



TURKISH ECONOMY: RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

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UNDERSECRETARY OF TREASURY

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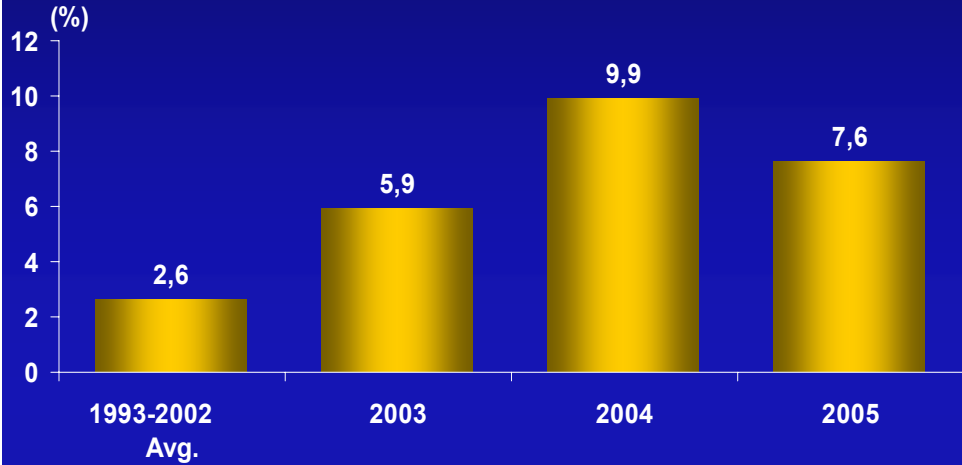
CONTENT

- I. MACROECONOMIC DEVELOPMENTS**
- II. FISCAL POLICY & DEBT MANAGEMENT**
- III. PROSPECTS**

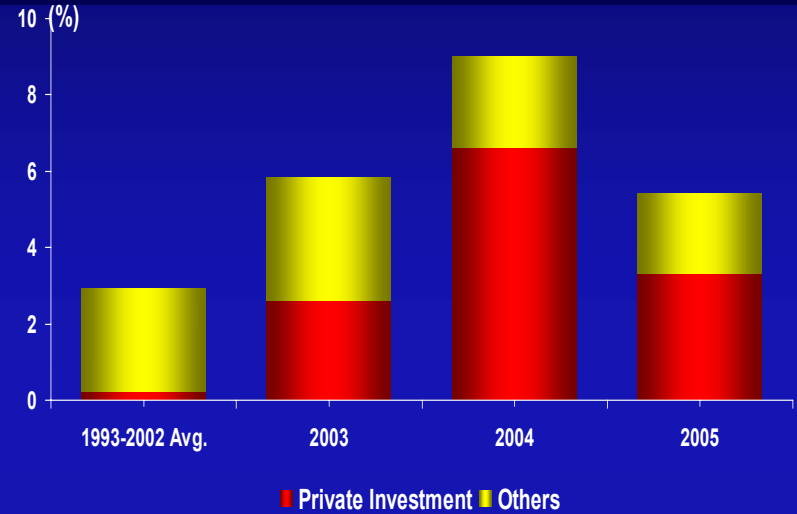
MACROECONOMIC DEVELOPMENTS

Growth

Robust Growth



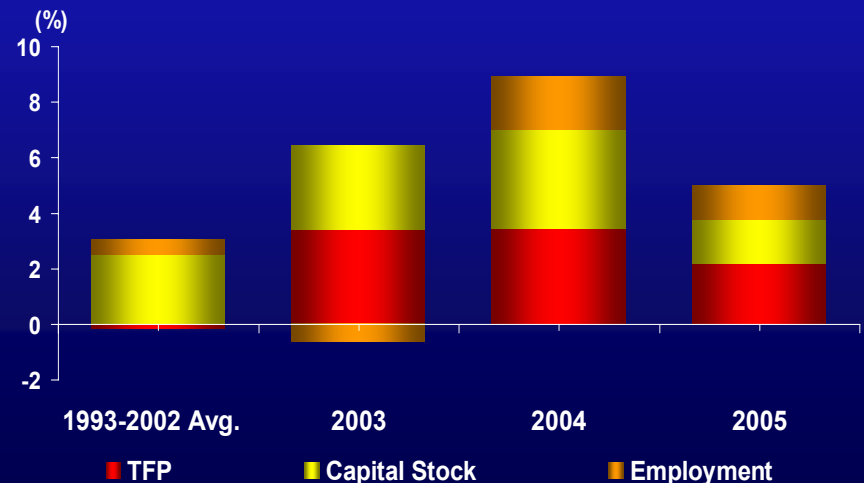
Contribution of Private Investment to Growth



Increase in Productivity

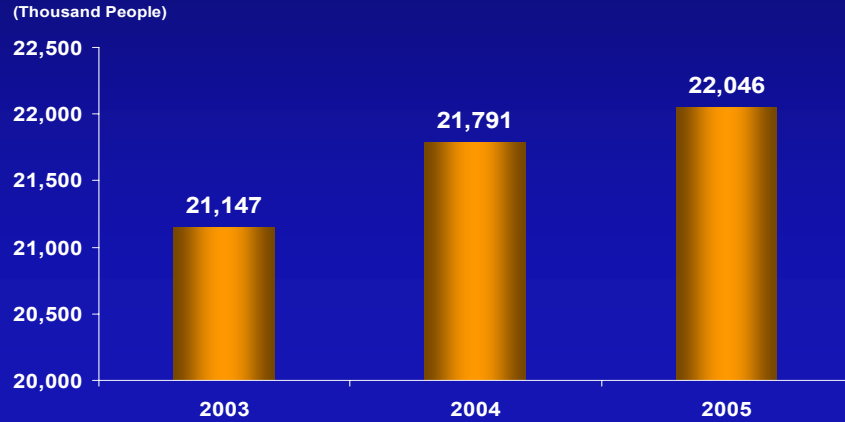


Total Factor Productivity (Contribution to Growth)

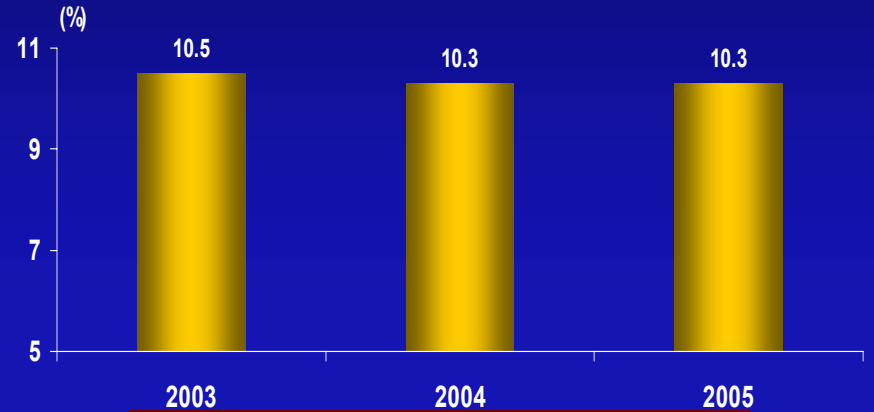


Employment

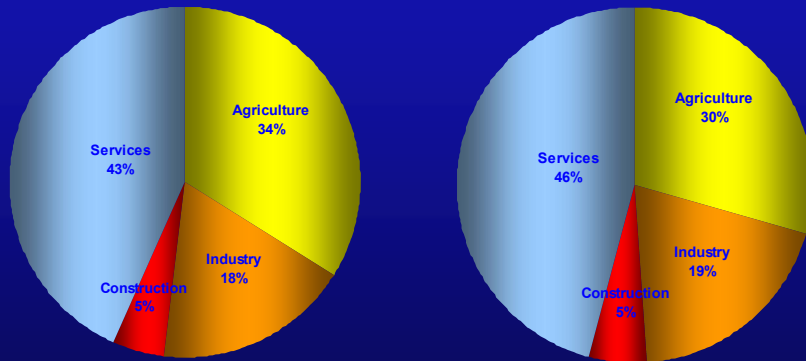
Total Employment



Unemployment Rate



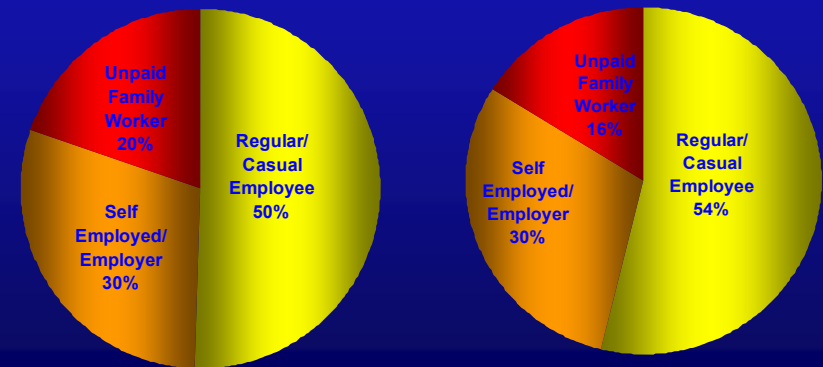
Distribution of Employment by Economic Activity (%)



2003

2005

Distribution of Employment by Employment Status (%)

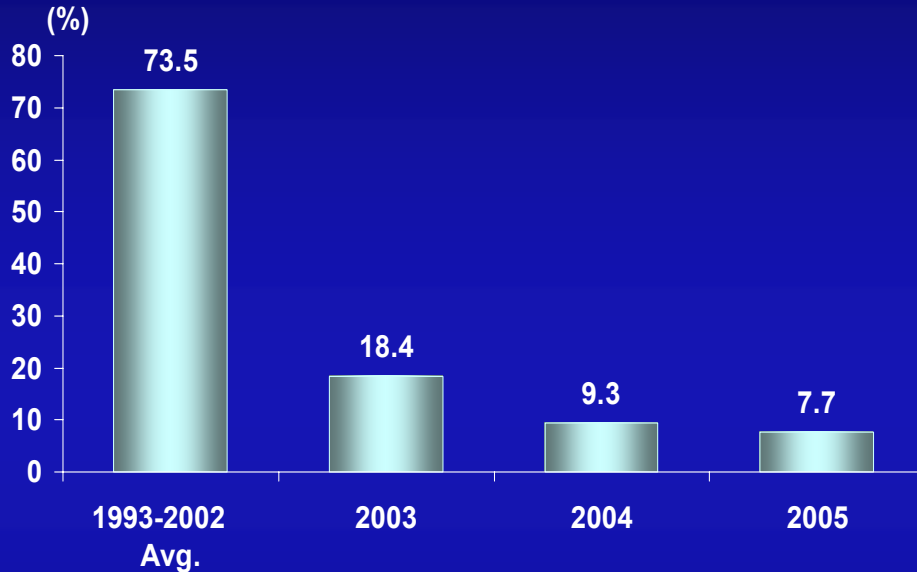


2003

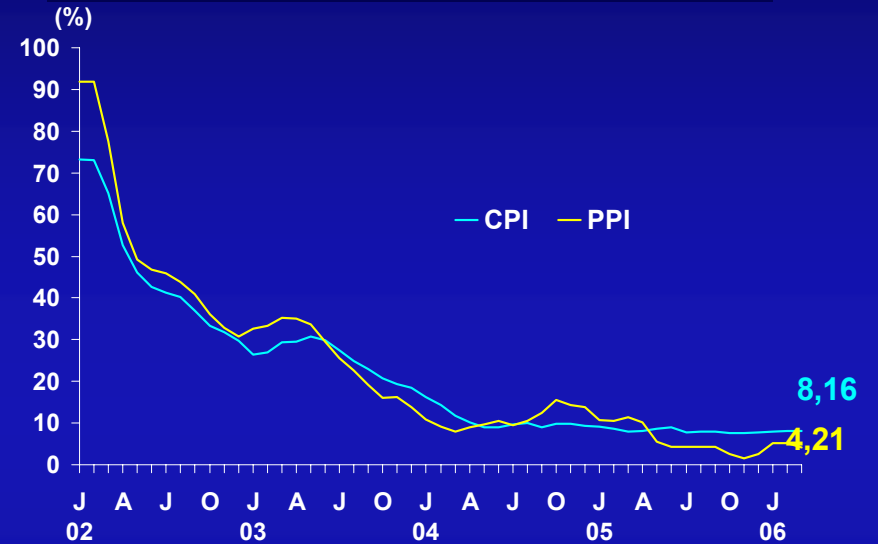
2005

Inflation

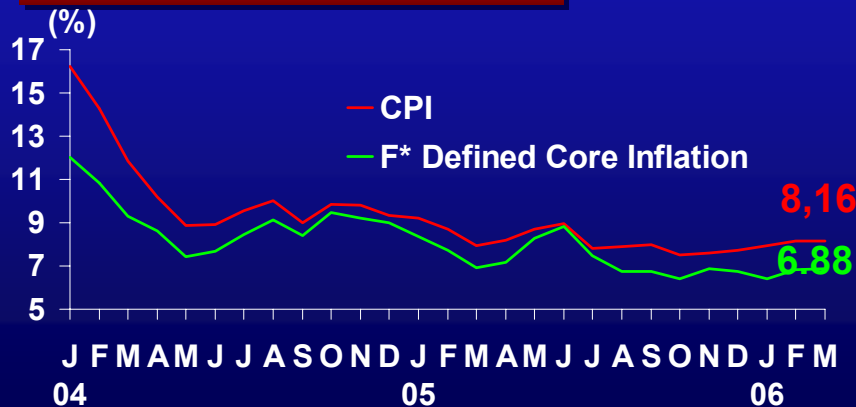
Single Digit Inflation



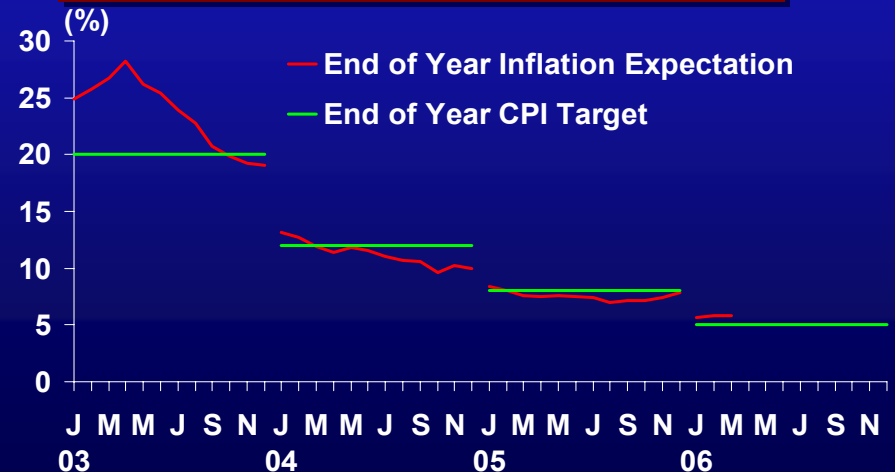
Annual Inflation



Core Inflation

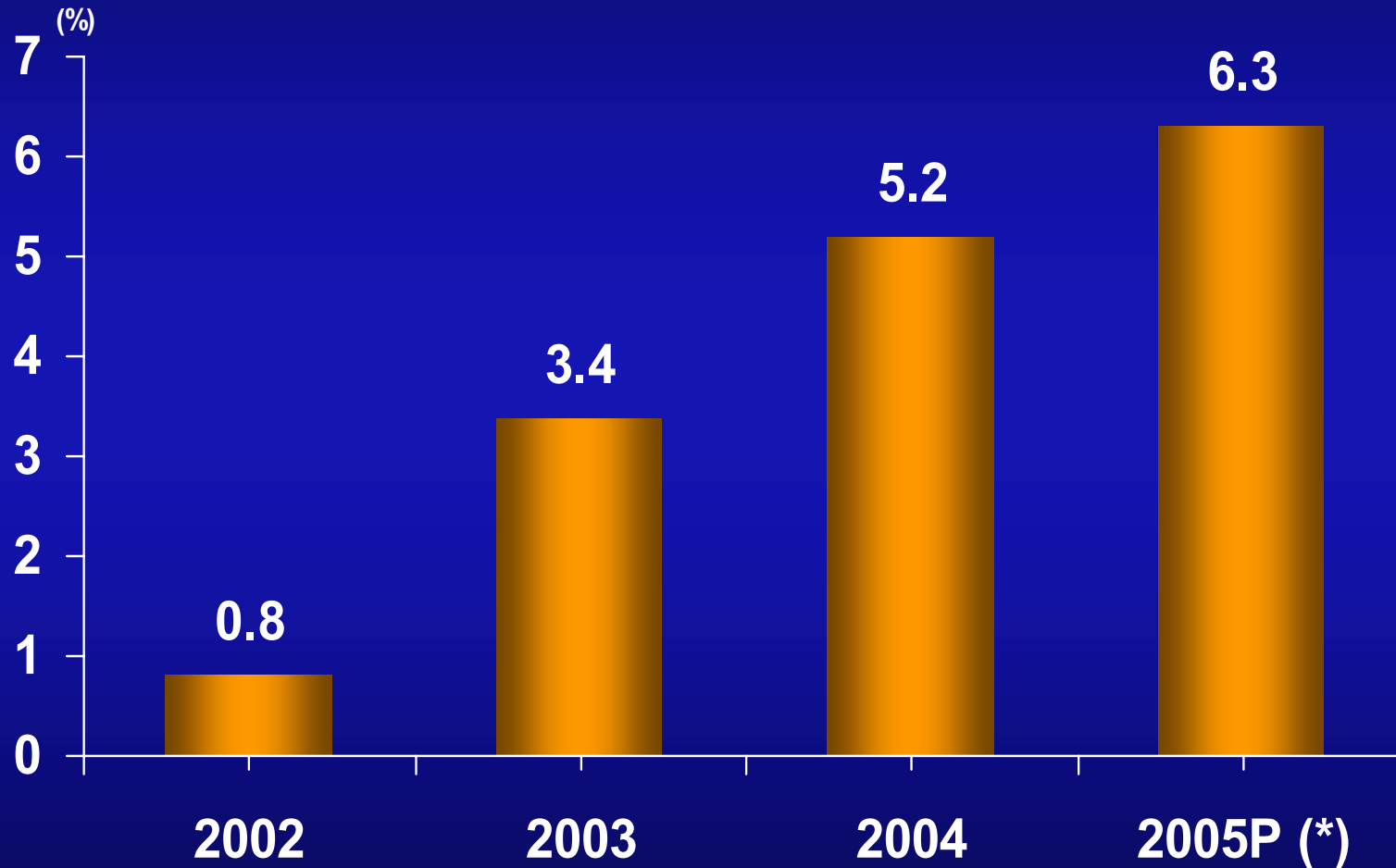


Improvement in Inflation Expectations






* CPI excluding energy, alcoholic beverages and tobacco products, other products having administrated prices and indirect taxes.



Current Account Deficit (percent of GNP)



(*) GNP forecast is taken from 2006 Annual Program.

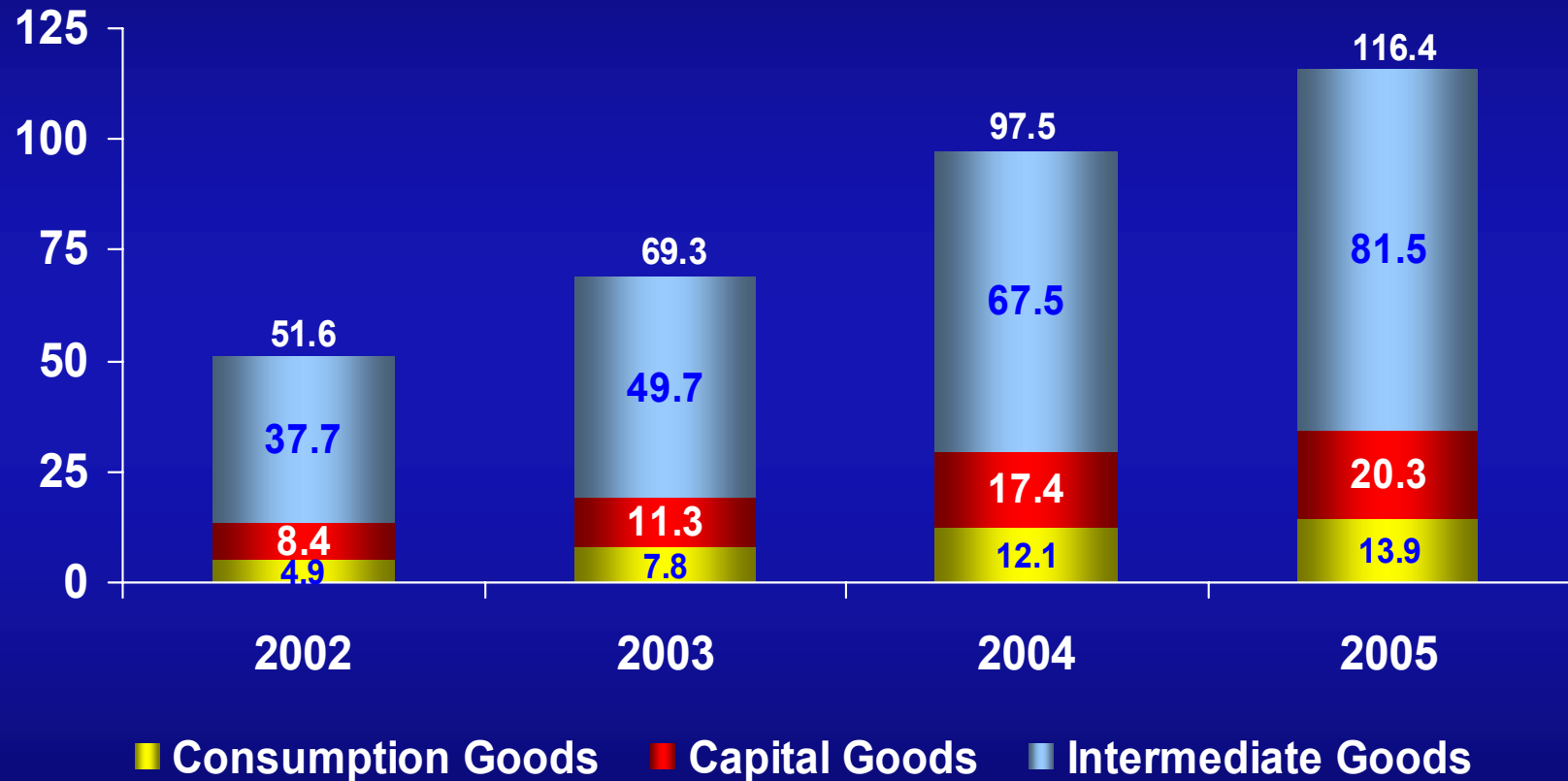
Current Account Deficit – A Quick Recap

- ✓ **Current account deficit has not been driven by fiscal expansion or monetary loosening but...**
 -  **High energy prices**
 -  **Productivity and private sector led growth**
 -  **Strength of the currency via increased confidence**

- ✓ **Despite the strength of the currency and sluggish growth in Turkey's main export market, Europe, exports more than doubled during the last three years showing the continuation of competitiveness mainly due to...**
 -  **Productivity gains**
 -  **Income policies in line with inflation**
 -  **Falling real interest rates**

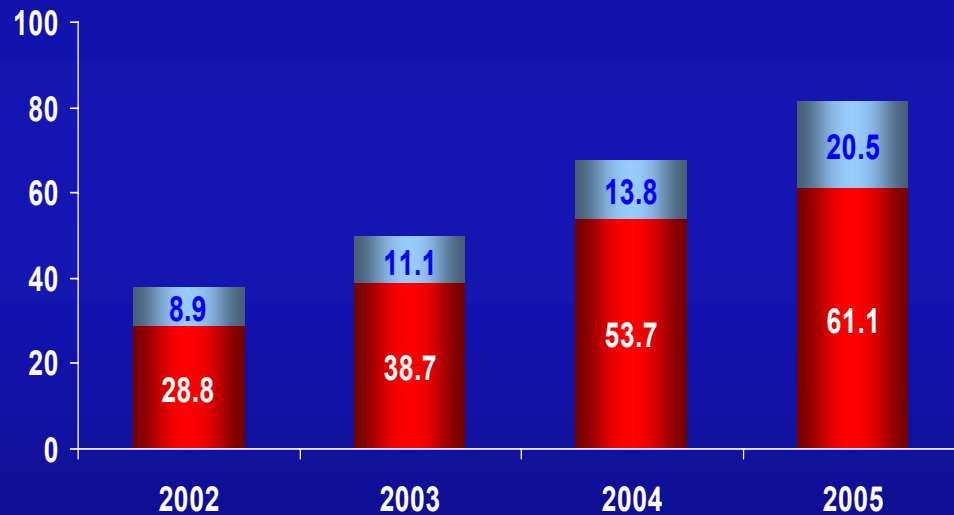
- ✓ **The quality of financing has been improving...**

Breakdown of Imports with respect to Economic Classifications (billion USD)



Intermediate Goods' Import and Oil Prices

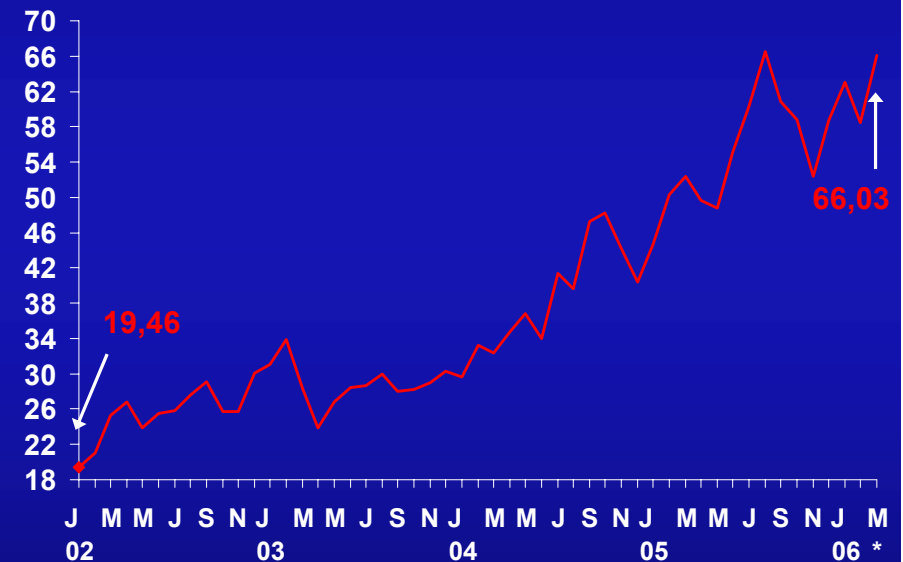
Intermediate Goods Import (billion USD)



■ Intermediate Imports excl. Energy ■ Energy Import *

(*) Excluding engine fuel

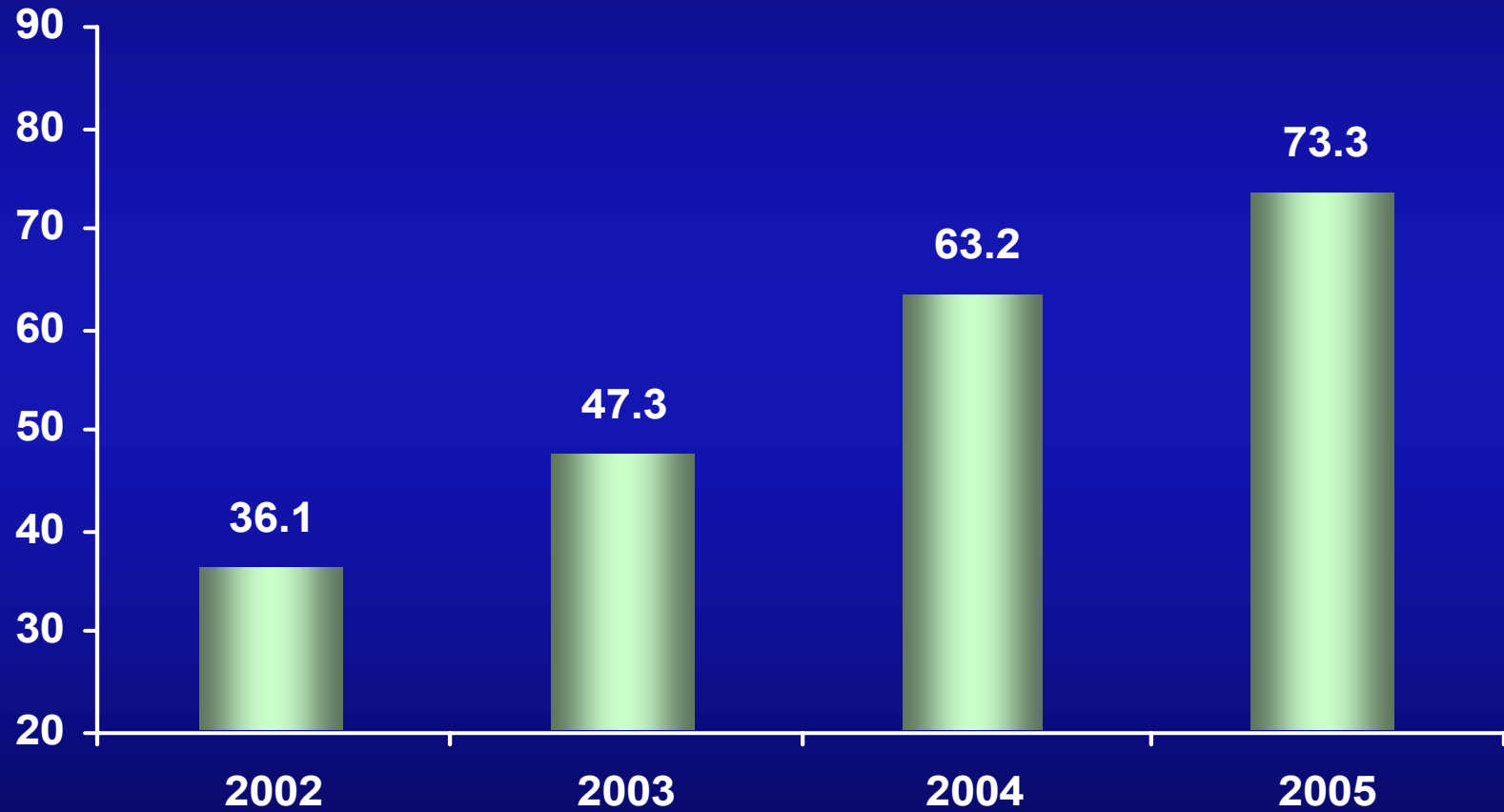
Brent Oil Price Per Barrel (USD)



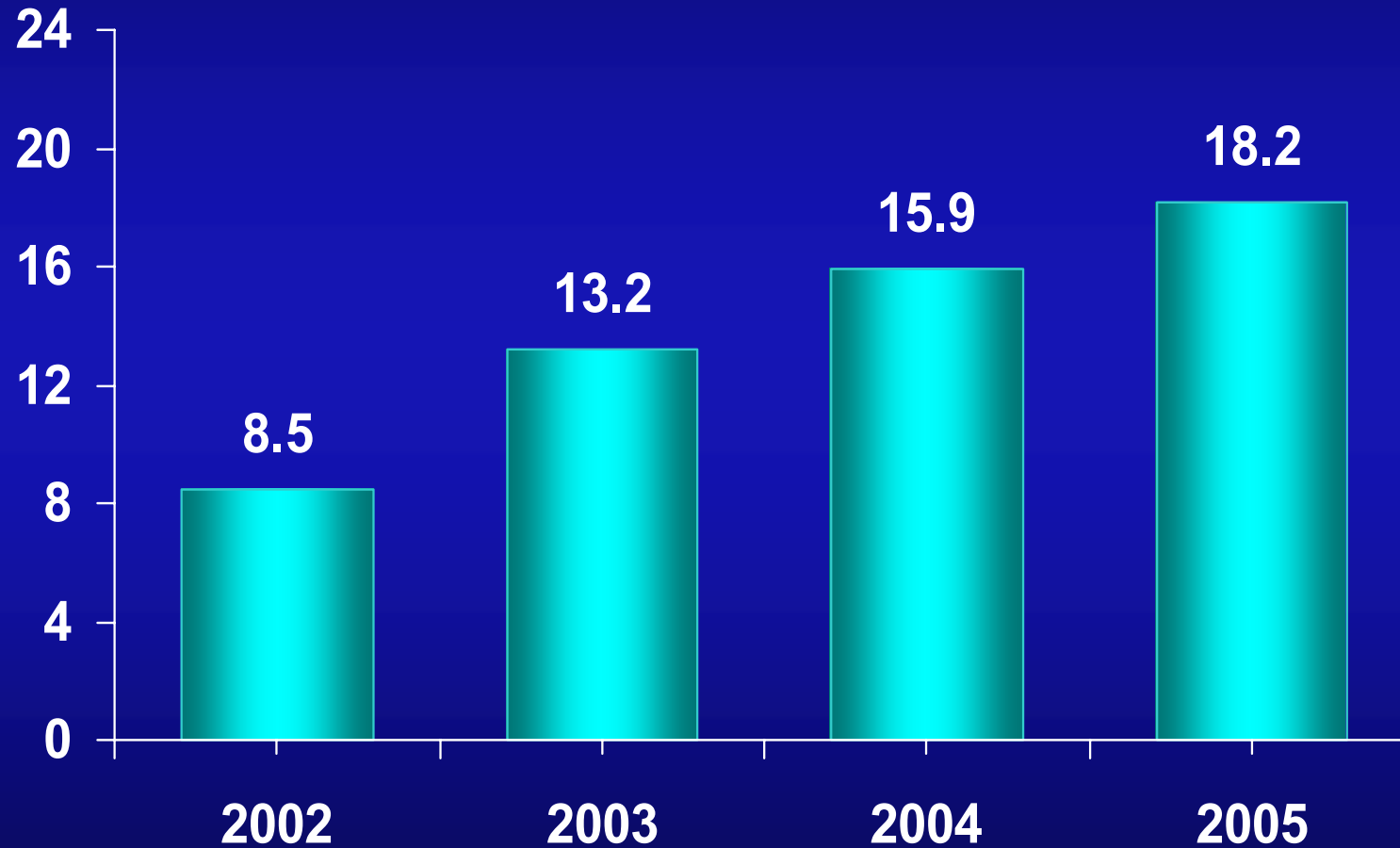
* As of March, 30

Source: Reuters

Exports (billion USD)



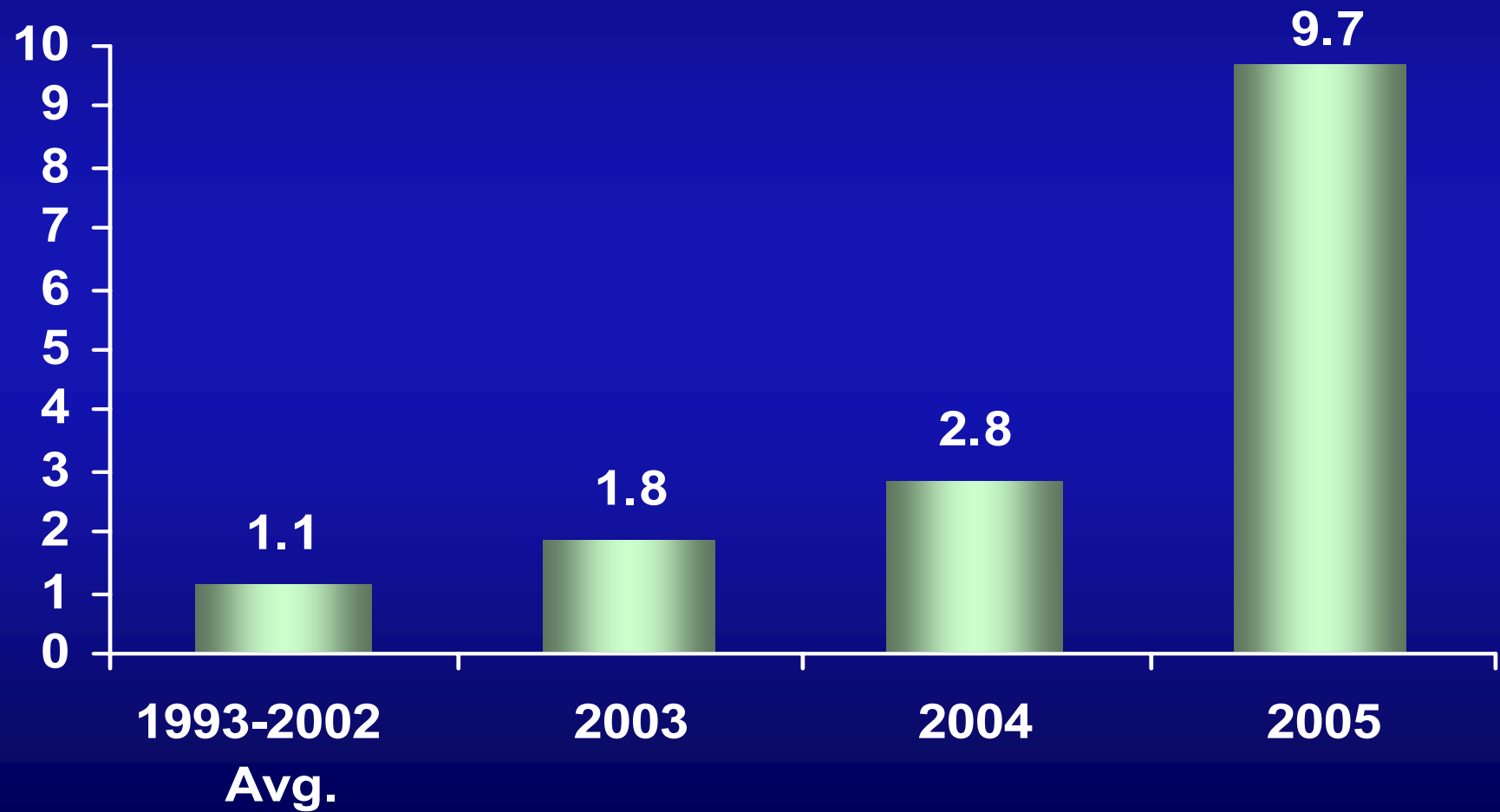
Tourism Revenues (billion USD)



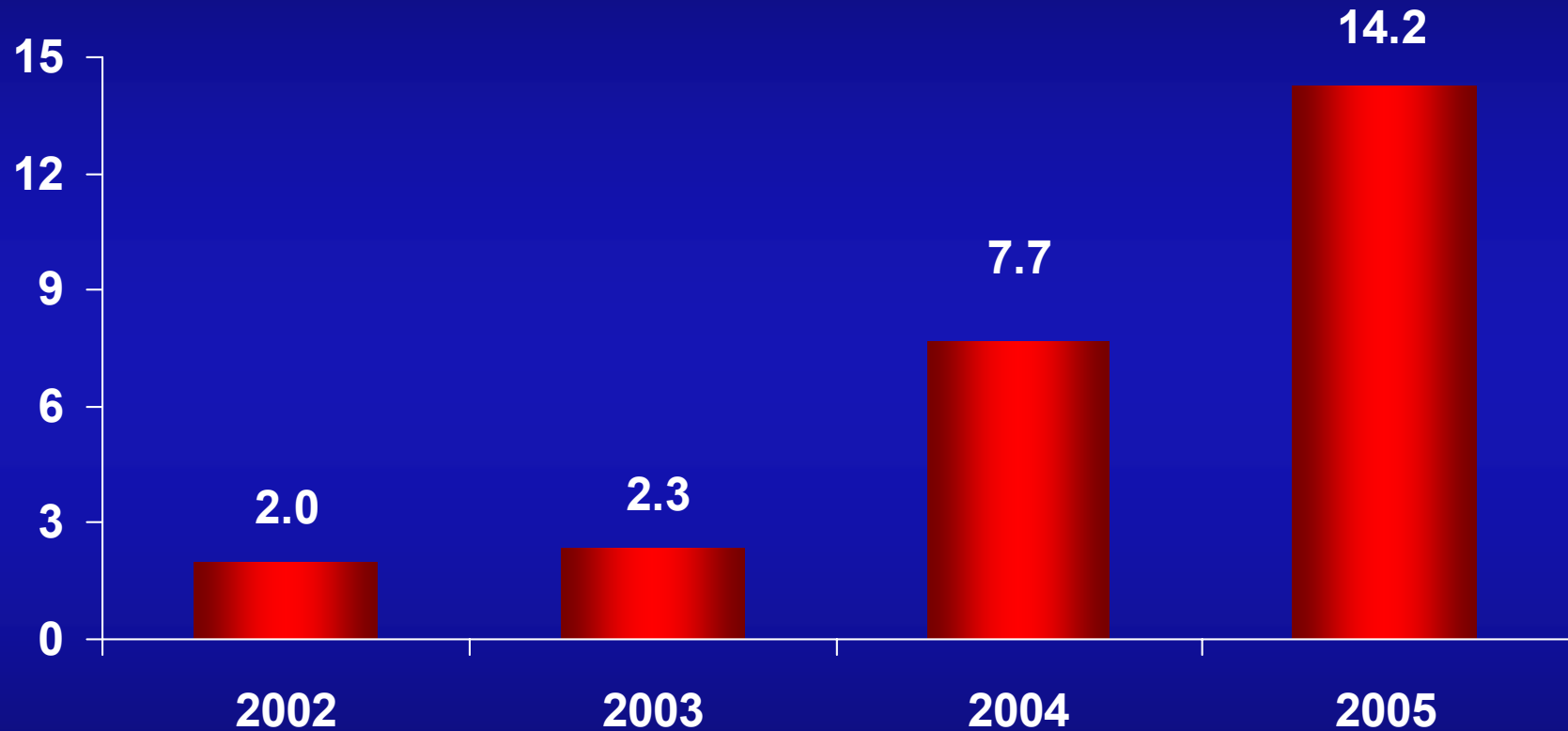
Balance of Payments (million USD)

	2003	2004	2005
Current Account Balance	-8,036	-15,604	-23,007
Net Errors and Omissions	4,941	2,267	2,109
Financing Requirement	-3,095	-13,337	-20,898
Capital Inflows	7,142	14,161	38,745
- Foreign Direct Investment	1,253	1,988	8,626
Inflows	1,752	2,847	9,673
Outflows	-499	-859	-1,047
- Debt and Equity Purchases by Non-Residents	2,519	7,452	11,603
Equity Securities	905	1,427	5,669
Debt Securities	1,614	6,025	5,934
- Public Sector	-299	-2,980	-4,924
General Government	711	1,667	-1,240
Monetary Authority	-1,010	-4,647	-3,684
- Banking Sector	2,085	574	8,731
- Private Sector excl. Banking	1,584	7,127	14,709
Total Credits	2,293	7,666	14,230
Others (Including Other Portfolio)	-709	-539	479
Central Bank Reserves	-4,047	-824	-17,847

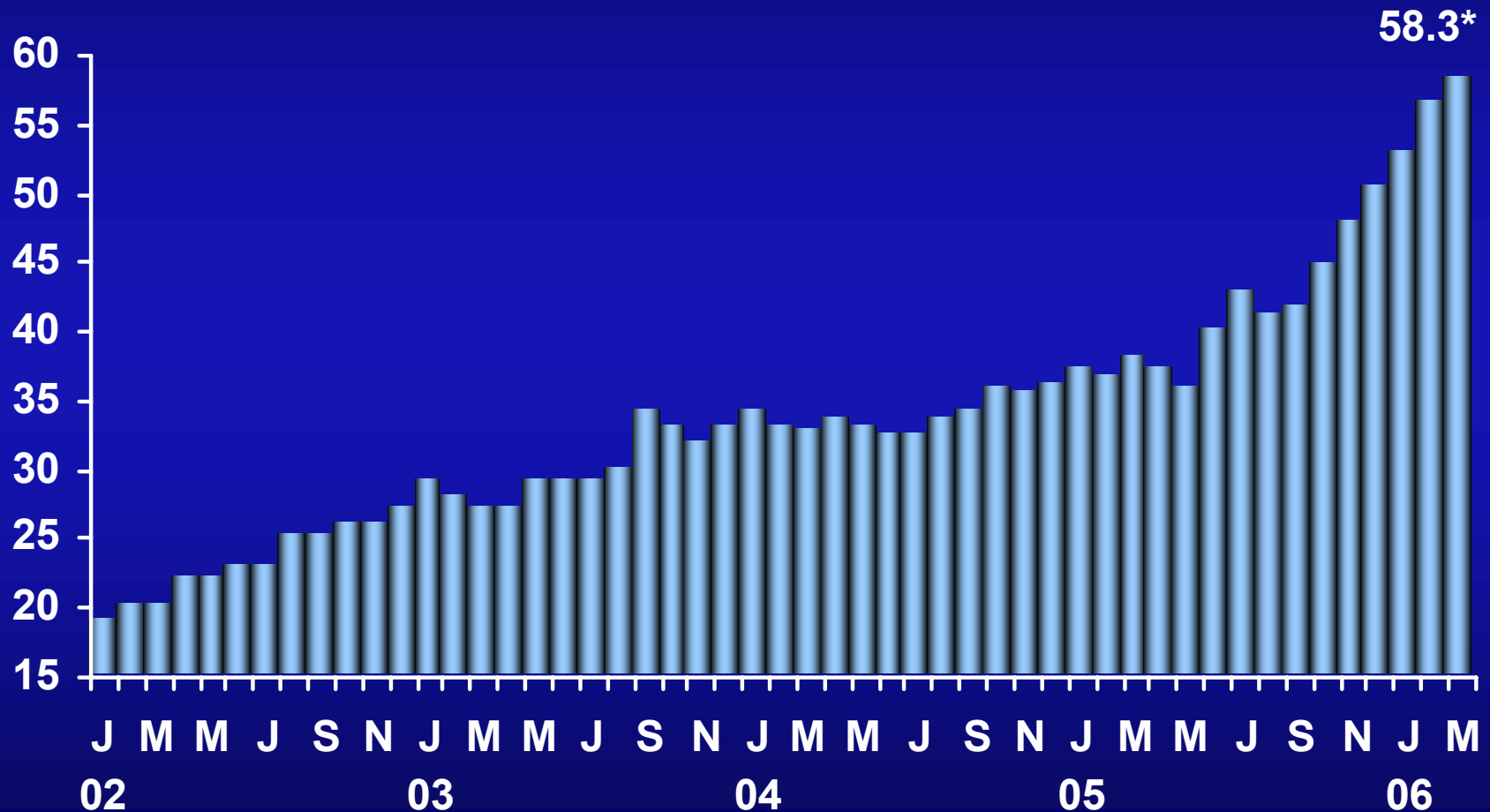
Foreign Direct Investment (billion USD)



Non-Banking Private Sector's Net External Financing for Trade and Investment (billion USD)



Central Bank's Gross Foreign Reserves (billion USD)

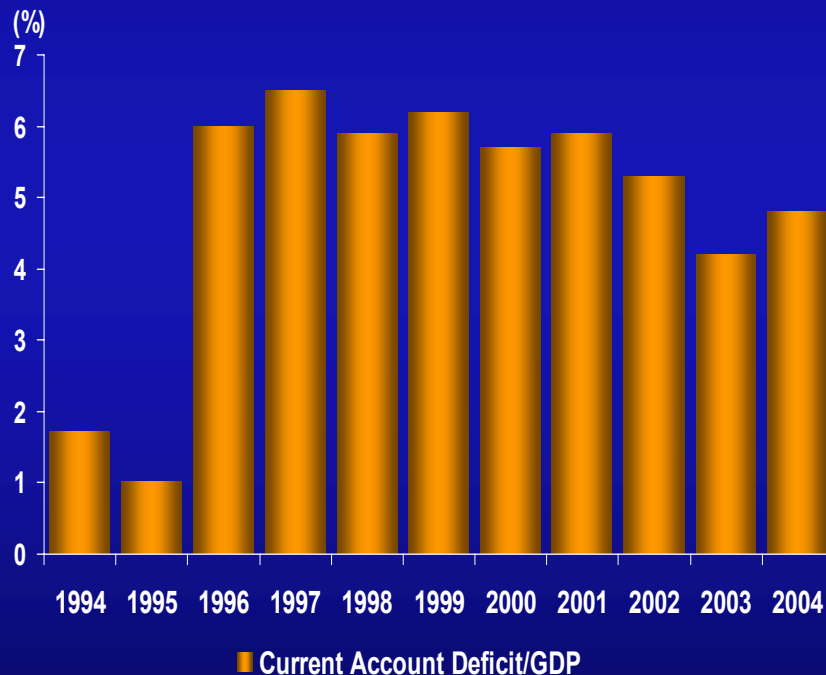


*As of March, 24

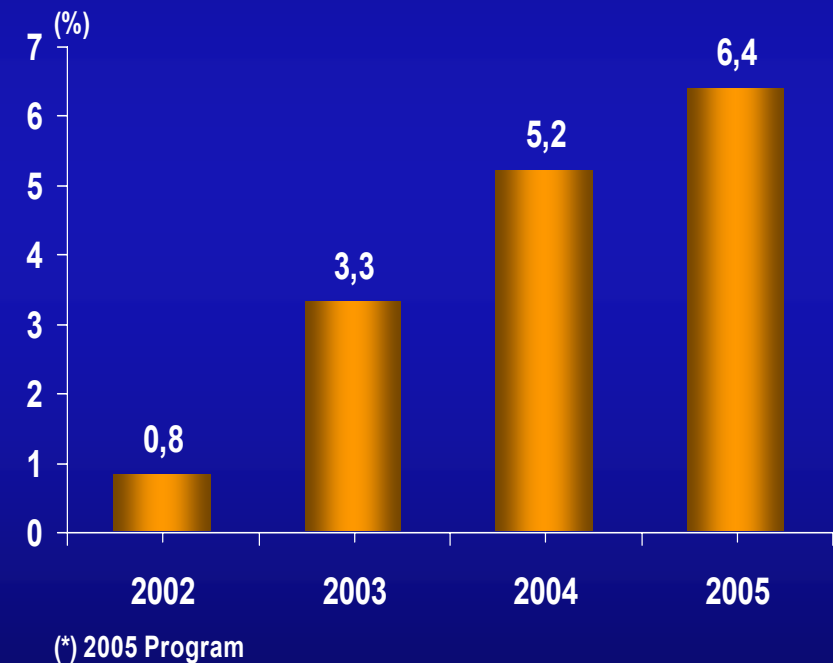
Current Account Deficit-

The Eastern European Countries' Experience

Current Account Deficit in Eastern European Countries(*)



Turkey: Current Account Deficit (percent of GDP)



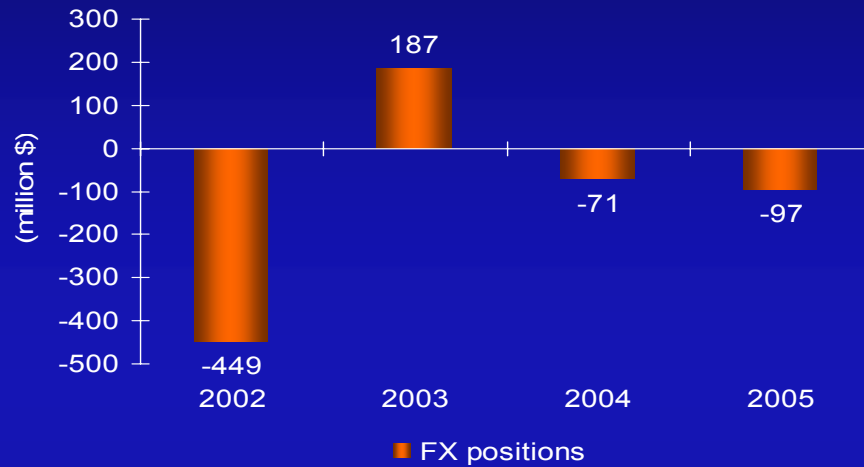
(*) Average of Current Account Deficits to GDP ratios for Poland, Hungary, Czech Republic and Slovakia

Current Account Deficit – Factors need to be considered...

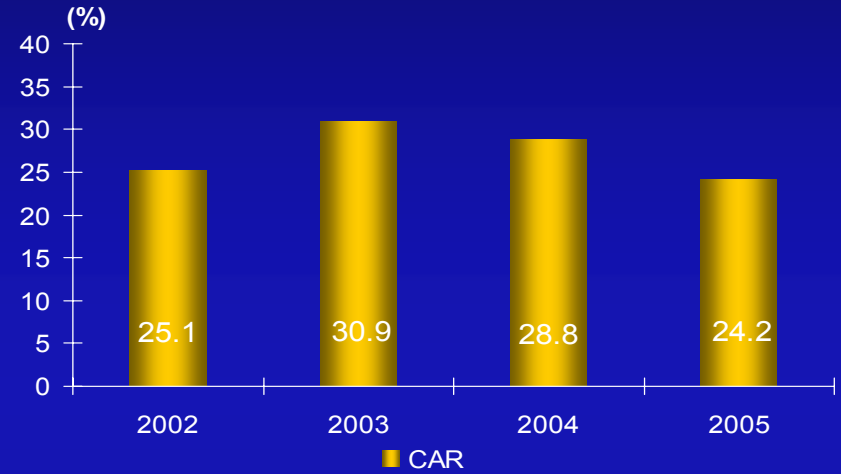
- ➔ Further tightening of fiscal policies
- ➔ Commitment to sound policies and structural reforms
- ➔ Floating exchange rate regime
- ➔ Strong financial sector

Strong Banking Sector

Prudent Open Positions



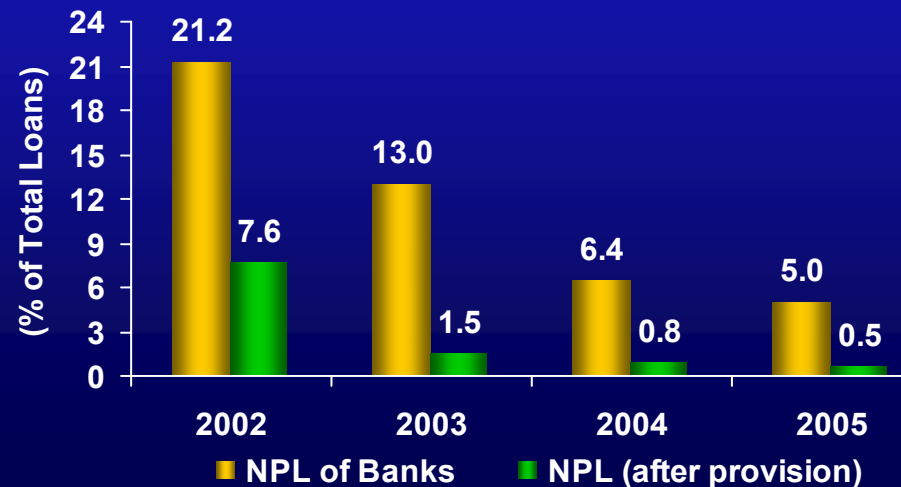
High Capital Adequacy



Rising Financial Intermediation



Declining Credit Risk



FISCAL POLICY & DEBT MANAGEMENT

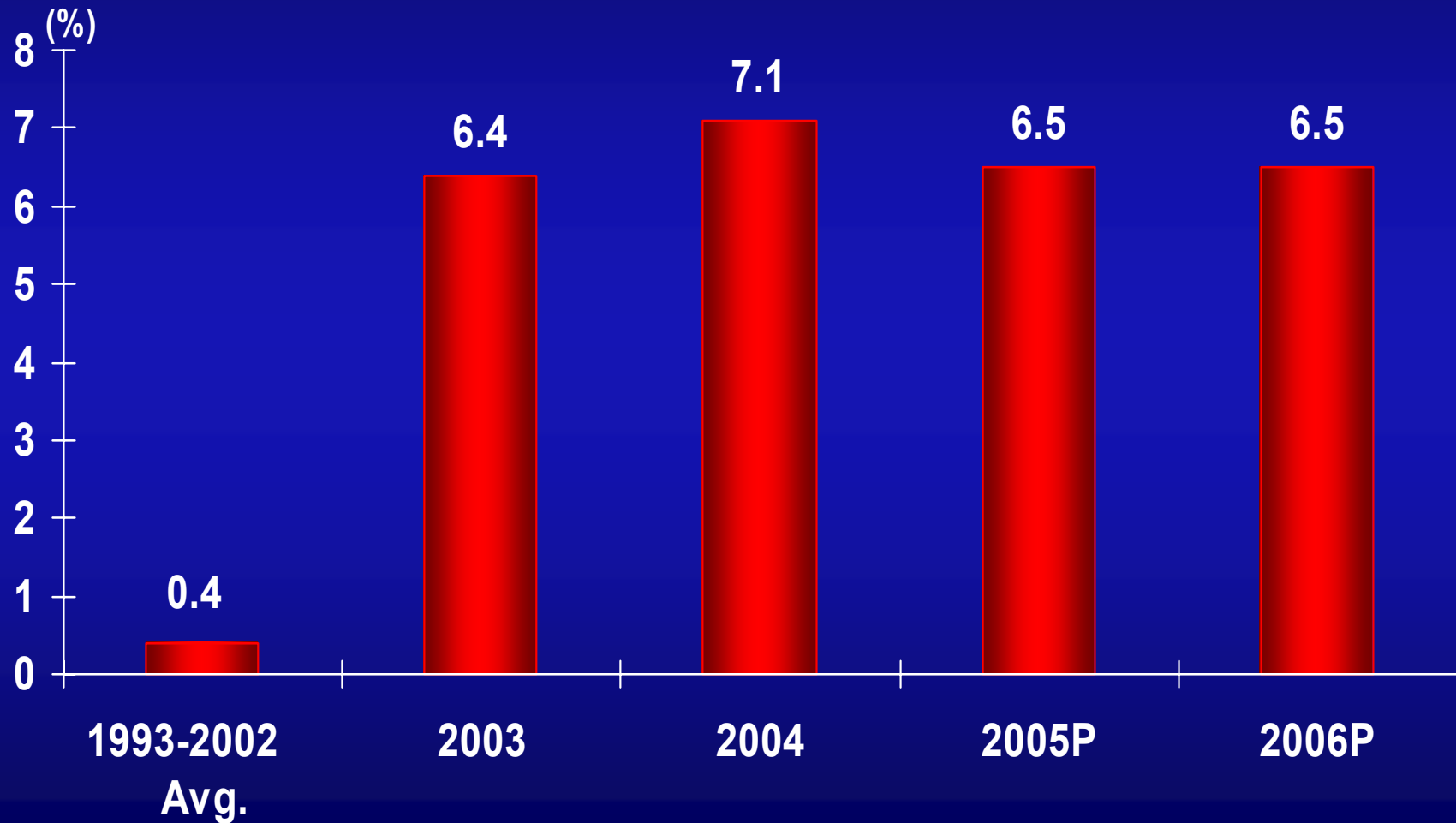
Main Targets in Debt Management

- ✓ **Lowering Debt Burden**
- ✓ **Lowering Sensitivity of Debt Stock to Risks**

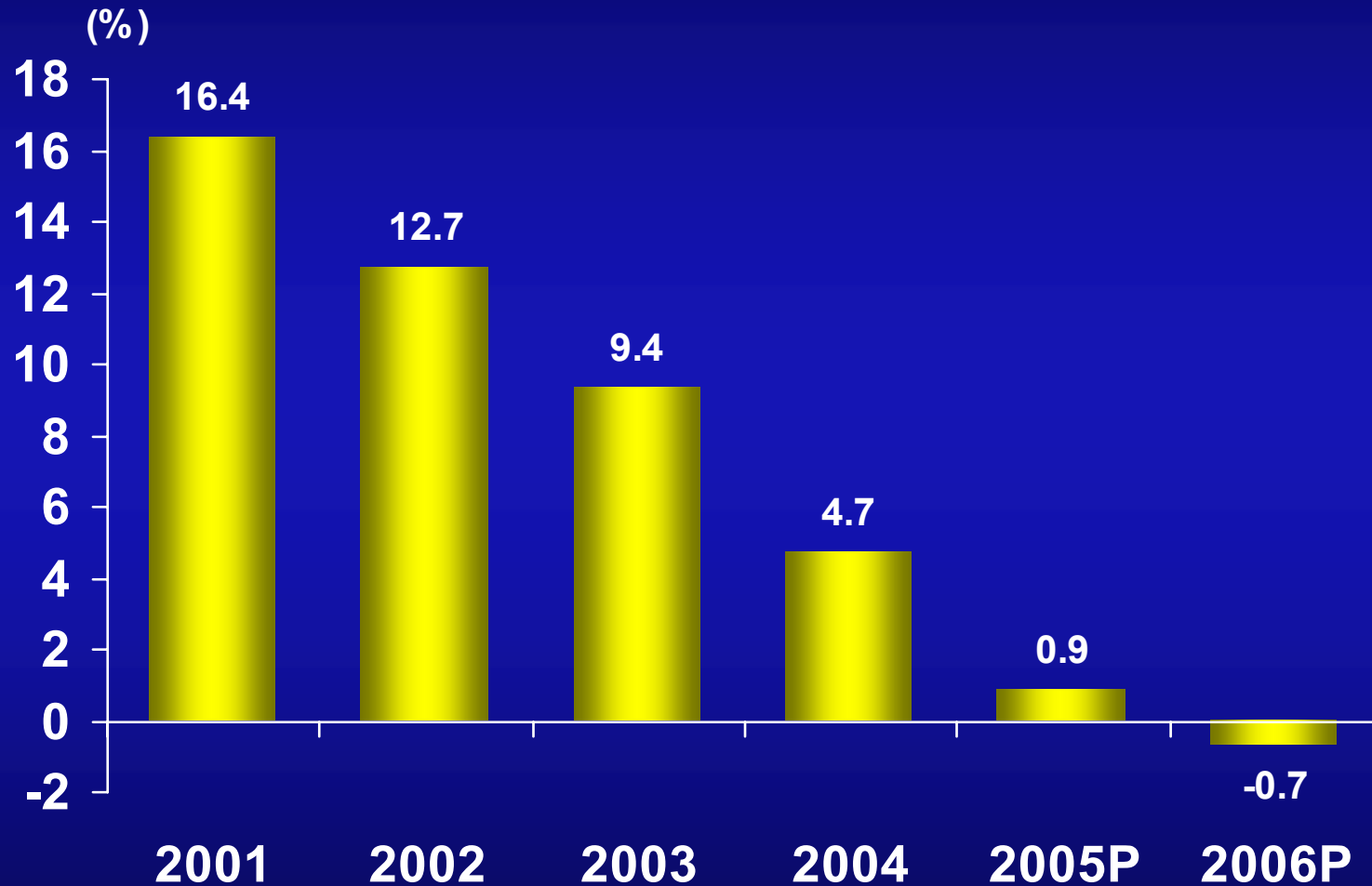


Main Instrument: Fiscal Discipline

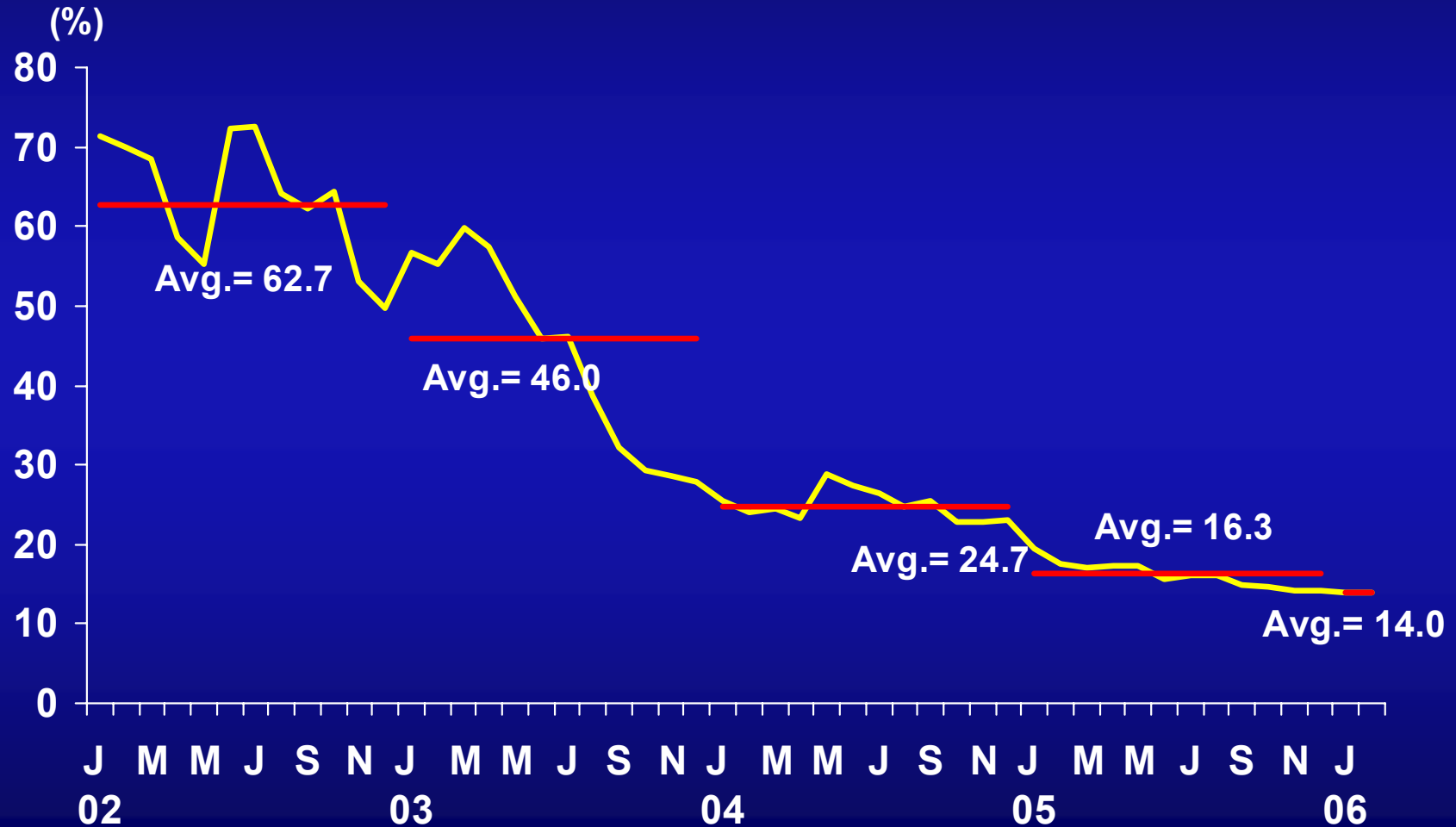
Public Sector Primary Balance (percent of GNP)



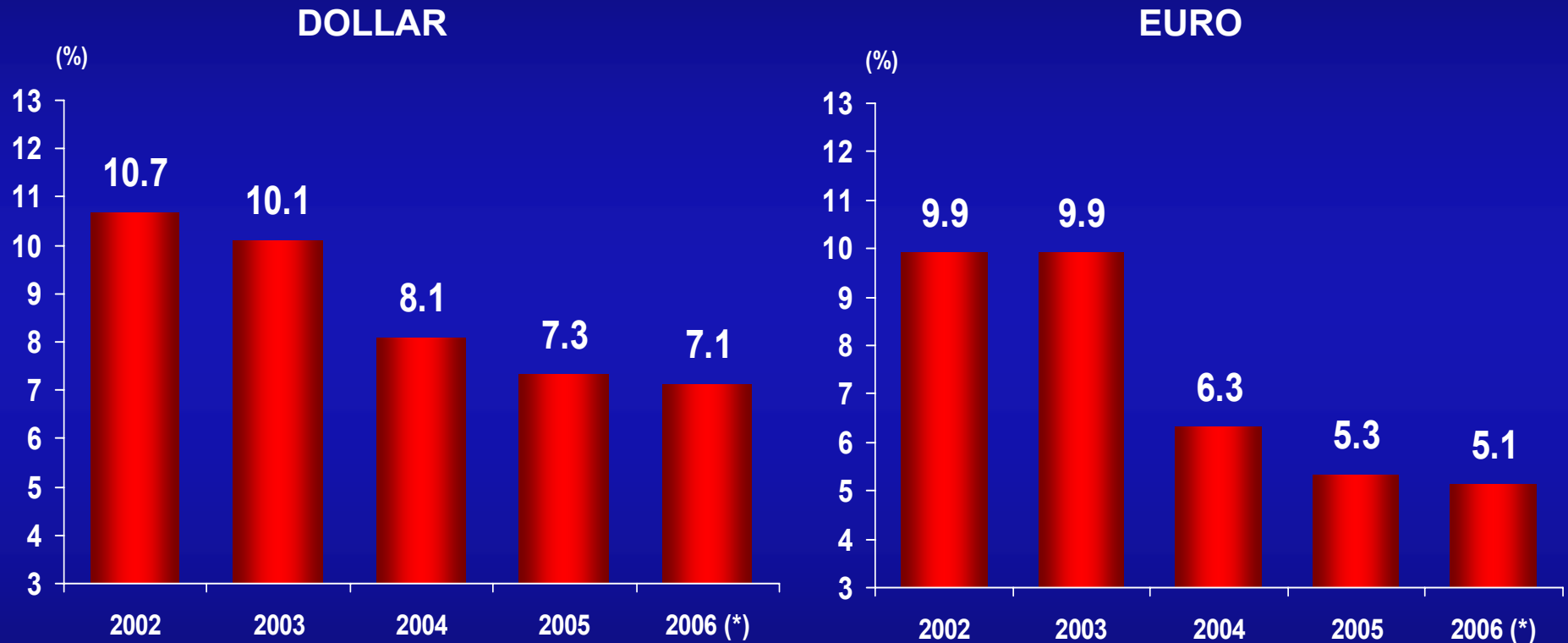
Public Sector Borrowing Requirement (percent of GNP)



Interest Rates on TRY Denominated Zero-Coupon Bonds (compounded annually)



Cost of External Borrowing



(*) January-March

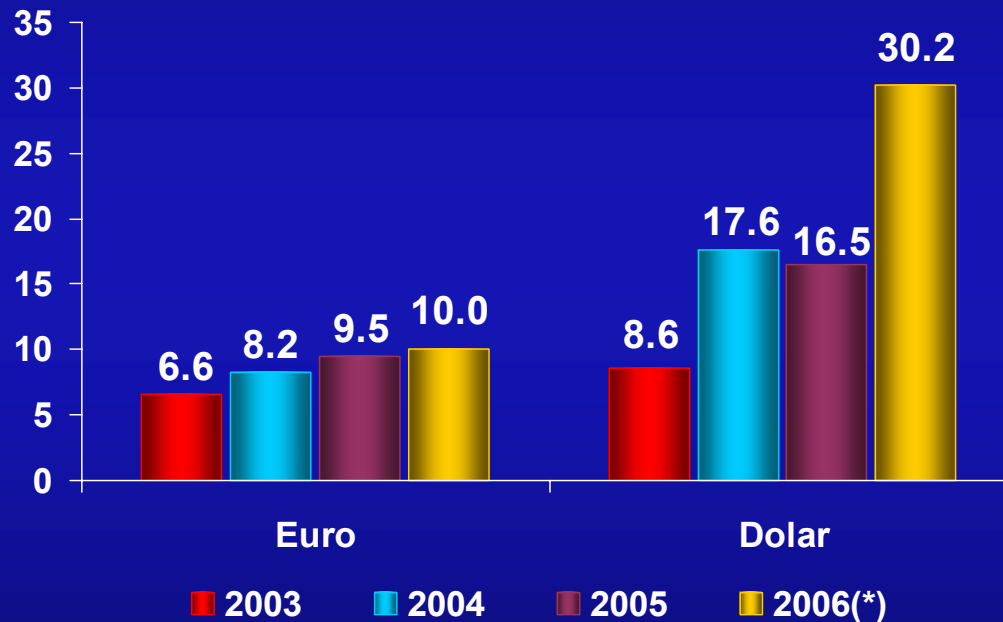
Spread Comparisons in Emerging Markets



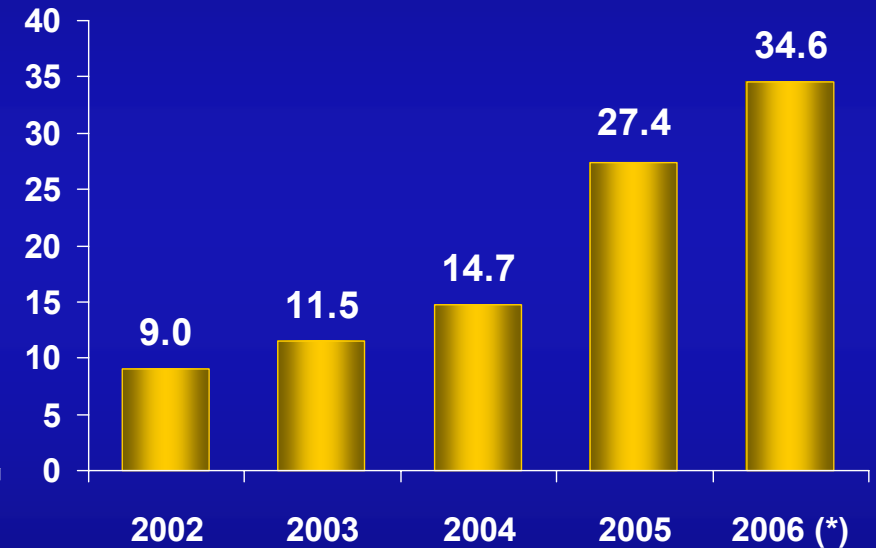
EMBI+ (Emerging Markets Bond Index): An index calculated by JP Morgan in order to monitor 18 EMBI emerging market bonds' performance.

Average Maturity of Borrowing

Eurobond Issuance (year)



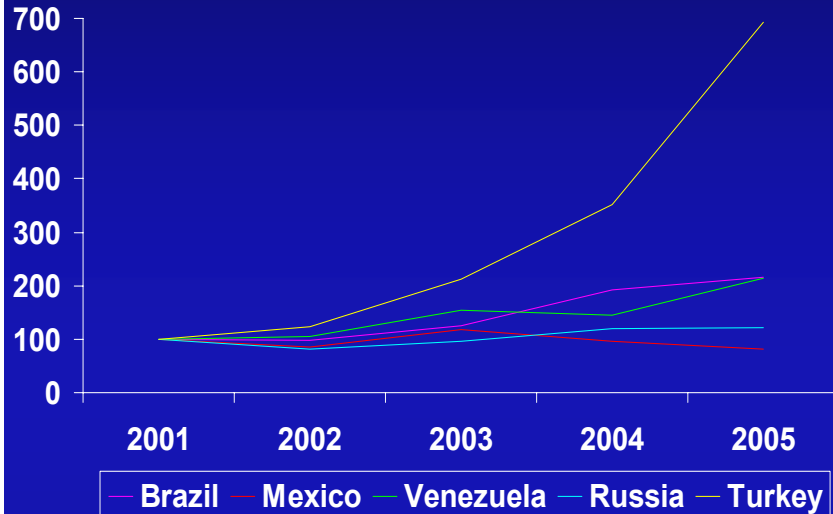
Domestic Borrowing (month)



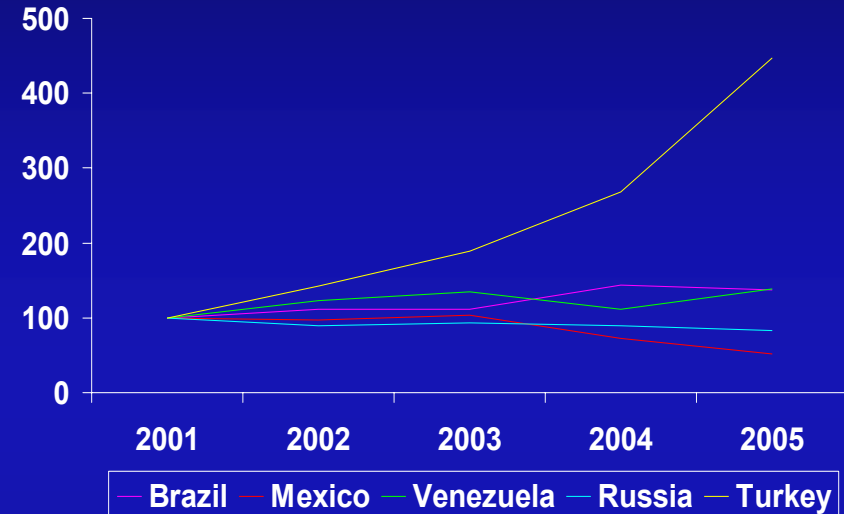
(*) As of March

Turkey offers liquidity

Increasing Volume by Region (2001=100)



Share of Market by Region (2001=100)



Top 5 Countries by Volume (in mil USD)

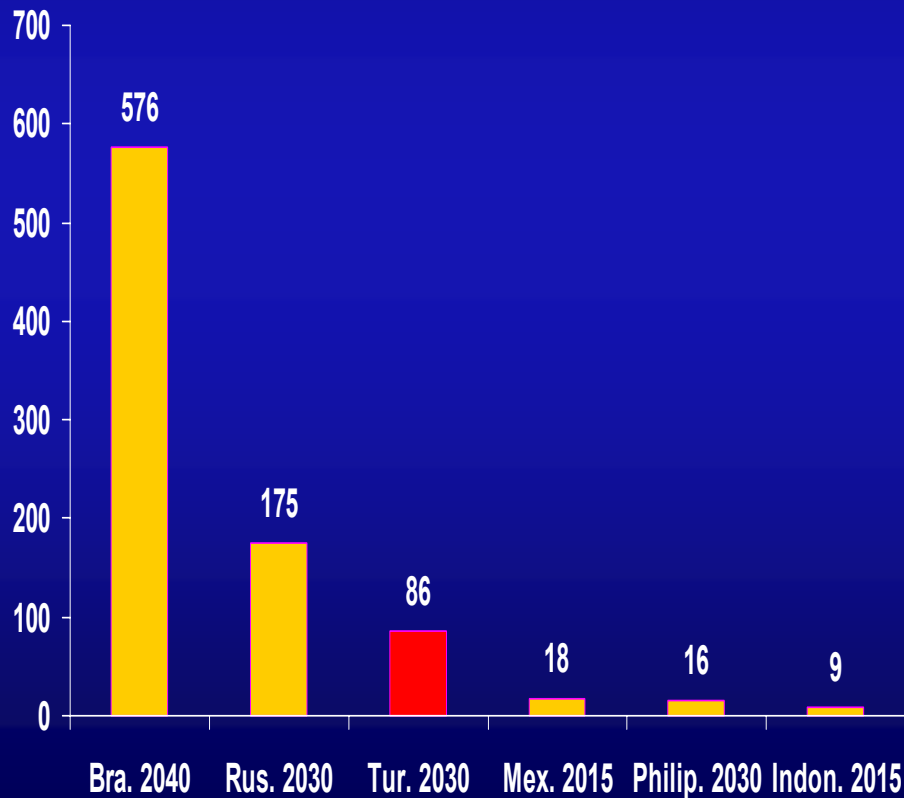
Source: EMTA 2005 Volume Survey	2005	2004
Brazil	1,554,360	1,382,344
Mexico	905,325	1,076,590
Turkey	463,607	235,718
Russia	364,518	356,532
Argentina	345,612	164,054

Relative Growth of Local Markets (in mil USD)

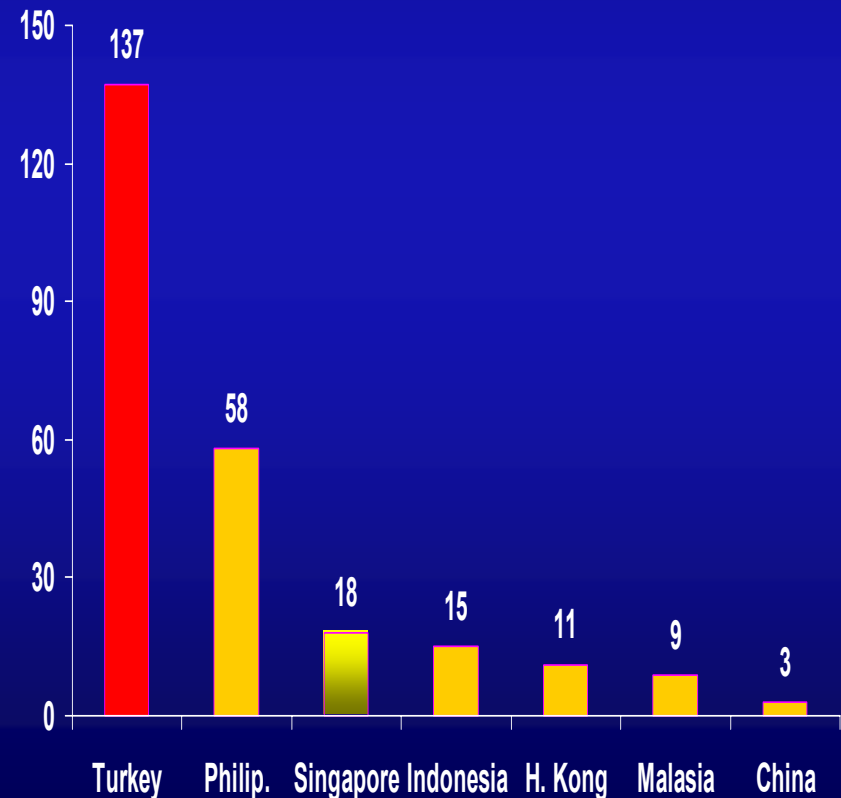
Source: EMTA 2005 Volume Survey	2005	2004	Growth (%)
Mexico	696,660	806,826	-14
Brazil	432,985	459,134	-6
Turkey	281,864	82,005	244
Poland	345,612	164,054	122
South Africa	187,825	147,809	27

Turkey offers liquidity

**Top Traded EM Sovereign Bonds
(billion USD)**

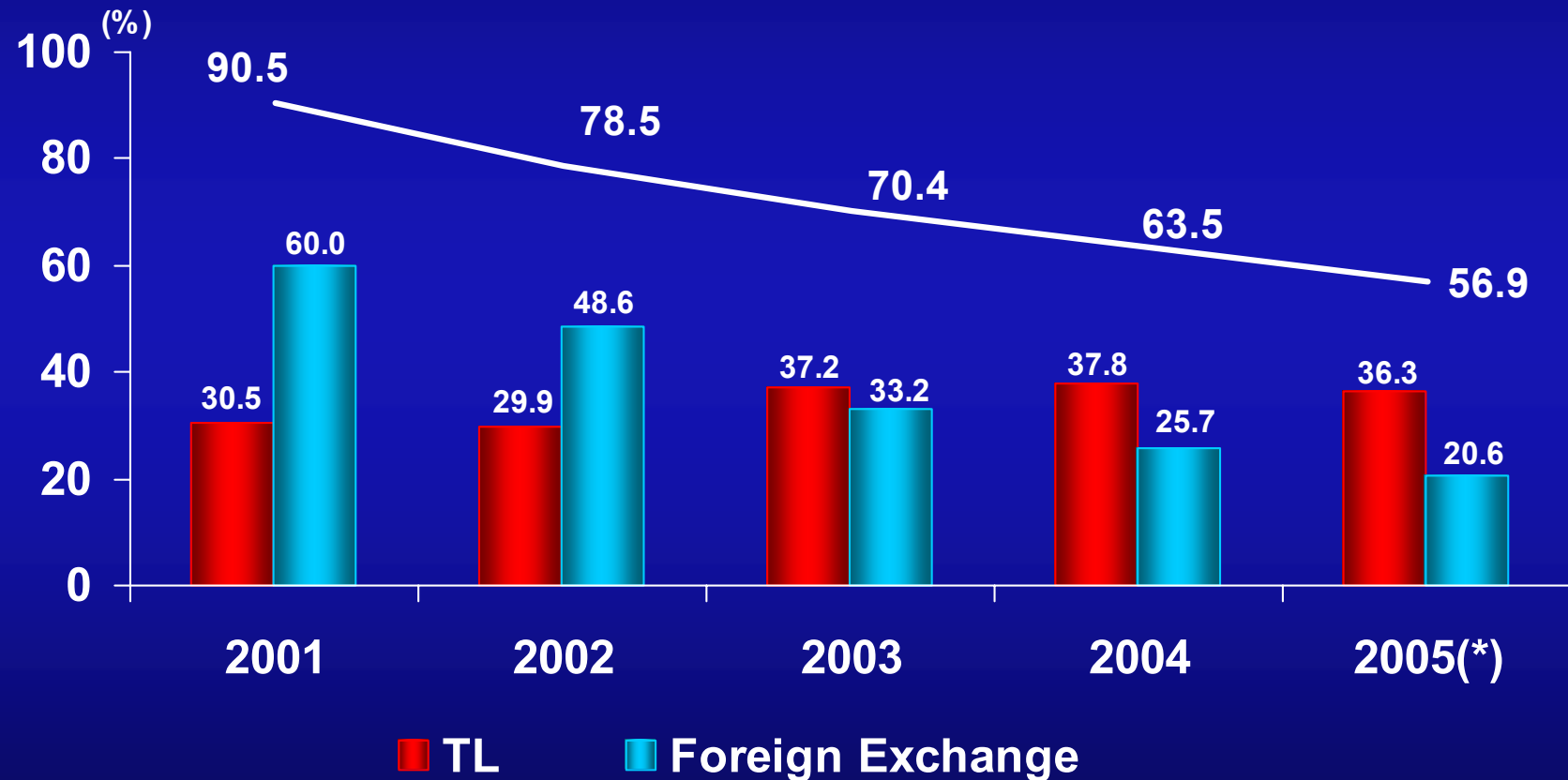


**Turkey Eurobonds Trading Volume
vs. Asia Comparables (billion USD)**



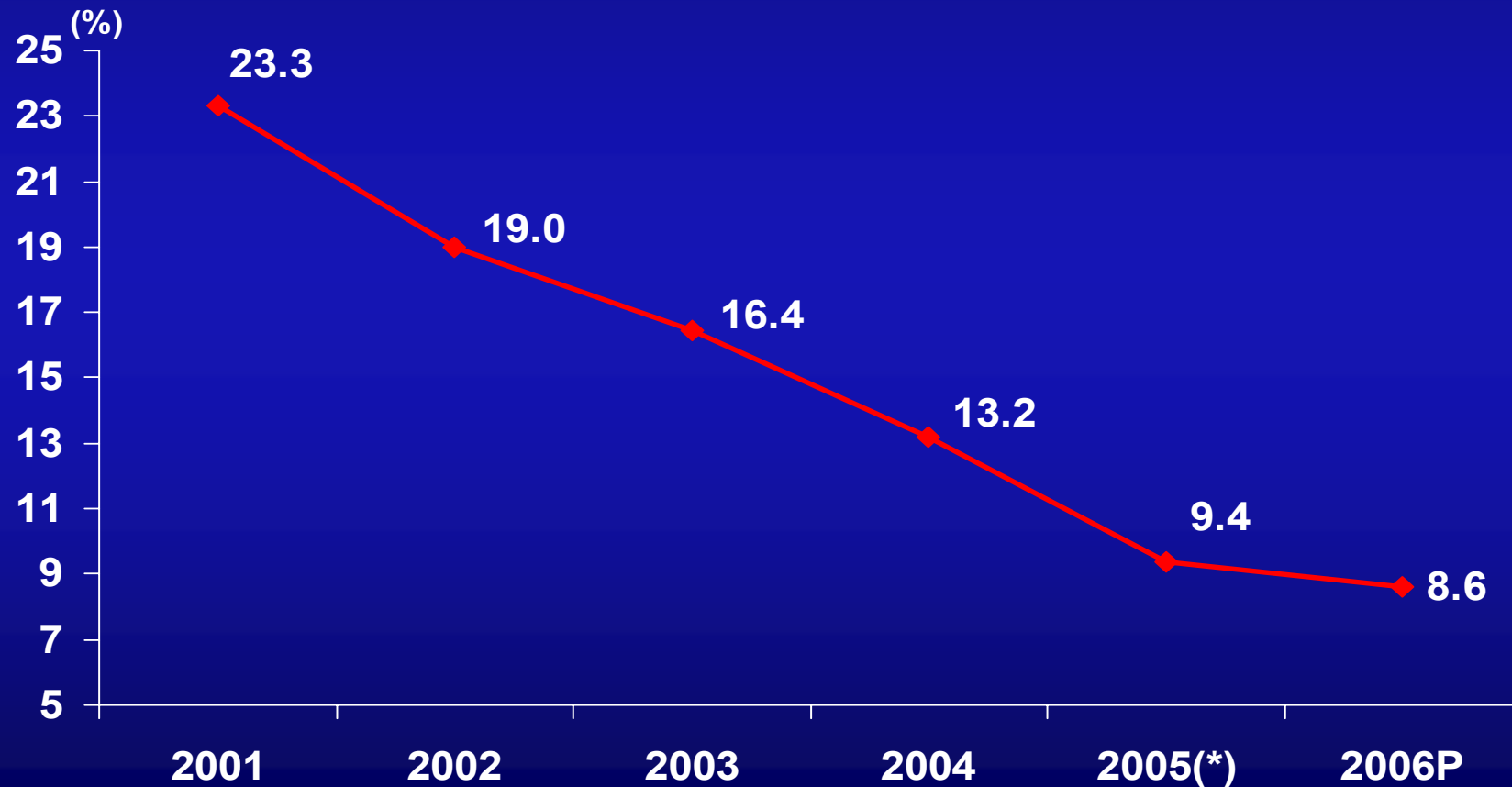
Source: EMTA 2005 Volume Survey

Public Net Debt Stock (percent of GNP)



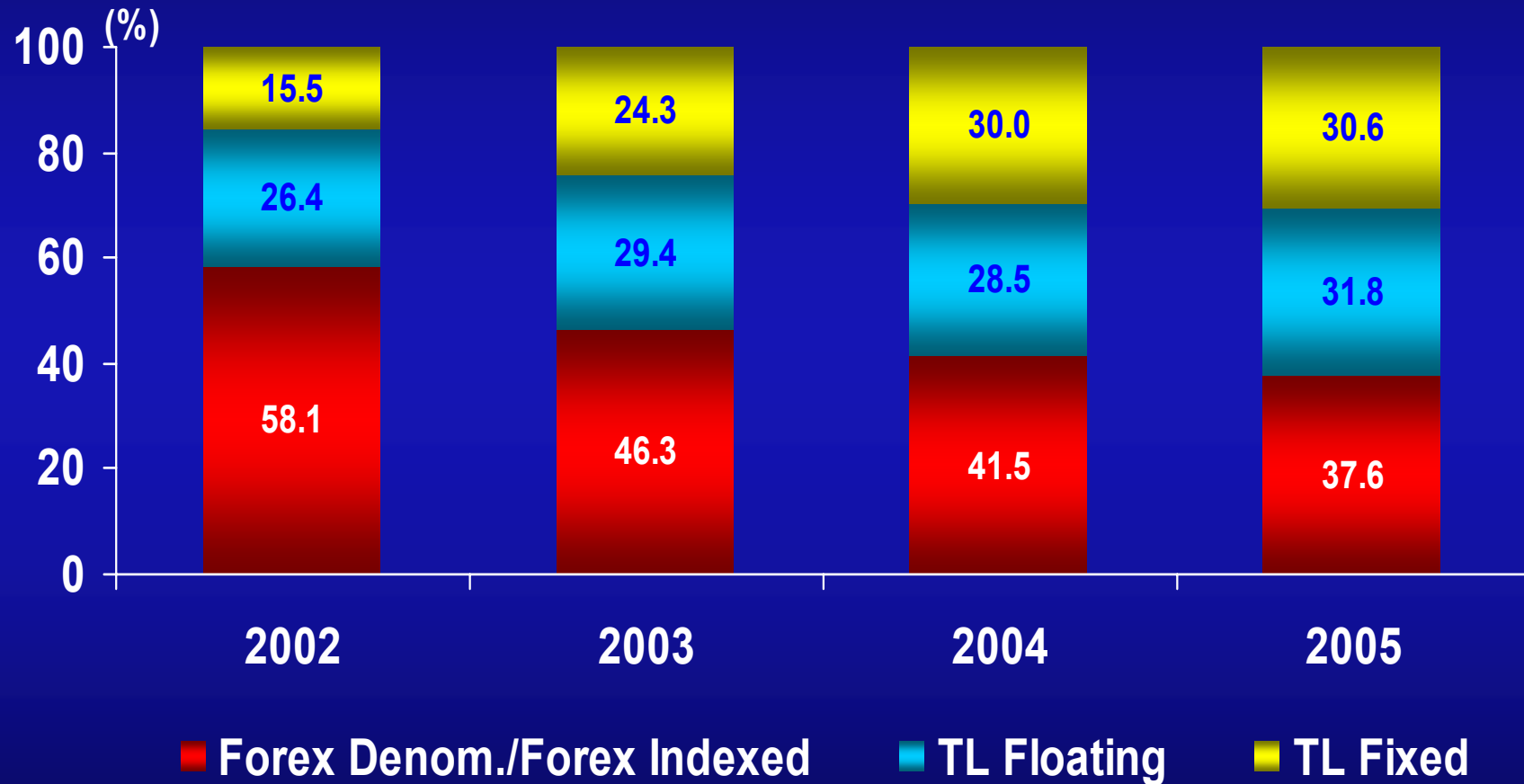
(*) End year forecast

Interest Expenditures (percent of GNP)



(*) End year forecast

Currency and Interest Structure of Central Government Gross Debt Stock



(*) Provisional

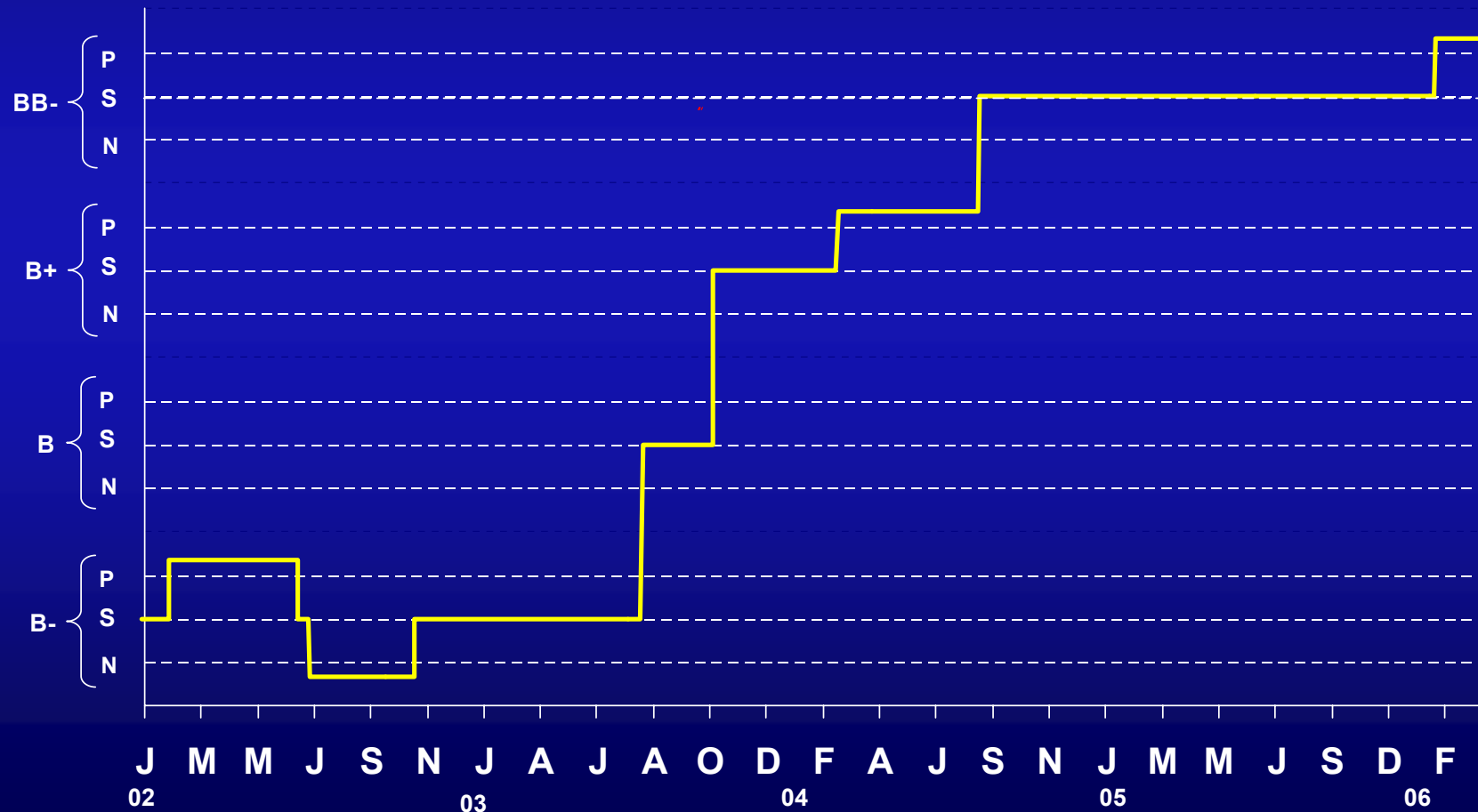
Financing Program

	(billion YTL) *	
	2005 Realization	2006 Program
I- TOTAL DEBT SERVICE	188.6	168.4
Domestic Debt Service	167.4	144.5
Principal	128.2	108.8
Interest	39.2	35.7
External Debt Service	21.1	23.8
Principal	14.9	17.4
Interest	6.3	6.4
II- FINANCING	188.6	168.4
Financing Other Than Borrowing	36.2	40.2
Primary Surplus	32.2	30.2
Privatization Revenues	3.6	7.0
Collections from Receivables	0.4	3.1
Use of Cash Account	-9.6	0.0
Total Borrowing	161.9	128.1
External Borrowing	12.3	16.7
Bond Issues	8.6	7.5
International Institutions	3.3	6.8
Other	0.4	2.5
Domestic Borrowing	149.6	111.4
Total Domestic Rollover Ratio	89.4%	77.1%

(*) Cash basis

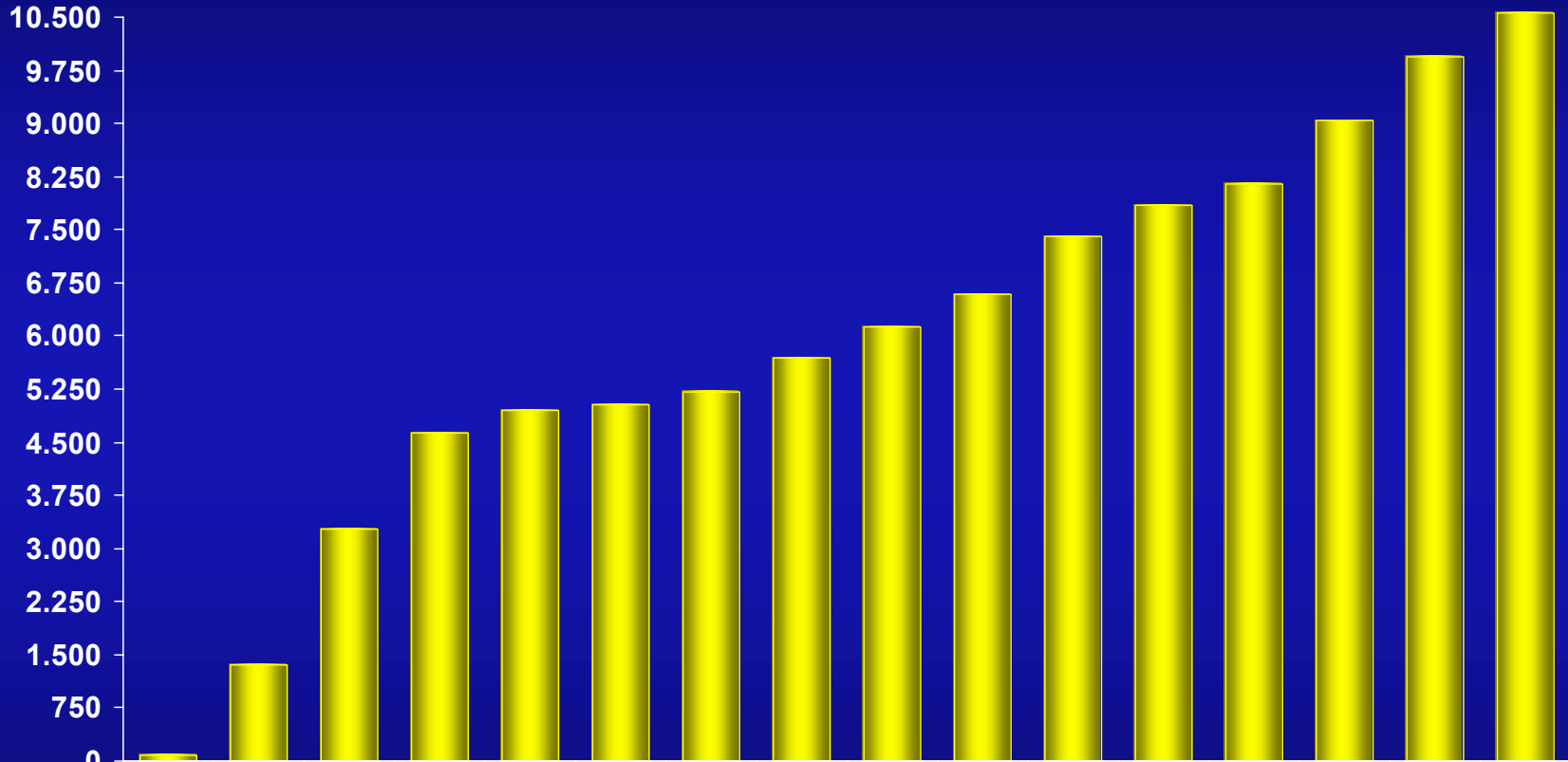
Improving Credit Rating

Standard & Poors Credit Rating



New TL Denominated Eurobond Issuances of Foreign Institutions

(million YTL)

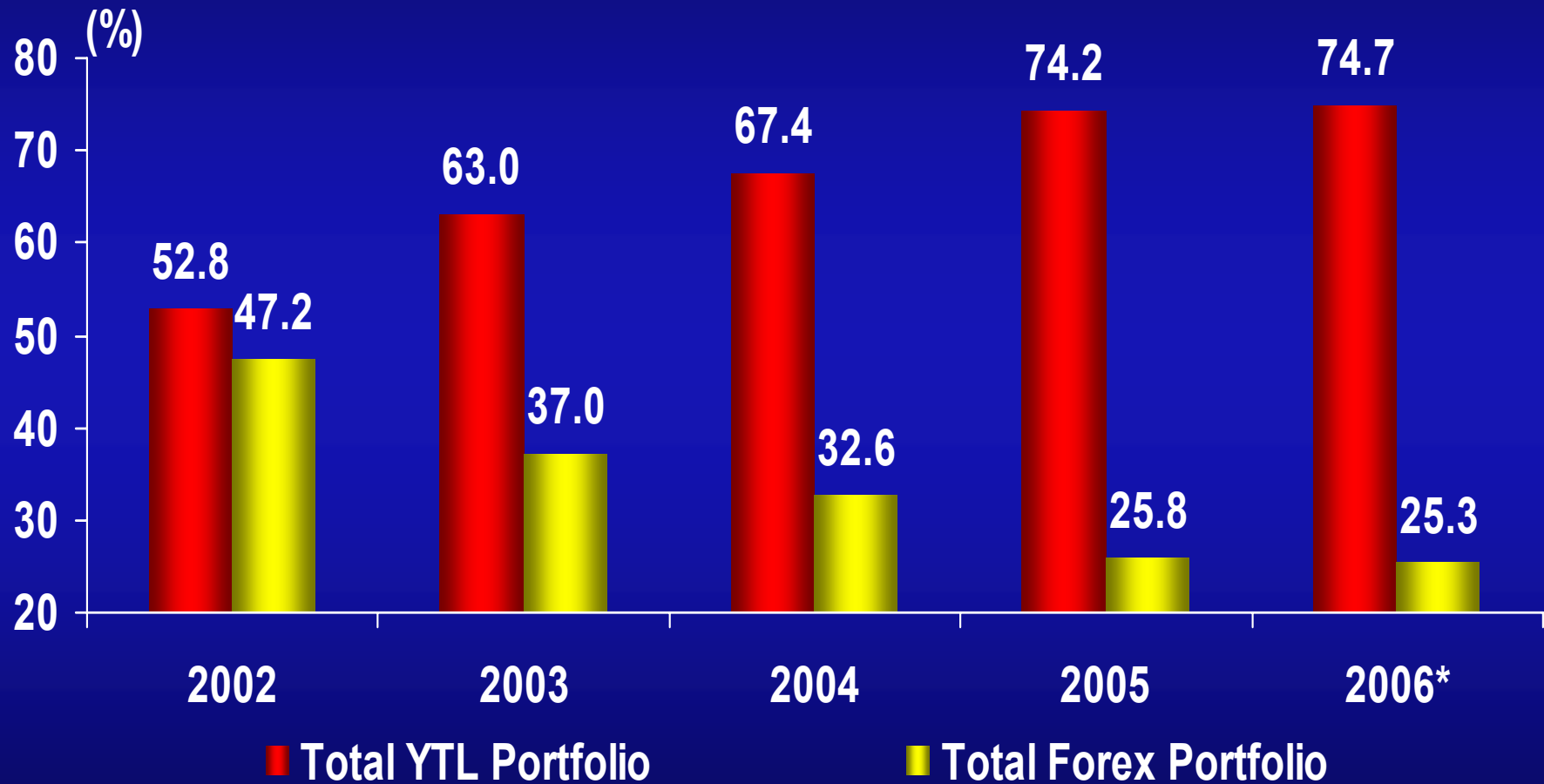


	2004 Dec	Jan	Feb	March	April	May	June	July	August	Sep	Oct	Nov	2005 Dec	Jan	Feb	Mar*
Monthly	70	1.280	1.925	1.350	335	75	180	480	435	450	820	445	300	890	905	620
■ Cumulative	70	1.350	3.275	4.625	4.960	5.035	5.215	5.695	6.130	6.580	7.400	7.845	8.145	9.035	9.940	10.560
Dollar Equivalence (**)	51	1.002	2.472	3.524	3.772	3.826	3.959	4.319	4.645	4.982	5.587	5.916	6.139	6.808	7.490	7.962

(*) As of March 28, 2006 – Source : Reuters

(**) Calculated using Central Bank's benchmark foreign exchange rates at the date of announcement for issuance (million USD)

Portfolio Preference



* As of February 24, 2006

PROSPECTS

Main Targets for 2006-2008 Period

- ✓ **Maintaining Macroeconomic Stability and High Performance**
 - *Sustainable High Growth (GNP Growth of 5% and Current Account/GDP Ratio around 5-6%)*
 - *Further progress to meet Maastricht Criteria for Inflation and Public Debt Stock (Reducing inflation to 4% and Net Debt/GNP ratio by at least 10 percentage points by 2008)*
 - *Increasing Employment and Productivity*
- ✓ **Maintaining Structural Reforms for Increasing Flexibility in the Economy and Improving Competitiveness**
- ✓ **Further Strengthening Private Sector's Role in the Economy**

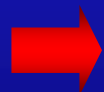
Structural Reforms

Banking Sector Reform:

- ✓ Bringing regulatory and supervisory framework more in line with best practices (New Banking Law)
- ✓ Accelerating the process of private sector participation in State Banks
- ✓ Adopting and implementing a more efficient asset resolution framework by SDIF

Social Security Reform:

- ✓ Reforming the existing pension schemes through parametric and institutional changes
- ✓ Introducing a universal health insurance system
- ✓ Unifying the different social security institutions under one umbrella



Both draft laws already passed from the Parliamentary Commission

Tax Reform:

- ✓ Revenue Administration Reform
- ✓ Reforming tax system to create a simple, transparent and stable tax structure

PIT (introducing parametric changes) draft law passed from the Parliament

CIT draft law is being discussed in the Parliament

Increasing Private Sector's Role in the Economy

- ✓ **Improving the investment environment both for domestic and foreign investors**
 - *Continuously reviewing and developing implementations that have an impact on investment environment*
 - *Active Investment Promotion Strategy*
- ✓ **Privatization**

EU ACCESSION NEGOTIATIONS

October 3, 2005

Turkey started accession negotiations

As of March 22, 2006

Number of Chapters, of which the screening process completed: 14

Number of Chapters, of which the screening process continuing: 3

Total: 17

Negotiations on the “science and research” and “education” chapters are expected to be launched soon

As of October 2006

Screening of all (35) Chapters are expected to be completed