

Turkey: Quantitative Performance Criteria and Indicative Targets for 2002

	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome
	March 31, 2002		May 31, 2002		August 31, 2002		November 30, 2002		December 31, 2002	
<b>I. Performance criteria</b>										
1. Floor on the cumulative primary balance of the consolidated government sector (in trillions of Turkish lira) 1/	2,847	2,924	4,714	5,365	9,600		14,900		16,050	
	February 28, 2002		April 30, 2002		June 30, 2002		September 30, 2002		December 31, 2002	
2. Ceiling on contracting or guaranteeing of new external public debt with original maturities of more than one year (in millions of US\$) 2/	6,500	1,645	10,000	2,402	11,100	3,690	14,300		17,500	
3. Ceiling on the stock of external public debt with original maturities of up to and including one year (in millions of US\$) 3/	1,000	0	1,000	0	1,000	0	1,000		1,000	
4. Floor on level of net international reserves of CBT and Treasury combined (in millions of US\$)	-6,500	-4,907	-7,200	-4,926	-7,800	-5,755	-8,500		-9,700	
5. Ceiling on base money (in trillions of Turkish lira) 4/	8,250	7,823	8,900	8,680	9,250	9,009	10,600		10,850	
<b>II. Indicative targets</b>										
	May 31, 2002		August 31, 2002		September 30, 2002		October 31, 2002		November 30, 2002	
1. Floor on the cumulative primary balance of the consolidated government sector (in trillions of Turkish lira)	...		...		11,300		12,250		...	
2. Floor on the cumulative overall balance of the consolidated government sector (in trillions of Turkish lira)	-17,486	-16,367	-28,250		...		...		-39,750	
	February 28, 2002		April 30, 2002		June 30, 2002		September 30, 2002		December 31, 2002	
3. Floor on the cumulative primary balance of other public entities sector (in trillions of Turkish lira)	...		...		550		...		1,100	
4. Ceiling on the stock of net domestic assets of the CBT and Treasury combined (in trillions of Turkish lira) 4/	26,100	24,318	27,700	25,197	28,739	26,374	31,139		33,139	
5. Privatization proceeds (in millions of US\$)	...		...		...		220		700	

1/ The target for end-March has been adjusted for expenditure arrears outstanding at Bag-Kur (a social security fund).

2/ Applies to nonconcessional external debt with an original maturity of more than one year. Excludes purchases from the IMF, adjustment lending from the World Bank, and other external program financing, long-term liabilities of the Central Bank and sales of treasury bills and bonds denominated in TL or Fx to nonresidents in either the domestic primary market or the secondary market.

3/ Stock of debt of maturity of one year or less, owed or guaranteed by the consolidated government sector. Excludes external program financing, sales of treasury bills denominated in TL or foreign exchange to non residents in either the domestic primary market or the secondary market, normal import-related credits, reserve liabilities of the Central Bank, and forwards contracts, swaps and other futures market contracts.

4/ Target for end-February calculated as four working day average of February 11-12 and March 11-12, 2002, to take account of the transitory impact of the Bayram religious holiday on currency demand.

NDA targets for June onward have been lowered by TL 161 trillion compared to the January 18, 2002 Letter of Intent to reflect the drop in required reserves following the SDIF's intervention in Pamuk Bank.

## STRUCTURAL POLICIES, 2002–04

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
<b>Fiscal policy</b>			
1. Implement all further measures to reach the 6.5 percent primary surplus target that are technically feasible to put in place in January:	PA for SBA	13	
(i) Council of Ministers to approve a reduction in the share of central government tax revenues accruing to metropolitan municipalities to 4.1 percent			<i>Done.</i>
(ii) issue a circular to implement attrition rules			<i>Done.</i>
(iii) the Minister of Finance to approve a reallocation of spending to ensure adequate funding for DIS for agriculture			<i>Done.</i>
2. Increase the PCT (on items excluding natural gas) by 1 percent in real terms in early February		14	<i>Not done.</i> Increase was equal to January WPI inflation.
3. By end-March (i) the Ministry of Finance to identify savings from closing regional administrations and other regional line agency offices, and block relevant budget appropriations in the budget, and (ii) SEEs to approve budgets in line with the cost reductions mandated	BM	14	<i>Not fully achieved.</i> (i) In March, a decree regarding closure of regional administrations and other regional line offices was issued. Subsequently, line agencies were asked to block relevant appropriations. However, the measure did not yield the expected amount of savings. (ii) Most SEEs have approved budgets in line with cost reductions mandated and others have been instructed to correct their budgets.
4. Keep investment expenditure in SSK at the level originally planned in the investment program for 2002, implement generic drug purchase program in ES by end-April, and receive profit transfer of TL 180 trillion from Ziraat Bank		5 of April 2002 LOI	<i>Not fully complied with.</i> SSK's investment is not expected to fall, since several of its projects fall outside of the annual investment program and are not subject to the limits therein. The Ministry of Health now aims to finalize the generic drug purchase program by end-2002. The profit transfer from Ziraat was received in April 2002.
5. Refrain from introducing any new tax exemptions or incentives, except those specified in the tax reform plan		14	<i>Not fully complied with.</i> Payroll and personal income tax deferrals were introduced in March 2002 as part of an effort to stimulate employment.

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6. Refrain from introducing any new discounts or exemptions for SEEs, except those pursued for commercial reasons by enterprises' managements		14	<i>Done, but partially reversed.</i> The president approved Law No:4736 on January 18, 2002 preventing any new discounts or exemptions for SEEs. However, some discounts for electricity were reintroduced in May, for phase out by end-2002.
<b>Public debt management</b>			
7. Continue to lengthen average maturity in Treasury bill auctions and public offerings to the extent demand allows and encourage a diverse range of investors		18	<i>Underway.</i>
8. Resume in January 2002 the program of FRN auctions. Before the first issue publicize a revised standard method of price and yield calculations, in line with international practice		19	<i>Done.</i>
9. Reintroduce a primary dealer program by end-September 2002	BM	19	A draft dealership contract has been prepared and will be discussed with candidate primary dealers in July. The system is expected to be reinstated ahead of schedule by mid-August.
10. Continue to issue, subject to market conditions, domestic FX denominated and FX indexed bonds, as well as international bonds		19	Taking into account redemptions and market conditions, FX denominated and FX indexed securities will be issued.
11. The Treasury to complete a study by end-June 2002 of its operational mechanisms, procedures, and structure to improve its risk and debt management, including through closer coordination between domestic and international borrowing. The recommendations of this study will be implemented during 2002		19	<i>Done.</i> Based on the recommendations of the study, the middle office, which was recently established within the Treasury to coordinate the Treasury's domestic and external borrowing, will formulate an action plan by end-September 2002 to establish an integrated risk management system to monitor financial risk across the government's debt portfolio. In the interim period, the Treasury will develop simple benchmarks to monitor financial risk and to guide their borrowing decisions. The middle office is expected to be fully operational by end-2003.
12. Issue in June government communiqué that spells out details of the operations of the middle office that will formulate overall public debt strategy		6 of April 2002 LOI	A draft communiqué was completed and circulated internally for comments.

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
13. The Treasury to develop its cash management operations, acting in coordination with the CBT		19	The new Debt Management Law allows for the technical infrastructure for cash management operations in coordination with the CBT.
14. The Treasury to intensify its dialogue with the full range of investors, including bilateral contacts and group discussions with institutional investors and intermediaries, and enhanced retail outreach		19	With the target of broadening the investor base, discussions are ongoing on the conditions of a security which is planned to be issued for insurance companies. A series of meetings are being held with private banks, which provide feedback about market developments and specific concerns banks have.
15. By end-September 2002 publish in the Official Gazette, the communiqué defining the responsibilities of the middle office and of a new debt management committee that will oversee the development of risk and debt management policy	BM	12 of July 2002 LOI	The communiqué is being drafted.
<b>Monetary and incomes policy</b>			
16. Ensure that any new laws or regulations do not undermine the independence enshrined in the CBT law		21	<b>Done.</b> All new laws and regulations are consistent with CBT independence.
17. CBT to continue its technical preparations for the introduction of inflation targeting, including improved modeling and forecasting of inflation		22	Work ongoing at the CBT covers short- and near- term forecasting, and development of the data base.
18. Move to inflation targeting		22	In addition to progress in establishing the necessary technical infrastructure, favorable developments in disinflation and inflation expectations, fiscal policy, and the banking sector are expected to allow the pre-conditions to be met to allow a move to formal inflation targeting by end-2002.
19. Seek a significant reduction of the ex-post indexation element contained in current wage contracts during the next public worker collective bargaining round and civil service salary adjustment, and use the Economic and Social Council as a forum for incomes policy discussions with the private sector		23	An exploratory meeting between labor unions and the authorities to achieve this goal was held in February.

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
20. a. Consider the possibility of reducing backward indexation of administered prices without compromising SEEs' financial conditions	23	<i>Partially done.</i> Most SEE prices have not been changed from January to mid-May 2002, weakening the SEEs' financial conditions. Price increases resumed in late May and continued in June and July. All remaining real price increases necessary to fully offset earlier SEE revenue losses will be made shortly. Changes at discrete intervals, in line with the WPI, are expected in the remainder of the year.	
b. In the ongoing negotiations on new two-year private sector wage contracts the government to stress to labor unions and employers the need to reduce backward indexation	14 of April 2002 LOI		
21. Encourage a successful conclusion by end-February 2002 of banks' discussions to establish interbank borrowing reference rates in Turkish lira out to at least three-month maturity to enhance money market liquidity and transparency, and to provide accurate reference rates for financial instruments	25	Measures have been taken to deepen the interbank money market. Turkish Bankers' Association will launch Turkish Lira Interbank Offer Rate (TRLIBOR) August 1, 2002.	
22. The CBT to gradually end its practice of acting as a blind broker during 2002	25	The phasing out by end-2002 has been announced by the CBT.	
23. Working group to facilitate the development of financial markets to identify concrete actions by end-January 2002 in the areas of taxation, accounting, and regulation. The first measures will be put in place by end-February 2002	25	Interagency committee chaired by CBT with membership from Banks Association of Turkey, BRSA, MOF and ISE, established and has held two meetings. Taxation of revaluation profits clarified in February, and prudential rules on market risks effective since January 2002.	
24. The Privatization Agency to authorize companies in its portfolio to transact their foreign exchange business at the market rate (not at the CBT official rate). The oil and gas companies (TÜPRA <sup>a</sup> and BOTA <sup>a</sup> ) to work with state banks to improve their foreign exchange practices, to minimize lumpy transactions in the foreign exchange market	25	<i>Done.</i>	
25. To encourage development of the foreign currency market, eliminate stamp duties on forward contracts and remove the tax on interbank foreign exchange transactions by end May 2002	9 of April 2002 LOI	<i>Done.</i>	
26. Require as of end-May withholding of interest earned through transactions intermediated through Takasbank	9 of April 2002 LOI	<i>Done.</i>	

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
27. To rationalize the system of reserve requirements the CBT, effective from May 2002, to (i) increase the scope and length of the averaging of reserve requirements, and (ii) increase the remuneration of both Turkish lira and foreign currency reserves, linking remuneration to market rates		9 of April 2002 LOI	<i>Done.</i>
28. Multi-agency working group to continue to identify measures to ensure the successful development of money and foreign exchange markets		9 of April 2002 LOI	Multi-agency working group chaired by the CBT with the participation of Banks Association of Turkey, BRSA, MOF, ISE, IGE, Treasury, and CMB has held meetings related to the development of the derivatives markets and TL reference rate fixing. Taxation and accounting problems of the futures transactions have been solved by the MOF and BRSA, respectively.
29. Issue the decree to remove tax on foreign exchange transactions	PA	15 of July 2002 LOI	<i>Done.</i> Decree was issued on July 30, 2002.
<b>Banking reform</b>			
30. Pass necessary legal amendments, and issue a Council of Ministers Decree for staff reductions in state banks	PA for SBA	28	<i>Done.</i>
31. By end-June 2002, reduce the number of state bank branches by 800. In this context also reduce staffing correspondingly	PC	28	<i>Missed by a small margin.</i> 788 branches had been closed by end-June 2002. However, the process has continued in July with further closures of 5 additional branches. 640 branches of state banks have been closed and staff reduced by 12,000.
32. For Vakif Bank privatization, bids to be invited from potential investors in May		28	No bids were received by the end-June deadline. It is expected that the bank will be put up for sale again in the spring of 2003. In the meantime, an evaluation will be made of the need to make legal amendments to remove any exiting obstacles to this sale.
33. BRSA to issue guidelines for targeted evaluations of private banks in preparation for the public support scheme for private banks	PA for SBA	30	<i>Done.</i>
34. The targeted evaluation of loan portfolios, collaterals, and certain other exposures to be performed by banks' existing external auditors to be completed by end-March		30	<i>Done.</i>

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
35. Third-party auditing firms to be appointed by the BRSA by end-March 2002 to verify that the guidelines have been followed, and to ensure the integrity of the process	BM	30	<i>Done.</i>
36. a. The BRSA to (i) complete the final interpretation of the evaluations by end-April and (ii) send letters to banks stipulating required actions on the basis of this interpretation by May 15	PA for second review (action # (ii))	30, 31	a. <i>Done.</i> (i) Auditing reports submitted to the BRSA by late May; (ii) Letters to 24 banks sent on June 12. Of the remaining two banks, one was intervened on June 19, and a letter was sent to the other bank the same day.
b. Evaluation results to be fully incorporated into banks' end-June 2002 financial statements			b. Evaluation results expected to be incorporated by end-August 2002.
c. Banks to apply for participation in the scheme before end-May 2002			c. Banks expected to apply by end-July.
d. Recapitalization scheme to be completed before end-June 2002			d. Completion expected by end-August 2002.
e. The BRSA to prepare prototype contracts to be signed between the Saving Deposit Insurance Fund (SDIF) and the majority shareholders on the pledging of shares, share buy-backs, and the conversion of Tier-2 capital into Tier-1 capital		10 of April 2002 LOI	e. <i>Done.</i>
37. The legal framework and related regulations for the public support scheme for private banks to become effective in January 2002	PA for SBA	32	<i>Done.</i>
38. The BRSA to undertake legal consultations, as necessary, to ensure implementation of the public capital support scheme as planned		32	<i>Done.</i>
39. Resolve by end-2001 all banks taken over by the SDIF before November 2001, with the exception of two banks whose resolution has been halted by courts	PA for SBA	33	<i>Done.</i>
40. a. Determine final resolution method for Toprak bank taken over in November 2001 by February 2002		33	<i>Done.</i> After no acceptable bids were received by the original sale deadline of April 9, the bank was reoffered for sale in mid-May. One potential bidder made an offer to the BRSA on July 5. The SDIF Board is expected to make a decision on this bid by end-July.
b. The SDIF to revoke Toprak's license by end-September 2002 if the bank is not sold by September 16, 2002.	BM	17 of July 2002 LOI	

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
41. The SDIF to prepare a monthly balance sheet starting end-March 2002 and become subject to annual external audits; the external audit for 2001 will be completed by end-April 2002	BM (the latter action)	34	<i>Done.</i>
42. Laws and regulations regarding loan classification, loan loss provisioning, and collateral valuation will be amended as necessary following the portfolio reviews by end-June 2002		35	<i>Done.</i>
43. Pass legal amendment in January 2002 to eliminate with immediate effect the existing four-year transition rule for loan loss provisioning	PA for SBA	35	<i>Done.</i>
44. Start trial implementation of new accounting system (for banks) in line with IAS in January 2002	PA for SBA	35	<i>Done.</i>
45. Following the trial implementation the BRSA to evaluate the experience and issue by end-June 2002 a revised regulation on the new accounting standards to ensure that banks' end-2002 balance sheets comply with IAS	PC for end-June	35	<i>Done.</i>
46. Improve reporting requirements based on the findings of the independent assessments, and strictly enforce the quality and timeliness of the reporting as of end-June 2002		35	<i>Underway.</i> Quality and timeliness of reporting expected to be improved as of end-August 2002.
47. a. Off-balance sheet repos to be included on balance sheet as of February 1, 2002		35	<i>Done.</i>
b. Capital charges for market risks to be calculated on a solo basis as of January 1, 2002 and on a consolidated basis as of July 1, 2002			
c. Regulation on monitoring of internal control and risk management systems to become effective January 1, 2002			
48. The BRSA and SDIF in consultation with appointed independent advisors to develop a strategy for resolving Pamukbank and the ownership in Yapi Kredi Bank by September 16, 2002	BM	16 of July 2002 LOI	
49. Withdraw Tari°bank's license, if by end-August 2002 no qualified investor has offered to purchase it. Its nonperforming loans will then be transferred to the SDIF's Collection Department, and remaining liabilities and performing assets absorbed by Bayindirbank, the bridge bank established earlier this year, by end-2002.		17 of July 2002 LOI	
50. By end-September 2002 the SDIF to announced a detailed strategy for the disposal of assets held by the Collection Department	BM	18 of July 2002 LOI	
51 By end-October the SDIF to announce the sale of a loan portfolio with a total face value of at least US\$250 million	BM	18 of July 2002 LOI	
52. The BRSA to complete a reorganization study to enhance its supervisory capacity by end-December 2002	BM	23 of July 2002 LOI	

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<b>Corporate debt restructuring</b>			
53. Introduce in January 2002 a voluntary market-based framework (the “Istanbul Approach”) for dealing case-by-case with multicreditor exposures to large and medium-size borrowers		36	<i>Done.</i>
54. Create in early 2002 a multiagency Coordination Committee with private sector participation under the Treasury, responsible for facilitating and monitoring the corporate debt restructuring process, as well as identifying and proposing the removal of impediments that may exist		36; 13 of April 2002 LOI	<i>Not done.</i> Work to be carried out by the Production and Finance Committee chaired by the Treasury.
55. Establish secretariat to the Production and Finance Committee in April		13 of April 2002 LOI	Although the Committee has not been established yet, the BRSA is coordinating the process.
56. Production and Finance Committee to develop further measures consistent with preserving the transparency and integrity of the bank recapitalization exercise, to catalyze banks' and corporates' participation in the “Istanbul Approach”		13 of April 2002 LOI	Although the Committee has not been established yet, the BRSA and Turkish Industrial Development Bank are coordinating the process.
57. Production and Finance Committee to work with the relevant government agencies to establish by June 2002 a database to monitor corporate debt		13 of April 2002 LOI	<i>Not done.</i> The CMB has issued reporting requirements for trading firms who in turn submit information to the ISE. A database on corporate debt has not been developed.
58. A private asset management company will be set up by end-August 2002, with the SDIF owning a minority share		13 of April 2002 LOI	The authorities have been using technical assistance to rethink strategy towards asset sales. Sales strategy for SDIF assets to be developed by end September 2002 requested technical assistance for the drafting of a proposal for potential investors. Implementation contingent on private sector interest.
59. a. The Ministry of Justice to prepare an action plan based on the findings of a World Bank Report on Standards and Codes (ROSC) on Turkey’s insolvency regime and form a Commission to prepare necessary amendments to the Bankruptcy Law		37	A commission to prepare necessary amendments to the Bankruptcy Law, in line with the findings of the World Bank ROSC, has been established.
b. The Ministry of Justice to produce a package of comprehensive reforms of the Execution and Bankruptcy Act by September 31, 2002	BM	16 of June LOI	<i>Underway.</i>
c. Enactment of the reforms of the Execution and Bankruptcy Act by end-January 2003	BM	16 of June LOI	

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
60. Support the upgrading of administrative procedures in the judiciary to improve the capacity of the courts		37	<i>Underway.</i> A draft legislation has been submitted to the Council of Ministers for creation of intermediate courts of appeals in bankruptcy cases and for accelerated creditor enforcement procedures.
61. The CMB to introduce international accounting standards, including inflation accounting provisions, by January 1, 2003.		38	The CMB has issued the regulation. Firms are taking steps to adopt the new accounting framework.
62. Starting end-March 2002, the CMB to require corporate groups to provide consolidated financial statements and to set up a dedicated group to monitor their finances		38	<i>Done.</i> The CMB has issued the regulation.
63. Starting end-March 2002, the CMB to require corporate groups with financial affiliates to provide consolidated group statements and share those statements with the BRSA		38	<i>Done.</i> The CMB has issued the regulation. The Accounting Standards and Corporate Finance departments of the CMB are monitoring the accounts.
64. Send a draft law to parliament by end-March 2003 which transfers supervisory responsibility of non-bank financial institutions (excluding insurance companies) from Treasury to the BRSA effective July 1, 2003		23 of July 2002 LOI	
65. The Treasury to launch a study, with independent consultant advice, to be completed by end-2002 that will consider how best to strengthen the regulatory and supervisory framework of insurance companies. In addition, by the end of the year the Treasury also to send to the Council of Ministers a new draft law to regulate insurance companies in line with applicable EU Insurance Directives and IAIS Core Principles.		23 of July 2002 LOI	
<b>Public sector reform</b>			
66. Parliament to approve Public Procurement Law in line with UN (UNCITRAL) standards in January 2002	PA for SBA	40	<i>Done.</i>
67. Establish an independent procurement agency by end-March 2002	BM	40	<i>Done.</i>
68. Change laws and regulations to make them consistent with the new public procurement framework		40	See below.
69. Parliament to amend the Public Procurement Law by end-May 2002, to (i) bring the real value of the thresholds toward those in line with international best practice and (ii) extend the minimum time period for procurement applicable for cases below the thresholds	PA for second review	40	<i>Done.</i> Parliament passed the required amendments on June 12.

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70. a. Compile a comprehensive list of public investment projects to be phased out in time to make decisions for the 2003 budget		40	The High Planning Council Decision was communicated to spending agencies in mid-July 2002. It instructs line agencies to rationalize their investment programs by 3 percent. Further discussions with line agencies, aimed at greater reductions, will take place during budget preparation and finalized by end-2002
b. The government to adopt by September 2002 an action plan leading to further reductions in the average project completion time in the public investment program by more than 3 percent annually in both 2003 and 2004. The action plan will include details on the 2003 public investment program and further steps for the 2004 program for which the details will be ratified by the High Planning Council in 2003.		7 of July 2002 LOI	
71. Approval by Council of Ministers in January 2002 of plan to reform the tax system	PA for SBA	40	<i>Done.</i>
72. a. Enact the first phase of the tax reform plan by end-April 2002	BM	40; 15 of April 2002 LOI	<i>Done.</i> Special Consumption Tax Law (implementing indirect tax changes) was approved by parliament on June 6.
b. Issue a decree by end-August 2002 setting the earmarking of SCT proceeds at zero, starting with the 2003 budget	BM	17 of June LOI	
73. Submit to parliament legislation for the second phase of the tax reform plan by end-October 2002	BM	40	The GDR has been seeking inputs from civil society, and a World Bank technical assistance mission is expected in early-September. Passage by parliament is expected by end-March 2003.
74. Reorganize tax administration in line with the study carried out with the World Bank:		40 and 15 of April 2002 LOI	<i>Underway.</i> The Ministry of Finance put in place an audit coordination unit in mid-May. However the details of its
a. By end-July, institute an audit coordination unit in the Ministry of Finance, and require that it produce a coordinated audit plan by end-November each year	BM (first such plan by Nov 2002)		operations remain to be spelled out. The GDR has designed a new functional structure that includes the standard functional units. However, implementation has been delayed by several months; 250 tax auditors have been hired to-date.
b. By September 15, the Minister of Finance to adopt a strategy to strengthen the collection of outstanding public sector tax arrears	BM		A comprehensive plan to address tax arrears is being prepared

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c. In the budget for 2003, include resources to increase the number of auditors by 400 (for October 17) to move toward OECD standards	BM		
d. To help overhaul the revenue administration in the medium term, implement a functional reorganization, beginning at end-June			A new functional structure is expected to be approved in September 2002
75. Council of Ministers to adopt a civil service reform strategy by end-2002		40	
76. As part of the preparatory work for #75, by end-March 2002 establish a ministerial committee to carry out a functional review of government, which will be completed by end-September 2002		40	<i>Done.</i> CoM decision dated February 4, 2002 has been issued. However, the functional review is several months behind schedule.
77. By end-September, have in place an integrated system to monitor total general government and SEE employment levels on a quarterly basis	BM	40	A circular (dated December 14, 2001, No. 94997) has been sent to SEEs; monitoring of SEE employment levels has started on a quarterly basis as of March.
78. 15,000 individuals (public sector workers) to have been retired or notified of their retirement by mid-January 2002	PA for SBA	41	<i>Done.</i>
79. By end-January 2002, (i) identify all redundant workers and positions in SEEs	PAs for first review (i) and (iii)	41	(i-ii) <i>Done.</i> A total of 45,800 positions have been determined as redundant in SEEs.
(ii) sharpen tentative estimate based on aggregate analysis, by using company-specific information and by end-May produce final estimates		15 of April 2002 LOI	
(iii) eliminate all open, unfilled redundant positions		41	<i>Done.</i>
80. Extend voluntary retirement offers to the recently identified redundant workers in Türk Telekom and in the Privatization Agency portfolio of companies; for those who accept, provide payments, and allow them to retire, no later than end-March 2002		41	<i>Underway.</i> The retirement offer remains open.
81. Through voluntary retirement offers, and layoffs only when necessary, reduce the number of redundant workers by one-third by end-June, and cumulatively by two-thirds by end-October 2002	PC (the Oct action)	41	<i>Underway.</i> Between end-January and end-June, 11,342 redundant positions had been eliminated (including some individuals notified of their impending retirement as part of the prior action for the program—see item #78). In July so far, 2,580 additional public workers have retired from state enterprises.

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82. By end-June 2003, phase out the remaining redundancies		41	
83. The Ministry of Finance and the Treasury to formulate by end-September 2002 an action plan to address redundancies in the central government		15 of April 2002 LOI	<i>Underway.</i> The modalities of extending the staff reduction program to the civil service are under consideration.
84. Audit SEE compliance with this program on a quarterly basis		41	<i>Underway.</i> Treasury Controllers audited all SEEs (except Türk Telekom) in April–May. Second-quarter audits have begun.
85. To strengthen the legal framework for fiscal policy pass the Law on Public Debt Management and issue two supporting communiqués	PAs for the first review	42	<i>Done.</i>
86. a. Submit to parliament by end-June 2002 a Law on Financial Management and Internal Control consistent with best international practices	BM	42	<i>Not met.</i> See below.
b. Submit to parliament a Law on Financial Management and Internal Control	PA for third review	10 of July 2002 LOI	
c. Parliament to pass Law on Financial Management and Internal Control by end-March 2003	BM	10 of July 2002 LOI	
87. Close, by end-March 2002, 548 additional revolving funds	BM	42	<i>Done.</i>
88. Incorporate in the draft budget for 2003 the revenue and expenditures under Law 3418	BM for Oct 17, 2002)	42	
89. Eliminate the earmarking under Law 3418 and Law 4306		42	
90. Amend by July 2002 the governing legislation for the remaining EBFs to require passage of their budgets by parliament, external audit of their accounts (reported to parliament), and monthly reporting of their accounts, on a consolidated basis, with the central government's accounts	BM	42	A provision in the draft Law on Financial Management and Internal Control addresses this. However, this law will be passed by end-year at the earliest.
91. Eliminate the remaining budgetary fund (the Support Price and Stabilization Fund) in three years, when the World Bank's Agricultural Reform Implementation Project ends		42	
92. In the draft 2003 budget to be submitted to parliament (i) include net lending as an appropriation, and (ii) extend accounting and coding reforms to all consolidated budget agencies, and to general government units on a pilot basis	BMs for Oct 17, 2002)	42	To extend coding reforms to general government units on a pilot basis, the MoF has prepared a budget implementation circular. Studies regarding accounting reform are progressing as planned.

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
93. Complete, by end-March 2002, a survey of end-2001 commitments in excess of appropriations	BM	42	<i>Done.</i>
94. To monitor and address expenditure commitments on a regular and timely basis, conduct surveys of commitments in excess of appropriations twice a year (as of end-June and end-December), with the aim of having the results available within six weeks after the end of each period		15 of April 2002 LOI	The survey for end-June is being compiled.
95. Address the impact of public sector retrenchment through the labor redeployment and reinsertion program and through unemployment insurance		42	As per the circular (No.1087, 2002/3) issued on January 21, 2002, services for counseling and training have started to be tendered. Unemployment insurance payments started in March 2002.
96. Continue to implement the pension reform agenda for SSK and BK as set out in 1999. To this end, pass legislation underpinning the necessary institutional and administrative reforms by end-2002. Also prepare by end-2002, with technical assistance as needed, a study of the solvency of our civil service pension fund.		7 of July 2002 LOI	
97. a. Change the legal framework for SEEs, with effect from 2003, to help strengthen their governance structure, including by increasing the power of their Boards, clarifying their financial relationship with the government, and publishing details about their accounts		5 of June 2002 LOI	A draft law has been prepared and will shortly be circulated within government for comments. It will be submitted to parliament by end-2002. See item #97b.
b. By end-December 2002 submit to parliament legislation to improve governance state enterprises	BM	11 of July 2002 LOI	A draft has been completed and will shortly be circulated within government for comments.
<b>Enhancing the role of the private sector</b>			
98. The Privatization Administration (PA) to proceed with the public offerings of POA <sup>a</sup> by end-March 2002 and the public offering of TÜPRA <sup>a</sup> by end-June 2002 and launch the initial public offering for THY as soon as market conditions allow		45	The sale of the remaining public share in POA <sup>a</sup> to the strategic investor was announced on July 16 and is expected to be completed in mid-August. New privatization strategy has been announced for TÜPRA <sup>a</sup> on July 2002. The privatization of THY depends on market conditions.
99. a. CoM to adopt a privatization plan for Türk Telekom in April 2002	PA for the second review	45	<i>Not met because of change in strategy.</i> The corporatization plan approved on June 4, 2002 requires a more complex privatization strategy than originally envisaged. Deadline changed to end–November.

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
b. CoM to adopt a privatization plan for Türk Telekom by end–November 2002	BM	21 of June LOI	<i>Underway.</i> Preparations are proceeding according to the road map approved last May. The tender for an advisor on TT’s revaluation was announced on July 8, and the selection completed by August.
100. Parliamentary approval of Tobacco Law	PA for SBA	45	<i>Done.</i>
101. Prepare and adopt a privatization plan for TEKEL by end-September	PA for fourth review	45	<i>Underway.</i> A restructuring study is being undertaken to provide a basis for the privatization plan. Salomon Smith Barney was selected on July 23, 2002 to prepare the privatization plan, which will be submitted to the CoM in September.
102. Proceed with the privatization of <sup>a</sup> EKER, with the first step being the adoption of a privatization plan by May 2002		45	<i>Underway.</i> The Privatization High Council will approve shortly a road map for the privatization of <sup>a</sup> EKER.
103. a. In the electricity sector, in January 2002, subject to legal clarification, the Council of Ministers to adopt a government decree annulling with immediate effect all the projects for which transfer of operating rights (TOOR) contracts are pending		45	<i>Changed.</i> See item b.
b. Following the Constitutional Court decision regarding the pending transfer of operating rights (TOOR) contracts, determine which, if any, investors are eligible for Treasury guarantees and inform by end-June 2002 those eligible of the amendments needed to bring the contracts in compliance with the license regulations of the Energy Market Regulation Agency and the Electricity Markets Law. With the exception of these eligible projects, transfer all state-owned thermal generation and electricity distribution assets under the scope of privatization by end-July 2002. Moreover, the eligible contracts for which the financial arrangements have not been finalized by end-January 2003 will be cancelled, and the related assets transferred under the scope of privatization by end–February 2003		16 of April 2002 LOI	<i>Underway.</i> With the exception of the projects potentially eligible for Treasury guarantee, all state-owned thermal generation and electricity distribution assets are expected to be transferred under the scope of privatization by end-July. Pre-qualification tenders for these distribution assets would be launched by February 2003.
104. By March 2002, the Ministry of Energy to inform the PA which electricity assets will be privatized, and by April 2002 the prequalification tenders for the distribution companies will be launched		45	<i>Changed.</i> See item #103 above.
105. Complete the transfer of gas distribution companies to the PA by March 2002		45	<i>Underway.</i> A Privatization High Council Decision has been taken to transfer two distribution subsidiaries of BOTA <sup>a</sup> to the PA by end-August 2002, with a view to privatizing it in 2003.

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
106. The PA to go forward with the divesting of ETI Krom A <sup>a</sup> , ETI Elektrometalurji A <sup>a</sup> , ETI Gümüs A <sup>a</sup> , which are in the PA portfolio, as soon as licenses are transferred from ETI Holdings		45	A High Privatization Council decision (No: 2002/29) was issued on April 30, 2002 for the transfer of licenses of ETI Krom A <sup>a</sup> , ETI Elektrometalurji A. <sup>a</sup> , ETI Gümüs A.Đ., ETÝ Bakýr A.Đ. to these companies from ETÝ Holding.
107. By October 2002, announce a block sale of at least 51 percent of the shares in PETKIM		24 of July 2002 LOI	
108. The PA to continue its divestment of ERDEMIR, and of tourism and fertilizer assets in its portfolio. The PA also to continue divesting its portfolio of small and medium-size companies		45	<b>Underway.</b> On July 30, the public share in ERDEMIR was reduced to below 50 percent through a sale to an investment fund.
109. Build on efforts made in 2001 (including legal amendments and simplified procedures) to increase the sale of government land. Initiate a study to evaluate how the remaining obstacles to government land sales could best be removed		45	
110. The Council of Ministers to adopt in January 2002 follow-up actions to FIAS study to make Turkey more attractive for domestic and foreign investors	PA for SBA	46	<b>Done.</b>
111. Submit to the parliament by end-May 2002 a new draft Law on Foreign Direct Investment in line with the findings of the FIAS study	BM	46	<b>Done.</b> Law submitted to parliament on June 14.
112. Submit to the parliament by end-March 2002 a draft law on work permits prepared by Ministry of Labor and Social Security, and issue a communiqué by end-April 2002 on the implementation procedures for employing foreign personnel employed by foreign capital companies as soon as the new law is approved by parliament		46	A draft law on work permits has been submitted to parliament and is currently at the General Assembly.
113. Complete by end-February 2002 legislation reducing the number of documents needed to obtain investment incentives		46	<b>Done.</b>
114. Establish and implement by end-February 2002 an employee code of ethical conduct for proceedings at customs		46	<b>Being implemented.</b> A communiqué was issued on September 11, 2001.
115. Submit to the Council of Ministers by end-January 2002 legal amendments to strengthen the Turkish Patent Institute		46	Draft law has been submitted to parliament and passed the Industry Commission. Currently it is at the Budget and Planning Commission.
116. The Council of Ministers to adopt a strategy by end-January 2002 for increasing transparency and combating rent-seeking activities	BM	47	<b>Done.</b> Decree signed on February 13.
117. Define and include as program conditionality concrete follow-up actions for the remainder of the 2002–04 program period based on the plan in #116:		47 and 18 of April 2002 LOI	<b>Done.</b>

Action	Type	LOI Para <sup>1/</sup>	Status July 30, 2002
a. Establish by end-April 2002 a Steering Group for public sector reform, as well as a subcommittee to provide support to the Steering Group in implementing the plan to enhance transparency and good governance	BM		<i>Done</i>
b. Publish (i) the above-mentioned action plan to enhance transparency and good governance, and (ii) the Report on the Observance of Standards and Codes (ROSC) on the quality of economic data, carried out in consultation with the IMF			<i>Done.</i>
c. Improve the public sector personnel system, including passage of legislation to establish a code of ethical conduct for civil servants and public administrators by end-2002	BM		
d. Increase access to information, through the preparation of an Information Act, defining the rights of citizens to request information and the obligation of public organizations to provide information by end-2002			
118. Establish an Investor Relations Office by February		48	<i>Done.</i>
119. Establish an Investor Council consisting of prominent business representatives from Turkey and abroad		48	Inaugural meeting scheduled for July 18 was postponed.
120. Further strengthen the efforts of the Treasury, the CBT, and the BRSA to explain policies under the economic program in their respective areas, including through the arrangement of regular (bimonthly) press conferences by the Treasury		48	<i>Ongoing.</i>
<b>Safeguards Assessment</b>			
121. Follow-up measures in the context of Safeguards Assessment:			
a. With effect from 2001 financial statements the CBT to publish audited financial statements consistent with IAS		19 of April 2002 LOI	<i>Done.</i>
b. Starting with the 2002 financial statements, the CBT to clarify disclosures of the Fund position and the relationship with the Treasury, and limit the amount of profits available for distribution to realized profit, less unrealized losses			<i>Ongoing.</i>
c. CBT to expand the role of its existing audit committee			The Audit Committee will meet twice a year with the external audit firm and, once established, with the internal audit department. It will also review the CBT's overall risk management practices and systems of internal control.
d. Include among the duties of the external auditor to issue a report reviewing the consistency between program data reported to the IMF (specifically covering base money, net international reserves, and net domestic assets) and the audited financial statements			<i>Done.</i>

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<b>Action</b>	<b>Type</b>	<b>LOI Para<sup>1/</sup></b>	<b>Status July 30, 2002</b>
e. By May 15, 2002 the CBT to ask the existing audit firm to prepare such a report, to be issued by July 15, 2002	PC (issuance of report)		<i>Done.</i>
f. By May 15, 2002, the CBT to issue a Memorandum of Understanding to clarify the Treasury/CBT relationship with the Fund.			<i>Done.</i> Memorandum of Understanding was signed between Treasury and CBT on May 6.
g. The CBT to reorganize by end-2002 the internal audit function. To this end, it will (i) adopt a new charter, which will detail the mission, scope, accountability, independence, responsibility, and authority of the audit function in line with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, and (ii) formulate an implementation plan identifying staffing levels, reporting lines, scope of audits, risk assessment methodologies, and developing an internal audit manual and training programs	PC (measure (i) and (ii))		<i>Underway.</i>
i. Internal audit department to conduct an audit of foreign exchange management and program data as of end-2002 by May 15, 2003	BM		

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1/ Unless otherwise noted, paragraph numbers refer to January 18, 2002 Letter of Intent.