Government Guarantees and on-lending

Case of Turkey

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TREASURY
THE WORLD BANK

Outline

- Institutional Arrangements
- Guarantee and on-lending policies
- Risk Management
- Financial performance
- Meeting policy objectives
- New directions?

Governance

Turkish Treasury empowered to issue guarantees and on-lend

- Law issued in 2002
- Secondary legislation

Definition for

- Treasury guarantees: credit and investment
- On-lending
- Receivables

Beneficiaries

- Local governments
- State owned enterprises
- Public and development banks
- Small and medium sized enterprises during the crisis

Guarantee and on-lending policies

Main reason: Public sector support, but policy not determined in legislation

Implicit policy:

- Give credit guarantees
  - to decrease the funding cost
  - to help borrow
- Avoid investment (PPP) guarantees
- On-lending:
  - less preferred because of debt stock increase perception
  - mostly used when required by lender
  - room for on-lending with different conditions
- During crisis, focus on small and medium sized enterprises

Treasury Guarantees/On-lending Credit Risk Management Measures

At the stock level

- Risk account

At the time of issuance

- Limit of new guarantee and on-lending
- Guarantee and on-lending fees (one time, up to 1%)
- Partial credit guarantee (up to 95% of commitment)
- Escrow account for local governments
- No overdue debt

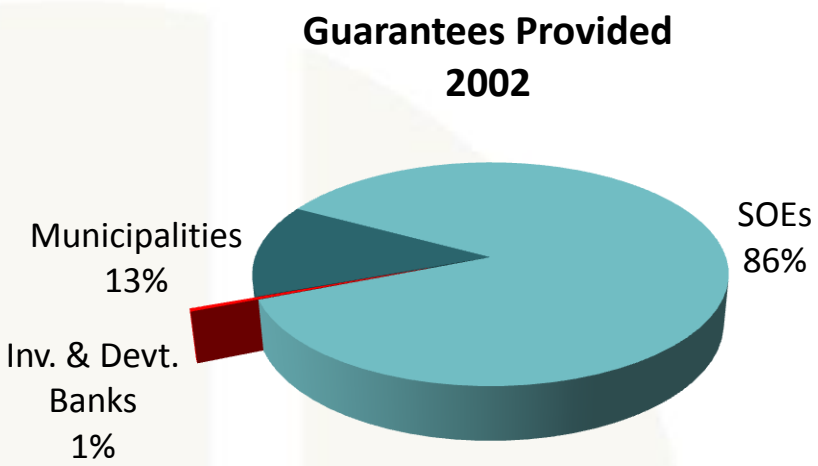
Internal Credit Rating
Decision to issue guarantees / on-lending

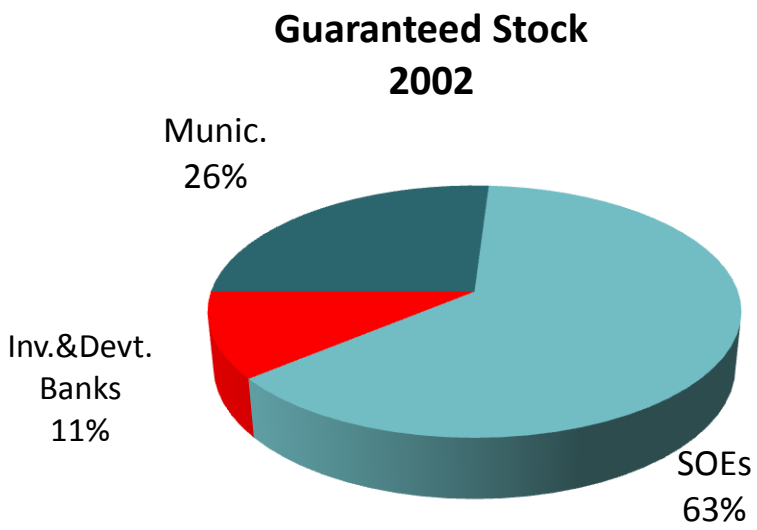
- Credit Rating and Pricing tool developed in 2006

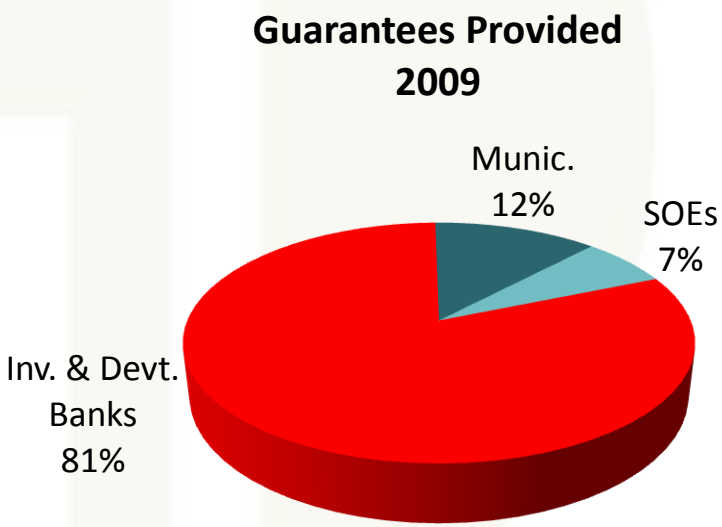
Rating	Status (*)	P(Default)
A	Non-Defaulted	Less than 5%
B	Non-Defaulted	Between 5% and 15%
C	Non-Defaulted	Between 15% and 30%
D	Non-Defaulted	More than 30%
E	Defaulted	Less than 100%
F	Defaulted	Equal to 100%

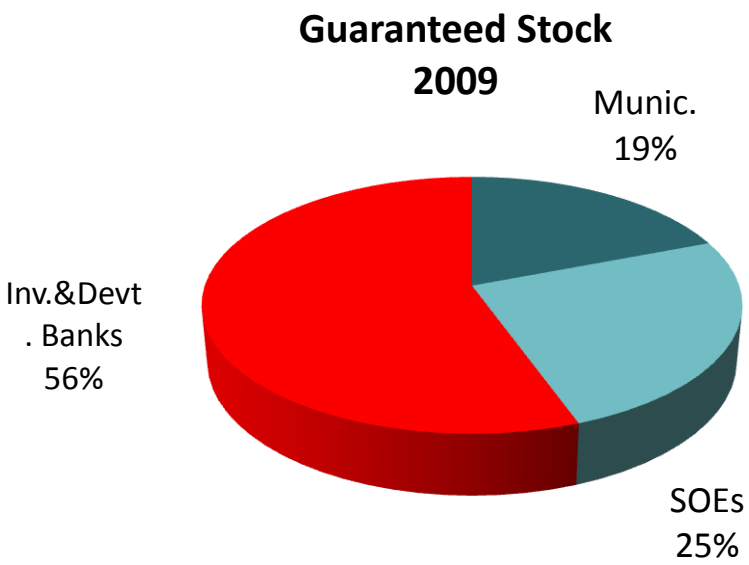
(*) If the entity defaulted at least once in the last two years, it's rating is either E or F.

Guaranteed debt portfolio

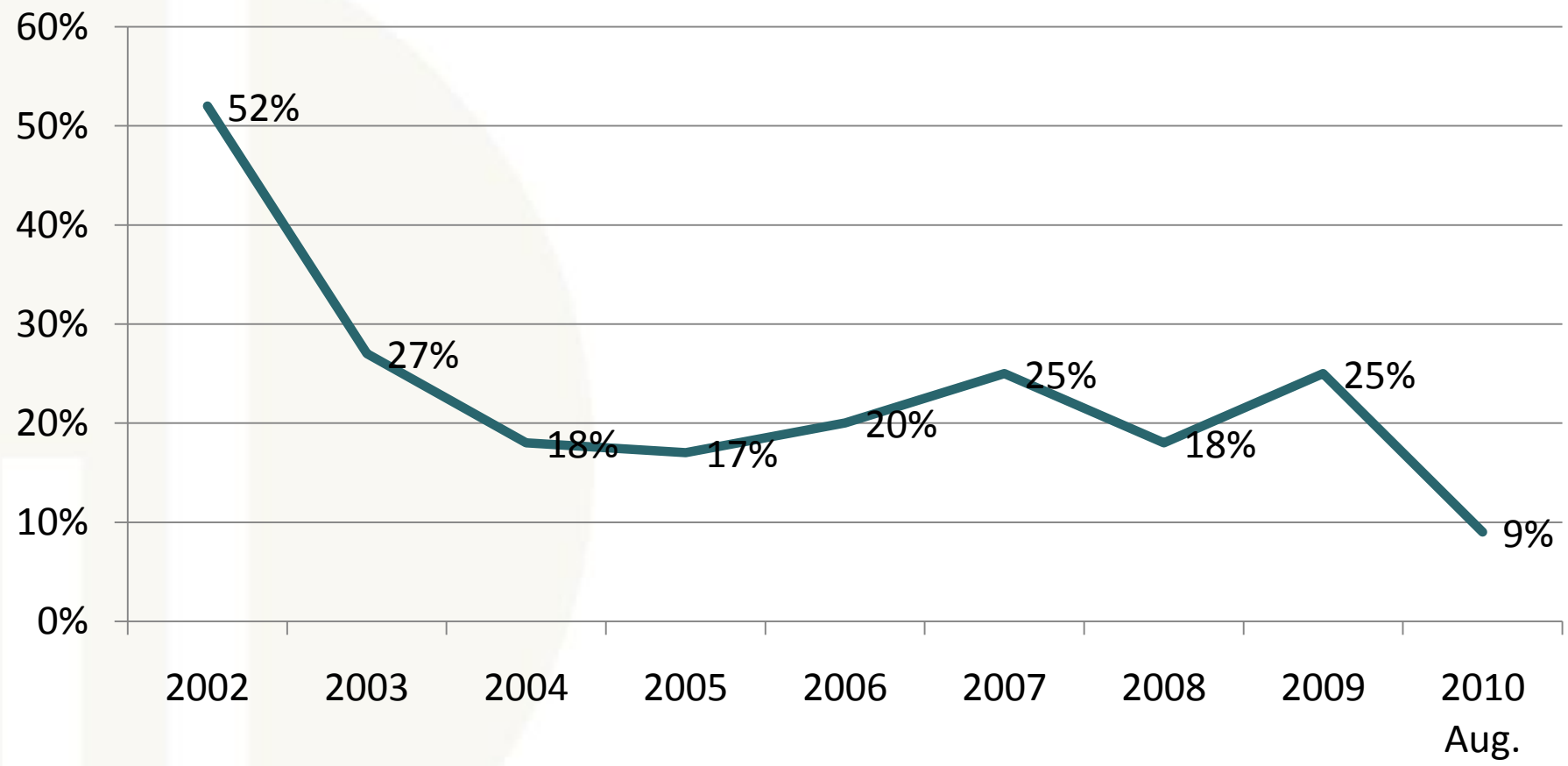








Ratio of Called Guarantees declined



Meeting policy objectives?

- Use of guarantees declined
  - Perception of Treasury's toughening the rules and not permitting moral hazard had an impact
  - Difficulty in distinguishing the social objective and moral hazard especially with sub-nationals
  - Need to meet procedural guidelines
- Use of on-lending declined
  - Initially lack of secondary legislation
  - Because of the perception that it increases the debt stock

New direction: Support to SMEs

- Up to $1 billion TL to Credit Guarantee Fund
- Guarantee for renewed debt or new loans
- Only for SMEs affected by the crisis
- Two year window
- **Conditions**:
  - Strengthen shareholder composition
  - Partial credit guarantee
  - Upper limit on commitments: $10 billion

THANK YOU

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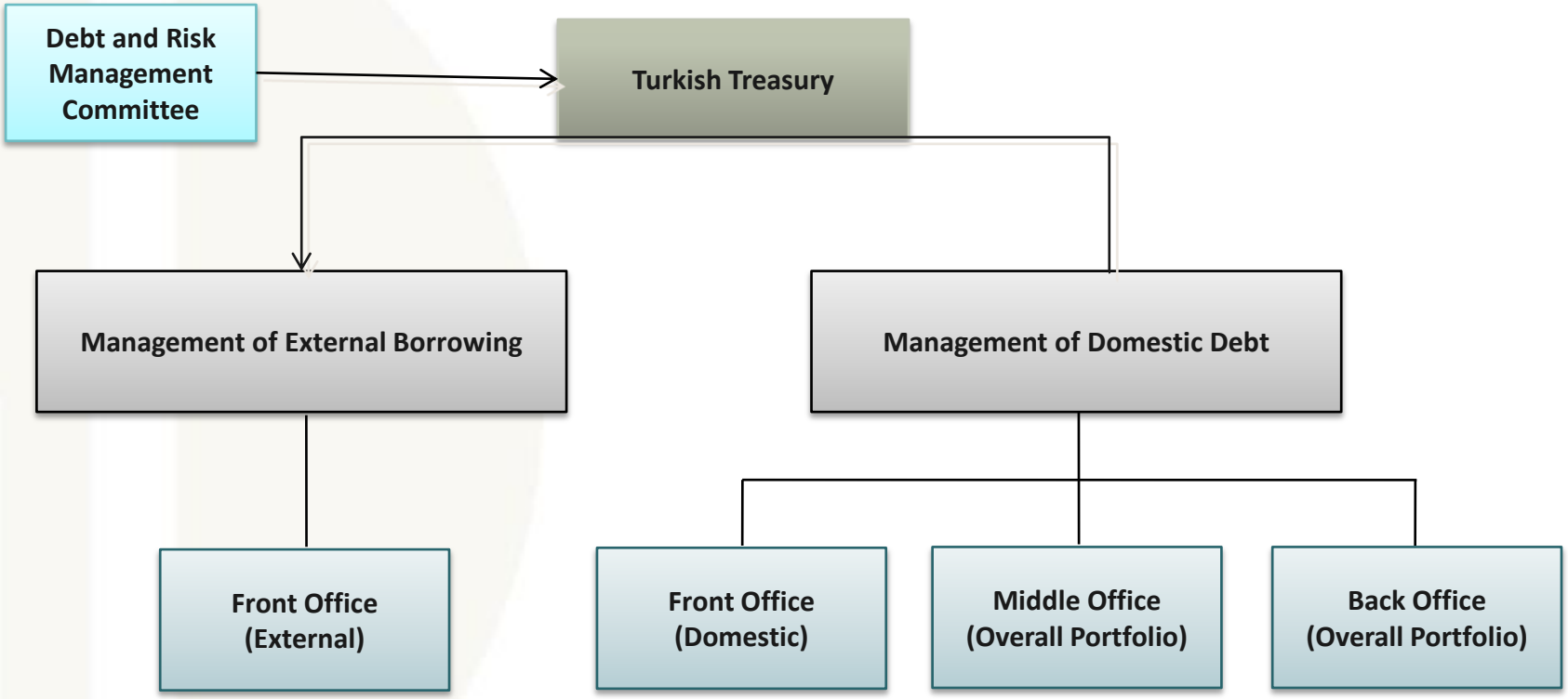
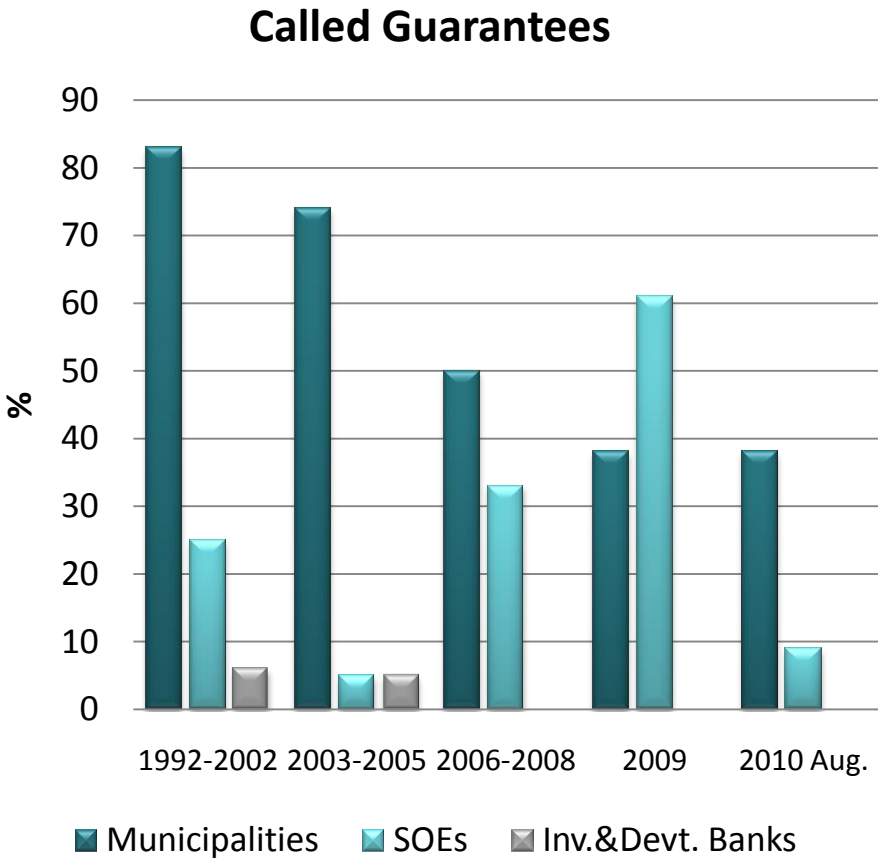
Organizational Framework



Some statistics as of 2010

- Guaranteed debt: $6.5 billion (1% of GDP)
- Investment amount of PPP projects: $7.7 billion
- On-lending stock about $9 billion (1.5% of GDP)



Water BOT Project

- Dam constructed by the SPV:
- Financed by equity and external financing
- Municipality committed to take or pay agreement with the SPV
- Turkish Treasury guaranteed municipality's commitments
- Operation of the dam transferred to the SPV for 15 years

Poor PPP structure and unbalanced risk sharing

- High cost and inadequate forecasts, especially for the demand
- Demand risk completely on the public sector

- Risk is realized: $1.8 billion paid by Turkish Treasury since 1999