TURKISH ECONOMY:
Key Achievements and Medium Term Outlook

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Presentation Outline

I. KEY ACHIEVEMENTS

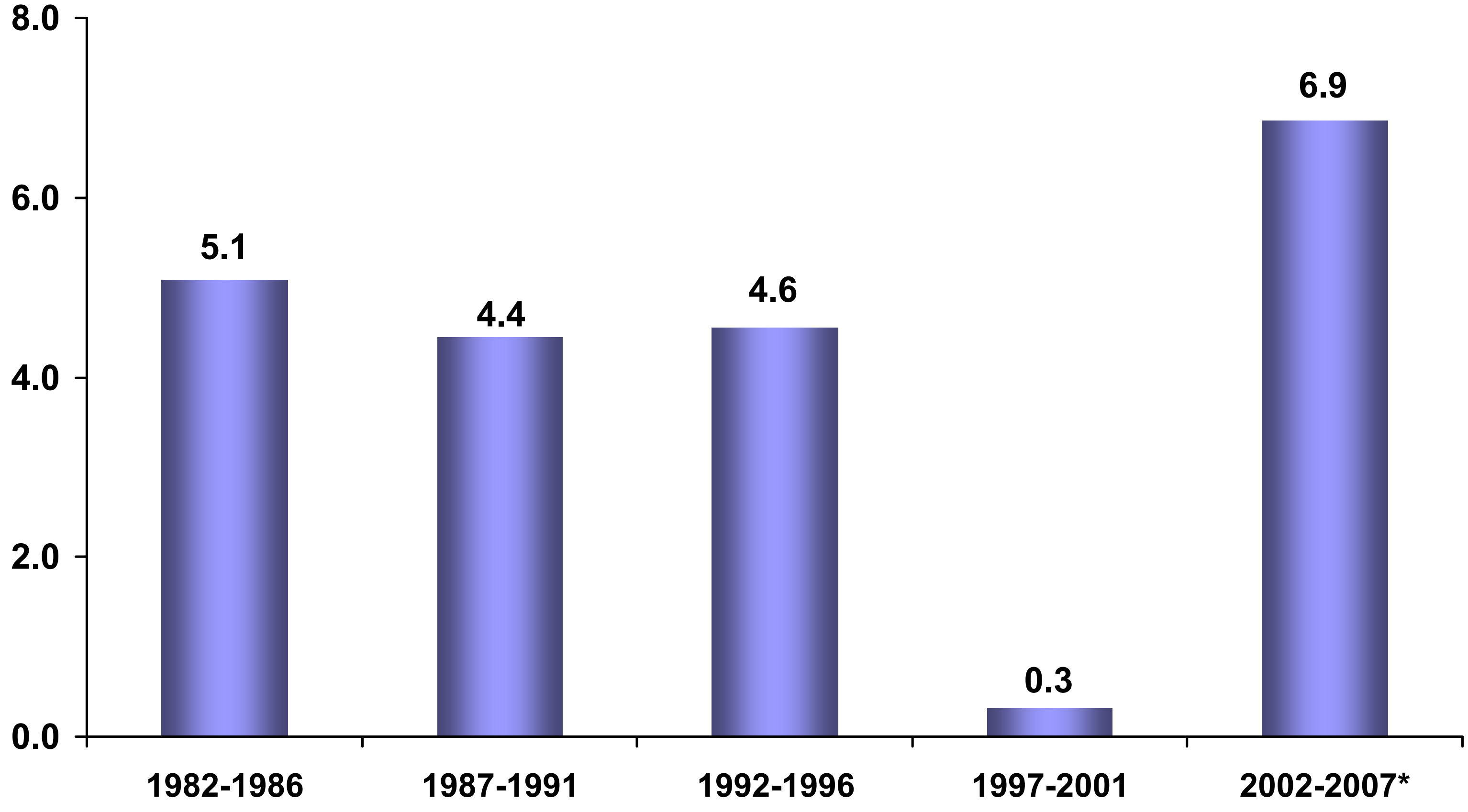
II. MEDIUM TERM OUTLOOK

III. REFORM AGENDA

KEY ACHIEVEMENTS

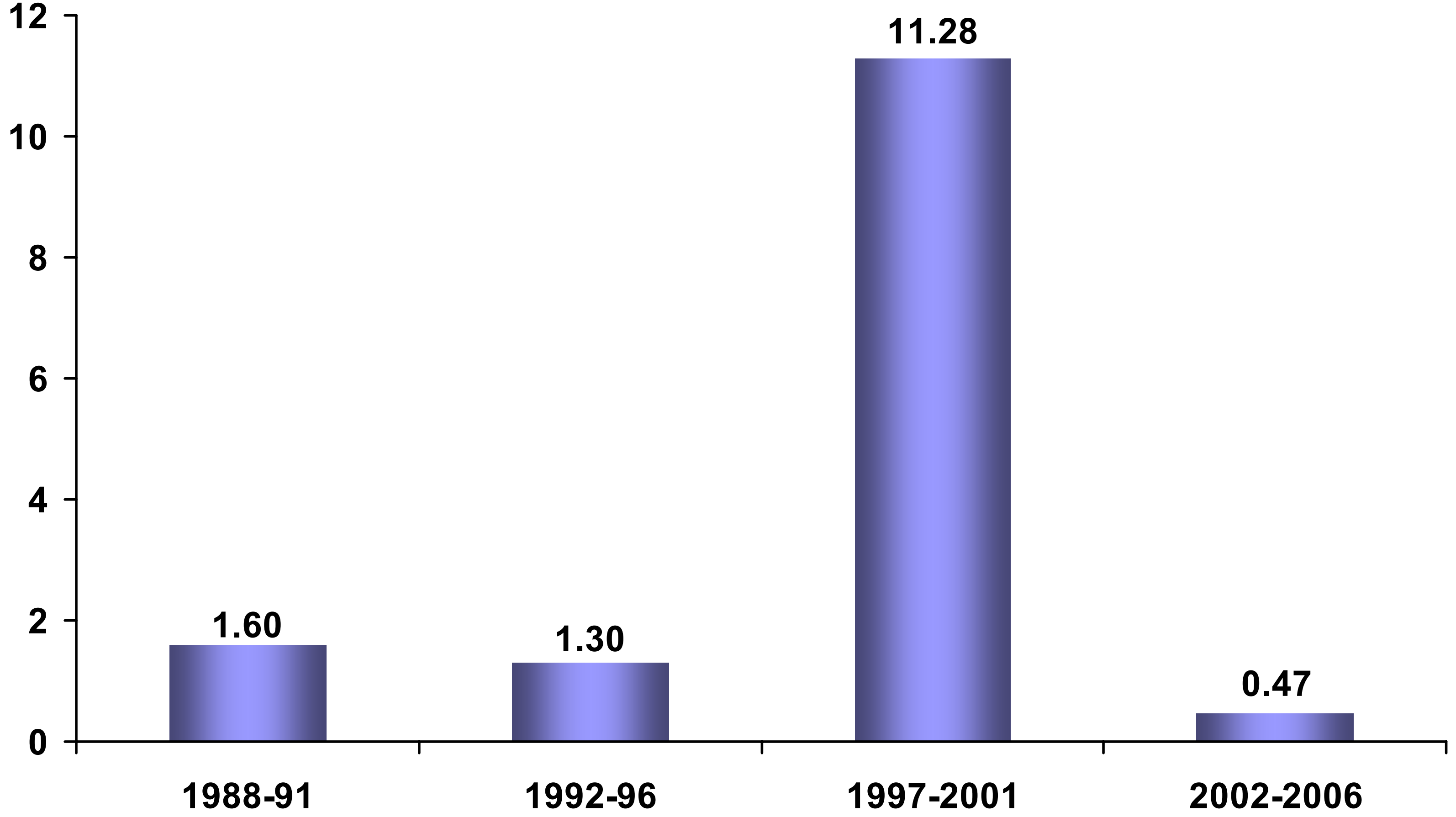
- HIGH, LESS VOLATILE, PRIVATE SECTOR LED, AND PRODUCTIVITY DRIVEN GROWTH
- PROGRESS IN REAL INCOME CONVERGENCE
- SUBSTANTIAL DISINFLATION
- TRANSFORMATION IN THE EMPLOYMENT STRUCTURE
- REMARKABLE FISCAL CONSOLIDATION
- MORE RESILIENT PUBLIC DEBT COMPOSITION
- STRONG FINANCIAL SECTOR
- COMPETITIVE INVESTMENT ENVIRONMENT
- BOOSTED PRIVATIZATION IMPLEMENTATIONS
- STRONG FOREIGN DIRECT INVESTMENT INFLOWS
- ENHANCED TRADE AND FINANCIAL INTEGRATION
- IMPLEMENTATION OF COMPREHENSIVE STRUCTURAL REFORMS

GNP Growth Rate (Annual average, %)



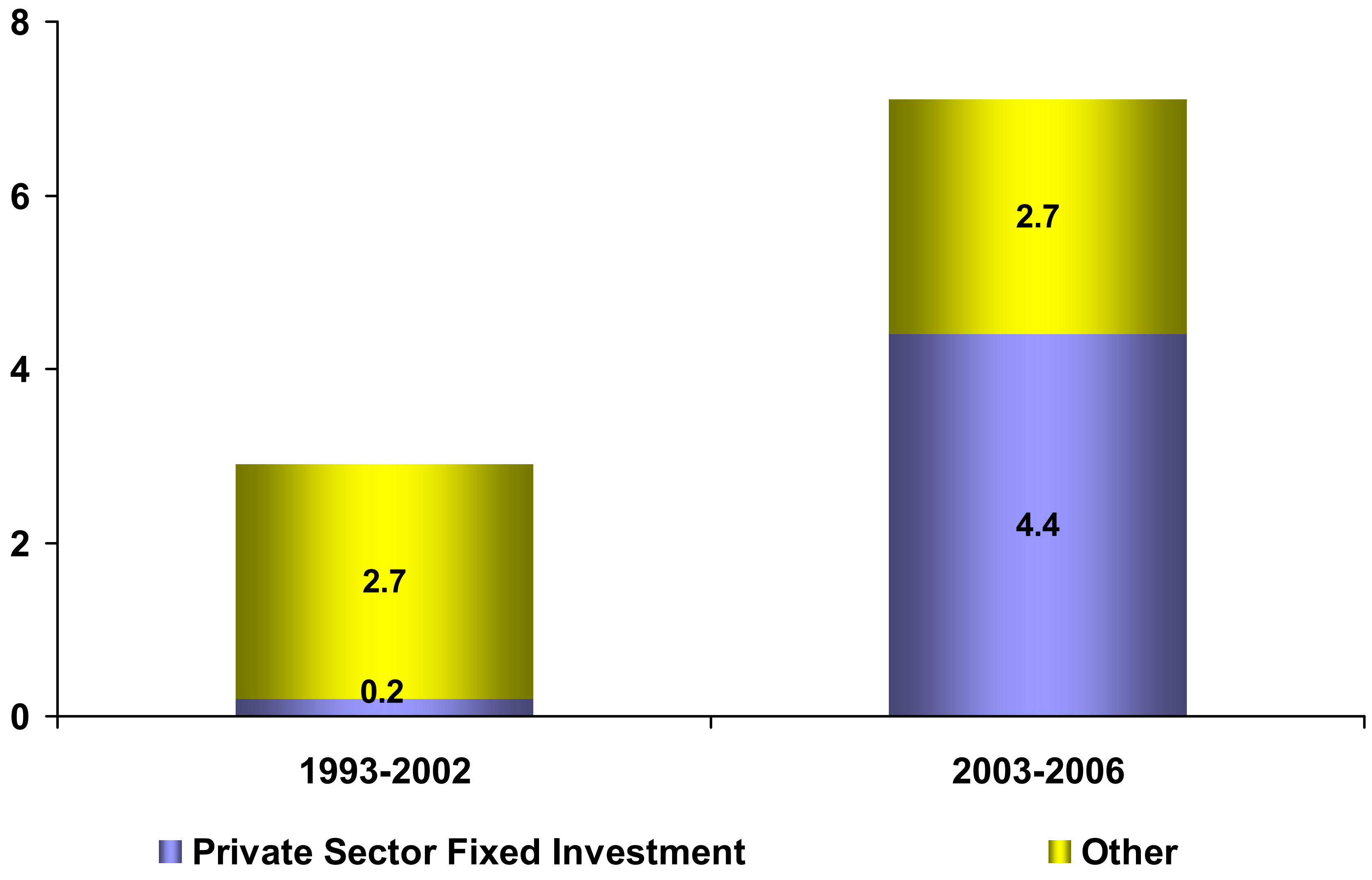
(*) 2007 growth rate is assumed at 4%.

Volatility of Growth*
(coefficient of variation of the real growth rates, %)

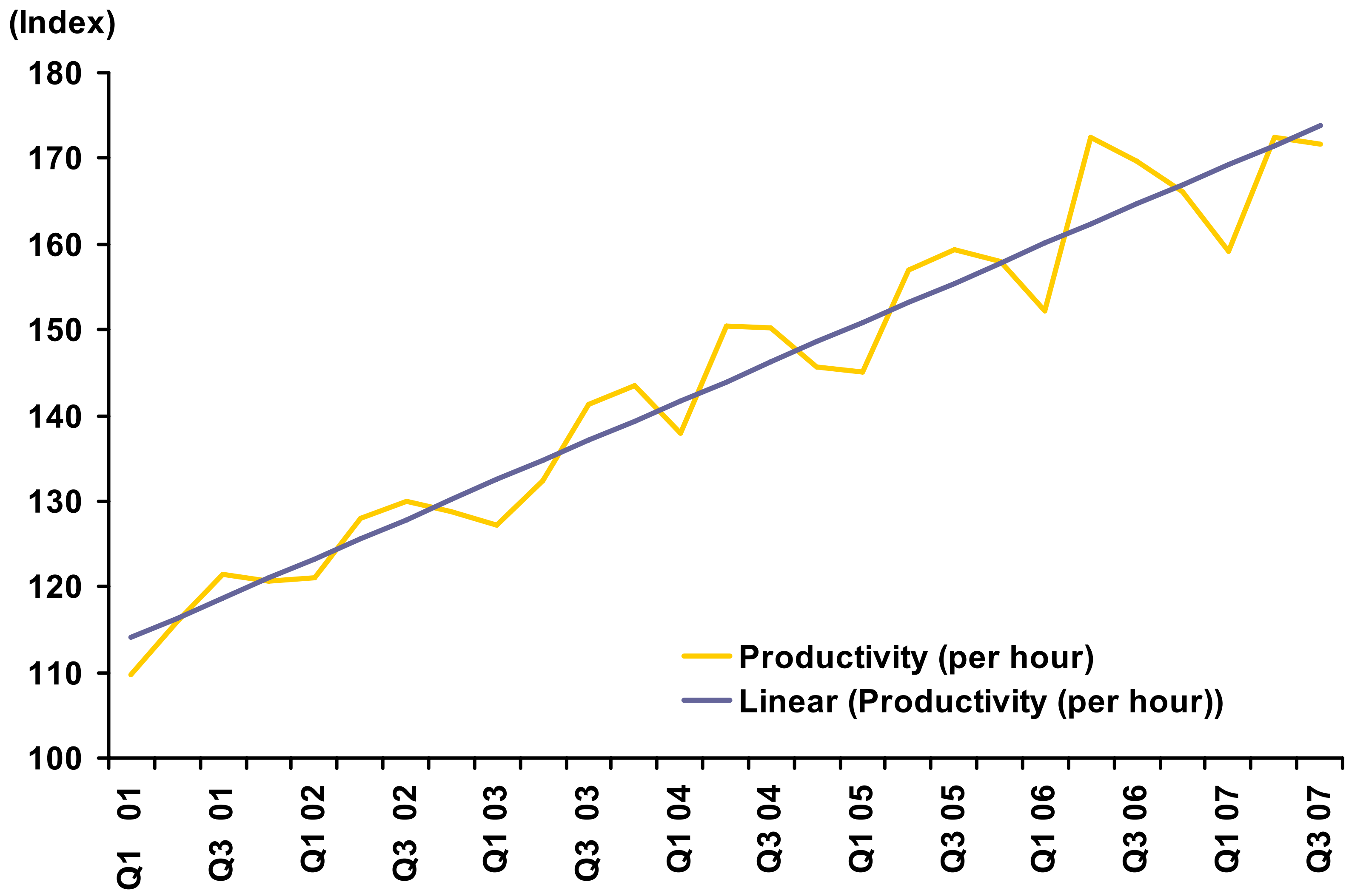


(*) Cumulative percentage change over 2002-2006

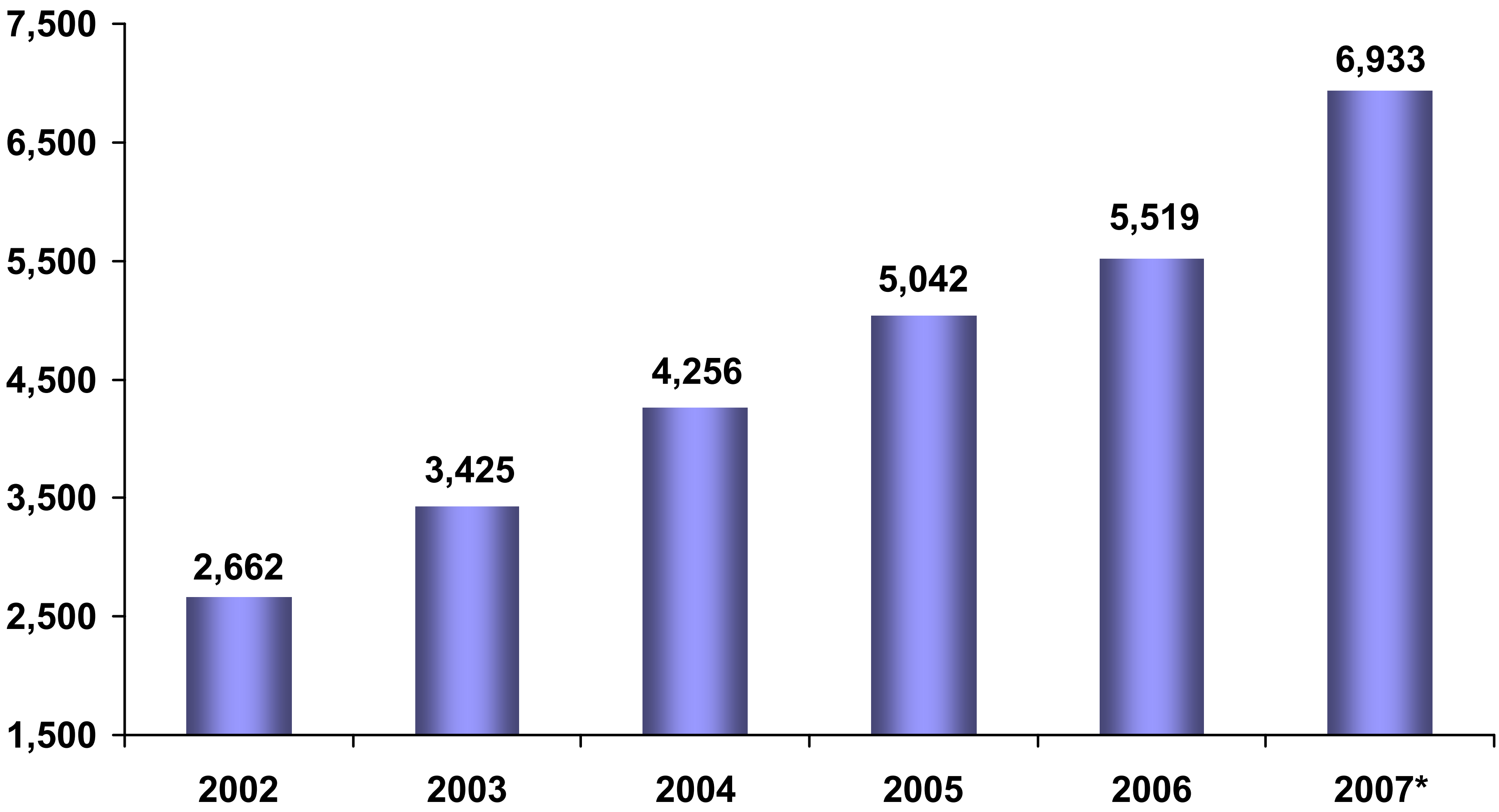
Contribution of Private Sector Fixed Investment to GDP Growth (%)



Productivity Index of Total Manufacturing Industry

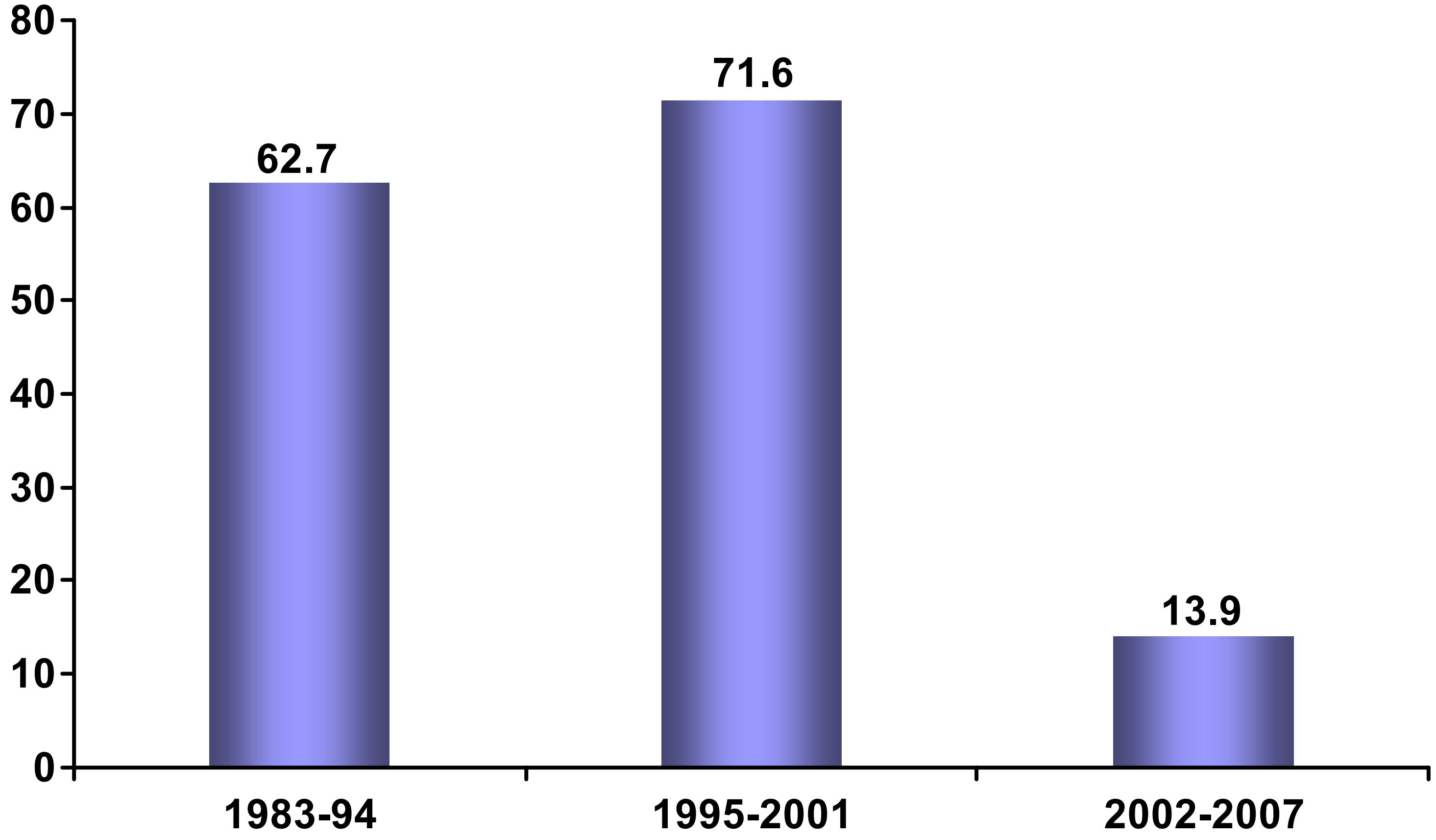


Per Capita GDP (USD)

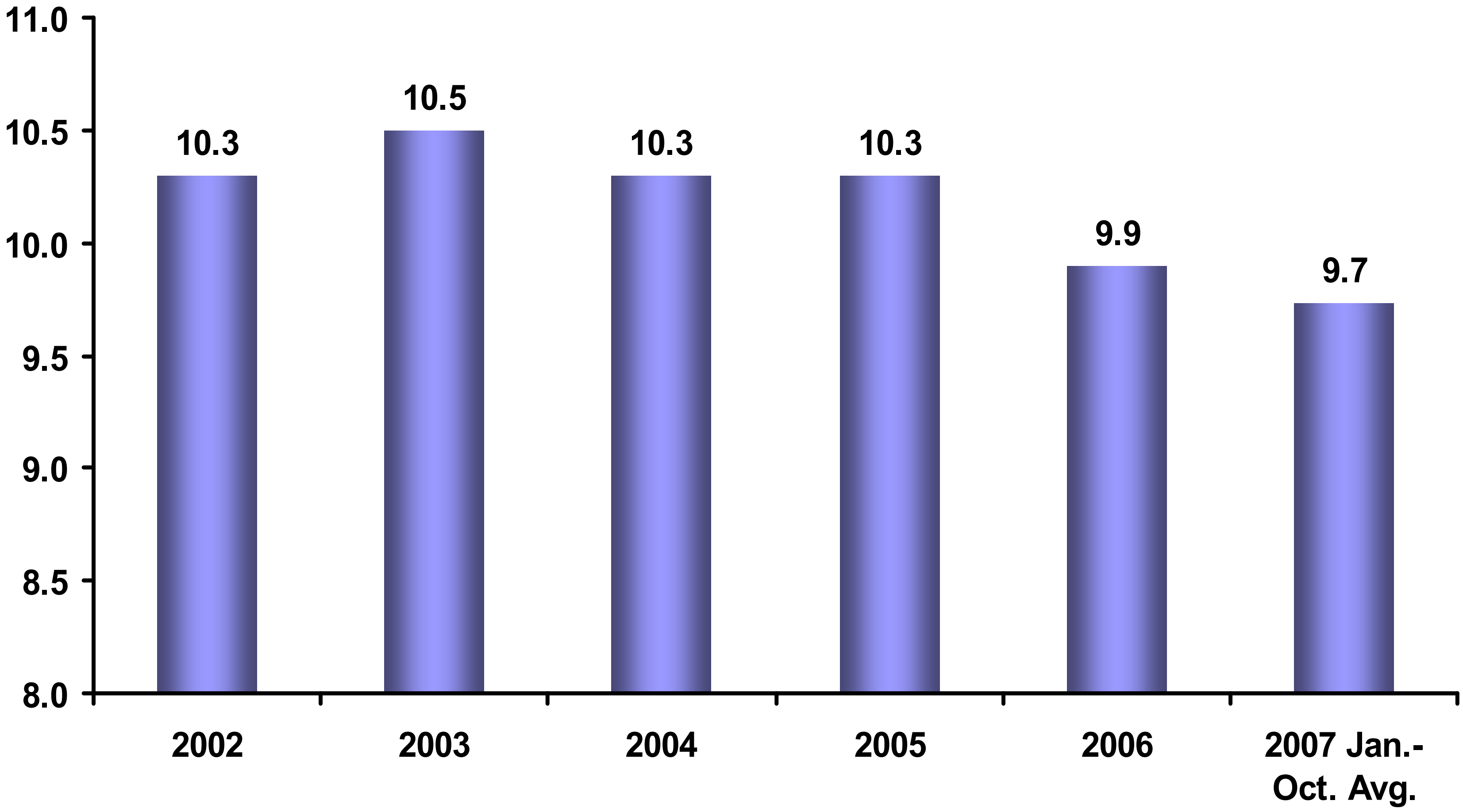


(*) Based on GDP estimate in 2008 Annual Program and end year population figure recently announced by TURKSTAT.

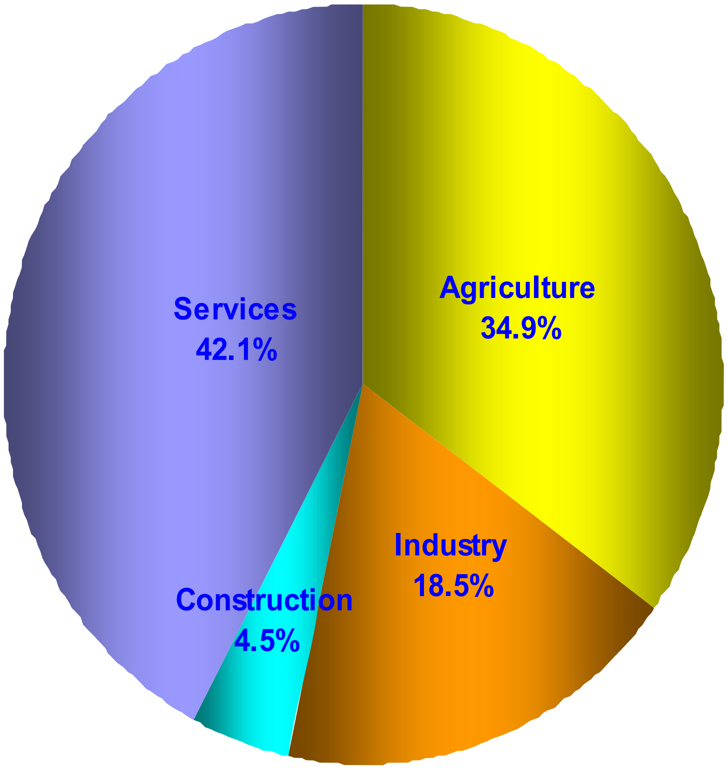
Average Inflation in Periods (%)



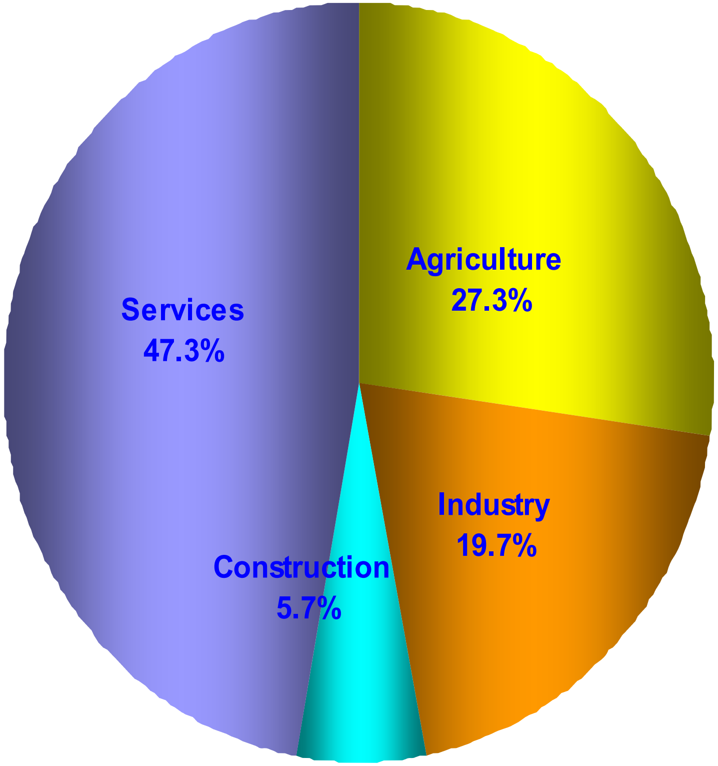
Unemployment Rate (%)



Distribution of Employment by Economic Activity (%)

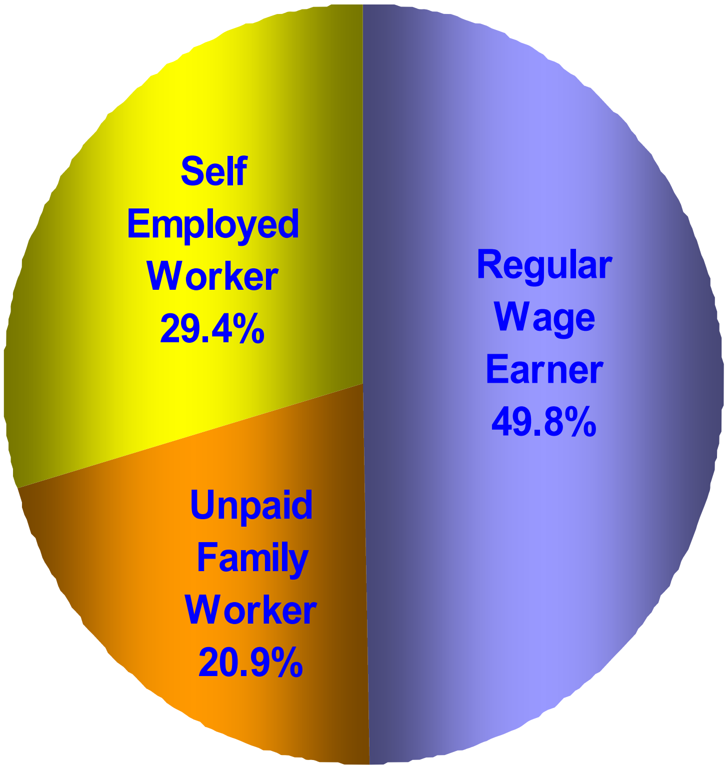


2002

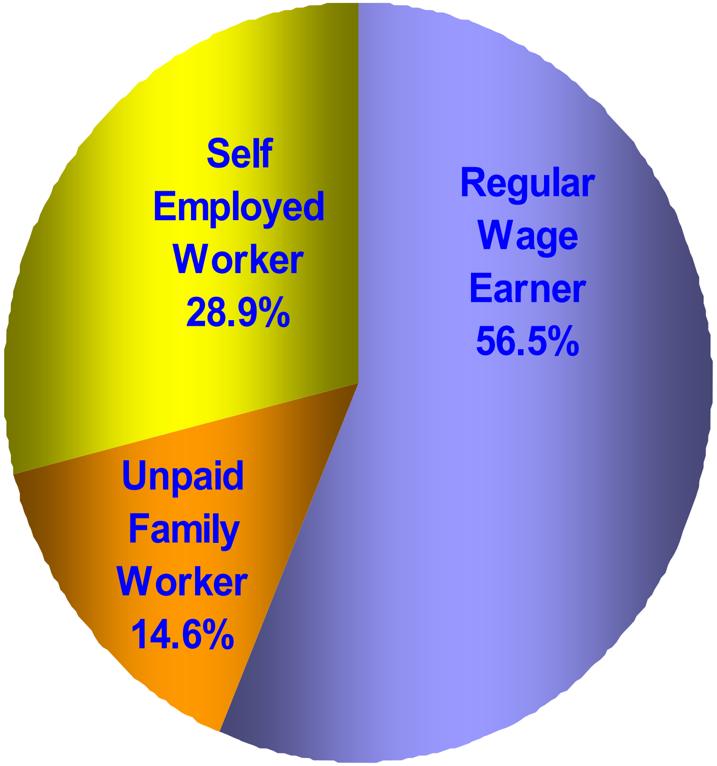


2006

Distribution of Employment by Employment Status (%)

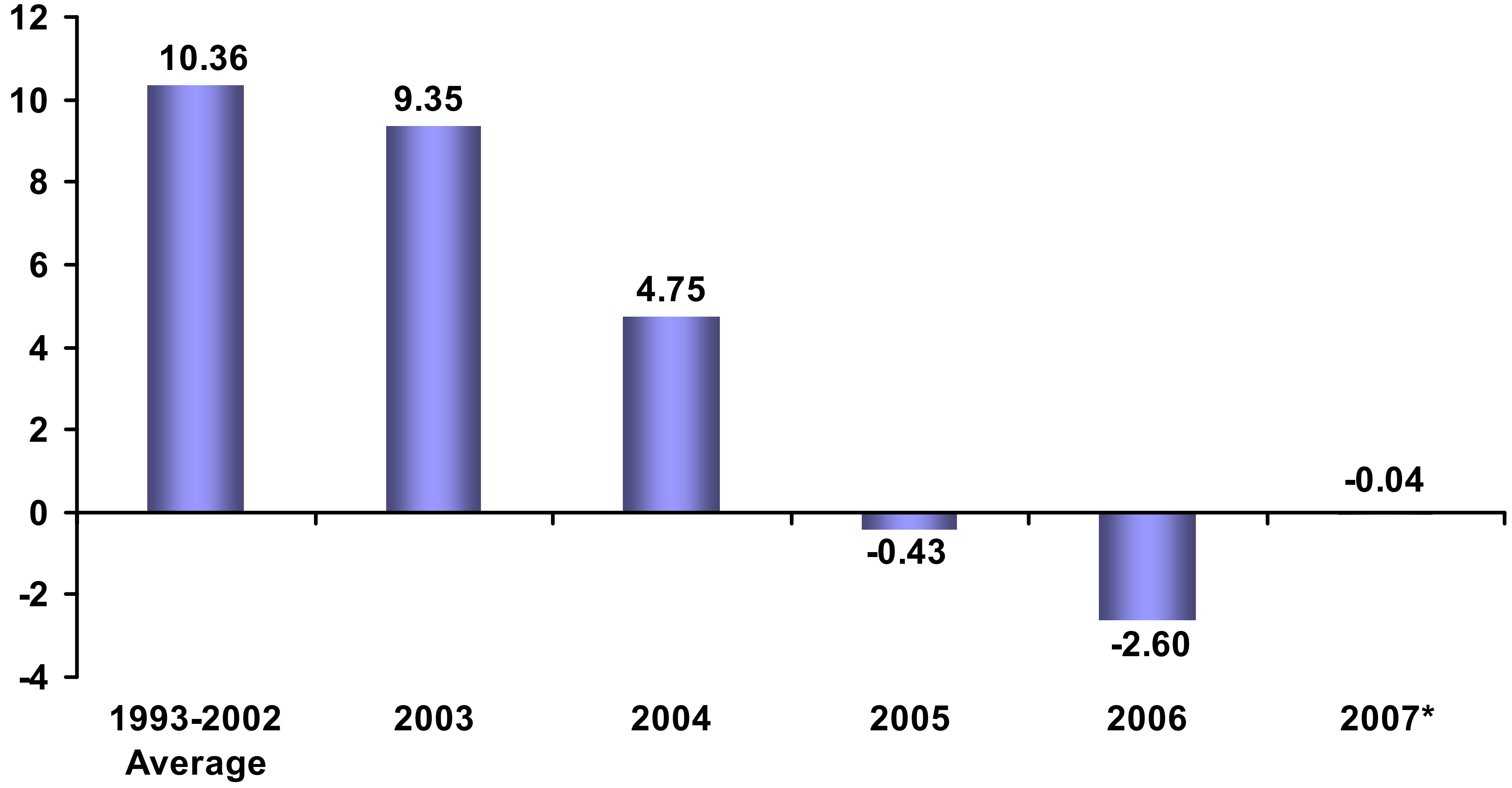


2002



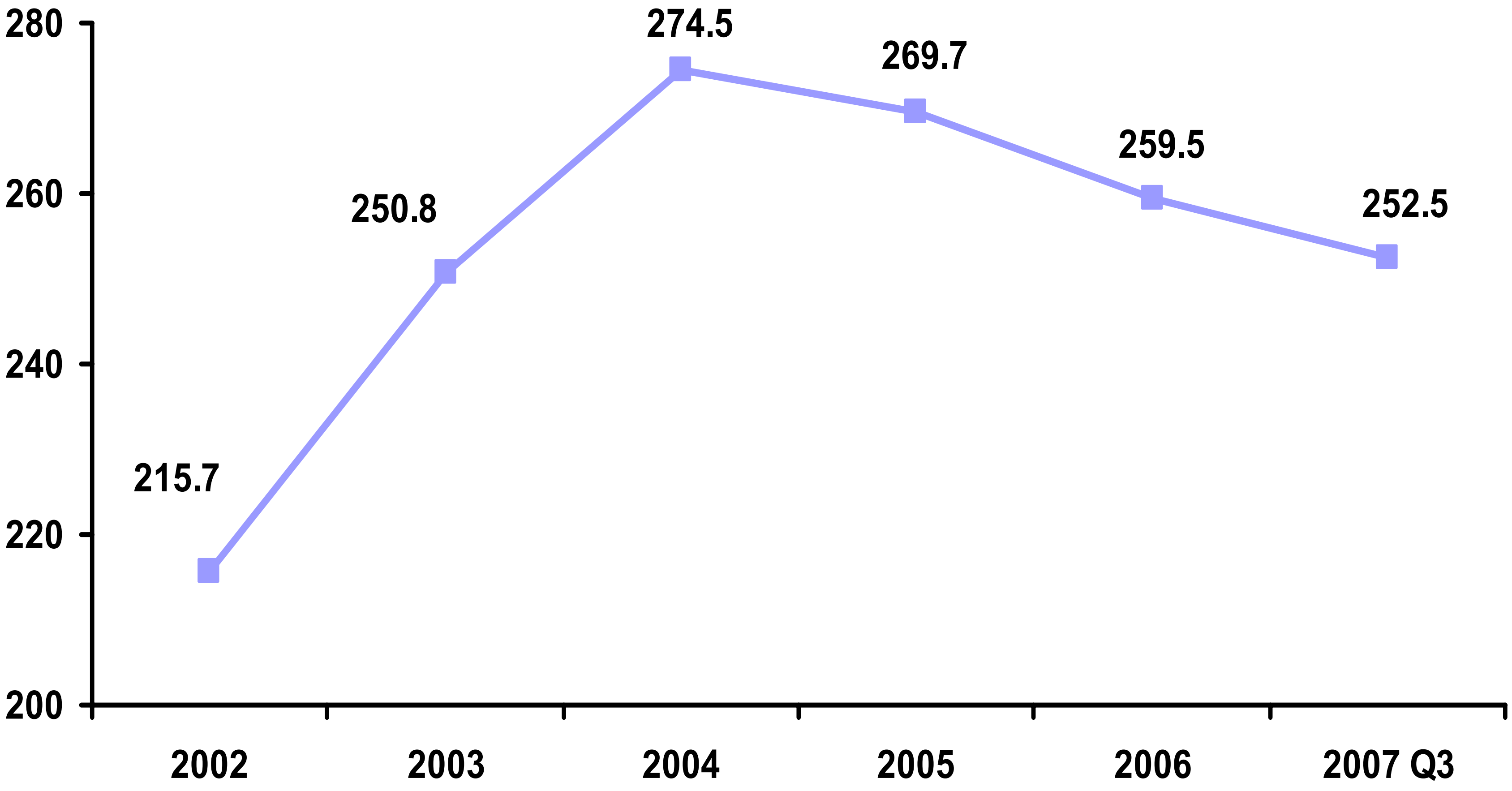
2006

Public Sector Borrowing Requirement (% of GNP)

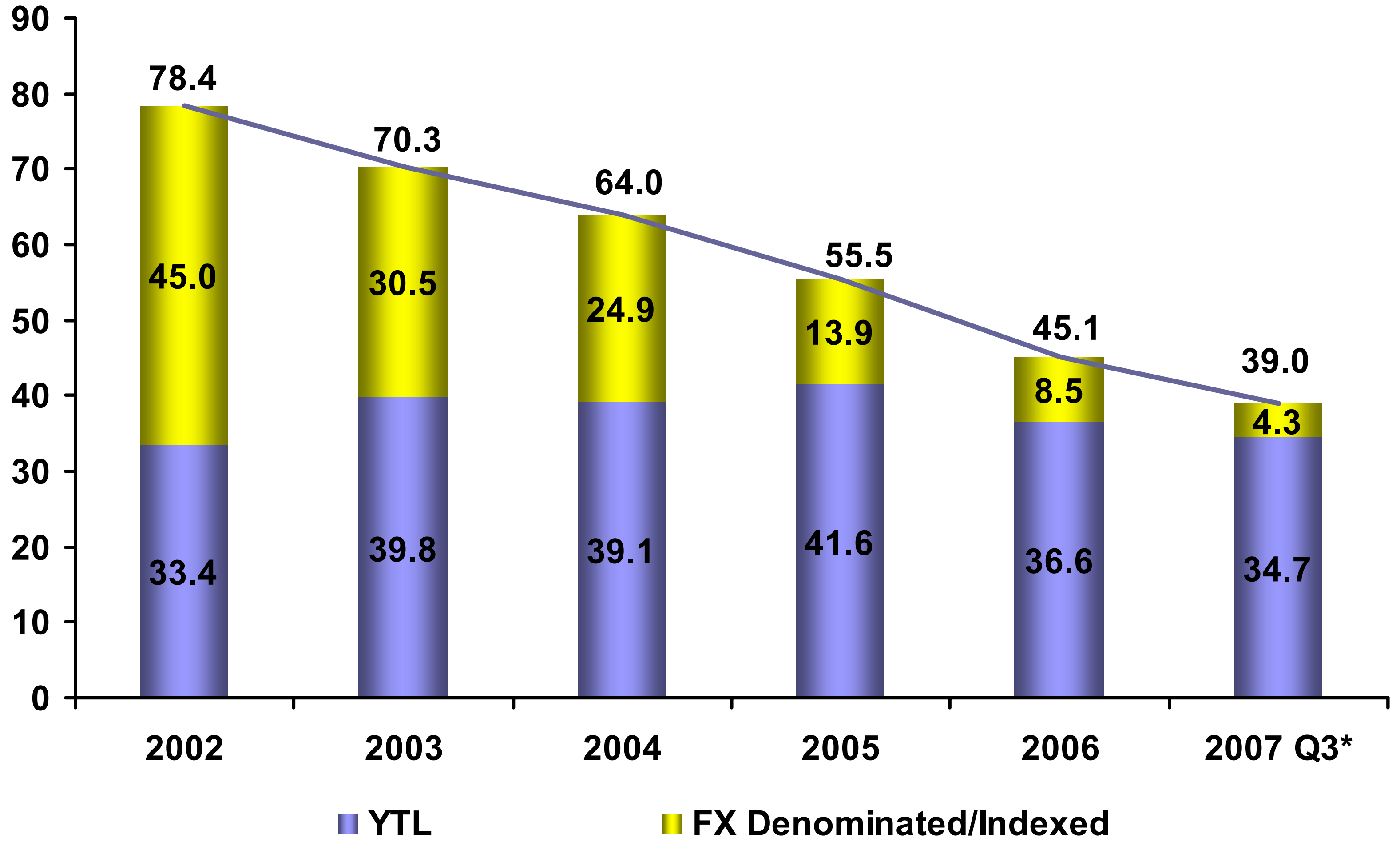


(*) Estimate

Public Sector Net Debt Stock (Billion YTL)

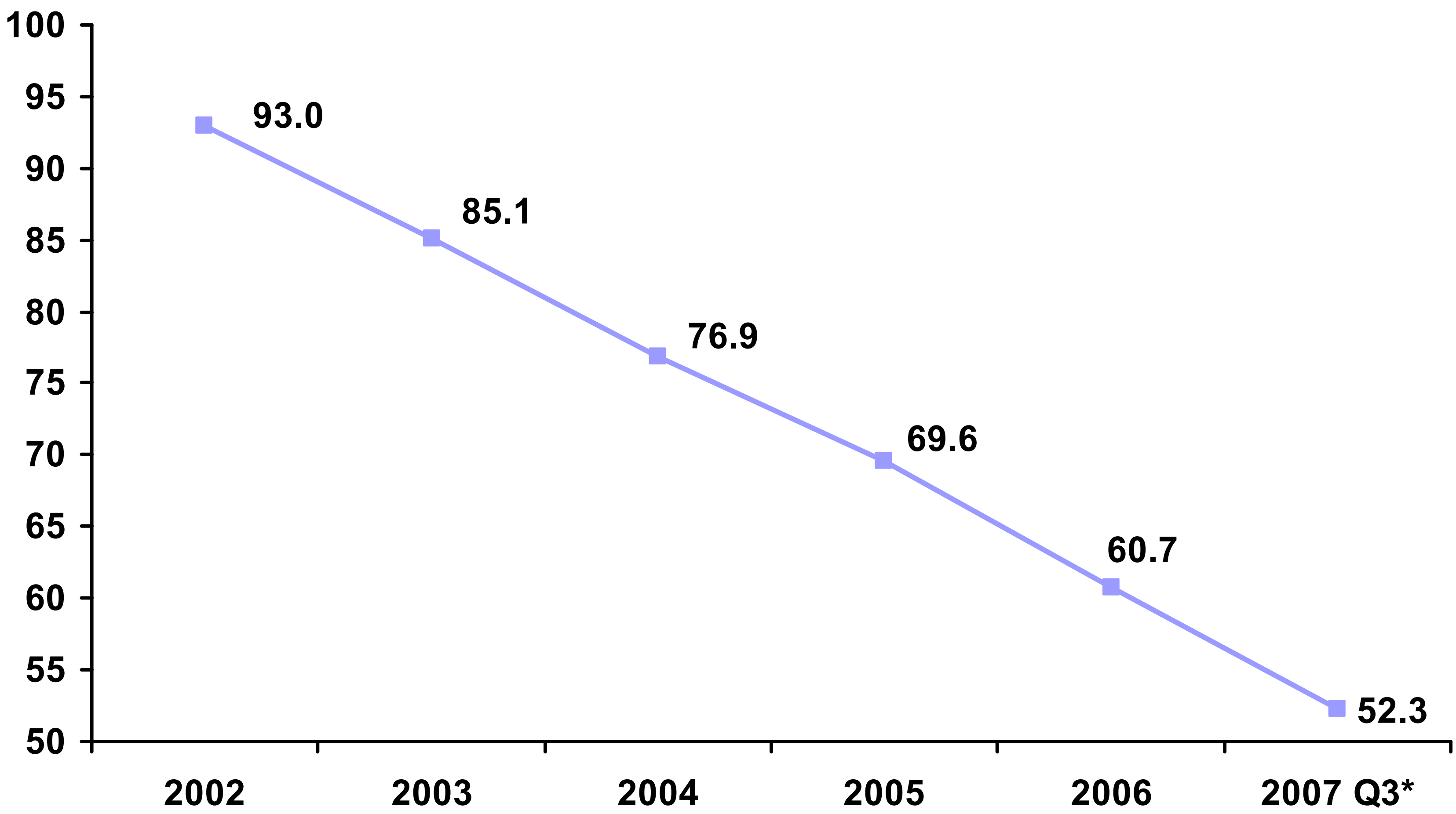


Public Sector Net Debt Stock (% of GNP)



(*) Based on annual GNP estimate in 2008 Annual Program.

EU Defined Debt Stock / GDP (%)



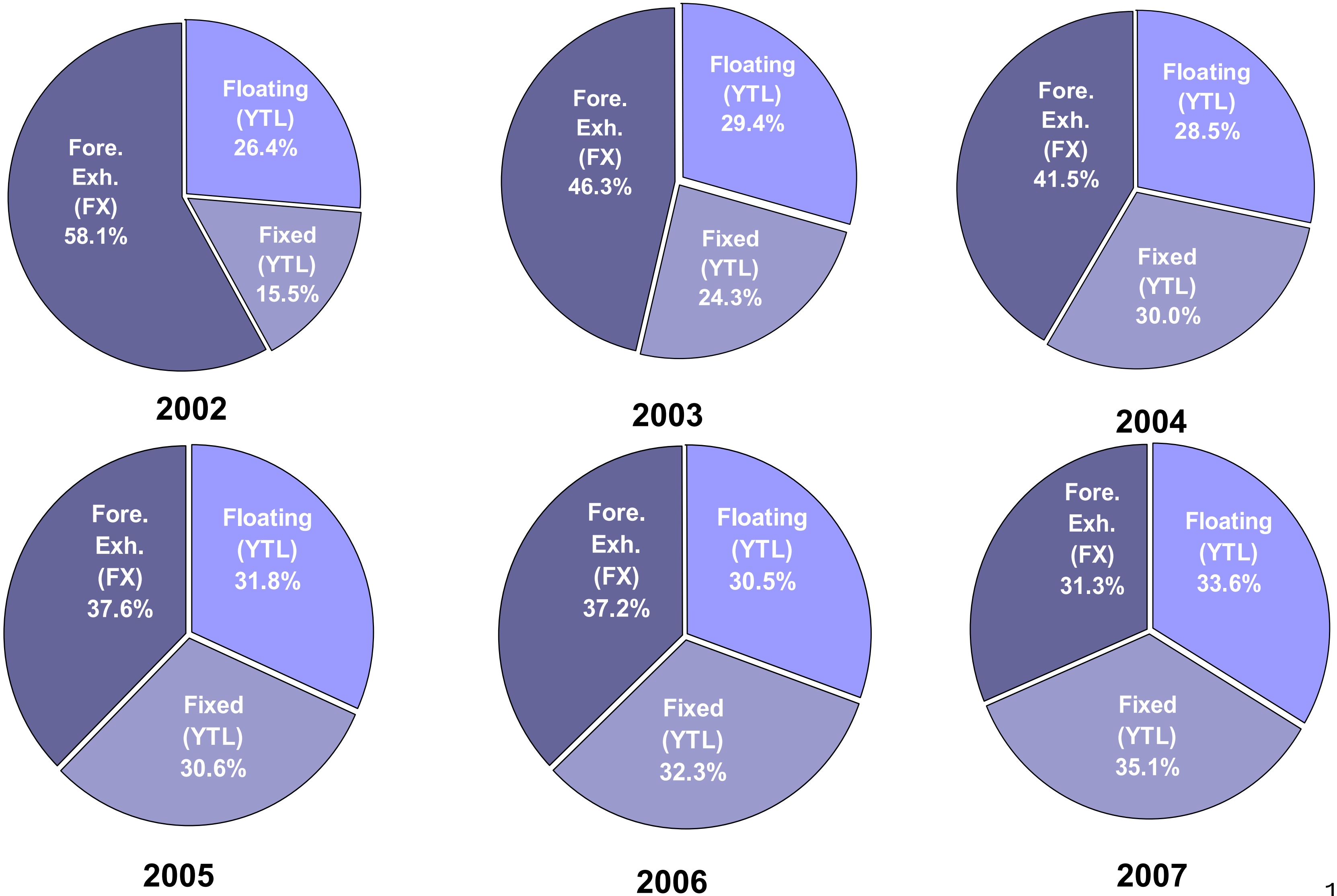
(*) Based on annual GDP estimate in 2008 Annual Program.

EU Defined Debt Stock

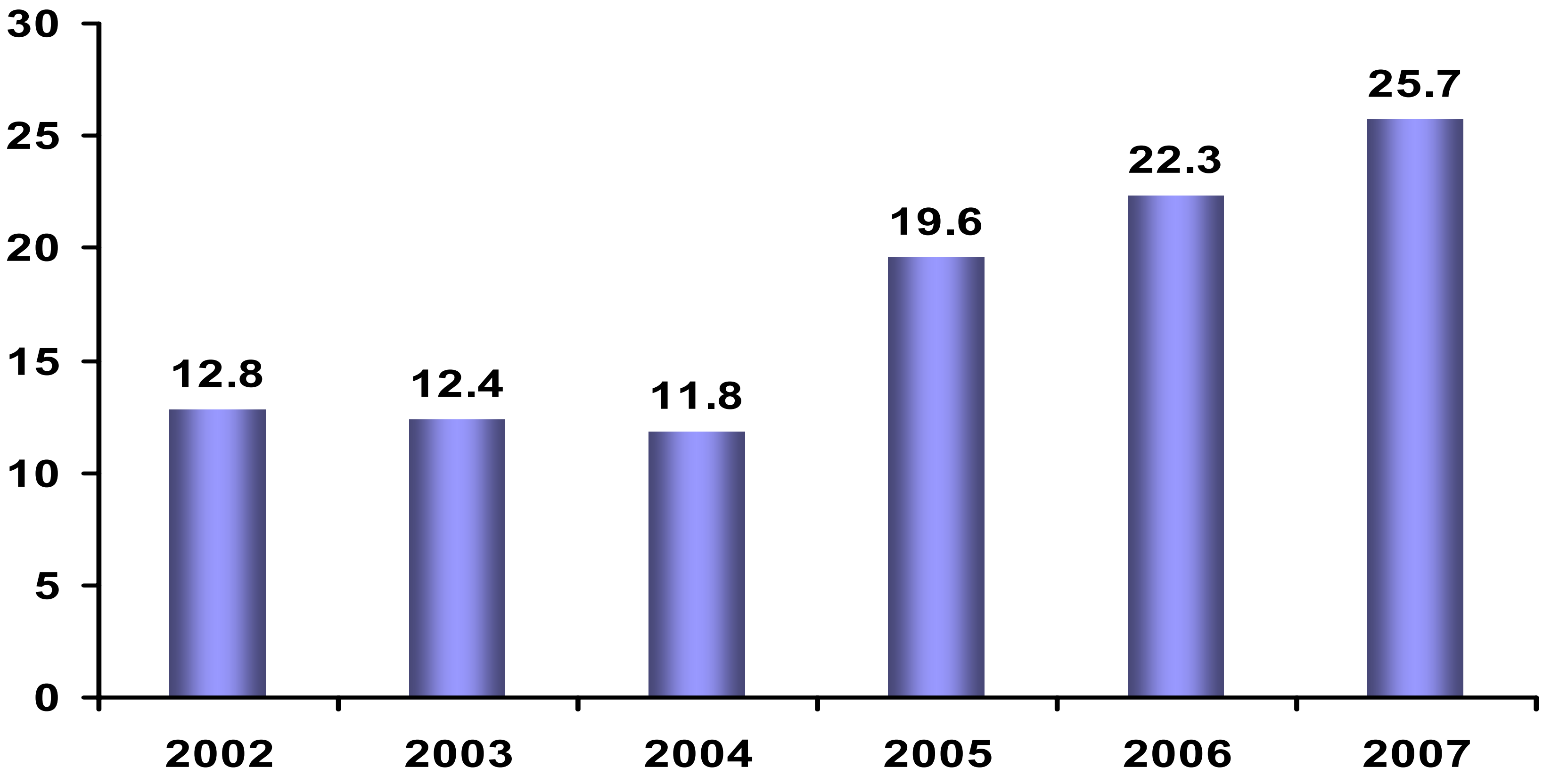
	2005		2006	
	Billion Euro	**% of GDP**	**Billion Euro**	**% of GDP**
EU 27	6,929.0	62.7	7,151.3	61.4
EU 25	6,910.2	63.1	7,133.0	61.9
EU15	6,665.5	64.2	6,861.6	63.0
Belgium	278.3	92.2	279.2	88.2
Germany	1,521.5	67.8	1,568.5	67.5
Greece	194.7	98.0	204.0	95.3
France	1,145.2	66.7	1,150.3	64.2
Italy	1,512.2	106.2	1,575.4	106.8
Hungary	53.7	61.6	61.9	65.6
Malta	3.4	70.8	3.3	64.7
Austria	155.5	63.4	159.1	61.7
Portugal	94.8	63.7	100.6	64.8

Source: Eurostat

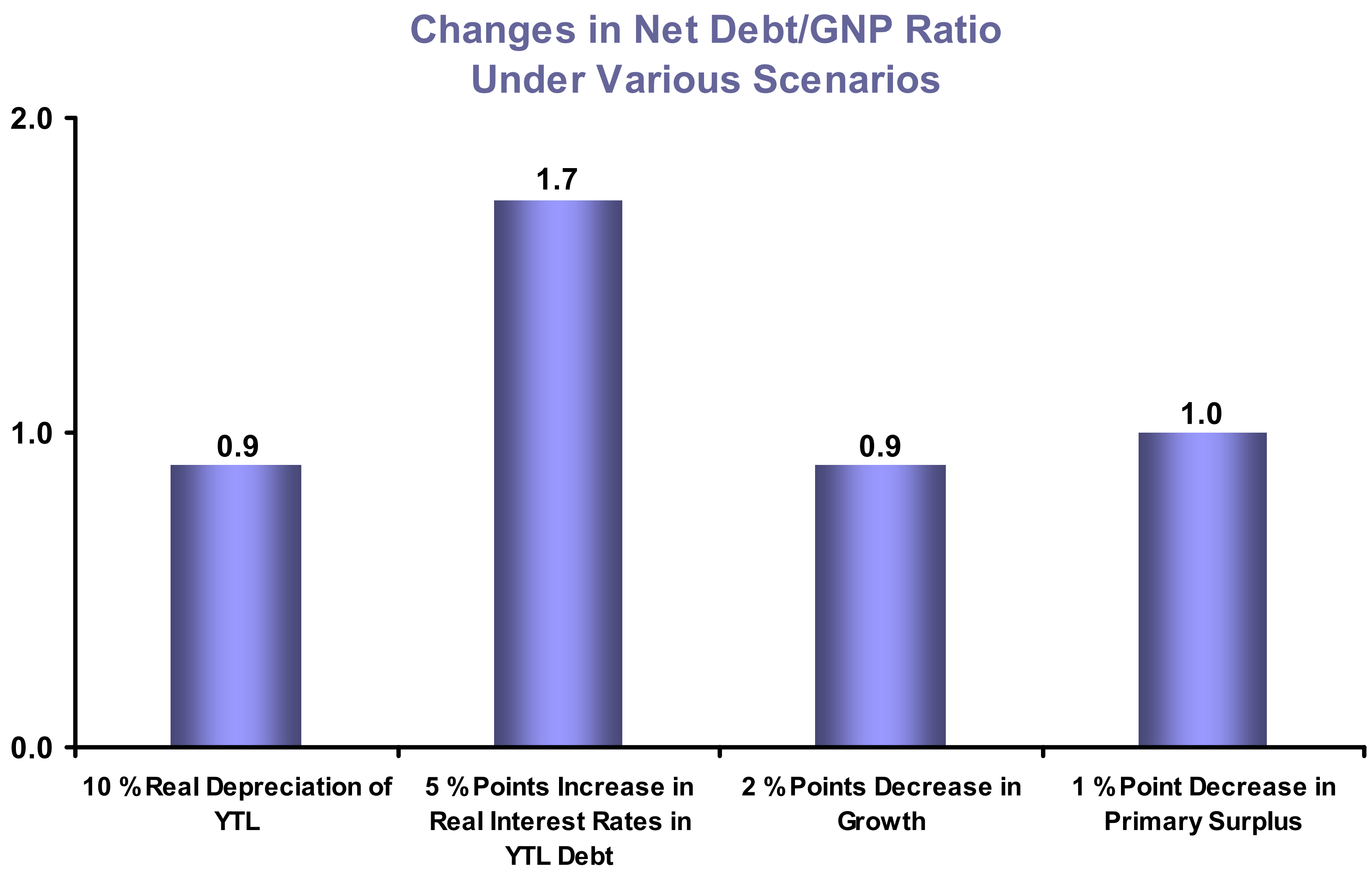
Composition of Central Government Gross Debt



Maturity of Domestic Cash Debt (In Months)



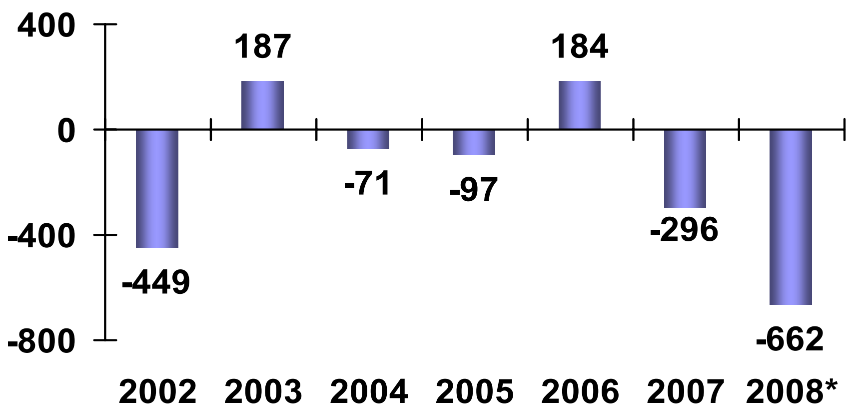
Public Debt's Resilience to Shocks*



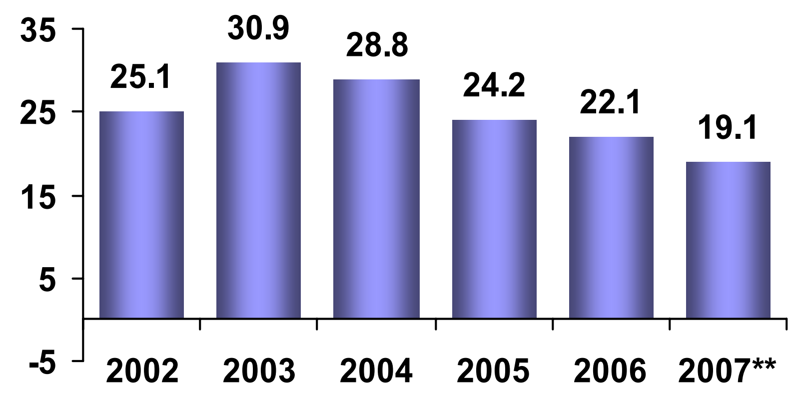
(*) This shows the effect of the scenarios on the Public Net Debt Stock/GNP ratio based on the 2006 composition.

Banking Sector Indicators

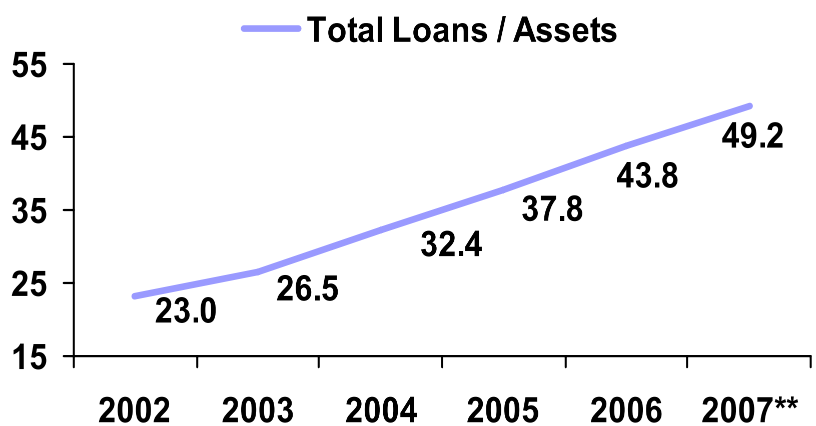
Banking Sector FX Positions (Million USD)



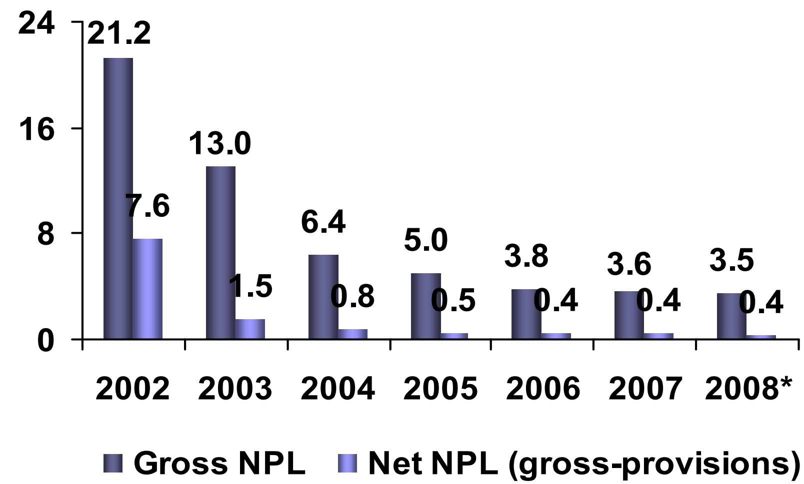
Capital Adequacy (%)



Financial Intermediation (%)



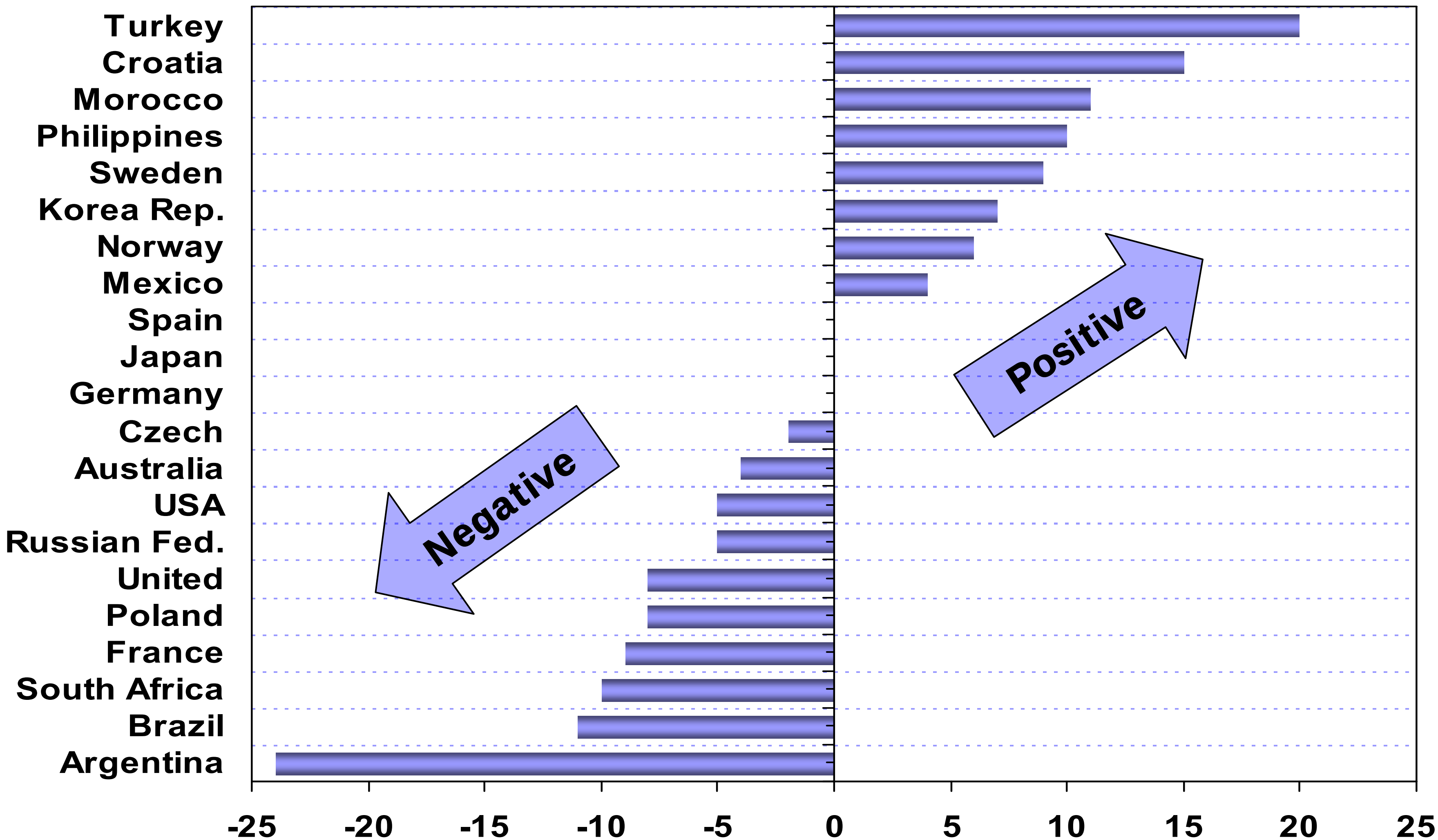
Asset Quality (% of total loans)



(*) As of January, 18

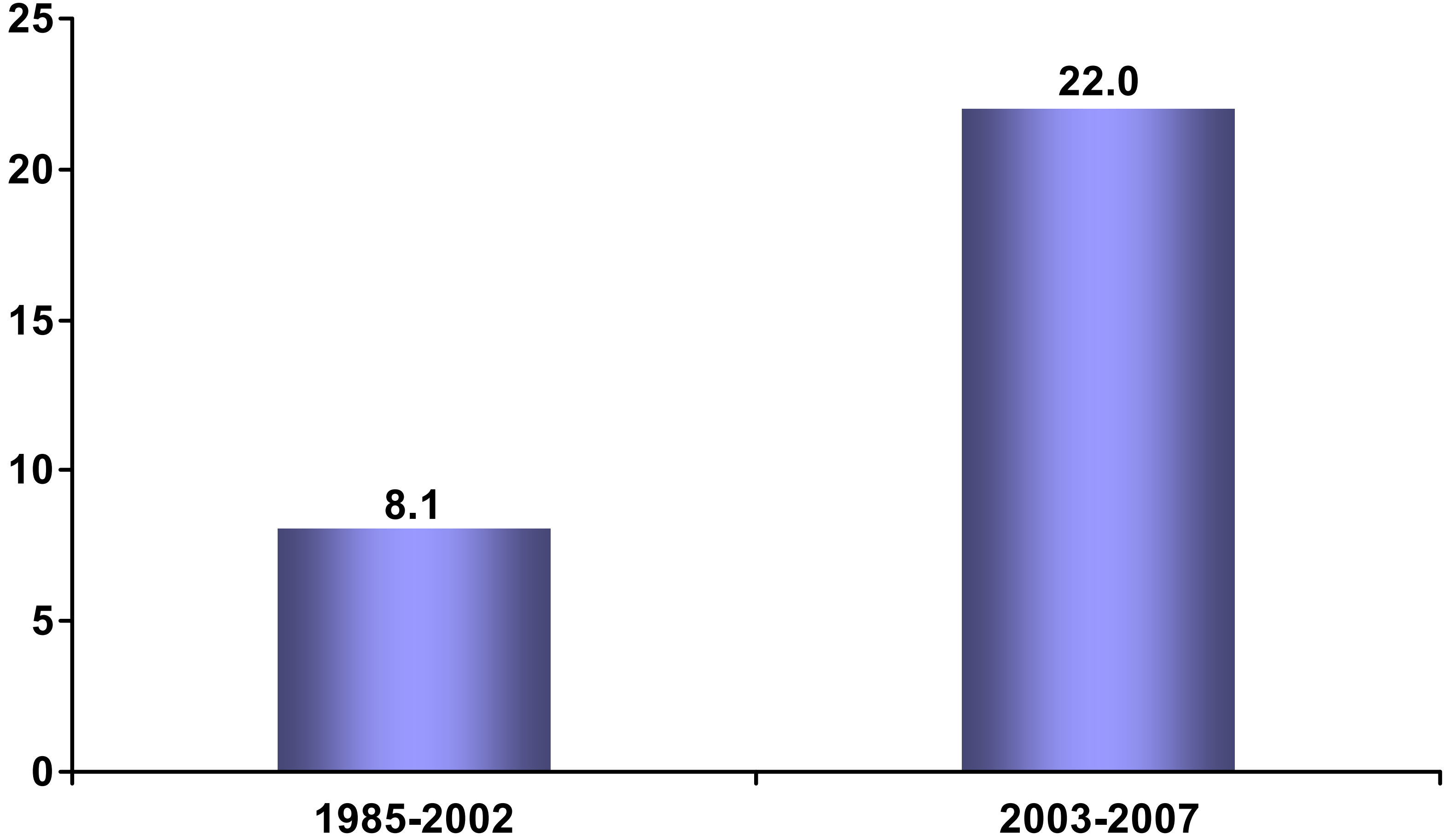
(**) As of November

Change in Competitiveness

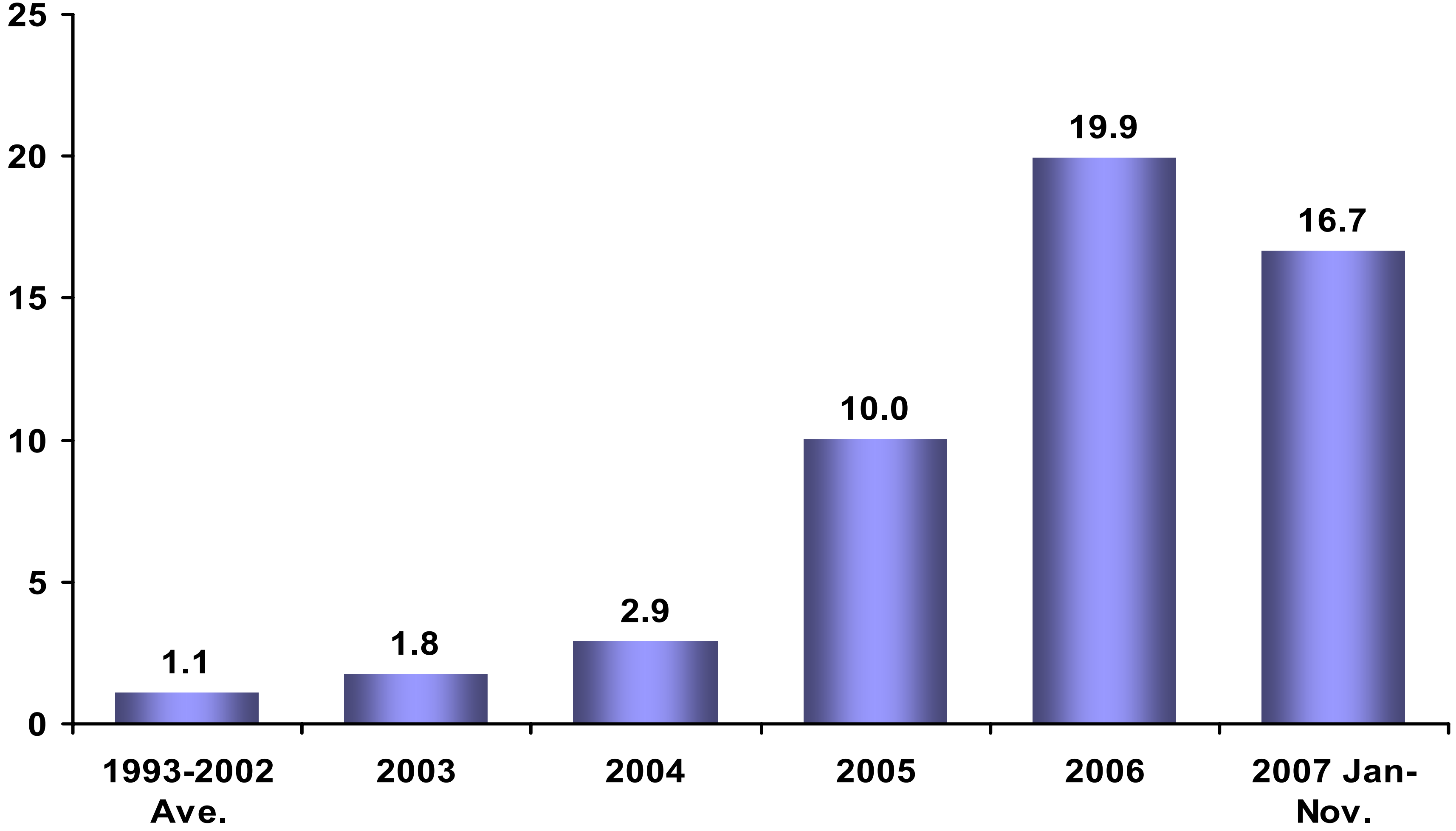


Source: WEF Global Competitiveness Report, 2006-2007 cumulative

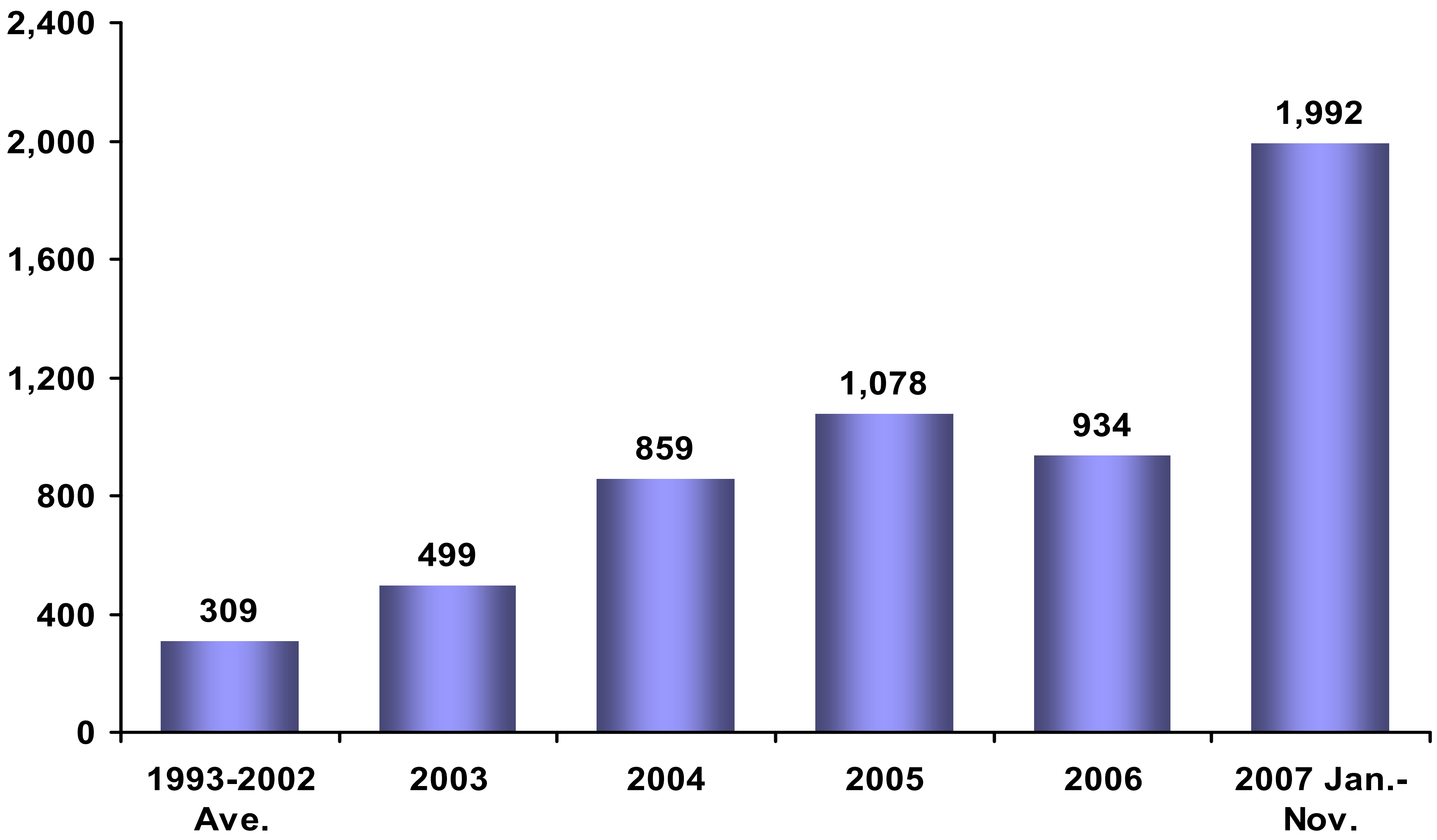
Privatization Implementations (Billion USD)



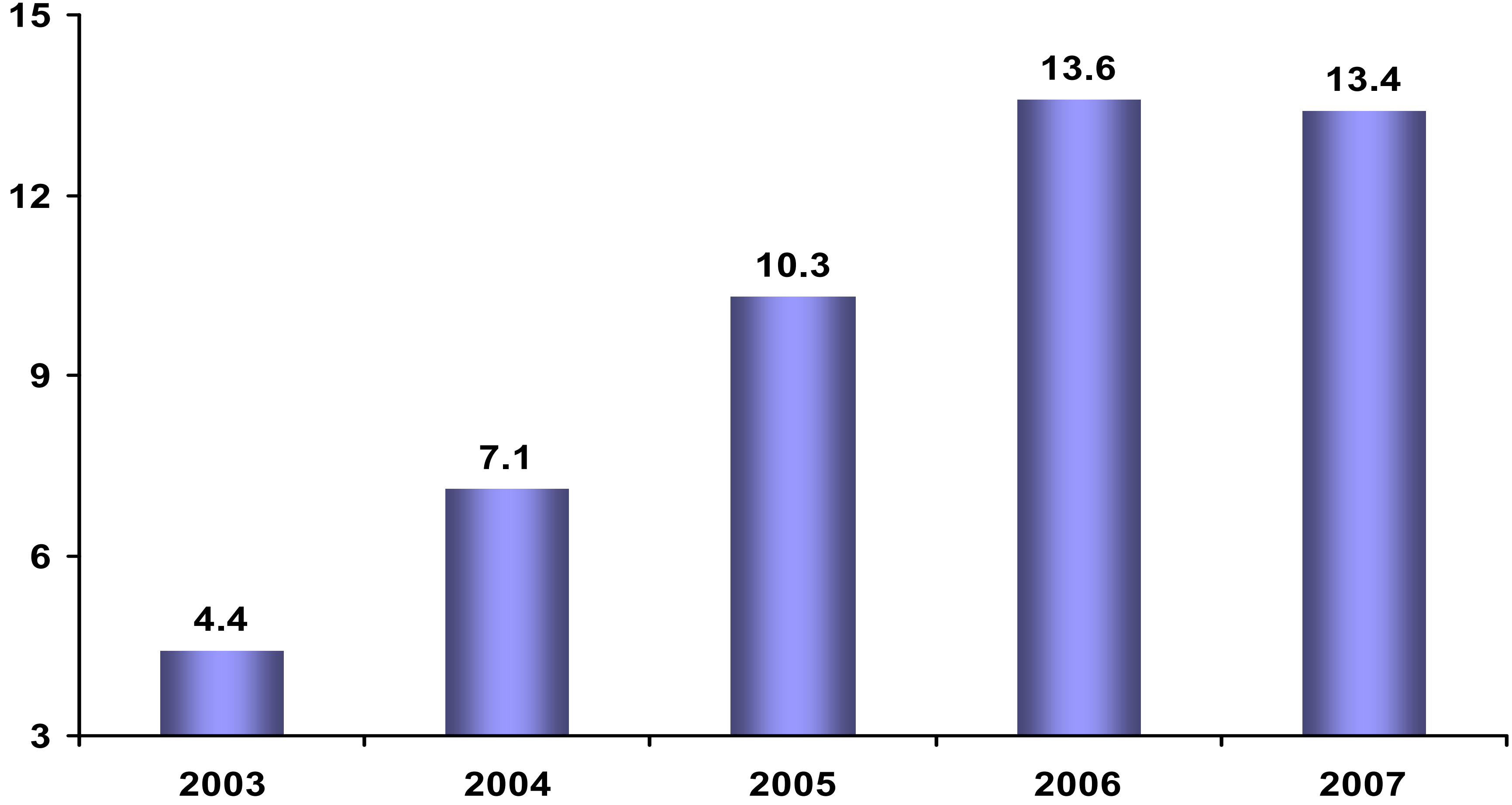
FDI Inflows (Billion USD)



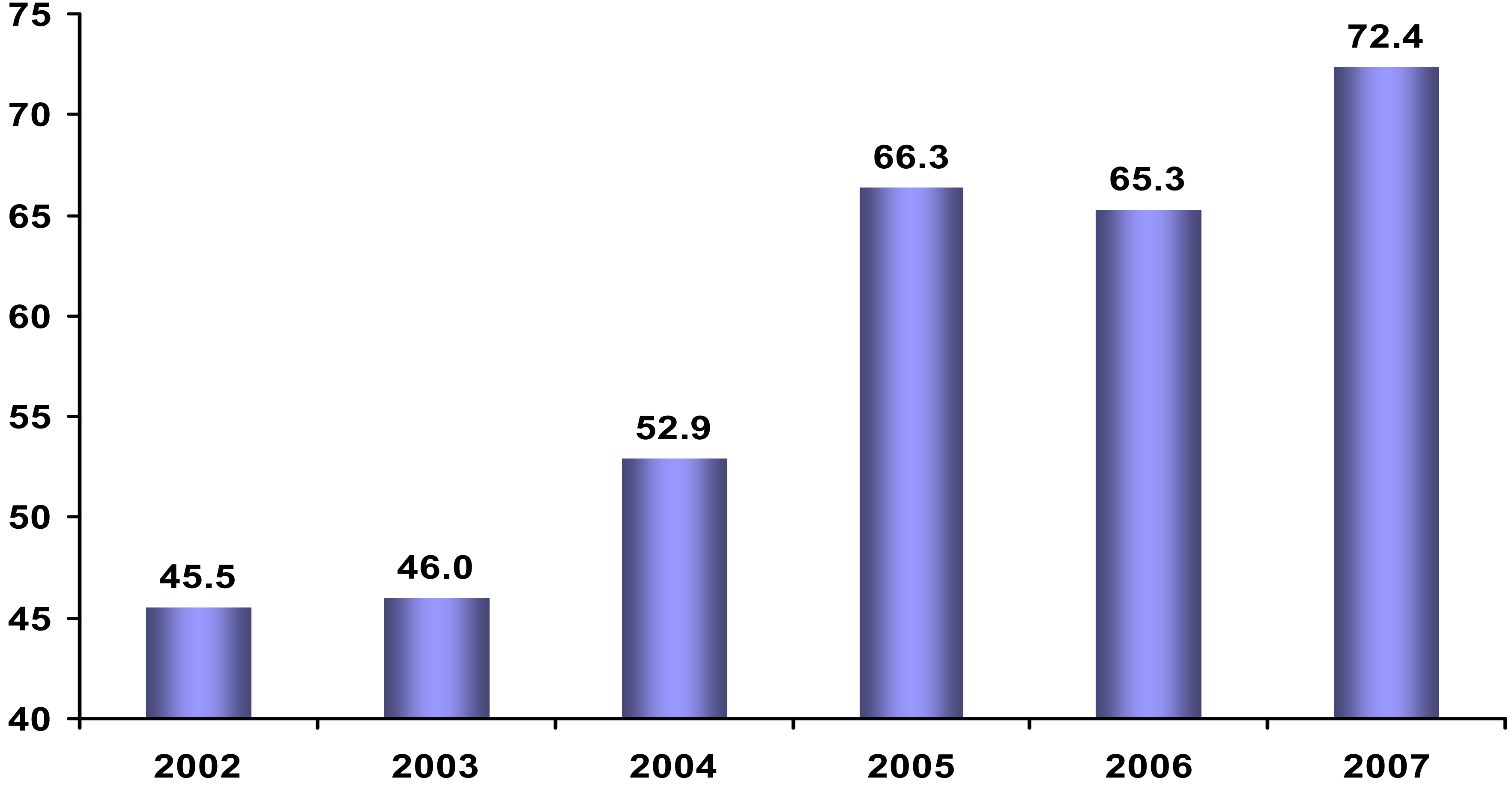
FDI Abroad (Million USD)



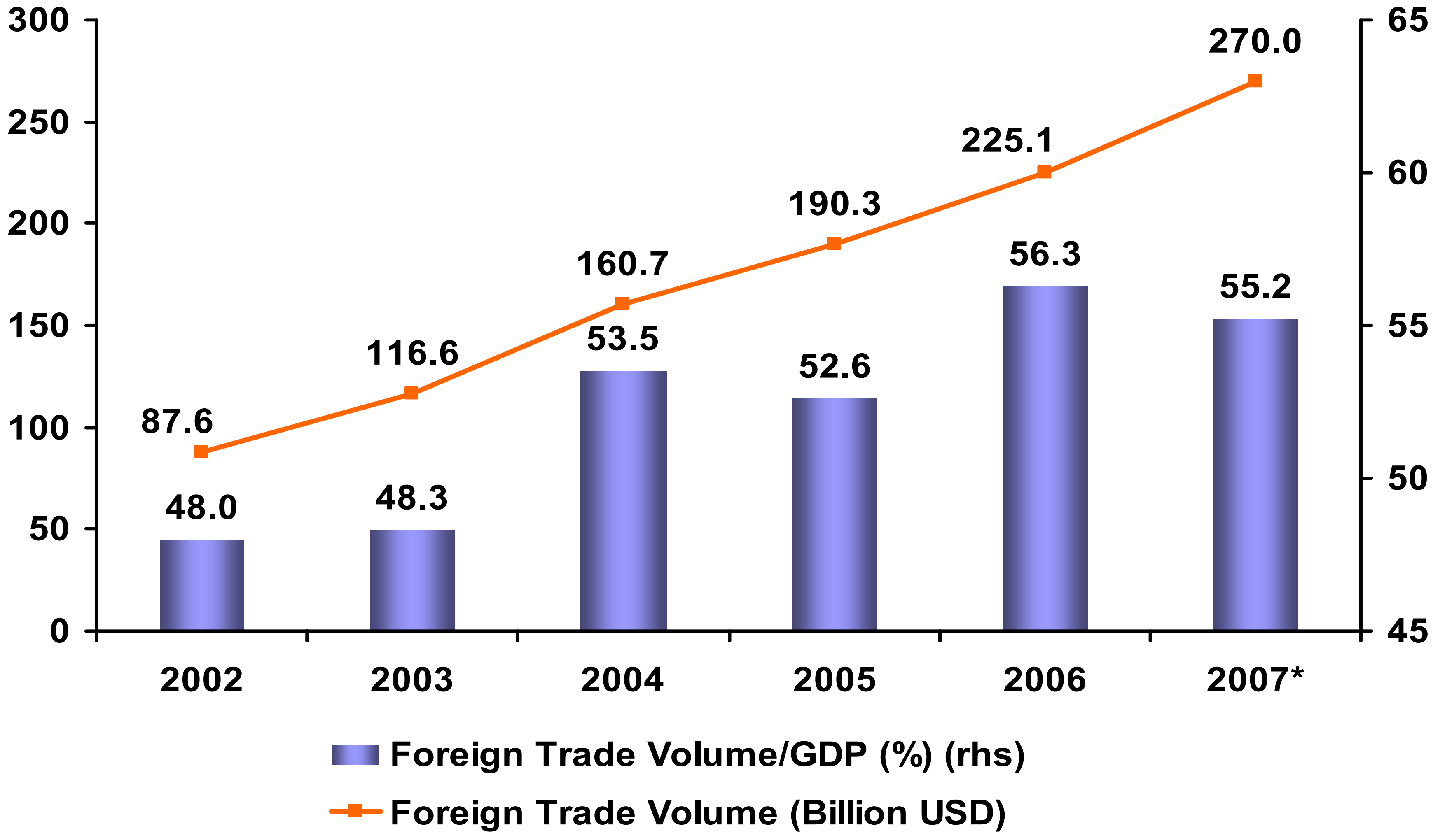
Share of Nonresidents in Domestic Debt Stock (%)



Share of Nonresidents in Istanbul Stock Exchange (%)



Foreign Trade Volume



(*) Estimate

Structural Reforms

I. Public Sector Reform

Public Financial Management and Control Law

Public Procurement Law

Code of Ethical Conduct for Civil Servants

Law on Freedom of Information for Citizens

II. Structural Fiscal Reforms

Administrative Social Security Reform

Tax Reforms

III. Financial Sector Reform

A new Banking Law

A new Insurance Law

A new Mortgage Law and Development of Mortgage Market

Strengthening the Private Banks

State Bank Reform

IV. Increasing the Role of Private Sector in the Economy

Opening the Key Markets to Competition and Regulation by Independent Agencies

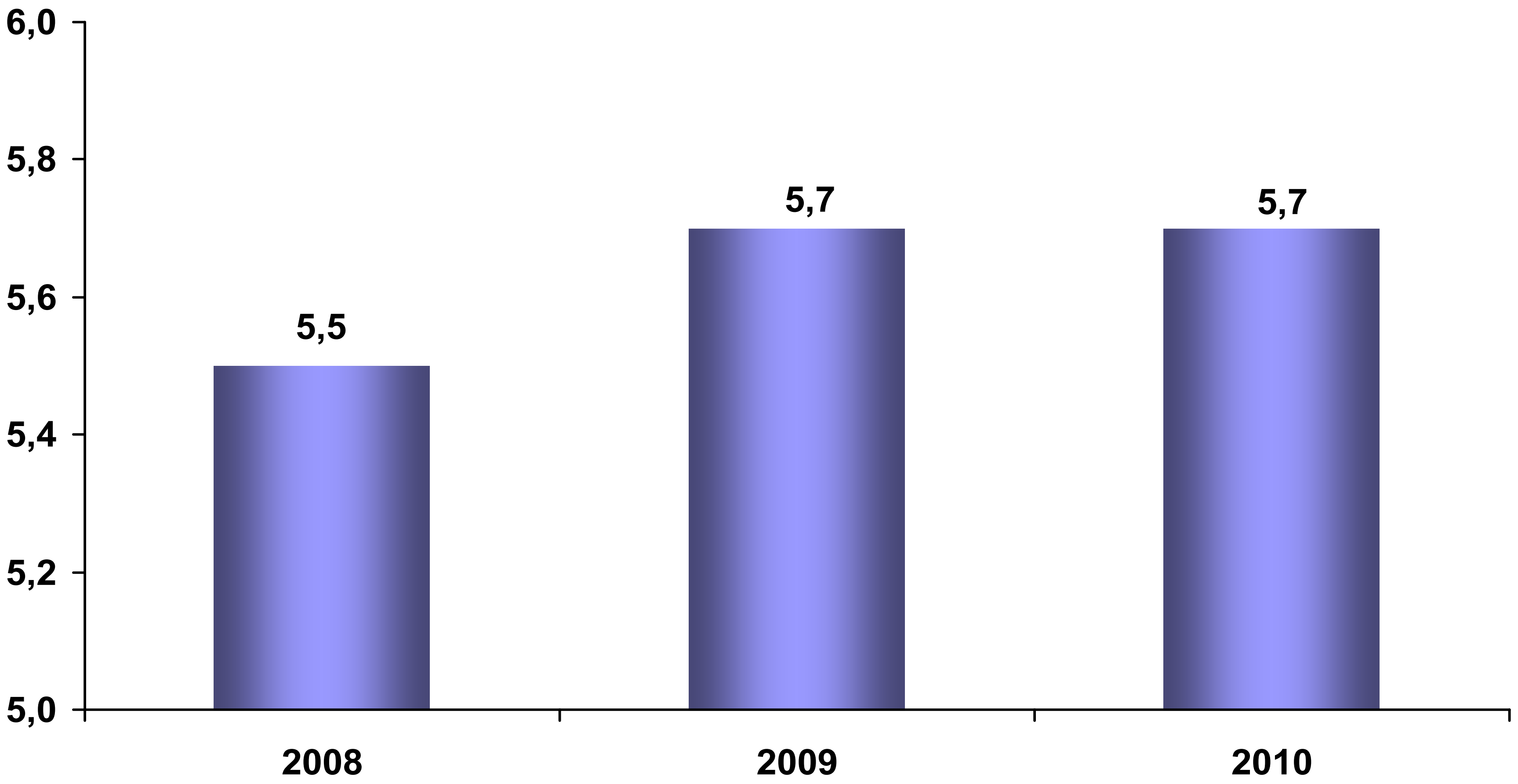
Improving Investment Environment

Accelerating Privatization

MEDIUM TERM OUTLOOK

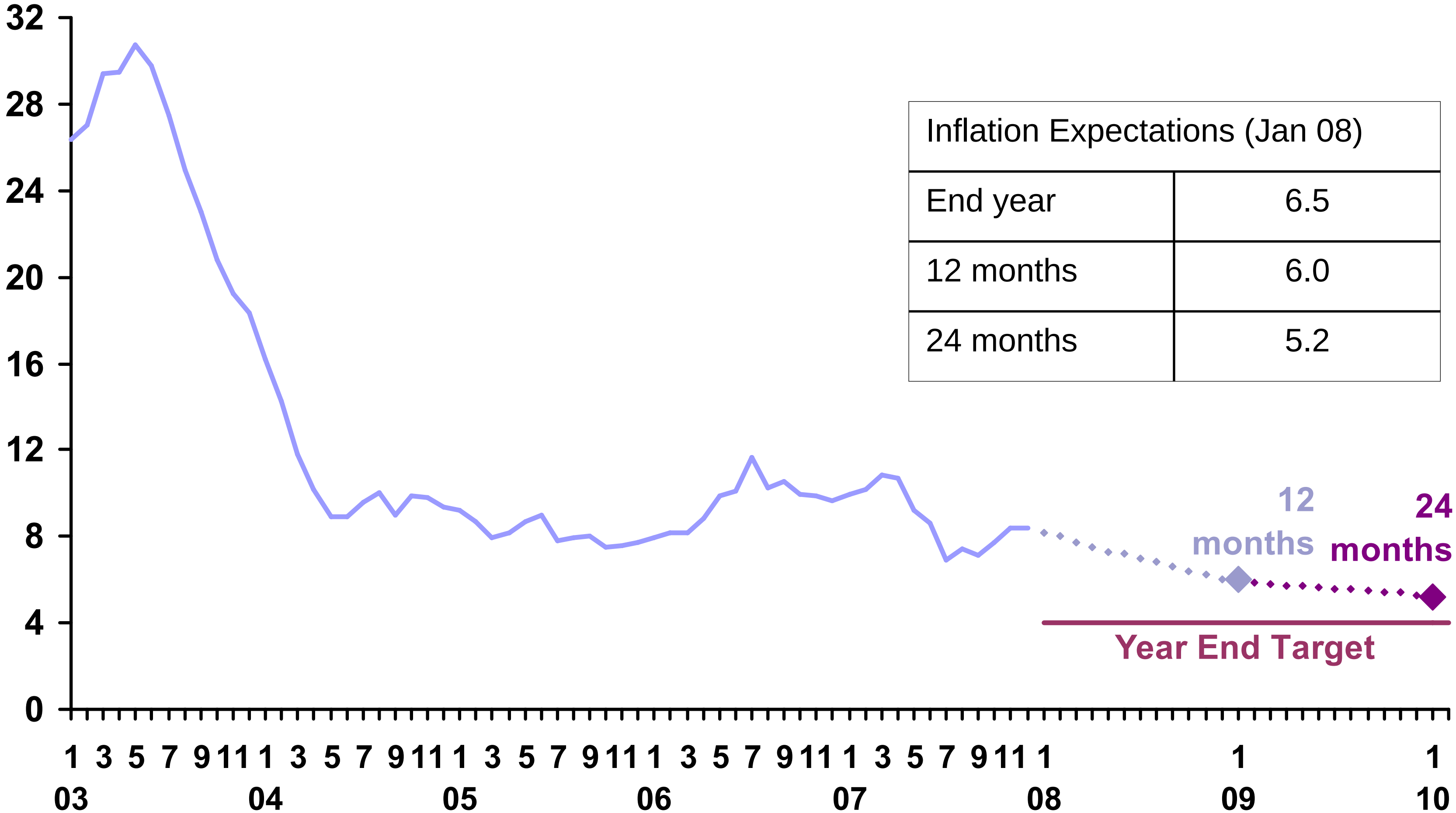
- GROWTH OUTLOOK
- INFLATION OUTLOOK
- OUTLOOK FOR EXTERNAL CURRENT ACCOUNT BALANCE AND FINANCING
- MEDIUM TERM FISCAL TARGETS

GDP Growth Projections* (%)



(*) 2007 Pre-Accession Economic Programme

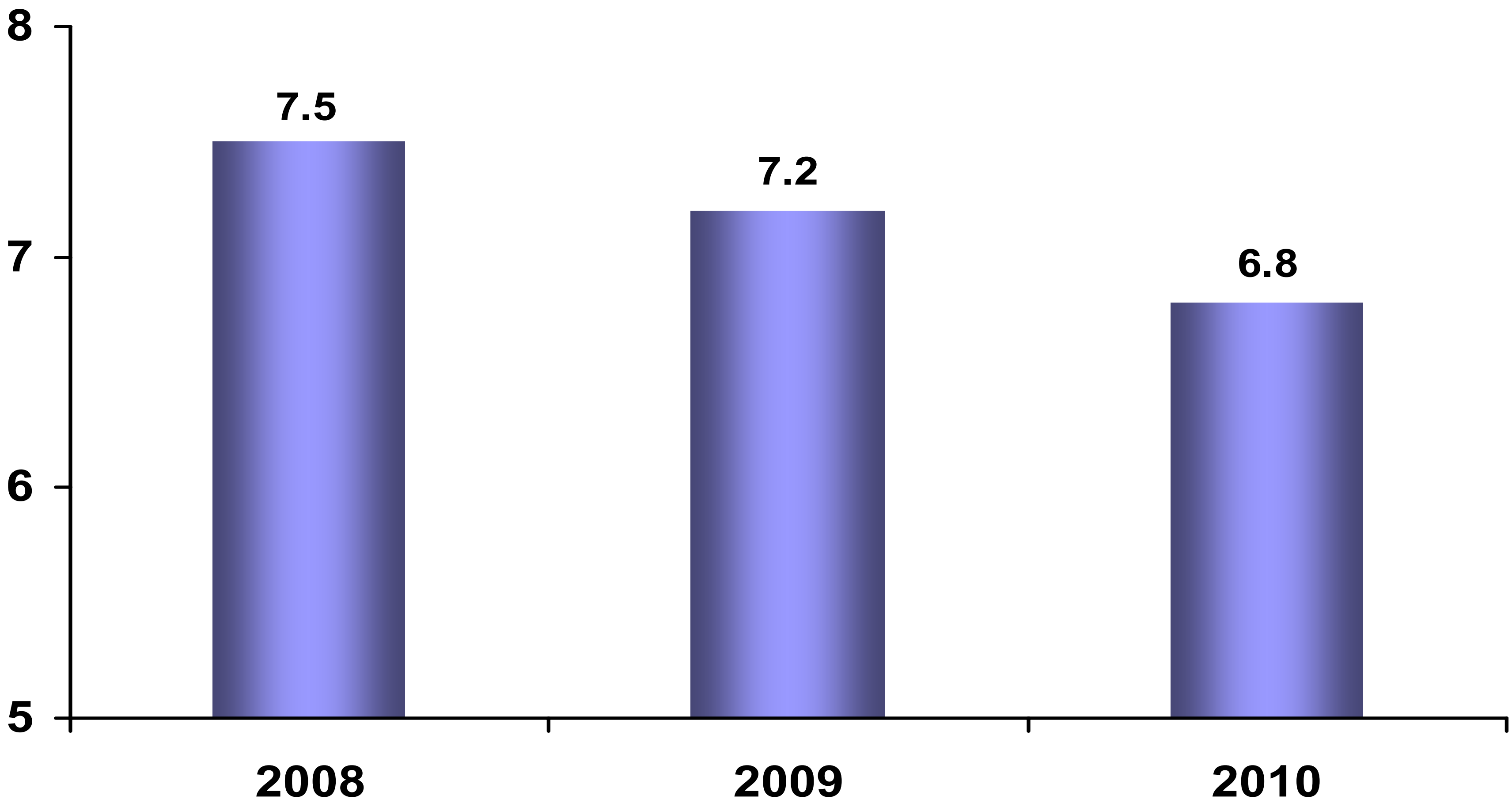
Annual Inflation and Expectations (%)



Inflation Expectations (Jan 08)	
End year	6.5
12 months	6.0
24 months	5.2

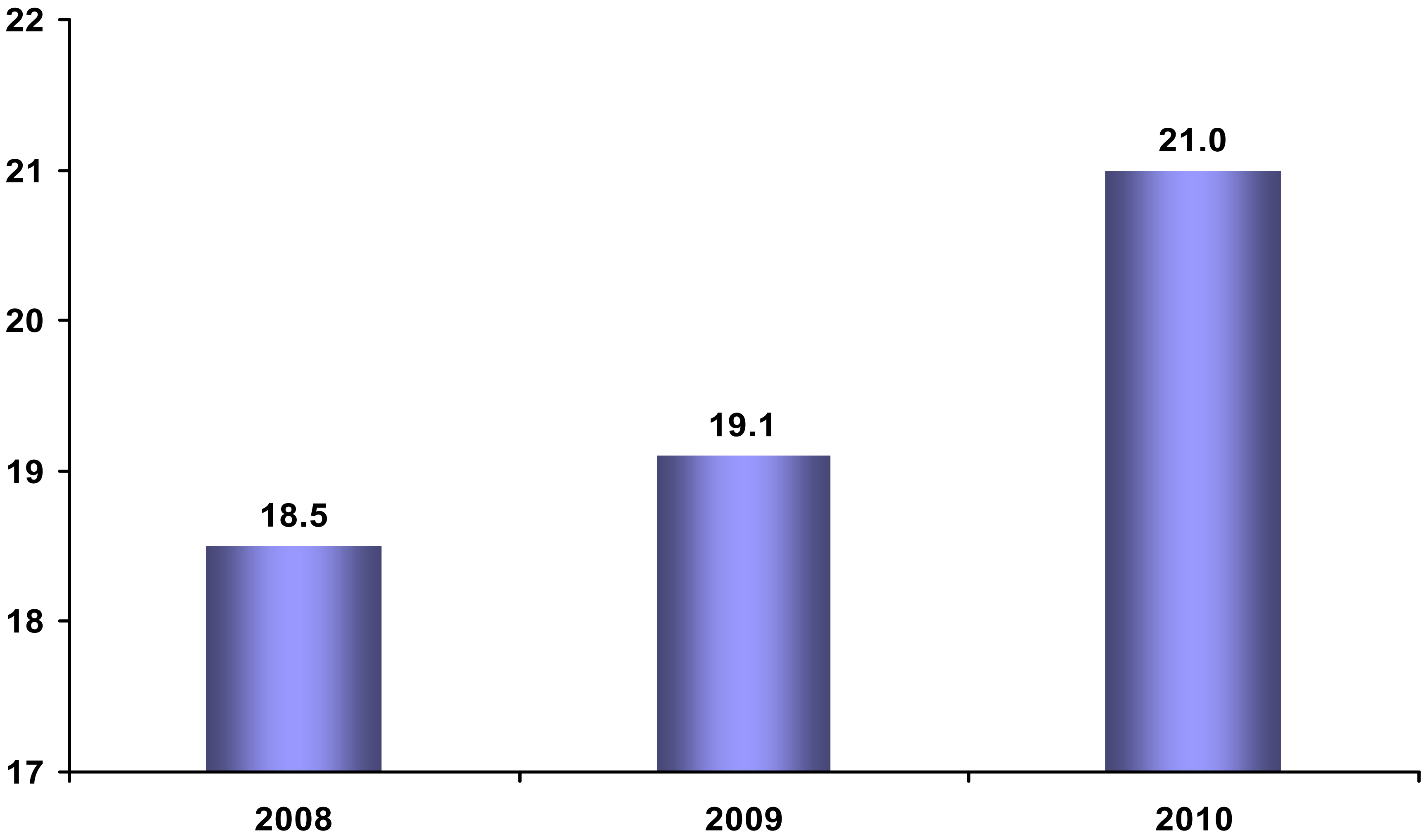
Source: CBRT's Survey of Expectations

Current Account Deficit / GDP* (%)



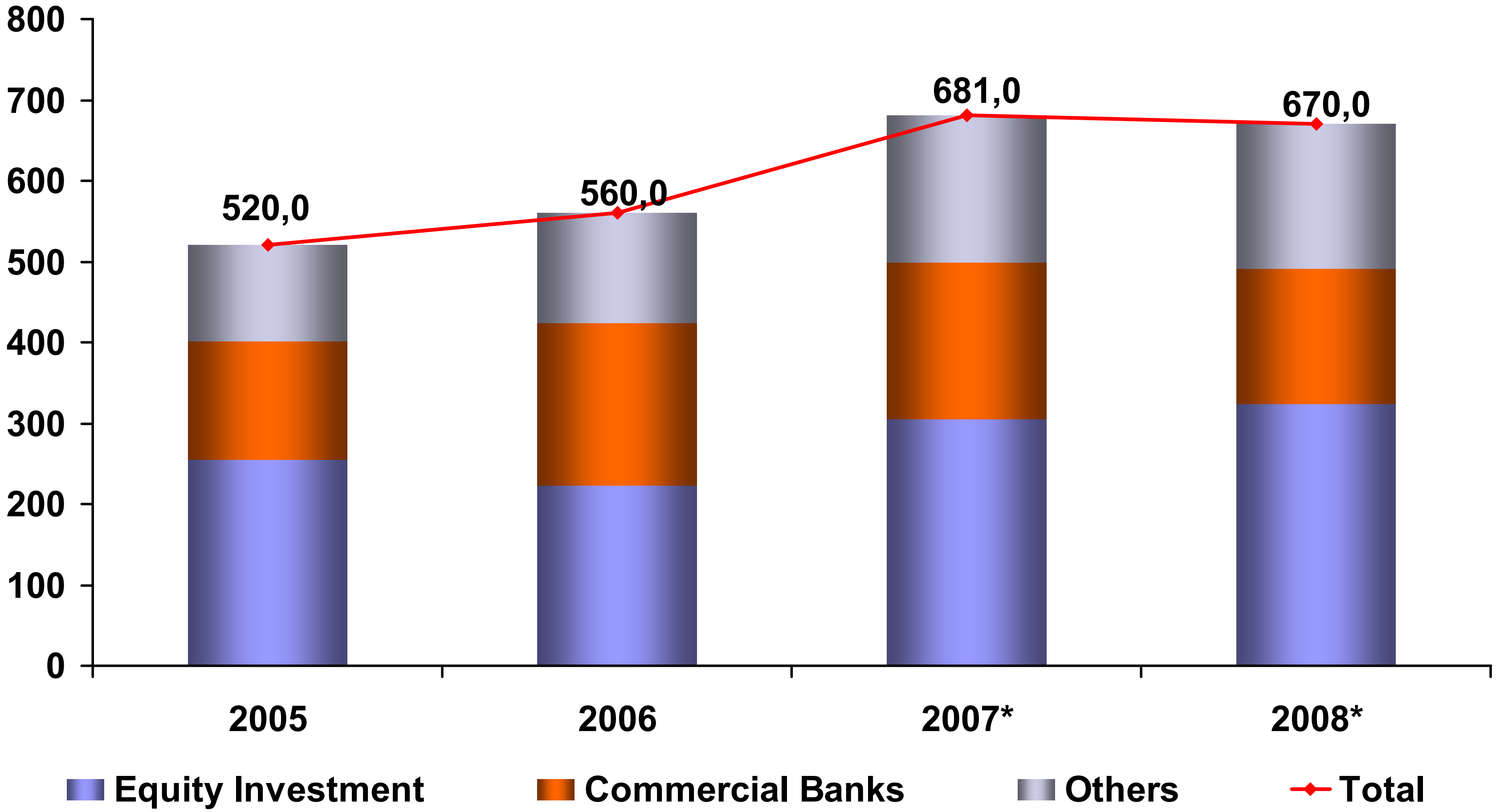
(*) 2007 Pre-Accession Economic Programme

FDI Inflows* (Billion USD)



(*) 2007 Pre-Accession Economic Programme

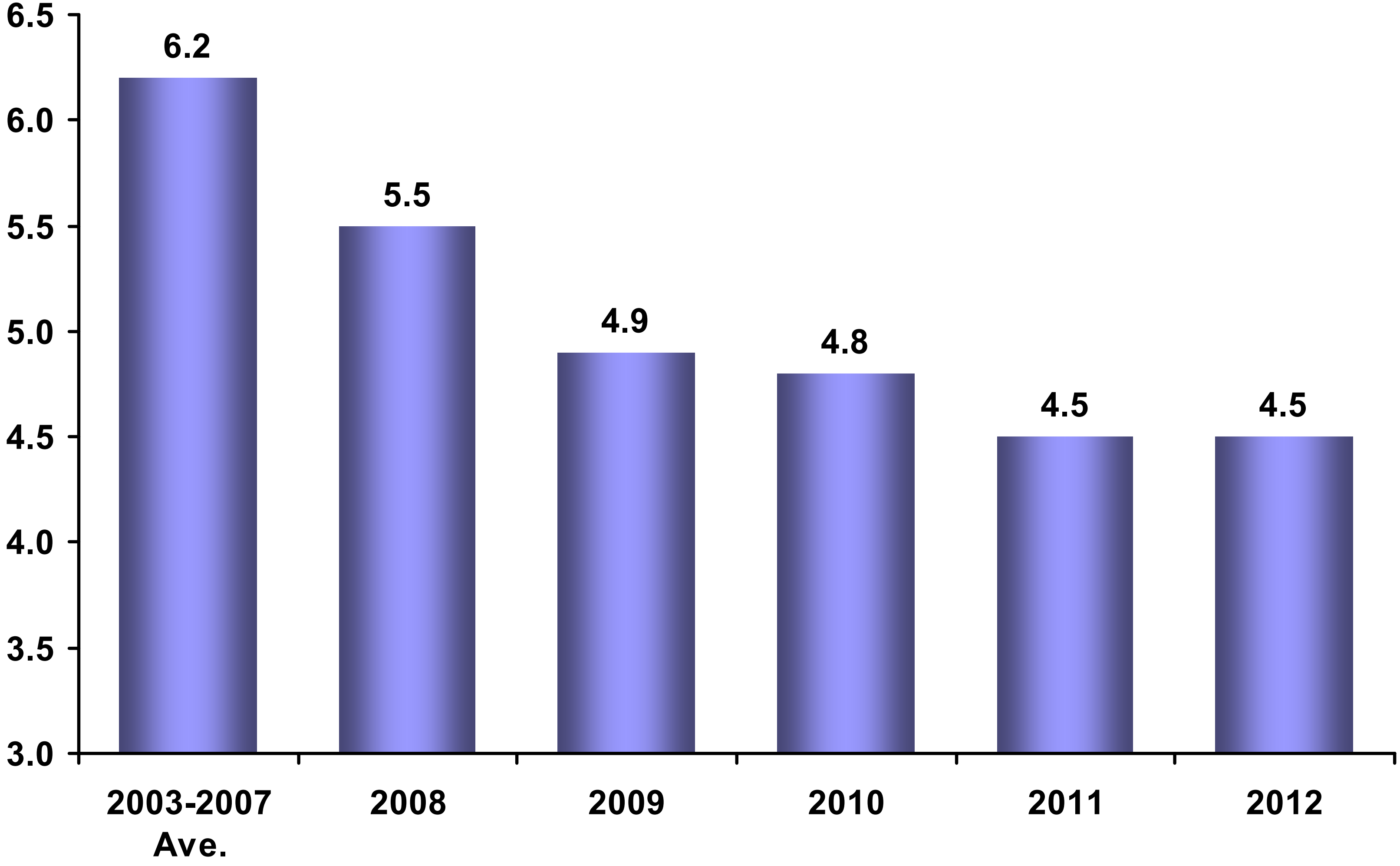
Net Private Capital Flows to Emerging Market Economies (Billion USD)



(*) Estimate

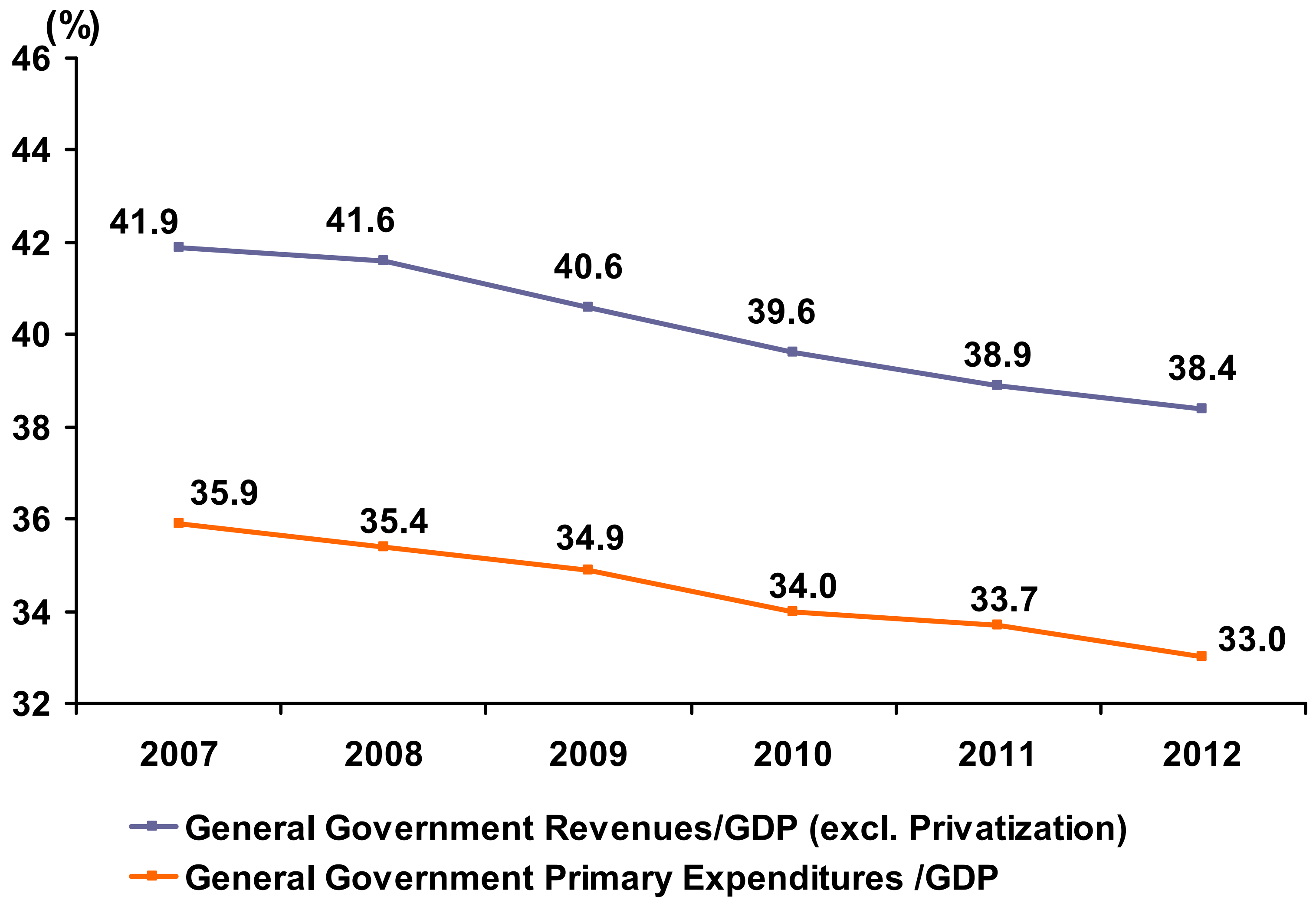
Source: Institute of International Finance, “Global Economic and Capital Markets Forecasts”, January 10, 2008

Public Sector Primary Surplus / GDP* (%)
(IMF Definition)



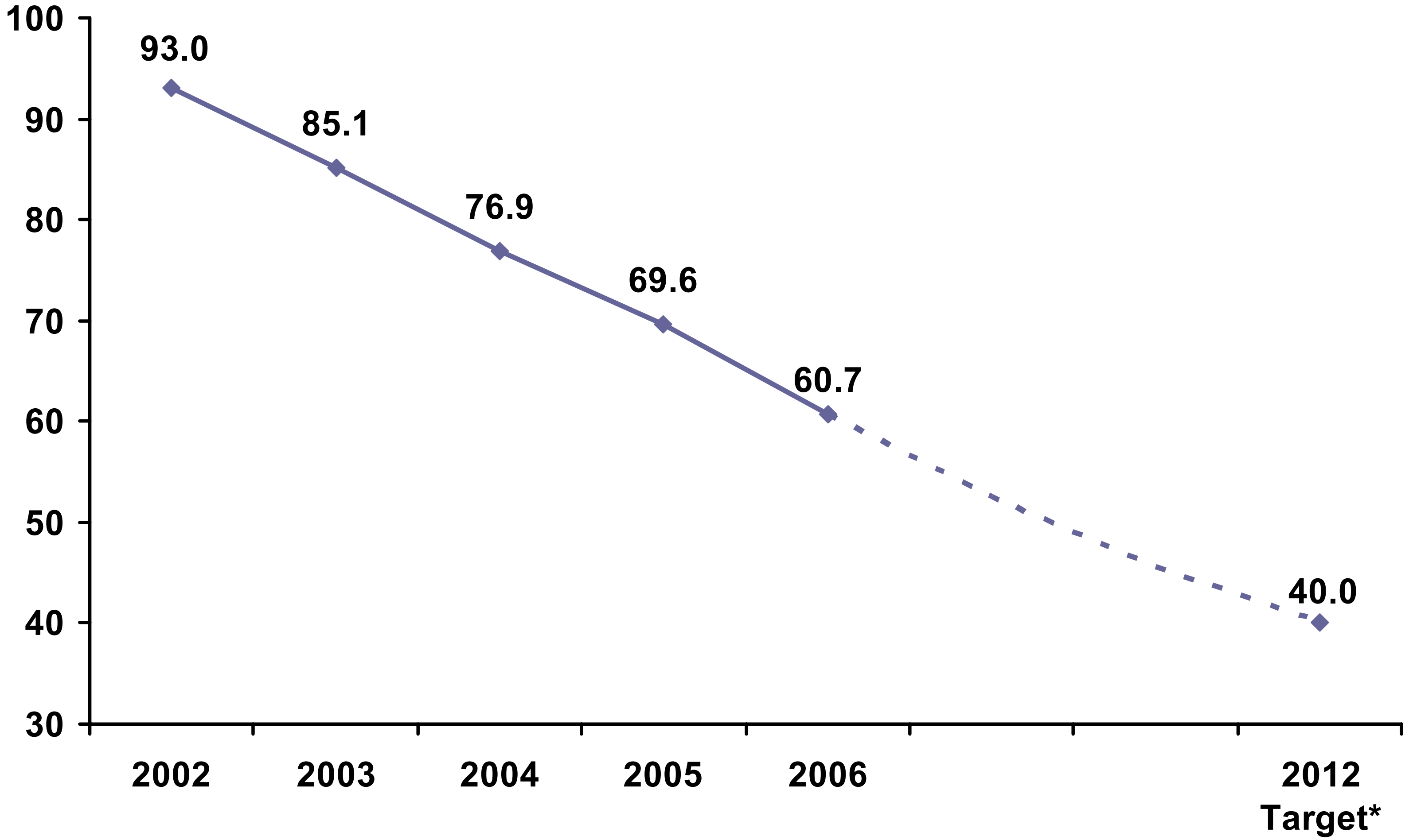
(*) 2007 Pre-Accession Economic Programmme

General Government Revenues and Expenditures*



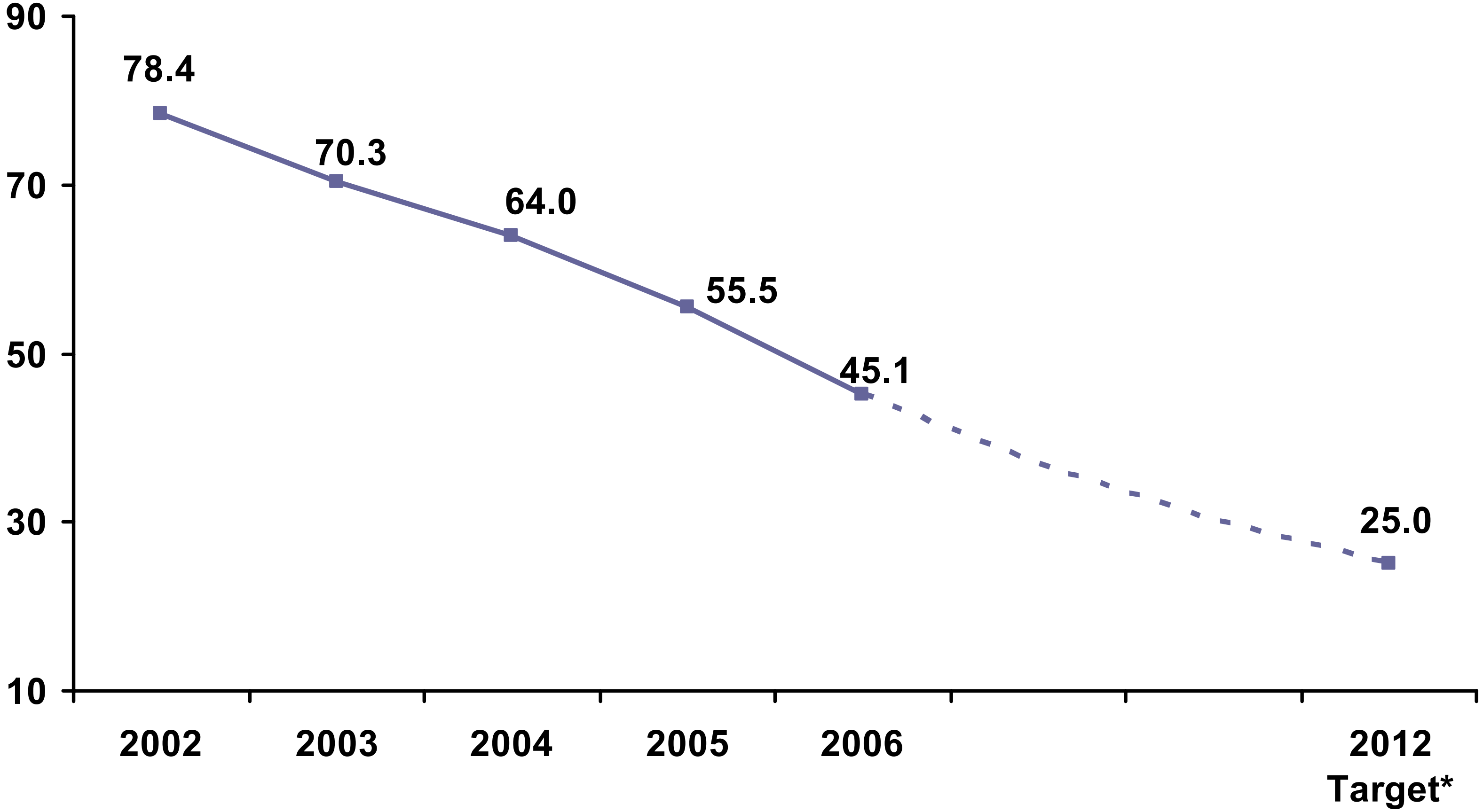
(*) 2007 Pre-Accession Economic Programme

EU Defined Debt Stock / GDP (%)



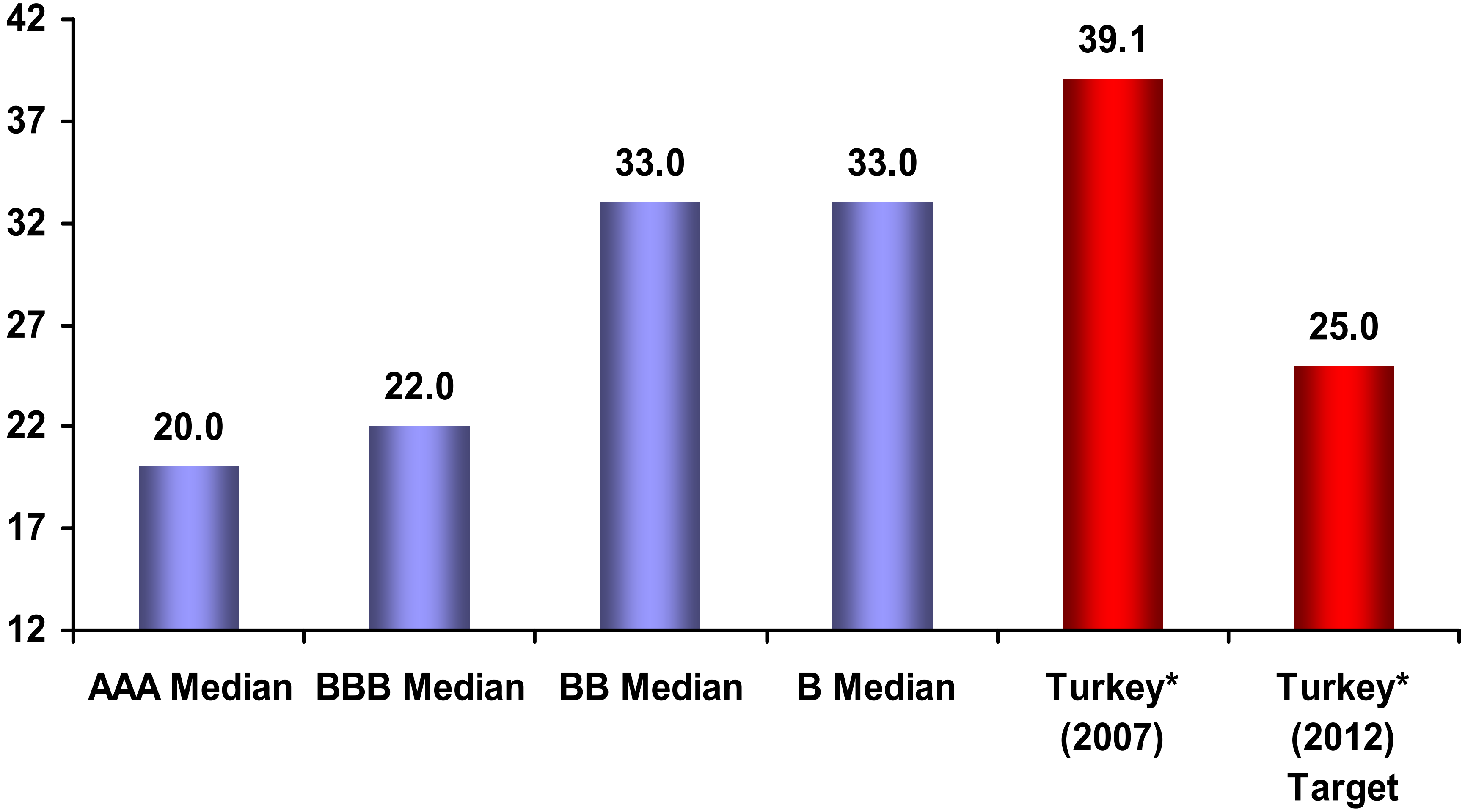
(*) 2007 Pre-Accession Economic Programme

Public Sector Net Debt Stock / GNP (%)



(*) 2007 Pre-Accession Economic Programme

Net Public Debt / GDP (%)



(*) 2007 Pre-Accession Economic Programme

REFORM AGENDA

- STRUCTURAL REFORM AGENDA
- GOVERNMENT'S ACTION PLAN
- EU ACCESSION PROCESS

Structural Reform Agenda

- Public Sector and Fiscal Reforms
  - Social Security Reform (A Revised Package)
  - Strategy to cope with informality
  - Privatization Implementations
  - Public Administration and Personnel Reform
- Competitiveness Enhancing Reforms
  - R&D Law
  - Labor Market Reform
  - A New Commercial Code
  - Strengthening Energy and Transportation Infrastructure
  - Education Reform
  - Other Regulations to Further Improve Investment Environment

Government’s Action Plan

- An “Action Plan” has been recently announced.
- 145 actions in 10 areas including economics, employment, and competition.
- Progress in each area will be followed quarterly

EU Accession Process: Roadmap for the Period 2007-2013

- Announced on April 17, 2007 and revised in the last quarter of 2007.
- Covers the period of 2007-2013.
- Aims to fully complete the alignment with the acquis by 2013.
- 188 primary and 566 secondary legal arrangements during 2007-2013 period.
- Includes a specific timetable for each measure.
- Monitoring on a quarterly basis for 2007-Q4 and 2008-Q4 period.

EU Accession Process: Status of Negotiations on Chapters

- **For 1 Chapter**
  1- Science and Research
  → **Negotiations were opened and provisionally closed.**

- **For 5 Chapters**
  1- Enterprise and Industrial Policy, 2- Statistics, 3- Financial Control, 4- Consumer and Health Protection, 5- Trans-European Networks
  → **Negotiations were opened provisionally, but closing benchmarks.**

- **For 2 Chapters**
  1- Education and Culture, 2- Economic and Monetary Policy
  → **Position Papers are submitted and Positions of the EU are awaited.**

- **For 14 Chapters**
  1- Public Procurement, 2- Competition Policy, 3- Free Movement of Capital, 4- Social Policy and Employment, 5- Agriculture and Rural Development, 6- Taxation, 7- Intellectual Property Law, 8- Customs Union, 9- Food Safety, Veterinary and Phytosanitary Policies, 10- Company Law, 11- Financial Services, 12- Free Movement of Goods, 13- Right of Establishment and Freedom to Provide Services, 14- Environment
  → **Certain benchmarks are to be met for opening the negotiations.**

- **Remaining chapters**
  → **Screening reports are awaited.**

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