



**TURKISH ECONOMY:  
RECENT DEVELOPMENTS  
AND  
PROSPECTS**

**MAY 2006**

# Content

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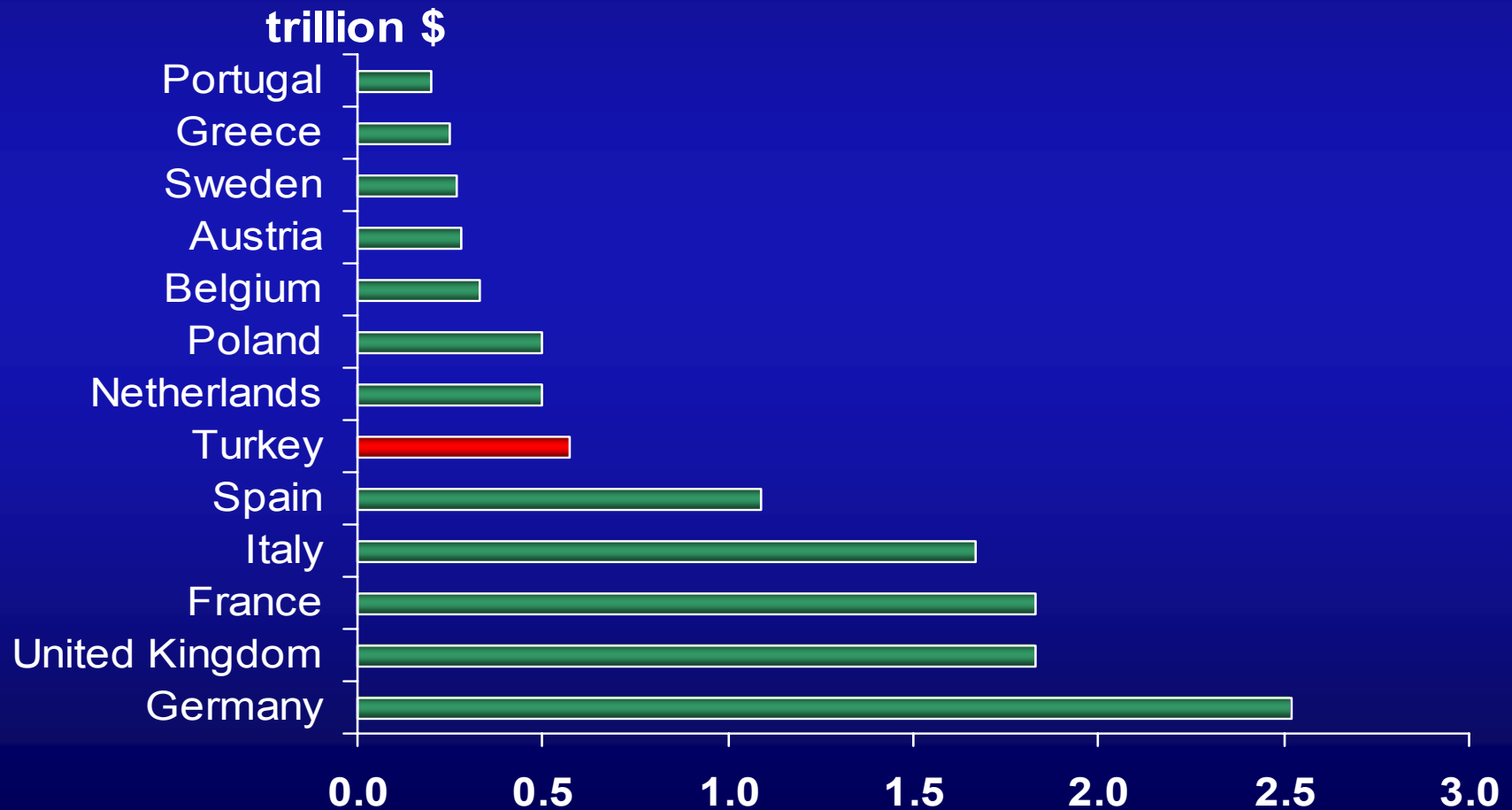
- I. Turkish Economy: Unlocking the Potential**
- II. Foreign Direct Investment Performance and Prospects**

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# **I. Turkish Economy : Unlocking the Potential**

# Potentials of the Turkish Economy

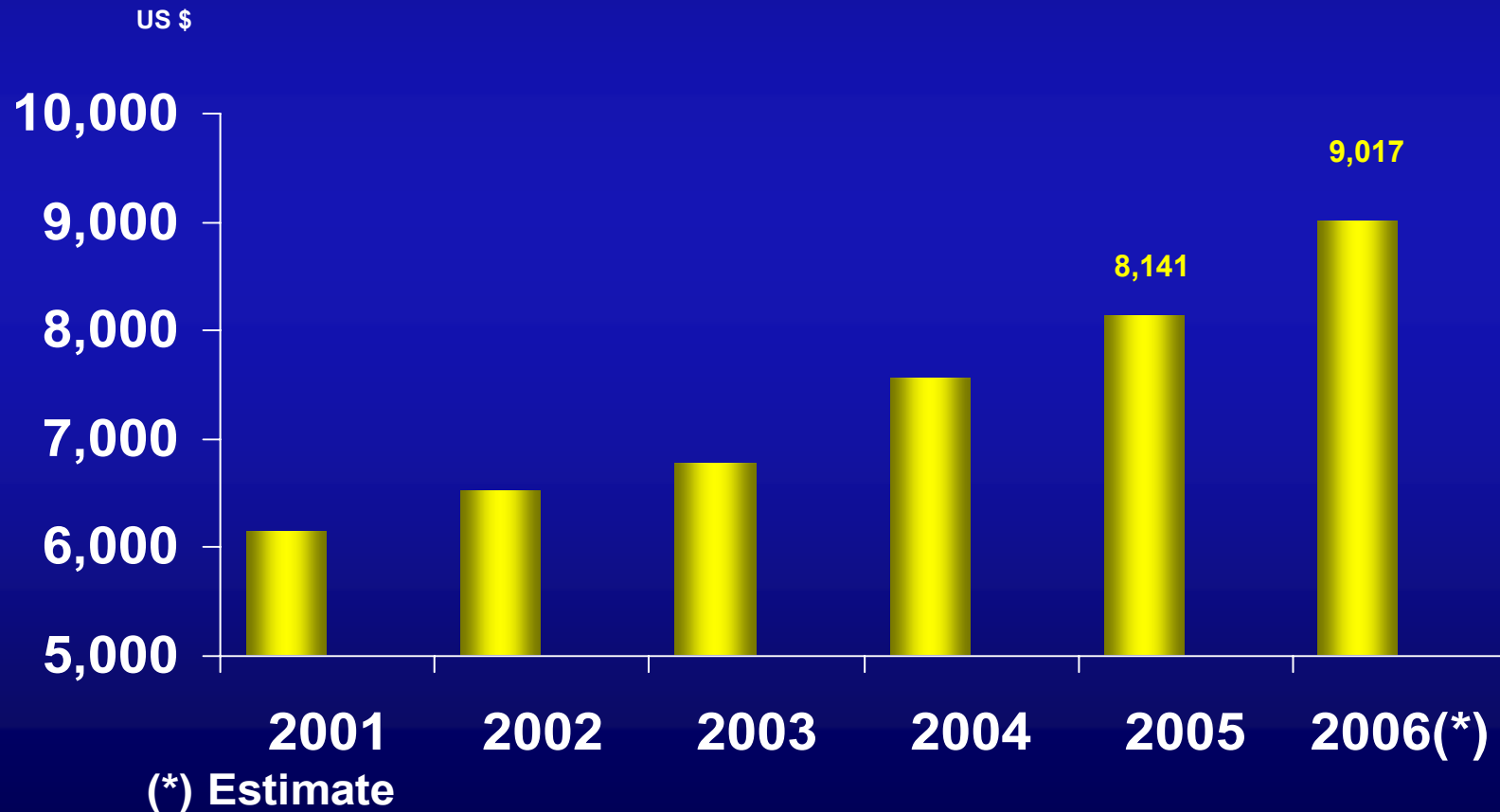
## Europe's Biggest Economies (PPP GDP, 2005)



# Potentials of the Turkish Economy

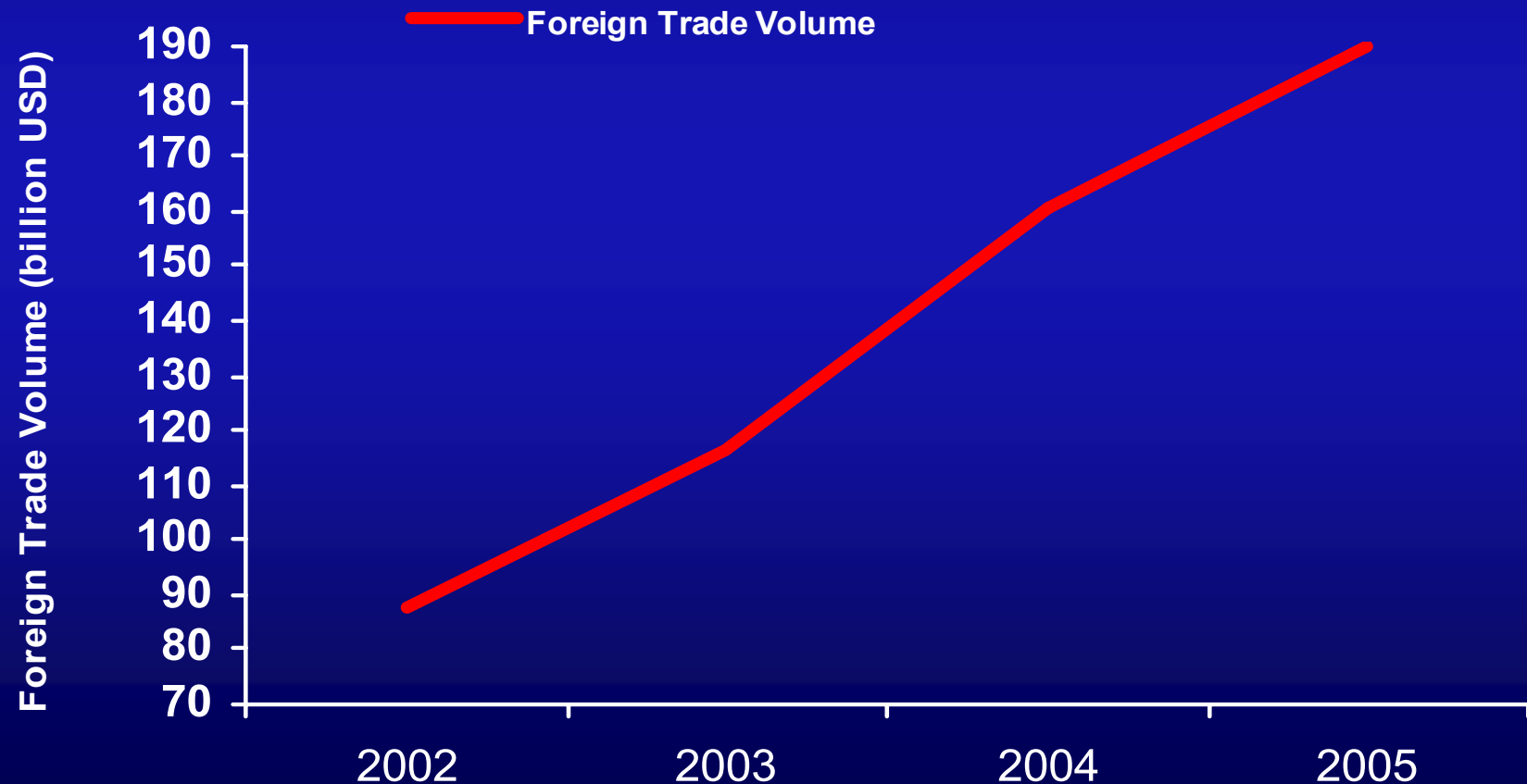
## Economic Profile

Turkey: GDP Per Capita (PPP)



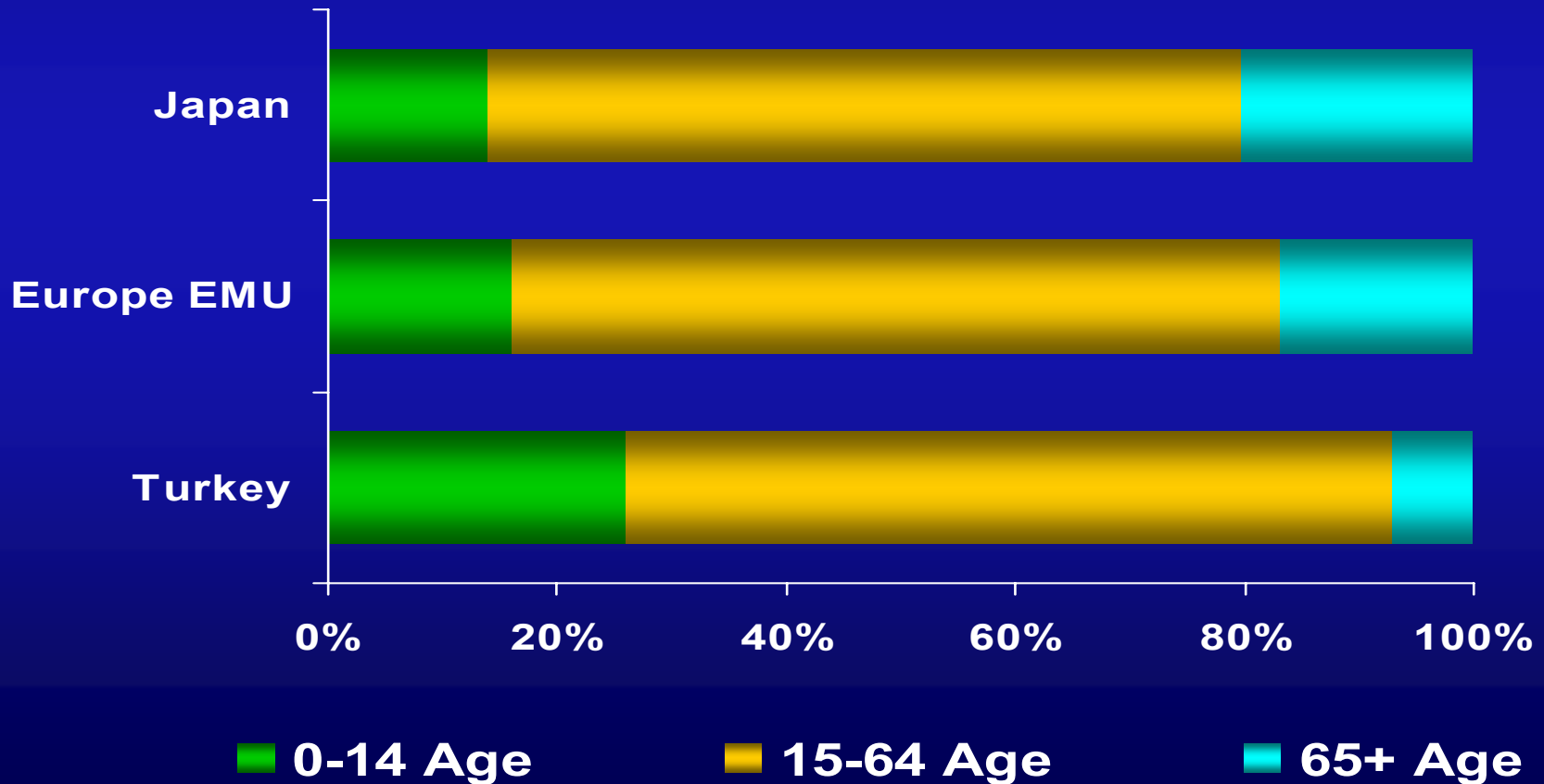
# Potentials of the Turkish Economy

## Turkey: Increasingly Open Economy



# Potentials of the Turkish Economy

## Demographic Profile



# Access to diversified markets





## **This huge potential has been recently unlocked as evidenced by...**

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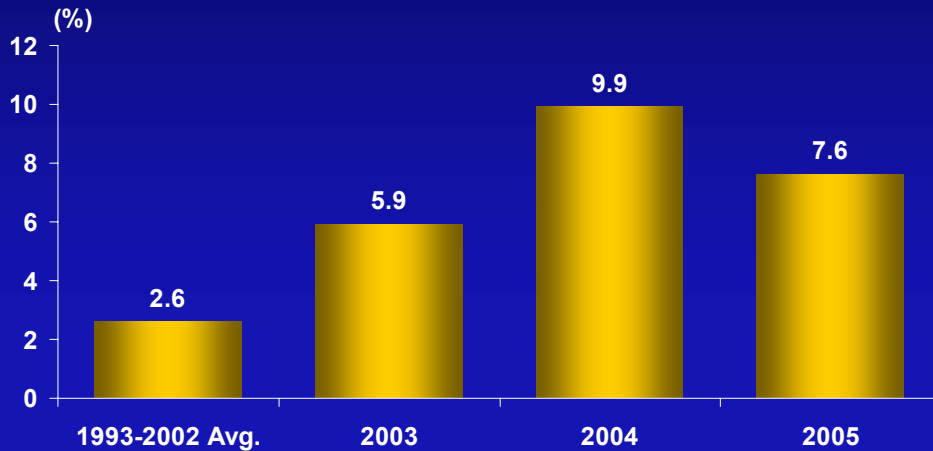
- ✓ **Robust growth performance**
- ✓ **Increasing productivity**
- ✓ **Strong exports and tourism revenues**
- ✓ **Declining inflation**

## **All of these achievements have been obtained through...**

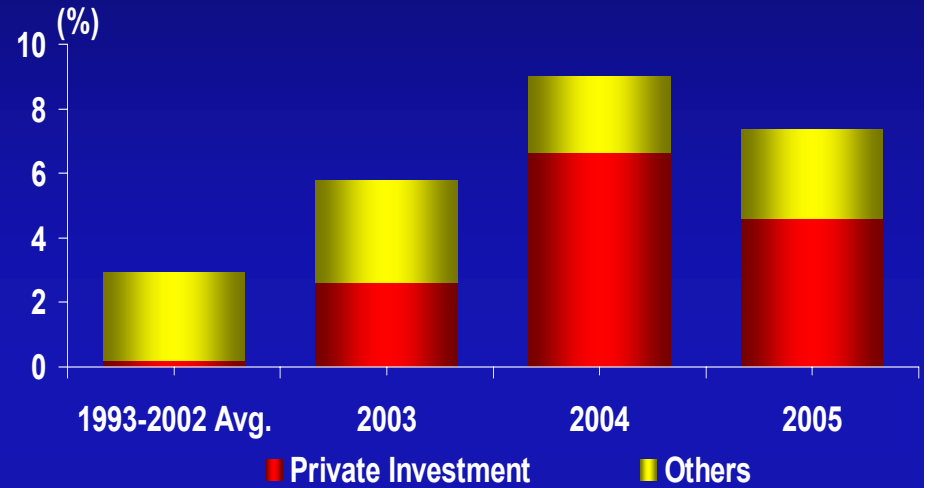
- ✓ **Committed and continued implementation of prudent fiscal and monetary policies**
- ✓ **Comprehensive structural reforms in a wide range of areas**
- ✓ **Prospects for full membership to EU**

# Growth

**Robust Growth (GNP)**



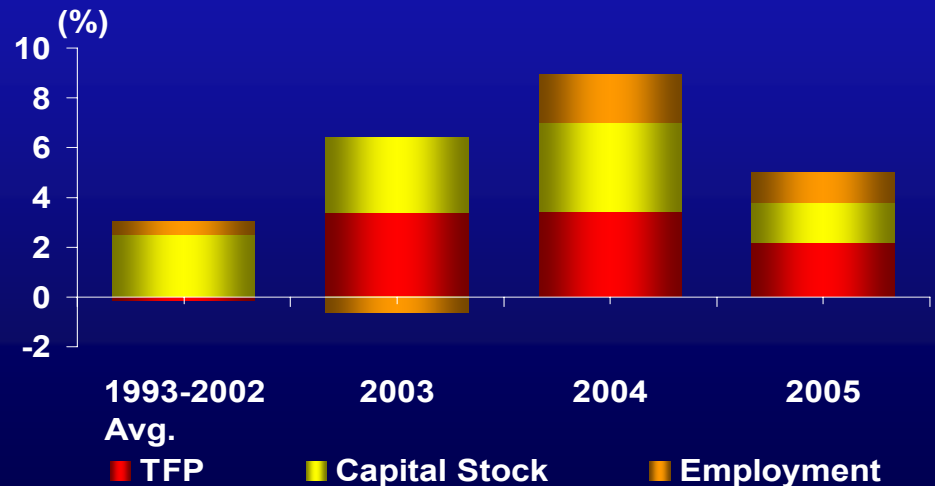
**Contribution of Private Investment to Growth**



**Increase in Productivity**

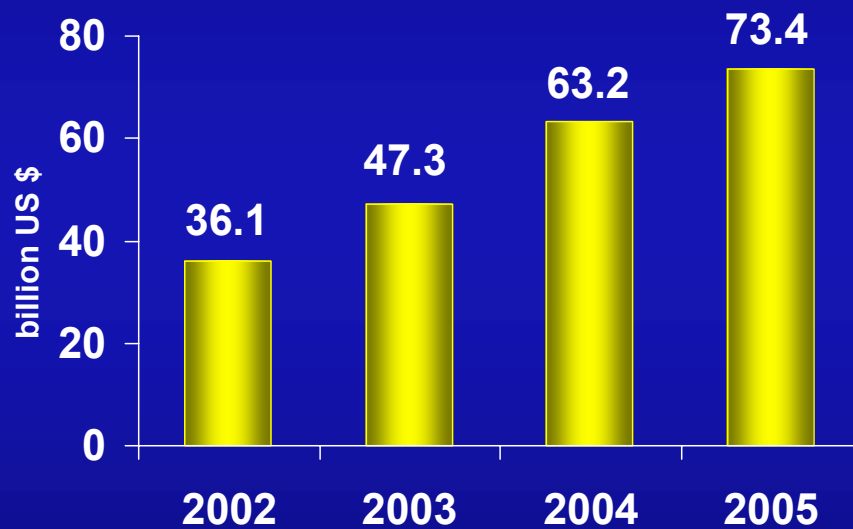


**Total Factor Productivity (Contribution to Growth)**

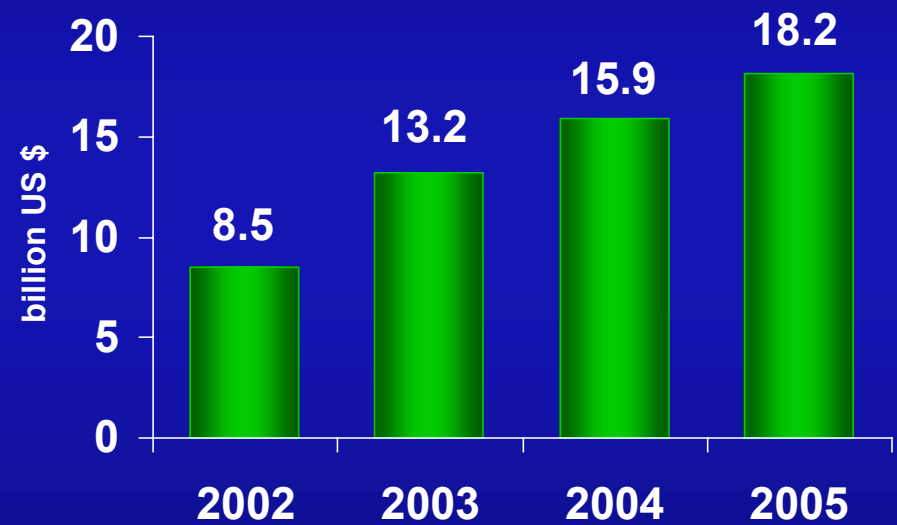


# Strong Exports and Tourism Performance

## Exports

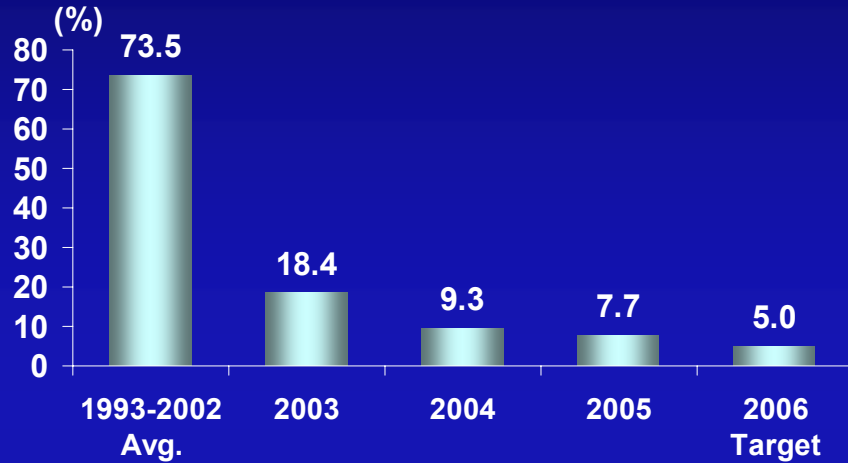


## Tourism Revenues



# Inflation

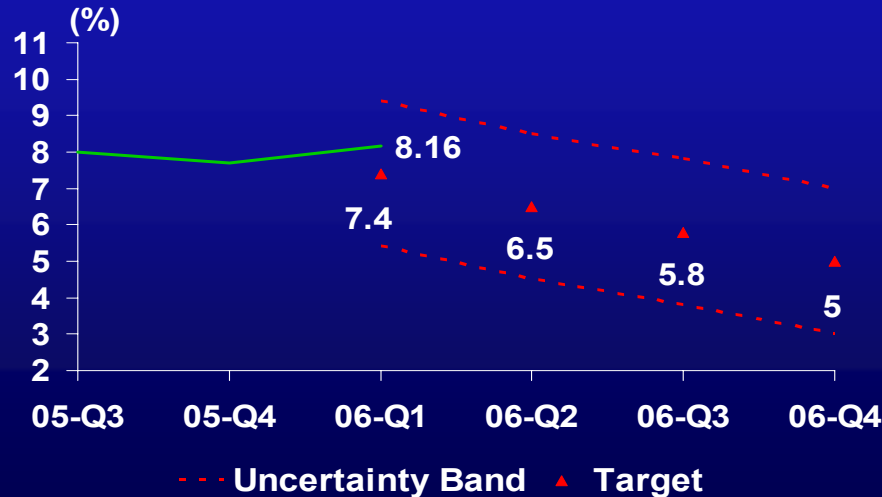
## CPI



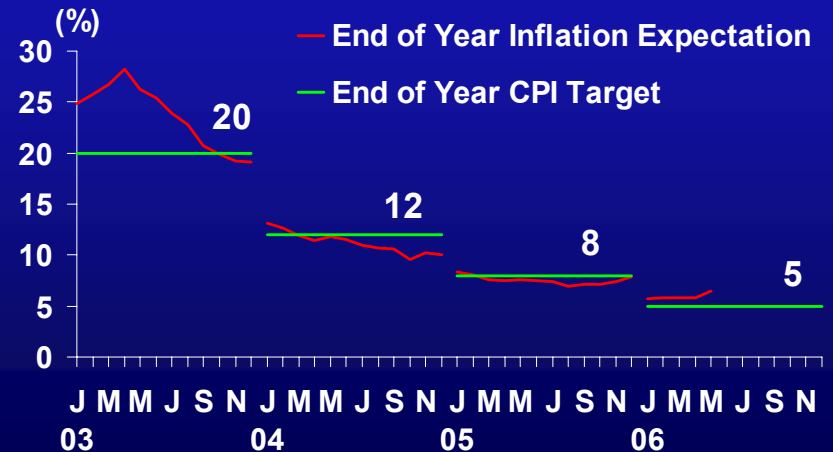
## CPI Targets and Realizations



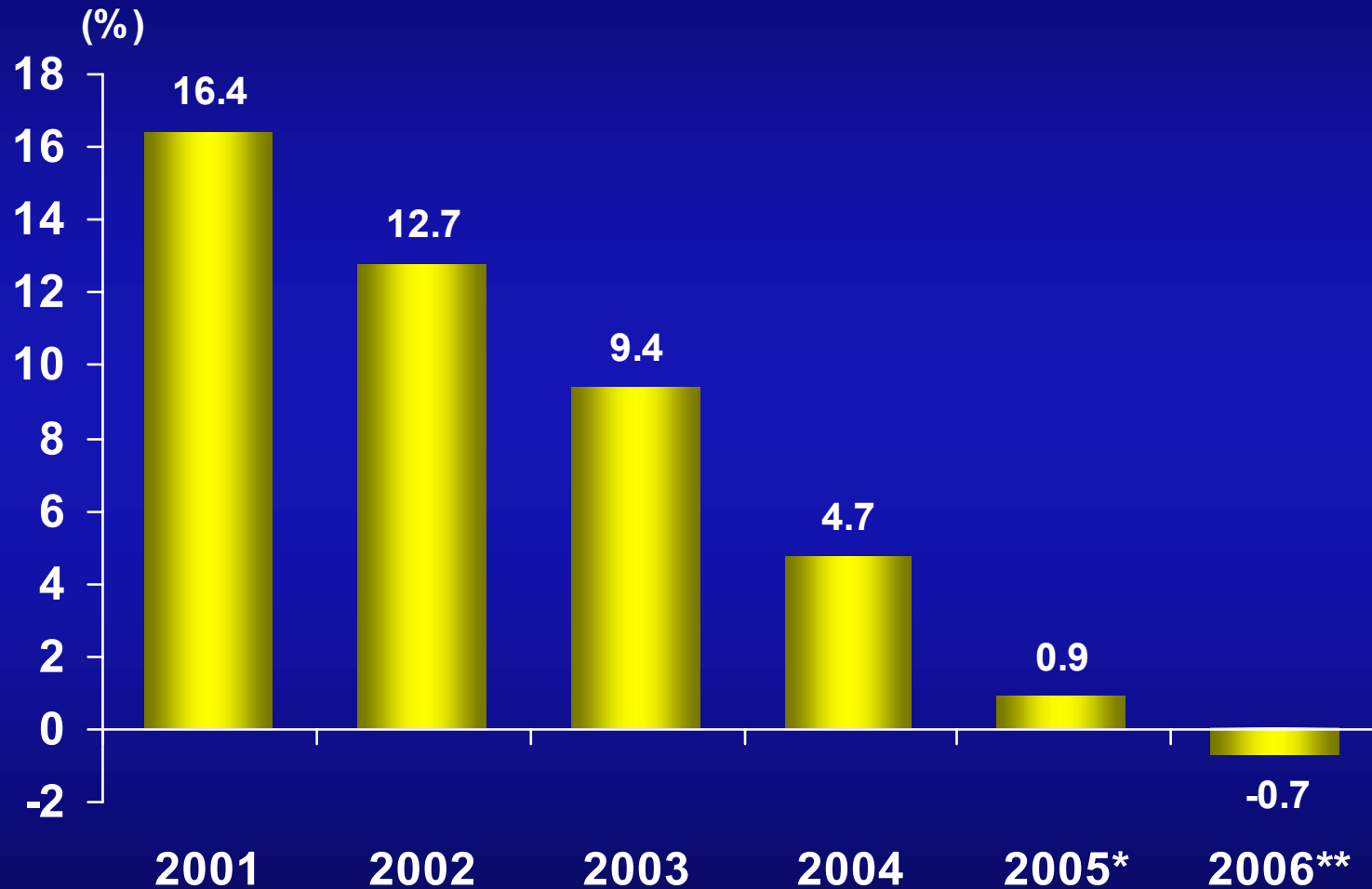
## Annual Inflation



## Improvement in Inflation Expectations



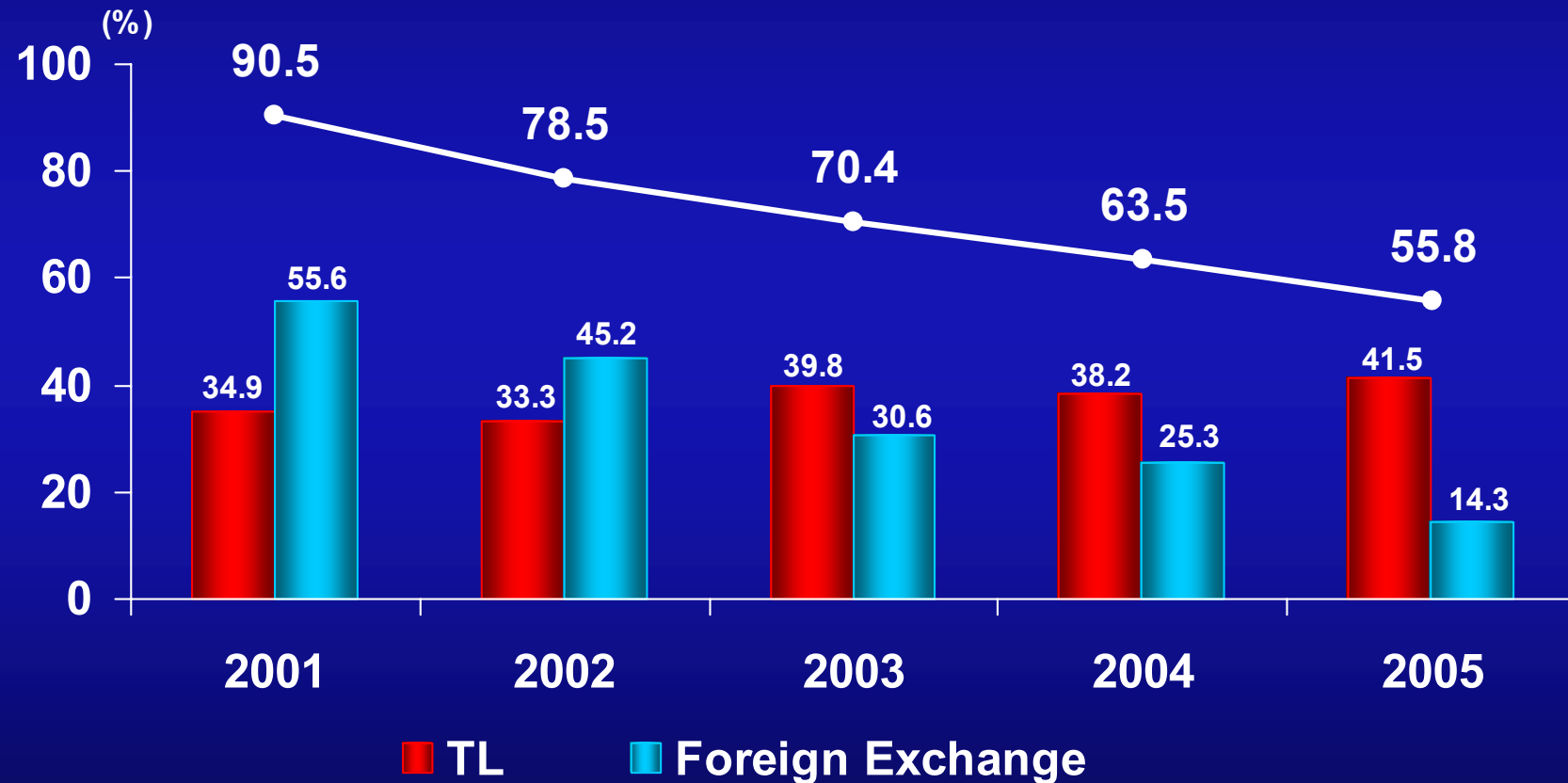
# Public Sector Borrowing Requirement (percent of GNP)



(\*) Estimation of realization by end of year

(\*\*) Program

## Public Net Debt Stock (percent of GNP)



# Structural Reforms

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## 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

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## 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

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## Financial Sector Reform:

### ✓ Regulation and Supervision in line with EU Standards

- New Banking Law in line with EU Standards
- Progress on Implementing Regulations
- Initiation of Financial Sector Assessment Program (FSAP)

### ✓ Strengthening the Private Banks

- CAR-Capital Adequacy Ratio- Improvement
- Consolidation Encouraged
- Increased Foreign Participation

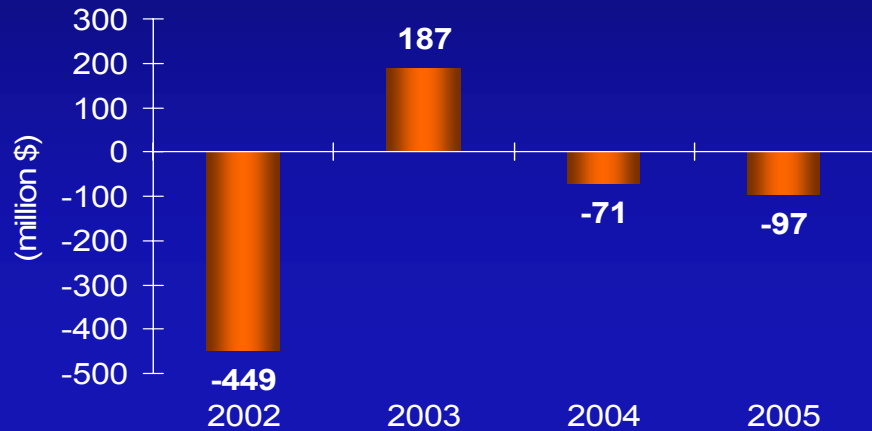
### ✓ State Bank Reform

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

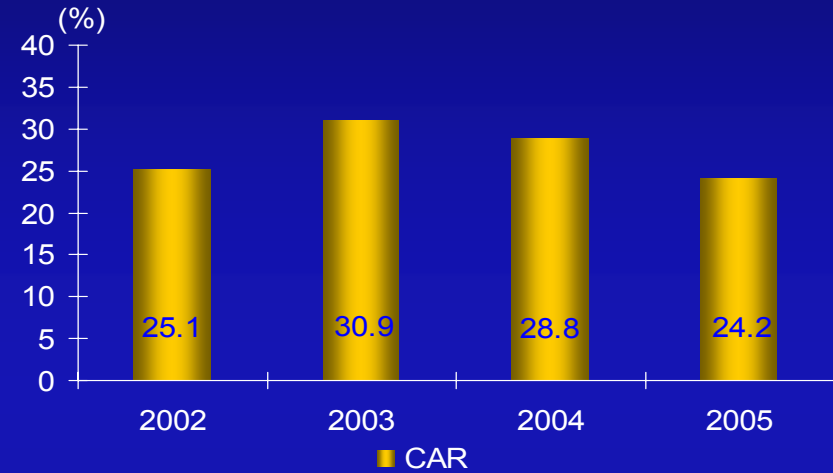
### ✓ Redefining and Strengthening the Institutional Framework for Deposit Insurance and Asset Management

# Key Indicators of Banking Sector's Strength

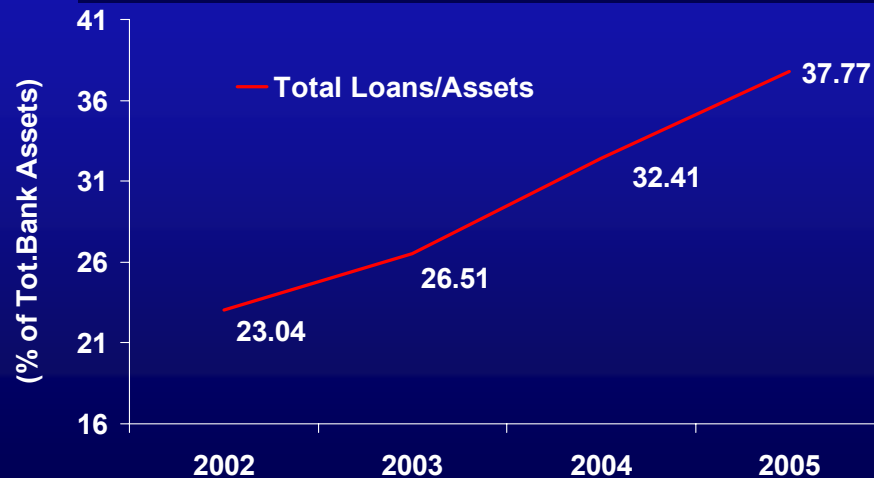
## Prudent FX Open Positions



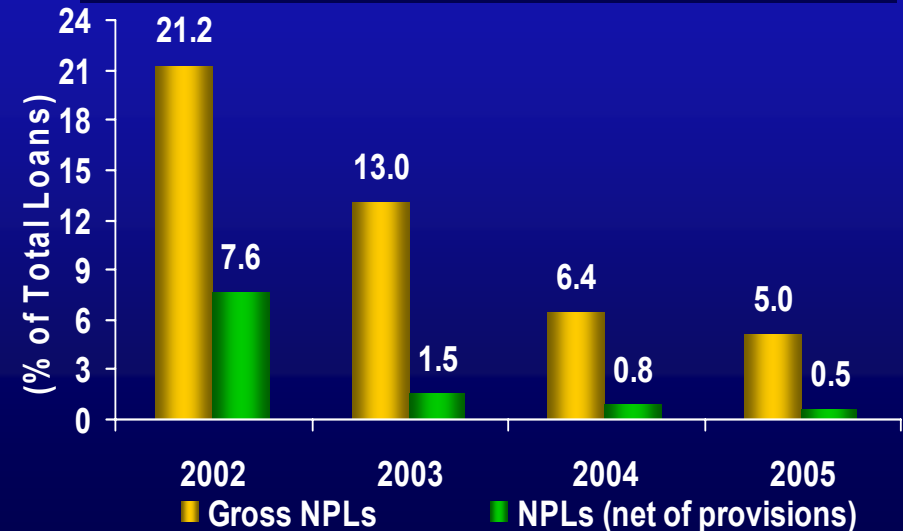
## High Capital Adequacy



## Rising Financial Intermediation



## Declining Credit Risk



# Structural Reforms

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## Social Security Reform:

- ✓ Social Security Administrative Reform Law (passed in April 2006)
- ✓ Pension and Universal Health Insurance Reform Law (passed in April 2006)

## Tax Reform:

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

# Structural Reforms

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## 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

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## 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

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## 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

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## Enhancing Private Sector's Role: Improving The Investment Environment

### Redefining Rules for Land Acquisition by Foreigners

- Companies incorporated in Turkey by foreigners have same rights with local companies in terms of land acquisition.
- In January 2006, the legislation regulating the real estate acquisition by foreign legal and real persons was changed and remaining restrictions were eased.

# Structural Reforms

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## Enhancing Private Sector's Role: Improving The Investment Environment

### An Active Investment Promotion

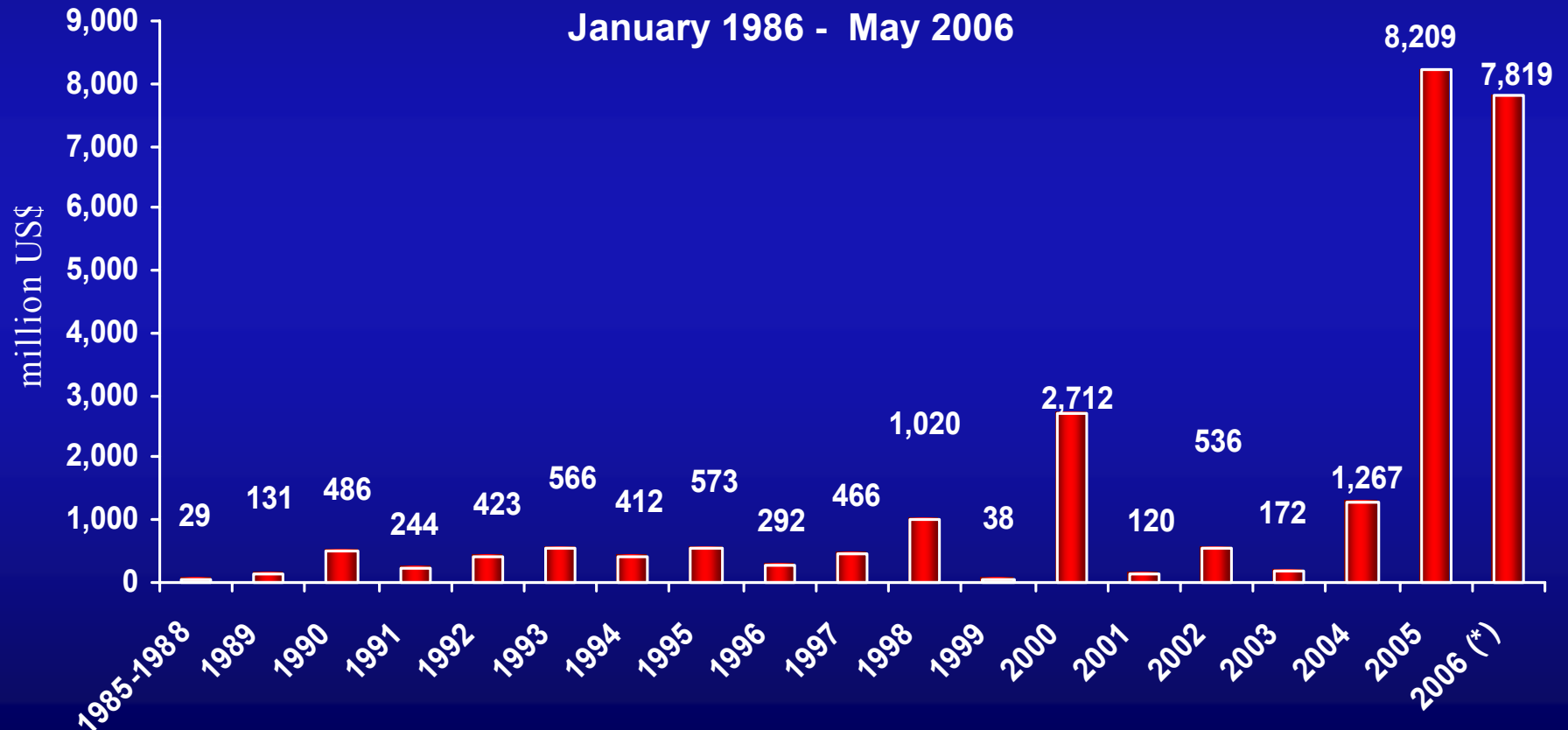
- A New Investment Promotion Agency (Draft Law in Parliament)
- Investment Portal  
<http://www.investinturkey.gov.tr>
- A Dedicated Investor's Relations Office  
<http://www.hazine.gov.tr/iro.htm>



# Structural Reforms

## Enhancing Private Sector's Role: Accelerated Privatization Program

### PRIVATIZATION IMPLEMENTATIONS



(\*) January-May Period

# EU Accession Negotiations

## Rapid Progress

Turkey started accession negotiations on October 3, 2005

### Chapters of the EU screening process

October 2005

26 May 2006

June 2006

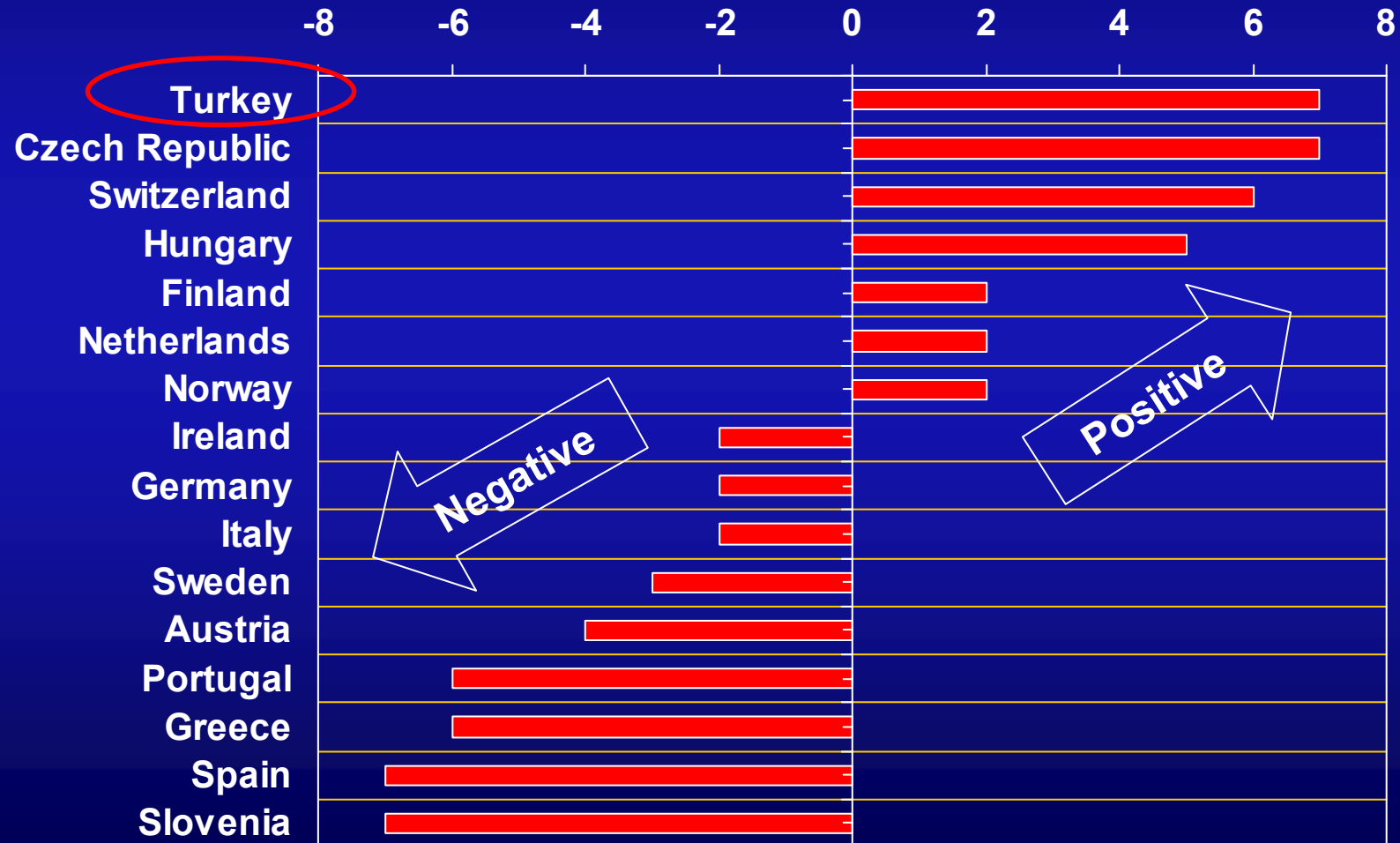


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## **II. Foreign Direct Investment Performance and Prospects**

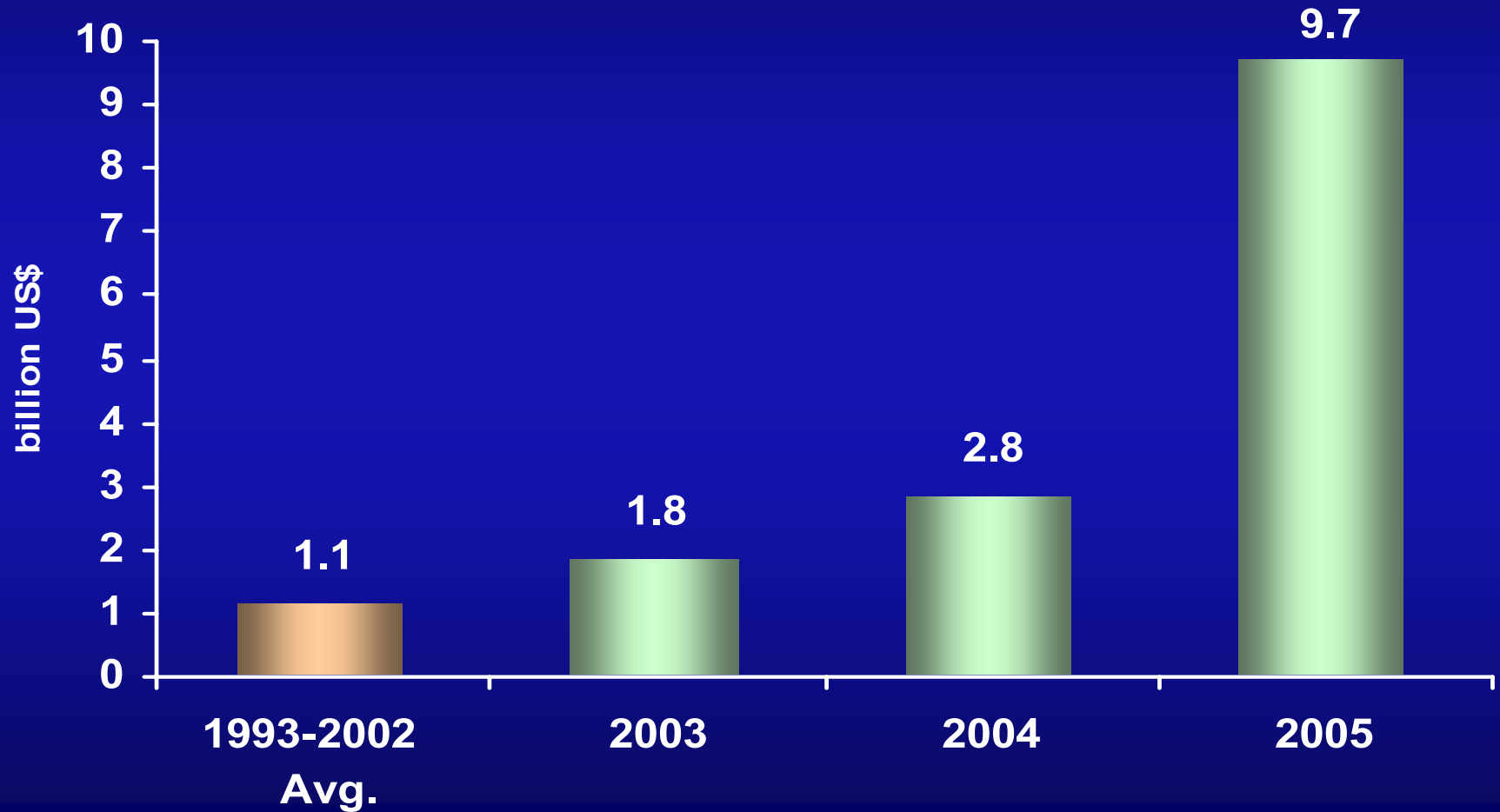
# Strengthening International Competitiveness

## Change in World Competitiveness Rankings 2004-2005

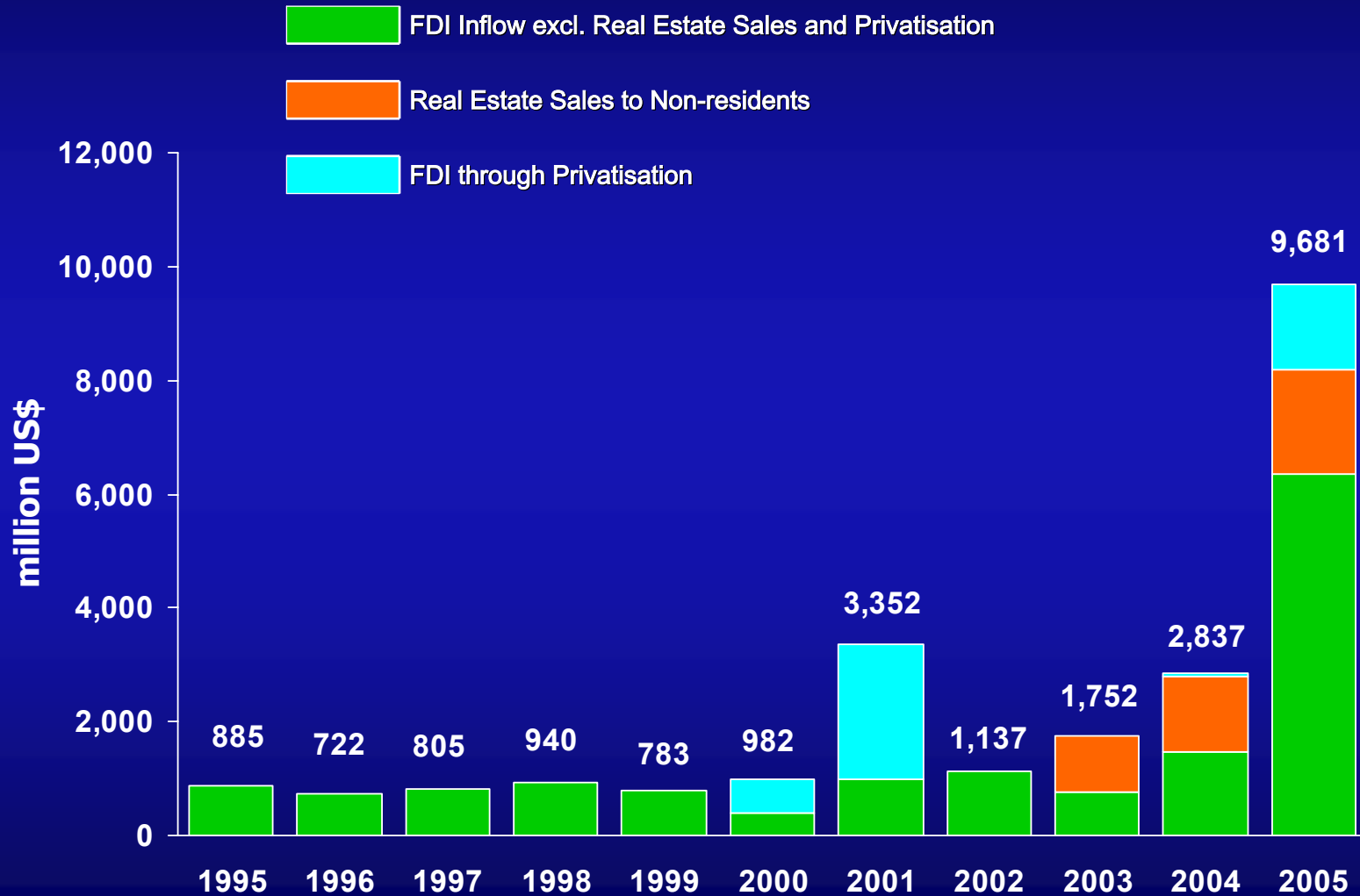


# Foreign Direct Investment Inflows

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# FDI Inflows into Turkey

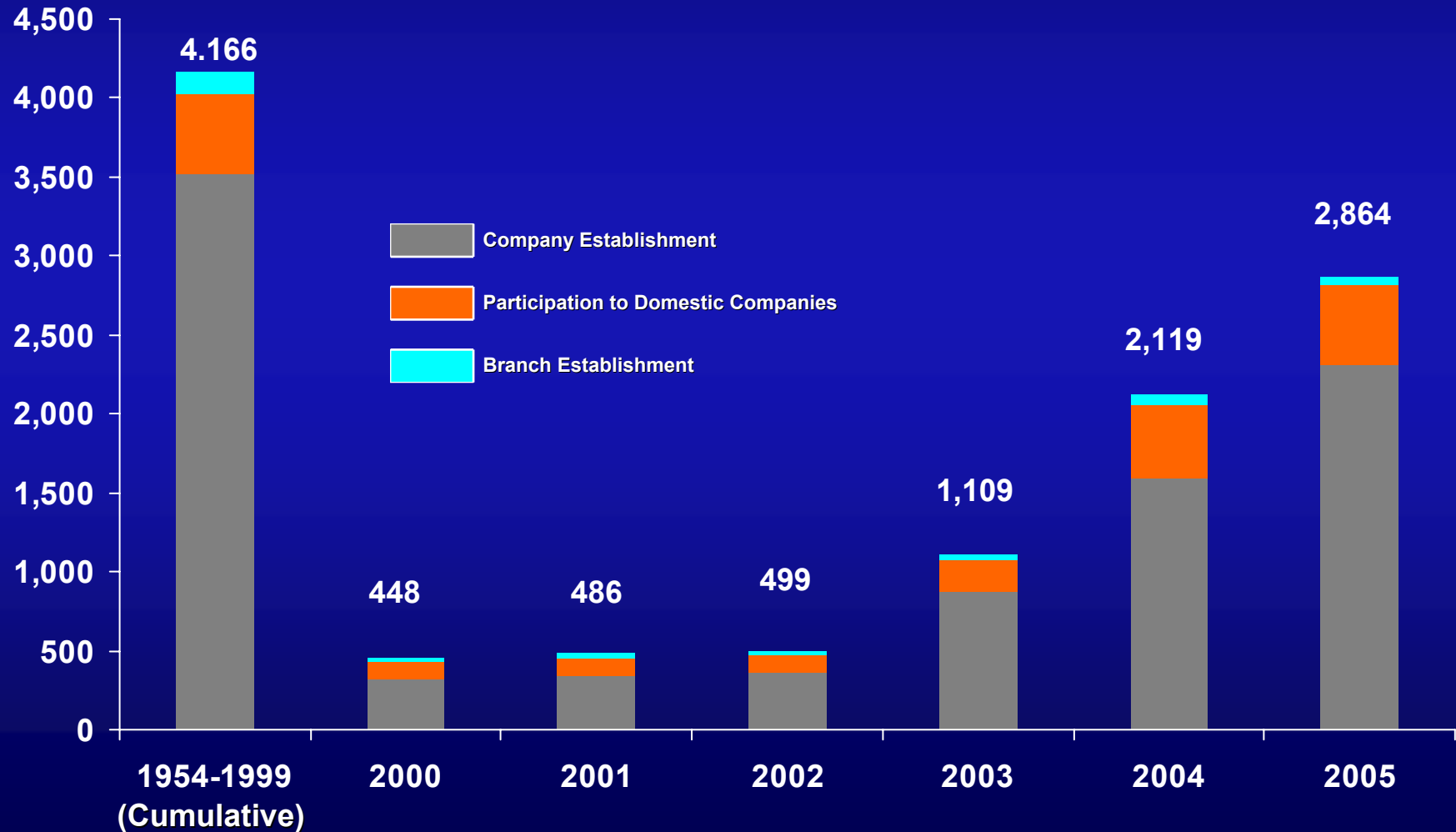


# Companies with Foreign Capital in Turkey

Number of  
Companies

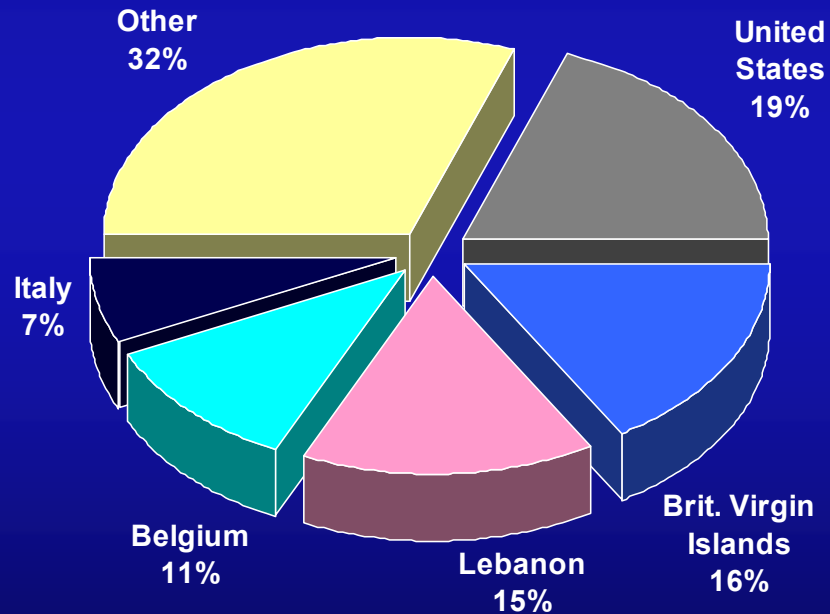
5,599

6,092

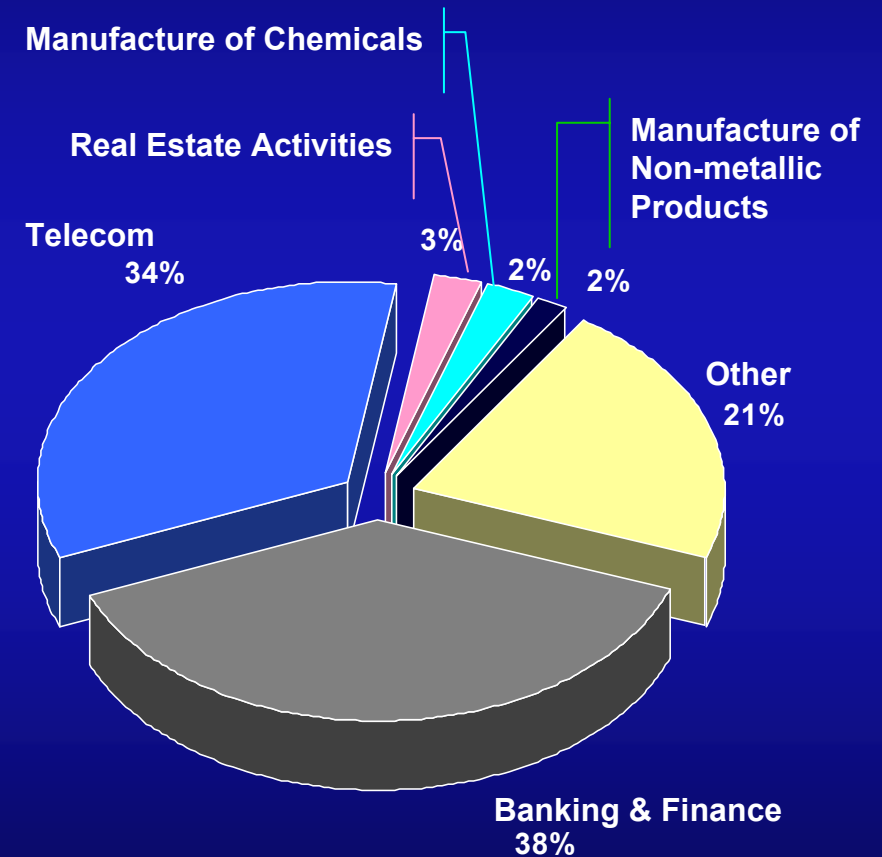


# FDI Inflows into Turkey

## Top 5 Countries in 2005



## Top 5 Sectors in 2005





# Increasing Foreign Interest for Investing in Turkey

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**HSBC** → **DEMİRBANK (%100.0)**

**BANK HAPOALIM** → **C BANK (%57.6)**

**UNI CREDITO &  
KOÇ GRUBU** → **YKB (%57.4)**

**VODAFONE** → **TELSİM (%100.0)**

**GE** → **GARANTİBANK (%25.5)**

**FORTIS** → **DIŞBANK (%93.3)**

# Increasing Foreign Interest for Investing in Turkey

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**BNP PARIBAS**

→

**TEB (%50.0)**

**SAUDI OGER  
& TEL. ITALIA**

→

**TÜRK TELEKOM (%55.0)**

**NBG**

→

**FİNANSBANK (%46.0)**

**DEXIA**

→

**DENİZBANK (%75.0)**

**EFG EUROBANK**

→

**TEKFENBANK (%70.0)**

**TEXAS PACIFIC GROUP**

→

**MEY İÇKİ (%90.0)**

# Major Privatizations to be carried out in 2006

## Tender Dates

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<b>PETKİM (PETROCHEMICALS)</b>	<b>Under progress</b>
<b>TEKEL TOBACCO &amp; TOBACCO PRODUCTS</b>	<b>Under progress</b>
<b>NATIONAL LOTTERY</b>	<b>Under progress</b>
<b>TURKISH AIRLINES</b>	<b>Under progress</b>
<b>TEDAŞ / ELECTRICITY DISTRIBUTION (20 Companies)</b>	<b>Under progress</b>
<b>POWER GENERATION</b>	<b>Under progress</b>
<b>İZMİR PORT/Last Bidding Date:</b>	<b>June 2006</b>
<b>SAMSUN, BANDIRMA &amp; DERİNCE PORTS</b>	<b>Under progress</b>
<b>SUGAR PROCESSING ENTITIES (34 plants)</b>	<b>Under progress</b>
<b>T. HALK BANKASI (STATE OWNED BANK)</b>	<b>Under progress</b>
<b>GALATAPORT (CRUISEPORT OPERATIONS)</b>	<b>Under Progress</b>

# Some Useful Websites

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[www.treasury.gov.tr](http://www.treasury.gov.tr) (Undersecretariat of Treasury)

[www.investinturkey.gov.tr](http://www.investinturkey.gov.tr) (Investment Portal)

[www.hazine.gov.tr/iro.htm](http://www.hazine.gov.tr/iro.htm) (Investor Relations Office)

[www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Central Bank)

[www.maliye.gov.tr](http://www.maliye.gov.tr) (Ministry of Finance)

[www.dpt.gov.tr](http://www.dpt.gov.tr) (State Planning Organization)

[www.tuik.gov.tr](http://www.tuik.gov.tr) (Turkish Statistical Institute)

[www.bddk.org.tr](http://www.bddk.org.tr) (Banking Regulation and Supervision Agency)

[www.foreigntrade.gov.tr](http://www.foreigntrade.gov.tr) (Undersecretariat of Foreign Trade)

[www.spk.gov.tr](http://www.spk.gov.tr) (Capital Markets Board)

[www.ise.org](http://www.ise.org) (Istanbul Stock Exchange)