

**Republic of Turkey Prime Ministry
Undersecretariat of Treasury**



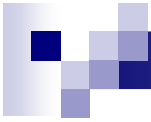
TURKISH ECONOMY

May 2009



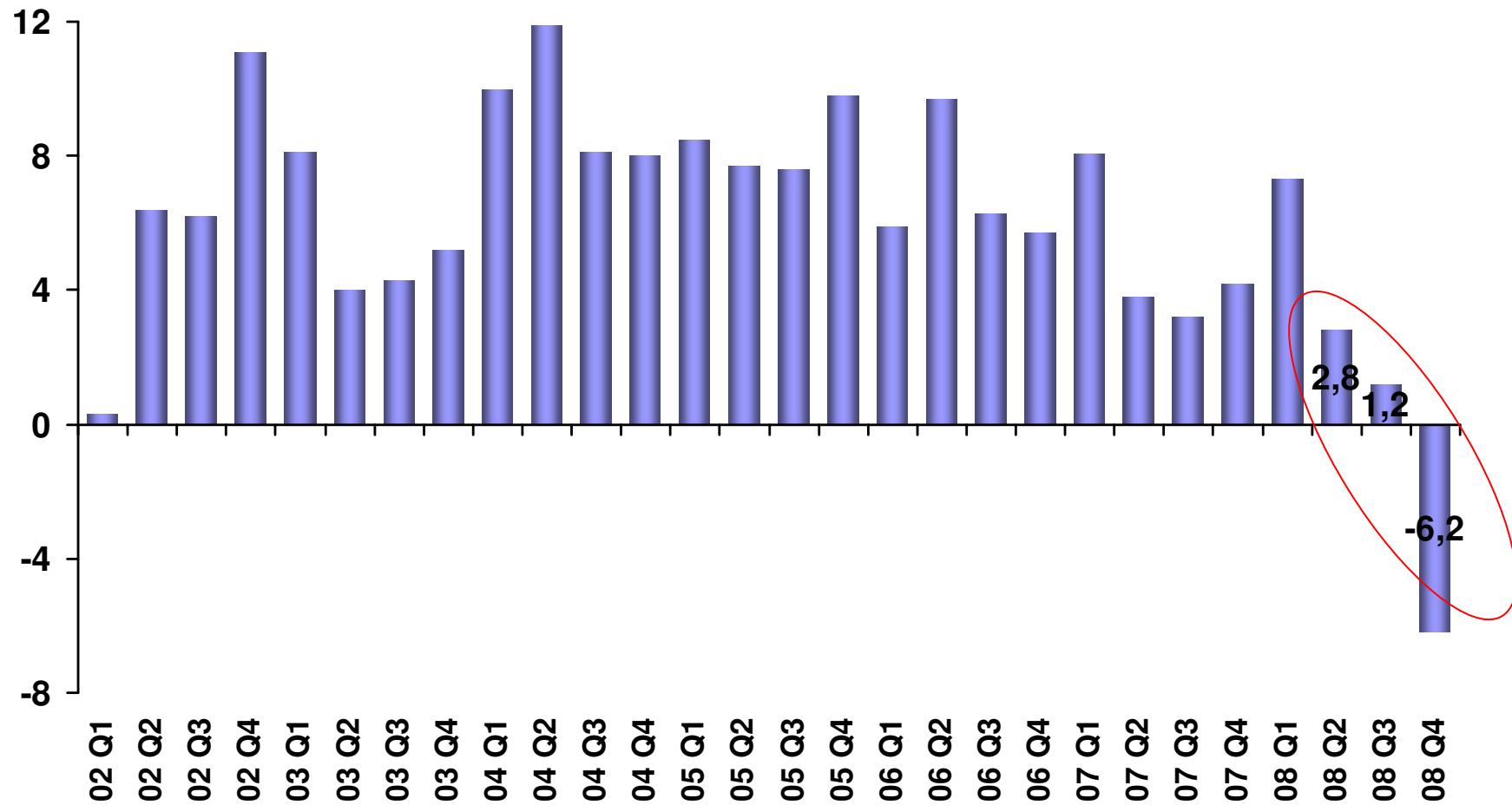
OUTLINE

- **Growth**
- **Inflation**
- **Current Account Deficit and External Financing**
- **Public Finance**
- **Debt Management**
- **Structural Reforms**
- **IMF and EU Relations**
- **Turkey's Key Strengths and Long Term Potential**



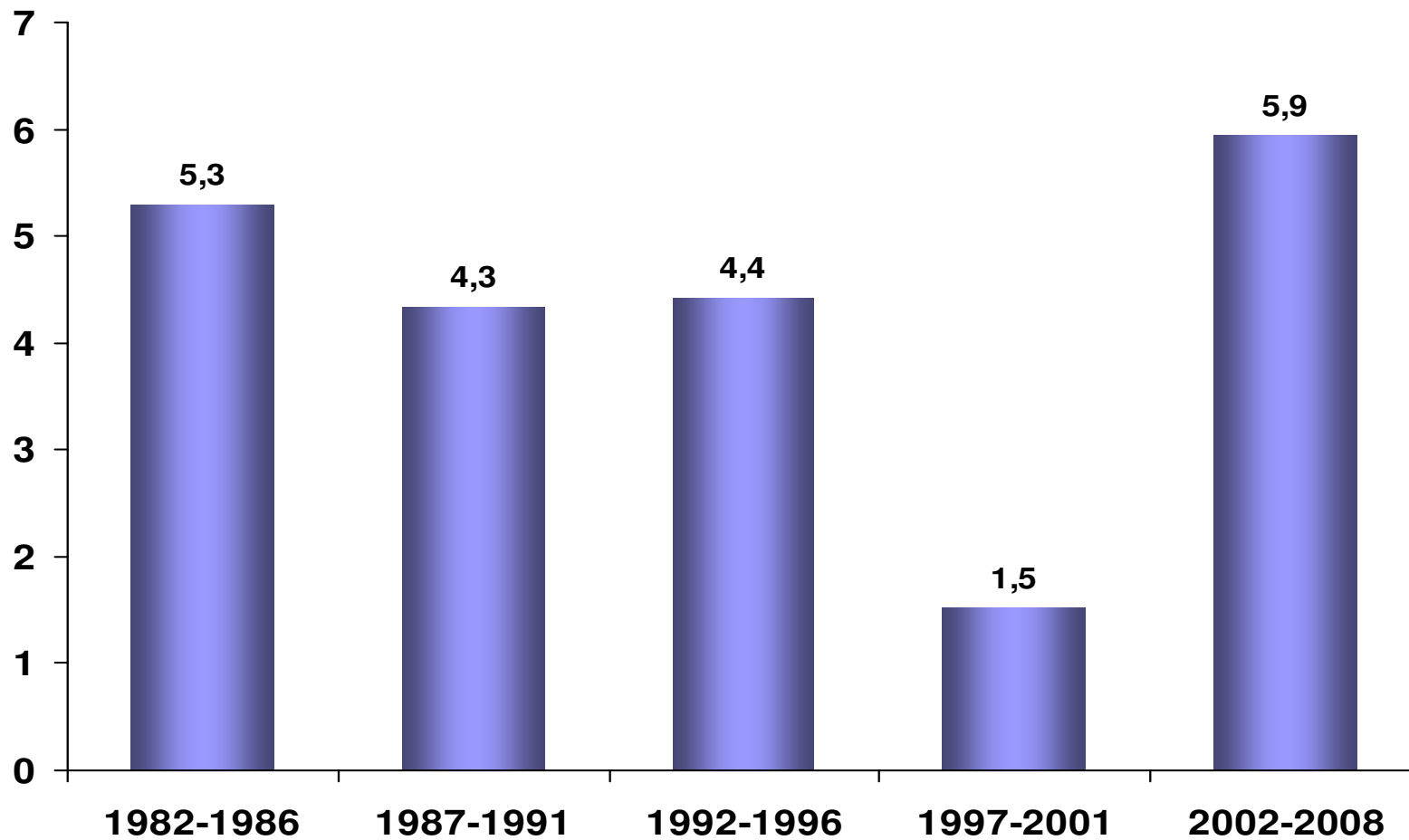
GROWTH

GDP Growth Rate (YoY, %)



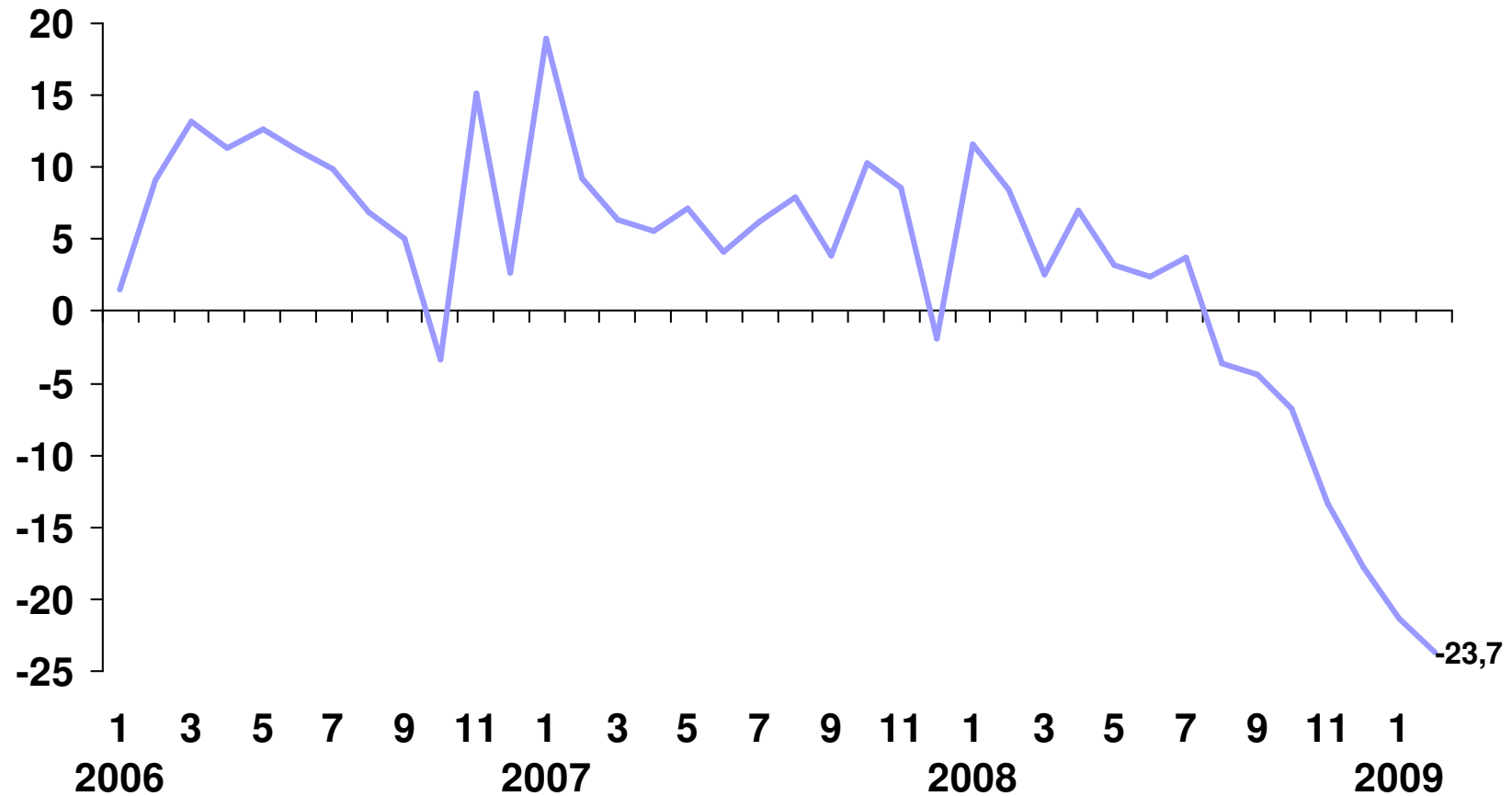
Source: TURKSTAT

GDP Growth Rate (Annual Average, %)

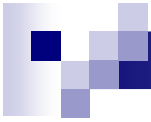


Source: TURKSTAT, Treasury

Industrial Production Growth Rate (yearly, %)

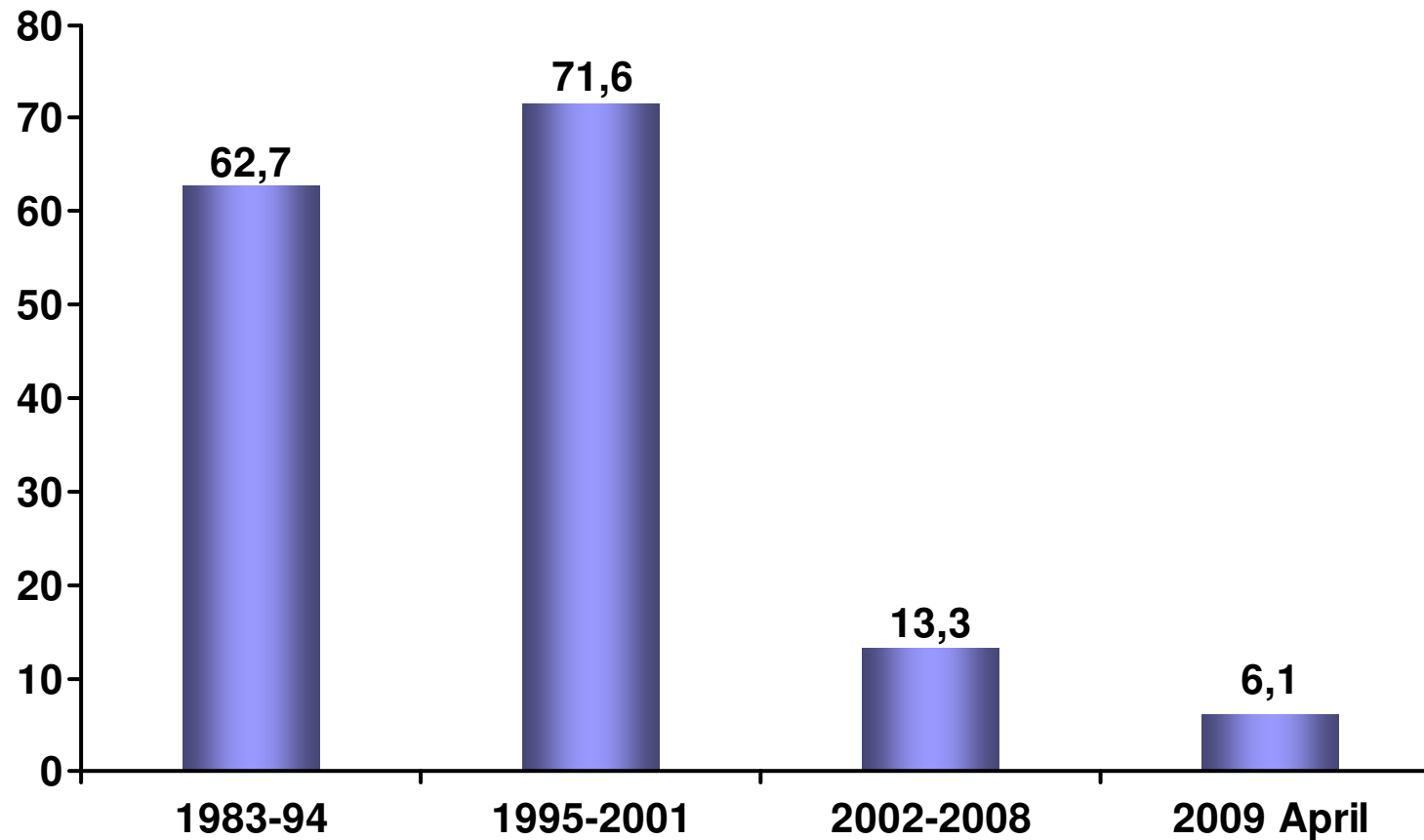


Source: TURKSTAT



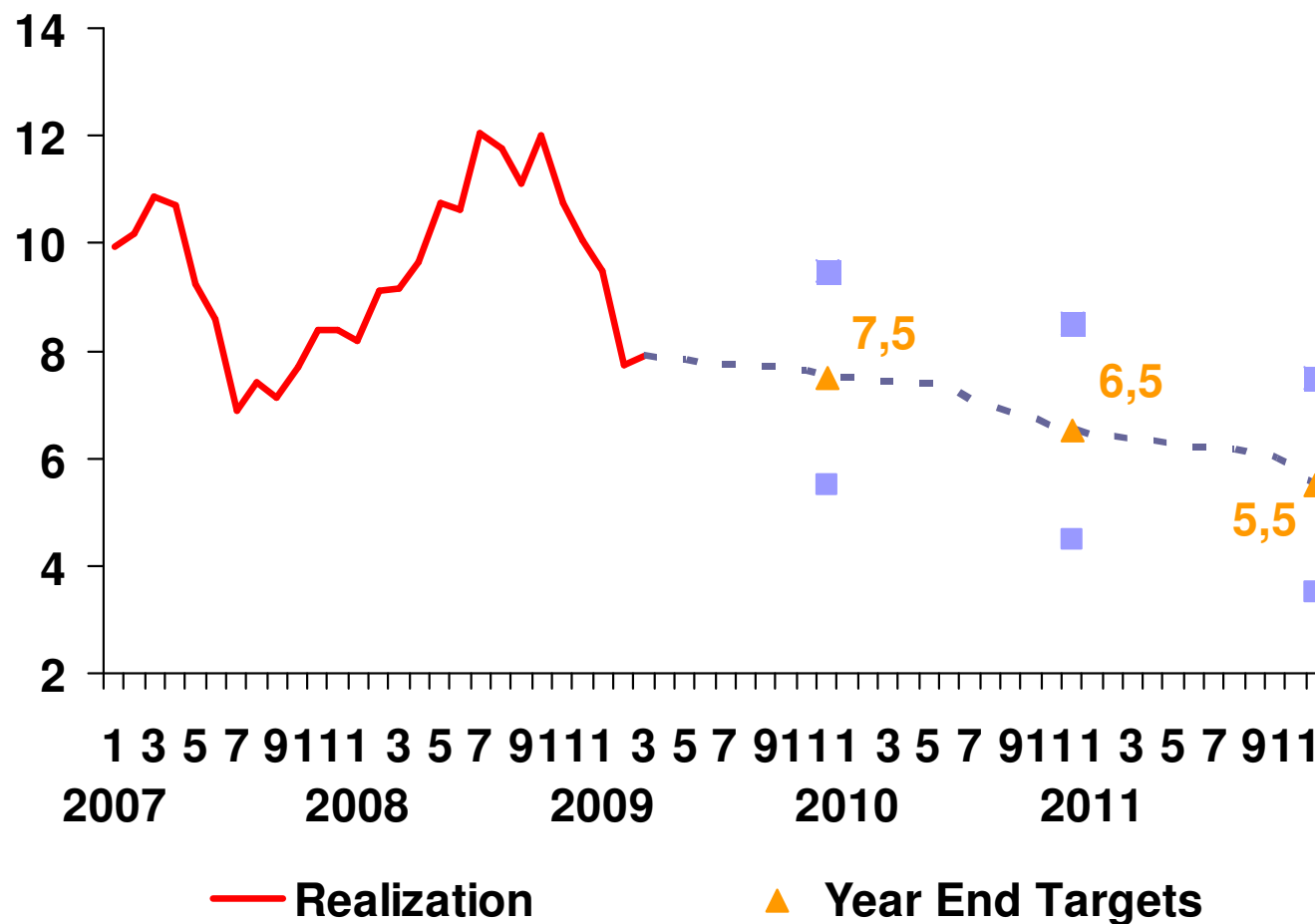
INFLATION

Average Inflation in Periods (%)



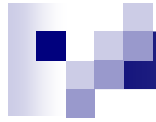
Source: TURKSTAT, CBRT

Inflation Realizations and Targets



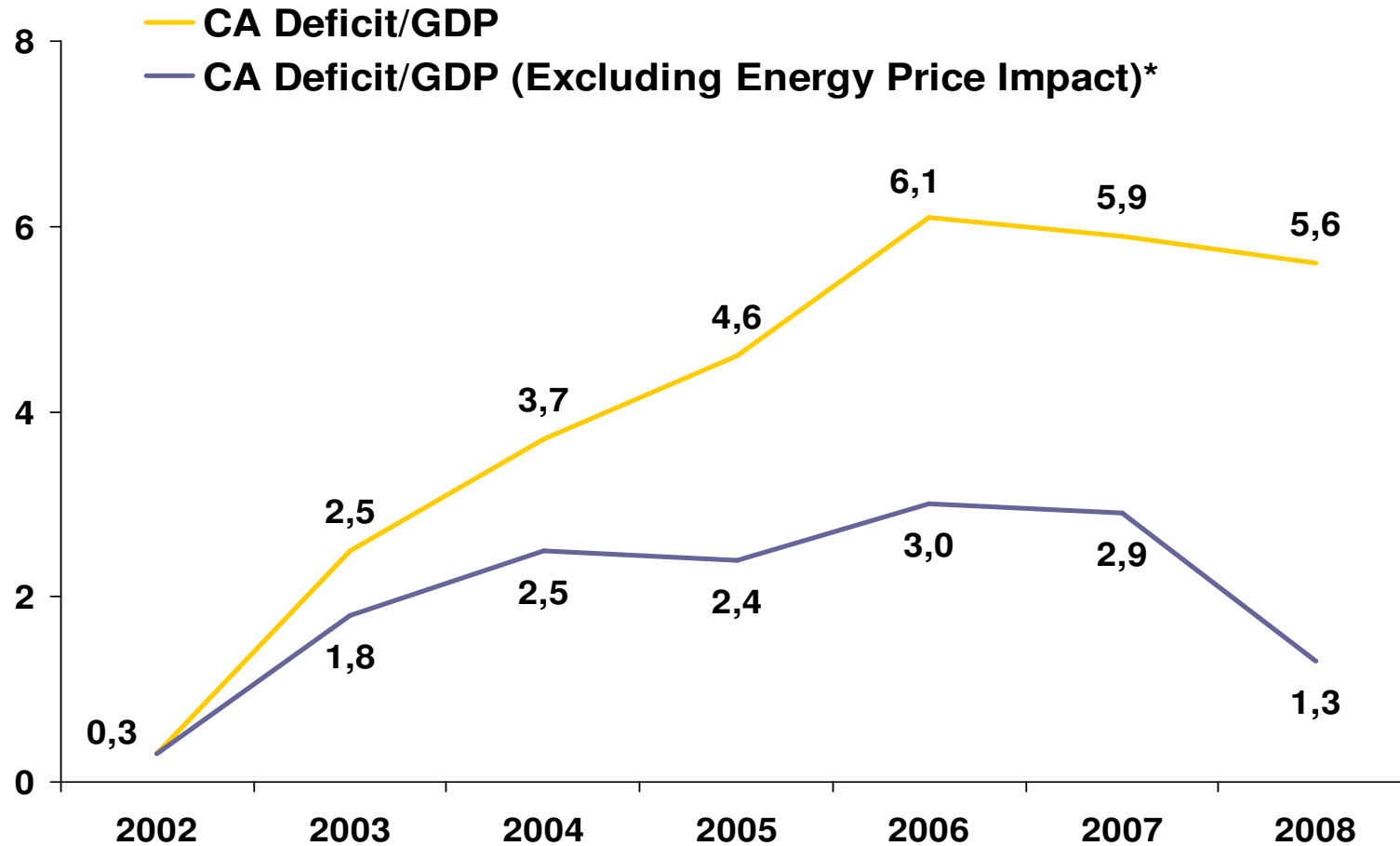
Note: Uncertainty band around the targets is set at 2 percent in both directions

Source: CBRT, MTP



CURRENT ACCOUNT DEFICIT & EXTERNAL FINANCING

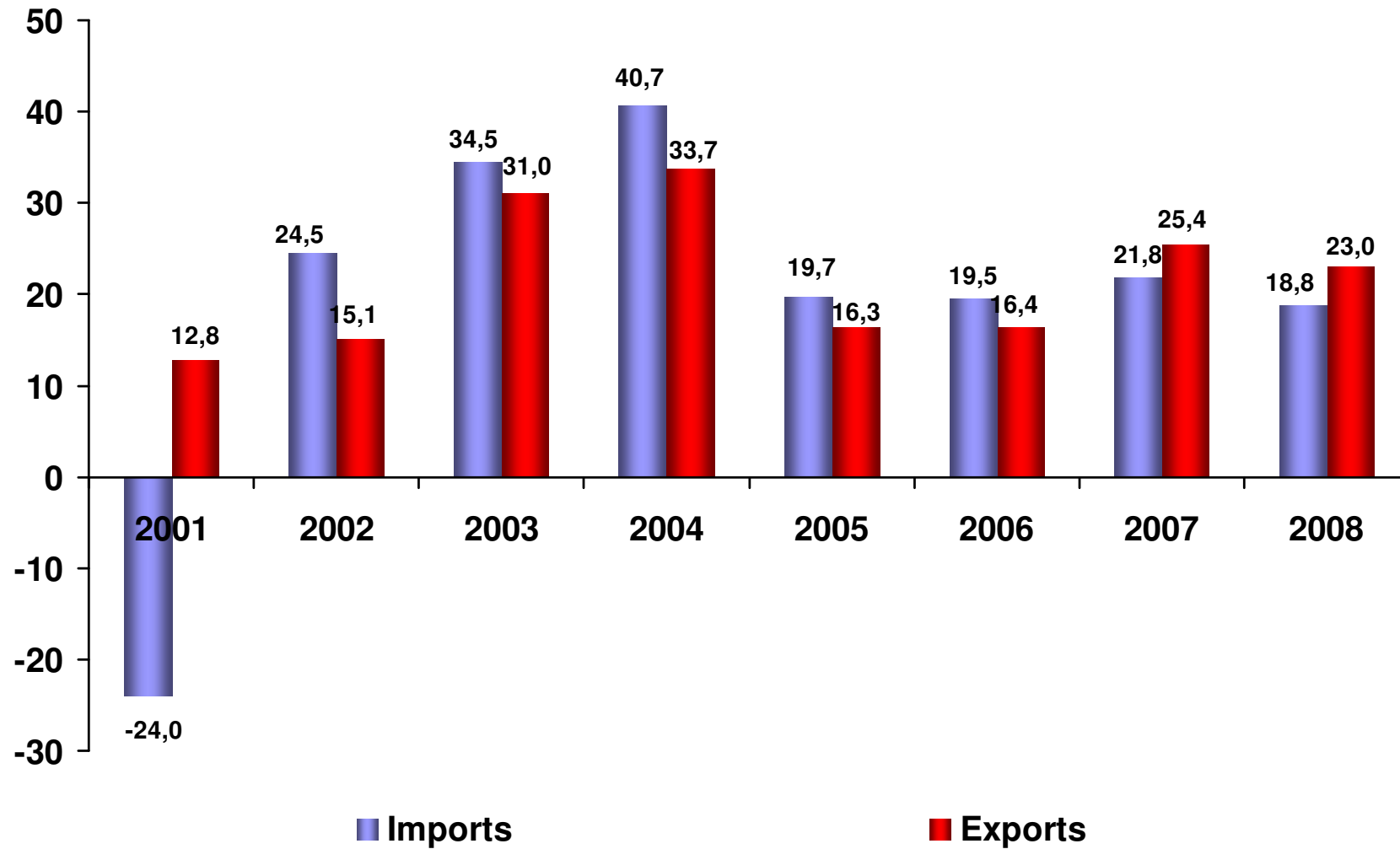
Current Account Deficit / GDP (%)



(*) With 2002 energy prices

Source: CBRT, Treasury

Exports and Imports (% change)



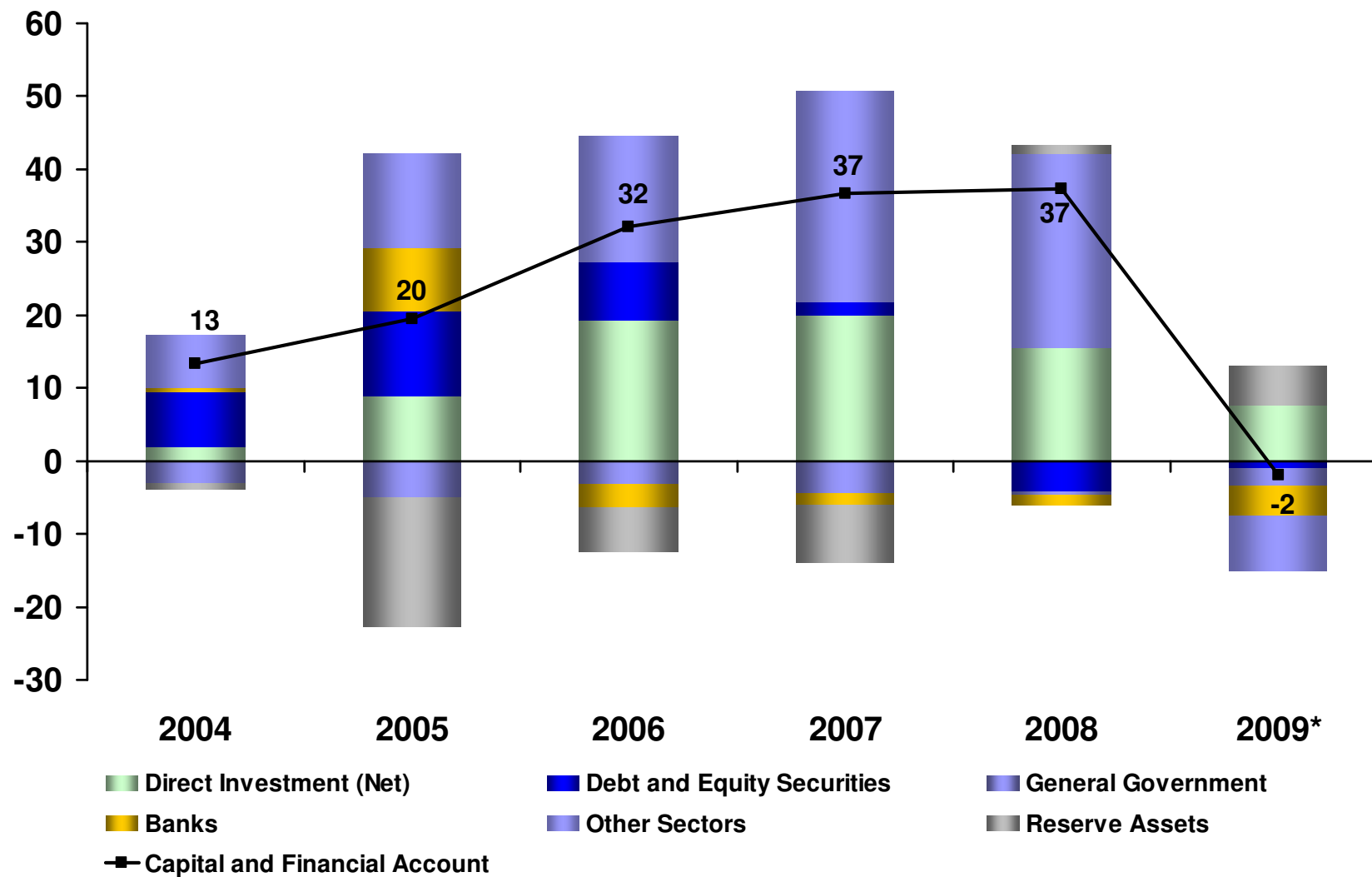
Source: TURKSTAT

Financing of Current Account Deficit (Billion USD)

	2002	2003	2004	2005	2006	2007	2008	2009 Jan.- Feb.
1. Current Account Balance	-0.6	-7.5	-14.4	-22.1	-32.1	-38.2	-41.7	0.6
2. Total Capital Inflows	7.5	7.1	14.2	37.3	38.2	44.7	36.2	-3.1
– FDI Inflows	1.1	1.8	2.8	10.0	20.2	22.0	18.2	1.5
– External Borrowing of Non-Bank Private Sector (net)	1.9	2.3	7.7	12.5	17.1	28.7	27.0	-1.3
– Other (net)	4.5	3.1	3.7	14.7	0.9	-6.0	-9.0	-3.2
3. Errors and Omissions	0.8	4.5	1.1	2.6	0.0	1.6	4.4	2.8
4. Change in FX Reserves	-6.2	-4.0	-0.8	-17.8	-6.1	-8.0	1.1	-0.3

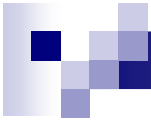
Source: CBRT

Instruments of External Financing (billion dollars)



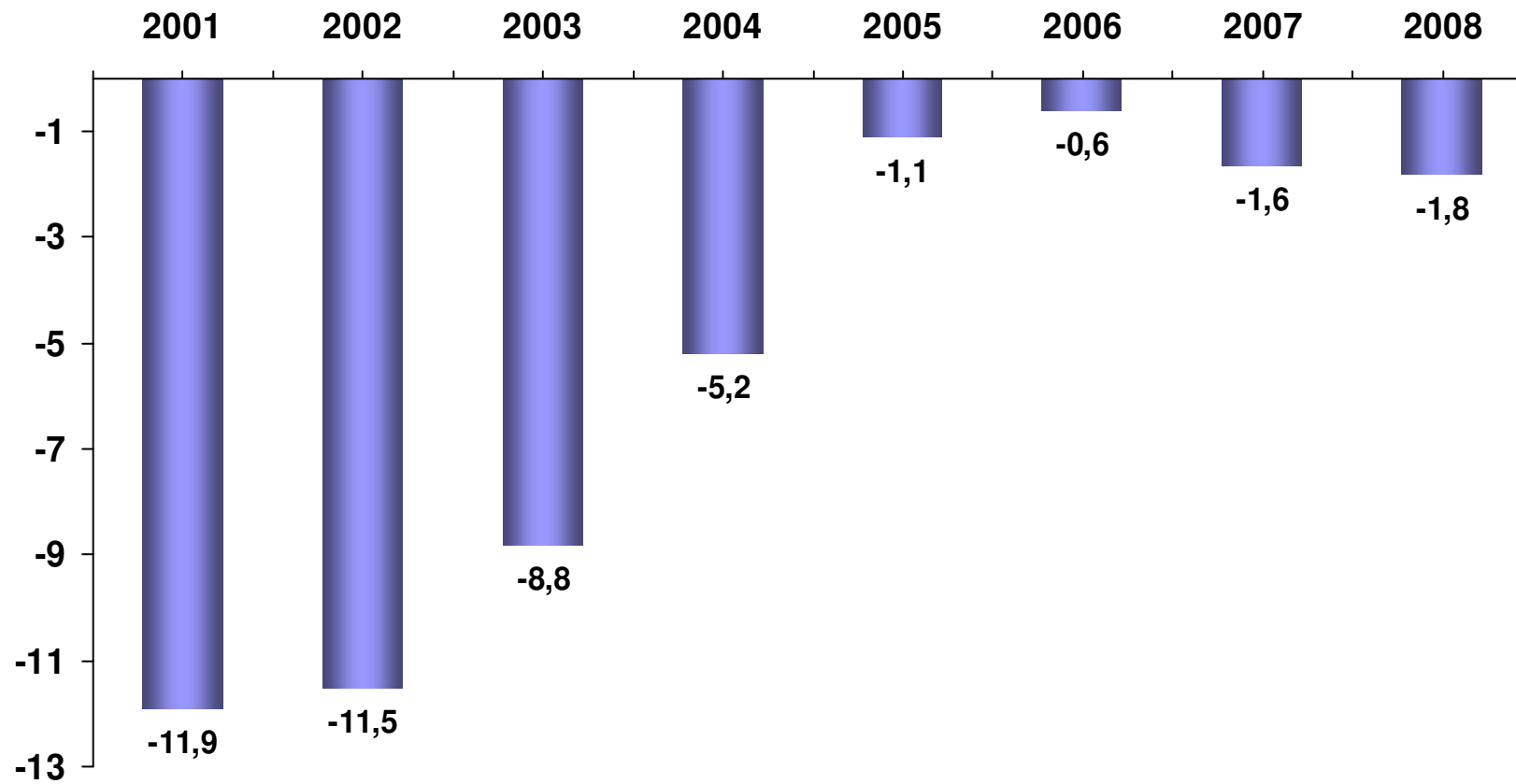
* PEP Forecast

Source: CBRT. Treasury



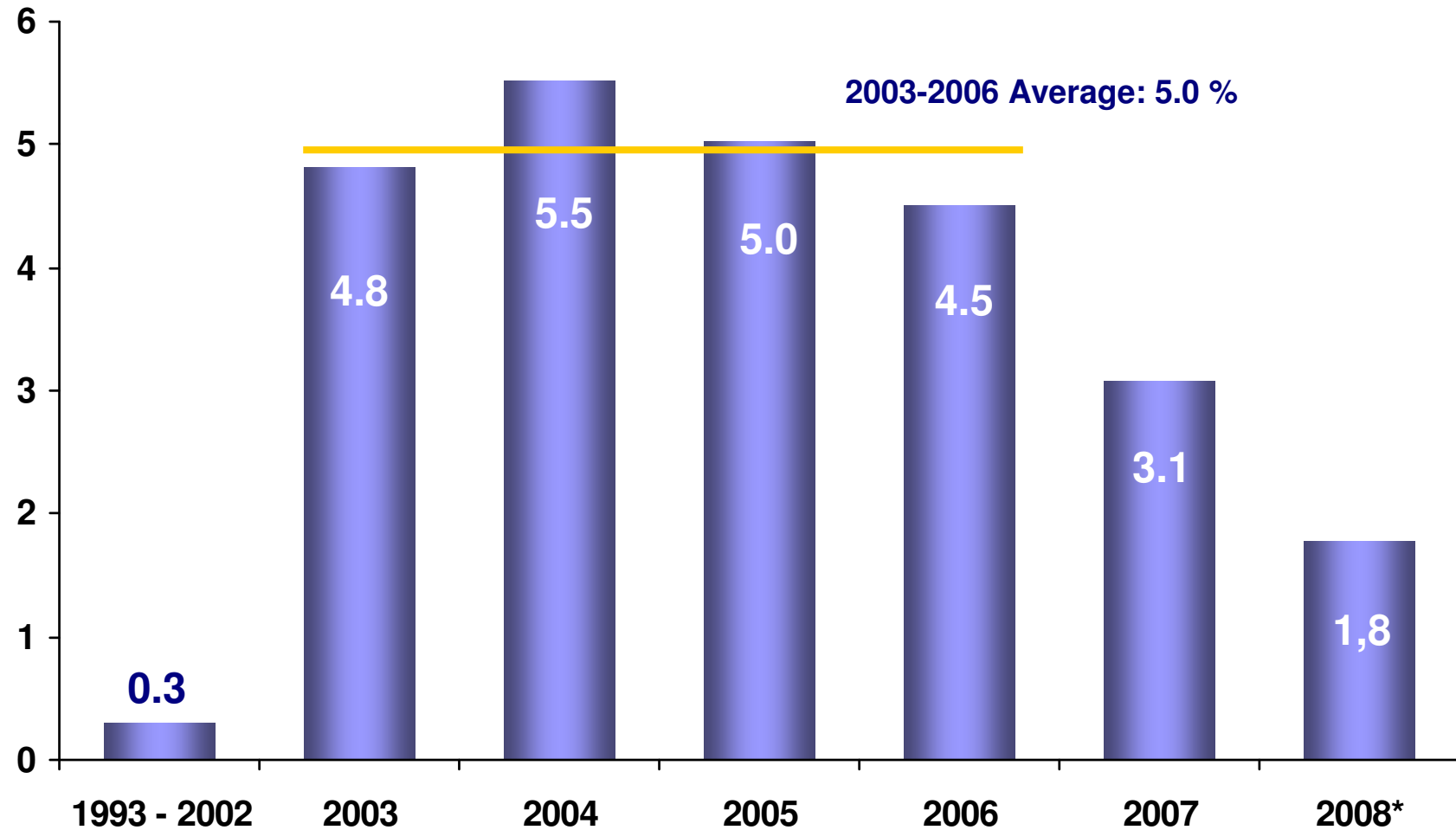
PUBLIC FINANCE

Central Government Budget Balance (% of GDP)



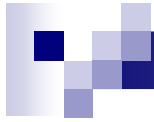
Source: Ministry of Finance

Public Sector Primary Surplus (IMF Definition, % of GDP)



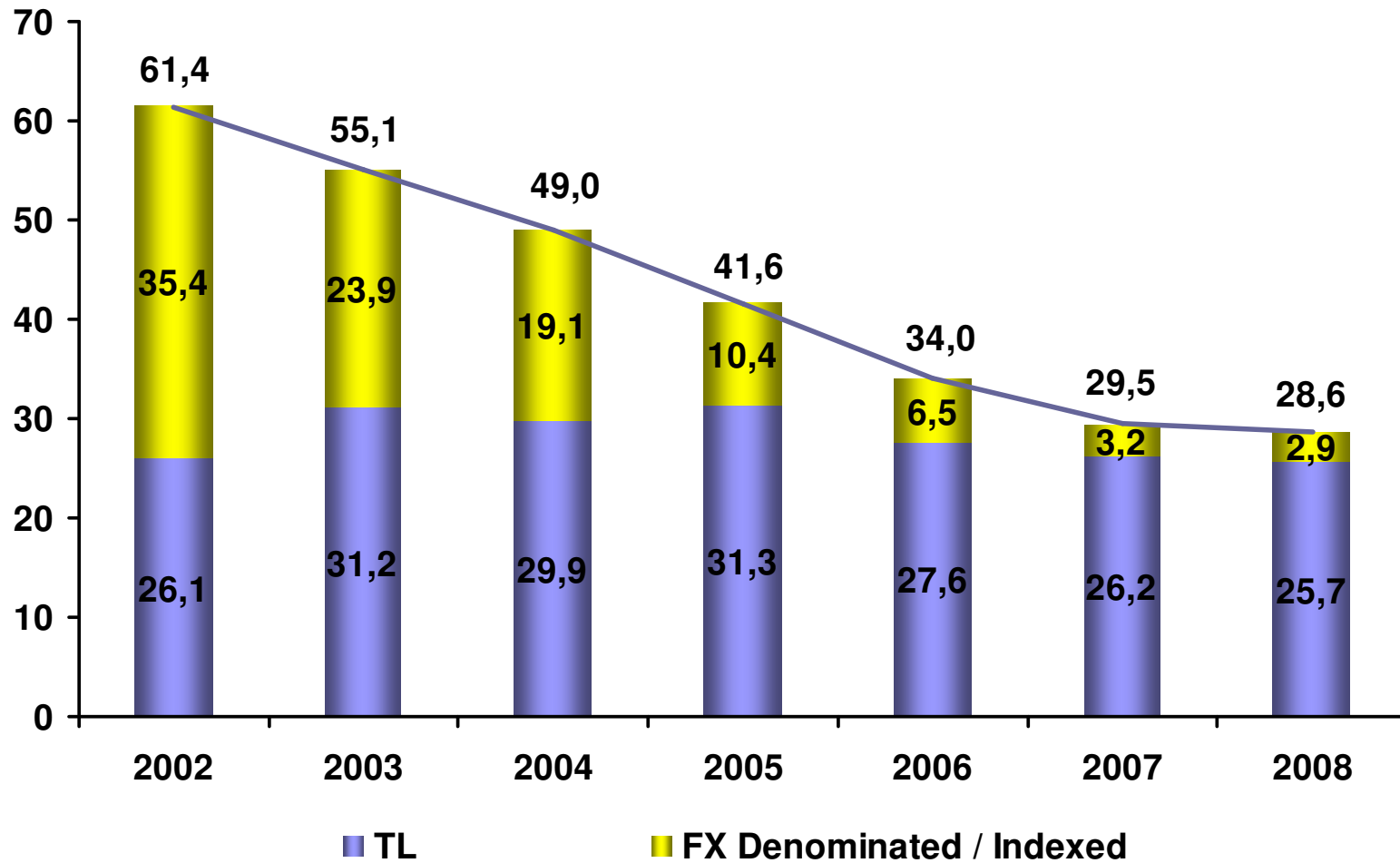
(*) Estimation

Source: Treasury



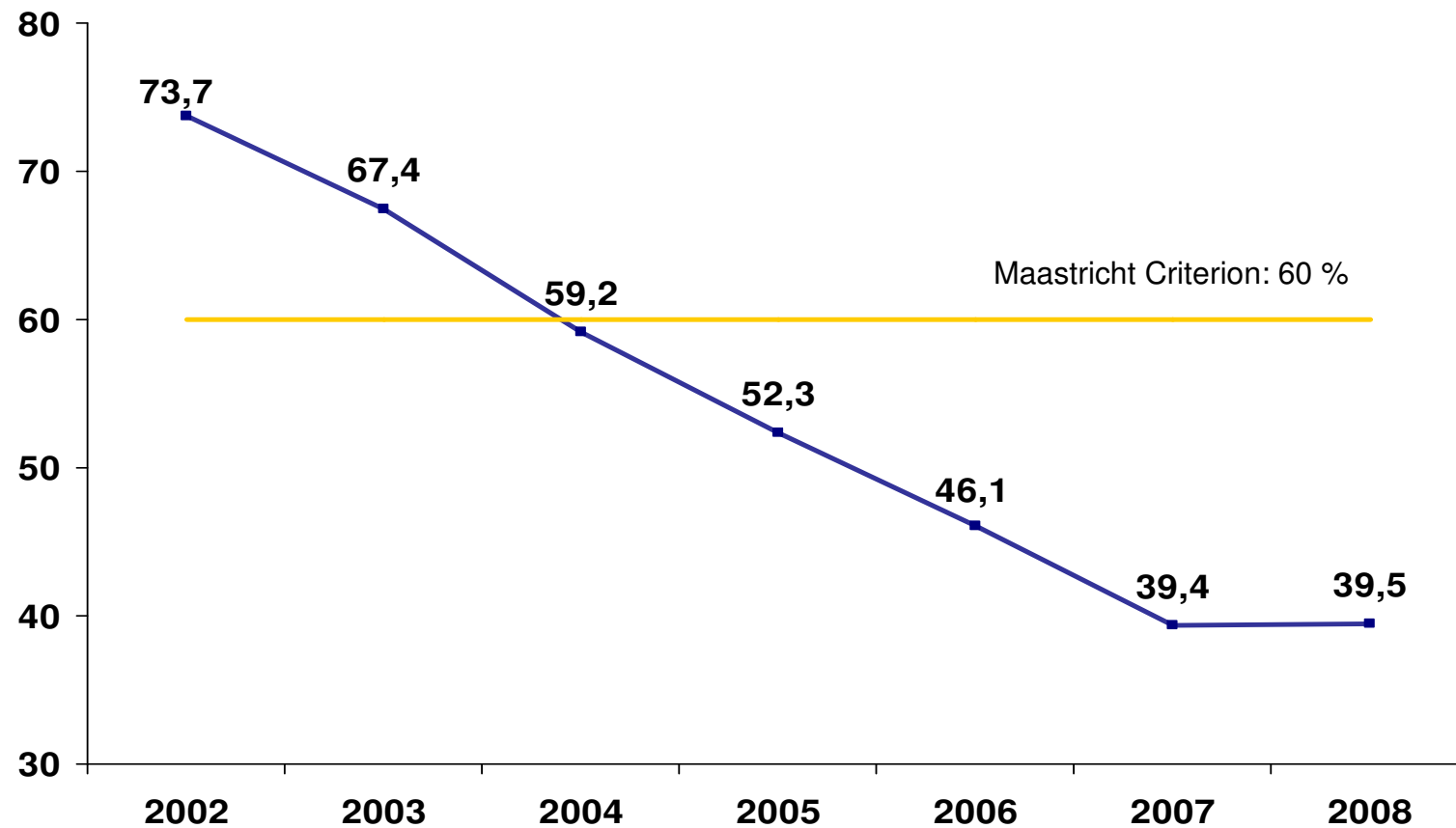
DEBT MANAGEMENT

Public Sector Net Debt Stock (% of GDP)



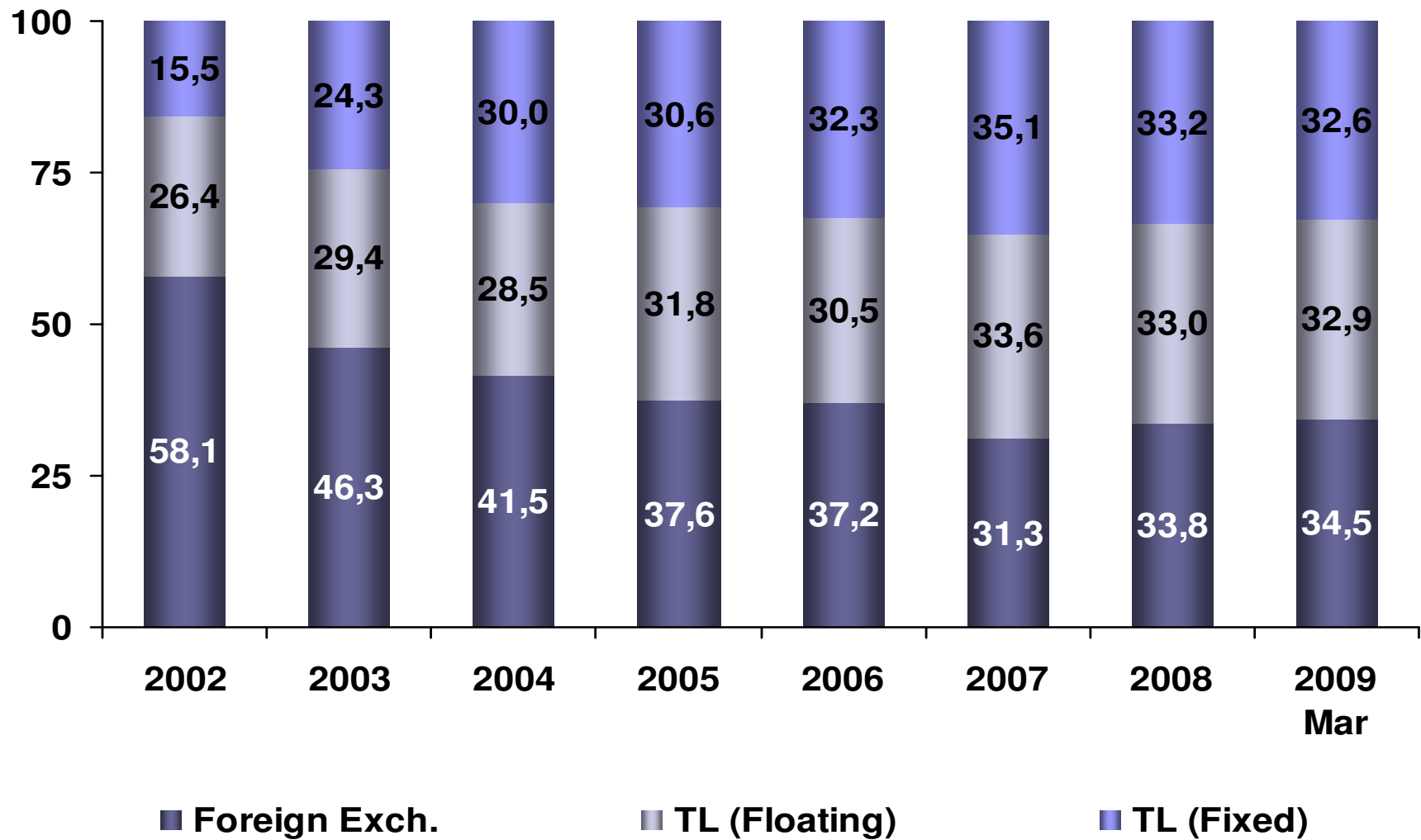
Source: Treasury

Public Sector Gross Debt Stock (EU Defined, % of GDP)



Source: Treasury

Composition of Central Government Gross Debt (%)



Source: Treasury



Sensitivity of Gross Public Debt to Shocks

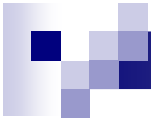
	2001	2008
5 percentage points change in real exchange rate	+ / - 2.2 Points	+ / - 0.8 Points
5 percentage points change in TL Real Interest Rate	+ / - 1.6 Points	+ / - 1.4 Points
2 percentage points change in GDP Growth Rate	+ / - 1.5 Points	+ / - 0.9 Points
1 percentage point change in Primary Surplus/GDP ratio	+ / - 1.0 Points	+ / - 1.0 Points

Note: The effects of scenarios on “Gross Public Debt Stock/GDP” ratio measured by deviations from baseline scenarios (as defined by ESA standards) based on end-2001 and end-2008 stock realizations.

External Debt Ratios (%)

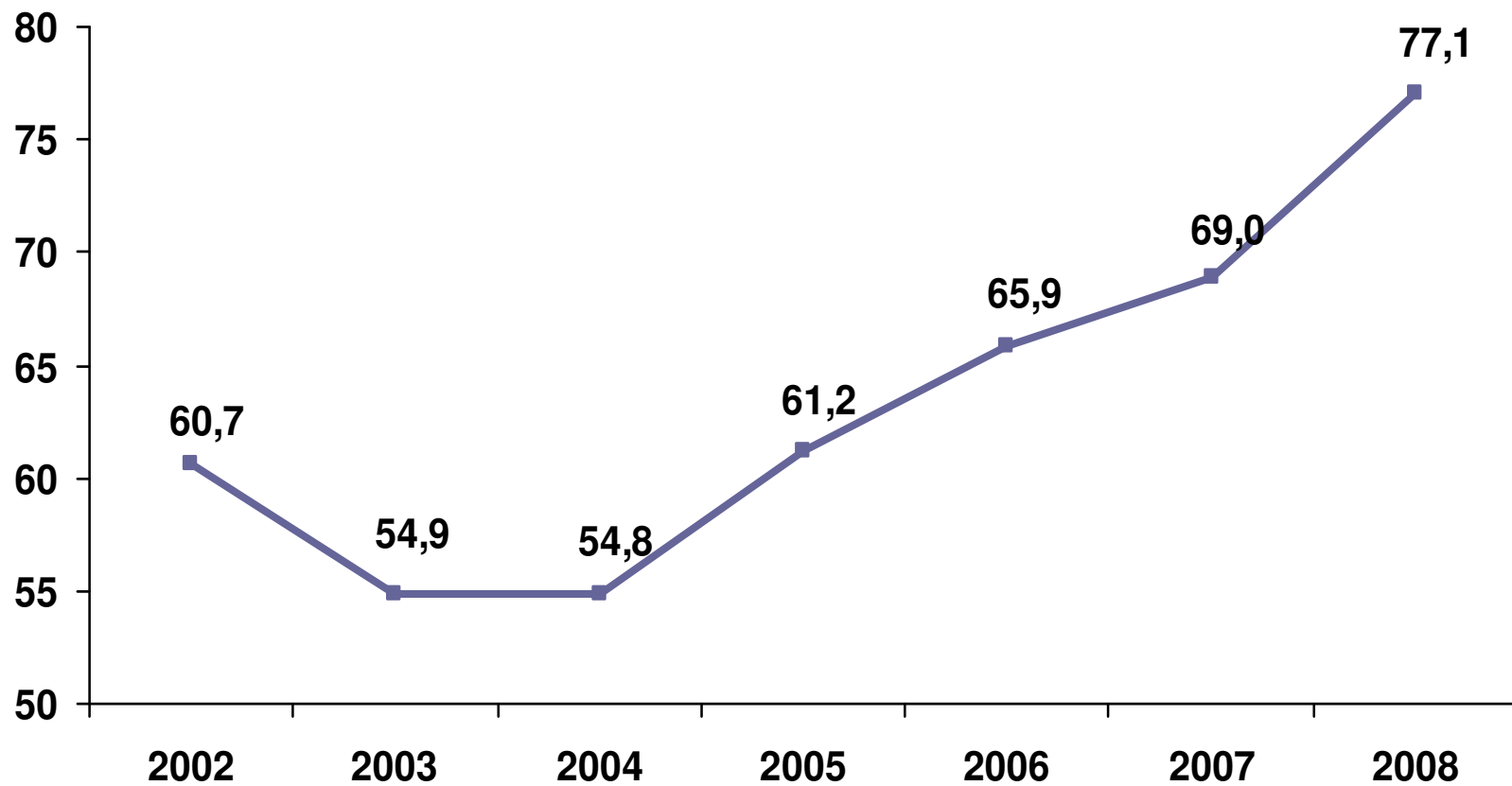
%	2002	2003	2004	2005	2006	2007	2008
GROSS EXTERNAL DEBT STOCK / GDP %	56.2	47.3	41.2	35.2	39.4	38.4	37.3
PRIVATE SECTOR EXTERNAL DEBT / GDP %	18.7	16.0	16.4	17.4	22.8	24.6	25.0
GROSS EXTERNAL DEBT / EXPORT (FOB)	359.2	304.9	254.8	230.7	242.4	232.1	209.8
PRIVATE SECTOR / EXPORT (FOB)	119.2	103.4	101.1	113.9	140.4	148.8	140.3
CBRT RESERVES (GROSS) / GROSS EXTERNAL DEBT	20.7	23.3	22.4	29.8	29.4	29.4	25.6
CBRT RESERVES (GROSS) / SHORT TERM EXTERNAL DEBT	163.2	146.1	111.8	131.9	142.8	169.7	140.0

Source: Treasury



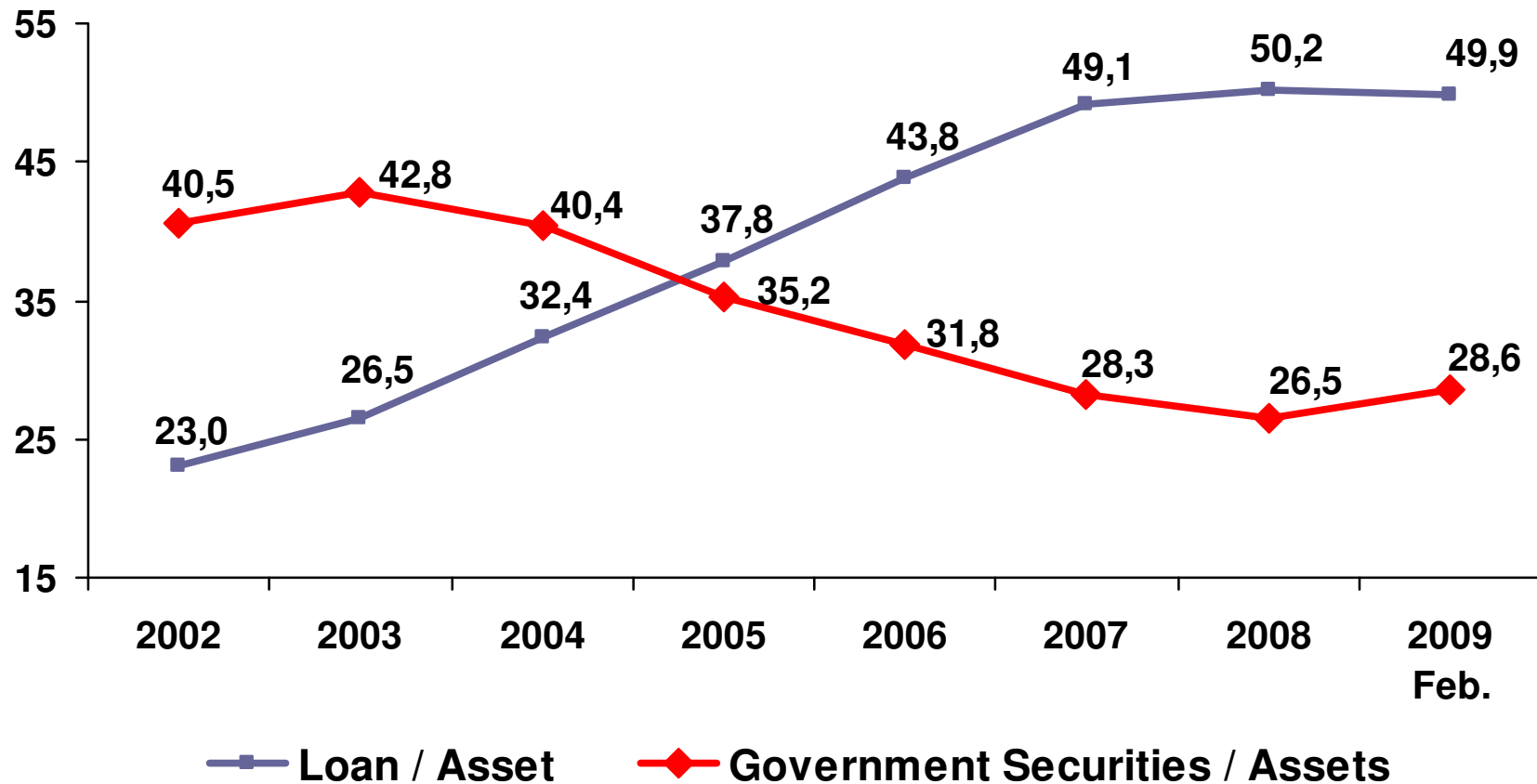
FINANCIAL SECTOR

Banking Sector Assets / GDP (%)



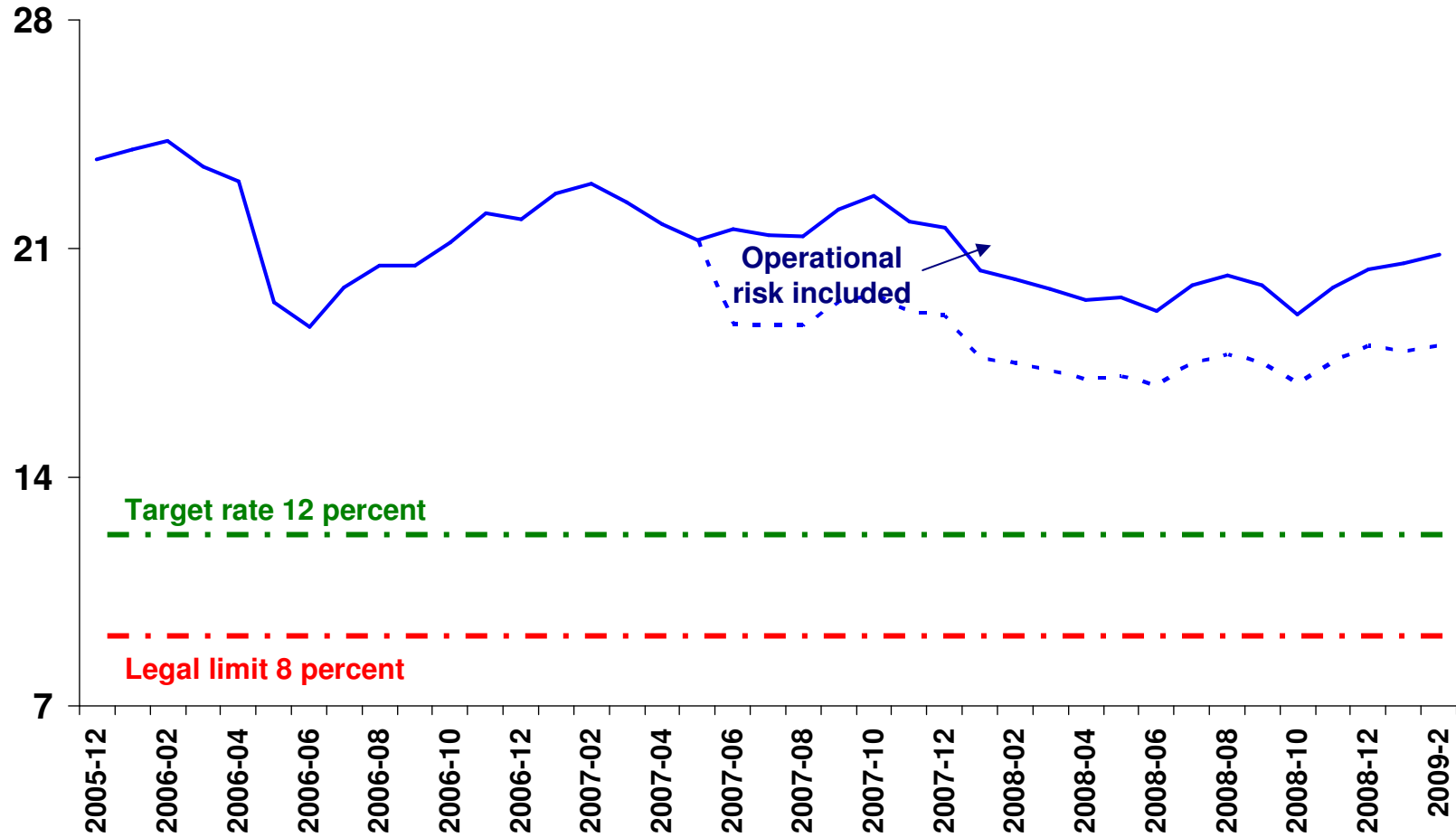
Source: BRSA

Asset Composition (%)



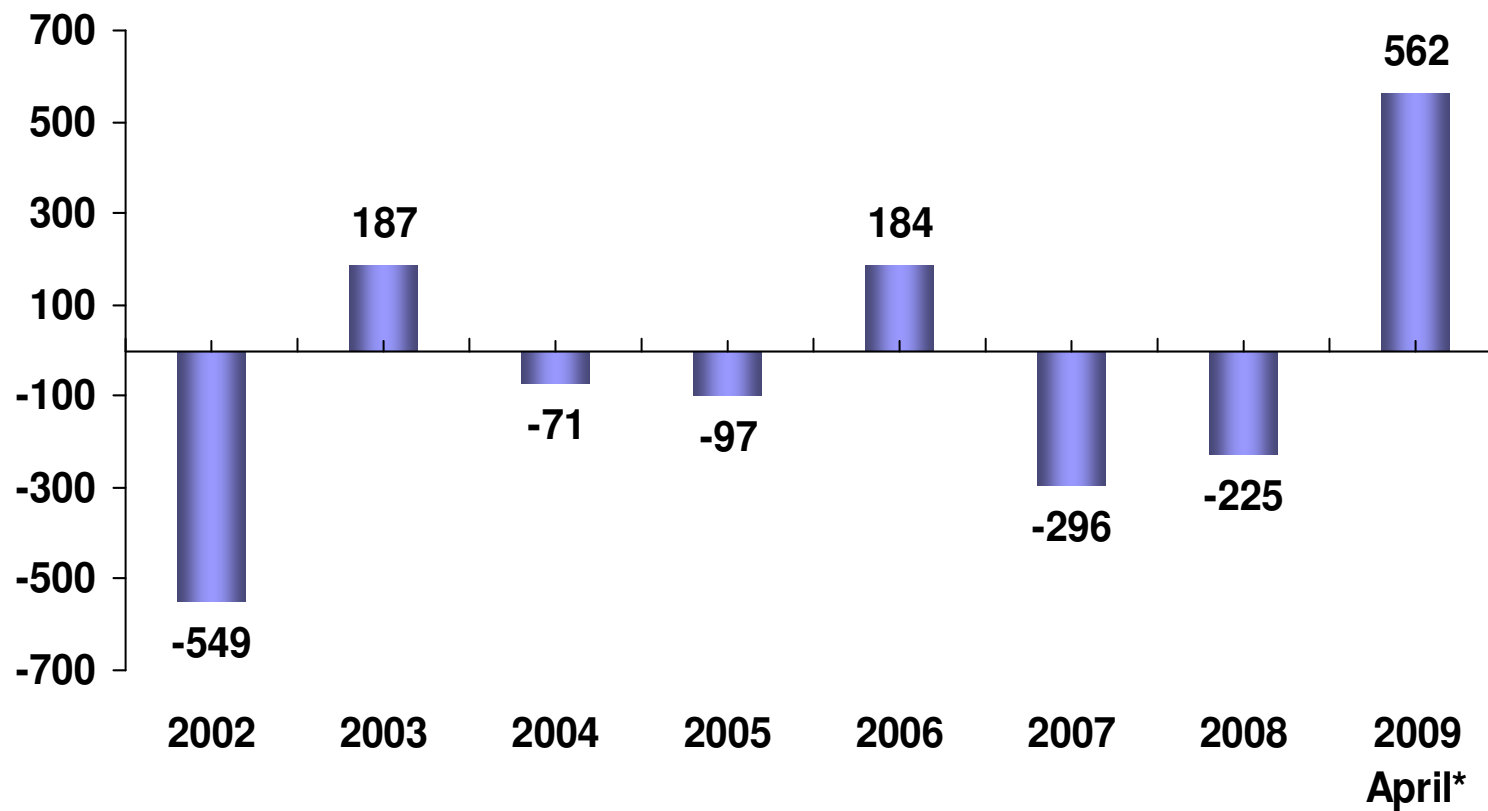
Source: BRSA

Capital Adequacy Ratio (%)



Source: CBRT, BRSA

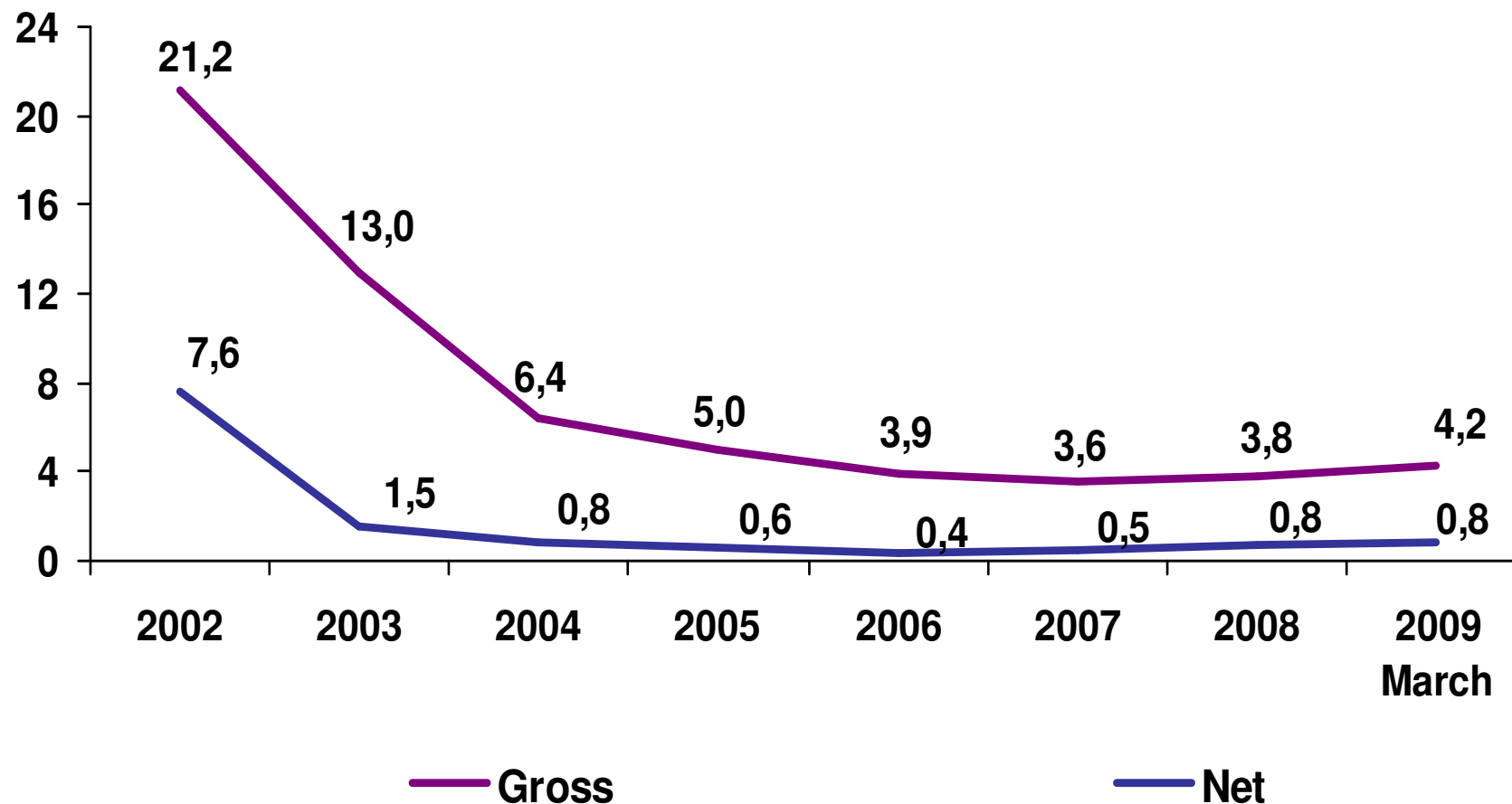
Banking Sector FX Position (million dollars)



(*) As of April 10

Source: BRSA

Banking Sector Asset Quality (NPL ratio, %)



Source: BRSA



STRUCTURAL REFORMS



Structural Reforms

- I. Public Sector Governance Reform
- II. Public Debt Management Reform
- III. Structural Fiscal Reforms
 - Tax Reform
 - Social Security Reform
- IV. Financial Sector Reform
- V. Enhancing Private Sector's Role in the Economy
- VI. Labour Market Reform



Public Sector Governance Reform

- ❑ Public Financial Management and Control Law
 - ❑ Strengthening Transparency, Accountability and Efficiency in the Public Sector
 - ❑ Broadening the coverage of the budget
 - ❑ Reducing contingent liabilities
 - ❑ Medium Term Framework
 - ❑ Strategic Planning and Performance Based Budgeting
- ❑ Public Procurement Law
- ❑ Rationalizing Public Sector Employment
- ❑ Code of Ethical Conduct for Civil Servants
- ❑ Law on Freedom of Information for Citizens



Tax Reform

Institutional reform

- Establishment of a Semi Autonomous Revenue Administration (R. A.)
- Establishment of a Large-Taxpayers Unit under R. A.
- Establishment of Tax Policy Unit

Rate reductions

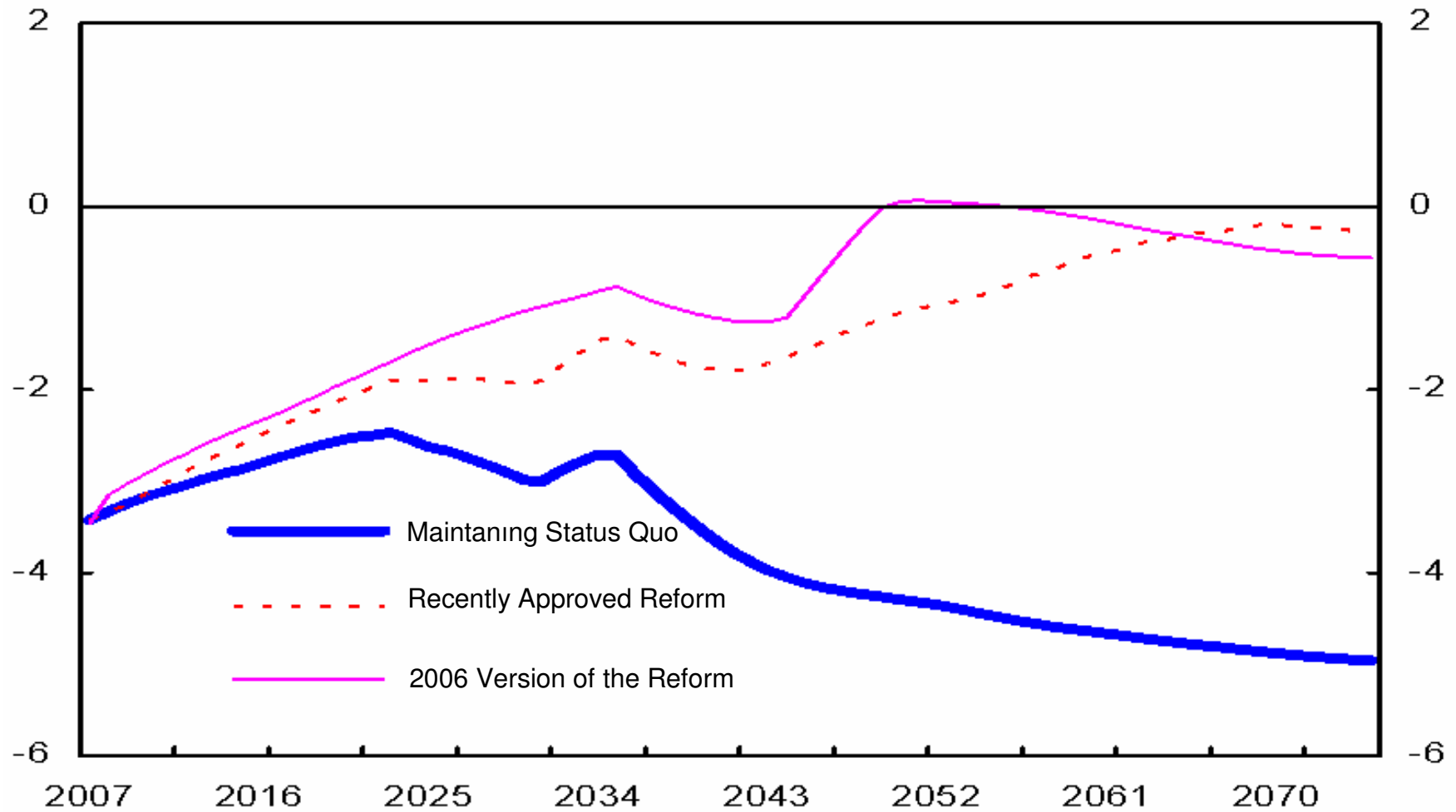
- Personal Income Tax Reform
- Corporate Income Tax Law
- VAT rate reductions



Social Security Reform (April 2008)

- ❑ Uniform norm and standards for workers, civil servants and the self employed
- ❑ Gradual increase in retirement age to 65
- ❑ Decrease in accrual rate to 2 %.
- ❑ The valorization of past earnings by CPI+30 % of GDP real growth
- ❑ Indexation of pensions to CPI
- ❑ Universal health insurance
- ❑ A new health scheme for the poor
- ❑ Introduction of copayments for secondary and tertiary health care

Social Security System Balance (% of GDP)



Source: Treasury, WB



Public Debt Management Reform

- Improving debt dynamics
 - Decreasing the debt burden
 - Improving the risk profile of public debt stock
 - Reducing foreign exchange risk
 - Reducing interest rate risk
 - Reducing liquidity risk by high level of reserves
 - Increasing the average maturity of domestic cash borrowing, taking market conditions into consideration
- Transparent, accountable and efficient debt management policy
 - Law on Regulating Public Financing and Debt Management
- Strong coordination with monetary policy



Financial Sector Reform

I. Regulation and Supervision in line with the EU Standards

New Banking Law in line with EU Standards

Continuation of Secondary Legislation related with the Banking Law

Progress on Implementing Regulations

Financial Sector Assessment Program (FSAP)

Preparation for BASEL II

II. Strengthening the Private Banks

CAR-Capital Adequacy Ratio- Improvement

Consolidation Encouraged

Increased Foreign Participation

III. State Bank Reform

Financial and Operational Restructuring

Privatization process for Halkbank has been initiated

IV. Development of Mortgage Market

Mortgage Law enacted in February, 2007

Secondary Legislation on Mortgage Law has been initiated

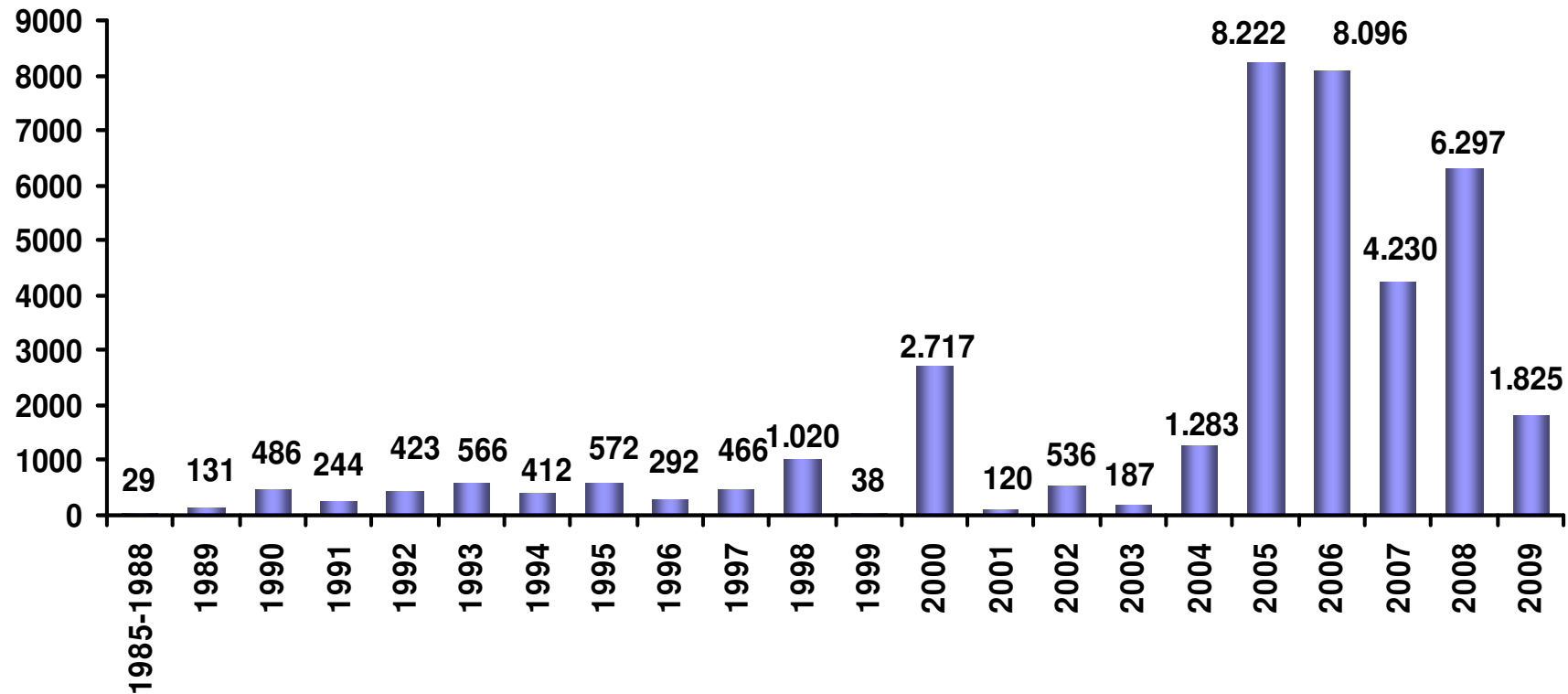


Enhancing the Role of the Private Sector

- a. Opening the Key Markets to Competition and Regulation by Independent Agencies
- b. Improving the Investment Environment
- c. Accelerating Privatization

Accelerated Privatization Program

Privatization Implementations (January 1986 - April 2009, million US\$)



Source: PA

Privatization Transactions Completed (Nov. 2007-Dec. 2008)

COMPANY	PRIVATIZATION TRANSACTION	SALES PRICE (dollars)
Undersecretariat of Defense Industries	20-year lease of Sabiha Gökçen Airport	2,640,400,000
TÜRK TELEKOM	Public offering (13.34 %)	1,662,931,517
PETKİM	Block sale	2,040,000,000
TEKEL	Block sale	1,720,000,000
ADÜAŞ	Transfer of operating rights	510,000,000
TEKEL	2 real estates in Manisa	50,284,137
SÜMER HOLDİNG	NİTRO-MAK (33.5 %)	19,550,000
OTHERS	Sales and transfers of various real estate facilities since November 2007	41,870,202
TOTAL		8,684,699,666

Source: SPO, "Pre-Accession Economic Programme"



Labor Market Reform

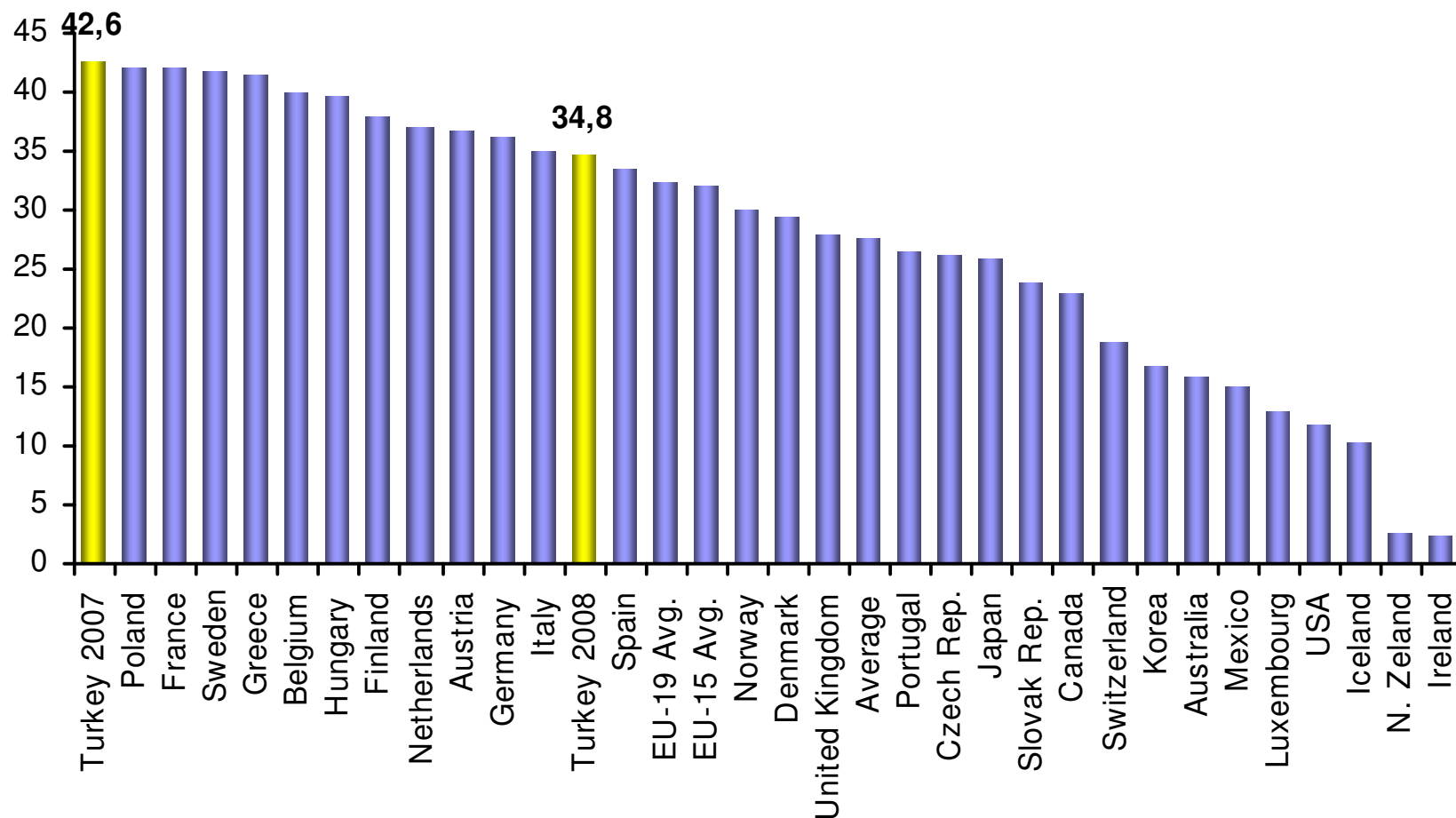
- Reduction of labor cost
 - 5 percentage points social security premium cut across the board
 - 5 year premium cut for newly employed young and women workers, on a decreasing ratio
 - Payment of the employers' share of social security premium for disabled workers from the budget

- Active labor market programs
 - Allocating TRY300 mn a year

- Elimination of non-financial burdens:
 - Employment of ex-convicts, doctors, lawyers, terror victims for workplaces with more than 50 employees
 - Establishing sport center or kinder garden for workplaces with more than 500 employees

- Fighting against informality
 - Increasing penalties and strengthening measures

Tax Wedge After Reform (%, Married with 2 Children)



Kaynak: OECD Taxing Wedges, 2007



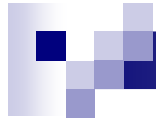
What Did The Structural Reforms Achieve?

- A robust and resilient banking sector
- A more attractive and competitive economy
- A sustainable fiscal position
- More transparent and accountable government



Reform Agenda of the Government

- Introducing fiscal rules
- Fighting against informality
- Improving efficiency of public expenditure
- Broadening tax base
- Improving education
- Enhancing health outcomes
- Upgrading energy and physical infrastructure
- Reducing regional disparities
- Supporting innovative activities and R&D



RELATIONS WITH THE IMF & EU



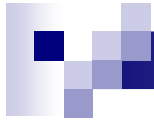
Relations with the IMF

- Stand-By Arrangement was successfully completed in May 2008.**
- Due to the long-term program engagement with the IMF, an Ex-Post Evaluation study was initiated.**
- Technical studies on a possible Precautionary Stand-By Arrangement has recently started.**



EU Accession Process

- For 1 Chapter**
1- Science and Research → **Negotiations were opened and provisionally closed**
- For 7 Chapters**
1- Enterprise and Industrial Policy
2- Statistics
3- Financial Control
4- Consumer and Health Protection
5- Trans-European Networks
6- Company Law (fulfillment of opening benchmarks)
7- Intellectual Property Law (fulfillment of opening benchmarks) → **Negotiations were opened provisionally, but closing benchmarks**
- For 2 Chapters**
1- Education and Culture
2- Economic and Monetary Policy → **Submission of our Position Papers**
- For 12 Chapters** → **Opening benchmarks**
- Remaining chapters** → **Awaiting for the screening reports**



TURKEY'S KEY STRENGTHS & LONG TERM POTENTIAL



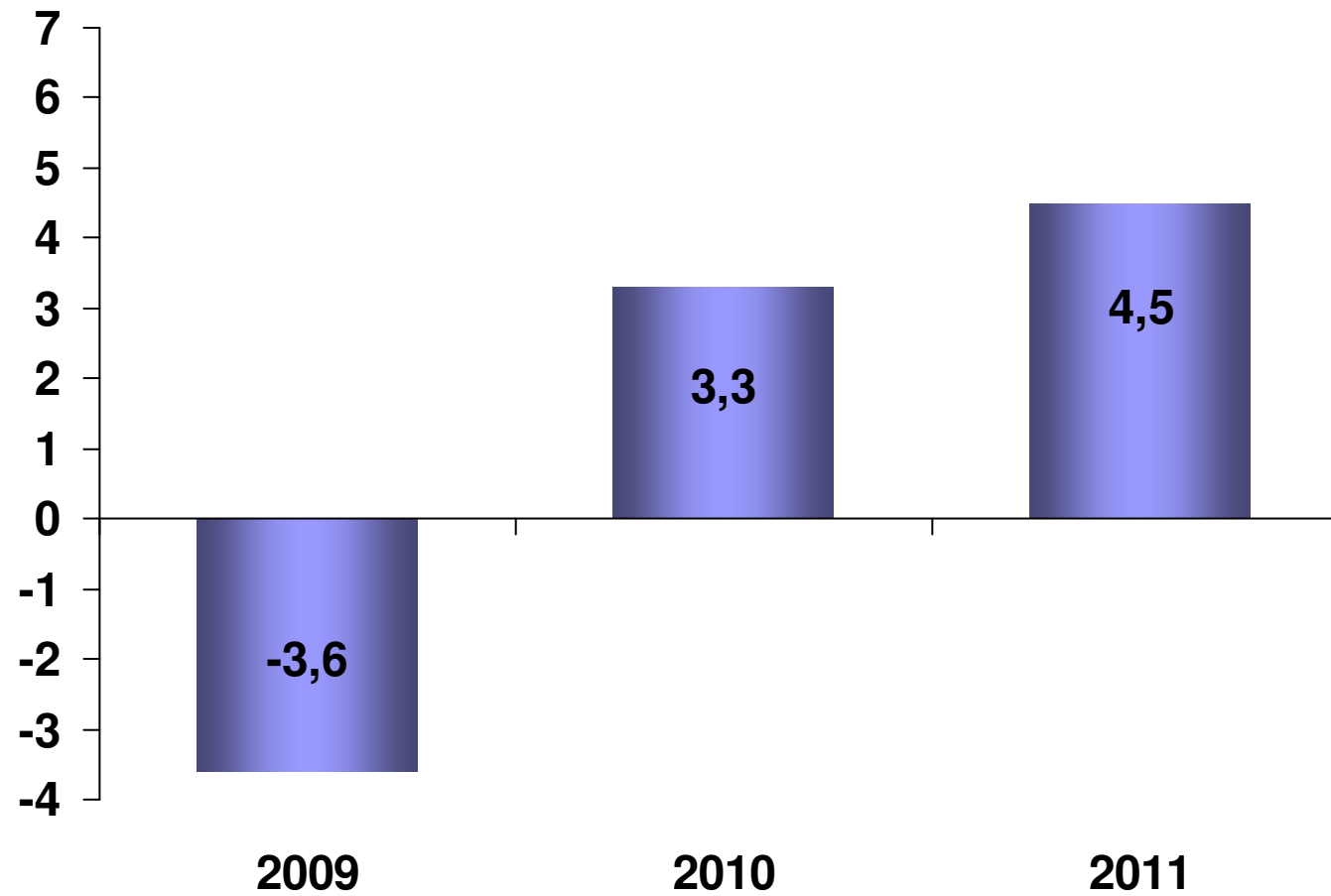
Key Strengths

- **Sound Financial Sector:**
 - High Capital Adequacy Ratio
 - Good Quality Capital Base
 - Low NPL ratio
 - Low Open FX Positions
 - Adequate Liquidity
 - High Return on Equity

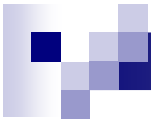
- **Solid Growth Momentum**

- **Favorable Demographics**

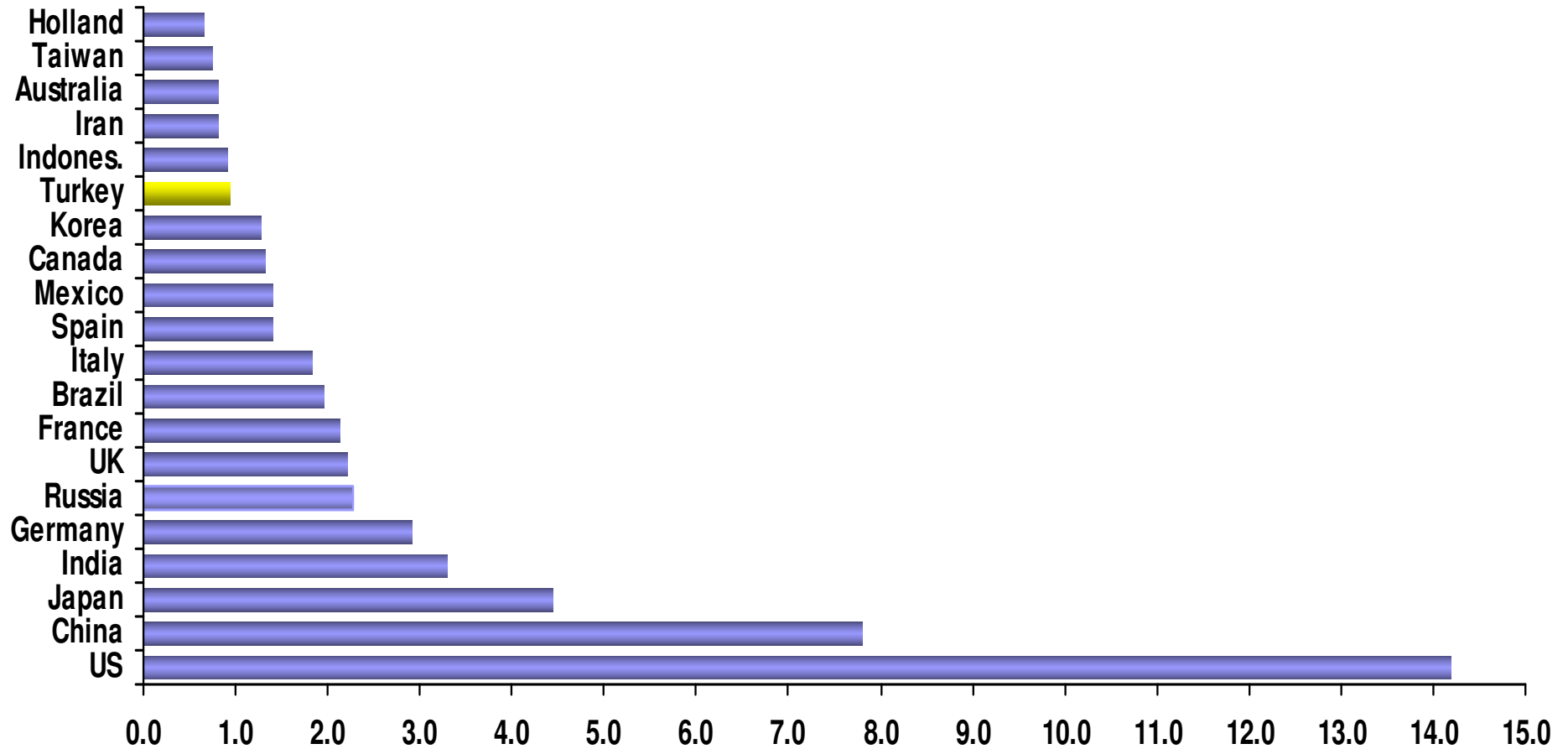
GDP Growth Rate Targets (%)



Source: PEP, 2009



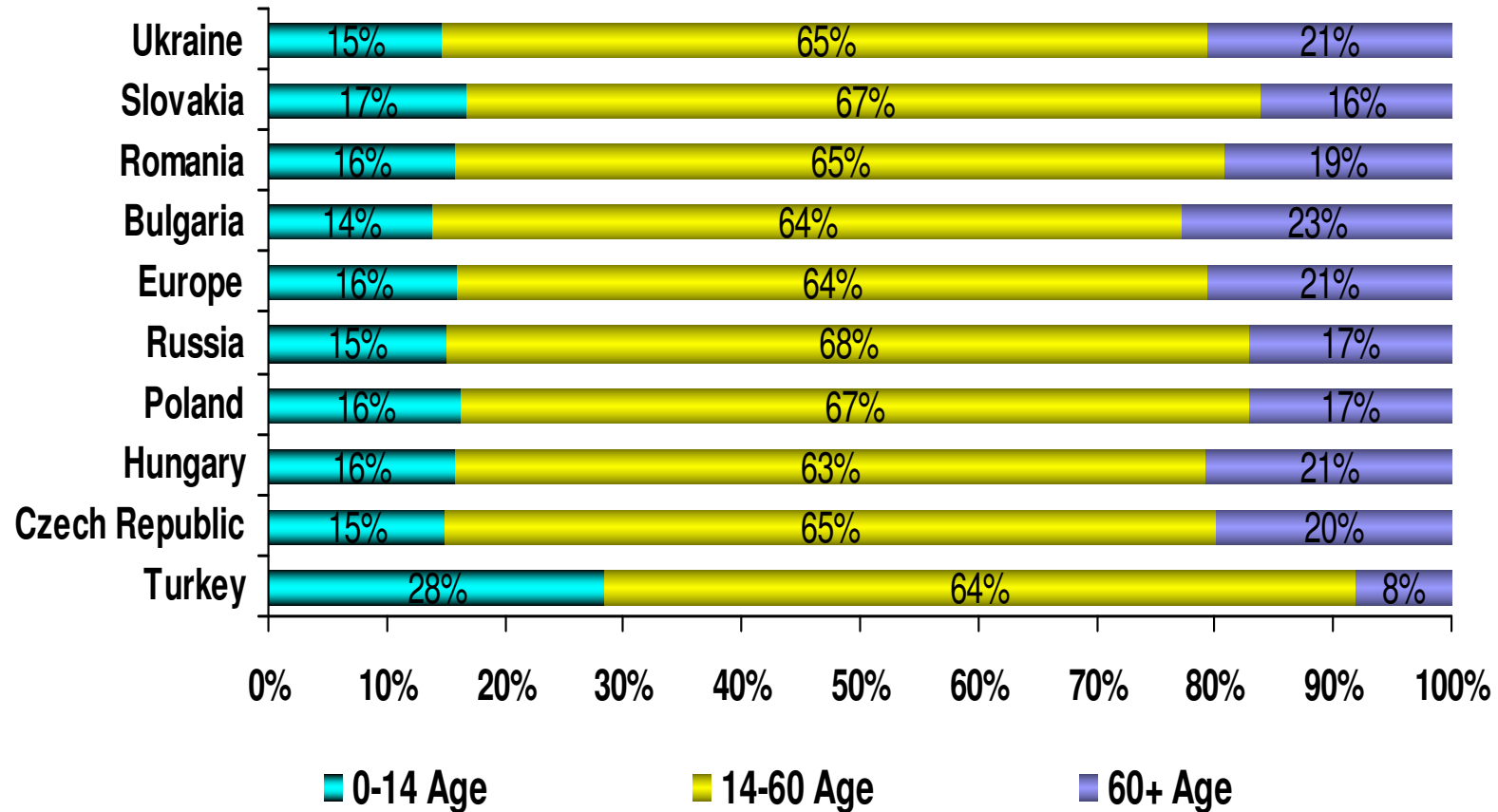
World's Biggest Economies (PPP GDP, Trillion USD, 2008E)



Source: IMF

Favourable Demographics

Demographic Profile



Source: UN

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