

Distinguished Minister, Ladies and Gentlemen,

It is a great pleasure for me to address you today, at the 2nd Euromoney Turkey Finance and Investment Forum, on behalf of Akbank.

I genuinely believe that this forum will not only contribute to the general understanding on Turkey but will also underscore the business opportunities that lie within.

Distinguished Guests,

As you all know, the current global financial crisis has induced a global **paradigm shift**.

Central banks and governments are now implementing unprecedented measures to tackle with the recent problems.

However, there are several questions that are still waiting for answers:

- How will the financial sector adapt to this new environment?
- How will the new global social, economic and political balances be shaped?
- How will Turkey position itself in this new environment?

Although it is difficult to draw a concise picture, one point that is for sure is the fact that, **emerging markets**, such as Turkey, will have a much more important role in the global arena and will increasingly carry the weight of the global economic growth.

I would now like to share with you my views Turkey's current economic situation and investment climate in this setting.

Sustainable economic growth majorly rests on **four main pillars**:

1. Growth in the labor force,
2. Strong and growing capital stock,
3. Improvements in the quality of human capital
4. Technological progress to enhance productivity and facilitate higher value added production.

Taking into account all these elements, one can easily realize that Turkey has been and promises to be a **success story**.

1) One of Turkey's many advantages is its young, dynamic and large **population**, particularly important in the face of ageing societies of the West.

The average age in Turkey is 29, whereas in Europe average age stands at around 40.

Similarly, the ratio of elderly population is 8% in Turkey compared to Europe's 21%, and forecasts reveal that this advantage will continue in the decades to come.

Coupled with its large population exceeding 70 million, Turkey's favorable demographics is an essential asset to support its progression towards becoming a significant regional power and this asset should further be ameliorated by giving a special emphasis on education and having a qualified work force.

2) The second important aspect is linked to **the growing physical capital stock**. Turkey marked significant progress in this respect in recent years.

Following the 2001 crisis, excluding the crisis year of 2008, private sector investments grew by around 20% annually (2001-2007: 19%).

This is a significant achievement by any measure and marks one of the fastest growth rates in capital formation following the developing Asian economies.

3) It is of course important to support this growth in physical capital with enhancements in human capital. Turkey will be able to make use of its demographical advantage at best only by creating a higher quality labor force and improved education system.

This brings us to our third point, namely improvements in the quality of **human capital**.

A well-educated, analytical labor force that is interested in new technological advancements serves as an essential driving force for an economy.

In recent years, there has been a significant improvement in the ratio of people with higher education in the labor force in Turkey, reaching currently 15% - therefore doubling in a decade. However, as always, there is still room for progress.

4) Finally, **technological progress** and improving productivity levels is a significant precondition for sustained and robust economic growth.

Although Turkey's R&D expenditures remain minimal at 1% compared to OECD averages of 2.3%, Turkey has been improving in this area in recent years as well.

Turkey managed to increase its R&D expenditures by over 60% from 2002 to 2006, placing it as the 7th fastest growing economy in terms of R&D expenditures.

Therefore, as the business community in Turkey we should:

- continue to encourage R&D activities,
- increase our R&D budgets
- facilitate increased cooperation and communication between the industry and the academia

One can realize that:

With a more skilled labor force and recent technological advancements, the share of high and medium-high technology sectors in Turkey's **exports** has marked a sustained rise in recent years.

Combined high and medium-high technology exports now make up nearly 40% of total exports, up from around 15% in 1980.

Turkey is also rapidly growing to become a key player in international markets; Turkey's share in world trade volume nearly doubled since 2000 and total trade volume grew at an annual 20% on average in the same time frame.

Turkey's trade volume which was 80 billion USD in 2000, has increased to 330 billion in 2008.

Dear Guests,

I am very pleased to observe that the Turkish business community is fully committed and enthusiastic to go further.

I should strongly emphasize that Turkey was one of the most prepared countries to face the latest the economic crisis primarily due to the economic reforms following our own crisis in 2001. One must also note that the resilience of the Turkish banking sector has been a key factor in this respect.

Following the 2001 crisis, Turkey has made significant progress across many critical areas and the results have been outstanding.

Since then, we have made remarkable progress evident by the following:

- Turkey has acted as a magnet for FDIs from all over the world.

It was less than a decade ago that Turkey attracted less than USD1 billion in **foreign direct investments** flows annually.

Now FDI flows reached a peak of USD 20 billion in 2007 and even in the turbulent year of 2008, annual FDI exceeded USD 15 billion.

The number of **foreign companies operating in Turkey** have already reached 22,000 (including participations and branches). This implies a doubling since 2005.

- Turkish economy has posted an average annual growth rate of nearly 7% in the years following the 2001 crisis and interest rates have fallen to near single digits.
- Turkey's recent **improvement in business environment** has been an instrumental element in its recent growth pace.

According to World Bank's "Doing Business" report, the number of days required to start a business has decreased from 38 days in 2004 to 6 days in 2008.

High growth rates realized in the recent years provided an improvement in income and welfare levels as well. GDP per capita, 3500 USD in 2002, nearly tripled to reach 10.500 USD in 2008.

This evolution, coupled with improvements in income distribution, has triggered an increase in the number of people in the middle income classes. According to our research, the population of middle income classes has reached 9 million people. We believe that the improvements in income levels will be sustained despite uncertainties in the medium term.

Dear Guests,

Increase in global investments in Turkey, supported by high growth prospects, will help Turkish economy prosper even more, lift income per capita levels and support domestic consumption. This in turn will make Turkey a new and vibrant market for international corporations, creating a virtuous cycle of even higher international capital flows.

Turkey has already established itself as a major global player eminent by the fact as its position as the 8th largest economy in Europe and 17th globally.

Turkey is also:

- A member of the United Nations Security Council
- A participant country of the G-20
- An EU accession country
- Contributing effectively to the development of regional peace, trade and stability.

Looking forward, globally, market sentiment has recently improved and expectations are now shifting from an "L" shaped recovery to a more rapid rebound in the global economy. In other words, the pace of economic recession is declining. The latest data confirms this trend. We also believe that in Turkey a "V" shaped recovery is more likely. In that respect, we strongly welcome the stimulus packages and other

measures announced by the government and we believe we will see their beneficial results in the near future.

However, due to chronic fiscal imbalances of the past, Turkey should keep a cautious stance on its fiscal balances which will be important in sustaining investor confidence and to ensure a continued flow of international capital.

Another prerequisite is the need for a new impetus in the EU accession process. As the business community, we see membership to the EU as a significant anchor for the economy and a support for sustainable growth. Moreover, many independent observers continuously emphasize the crucial nature of Turkey's economic integration to the EU in order to build a more competitive Europe.

Dear Guests,

As a member of the Turkish business community, I strongly believe that there are many opportunities for Turkey in the upcoming years. In this period, we will all do our best for our country.

Social consensus and unity are very important success criteria in periods of crisis.

In the short-term, the global economy is enduring difficult times but the world we live in also offers a huge potential.

I wish you all very fruitful discussions during the conference and thank you for your time.