



**SCREENING CHAPTER 17
ECONOMIC AND MONETARY POLICY**

**AGENDA ITEM III:
ECONOMIC CONVERGENCE WITH THE EU IN VIEW OF
THE FUTURE OBLIGATIONS**

**Country Session: The Republic of TURKEY
23 March 2006**



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I. PREPARATIONS FOR EMU

STEPS TOWARDS EMU

Functioning Market Economy

As stated in the 2005 Progress Report on Turkey;

*“As regards the **economic criteria**, Turkey can be regarded as a functioning market economy, as long as it firmly maintains its recent stabilisation and reform achievements. Turkey should also be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms.”*



I. PREPARATIONS FOR EMU

STEPS TOWARDS EMU

Competitiveness

With the help of structural reforms implemented since 2001, an important progress has been achieved in establishing a sustainable growth environment and developing a competitive economic structure

These structural reforms are covered in detail in Pre-accession Economic Programmes (PEPs).



I. PREPARATIONS FOR EMU

STEPS TOWARDS EMU

Macroeconomic and Financial Stability

There has been a significant improvement in macroeconomic indicators since 2001.

The reforms in the financial sector held since, also constituted a sound financial sector structure.

Recent developments in the macroeconomic indicators and projections are also covered in detail in PEPs.



I. PREPARATIONS FOR EMU

PRE-ACCESSION ECONOMIC PROGRAMME (PEP)

- Approved by the High Planning Council
- Consistent with the Medium-Term Programme
- Presents recent economic development, macroeconomic framework, public finance and structural reforms for Turkish economy in the framework of convergence to the EU
- Economic policies presented in the PEP constitute the basis of the policies towards the long-term objectives and targets
- Economic policies aim at achieving sustainable growth and convergence of inflation to the EU averages permanently, and forming a sustainable fiscal structure



I. PREPARATIONS FOR EMU

PRE-ACCESSION ECONOMIC PROGRAMME (PEP)

- Economic policies presented in the PEPs are grouped as: fiscal policy, monetary policy and incomes policy
 - The main target of the fiscal policy is to continue to the implementation of existing fiscal discipline decisively and thereby making the budget and debt structure in harmony with the Maastricht criteria
 - The main objective of the monetary policy is to ensure the price stability
 - Incomes policy will continue to support fiscal and monetary policies and will be consistent with inflation target
- In order to enrich the content of the future PEPs, the analyses on budgetary impacts of structural reforms will be improved and made more comprehensive



I. PREPARATIONS FOR EMU

FISCAL NOTIFICATION

- Indicates the balance of the general government,
- Scope of the debt stock and accounting records
- Fiscal notification tables of Turkey have been submitted to the European Commission regularly since 2000



II. STRUCTURAL REFORMS

- The main objectives of structural reforms is to improve the competitiveness of Turkish economy, which is consistent with the EU priorities
- Structural reforms, which are important for economic and social development and macroeconomic stability, are crucial for the convergence process with the EU



II. STRUCTURAL REFORMS

ENHANCING THE ADMINISTRATIVE CAPACITY

- Restructuring of Public Administration
 - Public Financial Management and Control Law
 - Extending the Scope of Budget
 - Budget Accounting Code System and Fiscal Transparency
 - Strengthening the Supervision and Auditing Base
 - Strategic Planning in Public Institutions
 - Functional Review of the Government
 - Local Administration Reform
 - Public Procurement Law / Public Procurement Authority
 - Strengthening the Statistical Infrastructure
 - Enhancing the Administrative and Institutional Capacities of ISKUR and Turkish Patent Institute
 - Regional Development Agencies



II. STRUCTURAL REFORMS

IMPROVING COMPETITIVENESS

- **Market Regulatory Bodies**
 - Banking Regulation and Supervision Agency
 - Telecommunications Authority
 - Energy Market Regulatory Authority
 - Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Authority
 - Sugar Authority
- **Restructuring of the Financial Sector**
 - The Banking Sector Restructuring Programme
 - Financial Restructuring
 - Operational Restructuring
 - Legal and Institutional Arrangements to Strengthen the Supervision and Audit Base
 - Banking Law No. 5411
 - Amendments in Legislation regarding in Capital Markets and Insurance Sector



II. STRUCTURAL REFORMS

IMPROVING COMPETITIVENESS

- **Legislation on Telecommunications Sector**
 - Arrangements in Information and Communication Technologies
 - National Roaming Regulation and Regulation on Access and Interconnection
- **Legislation on Energy Sector**
 - The Law on Electricity Market
 - The Law on Natural Gas Market
 - The Law on Oil Markets
 - The Liquefied Petroleum Gas (LPG)
- **Tobacco Law (No. 4733)**
- **Reducing the Role of the State in the Economy via Privatization**
 - Turkish Telecom, Erdemir, etc.



II. STRUCTURAL REFORMS

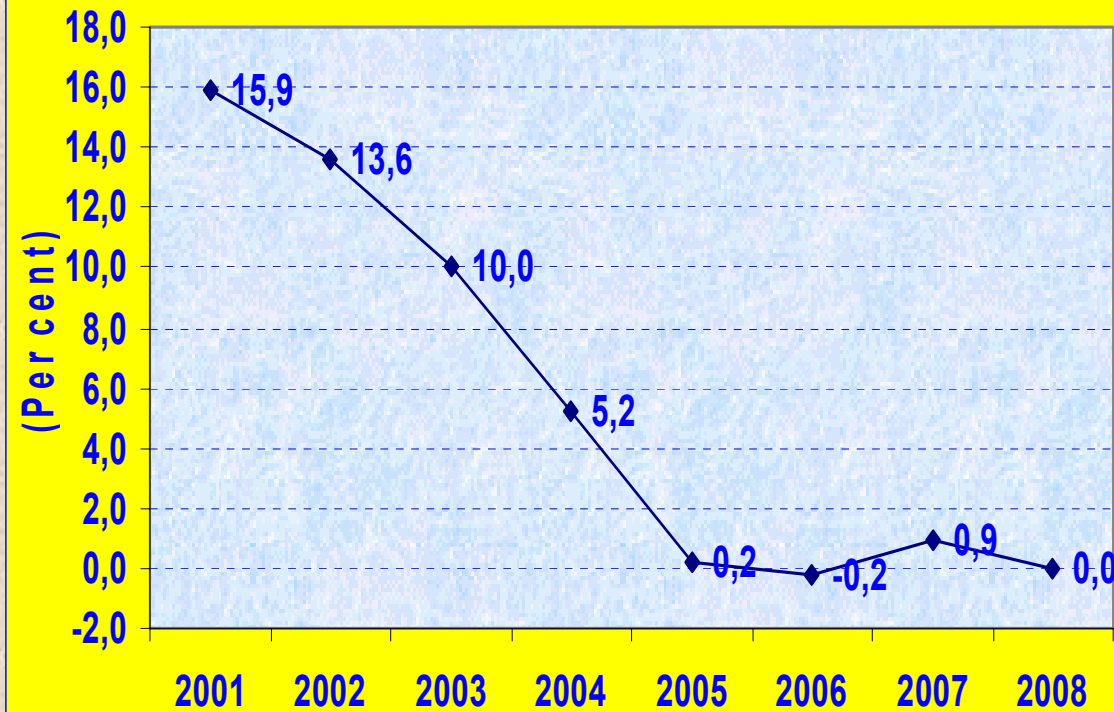
IMPROVING COMPETITIVENESS

- Rationalising the Public Investment Programme
- Competition Law and Policy
- SME Strategy and Action Plan
 - Enhancing the Competitiveness of SMEs



III. MACROECONOMIC AND FINANCIAL STABILITY

General Government Borrowing Requirement / GDP



There has been a decrease in borrowing requirements, due to decisive implementation of the economic programme, rapid decrease in interest rates and high performance in privatization activities

Source: Pre-Accession Economic Programme 2005



III. MACROECONOMIC AND FINANCIAL STABILITY

INFLATION

(Per cent)

- Disinflationary economic policies are adopted since the first Pre-Accession Economic Programme (2001)
- Inflation remained below the targeted rates for the period 2002-2005
- By realization of the targets, significant progress will be achieved in terms of convergence towards the EU averages

	2002	2003	2004	2005	2006	2007	2008
Target (YoY)	35,0	20,0	12,0	8,0	5,0	4,0	4,0
Realization (YoY)	29,7	18,4	9,3	7,7	-	-	-
Realization (Annual Average)	45,0	25,3	8,6	8,2	-	-	-

Source: Pre-Accession Economic Programme 2005



III. MACROECONOMIC AND FINANCIAL STABILITY

INTEREST RATES

- Interest rates declined sharply as a result of reduced PSBR and macroeconomic stability
- The relationship between short-term and long-term interest rates is becoming stronger
- In the period ahead, interest rates are estimated to decrease with sustained fiscal discipline
- Due to the increase of confidence levels in the markets, Treasury was able to raise the average maturity of domestic borrowing



III. MACROECONOMIC AND FINANCIAL STABILITY

INTEREST RATES AND INTEREST PAYMENTS (Per cent)

	2001	2002	2003	2004	2005	2006 (P)	2007 (P)	2008 (P)
Domestic Interest Rate*	67,2	51,7	29,5	24,8	18,8	-	-	-
General Government Interest Payments/GDP	23,7	19,3	16,8	13,4	9,6	8,7	7,0	6,0

Source: Pre-Accession Economic Programme 2005

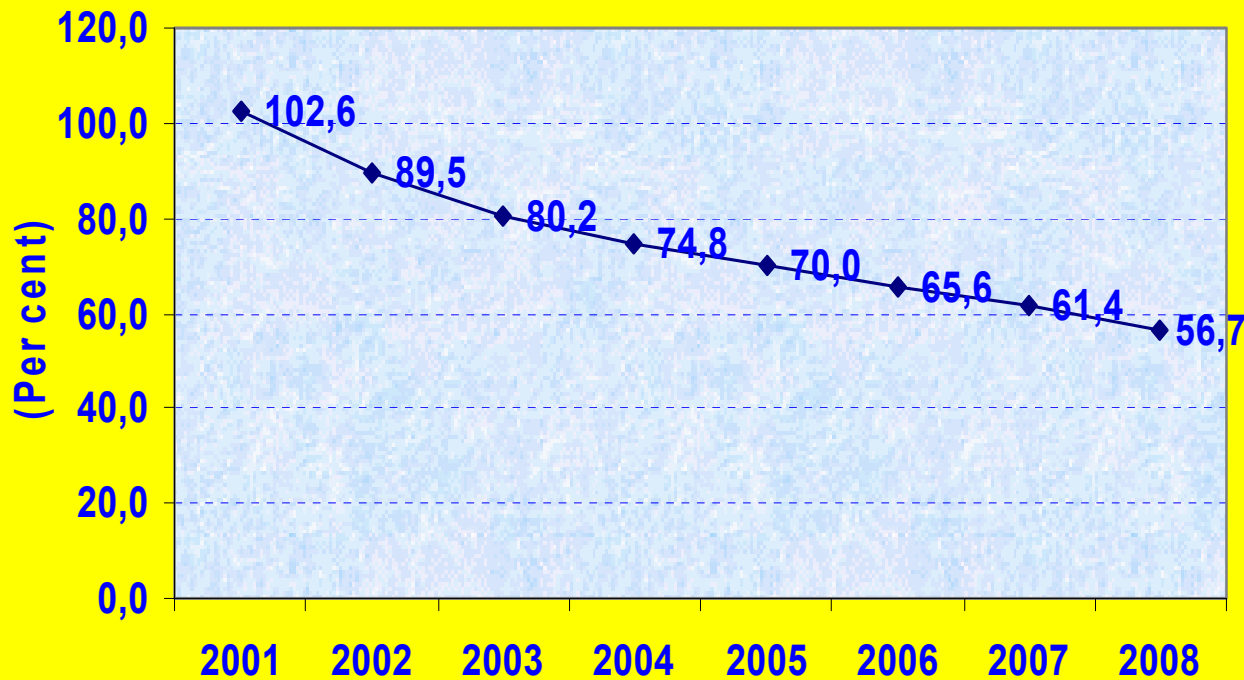
* Interest rates of the longest maturity of discounted government bonds in the primary market.

(P) Projection



III. MACROECONOMIC AND FINANCIAL STABILITY

General Government Gross Debt Stock / GDP



Achievement of political stability, fiscal discipline and stable growth environment, as well as the acceleration in the privatization efforts and the implemented borrowing strategy led to a fall down in the borrowing requirement and borrowing costs

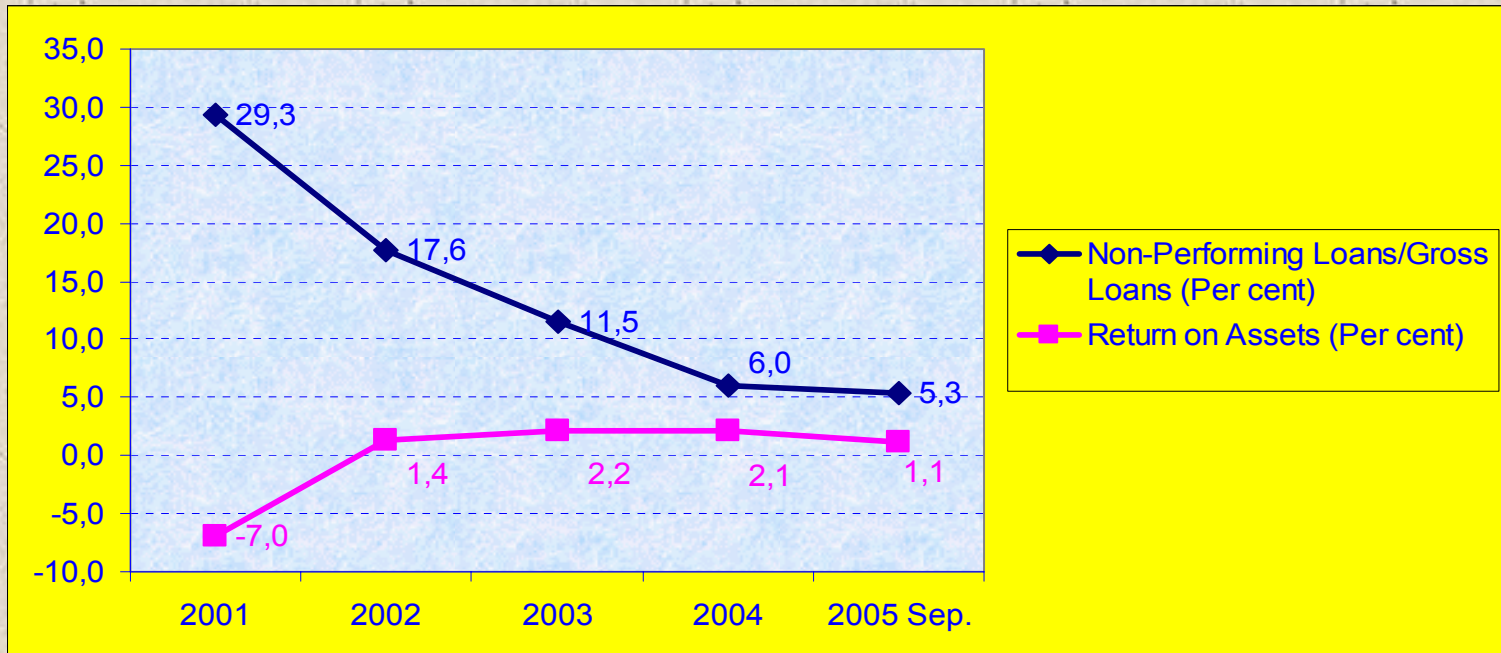
Source: Pre-Accession Economic Programme 2005



III. MACROECONOMIC AND FINANCIAL STABILITY

BANKING SECTOR INDICATORS

There has been a significant recovery in profitability and risk-management performance of the banking sector.



Source: Pre-Accession Economic Programme 2005

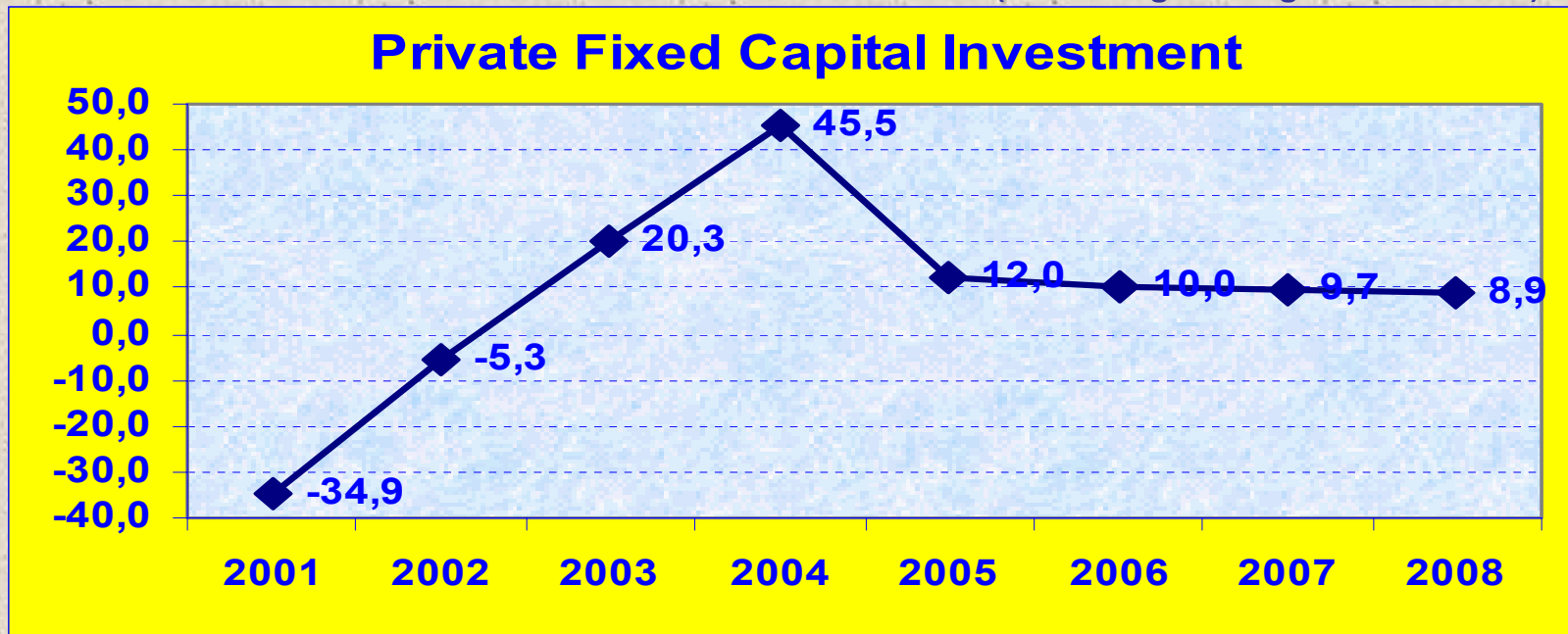


IV. RECENT DEVELOPMENTS AND PROJECTIONS OF KEY INDICATORS FOR ACHIEVING EMU

PRIVATE FIXED CAPITAL INVESTMENT

There has been a substantial increase in private fixed capital investment in recent years.

(Percentage change in real terms)



Source: Pre-Accession Economic Programme 2005



IV. RECENT DEVELOPMENTS AND PROJECTIONS OF KEY INDICATORS FOR ACHIEVING EMU

LABOUR PRODUCTIVITY

High labour productivity increases have been accomplished since 2002.



Source: Pre-Accession Economic Programme 2005



IV. RECENT DEVELOPMENTS AND PROJECTIONS OF KEY INDICATORS FOR ACHIEVING EMU

CONTRIBUTION TO GROWTH BY FACTORS OF PRODUCTION (Per cent)

Period	Capital Accumulation	Employment Increase	TFP Increase
2001-2004	66,9	4,3	28,9
2005-2008	41,6	29,8	28,6

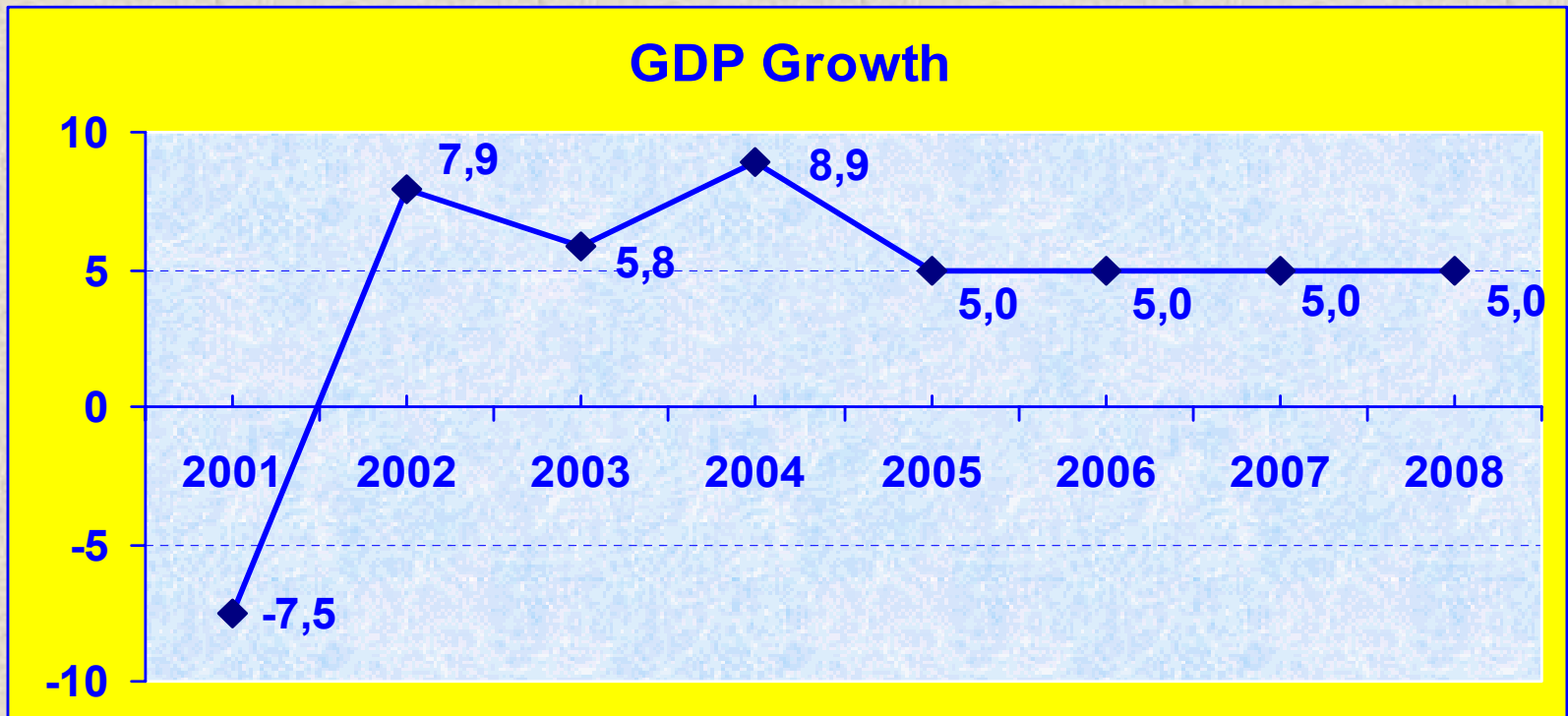
Source: Pre-Accession Economic Programme 2005



IV. RECENT DEVELOPMENTS AND PROJECTIONS OF KEY INDICATORS FOR ACHIEVING EMU

GROWTH PERFORMANCE

As a result of structural reforms implemented so far and achievement of the macroeconomic stability; Turkey has entered a high growth phase.



Source: Pre-Accession Economic Programme 2005



THANK YOU FOR YOUR ATTENTION