

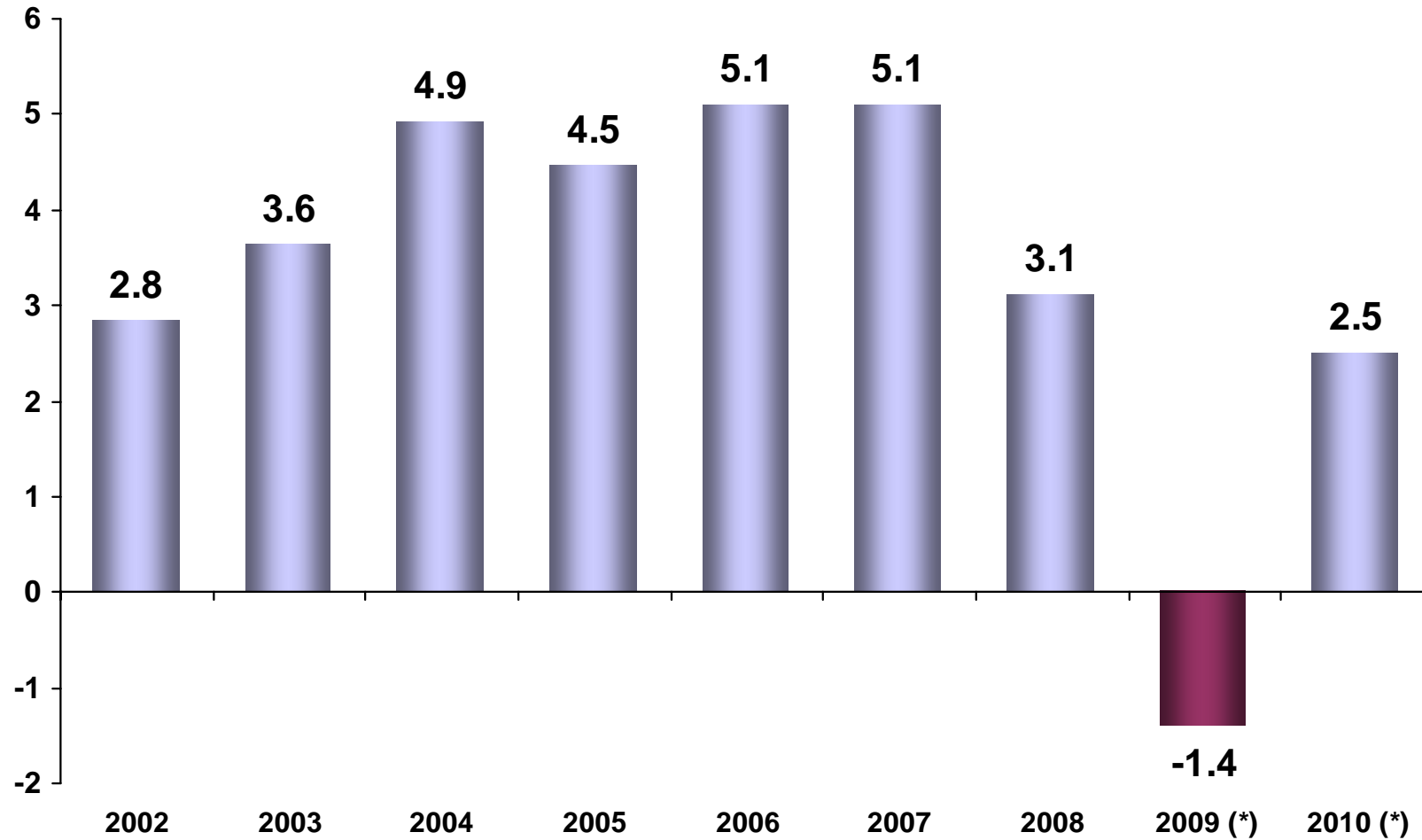


Medium Term Program (2010-2012)

**Deputy Prime Minister
Ali BABACAN**

18 September 2009

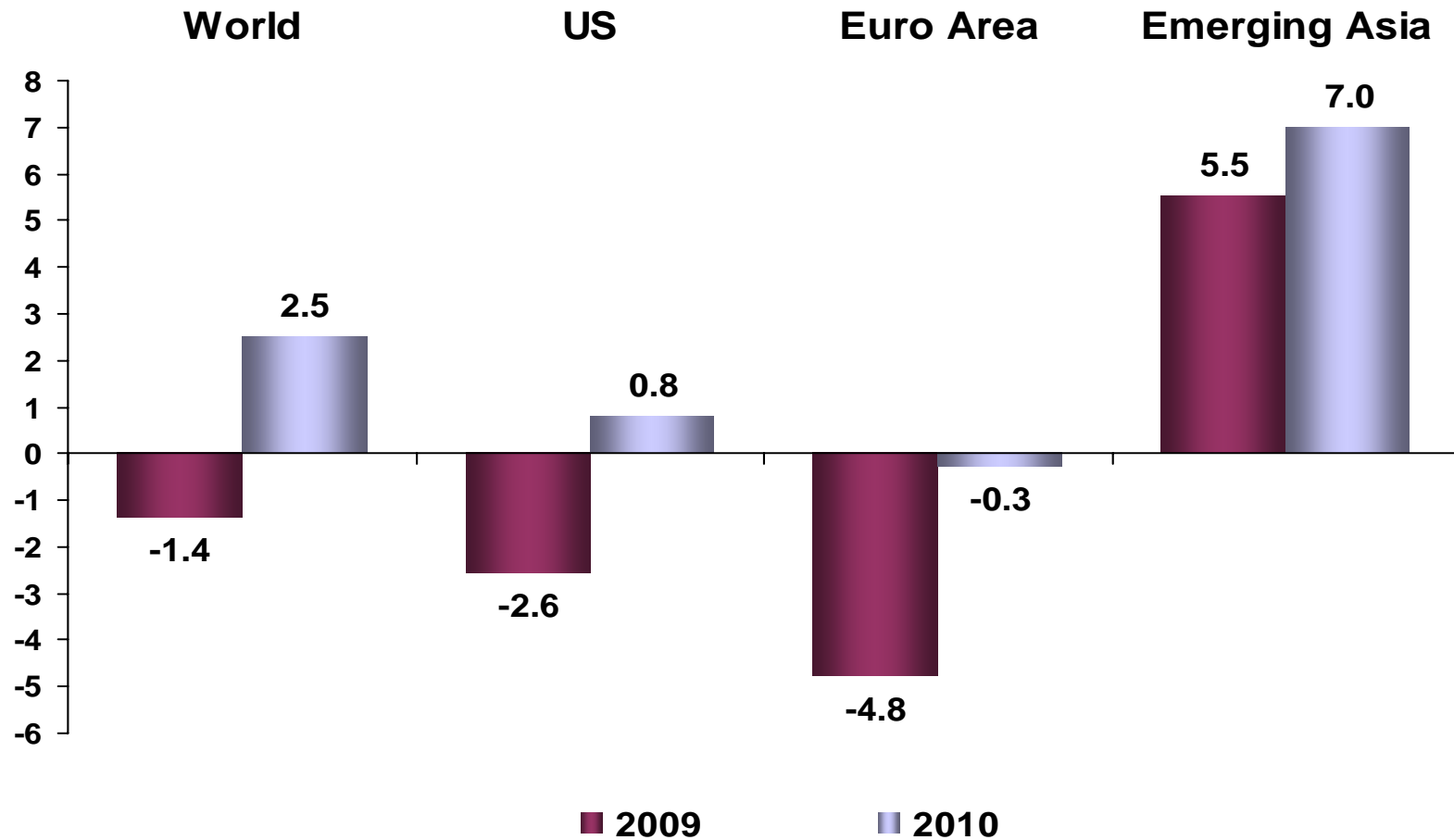
Global Economic Growth (Annual % Change)



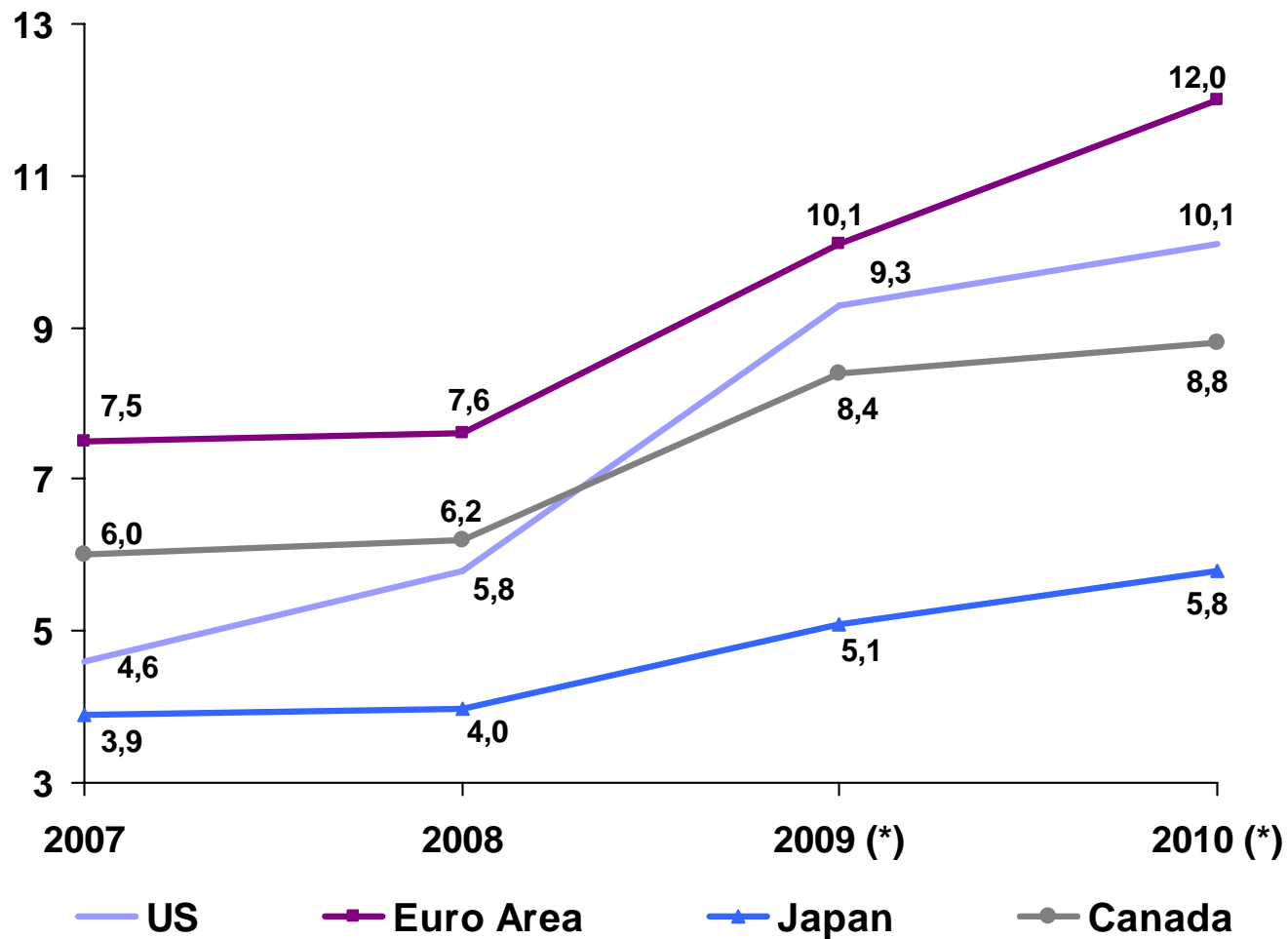
(*) Projection

Source: IMF World Economic Outlook, July 2009

GDP Growth Rates (Annual % Change)



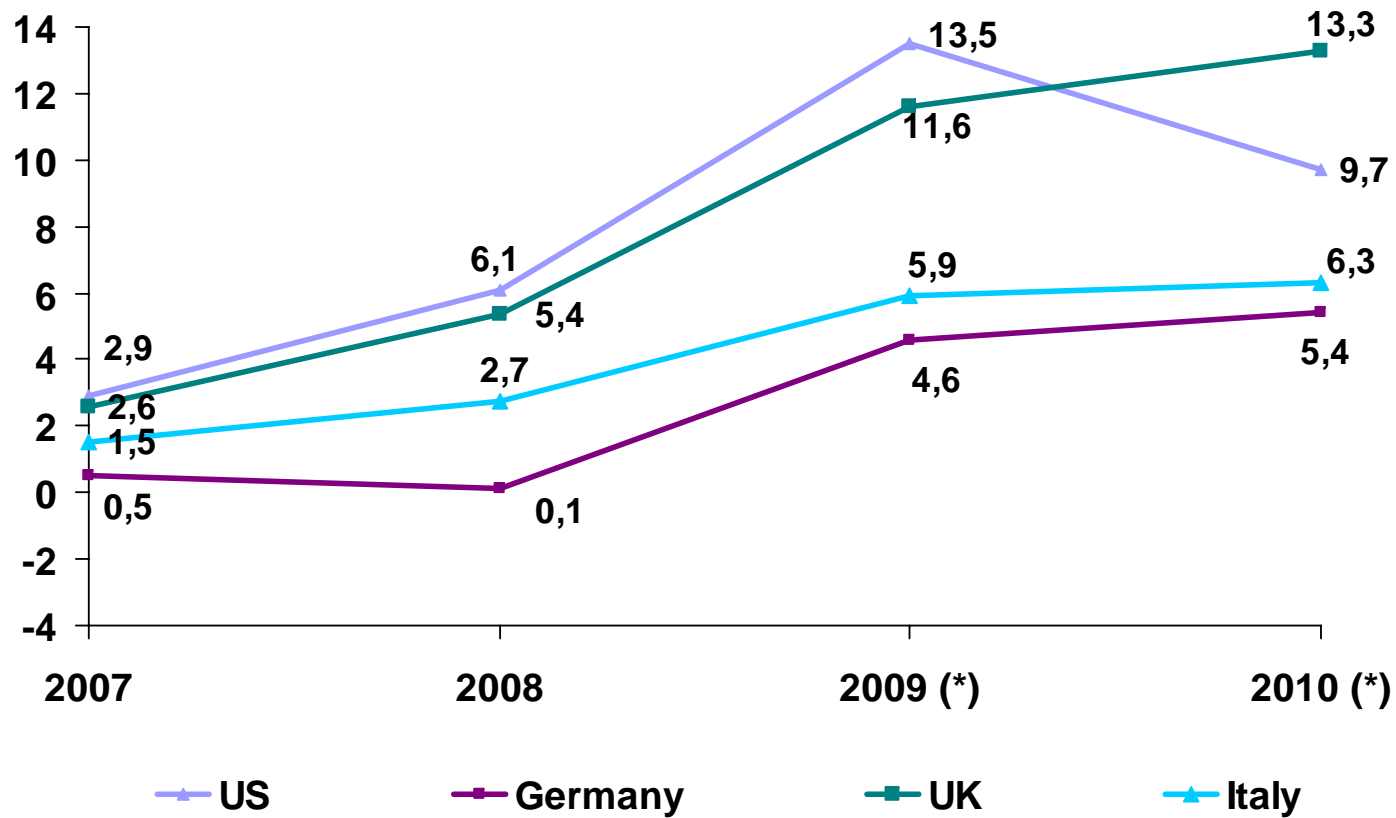
Unemployment Rate (%)



(*) Projection

(*) Source: IMF

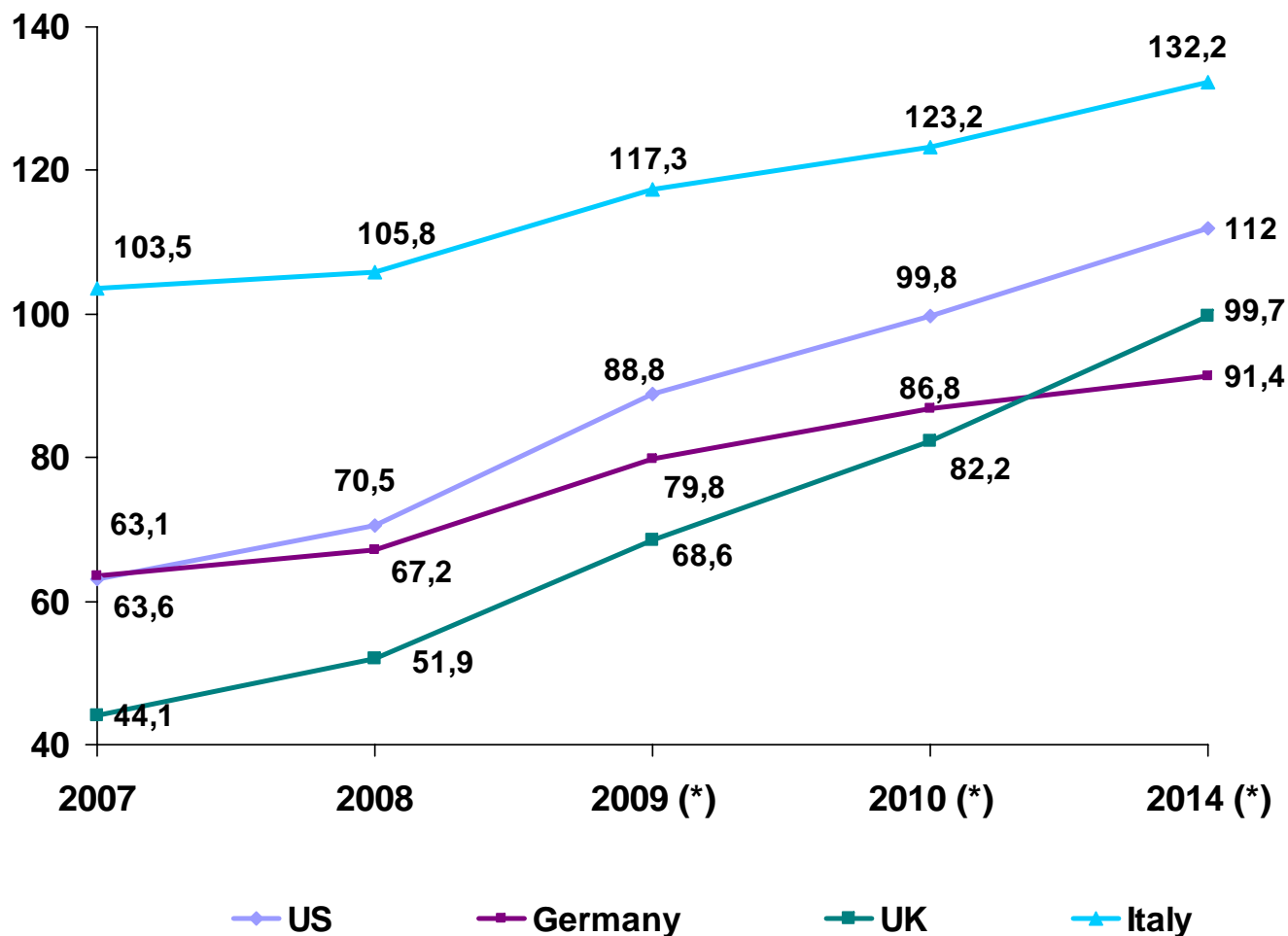
Total Public Deficit / GDP (%)



(*) Projection

Source: IMF Staff Position Note, The State Of Public Finances: A Cross-Country Fiscal Monitor, July 2009

General Government Debt Stock / GDP (%)



(*) Projection

Source: IMF Staff Position Note, The State Of Public Finances: A Cross-Country Fiscal Monitor, July 2009

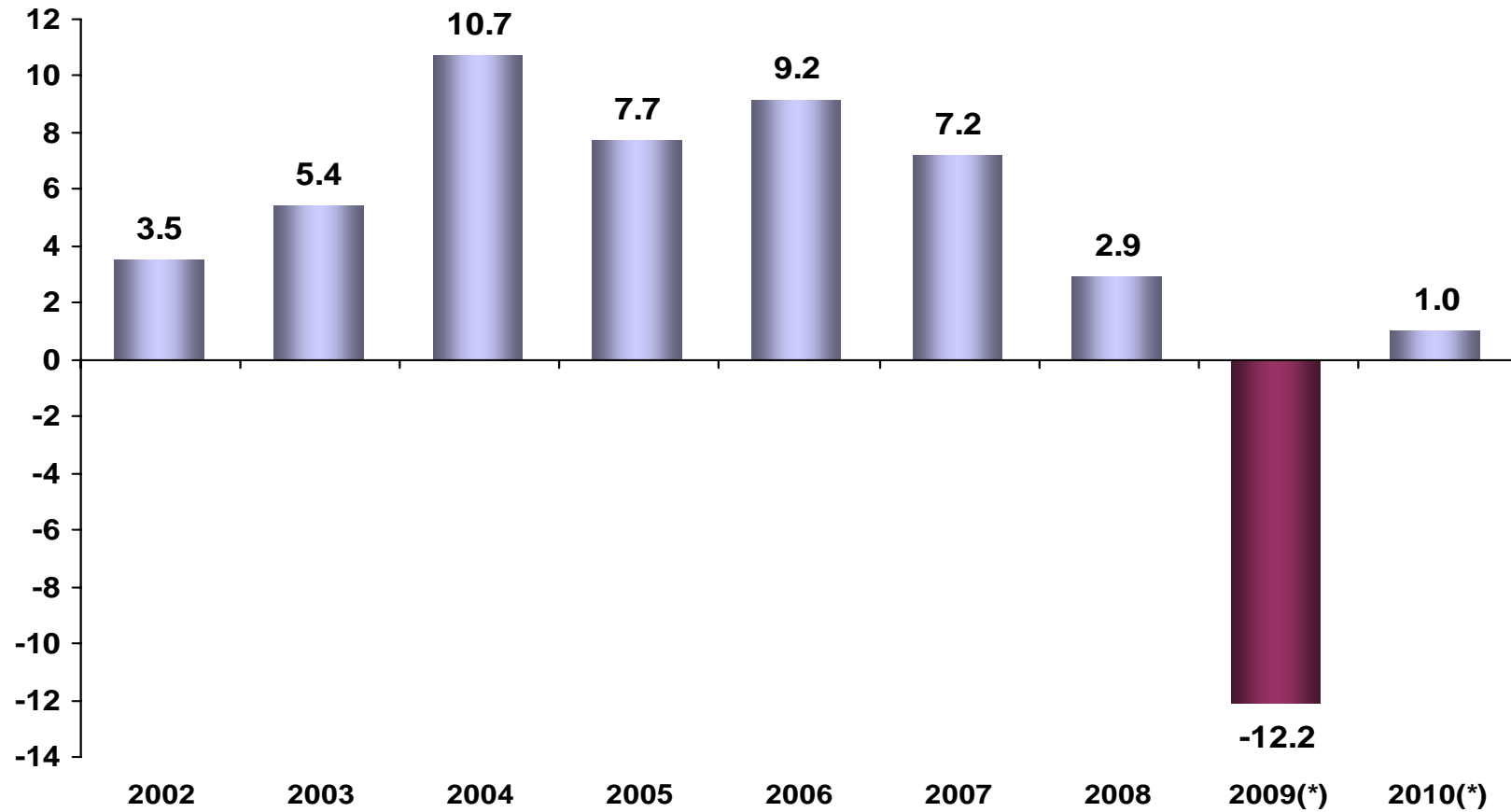


Global Outlook

- Latest data indicate that there has been a relative improvement in the world economy.
- However,
 - The pace and strength of recovery is not equal among regions
 - There are still concerns regarding the labor markets, developments in the commodity markets and the recovery process of the banking system especially in Europe
- There is a consensus that policies implemented to fight with the global crisis should not risk (both medium and long term) fiscal sustainability, financial stability and price stability.
- To this end, many countries are preparing medium term programs and planning exit strategies.

World Trade (Annual % Change)

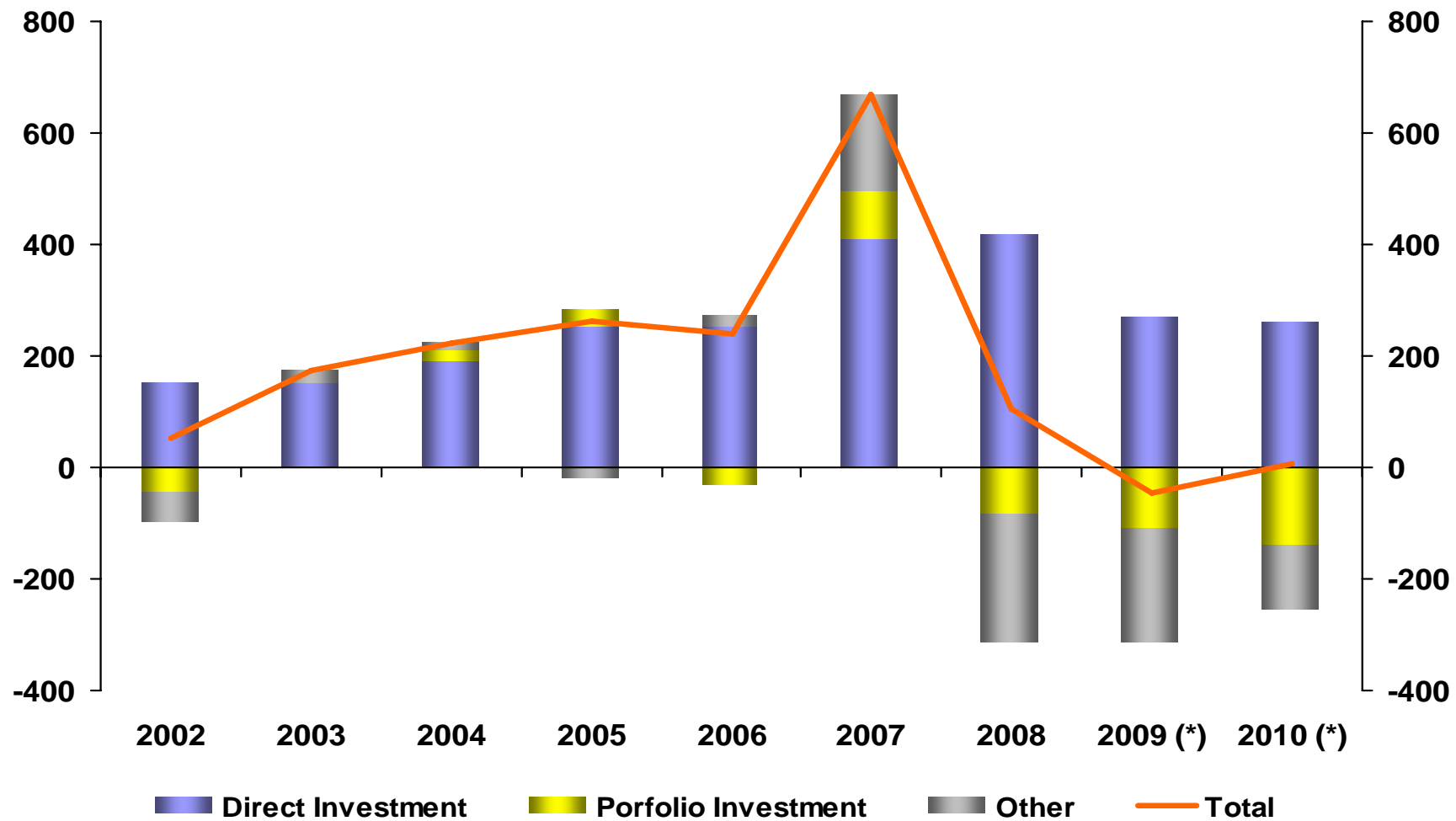
World trade has been contracting sharply.



(*) Projection

Source: IMF World Economic Outlook, July 2009

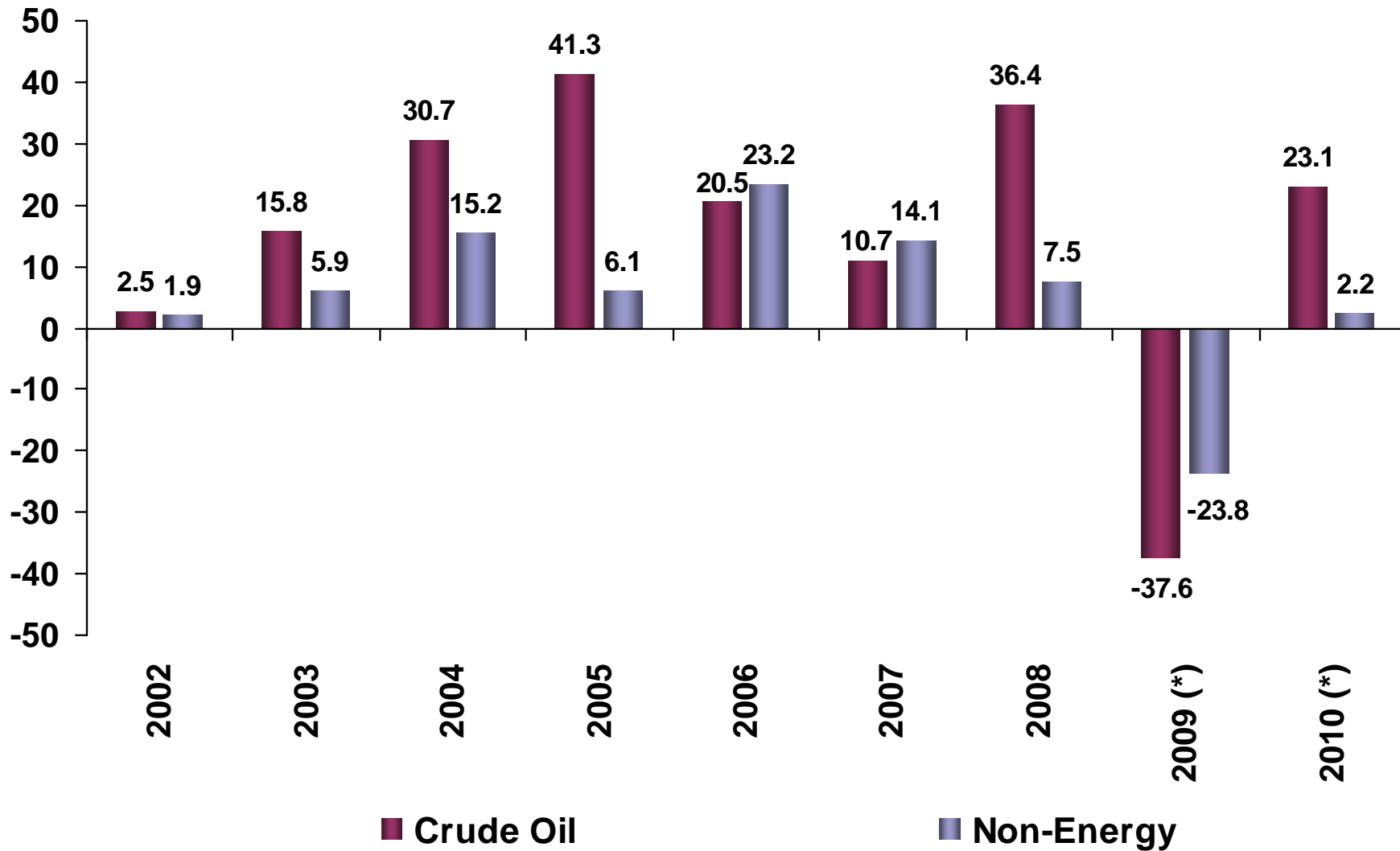
Net Capital Flows to Emerging Markets (Billion \$)



(*) Projection

Source: IMF World Economic Outlook, July 2009

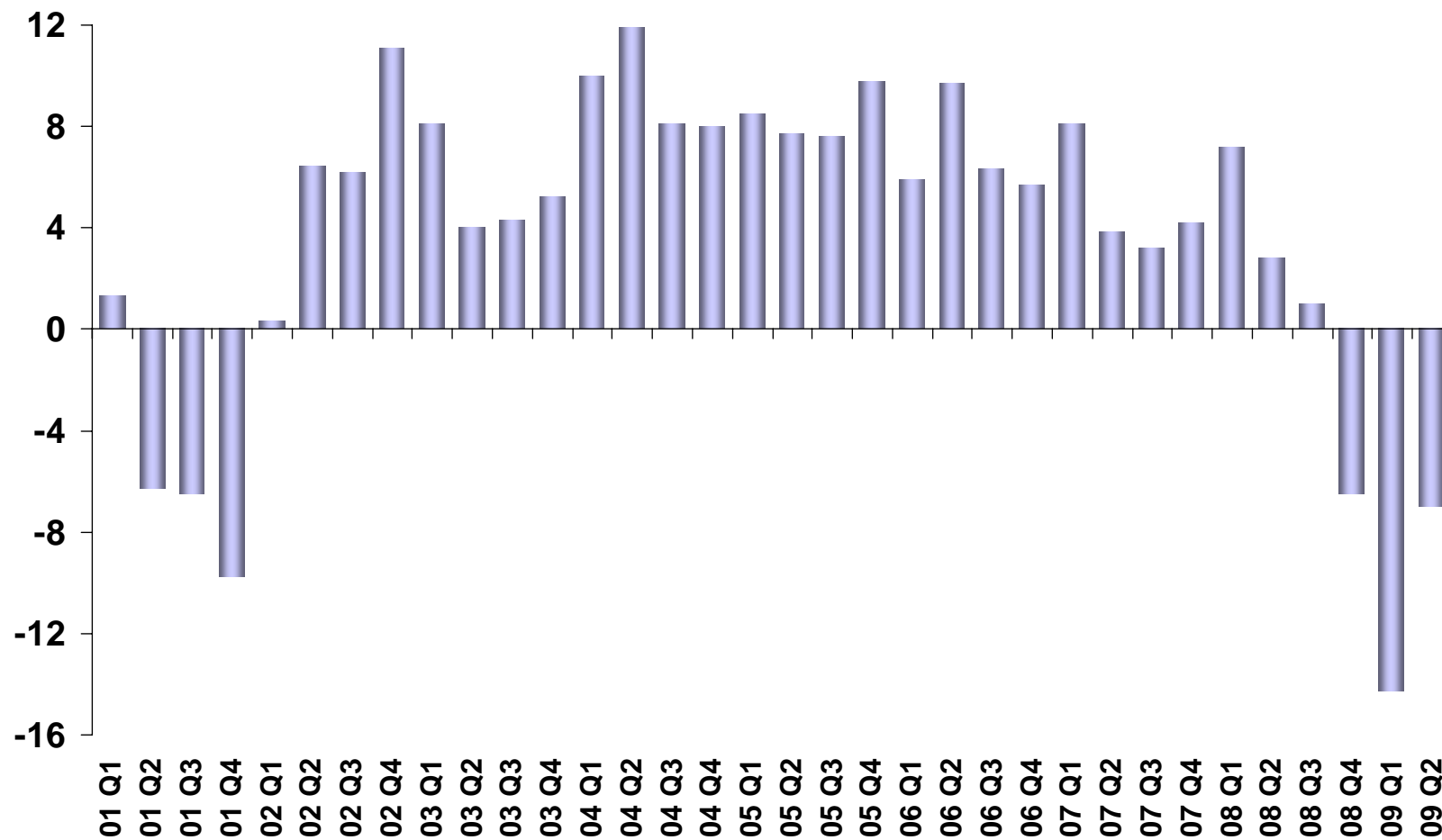
Commodity Prices (Annual % Change)



(*) Projection

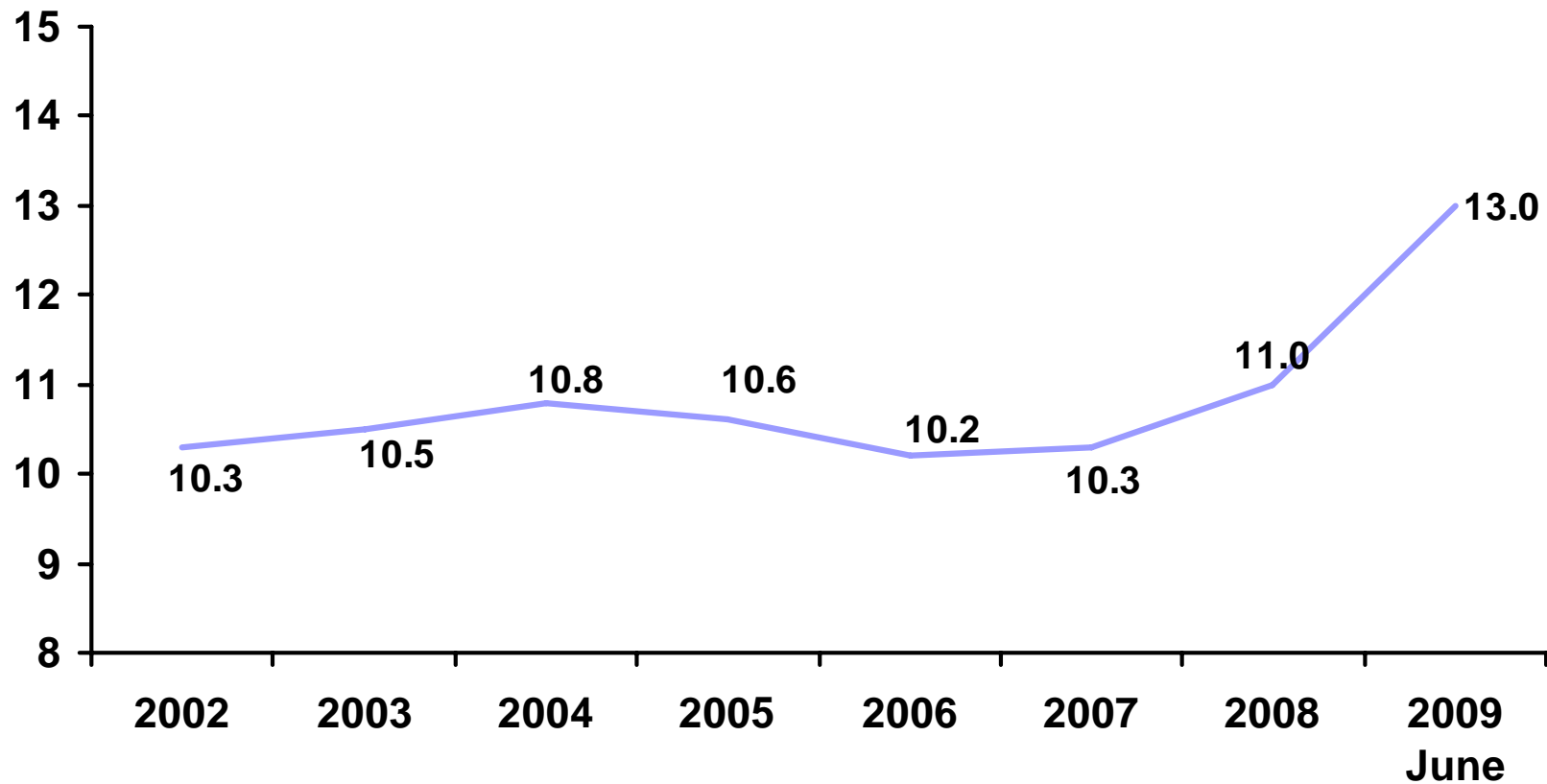
Source: IMF

GDP Growth Rates (Annual % Change)



Source: TURKSTAT

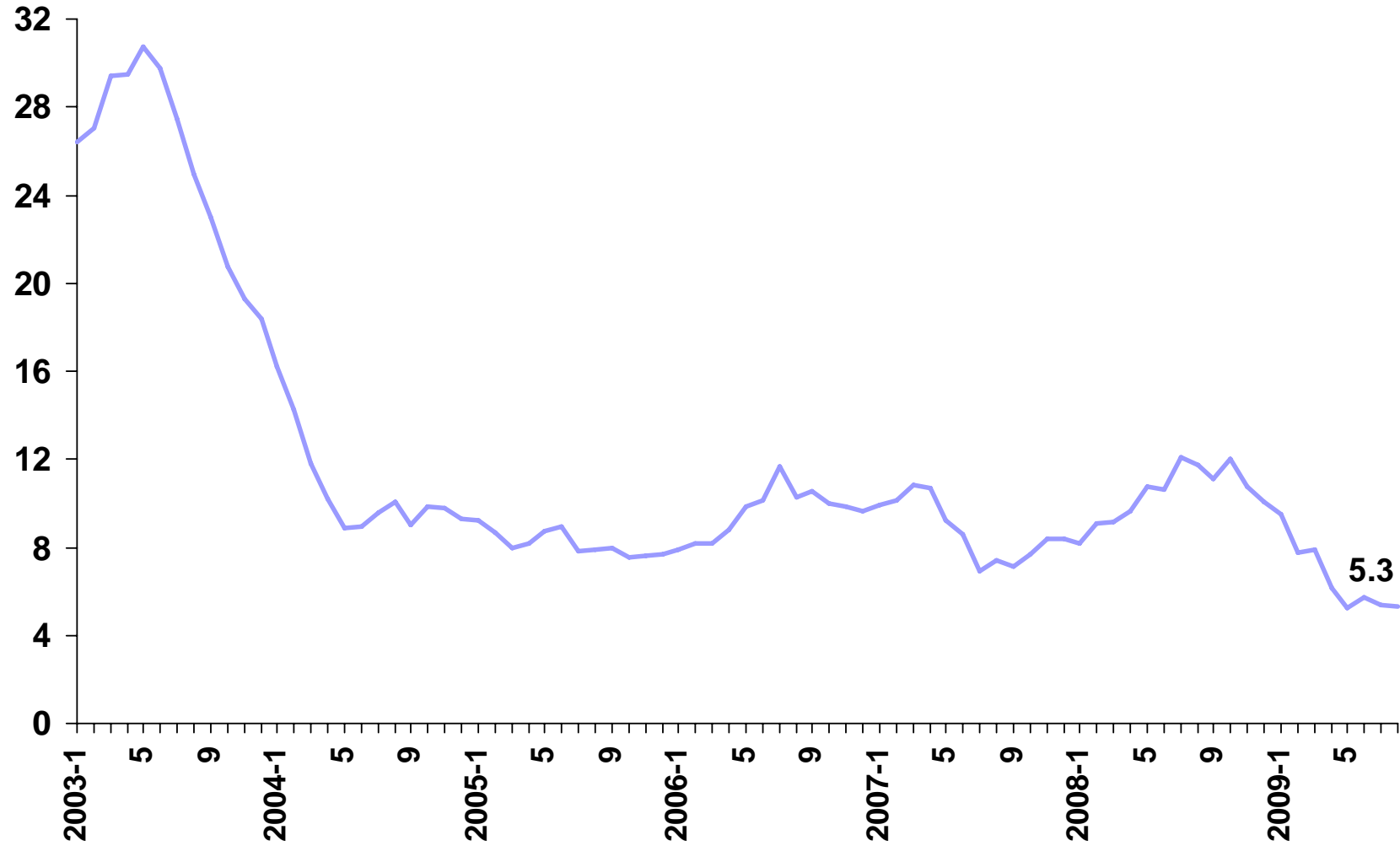
Unemployment Rate (%)



Note: Post 2004 figures have been revised by TURKSTAT based on the new population projections.

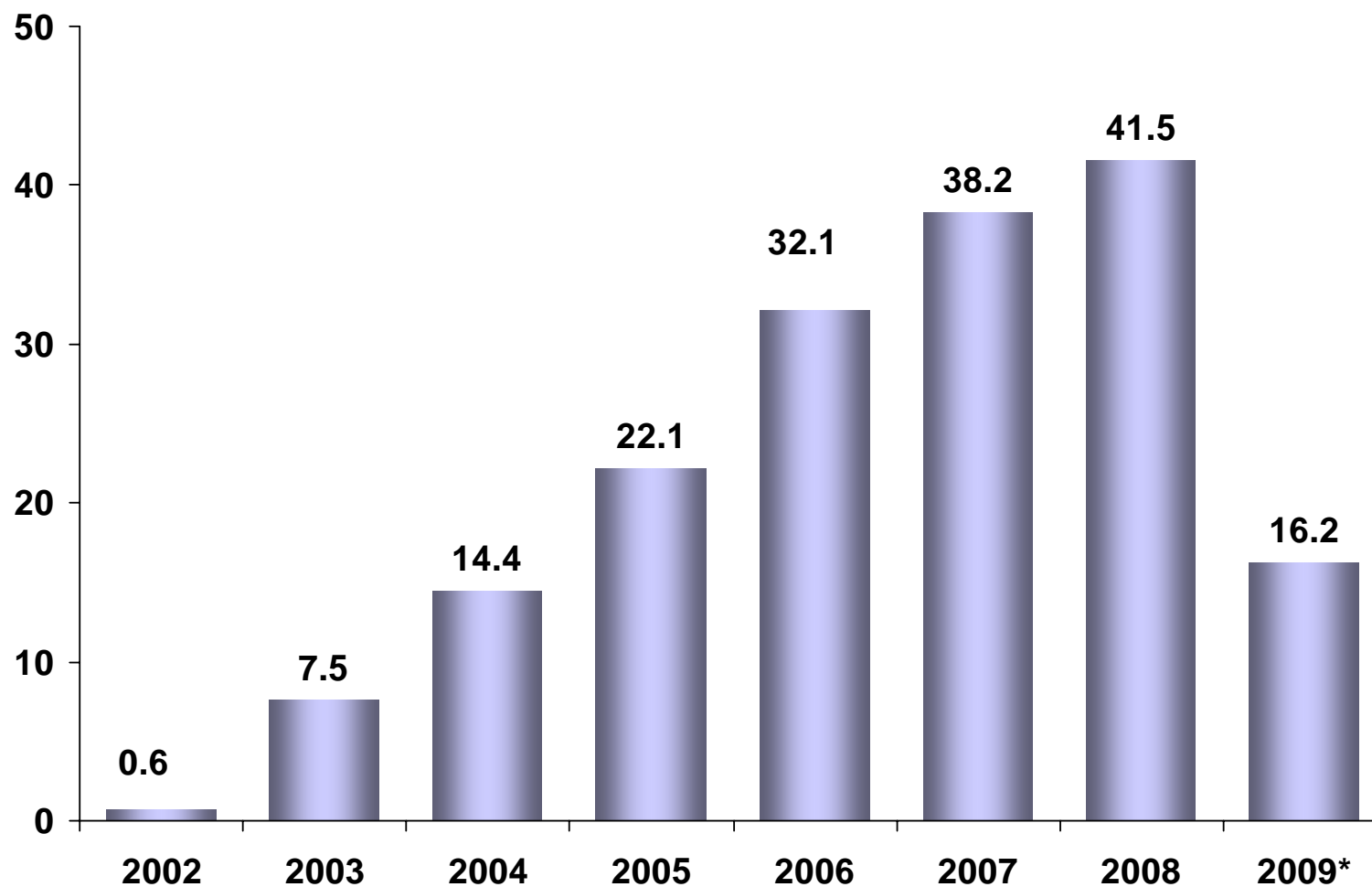
Source: TURKSTAT

Annual Inflation (%)



Source: TURKSTAT

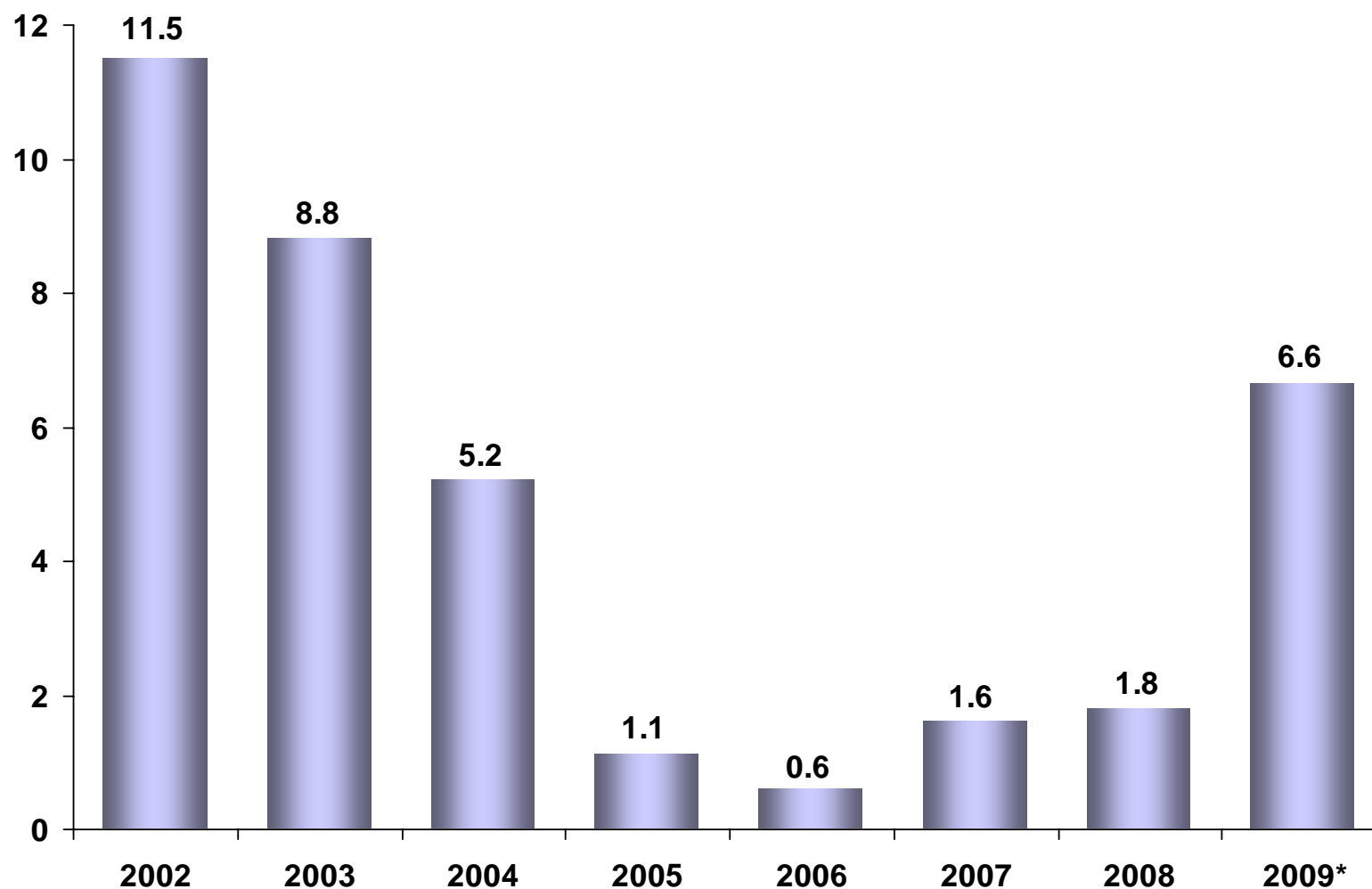
Current Account Deficit (Billion \$)



(*) Annualized as of July.

Source: Central Bank of Turkey

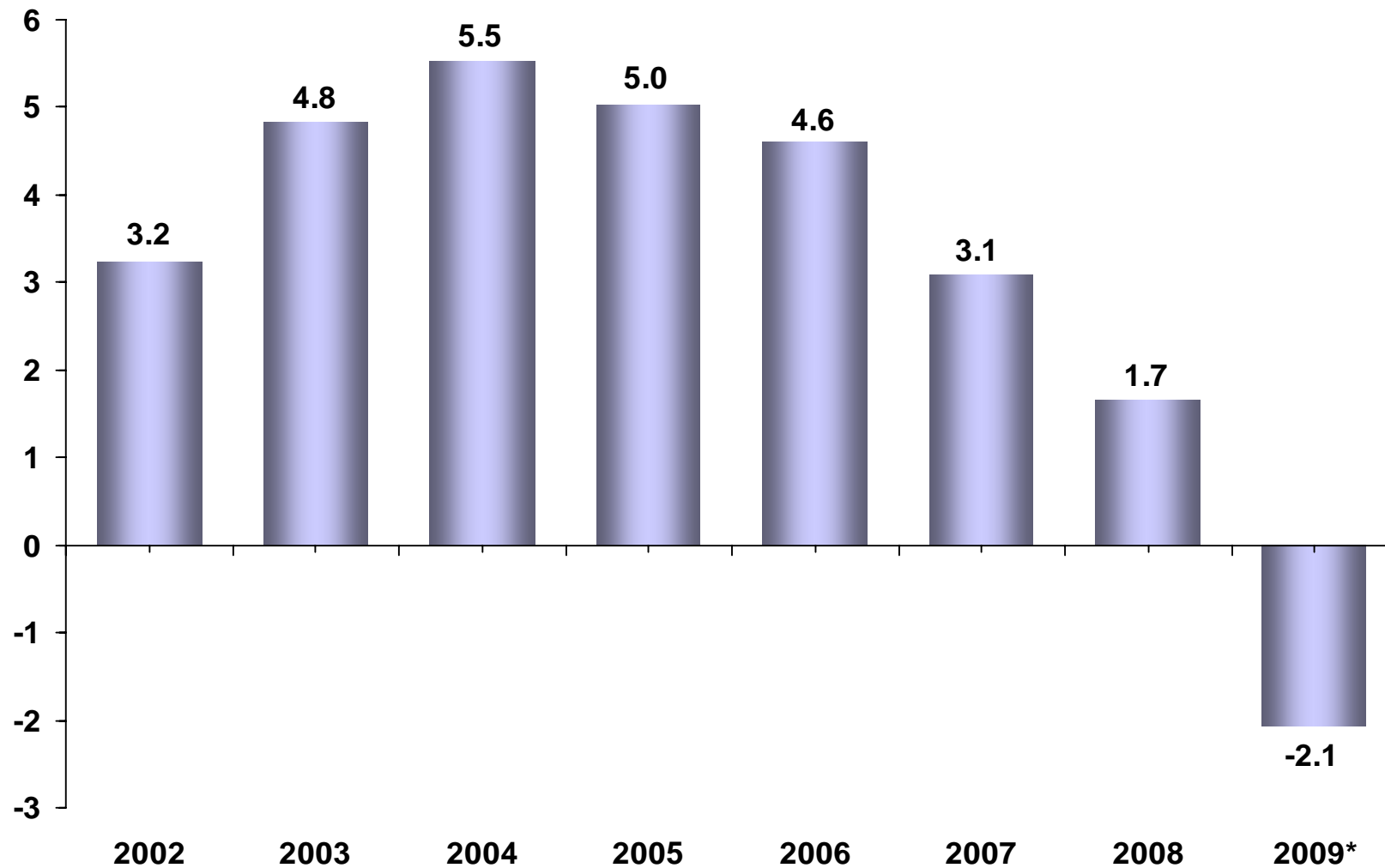
Central Government Budget Deficit / GDP (%)



(*) Projection

Source: Undersecretariat of Treasury

Total Public Primary Balance / GDP (%)

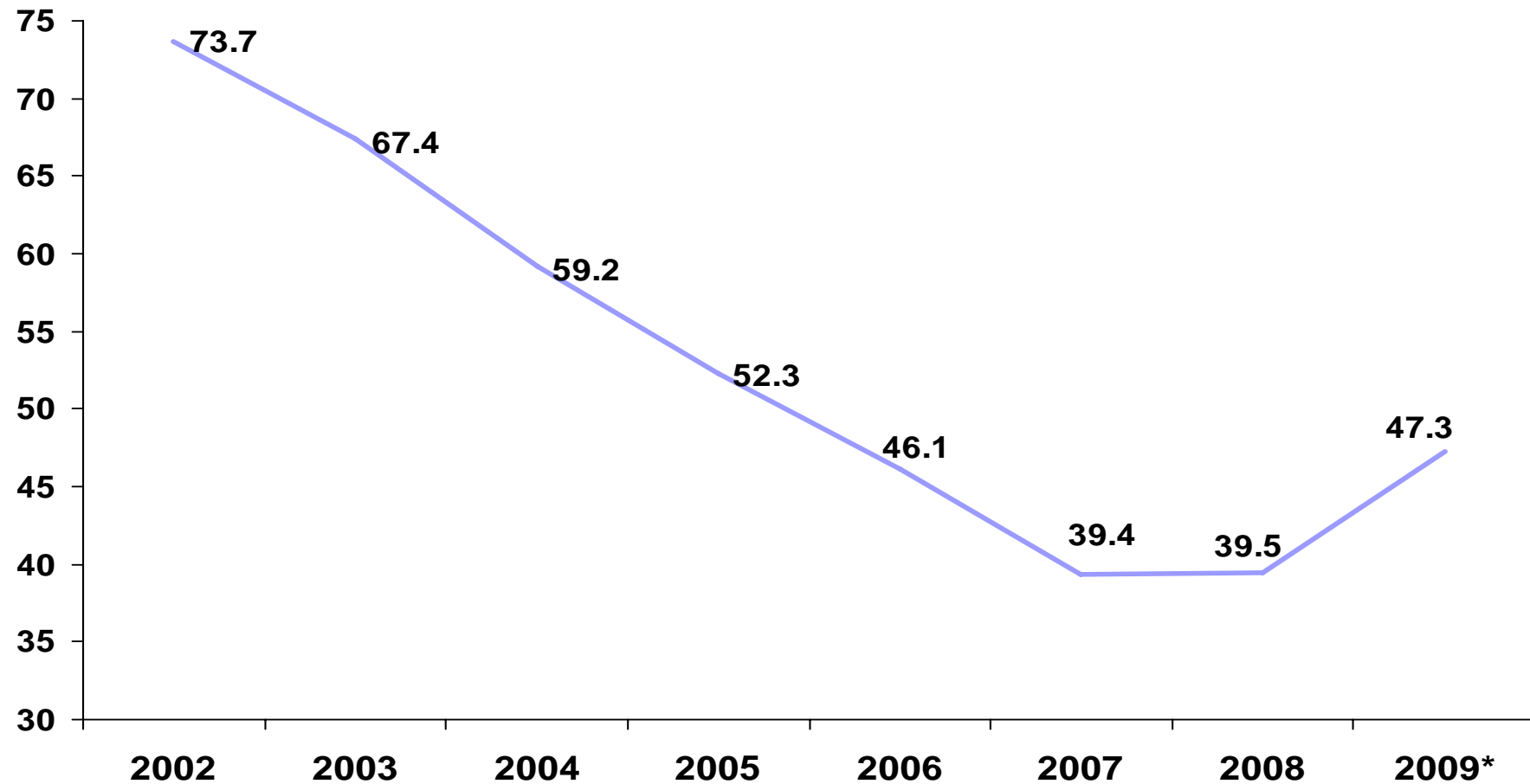


(*) Projection

Primary Surplus (IMF Definition)

Source: Undersecretariat of Treasury

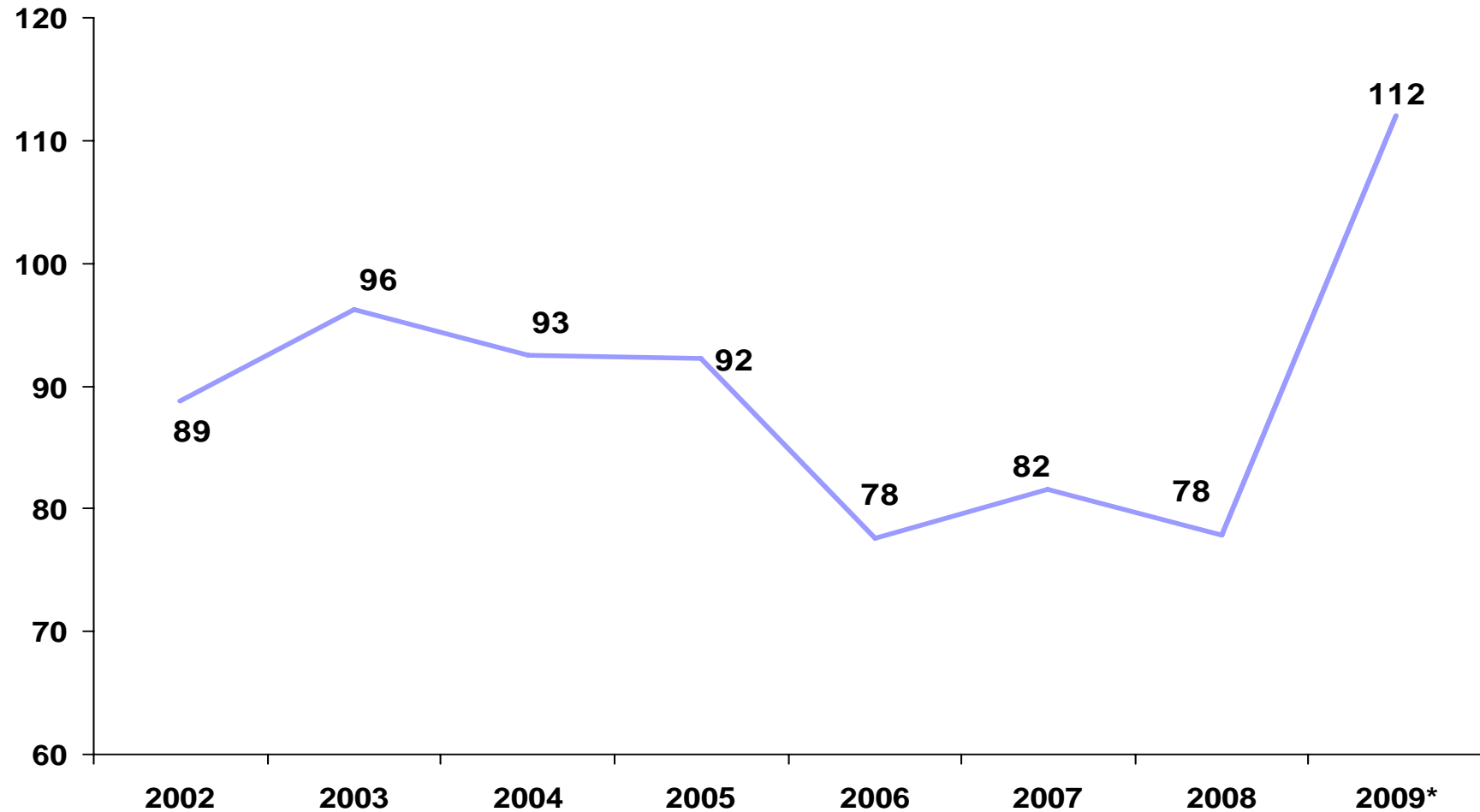
EU Defined Debt Stock (% GDP)



(*) Projection

Source: Undersecretariat of Treasury

Market Domestic Debt Roll-over Ratio (%)

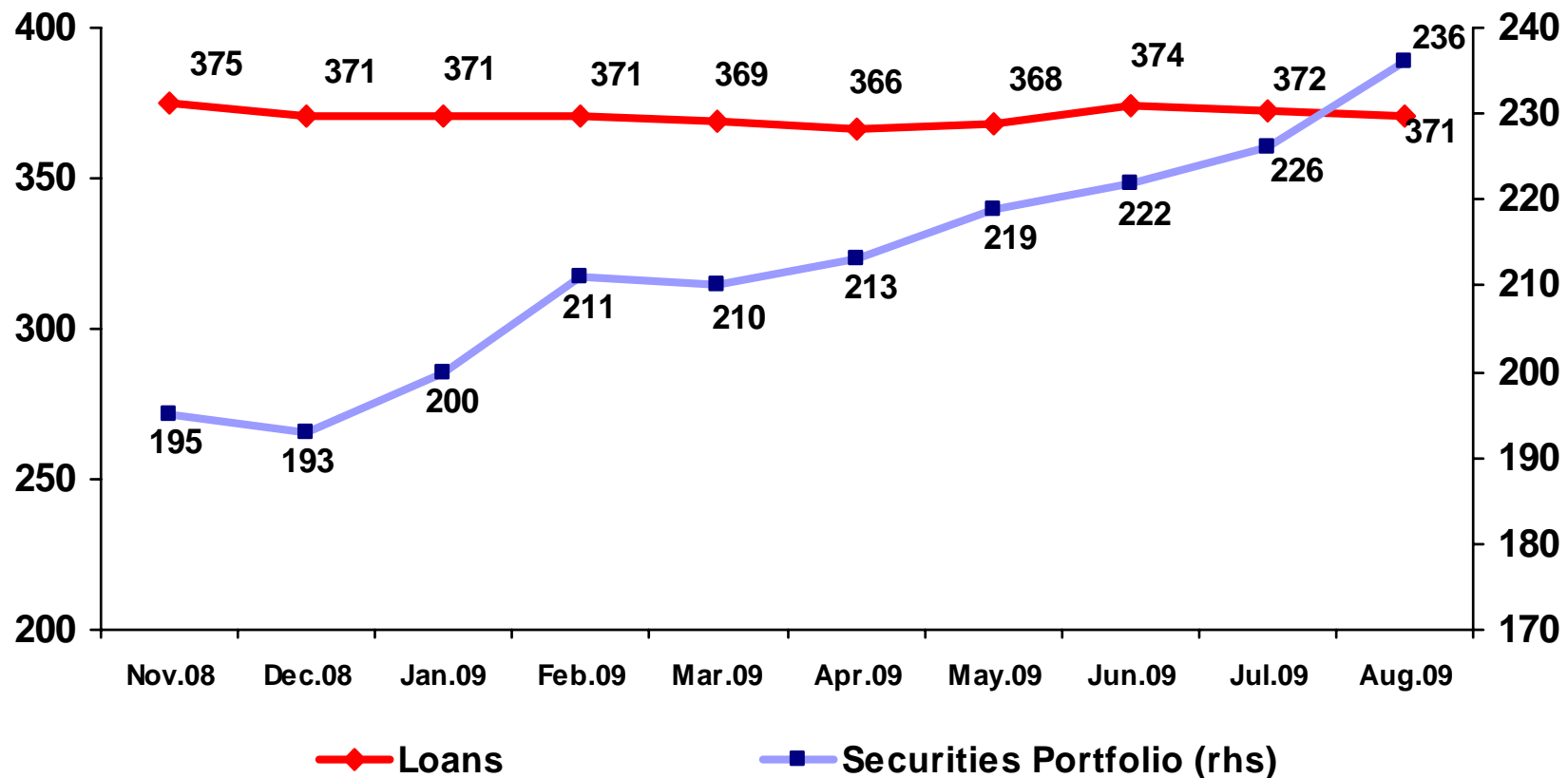


(*) January-11 September

Source: Undersecretariat of Treasury

Banking Sector Loans and Securities Portfolio

(Billion TL)



Source: BRSA



Main Targets of the Medium Term Program

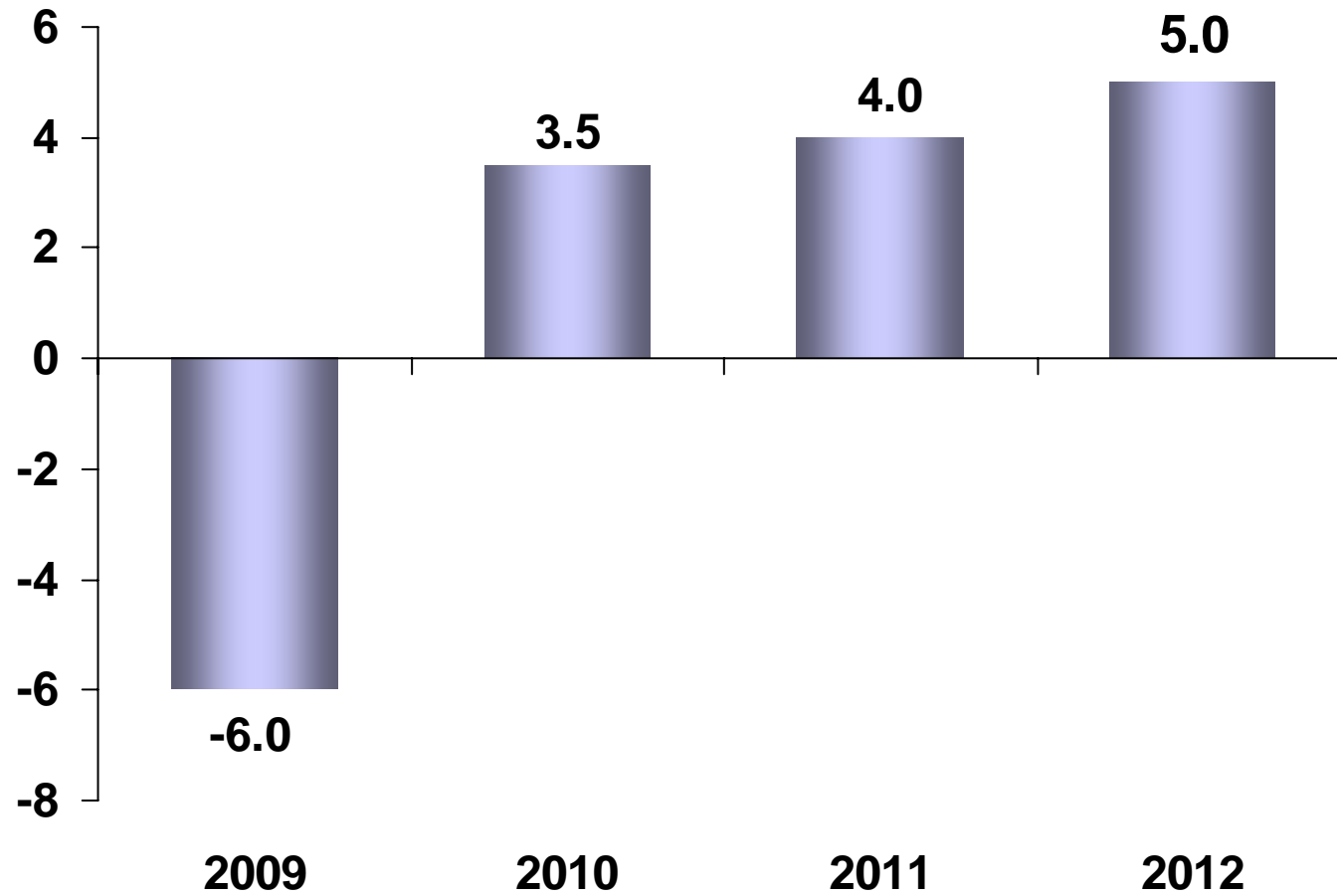
- Supporting private sector driven growth by reducing the pressure on resources available to private sector and increasing predictability,
- Implementing structural reforms that would enhance the competitiveness and flexibility of the economy,
- Putting the economy back on a sustainable growth path by utilizing Turkey's economic and social strenghts,
- Increasing Turkey's welfare.



Macroeconomic Priorities of the Medium Term Program

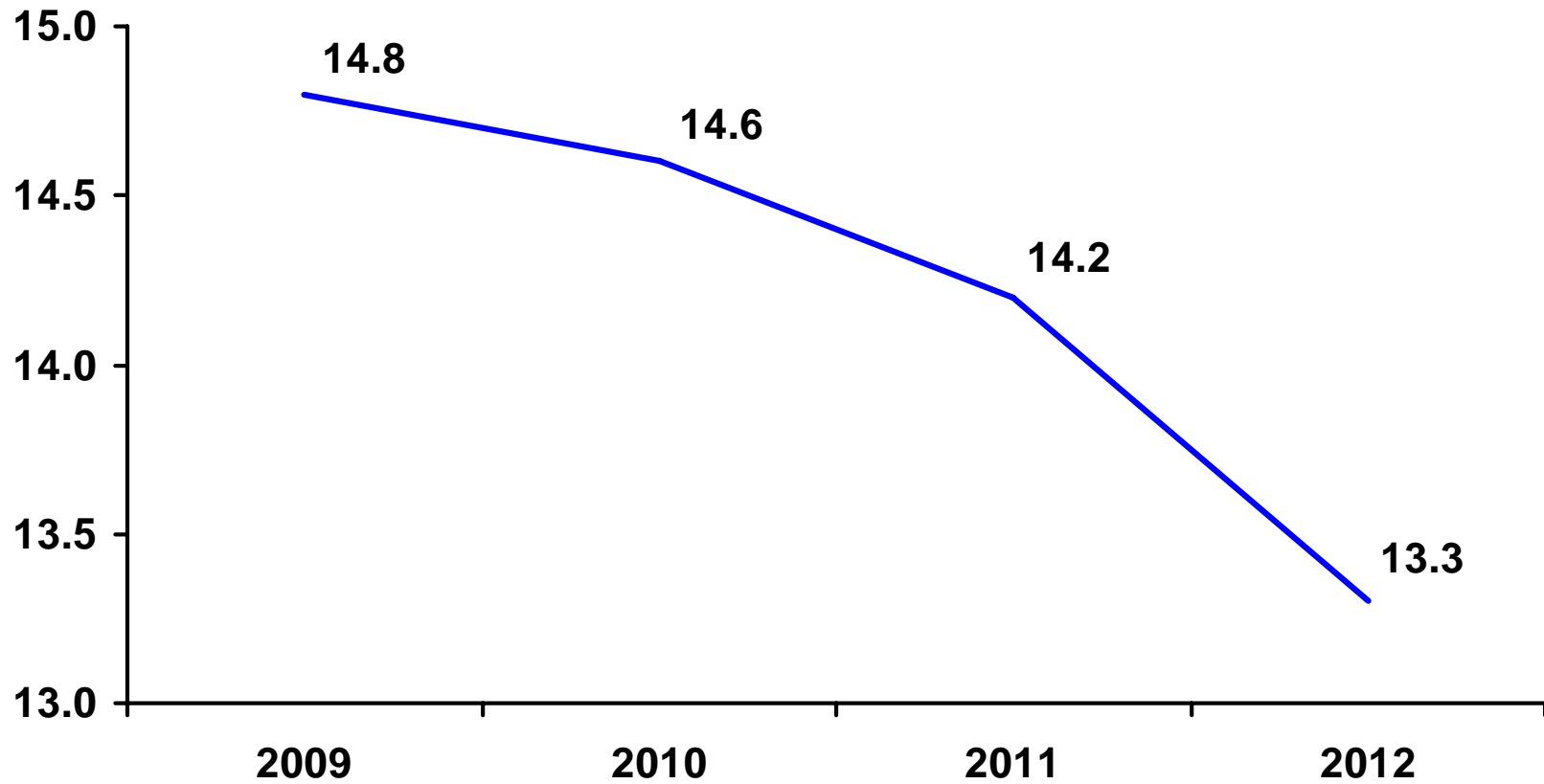
- Reaching potential growth gradually,
- Increasing employment,
- Maintaining the disinflation trend,
- Improving fiscal balances to correct the deterioration caused by the global crisis.

GDP Growth (%)

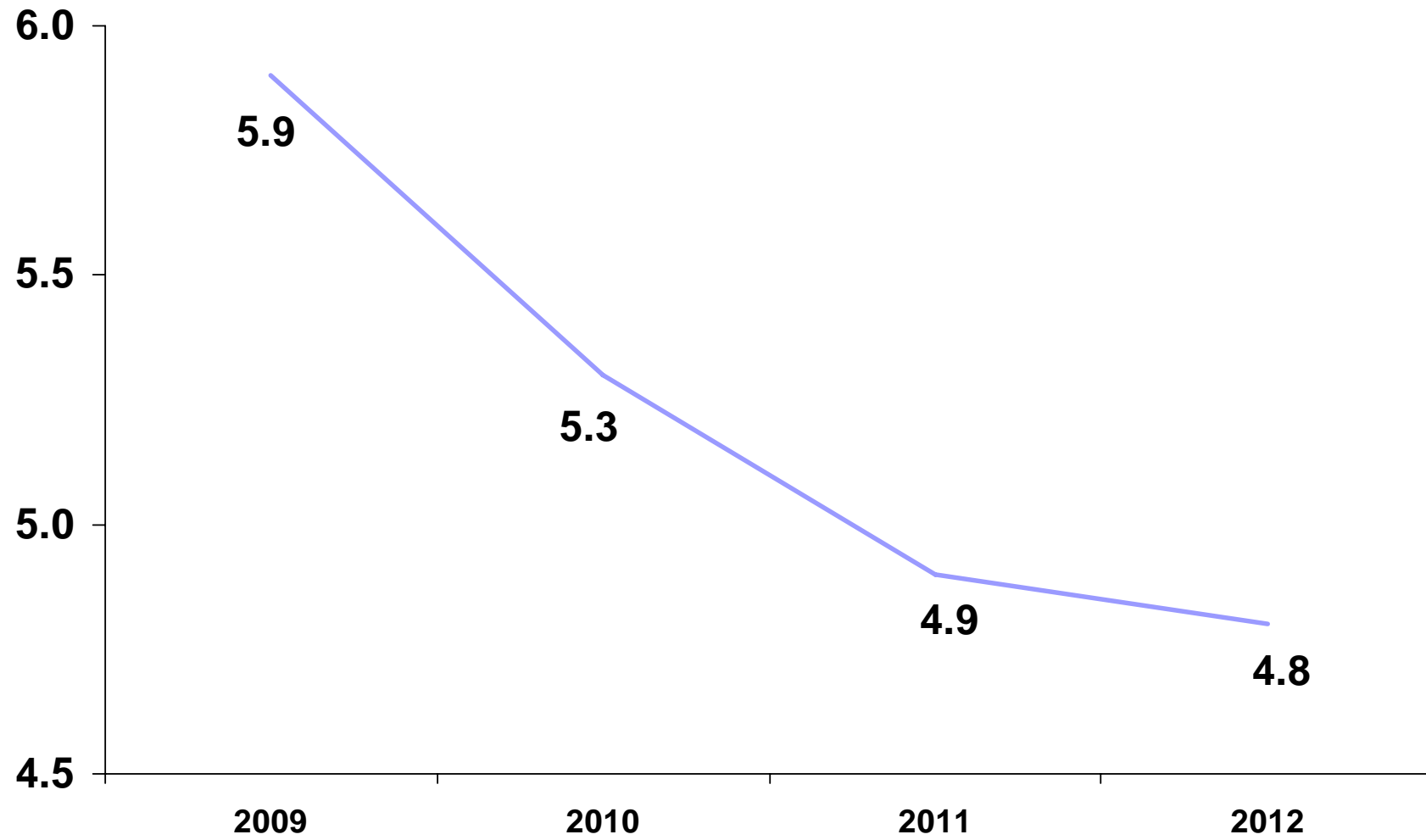




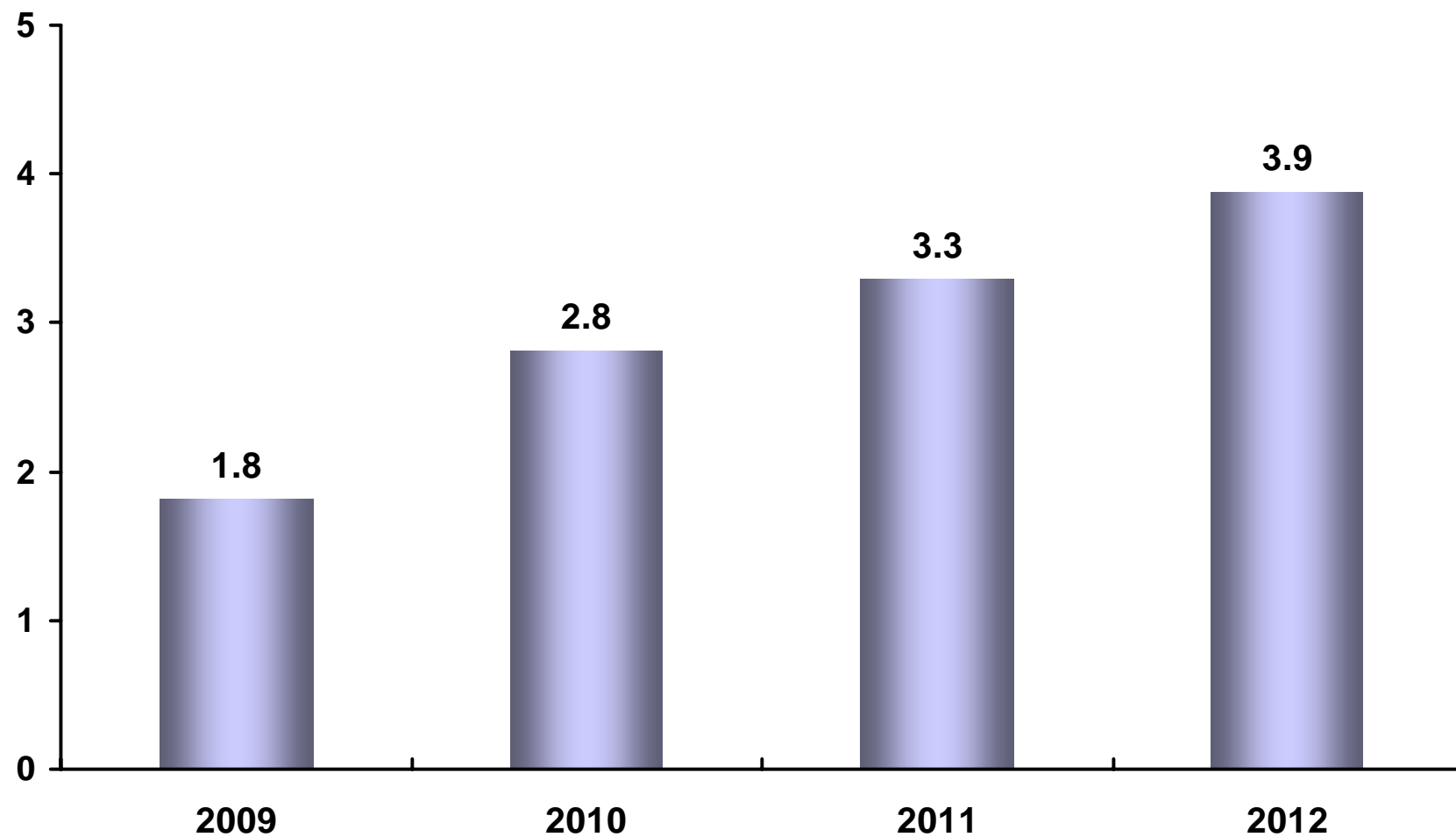
Unemployment Rate (%)



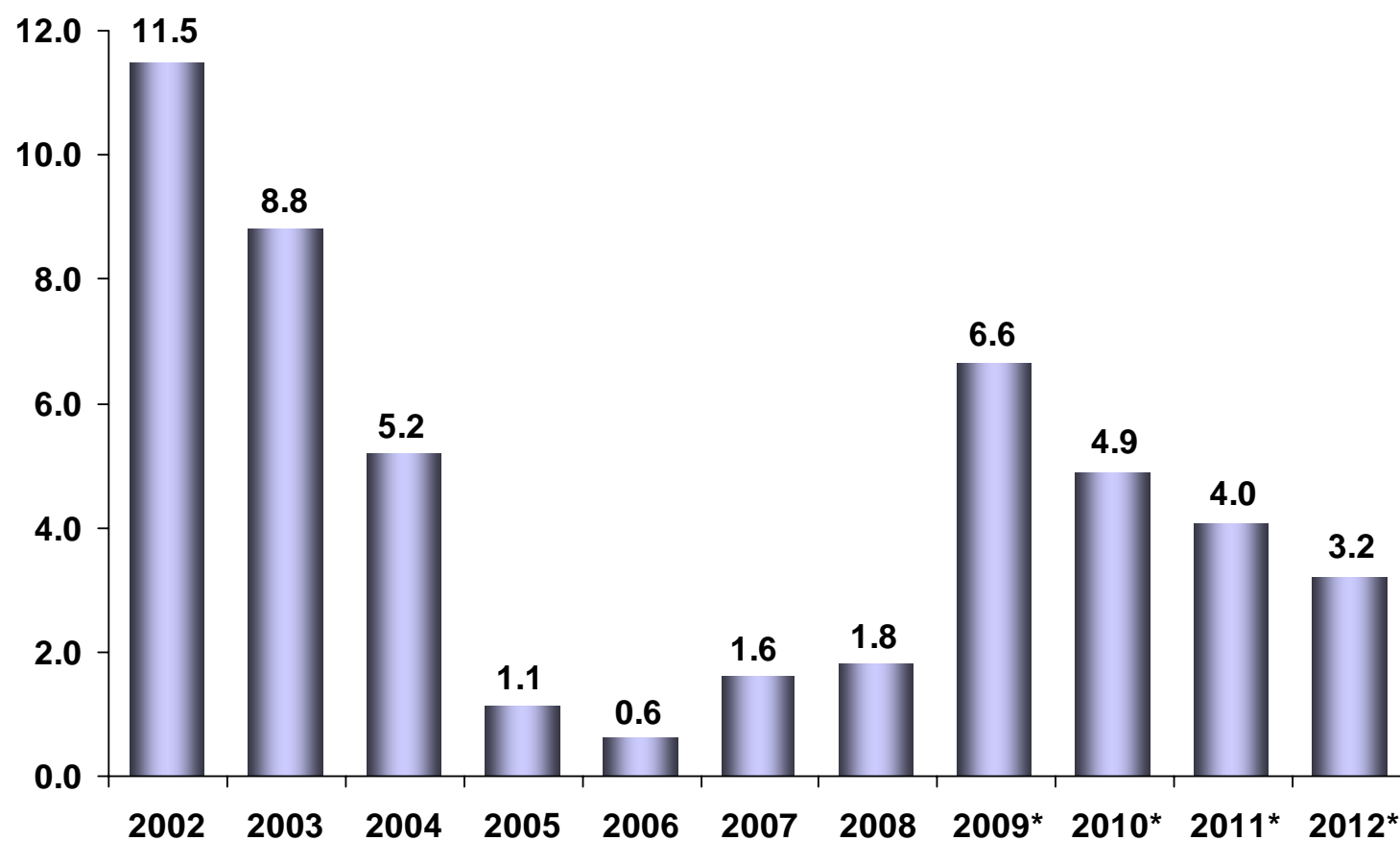
Inflation Rate (%)



Current Account Deficit / GDP (%)

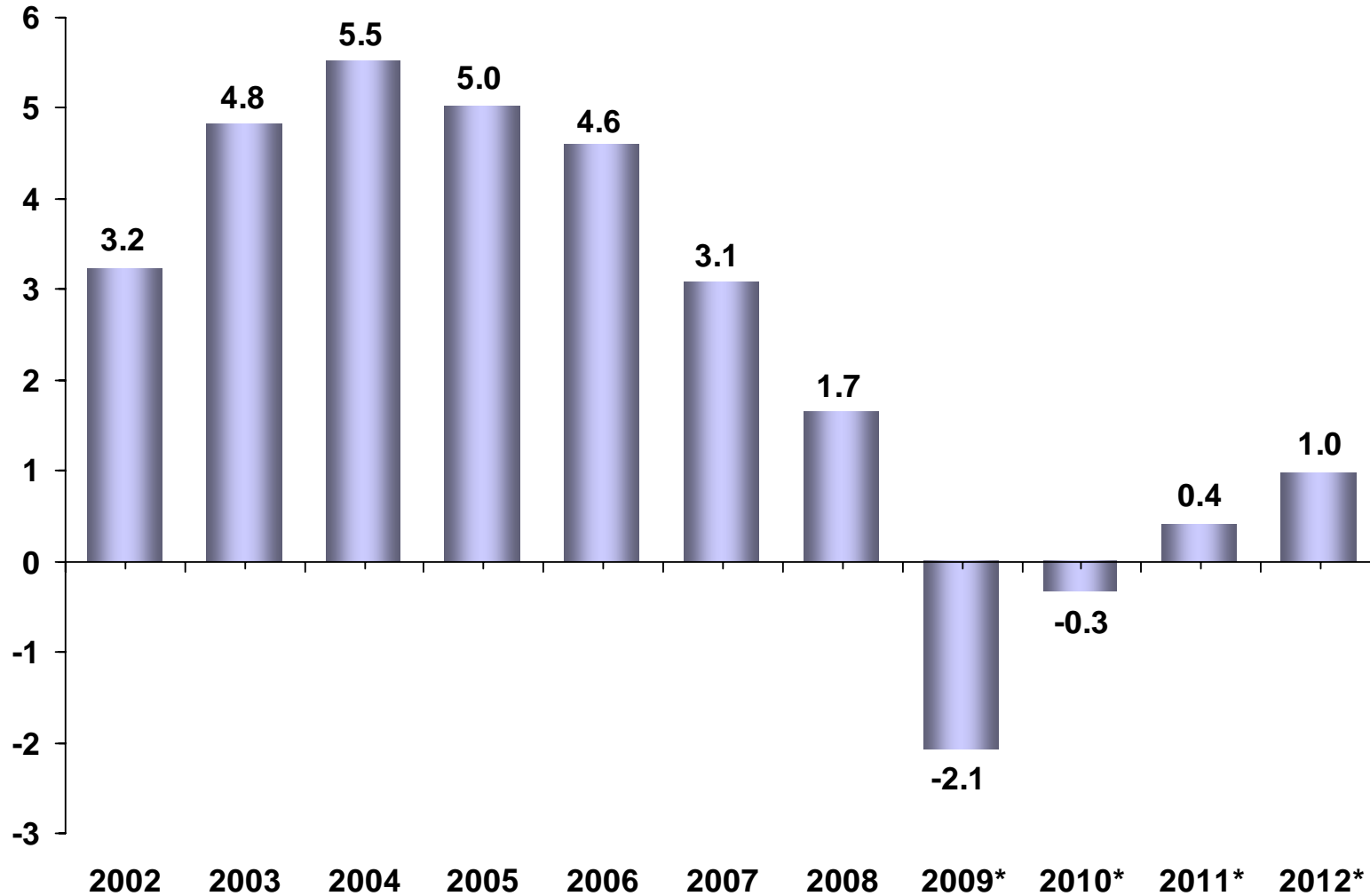


Central Government Budget Deficit / GDP (%)



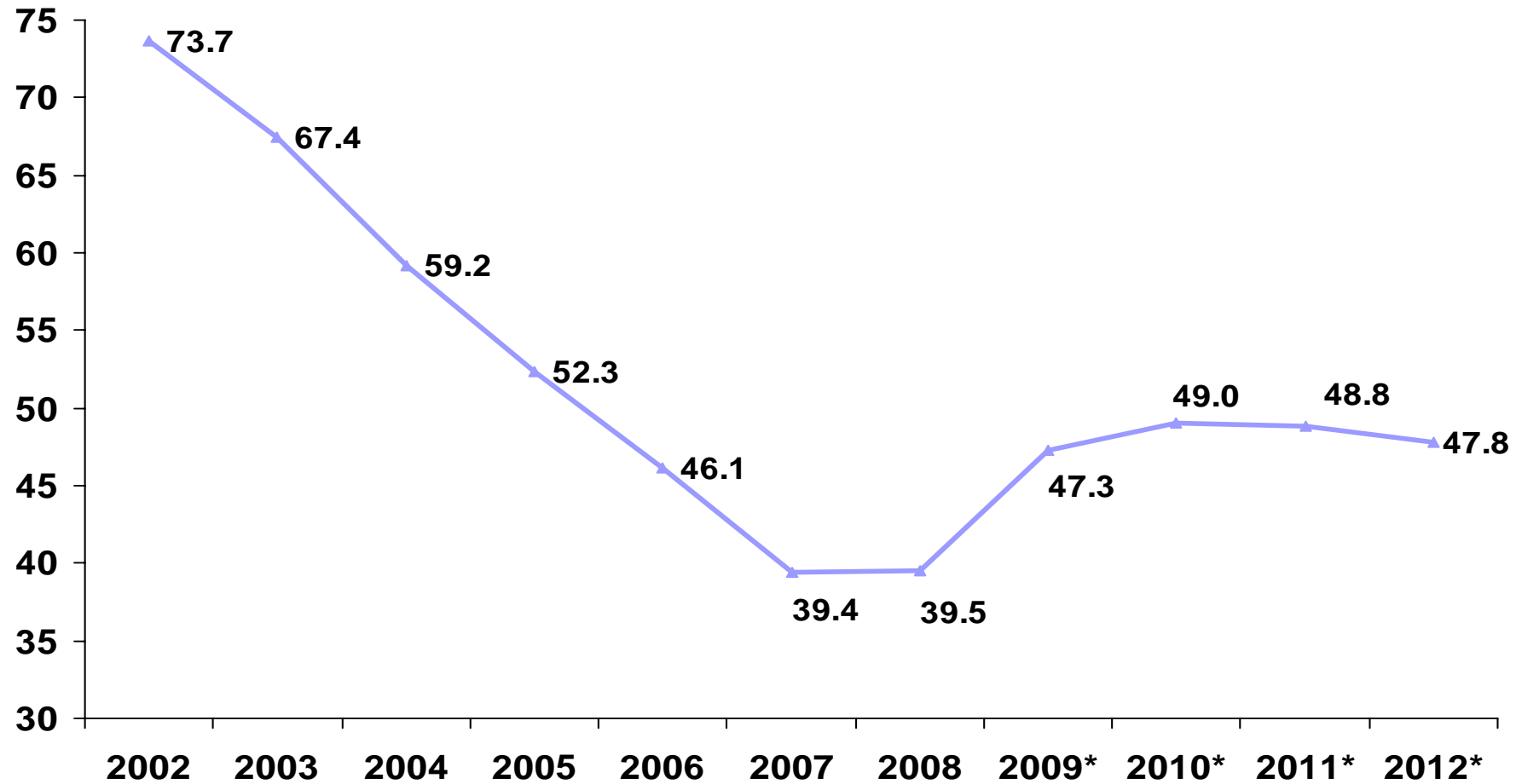
(*) Projection/Target

Total Public Primary Balance / GDP (%)

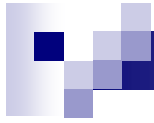


(*) Projection/Target
Primary Surplus (IMF Definition).

EU Defined Debt Stock (% GDP)



(*) Projection/Target



Medium Term Program: Structural Fiscal Reforms

- Implementing the “Fiscal Rule”
- Establishing a new governance model for SEEs
- Reducing tax loss and evasion, broadening the tax base
- Strengthening the audit and enforcement capacity of the Revenue Administration
- Establishing an efficient tax collection system to ensure timely payment of taxes and other liabilities
- Introducing regulations that will enhance own revenues of local administrations and improve their financial management practices



Medium Term Program: Structural Fiscal Reforms - 2

- Increasing the efficiency of health services and expenditures, and expanding the family medicine system to all provinces
- Increasing efficiency in social expenditures and enhancing proper use of social aids
- Directing public current expenditures to high priority areas
- Increasing the efficiency of public investments through re-prioritization
- Upgrading the fiscal transparency, data quality, reporting and control practices to match international best practices



Medium Term Program: Reforms and Policies to Enhance Competitiveness and Efficiency - 1

- Initiating a feasibility study on the IPO of some portion of the Ziraat Bank shares. Final decision will be made based on the results of the study and market conditions.
- Withdrawing the public sector from electricity distribution and sugar production, and reducing public ownership in telecommunications and port management sectors.
- Improving the human capital to meet market requirements.
- Promoting flexible employment.
- Enhancing the institutional capacity of İŞKUR to implement active labor market policies efficiently.



Medium Term Program: Reforms and Policies to Enhance Competitiveness and Efficiency - 2

- Implementing the İstanbul International Financial Center Project
- A wider utilization of the public-private partnership models in project financing.
- Focusing more on investments that will diminish regional disparities and on infrastructure investments that will support the productive capacity of the economy and accelerating regional development projects
- Operationalizing the development agencies which are already established
- Restructuring agricultural support mechanisms



Medium Term Program: Reforms and Policies to Enhance Competitiveness and Efficiency - 3

- Efficient use of funds provided by Treasury to Credit Guarantee Fund
- Ensuring that private sector thoroughly benefits from the new investment incentive system
- Enhancing transparency and efficiency of state aid system
- Strengthening the human capital and physical infrastructure of newly established universities to enhance their contribution to development
- Enhancing speed and efficiency of the judicial system



Fiscal Rule: Main Objectives

- Achieving a sustainable debt stock and public deficit
- Entrenching fiscal discipline
- Enhancing the credibility of the fiscal policy
- Reducing borrowing cost through lower risk premium due to increased confidence and credibility



Fiscal Rule: Main Pillars

- A medium to long term public deficit to GDP ratio target that is in line with a sustainable debt structure will be set.
- The adjustment in the public sector deficit that will be made each year, will take into account the deviation of public sector deficit to GDP ratio in previous year from its medium to long term target.
- The impact of the economic cycle will be taken into account when determining the adjustment level. Fiscal adjustment will be higher when growth is above its long term average, whereas it will be lower when growth is below its long term average.



Medium Term Program (2010-2012)

**Deputy Prime Minister
Ali BABACAN**

18 September 2009