

Republic of Turkey Prime Ministry Undersecretariat of Treasury

TURKISH ECONOMY



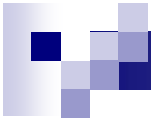
İbrahim H. ÇANAKCI
Undersecretary of Treasury

July 2008



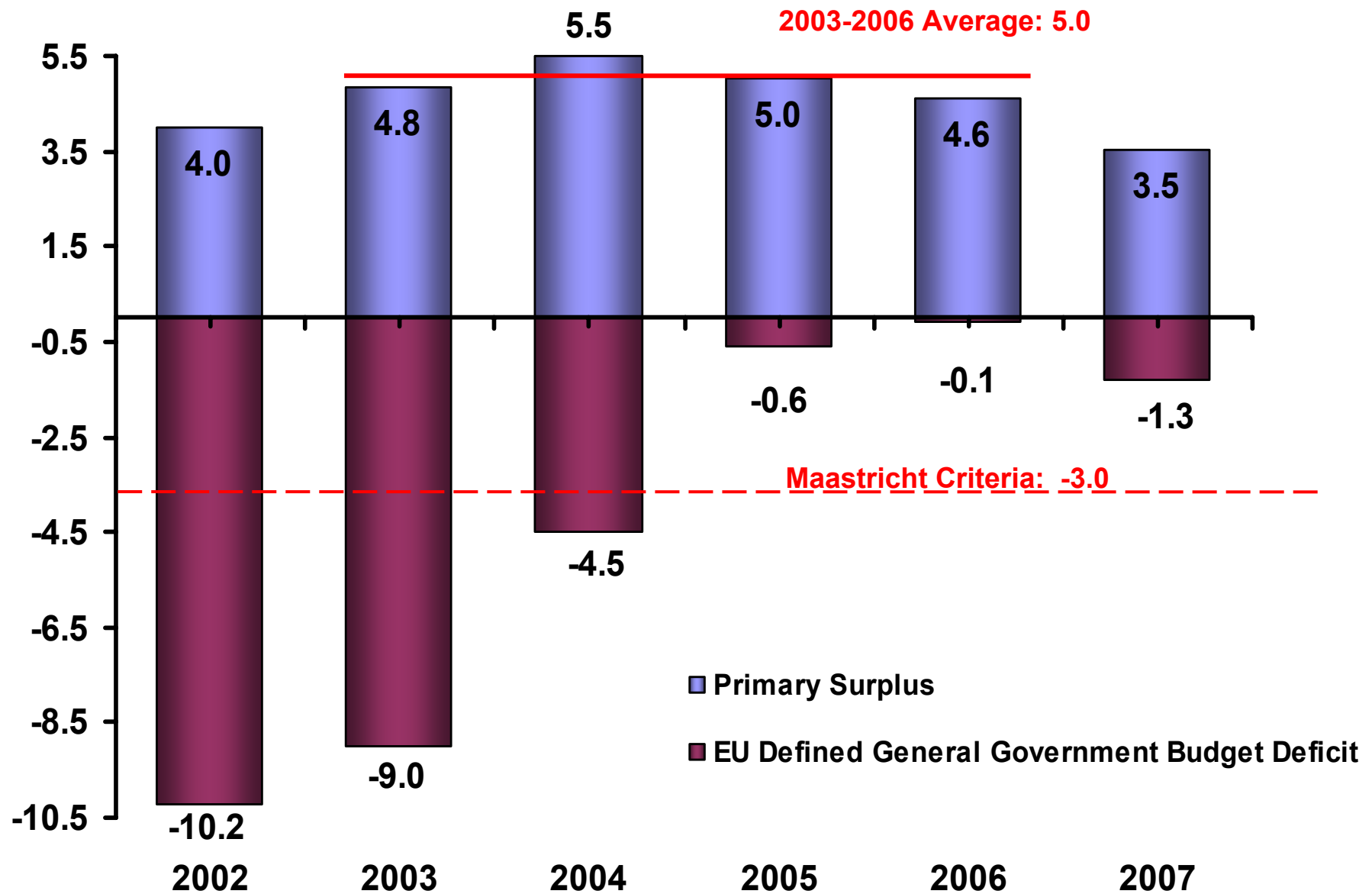
OUTLINE

- **Fiscal Policy**
- **Debt Management**
- **Current Account Deficit and External Financing**
- **Structural Reforms**
- **IMF and EU Relations**
- **Turkey's Key Strengths and Long Term Potential**



FISCAL POLICY

Fiscal Performance (% GDP)



Source: Treasury

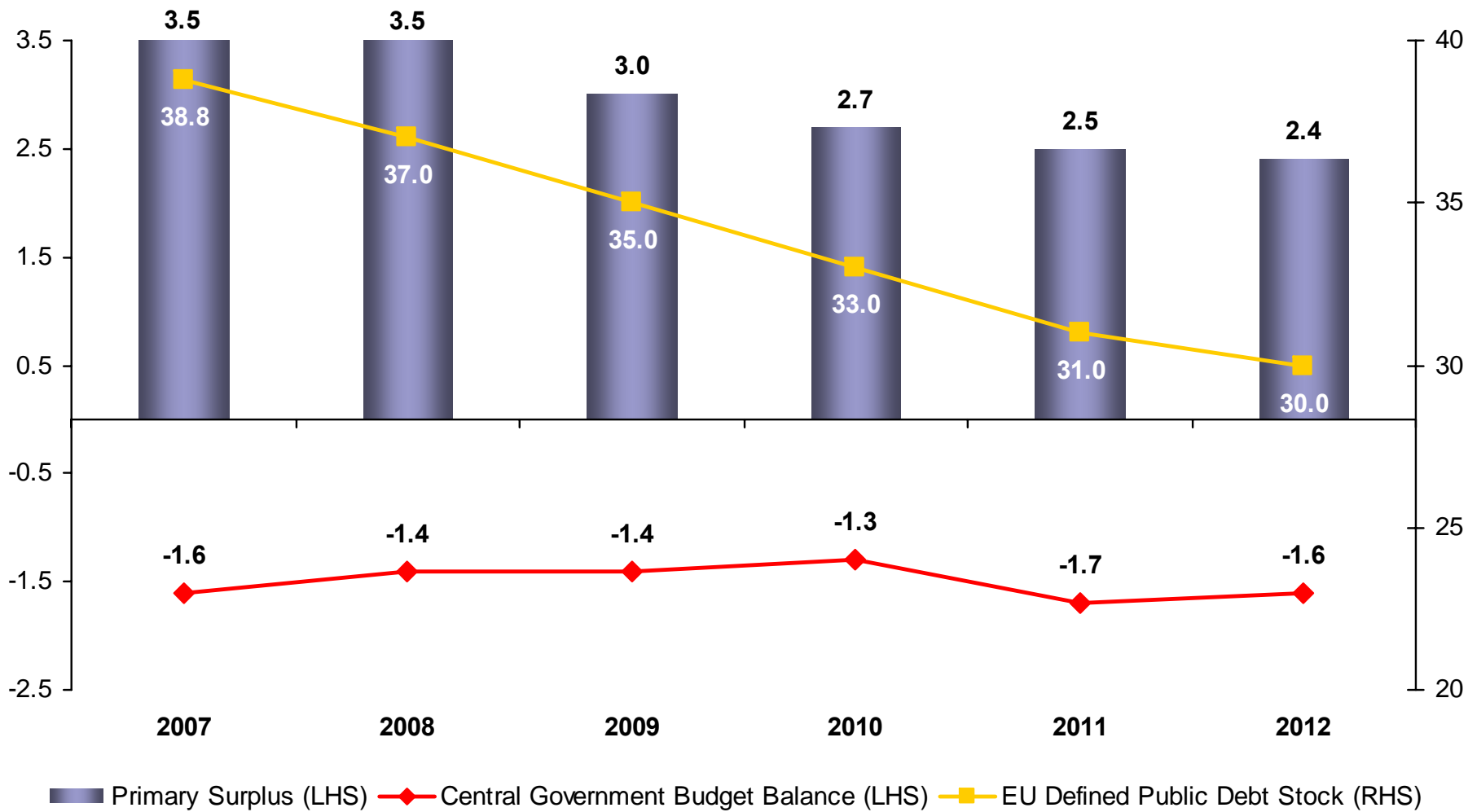
Central Government Budget Performance

	2007 Jan–May (Billion YTL)	2008 Jan-May (Billion YTL)	Nominal Change (%)	Real Change (%)
Primary Revenues*	69.9	80.9	15.7	5.8
Primary Expenditures*	59.8	66.4	11.1	1.6
Primary Surplus*	10.1	14.5	42.9	30.7
Budget Balance	-3.3	-2.0		

* Program Definition

Source: Treasury, Ministry of Finance

Medium-Term Fiscal Targets (% GDP)



Source: Treasury, SPO, Ministry of Finance



DEBT MANAGEMENT



Treasury Financing Program

(Billion TRY)

	2008 Prog. (*)	Jan.-June (Realization)	July-Aug. (Program)
Debt Service	149.7	56.1	44.3
Domestic	130.8	46.2	42.4
External	18.9	9.9	1.9
Total Financing	149.7	56.1	44.3
Primary Surplus and Others	44.7	20.3	11.6
Use of Cash Account	-1.9	-4.7	4.1
Borrowing	106.9	40.5	28.6
Domestic	91.6	32.6	28.1
External	15.3	8.0	0.5
Memorandum:			
Total domestic roll-over	70%	70%	66%
Total domestic market roll-over	69%	71%	63%
Total domestic FX roll-over	max. 60%	9%	0%

(*) Financing program announced on 18.12.2007.

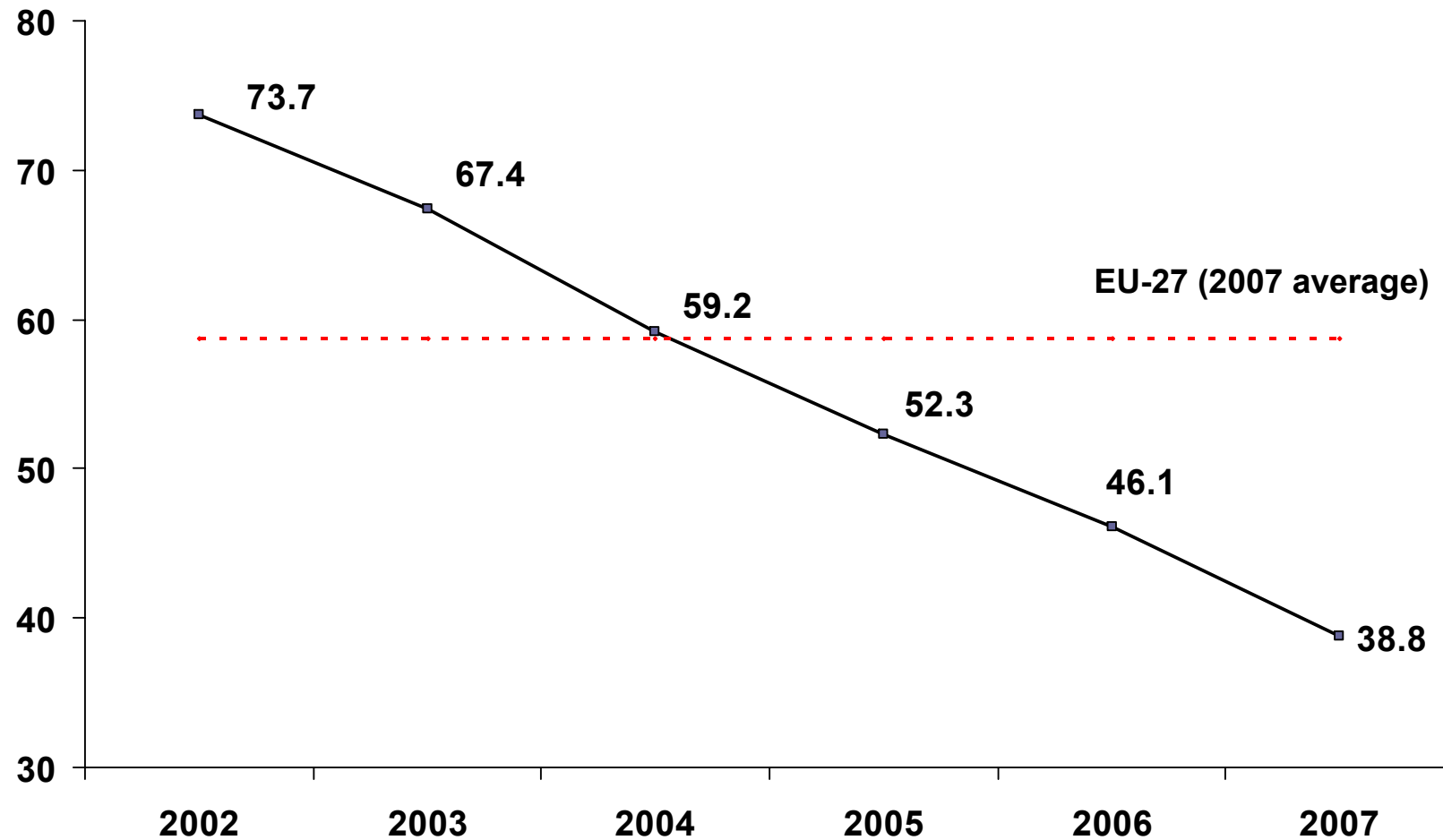


External Financing Program (Million \$)

	Jan-Jun Realization	Jul-Dec Program	Total
Eurobond	2,500	3,000	5,500
IMF	3,638	0	3,638
World Bank	400	800	1,200
Project Finance	1,308	1,286	2,594
TOTAL	7,846	5,086	12,932

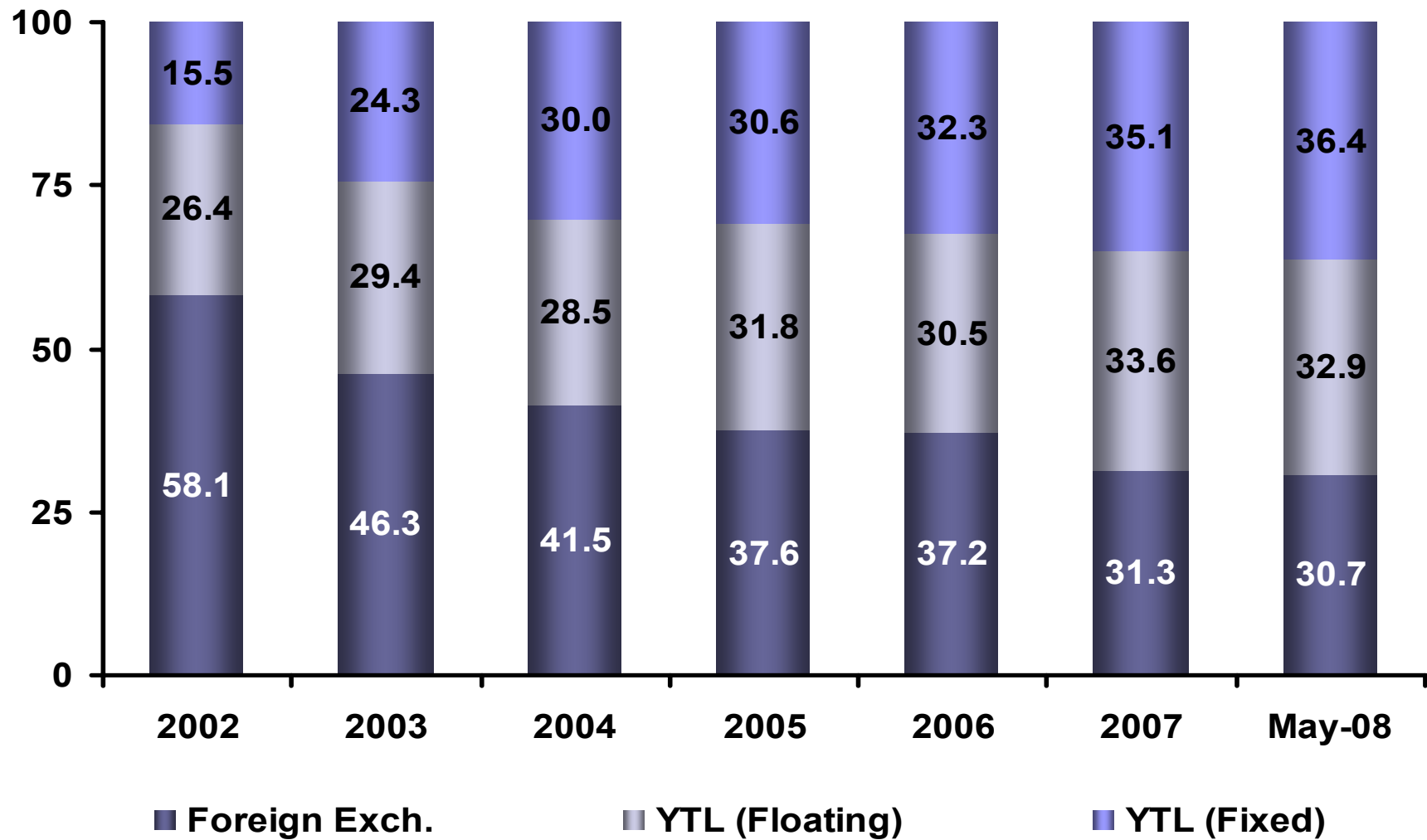
Source: Treasury

Public Sector Gross Debt Stock (EU Definition, % GDP)



Source: Treasury

Composition of Central Government Gross Debt (%)



Source: Treasury



Sensitivity of Gross Public Debt to Shocks

	2001	2007
5 percentage points change in real exchange rate	+ / - 2.2 Points	+ / - 0.6 Points
5 percentage points change in YTL Real Interest Rate	+ / - 1.6 Points	+ / - 1.3 Points
2 percentage points change in GDP Growth Rate	+ / - 1.5 Points	+ / - 0.8 Points

Source: Treasury



Turkish CPI Linkers

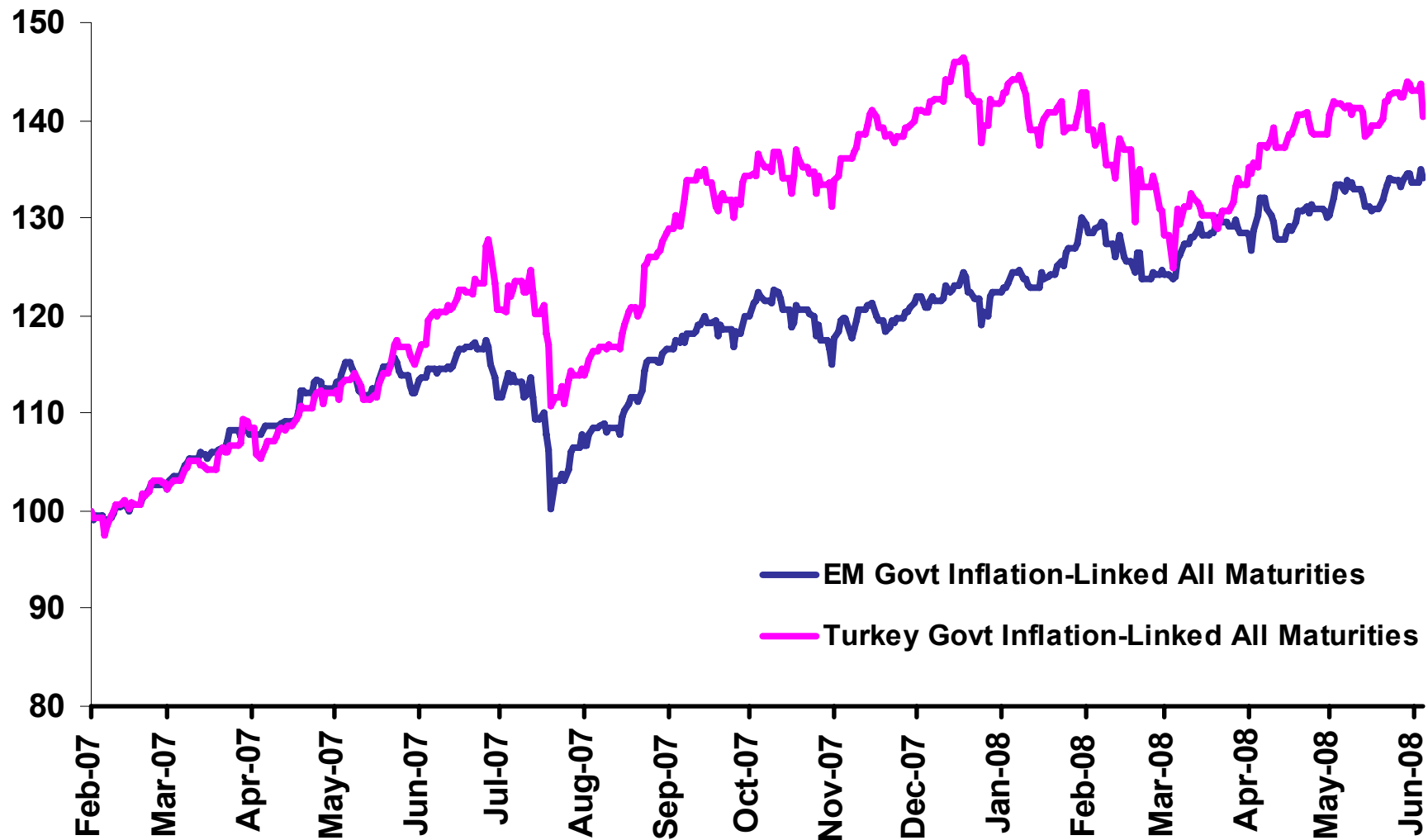
Why is it attractive for investors?

- Provides inflation hedge
- Provides FX hedge (due to FX-inflation pass through)
- Provides high real return

Terms of the Bond :

- 5 year maturity, semi-annual coupons
- Next auction will be on 19.08.2008
- Inflation valuation of principal paid at the maturity
- Coupons protected from inflation
- Principal is protected against deflation

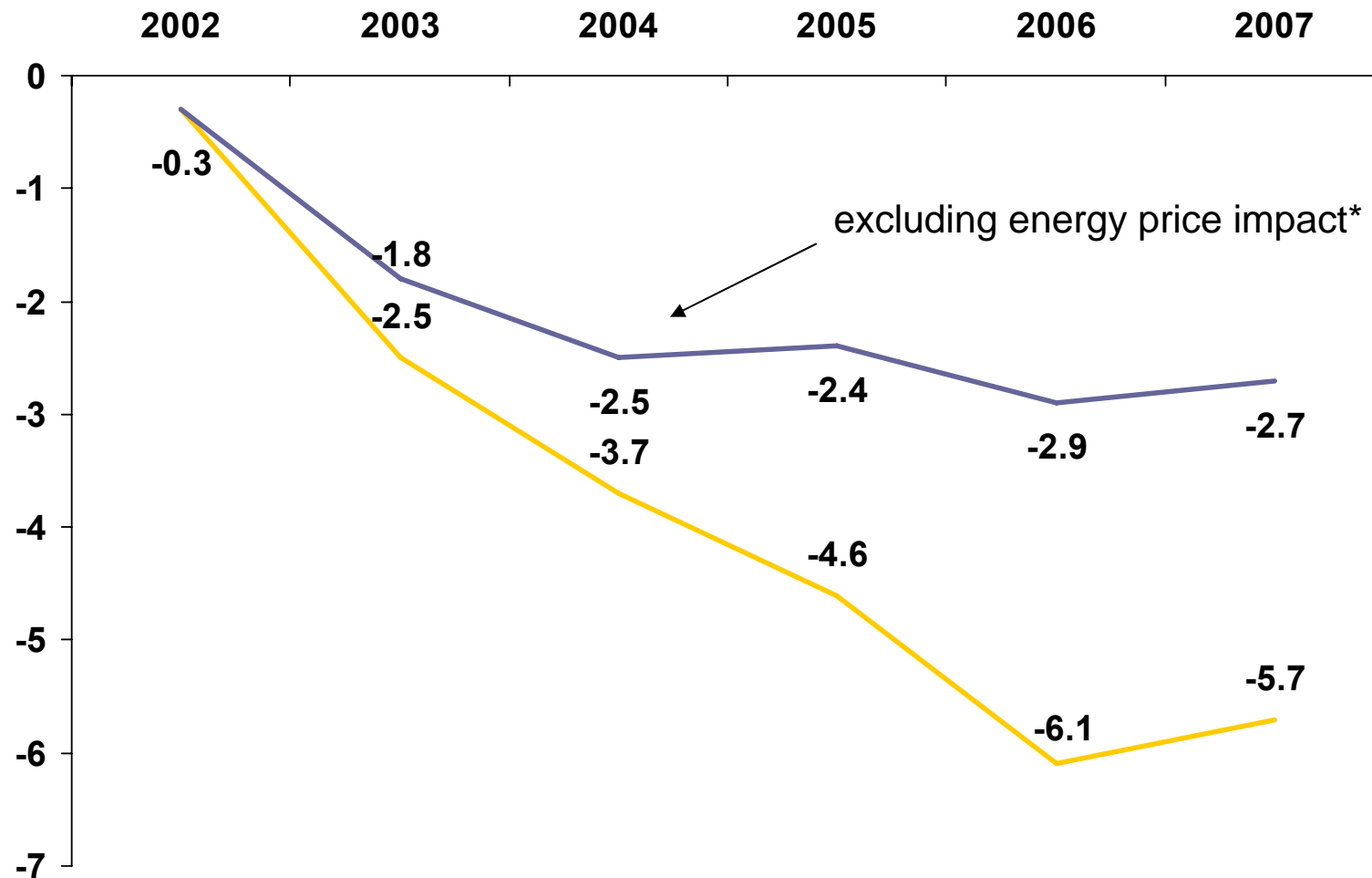
Barclays EMGILB Indices (USD Denominated Return)





CURRENT ACCOUNT DEFICIT & EXTERNAL FINANCING

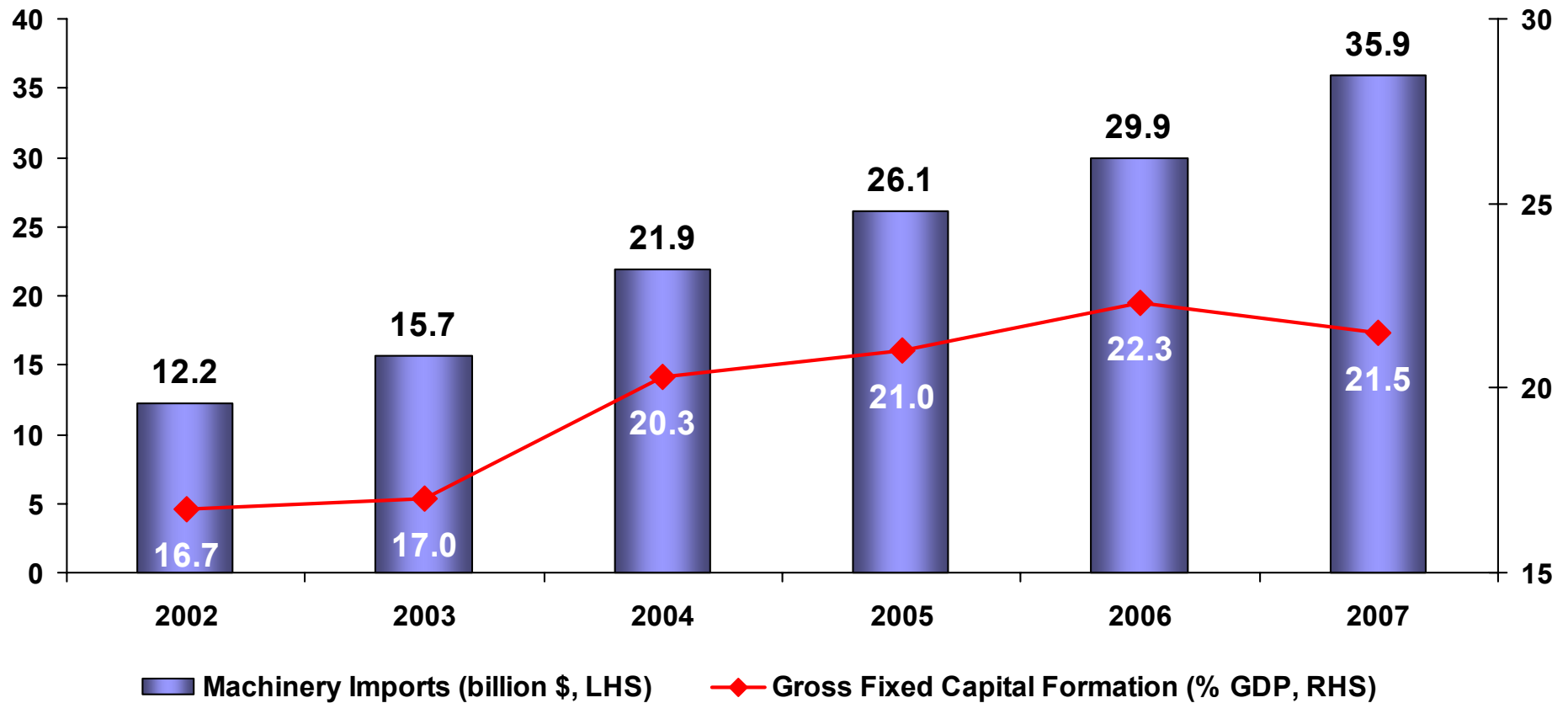
Current Account Balance (% of GDP)



(*) The effect of energy price increases on the current account in the 2003-2007 period was calculated by keeping the prices of 2002 intact.

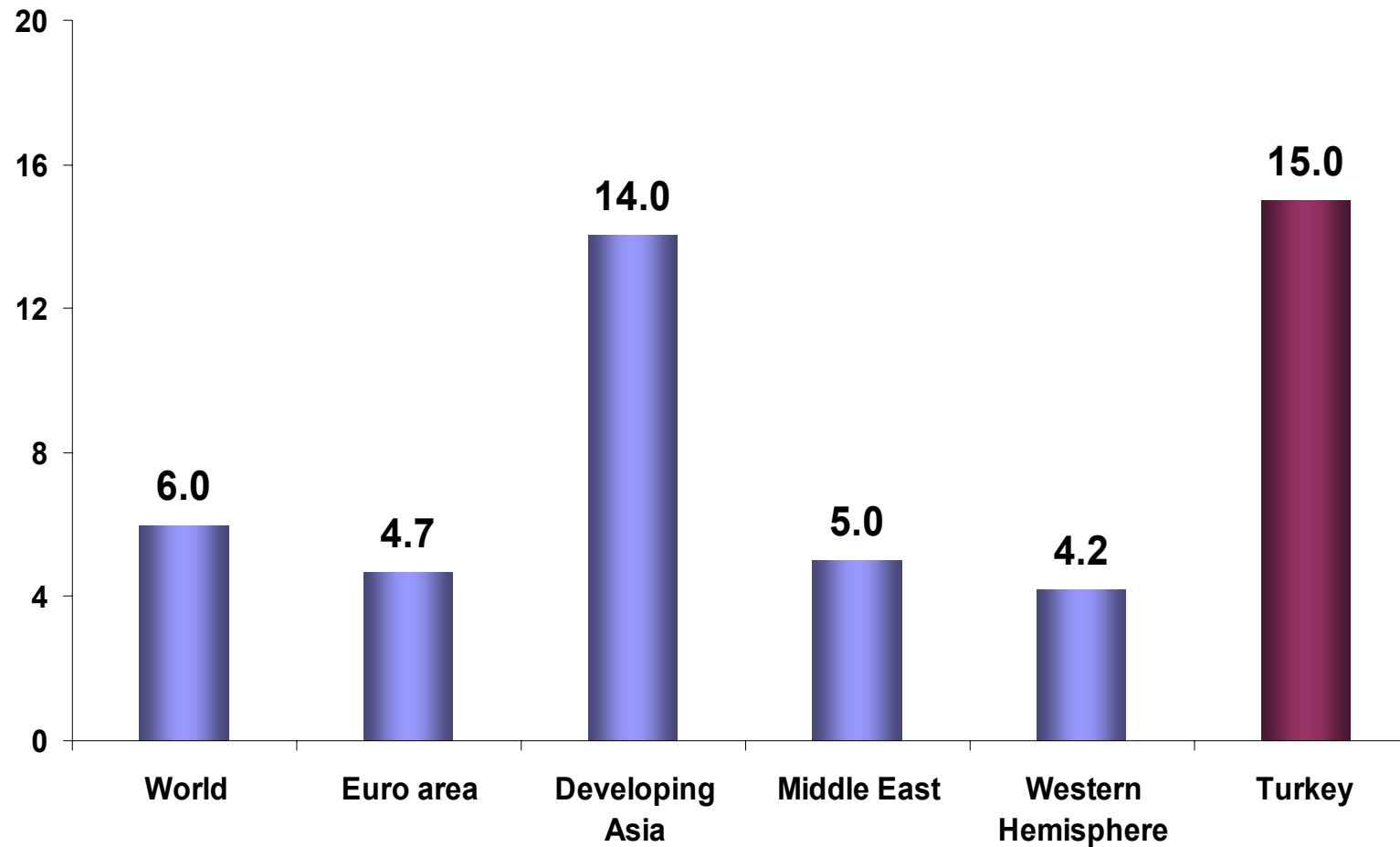
Source: CBRT

Gross Fixed Capital Formation & Machinery Imports



Source: TURKSTAT

Export Performance (Average Annual Growth Rate, 2001-2007)



Source: TURKSTAT, IMF World Economic Outlook April 2008

Financing of Current Account Deficit (Billion USD)

	2003	2004	2005	2006	2007	2008 Jan-Apr
Current Account	-7.5	-14.4	-22.1	-31.9	-37.5	-16.9
Capital Account (excl. Reserves)	7.1	14.2	38.1	38.2	44.5	16.0
FDI Inflows (Net)	1.3	2.0	9.0	19.1	19.9	4.7
Non-Bank Private Sector	1.6	7.2	13.8	17.3	28.7	10.5
Banking Sector	2.1	0.6	8.7	-3.1	-1.4	5.3
Portfolio Inv. (excl. Eurobonds)	2.5	7.5	11.6	8.1	1.9	-2.0
Public Sector	-0.3	-3.0	-4.9	-3.2	-4.5	-2.5
Net Errors & Omissions	4.4	1.0	1.8	-0.2	1.1	0.1
Change in FX Reserves*	-4.0	-0.8	-17.8	-6.1	-8.0	0.8

(*) (-) sign refers to an increase

Source: CBRT

Financing of Current Account Deficit (% of CAD)

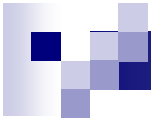
	2003	2004	2005	2006	2007	2008 Jan-Apr
Current Account	100	100	100	100	100	100
FDI Inflows (Net)	17.3	13.9	40.7	59.9	53.1	27.8
Non-Bank Private Sector	21.3	50.0	62.4	54.2	76.5	62.1
Banking Sector	28.0	4.2	39.4	-9.7	-3.7	31.4
Portfolio Inv. (excl. Eurobonds)	33.3	52.1	52.5	25.4	5.1	-11.8
Public Sector	-4.0	-20.8	-22.2	-10.0	-12.0	-14.8

Source: CBT



Addressing the Current Account Deficit

1. **Maintaining Fiscal Discipline**
2. **Energy Sector Reform**
 - Cost Based Pricing Mechanism for Energy Enterprises**
 - Privatization of Electricity Distribution and Generation Companies**
 - Diversification of Energy Resources**
(nuclear power, hydro energy, lignite power and wind energy)
 - Energy Efficiency**
3. **New Investment Incentive Scheme to Promote Investment in Tradable Sectors**
4. **Enhancing Competitiveness Through Structural Reforms**
5. **Increasing Domestic Savings**



STRUCTURAL REFORMS



Structural Reforms

- Social Security Reform (April 2008)**
- Labor Market Reform (May 2008)**
- R&D Law (March 2008)**
- Energy Sector Reform**
- A New Commercial Code**
- Strengthening the Revenue Administration**
- Privatization**

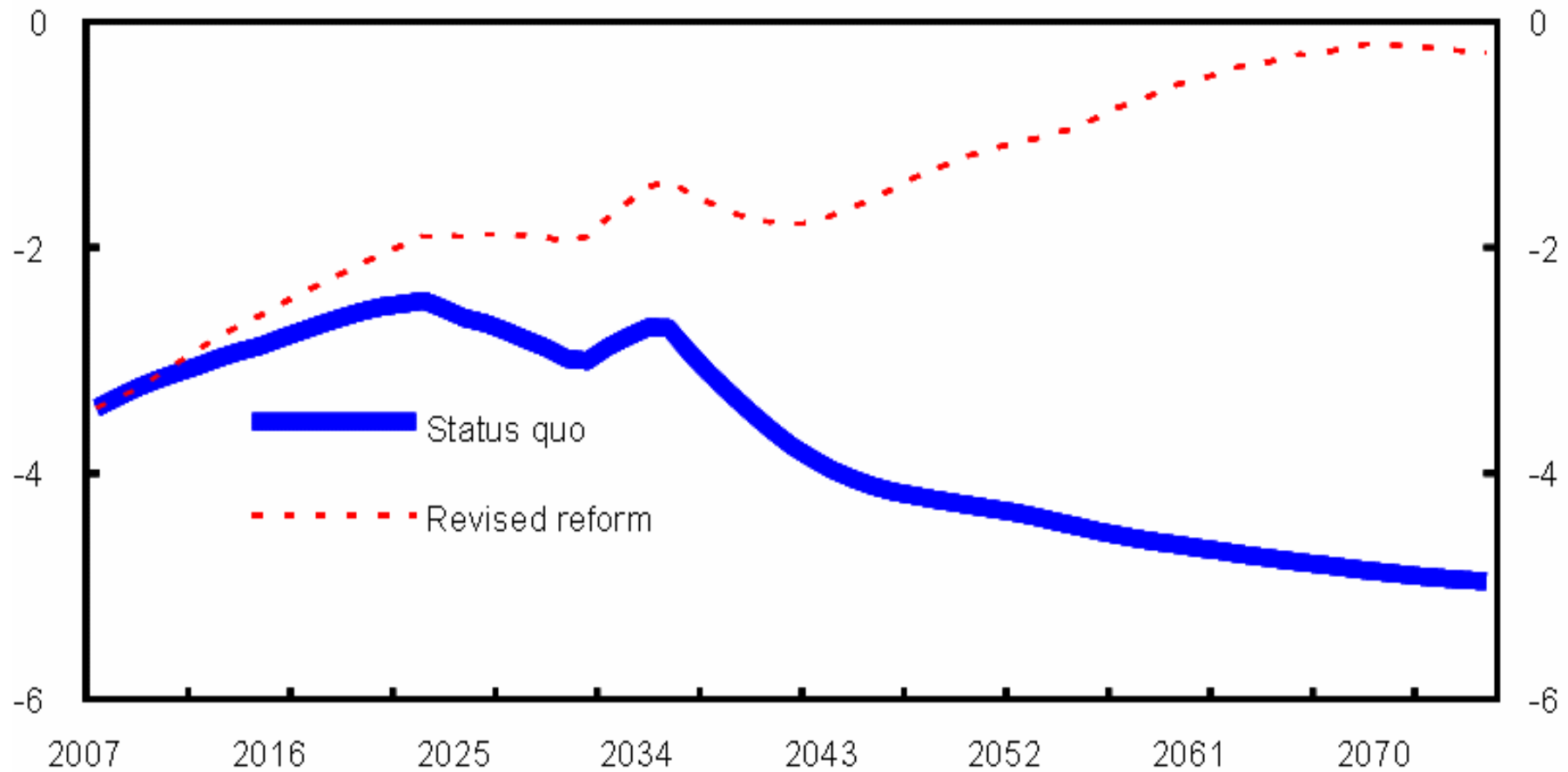


Social Security Reform (April 2008)

Main Features

- Uniform norm and standards for workers, civil servants and the self employed
- A 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

Decrease in Pension System Deficits (% of GDP)



Source: World Bank staff estimates.



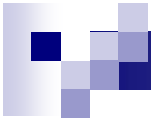
Labor Market Reform (May 2008)

- 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 US\$200 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
 - Salaries to be paid through bank accounts



IMF & EU RELATIONS



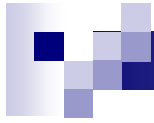
Relations with the IMF

- 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.**
- A possible Precautionary Stand-By Arrangement is being examined.**



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**



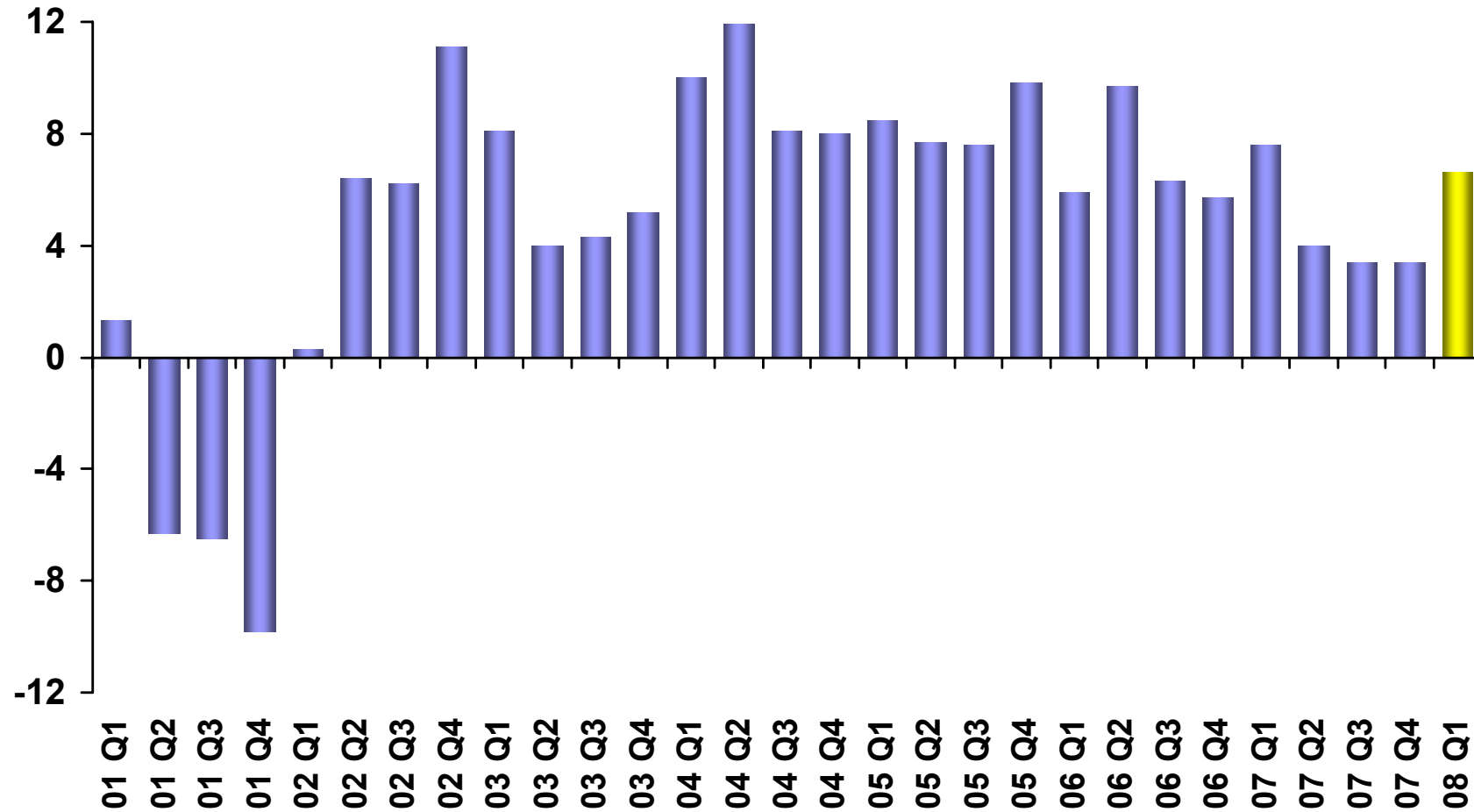
TURKEY'S KEY STRENGTHS & LONG TERM POTENTIAL



Turkey's Key Strengths and Long Term Potential

- **Strong Public Sector Finance**
- **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**

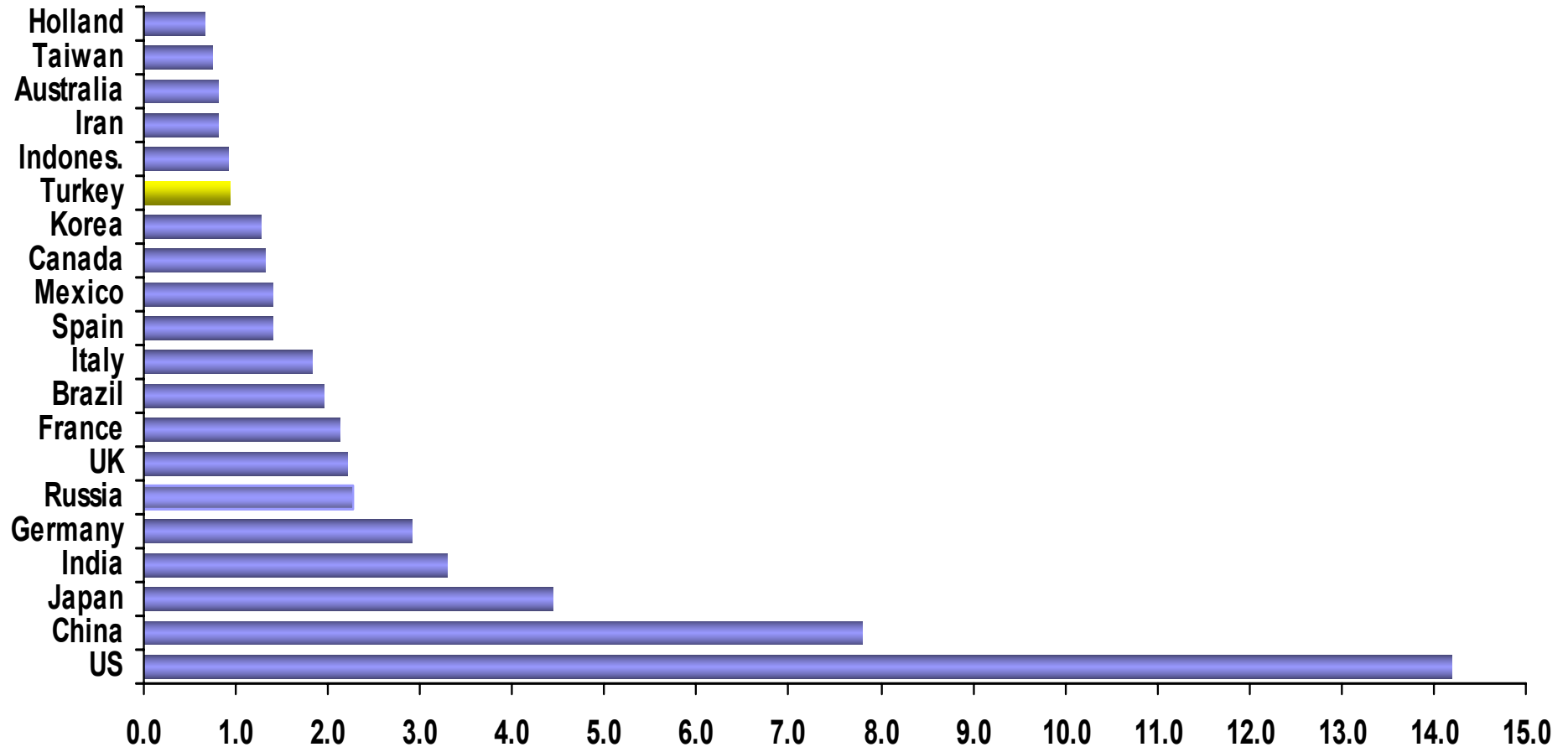
GDP Growth Rates (% YoY)



Source: TURKSTAT

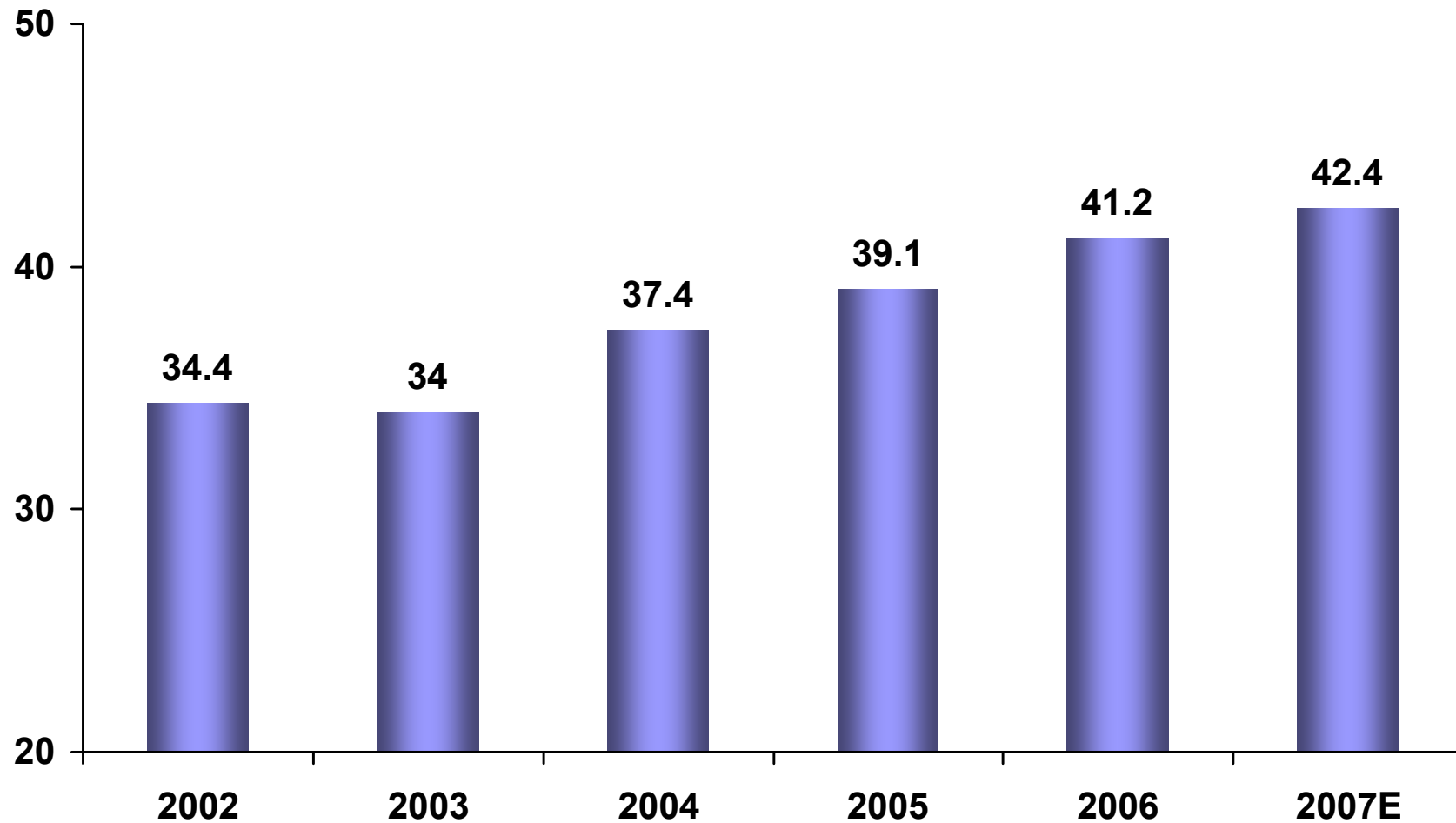


World's Biggest Economies (PPP GDP, Trillion USD, 2008E)



Source: IMF

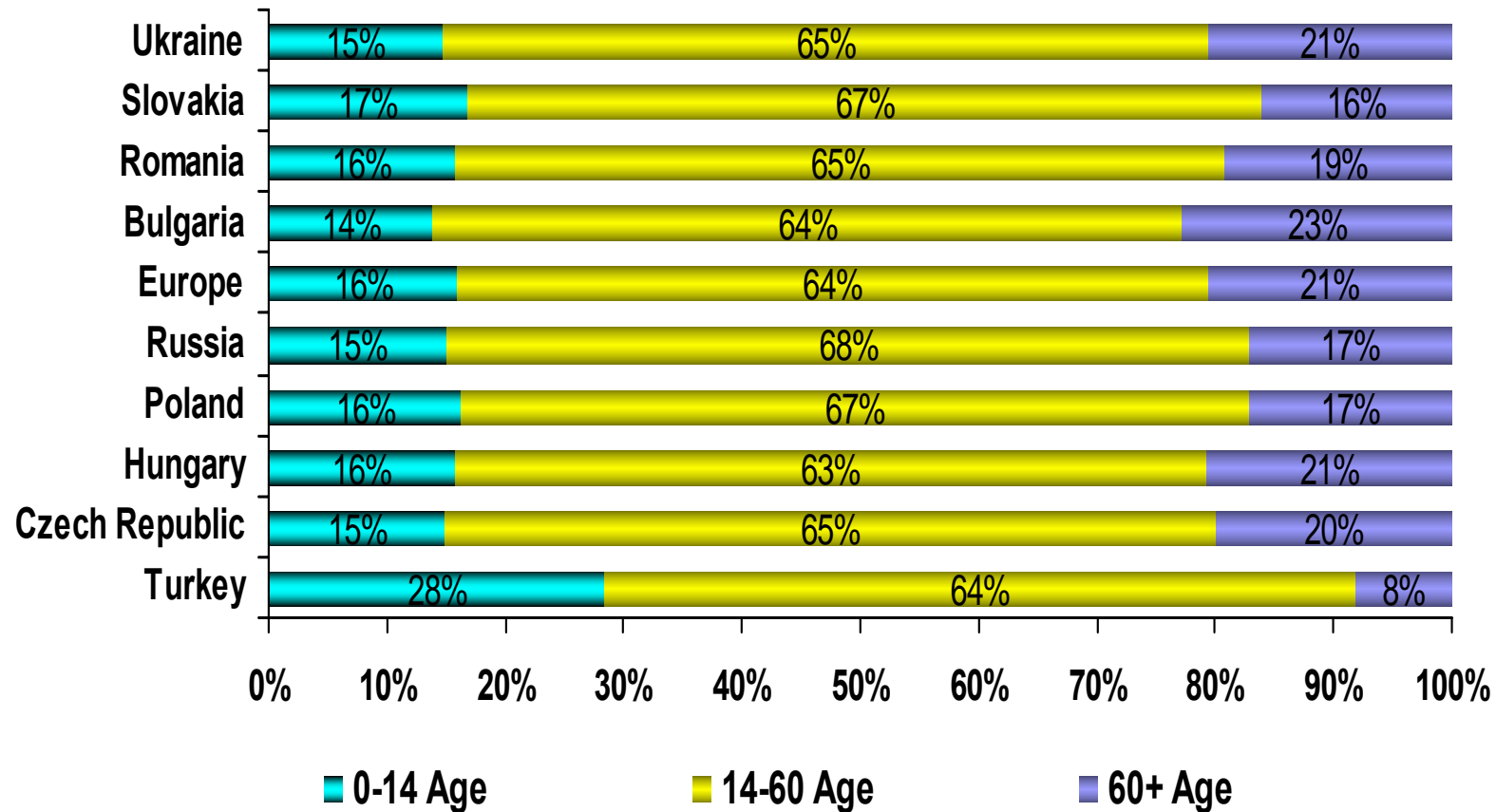
Per Capita Income Compared with the EU (PPP, EU-27 = 100)



Source: EUROSTAT

Favourable Demographics

Demographic Profile



Source: UN

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