Republic of Turkey
Undersecretariat of Treasury

DEBT MANAGEMENT OF TURKEY

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

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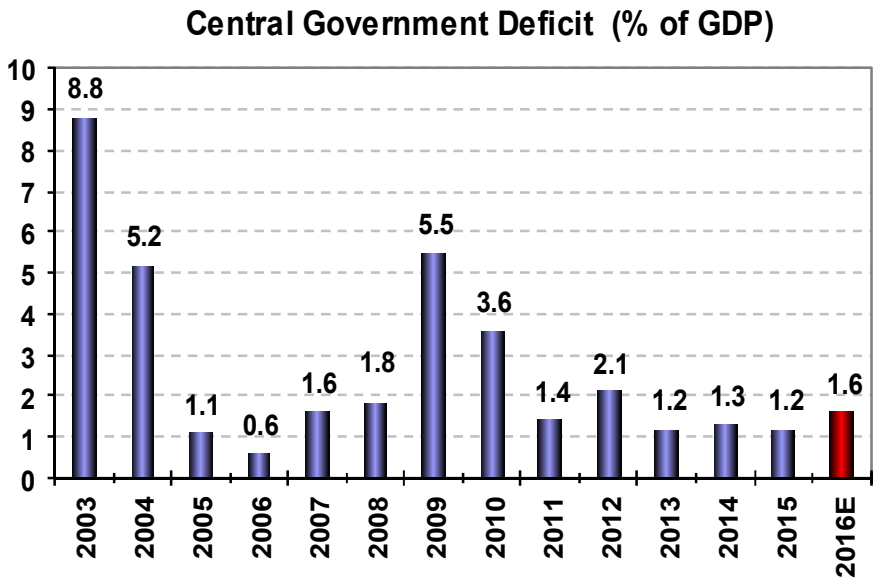
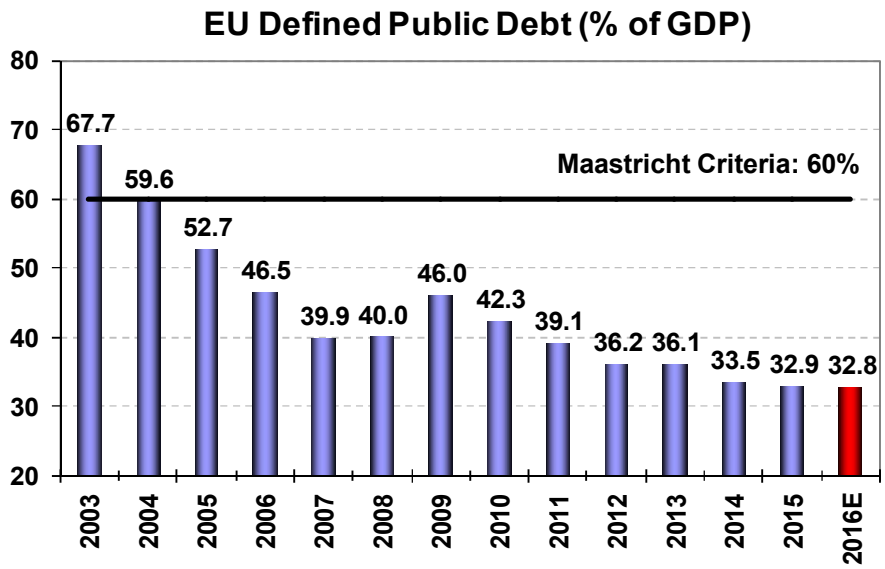
Public Deficit & Debt

Fiscal position is Turkey's main anchor…

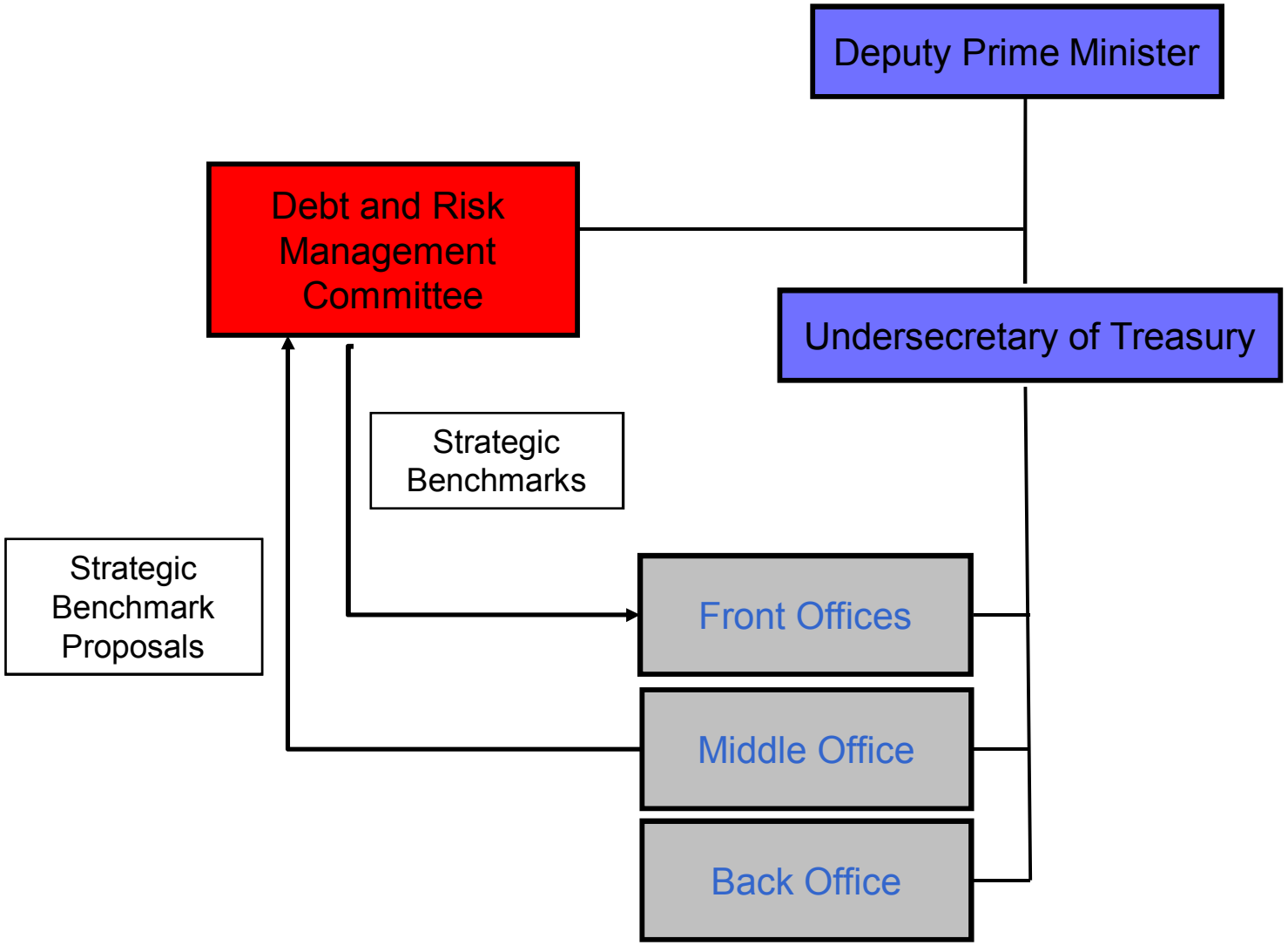




E: Realization Estimate, Medium Term Program 2017-2019

Source: Undersecretariat of Treasury, MoF, MoD, TURKSTAT, IMF

Debt Management Office Structure



Strategic Benchmarks: The direction we would like to move

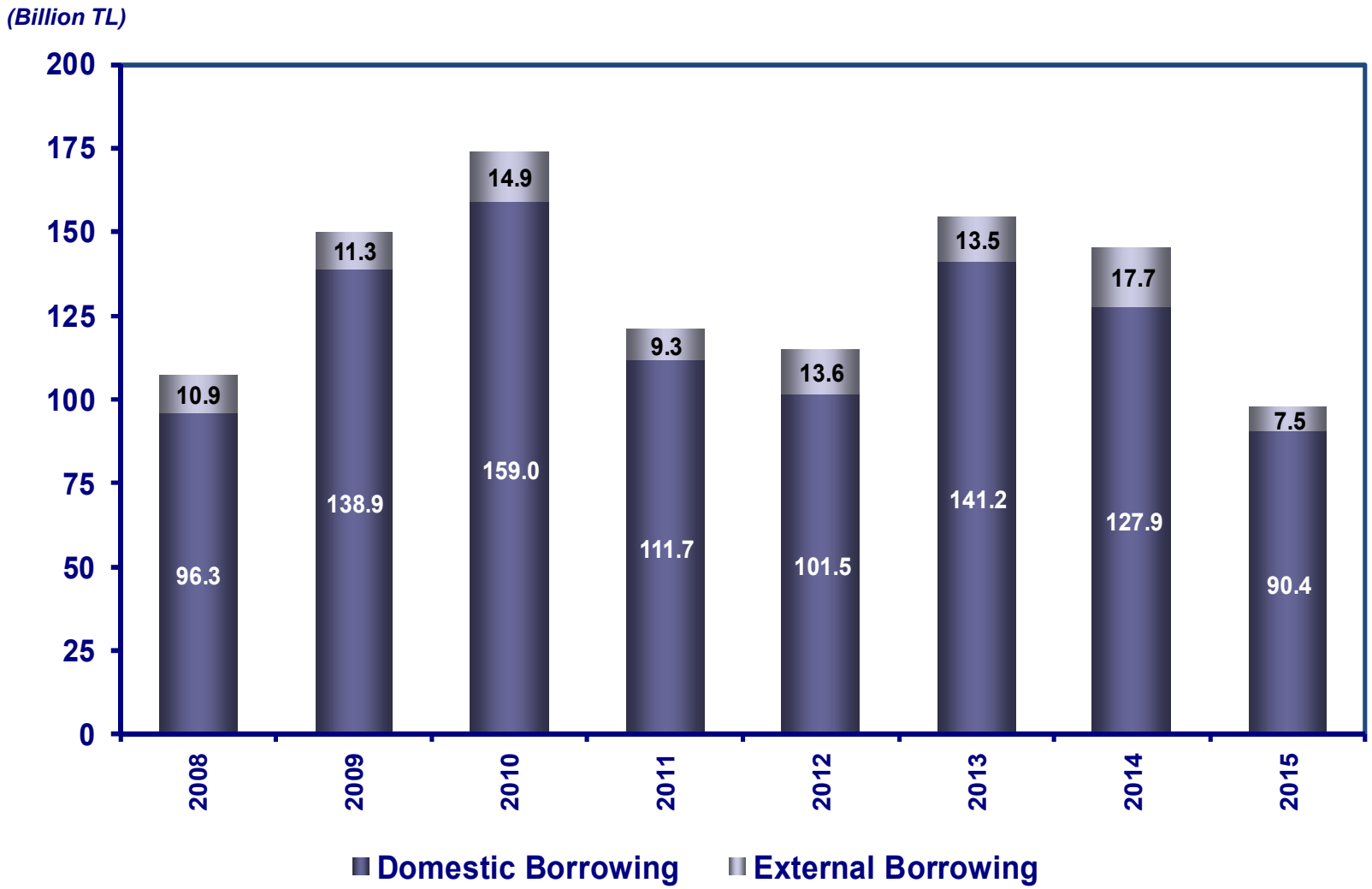
Domestic Borrowing:

- 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:

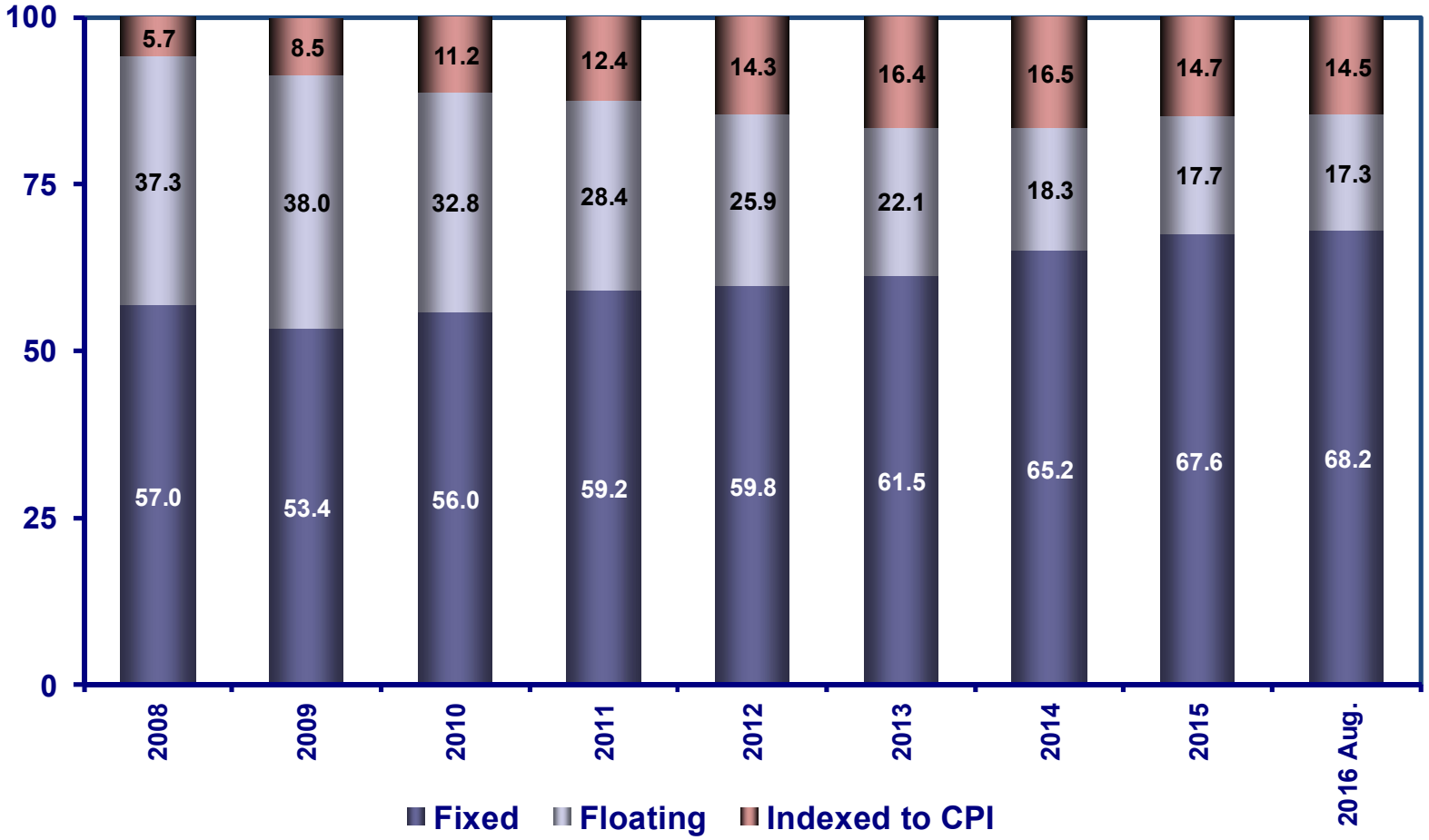
- Diversification:
  - ✓ expand investor base
  - ✓ diversify borrowing instruments

Annual Domestic & External Borrowing



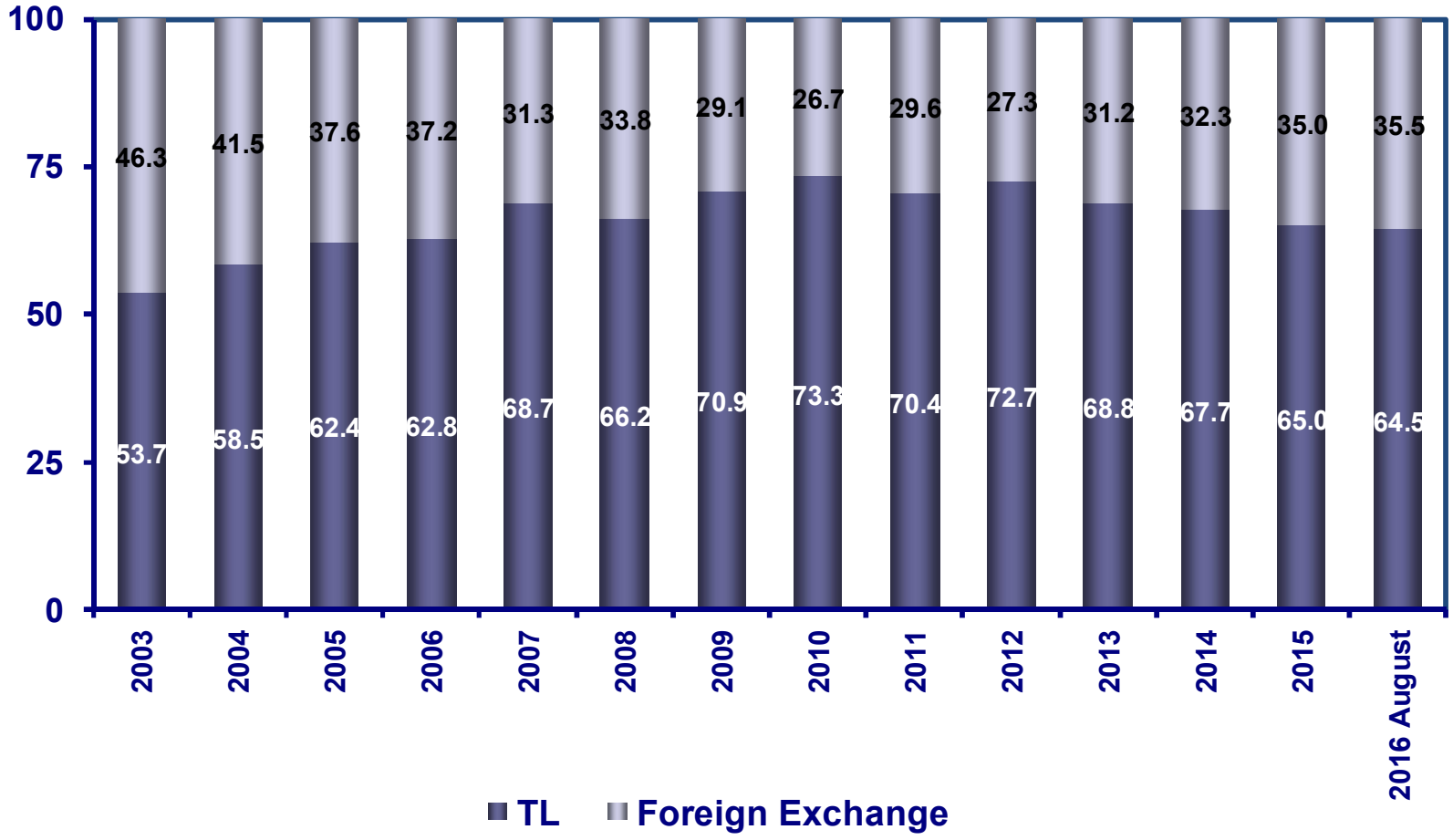
Source: Undersecretariat of Treasury

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?

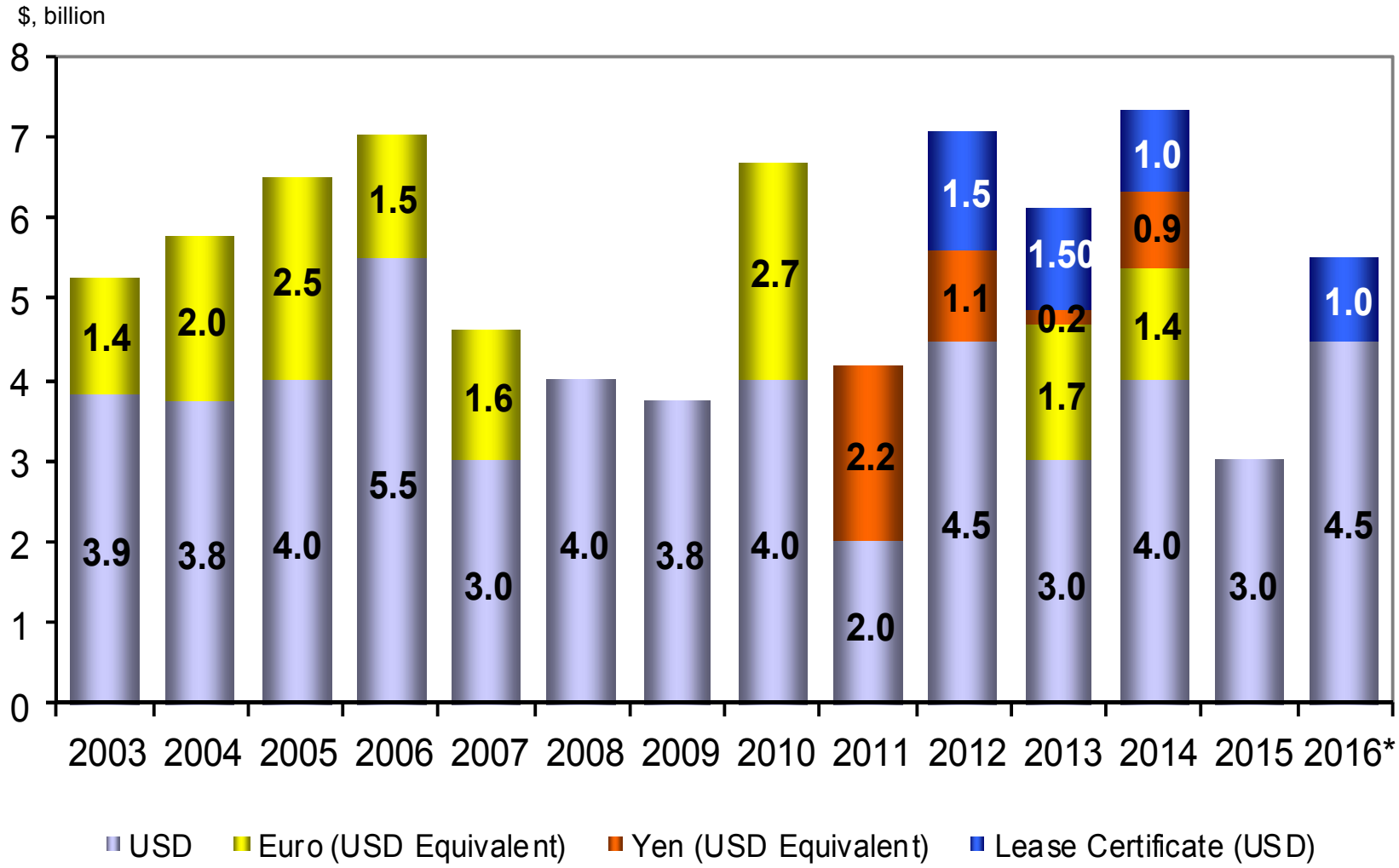
Treasury Financing Program

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

(1) Cash based.

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

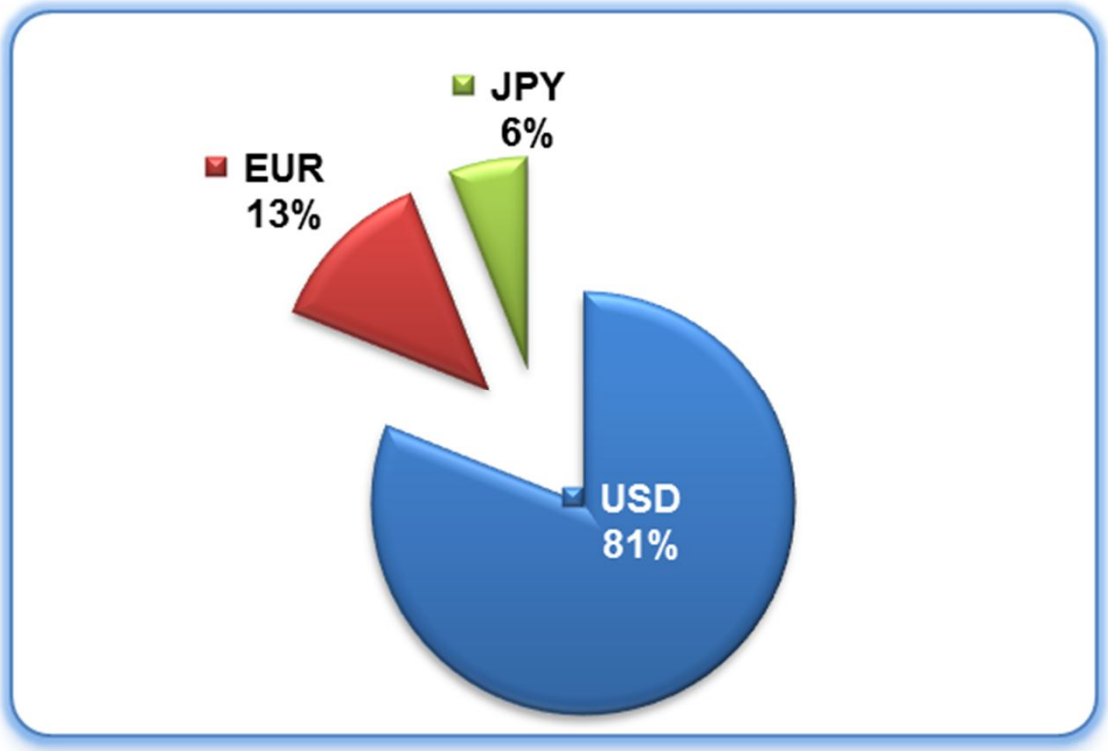
External Market Activities



(*) As of October, 2016

Source: Undersecretariat of Treasury

Currency Composition of Eurobond and Sukuk Debt Stock

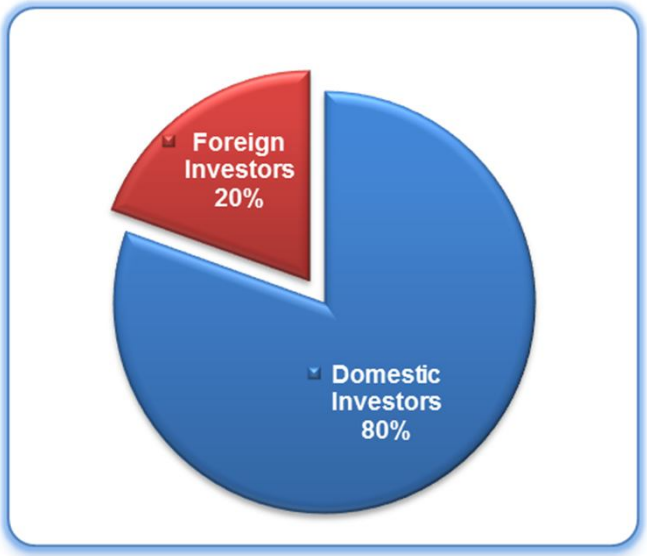


(*) As of October, 2016

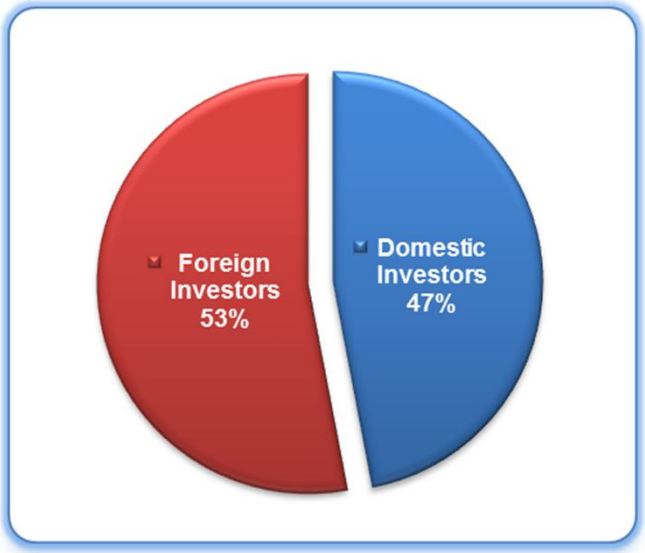
Source: Undersecretariat of Treasury

Investor Composition of Debt Stock

Domestic Debt Stock



Eurobond and Sukuk 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?

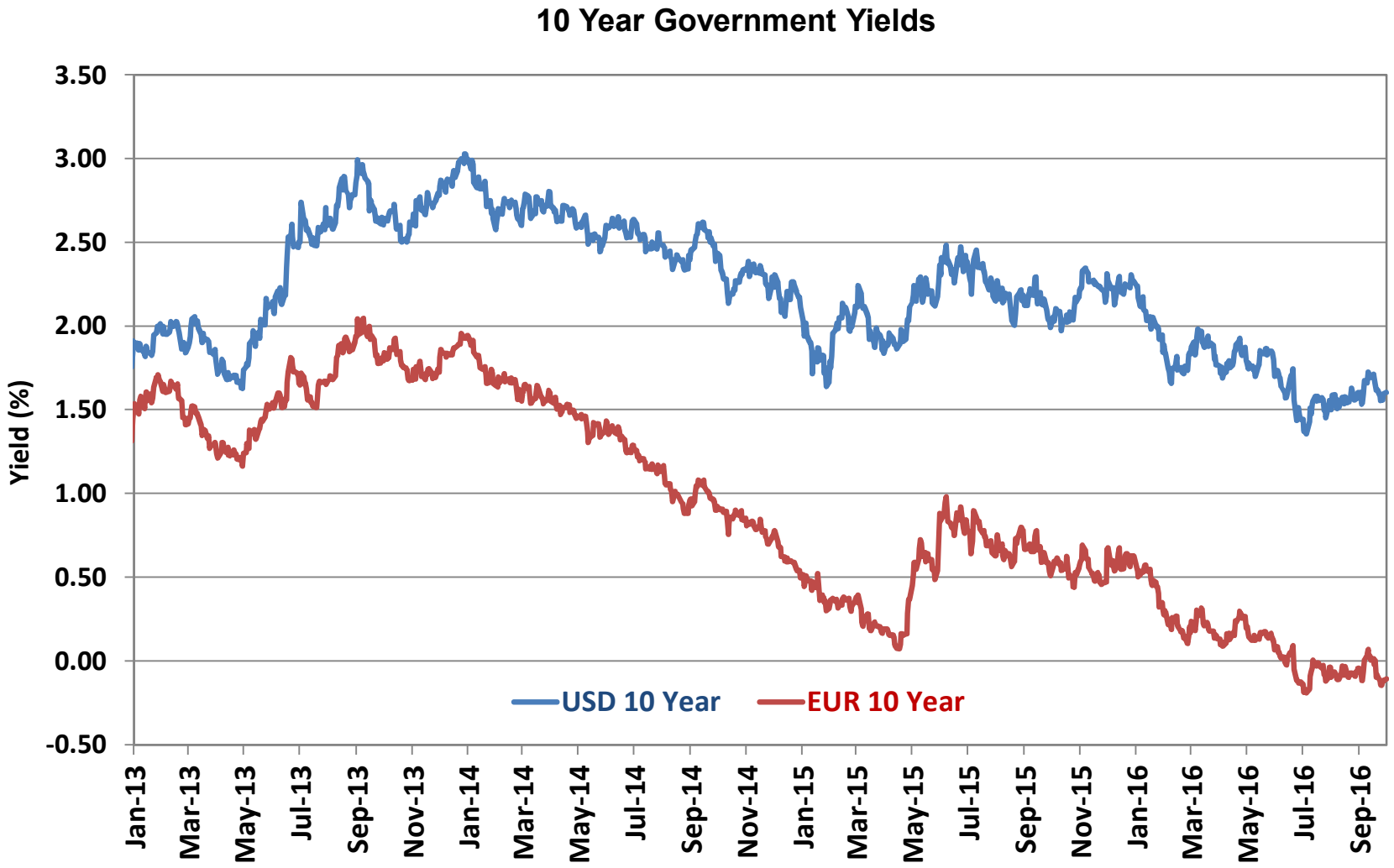
What we look at:

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:

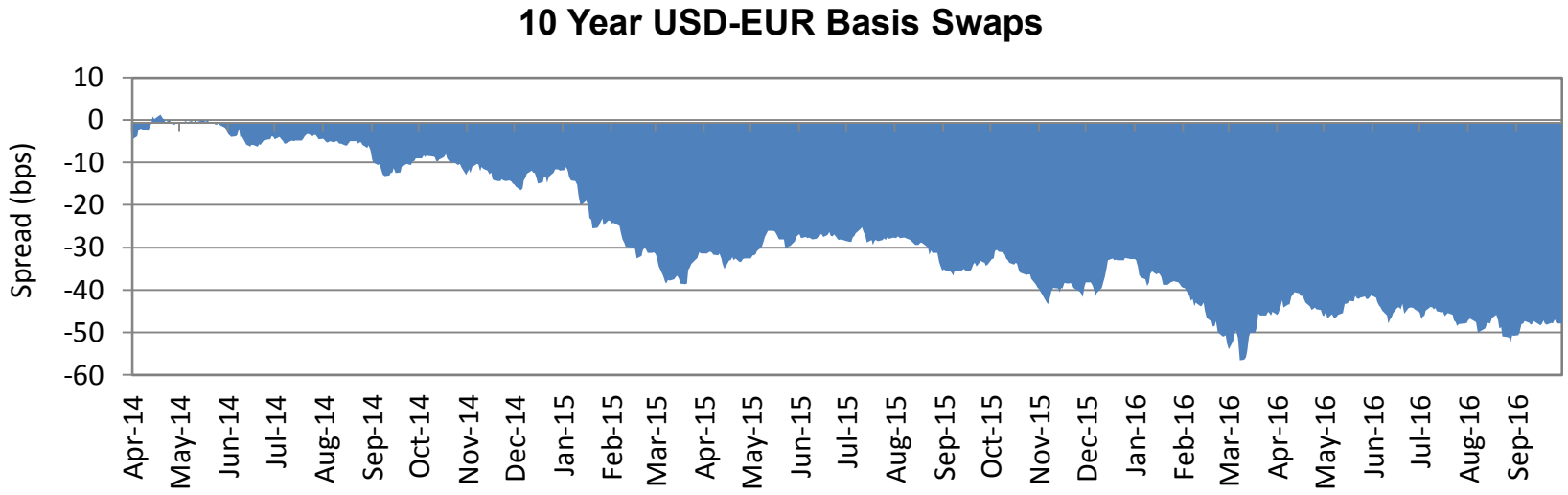
1. Currency expectations – don't speculate on currency

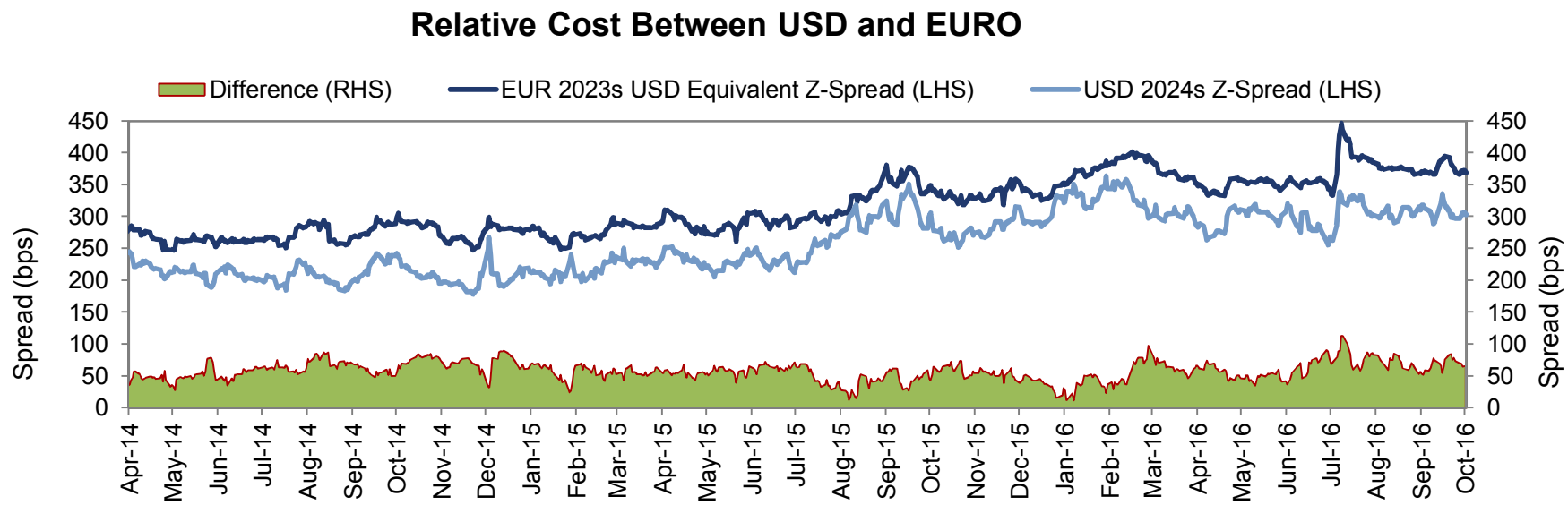
Benchmark Yields



Source: Bloomberg

Basis Swaps & Relative Cost





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

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