FOR AGENDA

SM/03/200
Supplement 1

June 5, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **The Fund's Transparency Policy—Issues and Next Steps**

The attached supplement on the Fund's transparency policy—issues and next steps, containing detail of approved deletions in Board documents discussed in the period March 1, 2002–March 25, 2003, is tentatively scheduled for discussion on **Friday, June 27, 2003**.

Given the market sensitive nature of this material, the staff does not propose the publication of this supplement after the Executive Board completes its discussion.

Questions may be referred to Mr. Gajdeczka (ext. 37124), Mr. Monroe (ext. 38020), and Ms. Tamirisa (ext. 34371) in PDR.

This document will be posted on the extranet shortly.

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INTERNATIONAL MONETARY FUND

The Fund's Transparency Policy—Issues and Next Steps
Supplementary Information

Prepared by the Policy Development and Review Department
(In consultation with other Departments)

Approved by Timothy Geithner

June 4, 2003

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Belize (A4)	SM/02/323, 10/15/02	References to balance of payments "crisis"	Highly market sensitive
Ecuador (A4/UFR request)	EBS/03/21, Sup. 1, 3/14/03	Privatization process of a specified bank	Highly market sensitive
Ecuador (SI)	SM/03/95, 3/13/03	Financial situation	Highly market sensitive
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	SM/03/95, 3/13/03	Financial sector vulnerability	Highly market sensitive
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Jordan (PIN)	PIN No. 02/51, 5/3/02	Exchange rate policy should be kept under review	Highly market sensitive
Kuwait (A4)	SM/02/360, 11/22/02	Need to improve data on international investment position and comply with Article VIII, Section 5	Highly market sensitive
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Lao (PIN)	PIN No. 02/114, 10/4/02	Reference in Board assessment to insolvency of named bank	Highly market sensitive
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	PIN No. 02/135, 12/10/02	Preliminary outcome of assessment of resilience to shocks	Highly market sensitive
Mexico (A4)	SM/02/260, 08/15/02	Introducing pre-established dates for central bank meetings	Highly market sensitive
	SM/02/260, 08/15/02	Concern at risk of possible downward correction of REER	Highly market sensitive
Nicaragua (TMU)	EBS/02/194, 11/20/02	Details of calculation of asset recovery for real estate cases	Highly market sensitive
	EBS/02/194, 11/20/02	Details of programmed financing from privatization receipts and asset recovery	Highly market sensitive

Country	Document No. Issue Date	References Proposed and Agreed	Ex-post Staff Evaluation
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Peru (A4/SBA 1st review)	EBS/02/199, 11/27/02	Removal of qualifiers for risks of dollarization	Highly market sensitive
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Philippines (PPM PIN)	PIN No. 02/41, 4/9/02	Deletion from Board assessment: need for central bank to purchase FX	Highly market sensitive
	PIN No. 02/41, 4/9/02	Reference to "unfunded liabilities"	Highly market sensitive
Saudi Arabia (PIN)	PIN No. 02/121, 10/25/02	Reference to forthcoming changes in taxes, fees and charges	Highly market sensitive
St. Vincent and the Grenadines (A4)	SM/03/25, 1/17/03	Reference to attack on private yacht and possible impact on tourism receipts	Highly market sensitive
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Tonga (A4)	SM/03/8, 1/13/03	Need for exchange rate depreciation	Highly market sensitive
	SM/03/8, 1/13/03	Problems of non-performing loan of a small commercial bank	Highly market sensitive
Tonga (PIN)	PIN No. 03/17, 3/24/03	Need for exchange rate depreciation	Highly market sensitive
	PIN No. 03/17, 3/24/03	Problems of non-performing loan of a small commercial bank	Highly market sensitive
Turkey (SBA request)	EBS/02/8, 1/18/02	Future reform of supervisory agencies	Highly market sensitive
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	EBS/02/8 Sup. 1, 1/25/02	Political interference in banks as reason for insolvency	Not highly market sensitive
	EBS/02/8 Sup. 1, 1/25/02	Characterization of increase in number of banks on watch list as "dramatic"	Highly market sensitive
	EBS/02/8 Sup. 1, 1/25/02	Efforts to raise capital might have stalled after rumors of government bailout scheme	Highly market sensitive
	EBS/02/8 Sup. 1, 1/25/02	Solvency support scheme may lead to fewer banks	Not highly market sensitive
	EBS/02/8 Sup. 1, 1/25/02	Expected merger of two large banks	Highly market sensitive

Country	Document No. Issue Date	References Proposed and Agreed	Ex-post Staff Evaluation
Turkey (A4 and 1st SBA review)	EBS/02/61, 4/4/02	Program's ambitious agenda could test cohesion of government coalition	Not highly market sensitive
	EBS/02/61, 4/4/02	Need for further decline in output to meet inflation target	Not highly market sensitive
Turkey (SBA 2nd review)	EBS/02/109, 6/20/02	Need for quick recapitalization of baking system	Not highly market sensitive
	EBS/02/109, 6/20/02	Rise and scale of companies at medium or high default risk	Highly market sensitive
	EBS/02/109, 6/20/02	Need for supervisory agency to deal with troubled banks	Highly market sensitive
	BUFF/02/91, 6/27/02 (staff statement)	Measures to preserve market and depositor confidence	Highly market sensitive
Turkey (SBA 3rd review)	EBS/02/137, 7/31/02	High interest rates could generate financial crisis	Highly market sensitive
	EBS/02/137, 7/31/02	Details of individual bank's transfer of connected loans	Highly market sensitive
Ukraine (A4)	SM/02/100, 4/1/02	References to financial situation of individual banks	Highly market sensitive
Uruguay (SBA2nd review)	EBS/03/27, Sup. 1, 3/10/03	Public sector wage increases	Highly market sensitive
	EBS/03/27, Sup. 1, 3/10/03	Future tariff increases for public enterprises	Highly market sensitive
Uzbekistan (SMP LOI/MEFP)	EBS/02/138, 7/31/02	Details of programmed decline in foreign exchange market spread	Highly market sensitive

Number of documents with deletions	Number of deletions
Recent Period	
26	**53**
May 2002 Review	
30	**46**

II. Detail of Deletions Approved by Management

(Board documents discussed during March 1, 2002 to March 25, 2003, and published as of April 25, 2003)

Belize (FO/DIS/02/253) Deletions/Modifications--Staff Report for the 2002 Article IV Consultation (SM/02/323, 10/15/02)

Page 3, paragraph 1, last line:

"Real GDP growth declined from 11 percent in 2000 to 5 percent in 2001, as a result of several hurricanes, terrorist attacks in the United States, and a shrimp-virus epidemic. Confidence was also affected by financing difficulties at the state-owned Development Finance Corporation (DFC) and the widening of the central government deficit from 10 percent of GDP to 12 percent in FY 2001/02 (fiscal year ends March). The fiscal deficit was financed from deposits at the Central Bank of Belize (CBB) that had been built up from earlier external loan disbursements. With this shift to domestic financing, the pace of public and publicly guaranteed external debt accumulation slowed, with external debt reaching 80 percent of GDP at end-2001 or 59 percent excluding publicly guaranteed debt. The expansionary fiscal stance, combined with the unchecked liquidity overhang in the economy, continued to fuel import demand exacerbating the foreign exchange queue, pressuring usable reserves of the CBB, widening the exchange rate spread in the parallel market, and increasing

the risk of ~~a~~ severe balance of payments ~~crisis.~~ difficulties"

Page 3, paragraph 2, line 1:

"The staff urged the authorities to implement measures to prevent ~~a crisis~~ such difficulties, noting that the level of usable reserves was at a critically low level. The main recommendations in the fiscal area included limiting the central government deficit to the budgeted 5 percent of GDP in FY 2002/03 by prioritizing government investment, and raising tax revenue to increase government savings in FY 2003/04. The staff also recommended a tightening of monetary policy to eliminate the excess liquidity in the system, while curtailing further DFC lending and reorganizing the entity to prevent further liquidity problems."

Page 11, paragraph 11:

"Policy discussions took place against a background of an increased risk of ~~a~~ severe balance of payments ~~crisis~~ difficulties. This risk was fueled by the continued high fiscal deficit and the accommodative monetary policy, and exacerbated by the solvency problems of the DFC and the adverse exogenous shocks. The staff urged the authorities to implement immediately forceful measures to reduce the fiscal deficit and eliminate the liquidity overhang in the economy. The authorities agreed that current policies were unsustainable and that policy corrections were necessary to prevent ~~a~~ severe balance of payments ~~crisis~~ difficulties and maintain the exchange rate peg. However, they pointed to the need to avoid harsh adjustment measures that could incur significant social costs. The staff pointed out that the demand dampening implications of the policy adjustment would coincide with a significant recovery in export activity that would underpin economic growth, while a reduction in central government investment expenditure would help reduce import demand. Also, the social and economic costs associated with a potential crisis would be greater than the costs associated with orderly, well-designed adjustment measures."

Page 20, paragraph 34, line 2:
"The authorities recognized that macroeconomic policies were unsustainable and that the economy was headed towards ~~a~~ severe balance of payments ~~crisis~~ difficulties. In an effort to avoid the disruptive social and economic costs of a crisis and pressure on the exchange rate, the authorities adopted strong corrective policies. The staff commends the authorities for these policies, particularly in the run-up to municipal and parliamentary elections."

Ecuador (FO/DIS/03/24) Deletions/Modifications—Staff Report for the 2003 Article IV Consultation, Request for Stand-By Arrangement, and Approval of an Exchange Restriction (EBS/03/21, Sup. 1, 3/14/03)

Page 18, second bullet, lines 2 and 5:
"**Banco del Pacifico** will hire an internationally recognized investment firm to prepare its sale (MEP, paragraph 19). Moreover, ~~to enhance the chances of a successful sale,~~ the staff recommends that the bank sell part or all of the capitalization bonds that it received in 2001-02, write off nonperforming loans, and recognize contingent liabilities. ~~Without these steps, interest in the bank may be limited.~~"

Ecuador (FO/DIS/03/24) Deletions/Modifications—Selected Issues and Statistical Appendix (SM/03/95, 3/13/03)

Page 47, line 3:
"... freeze of 1999. Third, the absence of a lender of last resort, the limited liquidity support provided by the existing mechanisms, and the lack of a credible deposit insurance. Fourth, the gradual strengthening of the financial situation of the banking system. Fifth, the role of the state-owned development banks in the financial system."

Page 47, paragraph headings:
"~~**Lack of fiscal consolidation**~~"
"~~**Lack of confidence in the system**~~"
"~~**Liquidity mechanisms and deposit insurance**~~"

Page 50, paragraph 111, lines 1-4 and 8-10:
"**Th~~ere are several sources of vulnerability related to the~~ financial situation of the private commercial banks is gradually being strengthened to limit vulnerability**. First, i ~~First, the capitalization levels are not yet adequate to face a major run or to allow the system to grow on a sustainable basis. I~~n October 2001, the SBS started a program of semi-annual steps (of capital increases) for the banks to reach Basle capital adequacy criteria by

November 2003. Under this program, banks should meet a ratio of tier-one to tier-two capital of 100 percent by the deadline. As a result, banks have been improving their capital adequacy ratios~~, but if Basle standards were applied today, a few banks would still have a shortfall. The current owners of these banks have found it difficult to make the required capital contributions~~."

Page 51, paragraph 118, lines 2-6:

"The recent experience of other highly-dollarized countries in Latin America shows that during a crisis a substantial decline in deposits ~~as large as 50 percent of total~~ in a few weeks is not unprecedented. In such an event ~~of such proportions~~, Ecuador would need ~~about US$1 .8 billion from the~~ large banking system reserves to cover sight deposits and those with maturities of up to 30 days~~; the amount will reach US$2.1 billion if 50 percent of all deposits were withdrawn~~. In the absence of a lender of last resort, these resources will need to come from the banks' own liquidity cushions."

Page 53, paragraph 128, lines 2, 7-14:

"A third proposal has been built around the recent experience of other highly-dollarized countries, where a large loss of ~~50 percent of~~ deposits occurred in a few weeks. Using this as a benchmark, a larger liquidity fund could include the resources that are now invested as short-term foreign assets, the legal reserve requirements at the BCE, and the contribution to the existing liquidity fund (1 percent of deposits). At the end of 2002, these components combined were equivalent to US$1.4 million or about 39 percent of all deposits or 46 percent of sight deposits in commercial banks (Table VII. 1).[42] ~~This means that in order to cover 50 percent of sight deposits about an additional US$116 million will still be needed. To cover sight deposits plus those with maturities of up to 30 days, another US$411 million would be needed. The liquidity needs would be even larger during a major deposit run if foreign creditors refuse to roll over the banks' normal credit lines (estimated at US$510 million at the end of 2002).~~ The ~~additional resources~~ liquidity needs from banks' own sources ~~needed~~ will be less if the existing contribution of the government in the current liquidity fund ~~(US$74 million)~~ would be transferred to the new liquidity fund."

Fiji (FO/DIS/03/1) Deletions/Modifications—Staff Report for the 2002 Article IV Consultation (SM/02/235, 7/22/02)

Page 9, paragraph 15, lines 15 and 16:

"The banking system appears to be essentially sound, and the regulatory and supervisory environment is broadly adequate and effective (Table 6).[6] The Fijian financial system is dominated by a few foreign banks and the FNPF. Although the economic recession led nonperforming loans of commercial banks to rise to 7.1 percent of loans and advances in 2000, the ratio has declined since then. With little in the way of syndicated lending, banks have had relatively large single-party exposures (typically to tourist resorts), but they are relatively well diversified across sectors. They are also in a position to draw on their foreign parent bank's capital in an emergency, within limits. Consequently, the mission's assessment was that the banking system was not highly vulnerable to external

macroeconomic shocks, but domestic political and economic uncertainties were appropriately fostering cautious behavior by the banks. For other financial institutions, asset quality has generally been weaker than for the commercial banks, partly reflecting their greater exposure to loans adversely affected by the problems in the sugar sector. Partly for this reason, and given the RBF's strong reputation and skilled staff, the mission supported proposals to expand its supervisory coverage to other institutions~~, beginning with the larger institutions such as the FNPF and the Fiji Development Bank~~. The RBF is also agreeable to an FSAP mission in 2003. Although Fiji has no offshore banking center, the mission commended the authorities for addressing the issue of money laundering and other financial crimes, notably through the establishment of a Financial Crimes Unit, and their inspection of around
30 percent of bank accounts (by value)."

Pages 9 and 10, paragraph 16:
"Fiji's monetary framework is based on the long-established peg of the Fiji dollar to a basket of major trading partner currencies, which provides a nominal anchor for monetary policy. Discussions with the authorities and the private sector suggested that, since the 20 percent devaluation in 1998, the Fiji dollar has remained competitive. Although export earnings were harmed by the trade sanctions and the deterioration of the sugar sector, the lifting of sanctions and strong increases in tourist arrivals have led to a significant improvement in the current account balance that is expected to be sustained through the medium term. Against this background, the mission endorsed the authorities' intention to retain the currency peg, but to move cautiously in the direction of slightly greater exchange rate flexibility in order to facilitate the further relaxation of exchange controls, as well as helping to provide a buffer against external shocks. This is in line with the recommendations of a 1998 MAE technical assistance mission. Initially, a narrow band for exchange rate fluctuation ~~of, perhaps, 2 percent~~ on either side of the central rate is being considered~~ for introduction in coming months~~. The mission also agreed that movement in this direction needs to be approached carefully so as to avoid destabilizing exchange rate expectations.[7]"

Page 11, lines 6 and 7:
"The mission agreed that steps toward widening the margin of exchange rate flexibility around the peg and liberalization of remaining exchange controls should take place against a background of market confidence and supportive macroeconomic policies. In order to ensure that market expectations remain well anchored, fiscal and monetary policies need to be fully consistent with the maintenance of exchange rate stability. In this context, the mission indicated that an early move to fiscal consolidation would signal clearly the authorities' commitment to a sound fiscal strategy. It would also have a beneficial impact on the external current account and allow some build-up of reserves. Although Fiji's official reserves amply cover its external debt obligations, a higher level of reserves would provide greater assurance that the RBF would be in a good position to ~~defend the boundaries of the~~ contain exchange rate~~ band~~ pressures."

Page 15, paragraph 35, lines 6 and 7:

"**The staff endorses the continued pegging of the Fiji dollar to a basket of trading partner currencies, but also supports the cautious approach being taken toward increasing the flexibility of the exchange rate**. The peg of the Fiji dollar has provided an important anchor for Fiji's price performance and financial stability, and the currency is judged to be externally competitive. Somewhat greater exchange rate flexibility, however, ~~will~~ would facilitate the removal of exchange controls and financial sector development. Consideration of a slight ~~widening of the band~~ increase in the scope for exchange rate movements is appropriate,
and this will need to be accompanied by fiscal and monetary policies consistent with exchange rate stability, underscoring the need for fiscal consolidation."

Fiji (FO/DIS/03/2) Deletions/Modifications—Selected Issues and Statistical Appendix (SM/02/236, 7/23/02)

Page 24, paragraph 51:
"Commercial banks' gross NPLs (recognized at 90 days past due) doubled in 2000, triggering a wave of charge-offs that eroded profitability. Asset quality problems remain fairly concentrated, exemplified by ~~an~~ a single exposure ~~to a hotel project~~ accounting for about 75 percent of one bank's gross NPLs. In the case of another bank, ~~US$500,000 of additional capital from its parent bank had to be brought in during 2001 after~~ problems with three or four large customers ~~had pushed the Fijian branch's~~ pushed its gross NPL ratio to about 36 percent."

Page 25, paragraph 52:
"Asset quality trends in the commercial banking segment have been mirrored in other parts of the system. ~~Despite the injection during 2001 of US$1.3 million of shareholder capital into one of the~~ The ~~licensed credit institutions, the~~ gross NPL ratio of the licensed credit institution segment as a whole increased to 17.6 percent of loans and advances by end-2001. ~~Problems~~ The situation at the FDB ~~are more severe~~, reflecting its public policy role, is more difficult with gross NPLs peaking at 26.8 percent at end-2001. Loans to the sugar sector, constituting about 8 percent of the FDB's portfolio, remain a cause for concern."

Jordan (PIN No. 02/51) IMF Concludes 2002 Article IV Consultation with Jordan

Executive Board Assessment, paragraph 4:
"Directors noted that the current peg to the U.S. dollar and the supporting monetary policy have been effective in bringing inflation down to industrial country levels and fostering confidence in the Jordanian dinar. The strong export performance in 2001 provides assurances that, despite the recent appreciation of the real effective exchange rate, competitiveness is not an immediate concern. Directors, however, underscored the

importance of maintaining a comfortable level of reserves and using interest rate policy to withstand possible exchange rate pressures. ~~Exchange rate policy should also be kept under review in light of developments in competitiveness and external performance.~~ Directors noted that Jordan's banking system appears to be generally sound. They commended the authorities' ongoing efforts to strengthen banking regulations and supervision, and looked forward to Jordan's participation in the FSAP. The authorities' commitment to combat money laundering and the financing of terrorism, including action to freeze the assets of terrorists, was welcome."

Kuwait (FO/DIS/02/263) Deletions/Modifications-Staff Report for the 2002 Article IV Consultation (SM/02/360, 11/22/02)

Page 3, under Staff Appraisal, third bullet:

"Good progress has been made in the collection and dissemination of economic data. Arcas needing further improvement include the national accounts, private capital flows, foreign direct investment, and consistency of national accounts data with the balance payments~~, and provision of data on the public sector's international investment position (IIP)~~.

Pages 20 and 21, paragraph 33:

"**There has been significant improvement in Kuwait's economic database since the last Article IV consultation, particularly in national accounts and balance of payments data, and their reporting**. The authorities' participation in the GDDS and the ongoing efforts to update their statistical database are commendable. Kuwait has benefited from technical assistance cooperation with the Fund in the area of national accounts, with a resident Fund advisor during 2001/02. There is a need for further improvement in statistics, particularly in the areas of aggregate expenditure, nonfinancial sector private capital flows, FDI, and the national accounts' consistency with the balance of payments data. Similarly, collection and sharing of data on the private sector external debt will be useful, and better labor market data will help improve the formulation of policies to address potential unemployment pressures. Furthermore, improvement in the currentness of fiscal data submitted for publication in the Fund GFS would be helpful, as would the publication of the newly rebased consumer price index (CPI) data. [24] The authorities reiterated their commitment to continue with efforts to improve further the availability, currentness, transparency, and publication of relevant data, which they considered as critical in their policymaking process. The authorities noted that given the openness of the economy and the lack of administrative capacity, they were not able to collect information on the private sector's international investment position (IIP).

~~"33. The above-mentioned improvements notwithstanding, Kuwait is not presently providing the Fund with all the available information on the country's IIP that is required under Article VIII, Section 5.~~[25] ~~The authorities noted that given the openness of the economy and the lack of administrative capacity, they were not able to collect information on the private sector's IIP. As for the public sector's IIP, while the authorities do disclose all information on the CBK's foreign assets and on the foreign asset position of other state enterprises (available in the annual reports of such entities, which are autonomous and operate as commercial~~

~~concerns), the information provided by the authorities did not include other official foreign assets, which are maintained by the RFFG. Under Kuwaiti laws, the authorities are prevented from providing information on the size of these assets. Based on publicly available information, which is derived from official sources, assets held by the RFFG are estimated to have been about US$55 billion at end-2001. When discussed with the authorities, they broadly agreed with this order of magnitude. The mission urged the authorities to provide the available data on Kuwait's IIP as soon as possible."~~

Page 20, Footnote 25:
~~"[25] Under Article VIII, Section 5, members are required to provide the Fund with information on the international investment position (IIP) of the country, as far as it is possible to furnish this information."~~

Page 23, paragraph 41:
"Kuwait's participation in the GDDS and the ongoing progress in the development and dissemination of economic data are commendable. There have been welcome improvements in national accounts and balance of payments data, and their reporting. With regard to the balance of payments, analysis of developments is complicated by large errors and omissions, which are mainly attributed to the unavailability of data on capital flows of the nonfinancial private sector. It is to be hoped that accelerated efforts will be continued to further improve national accounts data on aggregate expenditure, nonfinancial private capital flows, foreign direct investment, and to improve the consistency of national accounts with the balance of payment data. In addition, the staff believes that collection and sharing of more comprehensive data on the labor market will help improve the formulation of policies to address the unemployment pressures. ~~As noted in paragraph 33, Kuwait is not presently reporting the information on the country's IIP that is required under Article VIII, Section 5.~~ The staff recognizes technical difficulties, which do not permit Kuwait to collect and share information on the private sector's IIP ~~and urges the authorities to resolve the legal impediments inhibiting the disclosure of information on the public sector's IIP in the coming year. The staff will continue to work closely with the authorities on this issue.~~"

Lao P.D.R. (FO/DIS/02/242) Deletions/Modifications— Public Information Notice for the Staff Report for the 2002 Article IV Consultation (PIN/02/114, 10/4/02)

Executive Board Assessment, paragraph 4:

"Most Directors considered the phased approach to bank restructuring to be appropriate, given the significant capacity and institutional constraints that the authorities are facing. It will nevertheless be important to ensure that the reform process remains firmly on track. Priority should be given to improving loan quality and strictly applying commercial lending criteria, which will require the elimination of political interference, stronger bank supervision with Fund technical assistance, and the full use of foreign management expertise. Directors welcomed the plan for the upfront restructuring of ~~the insovlvent Lao May Bank~~ one of the distressed banks, while urging close monitoring to ensure that the plan is fully implemented. They emphasized that the removal of restrictions on nationwide operation of foreign banks would significantly add to competition and result in higher quality services. A few Directors expressed concern about the dominant role of the SCBs in the banking sector and recommended more emphasis on privatizing them."

Lao P.D.R. **(FO/DIS/02/229) Deletions/Modifications—Staff Report for the 2002 Article IV Consultation, Second Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria (EBS/02/129, 7/15/02)**

Page 12, Box 2, paragraph 3, lines 1-6:

"The Power Purchasing Agreement (PPA) was re-initialed in July ~~February~~ 2002 by EGAT and NTEC ~~GOL~~. Under the PPA, EGAT would buy the 995~~20~~ megawatts ~~at 1.57 baht (3.65 cents at current exchange rates) per kWh or around 11 billion baht ($220 million)~~ per year over the 25-year contract term based on a negotiated tariff schedule. ~~Revenues to the government should average about US$81 million per year over the 25-year period.~~ Under the financial arrangements, GOL's share in revenues will be significant but back loaded. After about 10 years the GOL share would be 25 percent ~~($55 million)~~ and would rise sharply thereafter, to 47 percent of the cumulative revenues by the end of the concession period (2033). Subsequently, the project would be transferred to the GOL, which would then retain 100 percent of revenues. During the construction period, the project is expected to add as much as one percentage point to real GDP growth per year."

Malaysia (PIN No. 02/135) IMF Concludes 2002 Article IV Consultation with Malaysia

Executive Board Assessment, paragraph 6:

"Directors noted that Malaysia's strengthened fundamentals are supportive of the exchange rate peg as a stability anchor, and that the value of the ringgit does not appear to be misaligned. They welcomed the authorities' commitment to ensure competitiveness through deepening structural reforms, as well as their readiness to continue to monitor the situation closely. In light of this, a number of Directors supported maintaining the present policy. While they saw no imminent need to reconsider the peg at this time, many other Directors were of the view, however, that a carefully prepared move toward a more flexible exchange rate regime would broaden Malaysia's options over the medium term to cope with future shocks and manage risks associated with capital flows, including by alleviating the burden on fiscal policy to deal with future aggregate demand shocks. Any move toward a flexible exchange rate system should preferably take place from a position of strength, at a time of favorable market conditions, and be accompanied by the adoption of an alternative monetary policy framework. ~~In this regard, some Directors noted that Malaysia has already made good progress in meeting the preconditions for a successful move to a flexible exchange rate.~~While recognizing that capital controls have played a role in helping Malaysia to regain financial stability, and that most of the remaining measures are mainly capital account regulations of a prudential nature, a few Directors encouraged the authorities to further relax them."

Executive Board Assessment, last paragraph:

"~~Directors generally welcomed the broad-based, yet preliminary, assessment of Malaysia's resilience to shocks, which suggests that the risks to the near- and medium-term outlook are low at present. They noted that in the period ahead, the main risks to Malaysia's outlook, given its large degree of openness, include a significant slowdown in external demand and net capital inflows, as well as risks of large movements in regional currencies. Further regional and multilateral trade integration holds both challenges and opportunities which will require close policy attention, in particular continued efforts to improve productivity and skills.~~"

Mexico (FO/DIS/02/248) Deletions/Modifications—Staff Report for the 2002 Article IV Consultation (SM/02/260, 8/15/02)

Page 19, lines 1 and 2:

"**The authorities noted their intention to formalize further the inflation targeting framework adopted in 2001 (Appendix Box 4).** They indicated that they are considering the adoption of a long-term inflation objective, ~~and the introduction of pre-established dates for meetings of the BOM~~ in order to enhance the transparency of monetary policy and to improve communications with the markets. Also, while weight is being given to core inflation in setting monetary policy, formal inflation targeting would continue to be based on the "headline" inflation rate. In the latest inflation report, the BOM announced an inflation objective of 3 percent for 2004 and beyond with a band of plus/minus 1 percent."

Page 23, paragraph 36, lines 4 and 5:
"Despite the recent depreciation of the peso, **the real effective exchange rate has appreciated significantly in recent years (see Figure 5)**~~, raising some concern about the risks of a possible sharp downward correction~~. The authorities stressed that the sustained increase in export market shares and the recent narrowing in the non-oil current account deficit (cyclically adjusted) indicated that Mexican exports remained competitive (Figure 14).[30] More fundamentally, staff agreed with the BOM that additional structural measures would be an appropriate means to further increase productivity and that targeting the level of the exchange rate would be inappropriate in the context of their inflation-targeting framework."

Page 31, paragraph 54, line 3:
"The authorities' intention to strengthen further the inflation targeting framework is commendable, including the announced adoption of a long-term inflation objective for 2004 and beyond, ~~and the introduction of pre-established dates for meetings of the Bank of Mexico~~ in order to enhance the transparency of monetary policy and to improve communication with the markets. Use of the corto continues to be a flexible and efficient monetary policy instrument that allows for appropriate adjustments in interest rates in response to economic shocks. However, moving to the direct targeting of short-term interest rates should be an element of a more formalized inflation targeting framework. This would enhance transparency in the conduct of monetary policy and, by reducing the volatility of interest rates, help decrease the vulnerability of domestic debt (given the high proportion that is still linked to short-term and floating interest rates)."

Page 32, paragraph 56, line 5:
"The present level of international reserves is reasonably adequate in the context of a flexible exchange system; they more than fully cover short-term liabilities on a residual maturity basis. Importantly, reserves are invested in assets that are unencumbered and freely usable. Nevertheless, the strength of the peso continues to pose a few concerns regarding the competitiveness of the traded good sector~~ and the risk of a possible sharp correction~~. These concerns are tempered by the sustained increase in export market shares and the improvement in the (cyclically adjusted) non-oil current account deficit. Further, the timely implementation of the additional structural measures proposed by the authorities would increase productivity and competitiveness."

Nicaragua (FO/DIS/02/265) Deletions/Modifications—Technical Memorandum of Understanding (EBS/02/194, 11/20/02)

Page 95, paragraph 23, lines 8-17:

"**The requirement to sign the contract with an international firm to implement asset recoveries** will be considered met after the signature of a contract containing the following elements (i) provide incentives conducive to the sale of all assets at market-determined prices within the timeframe of the contract; (ii) put all assets received by the BCN at the disposal of the firm, with the only exceptions of claims that have been previously verified as fraudulent (assets or debtors that do not exist, or cases of identity fraud), assets sold or credits paid before the start of operations of the firm; (iii) allow the final sale decisions to be taken by the outsourcing firm~~, except in real estate cases when the proposed prices are lower than the estimated liquidation value set by the independent consultants by at least 50 percent, in which case the procedure will be the following: (1) For the real estate with book value from US$0.5 to US$1 million, the BCN will reserve the right to reject the offer recommended by the firm, in this case the firm will determine the new mechanism to sell those assets, and the BCN will accept the new recommendation of the firm; (2) For real estate with book value equal or higher to US$1 million, the BCN reserves the right to reject twice the recommendations made by the firm. In this case, the firm will determine the mechanism to sell those assets. The third recommendation of the firm will be accepted by the BCN and the sale will be definitive~~; and (iv) provide contractual assurances for the firm to make decisions independently from any government agency."

Page 98, paragraph 37, lines 2 and 3:
"**Privatization receipts** are defined as payments received by the government in connection with the sale of state assets net of any fee. ~~The programmed amounts consistent with this definition are shown in Table 1 attached.~~ Privatization revenues in foreign exchange are those recorded as such in the balance of payments."

Page 98, Table 3, columns 1 and 3: deleted

Pakistan **(FO/DIS/02/56) Deletions/Modifications—First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria (EBS/02/43, 3/12/02)**

Page 58, paragraph 18, lines 21 and 22:
"To underpin the revenue effort, prior to the Board discussion of this review, the government will approve elimination of the GST exemptions on pharmaceuticals, effective from April 1, 2002, which will generate an estimated revenue gain of PRs 6 billion (on an annual basis). ~~Furthermore, we will eliminate the GST exemption on edible oil and vegetable ghee by mid-2002.~~ Nontax revenue will be boosted by larger-than-budgeted dividends and higher defense services receipts."

Page 59, paragraph 20, lines 12-15:
"Tax policy (see above) and tax administration reforms are on track. The new

organizational set-up for CBR headquarters has been completed in February, the publication of rules and regulations for record keeping under the new income tax law remains scheduled for March; a proposal for revised income and sales tax appeals and dispute resolution process is under preparation, and the normal penalty regime for GST on retailers will be established by end-March. With Fund and World Bank support, the further work for the CBR reform project will proceed in the months ahead, as outlined in the strategy document prepared in late 2001. We remain committed to granting no new tax exemptions to private operators, except for exempting, for 20 years, the import of ships from import duties and shipping companies registered in Pakistan from income tax. Instead, a tonnage tax (US$1 per ton for ships registered in Pakistan) will be imposed. This approach is consistent with the maritime shipping strategy adopted in mid-2001, designed to reverse the rapid decline of the Pakistani shipping industry over the last decade, as more and more ship owners moved to flying flags of countries with full tax exemption. Since virtually no revenues are currently collected from shipping, the revenue impact of this measure is expected to be positive. ~~We have adopted a timetable for reducing the GST subsidy on electricity, starting with the introduction of a 5 percent GST on electricity with the 2003/04 budget. We will eliminate the subsidy in 2005/06, except for a lifeline consumption to protect the poor.~~"

Page 67, Table 2, fourth structural performance criterion:
"~~Adopt timetable for the reduction of the GST subsidy on electricity starting with the 2003/04 budget and of GST exemptions for edible oil, vegetable ghee and pharmaceuticals (excluding life saving drugs) (as described in the MEFP, paras. 20 and 18, respectively).~~"

Page 69, Table 2, second bullet item under the third prior action:
"~~GST exemption for edible oil and vegetable ghee effective July 1, 2002.~~"

Peru (FO/DIS/03/15) Deletions/Modifications—Staff Report for the 2002 Article IV Consultation, First Review Under the Stand-By Arrangement, and Request for Modification and Waiver of Performance Criteria (EBS/02/199, 11/27/02)

Page 8, Box 1, paragraph 3, line 2:
"The authorities are also requesting a **waiver** for the nonobservance of the end-September performance criterion on the NDA of the central bank~~.~~, as at that point the NDA ceiling was not consistent with the annual inflation target under the inflation –targeting framework.

Page 10, paragraph 11, line 1:
"**Financial dollarization remains pervasive and is a ~~significant~~ source of vulnerability** (Box 2). Dollarization in Peru has been high since the late 1970s (except for a brief period in the late 1980s), with some 70-80 percent of the financial system now denominated in dollars. However, considerable risks arise because the real economy is much less dollarized (only about 40-50 percent of bank clients' earnings are estimated to be in dollars). As a result, even though banks carry long positions in foreign currency, they are indirectly exposed to credit risk in case of a sharp depreciation of the currency. There were some signs of de

dollarization between the second half of 2001 and mid-2002 (with low inflation and a stable exchange rate), but this has since been reversed reflecting political uncertainty and regional concerns."

Page 11, Box 2, paragraph 1, lines 1 and 8:

"**The banking system is highly dollarized, very liquid, and with ~~significant~~ indirect exposure to exchange rate risk in its credit portfolio**. Liquidity risk is limited given banks' high reserves in foreign currency, relatively low and declining short-term external liabilities, small maturity mismatches, and potential access to U.S. dollar credit facilities from the BCRP (supported by the BCRP's sizable net international reserves). Direct risk of an exchange rate depreciation is mitigated by the banks' long net position in foreign currency. The average non-performing loan ratio in U.S. dollars has declined from 10.3 percent at end 2000 to 8.6 percent at end-September 2002, and is slightly higher than that in local currency. However, some estimates suggest that 50-60 percent of credit to the private sector in foreign currency is to clients that could be ~~seriously~~ affected by a large depreciation (given the currency composition of their balance sheets and income and expenditure streams). Banks consider that in case of a sharp devaluation the sizable long position in foreign currency would generate resources to help provision against any rise in nonperforming loans."

Page 23, paragraph 43, line 1:

"**While the baseline medium-term outlook is favorable, there are ~~important~~ risks**. In particular, the high degree of dollarization and the relatively large public debt imply that Peru will remain vulnerable to adverse shocks for some time. A severe but short-term financial shock would affect growth as the anticipated recovery in private investment would likely be delayed; such a shock would probably require some tightening of monetary policy, but contingency financing plans could allow the fiscal program to proceed without abrupt changes. A more permanent financial shock would require a tightening of the fiscal stance. Given the external environment, and the risk that the domestic political situation poses to tax reform and decentralization (and thus to medium-term sustainability), the authorities should develop a contingency plan for fiscal measures that could be implemented if needed."

Philippines **(PIN No. 02/41) IMF Concludes Post-Program Discussion on the Philippines**

Executive Board Assessment, paragraph 4, line 4:

"Directors supported the authorities' plans to limit spending. They expressed concern, however, that any restraint might be difficult to reconcile with the government's plans for reducing poverty, further stimulating growth and improving infrastructure. They also noted that further spending pressure is likely to arise from contingent liabilities, notably ~~the unfunded obligations~~ those of the social security system and National Power Corporation. Directors recommended that the authorities free up funds for priority spending by implementing the long-planned government streamlining, and protect the budget by restoring the social security system to financial health. Even with these measures, Directors considered, a greater focus on revenues will ultimately be needed if the desired fiscal consolidation is to be achieved."

Executive Board Assessment, paragraph 6, lines 3-6:
"Directors commended the Bangko Sentral for its prudent conduct of monetary policy, and welcomed the adoption of a formal inflation-targeting framework in January 2002.~~ They noted that the central bank will need to purchase additional amounts of foreign exchange in the market this year to maintain adequate reserves without building up excessive debt. This, however, should not be allowed to deflect monetary policy from its primary objective – that of controlling inflation.~~"

Saudi Arabia (PIN No. 02/121) IMF Concludes 2002 Article IV Consultation with Saudi Arabia

Executive Board Assessment, paragraph 3:
"Directors stressed that the reduction in the budget deficit will require both a broadening of the non-oil revenue base and a reduction in expenditure. On the revenue side, they urged the authorities to expedite the implementation of the proposed income tax~~ and its extension to Saudi income earners, the upward adjustment of fees and charges, and the introduction of the planned value-added tax (VAT).~~. Some Directors suggested that the introduction of a sales tax might be useful as an interim measure pending the implementation of the VAT. Directors also urged the authorities to accord continued high priority to strengthening and modernizing revenue administration."

St. Vincent and the Grenadines (FO/DIS/03/9) Deletions/Modifications—Staff Report for the 2002 Article IV Consultation (SM/03/25, 1/17/03)

Page 3, line 3:
"~~3. The National Commercial Bank (NCB) ...15~~"
"~~I. Fiscal and External Sustainability...41~~"

Page 7, paragraph 7, lines 5 and 6:
"**The external current account deficit in 2002 is estimated to have been broadly unchanged at 11¾ percent of GDP (Table 6).** Despite an increase in volume, export receipts from bananas remained flat because of lower international prices. Tourist receipts are expected to be somewhat lower than in 2001 reflecting a significant drop in arrivals, especially in yachting business~~ following a violent attack on a private yacht in February that received widespread negative publicity~~. The financial and capital accounts are expected to be broadly the same as last year. The real effective exchange rate, which was roughly unchanged in 2001, depreciated by close to 3 percent through end-October 2002,[3] largely reflecting the weakening of the U.S. dollar."

Page 14, paragraph 25, lines 2 and 3:

"The banking system has a strong foreign-owned sector (dominated by a few large banks), but ~~the state-owned National Commercial Bank (NCB) is weak and needs restructuring (Box 3). T~~the ratio of nonperforming loans to total loans for the banking sector as a whole rose from 13 to 141/2 percent in 2002.~~, largely on account of the NCB. Restructuring of the NCB has begun and internal controls are being bolstered. Progress in strengthening the NCB's performance is an important step towards its future divestment.~~ On a broader level, commercial banks continue to face competition from an essentially unsupervised nonbank sector.~~, primarily insurance companies.~~ The plans for setting up an umbrella agency to supervise and regulate all nonbank institutions, drawing on CARTAC's assistance, should be completed as soon as possible. Contrary to the advice of CARTAC, the authorities do not intend for the planned umbrella agency to cover the supervision of registered agents and trust companies, which is expected to remain under the Offshore Financial Authority (OFA)."

Page 15, Box 3: delete Box 3.

Page 26, Table 4, footnote 2:
"~~[2] Public entities whose operations not accounted in public sector accounts includes the call centres and Development Bank.~~"

Tonga (FO/DIS/03/12) Deletions/Modifications—Staff Report for the 2002 Article IV Consultation (SM/03/8, 1/13/03)

Page 3, fourth bullet, lines 3 and 4:
"The staff stressed that, in the absence of corrective measures, gross reserves could fall below one month of imports of goods and services. Fiscal adjustment, supported by an immediate tightening of monetary policy~~ and some further real depreciation of the exchange rate~~, could restore reserves to two months of imports and contain inflation and preserve stability in the near-term."

Page 13, paragraph 16:
"The authorities recognized that maintaining exchange rate flexibility to preserve competitiveness and to protect reserves has been increasingly difficult. The staff commended the authorities for increasing the flexibility of the pa'anga in recent years in response to the shocks faced by the economy, but warned that the exchange rate policy had become more erratic recently and pressure to fix the value of the pa'anga relative to the U.S. dollar needed to be resisted.[8] The authorities emphasized that the pressure has been difficult to resist in light of the increased foreign exchange losses faced by several large companies in key sectors of the economy.~~ The staff noted that some further depreciation of the pa'anga would be needed to reverse part of the real appreciation of the exchange rate that was triggered by the rapid growth in bank credit.~~ In reviewing the exchange rate system, discussions with the authorities and the private sector confirmed that approvals for current international transactions were granted bona fide.[9]"

Page 14, paragraph 17, lines 8-13:
"Tonga's banking system has strengthened significantly over recent years, but some risks remain that need to be closely monitored.[10] Profitability and the ratio of nonperforming loans to capital have strengthened, mainly reflecting the restructuring of and improved management in the development bank and capital contributions from foreign shareholders to one major bank. ~~Some concerns arise, however, from the need to resolve the protracted problems experienced with nonperforming loans in MBf, a small commercial bank.~~ The authorities and the staff agreed on the need to monitor the risks associated with the rapid expansion of loans and their higher concentration at some individual banks to specific sectors (power and telecom), that are highly vulnerable to oil prices and exchange rate risk."

Page 18, paragraph 30, lines 3-6:
"Exchange rate policy should preserve competitiveness and ensure external viability. Recent attempts to peg the pa'anga against the U.S. dollar need to be resisted in light of the low reserves and weak macroeconomic fundamentals. ~~Even with a tightening of monetary conditions, some further depreciation of the pa'anga may be needed under the current system, to restore lost competitiveness and help build up reserves to more comfortable levels.~~"

Page 18, paragraph 31, lines 1 and 2:
"Some risks in the banking system need to be closely monitored. ~~A final resolution to the protracted problems in one small commercial bank is needed. In addition, t~~The loan concentration ratio at commercial banks has risen markedly, particularly to sectors highly vulnerable to external shocks and to a real depreciation of the exchange rate. This is particularly important given the relatively high single borrower limits and the lack of aggregate limits on lending to connected parties. A prompt amendment of the Financial Institutions Act should strengthen prudential supervision and the monitoring of risks in the financial system, as well as establish a mandatory reporting by commercial banks of suspicious transactions in the financial system."

Tonga (FO/DIS/03/12) IMF Concludes 2002 Article IV Consultation with Tonga (PIN/03/17, 2/24/03)

Executive Board Assessment, paragraph 4:
"Directors observed that exchange rate policy should aim at preserving competitiveness and ensuring external viability. They commended the authorities for increasing the flexibility of the pa'anga in recent years, and urged them to resist pressures to fix the value of the pa'anga against the U.S. dollar in light of the low level of official reserves and weak macroeconomic fundamentals. ~~It was noted that some further exchange rate action may be needed under the current basket peg system to restore lost competitiveness and help build up reserves.~~"

Executive Board Assessment, paragraph 7:
"Directors expressed concern about the rise in the loan concentration ratio at commercial banks in recent years, particularly to sectors that may be vulnerable to external shocks. They encouraged the authorities to strengthen prudential supervision through more frequent meetings with domestic institutions and foreign supervisory authorities, tighter single borrower limits and the introduction of an aggregate limit on loans to connected parties. In this regard, an amendment of the Financial Institutions Act would be helpful. ~~As in previous consultations, Directors urged the authorities to resolve the protracted problems with nonperforming loans in one small commercial bank to improve the asset quality and profitability of the banking system.~~ Directors welcomed the progress Tonga has made in dealing with anti-money laundering and other related initiatives, and urged them to take necessary further steps to combat terrorist financing."

Turkey (FO/DIS/02/199) Deletions/Modifications—Request for Stand-By Arrangement (EBS/02/8, 1/18/02)

Page 29, paragraph 32, lines 14-16:
"**The authorities agreed to bring their supervisory framework closer to international standards, and to strengthen the BRSA's supervisory and regulatory powers through amendments to the Banking Act** (¶35). The authorities intended to make several new prudential regulations effective in 2002, including adoption of International Accounting Standards, introduction of capital charges for market risks, and introduction of risk management systems. In addition, the staff stressed the critical importance of amending the banking law to allow BRSA to intervene and take over banks before they become insolvent, thus reducing the eventual cost to the government. It was also essential for the authorities to introduce legal changes as soon as possible, to create fast track procedures to facilitate writing down registered capital to reflect market losses, and to allow for the potential participation of the SDIF in the recapitalization of banks that continue to operate, Additional institutional changes in the supervisory area were discussed, but it was agreed that
these changes would be deferred so as not to interfere with the implementation of the public support scheme. ~~Such future reforms would include the transfer of oversight of leasing, factoring, and consumer finance activities to the BRSA, closer cooperation between on-site and off-site supervisors, and the institutional separation of the BRSA and SDIF.~~ Finally, the staff observed that in dealing with money laundering and financial crimes, appropriate rules and procedures were in place and were approved by the Financial Action Task Force in 1999. Banks in Turkey are required to know their customers, and since mid-2001 no banking transaction can be carried out without the use of a Tax Identification Number."

Page 30, paragraph 34, first bullet, lines 3-5:
"**Retrenchment in public enterprises** would address high labor costs, preparing the ground for privatization, and creating a supporting environment for disinflation (by

lessening the need for price increases to protect balance sheets). ~~The scope for reducing overstaffing is large: a study by the World Bank, covering one third of the state economic enterprise (SEE) workforce, counted 50,000 redundancies.~~ ~~(~~In total, SEEs presently employ 435,000 workers.~~)~~ The authorities agreed to undertake in January 2002 a comprehensive survey of redundancies in the public sector, followed by actions to eliminate the identified overstaffing (with tight controls to prevent re-entry) by mid-2003, with the bulk of the retrenchment to take place in 2002. The staff estimates that had such a labor force reduction been in place during 2001, SEE price increases could have been reduced by 5 percent with no impact on SEE primary surpluses. Alternatively, SEE primary surpluses would have been higher by 0.6 percent of GNP. Since cutting employment reduces the government's liabilities, the staff agreed to exclude net retrenchment costs (severance pay less wage savings) from the program's primary surplus calculation, up to a limit of TL 1.25 quadrillion (0.4 percent of GNP). The agreed cap allows for up to 80,000 redundancies eliminated by end-2002."

Page 70, Appendix III, item 26(b), last column:
"~~Commitments established for 11 banks;~~ SDIF intervened 5 banks on July 10; one bank intervened in November"

Turkey (FO/DIS/02/200) Deletions/Modifications—Banking System Developments and Reforms (EBS/02/8, Sup. 1, 1/25/02)

Page 2, footnote 2:
"~~[2]The fifth largest bank is affiliated and expected to merge with one of the largest banks.~~"

Page 3, paragraph 7, lines 2-5:
"**Until recently, the operations of state banks led to huge market distortions.** ~~Extreme political interference, under which banks were allocated to political parties for the purpose of providing subsidized credit to political constituencies, and run away accumulation of receivables from the government in the form of so-called "duty losses" brought the two largest state banks, Ziraat and Halk, to massive insolvency.~~ The accumulation of "duty losses" without regard to the banks' escalating liquidity needs and the lack of incentives to minimize the cost of their borrowing (due to yield formulae that were not linked to market rates), made these banks the source of massive distortions in the market and extremely vulnerable to liquidity and interest rate shocks. Chronic under-capitalization added to the distortions. These shortcomings now have all been dealt with as explained below. A third state-owned bank, Vakif, is in the process of privatization. One insolvent state bank, Emlak, was closed in 2001 and part of its balance sheet absorbed by Ziraat."

Page 6, paragraph 14, line 14:
"Although the books of the banks (except for SDIF and state banks, which have been through rigorous valuation exercises) do not yet show any significant deterioration in asset

quality, there are reports that the number of loans on banks' watch lists is increasing ~~dramatically~~. Partial data also indicate that banks' NPLs are highly concentrated: in the six largest banks some 50 borrowers count for nearly half of all recorded NPLs."

Page 12, lines 1 and 2:
"**The adverse macroeconomic environment and likelihood of increasing future credit losses has led the authorities to adopt a new strategy designed to support and protect the core private banking system.** The authorities expect banks to incur credit losses as a result of corporate distress in the face of falling demand and high real interest rates. The efforts in 2001 to raise private capital were important but insufficient to deal with the likely further deterioration in banks' financial condition. Planned mergers with strategic foreign partners appear to have stalled after the events of September 11. ~~Some efforts to raise capital also may have stalled after rumors of a government bailout scheme.~~"

Page 12, paragraph 26, penultimate line:
"**A solvency support scheme for private banks therefore has become the priority of the authorities in order to safeguard the core private banking system.** This is needed in addition to the general guarantee of all depositors and creditors already in place. Given the likelihood of larger additional credit losses in banks, and that additional capital from existing owners or new investors can be expected to be scarce, the authorities have designed a scheme that would provide public capital support. The scheme would safeguard the solvency, profitability and continued confidence in the banking system. The scheme will require that all
existing losses be identified by independent external audits and borne by existing owners. It is designed to show strong government support of the banking system, and create the conditions for renewed lending to the real sector, while minimizing up-front cash outlays for the SDIF and overall public sector costs. The scheme will be introduced in January 2002 and will be implemented by end-June 2002. It is expected to lead to a more efficient and profitable banking system with ~~a smaller number of~~ more risk-aware banks engaged in more lending to a less volatile corporate sector."

Turkey (FO/DIS/02/198) Deletions—Staff Report for the 2002 Article IV Consultation and First Review Under the Stand-By Arrangement (EBS/02/61, 4/4/02)

Page 42, paragraph 44, lines 6-8:
"**The results are encouraging, but downside risks remain.** The authorities' efforts have been rewarded by a more rapid decline in interest rates than assumed in the program, a strong balance of payments position and an associated appreciation of the lira, and a drop in inflation and in inflation expectations. At the same time, the balance of risks regarding the real GNP growth target of 3 percent for 2002 has shifted toward the downside, and concerns about possible military action in neighboring Iraq are keeping financial markets alert."~~Finally, the program's ambitious agenda could test the cohesion of the government coalition, especially if the economy does not recover soon.~~

Page 78, Appendix IV, paragraph 12:
"The presence of inflation inertia raises the question of whether this year's 35 percent inflation target can be reached without significant costs in terms of lost output." ~~Empirical estimates from OECD countries suggest that the "sacrifice ratio", defined as cumulative lost output (relative to potential) per percentage point reduction in inflation, is roughly 3. Taken literally, this would imply further absolute declines in output would be needed to meet the inflation target.~~

Turkey (FO/DIS/02/241) Deletions/Modifications—Second Review Under the Stand-By Arrangement (EBS/02/109, 6/20/02)

Page 13, paragraph 9, bullet 1, lines 7 and 8:
"With signs of a recovery increasing, the projection of 3 percent GNP growth for 2002 remained feasible. While the negative carryover from worse-than-expected fourth-quarter national accounts last year made it more difficult to meet this year's target, the improvement in both real sector indicators and business confidence strongly suggested that a moderate recovery had started in the first quarter, and looked set to continue. If the slowdown in real credit growth were to persist, this could eventually pose a threat to the sustainability of the recovery~~, pointing to the need to quickly recapitalize the banking system.~~. However, both international and historical experience suggested that credit growth should not pose a constraint in the early stages of recovery (Box 1). Thus the staff agreed with the authorities that the 3 percent growth target for 2002 was attainable.[2] However, if sustained, the impact of the recent increase in real interest rates would later need to be considered."

Page 14, Box 1, bullet 5, lines 2 and 3:
"Corporate financial distress has worsened. Istanbul Stock Exchange data show that the number of companies at medium or high risk of default has increased ~~dramatically~~ in the last two years.~~, with these companies now accounting for 89 percent of bank credit.~~ As a result, unless corporates can be made creditworthy (including through debt restructuring, firms will be forced to finance themselves through retained earnings)."

Page 34, paragraph 33, line 6:
"The BRSA should continue its good work on restoring the banking system to soundness. The BRSA's handling of the private bank audit and recapitalization exercise has been impressive, and in line with international best practice. In this regard, the BRSA's recent courageous decision to take over a deeply insolvent medium-size bank is particularly commendable. Looking ahead, the BRSA should remain vigilant in monitoring developments ~~and dealing with trouble banks~~, continuing to stick to international best practice. With the audit stage of the exercise now completed, the recapitalization scheme needs to be brought to an early and successful conclusion. This will help ensure that the banking system is strengthened and credit restored in a lasting way. The increased transparency in SDIF

operations and the SDIF's determination to resolve the banks remaining under its control are also welcome. While the operational restructuring of state banks (Ziraat and Halk) is making good progress, further delays should be avoided in the privatization of Vakif Bank. As a complement to these banking reforms, the adoption of the Istanbul Approach for corporate debt restructuring, as well as the planned improvements in the legal framework for bankruptcy, are welcome initiatives."

Turkey (FO/DIS/02/244) Deletions/Modifications—Statement by the Staff Representative on Turkey (BUFF/02/91, 6/27/02)

Page 1, paragraph 4, line 2:
The authorities have followed up on the private bank audit and recapitalization Exercise.~~:~~

Page 1, paragraph 4, first bullet deleted:
~~**They have taken measures to preserve market and depositor confidence.** There has been, as expected, some flight to quality within the banking system following the intervention in Pamuk bank. Although deposit withdrawals have been concentrated in this bank, Yapi Kredi (which before the intervention was controlled by Pamuk's owner) has also lost deposits. The liquility needs of both banks have to date been handled within existing CBT lending arrangements. As a contingency, the CBT has established a special repo window priced above its normal operations and with a maximum one week maturity. In addition, the CBT and BRSA are meeting on an ongoing basis to monitor and coordinate on liquidity developments.~~

Page 2, first sentence deleted:
"~~**The BRSA has also provided additional information on the audit results.**~~ As noted in Box 4 in the staff report, the targeted assessments (based on two audits) showed the level of nonperforming loans (NPLs) in 26 privately owned banks to be 16 percent of total loans at end-2001, compared with the earlier reported 5 percent. The NPL estimate has now been updated to reflect two developments. First, the intervened Pamuk bank has been excluded, leaving 25 banks to be covered. Second, given uncertainties about the financial condition of the common shareholder in Pamuk and Yapi Kredi, the BRSA decided that out of prudential caution Yapi Kredi needed to classify all its connected loans as doubtful and make provisions (net of collateral) equal to 50 percent of the outstanding amount of connected loans. These two changes raised the NPL ratio for private banks to 25 percent. Even with the increased provisioning requirements, Yapi Kredi's capital adequacy ratio is 10.2 percent."

Turkey (FO/DIS/02/254) Deletions/Modifications—Third Review Under the Stand-By Arrangement (EBS/02/137, 7/31/02)

Page 22, line 10:
"In this scenario, while financing in 2002 may be manageable, with the drawdown of deposits and the use of Fund disbursements allowing for quite low government debt rollover rates, financing the 2003 budget could be problematic. A sharp increase in demand for treasury bills would be required, similar in size to that which occurred post-September 11. However, this increase in treasury bill demand was achieved in large part because market confidence improved dramatically in anticipation of additional Fund financing. Without a clear and quick resolution of political uncertainty following the election, markets could regard the 2003 program as under-financed. This would keep interest rates high and maturities short, and could ~~genenate a self-fulfilling financing crisis~~ increase tensions in financial markets."

Page 29, paragraph 29, line 5, footnote 8 deleted:
"~~Some US$2 billion in connected loans from Pamukbank are in the process of being transferred to the COD. The current stock of COD assets has a face value (including accrued interest) of more than US$11 billion, including US$5.3 billion owed by former bank owners and US$3.5 billion by large corporations.~~"

Ukraine (FO/DIS/02/201) Deletions/Modifications –Staff Report for the 2002 Article IV Consultation (SM/02/100, 4/1/02)

Page 11, paragraph 14:
"**The situation of ~~the two state-owned banks, Savings Bank and UkrExport-Import Bank,~~ a few commercial banks is worrisome.** ~~Both~~ These banks do not comply with minimum capital requirements and are undergoing rehabilitation programs. The NBU has undertaken ~~an~~ on-site ~~inspection of the Savings Bank, which~~ inspections of such banks, some of which had been delayed since mid-2001. Household deposits ~~in the Savings Bank (which enjoy a full state guarantee) amount to 1 percent of GDP and its loan portfolio more than doubled over the last twelve months~~ and loans portfolios continue to grow rapidly in some of these banks, notably to the agricultural and energy sectors. ~~Under the Law on Banks and Banking Activity, the appointees to the Supervisory Council of the Savings Bank are selected through a political process and included parliamentarians and private commercial bankers~~There have been instances of political appointments to the Supervisory Councils of banks."

Page 20, paragraph 34:
"The discussions on the **banking sector** focused on measures needed to shore up the financial position of ~~the Savings Bank. On the basis of the recently conducted on-site inspection of the Savings Bank, a medium-term strategy to restore the bank's financial position,~~some banks, and a corresponding medium-term strategy will be developed in close cooperation with the World Bank. The authorities stressed that the situation of ~~the Savings Bank and UkrExport-Import Bank~~ these banks is being followed closely, and that the work program to increase provisions against bad loans to the required levels is on track. The staff

argued for immediate actions to curtail the excessive growth of lending by ~~the Savings Bank and to improve corporate governance in both state owned banks.~~these banks and to improve corporate governance. ~~The authorities indicated that they intend to reinforce the accountability of the Savings Bank's Supervisory Board to the Cabinet of Ministers.~~ To this end, the government is preparing amendments to the Law on Banks and Banking Activity."

Page 25, paragraph 52:
"**Banks' lending portfolios have expanded substantially, posing another area where risks will have to be monitored carefully by the NBU**. Such rapid credit growth in the context of poor capitalization of many banks, gaps in the framework of prudential regulations, and a prospective slowdown of growth creates conditions under which impaired assets could rise rapidly. Therefore, the staff urges the authorities to intensify their efforts to strictly enforce existing supervisory regulations and to encourage banks to increase their capitalization and improve loan evaluation procedures. At present, the staff agrees with the NBU that the situation of ~~the two state-owned banks is a cause of concern. As regards the Saving Bank~~ a few banks is a cause of concern. As regards these banks, the staff endorses the priority of formulating an action plan to bring ~~the bank~~ them in compliance with the prudential regulations. Since, under the current legal framework, ~~the bank suffers~~ these banks suffer from serious governance problems, the staff calls on the authorities to seek the appropriate legislative changes as soon as possible. Ukraine's participation in the FSAP will be instrumental for developing the authorities' financial sector policies."

Uruguay **(FO/DIS/03/34) Deletions/Modifications—Second Review Under the Stand-By Arrangement, Requests for Modification and Extension of the Arrangement, and Waiver of Nonobservance and Applicability of Performance Criteria, and Exchange System (EBS/03/27, Sup. 1, 3/10/03)**

Page 7, paragraph 12, lines 3-8:
"**In 2003, the authorities intend to firmly control the growth of primary spending, especially wages and pensions.** Overall, primary spending is projected to rise by only 14 percent in nominal terms, or about half the rate of inflation. ~~Following a small public sector wage increase in January (3 percent), the government plans to limit the two statutory increases to be granted in May and September to 2 percent each. Pensions are to be adjusted according to the minimum legal requirement.[2] If, however, revenue were to perform better than anticipated, additional wage and pension adjustments may be granted, after consultation with the staff and provided that they are consistent with achieving the program targets.~~ Goods and services outlays will be streamlined under recently-established centralized procurement mechanisms for the purchase of medical supplies and food. Savings under these schemes (0.2 percent of GDP) will be used to make room for an increase in public investment, which has been sharply retrenched since 1999. As in 2002, the authorities plan to protect non-wage expenditure in priority social programs."

Page 7, footnote 2:
"~~The legislation established the frequency of public wage adjustments, but leaves the size of these adjustments at the discretion of the government. Pensions are to be adjusted with the same frequency, by at least the average increase in take home private sector wages.~~"

Page 8, Box 2, Table 1: deleted

Uzbekistan **(FO/DIS/02/215) Deletions—Staff-Monitored Program—Letter of Intent and Technical Memorandum of Understanding (EBS/02/138, 7/31/02)**

Page 3, paragraph 6, lines 2 and 3:
"As a result of the above measures, we expect that the spread between the curb market and the OTC market exchange rates will progressively decline ~~to not more than 20 percent by August 31, 2002~~. We intend to achieve this further reduction in the spread through the liberalization of access to the foreign exchange markets and not through any systematic official intervention in the cash market or ad hoc restrictions in the supply of cash. We stand ready to take, in consultation with IMF staff, any additional measures needed to achieve effective current account convertibility. In assessing the progress in this area, the CBU and IMF staff will take into account developments in the spread and reports from market participants."

Page 11, last bullet:
"The spread between the OTC exchange rate and the curb market exchange rate to progressively decline" ~~to not more than 20 percent.~~

III. Uses of Corrections

A staff review of corrections identified several uses of corrections which appear to go beyond what is permitted under the publication policy.[1]

Deletions as Corrections

- Australia Article IV staff report (SM/02/254 Correction 1): "~~A broader scheme along the lines of the Working Credit applicable to all income support recipients is needed to reduce high EMTRs and encourage a return to employment.~~"

- Bosnia and Herzegovina (EBS/02/91, Correction 1): "~~At the time of the November 1998 Paris Club Agreement, BiH reached agreements with all bilateral creditors except Japan. Bilateral negotiations between Japan and the BiH authorities under the Paris Club umbrella have been slow and resolution has not been reached on the rate to be used in calculating penalty interest. The negotiations have moved slowly in part due to frequent changes in personnel dealing with the issue on the Bosnian side. At the same time, the State Minister of Finance has made settlement of the issue a priority and we expect resolution of the problem to take place before the elections. The costs to BiH of not resolving the issue include a further accumulation of penalty interest and that Japan will not disburse new adjustment loans until the issue is resolved.~~Bilateral agreements to reschedule official debt in accordance with the 1998 Paris Club agreement have been concluded with all countries, except Japan. In line with Fund advice, the authorities of Bosnia and Herzegovina have written to the Paris Club Secretariat and to the Japanese authorities, setting out the outstanding issues which so far have prevented both parties from concluding a bilateral rescheduling agreement, and proposing a meeting between the authorities of Bosnia and Herzegovina and Japan."

- Croatia SBA review (EBS/03/3 Correction 1): "The postal bank (HPB) will acquire Croatia Bank, which ~~is insolvent and~~ could not be privatized, and then be privatized."

- Dominica –Article IV staff report and request for SBA (EBS/02/152 Correction 1) "The exposure of the state-owned National Commercial Bank (NCB) to the central government would be reduced by 1 percentage point of GDP to reduce excess lending of the NCB to a single borrower ~~above the prudential limit~~".

- Iceland Article IV staff report (SM/02/158 Correction 1): "Strong revenue performance and privatization proceeds in recent years allowed the partial capitalization of public pension obligations as well as a reduction in net government debt to 28 percent of GDP at end-2001. ~~This favorable position made it possible for~~

[1] The May 2002 staff paper included a similar appendix; see EBS/02/90 Appendix IV.

~~the government to borrow abroad without disruptions during the 2001 currency depreciation to replenish CBI's reserves and redeem maturing debt~~..."

- Iceland Article IV staff report (SM/02/158 Correction 1):" ~~In independent developments, senior management was replaced at two financial institutions in 2001. Management succession was completed without generating systemic stress~~The proactive approach adopted by FSA was instrumental in improving the situation of the banking system and management practices, including through issuing guidance, and moral suasion."

- Japan Article IV staff report (SM/02/199 Correction 1): "In the context of the staff's overall policy strategy, the team thus advised that the authorities frame the FY03 initial budget to achieve a broadly neutral fiscal stance next year, and ~~that a supplementary budget focused on measures to promote economic restructuring be passed to mitigate the likely withdrawal of stimulus later this year~~ take steps to contain the withdrawal of fiscal stimulus that is in prospect for the latter part of FY02."

- Japan Article IV staff report (SM/02/199 Correction 1): "Staff would thus recommend that the initial budget for FY2003 aim to achieve a neutral fiscal stance on an annual basis, while ~~a small supplementary budget—focused on measures to encourage economic restructuring—be legislated~~ steps be taken to counteract ~~any~~ the fiscal contraction that ~~seems likely in~~ is in prospect for the latter half of FY2002."

- Moldova Article IV staff report and PRGF review (EBS/02/116 Correction 1): "

~~There is no properly functioning internal audit department.~~

~~The NBM is about to introduce new accounting software and simultaneously to re-organize its accounting department. Such significant changes may affect the controls that ensure the integrity of the accounting data and, hence, of the program data reported to the IMF.~~

~~The NBM's governing legislation does not explicitly provide for the bank's operational independence.~~

~~The current board oversight arrangement is, in effect, an internal board, reflecting a potentially inadequate institutional governance arrangement. This is compounded by the lack of an independent audit committee function to oversee NBM's financial reporting, internal controls and audit functions.~~

~~There is no mechanism to provide for the exclusion of unrealized *market-price* revaluation profit from the distributable profit payable to the government.~~

~~□The financial strength of a large portion of the bank's balance sheet (i.e. advances to government) appears to be vulnerable. This has the potential to compromise the NBM's independence from the government.~~

A full safeguards assessment of the National Bank of Moldova (NBM) has been completed. The conclusions indicate that the NBM's procedures and controls to manage resources, including IMF disbursements, may not be adequate in all areas of the safeguards framework. In particular, the assessment noted that improvements could be made in the areas of: (i) internal audit; (ii) controls over accounting data; (iii) board oversight of financial reporting, internal controls and audit functions; and (iv) the treatment and valuation of certain items, including government securities and distributable profit, in the financial statements. Specific remedial actions to address these vulnerabilities have been proposed to the authorities and the NBM has indicated that improvements have been made in some of these areas and are ongoing in others."

Revisions to Staff Views

- Australia Article IV staff report (SM/02/254 Correction 1): "The staff also noted that the transition back to work would be facilitated by the authorities' efforts to improve employment and job training services, and that extension of these and other supporting services (including child care and a phased reduction in ~~public health care~~ the benefits provided through the Health Care Card program) ~~needed to be considered to aid income support recipients, particularly older workers and parents, in their return to work.~~"

- Mexico Article IV staff report (SM/02/260 Correction 1): "The depreciation was partly influenced by some market participants' perception that the (above noted) relaxation of monetary policy was an ~~triggered by the (above noted)relaxation of monetary policy that market participants generally interpreted as an~~expression of the BOM's concern about the sizeable real appreciation of the peso in recent years"

Removal of Politically-Sensitive References

- Dominica Article IV staff report and Request for SBA (EBS/02/152 Correction 1): " political support for the program may weaken~~, particularly in the face of social protests and / or unrest~~."

- Fiji Article IV staff report (SM/02/235 Correction 1): "~~Fiji, was re-admitted to the Commonwealth~~ Fiji's international relations were normalized".

"...coup~~, Fiji's membership in the Commonwealth was suspended, and~~ the ... applied economic...".

~~to Fiji's readmission to the Commonwealth~~"to the normalization of Fiji's international relations"

- Turkey SBA review (EBS/02/137 Correction 2): "Box 1: The Political Context; Table on Popularity of Major Political Parties:[2]

  DSP (Democratic Left Party,~~centre left, coalition~~)
  MHP (Nationalist Action Party~~, far right, coalition~~)
  ANAP (Motherland Party~~, centre right, coalition~~)
  DYP (True Path Party~~, centre right~~)
  AKP (Justice and Development Party~~, moderate Islamist~~)"

[2] Staff had proposed, and Management agreed, to reject the request on the grounds that it was politically sensitive, but not highly market sensitive, and not consistent with the transparency policy.