



DEBT MANAGEMENT IN TURKEY

Next Generation Fiscal Reform
Frameworks to deliver effective
counter-cyclical policy

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Hakkı KARATAŞ

Deputy Director General

DG Public Finance

Turkish Treasury



Motivation

- Yesterday we talked about fiscal management: fiscal rules, fiscal councils etc.
- Another important issue in financial management of government besides fiscal management is public debt management
- My presentation will focus on institutional structure of debt management in Turkey

Outline

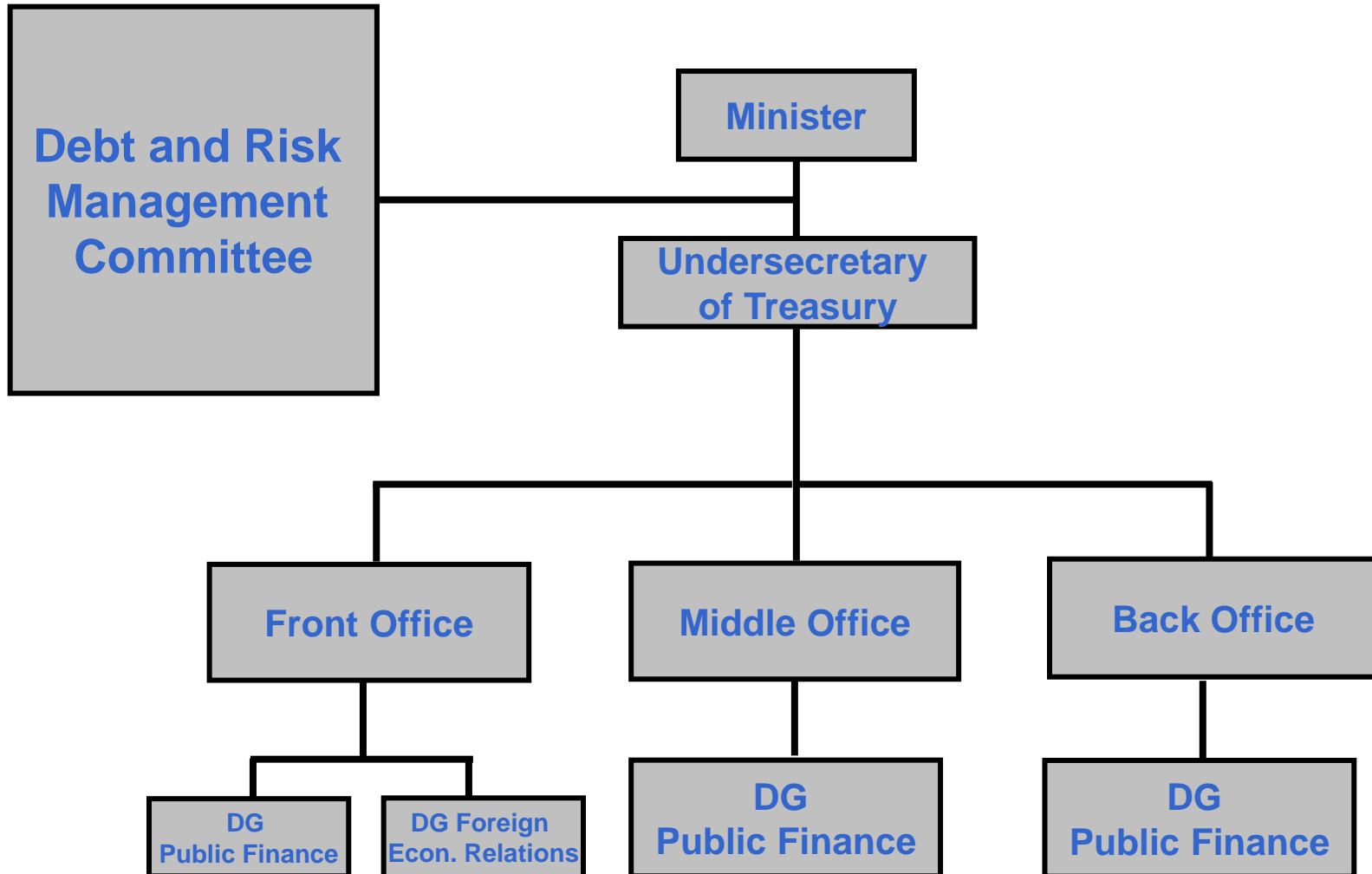
- Organizational Structure of Debt Management
- Establishing Legal Framework
- Debt & Risk Management Framework
- Debt Profile
- Concluding Remarks



Organizational Structure of Debt Management

Organizational Structure

Decision Making Process in Treasury



Organizational Structure

Front Office for Domestic Debt

- Preparation of short-term (1 year) financing program based on cash flow projections
- Determination of short-term borrowing strategy in line with the benchmarks approved by Debt and Risk Management Committee
- Issuance of Government Securities in domestic market
- Monitoring secondary market for G-Bonds and T-Bills
- Research and execution of domestic debt related issues (i.e. Primary Dealership System)

Front Office for External Debt

- Bond issuances at international capital markets
- Project financing from external borrowing resources

Organizational Structure

Middle Office (Risk Management Unit)

- Mainly responsible for formulating the risk-based debt and claims management strategy
- Monitoring the associated risks and reporting them to the DMC for decision making.

Back Office

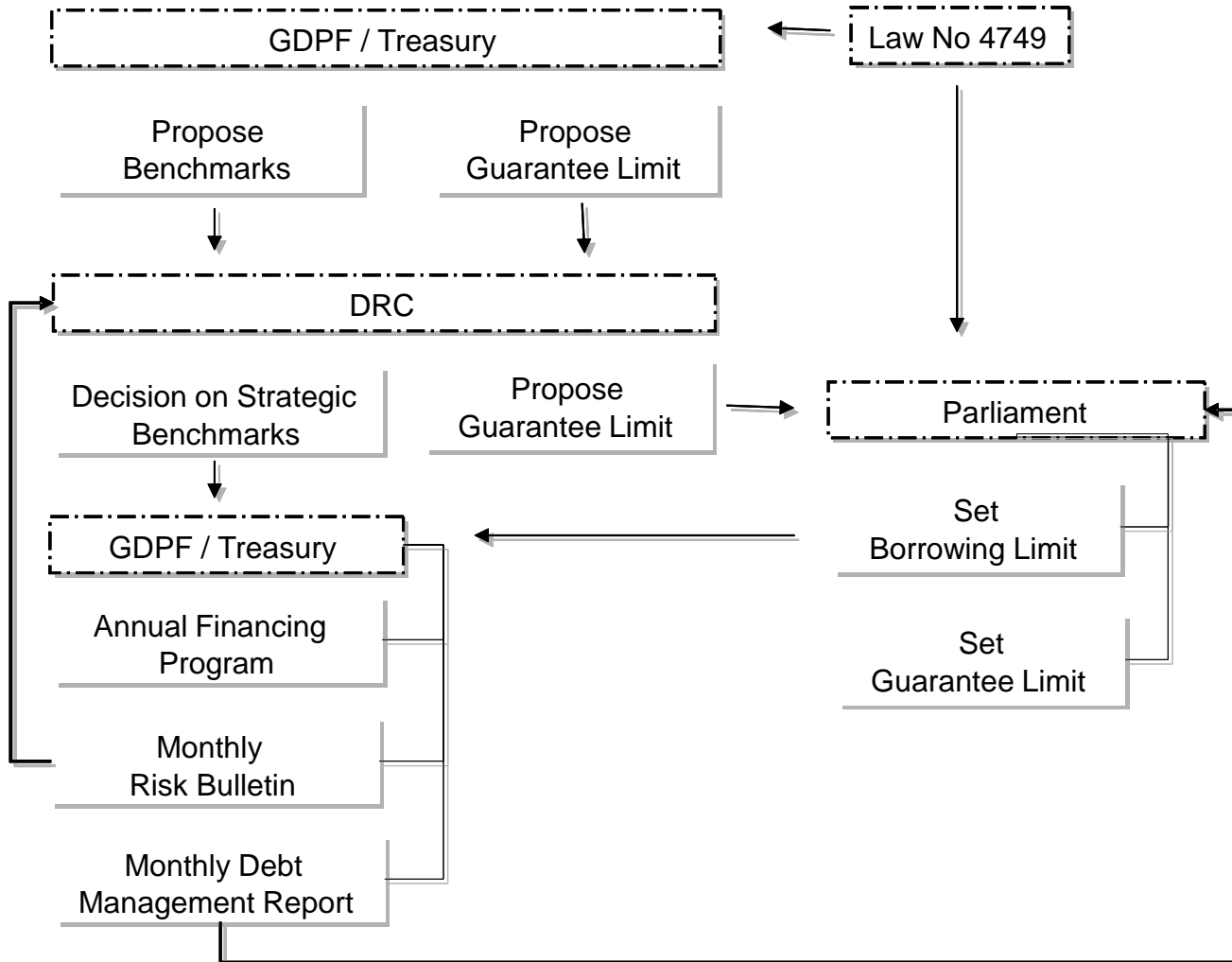
- Makes the domestic and external debt repayments
- Keeps statistics and announces debt stock of central government
- Monitors and develops the debt database
- Collects Receivables that arise from undertakings of guarantees or from on-lent credits

Debt & Risk Management Committee

- Established in 2002,
 - Consists of the Minister and high level debt managers,
 - Meets regularly,
 - Serves as a decision making and co-ordination mechanism in debt management issues,
- Sets overall financing policies.

Organizational Structure

Decision Making Process in Debt Management





Establishing Legal Framework

Law No 4749 : Regulation on Public Finance and Debt Management

- Define objectives of debt management
- Set basis for authority
- Describe the main principals
- Draw the legal boundary

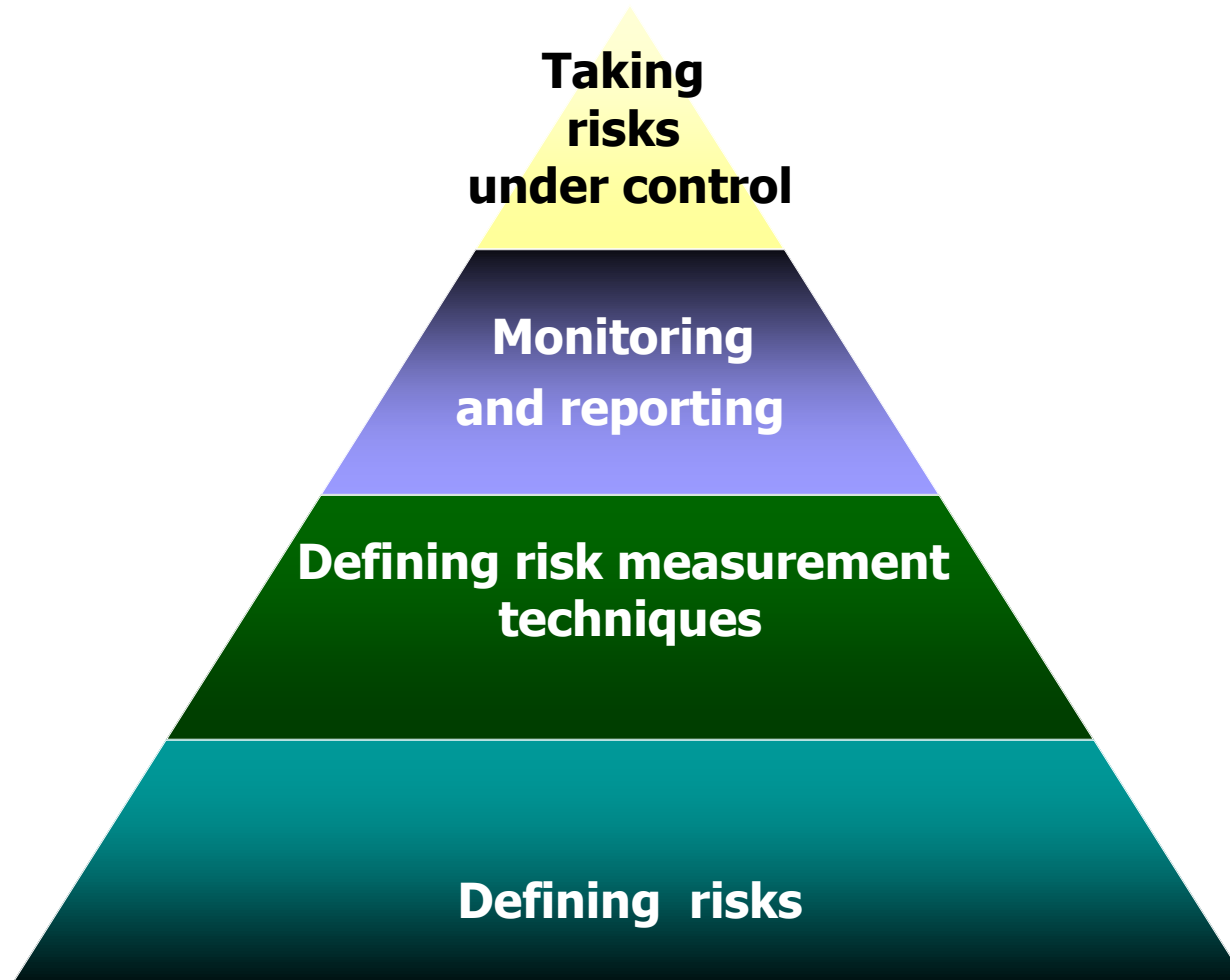
Law No 4749 : Regulation on Public Finance and Debt Management

- Defines Treasury as the soul borrowing entity
- Specifies the limits for new borrowing and Treasury guarantees
- Defines the procedural rules
 - domestic borrowing
 - external borrowing
 - guarantee issuance and undertakings
 - on-lent loans
 - collection of financial receivables
- Re-structures debt management organization
- Assures transparency and accountability in debt management



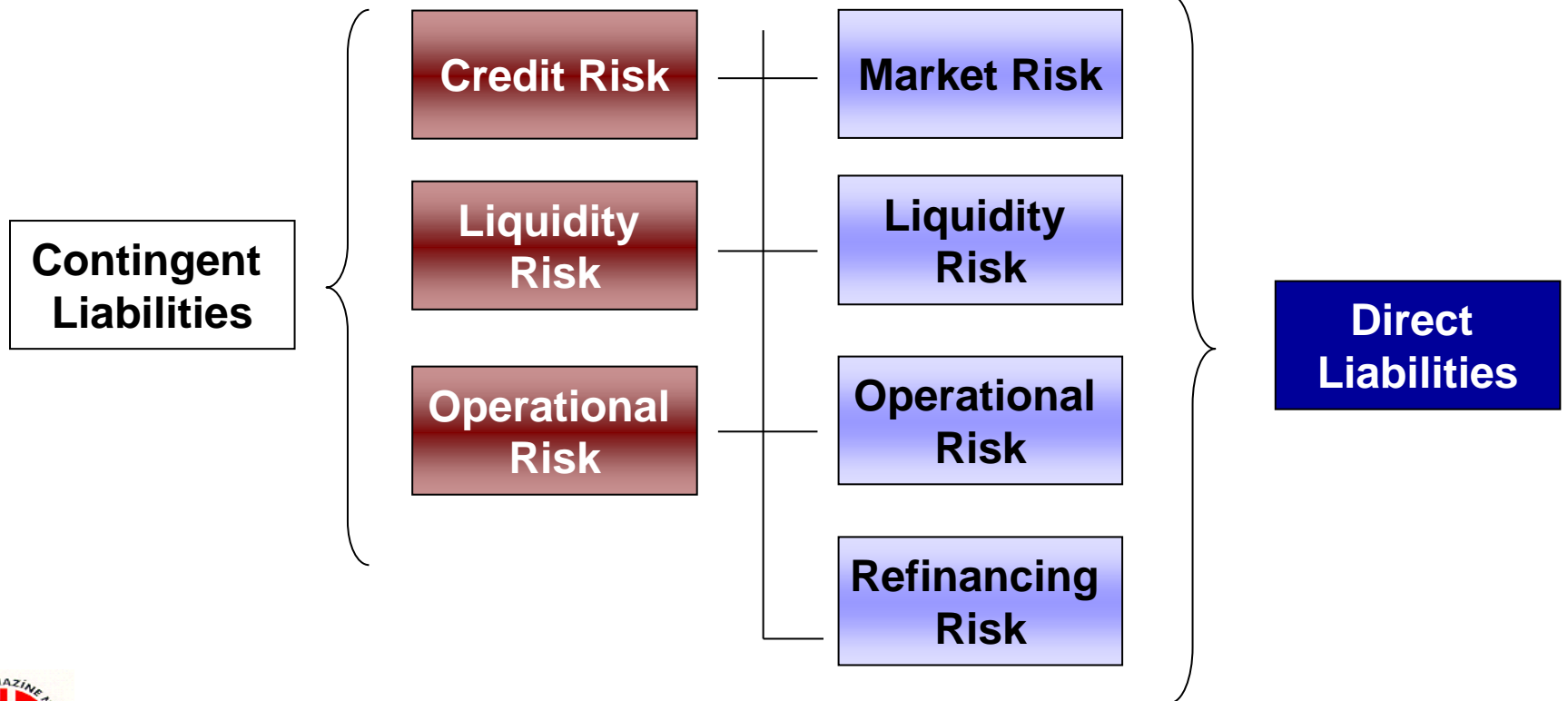
Risk Management Framework

Risk Management Methodology



Identification of Relevant Risks

Main Exposures



Setting the Benchmarks

Strategic Benchmarks

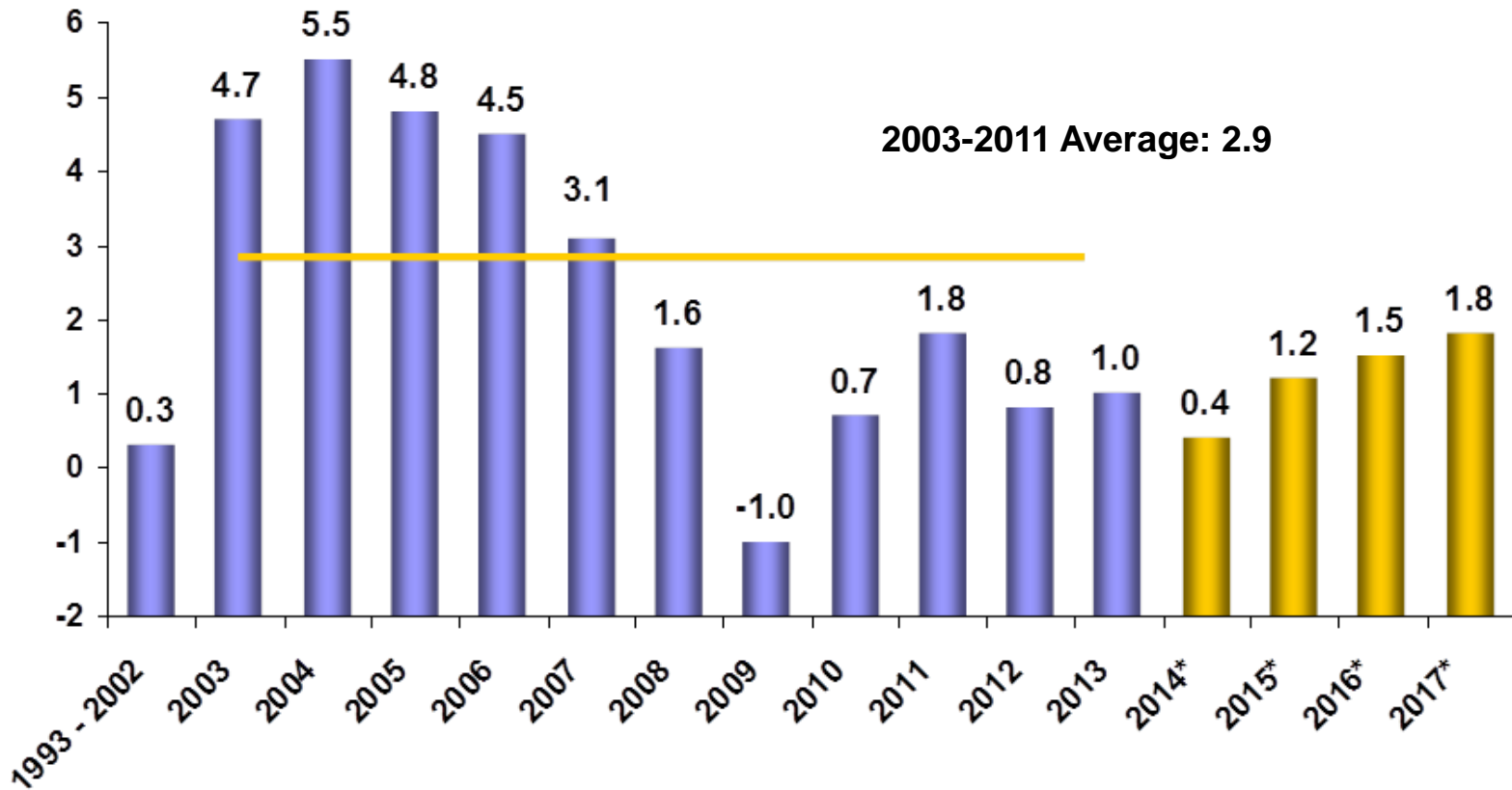
- Reduce liquidity risk: Keeping a liquidity buffer
- Reduce currency risk: Borrowing mainly in local currency
- Reduce interest rate risk: Using fixed rate instruments
- Reduce refinancing risk: Increasing the average maturity of borrowing

Cost at Risk (C@R) methodology is adopted in determining the strategic benchmarks



Debt Profile

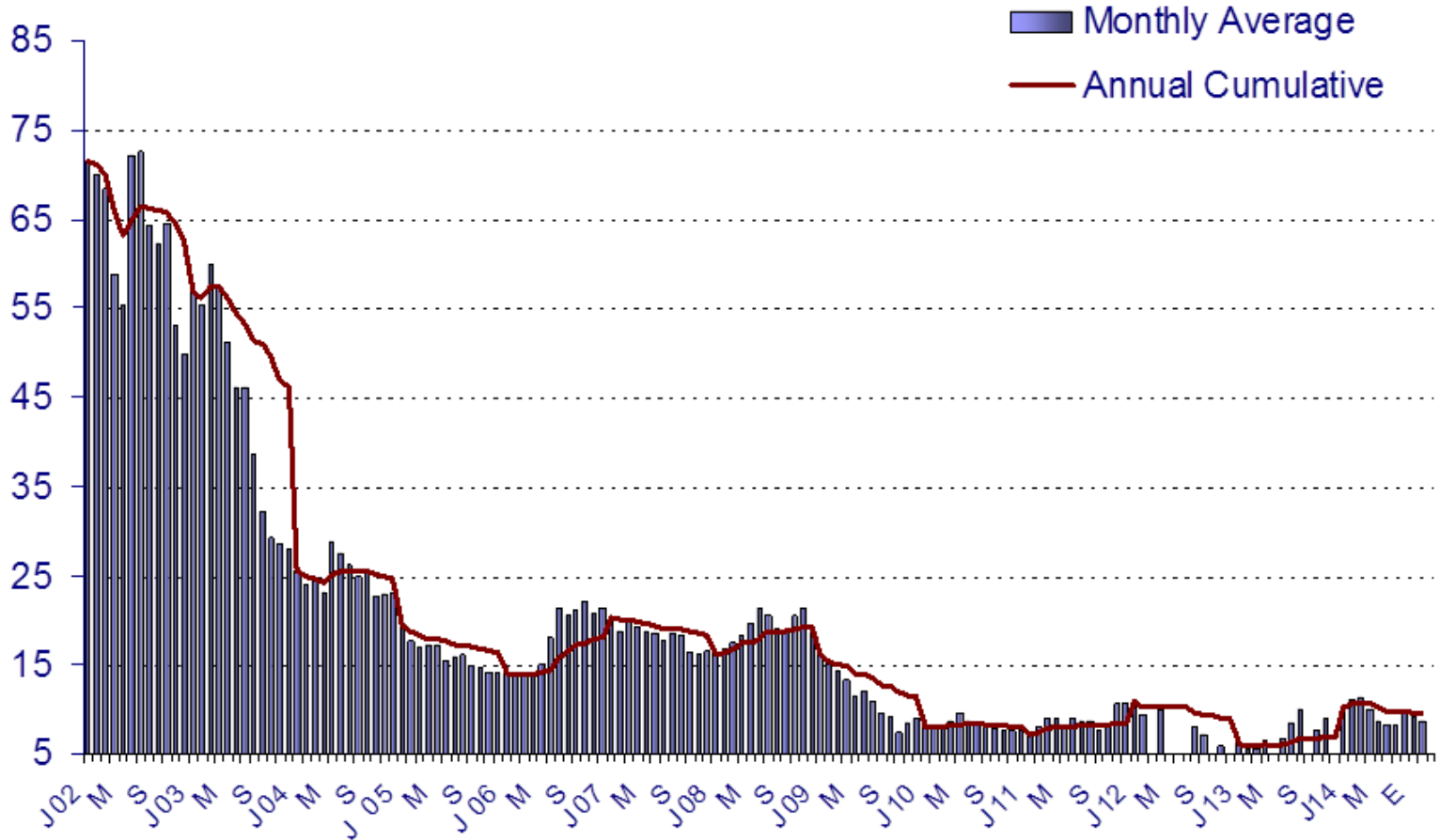
Public Sector Primary Surplus (% of GDP)



(*) 2015-2017: Medium Term Program targets

Source: Undersecretariat of Treasury, MTP 2015-2017

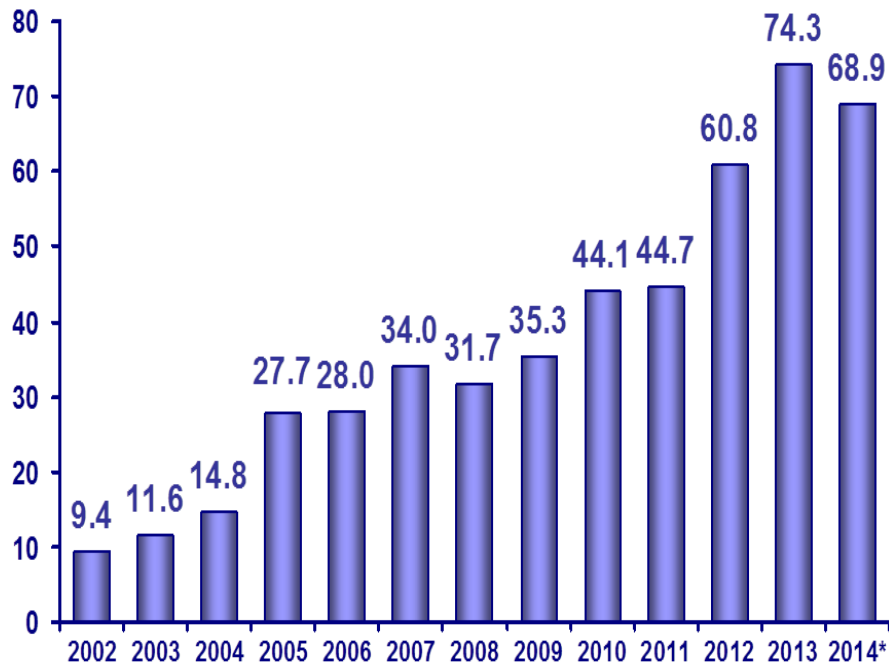
TL Denominated Zero Coupon Borrowing Rates (Comp. Ann., %)



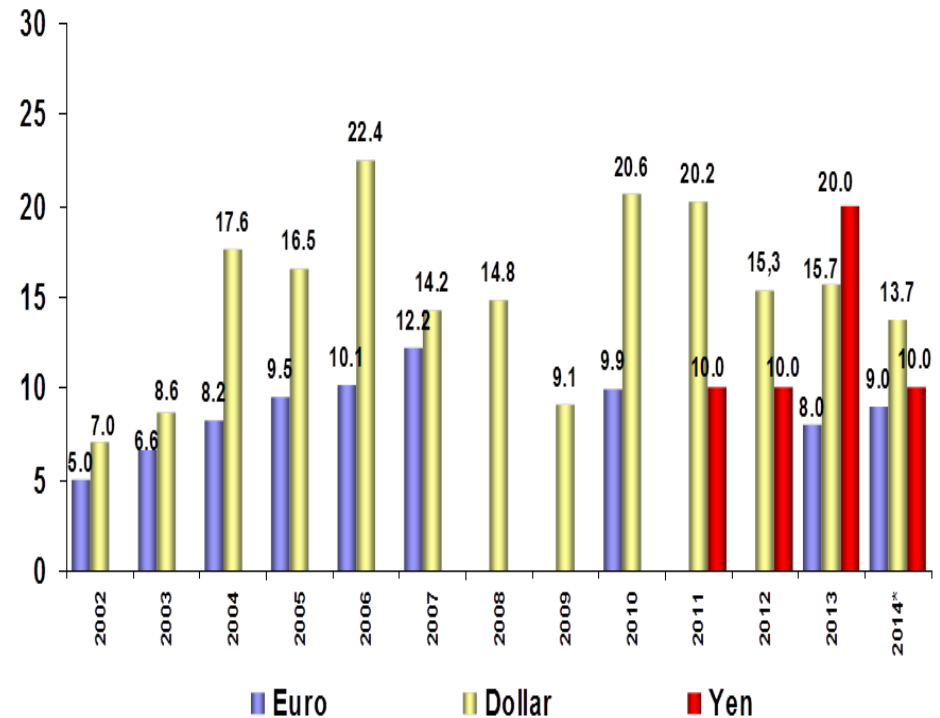
Source: Undersecretariat of Treasury

Average Maturity of Borrowing

Domestic Borrowing (months)



Eurobond Issuance (years)

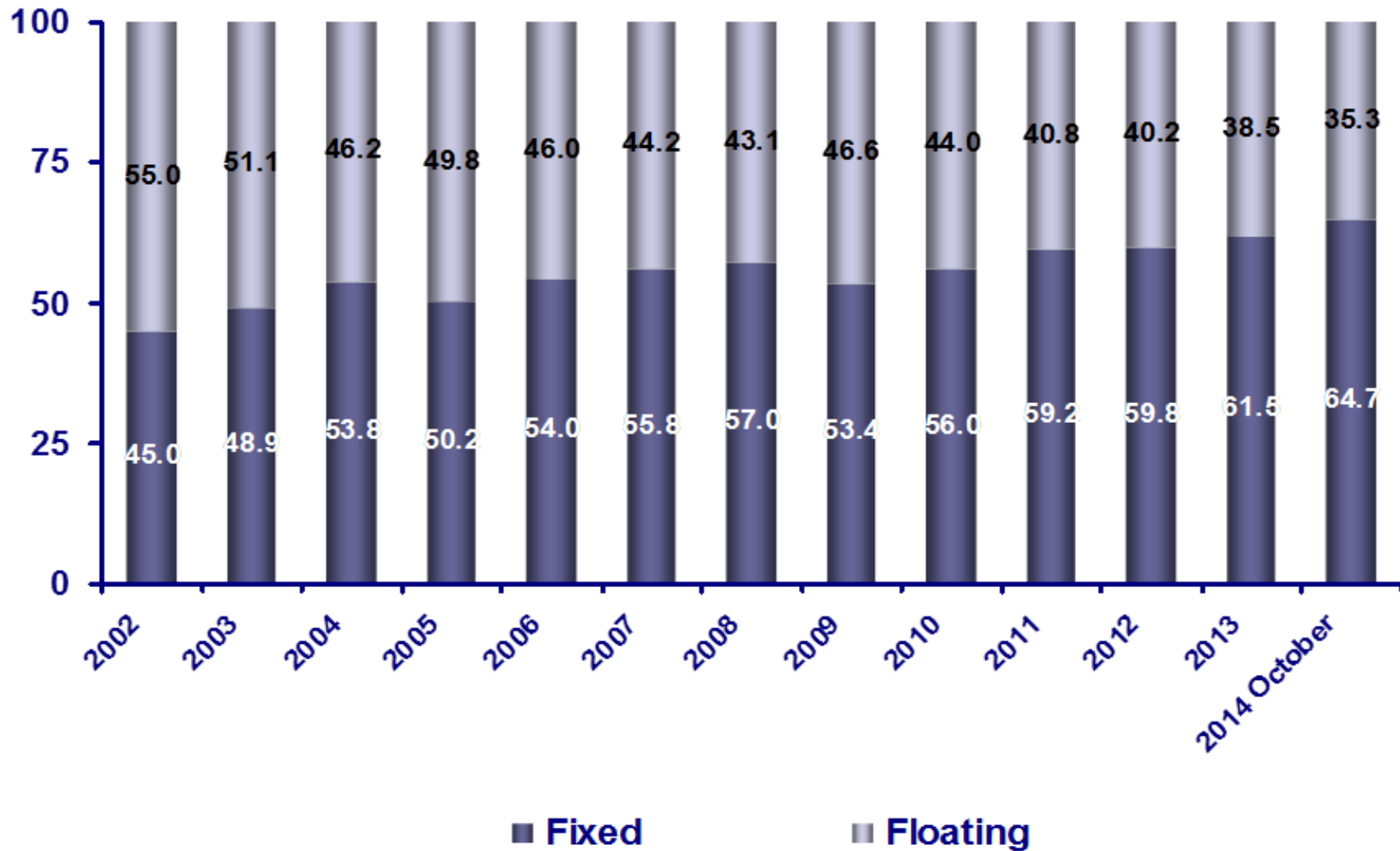


(*) As of November

Source: Undersecretariat of Treasury



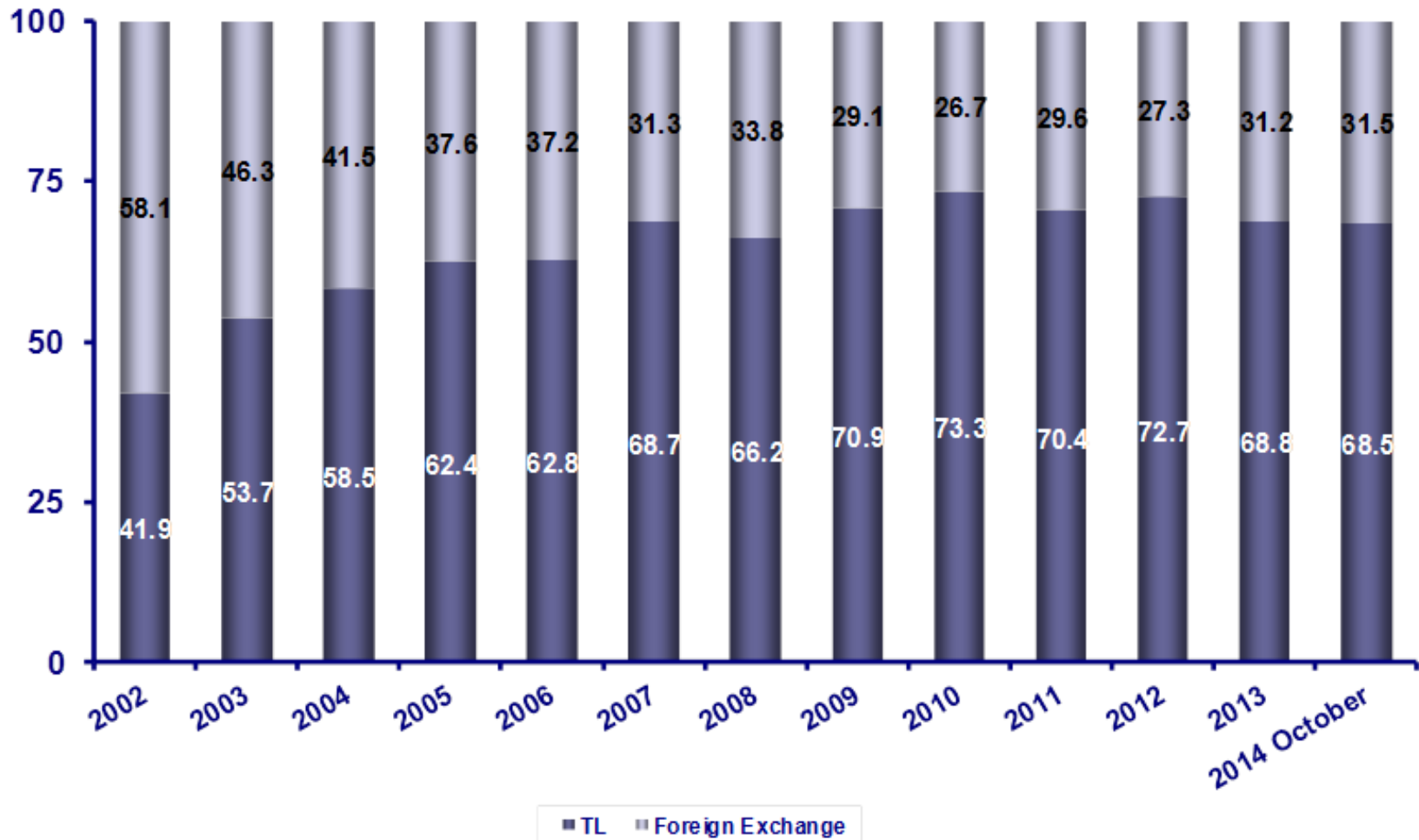
Interest Composition of Central Government Gross Debt (%)



Source: Undersecretariat of Treasury

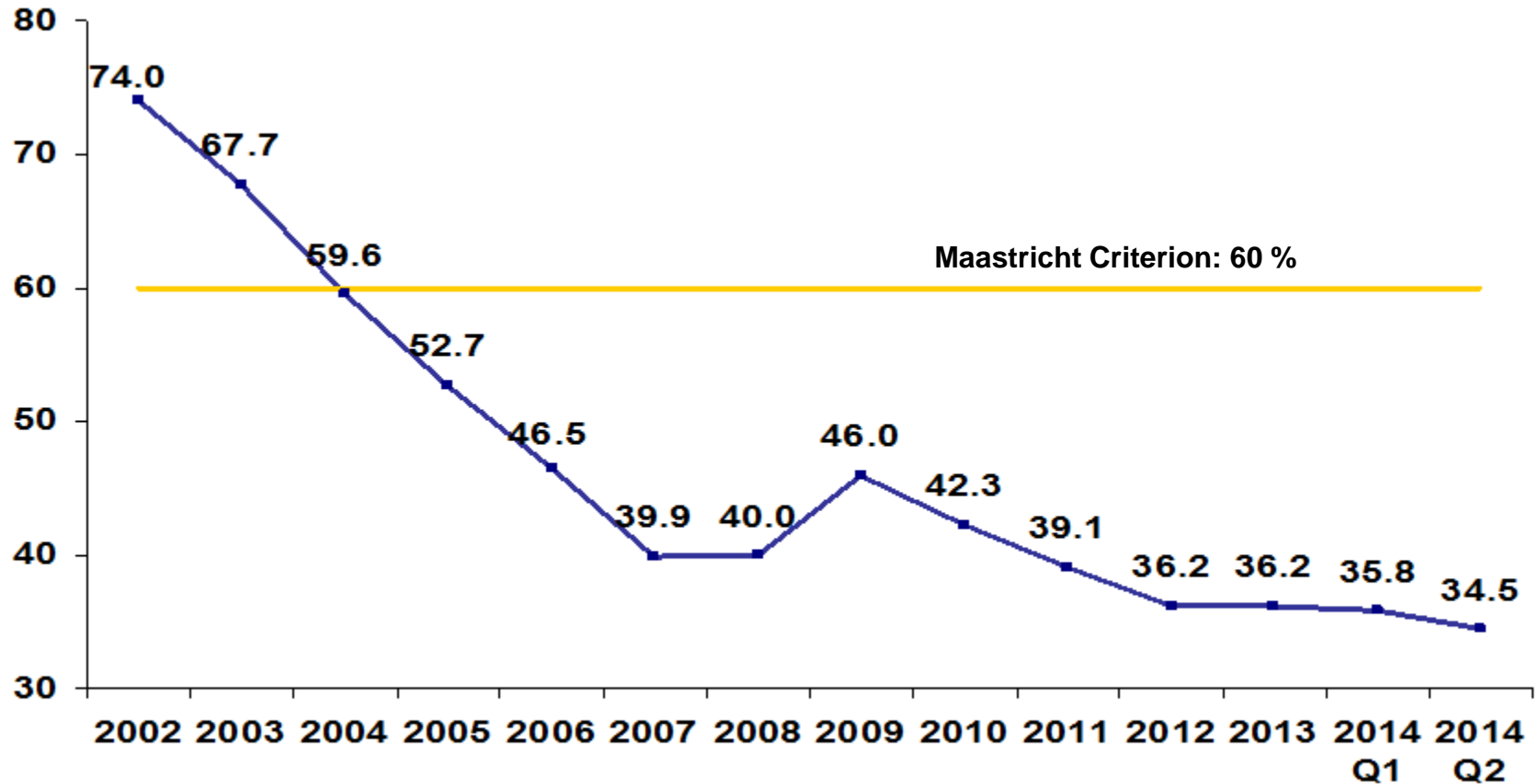


Currency Composition of Central Government Gross Debt (%)



Source: Undersecretariat of Treasury

General Government Gross Debt Stock (EU Defined, % of GDP)



Source: Undersecretariat of Treasury

Concluding Remarks (1/2)

Ensure internal and external co-ordination
within the debt management unit
with fiscal and monetary policies

Transparency and accountability

Monthly and Annual Debt Management Reports

Reporting to the Parliament

A three-month auctions calendar announcement

Concluding Remarks (2/2)

- Medium-long term perspective
- Risk-based analysis and strategies
- Developing markets and yield curve construction
 - Benchmark issuance strategy
 - Market making mechanism (Primary dealership system)
 - Efficient electronic trading facility (Organized market: BorsaIstanbul)
- Diversified instrument set
- Enhanced investor base

Thank you for your attention

For further comments or questions

hakki.karatas@hazine.gov.tr