Thank you for the valuable comments. In pg. 2 we state that : The IMF reports the goals of the programme: "To this end, the program rests on three pillars: A large front-loaded fiscal adjustment; a strong exchange rate commitment underwritten by a no sterilization monetary policy rule and income policies; and a wide range of upfront structural reform measures" (IMF 2000c: 47, box 2.1). The first pillar of the program directly addresses the primary balance of the public sector. The third pillar of the program constitutes structural reforms, which address the stabilization and sustainability of the public debt level through the improvement of the fiscal transparency (see IMF 2000c :48).

Secondly, we argue that (pg. 16) : "The hidden liabilities given in Table 2 affect the IMF stabilization programme initiated in 1999 through its first and third pillar (IMF 2000c:47). The first pillar addresses the fiscal adjustment."

Thus, we have two points to focus on: First, primary deficit level and second, stabilized public debt level. We point it out (pg.16): "Based on the data supplied by the Turkish authorities, the IMF identifies in nominal terms first, the true functional relationship (base setup) between optimal primary deficit and inflation rate together with the stabilized public debt level at the end of 1999 (see IMF 2000a:22, item 31-33)."

As we see, the IMF focuses on nominal value of primary deficit, which optimally should stabilize the <u>public debt level known to the IMF</u>. We find out that the annual "accurate" primary deficit in <u>real terms</u> over real annual GDP is "at least" 7% greater than the IMF knows[1]. Thus, this value certainly changes the base setup which determines <u>the optimal primary surplus</u> to stabilize the public debt through 2000-2001. Given that at year 2000 the public debt stock known to the IMF is also 17% smaller than it actually is (see Figure R.2), the base setup to determine optimal primary surplus level <u>should be revised again</u>. Moreover, note that our estimations are not an exhaustive measure but give "at least" value for hidden debts. As a consequence, the IMF underestimates first, actual primary deficit level and second, public debt stock. The bias 7% affects <u>actual primary deficit</u>. The more important is the <u>optimal primary surplus</u> level, which is affected through <u>both actual primary deficit level</u> and "accurate" <u>public debt stock level</u>. Below you find two figures, Figure R.1 and Figure R.2. In Figure R.1, the series shows the difference between the the two series depicted in Figure 1. The reason for the effect of the bias to be evident can be found in the same IMF report (IMF, 2000a). According to the IMF's central scenario an additional 0,2 % GNP primary surplus would be needed for each 2 % points of lower inflation. A 0,5 % lower primary surplus would be required for a stock of debt 10% points lower (see IMF 2000a, pg. 22). If these underestimations were known to the IMF, the base setup certainly would have been revised. Furthermore, announced debt stock is sustainable in sense of stationarity, whereas "accurate" debt stock is not. However, the failure of the program can not be completely explained by these information bias. Thus we argue that these effects might have been one of the

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[1] As we have explained, the primary deficit is a flow variable and the IMF knows only the amount of cash budgetary transactions as flow variable. In our computation 1987=100 prices are taken into account, see also Appendix B.

main reasons. A very detailed analysis to reach exact results and clear conclusions may be subject of another study.

Figure R.1 The time evolution of hidden debts in real terms over real annual GDP.
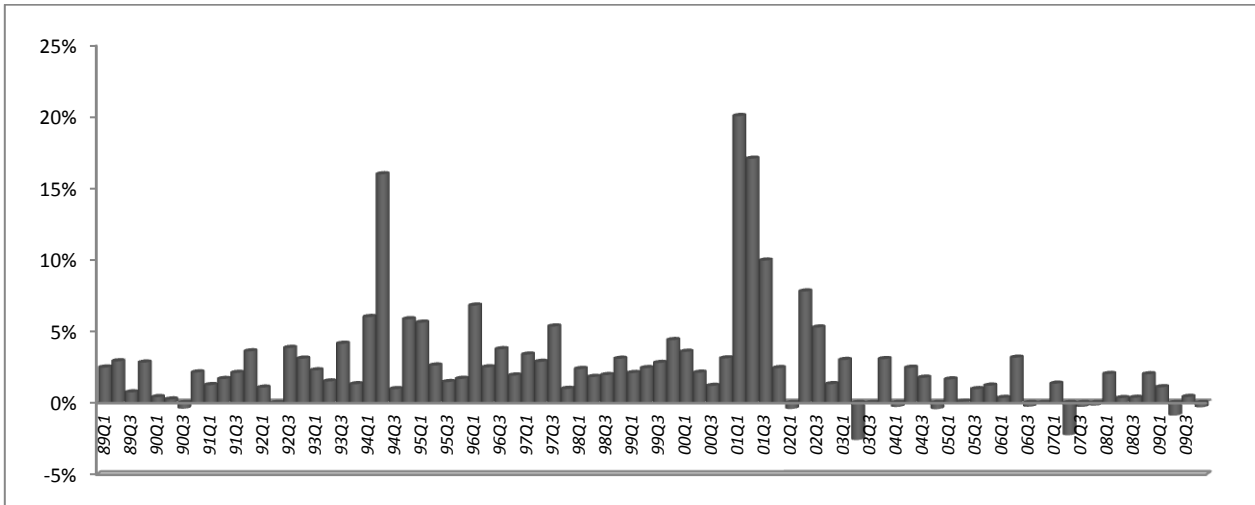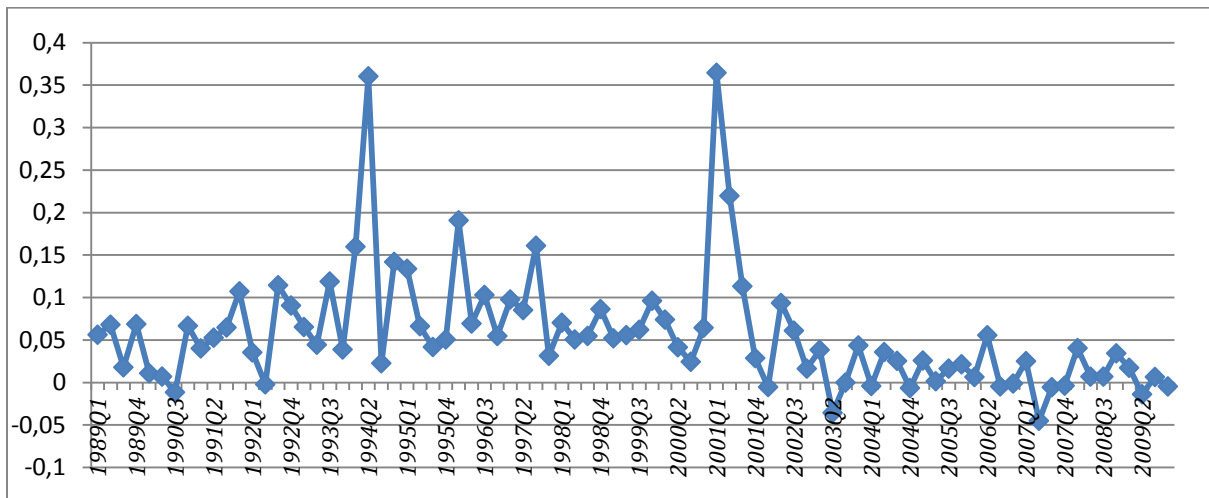

Figure R.2 Hidden liabilities in real terms over "accurate" debt stock in real terms

The time-evolution of the hidden liabilities over "accurate" gross debt stock of public sector are in real terms (deflated by inflation rate, 1987=100). The "accurate" gross debt stock of public sector is adjusted by including hidden liabilities.