Republic of Turkey
Undersecretariat of Treasury

DEBT MANAGEMENT OF TURKEY

‘Choosing between USD or EUR-denominated debt in the international markets’

K. Çağatay İMİRGİ
Deputy Director General
Foreign Economic Relations

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Fiscal position is Turkey’s main anchor…

E: Realization Estimate, Medium Term Program 2017-2019
Source: Undersecretariat of Treasury, MoF, MoD, TURKSTAT, IMF
Debt Management Office Structure

Deputy Prime Minister

Undersecretary of Treasury

Debt and Risk Management Committee

Strategic Benchmarks

Front Offices

Middle Office

Back Office

Strategic Benchmark Proposals
Strategic Benchmarks: The direction we would like to move

**Domestic Borrowing:**
- Reduce currency risk:
  - ✓ borrow only in TRY
- Reduce interest rate risk:
  - ✓ use fixed rate instruments as the major source of domestic borrowing
- Reduce liquidity risk:
  - ✓ maintain a certain level of cash reserve
- Reduce refinancing risk:
  - ✓ increase the average maturity of domestic cash borrowing

**External Borrowing:**
- Diversification:
  - ✓ expand investor base
  - ✓ diversify borrowing instruments
Annual Domestic & External Borrowing

(Billion TL)

Source: Undersecretariat of Treasury
Composition of Central Government Gross Debt (%)

Source: Undersecretariat of Treasury
Currency Composition of Central Government Debt (%)

Source: Undersecretariat of Treasury
Domestic & External Sources of Financing

**Domestic Financing**

- TL Denominated Issuances:
  - Fixed Coupon Bonds (2, 5, 10 years)
  - Zero-coupon Bonds (up to 2 years)
  - Floating Rate Note (7 years)
  - CPI Indexed G. Bond (5, 10 years)
  - Treasury Bill (shorter than 1 year)
  - Lease Certificates (2 years)
  - CPI Indexed Lease Certificates (5 years)
- No FX issuance since 2010

**External Financing**

- USD Denominated Eurobonds (SEC Registered - 21 Outstanding)
- EURO Denominated Eurobonds (SEC Registered - 5 Outstanding)
- Lease Certificates (144A / REGS – 4 Outstanding)
- Samurai Bonds (4 Outstanding)
- Other Alternatives
  - CHF?
  - MYR?
  - Panda?
  - Green Bond?
# Treasury Financing Program

<table>
<thead>
<tr>
<th>Billion ₹</th>
<th>Program</th>
<th>Realization</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>January-December</td>
<td>January - August</td>
</tr>
<tr>
<td>I-TOTAL DEBT SERVICE</td>
<td>120.4</td>
<td>81.3</td>
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<tr>
<td>Domestic Debt Service</td>
<td>94.0</td>
<td>66.8</td>
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<tr>
<td>Principal</td>
<td>56.3</td>
<td>40.1</td>
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<tr>
<td>Interest</td>
<td>37.6</td>
<td>26.8</td>
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<td>External Debt Service</td>
<td>26.5</td>
<td>14.5</td>
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<tr>
<td>Principal</td>
<td>14.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Interest</td>
<td>11.9</td>
<td>7.8</td>
</tr>
<tr>
<td>II-FINANCING</td>
<td>120.4</td>
<td>81.3</td>
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<tr>
<td>Other Financing (2)</td>
<td>24.3</td>
<td>12.0</td>
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<tr>
<td>Total Borrowing</td>
<td>96.1</td>
<td>69.4</td>
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<tr>
<td>External Borrowing</td>
<td>16.3</td>
<td>11.4</td>
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<tr>
<td>Domestic Borrowing</td>
<td>79.9</td>
<td>57.9</td>
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<tr>
<td>Total Domestic Roll-Over Ratio (%)</td>
<td>85.0</td>
<td>86.7</td>
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<tr>
<td>Memo (Billion ₹)</td>
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<td></td>
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<tr>
<td>Net Borrowing</td>
<td>25.2</td>
<td>22.6</td>
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<tr>
<td>Net Domestic Borrowing</td>
<td>23.5</td>
<td>17.8</td>
</tr>
<tr>
<td>Net External Borrowing</td>
<td>1.7</td>
<td>4.7</td>
</tr>
</tbody>
</table>

(1) Cash based.

(2) The cash primary balance, privatization revenues, receipts from on-lending and guaranteed debt, receipts from SDIF, use of cash account and FX changes are shown under other financing item.
External Market Activities

$ billion


USD  Euro (USD Equivalent)  Yen (USD Equivalent)  Lease Certificate (USD)

1.4  2.0  2.5  1.5  1.6  4.0  3.0  4.0  2.2  1.5  1.5  1.4  1.0  1.0
3.9  3.8  4.0  5.5  4.0  3.8  4.0  4.5  2.0  4.5  4.0  4.0  3.0  4.5

(*) As of October, 2016

Source: Undersecretariat of Treasury
Currency Composition of Eurobond and Sukuk Debt Stock

(*) As of October, 2016

Source: Undersecretariat of Treasury
Investor Composition of Debt Stock

(*) As of September, 2016

Source: Undersecretariat of Treasury, BRSA
External vs. Domestic Borrowing

Why we issue international bonds despite the deep domestic market?

- Finance current account deficit
  - Turkey is a CAD producing country
  - The Treasury raises $4.5-6.5 billion each year
- Reduce cost
  - Lower nominal coupons and relative cost advantage
- Increase average maturity
- Broaden the investor base
- Establish a benchmark for private sector
- Attract foreigners to the domestic market
External vs. Domestic Borrowing

How we decide on share of the external borrowing?

• Domestic rollover ratio

• FX portion of debt stock

• Redemption profile

• Domestic and external borrowing conditions

• Absorption capacity - External market is not unlimited
USD vs. EURO?

**What we look at:**

1. Strategic diversification benefit
2. Relative cost
3. Ease of access to markets – execution risk
4. Liquidity conditions – market backdrop

**What we don’t look at:**

1. Currency expectations – don’t speculate on currency
Benchmark Yields

10 Year Government Yields

Source: Bloomberg
Basis Swaps & Relative Cost

10 Year USD-EUR Basis Swaps

Relative Cost Between USD and EURO

Source: Bloomberg
Drivers of the Level of Basis Swaps

- Monetary policy divergence among developed countries
  - Investors' demands for USD denominated assets
  - Corporate FX-hedged Bond Issuance
- Reduced appetite for arbitrage and decline in liquidity
  - Market making activities in US money market
- Decrease in USD supply from real money investors
Final Thoughts

- There is a trade-off between diversification and cost.
- Keeping investor base engaged pays off in the long run.
- Having all options open matters for an EM issuer.
THANK YOU

For further information please contact our
Investor Relations Office

http://www.hazine.gov.tr/link/iro
E-mail: iro@hazine.gov.tr
Tel: +90 312 204 6217
Fax: +90 312 204 7366