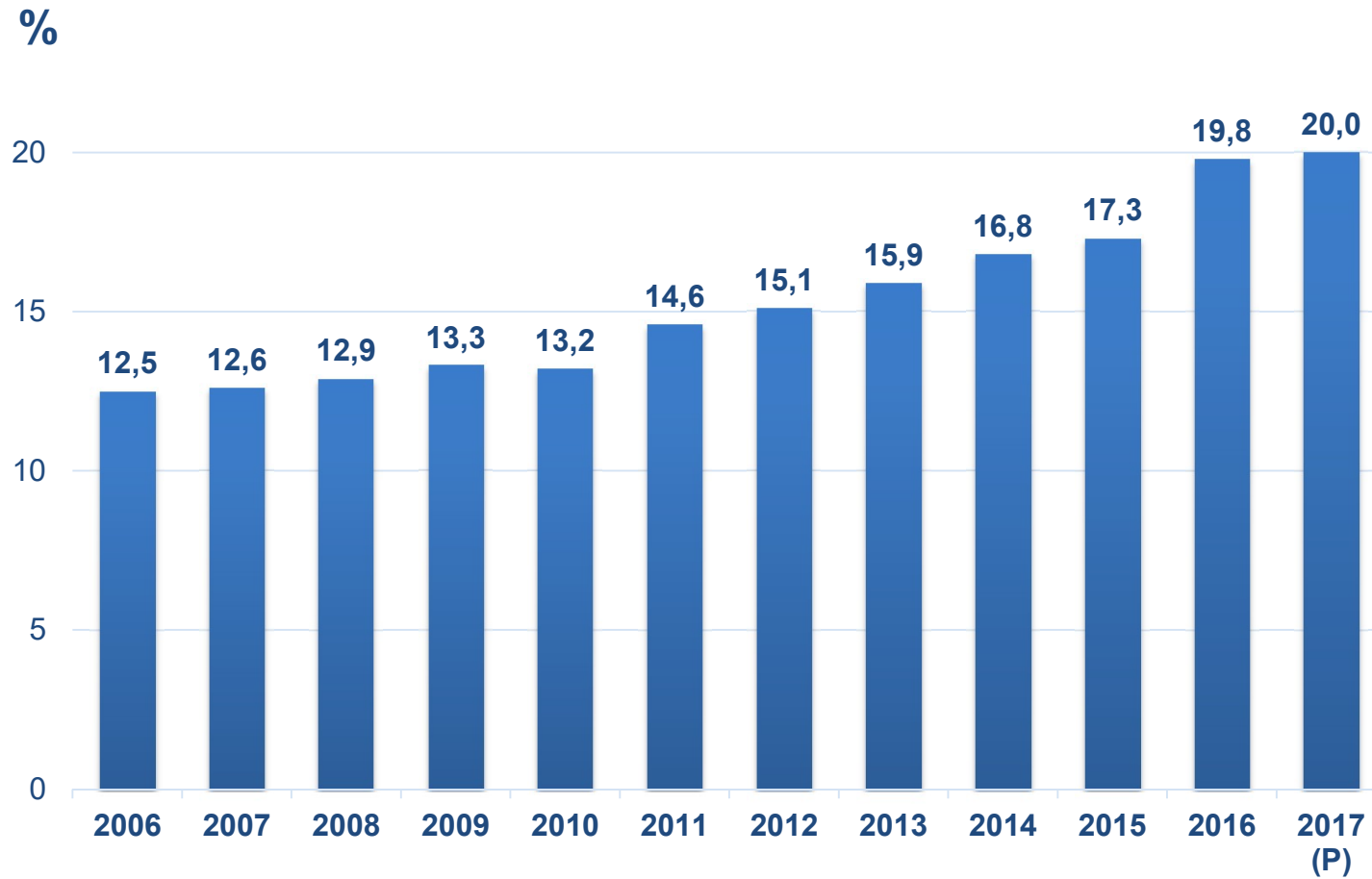
## Demographic Profile\* (2050)



(\*) Projections  
Source: UN



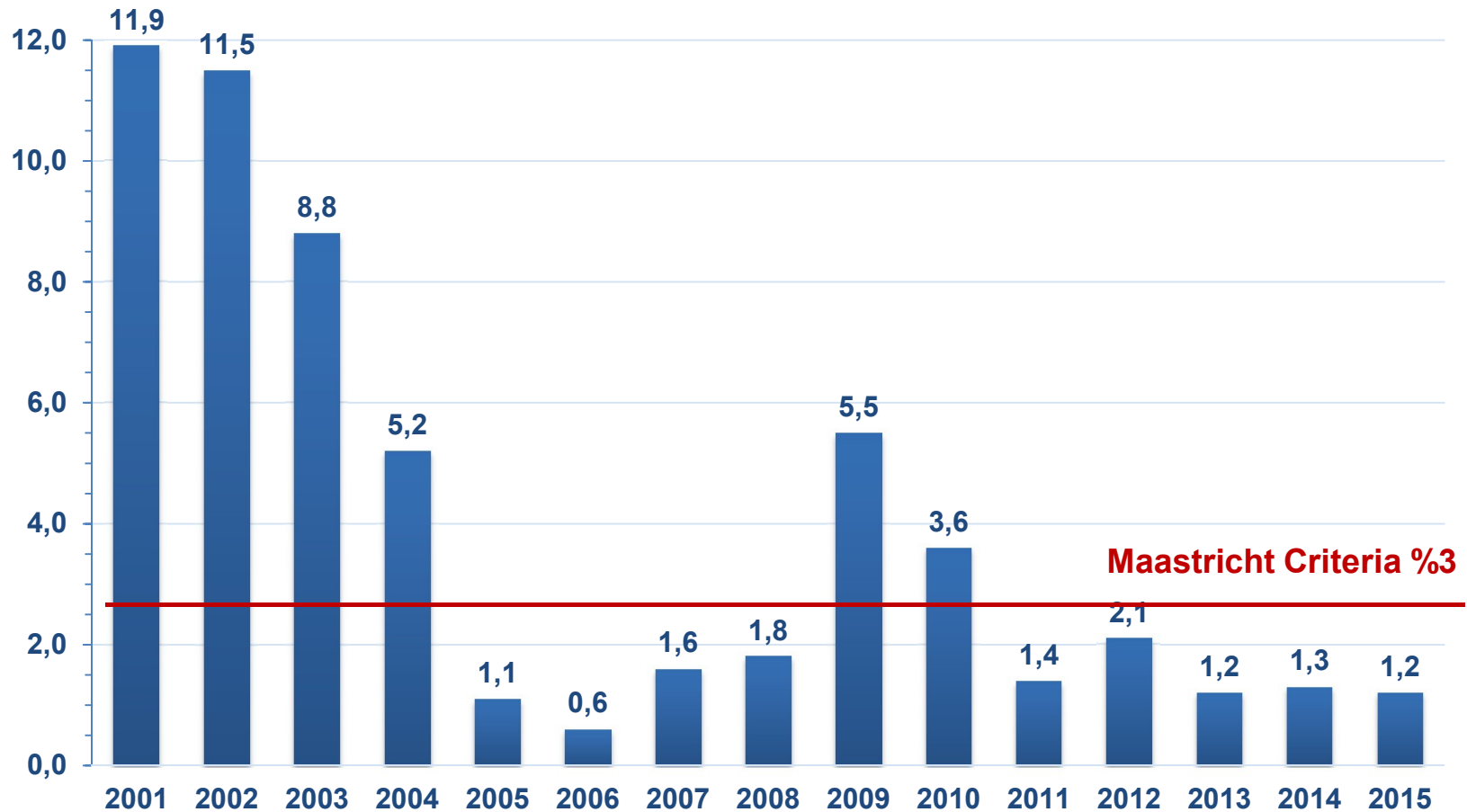
# Share of Education in Budget



Source: Ministry of Finance



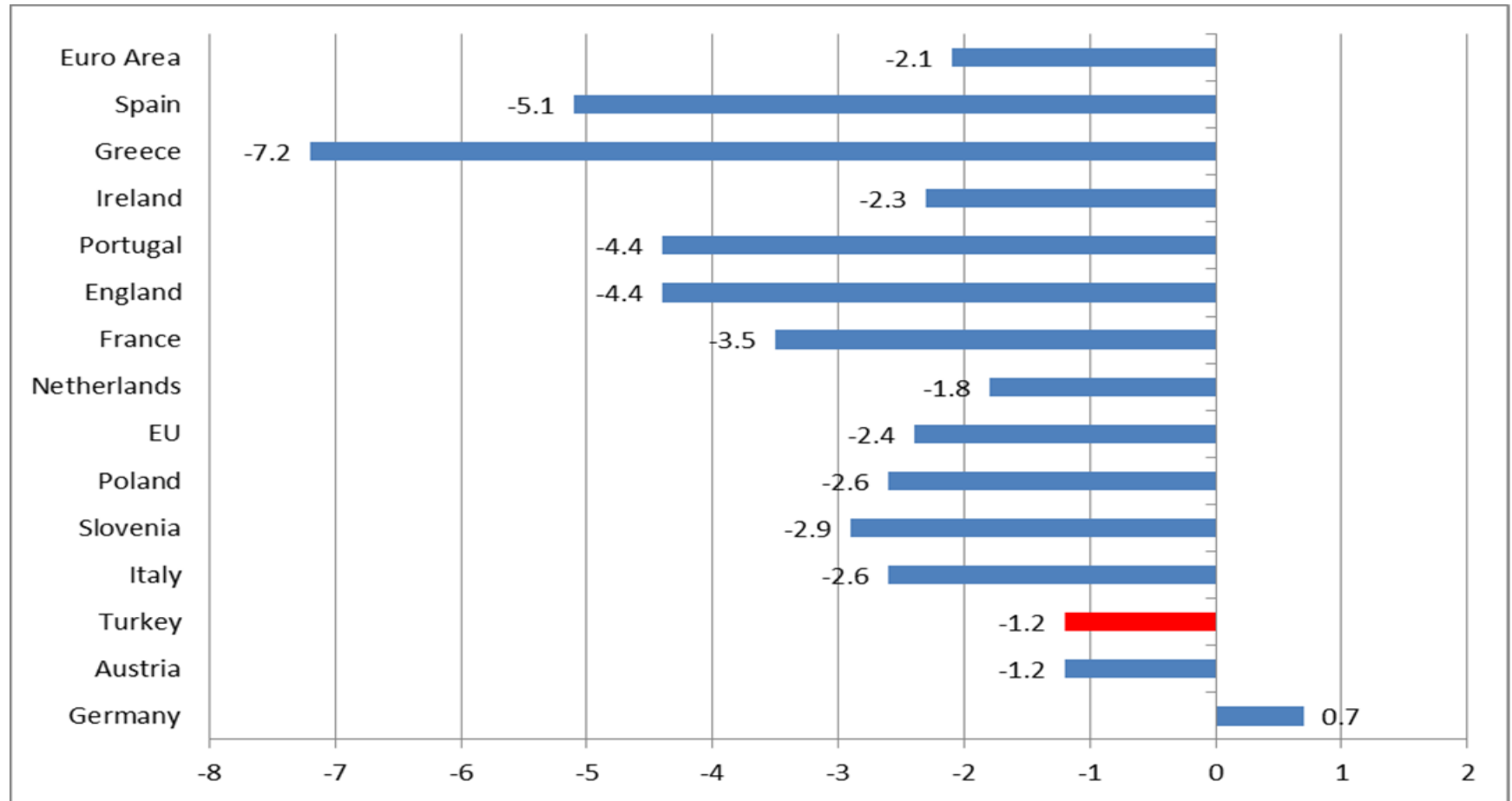
# Central Government Budget Deficit (% of GDP)



Source: Ministry of Finance



# Central Government Budget Deficit (% of GDP)

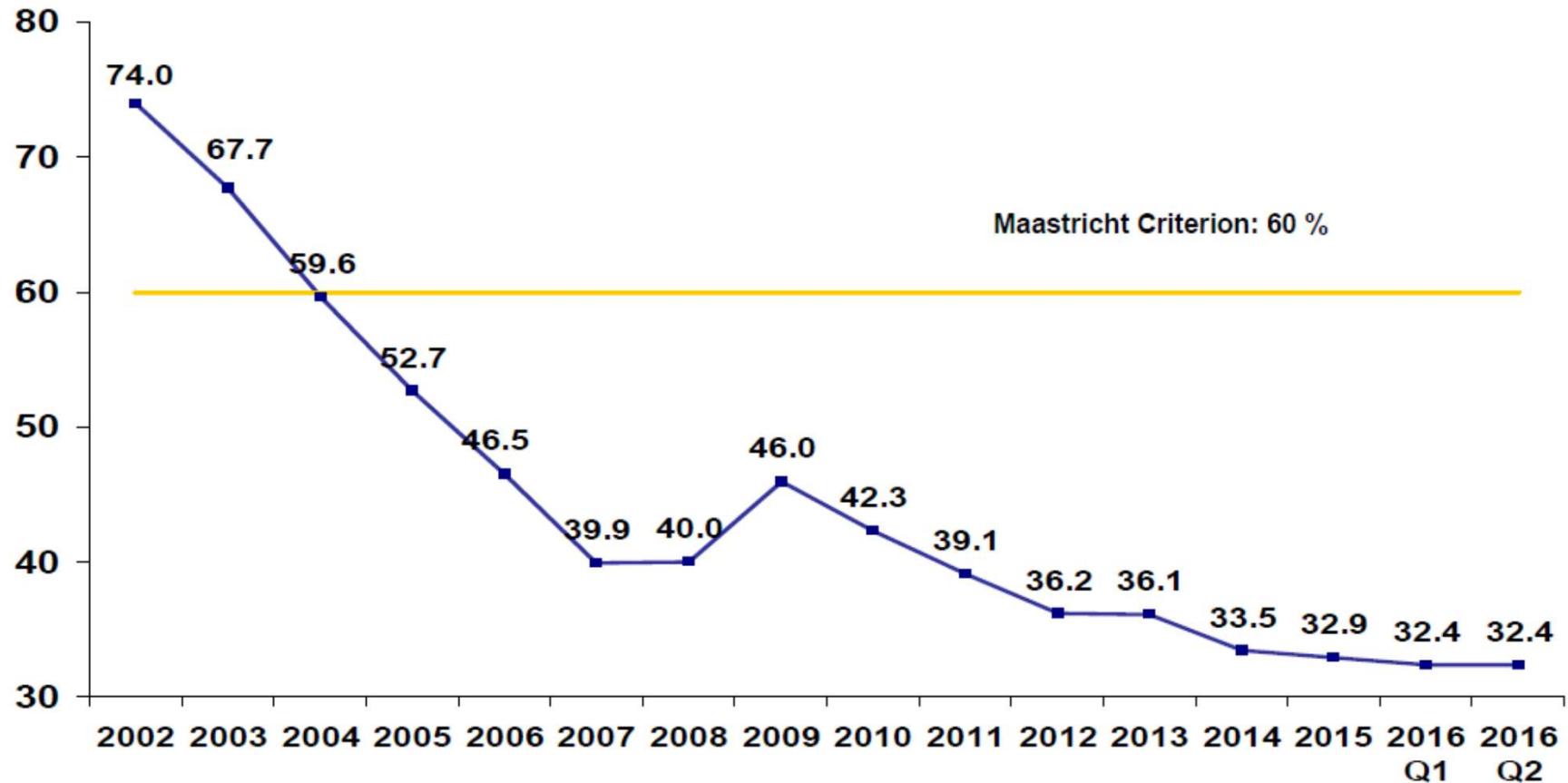


Source: Eurostat



# General Government Gross Debt Stock

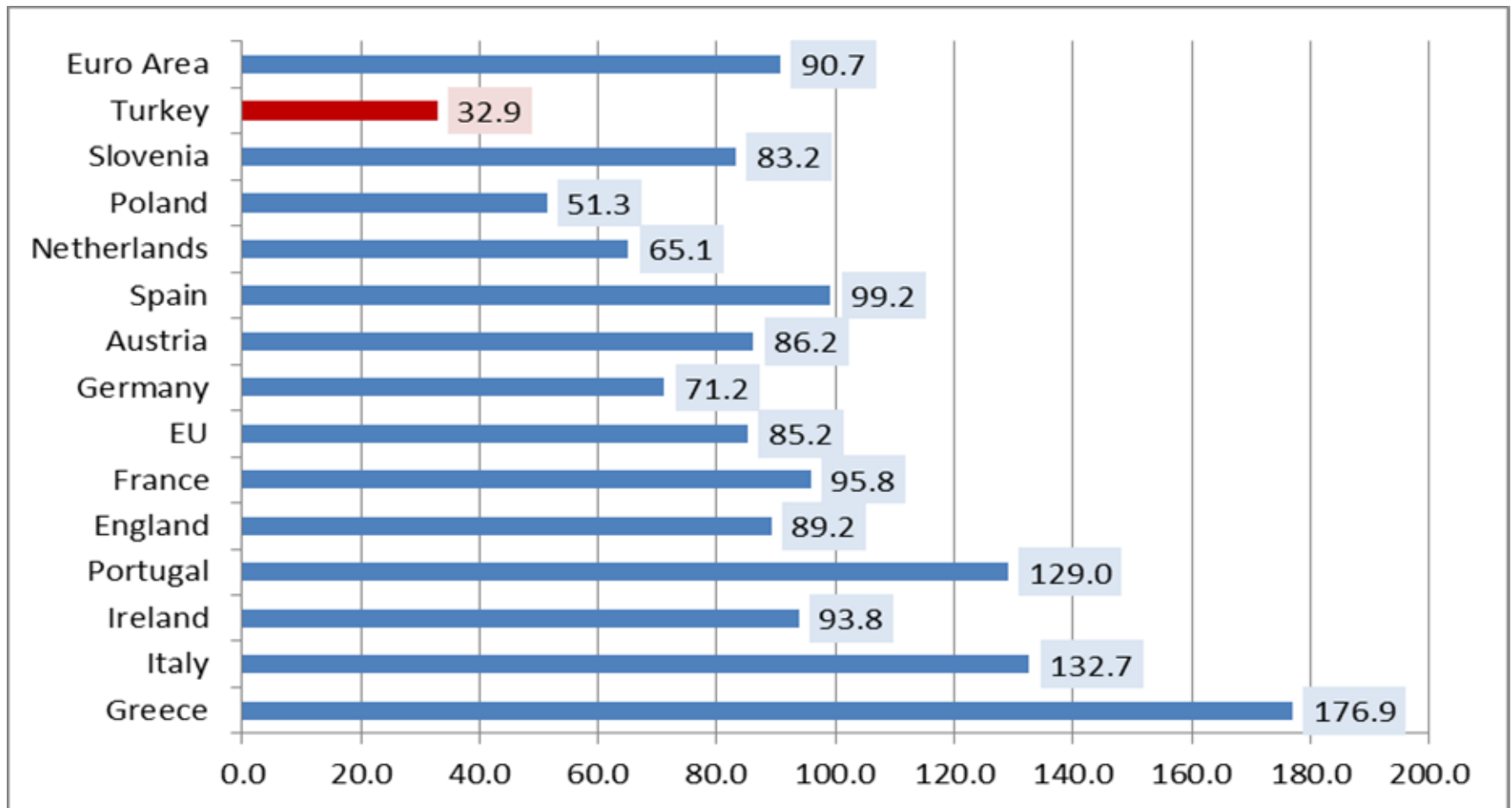
(EU Defined, % of GDP)



Source: Undersecretariat of Treasury

# General Government Gross Debt Stock

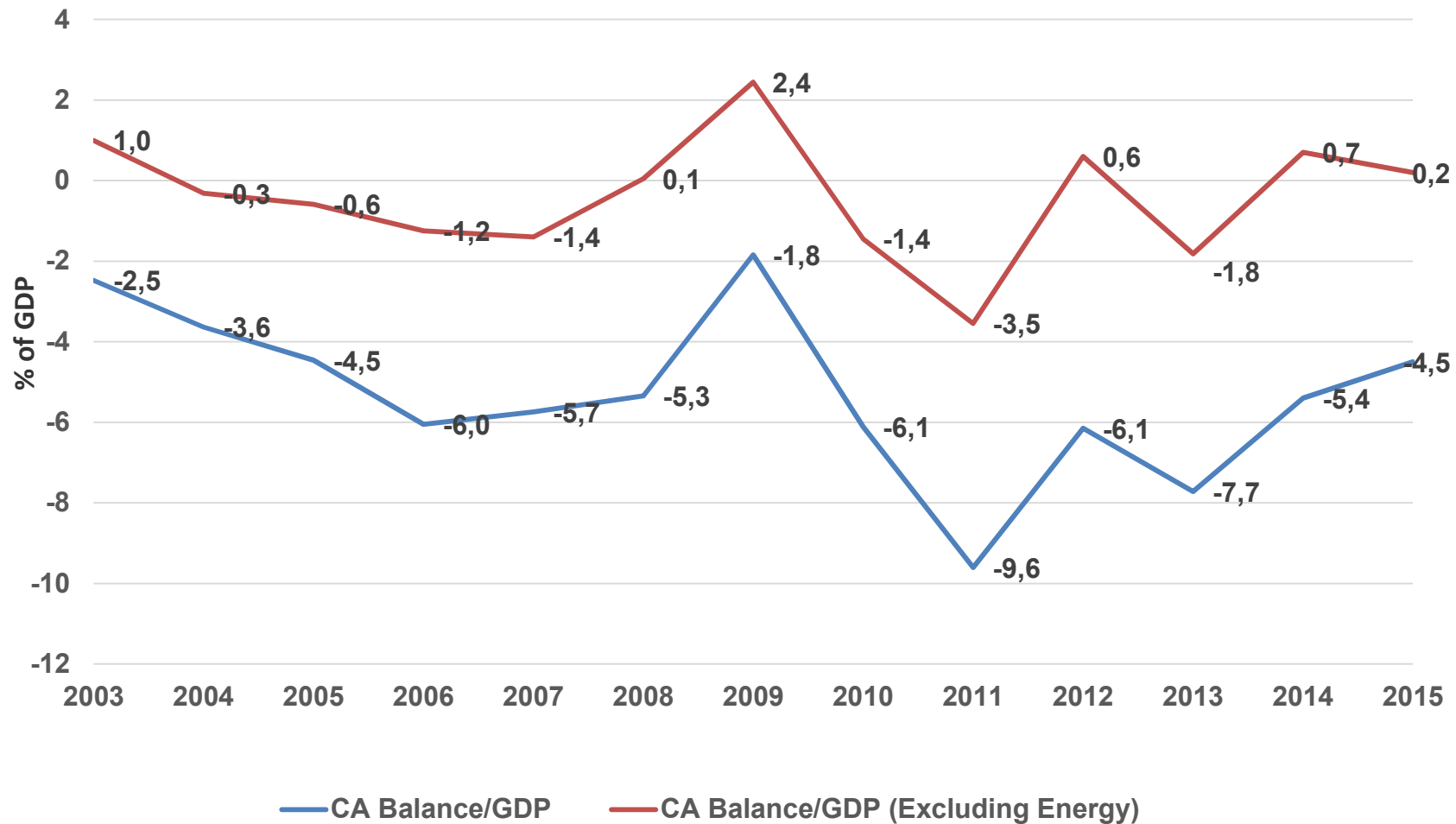
(EU Defined, % of GDP)



Source: Eurostat



# Current Account Balance (% of GDP)

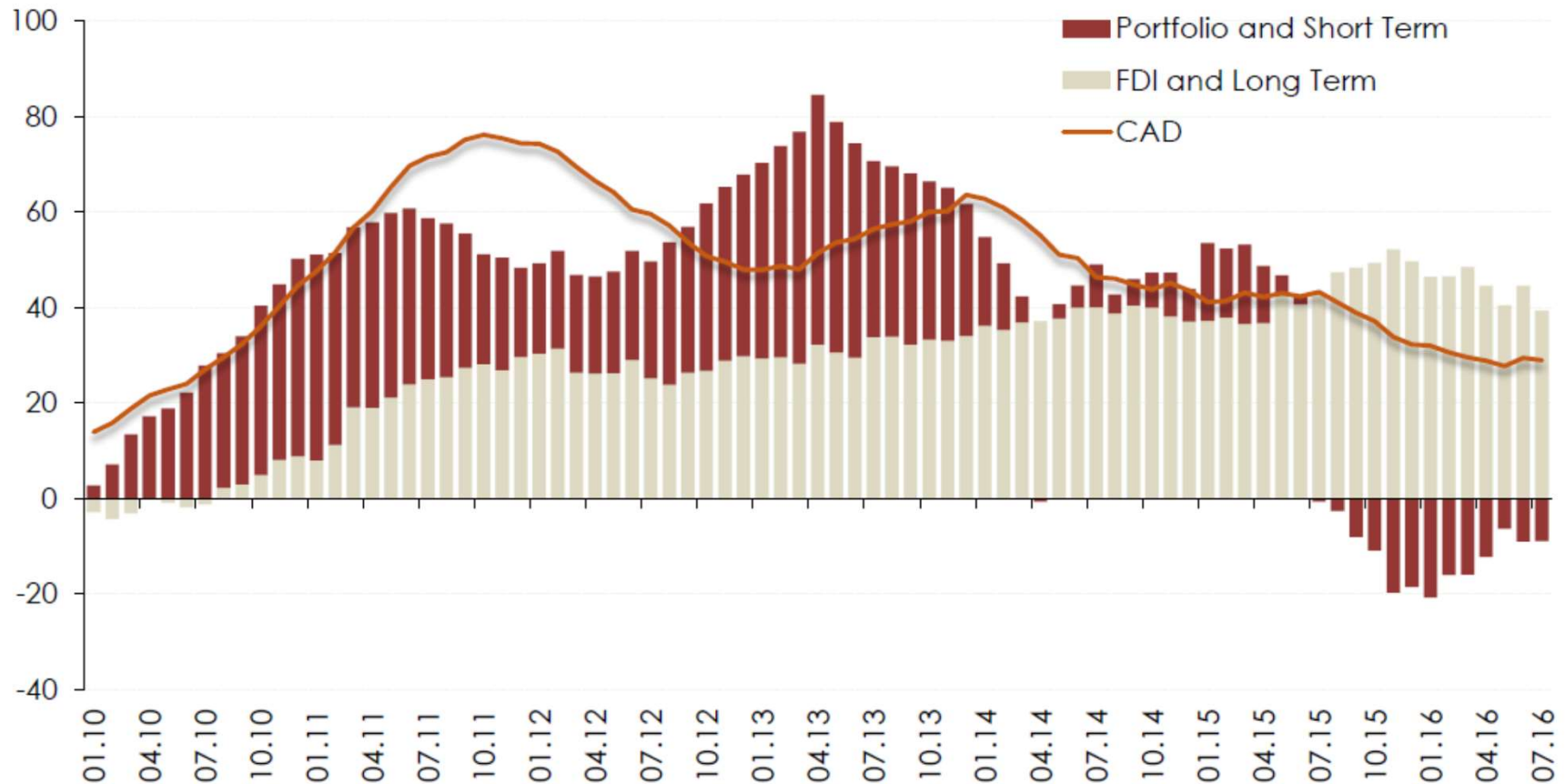


Source: CBRT, Undersecretariat of Treasury



# Financing Current Account Deficit

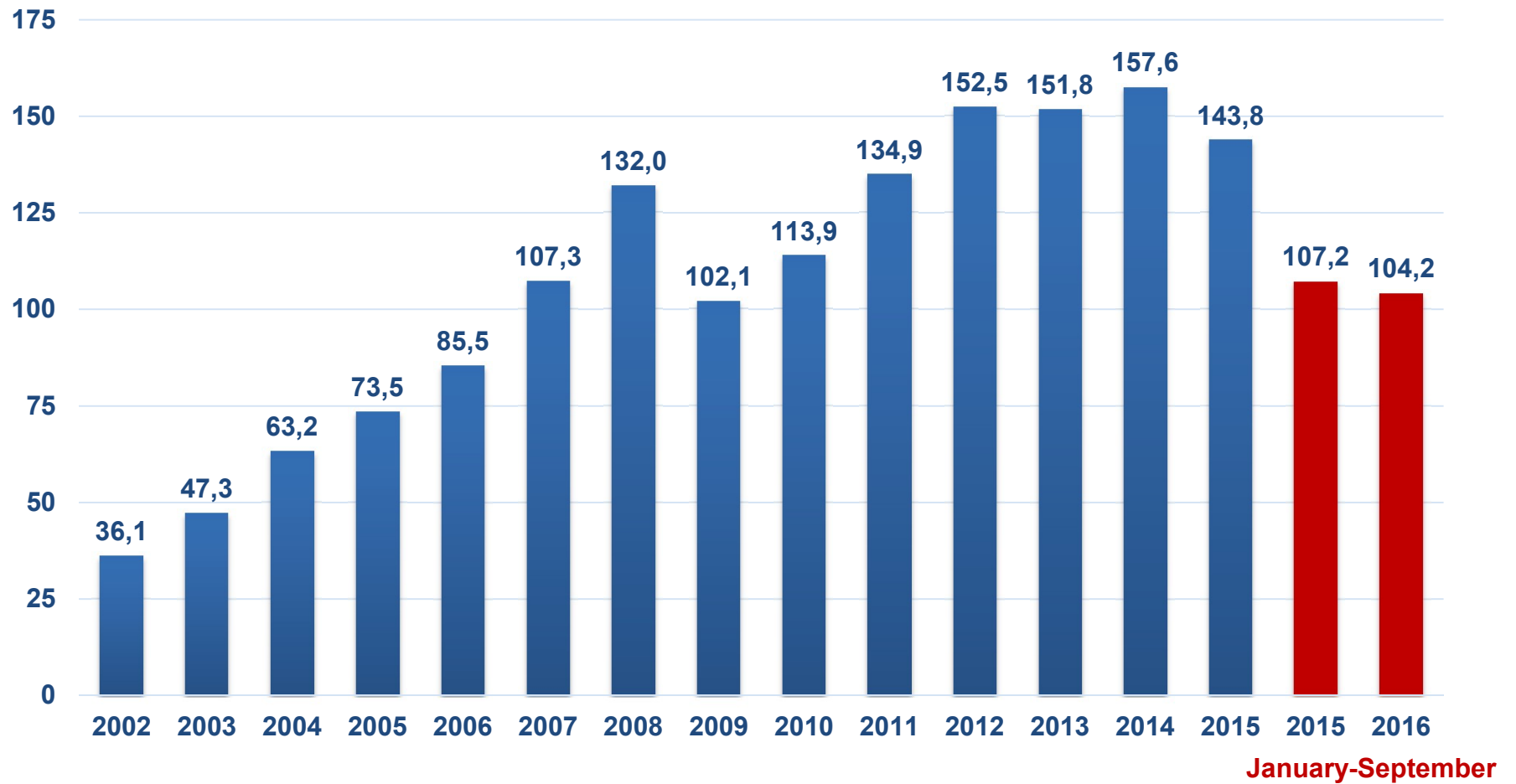
(12 month cumulative, Billion USD)



Source: CBRT



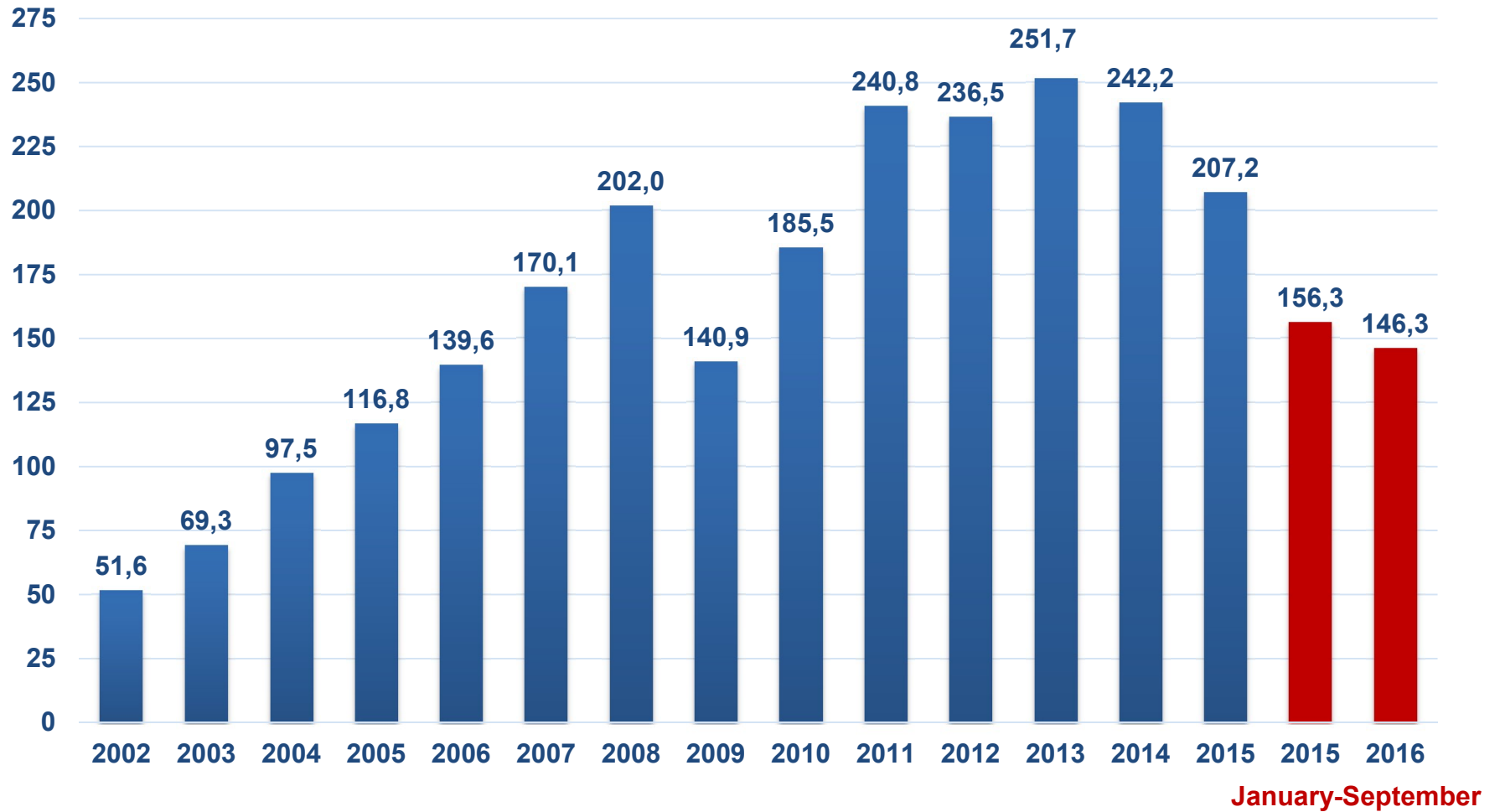
# Annual Exports (Billion USD)



Source: TURKSTAT



# Annual Imports (Billion USD)



Source: TURKSTAT



# Medium Term Program Projections (2017-2019)

	2015	2016 <sup>(1)</sup>	2017 <sup>(2)</sup>	2018 <sup>(2)</sup>	2019 <sup>(2)</sup>
<b>GDP (Billion TL, Current Prices)</b>	1.953	2.148	2.404	2.686	2.987
<b>GDP Per Capita (\$) **</b>	19.917	20.396	21.367	22.666	24.077
<b>Real GDP Growth (%)</b>	4,0	3,2	4,4	5,0	5,0
<b>Unemployment Rate(%)</b>	10,3	10,5	10,2	10,1	9,8
<b>Exports (Billion \$)</b>	143,8	143,1	153,3	170,0	193,1
<b>Imports (Billion \$)</b>	207,2	198,0	214,0	236,9	261,8
<b>Current Account Balance (Billion \$)</b>	-32,2	-31,3	-32,0	-31,7	-31,2
<b>Current Account Balance/GDP (%)</b>	-4,5	-4,3	-4,2	-3,9	-3,5

(1) Realization Estimate

(2) Program

\*\*Purchasing Power Parity

Source: Medium Term Program, Ministry of Development



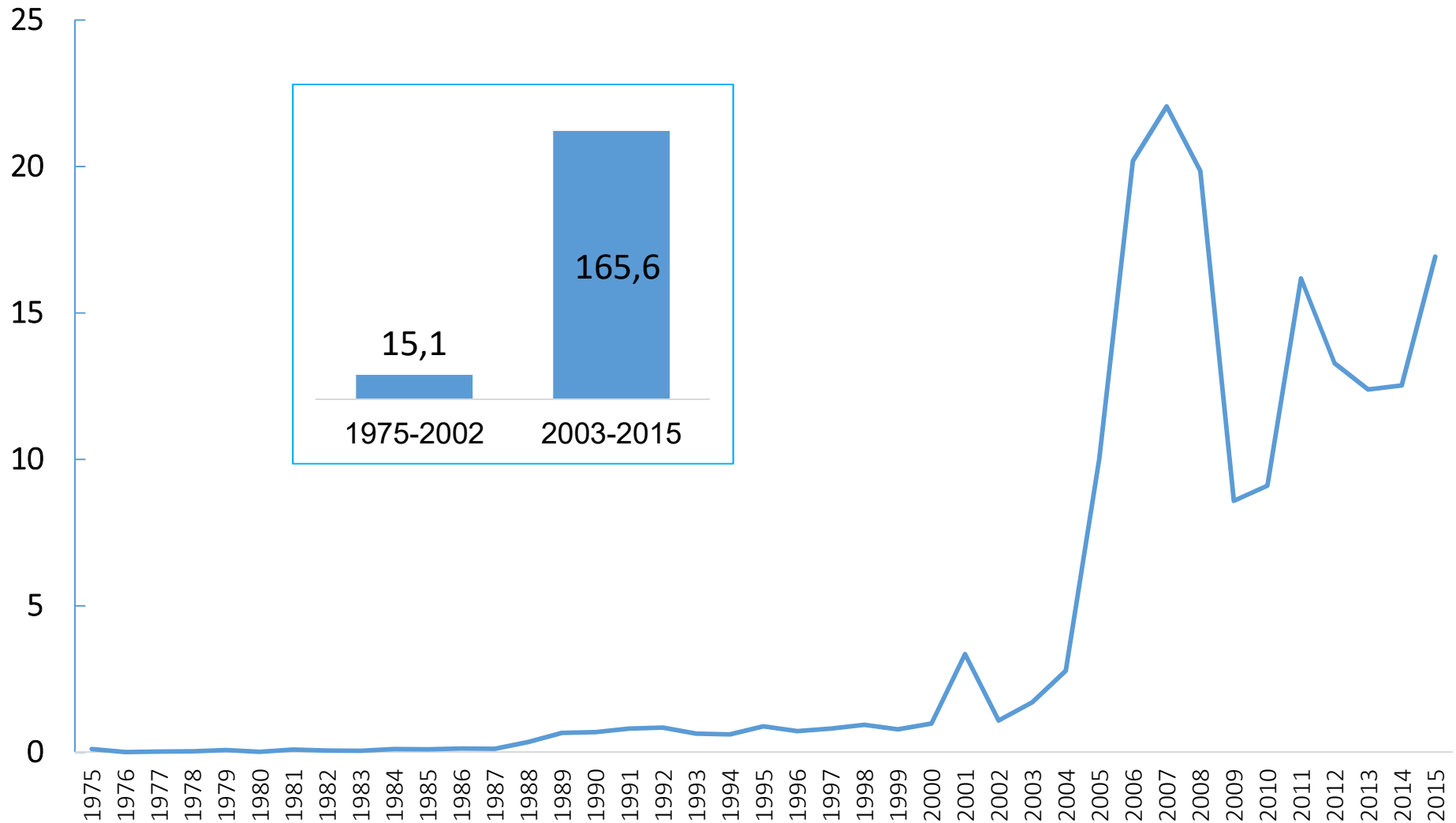


# Foreign Direct Investment Figures



# Foreign Direct Investment Flows to Turkey

USD Billion

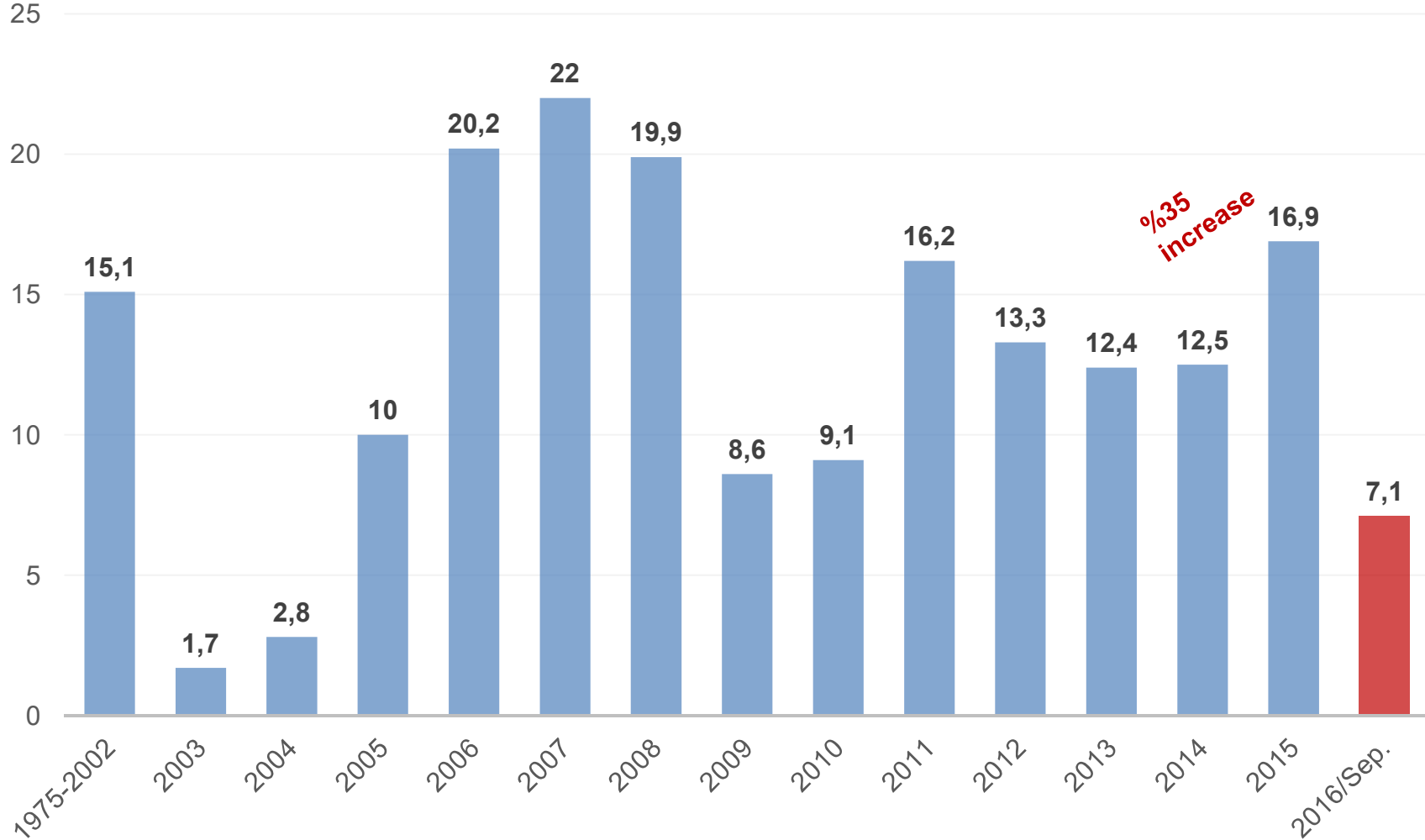


Source: Ministry of Economy, CBRT



# Foreign Direct Investment Flows (Billion USD)

USD Million

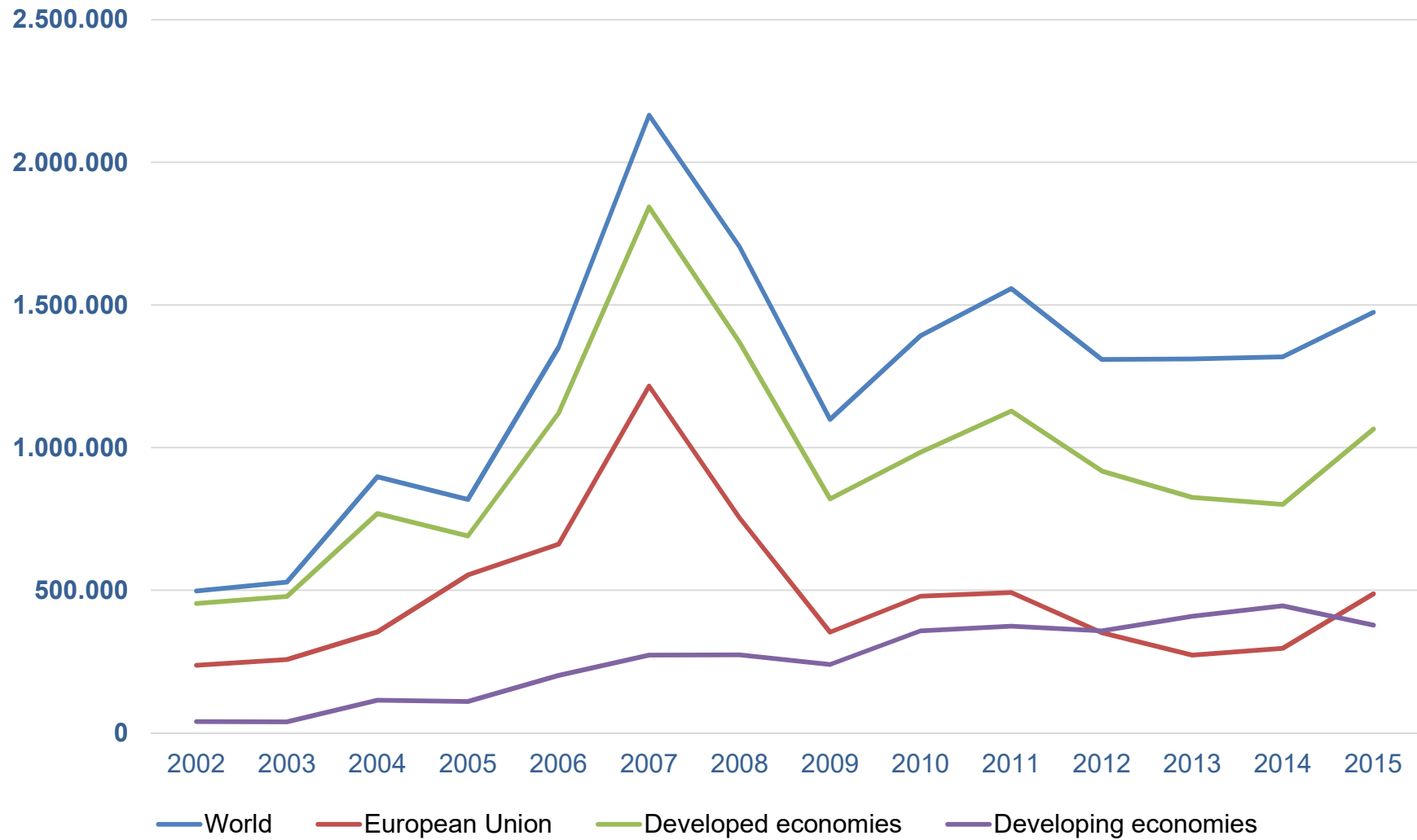


Source: Ministry of Economy, CBRT



# World FDI Outflows

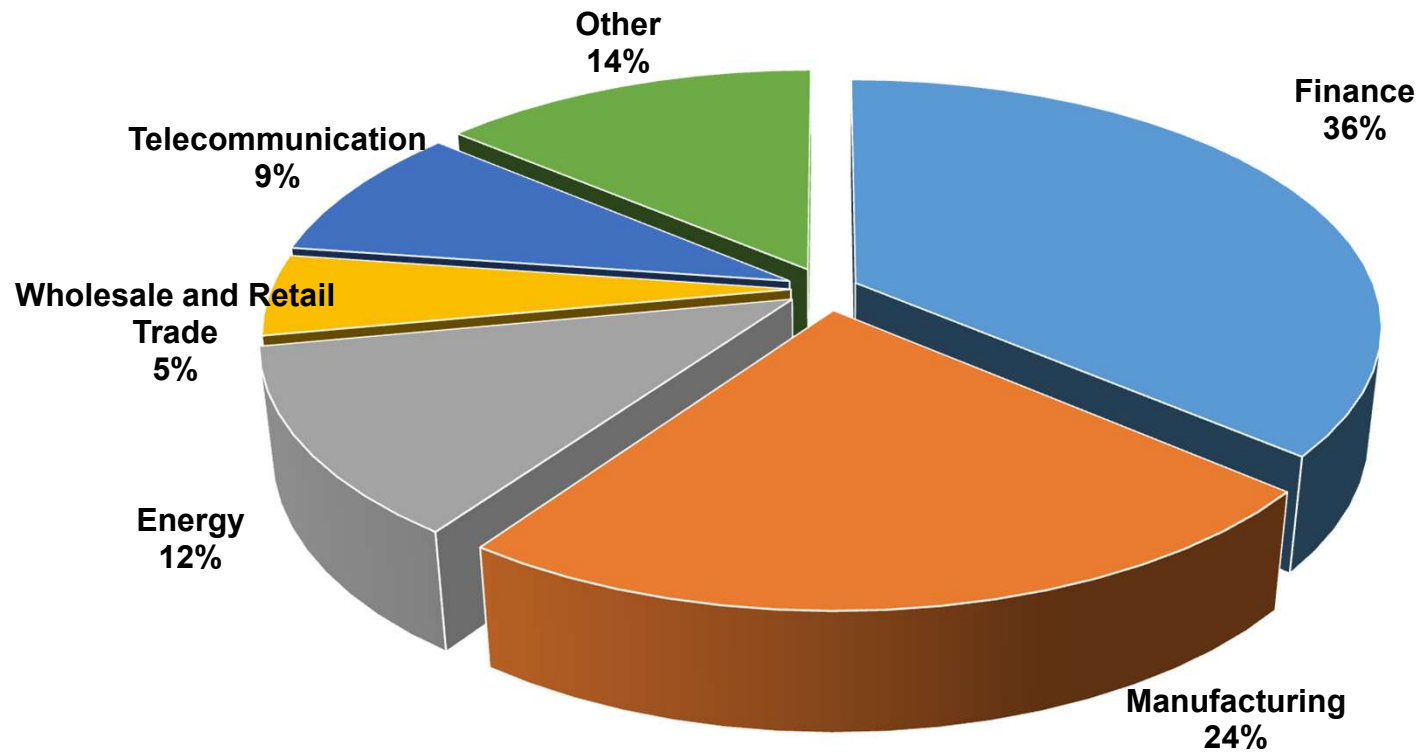
USD Million





# Industry Breakdown of FDI Inflows

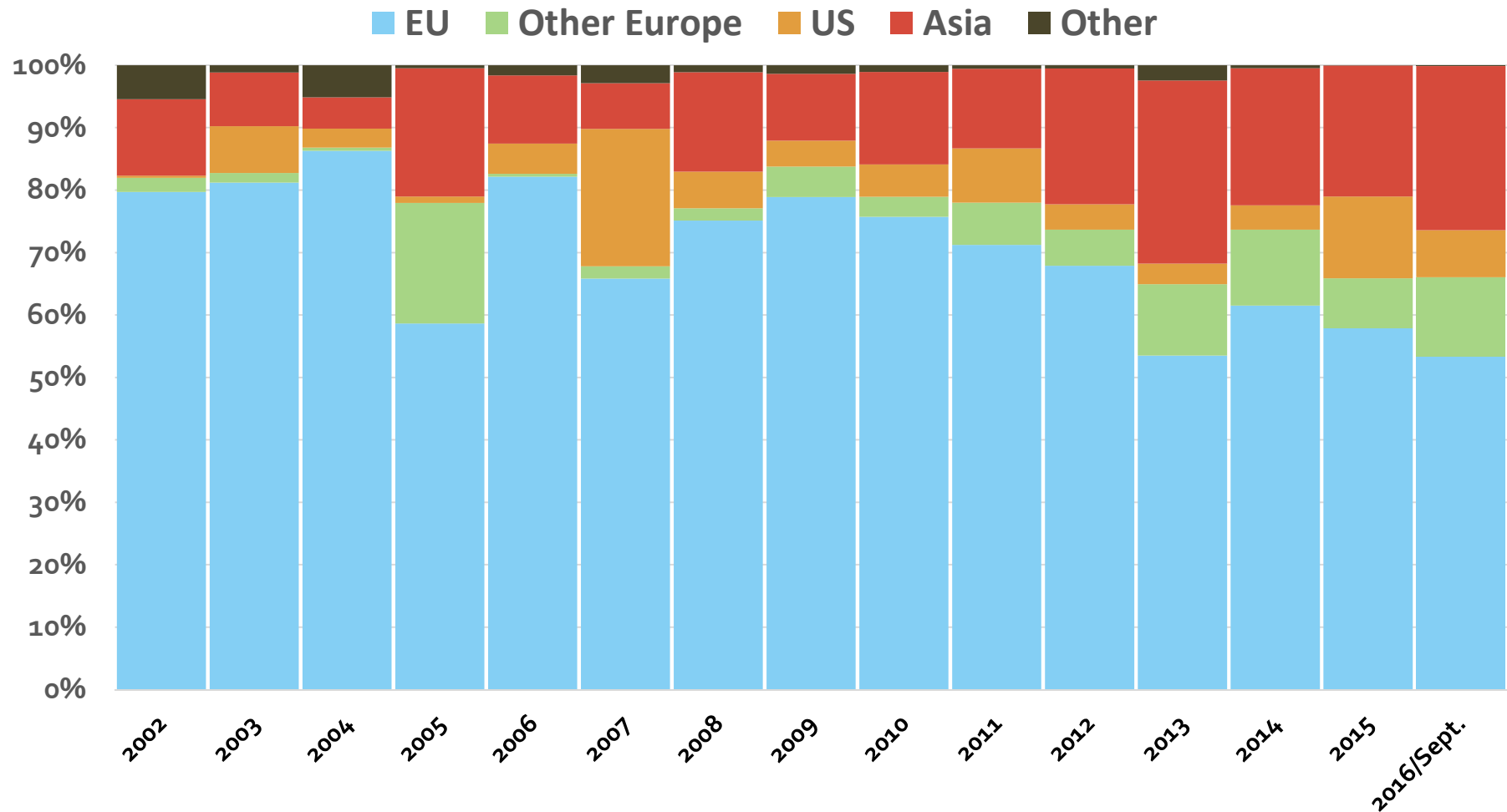
(2002-2015)



Food & Beverages	5,7%
Chemicals	3,7%
Refined Petroleum Products	3,3%
Computer and Electronic Products	2,4%
Basic Metals	2,3%
Others	6,1%



# FDI Inflows by Home Country Groups



Source: Ministry of Economy, CBRT



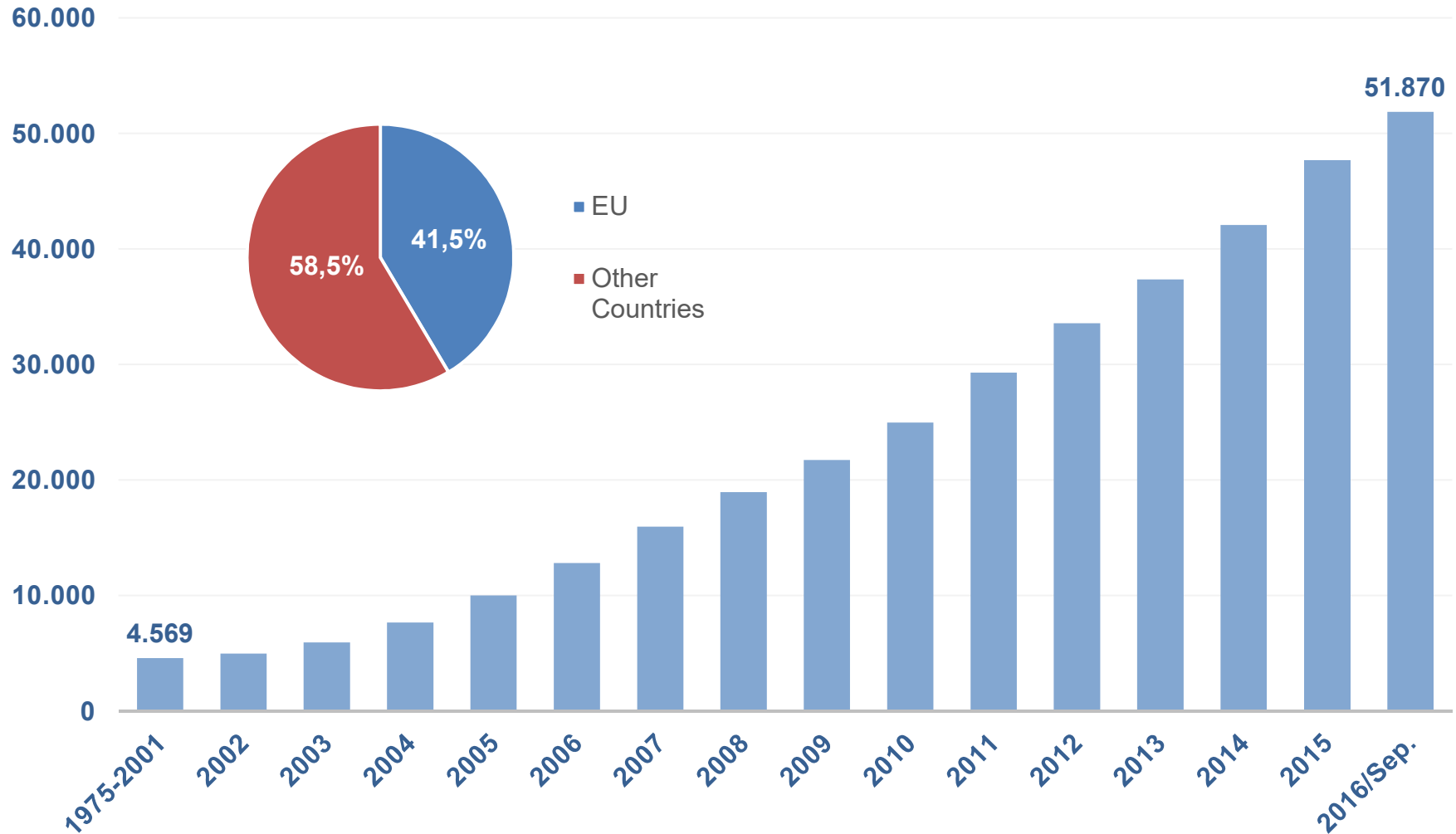
# FDI Inflows by Leading Home Countries

2014 (% in Annual Total)			2015 (% in Annual Total)			2016 / September (% in Total)			2002-2016 / September (% in Total)		
1	Netherlands	23,5	1	Spain	18.4	1	Netherlands	12,9	1	Netherlands	15.8
2	UK	12,3	2	USA	13.1	2	UK	10,1	2	USA	8.1
3	Azerbaijan	10,3	3	Luxembourg	10.6	3	Azerbaijan	9,5	3	Austria	7.1
4	Russia	8,4	4	Netherlands	9.9	4	Austria	8,6	4	United Kingdom	6.6
5	Germany	7,0	5	Azerbaijan	7.0	5	Germany	8,4	5	Luxembourg	6.5
6	Luxemburg	6,2	6	Belgium	6.3	6	USA	7,5	6	Germany	6.4
7	Italy	5,7	7	Russia	6.2	7	Russia	6,8	7	Belgium	6.0
8	USA	3,9	8	United Kingdom	5.0	8	Japan	6,2	8	Spain	5.3
9	France	3,3	9	China	3.8	9	Switzerland	5,6	9	Greece	5.0
10	Japan	3,0	10	Germany	3.2	10	Luxembourg	4,7	10	France	5.0

Source: Ministry of Economy, CBRT



# Number of Companies with Foreign Capital

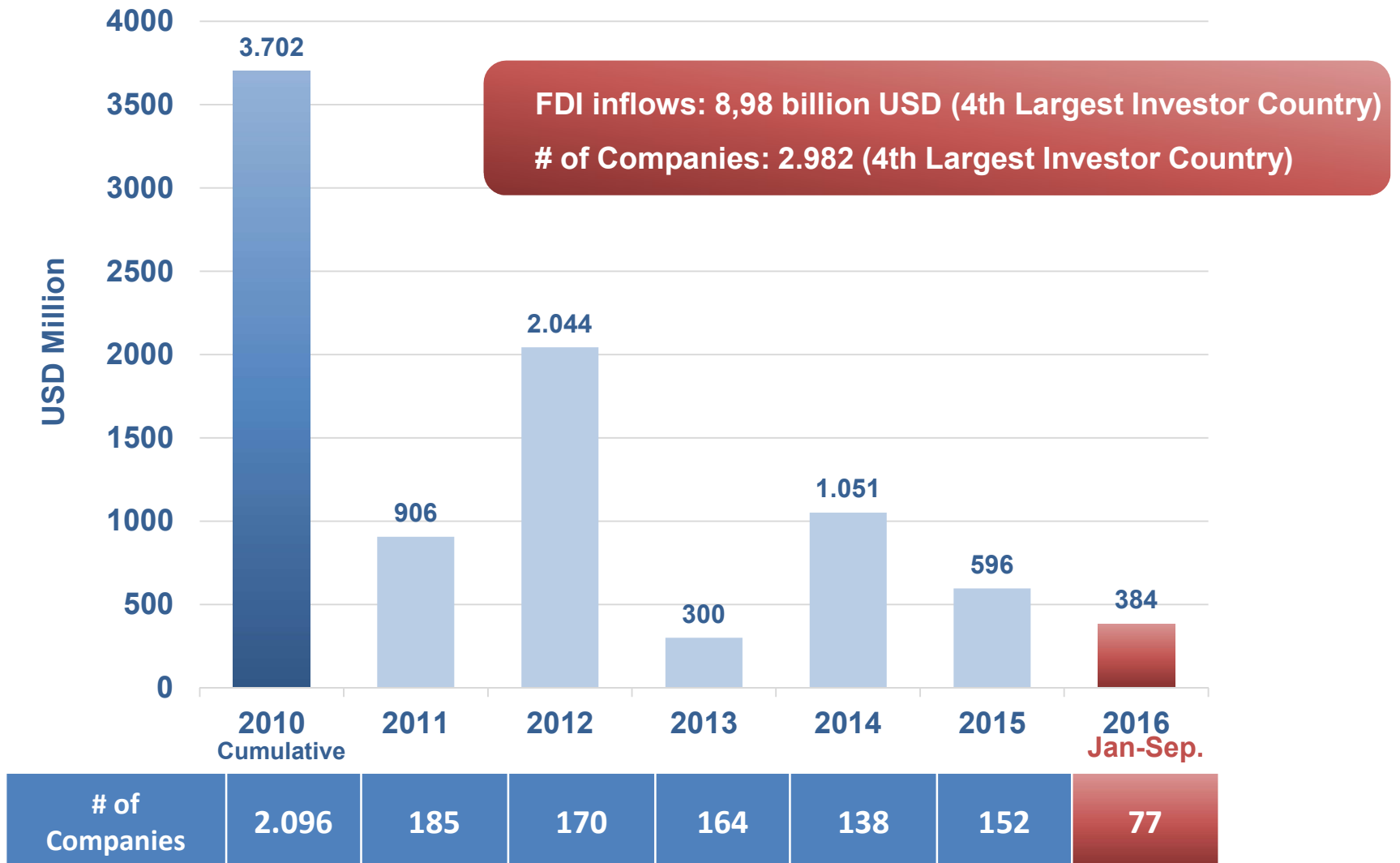


Source: Ministry of Economy





# FDI Inflows from UK

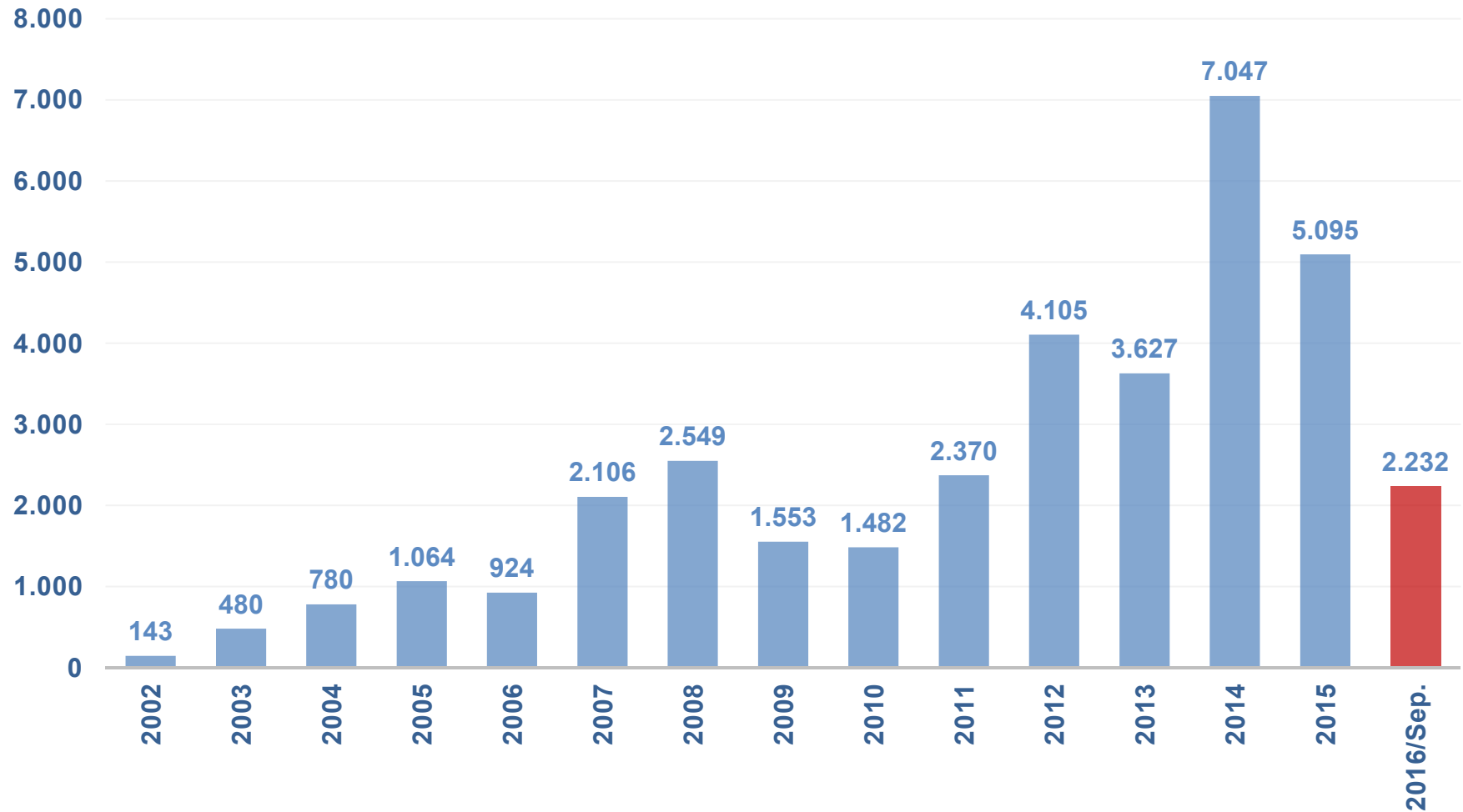


Source: Ministry of Economy, CBRT



# Outward Investments from Turkey

USD Million



Source: Ministry of Economy, CBRT



# Foreign Direct Investment Regime



# Foreign Direct Investment Regime



## Legislation

- Law No. 4875 (June 17, 2003)

## Foreign Direct Investor

- Foreign real person
- Foreign legal entity established under the laws of foreign countries

## Foreign Direct Investment

- Establishing a new company or branch of a foreign company
- Acquisitions of shares in a company established in Turkey

## Main Principles

- National treatment
- No pre-entry screening/minimum capital requirements
- Right to acquire real estate
- Guarantee to free transfer of proceeds, dividends and other financial assets
- Right to employ key expatriate staff
- Right to access international dispute settlement



# Acquisition of Real Estate by Foreigners



## Real Person

- No reciprocity requirement
- Up to 30 hectares
- Project development requirement within 2 years for vacant land acquisitions
- Upper limit of 10% of the privately owned land in a town for total foreign acquisitions

## A Company established under the laws of a foreign country

- Acquisition possible only according to special laws  
(Petroleum Law, Tourism Encouragement Law, Industrial Zones Law)

## A Foreign Direct Investment Company established in Turkey

- Can acquire real estate to conduct business activities listed in the articles of incorporation
- Review procedure only for foreign direct investment companies with majority foreign ownership or control
- No review procedure for acquisitions in Organized Industrial Zones, Industrial Zones, Technology Development Zones and right in rem
- Permission required for acquisitions in military zones and special security zones



# International Legal Framework of FDI in Turkey

## Bilateral Investment Treaties

- Signed with 99 countries
- 76 treaties are in force
- Turkey-UK Bilateral Investment Treaty (1996)

## Avoidance of Double Taxation Treaties

- 82 treaties are in force
- Turkey-UK Avoidance of Double Taxation Treaty (1988)

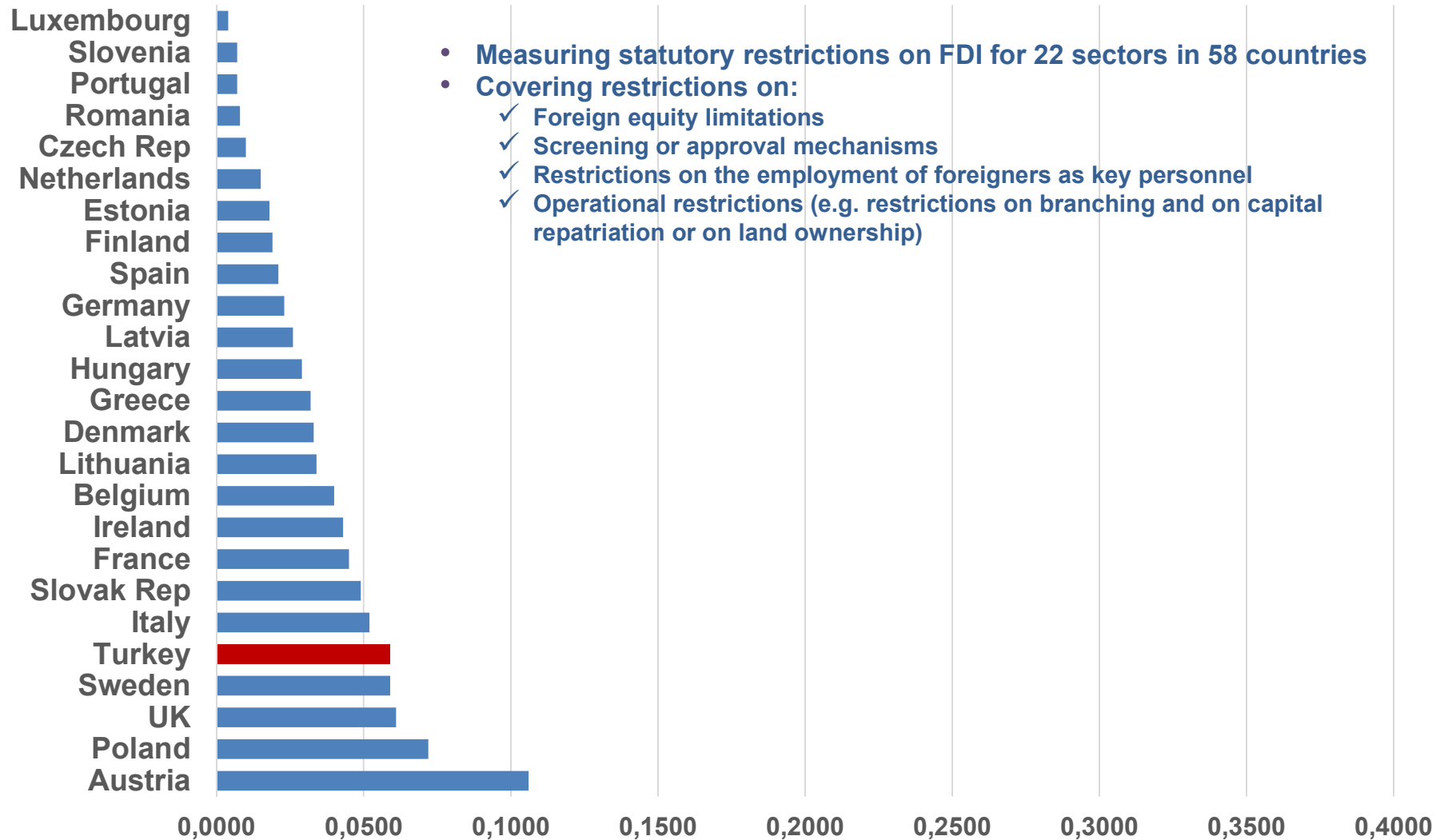
## Free Trade Agreements (Investment Chapter)

- Signed with Singapore and S. Korea
- Negotiations are in progress with 5 countries



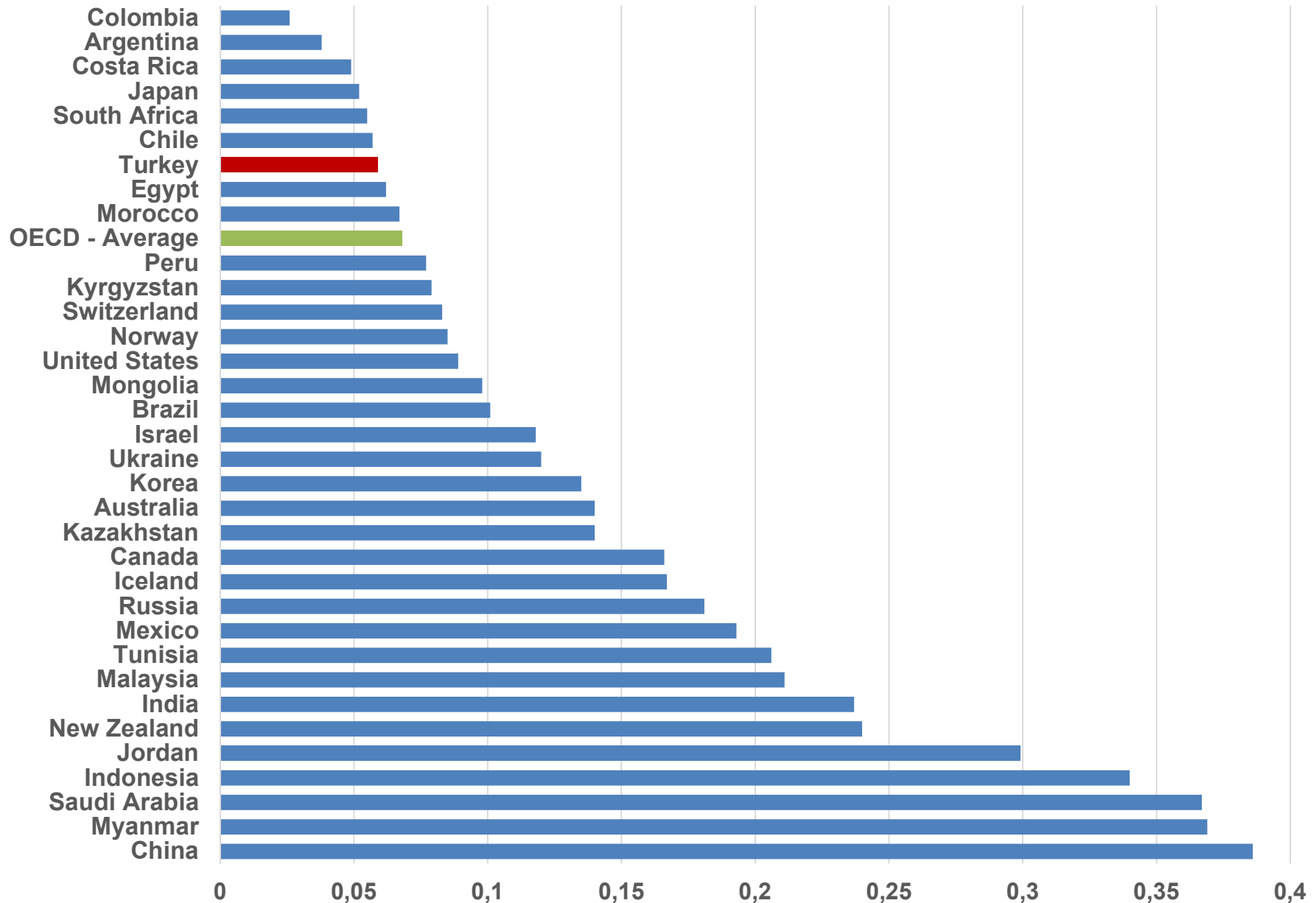
# OECD FDI Regulatory Restrictiveness Index 2015

## EU Members and Turkey





# OECD FDI Regulatory Restrictiveness Index 2015







# Investment Climate



# Investment Climate Reform in Turkey



- ✓ Streamlining procedures for investments and eliminating administrative and bureaucratic hurdles in line with changing priorities and needs of business
- ✓ Political ownership
- ✓ Making full use of public-private dialogue through permanent platforms:

**The Coordination Council  
for the Improvement of Investment Environment**

**Investment Advisory Council**

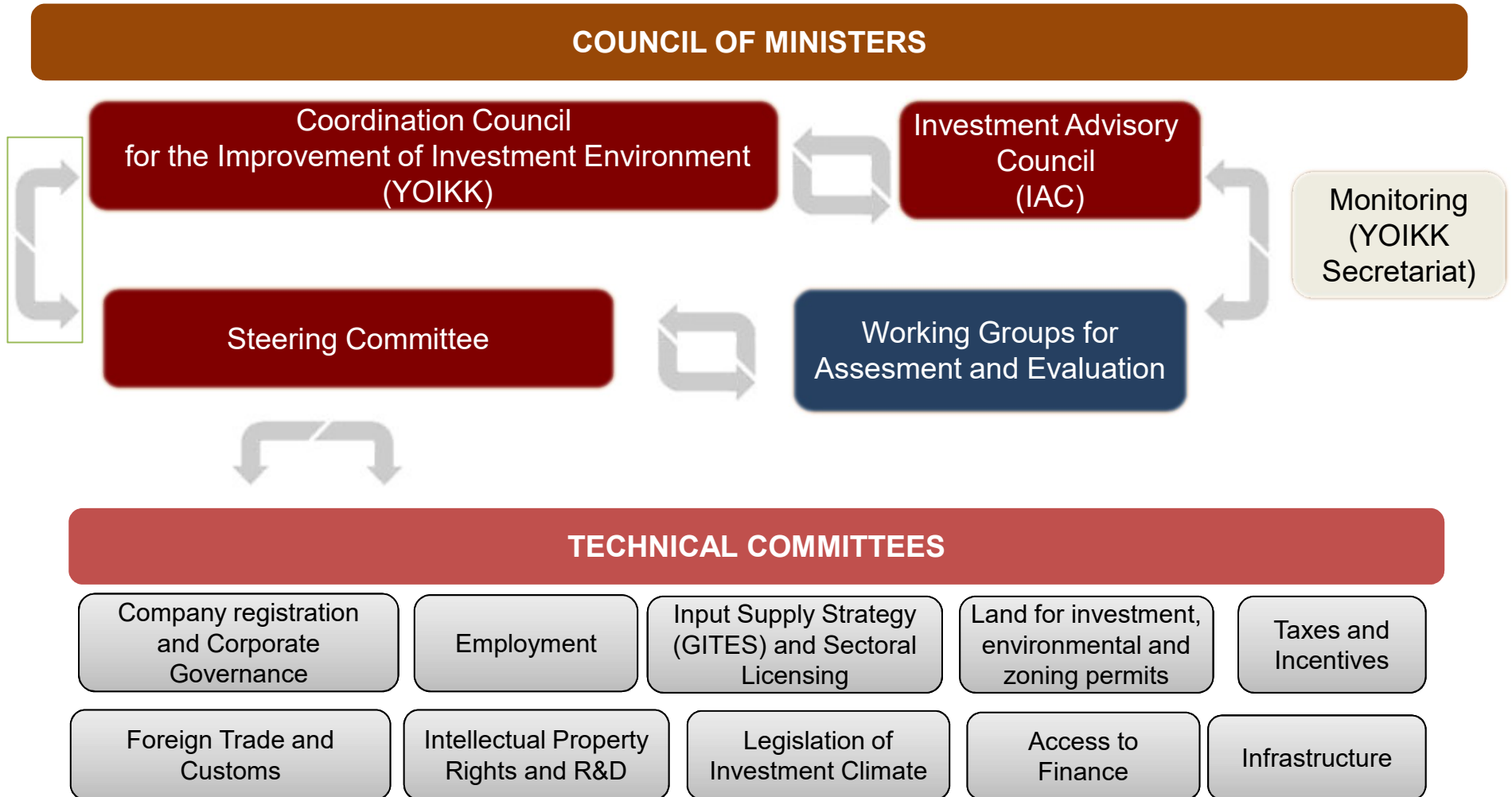


# Investment Climate Reform in Turkey

- **2001:** Establishment of the Coordination Council for the Improvement of the Investment Environment (YOİKK) as a platform for **the Public- Private Sector Dialogue** to improve the investment climate of Turkey
- **2012, 2014 and 2016:** The YOİKK System was revised so as to enhance its the ability to address the issues related to investment climate of Turkey
  - **New Structure:**
    - ❖ Chaired by **Deputy Prime Ministry**
    - ❖ **15 Institutions and NGOs participate** in the YOİKK including 9 Ministries related to Investments and 6 NGOs which are **TOBB, TIM, TUSIAD, YASED, MUSIAD, and DEİK**
    - ❖ The Council conducts its agenda through 10 Technical Committees
    - ❖ The Council prepares **annual action plans**



# Platforms of Investment Climate Reform



For more information: <http://yoikk.gov.tr>



# Platforms of Investment Climate Reform



## Investment Advisory Council

- Hosted by the chair of Prime Minister Binali Yıldırım
- Presidents of the World Bank and IMF and top-level Executives of major multinational corporations
- Since 2004, 66 firms from 20 different countries and 22 different sectors participated in 8 IAC Meetings.
- The 9th Meeting held on October 27, 2016





# Recent Investment Climate Legislations

- Between 17<sup>th</sup> and 19<sup>th</sup> of August 2016, the technical committees held meetings with the participation of relevant institutions and NGOs so as to identify new potential action items for the upcoming period.
- The Action Plan of 2016-2017 has been approved with 44 new action items.
- “Law Regarding Improvement of the Investment Environment” - August 9, 2016
- “International Labor Law” - August 13, 2016
- “Law Regarding Establishment of Turkey’s Sovereign Wealth Fund” - August 26, 2016
- Project Based Investment Incentives System introduced –September 7, 2016
- Revisions on Investment Incentives System put in effect– October 5, 2016



# Investment Incentive Programs



# Investment Incentive Programs

## Region & Industry Based Program

Regional	 
Large Scale Investment	 
Priority Investment	
Strategic Investment	
General	

## Project Based Program

Projects with a minimum investment threshold of USD 100 Million



## Business Attraction Centers

Start-ups, Business rehabilitation and Investment relocation



## Incentives for R&D and Design

R&D and design investment projects with a minimum 15 or 30 R&D personnel employment.







## Region & Industry Based Investment Incentive Program

Support Measures	General Investment Incentive Scheme	Regional Investment Incentive Scheme	Priority Investment Incentive Scheme	Large Scale Investment Incentive Scheme	Strategic Investment Incentive Scheme
VAT Exemption	✓	✓	✓	✓	✓
Customs Duty Exemption	✓	✓	✓	✓	✓
Tax Deduction		✓	✓	✓	✓
Social Security Premium Support (Employer's Share)		✓	✓	✓	✓
Income Tax Withholding Support *	✓	✓	✓	✓	✓
Social Security Premium Support (Employee's Share) *		✓	✓	✓	✓
Interest Support **		✓	✓		✓
Land Allocation		✓	✓	✓	✓
VAT Refund***					✓

\* Provided that the investment is made in the Region 6

\*\* Provided that the investment is made in the Regions 3, 4, 5 or 6 within the frame of the Regional Investment Incentive Scheme.

\*\*\* For Strategic Investments with a minimum fixed investment amount of 500 million TL



# Region & Industry Based Program: Regions





## Region & Industry Based Program: Support Measures

<b>VAT Exemption</b>	<b>For machinery and equipment, imported or local (18%)</b>
<b>Customs Duty Exemption</b>	<b>For imported machinery and equipment (2% on average)</b>
<b>Tax Deduction</b>	<b>15 to 65% of fixed investment depending on location/industry</b>
<b>Social Security Premium Support (Employer's Share)</b>	<b>For employment generated for 2 to 12 years depending on location/industry (19,5 % reduction in labor cost)</b>
<b>Interest Support</b>	<b>On credits used for investment financing (3-7% for TL, 1-2% for FX credits)</b>
<b>Land Allocation</b>	<b>Government land allocated for the investments</b>
<b>Only For Region 6 (The Most Favored Region)</b>	
<b>Income Tax Withholding Support</b>	<b>For employment generated for 10 years (4,6% reduction incost)</b>
<b>Social Security Premium Support (Employee's Share)</b>	<b>For employment generated for 10 years (11,5% reduction incost)</b>



## Region & Industry Based Program: Support Measures

Support Measures	General Investment	Regional Investment	Large Scale Investment	Strategic Investment
VAT Exemption	✓	✓	✓	✓
Customs Duty Exemption	✓	✓	✓	✓
Tax Deduction	-	15–55 %	25–65 %	50 %
Social Security Premium Support (Employer's Share)	-	2–12 years	2–12 years	7 years
Interest Support	-	3-7% for TL 1-2% for FX	-	5% for TL 2% for FX
Land Allocation	-	✓	✓	✓
Only For Region 6 (The Most Favored Region)				
Income Tax Withholding Support	10 years	10 years	10 years	10 years
Social Security Premium Support (Employee's Share)	-	10 years	10 years	10 years



## Region & Industry Based Program: Contributions to Labor Cost

MINIMUM WAGE AND DEDUCTIONS (01.01.2016-31.12.2016)		
	Components of Labor Cost (Legal Minimum Wage)	Deductible Amounts with Support Measures
Gross Wage	1.647,00 TL (≈387 GBP)	-
Worker's Share of Social Security Premium	230,58 TL (≈54 GBP)	230,58 TL (≈54 GBP)
Worker's Share of Unemployment Insurance Premium	16,47 TL (≈4 GBP)	-
Income Tax Withholding	209,99 TL (≈49 GBP)	209,99 TL (≈49 GBP)
Stamp Duty	12,50 TL (≈3 GBP)	-
Total Deductions	346,01 TL (≈81 GBP)	-
Net Wage	1.300,99 TL (≈305 GBP)	-
EMPLOYER'S SHARE IN MINIMUM WAGE (01.01.2016-31.12.2016)		
Employer's Share in Social Security Premium (% 20.5)	337,64 TL (≈79 GBP)	337,64 TL (≈79 GBP)
Employer's Share of Unemployment Insurance Premium (% 2)	32,94 TL (≈8 GBP)	
LABOR COST TO EMPLOYER	1.935,23 TL (≈454 GBP)	778,21 TL (≈183 GBP)



## Region & Industry Based Program: Priority Investments

**Priority investments benefit from terms and rates of the support measures of Region 5 regardless of in which region investment is made except Region 6 where higher rates/terms are available.**

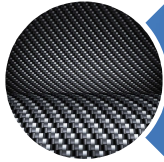


### Investments in manufacturing high-tech products

- Pharmaceuticals
- Office, accounting and computing machinery
- Radio, TV and communications equipment
- Medical, precision and optical instruments
- Aircraft and spacecraft



## Region & Industry Based Program: Priority Investments



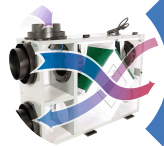
**Investment for  
production of carbon  
fiber or composite  
materials**



**International  
fairground  
investments**



**Manufacturing of high-  
technology products  
classified according to  
OECD technology  
intensive definition.**



**Investments on  
production of  
electricity through  
waste heat recovery**



**Maritime  
transportation**



**Investments made to  
manufacture turbines  
and generators for  
renewable energy and  
wind turbine wings for  
wind power**



**Investment made to  
generate electricity  
from coal**



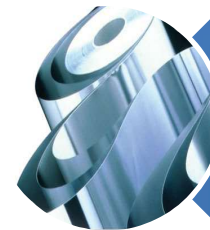
**Tourism investments in  
Cultural and Touristic  
Preservation and  
Development Regions**



**Railway  
transportation**



**High-technology  
industries**



**Integrated investments  
for aluminium flat  
products using direct  
chill slab casting and  
hot rolling methods.**





## Region & Industry Based Program: Priority Investments



**Production of  
products  
developed by an  
R&D Project**



**Specific  
automotive and  
engine investments**



**Test facilities, wind  
tunnel and similar  
investments**



**Education  
Investments**



**Mining and Mineral  
Exploration  
Investments**



**Energy efficiency  
investments of  
manufacturing  
facilities**



**Defense Industry  
investments**



**Liquefied natural  
gas (LNG) and  
underground gas  
storage**





## Region & Industry Based Program: Priority Investments

Support Measures		Terms and Rates of Supports
VAT Exemption		✓
Customs Duty Exemption		✓
Tax Deduction	Rate of Contribution to Investment (%)	40
	Tax Deduction (%)	80
Social Security Premium Support (Employer's Share)		7 years
Land Allocation		✓
Interest Support	TL denominated Loans	5 points
	FX denominated Loans	2 points



## Region & Industry Based Program: Large Scale Investments

No	Investment Subject	Minimum Investment Amount Million TL (≈ GBP )
1	Production of Refined Petroleum Products	1000 (≈GBP 234,8)
2	Production of Chemical Products	200 (≈GBP 47)
3	Harbours and Harbour Services and Airport Investments	200 (≈GBP 47)
4	Automotive OEM and Supply Industries	200 (≈GBP 47) 50 (≈GBP 11,7)
4-a	Automotive OEM Investments	
4-b	Automotive Supply Industries Investments	
5	Railway and Tram Locomotives and/or Railway and Tram Cars	50 (≈GBP 11,7)
6	Transit Pipe Line Transportation Services	
7	Electronics	
8	Medical, High Precision and Optical Equipment	
9	Pharmaceuticals	
10	Aircraft and Space Vehicles and/or Parts	
11	Machinery (Including Electrical Machinery and Equipment)	
12	Integrated Metal Production	



## Region & Industry Based Program: Strategic Investments

### Objectives of the Strategic Investments Scheme:

- Support production of intermediate and final products with high import dependence with a view to reduce current account deficit
- Encourage high-tech and high value added investments with a potential to strengthen Turkey's international competitiveness

### Project Eligibility Criteria:

- Production of import dependent intermediate goods or final products (more than 50% supplied by imports)
- 50 Million TL (≈GBP 11,7 Million) minimum investment amount
- Minimum 40% value added to be generated
- Import in the last year should be at least \$ 50M (not required for goods with no domestic production)



## Region & Industry Based Program: Strategic Investments

Support Measures		For all Regions (1,2,3,4,5,6)
VAT Exemption		✓
Customs Duty Exemption		✓
Tax Deduction	Rate of Contribution to Investment (%)	50
Social Security Premium Support (Employer's Share)	Support Period	7 Years (10 years for 6th region)
Land Allocation		✓
Interest Support	Local Loans	5 points
	Foreign Exchange/ FX denominated loans	2 points
Social Security Premium Support (Employee's Share)		10 years (only for investments in the Region 6)
Income Tax Withholding Support		10 years (only for investments in the Region 6)
VAT Refund		✓ only for the expenditures of building for investments over 500 million TL (≈GBP 117,4 million)



# Project Based Investment Incentive Program

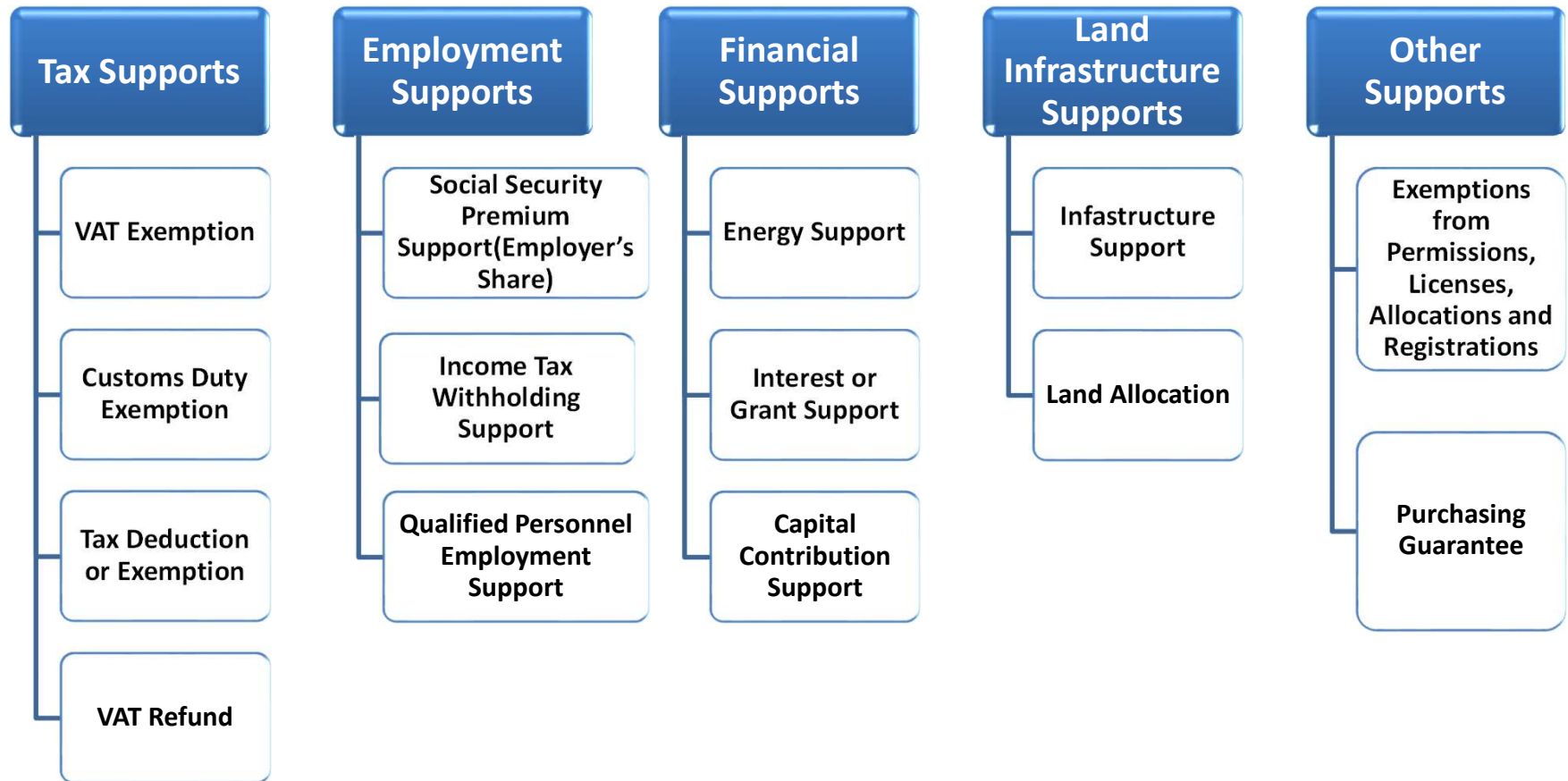
- Introduced in an Act on September 7th, 2016.
- Implementing Principles have been announced by a Council of Ministers Decree on November 26th, 2016.

## **Objectives of the Project Based Investment Incentive Program and eligibility qualifications:**

- Supplying critical production needs of Turkey
- Ensuring supply security
- Reducing import dependency
- Supporting projects which enable technological transformation, positive spillover in several industries and involve innovation, R&D and high value added production to enhance technological capacity of Turkey
- Transferring new generation technologies for productions that do not exist in Turkey
- Supporting projects that can contribute to competitiveness of the country
- Facilitating production of high value added final products in industries which potentially have negative effect on external balances and operate on scarce raw materials
- Supporting investment projects which target making use of raw material potentials of Turkey through integrated processes.
- Projects with an investment of USD 100 million or above.



# Project Based Investment Incentive Program: Support Measures





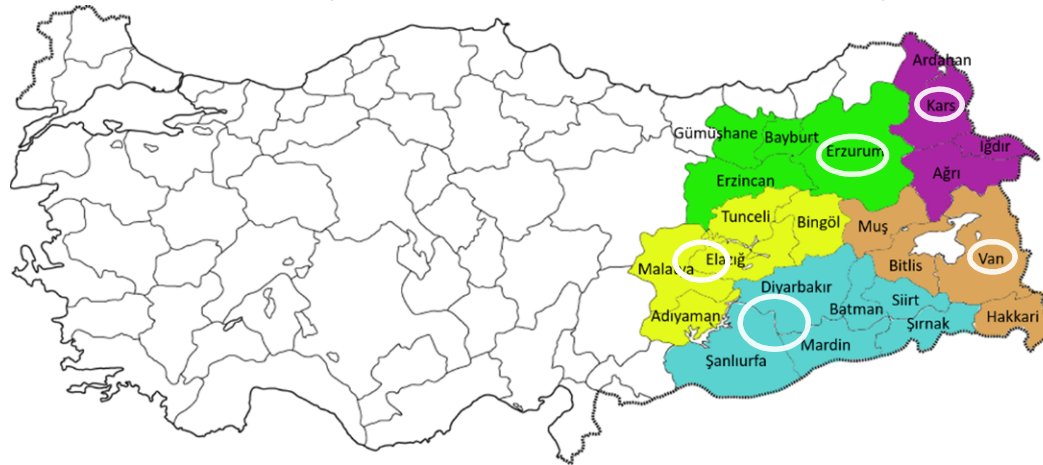
# Project Based Investment Incentive Program

- Ministry of Economy will announce projects to be supported or make invitation to potential investors.
- Investors responding to announcement/invitation can make a proposal requesting most critical support measures which are necessary for project feasibility in return for committed outcomes of the project.
- If there emerges a mutually acceptable agreement the Council of Ministers issues a communique for the project to put in effect a legally binding contract involving commitments of both government and investor. Ministries/government agencies and investor fulfill obligations in accordance with terms of this communique.
- Potentially eligible investment fields:
  - Integrated metallurgy investments
  - Petrochemicals
  - Medical equipment and health related technologies
  - Pharmaceuticals, biotechnology and nanotechnology investments
  - Light rail systems and high-speed trains
  - Air, naval and ground defence systems, aircraft and space technologies
  - Information and telecommunication technologies



# Business Attraction Centers Program

- Put in effect on November 22nd, 2016.
- 5 Region – 8 Centers – 23 Provinces
- to be implemented by the Development Bank of Turkey.



## **Objectives of the Program:**

- Reducing inter-regional development disparities through strong support measures to increase employment, production and exports in five business attraction regions covering 23 provinces in the Eastern and South-Eastern Anatolia.
- Support measures will be available for new projects, uncompleted projects, projects requiring working capital or inactive completed projects

## **Support Measures:**

- Credits for investment financing with no interest
- Credits with reduced interest rates for working capital
- Support for relocating costs of production facilities to be transferred to a province covered in this program
- Support for receiving professional business consulting services
- Investment land allocation for free
- Turnkey factory building for free
- Supports for Call Centers and Data Centers





# Incentives for R&D and Design

## ***R&D and Design Centers***

- Legislation on Supporting R&D and Design – put in effect in 2008 and upgraded in 2016
- 299 R&D Centers established by private sector:
  - ✓ Employing 28.931 R&D staff
  - ✓ 14.060 projects completed or in progress
  - ✓ 5.105 patent registration/application

## ***Basic Eligibility Criteria:***

- Minimum number of R&D/Design personnel 15 (or 30) for R/D Centers and 10 for Design Centers
- Projects qualifying to be R&D or Design projects will be carried out in Turkey

## ***Support Measures:***

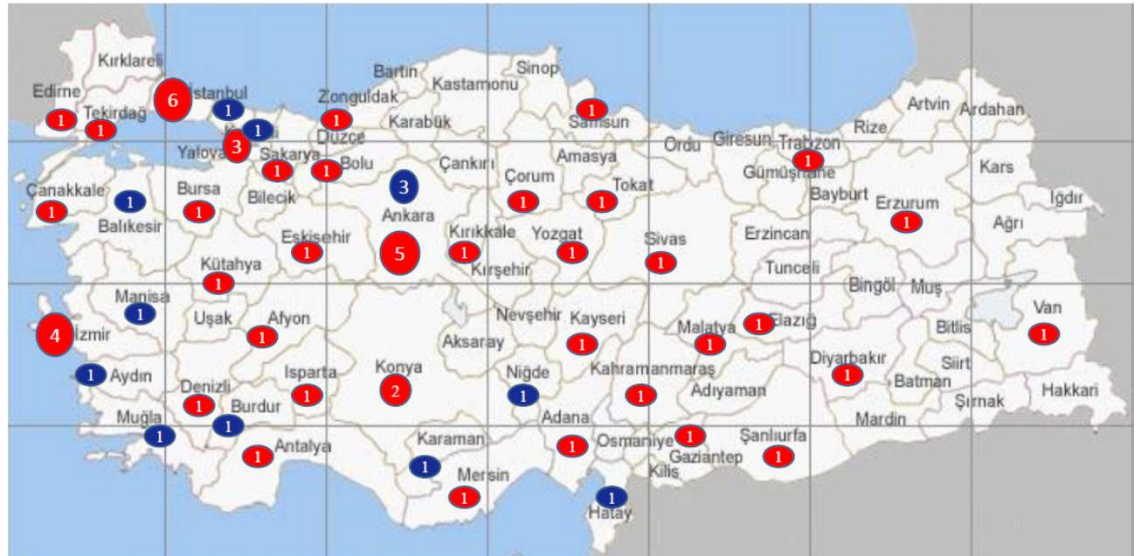
- 100% deduction of R&D expenditure from the tax base
- 50% of the social security employer's share calculated on the remunerations received by R&D, design and support personnel can be paid by government.
- Remunerations received by R&D, design and support personnel can be exempt from income tax at the rates of 95%, 90% and 80% depending on the education status of the personnel.
- Stamp duty exemption for papers issued and transactions conducted
- Goods imported from foreign countries for R&D projects are exempt from customs duties



# Incentives for R&D and Design

## *Technology Development Zones*

- 51 TDZs in Turkey since the beginning of implementation in 2001.
- 4.217 companies are operating in the TDZ and employing 41.172 R&D and technical personnel
- 29.317 projects completed or in progress



## *Support Measures:*

- Profits derived from software development, R&D, and design activities are exempt from income and corporate taxes
- Sales of application software produced exclusively in TDZs are exempt from VAT 100% deduction of R&D expenditure from the tax base
- Wages of R&D, design, and support personnel employed in the zone are exempt from all taxes
- 50% of the employer's share of the social security premium will be paid by the government
- Stamp duty exemption for papers issued and transactions conducted
- Goods imported from foreign countries for R&D projects are exempt from customs duties



## Summing up:

- ✓ Turkish Economy will continue to offer big and diversified business opportunities and they are easily accessible for international investors.
- ✓ Investor rights at international standards are under strict guarantee of national and international law in Turkey.
- ✓ Pro-business policies of the Turkish Government continuously enrich business opportunities in all industries with an «investor friendly approach».



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