

Annex B: Structural Policies, 2002-04

Action	Type	LOI Para ¹	Status, April 2, 2002
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: (i) Council of Ministers to approve a reduction in the share of central government tax revenues accruing to metropolitan municipalities to 4.1 percent (ii) issue a circular to implement attrition rules (iii) the Minister of Finance to approve a reallocation of spending to ensure adequate funding for DIS for agriculture	PA for SBA	13	<i>Done.</i> <i>Done.</i> <i>Done.</i>
2. Increase the PCT (on items excluding natural gas) by 1 percent in real terms in early February		14	<i>Not done.</i> Increase was equal to January WPI inflation.
3. By end-March (i) the Ministry of Finance to identify savings from closing regional administrations and other regional line agency offices, and block relevant budget appropriations in the budget, and (ii) SEEs to approve budgets in line with the cost reductions mandated	BM	14	<i>Underway.</i> (i) In March, savings from closing regional administrations and other regional line agency offices were identified and relevant budget appropriations were blocked in the budget. A decree regarding closure of regional administrations and other regional line offices is expected to be issued shortly. (ii) Most SEEs have approved budgets in line with cost reductions mandated and others have been instructed to correct their budgets. Treasury auditors will monitor implementation.
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>Underway.</i>
5. Refrain from introducing any new tax exemptions or incentives, except those specified in the tax reform plan		14	<i>Not fully complied with.</i> Payroll and personal income tax deferrals were introduced in March 2002 as part of an effort to stimulate employment
6. Refrain from introducing any new discounts or exemptions for SEEs, except those pursued for commercial reasons by enterprises' managements		14	<i>Done.</i> The president approved Law No:4736 on January 18, 2002 preventing any new discounts or exemptions for SEEs

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

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Public debt management			
7. Continue to lengthen average maturity in Treasury bill auctions and public offerings to the extent demand allows and encourage a diverse range of investors		18	<i>Underway.</i>
8. Resume in January 2002 the program of FRN auctions. Before the first issue publicize a revised standard method of price and yield calculations, in line with international practice		19	<i>Done.</i>
9. Reintroduce a primary dealer program by end-September 2002	BM	19	<i>Underway.</i> Discussions with candidate primary dealers are taking place
10. Continue to issue, subject to market conditions, domestic FX denominated and FX indexed bonds, as well as international bonds		19	<i>Underway.</i> Taking into account redemptions and market conditions, FX denominated and FX indexed securities will be issued
11. The Treasury to conduct a study 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 by mid-2002		19	<i>Underway.</i> As an interim step the new Debt Management Law calls for the establishment of a middle office in the Treasury in charge of developing overall debt strategy and managing risk
12. Issue in June government communiqué that spells out details of the operations of the middle office that will formulate overall public debt strategy		6 of April 2002 LOI	
13. The Treasury to develop its cash management operations, acting in coordination with the CBT		19	<i>Underway.</i> The new Debt Management Law includes a clause calling for the preparation of 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	<i>Underway.</i> 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 has been started with private banks, which will provide feedback about market developments and specific concerns banks have
Monetary and incomes policy			
15. Ensure that any new laws or regulations do not undermine the independence enshrined in the CBT law		21	<i>Done.</i> All new laws and regulations are consistent with CBT independence

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16. CBT to continue its technical preparations for the introduction of inflation targeting, including improved modeling and forecasting of inflation		22	<i>Underway.</i> Work ongoing at the CBT covers short- and near-term forecasting, and development of the data base
17. Move to inflation targeting		22	<i>Preparations underway.</i> In addition to progress in establishing the necessary technical infrastructure (see #--above), favorable developments in disinflation and inflation expectations, fiscal policy, and the banking sector are expected to allow the pre-conditions for formal inflation targeting to be met by mid-2002.
18. 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	<i>Underway.</i> An exploratory meeting between labor unions and the authorities to achieve this goal was held in February
19. a. Consider the possibility of reducing backward indexation of administered prices without compromising SEEs' financial conditions 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		23 14 of April 2002 LOI	<i>Partially done.</i> Most SEE prices have not been changed monthly during 2002 but rather at discrete intervals in line with the WPI: the exception is energy prices which are closely tracking world market prices
20. 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	<i>Underway.</i> A working group established under coordination of the Banks Association is discussing proposals, and measures are being introduced to deepen the interbank money market. Reference rates are evolving but will depend on increased market activity along the yield curve
21. The CBT to gradually end its practice of acting as a blind broker during 2002		25	<i>Underway.</i> The phasing out by end-2002 has been announced by the CBT
22. 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	<i>Underway.</i> Interagency committee chaired by CBT with membership from Banks Association of Turkey, BRSA, MOF and ISE, established and has held two meetings. Taxation of revaluation profits clarified in February, and

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			prudential rules on market risks effective since January
23. 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	<i>Done.</i>
24. To encourage development of the foreign currency market, eliminate stamp duties on forward contracts and remove the tax on interbank foreign exchange transactions by end May 2002		9 of April 2002 LOI	<i>Underway.</i> A preliminary meeting between MoF, BRSA, CMB and CBT was held on 26 of March.
25. Require as of end-May withholding of interest earned through transactions intermediated through Takasbank		9 of April 2002 LOI	
26. To rationalize the system of reserve requirements the CBT, effective from May 2002, to (i) increase the scope and length of the averaging of reserve requirements, and (ii) increase the remuneration of both Turkish lira and foreign currency reserves, linking remuneration to market rates		9 of April 2002 LOI	<i>Done.</i> The communiqués on required reserves and liquidity requirement issued in the Official Gazette on March 29, 2002 will be effective on date of issue starting from the tables dated May 10, 2002.
27. 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	<i>Underway.</i> 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 two meetings related to the development of the derivatives markets and TL reference rate fixing. Taxation and accounting problems of the futures transactions have been solved by the MOF and BRSA, respectively.
Banking reform			
28. Pass necessary legal amendments, and issue a Council of Ministers Decree for staff reductions in state banks	PA for SBA	28	<i>Done.</i>
29. By end-June 2002, reduce the number of state bank branches by 800. In this context also reduce staffing correspondingly	PC	28	<i>Underway.</i> The process has been initiated, and the number of staff will be gradually reduced by the targeted number by June 2002
30. For Vakif Bank privatization, bids to be invited from potential investors in May		28	<i>Underway.</i> Five potential bidders have expressed interest and are conducting due diligence; potential bidders are

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39. The SDIF to prepare a monthly balance sheet starting end-March 2002 and become subject to annual external audits; the external audit for 2001 will be completed by end-April 2002	BM (the latter action)	34	<i>Underway.</i> Agreement with audit firm has been signed. External audit will be started at the beginning of April 2002.
40. Laws and regulations regarding loan classification, loan loss provisioning, and collateral valuation will be amended as necessary following the portfolio reviews by end-June 2002		35	<i>Underway.</i> Will be done under the framework of Istanbul Approach if needed
41. Pass legal amendment in January 2002 to eliminate with immediate effect the existing four-year transition rule for loan loss provisioning	PA for SBA	35	<i>Done.</i>
42. Start trial implementation of new accounting system [for banks] in line with IAS in January 2002	PA for SBA	35	<i>Done.</i>
43. Following the trial implementation the BRSA to evaluate the experience and issue by end-June 2002 a revised regulation on the new accounting standards to ensure that banks' end-2002 balance sheets comply with IAS	PC for end-June	35	
44. 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	
45.a. Off-balance sheet repos to be included on balance sheet as of February 1, 2002 b. Capital charges for market risks to be calculated on a solo basis as of January 1, 2002 and on a consolidated basis as of July 1, 2002 c. Regulation on monitoring of internal control and risk management systems to become effective January 1, 2002		35	<i>Done.</i>
Corporate debt restructuring			
46. Introduce in January 2002 a voluntary market-based framework (the "Istanbul Approach") for dealing case-by-case with multicreditor exposures to large and medium-size borrowers		36	<i>Underway.</i>
47. Create in early 2002 a multiagency Coordination Committee with private sector participation under the Treasury, responsible for facilitating and monitoring the corporate debt restructuring process, as well as identifying and proposing the removal of impediments that may exist		36; 13 of April 2002 LOI	<i>Not done.</i> Work to be carried out by the Production and Finance Committee chaired by the Treasury
48. Establish secretariat to the Production and Finance Committee in April		13 of April 2002 LOI	
49. 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	
50. Production and Finance Committee to work with the relevant government agencies to establish by June 2002 a database to monitor corporate debt		13 of April 2002 LOI	<i>Underway.</i> The CMB has issued the regulation on the reporting requirements. Firms are expected to start reporting

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			in June 2002
51. 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	<i>Underway.</i> The authorities have requested technical assistance for the drafting a proposal for potential investors
52. 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	<i>Underway.</i>
53. Support the upgrading administrative procedures in the judiciary to improve the capacity of the courts		37	
54. The CMB to introduce international accounting standards, including inflation accounting provisions, by January 1, 2003.		38	<i>Underway.</i> The CMB has issued the regulation. Firms are taking steps to adopt the new accounting framework. It is expected that many firms will start accounting under the new rules in June 2002
55. Starting end-March 2002, the CMB to require corporate groups to provide consolidated financial statements and to set up a dedicated group to monitor their finances		38	<i>Underway.</i> The CMB has issued the regulation.
56. Starting end-March 2002, the CMB to require corporate groups with financial affiliates to provide consolidated group statements and share those statements with the BRSA		38	<i>Underway.</i> The CMB has issued the regulation. The Accounting Standards and Corporate Finance departments of the CMB will monitor the accounts
Public sector reform			
57. Parliament to approve Public Procurement Law in line with UN (UNCITRAL) standards in January 2002	PA for SBA	40	<i>Done.</i>
58. Establish an independent procurement agency by end-March 2002	BM	40	<i>Underway.</i> All the preparatory work has been completed and the board of the agency will be appointed shortly, following the issuance of enabling regulation.
59. Change laws and regulations to make them consistent with the new public procurement framework		40	
60. 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	
61. Compile a comprehensive list of public investment projects to be phased out in time to make decisions for the 2003 budget		40	<i>Underway.</i> Rationalization of public investment program will continue in 2003 within the framework of a High Planning

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			Council Decision. The Decision will be communicated to spending agencies with 2003 Investment Circular in June 2002. Then, the list will be compiled concurrently with 2003 investment programming process that will be finalized by end - 2002
62. Approval by Council of Ministers in January 2002 of plan to reform the tax system	PA for SBA	40	<i>Done.</i>
63. Enact the first phase of the tax reform plan by end-April 2002	BM	40; 15 of April 2002 LOI	<i>Underway.</i> Draft Special Consumption Tax Law (implementing indirect tax changes) has been prepared and the World Bank and the Fund have provided comments. In addition, disparities among the withholding tax rates on deposits will be reduced
64. Submit to parliament legislation for the second phase of the tax reform plan by end-October 2002	BM	40	<i>Underway.</i> A World Bank technical assistance mission is expected in April
<p>65. Reorganize tax administration in line with the study carried out with the World Bank:</p> <p>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</p> <p>b. By end-September, the Minister of Finance to adopt a strategy to strengthen the collection of outstanding public sector tax arrears</p> <p>c. In the budget for 2003, include resources to increase the number of auditors by 400 (for October 17) to move toward OECD standards</p> <p>d. To help overhaul the revenue administration in the medium term, implement a functional reorganization, beginning at end-June</p>	<p>BM (first such plan by Nov 2002)</p> <p>BM</p> <p>BM</p>	40 and 15 of April 2002 LOI	<i>Underway.</i>
66. Council of Ministers to adopt a civil service reform strategy by end-2002		40	
67. As part of the preparatory work for 66, by end-March 2002 establish a ministerial committee to carry out a functional review of government, which will be completed by end-September 2002		40	<i>Underway.</i> A commission to coordinate necessary work will be established in line with the CoM decision dated February 4, 2002
68. By end-September, have in place an integrated system to monitor total general government and SEE employment levels on a quarterly basis	BM	40	<i>Underway.</i> A circular (dated December 14, 2001, No. 94997) has been sent to SEEs;

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77. Submit to parliament by end-June 2002 a Law on Financial Management and Internal Control consistent with best international practices	BM	42	<i>Underway.</i> A strategy regarding the Law on Financial Management and Internal Control has been sent to the Auditing Working Group and discussed at a meeting on February 5, 2002. Moreover, a seminar was organized in March to ensure that the consistency with EU practices
78. Close, by end-March 2002, 548 additional revolving funds	BM	42	<i>Done.</i>
79. Incorporate in the draft budget for 2003 the revenue and expenditures under Law 3418	BM for Oct 17, 2002)	42	
80. Eliminate the earmarking under Law 3418 and Law 4306		42	
81. 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	
82. 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	
83. In the draft 2003 budget to be submitted to parliament (i) include net lending as an appropriation, and (ii) extend accounting and coding reforms to all consolidated budget agencies, and to general government units on a pilot basis	BMs for Oct 17, 2002)	42	<i>Underway.</i> To extend coding reforms to general government units on a pilot basis, the MoF has prepared a budget implementation circular. Studies regarding accounting reform are progressing as planned
84. Complete, by end-March 2002, a survey of end-2001 commitments in excess of appropriations	BM	42	<i>Done.</i>
85. 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	
86. Address the impact of public sector retrenchment through the labor redeployment and reinsertion program and through unemployment insurance		42	<i>Underway.</i> Unemployment insurance payments started in March 2002.
Enhancing the role of the private sector			
87. The Privatization Administration (PA) to proceed with the public offerings of POAŞ by end-March 2002 and the public offering of TÜPRAŞ by end-June 2002 and launch the initial public offering for THY as soon as market conditions allow		45	<i>Underway.</i> The second public offering of POAŞ was completed in March 2002 with a 16.5 percent stake sold to foreign and domestic investors. The third Public Offering of TUPRAS shares is planned for the second quarter 2002 and

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			privatization of THY still depends on market conditions.
88. CoM to adopt a privatization plan for Turk Telekom in April 2002	PA for the second review	45	<i>Underway.</i> A report of consultants to be finalized for Turk Telekom; road map regarding the privatization strategy will be drawn by April 2002
89. Parliamentary approval of Tobacco Law	PA for SBA	45	<i>Done.</i>
90. Prepare and adopt a privatization plan for TEKEL by end-September	PA for fourth review	45	<i>Underway.</i> A restructuring study is being undertaken to provide a basis for the privatization plan.
91. Proceed with the privatization of ŞEKER, with the first step being the adoption of a privatization plan by May 2002		45	<i>Underway.</i> PA is working with other related agencies for the privatization plan of ŞEKER.
<p>92. 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</p> <p>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</p>		45 16 of April 2002 LOI	<i>Changed.</i> See item b.
93. By March 2002, the Ministry of Energy to inform the PA which electricity assets will be privatized, and by April 2002 the prequalification tenders for the distribution companies will be launched		45	<i>Underway.</i> Working Groups have finalized their reports and the PA is ready for the privatization of the generation and distribution assets. As soon as the distribution regions are transferred, the pre-qualification tender will be launched.
94. Complete the transfer of gas distribution companies to the PA by March 2002		45	<i>Underway.</i> High Planning Council Decision is about to be finalized after which a Privatization High Council Decision will be sought
95. 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	

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96. The PA to continue its divestment of ERDEMIR, and of tourism and fertilizer assets in its portfolio. The PA also to continue divesting its portfolio of small and medium-size companies		45	
97. 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	
98. 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	<i>Done.</i>
99. 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	<i>Underway.</i> FIAS study is expected to be finalized in early May and the draft law is planned to be submitted to the Parliament on schedule.
100. 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	<i>Underway.</i> A draft law on work permits has been submitted to the Parliament and is currently with the relevant commission.
101. Complete by end-February 2002 legislation reducing the number of documents needed to obtain investment incentives		46	<i>Underway.</i> MoF (GD of Revenues) and Treasury coordinating relevant work.
102. Establish and implement by end-February 2002 an employee code of ethical conduct for proceedings at customs		46	<i>Underway.</i> A communiqué was issued on September 11, 2001.
103. Submit to the Council of Ministers by end-January 2002 legal amendments to strengthen the Turkish Patent Institute		46	<i>Underway.</i> Draft law has been submitted to the Prime Ministry and is expected to be opened to CoM signature soon.
104. The Council of Ministers to adopt a strategy by end-January 2002 for increasing transparency and combating rent-seeking activities	BM	47	<i>Done.</i> Decree signed on February 13
<p>105. Define and include as program conditionality concrete follow-up actions for the remainder of the 2002–04 program period based on the plan in #104:</p> <p>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</p> <p>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</p>	BM	47 and 18 of April 2002 LOI	<p><i>Done.</i></p> <p><i>Done.</i></p>

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<p>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</p> <p>i. Internal audit department to conduct an audit of foreign exchange management and program data as of end-2002 by May 15, 2003</p>	(ii) BM		