DEBT MANAGEMENT
IN TURKEY

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

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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 thata rise from undertakings of gurantees 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

- GDPF / Treasury
  - Propose Benchmarks
  - Propose Guarantee Limit

- DRC
  - Decision on Strategic Benchmarks
  - Propose Guarantee Limit

- Law No 4749

- Parliament
  - Set Borrowing Limit
  - Set Guarantee Limit

- GDPF / Treasury
  - Annual Financing Program
  - Monthly Risk Bulletin
  - Monthly Debt Management Report
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
Taking risks under control

Monitoring and reporting

Defining risk measurement techniques

Defining risks

Risk Management Methodology
Identification of Relevant Risks

Main Exposures

Contingent Liabilities

- Credit Risk
- Liquidity Risk
- Operational Risk

Direct Liabilities

- Market Risk
- Liquidity Risk
- Operational Risk
- Refinancing Risk
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)

2003-2011 Average: 2.9

(*): 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: Borsalstanbul)
- Diversified instrument set
- Enhanced investor base
Thank you for your attention

For further comments or questions

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