

Table 1. Turkey: Quantitative Performance Criteria and Indicative Targets

	March 31, 2001		May 31, 2001		June 30, 2001		July 31, 2001		September 30, 2001		December 31, 2001
	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor	Outcome	Ceiling/Floor
I. Performance criteria											
1. Floor on the cumulative primary balance of the consolidated government sector (in trillions of Turkish lira)	1,850	2,256	3,250	...	...		4,250		6,200		9,250
2. Ceiling on the stock of net domestic assets of the CBT (in trillions of Turkish lira)	0	5,117	9,750	7,942	13,250		15,850		19,500		21,000
3. Floor on change in net international reserves (in millions of US\$) 1/	...	...	-1,500	-837	-2,900		-2,000		-2,600		-600
4. Ceiling on contracting or guaranteeing of new external public debt (in millions of US\$)	5,500	1,035	...	...	7,500		...		12,000		1,700
5. Ceiling on the stock of public short-term external debt outstanding (in millions of US\$)	1,100	1,000	...	...	2,100		...		2,100		2,100
6. Ceiling on the cumulative primary expenditure of the central government (in trillions of Turkish lira)	5,830	5,480	11,400	...	...		17,450		23,880		34,790
II. Indicative targets											
1. Floor on the cumulative overall balance of the consolidated government sector (in trillions of Turkish lira)	-2,620	-1,945	-4,750	...	...		-11,750		-18,150		-26,450
2. Ceiling on the base money (in trillions of Turkish lira)	...	...	5,900	5,815	6,050		6,300		6,800		7,300

1/ Floors correspond to changes in NIR during the period specified in Annex F of the Memorandum on Economic Policies attached to the May 3, 2001 Letter of Intent.

Table 2. Turkey: Structural Policy Conditionality, 2001

Action	MEP Ref. ¹	Type of Action	Timing	Status, June 25, 2001
Banking Sector Reform				
1. Reduce the SDIF and state banks' overnight position by at least two-thirds from the March 16, 2001 level	&8	Condition for the completion of the 6th and 7th reviews		Done
2. Eliminate the SDIF and state banks' remaining overnight position	&8	Condition for the completion of the 8th review		Done
3. The stock of repos of the SDIF and state banks with the CBT not to exceed TL 7 quadrillion	&8	Condition for the completion of the 8th review	By end-May 2001	Done
4. Establish a common and politically independent board for Ziraat and Halk reporting to the treasury and appoint new management	&10	Condition for completion of the 6th and 7th reviews		Done
5. Complete financial restructuring of state banks	&10	Condition for completion of the 6th and 7th reviews		Done
6. Close Emlak Bank and transfer its liabilities and some of its assets to Ziraat Bank	&11	Condition for completion of the 8th review	By end-May 2001	
7. The SDIF to recapitalize Shmerbank to cover its negative net worth	&12	Condition for completion of the 6th and 7th reviews		Done
8. Recapitalize the remaining seven SDIF banks to cover their negative net worth	&13	Condition for completion of the 6th and 7th reviews		Done
9. Organize in a second transition bank or put into liquidation the four banks for which there are presently no bidders	&13	Condition for completion of the 8th review		
10. Sell, put into liquidation, or otherwise resolve the remaining SDIF banks	&13	Condition for completion of the 12th review	End-2001	
11. (a) Presentation by all capital-deficient banks of detailed capital strengthening plans	&15	Prior action for 6th and 7th reviews Condition for completion of the 8th review	By end-April 2001	Done
(b) Finalization of commitment letters by the banks on recapitalization plans agreeable to Fund staff	&12 ²			

¹ Unless indicated otherwise, this refers to relevant paragraphs in the May 3 Memorandum on Economic Policies (MEP).

² Refers to the paragraph in this Letter of Intent.

ANNEX B

Action	MEP Ref. ¹	Type of Action	Timing	Status, June 25, 2001
12. Parliamentary approval of amendments to Banking Law	&16	Condition for completion of the 6th and 7th reviews		Done
13. Adopt connected lending regulation	&17	Benchmark	Within one month of approval of Banking Law	Expected to be issued by June 28
14. Bring accounting standards for banks in line with international standards	&17	Benchmark	From the beginning of 2002	
Fiscal Transparency and Management				
15. Close the remaining 15 BFs (except DFIF) and 2 EBFs	&19	Benchmark	End-June 2001	Done
16. At least halve the number of revolving funds	&19	Benchmark	End-2001	
17. Submit to parliament a Law on Public Finance and Debt Management	&19	Benchmark	End-June 2001	
18. Accompany the draft 2002 budget by accounts and financial outlook for EBFs and SSIs, revolving funds, contingent liabilities, SEEs, and local authorities	&19	Benchmark		
19. Submit to parliament a Public Procurement Law in line with EU standards	&19	Benchmark	By October 15, 2001	
Increasing the Role of Private Domestic and Foreign Capital in the Turkish Economy				
20. Parliamentary approval of legislation to facilitate Turk Telekom privatization	&21	Prior action for 6th and 7th reviews		Done
21. Appointment of new professional board and management team for Turk Telekom	&21	Condition for completion of 8th review		
22. Parliamentary approval of Tobacco Law	&21	Condition for completion of 8th review	May 2001	Done
23. Passage by parliament of a law fully implementing the constitution amendment on international arbitration	&22	Benchmark	Before parliament's summer recess	Done
Fiscal Policy and Public Debt Management				
24. Approval of tax measures: (a) increase petroleum consumption tax by 15 percent in early May; (b) increase VAT rates (except the reduced 8 percent rate) by 1 percentage point; and (c) increase, as of April, the minimum contribution base relevant for social security payments in line with the existing regulations	&30	Prior action for 6th and 7th reviews		Done
25. Approval of supplementary budget in line with program expenditure figures and offsetting budgetary measures listed in &6 of the present letter	&34	Condition for completion of 8th review		Done
26. Enact tax regulation to extend the use of tax identification numbers	&34	Condition for completion of 8th review	End-May 2001	Done
27. Reduce the stock of private sector tax arrears from the end-2000 level of 2 percent of GNP (including interest and penalties)	&34	Benchmark	End-2001	

Table 3. Turkey: Performance Criteria on the Cumulative Primary Expenditure of the Central Government

	Ceilings (In trillions of TL)
Cumulative primary expenditure from January 1, 2001 through:	
May 31, 2001 (performance criterion)	11,400
July 31, 2001 (performance criterion)	17,450
September 30, 2001 (performance criterion)	23,880
December 31, 2001 (performance criterion)	34,790

1. The primary expenditure of the consolidated central government (Table 3) comprises the cumulative noninterest expenditure of the consolidated central government (consolidated budget). The quarterly ceilings will be monitored from above the line on a modified cash basis (the so-called consolidated budget adjusted noninterest expenditure).
2. For purposes of the program, primary expenditure (Table 3) will exclude tax rebates, transfers to Eximbank, treasury payments of guaranteed debt up to the quarterly baseline reported in Annex J of the May 3 MEP, and any payment related to bank recapitalization and to the restructuring of state banks.
3. The deficits of the social security institutions (SSIs) are covered by transfers from the central government budget. The ceiling on the primary expenditure of the central government (Table 3) will be adjusted downward for any increase in the expenditure arrears of the SSIs. Arrears of the SSIs are defined as those payments overdue by more than one month, and in the case of Bag Kur exclude arrears to the common retirement fund. As of December 31, 2000, the stock of arrears of Bag Kur stood at TL 120 trillion, while the two other institutions had no expenditure arrears.
4. The ceiling on the primary expenditure of the central government (Table 3) will be adjusted downward for any off-budget expenditure of the central government.

Table 4. Turkey: Performance Criteria on the Net Domestic Assets
of the Central Bank of Turkey

	Ceilings (In trillions of lira)
Outstanding NDA as of April 30, 2001 (projected):	7,780
May 31, 2001 (performance criterion) 1/	9,750
June 30, 2001 (performance criterion) 1/	13,250
August 31, 2001 (performance criterion) 1/	15,850
October 31, 2001 (performance criterion) 1/	19,500
December 31, 2001 (indicative ceiling) 1/	21,000

1/ The compliance with the performance criterion (indicative target) shall be based on the average of the stocks prevailing during the five working days including and immediately preceding each of these dates.

1. The net domestic assets (NDA) of the Central Bank of Turkey (CBT) are defined as base money less the net foreign assets of the CBT valued in Turkish lira at end-month actual exchange rates.
2. Base money is defined as currency issued by the CBT, plus the banking sector's deposits in Turkish lira with the CBT. Indicative ceilings for base money are shown in Table 4.a below.
3. Net foreign assets of the CBT are defined as the sum of the net international reserves of the CBT (as defined in Annex F of the May 3 MEP), medium-term 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 March 31, 2001, net foreign assets of the CBT amounted to TL 9,012 trillion.
4. The cumulative net change in the devaluation account from its balance at end-1999 (excluding any distribution of unrealized foreign exchange profits, in cash or through the write-off of government paper held by the CBT, since end-March 2001) will be subtracted from end-period NDA stock as defined above. The balance of the devaluation account at end-March 2001 was TL-1,380 trillion.
5. 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 4 percent reserve requirement plus the 2 percent liquidity requirement coefficient and ΔB denotes the change in base generated by a change in the definition of the reserve aggregate. The averaging period will not be changed during 2001.

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

$$\Delta NDA = B * \Delta R$$

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.

7. 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 4a. Turkey: Indicative Ceilings for Base Money

	Ceilings (In trillions of Turkish lira)
Outstanding base money as of April 30, 2001	5,850
May 31, 2001 (indicative ceiling) 1/	5,900
June 30, 2001 (indicative ceiling) 1/	6,050
August 31, 2001 (indicative ceiling) 1/	6,300
October 31, 2001 (indicative ceiling) 1/	6,800
December 31, 2001 (indicative ceiling) 1/	7,300

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