

ANNEX A. 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	
I. Performance criteria										
1. Floor on the cumulative primary balance of the consolidated government sector (in trillions of Turkish lira) 1/	2,841	3,082	4,857	5,423	9,830	9,860	15,275	13,843	16,715	9,881
	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	4,844	17,500	6,835
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	0	1,000	0
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	-5,889	-9,700	-4,614
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	10,104	10,850	10,720
II. Indicative targets										
	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)		11,586	11,240	12,580	11,410	...	
2. Floor on the cumulative overall balance of the consolidated government sector (in trillions of Turkish lira)	-17,486	-16,367	-28,250	-22,411		-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	28,551	33,139	28,603
5. Privatization proceeds (in millions of US\$)		220	298	700	540

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.

Turkey: Quantitative Performance Criteria and Indicative Targets for 2003

	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome
	April 30, 2003		June 30, 2003		September 30, 2003		December 31, 2003	
I. Performance criteria 1/								
1. Floor on the cumulative primary balance of the consolidated government sector since January 1, 2003 (in trillions of Turkish lira)	6,600		11,000		20,080		22,600	
2. Ceiling on contracting or guaranteeing of new external public debt with original maturities of more than one year (in millions of US\$) 2/	6,200		8,500		12,000		15,000	
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		1,000		1,000		1,000	
4. Floor on level of net international reserves of CBT and Treasury combined (in millions of US\$)	-6,500		-7,000		-6,000		-6,000	
5. Ceiling on base money (in trillions of Turkish lira)	12,800		13,200		14,100		14,300	
II. Indicative targets								
	May 31, 2003		August 31, 2003		November 30, 2003			
1. Floor on the cumulative primary balance of the consolidated government sector since January 1, 2003 (in trillions of Turkish lira)	9,500		17,630		23,840			
	April 30, 2003		June 30, 2003		September 30, 2003		December 31, 2003	
2. Floor on the cumulative overall balance of the consolidated government sector since January 1, 2003 (in trillions of Turkish lira)	-13,840		-22,300		-25,280		-36,270	
3. Ceiling on the stock of net domestic assets of the CBT and Treasury combined (in trillions of Turkish lira)	32,800		34,100		33,800		34,200	
	March 31, 2003		June 30, 2003		September 30, 2003		December 31, 2003	
4. Privatization proceeds cumulative from January 1, 2003(in millions of US\$)	30		90		790		2,100	

1/ The figures through June 30, 2003 are performance criteria. The remaining figures are indicative targets.

2/ Applies to nonconcessional external debt with an original maturity of more than one year from end-December 2002. 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 or secondary markets.

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 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.

STRUCTURAL POLICIES, 2002–04

Action	Type 1/ LOI Para 2/	Status April 5, 2003
Fiscal policy		
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, but partially reversed.</i> At end-2002, cash constraints led to partial payment of 2002 DIS entitlements. The unpaid DIS payments in 2002 will be completed in 2003.
2. Increase the PCT (on items excluding natural gas) by 1 percent in real terms in early February		14
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) <i>Not fully achieved.</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 and closures are not proceeding on schedule.
		(ii) <i>Done</i>
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 did not fall, since several of its projects fell outside of the annual investment program and were not subject to the limits therein. The generic drug purchase programs are now expected to be implemented by mid-2003. 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 deferments were introduced in March 2002 as part of an effort to stimulate employment.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
6. Refrain from introducing any new discounts or exemptions for SEEs, except those pursued for commercial reasons by enterprises' managements		14	Done, but partially reversed. 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.
7. Passage by Parliament of a budget consistent with the primary surplus target.	PA for the fourth review	16 of April 2003 LOI	Done. March 29, 2003.
(i) Abolishes the authority of line agencies to spend above budgeted appropriations for some items.		19 of April 2003 LOI	Done
(ii) Eliminate all special appropriations in the context of passage of the Public Financial Management and Financial Control Law and also prepare and pass a legislation by end-June to eliminate the accounts and give authority to the Ministry of Finance to collect the revenues.		19 of April 2003 LOI	Underway
(iii) The new Public Finance and Debt Management Law will strictly control revisions to foreign-financed investments, including by incorporating for the first time foreign project credits disbursed in-kind into initial investment appropriations.		19 of April 2003 LOI	Done
(iv) The use of general contingent appropriations will be limited to exceptional circumstances, and transfers from investment acceleration appropriations will be restricted. Shifting appropriations within institutional budget items or investment projects will also be restricted.		19 of April 2003 LOI	Done
(v) By end-2003, adapt accounting system to record expenditure commitments, so that a more systematic approach to monitoring can be taken in 2004.		19 of April 2003 LOI	Underway
(vi) Improve collection enforcement of public receivables, and provide collection administrations with the necessary tools to deal with arrears on their own initiative. To support these efforts, the Prime Minister has announced that there will be no future amnesty for or generalized rescheduling of tax arrears or any other public receivables.		19 of April 2003 LOI	Underway. The Committee of Compromise was set up in accordance with the Public Finance and Debt Management Law. The Committee negotiated with borrowers to collect unpaid Treasury receivables under the Public Finance and Debt Management Law Provisional Article 3. The stock of unpaid receivables has been reduced.

Action	Type 1/	LOI Para 2/	Status April 5, 2003
Public debt management			
8. 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>
9. 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>
10. Reintroduce a primary dealer program by end-September 2002	BM	19	<i>Done</i>
11. 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.
12. 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>
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 was issued on September 1, 2002. Middle office is expected to become fully operational by end-2003
16. Submit quarterly Debt Management Reports to Parliament to increase the transparency of debt management operations and public awareness on the management of public liability portfolio, starting from April 2003.		23 of April 2003 LOI	

Action	Type 1/	LOI Para 2/	Status April 5, 2003
Monetary and incomes policy			
17. Ensure that any new laws or regulations do not undermine the independence enshrined in the CBT law		21	Done. All new laws and regulations are consistent with CBT independence.
18. CBT to continue its technical preparations for the introduction of inflation targeting, including improved modeling and forecasting of inflation		22	CBT has completed its technical preparations for inflation targeting. These preparations have included: (i) strengthening economic databases and reporting packages; (ii) development of inflation forecasting systems; and (iii) preparation of a core quarterly macroeconomic model.
19. Move to inflation targeting		22	The timing will be determined taking into account internal and external prospects.
20. 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	Civil servant salaries and public worker wages will not be subject to backward-looking indexation. The Economic and Social Council will meet in April 2003 and convey the government's commitment to breaking the cycle of backward-looking indexation to all parties involved in wage setting in the economy.
21. (a). Consider the possibility of reducing backward indexation of administered prices without compromising SEEs' financial conditions		23	SEE price increases will be set in line with the inflation target taking into account average WPI, TL/USD exchange rate, oil prices and general economic developments and will be monitored.
(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	See #20.
22. 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. Banks Association of Turkey has launched Turkish Lira Interbank Offer Rate (TRLIBOR) by August 1, 2002.
23. The CBT to gradually end its practice of acting as a blind broker during 2002		25	The phasing out by end-2002 has been completed.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
24. 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 meetings
25. 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 (TÜPRAŞ and BOTAS) to work with state banks to improve their foreign exchange practices, to minimize lumpy transactions in the foreign exchange market		25	Done
26. 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	Done
27. Require as of end-May withholding of interest earned through transactions intermediated through Takasbank		9 of April 2002 LOI	Done
28. 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	Done
29. 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.
30. Issue the decree to remove tax on foreign exchange transactions	PA	15 of July 2002 LOI	Done. Decree was issued on July 30, 2002.
31. To increase efficiency of the money and foreign exchange markets: (i) eliminate the BITT on interbank deposits and repo transactions once fiscal conditions permit; and (ii) subject CBT bills to the same tax regulations as government securities.		38 of April 2003 LOI	Underway. Draft legislation regarding CBT bills has been prepared and expected to be approved by the Budget Commission shortly.
Banking reform			
32. Pass necessary legal amendments, and issue a Council of Ministers Decree for staff reductions in state banks	PA for SBA	28	Done
		28	

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
33. By end-June 2002, reduce the number of state bank branches by 800. In this context also reduce staffing correspondingly	PC		<i>Missed by a small margin.</i> 788 branches had been closed by end-June 2002. However, the process has continued with further closure of 15 additional branches between July and December 2002.
34. The Government will continue to refrain from interfering in the commercial decisions of state-owned banks, and continue to adhere to the implementation of prudential and commercial banking principles as stipulated in Law No. 4603. Any new lending by the two state owned banks will continue to be provided based on commercial criteria of creditworthiness and applicable interest rates. The Sworn Bank Auditors of the BRSA will certify at the end of every quarter that (i) Ziraat's and Halk's financial statement reflect a true and fair picture; (ii) all lending by Ziraat and Halk is being done according to commercial creditworthiness; and (iii) there is no subsidized lending unless covered by the government through the budget.		31 of April 2003 LOI	<i>Ongoing</i>
(i) An appropriate corporate structure of Ziraat Bank in advance of its privatization, which will take into account the sui generis role of the bank in providing public services and finance to the agricultural sector, is being defined. Both activities shall continue to be carried out in line with standard commercial banking principles.		31 of April 2003 LOI	<i>Ongoing</i>
(ii) Ziraat Bank is in the process of solving the existing agricultural credit stock problems accumulated in previous years. Loans which were extended and fully utilized before January 31, 2002, and are classified as non-performing and which are fully provisioned, will be restructured on terms and conditions determined by the bank.		31 of April 2003 LOI	<i>Ongoing</i>
(iii) For the privatization of Halk Bank, a strategic study will be carried out by independent outside consultants. This study will be commissioned by end-April 2003 and completed by end-September 2003.		31 of April 2003 LOI	<i>Ongoing.</i> The studies are ongoing for the privatization of Halk Bank and Ziraat Bank.
(iv) Privatization of Halk will take place in 2004, with Ziraat following soon afterward		31 of April 2003 LOI	
35. For Vakif Bank privatization, bids to be invited from potential investors in May		28	No bids were received by the end-June deadline.
(i) On Vakif, after the first unsuccessful sale process, the bank has undertaken both operational and staff restructuring and has divested some of its nonfinancial assets. A strategy for the sale is being developed by the bank in consultation with the World Bank, with the aim of completing the sale by end October 2003.		31 of April 2003 LOI	

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
36. 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>
37. 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>
38. 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>
39. (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	<i>Done</i>
(b). Evaluation results to be fully incorporated into banks' end-June 2002 financial statements			<i>Done</i>
(c). Banks to apply for participation in the scheme before end-May 2002			<i>Done</i>
(d). Recapitalization scheme to be completed before end-June 2002			<i>Done.</i> Completed in 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	<i>Done.</i> However, no bank has applied for Tier 1 capital support.
40. 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>
41. The BRSA to undertake legal consultations, as necessary, to ensure implementation of the public capital support scheme as planned		32	<i>Done</i>
42. 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>
43. (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, but the offer was then subsequently withdrawn.
(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	<i>Done.</i> License was revoked as of September 30, 2002.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
44. 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	Done
45. 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	Done
46. 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	Done
47. Start trial implementation of new accounting system (for banks) in line with IAS in January 2002	PA for SBA	35	Done
48. 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 2002	35	Done
49. 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	Ongoing. Reporting requirements were revised through development of a BRSA data set. The quality and timeliness of the reporting have been improving due to strict controls by the Monitoring Department and issuance of relevant regulation on risk management and internal control systems.
50. (a). Off-balance sheet repos to be included on balance sheet as of February 1, 2002		35	Done
(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			Done
(c). Regulation on monitoring of internal control and risk management systems to become effective January 1, 2002			Done
51. 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	Missed. Imperfect resolution agreed in January 2003. Safeguards have been introduced to protect Yapi Kredi.
(i) The continuity of Yapi Kredi will be safeguarded, and the SDIF will exercise ownership rights. Bank management will be appointed by an advisory firm of international repute, conditional on the final approval of the SDIF.		28 of April 2003 LOI	

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
(ii) If the majority shareholder is unable to sell its shares in Yapi Kredi within two years, the shares will be sold by an investment bank of international repute in the third year. The bank will be required to maintain its capital adequacy ratio above 10 percent.		28 of April 2003 LOI	
(iii) Special committee to be established to monitor the process.		29 of April 2003 LOI	A Committee has been established to monitor compliance.
(iv) External auditors will be required to monitor the compliance of all parties to the agreement.		29 of April 2003 LOI	Ongoing
(v) If there is a shortfall of capital, SDIF will provide the capital needed.		29 of April 2003 LOI	No bids were received. The BRSA will again put the bank up for sale, with bids to be submitted by June 13, 2003
(vi) Pamuk has been put up for sale and bids are expected by March 28, 2003.		28 of April 2003 LOI	
52. Government will make every effort to preserve the BRSA's independence		33 of April 2003 LOI	Ongoing
53. (i) Prepare legislation that will strengthen the effectiveness of the BRSA, including amendments to the Banking Act and related laws by end-June 2003	BM	33 of April 2003 LOI	
(ii) The Government is ready to pass these into law by end-October 2003	PC	33 of April 2003 LOI	
54. Improve the BRSA's accountability and transparency further, in the context of the new Public Financial Management and Financial Control Law.		34 of April 2003 LOI	
55. Withdraw Tarihbank's license, if by end-Aug. 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	Done. Acquired by and merged with Denizbank on October 25.
56. 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	Done
57 (a) By end-October the SDIF to announce the sale of a loan portfolio with a total face value of at least US\$250 million. Changed. See item b.	BM	18 of July 2002 LOI	Not met. The BRSA is reluctant to put the portfolios up for sale until the new bankruptcy law is passed.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
(b) The SDIF to complete all technical preparations (including selection of the loan portfolio, and ensuring that all data and documentation issues are resolved) and announce the sale by end-June 2003.	BM	30 of April 2003 LOI	Ongoing
58. (i) To sustain the profitability and the capital adequacy levels of the banks, an inter-agency working committee will be established.		26 of April 2003 LOI	Ongoing. The preparatory work for the establishment of the Committee has started.
(ii) By end-May 2003, the Committee will develop an action plan to reduce the intermediation costs of the banking sector. This action plan will be implemented as monetary and fiscal conditions permit.	BM	26 of April 2003 LOI	
59. The BRSA to complete a reorganization study to enhance its supervisory capacity by end-December 2002	BM	23 of July 2002 LOI	Done with delay. See #60 (c)
60. (a) 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	Ongoing. Changed, see (b).
(b) Transfer the regulation and supervision of nonbank financial institutions from the Treasury to the BRSA effective September 1, 2003 following passage of the relevant legislation.		32 of April 2003 LOI	
(c) In preparation for the transfer the regulation and supervision of non-bank financial institutions from the Treasury to the BRSA, complete the study by end-March 2003.		32 of April 2003 LOI	Done
61. (a) 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	Changed. See item (b)
(b) The Treasury will send to the Council of Ministers a new draft law to strengthen the regulation and supervision of insurance companies in line with applicable EU Insurance Directives by end-April 2003. This legislation will move the regulatory framework closer to IAIS core principles.		32 of April 2003 LOI	Underway
Corporate debt restructuring			
62. 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	Done

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
63. 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	Not done. Work to be carried out by the Production and Finance Committee chaired by the Treasury.
64. Establish secretariat to the Production and Finance Committee in April		13 of April 2002 LOI	The BRSA and Turkish Industrial Development Bank are coordinating the process.
65. 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	The Committee has measures under consideration; no concrete proposals yet.
66. 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	Not done. 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.
67. (i) 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	Not likely to take place due to lack of private sector interest. The authorities have been using technical assistance to rethink strategy towards asset sales.
(ii) To facilitate resolution of banks' bad assets, an exemption from value-added tax for second-hand loan and collateral sales by banks, non-bank financial institutions and asset management companies will be introduced by end-June 2003		26 of April 2003 LOI	Underway A study on the exemption from VAT has started.
68. (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	Done
(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	Done. A draft legislation to amend Execution and Bankruptcy Act was submitted to CoM on March 7, 2003.
(c). Enactment of the reforms of the Execution and Bankruptcy Act by end-January 2003.	BM	16 of June LOI	Ongoing. Reforms were submitted to Parliament on March 25, 2003. Passage expected by end-May 2003.

Action	Type 1/	LOI Para 2/	Status April 5, 2003
69. Support the upgrading of administrative procedures in the judiciary to improve the capacity of the courts		37	Underway. A draft legislation has been submitted to the Parliament for creation of intermediate courts of appeals in bankruptcy cases and for accelerated creditor enforcement procedures. On January 29, 2003. "The Draft Law on the Establishment, Duty and Competence of the First Instance Judicial Courts and the District Judicial Courts" is still on the agenda of the relevant Commission.
70. The CMB to introduce international accounting standards, including inflation accounting provisions, by January 1, 2003.		38	Underway. The communiqué about inflation accounting was issued in November 2001 and it is effective for financial years ending on or after January 1, 2003. The CMB has been working on revising the accounting standards to make them compatible with the International Accounting Standards. The regulatory draft has currently been completed and therefore 30 standards of the International Accounting Standards is expected to be effective by the beginning of 2004.
71. 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	Done. The communiqué about consolidated financial statements was issued in November 2001 and it is effective for financial years ending on or after January 1, 2003. Financial statements, financial reports and other information of issuers that are subject to provisions of Capital Market Law are monitored by the relevant department of CMB.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
72. 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	Done. The communiqué about consolidated financial statements was issued in November 2001 and it is effective for financial years ending on or after January 1, 2003. Financial statements of the consolidated groups will be prepared according to the regulations of this communiqué. These financial statements will be published in the bulletin of ISE. Therefore, BRSA will be informed together with the all relevant parties.
Public sector reform			
73. Parliament to approve Public Procurement Law in line with UN (UNCITRAL) standards in January 2002	PA for SBA	40	Done
74. Establish an independent procurement agency by end-March 2002	BM	40	Done
75. Change laws and regulations to make them consistent with the new public procurement framework		40	Done. Secondary legislation was prepared and issued by the procurement agency by end-2002.
76. 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	Done. Parliament passed the required amendments on June 12.
77. Steadfastly implement the new Public Procurement Law, which became effective on January 1, 2003		22 of April 2003 LOI	Ongoing
78. (a). Compile a comprehensive list of public investment projects to be phased out in time to make decisions for the 2003 budget.		40	Done. 600 projects totaling to 4.9 quadrillion TL—in 2002 program prices—were cancelled in the Investment Program for 2003. It is agreed that Action Plan of Rationalization of Public Investment Program prepared by SPO for the period 2003-2004 will be updated after being reviewed and the Plan will be implemented according to a set timetable.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
(b). 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	
79. Approval by Council of Ministers in January 2002 of plan to reform the tax system	PA for SBA	40	Done
80. (a). Enact the first phase of the tax reform plan by end-April 2002	BM	40; 15 of April 2002 LOI	Done. 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	Done. The decree was published in Official Gazette on January 11, 2003.
81. Submit to parliament legislation for the second phase of the tax reform plan by end-October 2002	BM	40	Underway. A package has been drafted and is being discussed.
(a) Direct tax reform legislation to be approved by the Parliament's Budget and Planning Commission shortly. This legislation should: (i) harmonize taxes on financial investment income at the declaration stage; (ii) reduce investment allowances and eliminate the withholding tax applied on them; (iii) eliminate the current double taxation of corporate earnings and dividends; and (iv) reform the system of credits against income tax.	PA for the fourth review	22 of April 2003 LOI	Done on April 2, 2003.
(b) Legislation to be passed by the Parliament by end-April 2003	PC	22 of April 2003 LOI	
82. (a). Beginning with the 2004 budget, details (including estimated costs) of remaining tax exemptions and incentives will be published.		22 of April 2003 LOI	Underway. A study is being conducted on the issue.
(b). By end-June 2003, through government decree, proposals will be developed and implemented to harmonize taxation of financial income at the withholding stage.		22 of April 2003 LOI	Underway. A study is being conducted on the issue.
83. (i) Further rationalize direct taxation by submitting to Parliament by end-May legislation to minimize geographical, sectoral, and other investment incentives (including benefits in Free Trade Zones).		22 of April 2003 LOI	Underway. A study is being conducted on the issue.
(ii) This legislation should be approved by Parliament by end-June 2003.	BM	22 of April 2003 LOI	

Action	Type 1/	LOI Para 2/	Status April 5, 2003
84. Tax administration to be fundamentally reformed to avoid tax amnesties or restructuring in the future.		22 of April 2003 LOI	
85. Reorganize tax administration in line with the study carried out with the World Bank:		40 and 15 of April 2002 LOI	Underway. The authorities are considering the several options discussed in the report.
(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)		Delayed. The Ministry of Finance put in place an audit coordination unit in mid-May 2002. An audit plan has been prepared, but has not yet been reviewed by Fund staff.
(b). By September 15, the Minister of Finance to adopt a strategy to strengthen the collection of outstanding public sector tax arrears	BM		Underway. A comprehensive plan to address tax arrears is being prepared.
(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		Underway. Some 250 tax auditors have been hired to-date.
(d). To help overhaul the revenue administration in the medium term, implement a functional reorganization, beginning at end-June.			Changed see item e. The GDR has designed a new functional structure that includes the standard units. However, implementation has been significantly delayed.
(e). Complete the functional reorganization of the GDR by end-June 2003 and begin to extend this structure to the local level		22 of April 2003 LOI	Underway. A study is being prepared.
(f). To maintain the accountability of the General Directorate of Revenues (GDR) to the Minister of Finance, its operational efficiency will be upgraded by end-year		22 of April 2003 LOI	Underway. The study for reorganization of the GDR addresses this issue.
86. Council of Ministers to adopt a civil service reform strategy by end-2002		40	Delayed. State Personnel Department is in charge of the issue. A symposium on "Restructuring of Public Personnel Regime in Turkey" was held on February 22-23, 2003.
87. As part of the preparatory work for #86, 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	Partially done. CoM decision dated February 4, 2002 has been issued. However, the functional review is significantly delayed.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
(a) Complete a functional review of government by July 2003		20 of April 2003 LOI	The State Planning Organization has been working on the functional review of the government. The report of the review is expected to be completed by July 2003.
(b) To follow up on this, by end-2003, the Council of Ministers to adopt a civil service reform strategy This strategy will include: establishment of norms for personnel positions; introduction of objective recruitment and promotion criteria; streamlining of the job ladder; and simplification of the compensation system.		20 of April 2003 LOI	
88. (a) By end-September, have in place an integrated system to monitor total general government and SEE employment levels on a quarterly basis	BM	40	Partially done (i.e., for SEEs). A circular (dated December 14, 2001, No. 94997) has been sent to SEEs; monitoring of SEE employment levels has started on a quarterly basis in March.
(b) A quarterly monitoring system for general government employment will be fully implemented by mid-May 2003.	BM	22 of April 2003 LOI	Underway
89. 15,000 individuals (public sector workers) to be retired or notified of their retirement by mid-January 2002	PA for SBA	41	Done
90. By end-January 2002,	PAs for first review (i) and (iii)		
(i) identify all redundant workers and positions in SEEs		41	(i-ii) Done . 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	Done
91. 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	Done
92. (i) 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	Not done . Between end-January and end-October, net 18,968 redundant positions were eliminated (through voluntary retirement and lay offs), about 40% of the total. Voluntary retirements, in small numbers, have continued since October.

Action	Type 1/	LOI Para 2/	Status April 5, 2003
(ii) Eliminate cumulatively (a) 9,900 redundant positions by end-June 2003, (b) 19,400 redundant positions by end-September 2003, and (c) 25,074 redundant positions by end-December 2003.	PC all actions	22 of April 2003 LOI	Underway. As of end-January 2003, the government was some 10,000 short of the end-October 2002 target of 30,600. A strengthened plan was developed to catch up with this interim target and then to reach the revised goal.
(iii) Adopt a government regulation lifting existing restrictions on retirement of public sector workers.	PA for fourth review	22 of April 2003 LOI	Done on March 26, 2003.
(iv) Announce the regulatory change and the intention to complete the elimination of redundant positions by end-2003.	PA for fourth review	22 of April 2003 LOI	Expected shortly.
(v) Open redundant positions will be permanently eliminated		22 of April 2003 LOI	Underway. Most of the SEES eliminated open redundant positions.
93. By end-June 2003, phase out the remaining redundancies		41	
94. 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	Underway. The modalities of extending the staff reduction program to the civil service are under consideration.
95. Audit SEE compliance with this program on a quarterly basis		41	Underway. Treasury Controllers audited all SEEs quarterly in 2002 (except Türk Telekom) and will continue to audit in 2003.
96. 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	Done
97. (a). Submit to parliament by end-June 2002 a Law on Financial Management and Control consistent with best international practices	BM	42	Not met. See below.
(b). Submit to parliament a Law on Financial Management and Control	PA for third review	10 of July 2002 LOI	Done
(c). Parliament to pass Law on Financial Management and Internal Control by end-March 2003.	BM	10 of July 2002 LOI	Changed. See item d.
d. To allow the law to become effective in time for the 2004 budget cycle, pass Law on Financial Management and Financial Control by end-June 2003	BM	22 of April 2003 LOI	Underway. The preparations continue in order to finalize the Law on Financial Management and Control.
98. Close, by end-March 2002, 548 additional revolving funds	BM	42	Done

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
99. (i) Incorporate in the draft budget for 2003 the revenue and expenditures under Law 3418	BM for Oct 17, 2002	42	Done
(ii) Eliminate the earmarking under Law 3418 and Law 4306	BMs for Oct 17, 2002	42	Done
(iii) In the draft 2003 budget 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		42	Partially done. An appropriation for the risk account has been included in the budget, but the roll out of accounting and coding reforms has been delayed by one year.
100. 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	Underway. A provision in the draft Law on Financial Management and Internal Control addresses this.
101. 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	
102. Complete, by end-March 2002, a survey of end-2001 commitments in excess of appropriations	BM	42	Done
103. 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	Done for June. Underway for end-December.
104. Address the impact of public sector retrenchment through the labor redeployment and reinsertion program and through unemployment insurance		42	Done. 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.
105. (i) 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	Changed. See item ii. The legislation is in the General Assembly, and expected to be discussed in 2003. The solvency study is underway.
(ii) To improve their administrative capacity, and provide firm legal grounds to implement our 2003 social security measures, by end-April 2003, legislation for SSK, İş-Kur, and Bağ-Kur will be enacted .	BM	20 of April 2003 LOI	Underway These measures are evaluated within the framework of the Urgent Action Plan of the Government and the related studies are currently underway.

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
(iii) By end-2003, new framework legislation will be enacted with the aim to include all three pension institutions under one organization (the legislation would also enact any necessary parametric reforms to ensure the medium-term solvency of each individual fund). Health insurance and non-pension transfers (for example, for social services) would each be transferred to separate institutions.		20 of April 2003 LOI	<i>Underway</i> The studies on the framework legislation are being carried out. With the objective of ensuring the medium-term solvency of SSK and Bağ-Kur and in order to establish a balance between benefit/burden, the work on changing the formula for the contribution base and benefit still continues.
106. (i) By end-April 2003, a detailed estimate of contingent liabilities arising from BOT (build, operate, and transfer), BO (build and operate), and TOOR (transfer of operating rights) contracts and the contracts for the mobile plants.		21 of April 2003 LOI	<i>Underway</i>
(ii) Based on the findings of this report, the electricity BO, BOT, and TOOR contracts and natural gas take or pay contracts will be reviewed with the relevant parties to reduce the medium- and long-term financial impact of these contingent liabilities.		21 of April 2003 LOI	
107. (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	<i>Not done</i>
(b).By end-December 2002 submit to parliament legislation to improve governance state enterprises. Changed. See item c.	BM	11 of July 2002 LOI	<i>Not done.</i> A draft law is being prepared at present.
(c). Parliament to pass the above legislation (b) by June 2003	BM	22 of April 2003 LOI	<i>Underway.</i> A draft law is being prepared.
Enhancing the role of the private sector			
108. (a) The Privatization Administration (PA) to proceed with the public offerings of POAŞ by end-March 2002 and the public offering of TUPRAŞ 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 POAŞ to the strategic investor was completed in mid-August. For TUPRAS, the PA is working with the advisor to help with the strategic sale and expects the offer to be made before end-2002. The privatization of THY depends on market conditions.
(b) PA to proceed with the preparation of TUPRAS through a block sale to a strategic investor in the second quarter of 2003		41 of April 2003 LOI	<i>Underway.</i> PA is working with the advisor to help with the strategic sale and expects a tender in the second quarter of 2003.

Action	Type 1/	LOI Para 2/	Status April 5, 2003
109. (a). CoM to adopt a privatization plan for Türk Telekom in April 2002	PA for the second review	45	Not met because of change in strategy. The corporatization plan approved on June 4, 2002 requires a more complex privatization strategy than originally envisaged. Deadline changed to end-November.
(b). CoM to adopt a privatization plan for Türk Telekom by end-November 2002	BM	21 of June LOI	Not met as the necessary legal amendments could not be passed by the Parliament due to early elections. The CoM is expected to adopt the privatization plan by end-April 2003.
110. Parliamentary approval of Tobacco Law	PA for SBA	45	Done
111. (a) Prepare and adopt a privatization plan for TEKEL by end-September	PA for the fourth review	45	Done. The Privatization High Council adopted the plan on March 31, 2003.
112. (a) Proceed with the privatization of ŞEKER, with the first step being the adoption of a privatization plan by May 2002		45	Delayed. The Privatization High Council is expected to adopt the privatization plan by end-June 2003.
113. (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	Changed. 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	Limited progress. The Ministry of Energy has submitted to the PA a list of 19 distribution units and 22 generation units that in their assessment do not have any legal entanglements. The actual transfer to the PA of the unproblematic companies (due by end-July) has not yet been made. The distribution and power generation will be reorganized and licensed by the Energy Market Regulatory Authority (EMRA) by end-April 2003. These entities will then be transferred under the scope of privatization by mid-May 2003. Then, the distribution and generation entities will be transferred to the PA by end-September 2003. The tenders for the distribution entities will start in

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
			December 2003, followed by the generation entities. To complement this process, the government will determine the best way to resolve the outstanding transfer of operating rights (TOOR) contracts expeditiously, based on a review and estimate of the contingent liabilities attached to such contracts to be completed by end-April 2003
(c). 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	Changed. See item b.
114. Complete the transfer of gas distribution companies to the PA by March 2002		45	Done
115. (a). The PA to go forward with the divesting of ETI Krom AŞ, ETI Elektrometalurji AŞ, ETI Gümüş AŞ, which are in the PA portfolio, as soon as licenses are transferred from ETI Holdings		45	Underway. Licenses were transferred and block sale tenders were already announced in February 2003. Bids to be collected by April 30, 2003.
116. By October 2002, announce a block sale of at least 51 percent of the shares in PETKİM		24 of July 2002 LOI	Underway. Block sale for at least 51 percent of PETKİM shares have been announced on January 20, 2003. Bids are due on April 2, 2003.
117. The PA to continue its divestment of ERDEMİR, and of tourism and fertilizer assets in its portfolio. The PA also to continue divesting its portfolio of small and medium-size companies		45	Underway. On July 30, 2002 the public share in ERDEMİR was reduced to below 50 percent through a sale to an investment fund. Additionally, tender schedules regarding the sale of fertilizer and tourism assets have been announced for the second and third quarter of 2003, respectively.
118. 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	The Law 4706 related to the sale of government lands, was passed by the Parliament and submitted to the President for approval. However, a provision that enables the change of the boundaries of forest lands was objected by the President and the law was subsequently brought to the Constitutional Court. In this regard, an amendment to the Constitution failed to obtain the

Action	Type 1/	LOI Para 2/	Status April 5, 2003
			necessary majority. A referendum or a second vote to enact new regulations is required.
119. 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	Done
120. a. 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	Done. Law submitted to parliament on June 14. The new government has resubmitted the law to parliament broadly unchanged.
b. Enact the new Law on Foreign Direct Investment by end-April 2003	BM	45 of April 2003 LOI	
121. 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	The Foreigners' Work Permits Act No. 4817 was adopted on February 27, 2003 and published in the Official Gazette No. 25040, dated March 6, 2003. The Act will be put into effect six months after its publication. The Implementation Regulation of the Act shall be issued within six months as from the date of publication of the Act.
122. Complete by end-February 2002 legislation reducing the number of documents needed to obtain investment incentives		46	Done
123. Establish and implement by end-February 2002 an employee code of ethical conduct for proceedings at customs		46	Underway. A communiqué was issued on September 11, 2001. Training programs to officials have been carried out.
124. Submit to the Council of Ministers by end-January 2002 legal amendments to strengthen the Turkish Patent Institute		46	Done. A draft law has been re-submitted to parliament by new government.
125. The Council of Ministers to adopt a strategy by end-January 2002 for increasing transparency and combating rent-seeking activities	BM	47	Done. Decree signed on February 13.
126. Define and include as program conditionality concrete follow-up actions for the remainder of the 2002–04 program period based on the plan in #125:		47 and 18 of April 2002 LOI	Done

Action	Type 1/	LOI Para' 2/	Status April 5, 2003
(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		<i>Delayed.</i> A code of ethical conduct for civil servants and public administrators to be passed by end-July 2003
(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.			<i>Delayed.</i> The Ministry of Justice has finalized the draft Law "Freedom of Information for Citizens". The law is expected to be enacted by end-September 2003.
127. Establish an Investor Relations Office by February		48	<i>Done</i>
128. (a). Establish an Investor Council consisting of prominent business representatives from Turkey and abroad		48	Inaugural meeting scheduled for July 18, 2002 was postponed.
129. Prepare (i) a new draft law on Prohibition and Prosecution of Smugglers, (ii) legislative amendments to simplify and streamline the company registration process, and (iii) new legislation establishing an Investment Promotion Agency.		44 of April 2003 LOI	<i>Underway.</i> The three draft are expected to be submitted to parliament in April 2003.
130. 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>
Safeguards Assessment			
131. 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>

Action	Type 1/ LOI Para 2/	Status April 5, 2003
(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		Done
(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)	Done
(f). By May 15, 2002, the CBT to issue a Memorandum of Understanding to clarify the Treasury/CBT relationship with the Fund.		Done. 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))	Done
(h). Internal audit department to conduct an audit of foreign exchange management and program data as of end-2002 by May 15, 2003	BM	Ongoing

1/ PA indicates a prior action, PC a performance criterion, and BM a structural benchmark.

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

FISCAL MEASURES

To help achieve our public sector primary surplus target of 6.5 percent of GNP in 2003, we will take TL 17.3 quadrillion (4.9 percent of GNP) in measures. The impact of the measures on the central government budget amounts to TL 15.6 quadrillion (about 4.4 percent of GNP) of the total; the remaining measures affect state economic enterprises (SEEs). For other parts of the public sector, we have specified our targets without recourse to new measures.

We aim to raise net tax and non-tax **revenue** collections by TL 6.0 quadrillion (1.7 percent of GNP):

- Tax revenues will rise by TL 3.0 quadrillion (0.9 percent of GNP). We have already raised alcohol and tobacco excises by 34 percent and will raise motor vehicle taxes in order to double expected revenue from this source. In addition, we will aim to double the amount of revenue arising from the collection of property and other municipal taxes—this extra revenue will accrue to the treasury through a concomitant reduction (explicitly stated in the budget law) in the revenue sharing coefficient of the local governments in central government taxes. We will also, in the context of the direct tax reform package, eliminate lags in the collection of corporate income tax (by setting the advance tax equal to the final tax, and requiring final settlement upon end-year declaration); and reduce investment allowances.
- Non-tax revenues will rise on account of (i) increases in the fees for motorways and bridges; (ii) an increase in the clawback on revolving fund revenues (matched by hard caps on revolving fund personnel expenditures); and (iii) a new program for the disposition of surplus real estate (in support of this, we intend to amend the constitution, by end-April, to allow the sale of currently restricted types of government land). There will also be a large benefit from the termination of earmarking of special revenues.
- Finally, we have put in place new controls on the issuance of tax rebates, including intensified scrutiny of claims, and putting in place mechanisms to allow these to be offset against other unpaid public receivables (which the claimant may have).

We will limit the growth of consolidated budget **expenditures**:

- We have significantly rationalized the investment program. By deleting low priority projects and delaying others (where contractually feasible), we expect to limit outlays to TL 7.6 quadrillion (2.1 percent of GNP) in 2003.
- We will hold current spending (including special appropriations, all of which we have eliminated in 2003) to 10.9 percent of GNP; and other transfer spending to 9.3 percent of GNP.

- Prior to passage of the budget, we will identify and incorporate into the budget any further expenditure cuts needed to meet our World Bank supported targets for Direct Income Support and social aid transfers. Other agricultural subsidies will be limited to 0.7 percent of GNP.

We will contain the growth of the **personnel expenses** throughout the public sector, limiting both wage growth and hiring. We expect these measures to yield us TL 573 trillion (0.2 percent of GNP) in cost savings.

- In terms of wages, in addition to the incomes policy explained in the text of the LOI, we will delay one bonus payment for public workers to 2004. We will aim to reflect worker productivity in wage agreements at specific public enterprises, but subject to a strict limit on the overall growth of the wage bill for workers to about 15 percent.
- Hiring will be limited to 35,000 for the consolidated budget, zero for budget- and privatization authority-funded state enterprises, and 10 percent of natural attrition for other state enterprises (with the exception of eliminated redundant positions, for which no replacement hiring will be allowed).

It is a high priority for us to limit the real growth in public sector **health expenditures**, which has averaged above 15 percent in recent years, with little improvement in the quality of care. We expect the measures below to yield savings of TL 1.1 quadrillion (0.3 percent of GNP):

- To impose better discipline on the demand side of the health care market, we will (i) deduct a 1 percent health premium directly from the pensions of retired civil servants, (ii) cancel and reissue green cards by April (to better target this program to the most needy), (iii) deduct drug copayments directly from civil service paychecks and Bag-Kur pension payments (thereby stopping side-deals between pharmacists and customers, which ultimately reduce the price paid), (iv) between March-June, require retired civil servants to pay the additional amount if the drug they purchase exceeds the average price of drugs in the same class, and (v) starting in July, require civil servants (both active and retired) to pay the additional amount if the drug they purchase exceeds the lowest price for bio-equivalent drugs;
- To correct problems with the supply of medical services, we will (i) adopt new procedures for prescribing antibiotics (the most recent and expensive ones are prescribed much more frequently in Turkey than in other countries), (ii) eliminate payment coverage for some non-essential vitamins and drugs, (iii) establish a prescription control unit (to audit pharmacists), (iv) directly procure and distribute drugs to retired civil servants needing long-term care (demand for which we can predict with great accuracy), and (v) reduce procurement costs by standardize specifications for medical equipment and packages of medical services.

We also attach a high priority to improving revenue collections in **social security institutions**, where payment compliance has been poor and where a large stock of arrears has accumulated. To this end, we expect the measures outlined below to generate TL 682 trillion (0.2 percent of GNP) in additional revenues (which would lower required budgetary transfers):

- We will raise pension contributions for civil servants from 15 to 16 percent of their income; and for workers voluntarily seeking to extend their SSK coverage (i.e. after terminating their employment), from 20 to 30 percent.
- We will pass long delayed administrative reform legislation for Is-Kur, Bag-Kur and SSK. This will provide the legal basis for these institutions to expand their collection enforcement efforts (as detailed in the next two bullet points).
- We intend to improve the timeliness and breadth of information about delinquent SSK premium payers by (i) requiring monthly (as opposed to quarterly) declarations about wages paid; (ii) cross-checking the tax administration's database for unregistered companies; and (iii) cross-checking whether bidders on public contracts are registered.
- We will aggressively pursue arrears collections for Bag-Kur participants by (i) expelling those in arrears more than 5 years unless they pay by end-September; (ii) undertaking legal proceedings against those in non-compliance with previous installment agreements; (iii) contracting out collection enforcement activities (which at present are minimal) to lawyers; and (iv) cooperating more vigorously with the tax administration (which enforces tax collection on the same income base).

We will pursue a **revenue policy at state enterprises** which prevents a deterioration in their finances while supporting our disinflation targets:

- We will continue to require that state enterprises maintain their prices broadly constant in real terms (on a period average basis). Where appropriate real increases will be made: (i) in the energy sector, to pass through exogenous cost increases; (ii) in TEKEK, to fully pass through to consumers the increase in tobacco and alcohol excises. We will aim to identify cost savings during the year which could enable real price declines for some products in 2004.
- We will aim to broaden the revenue base for **energy SEEs**. We have already implemented Council of Ministers decree No: 2002/4100 concerning unbilled consumption in municipalities and for other organizations. Beyond this we aim to reduce technical and non-technical distribution losses by 2.2 percent through more efficient use of specialized personnel and by investments in new metering and energy flow measurement control devices.

- We will reduce inventory accumulation in state enterprises by avoiding any support price announcements in 2003. Also, for TEKEL specifically, we intend to sell excess stocks.

PRIMARY BALANCE OF THE CONSOLIDATED GOVERNMENT SECTOR

Table 1. Turkey: Performance Criteria and Indicative Targets on the Cumulative Primary Balance of the Consolidated Government Sector

	Floor (In trillions of Turkish lira)
Cumulative primary balance from January 1, 2003, to:	
April 30, 2003	6,600
May 31, 2003 (indicative target)	9,500
June 30, 2003	11,000
August 31, 2003 (indicative target)	17,630
September 30, 2003 (indicative target)	20,080
November 30, 2003 (indicative target)	23,840
December 31, 2003 (indicative target)	22,600

1. The primary balance of the *consolidated government sector* (CGS), Table 1, comprises the primary balances (primary revenue minus noninterest expenditures) of the consolidated central government (consolidated budget), the three extrabudgetary funds (EBFs) identified below, the twelve state economic enterprises (SEEs) identified below, the social security institutions (SSIs), the unemployment insurance fund. The floors on the primary balance of the CGS will be monitored:

- For the central government from above the line on a modified cash basis (the so-called consolidated budget-adjusted balance). In this definition, transfers to social security institutions will be taken as the actual cash transfers received by them.
- For the EBFs, SSIs, and the unemployment insurance fund from above the line on a cash basis;
- For the SEEs, from below the line as described in paragraph 6.

2. For the purposes of the program, the primary revenues will exclude interest receipts of the consolidated central government (including on tax arrears), SEEs, and of the unemployment insurance fund, profit transfers of the Central Bank of Turkey (CBT) and proceeds from the sale of assets of the CGS (privatization proceeds or transfers thereof). Interest receipts of EBFs and SSIs will not be excluded. As well, the floor on the primary balance will be adjusted upwards for any increase in revenues arising from changes in the revenue sharing agreement between any components of the CGS and other elements of the public sector, including local authorities. For the purposes of the program, revenues of the CGS will exclude payments-in-kind and other nonmonetary forms of payments.

3. For the purposes of the program, primary expenditure of the CGS will exclude any payments related to bank recapitalization and to the restructuring of private and state banks. It will also exclude severance payments made to retire or retrench public workers, net of

projected wage savings during 2003 from this retrenchment, up to a cap of TL 243 trillion (above which they would count towards the target). Projected wage savings are defined as the employees salary and bonuses for the remainder of the year less the pension to be received (from the point of retrenchment).

4. Net lending of any component of the CGS will be considered as a noninterest expenditure item. Payment of guaranteed debt by treasury on behalf of non-CGS components of the public sector will not be treated as net lending up to the baseline reported in Annex E.

Extra budgetary funds

5. The three EBFs included in the definition of the performance criterion for 2003 are: the defense fund, the privatization fund, and the social aid fund. The balance of the promotion fund—which does not have the legal authority to borrow, and will not be given such authority during the duration of the stand-by arrangement—is excluded from the definition of the performance criterion.

State economic enterprises

6. The twelve SEEs whose primary balances will be included in the definition of the performance criterion are: TTK (coal company), TSFAS (sugar company), TMO (soil products office), TEKEL (tobacco and alcoholic beverages company), TCDD (state railways), Telekom (telecommunications), BOTAS (natural gas), TEDAS (electricity distribution), EUAS (electricity generation), TETTAS (electricity trade), TEIAS (electricity transmission), and TPAO (petroleum exploration and extraction).

7. The primary balance of these SEEs will be monitored as the sum of net financing minus accrued interest made by the SEEs. Net financing will be monitored as: net financing from the banking system (excluding pre-export financing from the Eximbank) plus net external borrowing (excluding normal trade financing), plus the change in net arrears to and net advances from the private sector and to/from the non-CGS public sector (including subsidiaries and joint ventures), plus net interest payments undertaken by the Treasury. The net change in arrears on tax liabilities will be excluded.

8. Net financing from the banking system (excluding pre-export financing from the Eximbank) is defined as the change in all claims of these institutions on the SEEs listed above, including loans and capitalized interest arrears, less the change in deposits and repos of SEEs in these institutions, as reported by these SEEs. Changes in claims and deposits denominated in foreign currency will be valued at the average of the exchange rates between the Turkish lira and each corresponding currency prevailing during the quarter in question. As of December 31, 2002 the stock of net banking claims on SEEs as defined above is preliminary estimated at TL 92 trillion, valued at the exchange rates on that day.

9. Net external borrowing is defined as the receipt of external loans (including guaranteed debt and on-lending, and excluding normal trade financing) less amortization

(excluding repayments of guaranteed debt and on-lending undertaken by the Treasury), valued at the exchange rate at the time of transaction. As of December 31, 2002 the stock of external loans is preliminary estimated at TL 11.2 quadrillion, valued at the exchange rates on that day.

Social security institutions

10. The deficits of the social security institutions (SSIs) will be covered by transfers from the central government budget, and they are thus expected to be in primary balance in 2003.

Adjusters

11. The floor on the primary surplus of the CGS will be adjusted upwards for any increase in the expenditure arrears of the SSIs. Arrears of the SSIs are defined as the sum of (i) overdue pension payments; (ii) medicine payments overdue by more than 60 days (from the date of invoice receipt); and (iii) other payments overdue by more than 30 days (from the date of invoice receipt). In the case of Bag Kur they exclude arrears to the common retirement fund. The stock of arrears for Bag Kur stood at TL 296 trillion; for SSK stood at TL 314 trillion; and for ES stood at TL 0 trillion on December 31, 2002.

12. The floors for the primary surplus will be adjusted upward:

- for any issue of noncash debt other than for bank recapitalization and securitization of duty losses [and for the restructuring of the Agricultural Sale Cooperative Units];
- for any overdue Direct Income Support as of December 31, 2003.
- for any off-balance sheet expenditure of any component of the CGS.

13. The floor on the primary surplus will be adjusted upwards (downwards) in line with the projected surplus (deficit) of the primary balance of any fund or entity that is incorporated in the CGS after January, 1 2003.

OVERALL BALANCE OF THE CONSOLIDATED GOVERNMENT SECTOR

Table 1. Turkey: Indicative Floors on the Cumulative Overall Balance of the Consolidated Government Sector

	Floor (In trillions of TL)
Cumulative overall balance from January 1, 2003 to:	
April 30, 2003	-13,840
June 30, 2003	-22,300
September 30, 2003	-25,280
December 31, 2003	-36,270

14. The overall balance of the consolidated government sector (CGS), Table 1, comprises the primary balance of the CGS as defined in Annex D, the net interest payments of the CGS and profit transfers from the CBT to the consolidated central government.

15. The monitoring of the different components of the overall balance will be as indicated in paragraph 1 of Annex D. Revenues of the CGS will be as defined in paragraph 2 of Annex D; i.e., excluding privatization proceeds.

16. All definitions and adjusters specified in Annex D to apply to the primary balance of the CGS will also apply to the overall balance of the CGS. In particular, the overall balance will be adjusted for the overall balance of any new government funds and institutions established after January 1, 2003.

PROGRAM BASELINE FOR TREASURY NET LENDING

Table 1. Turkey: Program Baseline for Treasury Net Lending

	Baseline (In millions of US\$)	Baseline (In trillions of TL)
Cumulative net lending from January 1, 2003 to:		
April 30, 2003	186	311
May 31, 2003	239	403
June 30, 2003	291	493
August 31, 2003	362	620
September 30, 2003	406	702
November 30, 2003	487	854
December 31, 2003	527	929

17. Net lending (risk account) by Treasury to other (non-CGS) components of the public sector is defined as the sum of guarantee payments made by treasury on behalf of these entities minus repayments obtained by treasury from them.

18. Other components of the public sector include: extrabudgetary funds not in the CGS, revolving funds, associations or foundations, state economic enterprises not in the CGS, state banks (including Eximbank and Iler bank), special provincial administrations, municipalities, municipal enterprises, build-operate-transfer projects, and build-operate projects.

19. Repayments include those obtained in cash directly from municipalities. Repayments, obtained through clawback mechanisms, either directly, by withholding of transfers of tax shares from the MoF, or indirectly, via withholding of transfers to be made by Iler Bank, and proceeds from privatization, direct or indirect, are not included as repayments.

20. For the purposes of program monitoring, the flows in U.S. dollars will be converted at the average TL/US\$ exchange rate between test dates.

MONETARY TARGETS

Table 1. Turkey: Performance Criteria and Indicative Targets for Base Money of the Central Bank of Turkey 1/

(In quadrillions of Turkish lira)

	Ceilings	Actual
Outstanding base money as of December 31, 2002	10.85	10.72
April 30, 2003 (performance criterion)	12.8	...
June 30, 2003 (performance criterion)	13.2	...
September 30, 2003 (indicative ceiling)	14.1	...
December 31, 2003 (indicative ceiling)	14.3	...

1/ These ceilings are based on the average of the stocks prevailing during the five working days including and immediately preceding each of these dates.

1. This Annex sets out performance criteria for base money, and indicative targets for net domestic assets of the Central Bank of Turkey (CBT) and Treasury combined.
2. Base money is defined as currency issued by the CBT, plus the banking sector's deposits in Turkish lira with the CBT. The net domestic assets (NDA) of the CBT are defined as base money less net foreign assets of the CBT. The net domestic assets of the CBT and Treasury combined are defined as net domestic assets of the CBT plus (i) Treasury liabilities to the International Monetary Fund and (ii) Treasury foreign exchange denominated borrowing with an original maturity of less than one year.
3. Net foreign assets of the CBT are defined as the sum of the net international reserves of the CBT (as defined in Annex H), medium- and long-term foreign exchange credits (net), and other net foreign assets (including deposits under the Dresdner scheme of original maturity of two years or longer and the holdings in accounts of the Turkish Defense Fund, but excluding CBT's net lending to domestic banks in foreign exchange). As of December 31, 2002, net foreign assets of the CBT amounted to TL 3.93 quadrillion, net domestic assets of the CBT TL 6.50 quadrillion, and base money 10.43 quadrillion.
4. Net domestic assets of the Treasury are equal to Treasury liabilities to the International Monetary Fund and Treasury foreign exchange denominated borrowing with an original maturity of less than one year. As of December 31, 2002, these amounted to US\$14.66 billion, or TL 21.10 quadrillion (evaluated at program exchange rates).
5. All assets and liabilities denominated in foreign currencies will be converted into Turkish lira at program exchange rates (Annex I).

6. NDA ceilings will be adjusted for any change in the definition of the aggregate to which the reserve requirement applies according to the following formula:

$$\Delta \text{NDA} = R * \Delta B,$$

where: R denotes the 6 percent reserve requirement and ΔB denotes the change in base generated by a change in the definition of the reserve aggregate, or due to any change in the averaging period.

7. NDA ceilings will be adjusted for any change in the reserve requirement coefficient according to the following formula:

$$\Delta \text{NDA} = B * \Delta R$$

where: B is the level of the base to which the reserve requirement applies on the test date and ΔR is the change in the reserve requirement coefficient and the liquidity requirement coefficient.

8. The NDA ceilings will be adjusted downward for any waiver of reserve requirements for any additional bank intervened by the BRSA. The adjustment will be equal to the existing reserve requirement coefficient times the amount of liabilities at these banks subject to reserve requirements.

Table 2. Turkey: Indicative Targets on the Net Domestic Assets
of the Central Bank of Turkey and Treasury Combined

(In quadrillions of Turkish lira) 1/

	Ceilings	Actual
Outstanding NDA as of December 31, 2002:	33.1	28.6
April 30, 2003 (indicative target) 1/	32.8	...
June 30, 2003 (indicative target)	34.1	...
September 30, 2003 (indicative target)	33.8	...
December 31, 2003 (indicative target)	34.2	...

1/ These targets are based on the average of the stocks prevailing during the five working days including and immediately preceding each of these dates.

TARGETS FOR NET INTERNATIONAL RESERVES

Table 1. Turkey: Performance Criteria and Indicative Floors on the Level of Net International Reserves

(In billions of U.S. dollars)

	Floor on level of NIR	Actual	Memo item: NIR of the CBT
Outstanding stock as of December 31, 2002:	-9.7	-4.6	10.0
April 30, 2003 (performance criterion)	-6.5	...	8.8
June 30, 2003 (performance criterion)	-7.0	...	8.8
September 30, 2003 (indicative floor)	-6.0	...	10.2
December 31, 2003 (indicative floor)	-6.0	...	10.6

1. For program purposes, net international reserves is defined as net international reserves of the CBT minus (i) Treasury liabilities to the International Monetary Fund and (ii) Treasury foreign exchange denominated borrowing with an original maturity of less than one year.
2. Net international reserves of the Central Bank of Turkey (CBT) comprise its gross foreign assets excluding encumbered reserves less its gross international reserve liabilities plus the net forward position of the central bank, denominated in U.S. dollars. Encumbered reserves are reserves that are not readily available.
3. For the purpose of the program, gross foreign assets are all short-term foreign (convertible) currency denominated claims on nonresidents, monetary gold valued at the December 31, 2001 average London fixing market price of US\$276.5 per troy ounce, foreign bank notes, balances in correspondent accounts, and any reserve position in the IMF. At present encumbered reserves consist of foreign asset holdings in accounts of the Turkish Defense Fund (amounting to US\$0.426 billion on December 31, 2002). The special Dresdner portfolio (amounting to US\$0.771 billion on December 31, 2002) is also encumbered, but is not subtracted from foreign reserves given the overlap with one-year foreign currency denominated liabilities (see below). Reserve assets as of December 31, 2002 amounted to US\$25.79 billion (evaluated at program exchange rates).
4. Gross international reserve liabilities include all foreign currency-denominated liabilities (or TL-denominated liabilities indexed to any exchange rate) to residents and non-residents with an original maturity of up to and including one year (including reserves against foreign currency deposits of the banking sector), claims from central bank letters of credit, overdraft obligations of the central bank, and central bank liabilities arising from balance of

payments support borrowing irrespective of their maturity. Government foreign exchange deposits with the CBT are not treated as an international reserve liability. On December 31, 2002 reserve liabilities thus defined amounted to US\$15.75 billion (evaluated at program exchange rates).

5. The net forward position is defined as the difference between the face value of foreign currency-denominated or indexed central bank off-balance sheet (forwards, swaps, options on foreign currency, and any future contracts) claims on nonresidents and foreign currency obligations to both residents and nonresidents. As of December 31, 2002 these amounts were zero.
6. As of December 31, 2002 the sum of: (i) Treasury liabilities to the International Monetary Fund and (ii) Treasury foreign exchange denominated borrowing with an original maturity of less than one year amounted to US\$14.66 billion.
7. All assets and liabilities denominated in foreign currencies other than the U.S. dollar will be converted into U.S. dollars at the program cross exchange rates specified (Annex I).

PROGRAM EXCHANGE RATES

Table 1. Cross Exchange Rates for Program Purposes

	Turkish lira value	U.S. dollar value
Program Exchange Rate		
U.S. dollar	1,439,567	1
Euro	1,268,115	0.8809
Japanese yen	10,972	0.0076
Swiss franc	854,490	0.5945
U.K. pound	2,081,497	1.4465

1. This table sets out the program exchange rates referred to in earlier Annexes. They shall apply to the performance criteria/indicative ceilings or floors for the period December 31, 2001–December 31, 2003. Currencies not specified here will be converted at the representative exchange rates reported to the IMF as of December 31, 2001.

2. Constituent currencies of the euro shall be converted into euro at the official European Union conversion rates and then converted into the U.S. dollar value.

SHORT-TERM EXTERNAL DEBT CEILINGS

Table 1. Turkey: Performance Criteria and Indicative Ceilings on the Stock of Short-Term External Debt Outstanding

	Ceilings (In millions of US\$)
Outstanding stock as of December 31, 2002:	
April 30, 2003 (performance criterion)	1,000
June 30, 2003 (performance criterion)	1,000
September 30, 2003 (indicative ceiling)	1,000
December 31, 2003 (indicative ceiling)	1,000

The limits specified in Table 1 apply to the stock of debt of original maturity of one year or less, owed or guaranteed by the consolidated government sector (as defined in Annex D). The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt or Borrowing in Fund Arrangements (Decision No. 6230-(79/140), August 3, 1979 as amended by Decision Nos. 11096-(95/100), October 25, 1995, and 12274-(00/85), August 24, 2000). Excluded from this performance criterion are external program financing, sales of treasury bills denominated in Turkish lira or foreign exchange to nonresidents in either the domestic primary market or the secondary market, normal import-related credits, reserve liabilities of the Central Bank of Turkey, and forward contracts, swaps, and other future market contracts. Debt falling within the limit shall be valued in U.S. dollars at the program cross exchange rates specified in Annex I.

MEDIUM- AND LONG-TERM DEBT CEILINGS

Table 1. Turkey: Performance Criteria and Indicative Ceilings on Contracting and Guaranteeing of New External Debt

	Limits (In millions of US\$)
Cumulative flows from end-December 2002	
April 30, 2003 (performance criterion)	6,200
June 30, 2003 (performance criterion)	8,500
September 30, 2003 (indicative ceiling)	12,000
December 31, 2003 (indicative ceiling)	15,000

The limits specified in Table 1 apply to the contracting or guaranteeing by the consolidated government sector (as defined in Annex D) of new, nonconcessional external debt with an original maturity of more than one year. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (adopted by the Executive Board of the International Monetary Fund on August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. The term “nonconcessional” means containing a grant element of less than 35 percent on the basis of the currency-specific discount rates based on the OECD commercial interest reference rates in place at the time at which the contract is entered into, or guarantee issued. Excluded from this performance criterion are credits extended by the IMF, adjustment lending from the World Bank, and other external program financing, long-term liabilities of the Central Bank of Turkey and sales of treasury bills and bonds denominated in TL or FX to nonresidents in either the domestic primary market or the secondary market. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract is entered into, or guarantee is issued.

ANNEX L. Turkey: 2003 Privatization Tender Announcement Schedule

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
PETKIM (Petrochemicals) Block sale	TUPRAS (Petroleum Refinery) Block sale	KBI-ETI COPPER Asset and block sale	
GERKONSAN (Iron and Steel) Block sale	TUMOSAN (Machinery) Asset sale <ul style="list-style-type: none"> • Diyarbakır Pamuklu Fact • Malatya pamuklu fact • Adıyaman pamuklu fact • Çanakkale deri fact • Van deri ve kun. Fact • Tercan facility • Sarıkamış ayakkabi fact • Akdeniz Pamuklu fact • Adana fact 	ATAKOY HOTEL ATAKOY MARINA Block sale	
SEKA (Paper and pulp) Asset sale <ul style="list-style-type: none"> • Akdeniz facility • Aksu facility • Balıkesir facility • Çaycuma facility 		THY (Airline) Block sale/public offering	
TZDAS (Agricultural equipment) Asset sale <ul style="list-style-type: none"> • Adapazarı facility 	TUGSAS (Fertilizer) Block sale <ul style="list-style-type: none"> • Gemlik facility • Samsun facility • Kutahya facility 	SEKA Asset sale/grant of operational rights <ul style="list-style-type: none"> • İzmit facility • Taşucu port 	
ETI SILVER Block sale		SUMER HOLDING Asset/block sale <ul style="list-style-type: none"> • Merinos Yünlü fact • Bakırköy Konf. Fact • Beykoz Deri ve Kun. Fact. • Antalya A. Ş. • Bergama A.Ş. • Manisa A.Ş. 	
ETI ELECTROMETALLURGY Block sale	TEKEL Cigarette business unit Alcoholic beverages unit Asset sale/block sale		

PRIVATIZATION

Table 1. Turkey: Indicative Target on Cumulative Privatization
Proceeds of the Consolidated Government Sector

	Floor (In millions of U.S. dollars)
Cumulative privatization proceeds from end-December, 2002 to:	
March 31, 2003	30
June 30, 2003	90
September 30, 2003	790
December 31, 2003	2,100

19. The consolidated government sector is defined in Annex D above.
20. Privatization proceeds are measured in cash terms, except in the case of conversion of an exchangeable bond (proceeds exclude amounts realized from the sale of convertible bonds).
21. Privatization proceeds exclude sales of immovables and movables, and any other items already captured in the performance criteria for the consolidated public sector (see Annex D, referenced above).
22. Privatization proceeds exclude any sale of assets to entities in the consolidated government sector, to the local governments, or to state economic enterprises not captured in the program definition of the consolidated government sector.
23. Privatization proceeds exclude receipts from the sale of transfer of operating rights (TOORs).

ANNEX N. Turkey: Revised Schedule of Performance Criteria and Purchases, 2003-04

Performance Criteria 1/ Debt, NIR, Base Money, and Primary Surplus of the CGS		Purchase (SDR millions)		Scheduled Purchase 2/	
		Revised	Original SBA	Revised Schedule	Original SBA
Actual purchases 3/			9,929.2		
Scheduled purchases		2,892.0	2,892.0		
4th Review	December 31, 2002	510.6	1,272.5	April 15, 2003	October 25, 2002
5th Review	April 30, 2003	340.2	202.4	June 15, 2003	January 24, 2003
6th Review	June 30, 2003	340.2	202.4	August 15, 2003	April 25, 2003
7th Review	September 30, 2003	340.2	202.4	November 5, 2003	July 25, 2003
8th Review	December 31, 2003	340.2	202.4	February 5, 2004	October 24, 2003
9th Review	March 31, 2004	340.2	202.4	May 5, 2004	January 23, 2004
10th Review	June 30, 2004	340.2	202.4	August 5, 2004	April 23, 2004
11th Review	September 30, 2004	340.2	202.4	November 5, 2004	July 23, 2004
12th Review	-	-	202.4	-	October 25, 2004
Total purchases		12,821.2	12,821.2		

1/ Performance criteria apply for the 4th through 8th reviews.

2/ Earliest possible date at which a purchase could be made available.

3/ As of March 31, 2003