



**TURKISH ECONOMY:
RECENT DEVELOPMENTS
AND
PROSPECTS**

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Minister of State

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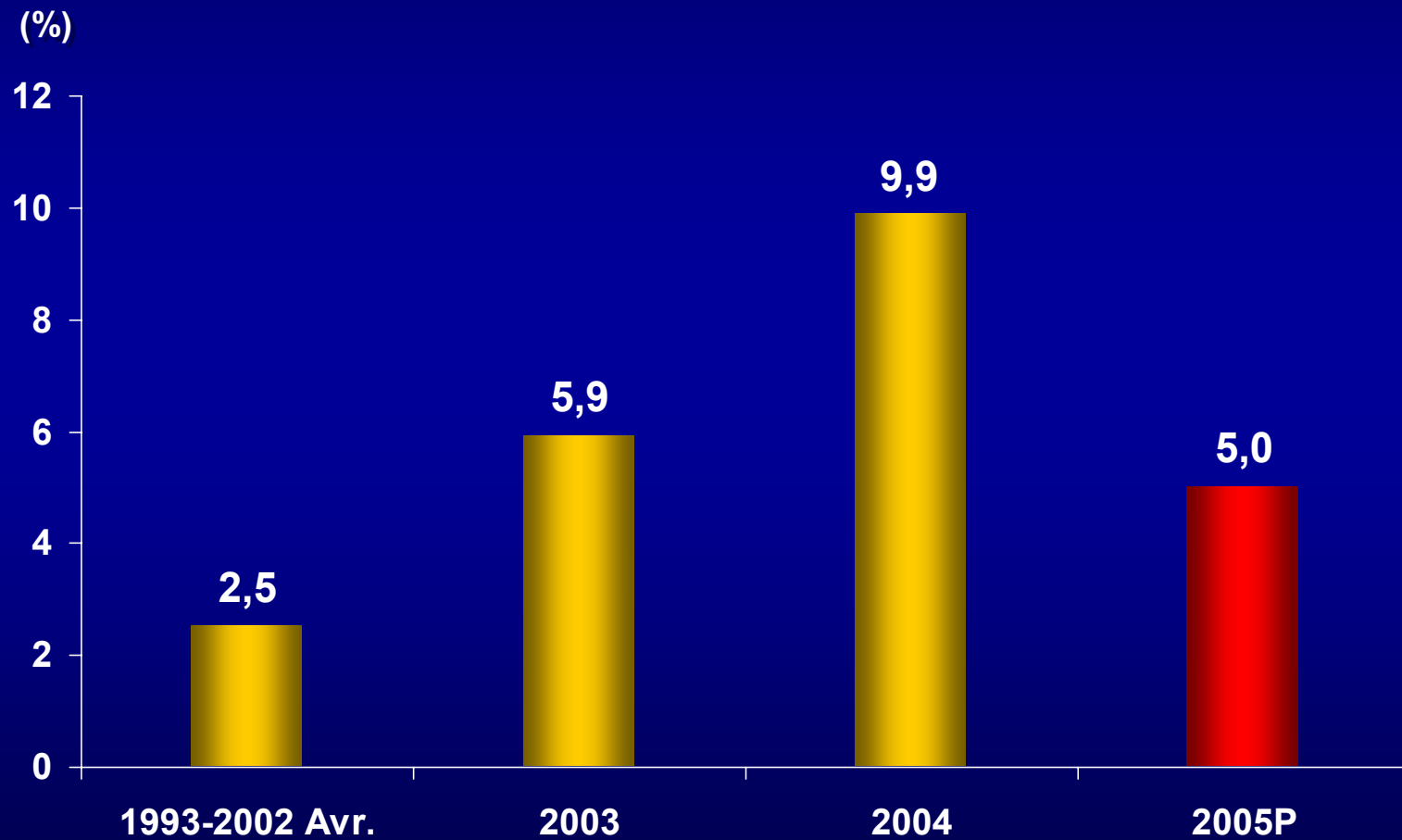
AGENDA

I. RECENT ECONOMIC DEVELOPMENTS

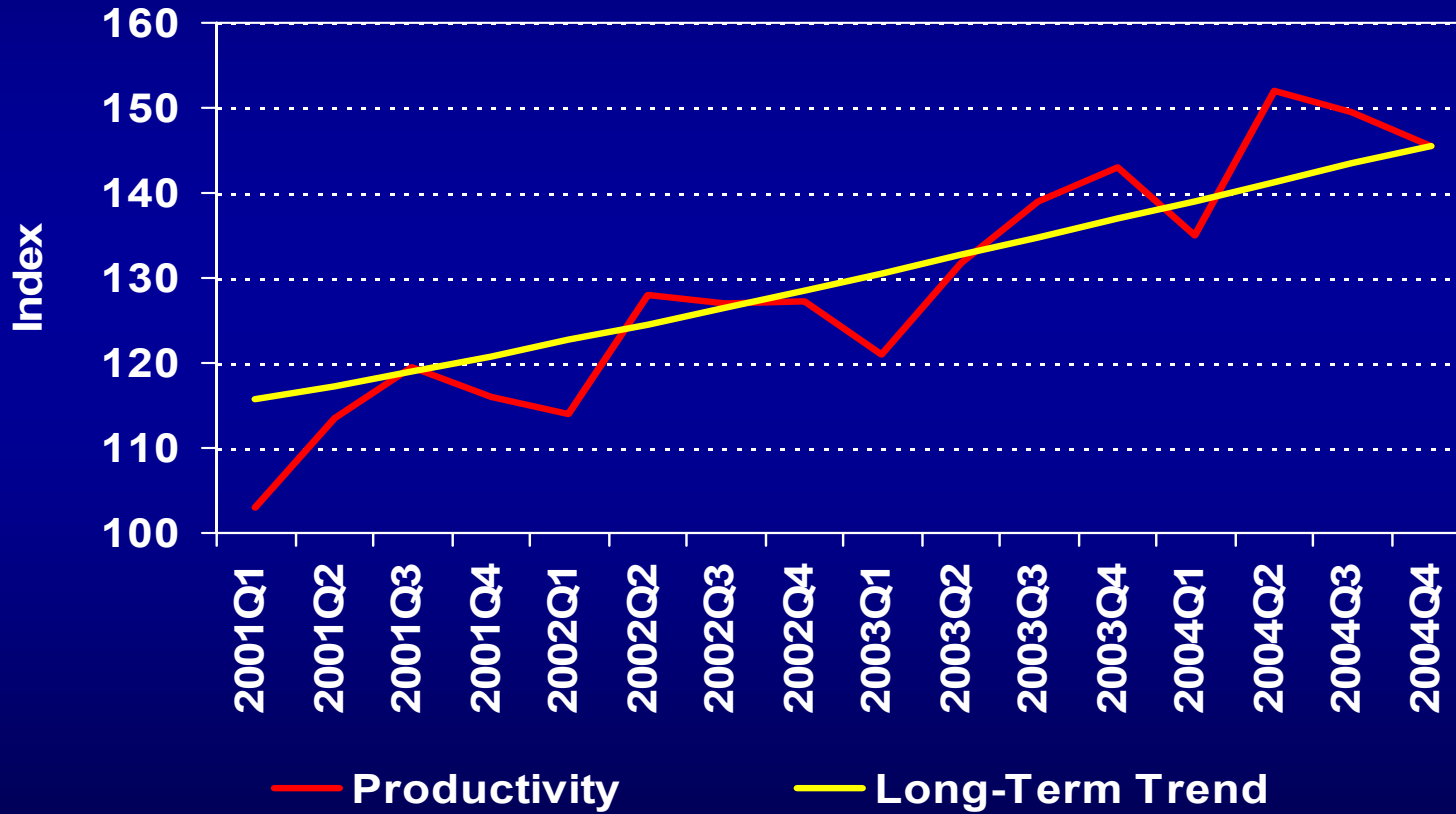
II. PROSPECTS

I. RECENT ECONOMIC DEVELOPMENTS

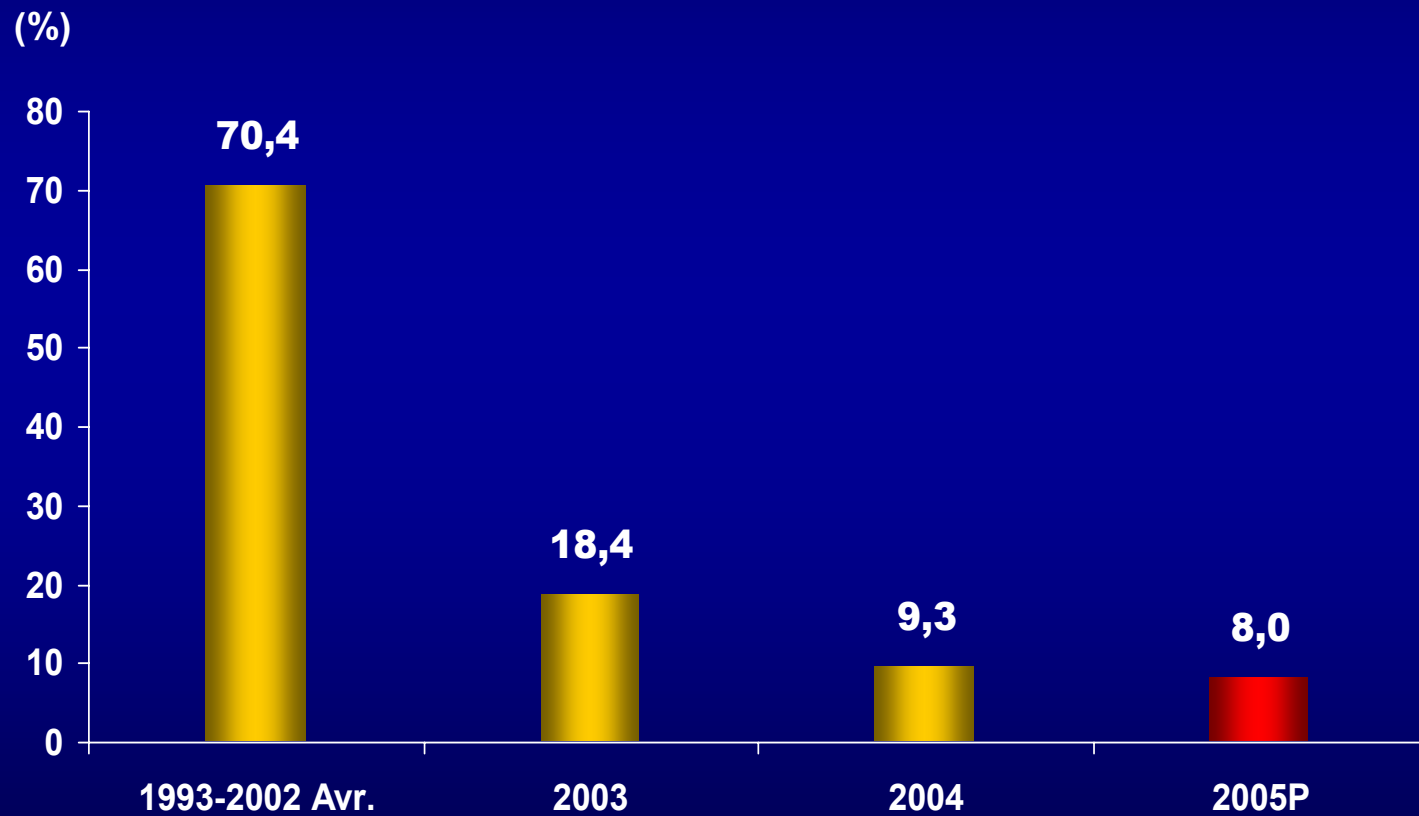
GNP Growth



Increasing Productivity



Single-Digit Inflation



P: Program

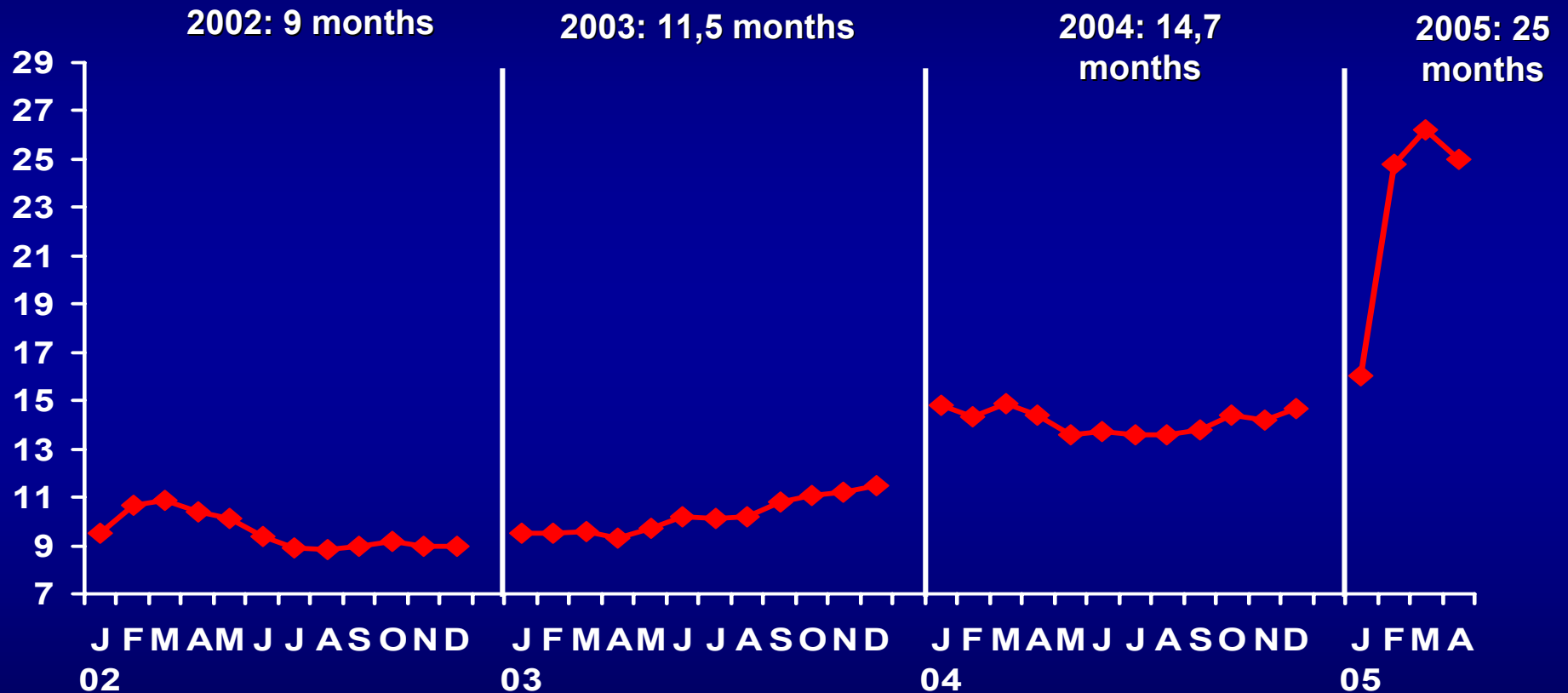
Decreasing Interest Rates



(*) Includes only zero-coupon TL borrowing.

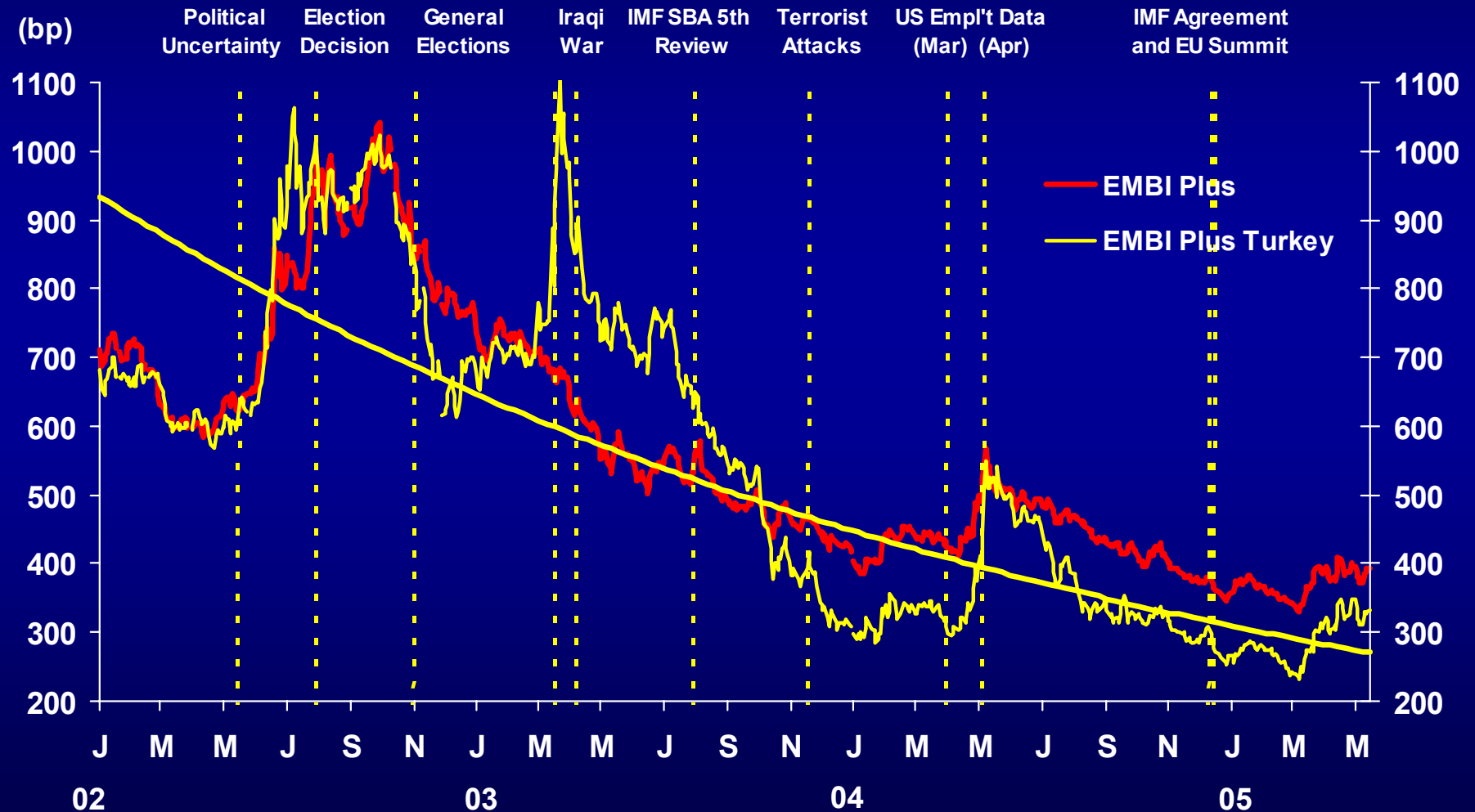
Lengthening Maturity

Maturity of Domestic Borrowing (*)



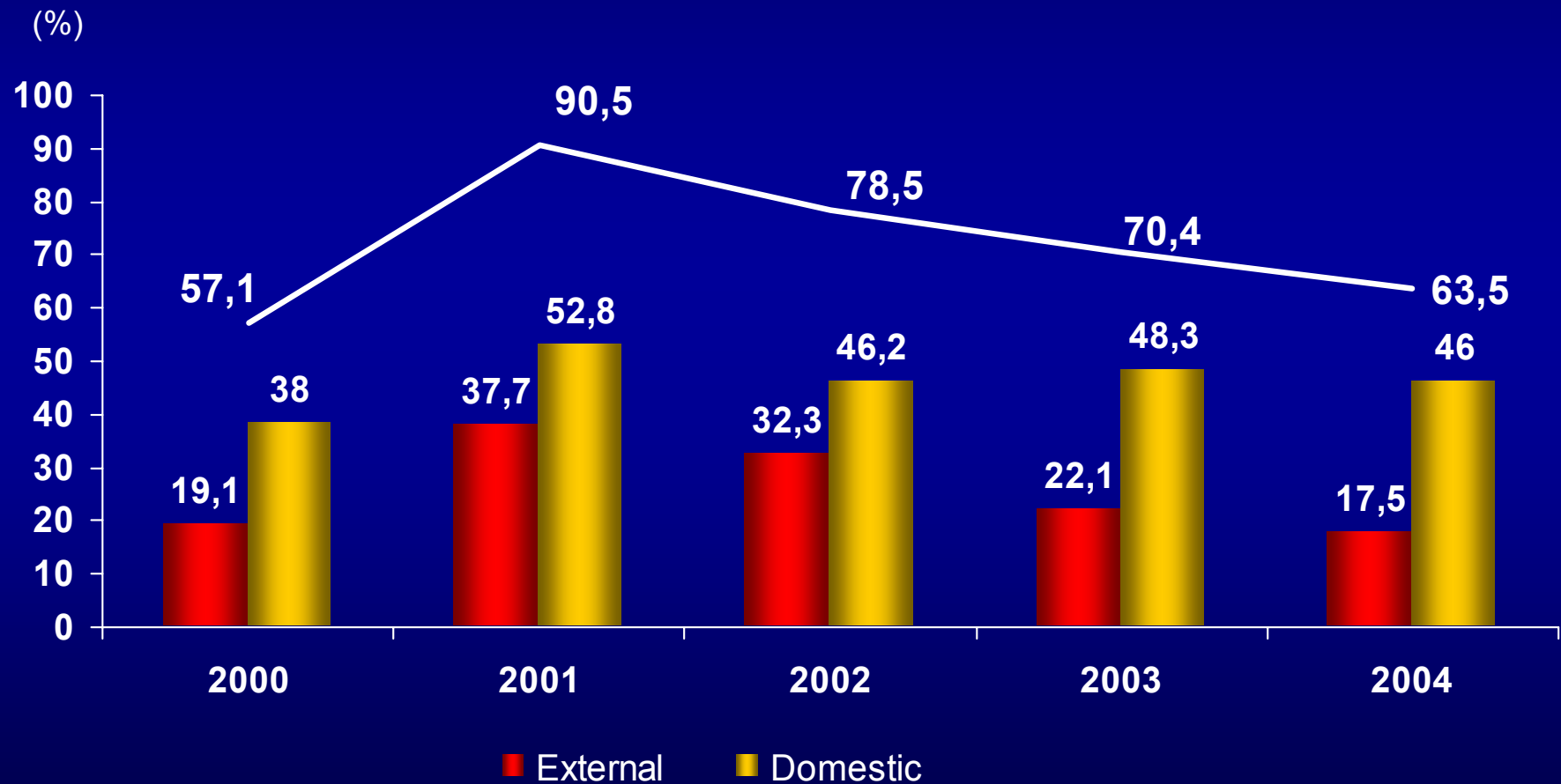
(*) Cumulative maturity as of January for each year

Falling Spreads



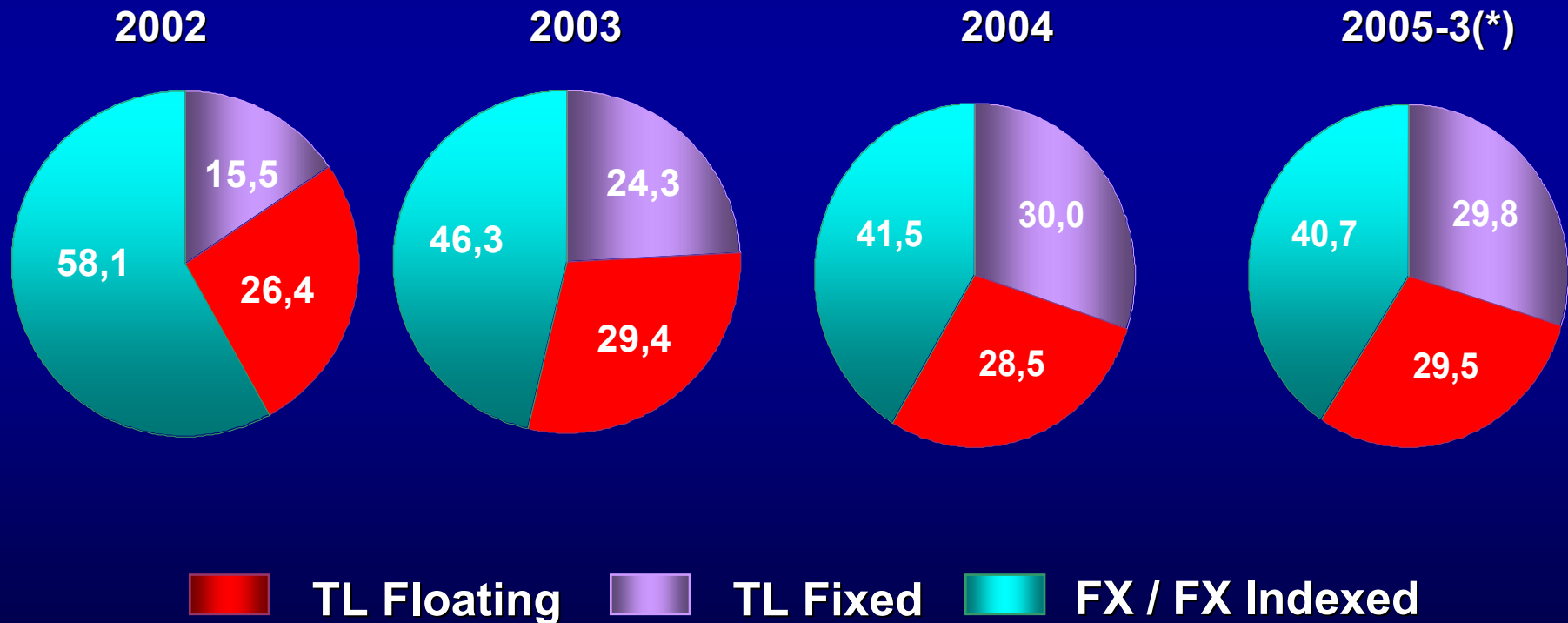
Declining Debt Burden

Net Public Debt Stock / GNP



Improving Debt Structure

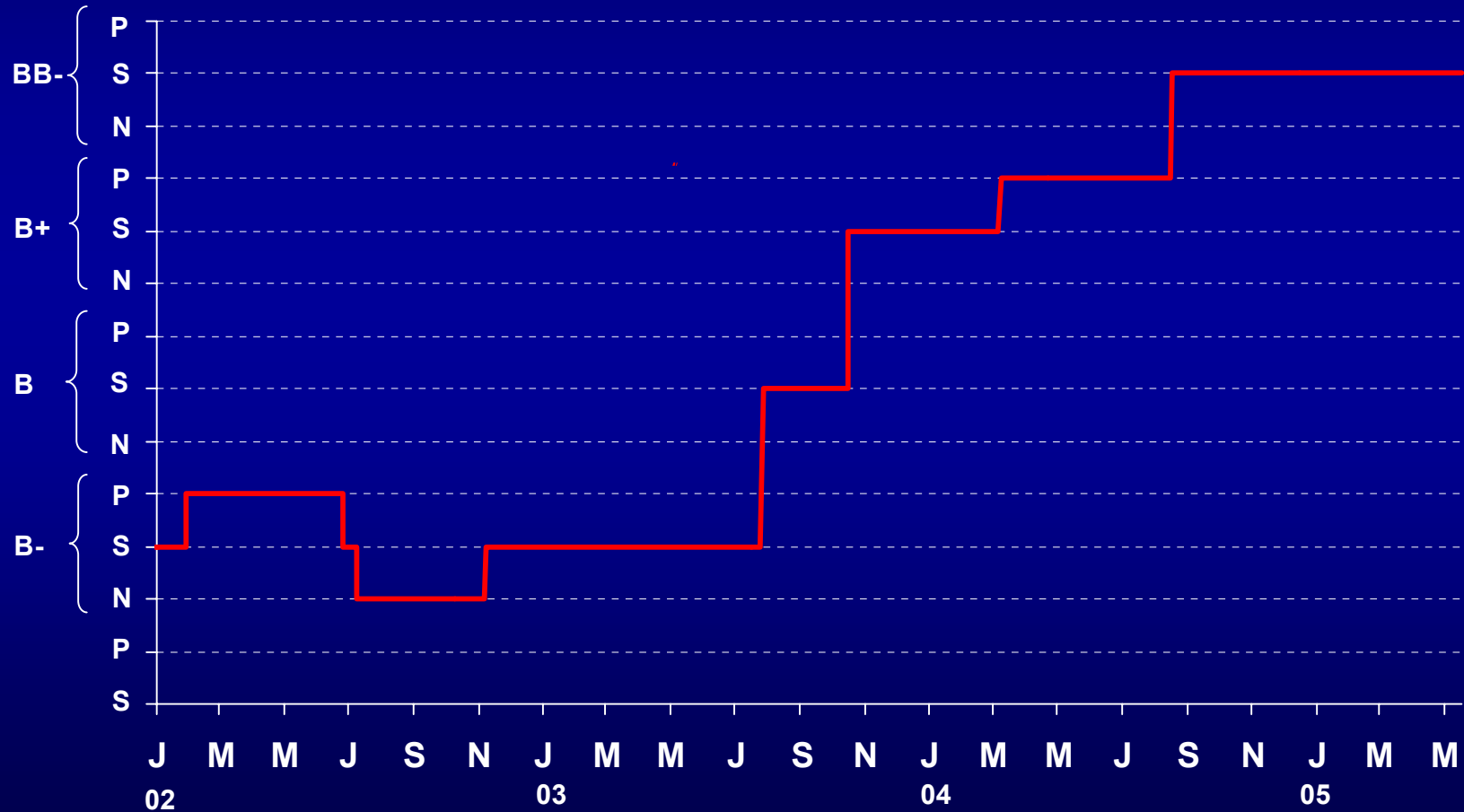
Profile of Consolidated Budget Gross Debt Stock By Currency and Interest (%)



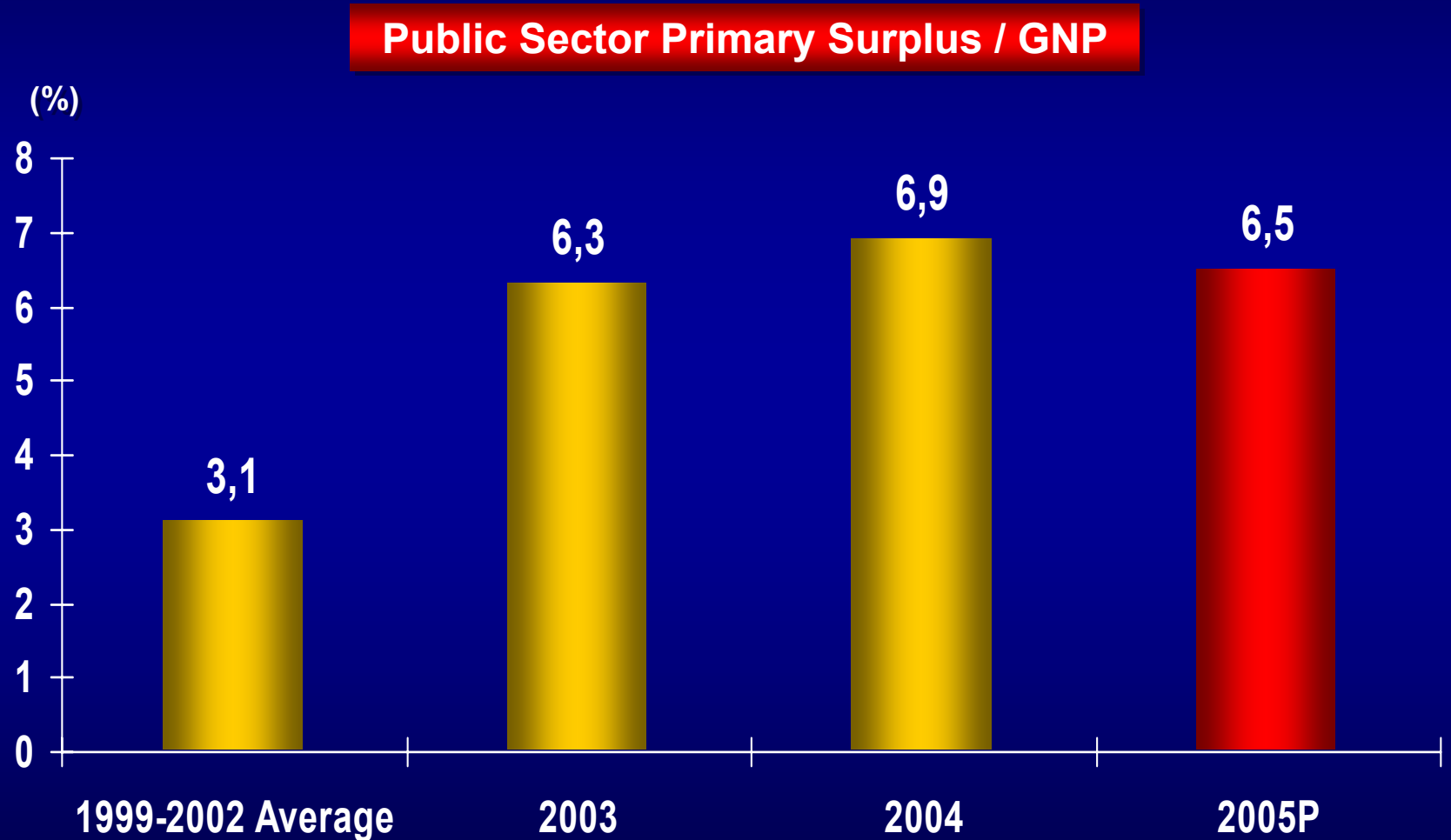
(*) Provisional

Strengthening Rating Outlook

S&P Rating

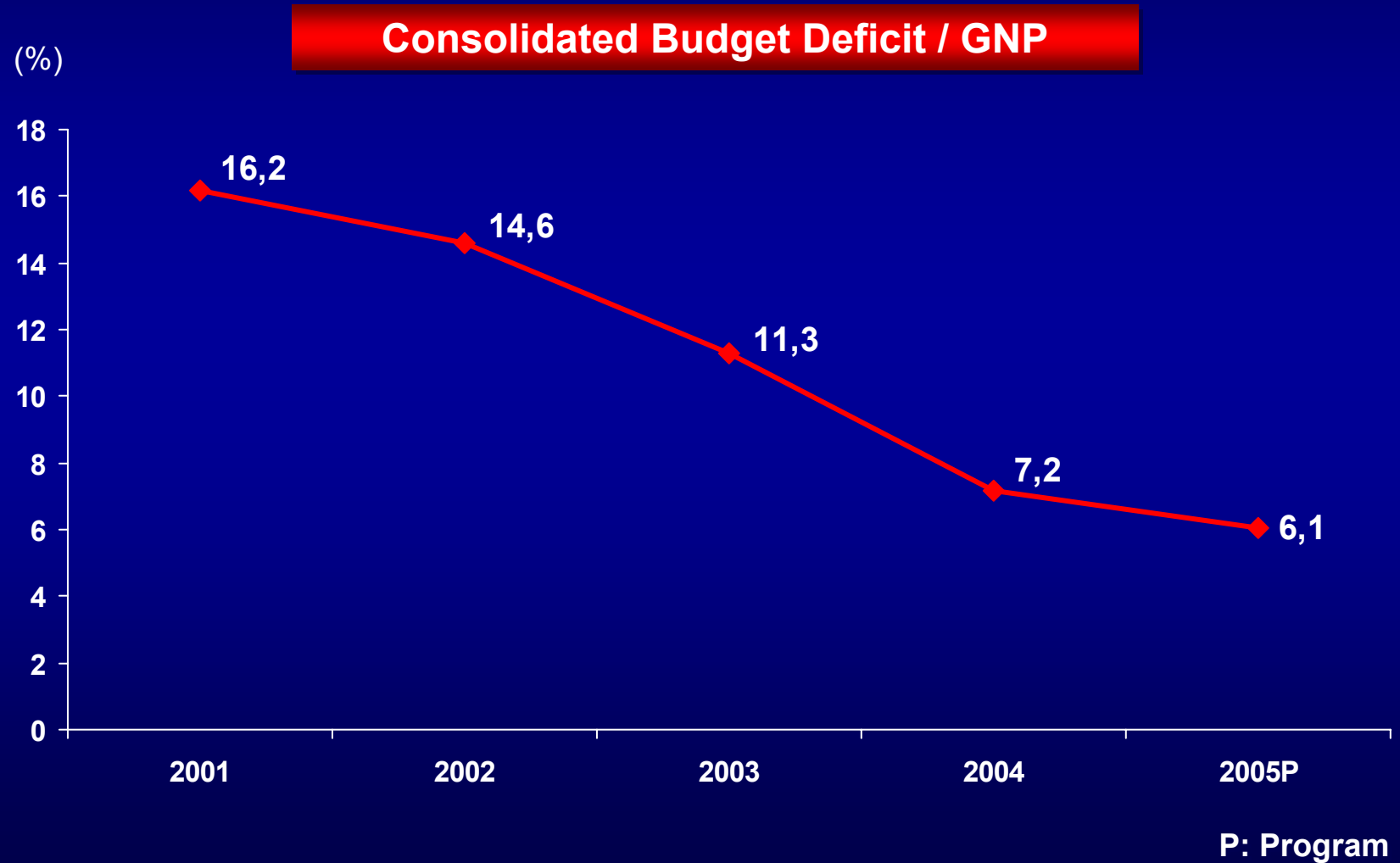


Strong Fiscal Adjustment



P: Program

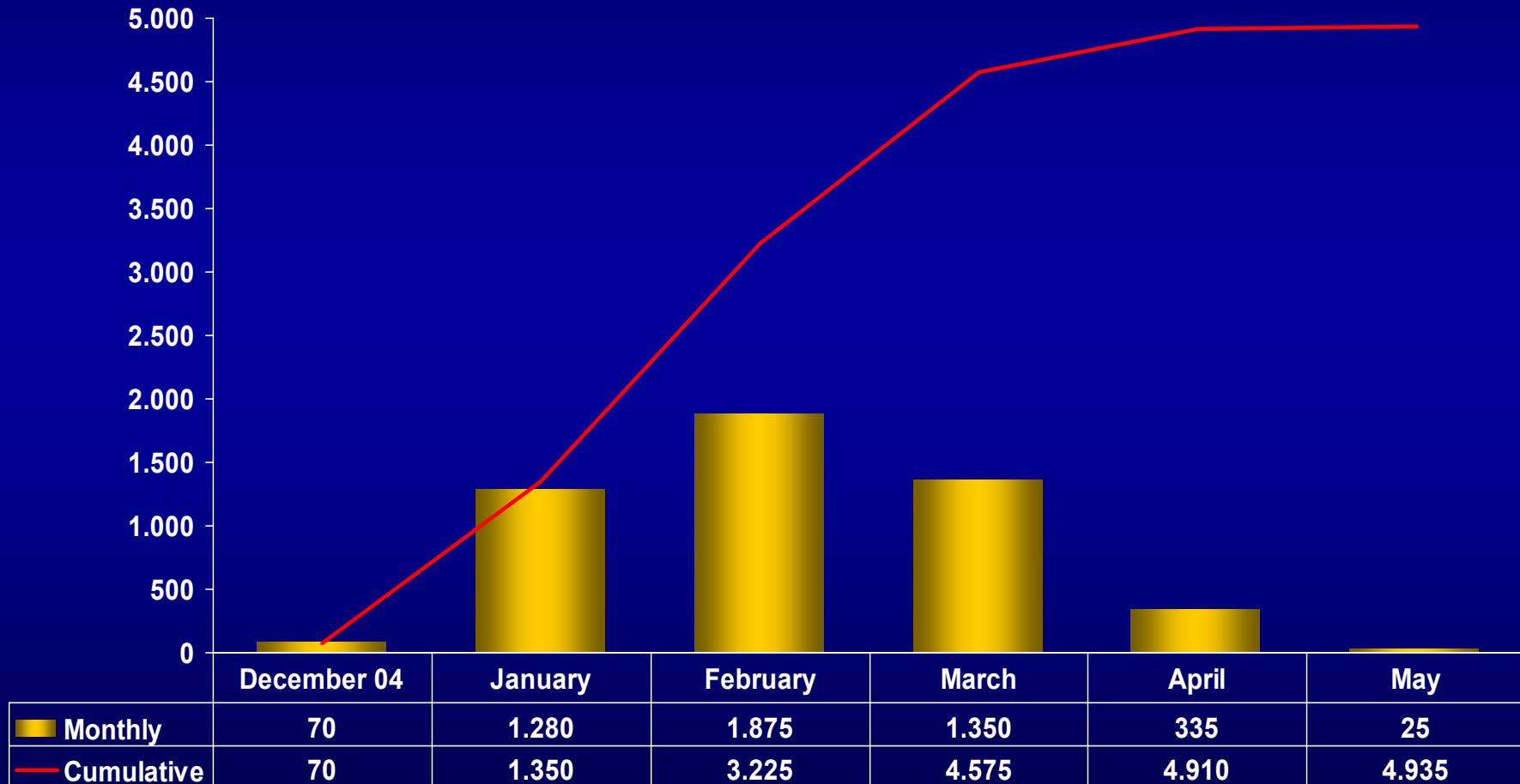
Strong Fiscal Adjustment



Global Markets Integration rises via Turkish Lira Eurobonds

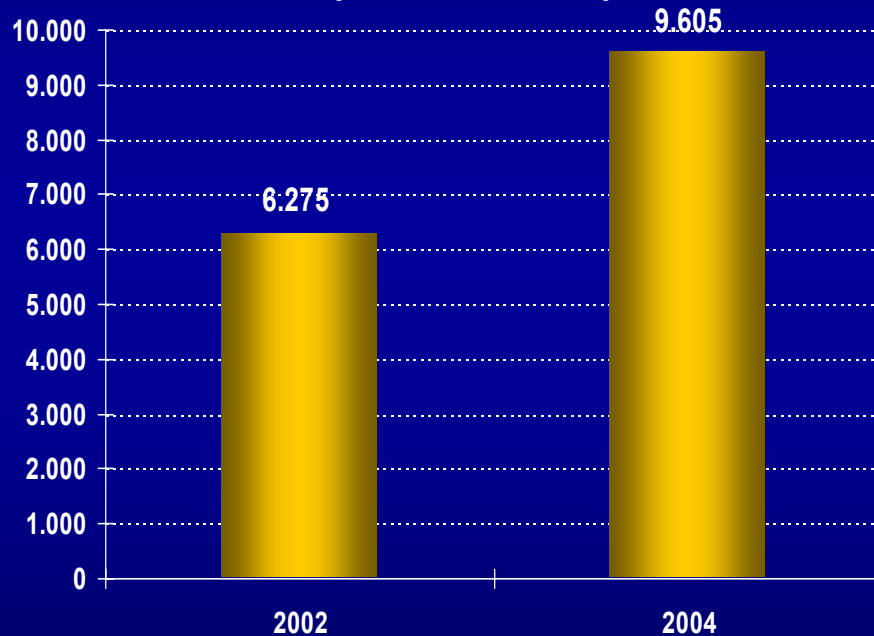
Million YTL

International Euro YTL Issuances

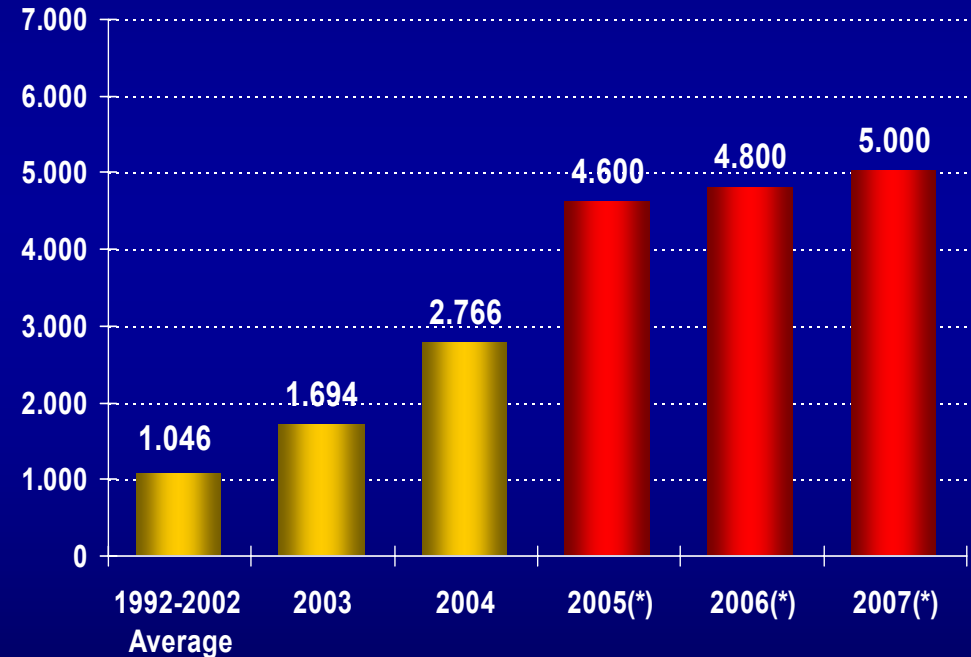


Increasing Confidence in Turkey as a FDI Destination

Number of Firms with International Capital (Cumulative)

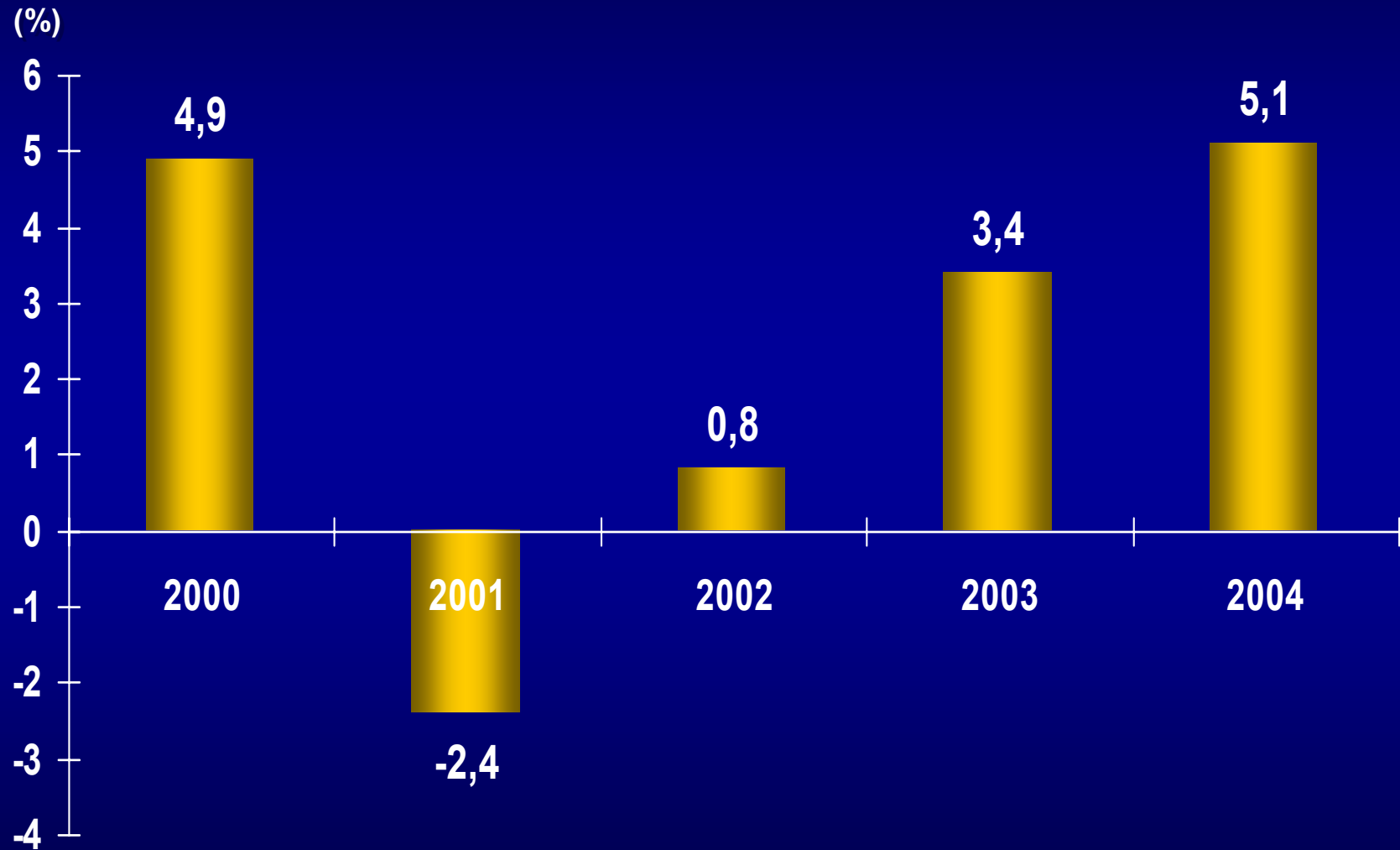


FDI Inflows (million USD)

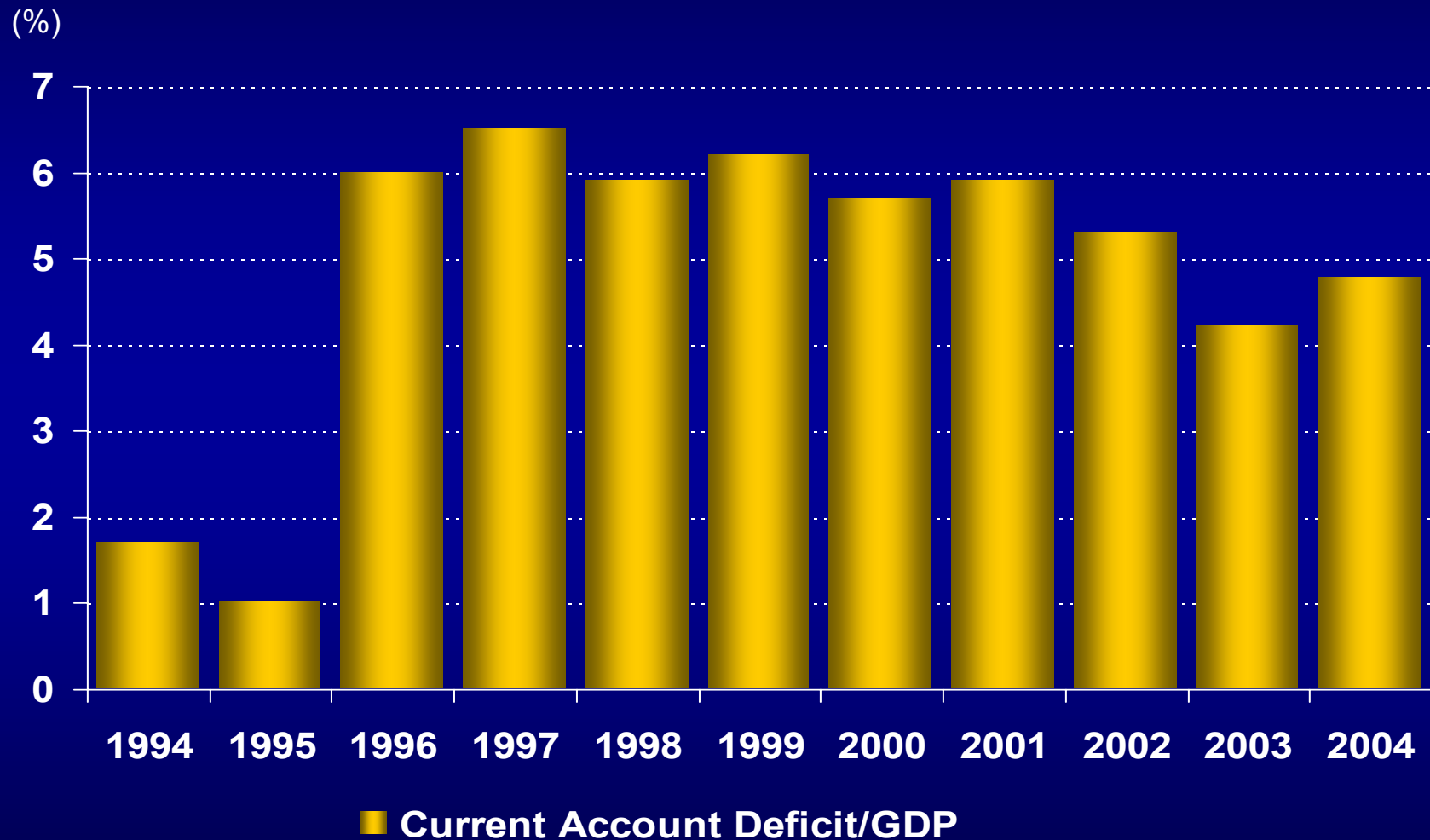


(*) Pre-Accession Economic Program

Current Account Deficit / GNP

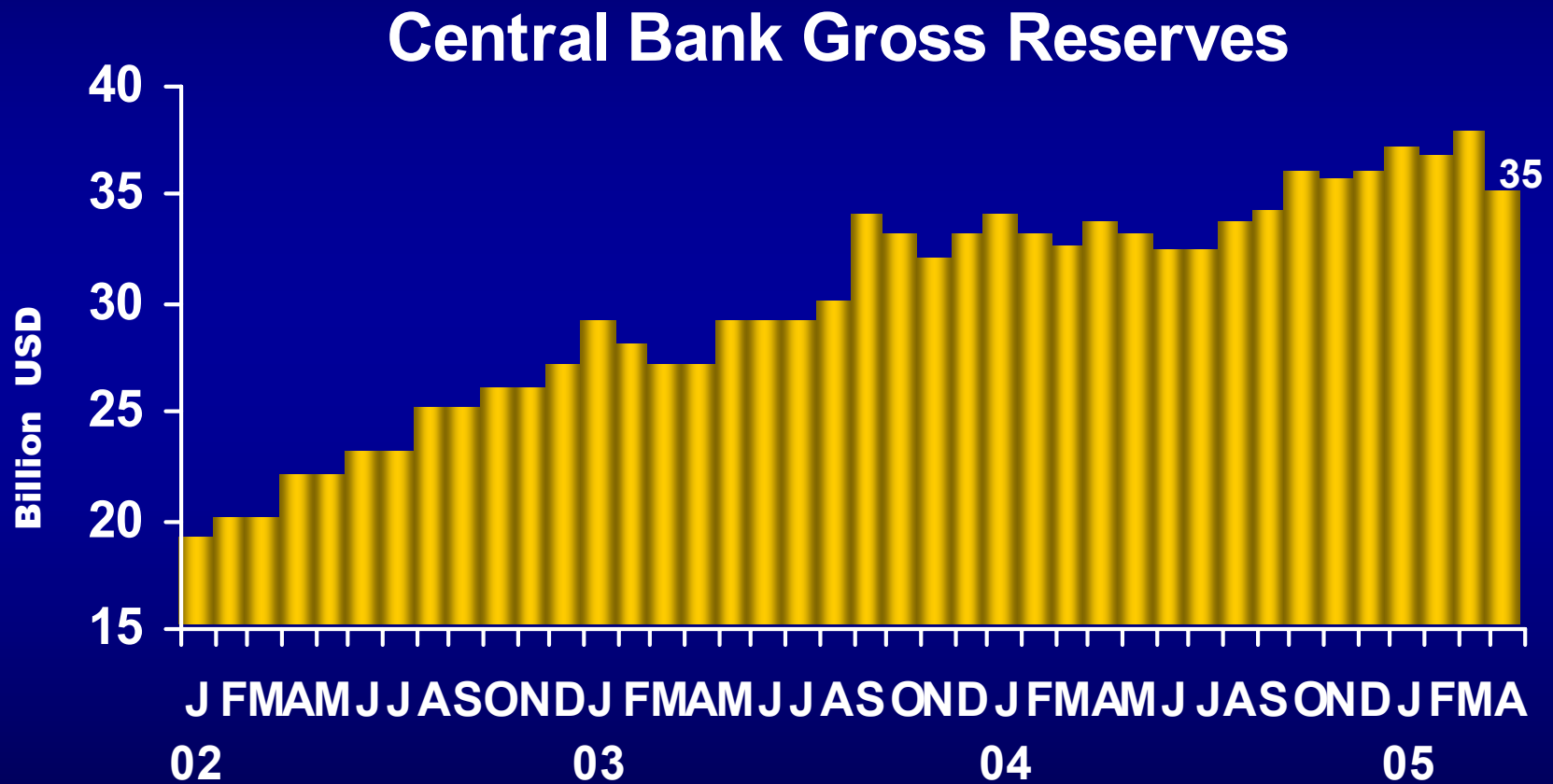


Current Account Deficit in Eastern European Countries*



*Included countries: Poland, Hungary, Czech Republic, Republic of Slovakia

Strong Reserve Position



II. PROSPECTS

Medium Term Economic Program and New Stand-By Arrangement

Turkey's outstanding performance during the last three years



**increasing confidence
boosting growth
declining inflation**

a steadfast change in the driving dynamics of the economy



to build on this record of success and strengthen the convergence with the economies of the European Union



EU Pre-accession Economic Program



**New Stand-By Arrangement with the IMF based on the EU
Pre-accession Economic Program**

Medium-Term Economic Program

Objectives

- ✓ **Maintaining Price Stability and Single Digit Inflation**
- ✓ **Sustainable High Growth**
- ✓ **Reducing Public Debt**
- ✓ **Further Improving the Quality of Fiscal Adjustment**

Policies

- ✓ **Continuation of Prudent Fiscal Policies**
- ✓ **A Monetary Framework focused on Price Stability and Formal IT**
- ✓ **Floating FX regime**
- ✓ **Deepening of Structural Reforms**

Medium Term Macroeconomic Framework

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Growth (%)	5,0	5,0	5,0
Inflation (CPI %)	8,0	5,0	4,0
General Gov't Deficit (% of GDP)	4.4	2.1	0.5

Fast Track Convergence into EU: Maastricht Criteria

- ✓ **Public debt stock criterion of 60% of GDP to be met by the end of 2007**
- ✓ **Budget deficit criterion to be met by the end of 2006**
- ✓ **Inflation and long term interest rates criteria to be met by the end of the program**

Ongoing Structural Reforms

✓ **Social Security Reform**

Objectives:

- Put the pension deficit on a downward path
- Reducing it to 1 % of GNP over the long term
- Improve the quality of health services and introduce a universal health insurance system

Status  The draft law is in the Parliament and expected to be passed by end June 2005

✓ **Tax Reform**

Objectives:

- Reduce informality, broaden tax base and enhance the efficiency of tax collection through an administrative reform
- Create a more simplified, transparent and stable tax environment

Status  Revenue Administration Law: Enacted
Tax Policy Reform: Under Progress

✓ **Financial Sector Reform**

Objectives:

- Upgrading the regulation and supervision to the EU standards

Status  The draft law is in the Parliament and expected to be passed by end June 2005

Other Reforms for the Upcoming Period

- ✓ **Civil Service Reform**
- ✓ **Public Expenditure Policy and Management Reform**
- ✓ **Fiscal Transparency**
- ✓ **State Economic Enterprise Governance**
- ✓ **Privatization and Improved Investment Environment**