



**Republic of Turkey**  
**Undersecretariat of Treasury**

**Public Debt Management in Turkey:**  
**An Overview**

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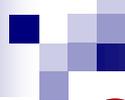
**8<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP**  
**March 30<sup>th</sup>, 2017**  
**Ankara**



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## NOTES

- This presentation exclusively addresses the questions raised by COMCEC Coordination Office for `Member Country Presentations` Session



# OUTLINE

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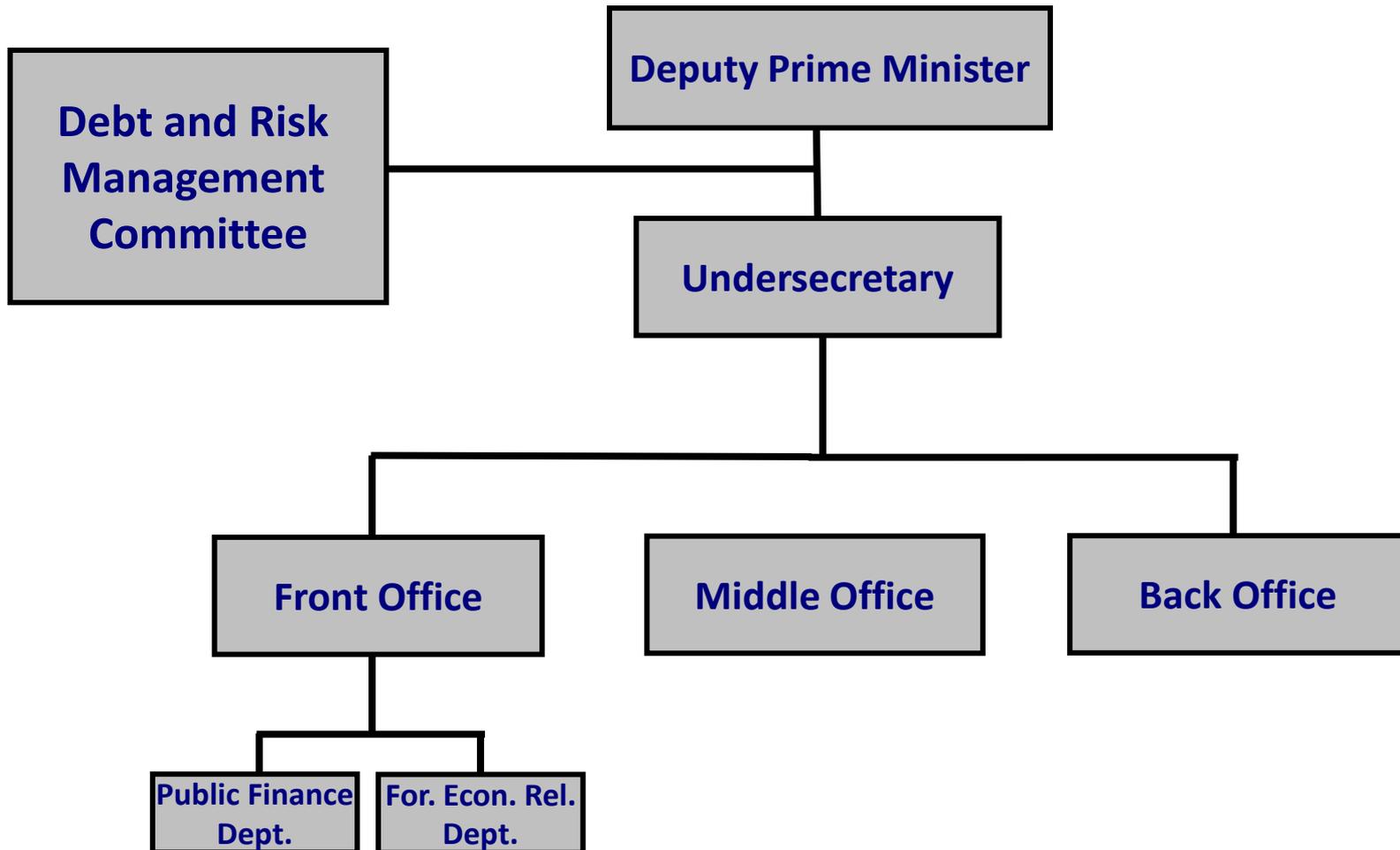
- ❑ Organizational Structure and Legal Framework
- ❑ Main Principles of Public Debt Management
- ❑ Government Debt Securities
- ❑ Risk Management
- ❑ Debt Indicators

# 1. Organizational Structure and Legal Framework

## Law No 4749 : Regulation on Public Finance and Debt Management

- ❑ Defines Treasury as the sole borrowing entity
- ❑ Specifies the borrowing limits and Treasury guarantees
- ❑ Defines procedural rules
  - Domestic borrowing
  - External borrowing
  - Guarantee issuance and undertakings
  - On-lent loans
  - Collection of financial receivables
- ❑ Assures transparency and accountability in debt management
- ❑ Re-structures debt management organization

# 1. Organizational Structure and Legal Framework



## 2. Main Principles of Public Debt Management

### Regulation on the Principles and Procedures of Coordination and Execution of Debt and Risk Management

- Article 4 - The execution of public debt and risk management shall be based on the following principles:
  - a) to follow a sustainable, transparent and accountable debt management policy that conforms to monetary/fiscal policies and takes macroeconomic balances into account
  - b) to meet financing requirements at the lowest possible cost in the medium and long term, based on the level of risk which is determined regarding the cost factors as well as conditions at the domestic and international markets

## 2. Main Principles of Public Debt Management

### Accountability, Transparency and Predictability: Regular

- ❑ Announcement of 'Annual Financing Program' for the following year, at the end of each year
- ❑ Announcement of 'Domestic Borrowing Strategy' and 'Auction Calendar' for the next three months
- ❑ Weekly announcements for the details of the auctions
- ❑ Regular briefings to the Parliament about the latest developments in debt management
- ❑ Regular disclosure of debt statistics
- ❑ Monthly and yearly 'Public Debt Management Reports'

## 2. Main Principles of Public Debt Management

### Accountability, Transparency and Predictability: Primary and Secondary Markets

- ❑ Investor relations are developed via regular meetings with primary dealers on a monthly basis within the framework of 'Primary Dealership System'
- ❑ Regular meetings with local and foreign investors are conducted to broaden the investor base
- ❑ Efficient yield curve is generated by implementing security benchmarking policy
- ❑ Financial instrument set is diversified by developing new borrowing instruments

# 3. Government Debt Securities

## Instrument Types

### TL Denominated:

- ❑ Zero-Coupon Bonds /Bills (up to 2 years)
- ❑ Fixed Couponed Bonds (2,5,10 years)
- ❑ Floating Rate Notes (7 year)
- ❑ CPI Indexed Bonds (up to 10 years)
- ❑ Lease Certificates (Sukuk) (2, 5 years)
- ❑ CPI Linked Lease Certificates (Sukuk) (5 years)

### FX Denominated:

- ❑ Eurobonds (USD, EUR, JPY, up to 31 years)
- ❑ Lease Certificates (Sukuk) (USD, 5,10 years)

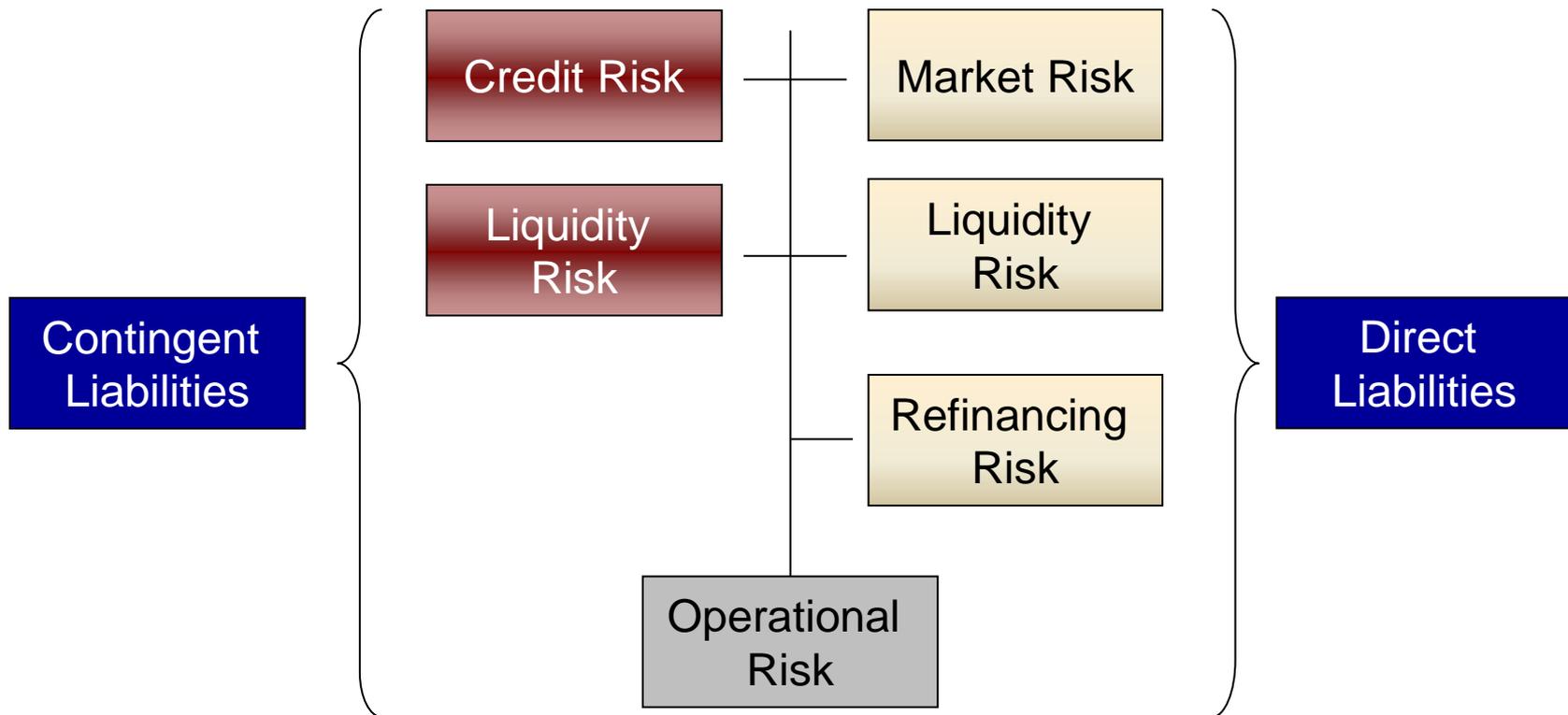
# 3. Government Debt Securities

## Islamic Finance

- ❑ Islamic Banks constitute almost 5 percent in total banking sector in Turkey
- ❑ However, they have a big potential to grow fast in a short period of time. The government has an agenda of increasing its share from 5 percent to 15 percent in 2025
- ❑ Treasury issues ijara sukuk for islamic banks in domestic markets and in international capital markets since 2012
- ❑ Turkish Treasury raised TL 6.3 billion via five sukuk issuances in domestic market and USD 1 billion via one sukuk issuances in external market in 2016

# 4. Risk Management

## Identification of Relevant Risks



# 4. Risk Management

## Management of Contingent Liabilities

- Contingent liabilities are explicit or implicit liabilities that may or may not be incurred depending on the outcome of a future event

### **Explicit**

- Credit guarantees
- PPP related guarantees
- Pension savings
- Deficit of 'Unemployment Insurance Fund'
- Payments made by Turkish Eximbank
- Losses of SOEs

### **Implicit**

- Bank bailouts
- Bailouts of public enterprises
- National security
- Legal claims

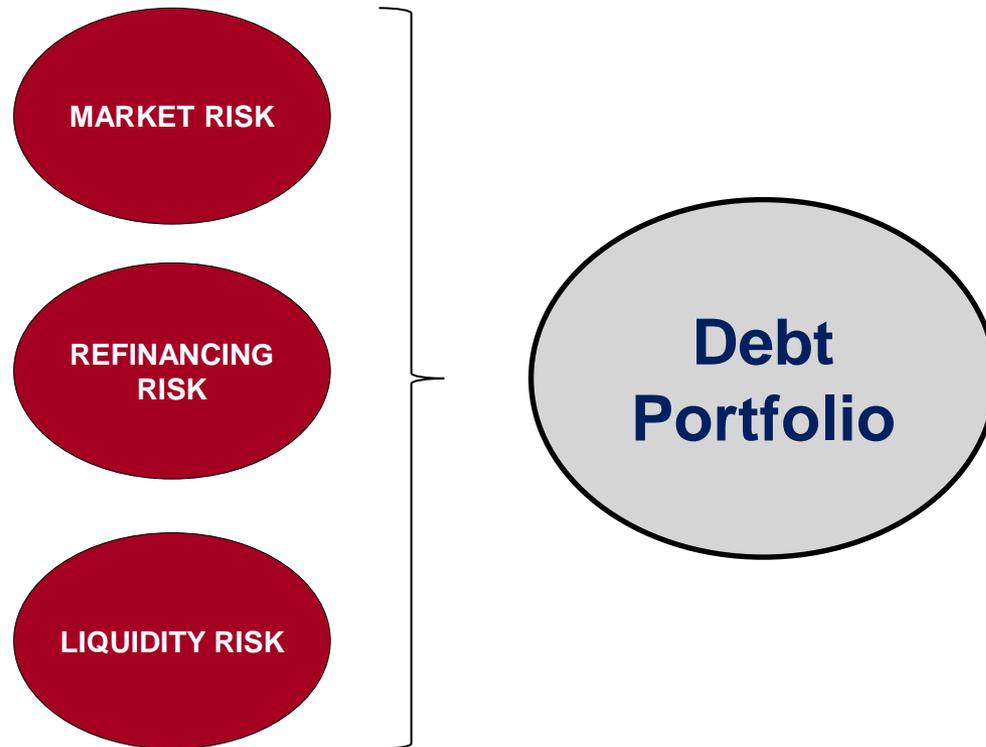
# 4. Risk Management

## Credit Risk Management Measures

- ❑ Guarantee and On-lent Limit (USD 4 Billion in 2017 budget law)
- ❑ Debt Assumption Commitment Limit (USD 4 Billion in 2017 budget law)
- ❑ Guarantee/On-lent Fee
  - A fee of up to 1% of the total guaranteed/on-lent amount is charged to the beneficiary institution
- ❑ Partial Guarantee
  - The guarantee amount provided by the Treasury is limited to 95% of the total amount
- ❑ Risk Account
  - A Risk Account was established for the redemption of the undertaken guarantees in 2003
- ❑ External Debt Payment Account
  - Municipalities have to establish an external debt payment account in commercial banks for the debt service of guaranteed and on-lent credits

# 4. Risk Management

## Management of Direct Liabilities



# 4. Risk Management

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## Management of Direct Liabilities

- ❑ **Full coverage** of financing requirement determined by cash and debt management operations
- ❑ **Consistency** among the short and medium/long-term objectives with long term perspective
- ❑ **Applicable set of instruments** fitting the market structure, be aware of the market dynamics
- ❑ Aiming **market development**
- ❑ **Balancing cost – risk** trade off
- ❑ Be **realistic** by avoiding strict assumptions
- ❑ **Simple** tools, understandable by both decision makers and market participants

# 4. Risk Management

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## Strategic Benchmarks

Forward looking medium-long term borrowing policy to guide front offices in the context of debt management's overall risk/cost preferences

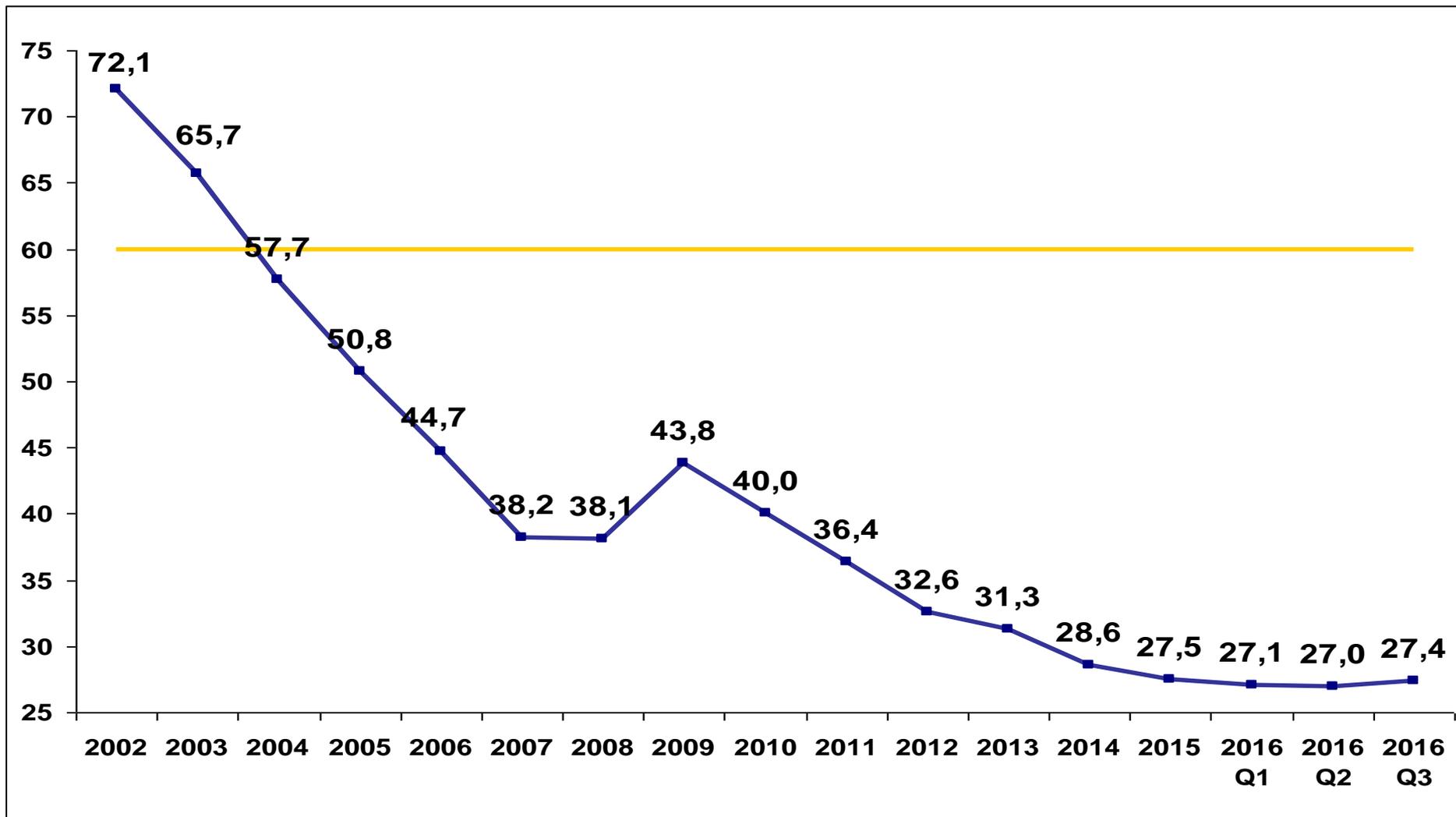
## 4. Risk Management

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### Strategic Benchmarks for 2017-2019

- ❑ To borrow mainly in TL
- ❑ To use fixed rate TL instruments as the major source of domestic borrowing and decrease the share of debt which has interest rate re-fixing period less than 12 months
- ❑ To increase the average maturity by taking market conditions into consideration and decrease the share of debt maturing within 12 months
- ❑ To keep a certain level of cash reserve

# General Government Gross Debt Stock (% GDP)



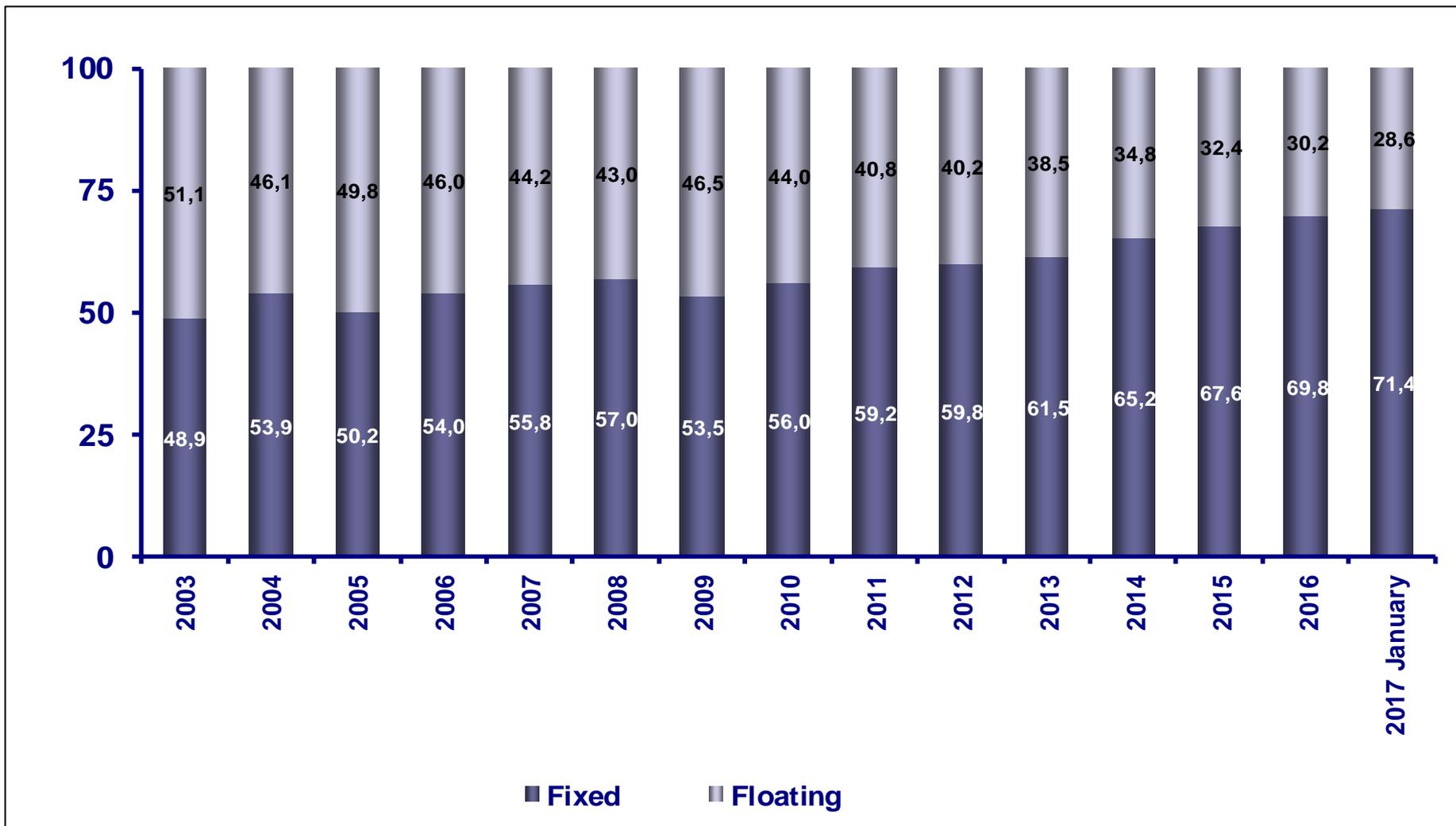
Source: Undersecretariat of Treasury

# General Government Debt Stock (% GDP)

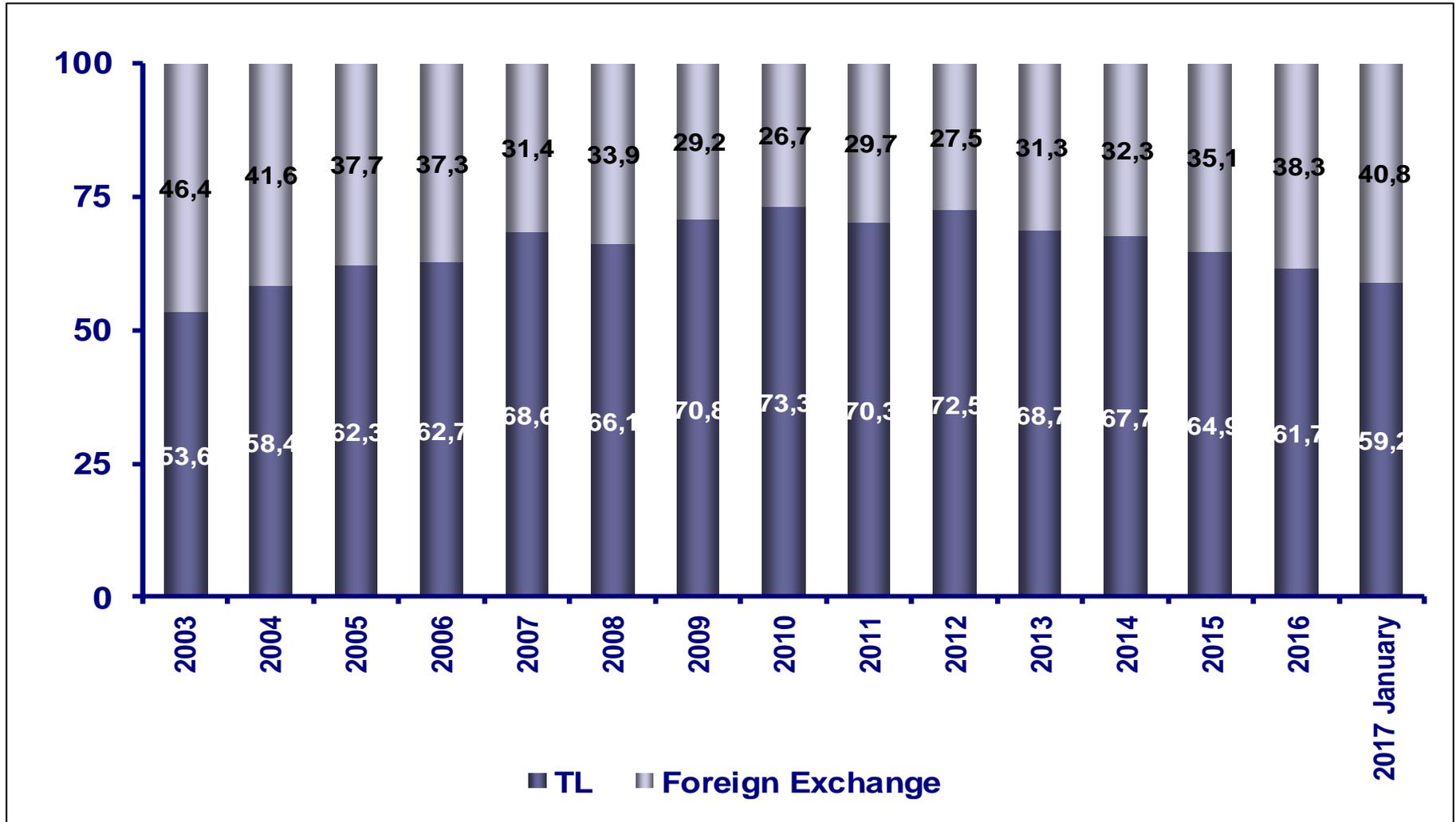
	2009	2010	2011	2012	2013	2014	2015
Euro area (17 countries)	78,6	84,1	86,3	89,7	91,7	92,3	90,7
European Union (27 countries)	72,9	78,5	81,2	83,8	85,7	86,7	85,0
Greece	126,7	146,2	172,1	159,6	177,4	179,7	177,4
Italy	112,5	115,4	116,5	123,3	129,0	131,9	132,3
Portugal	83,6	96,2	111,4	126,2	129,0	130,6	129,0
Belgium	99,5	99,7	102,3	104,1	105,4	106,5	105,8
Spain	52,7	60,1	69,5	85,7	95,4	100,4	99,8
France	78,9	81,6	85,2	89,5	92,3	95,3	96,2
United Kingdom	64,5	76,0	81,6	85,1	86,2	88,1	89,1
Austria	80,1	82,8	82,6	82,0	81,3	84,4	85,5
Hungary	77,8	80,5	80,7	78,2	76,6	75,7	74,7
Germany	72,6	81,0	78,7	79,9	77,5	74,9	71,2
Netherlands	56,9	59,3	61,6	66,4	67,7	67,9	65,1
Turkey	43,8	40,0	36,4	32,6	31,3	28,6	27,5

Source: Eurostat, (Updated: 25-10-2016 ); Undersecretariat of Treasury, (As of Dec. 30, 2016)

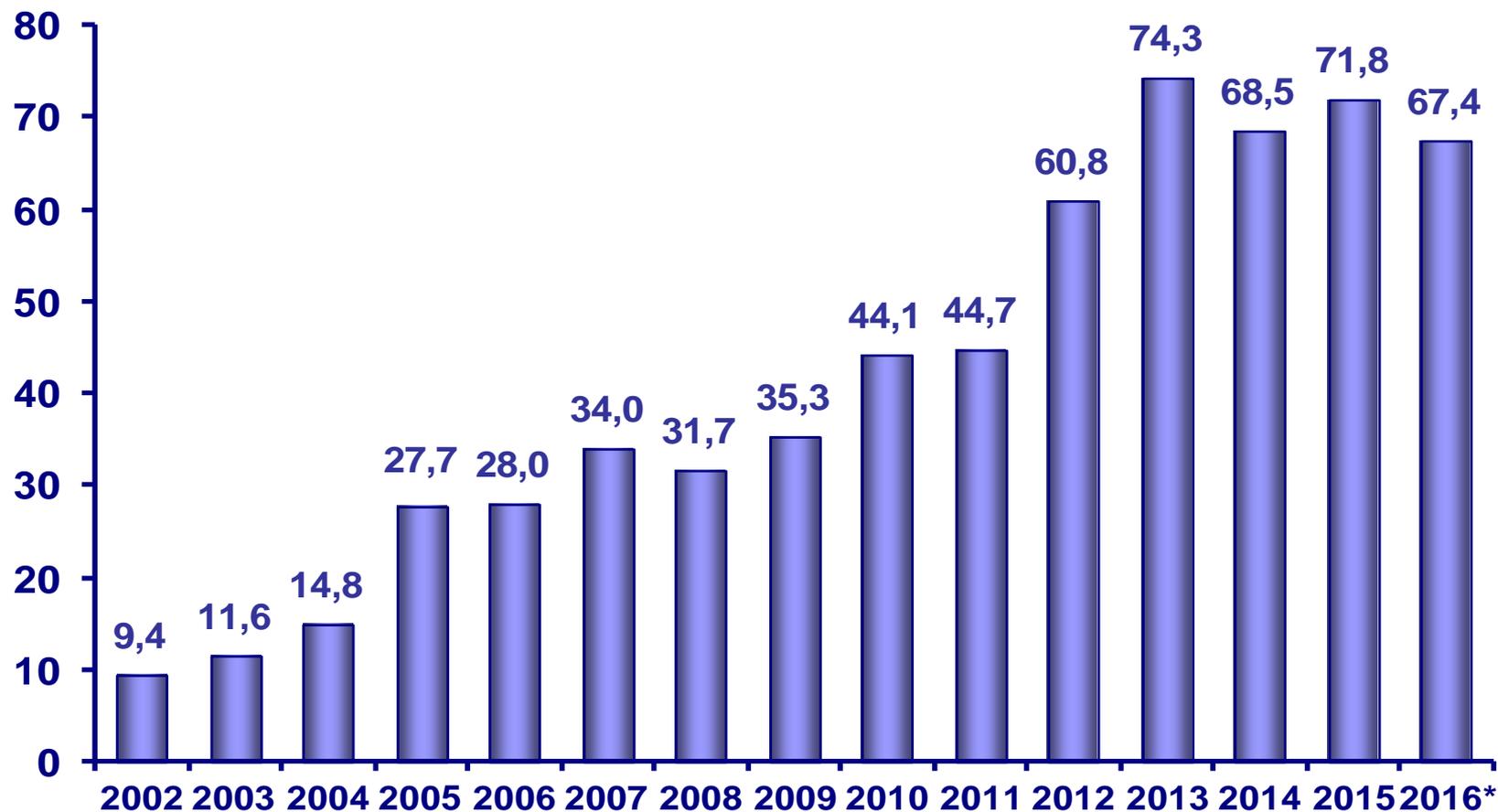
# Interest Composition of Central Government Gross Debt (%)



# Currency Composition of Central Government Gross Debt (%)



# Average Maturity of Domestic Borrowing (Months)



\*As of December 2016

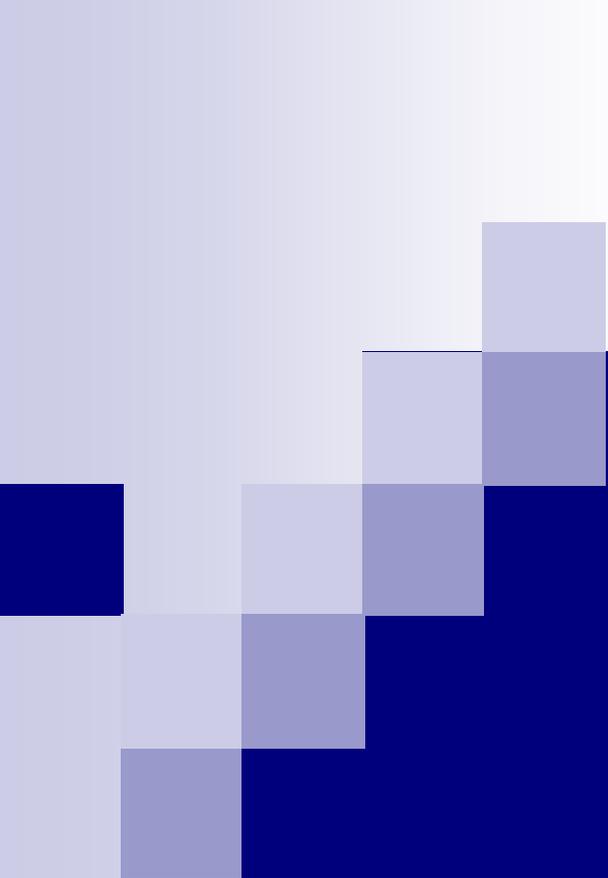
Source: Undersecretariat of Treasury

# Sensitivity of General Government Debt to GDP

	2001	2015
Change in real exchange rate app/dep by 5 percent	+ / - 2.2 points	+ / - 0.6 points
Change in TL interest rate by 500bp	+ / - 1.7 points	+ / - 1.0 points
Change in GDP growth rate by 2 percentage points	+ / - 1.6 points	+ / - 0.6 points

Note: The effects of scenarios on “General Government Debt Stock/GDP” ratio (as defined by ESA standards) are measured by deviations from baseline scenarios based on end-2001 and end-2015 stock realizations.

Source: Undersecretariat of Treasury



**For further information**

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