

TURKEY BEYOND 2008



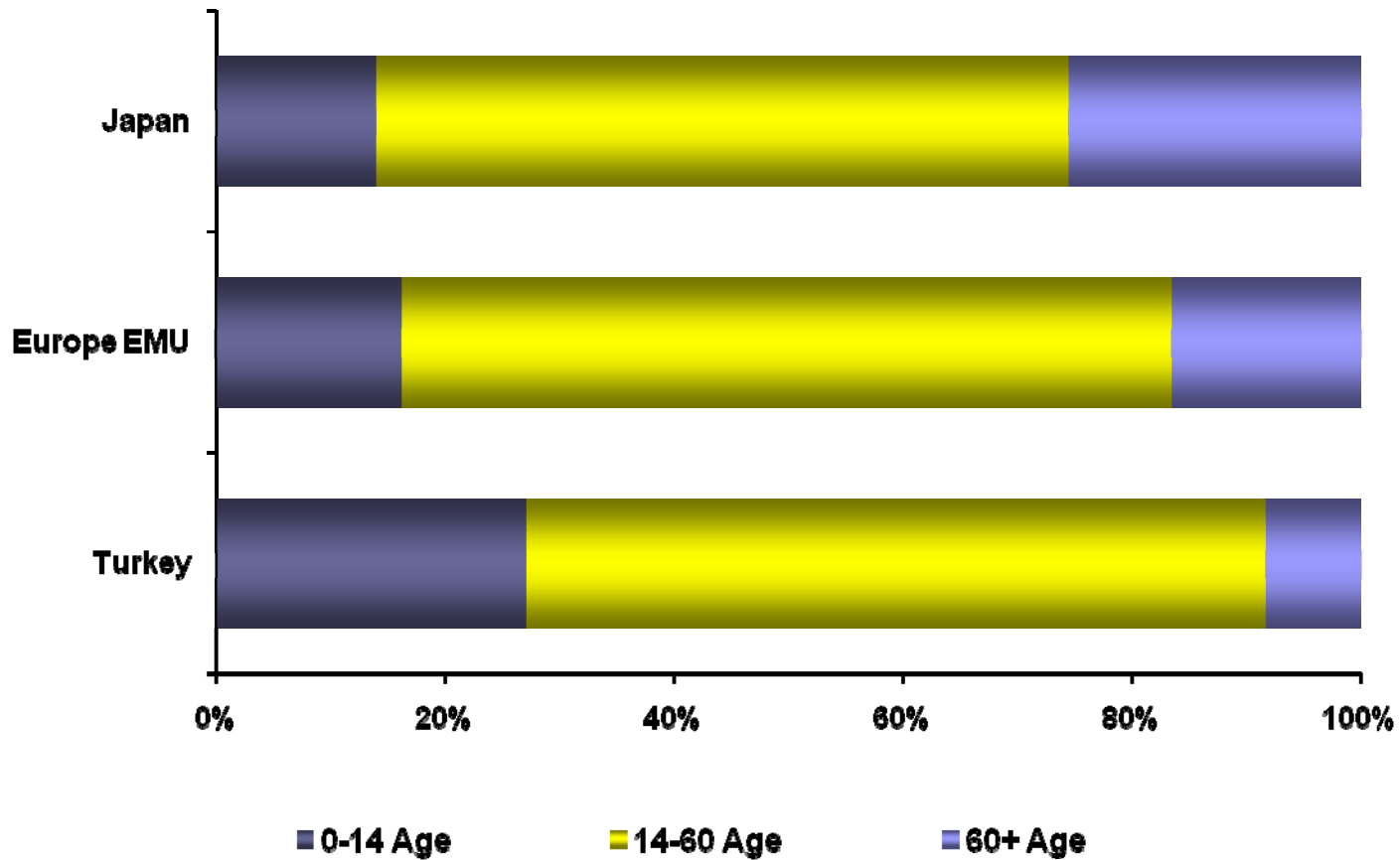
Mehmet ŞİMŞEK
Minister of Economy

April 2008



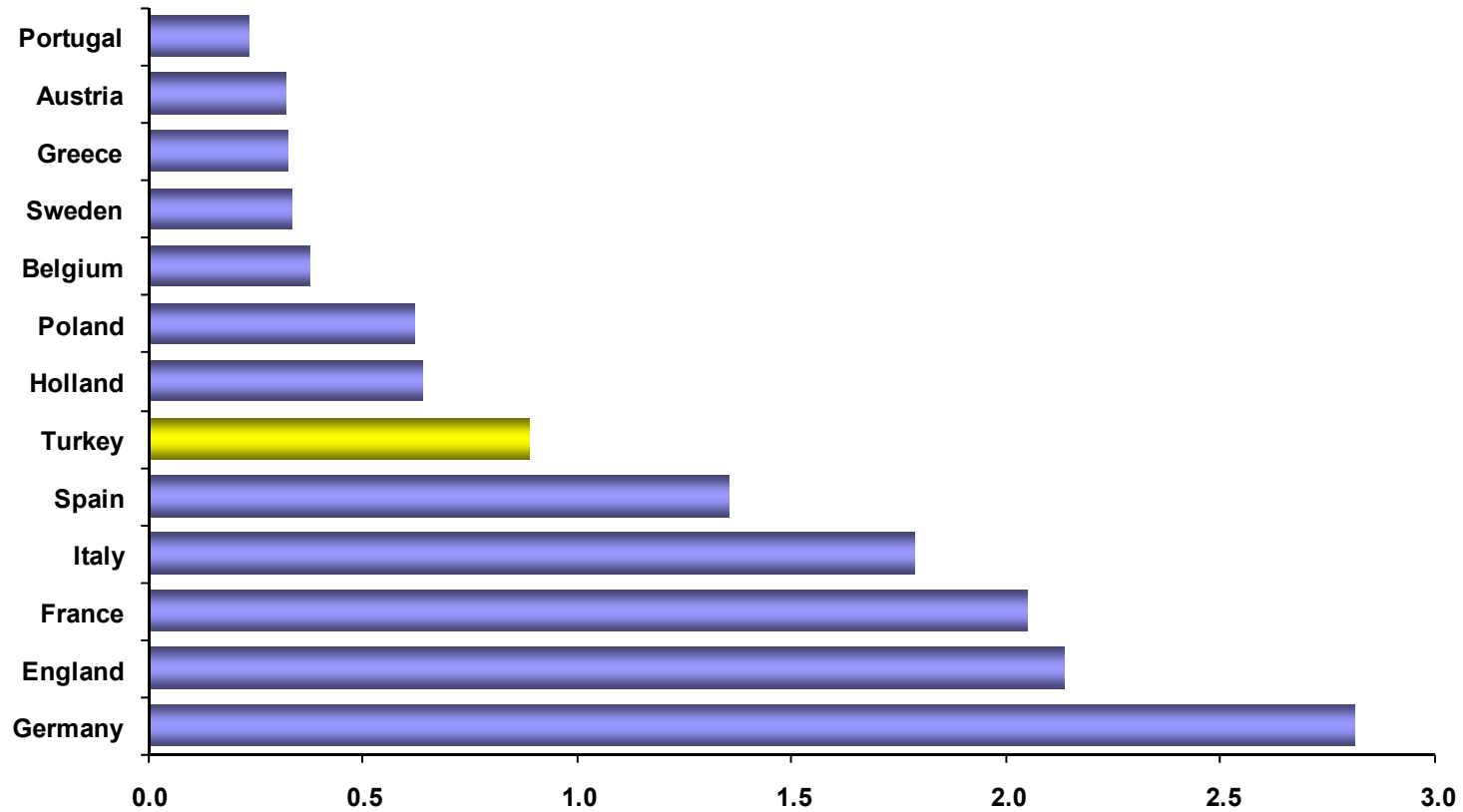
Turkey: An Overview

Demographic Profile

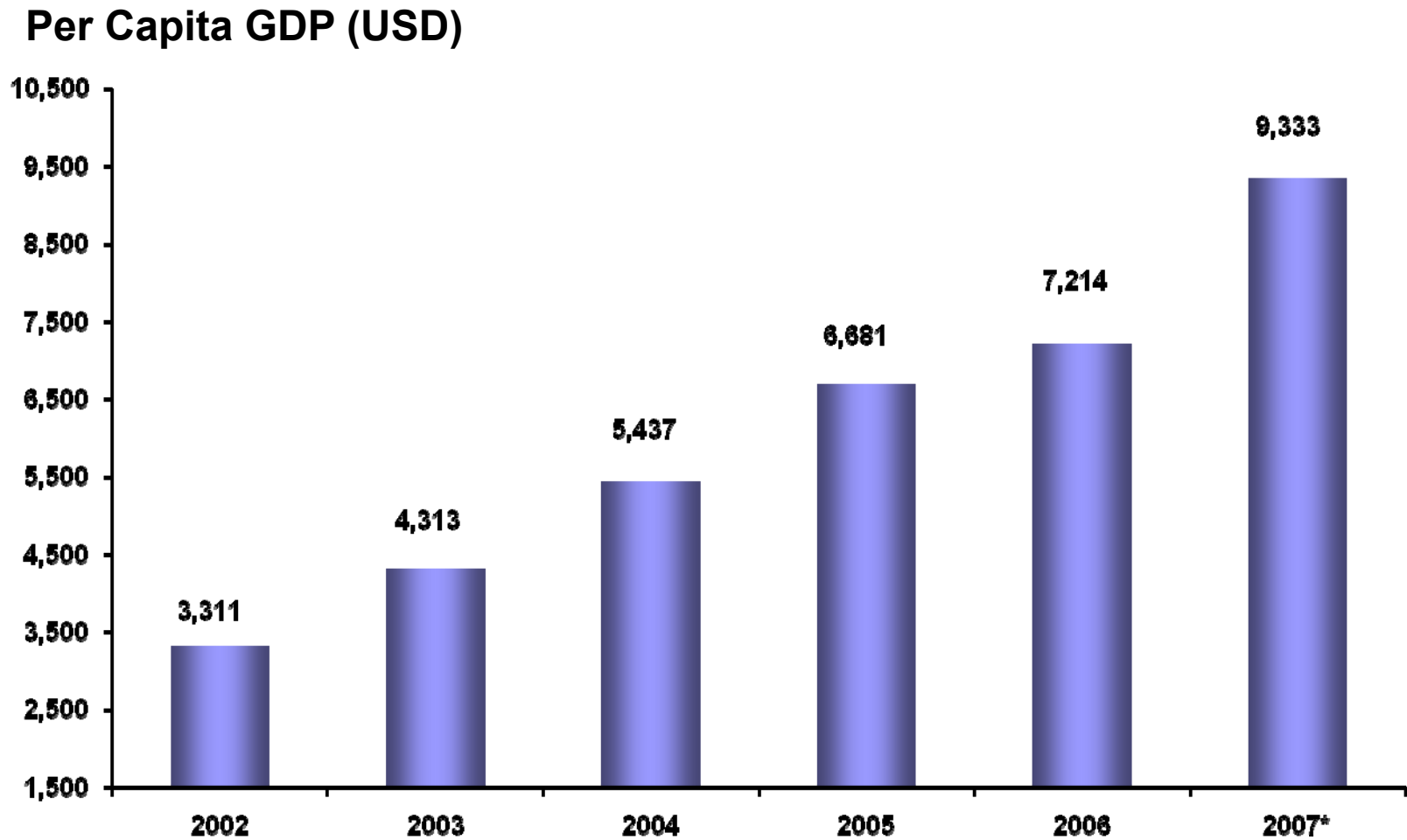


Turkey: An Overview

Europe's Biggest Economies (PPP GDP, Trillion \$, 2007)

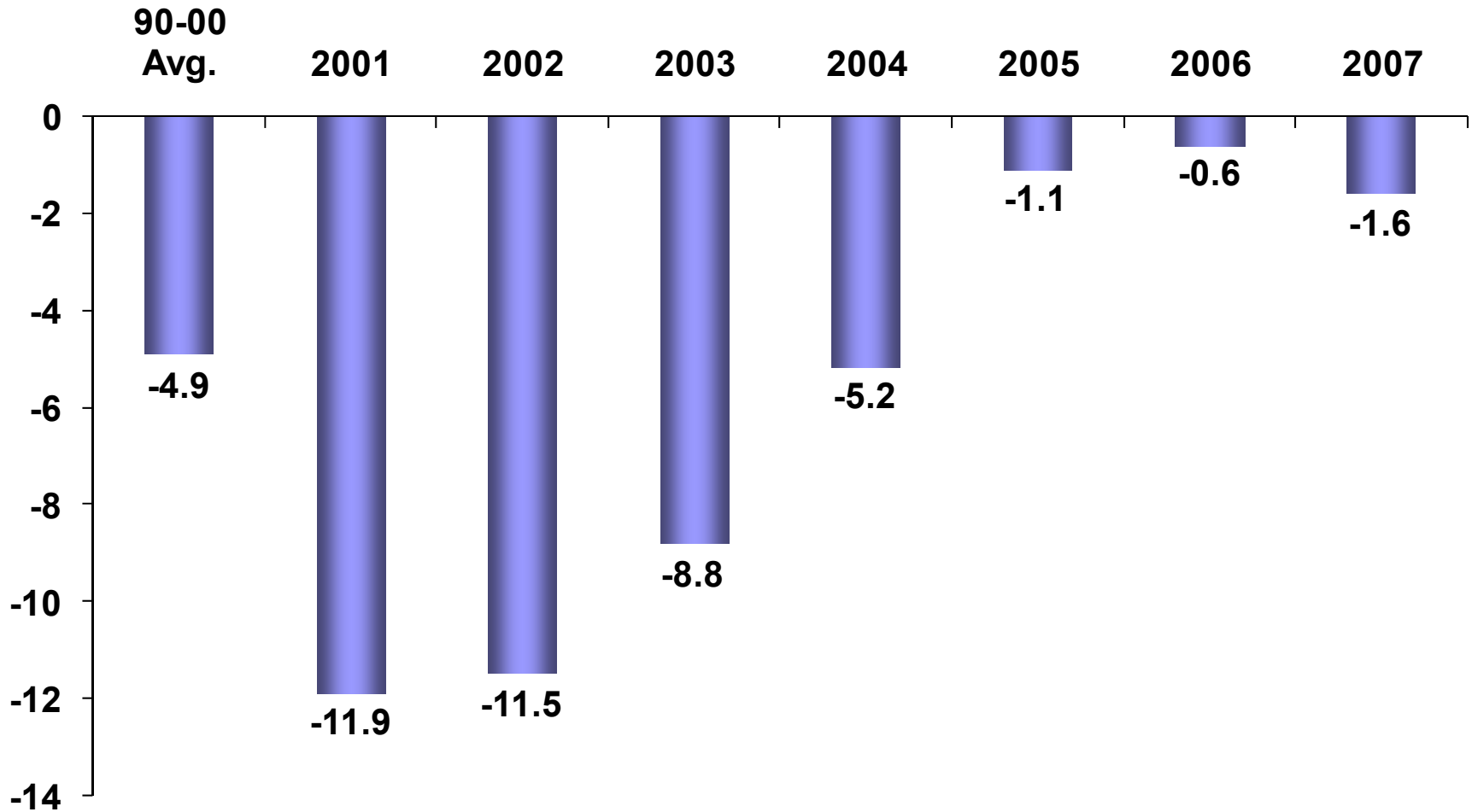


Turkey: An Overview

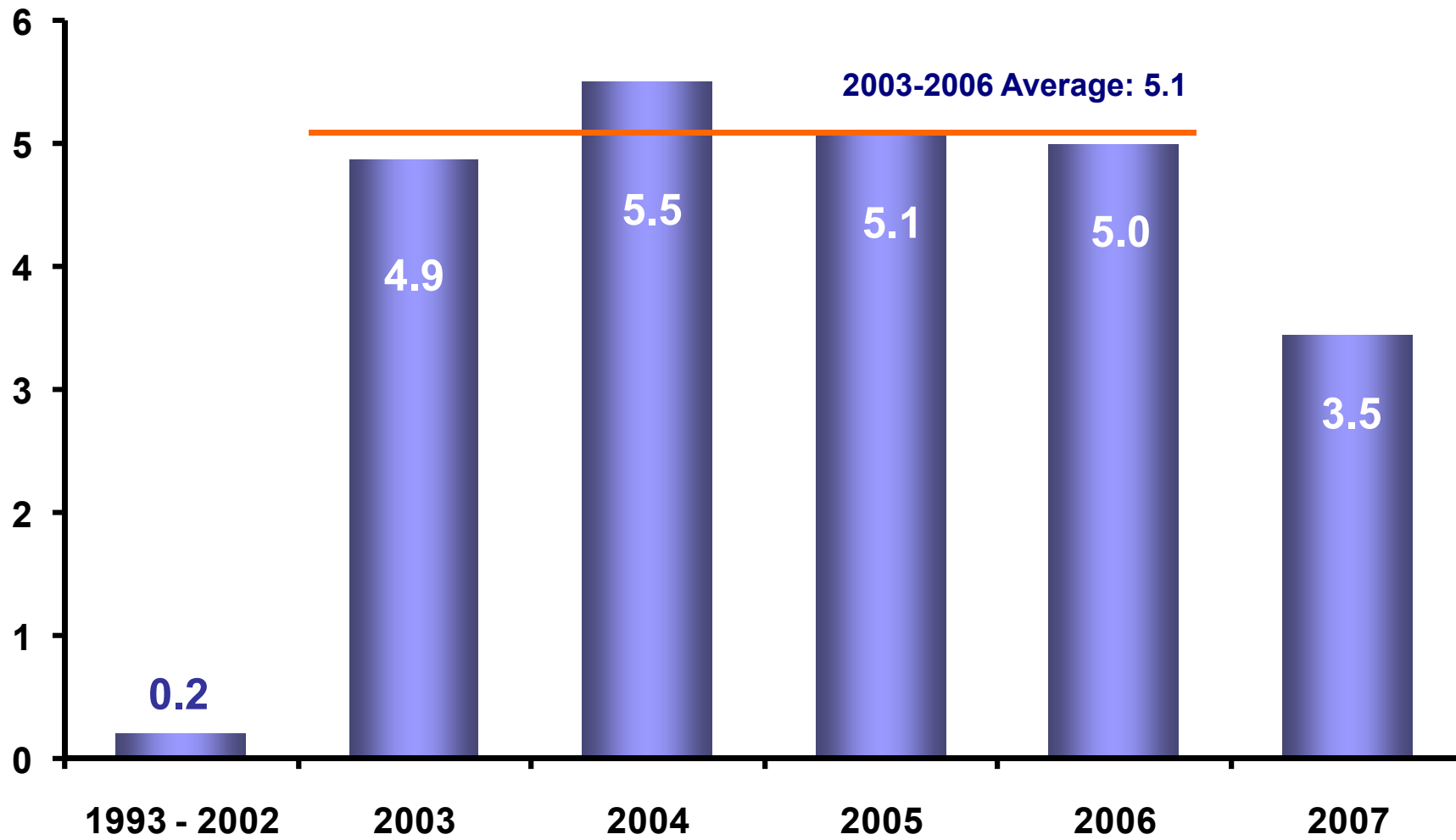


(*) For the years before 2007 old population numbers are used.

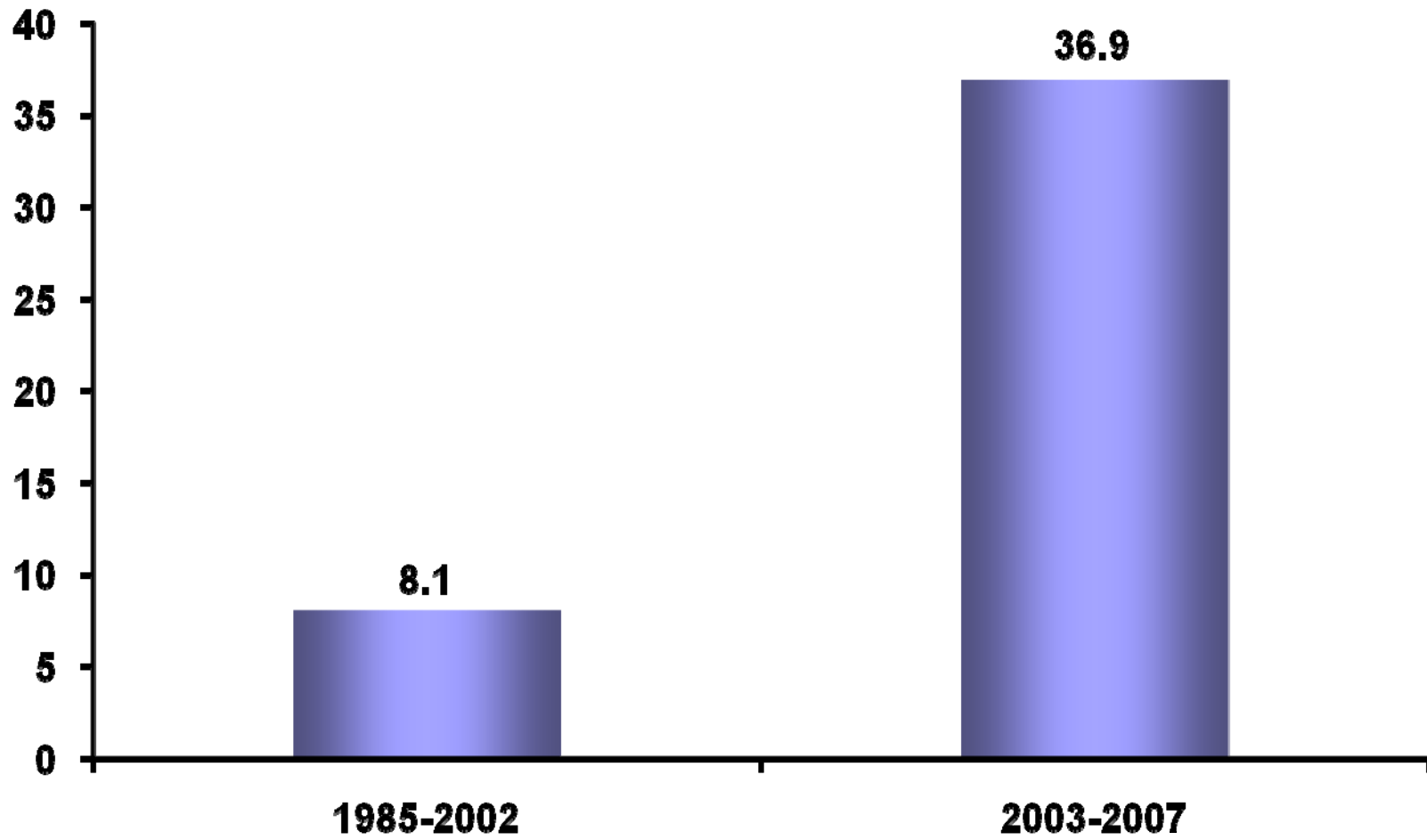
Budget Balance (% of GDP)



Public Sector Primary Balance (IMF Definition, % of GDP)

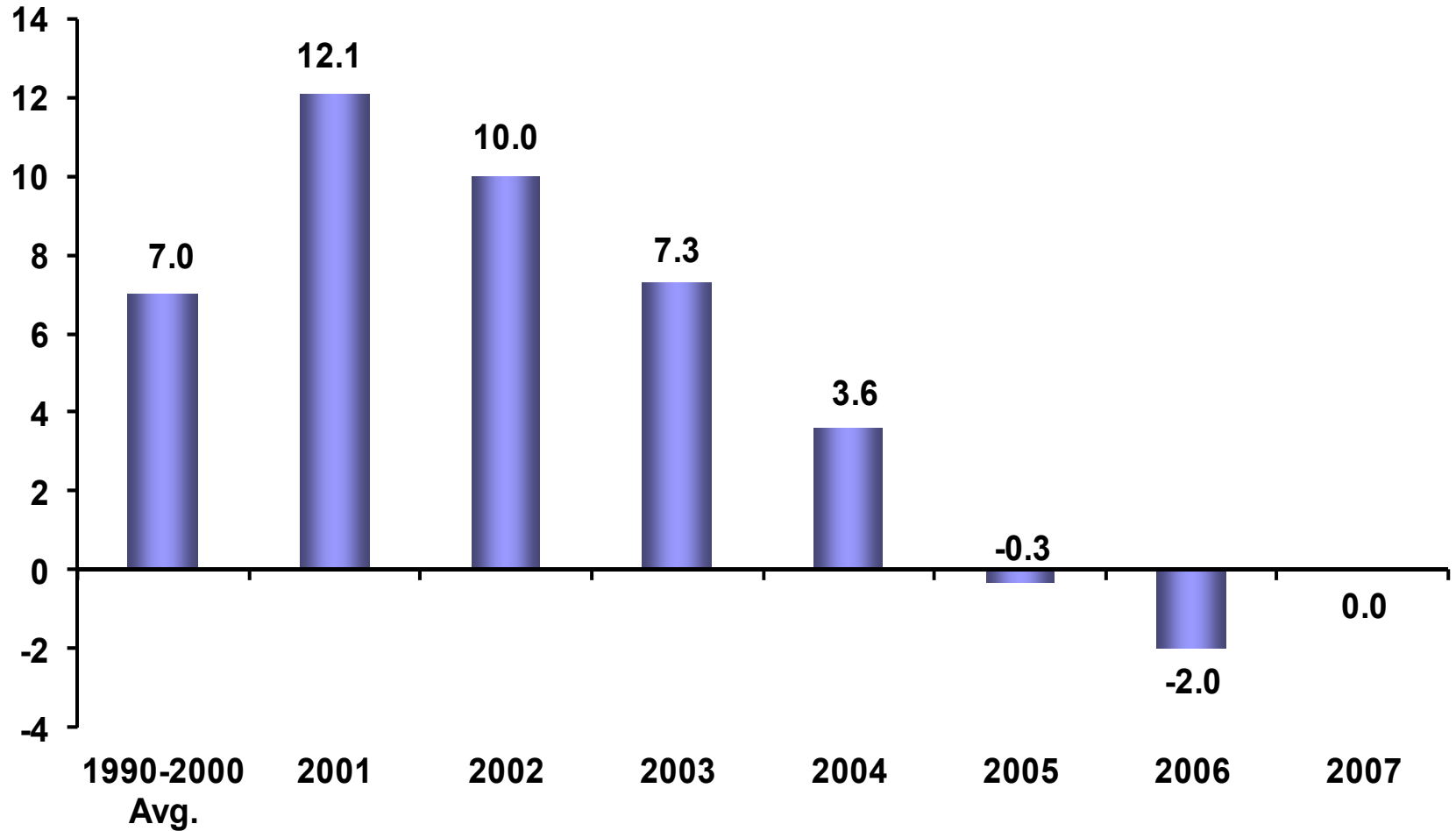


Privatization Implementations (Billion USD)*

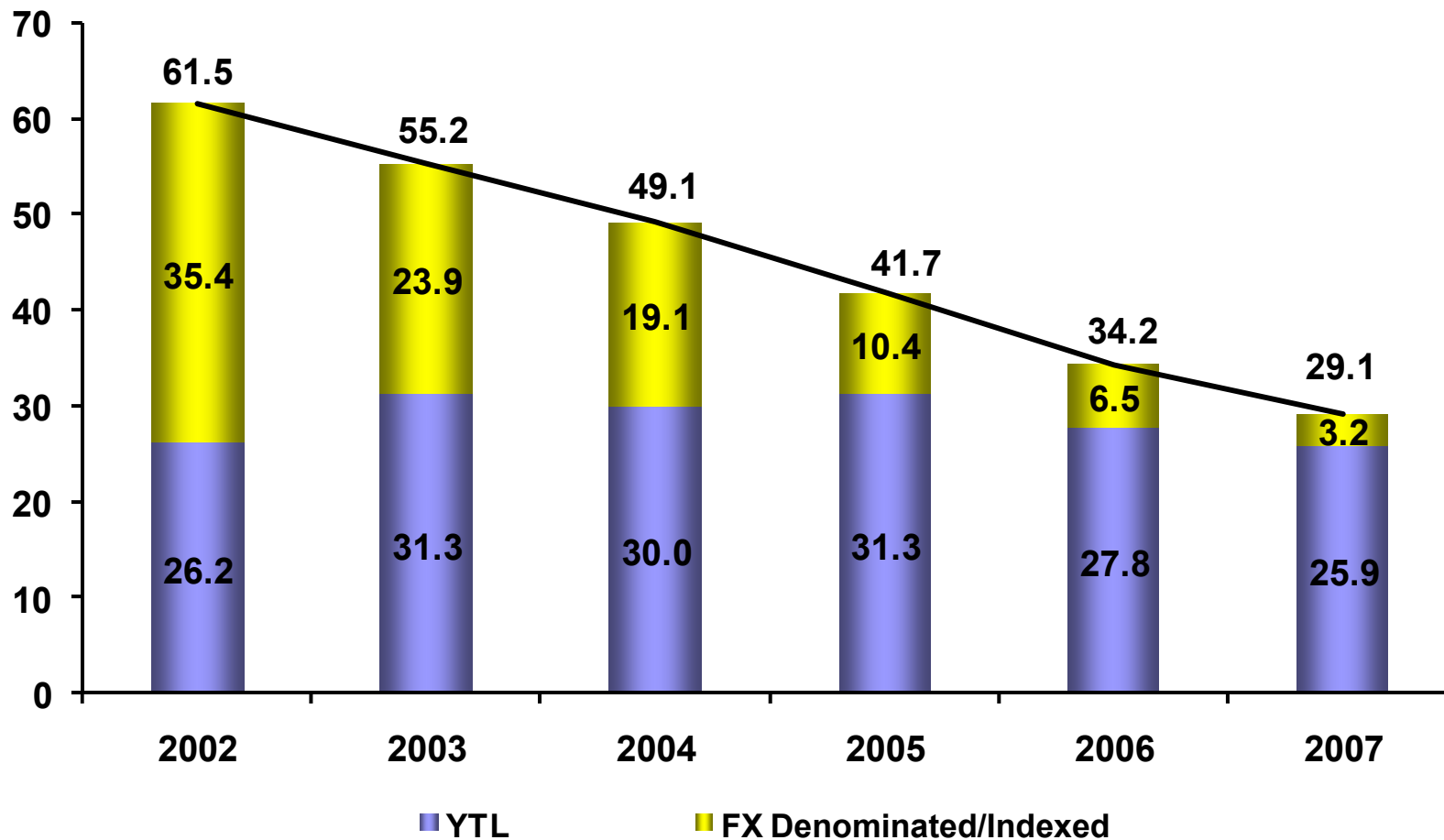


(*) Includes asset sales by the SDIF and Ministry of Transportation

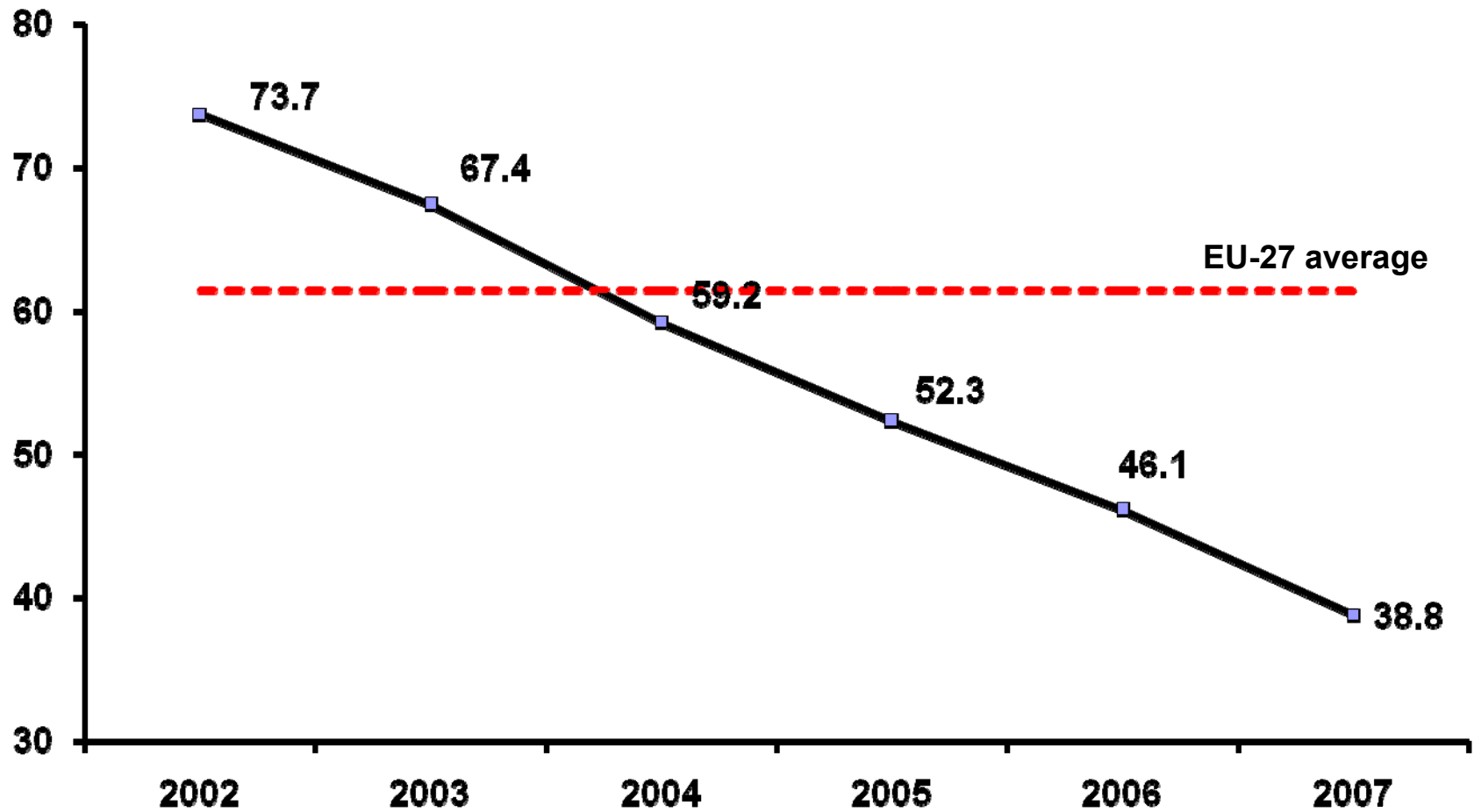
Public Sector Borrowing Requirement (% of GDP)



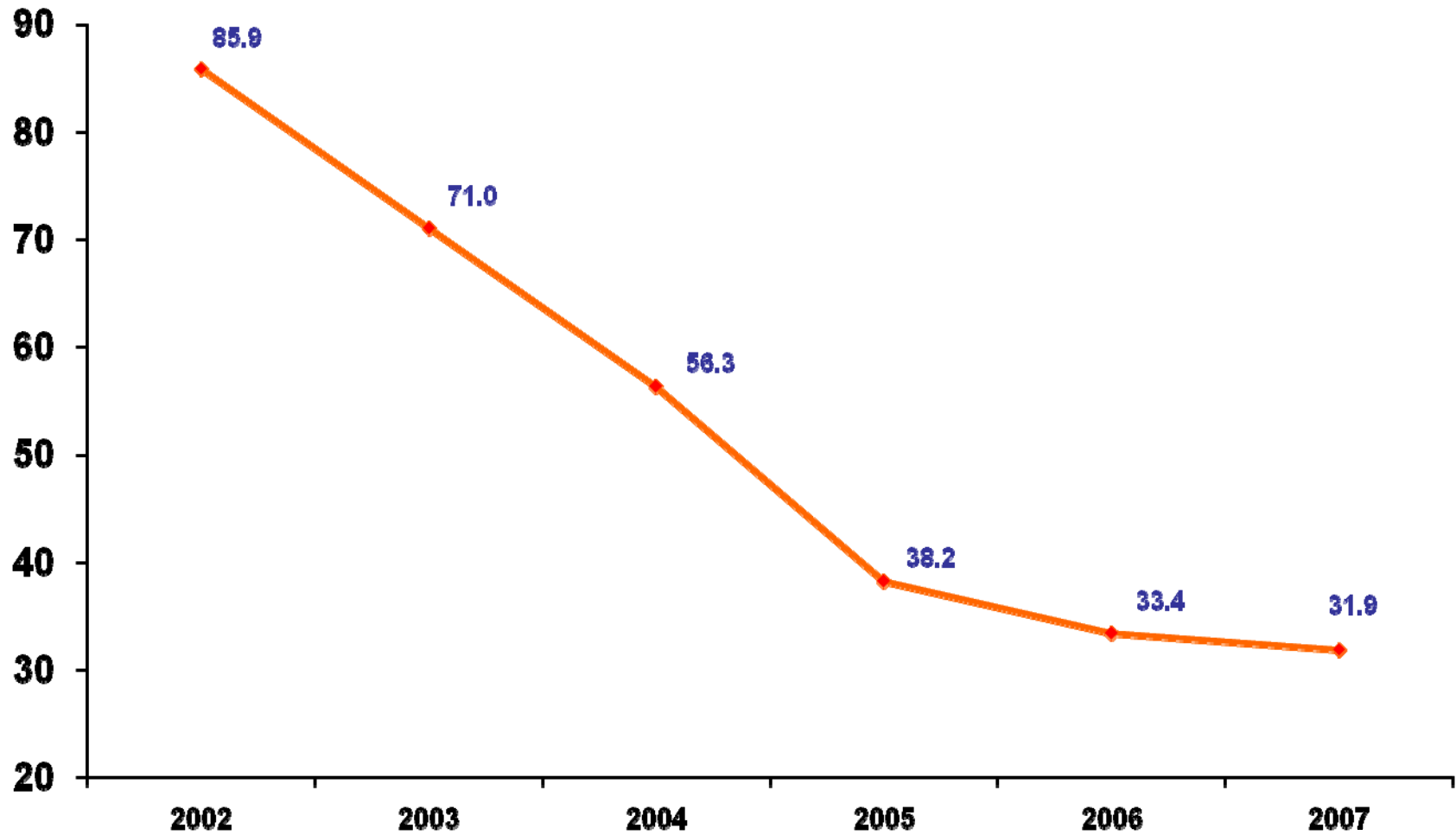
Public Sector Net Debt Stock (% of GDP)



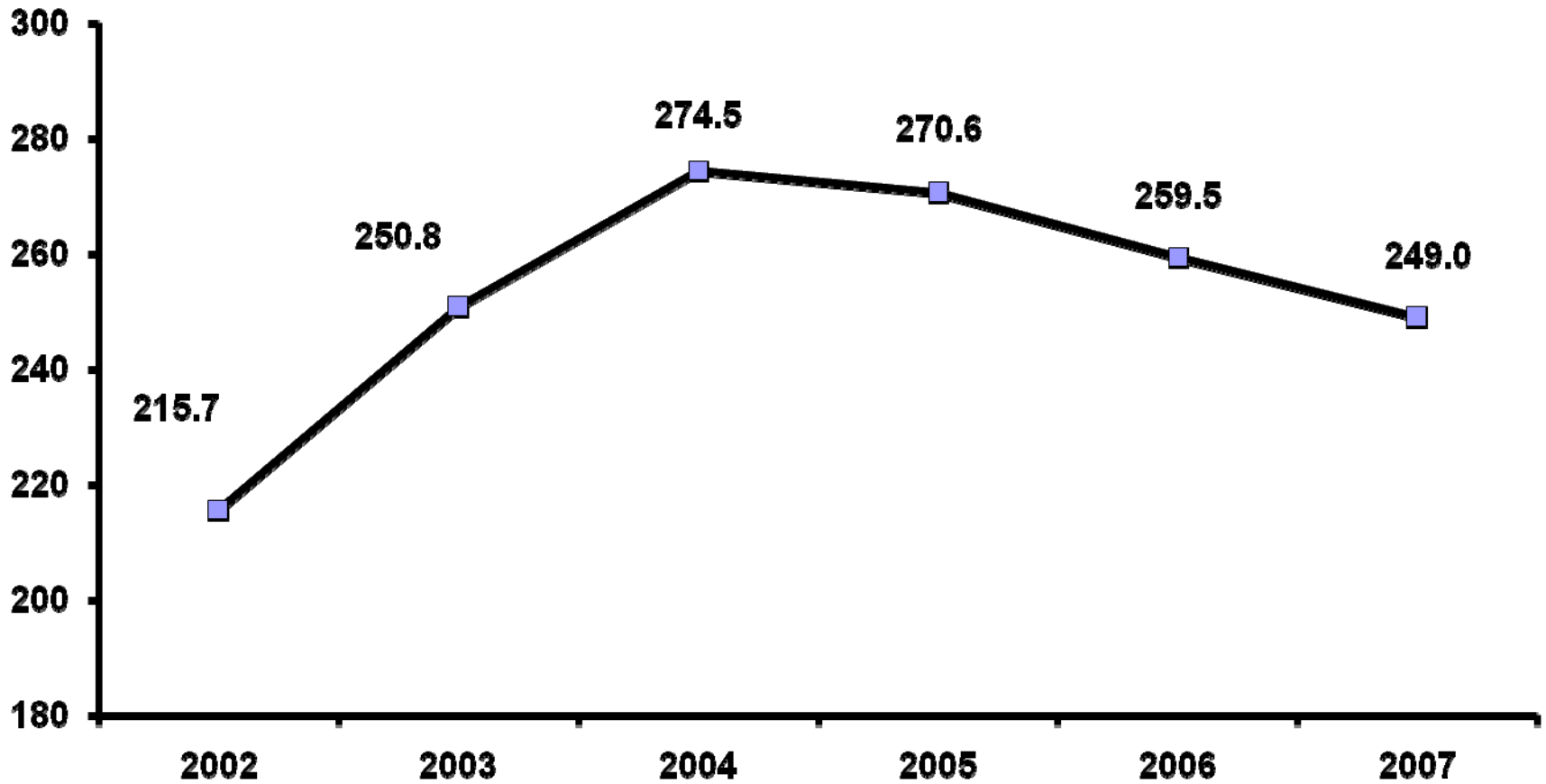
Gross Public Debt Stock (EU Definition, % of GDP)



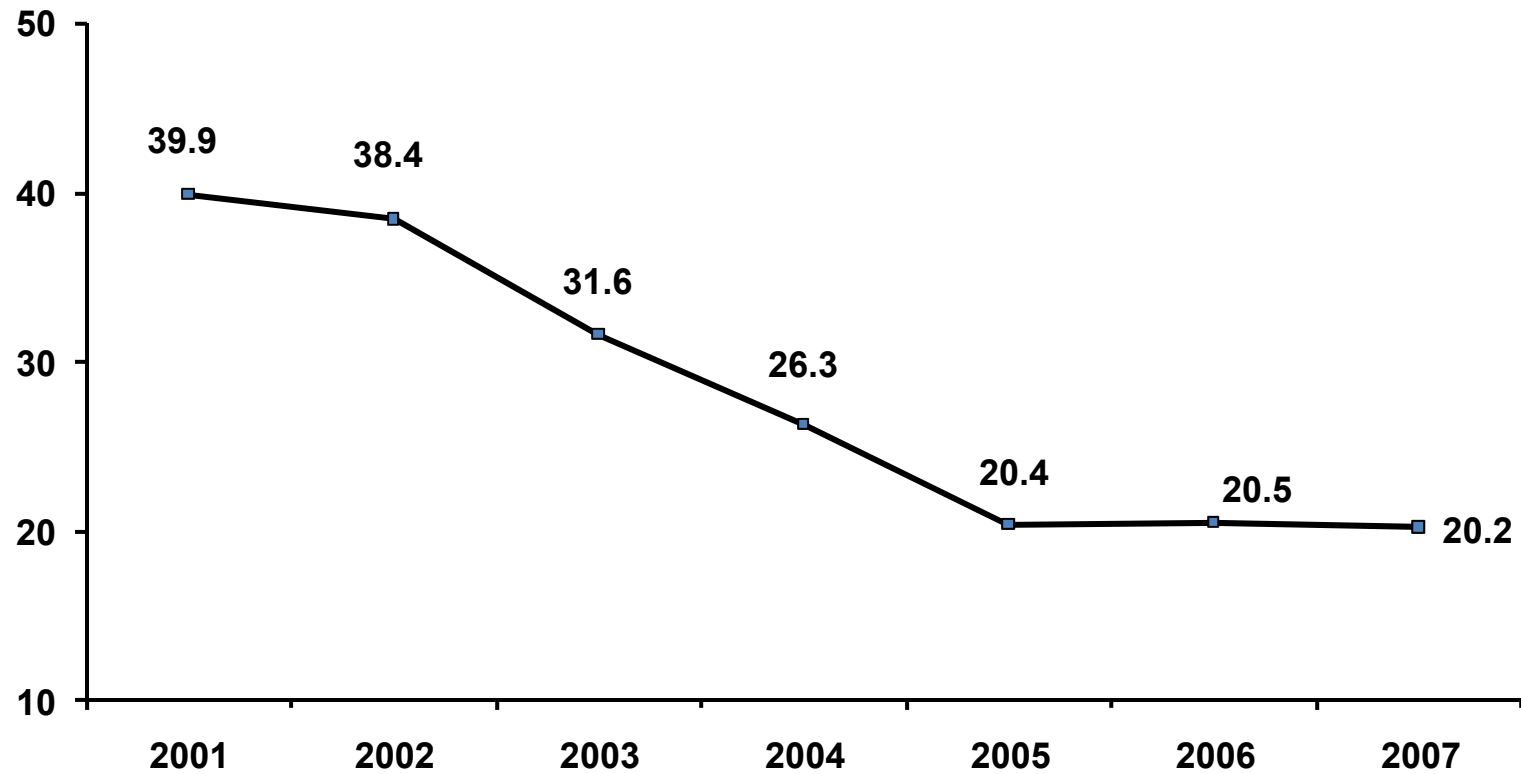
Interest Service / Tax Revenues (%)



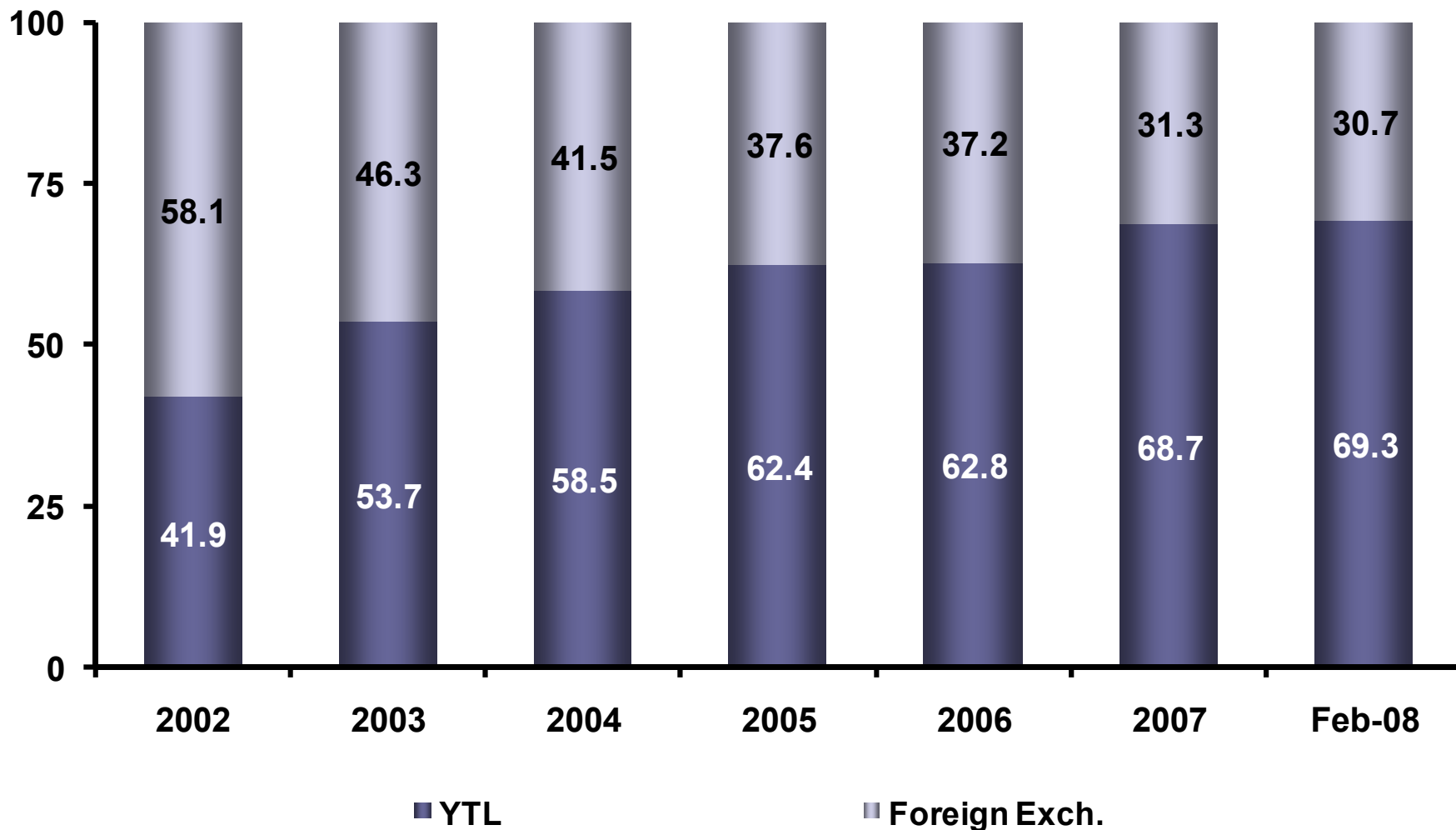
Public Sector Net Debt Stock (Billion YTL)



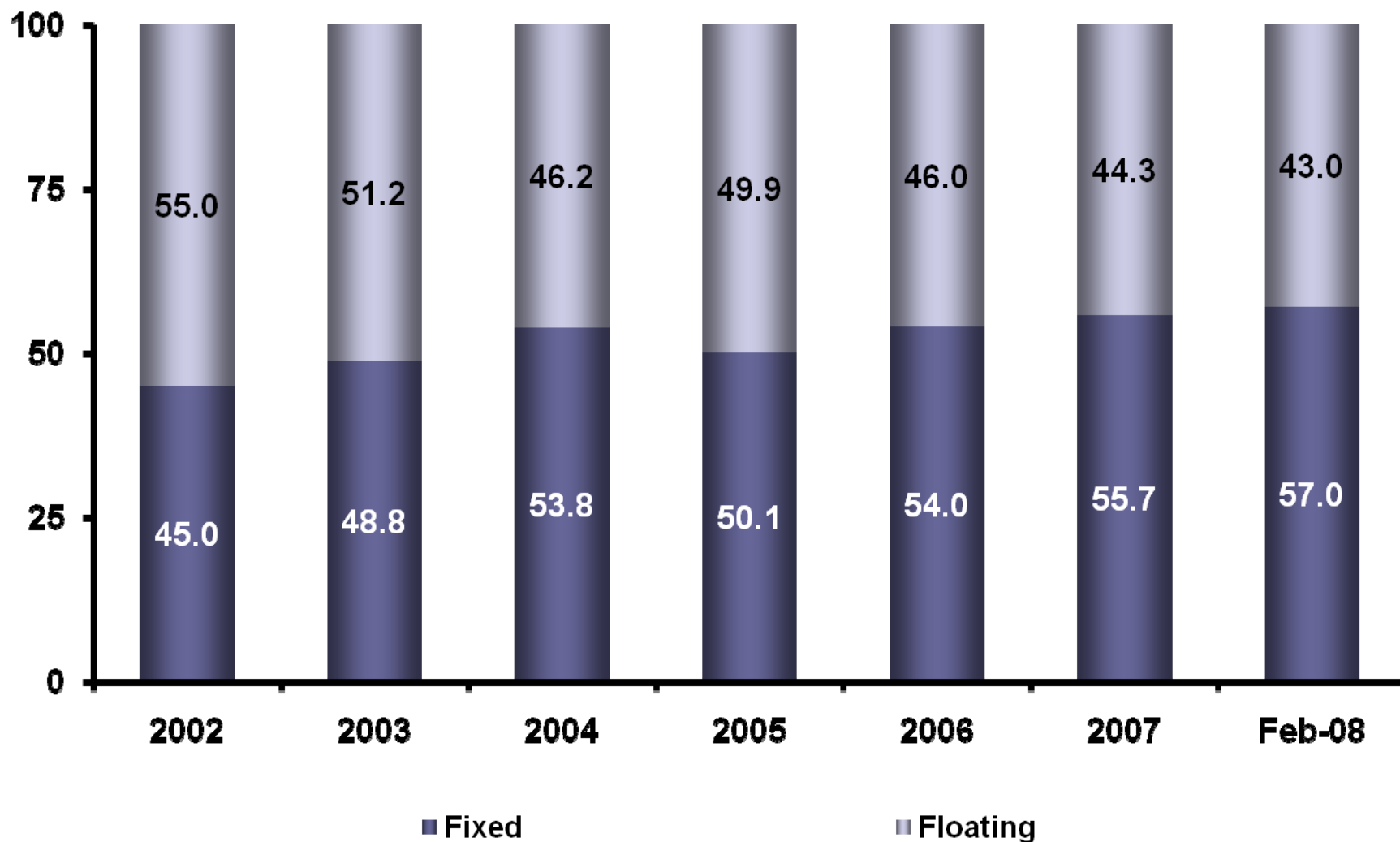
Turkey's Net External Debt (% of GDP)



Currency Composition of Gross Public Debt Stock (%)



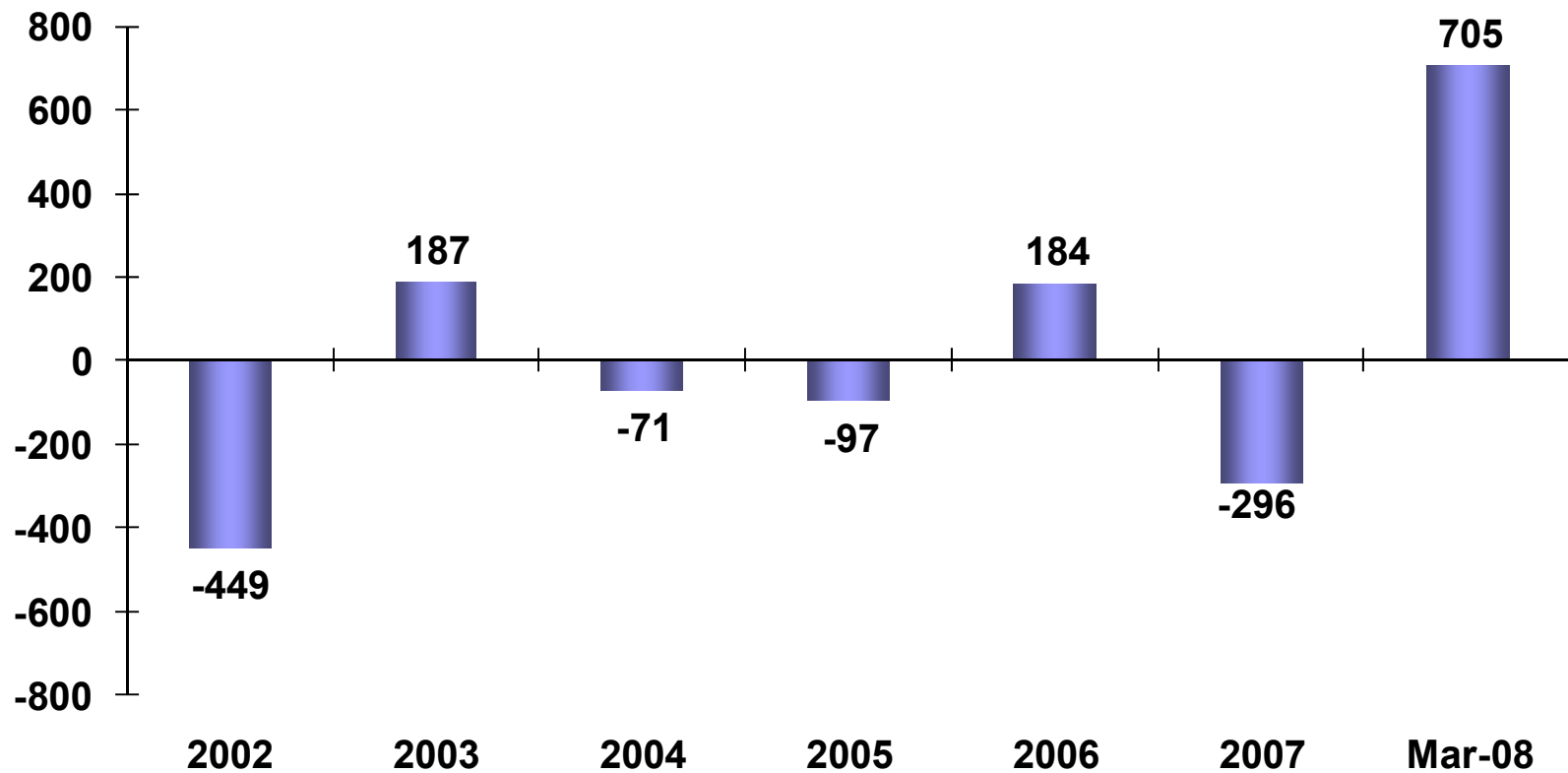
Interest Structure of Gross Public Sector Debt Stock (%)



Sensitivity of Gross Public Debt to GDP to Shocks

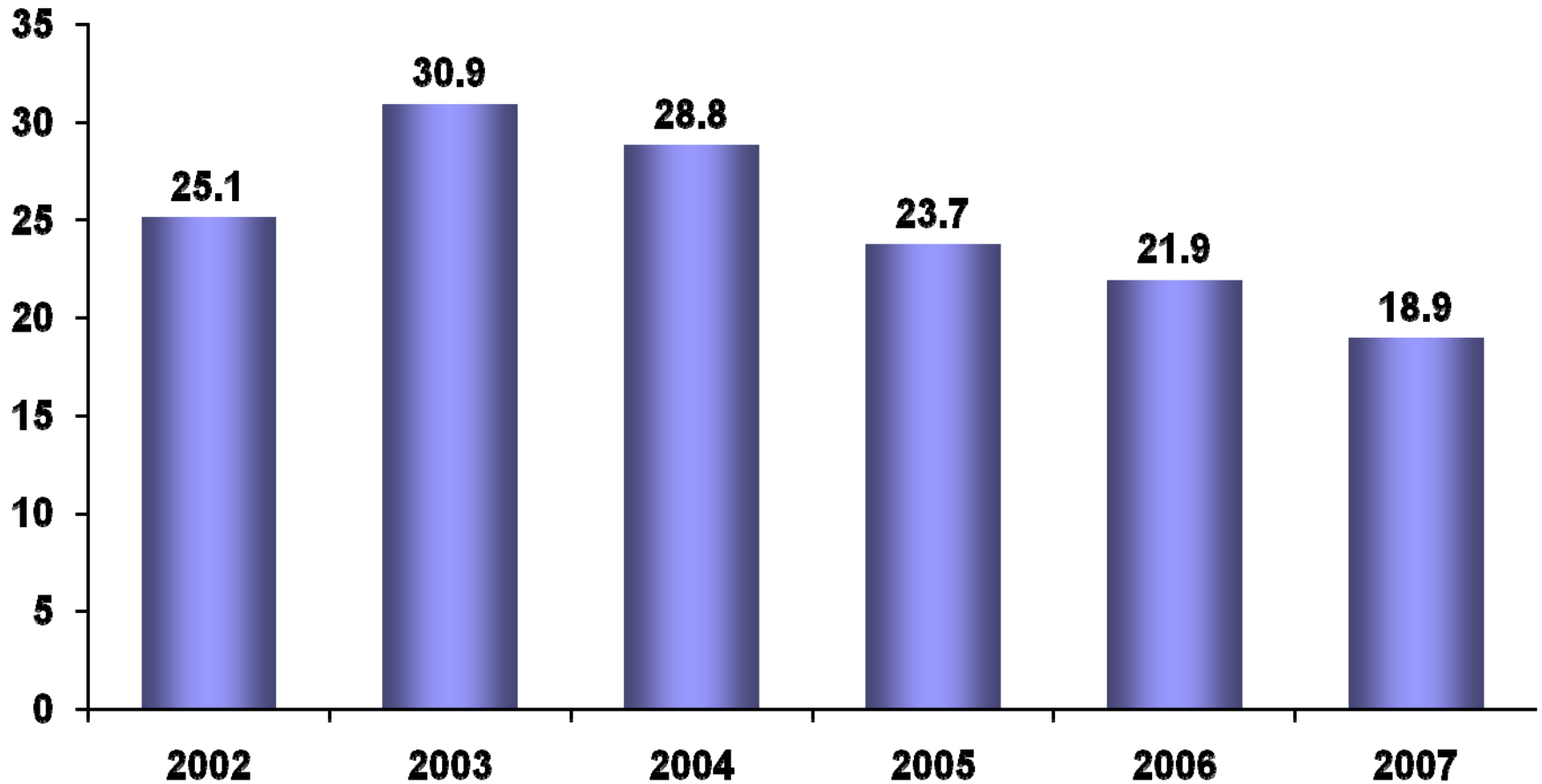
	2001	2007
5 percentage points change in real exchange rate	+ / - 2.2 Points	+ / - 0.6 Points
5 percentage points change in YTL Real Interest Rate	+ / - 1.6 Points	+ / - 1.3 Points
2 percentage points change in GDP Growth Rate	+ / - 1.5 Points	+ / - 0.8 Points

Banking Sector: FX Position (Million USD)



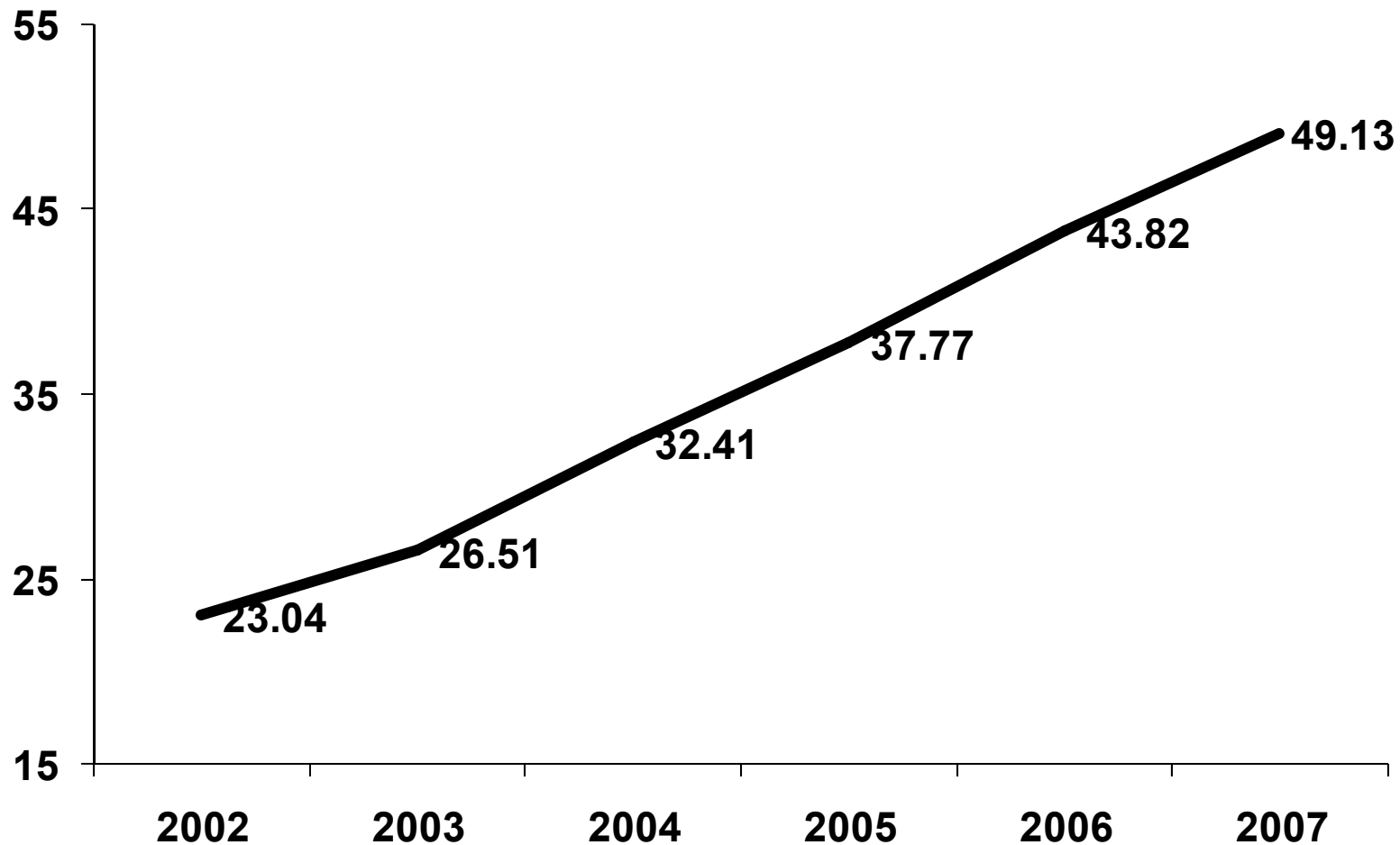
Source: BRSA

Banking Sector: Capital Adequacy Ratio (%)



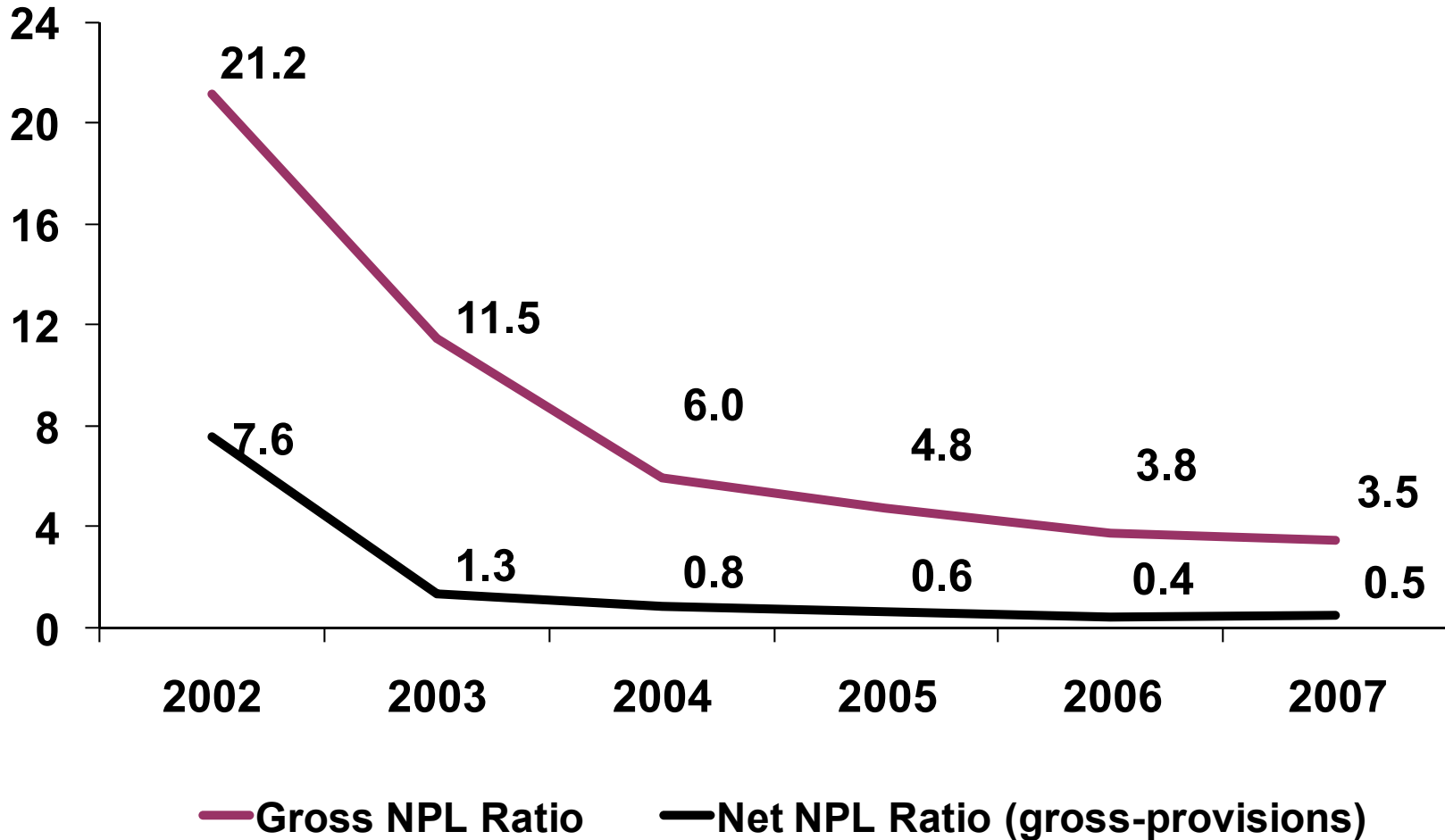
Source: BRSA

Banking Sector: Loans to Assets (%)

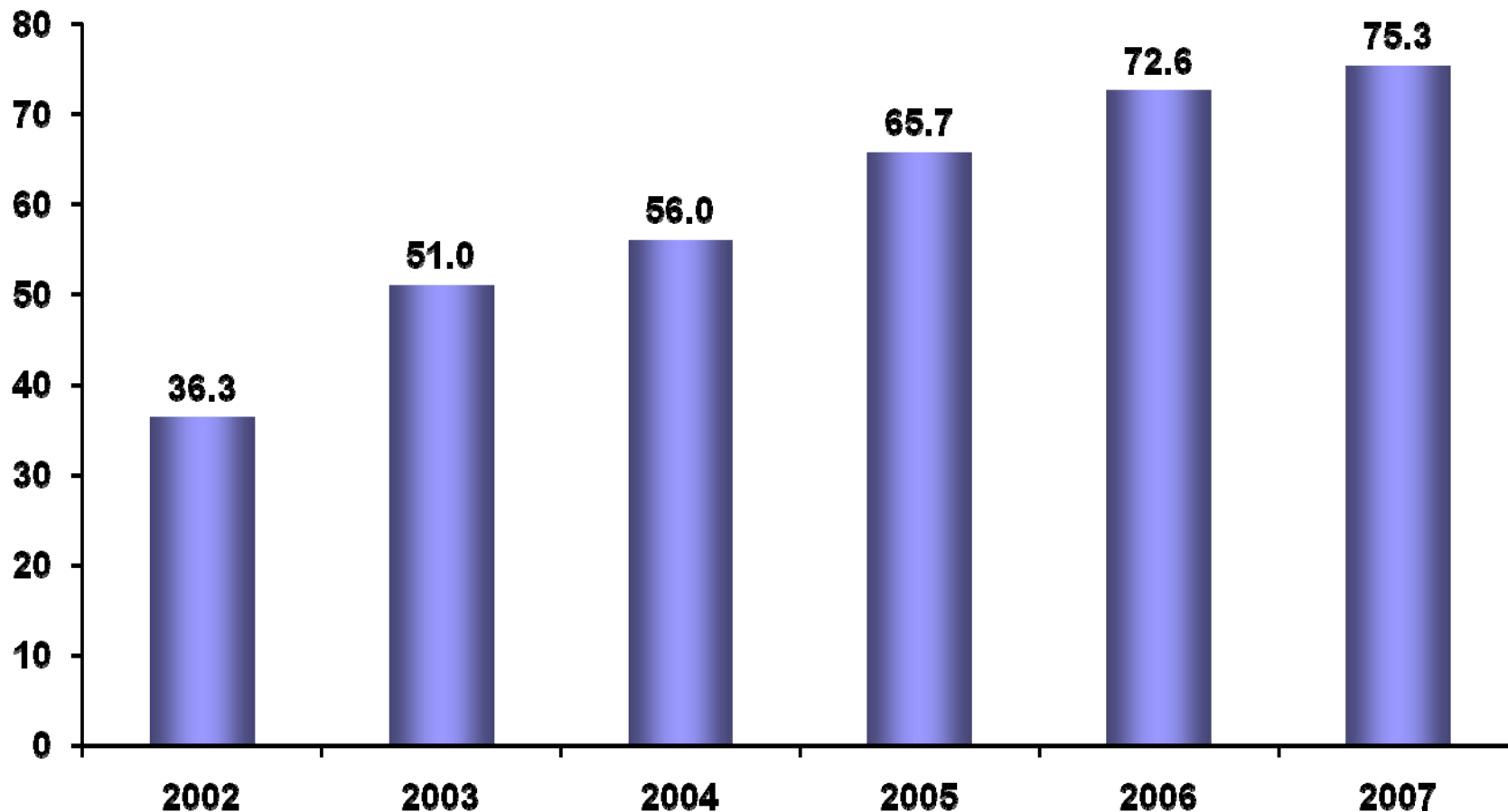


Source: BRSA

Banking Sector: Asset Quality



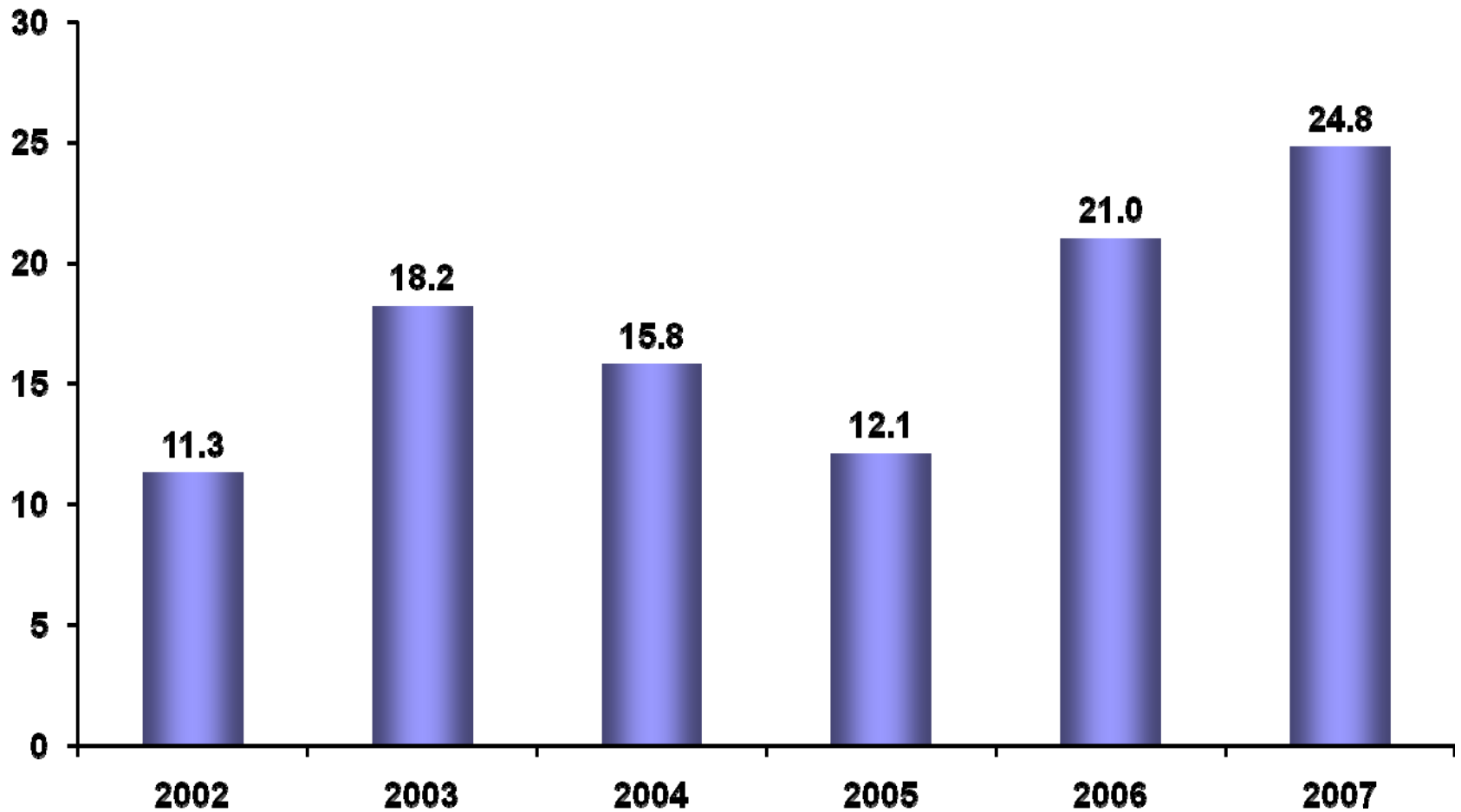
Banking Sector: Free Capital*/Equity (%)



Source: BRSA

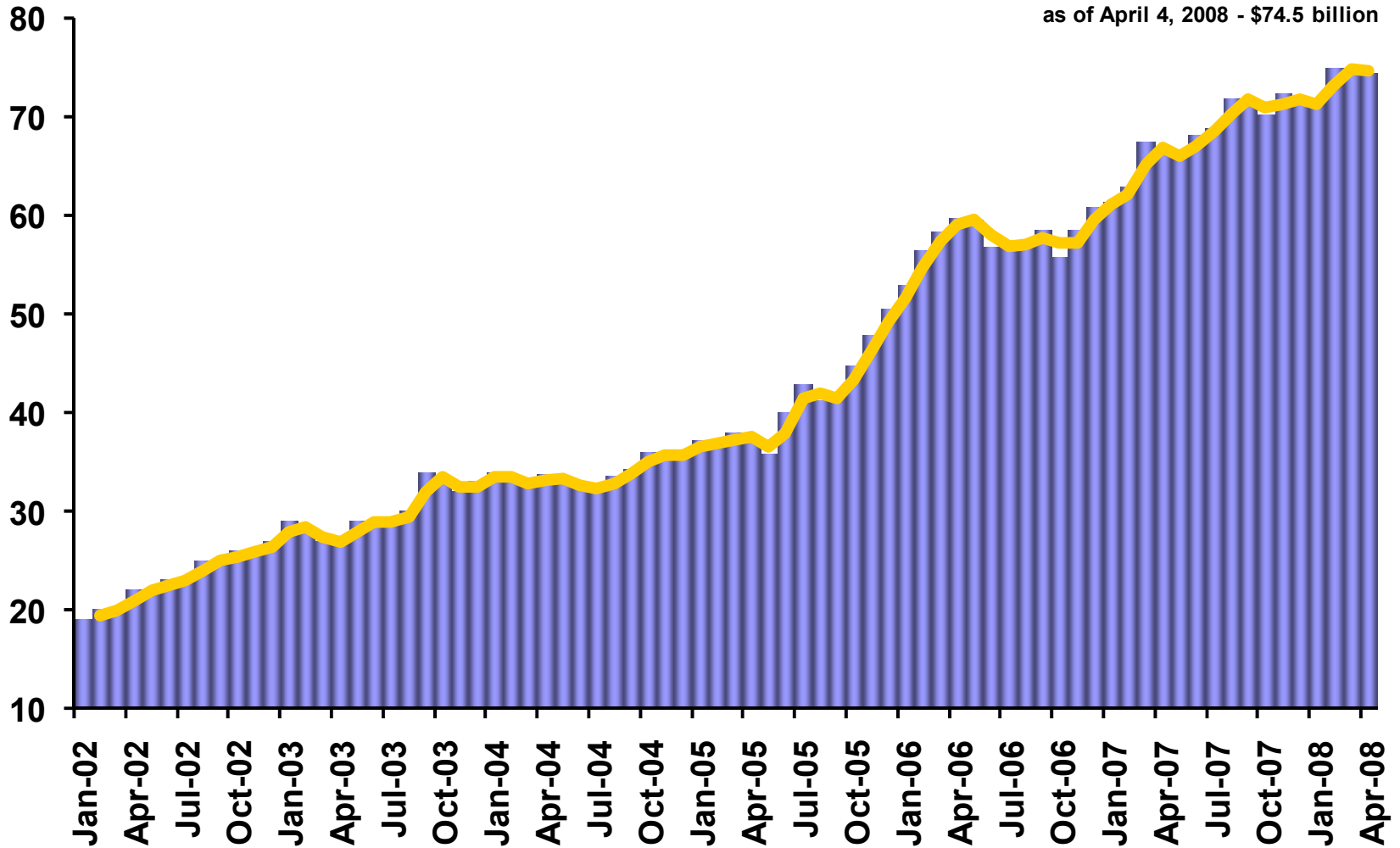
(*) Free Capital = Total Equity – (Fixed Assets + Affiliates, Subsidiaries and Joint Ventures)

Banking Sector: Return on Equity (%)

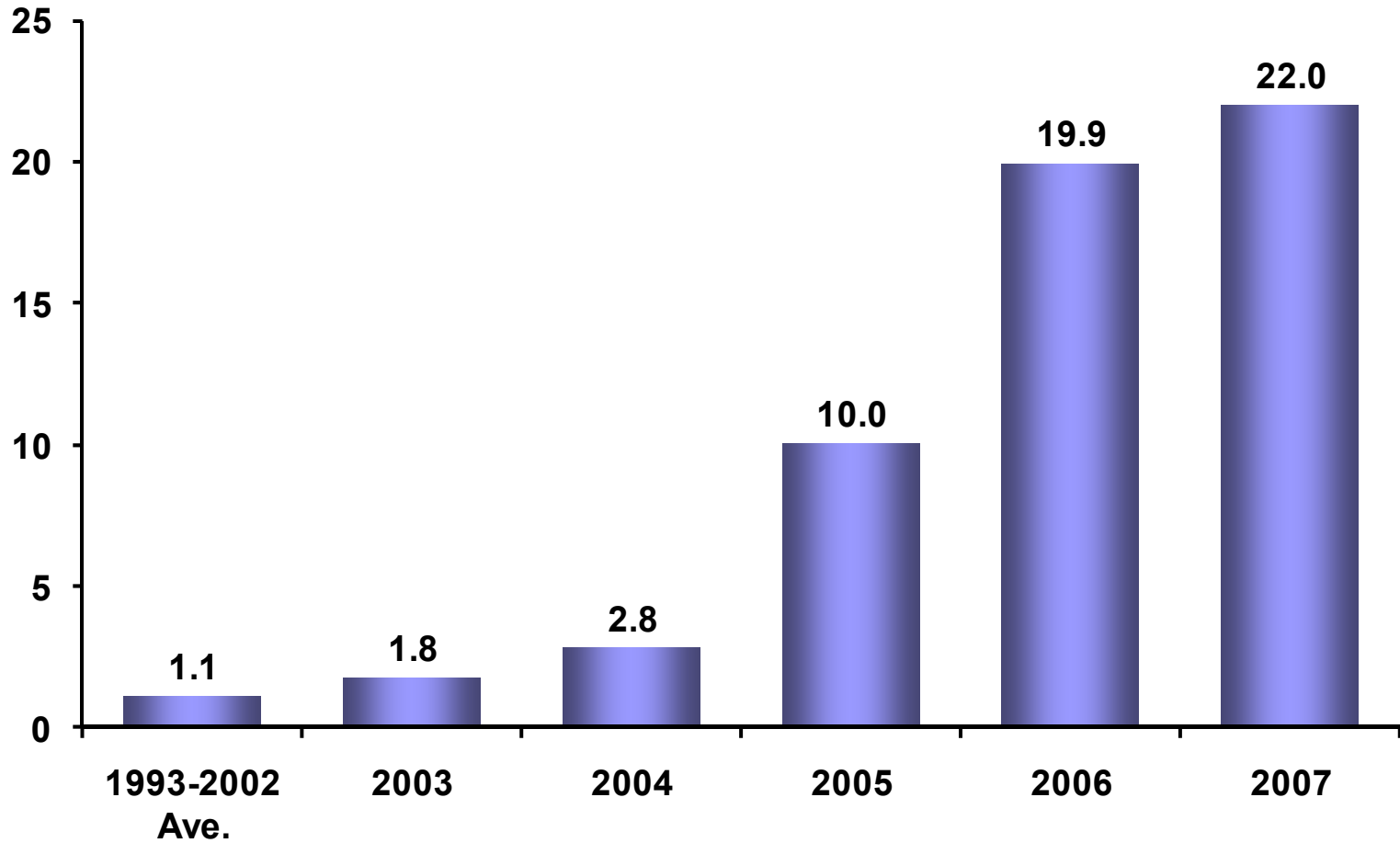


Source: BRSA

Central Bank's Gross FX Reserves (Billion USD)

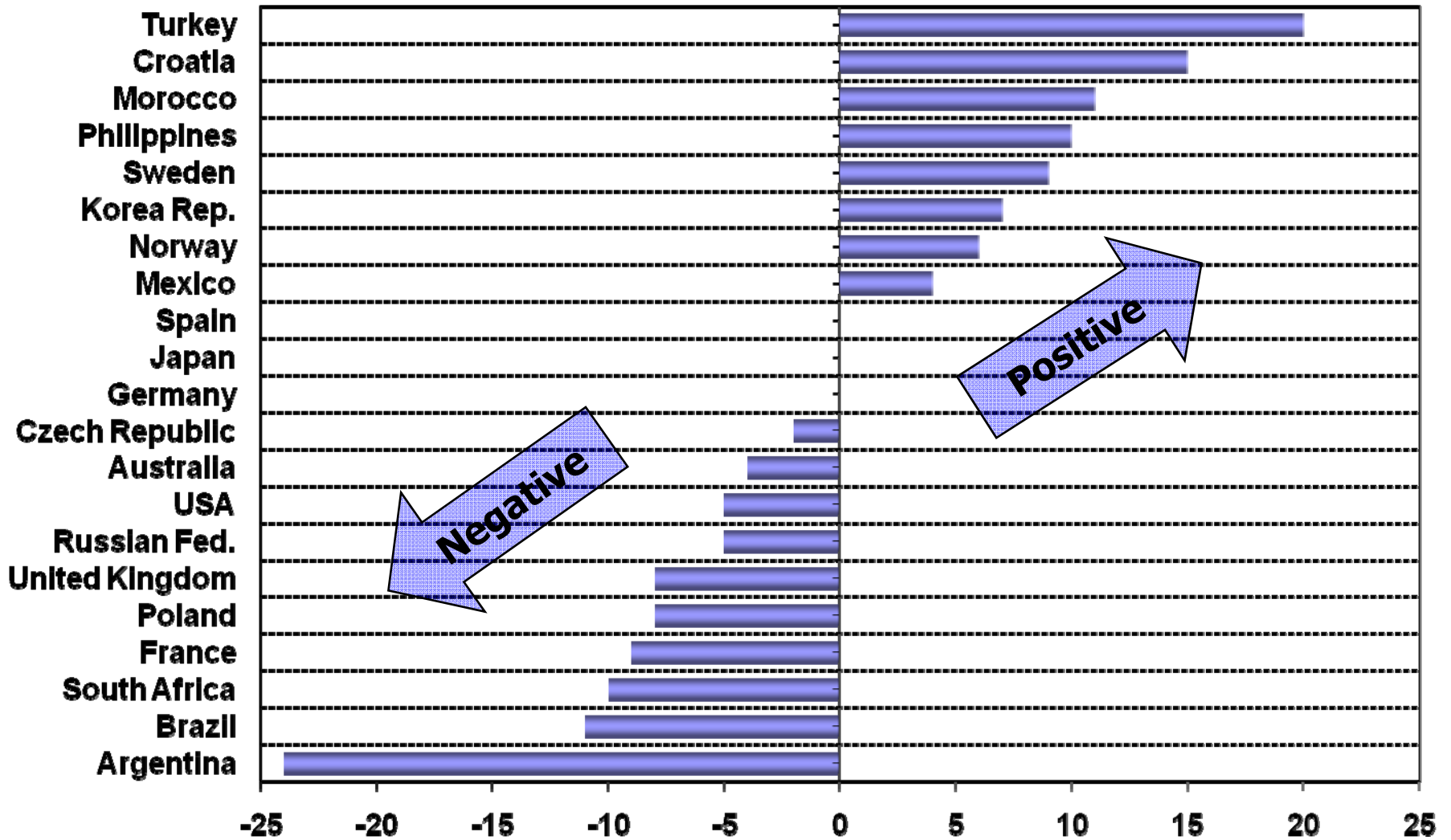


FDI Inflows (Billion USD)



Source: Central Bank of Turkey

Change in Competitiveness



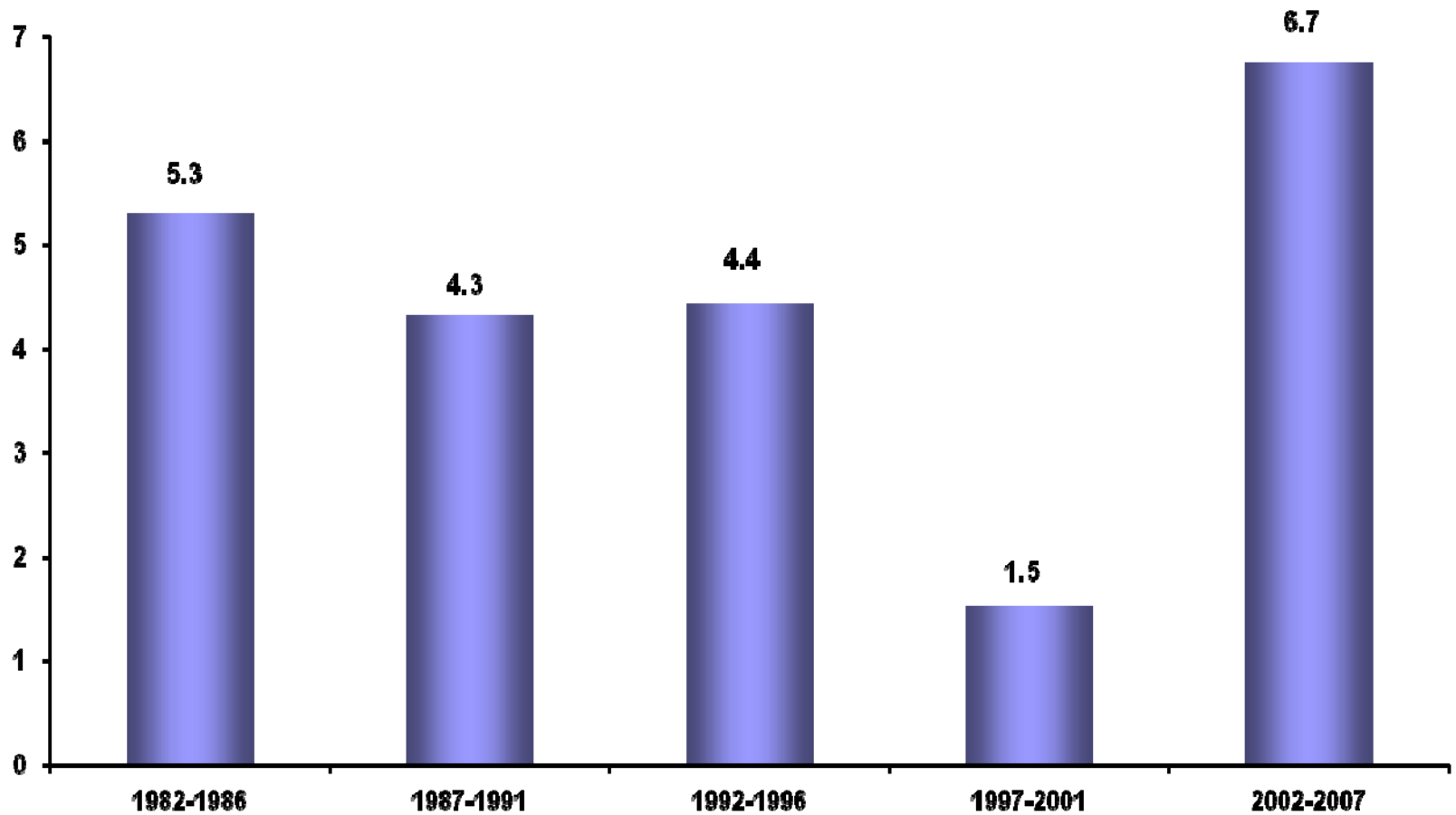
Source: WEF Global Competitiveness Report, 2006-2007 cumulative

Competitiveness and Entrenched Improvement in Investment Environment

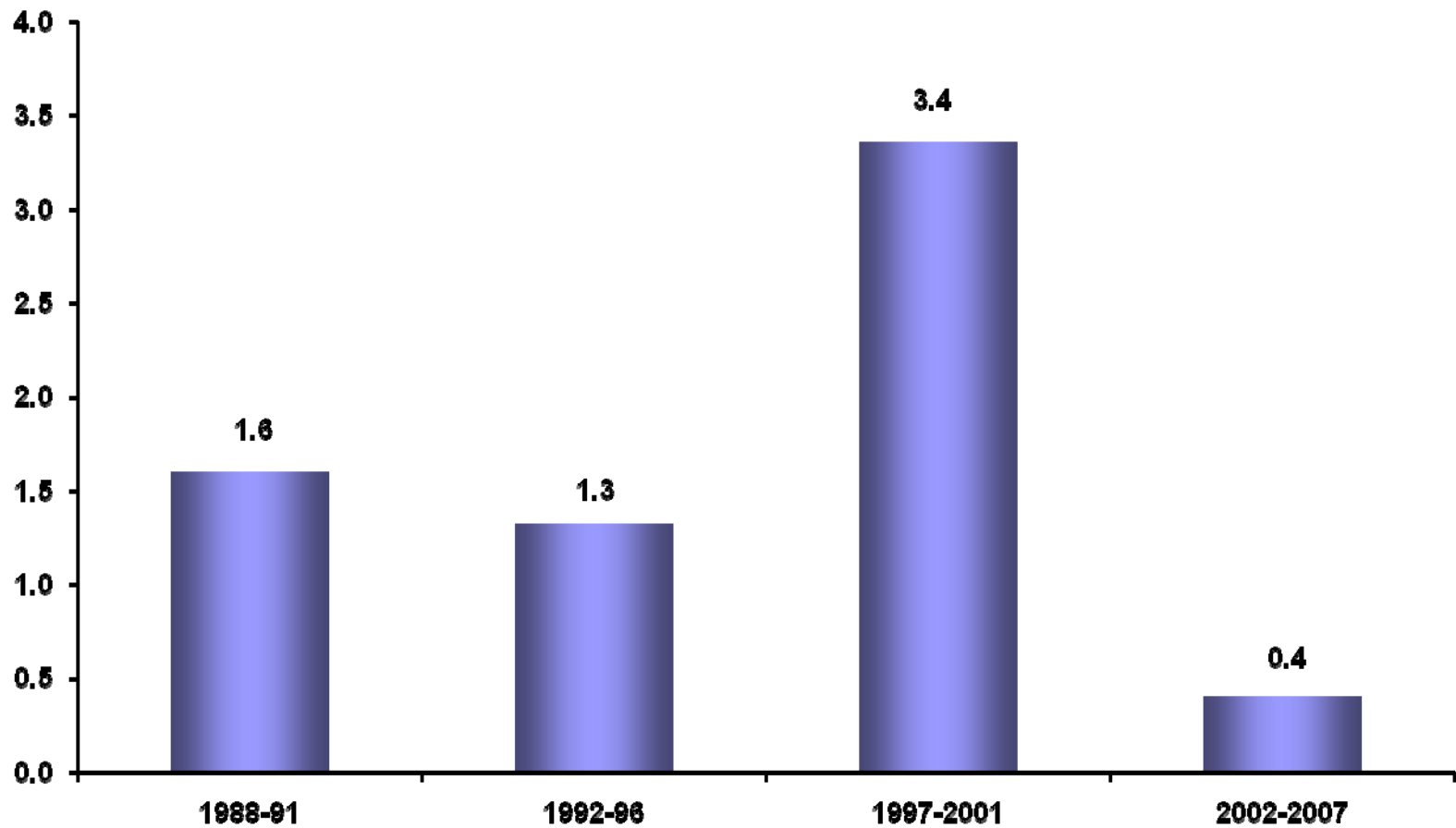
World Bank – Doing Business Report		
Year	Turkey's Rank	Number of Countries
2006	93	155
2007	91	175
2008	57	178
UNCTAD – World Investment Report		
Year	Turkey's Rank	FDI Inflow (USD Billion)
2005	38	10.0
2006	23	19.9
2007	16	22.0

Source: UNCTAD, World Bank Doing Business Report

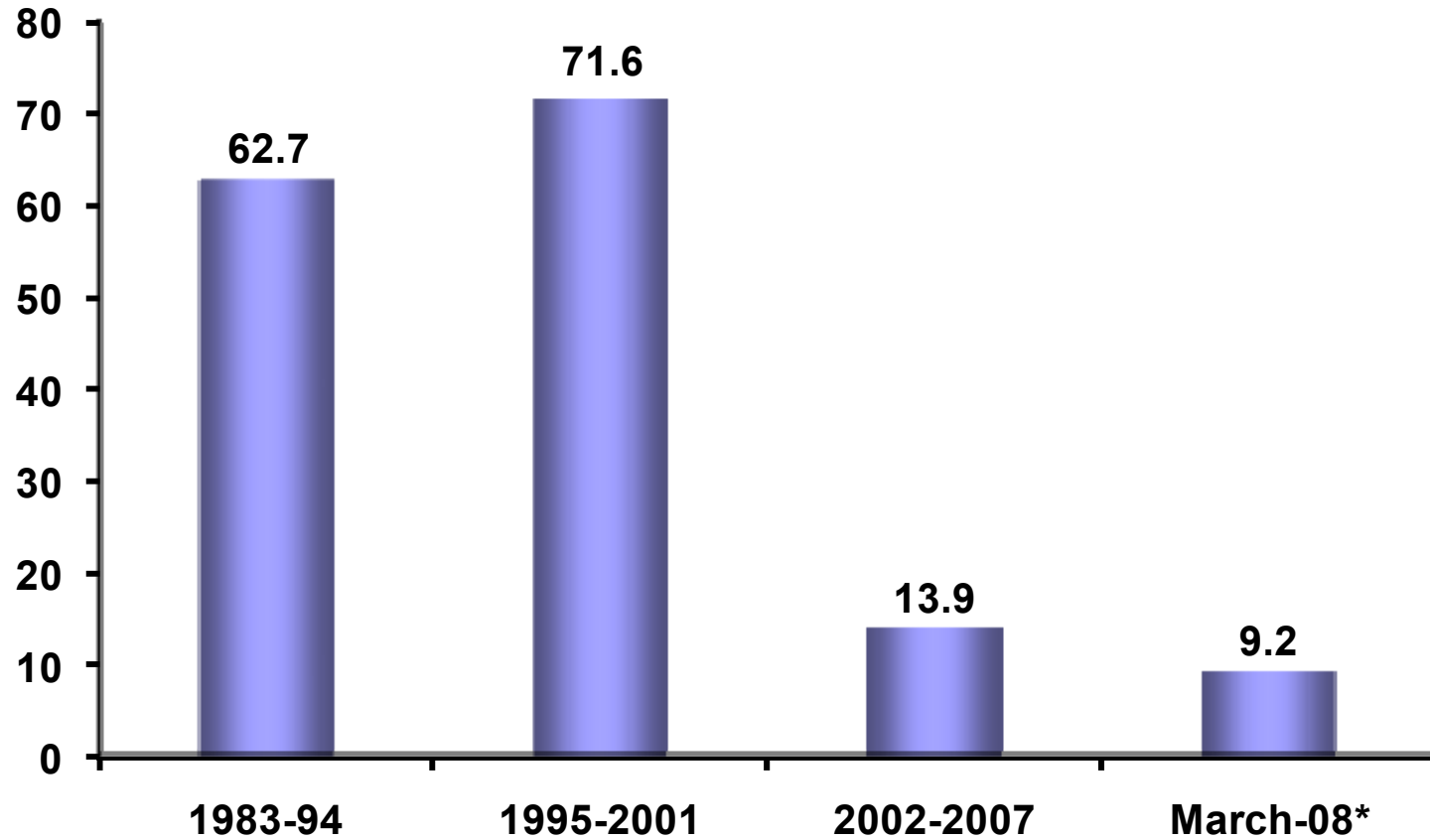
GDP Growth Rate (Annual average, %)



Volatility of Growth (coefficient of variation of the real growth rates, %)

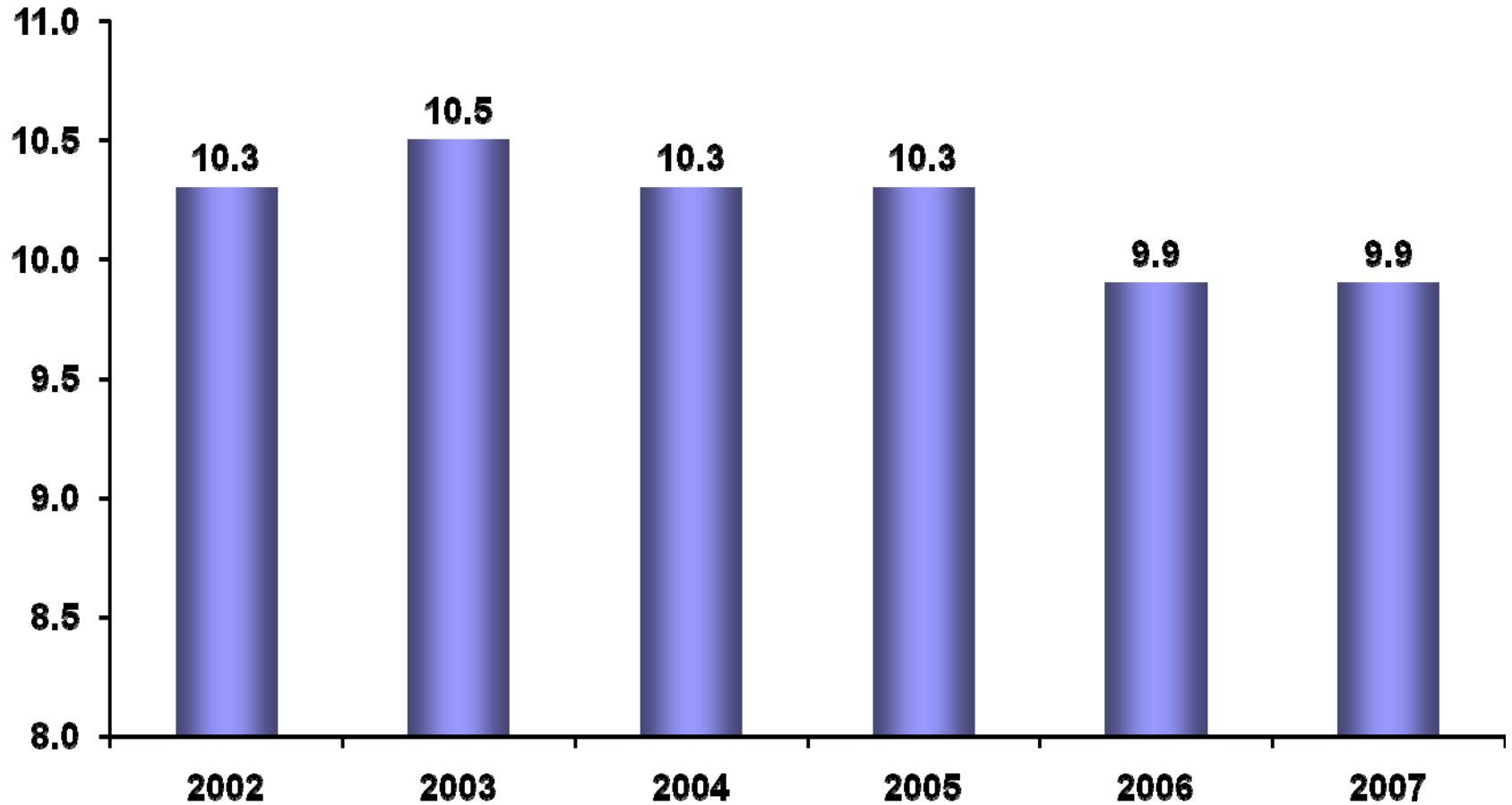


Average Inflation (%)

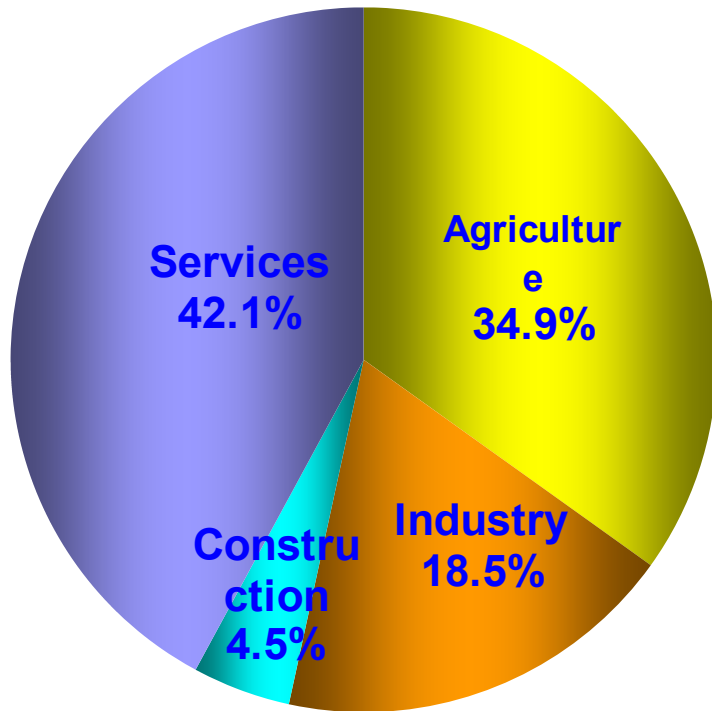


* Year-on-year change in the CPI as of end-March 2008.

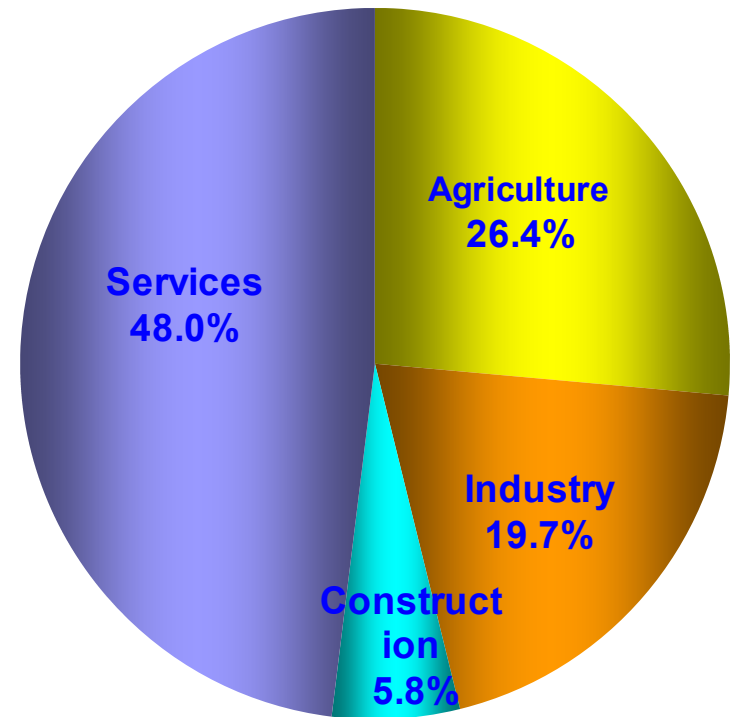
Unemployment Rate (%)



Distribution of Employment by Economic Activity (%)

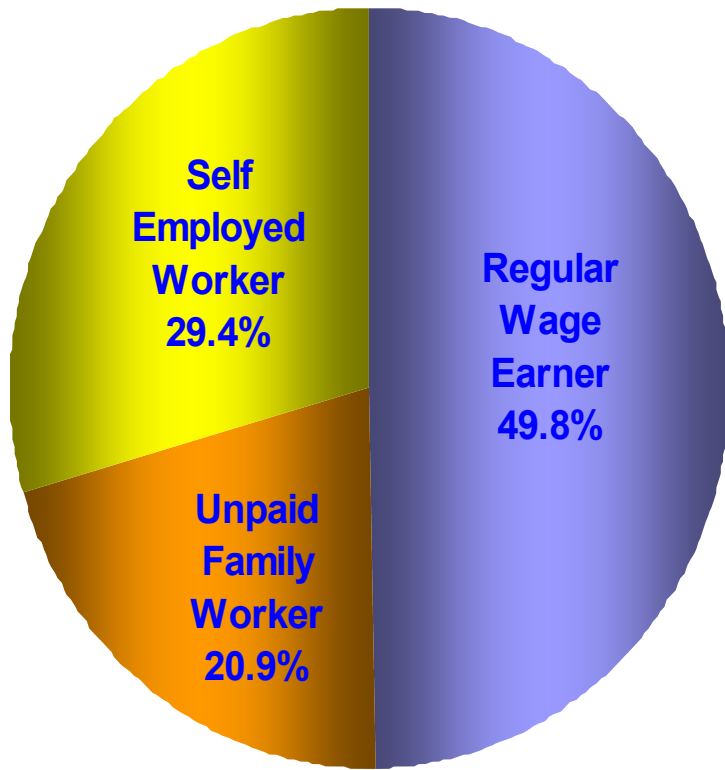


2002

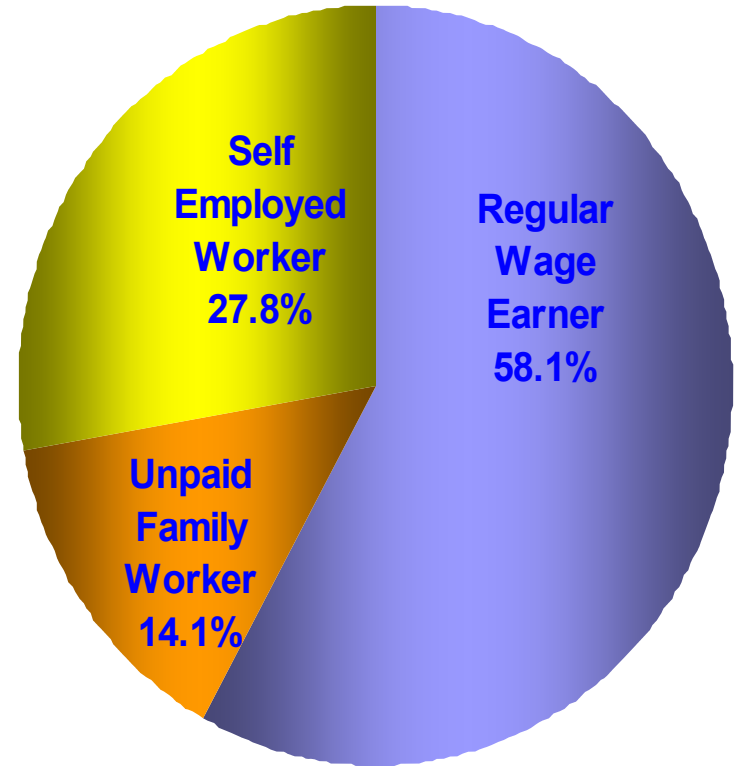


2007

Distribution of Employment by Employment Status (%)



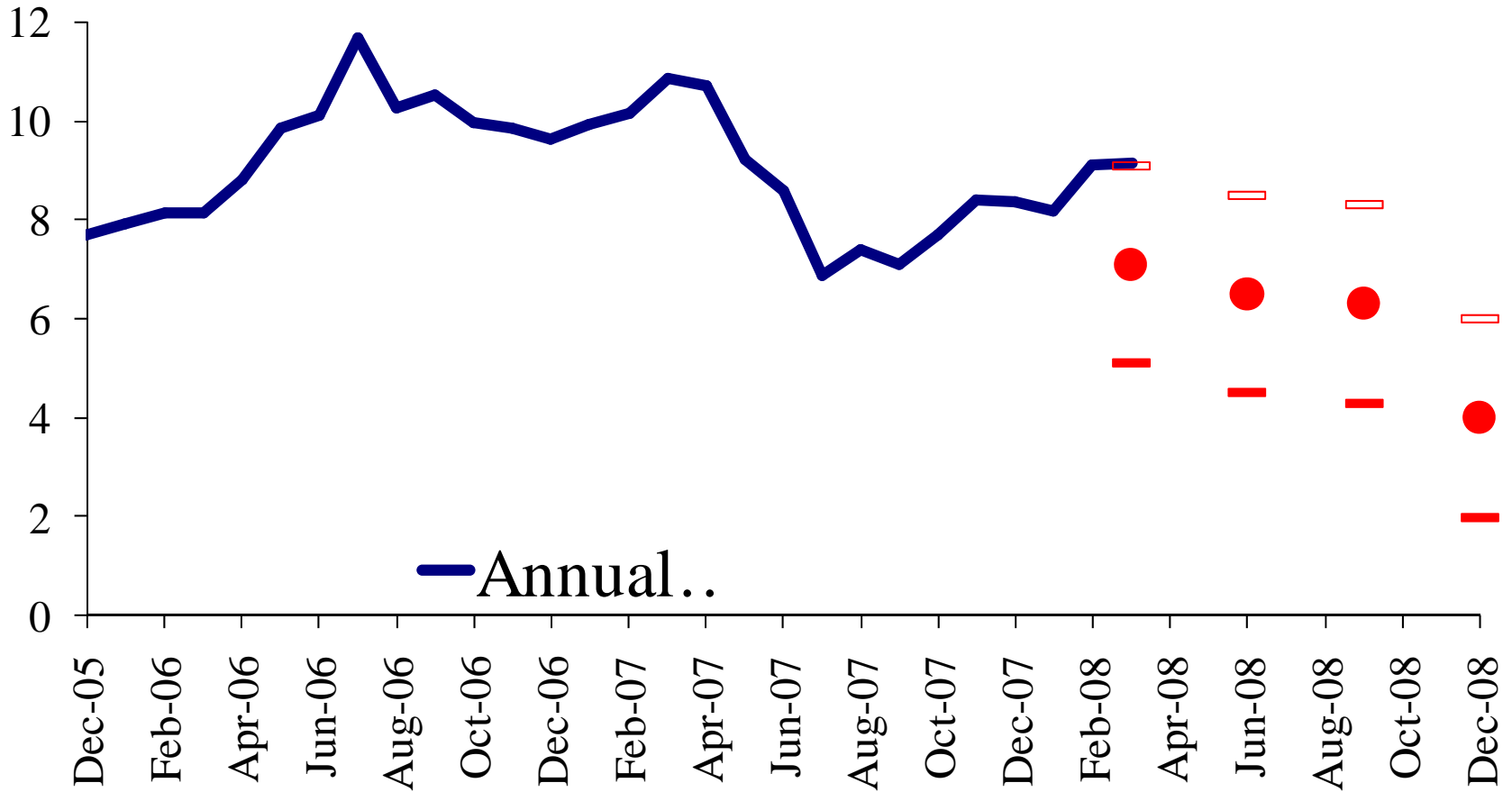
2002



2007

Inflation – Recent Developments

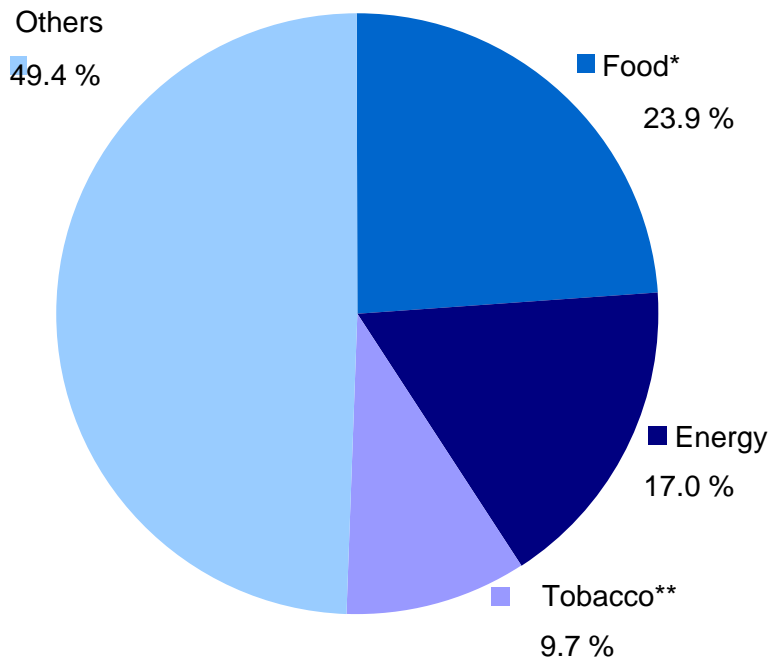
Annual CPI Inflation and Target Path (December 2005 – December 2008 , yoy, percent)



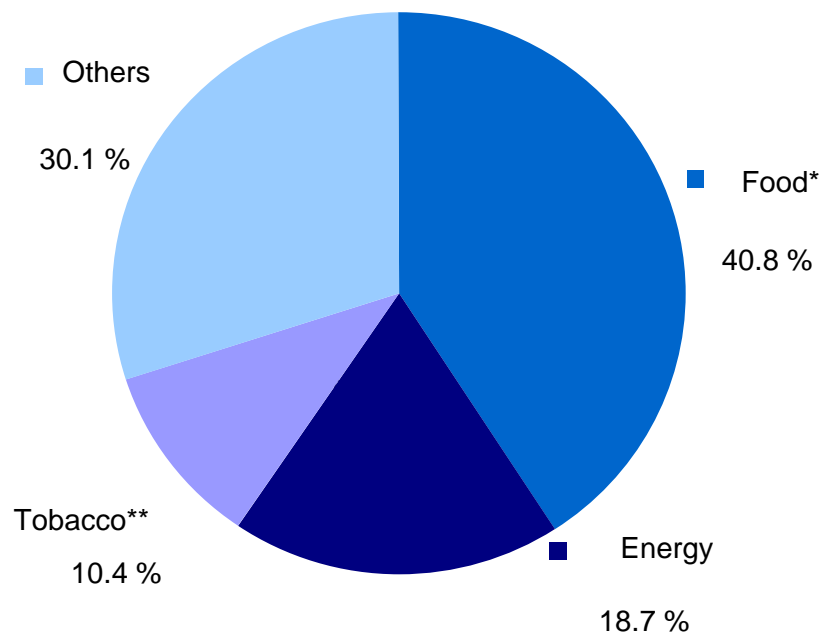
Inflation – Main Causes

Contribution to End-year CPI Inflation
(percentage share)

2004-2006 Average



2007

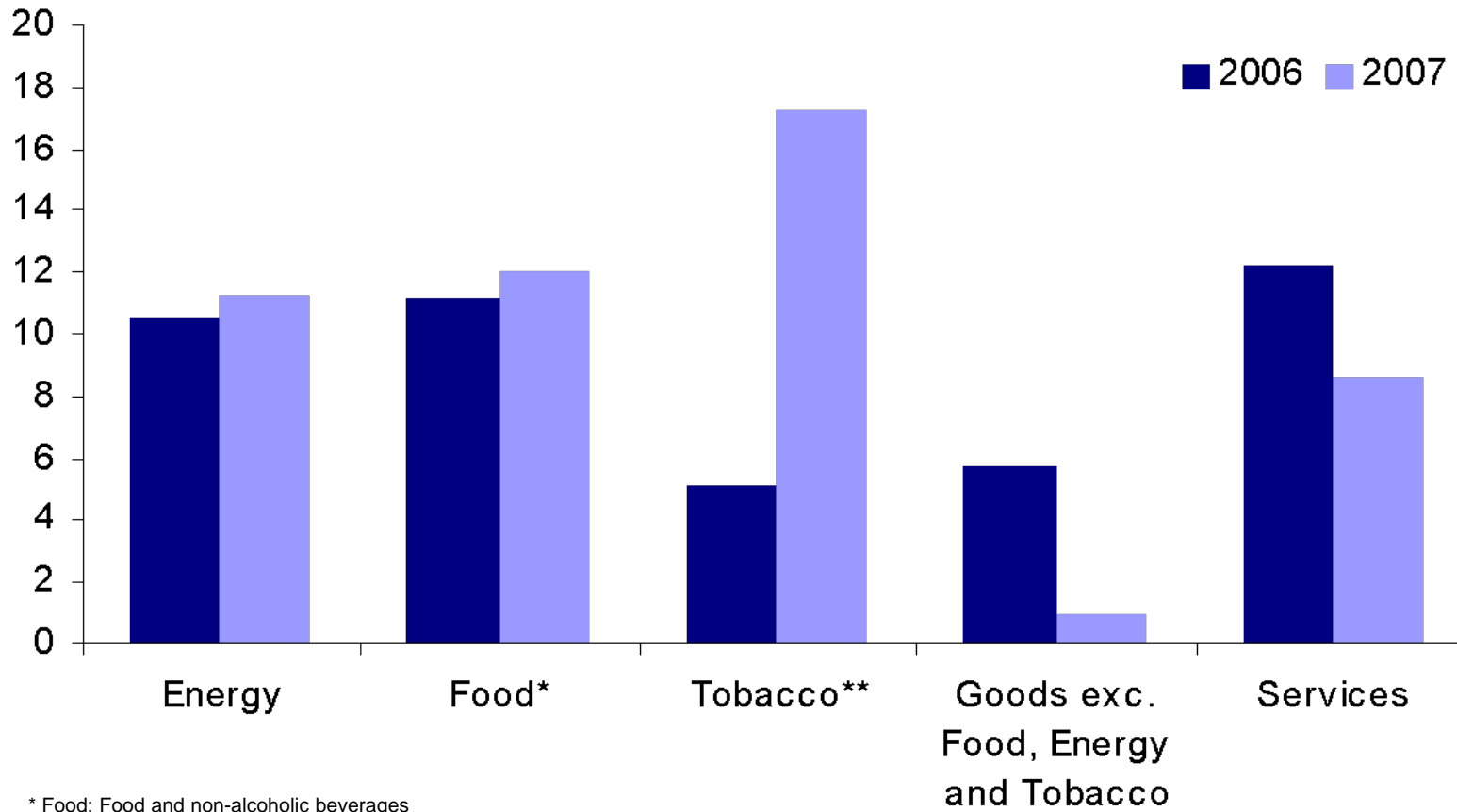


* Food: Food and non-alcoholic beverages

** Tobacco: Tobacco products and alcoholic beverages

Inflation – Subcomponents

Subcomponents of CPI (Annual Percentage Change)

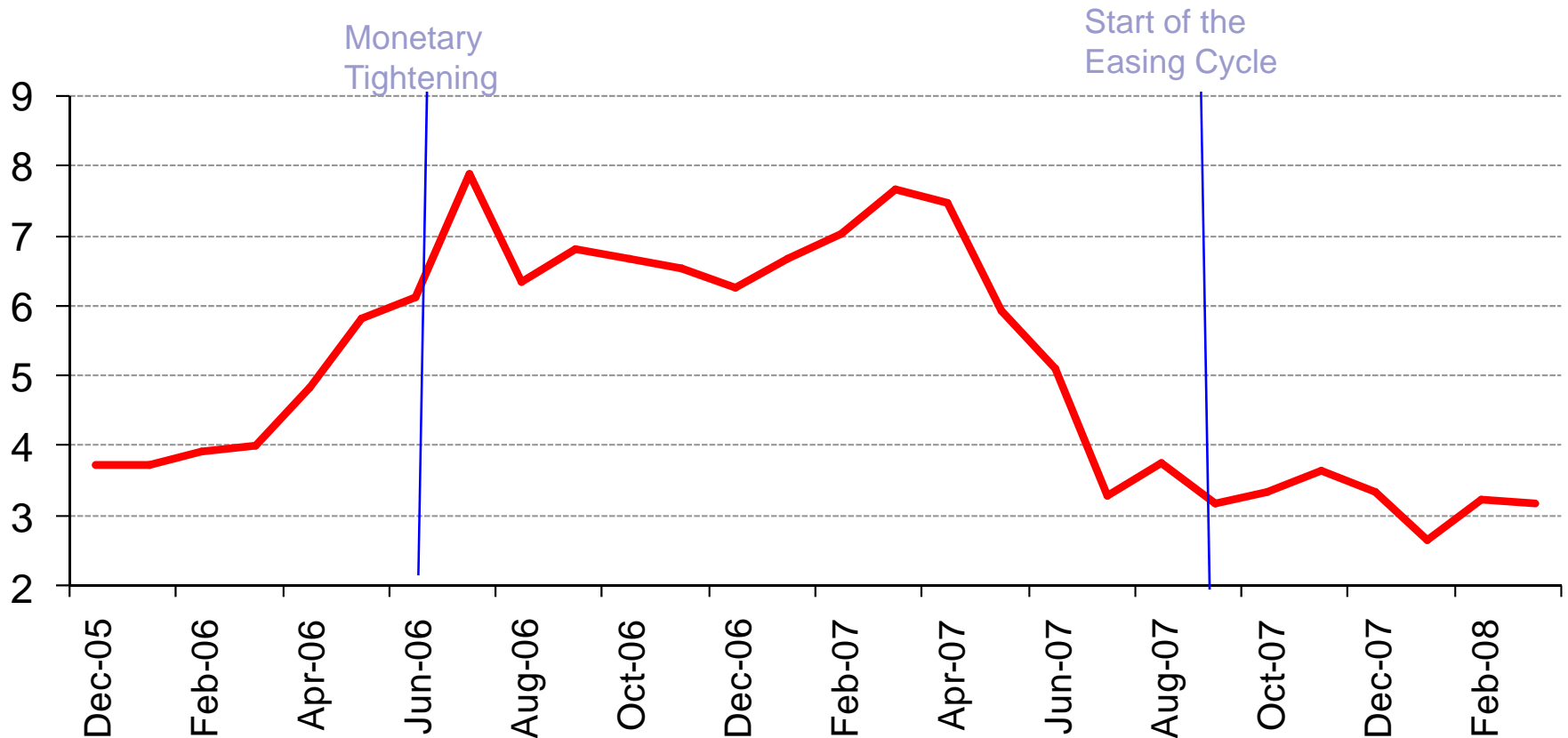


* Food: Food and non-alcoholic beverages

** Tobacco: Tobacco products and alcoholic beverages

Inflation – Relative Success

Difference Between Turkey and Other Emerging IT'ers Inflation Rates

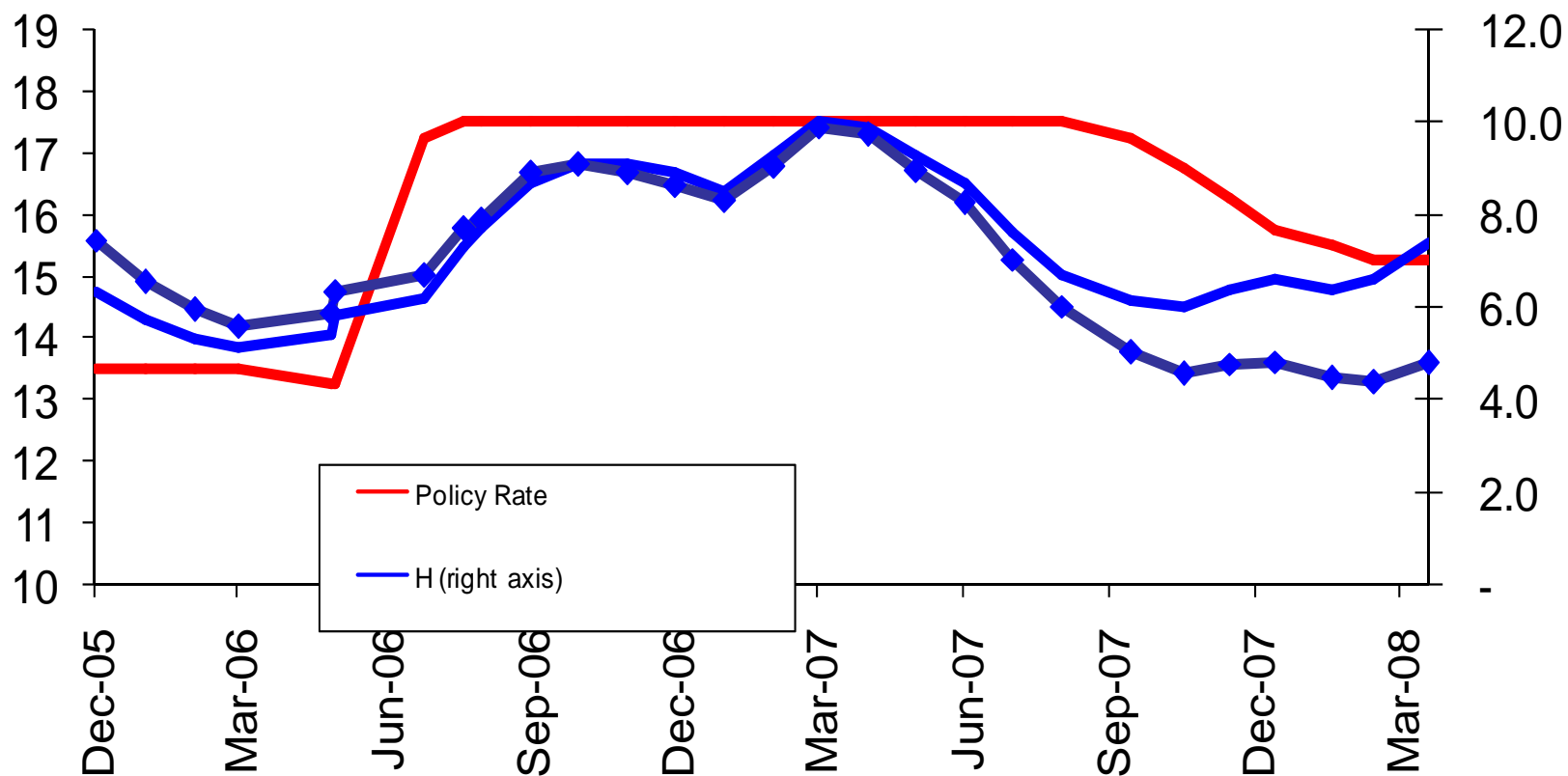


*Sample of emerging economies under inflation targeting covers Brazil, Czech Republic, Colombia, Philippines, South Africa, Israel, Hungary, Mexico, Peru, Poland, Romania, Chile, Slovakia and Thailand.

Source: Web sites of central banks

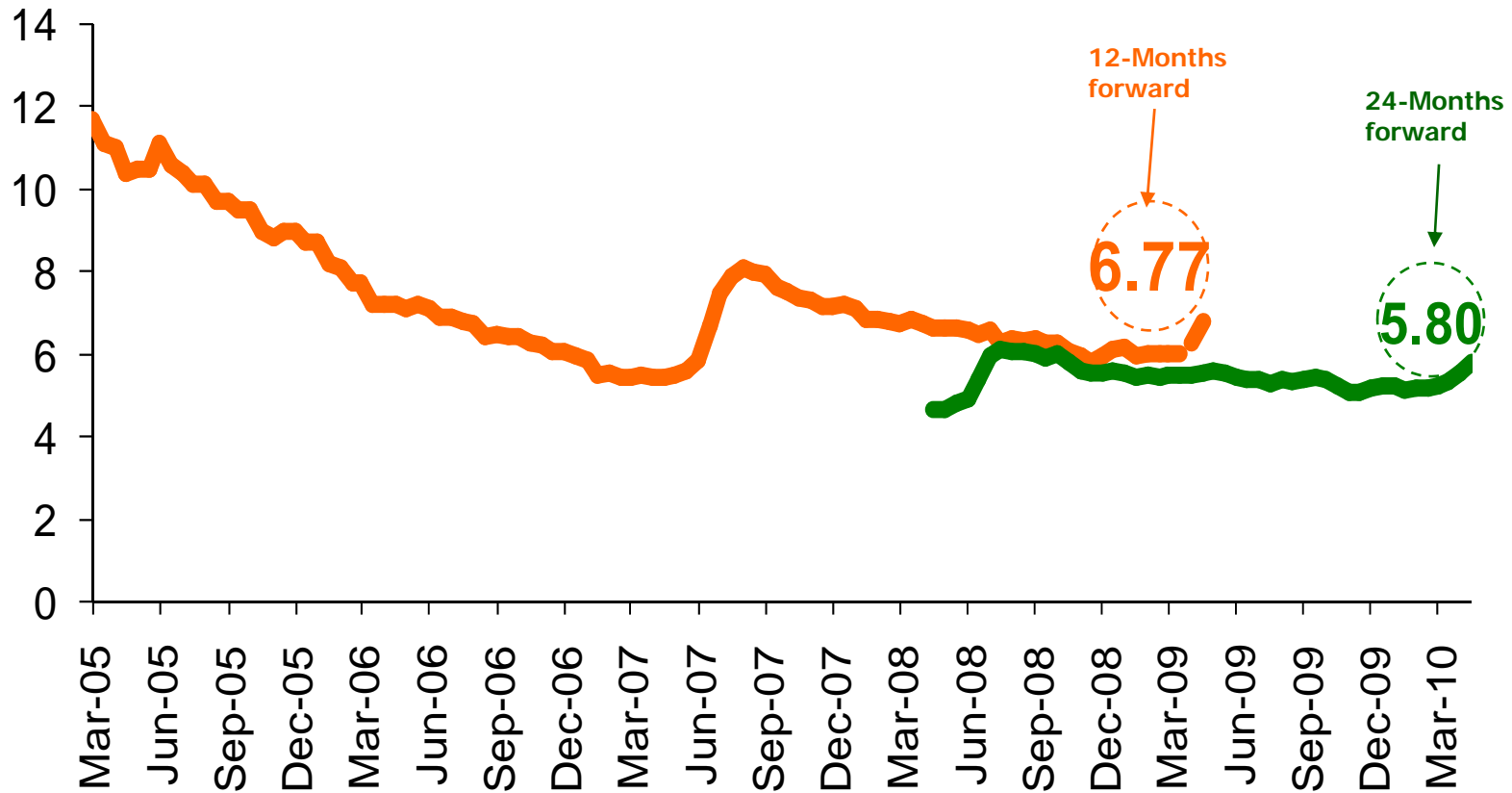
Monetary Policy and Core Indicators

Response of Inflation to the Monetary Tightening



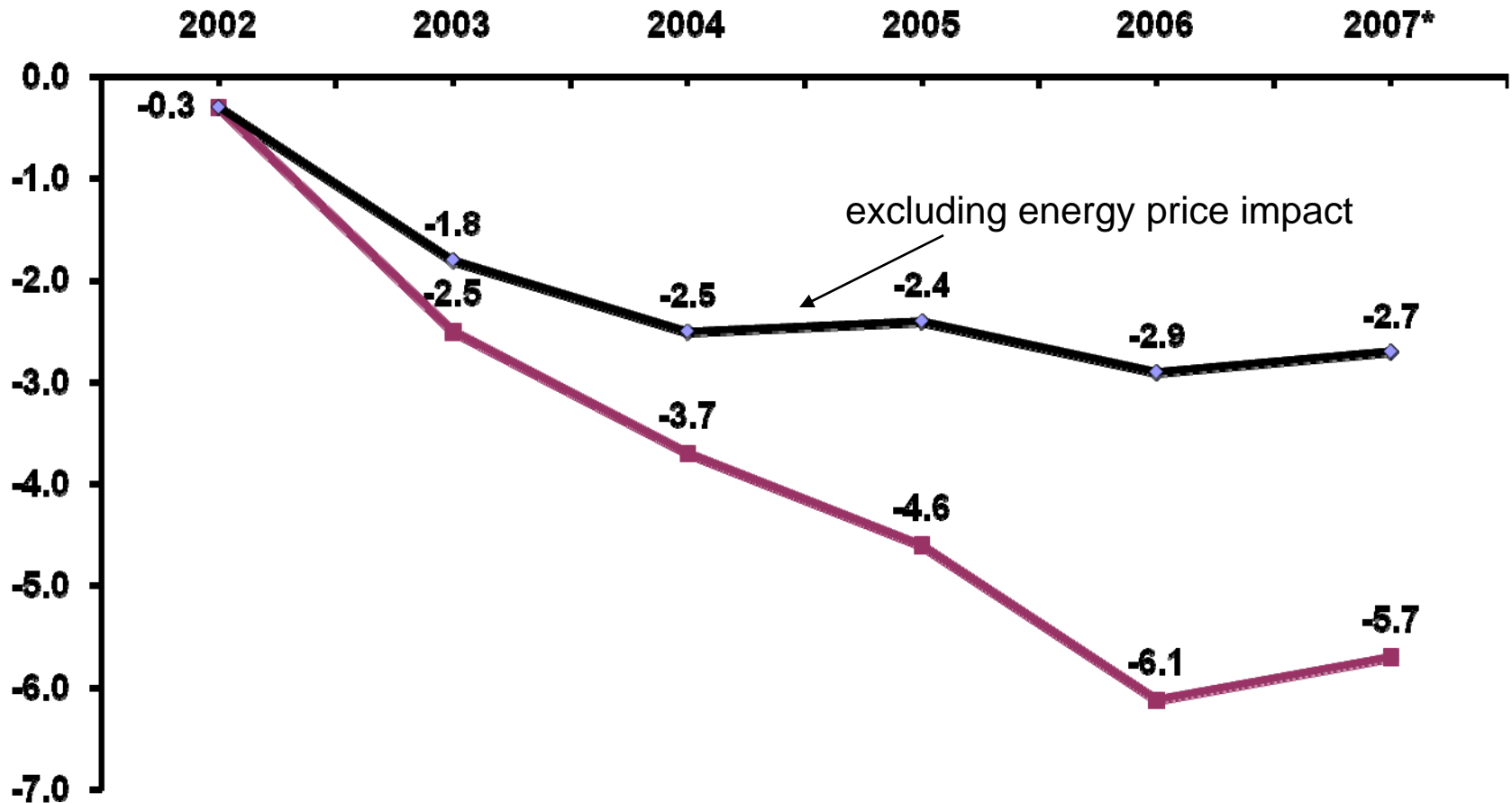
Expectations Improving Slowly

Medium Term Inflation Expectations*



Source: CBT

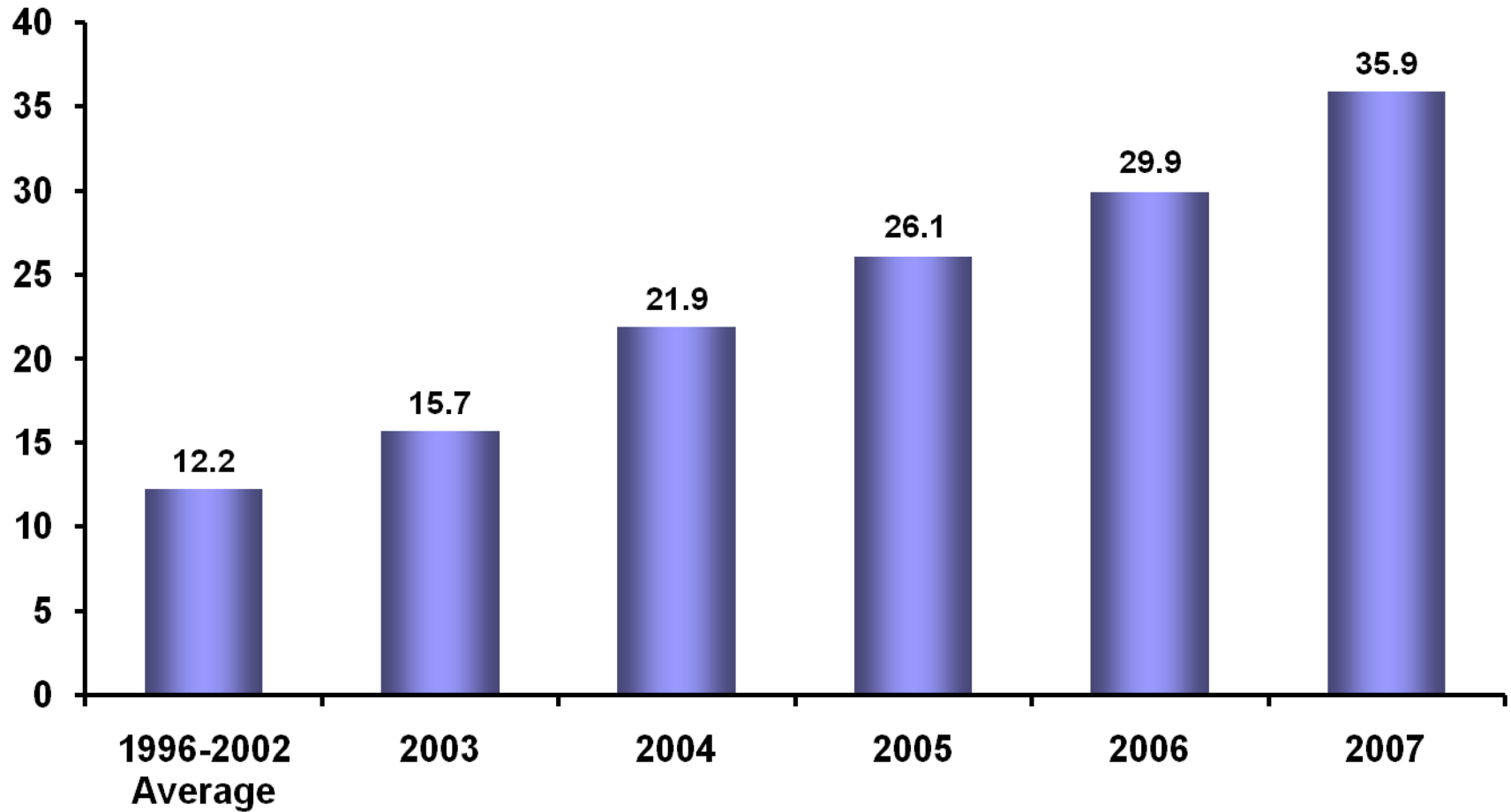
Current Account Balance (% of GDP)



Source: CBT

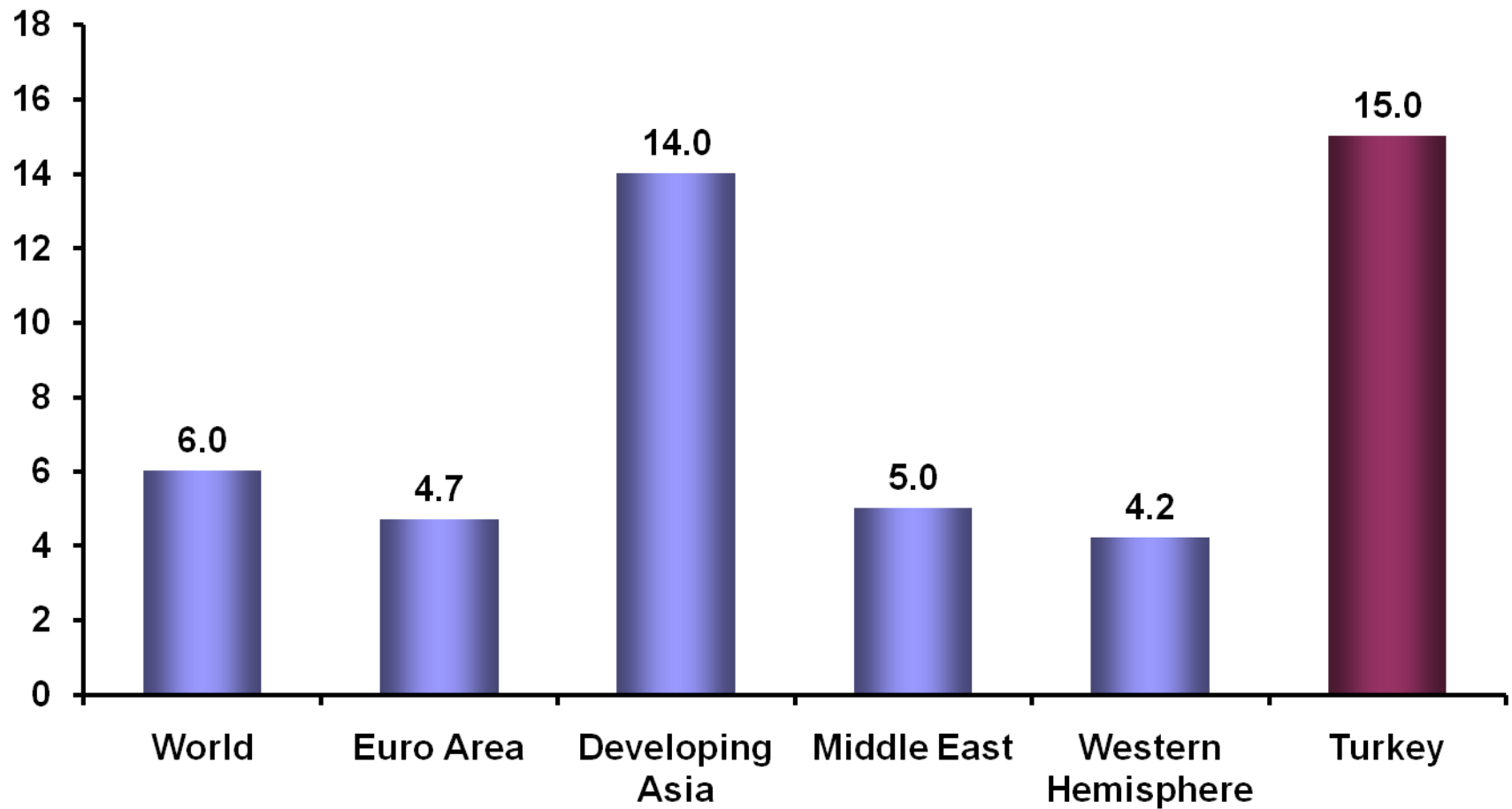
(*) The effect of energy price increases on the current account in the 2003-2007 period was calculated by keeping the prices of 2002 intact.

Machinery Imports (Billion USD)



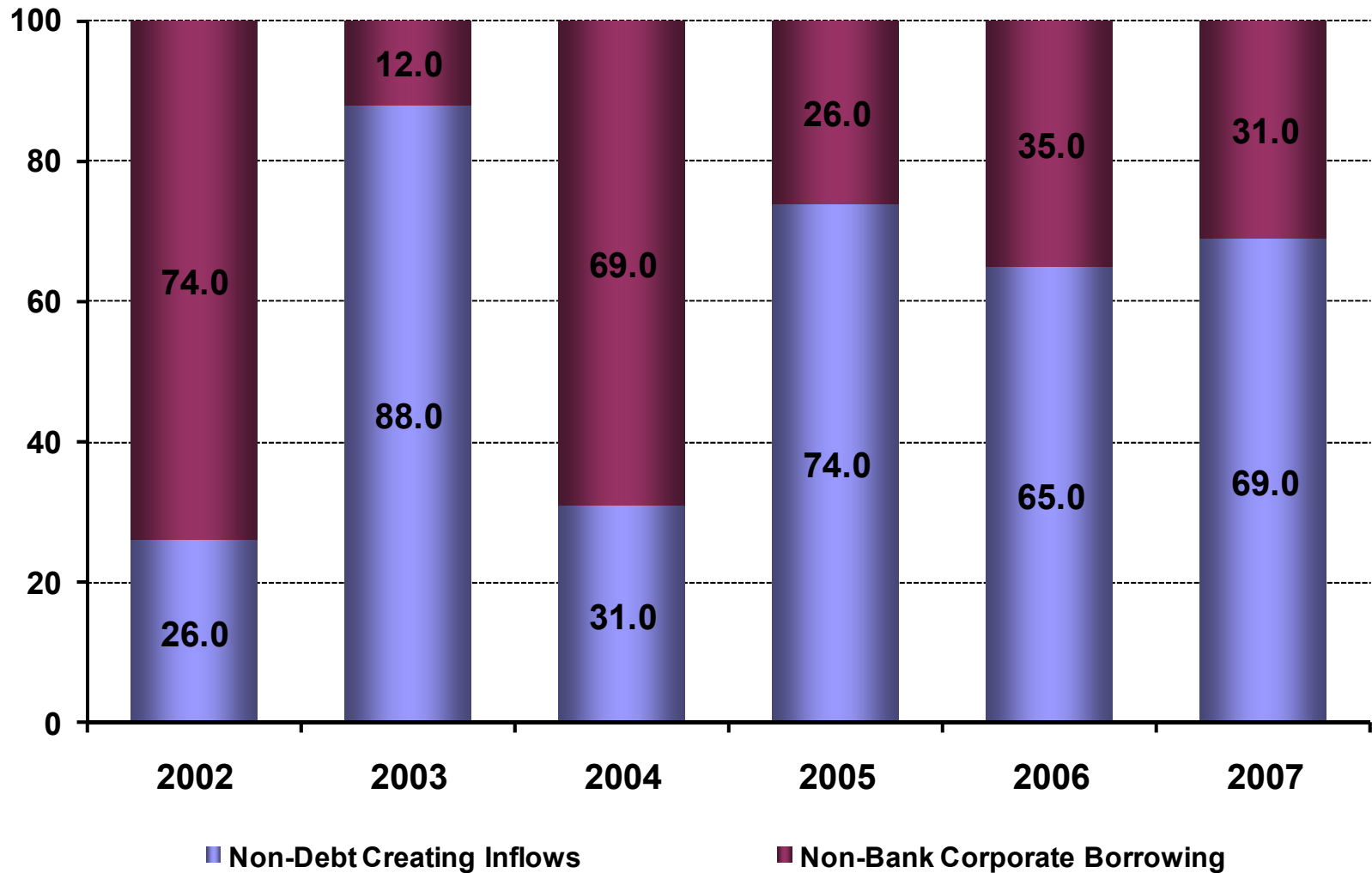
Export Performance

Export Growth Rate (2001 – 2007, average annual growth, percent)



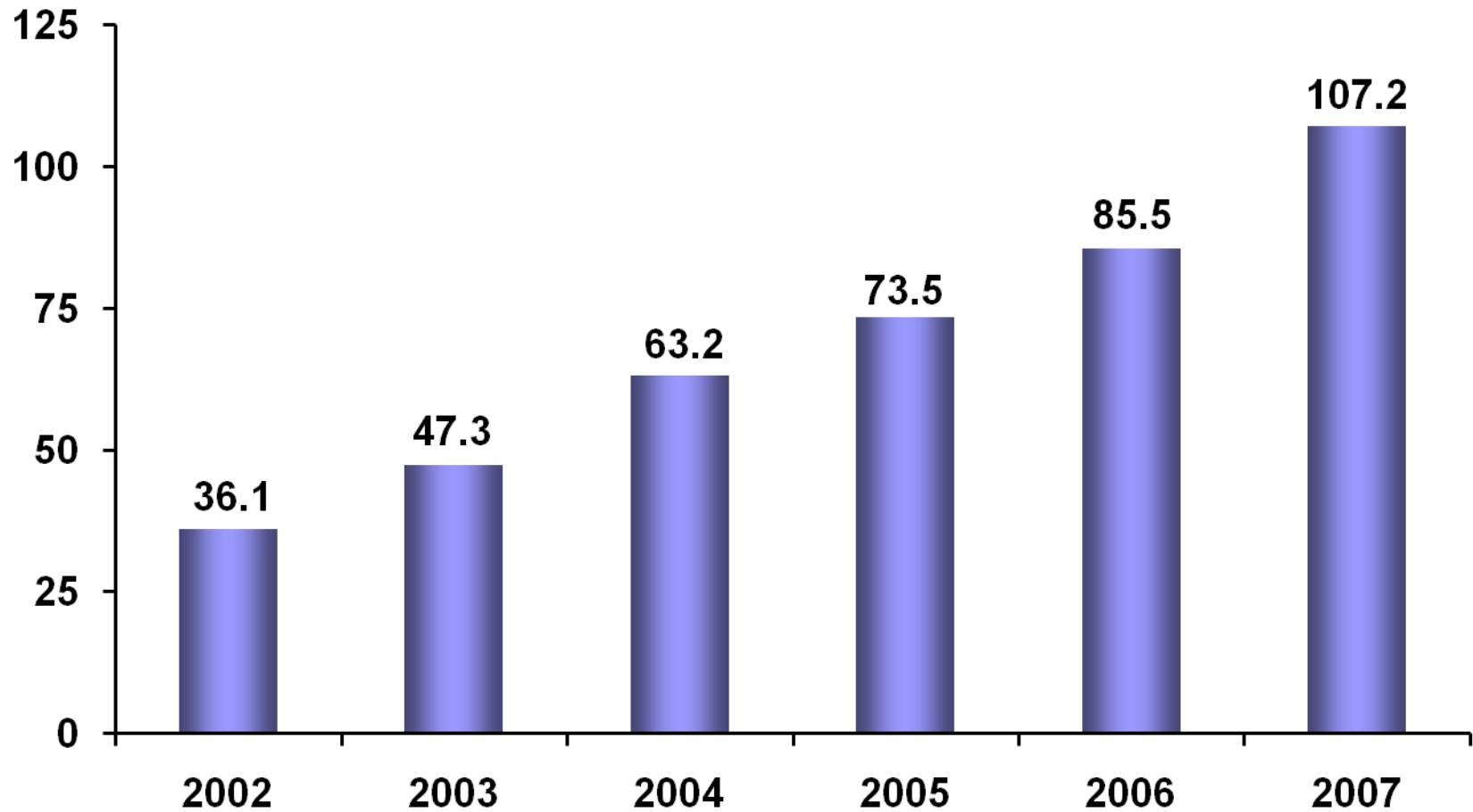
Source: TURKSTAT, IMF World Economic Outlook, April 2008.

Financing of Current Account Deficit (As a percentage of Current Account)



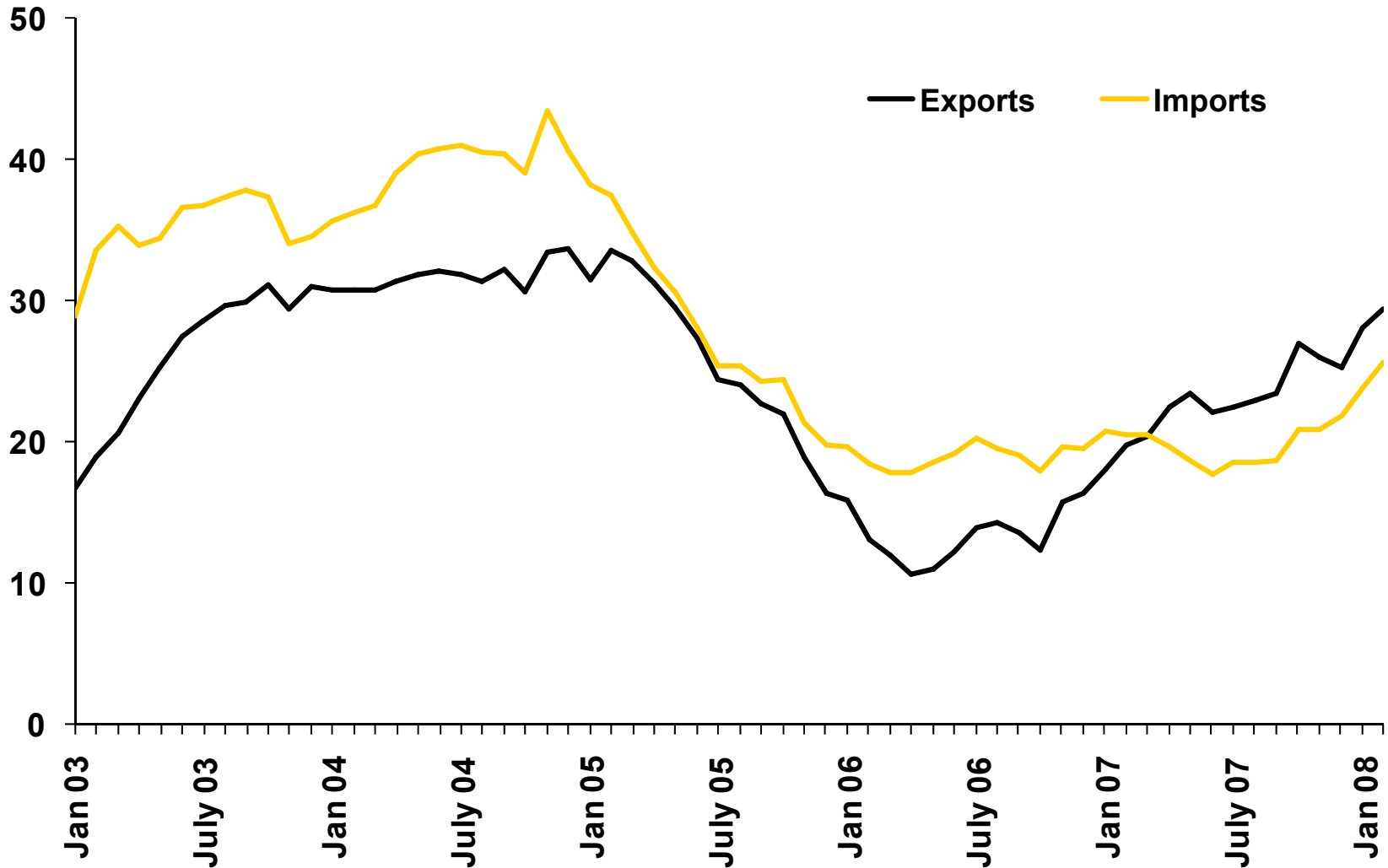
Source: CBT

Exports (Billion USD)



Export & Import Growth

(Annualized Percentage Change over the Previous Year)





Key Elements of Structural Reform Agenda

- I. Public Sector Administrative Reforms
- II. Financial Sector Reforms
- III. Structural Fiscal Reforms
 - Social Security Reform
 - Tax Reform
- IV. Enhancing Private Sector's Role in the Economy



I. Public Sector Administrative Reforms

- ❑ 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

II. Financial Sector Reforms

I. Regulation and Supervision in line with the EU Standards

New Banking Law in line with EU Standards

Continuation of Secondary Legislation related with the Banking Law

Progress on Implementing Regulations

Financial Sector Assessment Program (FSAP)

Preparation for BASEL II

II. Strengthening the Private Banks

CAR-Capital Adequacy Ratio- Improvement

Consolidation Encouraged

Increased Foreign Participation

III. State Bank Reform

Financial and Operational Restructuring

Privatization process for Halkbank has been initiated

IV. Development of Mortgage Market

Mortgage Law enacted in February, 2007

Secondary Legislation on Mortgage Law has been initiated

III. Structural Fiscal Reforms

Social Security Reform

- Social Security Administrative Reform Law (May, 2006)
- Pension and Universal Health Insurance Reform Law (enacted on June 16, 2006.
Implementation delayed due to Constitutional Court Decision)

Tax Reform

- PIT Reform
 - Rate Reform (April, 2006)
 - Structure Reform (March, 2007)
- CIT Law (June, 2006)
- Establishment of a Semi Autonomous Revenue Administration (R. A.)
- Establishment of a Large-Taxpayers Unit under R. A.
- Establishment of Tax Policy Unit



IV. Enhancing the Role of the Private Sector

Key Elements:

- a. Opening the Key Markets to Competition and Regulation by Independent Agencies
- b. Improving the Investment Environment
- c. Accelerating Privatization

IV. Enhancing the Role of the Private Sector

a. Opening up and Deregulation of Key Markets:

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

IV. Enhancing the Role of the Private Sector

b. 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

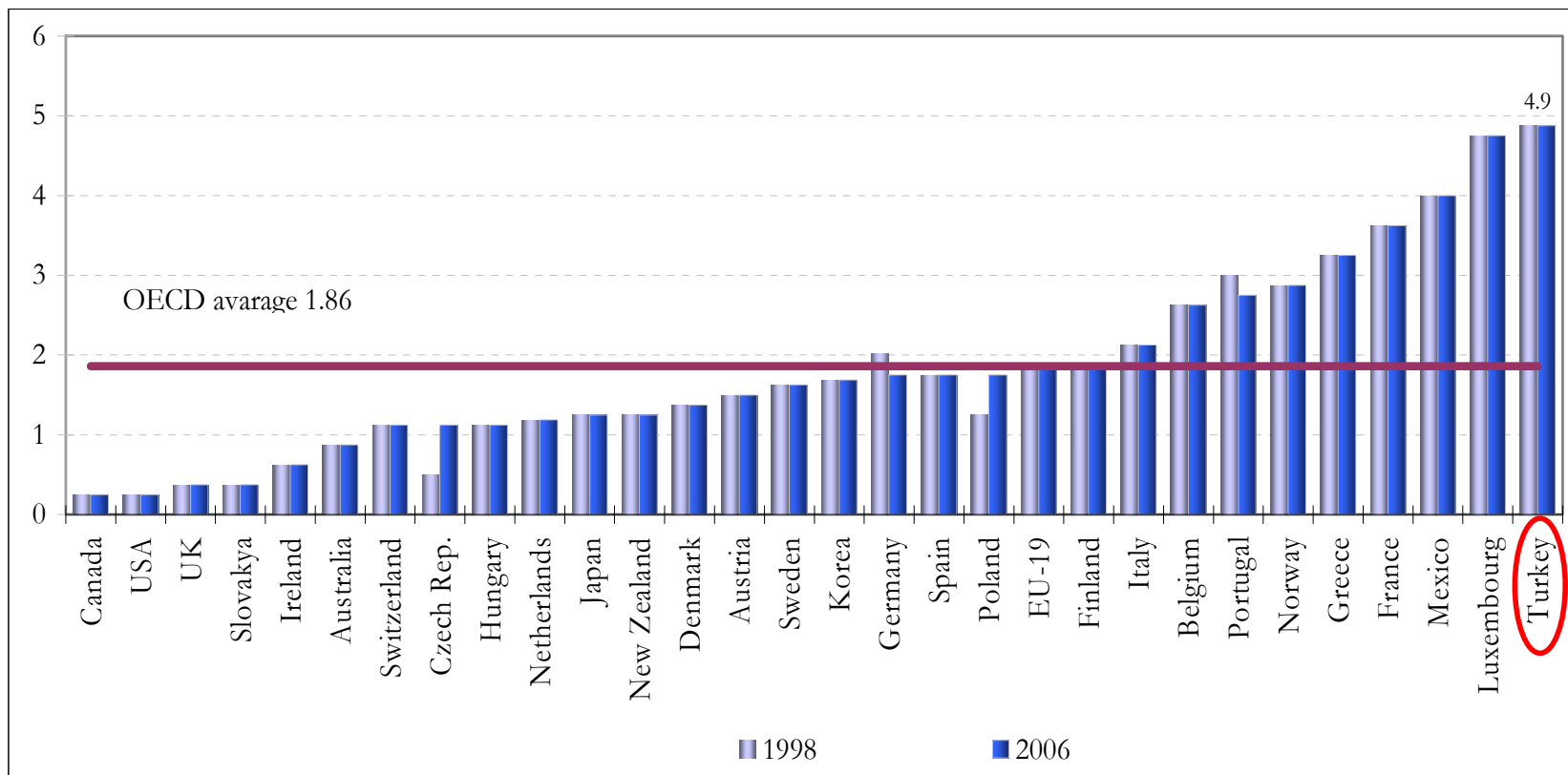
Access to Real Estate

Structural Reform Agenda

- ❑ Strengthening Fiscal Position
 - ❑ Social Security Reform (A Revised Package)
 - ❑ Strengthening Revenue Administration
 - ❑ Privatization, Promoting Competition
- ❑ Enhancing External Competitiveness
 - ❑ R&D Law
 - ❑ Labor Market Reform, Reducing Informal Economic Activity
 - ❑ A New Commercial Code
 - ❑ Energy Market Reform
 - ❑ Education Reform

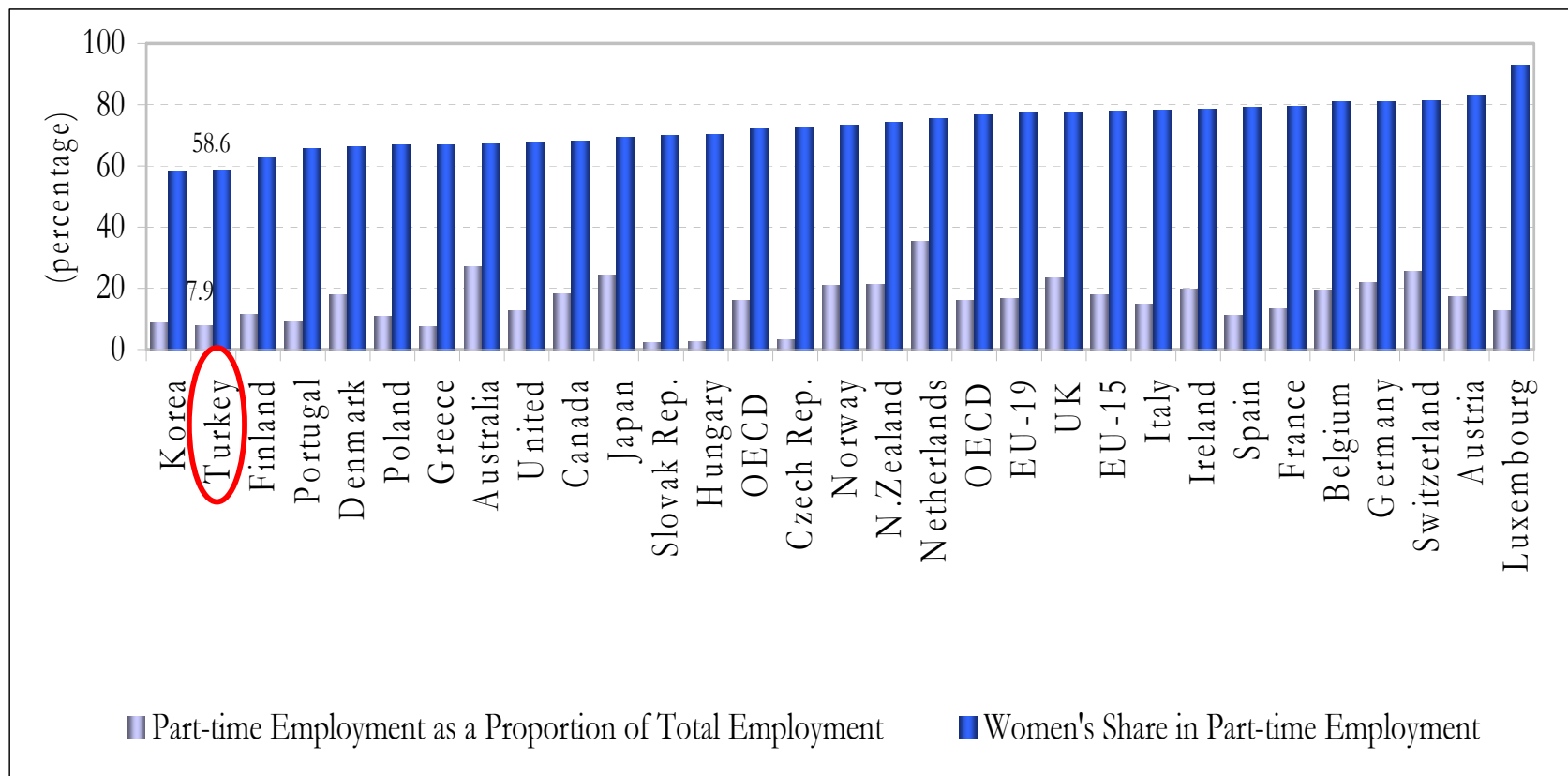
Restrictiveness of Protection Legislation on Temporary Employment (EPL)

(Index Scale of 0-6 from Least to Most Restrictive)



Source: Going for Growth Database, OECD, 2007

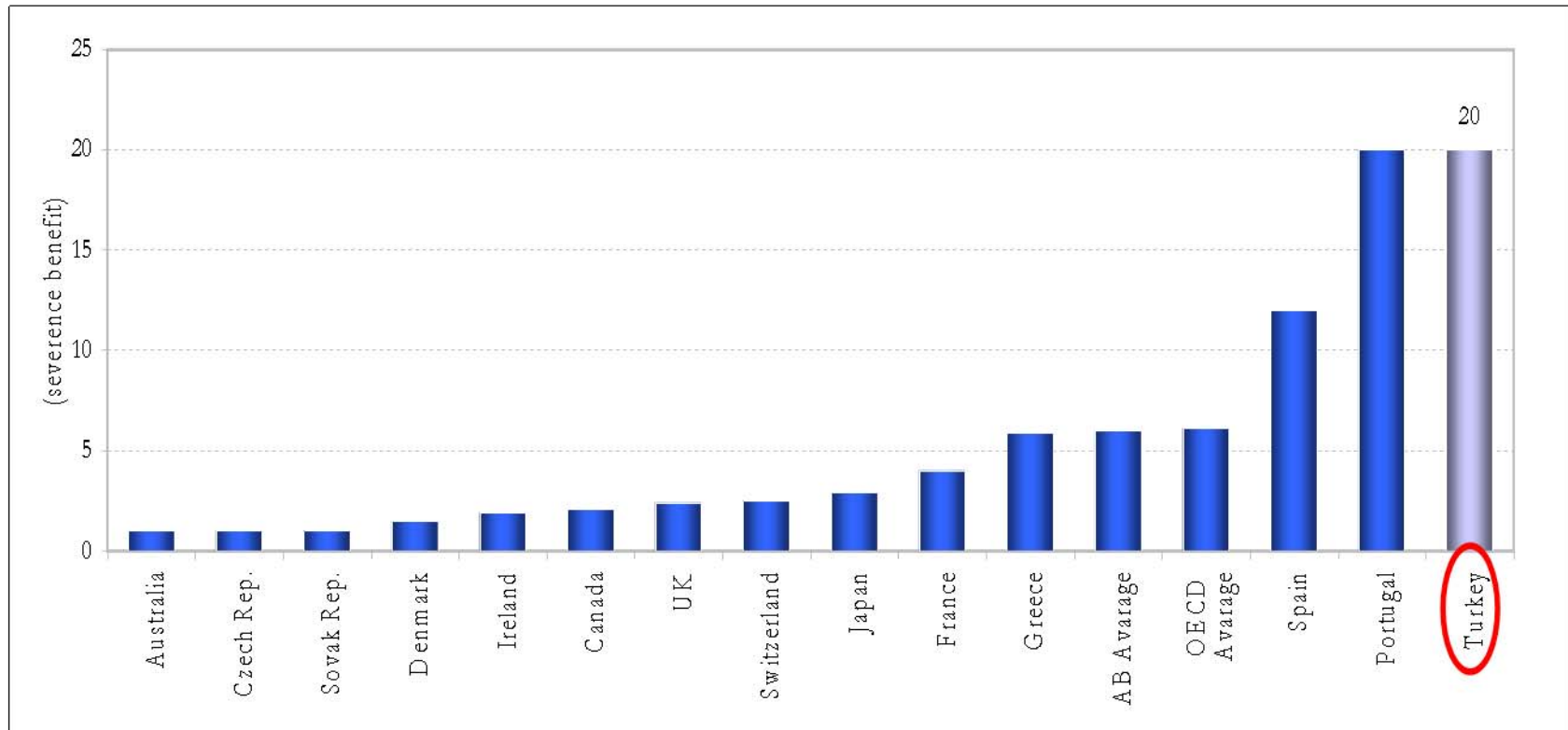
Part-time Employment (2006)



Source: Labour Force Statistics Database, OECD, 2007

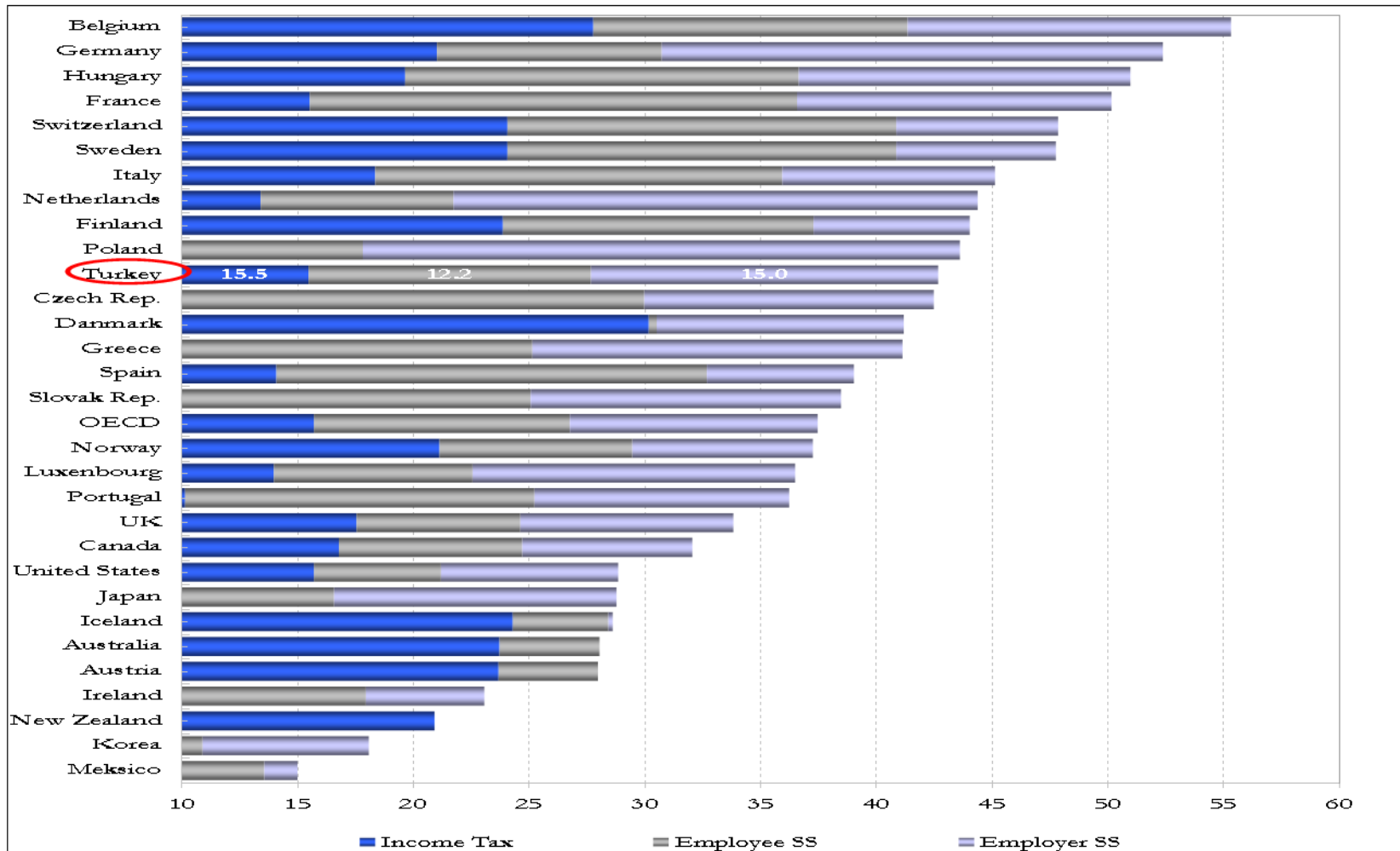
Severance Payments Burden

(As Months of Payment for 20 Years Work)



Source: World Bank, Turkey Country Economic Memorandum, 2006

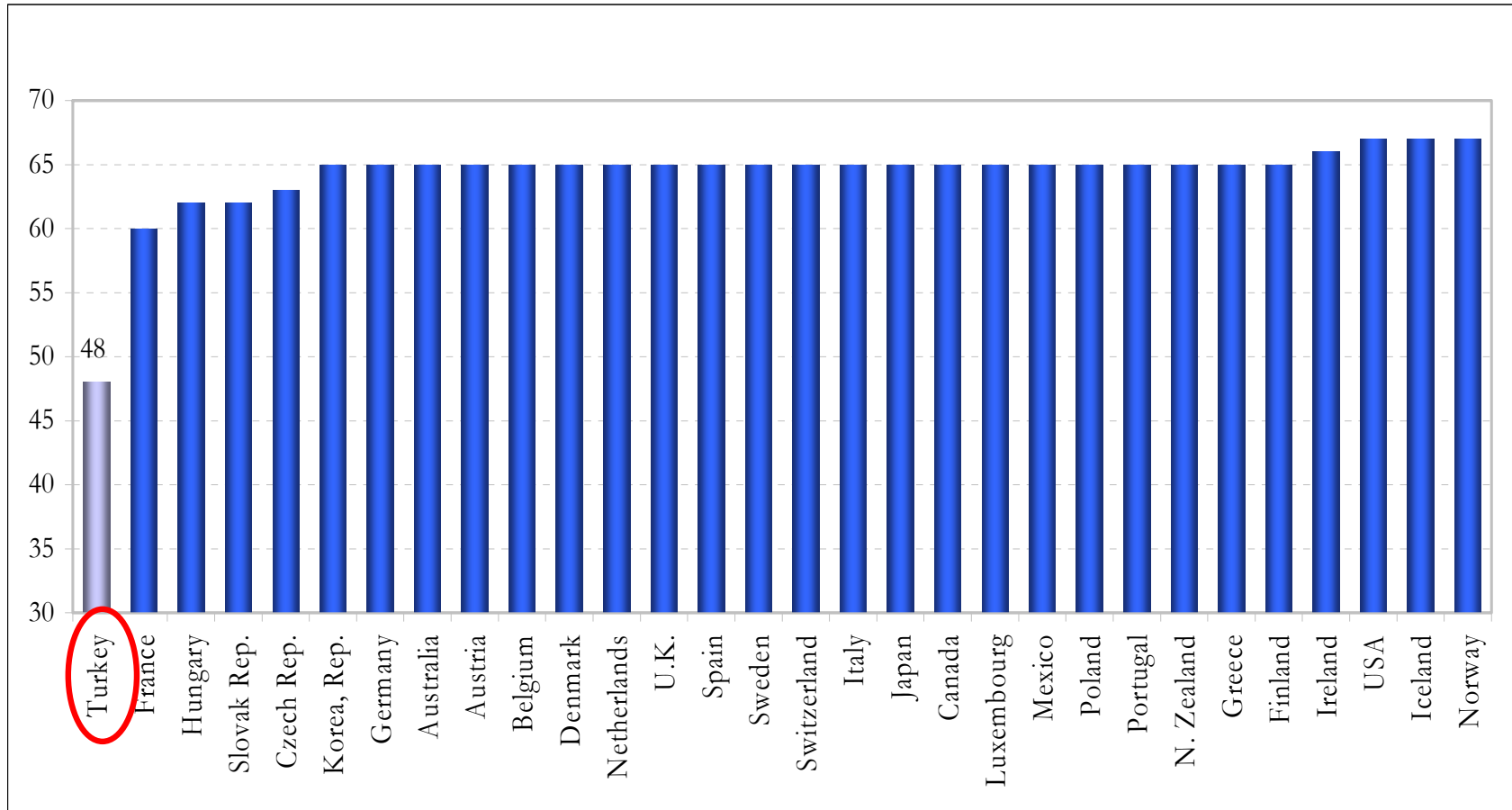
Tax Wedge (2006) *As Percentage of Labor Costs*



(1) Single individual without children at the income level of the average worker

Source: OECD, *Taxing Wages*, 2007

Retirement Age for Men

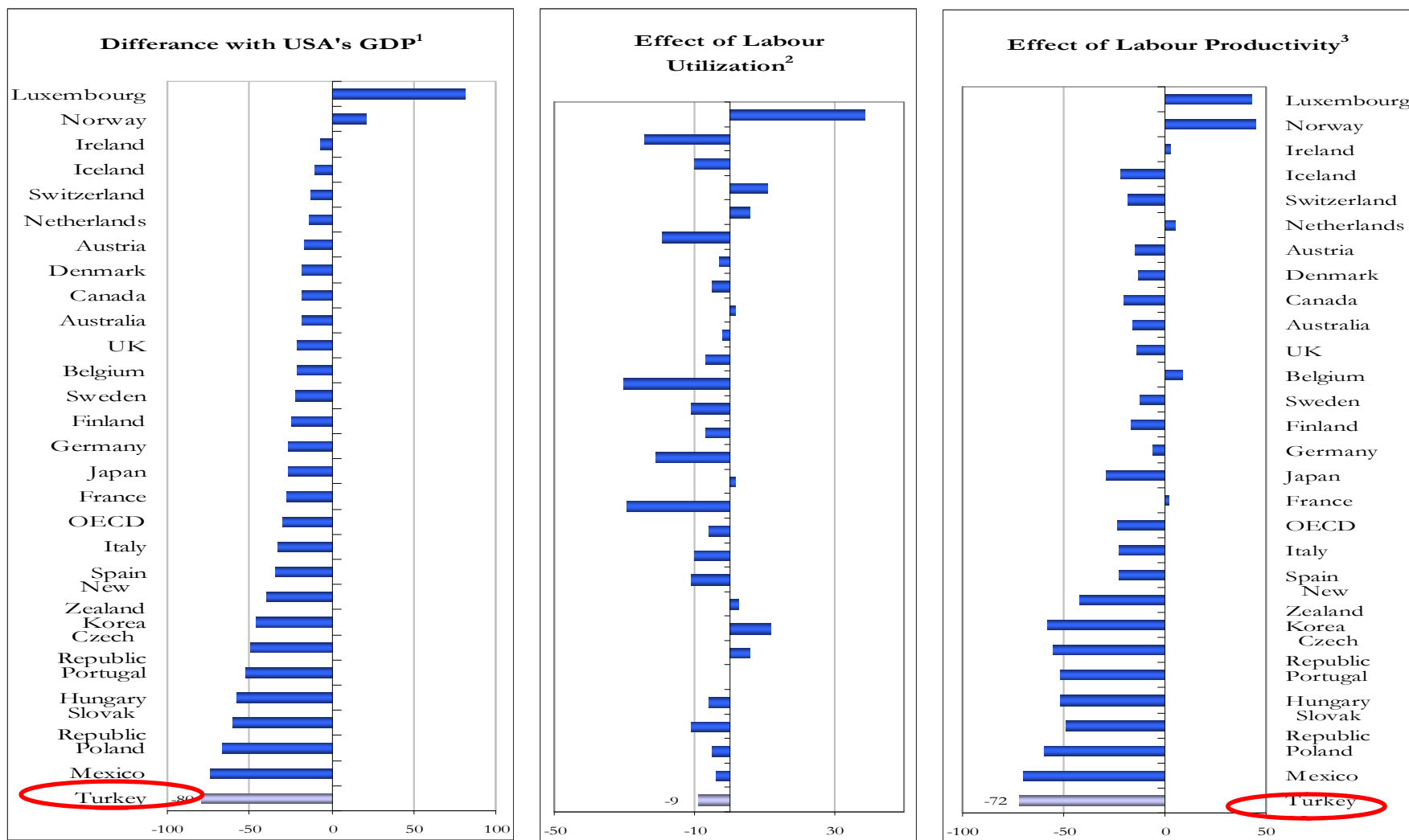


Source: Pensions at a Glance, OECD, 2007

Net Replacement Rates



The Sources of Real Income Differences, 2006



(1) Based on 2005 PPP

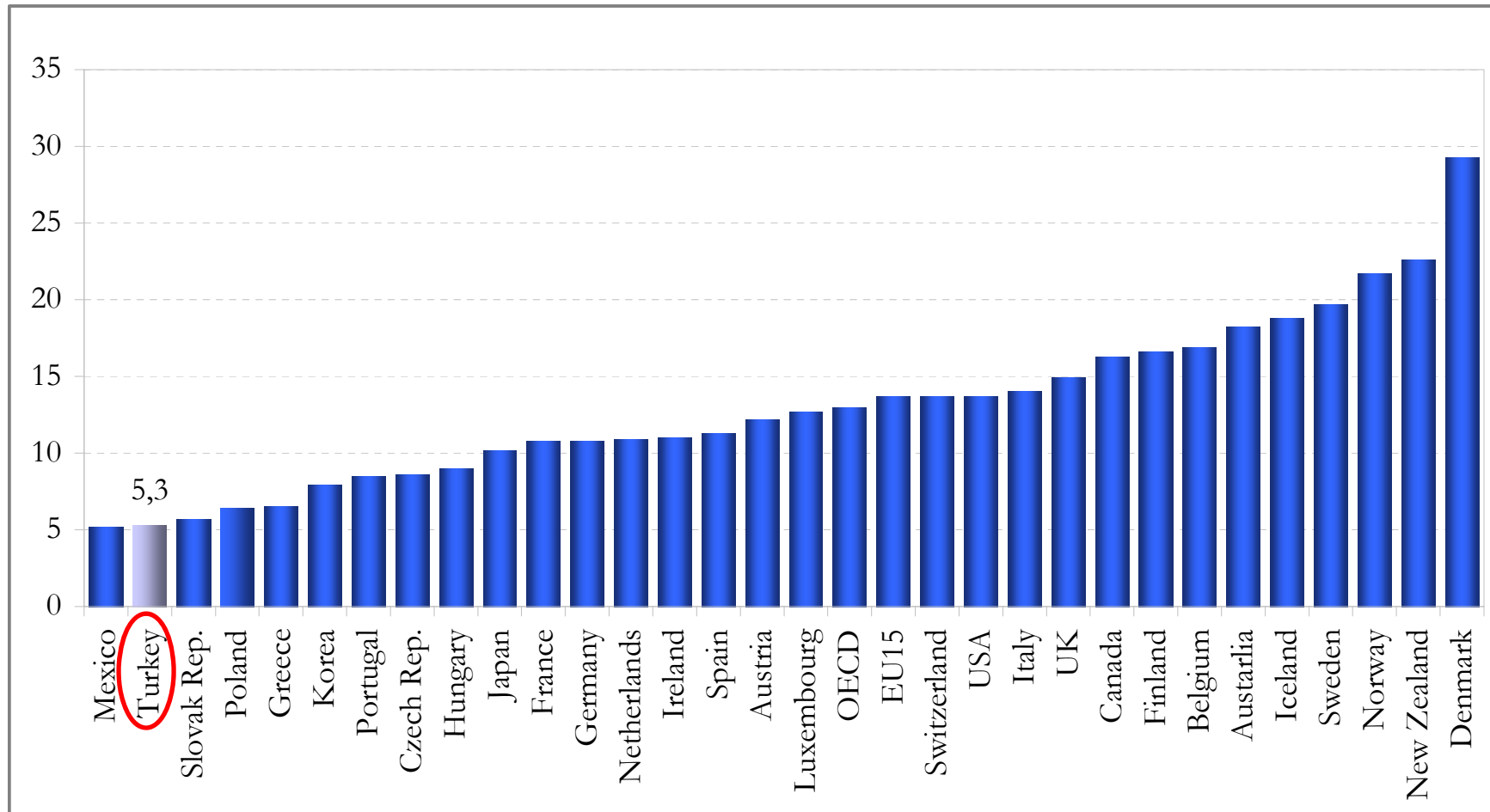
(2) Labour utilization is ratio of total hours worked to population

(3) Labour productivity is measured as GDP per hours worked

Source: OECD Productivity Database, November 2007.

Taxes on Income and Profits

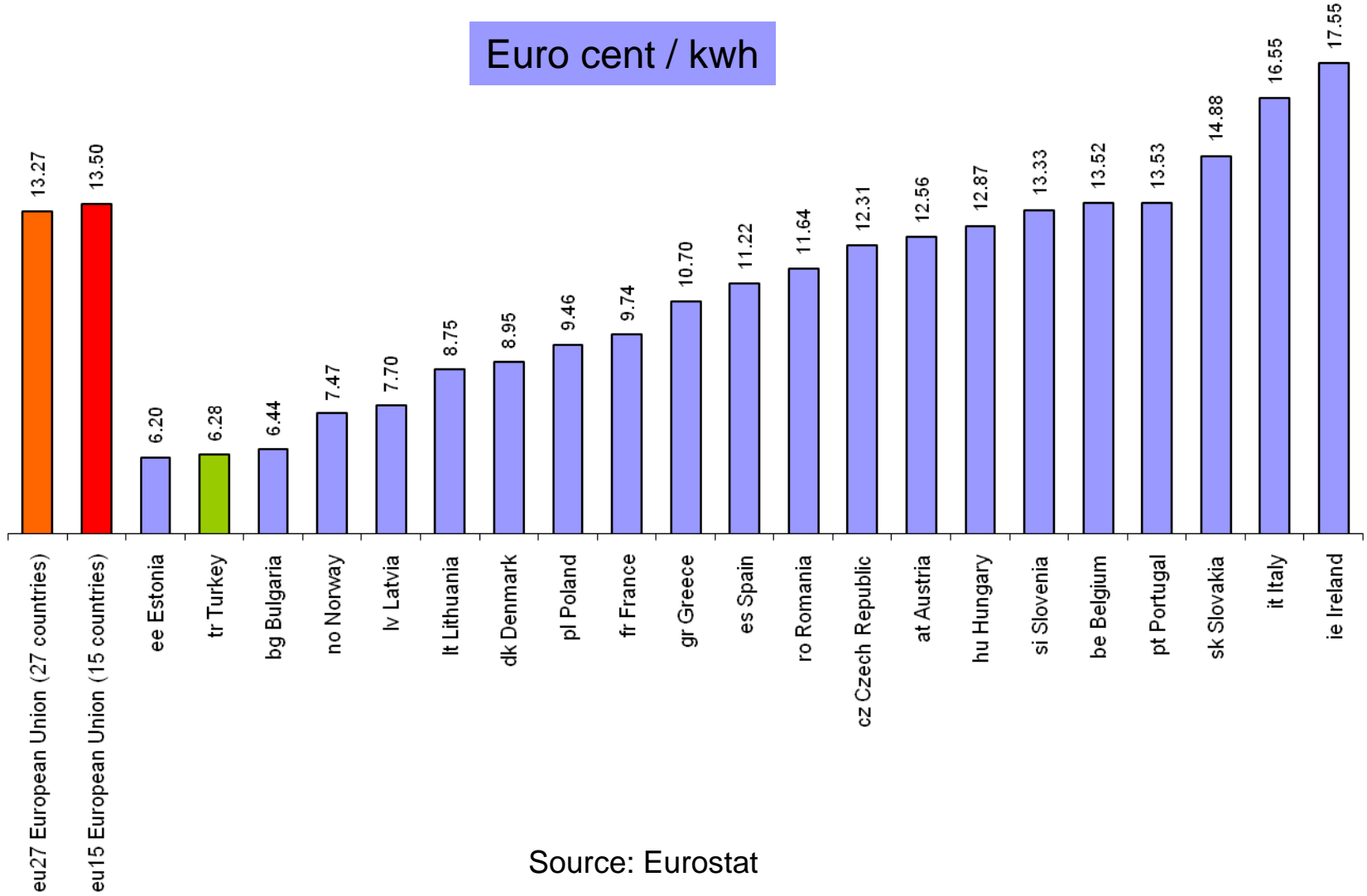
(As a Percentage of GDP, 2006 or Latest Available Year)



Source: OECD Factbook 2008

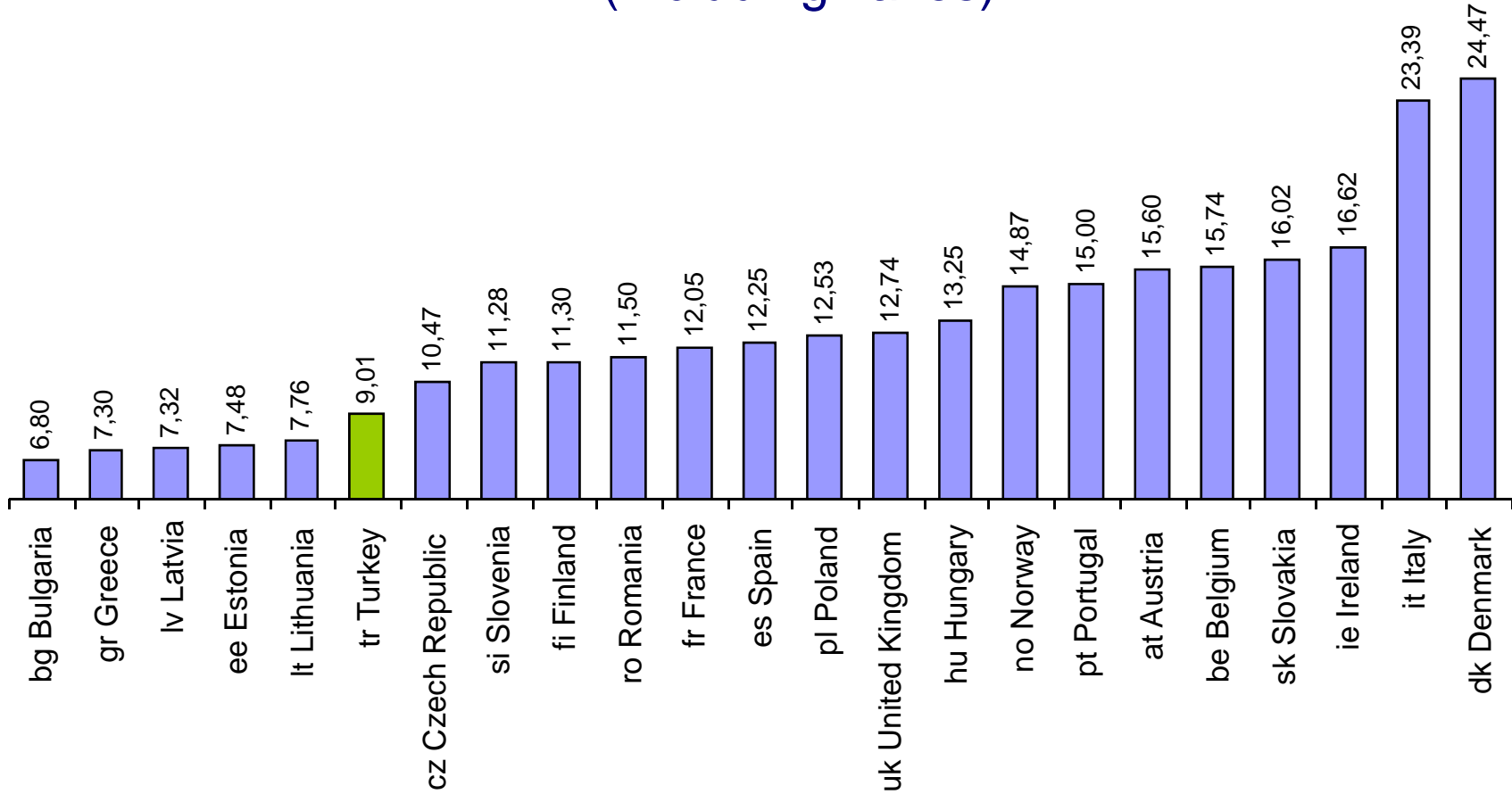
Electricity -- Industrial -- July 2007 Excluding VAT

Euro cent / kwh



Source: Eurostat

Electricity -- Household -- July 2007 (Including Taxes)

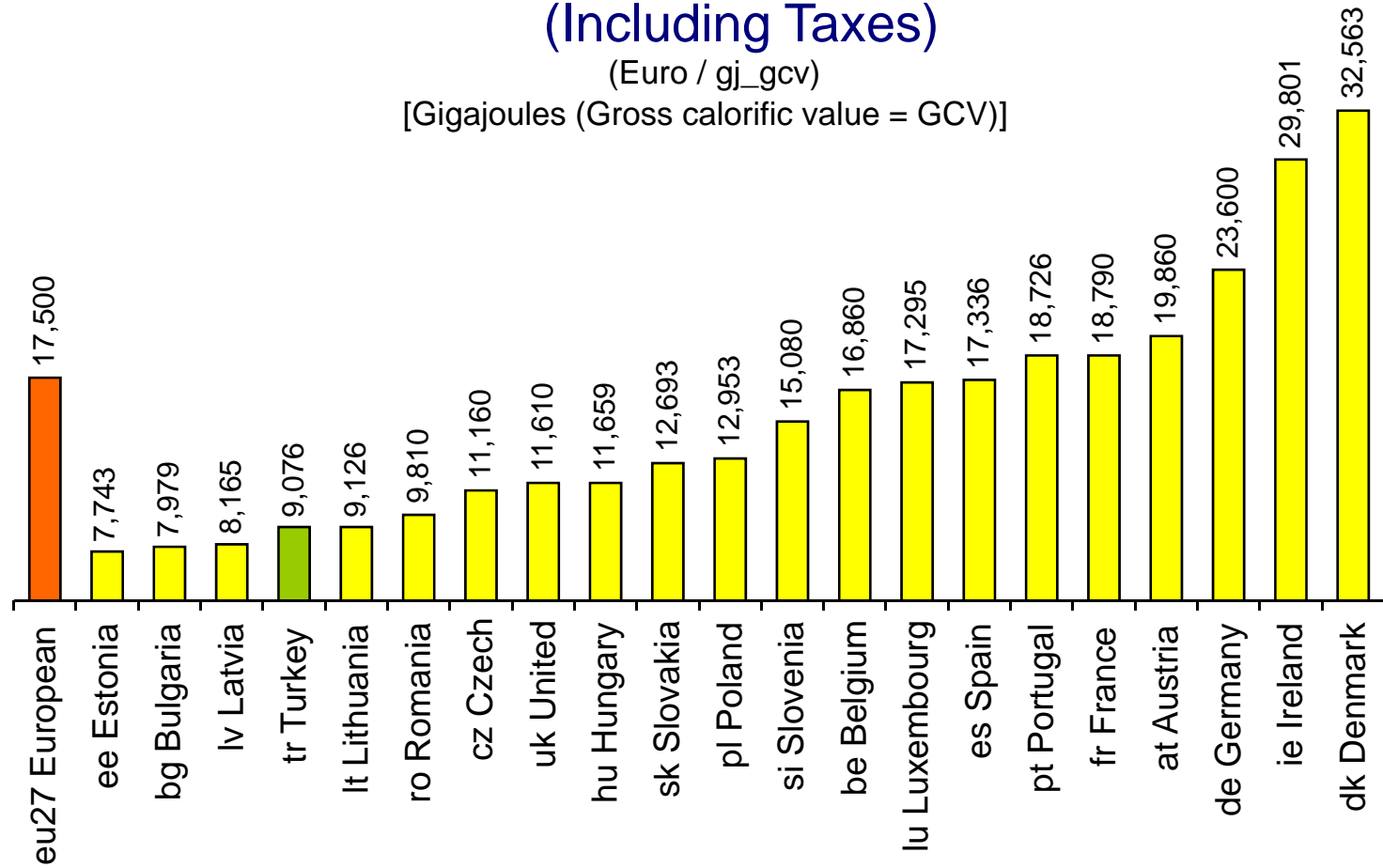


Source: Eurostat

Natural Gas -- Household -- July 2007 (Including Taxes)

(Euro / gj_gcv)

[Gigajoules (Gross calorific value = GCV)]

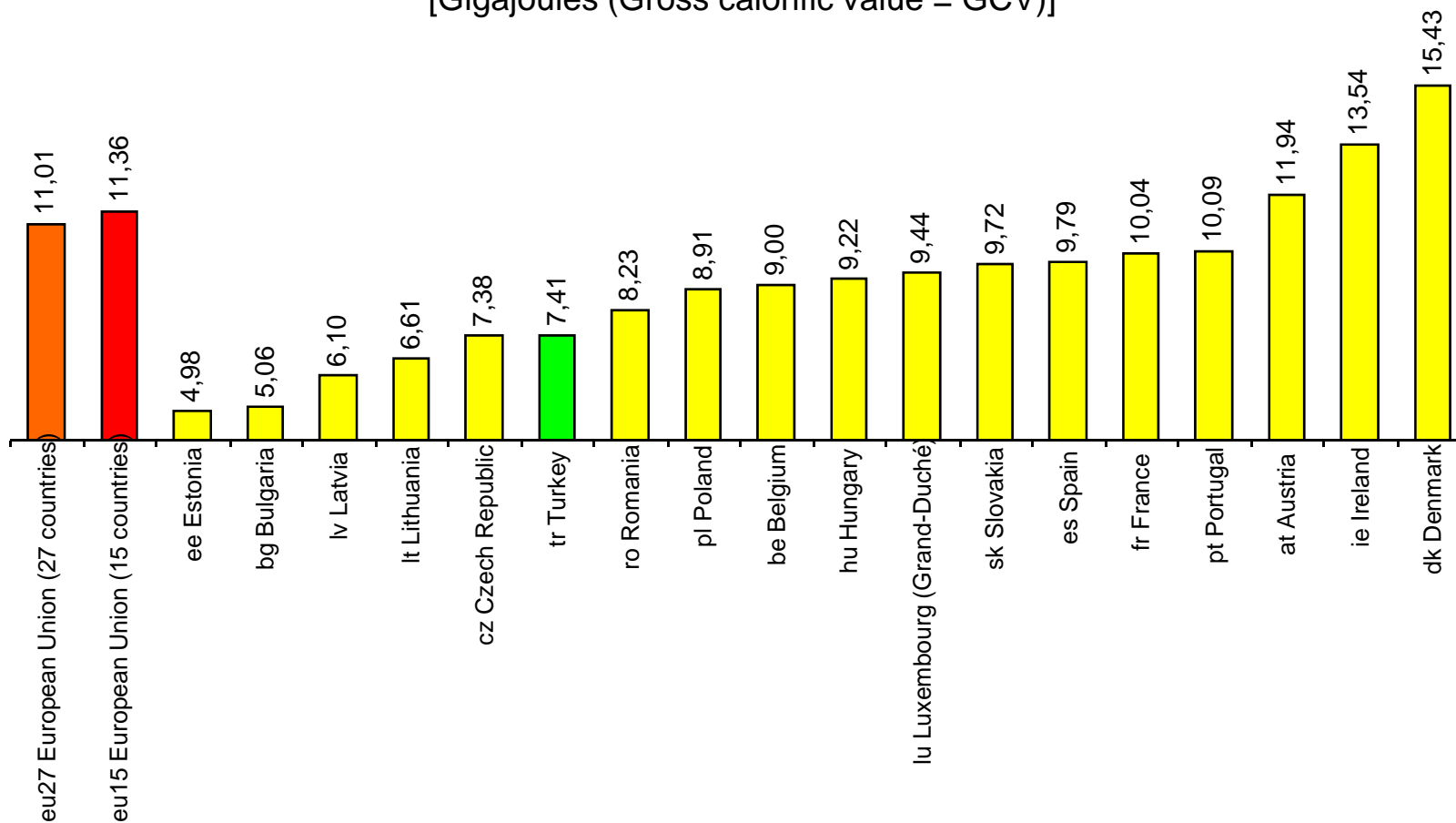


Source: Eurostat

Natural Gas -- Industrial -- July 2007 Excluding VAT

(Euro / gj_gcv)

[Gigajoules (Gross calorific value = GCV)]



Source: Eurostat

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