



**TURKISH ECONOMY:
RECENT DEVELOPMENTS
AND
PROSPECTS**

Ali BABACAN

Minister of State

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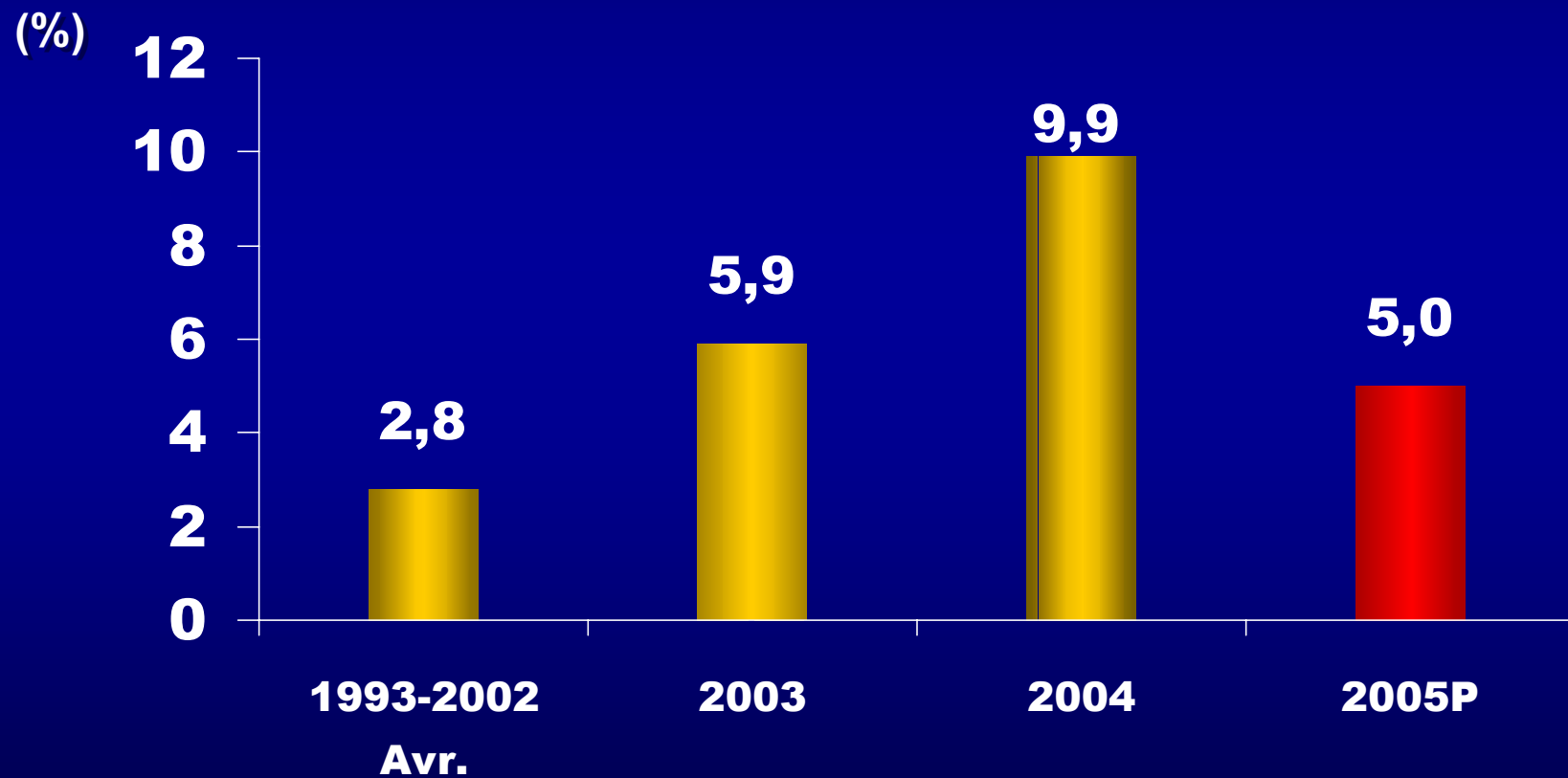
AGENDA

I. RECENT ECONOMIC DEVELOPMENTS

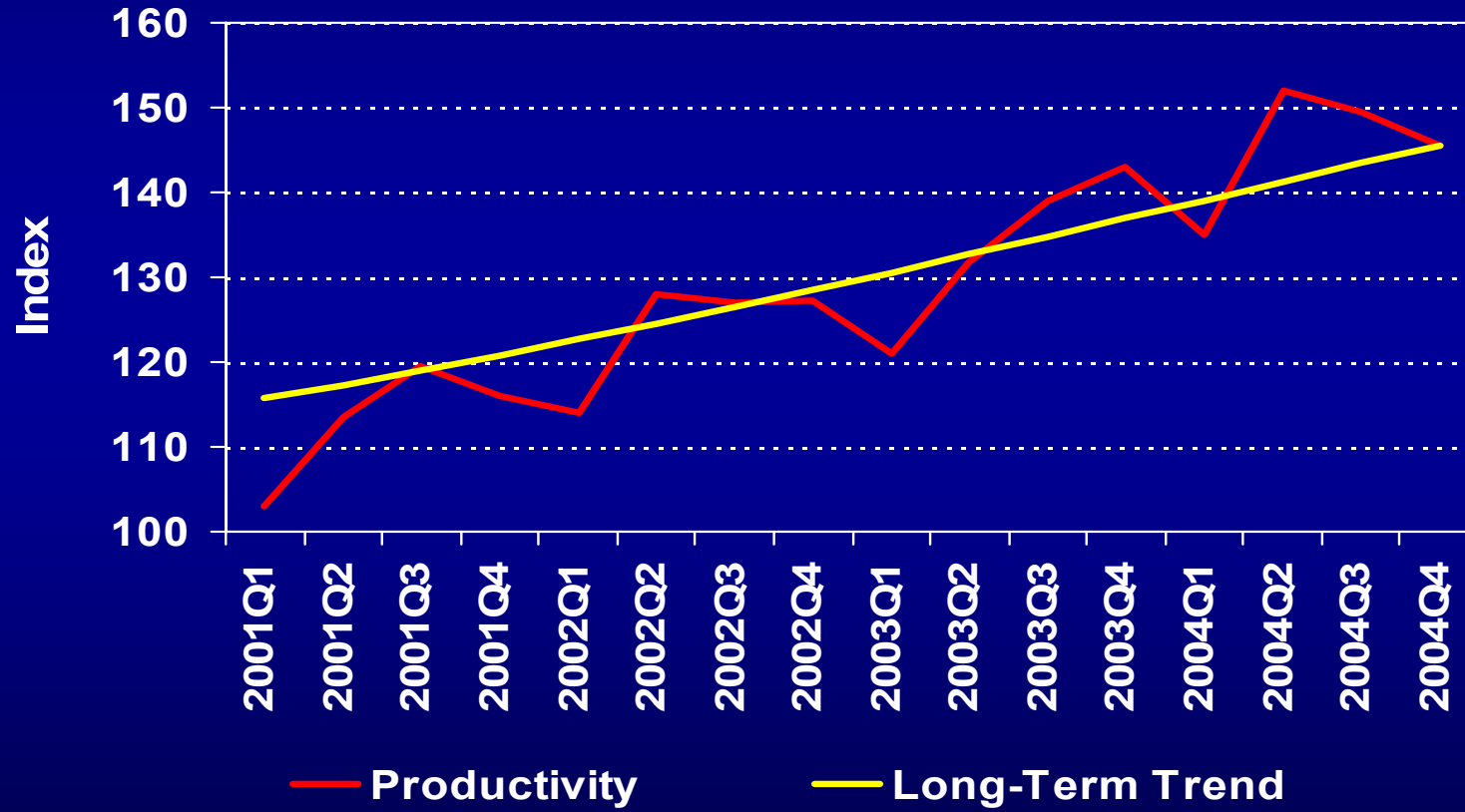
II. PROSPECTS

I. RECENT ECONOMIC DEVELOPMENTS

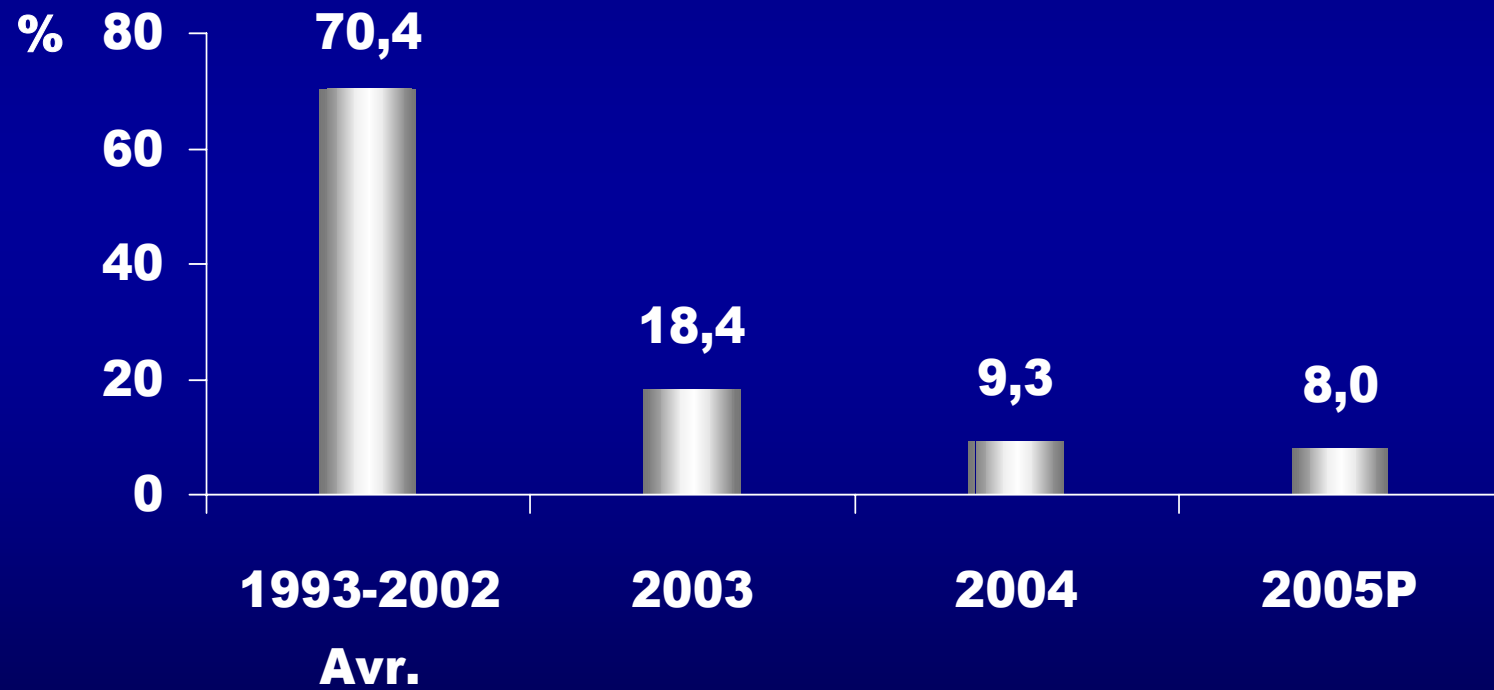
GNP Growth



Increasing Productivity



Single-Digit Inflation

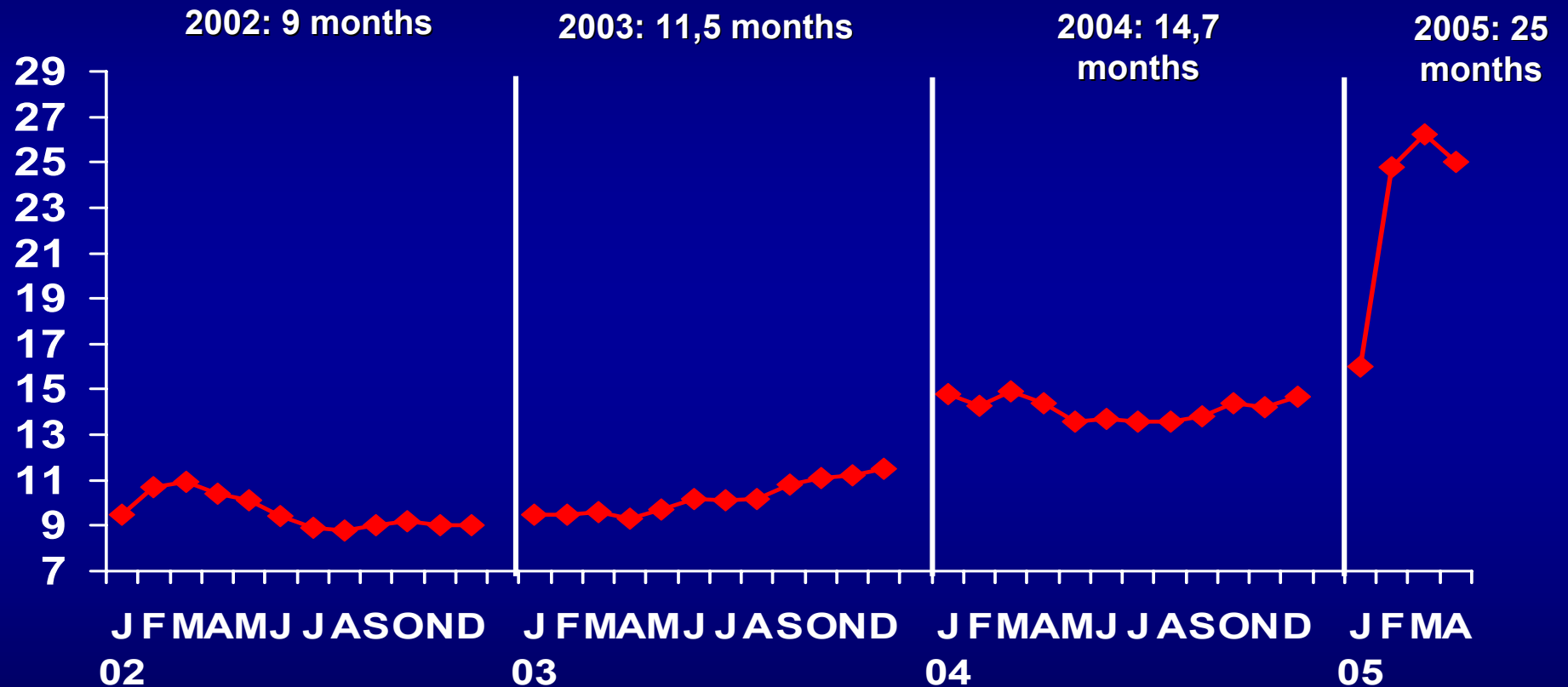


Decreasing Interest Rates



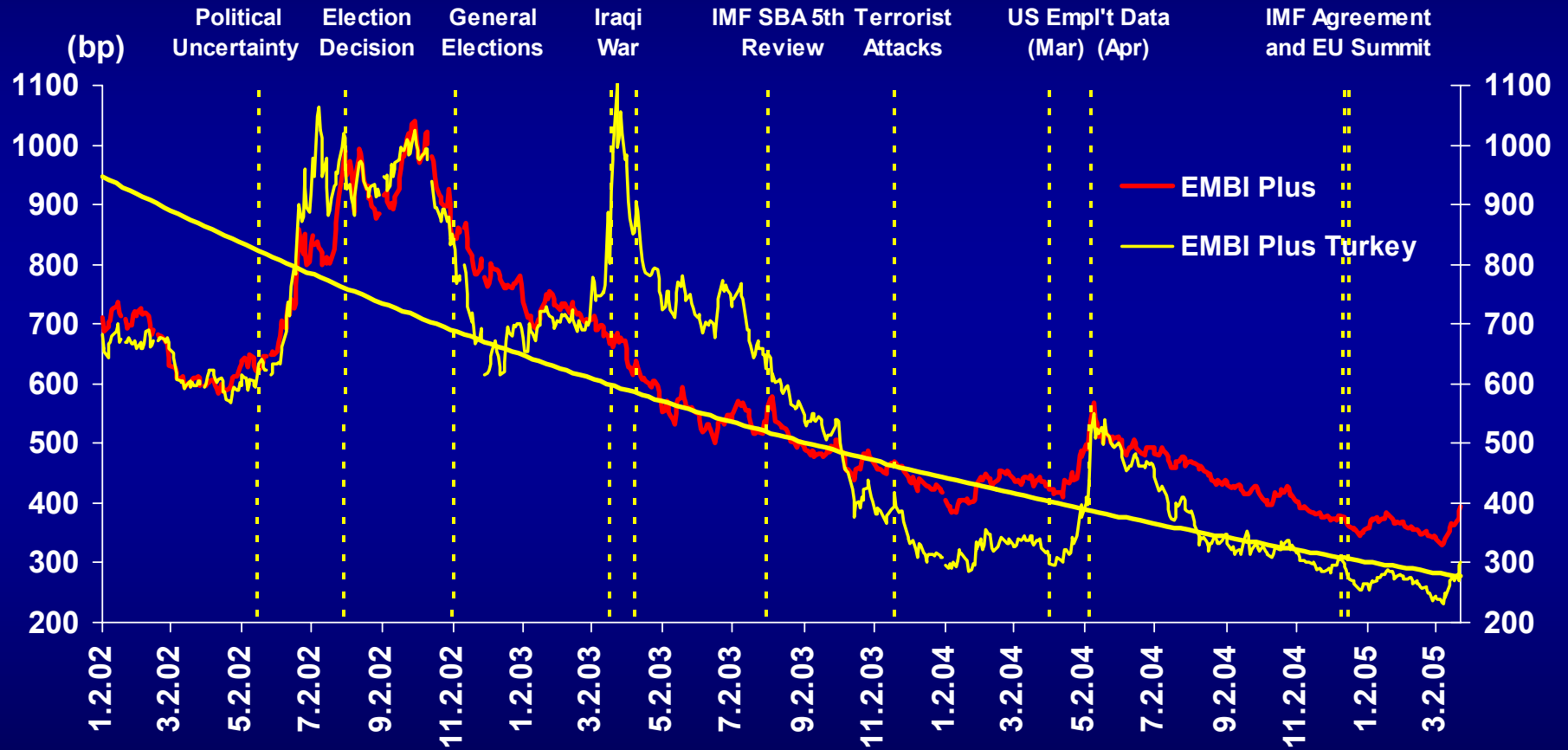
Lengthening Maturity

Maturity of Domestic Borrowing



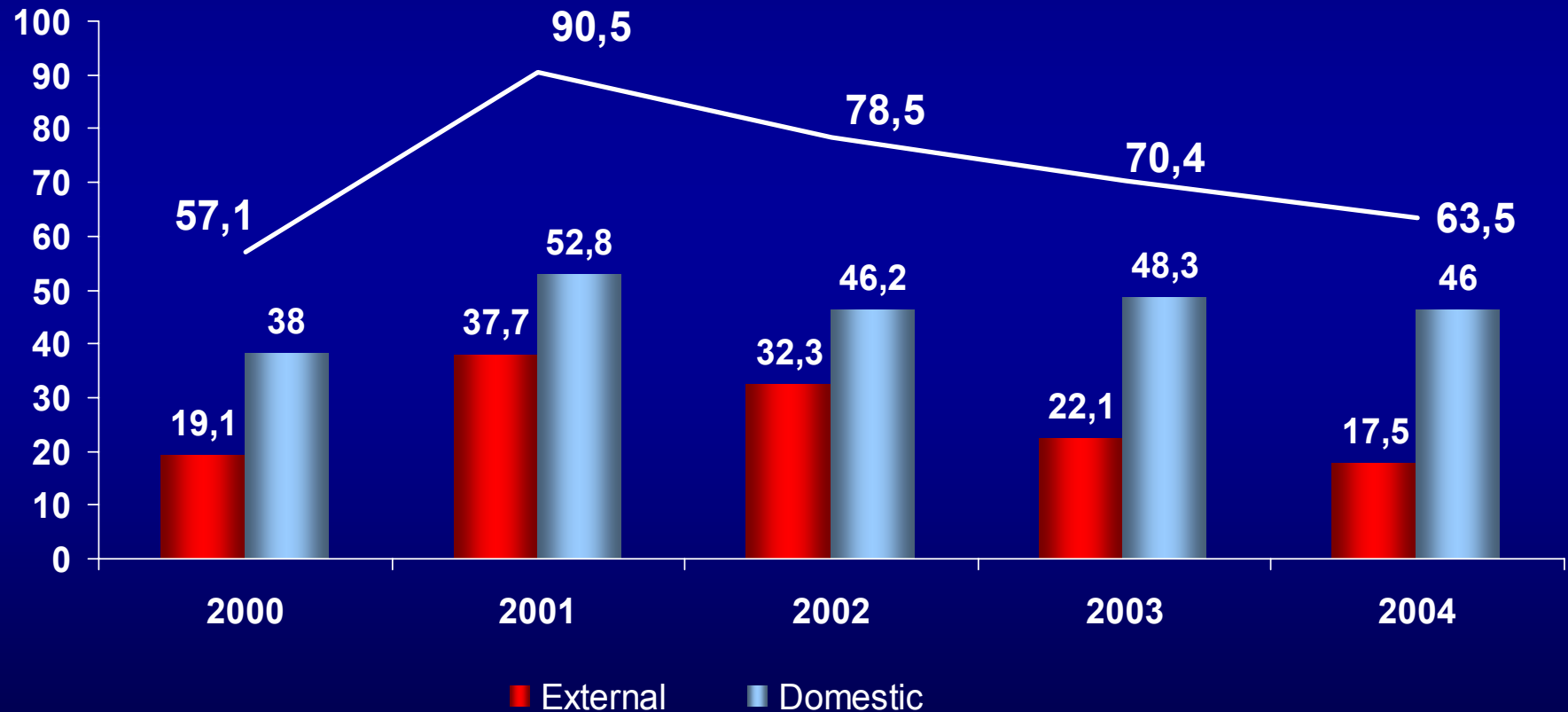
Cumulative maturity as of January for each year

Falling Spreads



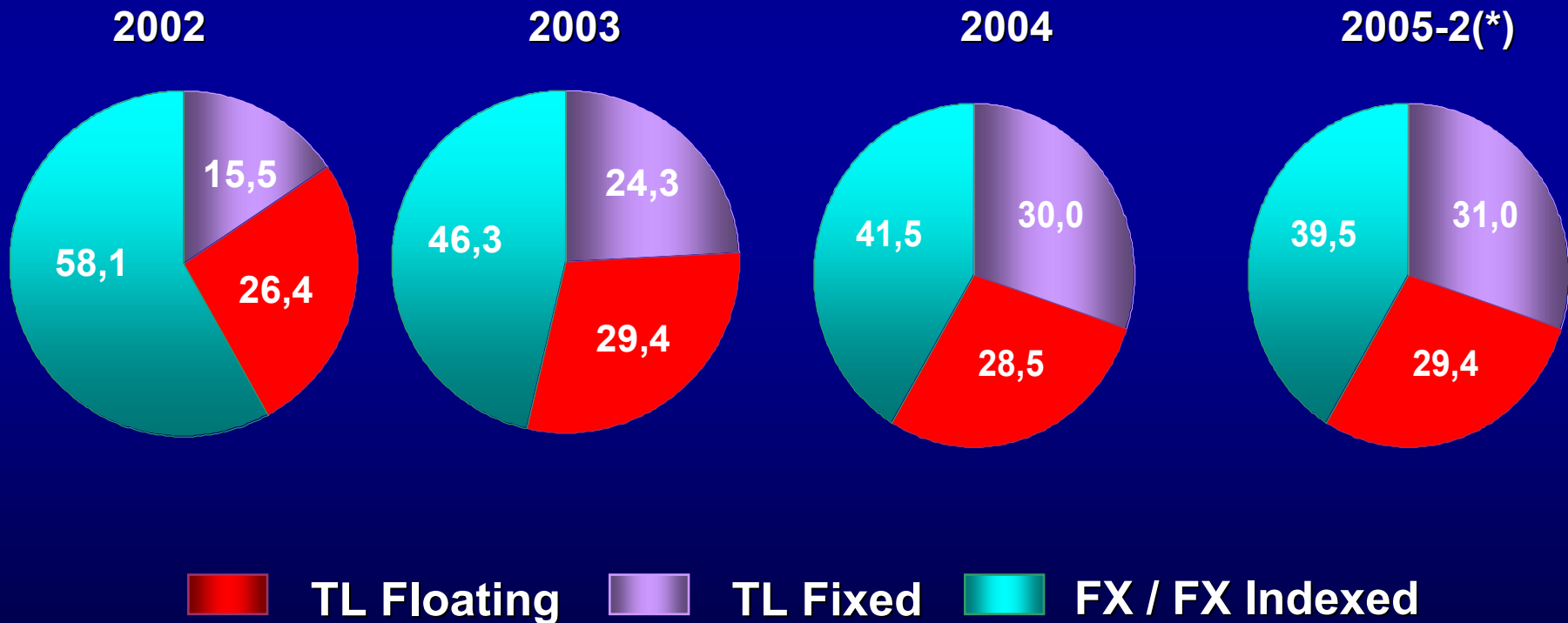
Declining Debt Burden

Net Public Debt Stock / GNP (%)



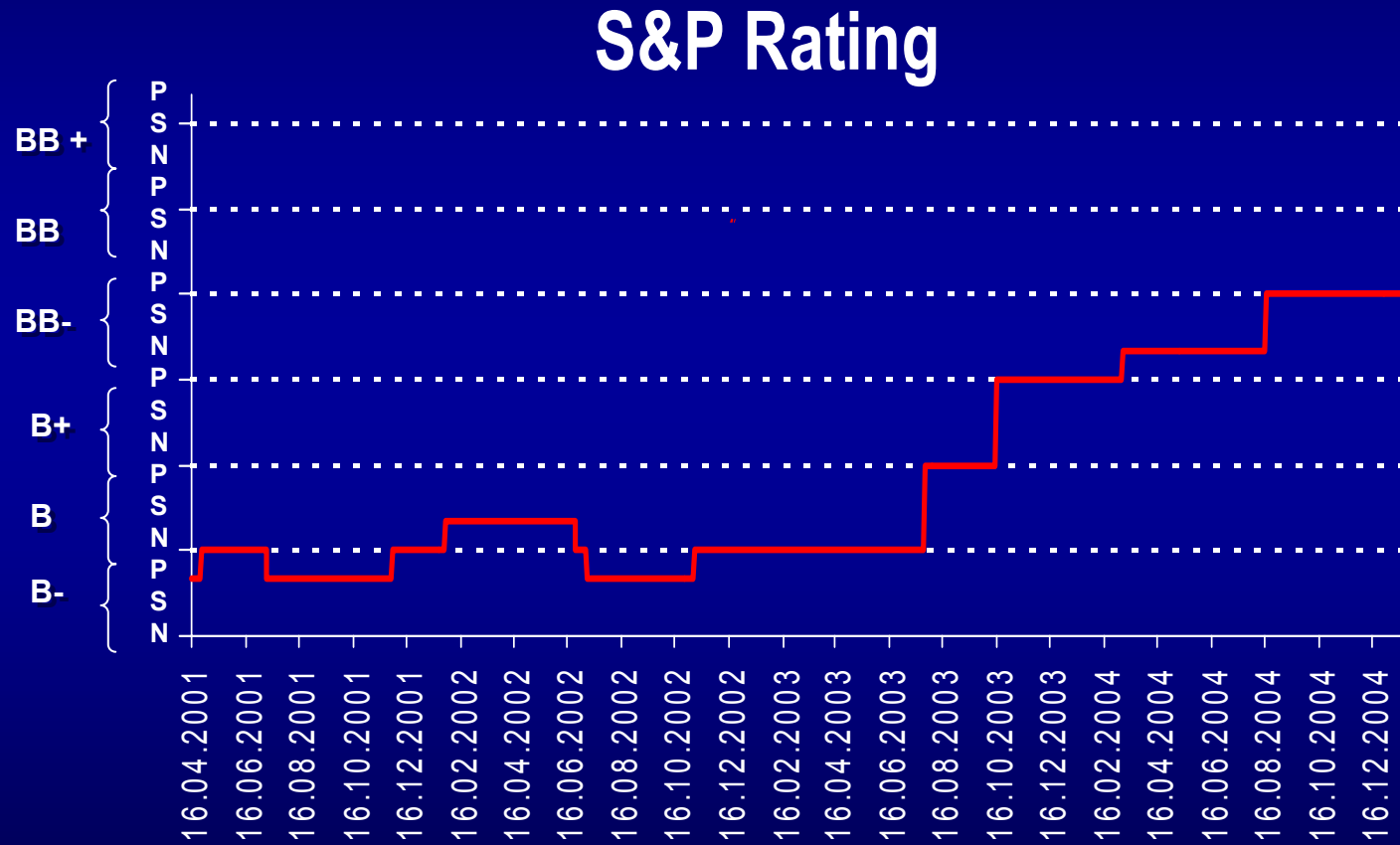
Improving Debt Structure

Profile of Consolidated Budget Gross Debt Stock By Currency and Interest (%)



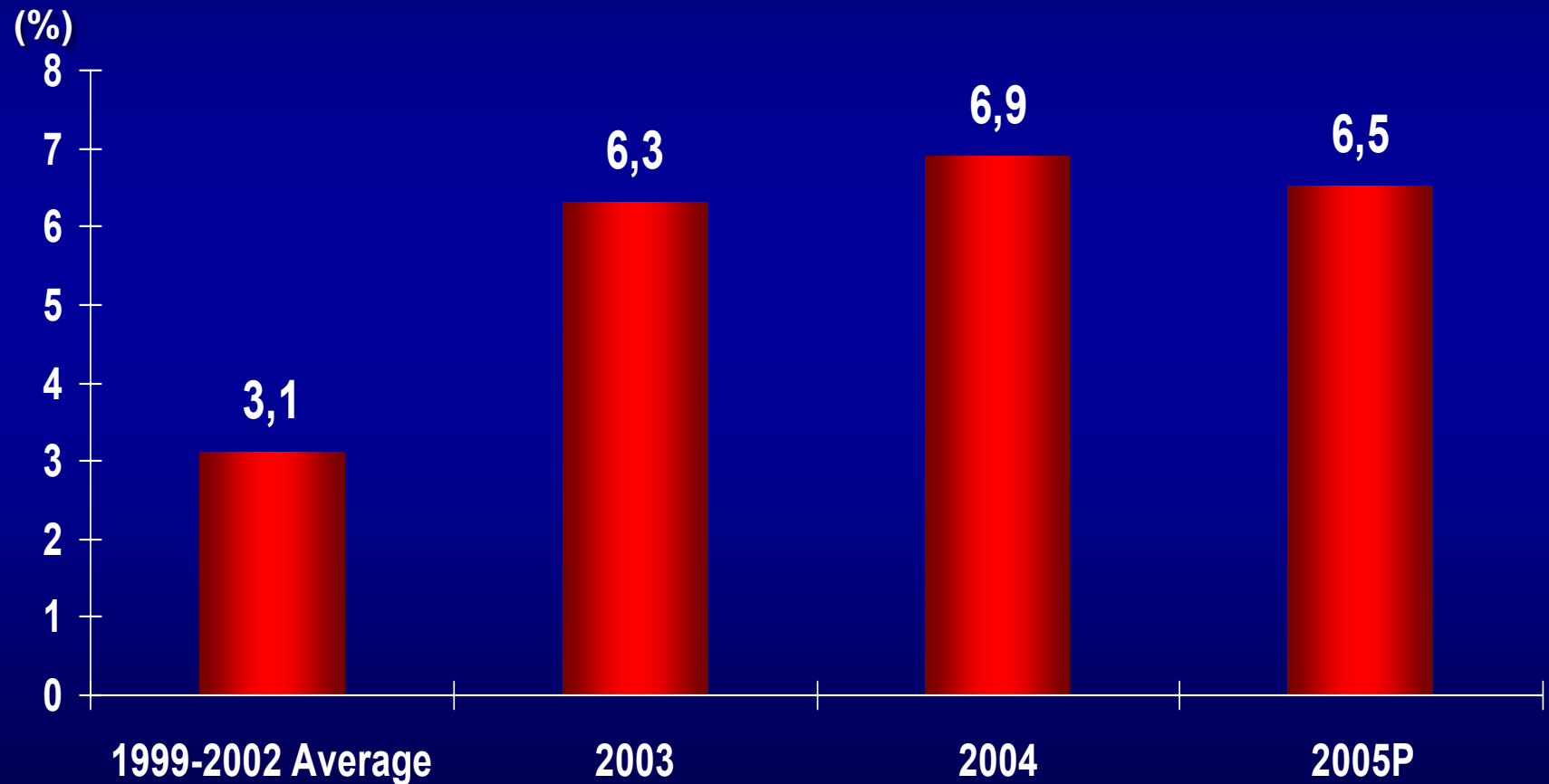
(*) Provisional

Strengthening Rating Outlook



Strong Fiscal Adjustment

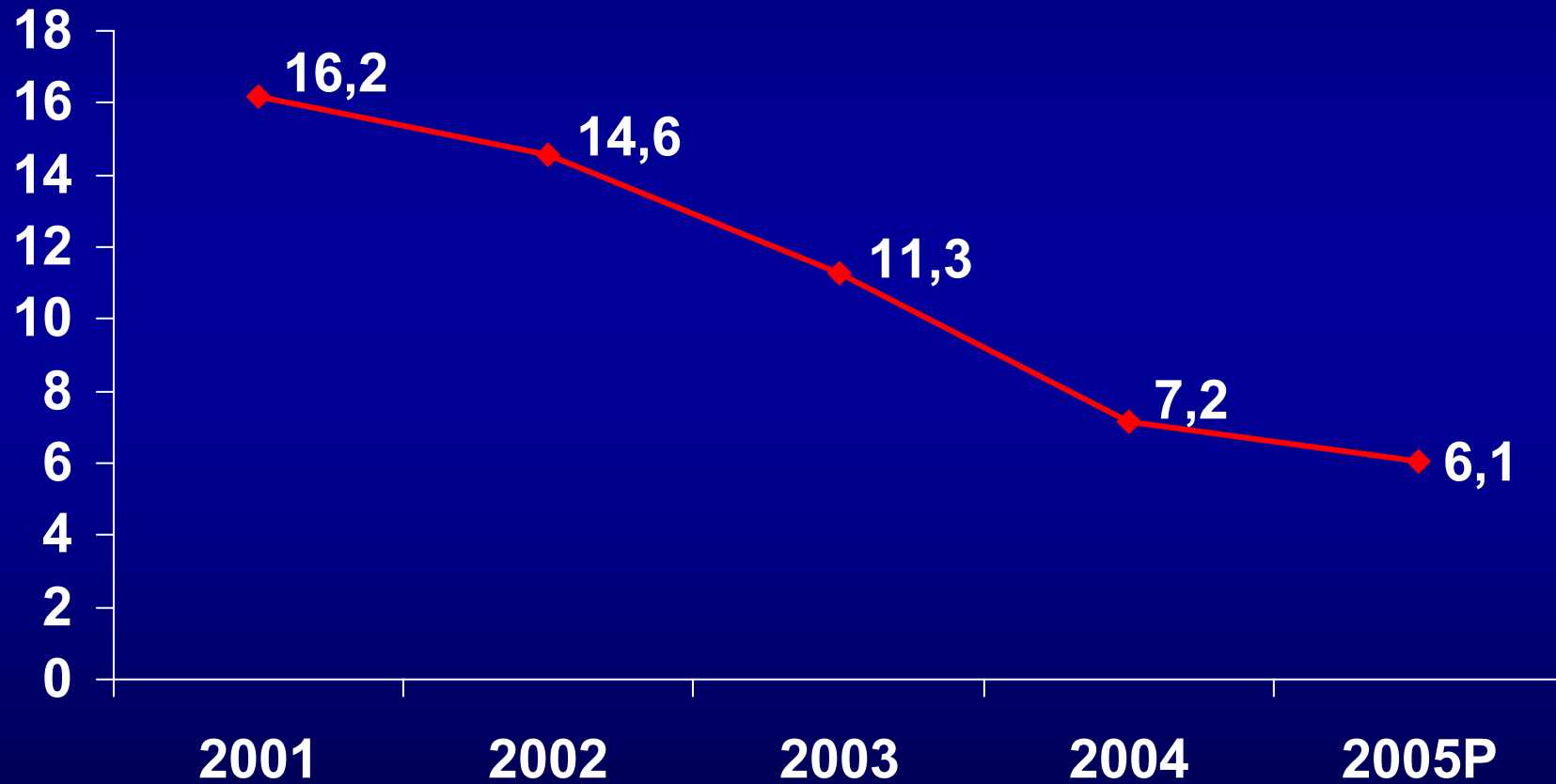
Public Sector Primary Surplus / GNP



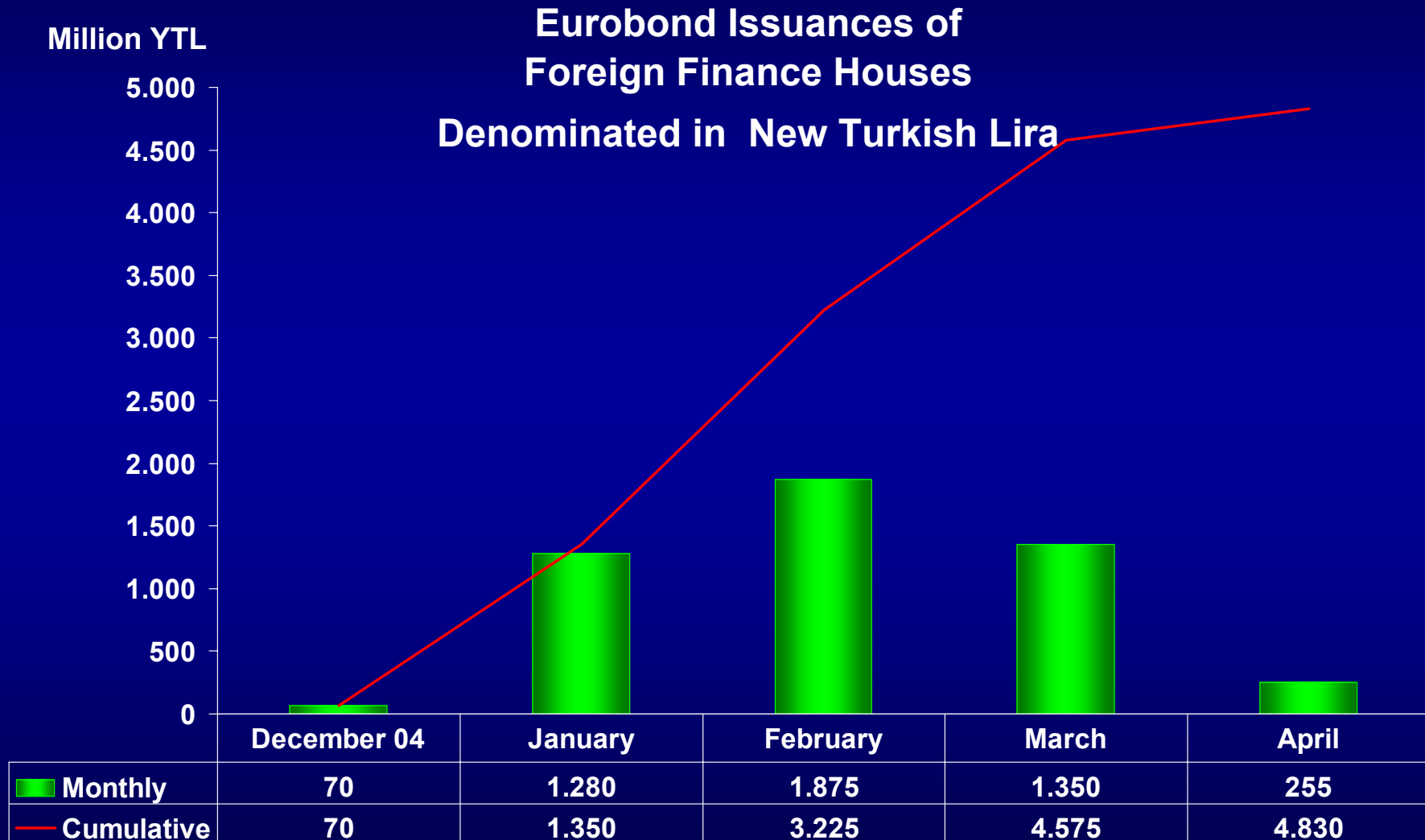
P: Program

Strong Fiscal Adjustment

Consolidated Budget Deficit / GNP (%)

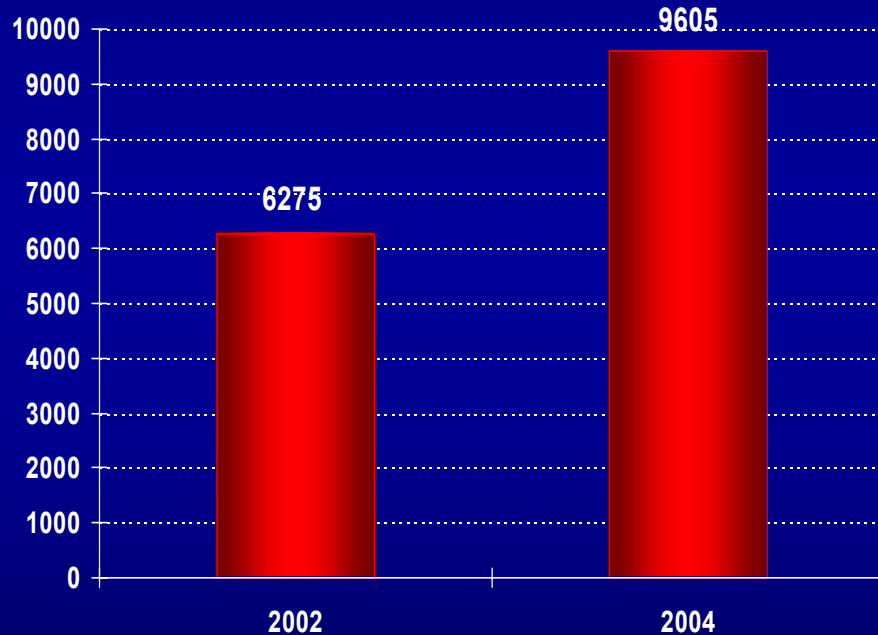


Global Markets Integration rises via Turkish Lira Eurobonds

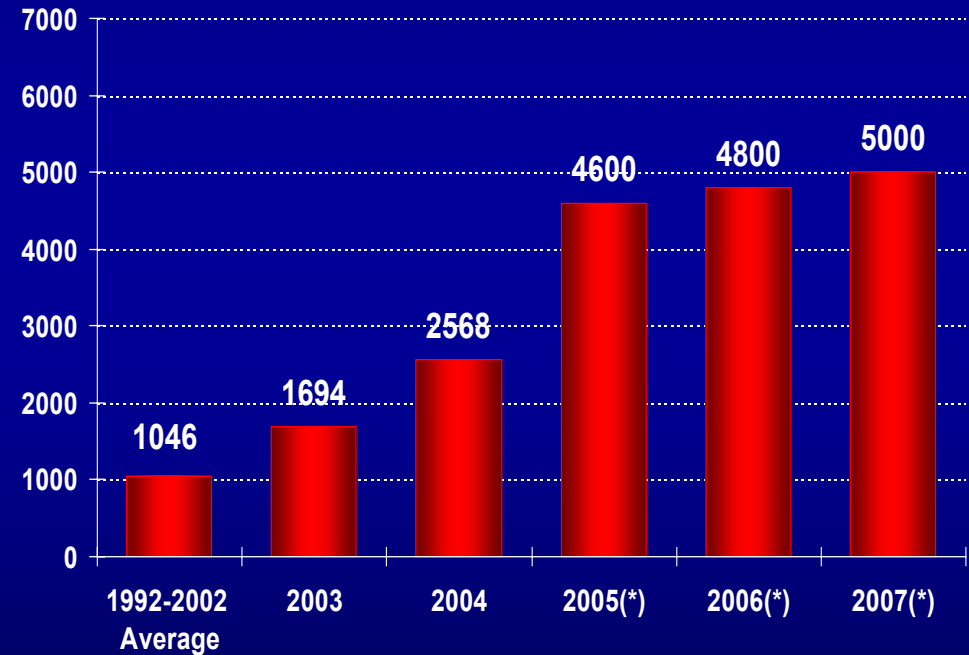


Increasing Confidence in Turkey as a FDI Destination

Number of Firms with International Capital (Cumulative)

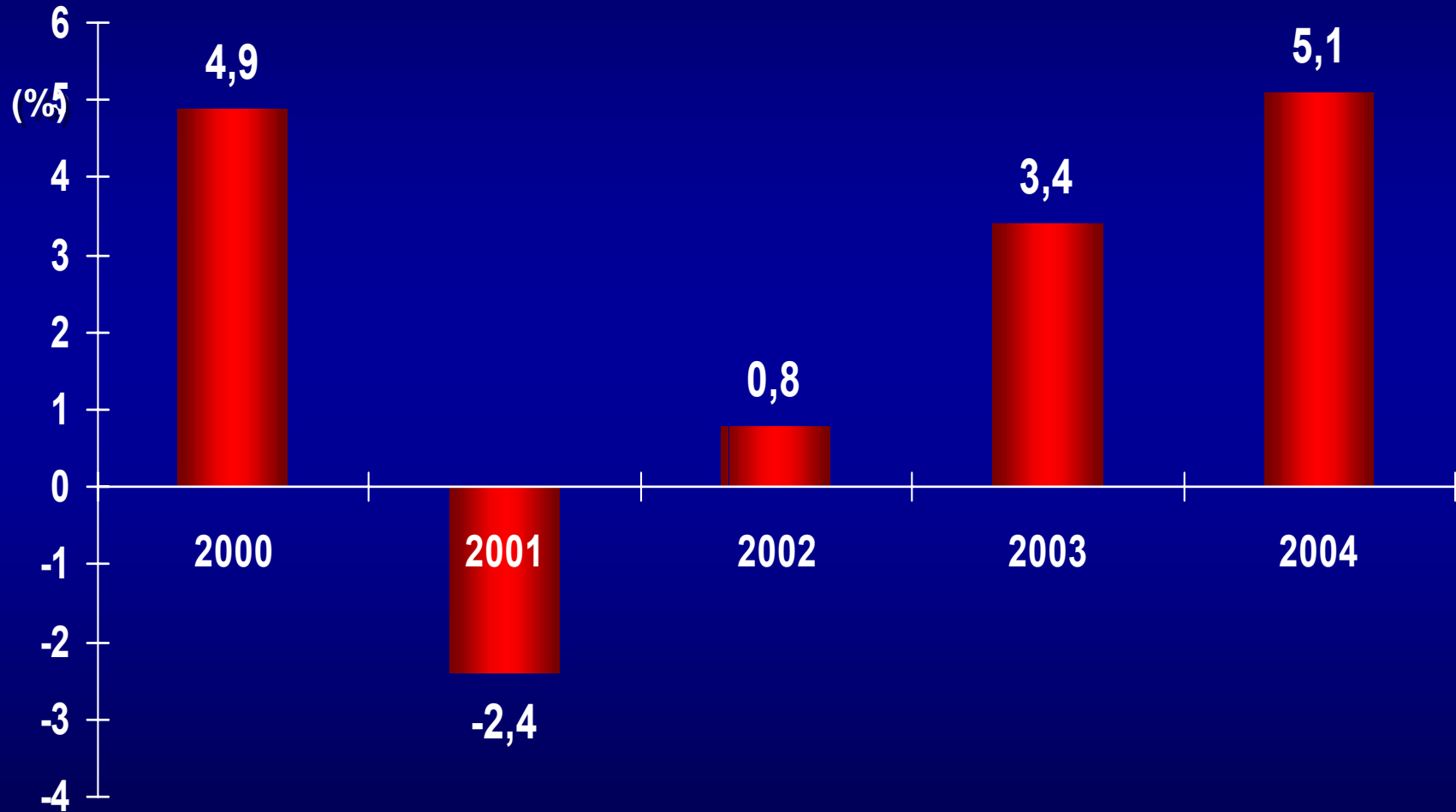


FDI Inflows (million USD)

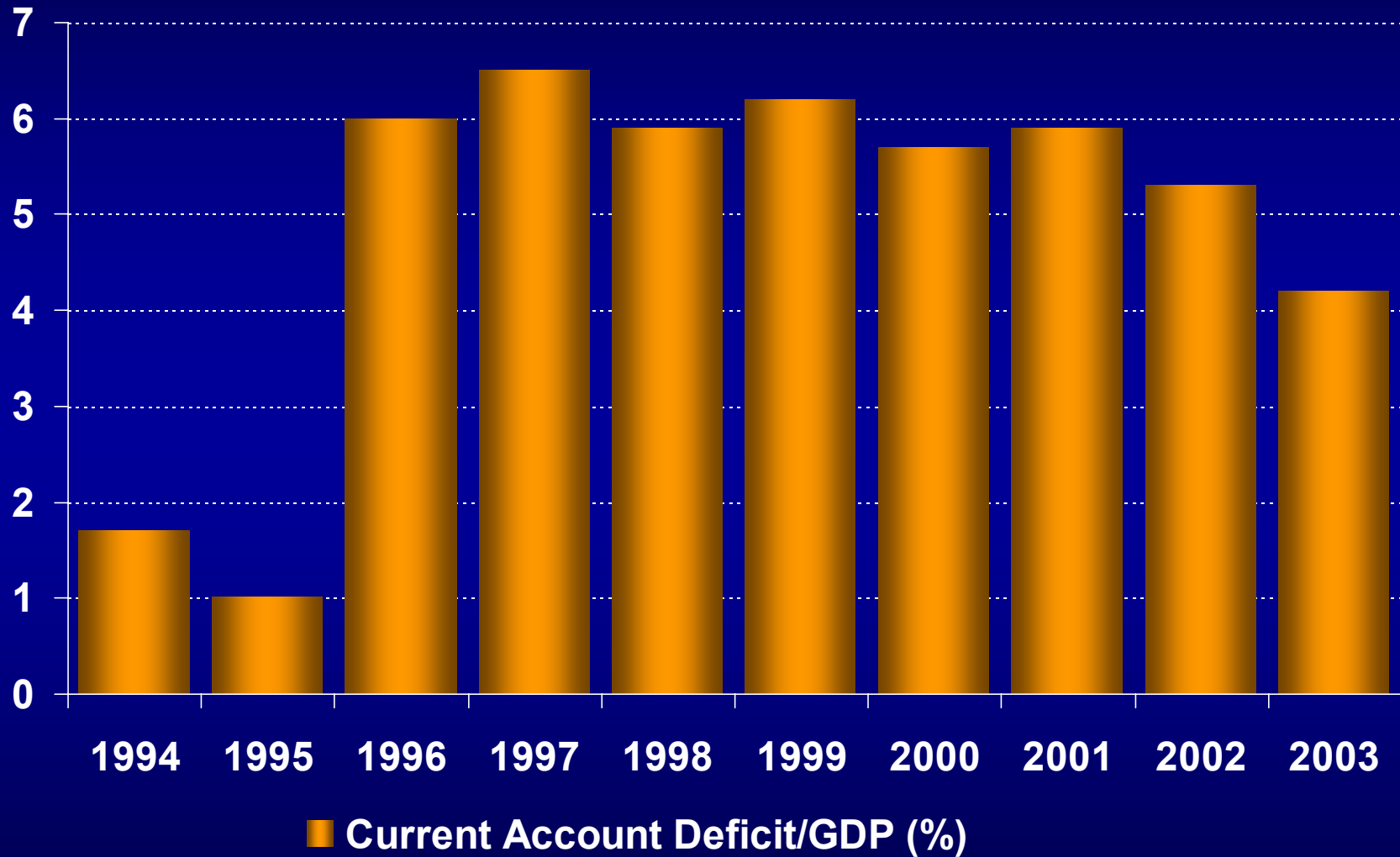


(*) Pre-Accession Economic Program

Current Account Deficit / GNP



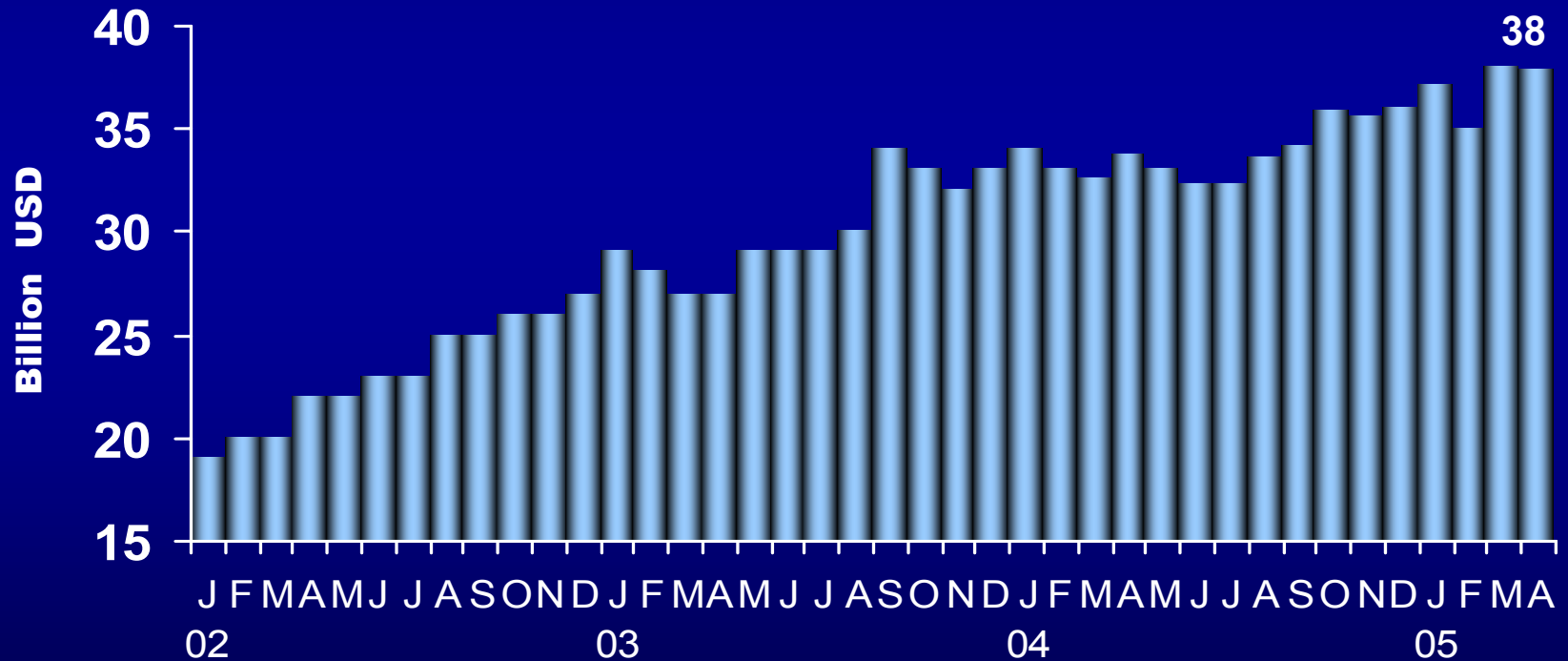
Current Account Deficit in Eastern European Countries*



*Included countries: Poland, Hungary, Czech Republic, Republic of Slovakia

Strong Reserve Position

Central Bank Gross Reserves



II. PROSPECTS

Medium Term Economic Program and New Stand-By Arrangement

Turkey's outstanding performance during the last three years



**increasing confidence
boosting growth
declining inflation**

a steadfast change in the driving dynamics of the economy



to build on this record of success and strengthen the convergence with the economies of the European Union



EU Pre-accession Economic Program



**New Stand-By Arrangement with the IMF based on the EU
Pre-accession Economic Program**

Medium-Term Economic Program

Objectives

- ✓ **Maintaining Price Stability and Single Digit Inflation**
- ✓ **Sustainable High Growth**
- ✓ **Reducing Public Debt**
- ✓ **Further Improving the Quality of Fiscal Adjustment**

Policies

- ✓ **Continuation of Prudent Fiscal Policies**
- ✓ **A Monetary Framework focused on Price Stability and Formal IT**
- ✓ **Floating FX regime**
- ✓ **Deepening of Structural Reforms**

Medium Term Macroeconomic Framework

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Growth (%)	5	5	5
Inflation (CPI %)	8	5	4
General Gov't Deficit (% of GDP)	4.4	2.1	0.5

Fast Track Convergence into EU: Maastricht Criteria

- ✓ **Public debt stock criterion of 60% of GDP to be met by the end of 2007**
- ✓ **Budget deficit criterion to be met by the end of 2006**
- ✓ **Inflation and long term interest rates criteria to be met by or after the end of the program**

Ongoing Structural Reforms

✓ **Social Security Reform**

Objectives:

- Put the pension deficit on a downward path
- Reducing it to 1 % of GNP over the long term
- Improve the quality of health services and introduce a universal health insurance system

Status  The draft law is in the Parliament

✓ **Tax Reform**

Objectives:

- Reduce informality, broaden tax base and enhance the efficiency of tax collection through an administrative reform
- Create a more simplified, transparent and stable tax environment

Status  Revenue Administration Law: Adopted in the Parliament
Tax Policy Reform: Under Progress

✓ **Financial Sector Reform**

Objectives:

- Upgrading the regulation and supervision to the EU standards

Status  The draft law is in the Parliament

Other Reforms for the Upcoming Period

- ✓ **Civil Service Reform**
- ✓ **Public Expenditure Policy and Management Reform**
- ✓ **Fiscal Transparency**
- ✓ **State Economic Enterprise Governance**
- ✓ **Privatization and Improved Investment Environment**