ECONOMIC DEVELOPMENTS

JULY 11, 2006

CONTENT

I. Recent Developments in Global and Domestic Financial Markets

Volatility Index (VIX)

Source: Chicago Board of Trade

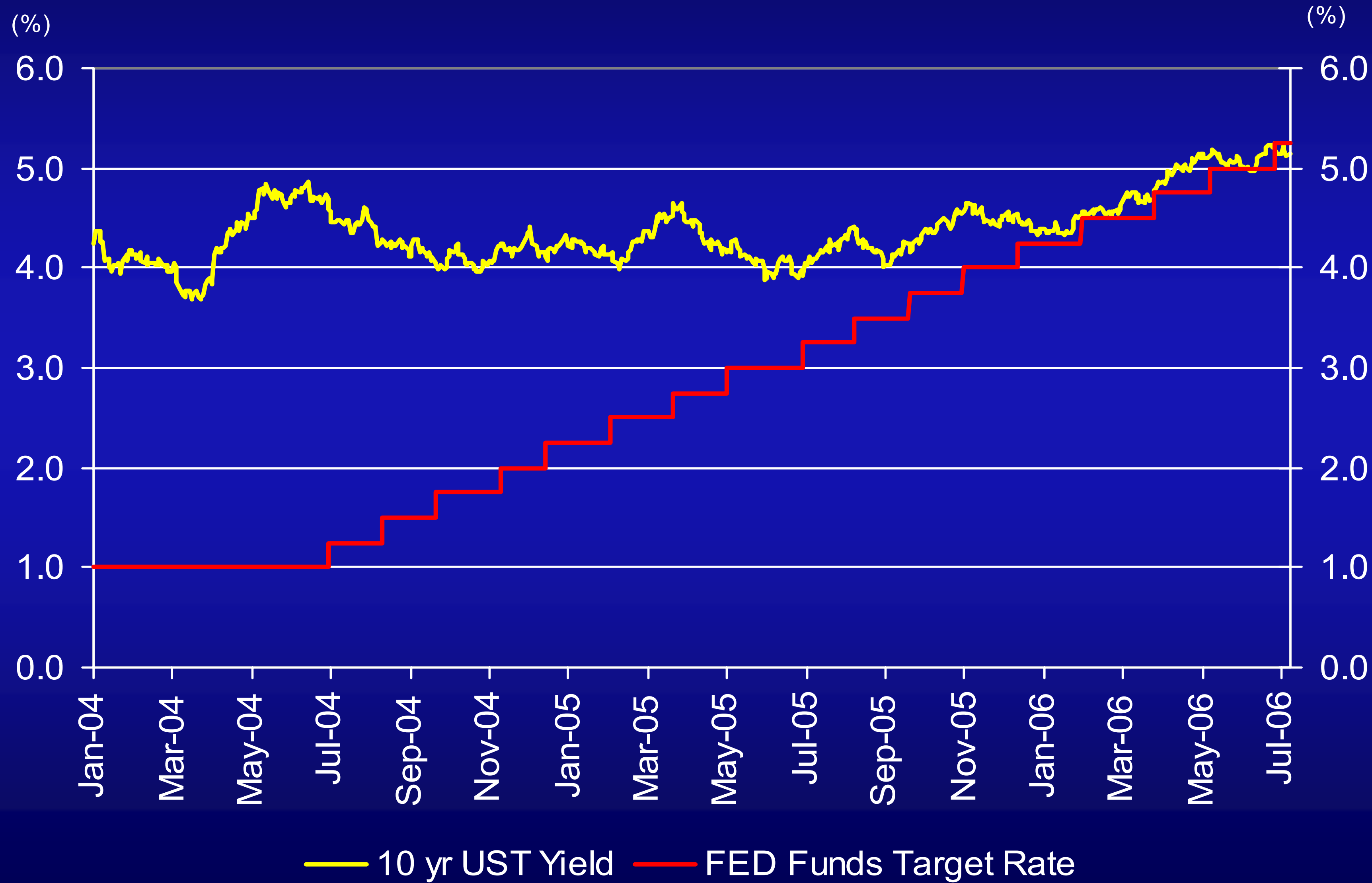
Consumer Price Inflation (% Change)

	2002	2003	2004	2005	*2006**	*2007**
United States	1.6	2.3	2.7	3.4	*3.2*	*2.5*
Euro Area	2.2	2.1	2.1	2.2	*2.1*	*2.2*
Japan	-0.9	-0.3	-	-0.3	*0.3*	*0.6*

Source: IMF

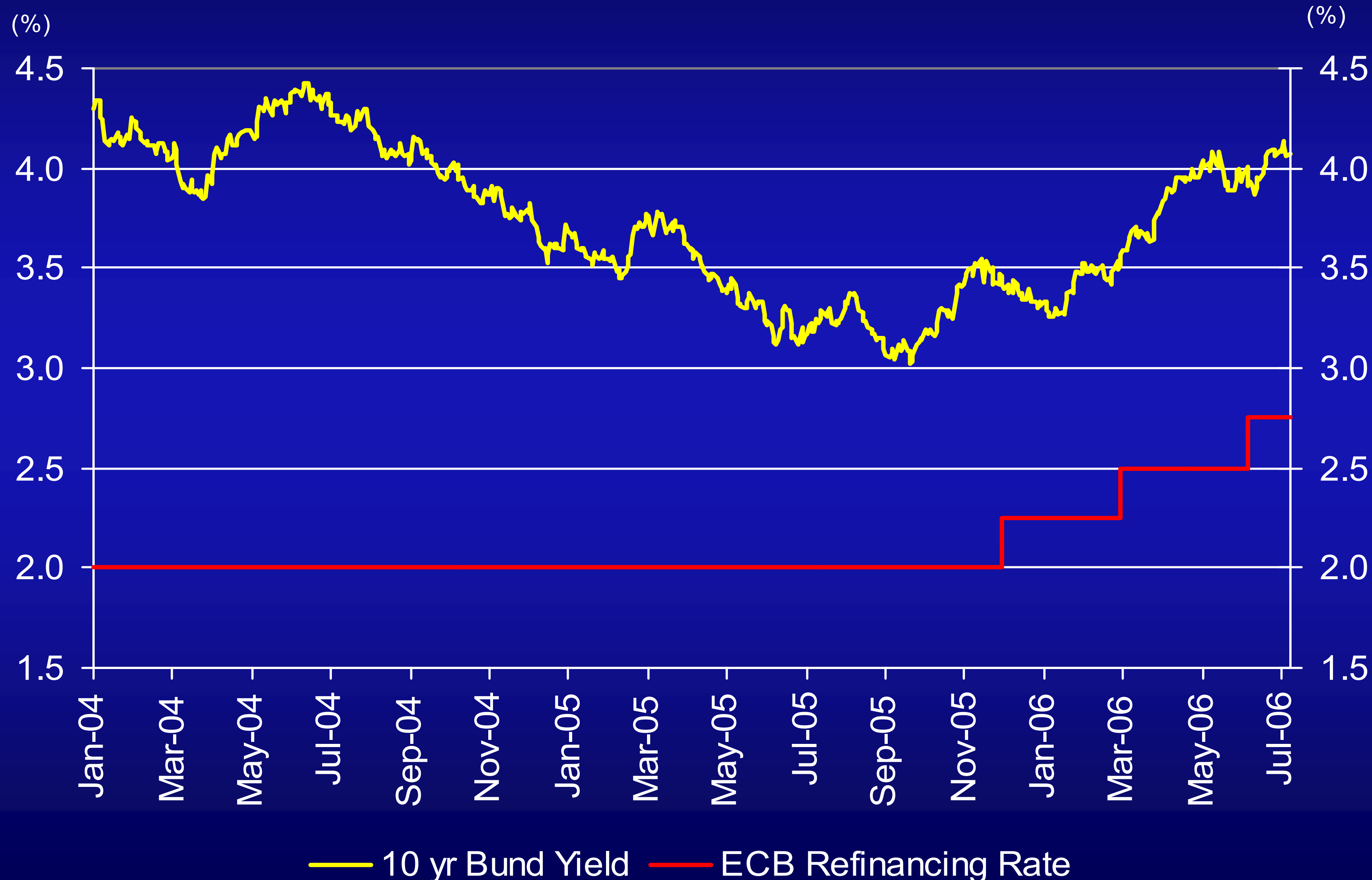
* Estimate

US Interest Rates



Source: Bloomberg

EURO Area Interest Rates



Source: Bloomberg

Japan Interest Rates

Source: Bloomberg

Reflections of Monetary Tightening

Monetary tightening in developed countries has led to;

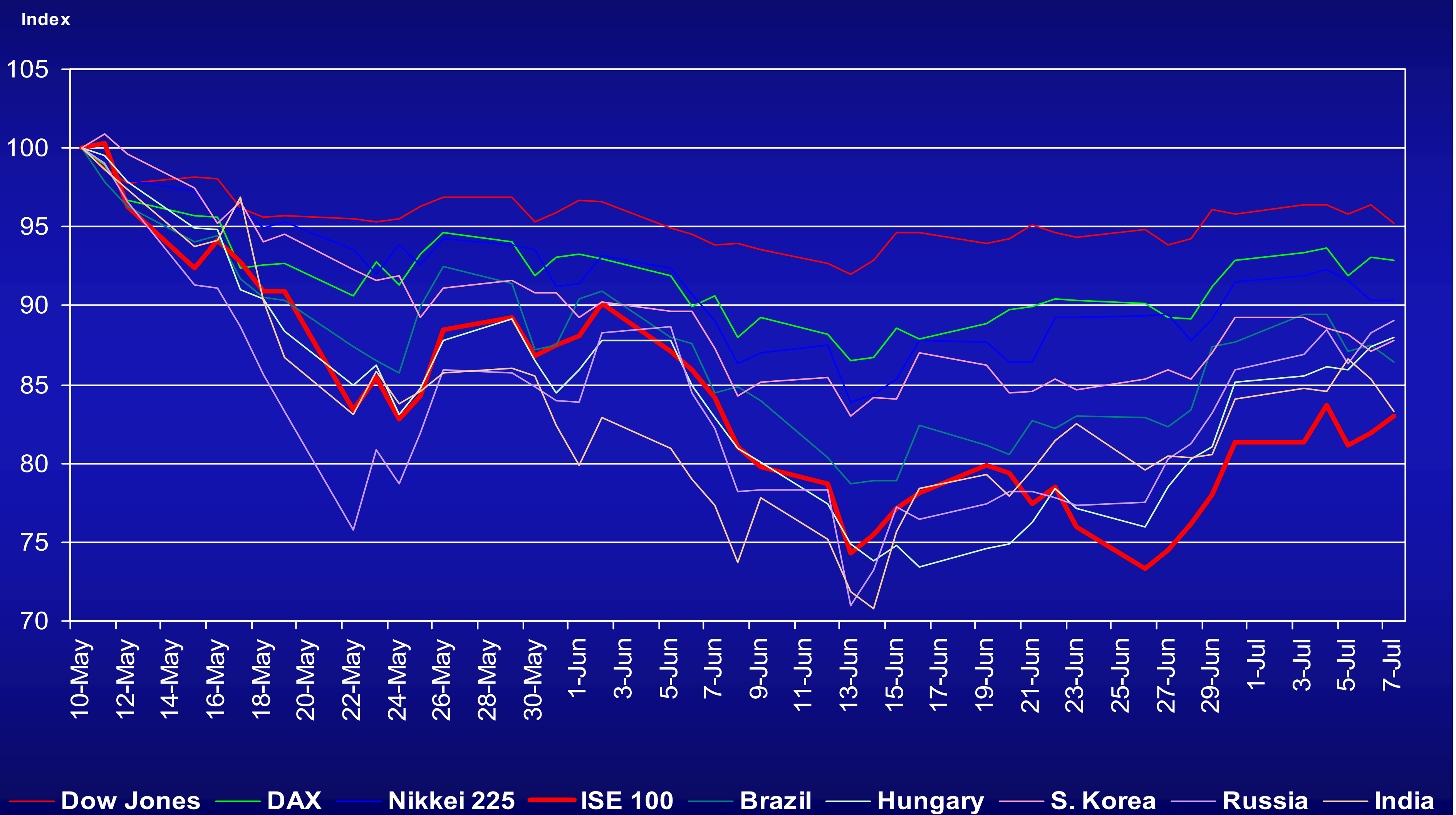
- ✓ Reallocation of portfolio investments,
- ✓ Reassesement of Emerging Market risks,

and resulted in;

- ✓ Capital outflows from Emerging Markets,
- ✓ Shifting portfolios from equities to fixed income and money market instruments,

➔Triggrering a sharp fall in Emerging Market assets prices (equities, external and local bonds and currencies)

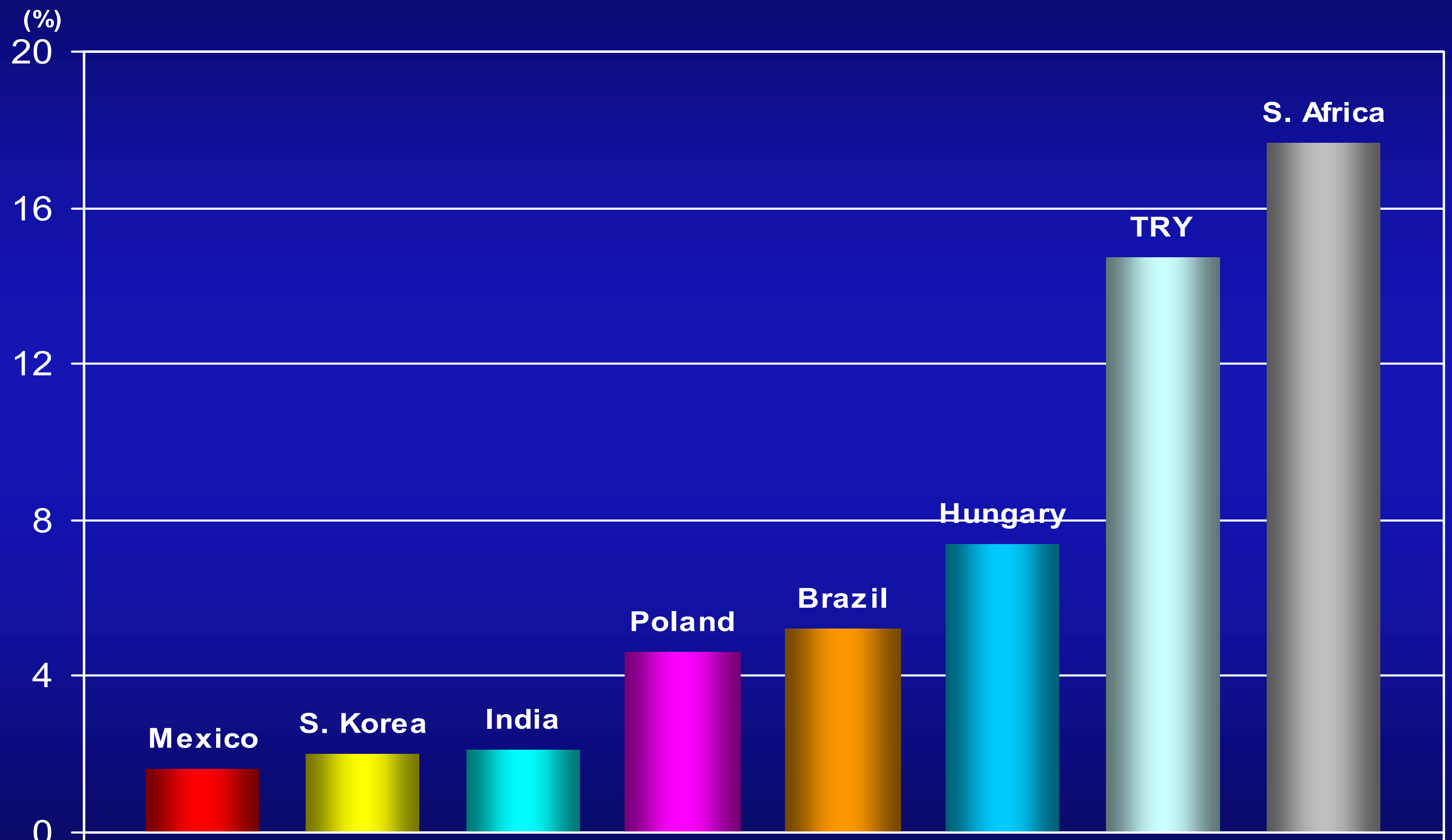
Stock Exchange Indices*



***10.05.2006 =100**
(As of July 7, 2006)

Source: Bloomberg

Currencies



* Percentage change since the FOMC meeting held on May 10, 2006.
(As of July 7, 2006)

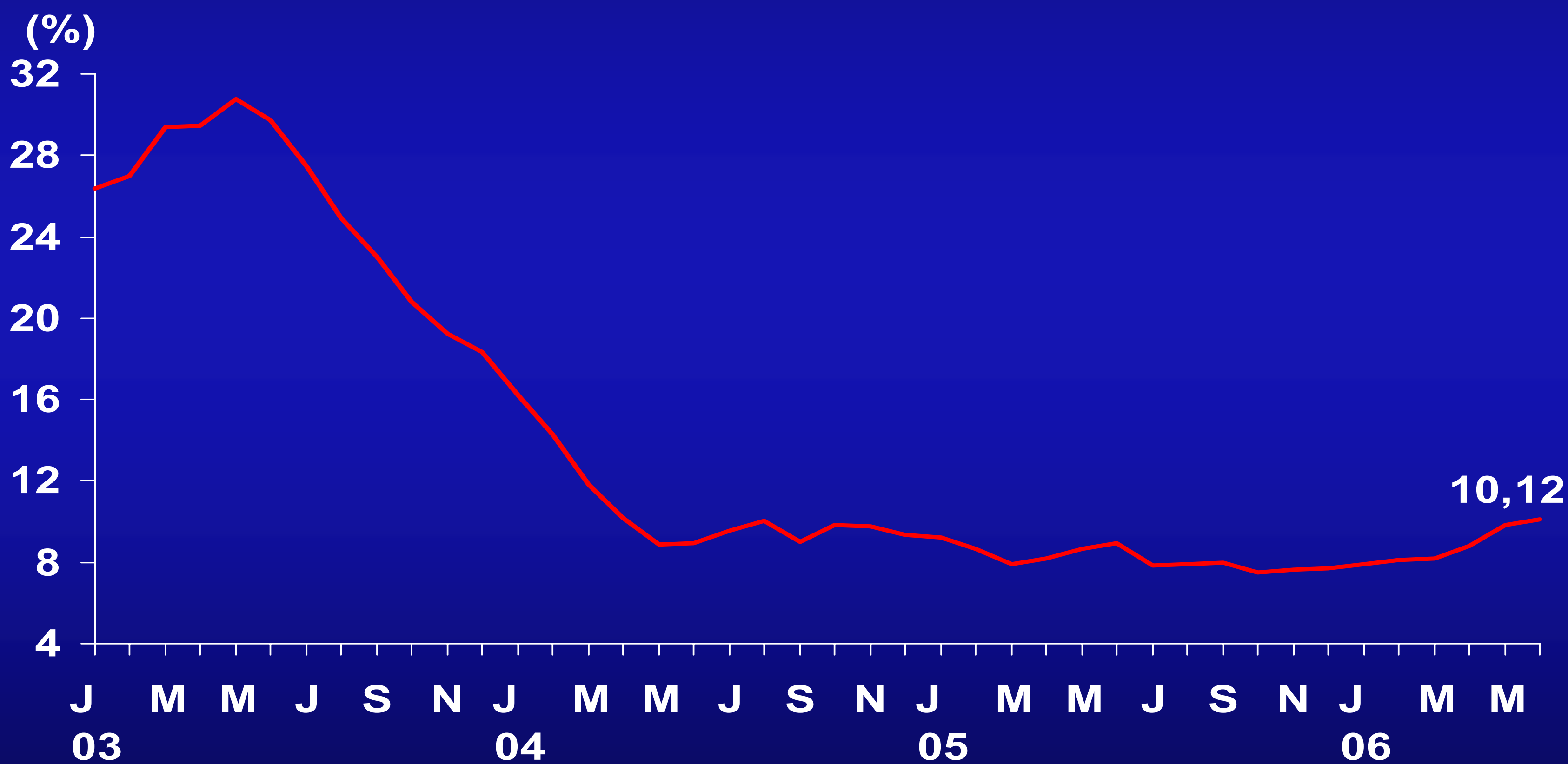
Source: Bloomberg

Comparison of EMBI+ and EMBI+ Turkey

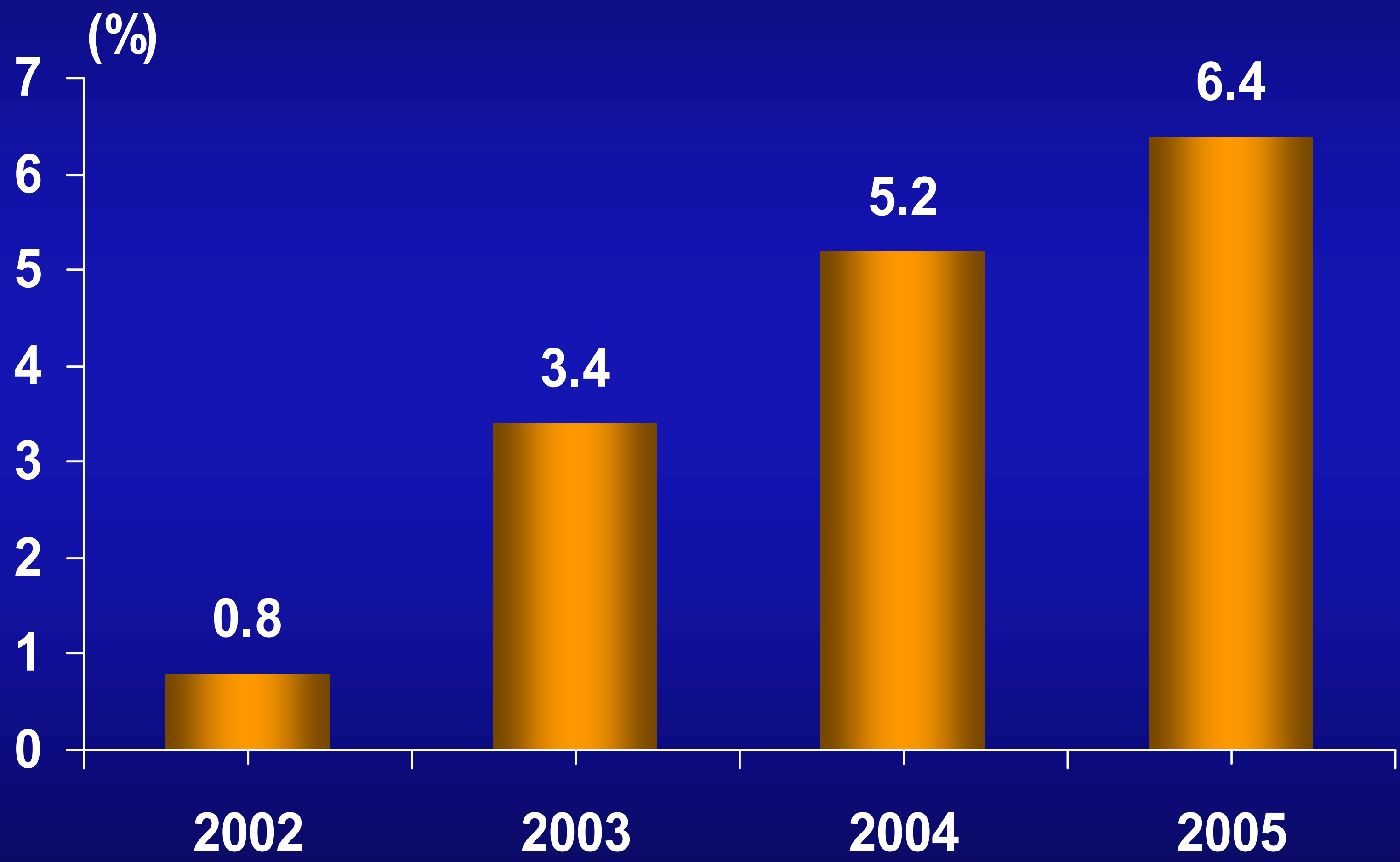
Source: JP Morgan

Turkey: Inflation

Annual Inflation



Turkey: Current Account Deficit (% of GNP)



Turkey’s Policy Response to Global Developments

- ✓ Further strengthening the fiscal policy framework
- ✓ Monetary tightening
- ✓ Prudent debt management policy and flexibility
- ✓ Increasing the pace of structural reforms

Fiscal Policy

- *Strong commitment to the existing key pillars:*
  - ✓Primary surplus target of 6.5% of GNP for the consolidated public sector
  - ✓Social Security Institutions' total deficit to stay below 4.5% of GNP
- *Introducing a new pillar:*
  - ✓Saving revenue over-performance
    - Setting a ceiling for the non-interest expenses of the Central Government and Social Security institutions

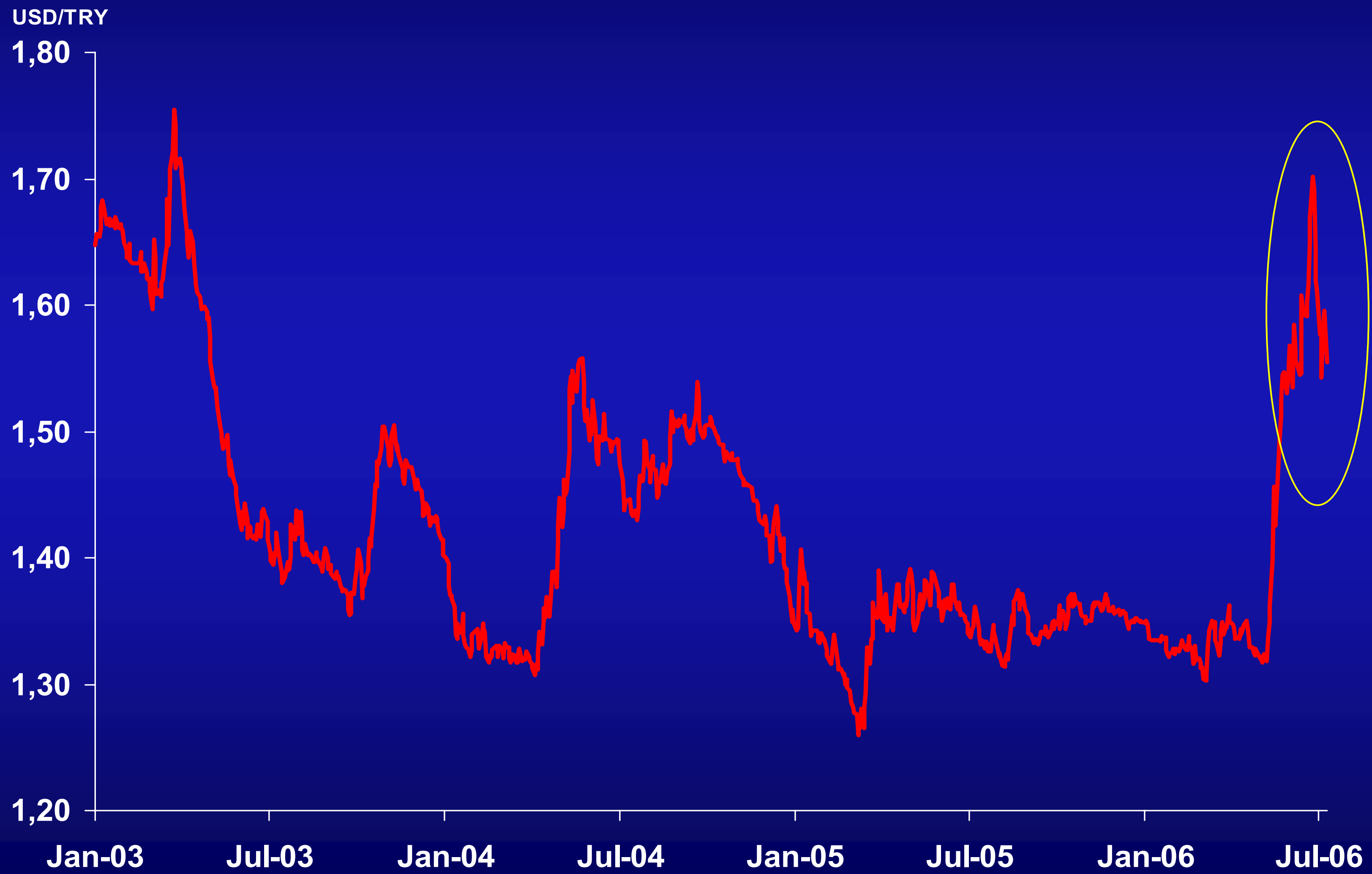
Monetary Policy

- ✓ Increasing CBT’s overnight borrowing rate by 400 bps to 17.25%
- ✓ Increasing CBT’s lending rate by 600 bps to 22.25%
- ✓ Proactive liquidity management
  - ✓ Deposit Purchase Auctions of 1 and 2 week maturity
  - ✓ Foreign Exchange Interventions

Debt Management

- ✓Issuance policy in line with demand conditions
- ✓Strengthening non-debt creating resources
- ✓Close coordination with the monetary policy

Foreign Exchange Rates



Source: CBRT

(*) as of July 10, 2006

Interest Rates

(*) July 10

ISE Index

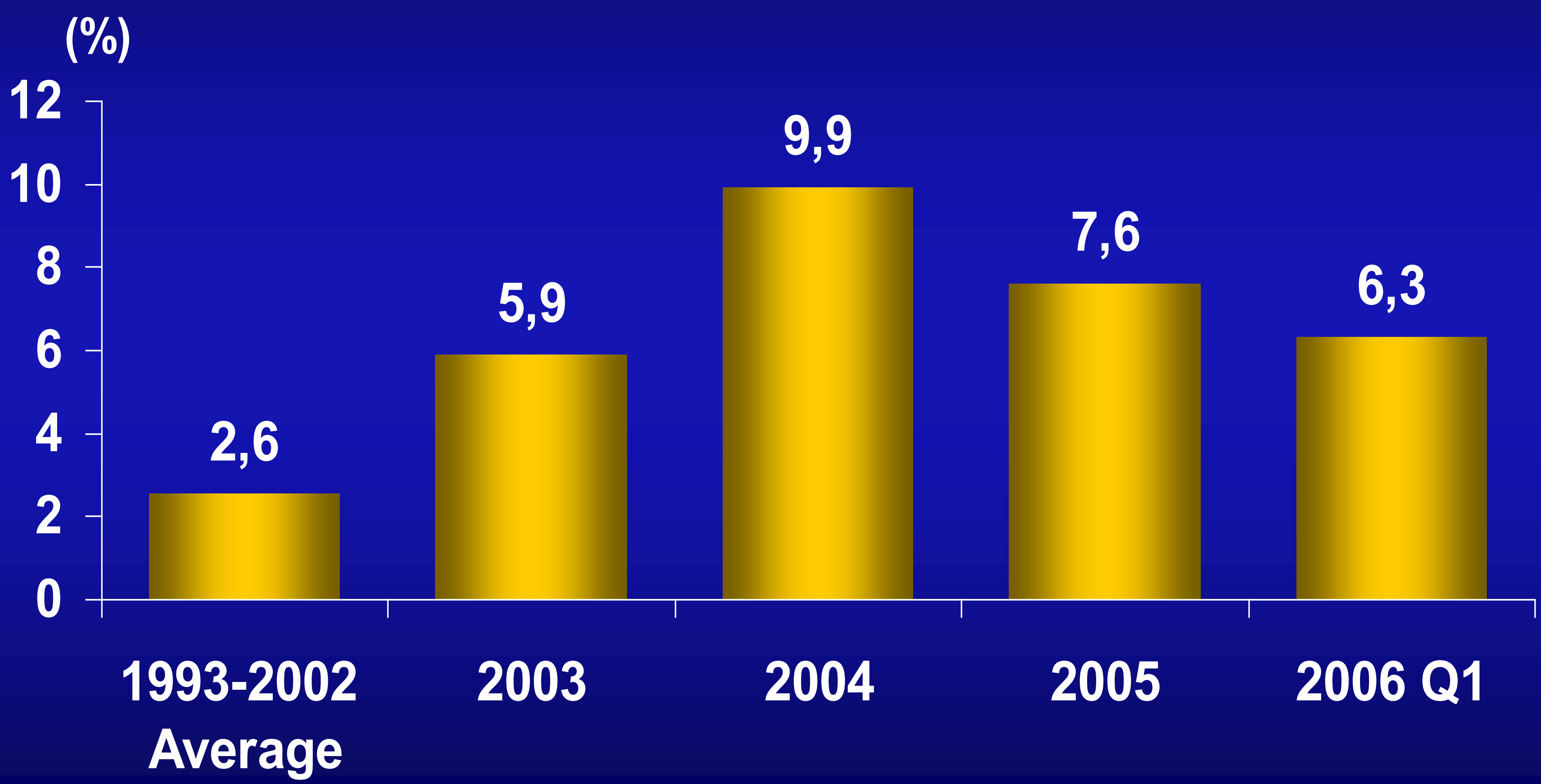
* as of July 10, 2006

II. Strong Economic Fundamentals

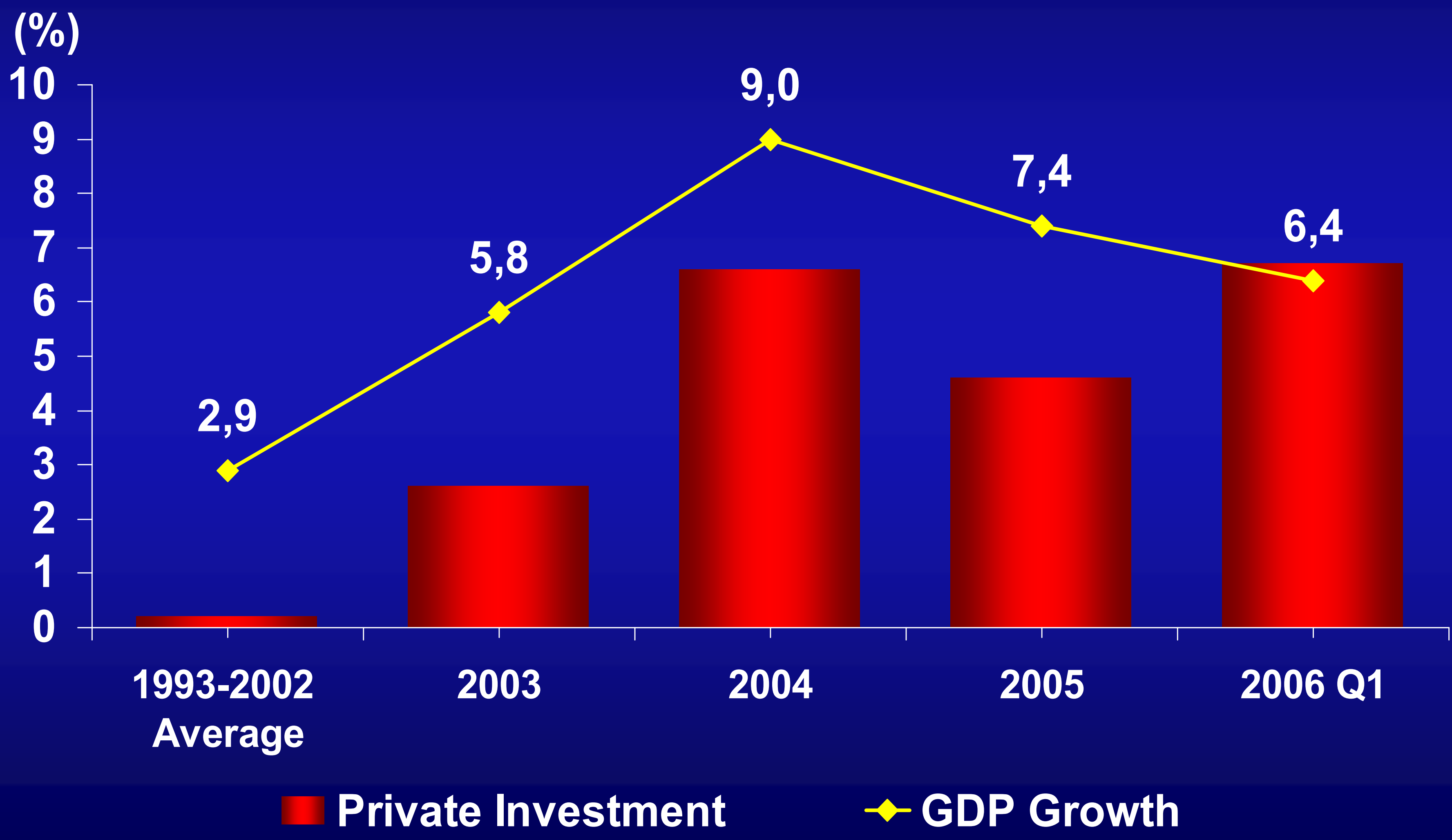
Strong Economic Fundamentals

- ✓ Robust growth performance and healthy composition of growth
- ✓ Strong export and tourism performance
- ✓ Substantial pick-up in non-debt creating and long term financing of current account deficit
- ✓ Prudent monetary and exchange rate policy framework
- ✓ Entrenched disinflation process
- ✓ Strong banking sector
- ✓ Unprecedented fiscal adjustment
- ✓ Reduced public debt burden
- ✓ More resilient public debt composition
- ✓ Comfortable financing position of Treasury

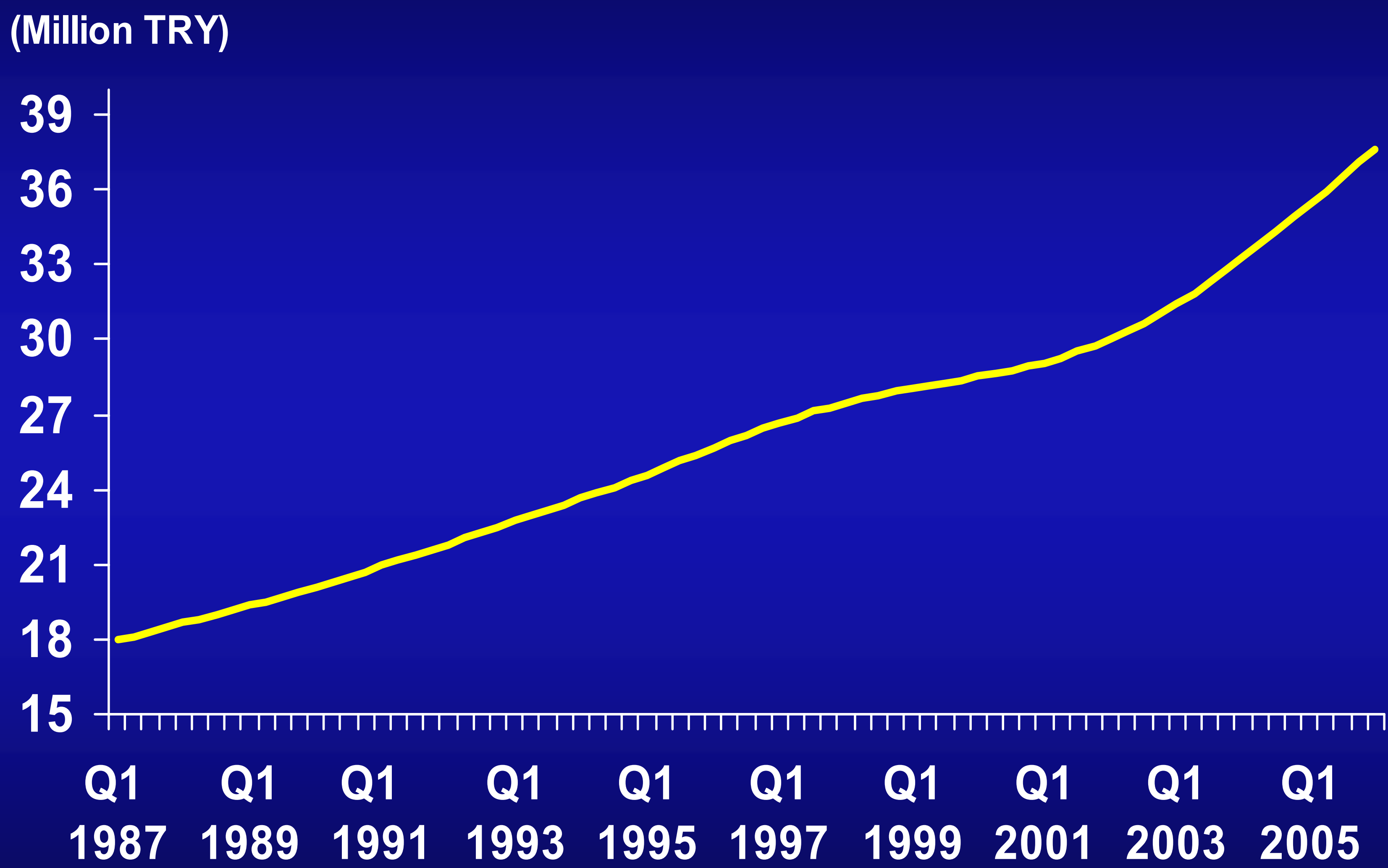
GNP Growth Rate



Contribution of Private Investment to GDP Growth

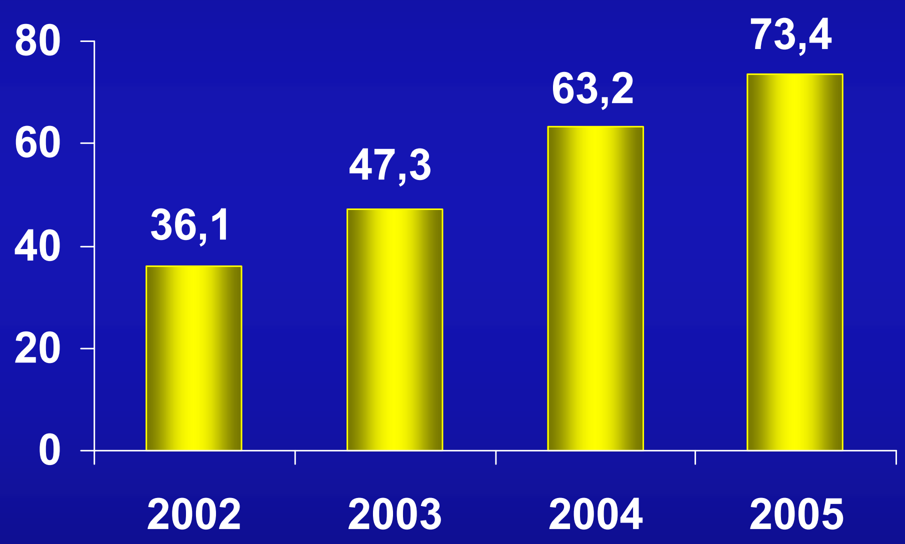


Potential GDP (1987 Prices)

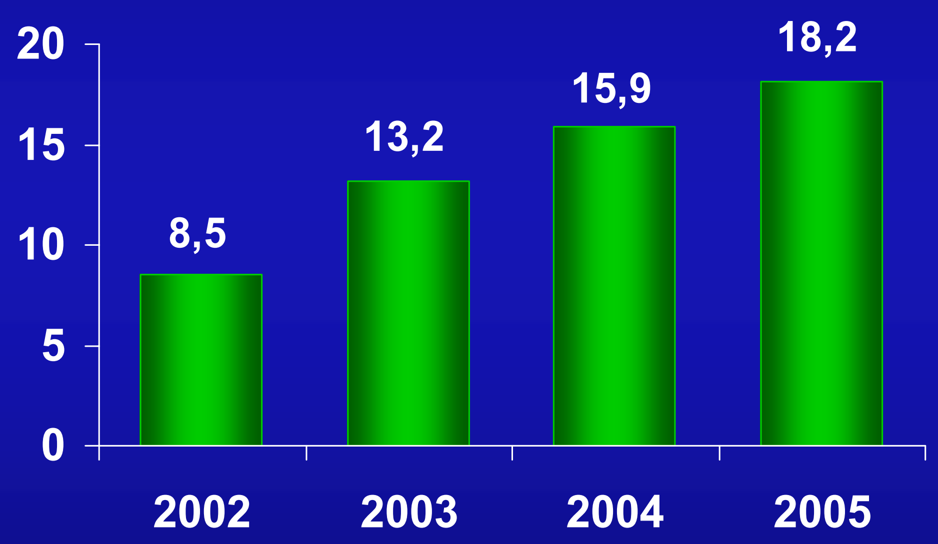


Exports and Tourism Revenues (Billion Dollars)

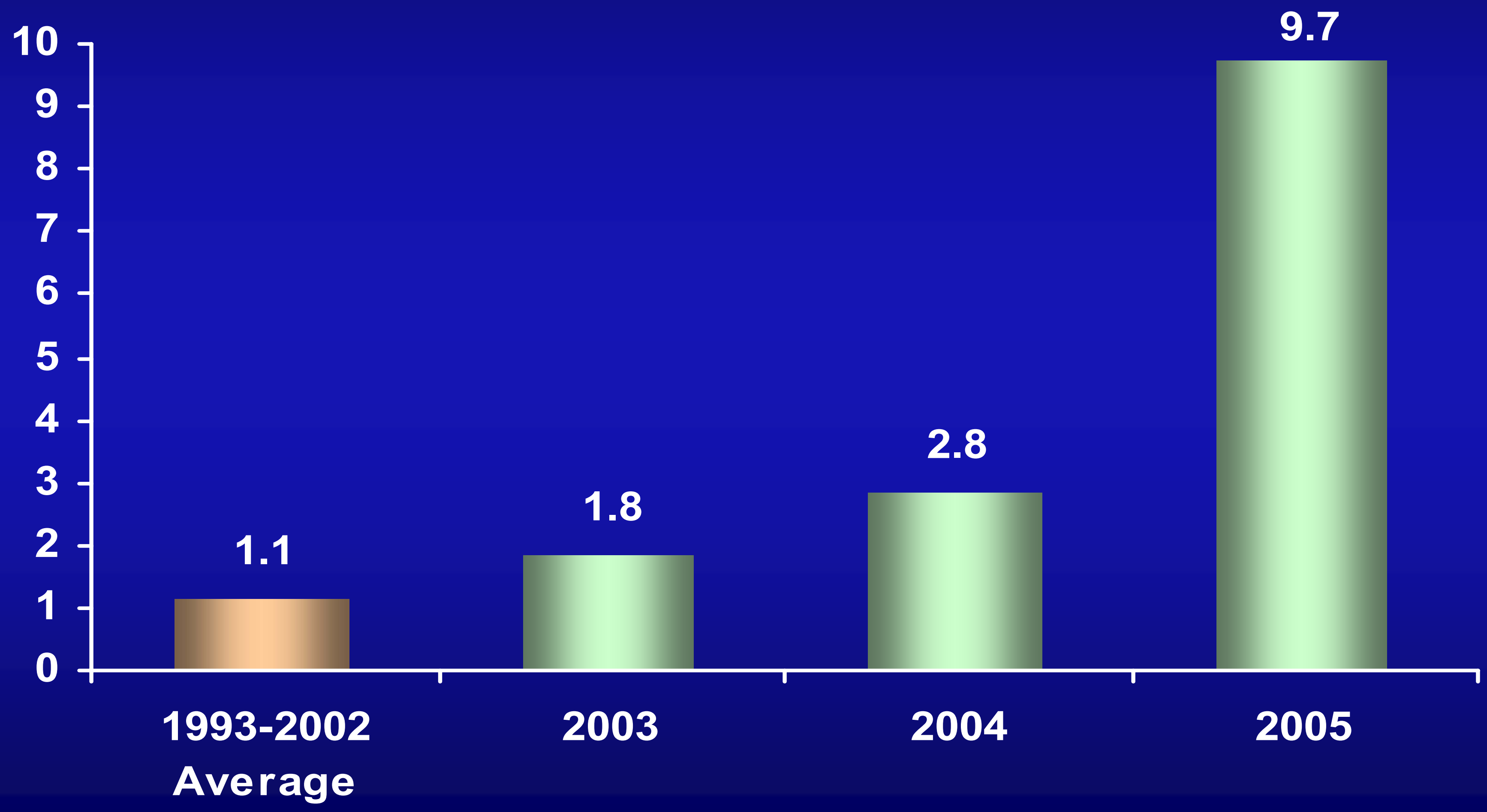
Exports



Tourism Revenues



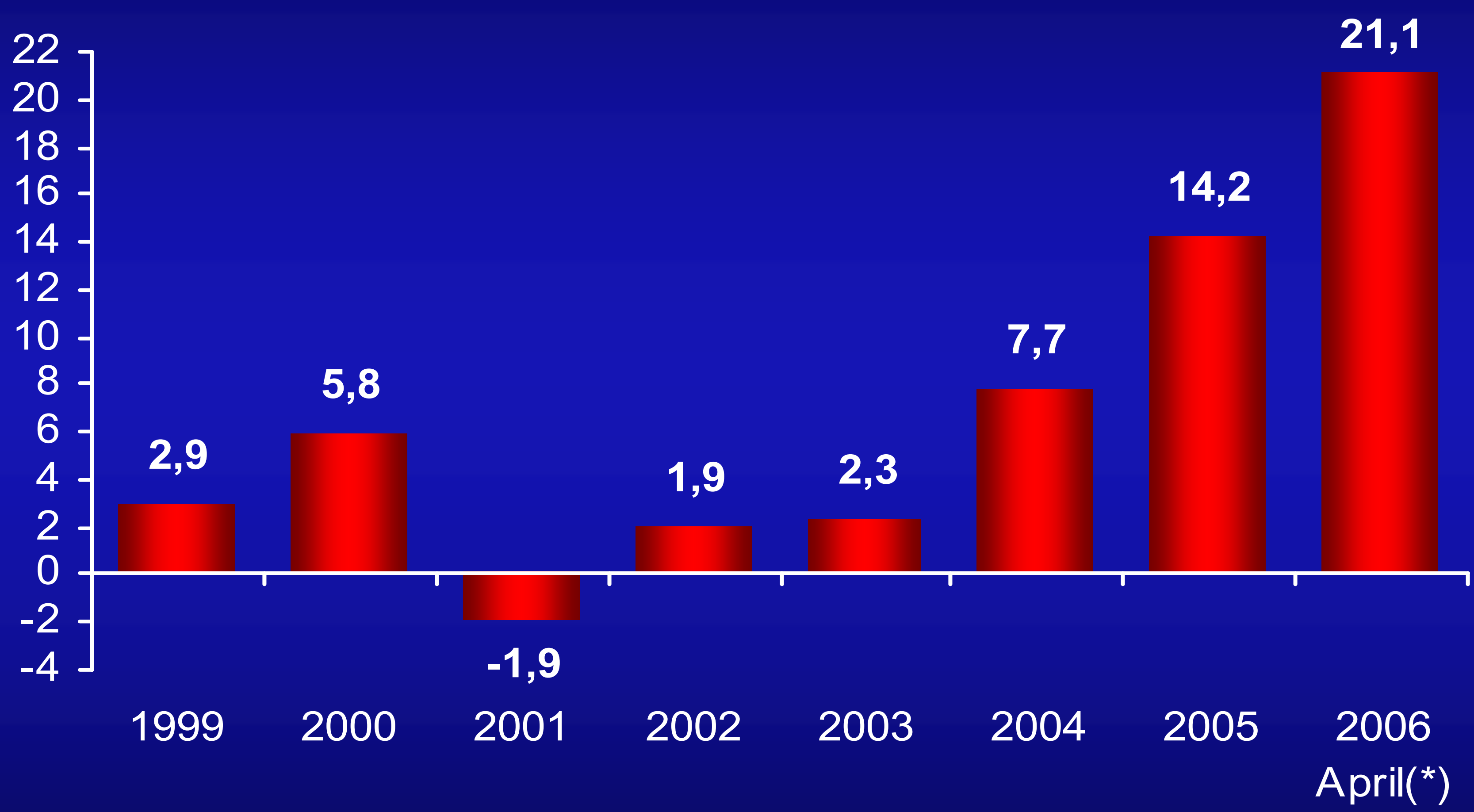
Foreign Direct Investments (Billion Dollars)



FDI Inflow Expectations for 2006

FDI through...	Forecast Range (USD Million)
PRIVATIZATION	**1,316 – 5,518**
of which Türk Telekom	1,048 – 5,240
SDIF SALES	**4,611 – 5,828**
of which Telsim	4,550 – 4,550
M&A TRANSACTIONS	**4,456 – 8,604**
of which Finansbank	2,760 - 2,760
REAL ESTATE SALES TO NON-RESIDENTS	**1,850 – 2,500**
EQUITY CAPITAL (excluding privatization and M&A transactions)	**1,300 – 1,800**
TOTAL	**13,533 - 24,250**

Non-Bank Private Sector's External Financing for Trade and Investment (net, billion USD)



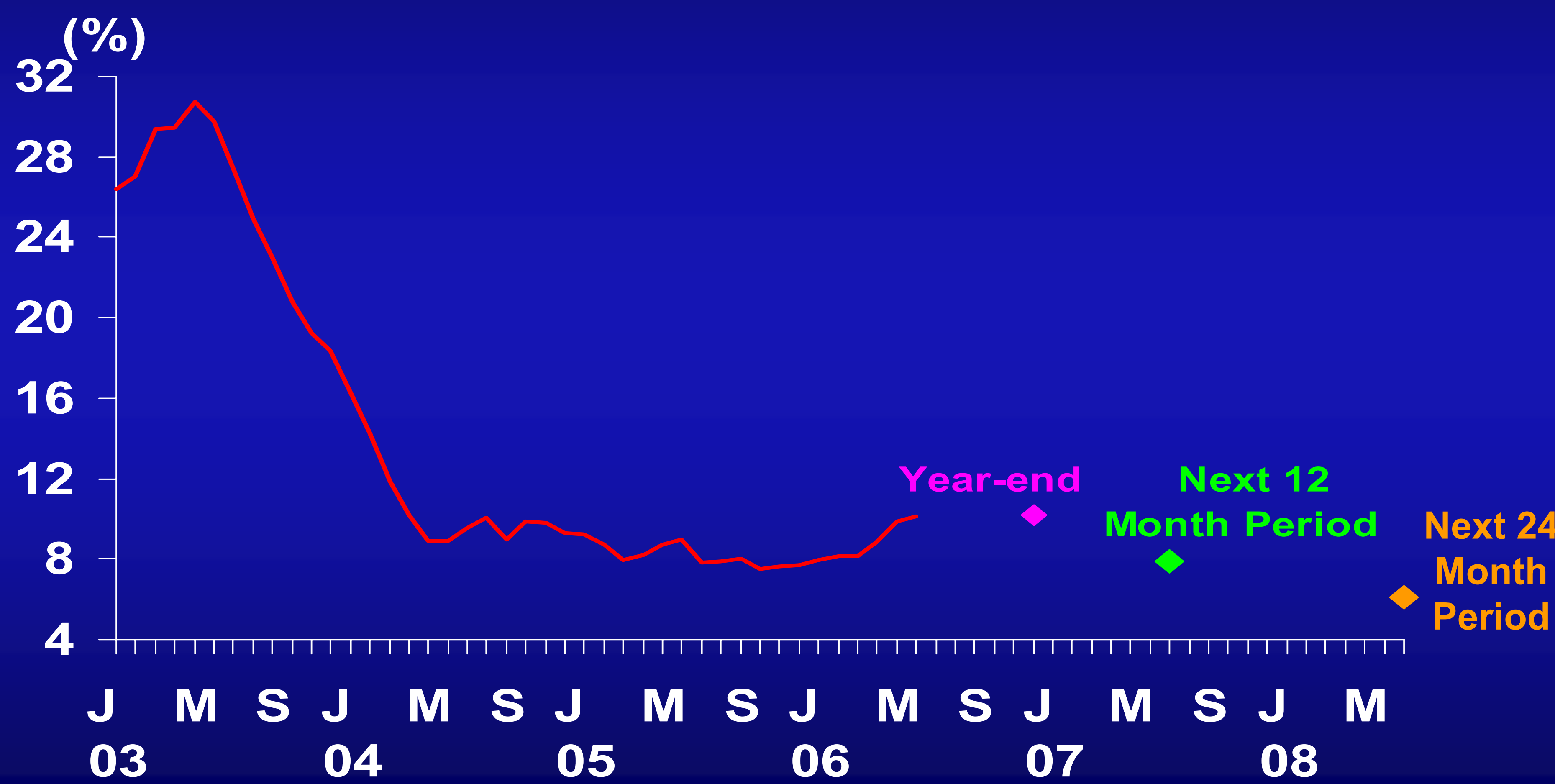
(*) Annualized

Prudent Monetary Policy Framework

- ✓ Inflation Targeting
  - ✓ Price stability as CBT’s main goal
- ✓ Floating exchange rate regime
- ✓ No credit to central government
- ✓ Independence of the Central Bank

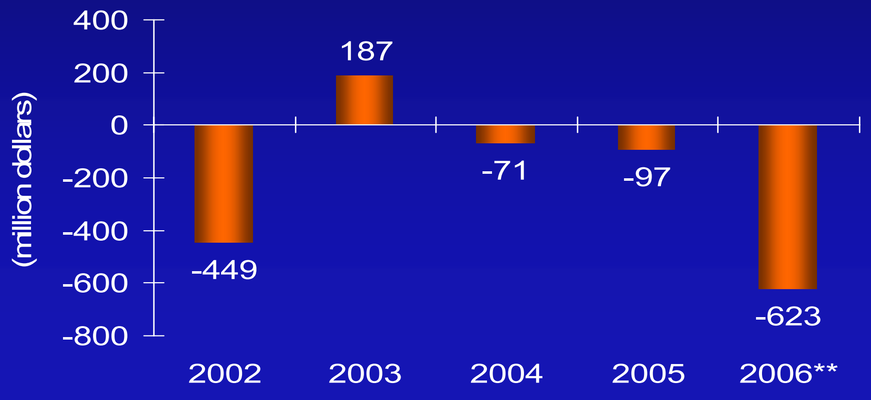
➔ Increased predictability and internal consistency of macro policies

Annual Inflation and Expectations

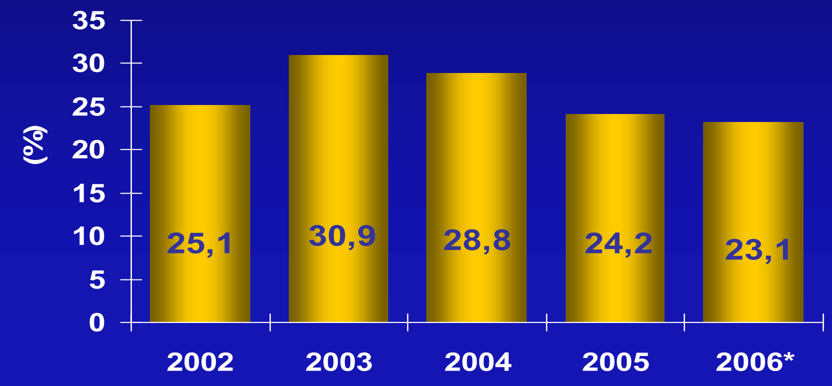


Banking Sector Indicators

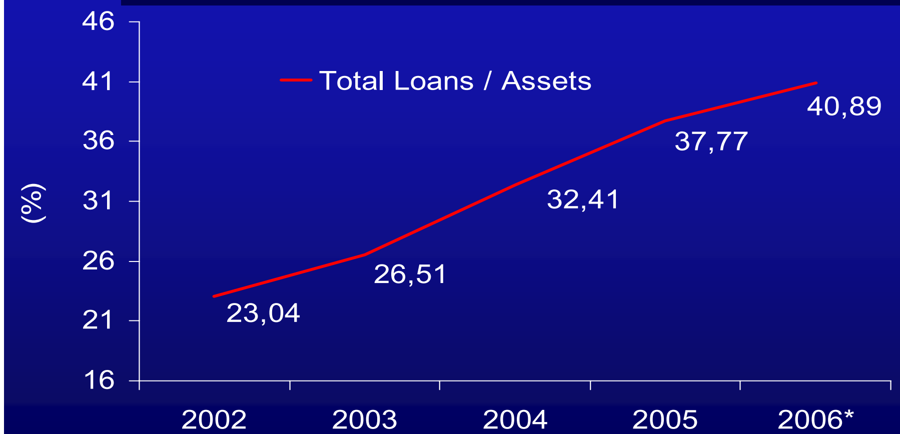
Banking Sector FX Positions



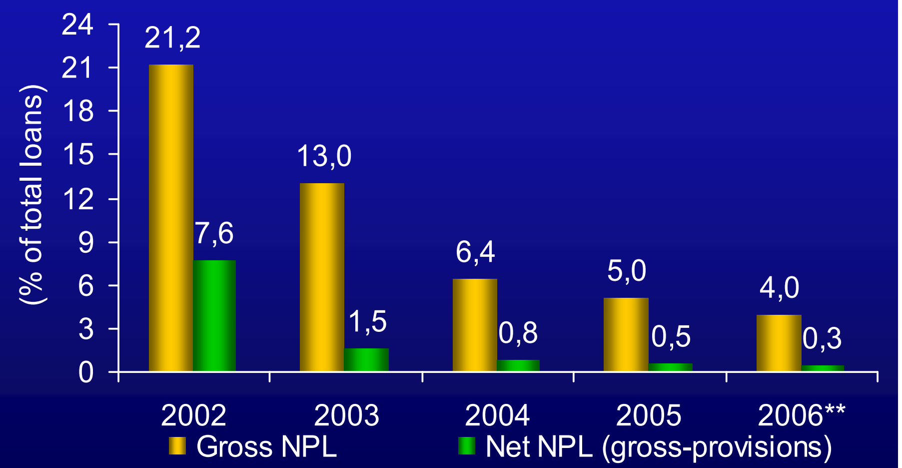
High Capital Adequacy



Rising Financial Intermediation



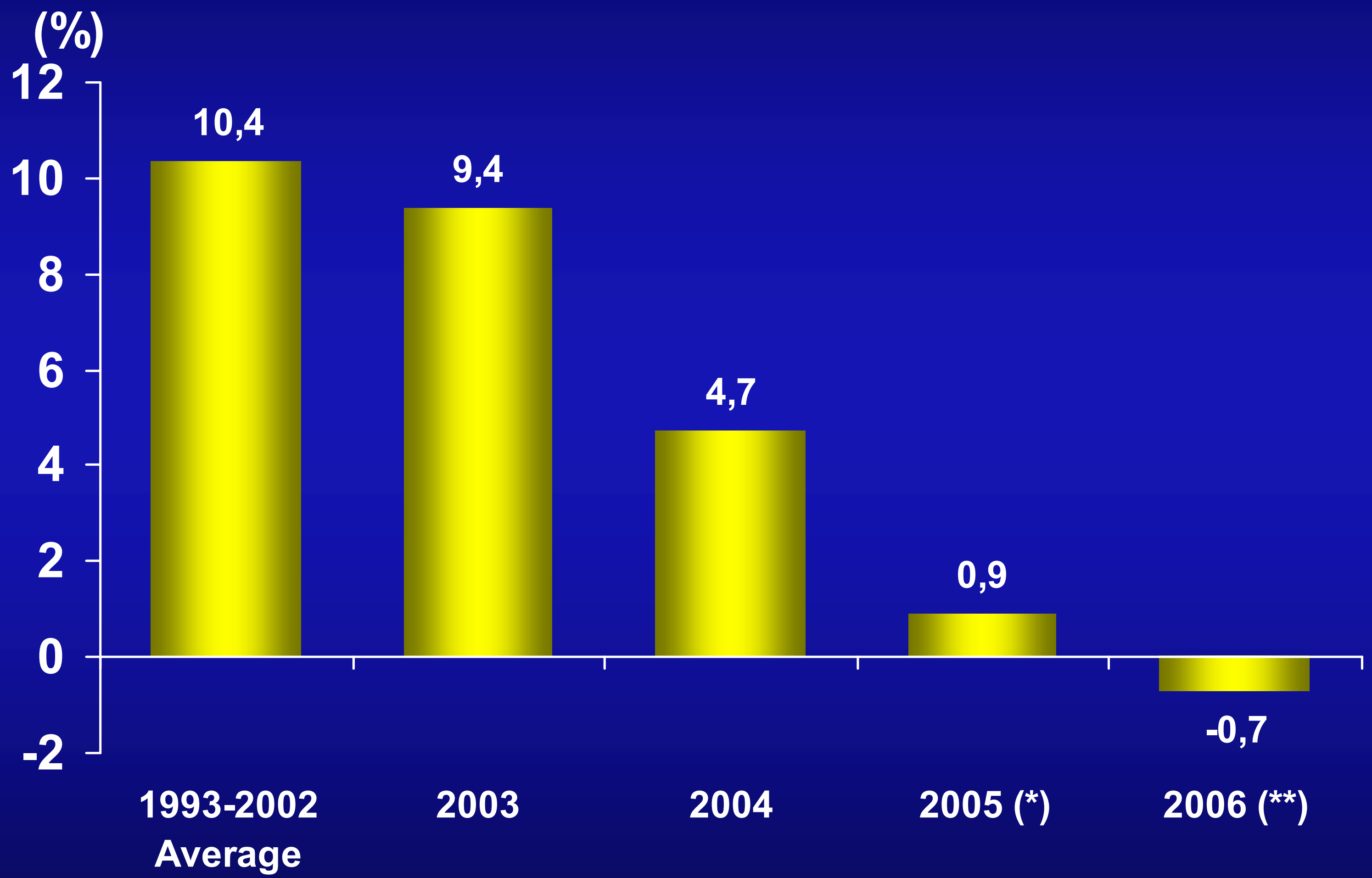
Declining Credit Risk



***As of April 2006**

****As of June 23, 2006**

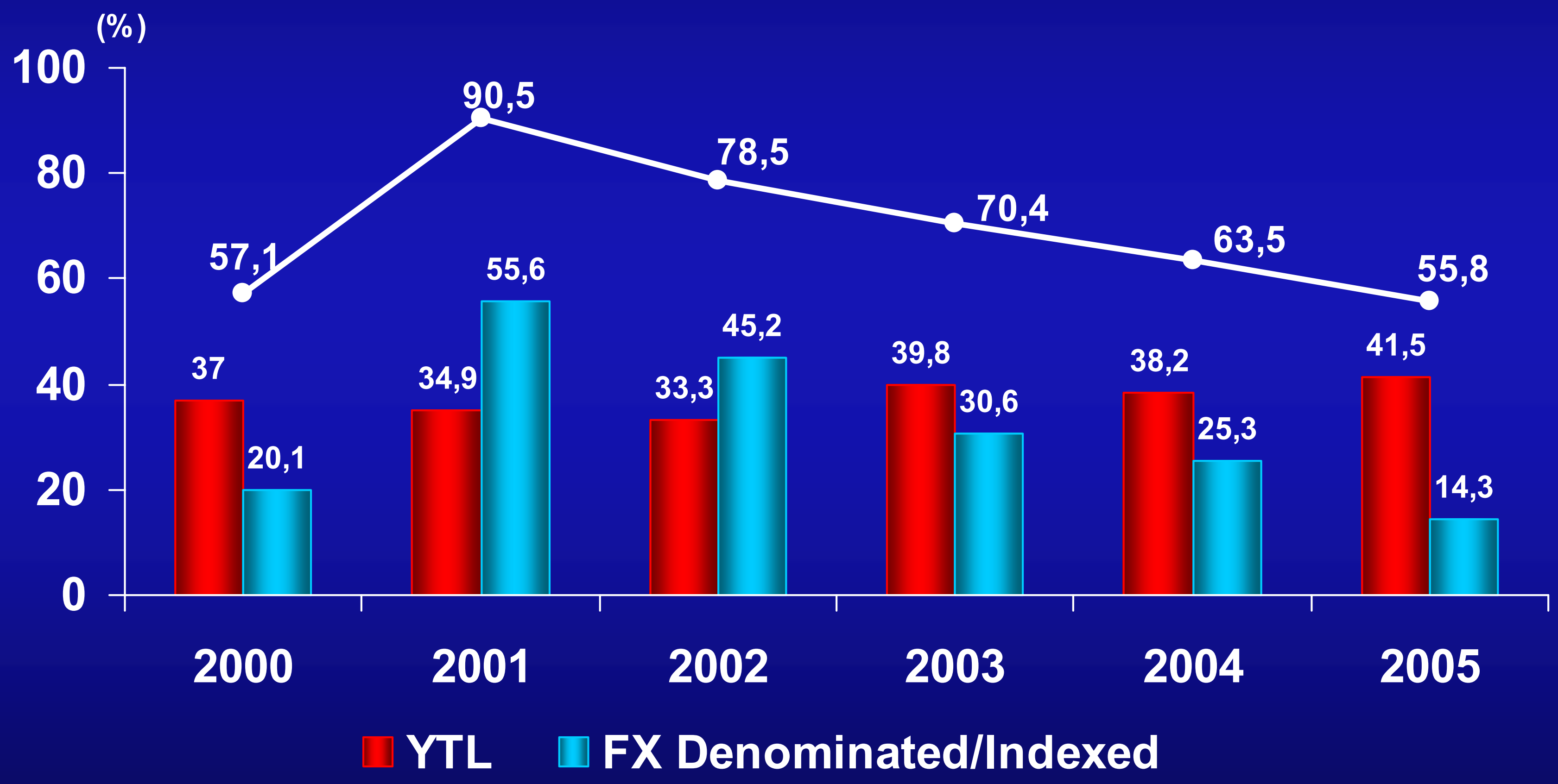
Public Sector Borrowing Requirement (% of GNP)



(*) Year-end target

(**) Program

Public Sector Net Debt Stock (% of GNP)



Resilience to Shocks

	Change in Net debt Stock/GNP Ratio (*)
10% Real Appreciation / Depreciation of YTL	+ / - 1.5 Points
3 Points Increase / Decrease in Real Interest of YTL Denominated Debt	+ / - 1.2 Points
2 Points Increase / Decrease in GNP Growth	+ / - 1.1 Points
1 Point Increase / Decrease in Primary Surplus	+ / - 1.0 Points

2006 Financing Program

(Billion TRY)	2006 (Prog.) *(Jan 2006 Press Release)*	Jan-June 2006 (Prov.)
I-TOTAL DEBT SERVICE	168,4	86,2
Domestic Debt Service	144,5	74,8
External Debt Service	23,8	11,3
II-FINANCING	168,4	86,2
Financing Other Than Borrowing	40,2	30,0
Primary Surplus	30,2	21,5
Privatization	7,0	8,5
Other	3,1	0,0
Use of Cash Account	0,0	-3,4
Total Borrowing	128,1	59,6
External Borrowing	16,7	6,7
Domestic Borrowing	111,4	52,9
TOTAL DOMESTIC ROLL-OVER RATIO	%77,1	%70,7

III. Structural Reforms

Structural Reforms

Key Elements of Structural Reform Agenda

- ✓ Public Sector Reform
- ✓ Financial Sector Reform
- ✓ Social Security Reform
- ✓ Tax Reform
- ✓ Enhancing Private Sector's Role in the Economy

Structural Reforms

Public Sector Reform:

- ✓ Financial Management and Control Law
- ✓ Public Procurement Law
- ✓ Rationalizing Public Sector Employment
- ✓ Rationalizing Public Sector Budget & Investment
- ✓ Code of Ethical Conduct for Civil Servants
- ✓ Law on Freedom of Information for Citizens

Structural Reforms

Financial Sector Reform:

✓ Regulation and Supervision in line with EU Standards

- New Banking and Insurance Laws in line with EU Standards
- Progress on Implementing Regulations
- Initiated Financial Sector Assessment Program (FSAP)

✓ Strengthening the Private Banks

- CAR-Capital Adequacy Ratio- Improvement
- Consolidation Encouraged

✓ State Bank Reform

- Financial Restructuring and Operational Restructuring
- Privatization process for Halkbank has been initiated

✓ Strengthened and Accelerated Resolution of Non-Viable Banks

Structural Reforms

Social Security Reform:

- ✓ Social Security Administrative Reform Law (enacted on May 20, 2006)
- ✓ Pension and Universal Health Insurance Reform Law (enacted on June16, 2006)

Tax Reform:

- ✓ PIT Reform Law : i. Rate Reform (enacted on April 8, 2006)
  ii. Structure Reform (in progress)
- ✓ CIT Law (enacted on June 21, 2006)
- ✓ Establishment of Large-Taxpayers Unit (in progress)
- ✓ Establishment of Tax Policy Unit (enacted on February 7, 2006)

Structural Reforms

Enhancing Private Sector's Role: Key Elements

- ✓ Opening the Key Markets to Competition, and Regulation by Independent Agencies
- ✓ Improving the Investment Environment
- ✓ Accelerated Privatization

Structural Reforms

Enhancing Private Sector's Role: Deregulation of Key Markets

- ✓ Electricity Market Law
- ✓ Natural Gas Market Law
- ✓ Petroleum Law
- ✓ Telecommunication Law
- ✓ Tobacco Law
- ✓ Sugar Law

Structural Reforms

Enhancing Private Sector's Role:
Improving The Investment Environment

A new FDI regime

- No Approval Requirement
- No Minimum Capital Requirement
- National Treatment
- Guarantee to Transfer Proceeds
- Key Expatriate Personnel
- Protection Against Expropriation
- International Dispute Settlement
- Access to Real Estate

Structural Reforms

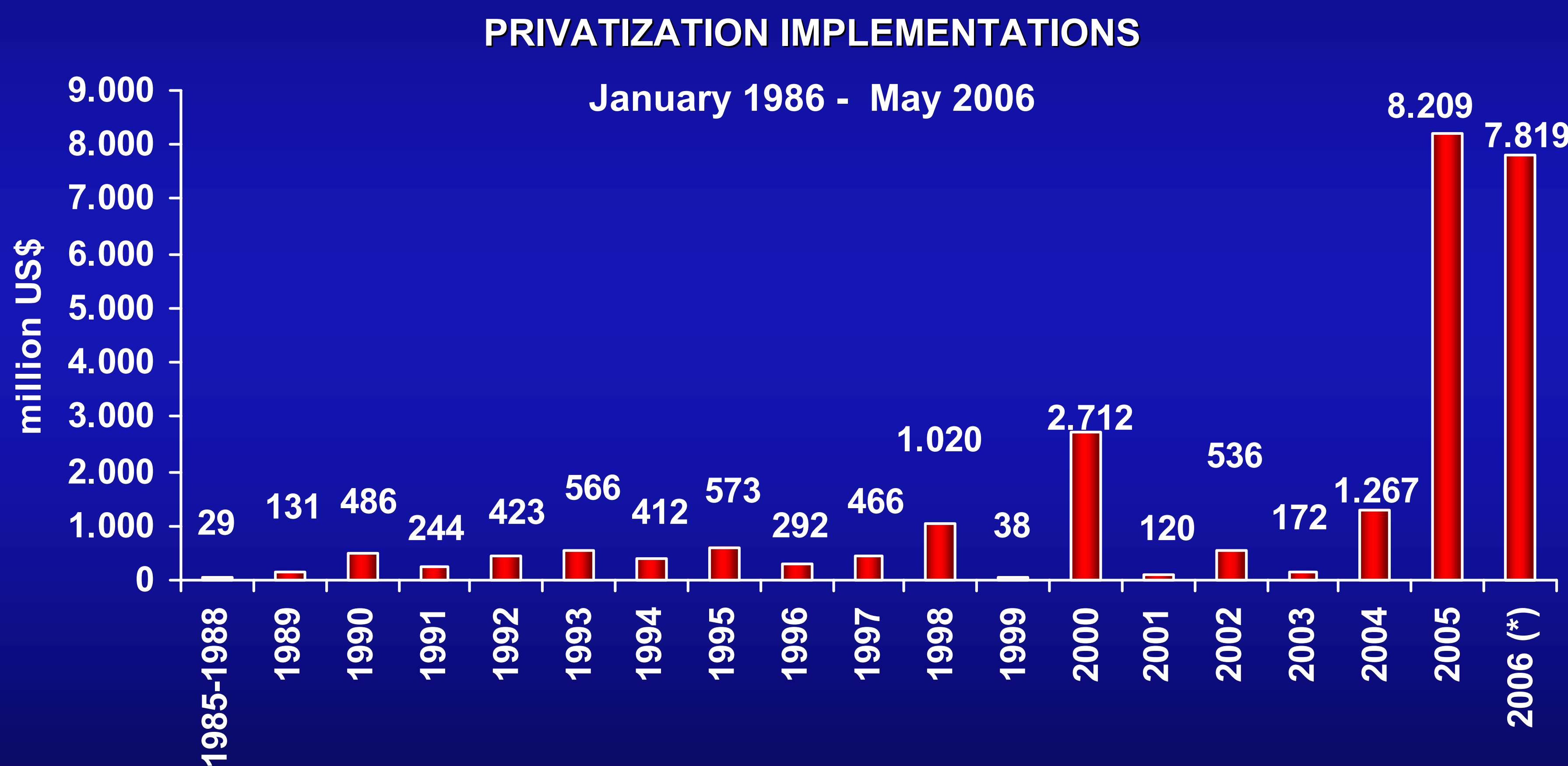
Enhancing Private Sector's Role: Improving The Investment Environment

Proactive Investment Promotion

- The Law on Establishment of the Investment Support and Promotion Agency of Turkey has been passed by the Parliament
- Investment Portal of Turkey
  http://www.investinturkey.gov.tr
- A Dedicated Investor's Relations Office
  http://www.hazine.gov.tr/iro.htm

Structural Reforms

Enhancing Private Sector's Role:
Accelerated Privatization Program



(*) January-May Period

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