

LAW ON REGULATING PUBLIC FINANCE AND DEBT MANAGEMENT
(Law on Regulating Public Finance and Debt Management and Law on Amending
the Law on Duties and Organization of the Undersecretariat of Treasury and
Undersecretariat of Foreign Trade and Law on Allocating Share from the General
Budget Tax Revenues to Provincial Special Administrations)

Law No. 4749

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PART ONE
Purpose, Scope and Definitions

Purpose

Article 1- The purpose of this Law is to set the procedures and principles related with domestic and external borrowing, receipt of grants, lending and extension of grant and debts, cash management in a coordinated manner with fiscal and monetary policies, effective management and monitoring of the guarantees to be extended by the Treasury, the financial claims and State External and Domestic Debt arising from such borrowing and guarantees, arrangement of financial relations between the Treasury and institutions mentioned in Article 2 below and reimbursing all kinds of financial liabilities, budgeting and accounting of all kinds of obligations assumed by the Treasury, taking into consideration development targets of the country and maintaining confidence and stability of the markets and macroeconomic balances.

Scope

Article 2- This Law covers the institutions and establishments included in the general, annexed and autonomous budget, establishments subject to provisions of private law with more than 50% of their capital belonging to the state, funds, state banks, investment and development banks, metropolitan municipalities, municipalities and establishments affiliated to municipalities, and other local government agencies, the establishments whose payment obligations have been guaranteed by the Undersecretariat of Treasury under the projects foreseen to be realized under such financing models as build-operate-transfer, build-operate, transfer of operational right and similar financing models and non-governmental organizations to be limited with grants.

Definitions

Article 3- In this law, the following terms have the meanings stated below:

Minister: The Minister, in charge of the Undersecretariat of Treasury,

Undersecretariat: Undersecretariat of Treasury

Undersecretary: Undersecretary of Treasury

Debt Service: Principal and interest payments arising from Domestic Debt and External State Debt and discount expenses, fees and other payments related with such debts,

State Debt: All kinds of financial obligations which have been assumed by the Undersecretariat or to which the Undersecretariat has become a party on behalf of the Republic of Turkey,

External State Debt: Financing facilities obtained by the Undersecretariat from a Foreign Financing Source to be repaid according to a certain redemption plan and the financial obligations assumed by the Undersecretariat within the context of Treasury Guarantees.

Domestic State Debt: Domestic Borrowing Notes issued by the Undersecretariat within the country, Undersecretariat's borrowings from domestic market in order to meet its temporary cash requirement, and all kinds of financial obligations assumed by the Undersecretariat, regardless of whether the same are based on a note,

Domestic Borrowing Notes: Borrowing notes issued by the Undersecretariat domestically,

Government Bond: Domestic Borrowing Notes with a maturity of one year (364 days) or more as of the date of their issue,

Transfer of Foreign Debt: Foreign financing facility obtained by the Undersecretariat from any foreign financing source and transferred to the public agencies and establishments not included in the general and annexed budget and to banks together with the financial terms and conditions of the related agreement, provided that such establishments shall be the principal debtor, in order to promote development in various sectors of the economy or/and to meet the financial requirement,

Onlending of Foreign Debt: Foreign financing obtained by the Undersecretariat from any foreign financing source and onlent to the public agencies and establishments not included in the general and annexed budget and to investment and development banks without being bound by the terms and conditions of the related agreement when necessary, in order to promote development in various sectors of the economy and/or to meet the financial requirement,

Allocation of Foreign Debt: A foreign financing facility obtained by the Undersecretariat from any foreign financing source and disbursed to the public agencies and establishments in accordance with the purpose of the related agreement in order to promote development in various sectors of the economy or/and to meet the financial requirement,

Foreign Financing: External State Debt, Guaranteed Facility and Grant or any of those obtained from a foreign financing source,

Foreign Financing Source: Foreign countries, associations formed by countries, official financing funds, international and regional organizations, banks, including the investment banks operating in international capital and finance markets, which provide Foreign Financing, and the establishments and firms which provide supplier or buyer credits or any of those,

Foreign Facility: The financial facility and grant obtained by all the organizations covered by this Law in their own name from any foreign financing facility without Treasury Guarantees,

Guarantee Fee: The fee collected for only once, for each guarantee, from the party that the guarantee is provided due to Treasury Guarantee in a ratio determined by the Undersecretariat,

Guaranteed Facility: Treasury counter-guarantees, Treasury investment guarantees and Treasury country guarantees provided to the institutions mentioned in this Law.

General Expenses: Registration expenses for execution and management of state debts, fees paid to rating organizations, counseling fees, consultancy fees, exchange rate differences and commission payments and all kinds of similar costs and printing and advertisement expenses for State's Domestic Borrowing Notes,

Treasury Claim: Claims arising from Treasury Guarantees given for financing facilities obtained from any foreign financing source or from disbursement of such facilities through lending or from the transactions which, although remaining outside of the said items, stem from relevant legislation and which arise in connection with all kinds of payments which the Treasury becomes obliged to assume and/or with the State Domestic Borrowing Notes issued by the Treasury for lending,

Treasury Bill: State Domestic Borrowing Notes whose maturity is less than one year (up to 364 days) as of the date of their issue,

Treasury Guarantees: Treasury Reimbursement Guarantee, Treasury Investment Guarantee, Treasury Counter – Guarantee and Treasury Country Guarantee or any one of these,

Treasury Reimbursement Guarantee: Guarantees provided for reimbursement of foreign debts taken from foreign financing facility by state economic enterprises, establishments subject to provisions of private law with more than 50% their capital belonging to the state, funds, state banks, investment and development banks, metropolitan municipalities, municipalities and establishments affiliated to municipalities, and other local government agencies,

Treasury Investment Guarantee: Guarantees provided for build-operate-transfer, build-operate, transfer of operational right and similar financing models in accordance with the provisions of the legislation and limited with these,

Treasury Counter – Guarantee: Guarantees provided against the guarantees by a foreign financing source for the financing facilities found from international markets as debtors by state economic enterprises, establishments subject to provisions of private law with more than 50% their capital belonging to the state, funds, state banks, investment and development banks, metropolitan municipalities, municipalities and establishments affiliated to municipalities, and other local government agencies within the framework of guarantee programs allocated by any foreign financing source and guarantees provided against the guarantees by a foreign financing source with regard to projects to be realized within build-operate-transfer, build-operate, transfer of operational right and similar financing models to be limited with the Treasury Guarantees envisioned in the legislation and conditions to be discussed by the Undersecretariat within the framework of guarantee programs allocated by any foreign financing source,

Treasury Country Guarantee: Guarantees provided for repayment of financing taken from any foreign financing source by foreign countries,

Treasury Accounting Office: Each one of the Treasury's Accounting Offices for Domestic Payments, External Payments and State Debts,

Grant: Financial aid in kind and/or in cash, obtained by Republic of Turkey from any foreign financing source without any obligation of repayment and the financial aid in cash provided by Republic of Turkey to foreign countries,

Issue Amount: The amount calculated by multiplying the sale price of each security with the nominal amount,

Loan Fee: The fee collected for once from the party receiving the loan upon the disbursed amount for the disbursement of Foreign Debt,

Cash State Domestic Borrowing Notes: State Domestic Borrowing Notes against with cash facility is provided to the Treasury,

Net Debt Utilization: The amount obtained by deducting principal repayments from the domestic and external borrowings made within a year,

Special Category State Domestic Borrowing Notes: State Domestic Borrowing Notes, which have been issued under the relevant legislation and the Budget Laws of the relevant year and against which no cash inflow is obtained,

Money Market Cash Transactions: Borrowings with a maximum maturity of 30 days, without issuing State Domestic Borrowing Notes in order to meet the short-term cash requirement of the Treasury and the transactions with a maximum maturity of 30 days, in order to exploit short-term cash surplus of the Treasury,

Market Making: A system involving the Undersecretariat granting some rights and duties to the banks which have been selected according to pre-set criteria in order to increase effectiveness of the tenders for State Domestic Borrowing Notes and of the transactions of the secondary market for the said notes,

Market Maker: A bank which have been selected according to pre-set criteria in order to increase effectiveness of the tenders for State Domestic Borrowing Notes and of the transactions of the secondary market for the said notes,

Program Credit: A financing facility obtained from any foreign financing source by the Treasury, either directly or under its guarantee, in order to meet the public finance requirement within the framework of macroeconomic programs of the country,

Project: Public sector projects, national defense projects included in annual investment programs, and projects realized under such financing models as Build-Operate-Transfer, Build-Operate and Transfer of Operational Right and similar financing models,

Project Credit: Financing facility obtained from a foreign financing source for realization of projects,

Risk Account: Within the framework of related provisions of this Law, the account established on behalf of the Central Bank of Republic of Turkey,

Non-Governmental Organizations: Non-profit organizations with administrative and financial independence, which do not take part in the governmental organization and which is determined to render services for public benefit by the Council of Ministers without any profit goal that have legal personality,

Swap : A financial instrument allowing barter of the cash flows relating to a State Debt directly or indirectly between two parties; one of them being the Undersecretariat,

Derivative Product: All kinds of financial instruments used in domestic or international capital markets in order to allow effective management of State Debt and risk management.

PART TWO

Authority

Authority

Article 4 –In the name of the Republic of Turkey, the Minister is authorized to obtain Domestic and Foreign State Debt, to provide Treasury Reimbursement Guarantee, Treasury Counter – Guarantee and to make amendments in conditions of such guarantees, to receive grants, to make available the foreign financing facility used through Transfer of Foreign Debt, Onlending of Foreign Debt and Allocation of Foreign Debt and to create new financial liabilities, to manage these debts and liabilities and to manage the Treasury Claims stemming from these.

The Minister may transfer this authority and his authorities in undertaking the duties attributed to him by the Law to the Undersecretariat when necessary to be valid for the relevant budget year. Transfer of authority does not abrogate the liability of the Minister.

The Minister is authorized to use the economic and financial rights and authorities stemming from the economic and financial agreements concluded with international and regional organizations and associations established by countries.

The Council of Ministers is authorized to grant Treasury Investment Guarantee and Treasury Country Guarantee, to make amendments in the conditions of these guarantees and to provide debts and grants upon the proposal of the Minister and with the opinion of the Undersecretariat.

The Undersecretariat can not be held responsible for the borrowings by organizations mentioned in Article 2 of this Law where the Treasury is not a party to the relevant agreements in any way.

The Minister is authorized to determine the conditions of foreign financing facility and to transform the repayments arising from this facility to credits or disbursements. Transactions related to this shall be undertaken by the Undersecretariat.

PART THREE

Limit

Borrowing and Guarantee Limit

Article 5- Within the fiscal year, in line with the principles of the Article 1 of this Law and fiscal sustainability, net debt utilization can be made up to the difference between the allocations mentioned in the budget law and estimated revenues.

This limit can only be increased by up to 5% within the year by taking into account the development and requirements of debt management. When even this amount is not

sufficient, there can be an additional 5% increase only through the decision of Council of Ministers upon the proposal of the Minister and opinion of the Undersecretariat. In case of a balanced budget, borrowing may also be increased by up to a maximum of 5% of the principal repayment. Borrowing limit can not be changed.

Except those repaid in cash upon maturity, special category State domestic borrowing notes that are onlent upon several different laws, cannot be taken into account in the calculation of this limit. The limit on the special category State domestic borrowing notes that will be onlent within the fiscal year is determined by the budget law every year.

The limit of Guaranteed Facility to be provided within the fiscal year shall be determined by budget laws every year.

PART FOUR

Domestic and Foreign Borrowing

Domestic Borrowing

Article 6- The Minister is authorized to determine all kinds of principles related with the types of State Domestic Borrowing Notes to be issued, as well as selling methods, interest terms, maturities, printing and payments related thereto and other conditions pertaining thereto.

Excluding the notes issued for onlending, Special Category State Domestic Borrowing Notes may be issued only on condition that sufficient appropriation exists in the Budget Law of the relevant year. The Special Category State Domestic Borrowing Notes could, in case of developments which arise within the year and which cannot be foreseen beforehand may be issued only by making transfers among appropriation items. For specific series State Domestic Borrowing Notes to be issued in lieu of debts Treasury has accepted to undertake, the provisions of this paragraph is not applicable in the concept of system and basis mentioned in the (c) clause of provisional article 2 of Law dated 1.6.2000 and numbered 4572.

In case of issuance of Special Category State Domestic Borrowing Notes for onlending, the Minister determines the maturity, interest and other conditions of the loan agreement to be drawn up. In case of elimination of Treasury Claims stemming from bills of onlending within the framework of related legislation, these amounts shall be recorded as an expense in the budget. For the Undersecretariat of Treasury claims to be paid by Savings Deposit Insurance Fund, the provision of this paragraph is not applied.

The printing costs of State Domestic Borrowing Notes, fees and banking transaction taxes to be paid to the financial institutions which will participate in the sales, all types of

expenses arising from these sales, taxes, duties and charges to be paid to the financial institutions by the Treasury and principles and procedures that will be employed in issuing these notes are determined with a financial service agreement to be concluded between the Undersecretariat and the Central Bank of Republic of Turkey, without applying the provisions of the State Accounting Law No. 1050.

External Borrowing

Article 7- The Minister is authorized to provide foreign financing from any foreign financing source, to determine the conditions of the mentioned foreign financing facility including financial conditions in the name of the Republic of Turkey, and to bear the responsibility within the framework of the stated conditions . All kinds of preparations, contacts and negotiations related with foreign State debt are implemented and finalized by the Undersecretariat.

The agreements, except bond issuance agreements, to which the Republic of Turkey is a party as the borrower, enter into force on the date of signing upon the decision of the Council of Ministers, unless a further date is settled in the agreement.

The Minister is authorized to amend the financial terms of the agreements to which the Republic of Turkey is a party as borrower.

The Undersecretariat may transfer the foreign financing facilities obtained from foreign financing sources to public institutions and organizations outside the context of general and annexed budget and investment and development banks through an onlending agreement. In case of onlending of foreign debt, an onlending fee of 0.5% of the onlent amount provided, shall be collected from the related institutions for only once. The Minister has the authority to increase this ratio up to five times the above ratio.

In protocol and financing agreements of projects to be realized through foreign financing provided within the framework of dual cooperation protocols, in order to envision implementation of different tender procedures and principles based on competition than provisions of Public Procurement Law, prior to signing of the protocol, it is obligatory to get the positive opinion of the Ministry of Finance, Undersecretariat of Treasury and State Planning Organization and additionally the decision of Council of Ministers after the signing of the protocol.

PART FIVE

Treasury Guarantees

Treasury Guarantees and Permission for Non-Guaranteed Debts

Article 8- All kinds of preparations, contacts and negotiations relating to the granting of Treasury guarantees and making amendments in the conditions of granted guarantees are executed and finalized by the Undersecretariat.

Agreements on Treasury Guarantees and agreements for amending the conditions of such Guarantees enter into force on the date of their signing, unless stated otherwise in the agreement.

A one-time guarantee fee of up to 1% of the amount of the guarantee is collected for each guarantee from the beneficiary of the guarantee in Treasury Reimbursement Guarantees and Treasury Investment Guarantees.

The Undersecretariat shall consult the Undersecretariat of State Planning Organization about the place and priority of projects in the investment program to be realized through foreign financing. The principles and procedures regarding the guarantee fee, evaluation of the guarantee, inclusion in the budget, limiting and sharing of the risk and the disclosure to the public of the information regarding the guarantees and determination of the amount guaranteed within the investment guarantee of the Treasury with regard to Treasury Reimbursement Guarantee and Treasury Investment Guarantee for the projects shall be determined by a regulation to be issued by the Undersecretariat.

Provincial special administrations, metropolitan municipalities and municipalities, affiliated public establishments with legal personality and separate budget or/and legal persons and private administration companies with more than half of their capital belonging to legal establishments and legal persons and municipal economic organizations are jointly responsible for all the liabilities with regard to foreign financing facilities provided under Treasury Guarantee from a foreign financial source and repayment of Treasury credits emerging or that may emerge due to failure to fulfill these liabilities. Until the completion of all repayment liabilities emerging from foreign credit agreements concluded in this respect, the debted organization is liable to repay the debt regardless of all the administrative changes that may occur during the repayment period of the debt and new assignments.

Credit debted organizations are liable to reserve the amount necessary for repayment of foreign credits provided under Treasury Guarantee in their budget with priority compared to their investment expenditures.

The ones identified to lead to deferral of payment of foreign debts shall be responsible to the extent of the stemming damage.

The Treasury does not extend any guarantees for the borrowings of public and/or private agencies and establishments from domestic markets.

Treasury Guarantees may be granted fully or partially in accordance with the principles determined within the framework of Articles 1 and 2 of this Law.

Preliminary permission of the Undersecretariat is required for obtaining all kinds of foreign financing from any foreign financing source without any Treasury Guarantees by the organizations mentioned in Article 2 of this Law, as well as for guarantees provided by these organizations in favor of other public agencies and institutions, except for foreign facility with one year maturity provided by public banks and investment and development banks. Issuance of preliminary permission does not imply that the mentioned foreign facility is subject to Treasury Guarantee. Principles with regard to permission will be regulated through a regulation.

PART SIX

Grant

Grant

Article 9- Except for the grants provided by European Union, the Minister is authorized to obtain grants from any foreign financing source in the name of the Republic of Turkey, to conclude the agreements related therewith, to determine the principles and terms of such agreements and to disburse such grants to institutions and organizations mentioned in the Article 2 of this Law. All kinds of preparations, contacts and negotiations related to the said grant agreements are carried out and concluded by the Undersecretariat. Said agreements become effective on the date of signing thereof, unless stated otherwise in the agreement. The Minister is authorized to make amendments in the grant agreements.

The Council of Ministers is authorized, upon recommendation of the related Minister and positive opinion of the Undersecretariat and Ministry of Foreign Affairs, to extend grants in cash, in the name of the Republic of Turkey, to foreign countries, establishments of foreign countries, international organizations and international aid consortia to be formed. Amounts of said grants are met from the appropriation to be included in the budget of the Undersecretariat for this purpose. All kinds of preparations, contacts and negotiations relating to the said grant agreements are executed by the Undersecretariat and finalized through discussions by the Ministry of Foreign Affairs. Preparations, contacts and negotiations relating to other grant agreements will be undertaken and finalized by the related agencies together with the opinion of the Undersecretariat in order to conciliate with the financial facilities of the State. The grant agreements enter into force on the date of its signing with the decision of the Council of Ministers, unless stated otherwise in the agreement. The provisions of this paragraph shall not be applicable for grants of defense and security.

Individuals and institution to be determined by the decision of the Council of Ministers are authorized to, all rights of the President and Prime Minister reserved, make negotiations and sign contracts in the name of the Republic of Turkey regarding grants and aids to foreign countries and institutions for the purpose of defence and security.

Amounts of grants and aids to be supplied to foreign countries for the purpose above mentioned are met from the appropriation to be included in the budget of Ministry of Defence. Agreements in question are put into force upon the decision of the Council of Ministers. Grants and aids in cash mentioned in the agreement are registered in the budget as expenditure and can be transferred to the account to be opened in the Central Bank of Republic of Turkey in the name of related country of foreign currency sort. Payments are made from the pertinent account within the frame of the provisions of the agreement and on the basis of the principles to be set by the Ministry of Finance.

PART SEVEN

Claims of the Treasury

Lending

Article 10- The Council of Ministers is authorized, upon recommendation of the Minister and opinion of the Undersecretariat, to lend to foreign countries, establishments of foreign countries, international organizations and international aid consortia to be formed, in the name of the Republic of Turkey, to determine the principles and terms and conditions of such lending and to restructure the loans extended. The amounts of the loans to be extended, are met from the appropriation to be included in the budget of the Undersecretariat for this purpose. All kinds of preparations, contacts and negotiations relating to the agreements for the said loans are executed and finalized by the Undersecretariat. Agreements on the said loans will be affective on the date of its signing with the decision of the Council of Ministers unless stated otherwise in the agreement.

The Minister is authorized to regulate the financial provisions and principles related to officially supported export loans with regard to goods or/and sales agreements with two year or longer maturity provided to foreign countries stated in the annual program that was approved by the Higher Consultancy and Credit Management Board of Eximbank and to organizations in these countries or financial leasing transactions equivalent to such agreements.

Agreements on providing credits to countries that are not mentioned in the annual program that was approved by the Higher Consultancy and Credit Management Board of Eximbank and not suitable with the provisions of OECD conciliation but that are significant for the interests of our country will be approved by the Council of Ministers upon the proposal of the Minister and positive opinion of the Undersecretariat.

Agreements on restructuring the loans as three year or longer maturity provided to foreign countries and organizations in these countries by Eximbank will be approved by the Council of Ministers upon the proposal of the Minister and positive opinion of the Undersecretariat. The Minister is authorized to regulate the financial provisions and principles on restructuring of these loans with less than three year maturity.

The Minister is authorized to guarantee the political risks that may emerge from the transactions related to loan, insurance and guarantee operations of Eximbank and to compensate the damages stemming from these risks.

Collection and Management of Treasury Claims

Article 11 - The Minister is authorized, to determine the conditions for, to collect, pursue and administer, by using all kinds of financial techniques, those portions of onlent credits that have not been repaid by user establishments to the Undersecretariat and the claims arising from the Treasury Guarantees undertaken by the Undersecretariat and claims arising from loans extended to foreign countries, institutions of foreign countries, international institutions and international aid consortia to be formed, in the name of the Republic of Turkey,

Those portions of the onlent credits that have not been repaid by the user establishments to the Undersecretariat on due date and the claims arising from the Treasury Guarantees undertaken by the Undersecretariat and the claims arising from non-repayment by the borrower of the State Domestic Borrowing Notes issued for lending purposes are pursued and collected under the provisions of the Law on Procedures of Collection of Public Receivables No 6183.

Interest and penalty is accrued for Treasury's claims not paid on due date, under the provisions of the Law No. 6183.

The Undersecretariat is authorized to audit the accounts, information and documents of organizations mentioned in Article 2 of this Law due to Treasury claims occurring within this Law and resources utilized through onlending of foreign debt and transactions realized within Treasury Guarantees. The duty of independent inspection referred in the onlending, credit and grant agreements signed in compliance with this law is also fulfilled by the Board of Treasury Controllers in conformity with internationally accepted inspection standarts.

The Minister or the Finance Minister upon their relevance is authorized in transfers to be made from the general budget to the establishments excluded from the general and annexed budget.

Other than the exceptions to be introduced due to natural disasters, within the framework of credits provided under the guarantee of the Undersecretariat or utilized by onlending of foreign debt for the projects realized by metropolitan municipalities, municipalities and their affiliated organizations, in order to transfer certain amounts of their revenues with the purpose of meeting the repayment liabilities of the related municipality or affiliated organization, a Foreign Debt Payment Account shall be established with the decision of the competent organs of implementation organization of the project. The decision of the competent organ on establishing a Foreign Debt

Payment Account is definite and can not be abrogated due to change of administration or another decision of the municipality or affiliated organization or can not be amended so as to decrease revenues. Principles and procedures on establishment and operation of Foreign Debt Payment Account will be arranged through a regulation.

Credits provided by Eximbank can not be pursued in the context of Treasury claims.

PART EIGHT

Cash, Debt and Risk Management

Cash, Debt and Risk Management

Article 12- The Undersecretariat is authorized, in the name of Republic of Turkey, upon the authority granted by the Minister, to manage cash in a consistent manner with the monetary and fiscal policies taking into consideration macroeconomic balances, changing the structure of debt if necessary in order to adopt the optimum borrowing level that will ensure minimum cost given the existing risks and to strengthen the necessary infrastructure for this purpose. All kinds of payments arising from the use of financial techniques required by debt and risk management and principal and interest payments emerging from cash flow management are met from the appropriation to be included in the budget of the Undersecretariat for this purpose.

The Undersecretariat is authorized to establish the market-making system, to determine the operational principles of the system, to take all kinds of measures to ensure the smooth working of the system, or to abolish the system.

The Minister is authorized to carry out or have it carried out, cash transactions at money markets in order to meet the short term cash requirement and/or to exploit the cash surplus that will accumulate in the Treasury's accounts through Central Bank of Republic of Turkey, with a view to make the consolidated budget payments on time, and to prevent unfavorable effects on payments of periodical differences between revenues and expenses. Total of mentioned short term liabilities should not exceed one per cent of the initial budget appropriations total. The amount subject to value earning should not exceed the limit mentioned in this paragraph. The principles and procedures with regard to value earning will be determined jointly by the Undersecretariat and Central Bank of Republic of Turkey.

The Minister is authorized to use any type of derivative instrument including swap for the purpose of managing the liabilities arising from Treasury's external state debt, through various existing financial instruments available in the international capital markets, to get back and change bonds exported earlier in international capital market and to sign an agreement pertinent to similar operations. Agreements in question are put into force on the date they are signed provided there is no provision stating the vice versa. Contact and negotiations relevant to the agreements are fulfilled and concluded by the Undersecretariat.

The State Domestic Debt Notes issued earlier for the purpose of debt and risk management may be repurchased by paying their accrued interest or at market conditions, or may be replaced with other notes or if necessary without paying the principal of the said notes, only the accrued interest amounts may be subject to early redemption prior to coupon payment date. Furthermore, financial instruments related to any derivative product including swap may be used for this purpose.

Risk Account

Article 13- All the amounts paid by the Undersecretariat for the Treasury Guarantees and payments within the context of risk management that were not possible to foresee beforehand are met from a risk account of the Undersecretariat that has been established at the Central Bank of Turkey. No use of the account shall be made other than the situations mentioned in this Law.

Resources of the risk account are:

- a) Lending fees
- b) Guarantee fees
- c) Repayments made by the related institutions in exchange for the payments made out of the account and any type of payments received including late payment penalties.
- d) The incomes derived according to the last paragraph of this Article
- e) Appropriations envisioned to be transferred to risk account through Budget Laws.

Appropriation in the year's budget for this purpose can not be transferred to another item. If the revenues of the income and the appropriations in the budget do not cover the payments from the account, the Minister of Finance is authorized to add appropriation to the related item.

The amounts in the account shall be valued on a daily basis. The conditions of valuing shall be determined by the Central Bank of Republic of Turkey.

PART NINE

Budgeting of State Debts

Budgeting, Accounting and Reporting of State Debts

Article 14- During the fiscal year, the Minister is authorized to monitor the following in special accounts outside the budget: the principal amounts for Domestic and External State Debt to be repaid and domestic and foreign borrowing amounts, including Derivative Products, and the amounts of borrowing by the Treasury from money markets in order to meet its short term cash requirement.

Interest payments on domestic and external State debt, discount costs, general costs and the interests on Treasury's borrowings from money markets in order to meet its short term cash requirement are, for any reason whatsoever, met by sufficient amount of appropriations that will be included in the budget for this purpose. No transfers may be made from such appropriations to other items of the budget for any reason whatsoever.

The principles and procedures relating to the accounting of State Debt are arranged jointly through a regulation by the Ministry of Finance and the Undersecretariat.

All user and debtor public agencies and establishments are obliged to submit to the Undersecretariat, information on realization of the loans and credits allocated and guarantees provided and other information and documents required by the Undersecretariat, and the agencies and establishments mediating credit disbursement are obliged to submit to the Undersecretariat all kinds of information required in connection with the mentioned credits, within the required periods and under the required conditions, in order to ensure that the domestic and foreign obligations of the Undersecretariat are entered into the accounting records correctly and on time.

Sufficient appropriation shall be allocated in the budget of the related year for the amounts to be used from project loans in relation to the request of the user organization by taking into account the utilization periods and amounts envisioned in the loan agreements.

All kinds of investment expenses made by establishments subject to Consolidated Budget in the form of transfers, loans and credits located and Treasury Guarantees provided are associated with the relevant items of the budget for the year concerned. In this context, it is fundamental that all the facilities to be used as Project Credit by organizations with general and annexed budget have to be included in the budget before utilization. Furthermore, all the facilities to be used as project loan by organizations not subject to Consolidated Budget must be recorded as appropriation and expense in the own budgets and accounting systems of these organizations.

Financing facilities made available through onlending of foreign debt and through Domestic Borrowing Notes issued for onlending, the installments paid to the Undersecretariat by establishments utilizing onlent credits, overdue payment fees and penalties are recorded as revenue in the budget

All the utilizations from any foreign financing facility provided to the organizations mentioned in Article 2 of this Law obtained from any foreign financing source should be reported to the Undersecretariat to be recorded as foreign debt. Information regarding the amounts recorded as foreign debt are provided to the Ministry of Finance by the Undersecretariat. Principles and procedures regarding the recording of mentioned foreign debt should be determined by the Undersecretariat. Principles and procedures for budgeting and accounting of these utilizations shall be determined by the Ministry of Finance together with the Undersecretariat.

Debt service of foreign financing facilities utilized through allocation of foreign debt is undertaken by the Undersecretariat.

Before the signing of pertinent agreements within the scope of operations started regarding any foreign financing or derivative product within the capacity of debtor or guarantor within the concept of this Law or until completion of the legal arrangements which will enable the agreements signed to be put into force by the Undersecretariat, the Minister is authorized to pay the commission, contracting fee, guarantee payment, delay interest and liabilities which need to be paid in advance.

If the appropriation that is released by the Ministry of Finance is insufficient to cover the payments related to Domestic and Foreign State Debt leading to overdue payment fees, then the payments can be made by the Undersecretariat by associating these with a payments account to be deducted from the budget.

Commissions, fees and expenses related with bond issues realized in international capital markets may be paid by offsetting them against the amount of issue under the agreement for the bond issue, by associating them with the budget appropriations for the relevant year.

The Minister of Finance is authorized to record the grant amounts provided in cash and in kind in order to be used by general and annexed budget organizations as special income and special appropriation upon the proposal of the Undersecretariat.

Sufficient appropriations are included in the form of local funding and taxes in the budget of the relevant year for the External State Debt secured by the Undersecretariat from a foreign financing source and all relevant borrowing agreements and for all payments and transactions required for debt and risk management and for the materials and equipment imported to be financed from the grants obtained by the Undersecretariat, and no transfers may be made from such appropriations to the other items of the budget.

All the revenues derived from consultancy services to foreign countries, establishments and institutions in foreign countries and international institutions by the Undersecretariat and software and similar assets that the Undersecretariat owns the legal rights for and are sold or made available to the foreign countries, establishments and institutions in foreign countries and international institutions in exchange for a fee are recorded by the Ministry of Finance in the budget as special revenue and in the Undersecretariat's budget as special appropriation.

The results of application of State Debt and Treasury Guarantees are prepared by the Undersecretariat and sent to the Ministry of Finance together with the schedule of final accounts for the relevant year, in order to be included in the Treasury General Account. State Debt Management Report that includes analysis on financial markets information regarding the domestic and external financing facilities, Treasury guarantees, grants

taken and grants provided, transfers of foreign debt, onlending of foreign debt and allocation of foreign debt provided within the relevant budget year shall be presented at the end of every three months to the Presidency of Turkish Grand National Assembly in order to be submitted to Plan and Budget Commission of the Turkish Grand National Assembly, to the Prime Ministry to be submitted to the Council of Ministers, to the Ministry of Finance, to the Presidency of Court of Accounts and to the Undersecretariat of State Planning Organization. The Minister shall inform the Plan and Budget Commission of the Turkish Grand National Assembly at least once a year through a meeting with special agenda. Furthermore, the Commission may request an additional information meeting if deems necessary.

PART TEN

Various Provisions

Exclusions of Tax, Duty and Fee

Article 15- The interest and principal payments for the State Domestic Borrowing Notes issued by the Undersecretariat and the payments covered by the financial service agreement mentioned in the last part of Article 6 of this Law and the expenses and transactions related with the other Domestic State Debts are exempt from all kinds of taxes, duties and charges reserving the provisions of Income Tax Law No: 193 and Corporation Tax Law No: 5422.

- a) Program credit, provision of project credits and grants, onlending, transfer, amendment or extension operations,
- b) Payments and transactions envisioned in borrowing agreements realized through financial instruments used in international capital markets and securities issued in such markets,
- c) Transactions envisioned in agreements regarding restructuring or management of External State Debt through all kinds of financial instruments including Derivative Products used in international capital markets,

provided by the Undersecretariat as debtor or through Treasury Guarantees are exempt from all kinds of taxes, duties and charges.

Transactions and documents related to provision, transfer, amendment and utilization of the grants provided within the context of this Law and grants from the European Union shall also be subject to the above exemptions.

Making Arrangements and Consulting Services

Article 16- Principles and procedures regarding the applications of borrowing and guarantee limits, domestic and external borrowing, transfer, onlending and allocation of foreign lending, taking and extending grants, Treasury Guarantees, extending preliminary permission for non-guaranteed State debt, claims of the Treasury, cash,

debt and risk management, processing of the risk account, tenders for international credit and special tender procedures and the like shall be determined with communiqués to be issued.

Amendments with regard to issues within this Law may only be undertaken through annexing new provisions or through amending this Law. Arrangements in other laws with regard to the issues mentioned in this Law are invalid in relation to implementations of this Law.

In all kinds of arrangements that bring cash or non-cash liabilities to the Undersecretariat out of the provisions of this Law, the positive opinion of the Undersecretariat is necessary.

The Undersecretariat may provide consulting services related with cash, debt and risk management to the foreign countries, to the agencies and establishments of such countries and to the international organizations, in return for a fee or without charging a fee. In this context, the Undersecretariat may make available, sell, and donate, against a fee, software, license and similar assets whose legal rights belong to the Undersecretariat.

Amended and Abrogated Provisions and Provisions Not to be Implemented

Article 17 – A) The following statement is attached pursuant to ‘manage and value’ term in paragraph (a) of Article 2 in Law on Duties and Organization of Undersecretariat of Treasury and Undersecretariat of Foreign Trade dated 20.12.1994 numbered 4059.

“To undertake all kinds of analysis and risk evaluation in relation to public debt portfolio, Treasury guarantees and Treasury claims, to determine the borrowing policy, principle and strategy in cooperation with the other units of the Undersecretariat, to prepare long term and annual borrowing programs, to determine the measures to be taken within risk management, to evaluate implementation and to report. “

B) Those provisions of the Law dated 5.5.1969, numbered 1173 on Execution and Coordination of International Relations and of the Law dated 31.5.1963, numbered 244 on Granting Power to the Council of Ministers for Conclusion, Effectiveness and Publication of International Agreements and Conclusion of Some Agreements and those provisions of the current year budget law, except provisions relating to and Agreements with regard to Baku-Tbilisi-Ceyhan Pipeline Project, which are in conflict with the articles of the present Law can not be implemented.

The phrase “claims arising from the repayments of other foreign credit to the borrower by the Undersecretariat of Treasury and Foreign Trade with the approval of the Minister in charge of the Undersecretariat of Treasury and Foreign Trade, taking into account the external creditworthiness of the country” in part 2 of the Annexed Article 4 of the Law dated 2.2.1981, numbered 2380 on Granting a Share to Municipalities and

Provincial Local Administrations from the Tax Revenues of the General Budget has been abolished and the following provision has been added:

“Effecting a deduction according to 6. (1) and (2) does not prevent pursuit and collection of the debt through legal remedies”.

C) According to the provisions of this Law;

1) Credit and grant agreements with the purpose of defense and security and grant agreements signed in compliance with the 9 th article of this Law and agreements signed in compliance with the 10 th article pertinent to lending and reconstruction,

2) Agreements signed regarding credits obtained from foreign countries, unions established by foreign countries, official financing funds any external financing source apart from regional institutions on behalf of the Republic of Turkey,

3) Credit agreements made for the purpose of programme or project credit which arrange to pay back exclusively capital, interest and other financing expenses within the framework of economic and trade agreements signed with foreign countries, unions established by foreign countries, official financing funds, international and regional institutions on behalf of the Republic of Turkey.

is not published in Official Gazette.

Other agreements apart from the ones mentioned above which are concluded in compliance with the provisions of this Law is published in Official gazette.

PART ELEVEN

Provisional and Final Articles

Provisional Article 1- Applications introduced through Article 12 of this Law and necessary arrangements to establish the necessary infrastructure for risk management shall be completed by the Undersecretariat until 31.12.2002.

Principles and procedures regarding budgeting and accounting of utilizations mentioned in paragraph 8 of Article 14 of this Law shall be put into effect through a regulation to be prepared in three months following the date of publication of this Law.

Provisional Article 2- Claims arising from taking over debt subject to Treasury guarantees or/and surety on borrowing in domestic markets by public institutions and organizations before the effectiveness of this Law are assumed to have arisen from public service and connections; the Minister has the authority to administer, using any financial technique to determine the conditions of, to collect and to pursue these claims.

Provisional Article 3 - The amounts of late interest payments and fines accrued on Treasury Claims by the date of effectiveness of this Law will be informed to the related party until the end of the fourth month starting from the date of effectiveness of this Law. In this notification, the debtor will be informed that he is entitled to apply for conciliation. Institutions and organizations requesting conciliation within this period will

be informed about the date of discussions by the conciliation committee. This period shall not exceed two months. For conciliation, the highest authorized official of the relevant party shall apply to the Undersecretariat in writing.

The decision for conciliation is taken by a three-member committee which is assigned by the Minister and which consists of one chairman and two members appointed from among the personnel charged with the administration, pursuit and collection of the Treasury's claims as well as one representative each from the Ministry of Finance, Undersecretariat of State Planning Organization and Presidency of Court of Accounts. The committee takes decisions by majority of votes. The amount of penalty on which the Committee may reach settlement and the general principles of its maturity structure are determined by the Minister and communicated in writing to the members prior to discussions on conciliation. Conciliation negotiations are concluded within a maximum of 10 business days from the date when the first meeting was held. If settlement is reached, this situation is recorded on a protocol to be signed by the parties and restructuring within new conditions pursuant to approval of the Minister shall be realized. In case of failure to reconcile within the mentioned period, this situation is recorded on a protocol signed by the parties and required procedures are initiated in order to ensure that the claim is pursued and collected under the provisions of the Law No. 6183. In case of failure to reach settlement, a new demand for conciliation may not be made for the same claims.

If the liabilities for reconciled amounts are not fulfilled by the debtor in the requested time, then the reconciliation will be accepted as not accomplished and the Treasury claim shall be followed and collected in accordance with the provisions of Law No. 6183.

Necessary transactions will be initiated in accordance with the provisions of Law No. 6183 to pursue and collect the claims for which the relevant party does not demand settlement within the reconciliation application period.

Provisional Article 4 – After Marmara and Duzce earthquakes, with the purpose of financing emergency aid, restructuring and rehabilitation projects, the Minister in charge of the Undersecretariat of Treasury is authorized to allocate the loans provided to the Republic of Turkey as debtor from the relevant financial organizations of the countries of World Bank, European Investment Bank, European Council Development Bank, Islam Development Bank, Gulf Cooperation Council, from foreign country governments and credit organizations of foreign countries and from international organizations to public institutions and organizations that are not covered by general and annex budget.

Provisional Article 5 – Prior to date of effectiveness of this Law, about the Treasury claims that stemmed or will stem from the credits utilized through lending by agreements such as "Transfer Agreement", "Loan Agreement" or like, the provisions of Article 11 of this Law shall be applicable.

Provisional Article 6 - (This article is added by the Law dated 31.07.2003 numbered 4969)The Council of Ministry is authorized to, within the scope of Baku-Tbilisi-Ceyhan pipe line project;

a) sign papers and other documents related to host country agreement which was concluded, turnkey construction contract, government guarantee agreement and other agreements to be concluded in the scope of this project.

b) guarantee in the name of the Republic of Turkey suggested parties in the related agreements to fulfill liabilities undertaken by the Republic of Turkey and related public institutions and foundations within the scope of agreements mentioned in (a) paragraph, other pertinent papers, agreements and other documents such as payment, completion, performance and other liabilities, to undertake the payment liability to arise in the event that liabilities mentioned are not fulfilled properly either partially or entirely as suggested in the agreements.

c) determine and authorize related public institutions and foundations which have signed and will sign the agreements pointed out in (a) and (b) paragraphs and other related documents and agreements.

Provisional Article 7 - (This article is added by the Law dated 31.07.2003 numbered 4969)

Payments which have arisen and need to be performed within the scope of Foreign Exchange Rate Difference Fund which was abolished are met by the appropriation to be put in the budget for this purpose.

Council of Ministry is authorized to increase the amount twice as much mentioned in the paragraph (h) of Article 26 of Fiscal Year Budget Law 2003 dated 29.03.2003 and numbered 4833.

Provisional Article 8 - Upon the proposal of the Minister on whom Undersecretariat of Treasury depend, Council of Ministers is authorized to allocate credits which The Republic of Turkey will obtain from any external financing source in the capacity of debtor so as to finance the projects to be formed to prevent the probable damages which are to be caused by the earthquake risk Istanbul has been exposed to and to get prepared and to get necessary precautions for earthquake. The provisions regarding the institutions with general and annexed budget of 5 th and 6 th paragraphs of article 14 of this Law is not applied for credits to be obtained pursuant to this article.

Provisional Article 9 - Before this article is put into force, this Law's amended provisions of tenth paragraph of Article 14 are applied in commission fee, contracting payment, guarantee payment, delay interest and similar liabilities which need to be paid in advance and has arisen before the completion of the legal arrangements which are to enable the agreements signed to be put into force or before the signing of related agreements in the framework of the operations which are started regarding any external financing or derivative product within the capacity of debtor or guarantor in compliance with this Law by the Undersecretariat.

Effectiveness

Article 18- In this Law,

- a) Article 5, first, third and fourth paragraphs of Article 6, third and fourth paragraphs of Article 8, second paragraph of Article 9, Article 13, fifth, sixth, thirteenth and sixteenth paragraphs of Article 14 will enter into force on 1.1.2003.
- b) The second paragraph of Article 6 will enter into force on 1.1.2004.
- c) Other articles will enter into force at the date of publication.

Execution

Article 19- The provisions of the present Law are executed by the Council of Ministers.