PUBLIC DEBT MANAGEMENT

The Tunisian experience

Summary

Global context

- Some numbers
- Principal budget and debt indicators

World Bank study in 2003

- Debt management strategy

World Bank I.D.F Grant

- Goal of the Grant

World Bank – IMF Joint program

- Central administration debt management and development of the domestic bond market, 2005

Active management of IBRD debt

- The ISDA agreement

Key activities realized

- At the institutional level
- At the strategic level
- At the operational level
- Swap transactions executed under the ISDA agreement
- Other transactions on the external debt with the IBRD

Outlook

Summary

Global context

- Some numbers

Global context

Some numbers

- 10.4 millions of inhabitants
- GDP : 58 Billion Dinars ($41Billion) (1 US $ =1.4 TN D)
- GNI per capita : 5600 Dinars ($4,000)
- Exports + Imports : 100% of the GDP
- Stable and solid macroeconomic situation
- The result:
  - Best rating for Maghreb countries: « investment grade » (BBB for more than 10 years)
  - Classification 2010 Davos : 1st in the Maghreb and Africa, fourth to the Arabic world after 3 oil states (Quatar, Saudi Arabia andUAE) and globally 32nd on 131 countries.
  - Human development index: 91 out of 177 countries.
- But important economic and social challenges
  - Unemployment / of graduates
  - Rise in standard of living
- Which need to reach a new level of growth
  - Knowing that the average growth was close to 5 % over the past 20 years
  - And the investment rate is around 23%

Summary

Global context

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Global context

Principal budget and debt indicators

	2003	2007	2008	2009	Pb2010
Primary Balance % of GDP	**0.6**	**0.6**	**1.8**	**-0.8**	**-0.2**
Deficit excluding Grants and Privatizations	**-3.4**	**-2.9**	**-1.1**	**-3.3**	**-2.6**
Public Debt % of GDP	**60.4**	**45.8**	**43.3**	**42.9**	**39.7**
Internal Debt Proportion (%)	35.6	41.7	39.1	41.5	41.0
Public Debt service % of Budget	**27.0**	**26.0**	**20.3**	**19.2**	**19.6**
Public Debt service % GDP	9.7	8.7	6.4	6.0	5.6
Public Debt Interests % of Budget	**8.1**	**7.8**	**7.1**	**6.8**	**6.5**
National External Debt % of GNI	**53.9**	**39.7**	**38.8**	**38.1**	**37.0**
% National External Debt Service (current revenue)	**13.3**	**11.7**	**7.7**	**10.5**	**9.6**

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- **Debt management strategy**

World Bank study in 2003

Debt management strategy

Main observations :

- Careful Macroeconomic management
  - A cautious monetary policy ⟶ keeping inflation under control and foreign imbalances at sustainable level.
  - Budgetary consolidation progressed in spite of a persistent structural deficit of the primary balance.

- The national debt was sustainable under the hypothesis of strong growth.
  - Main threat to debt sustainability was the risks of cyclical GDP growth, due to a more competitive international environment in the medium term.
  - The " Stress Tests", combined with the negative foreign shocks, meant a 20% increase of the debt, mainly on the internal debt (13 %), due to the rise in the current deficit.
  - Contractual guarantees, other explicit commitments and the related risks must be incorporated into the global debt strategy.

World Bank study in 2003

Debt management strategy

Main recommendations :

- Set the strategy within a solid medium term macroeconomic framework
  - Sliding medium term Budgetary framework
  - Consideration of the costs of commitments, including contingent liabilities.
  - Increased budgetary flexibility to protect the debt from cyclical risks.

- Formulation of an integrated risk management strategy :
  - Regular consolidation of relevant debt data, including contingent liabilities and on-lent debts.
  - Set key indicators for the composition of debt by maturity, currency, interest rate.
  - Introduce quantitative methods of measuring the risk of the portfolio

World Bank study in 2003

Debt management strategy

- Strengthen the domestic debt market.

  - Strengthen the credibility of the Treasury as " sovereign issuer ", in particular regarding:
  - Predictability of issuances
  - Acceptance of the market price in auctions
  - Issuances limited to few chosen classes, following consultation with the market.

  - Improve the transparency of the secondary market, in particular for the intra-group transactions. Make compulsory the declaration of intra-group transactions to a "reporting" authority, charged with daily publication of an "official yield curve", for transactions conduction on the stock exchange or elsewhere.
  - Set up a forum of consultation on the structural reforms which will reinforce the investor base and encourage the qualifications required by a debt market.
  - Gradually open the domestic debt to foreign investors.
  - Restructure the debt management institutions to ensure strategy efficiency.

World Bank study in 2003

Debt management strategy

- Centralize the management of the national debt (including contractual guarantees of the State) into the debt Agency; organize this Agency by function, beginning with the creation of a department (Middle Office) charged with the elaboration of a medium-term strategy for the management of debt and risk and define acceptable levels of risk for the whole portfolio of the national debt; transfer debt recording (Back Office) departments to the Debt Agency
- Establish the intergovernmental debt committee, to adopt a medium-term debt strategy.
- Provide debt management units of the Treasury with qualified and well paid personnel, and adequate computer systems to enable them to have a integrated view of national debt management functions.
- Establish a quantitative framework to measure the risks on the national debt risk portfolio and on the performance of the Agency as administrator of the national debt; ensure follow-up on the implementation of quantitative objectives.
- Transfer to the Debt Agency of the departments responsible for debt transactions, investor and bank relations (front Office).
- Strengthen the execution functions of the Central Bank of Tunisia, by concluding an agreement between the Treasury and the BCT with clearly defined functions.

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World Bank I.D.F Grant

- **Goal of the Grant**

World Bank I.D.F Grant

Objective : Strengthen institutional capacity of the Debt and Treasury offices as follows:

- Institutional framework for an active debt management :
  - Consolidate the main debt operations : integrated view of the portfolio risk.
  - Improve operational flexibility and cost.
  - Ensure efficiency in borrowing operations and hedging of financial risks.
- Framing of the strategic risk indicators :
  - Improve capacity to evaluate risks.
  - Improve visibility of the debt management strategy.
  - Enable the Treasury to deal with market shocks and changes to reduce the volatility and the cost of the global debt portfolio.

World Bank I.D.F Grant

- Strengthening of the management of contingent liabilities :

  - Update of the procedures for managing contingent liabilities.
  - Prepare recommendations to improve risk management.
  - Introduction of modern tools to manage budgetary risk and ensuing communication of the newly introduced methods to investors and the public.

- Update of the debt management information system (SIADE) :

  - Support the active management of debt, including proactive management of strategic risk indicators.
  - Provide adequate information to the decision-makers.

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- **Central administration debt management and development of the domestic bond market, 2005**

World Bank – IMF Joint program

Central administration debt management and development of the domestic bond market, 2005

- The mission confirmed the recommendations of the report mentioned earlier.
- Other measures recommended:
  - Separation of the Debt and Treasury offices.
  - Authorize the execution of « Repo » operations.
  - Open the market to non-residents.
  - Designate the Central Bank of Tunisia as responsible entity for the supervision of the treasury bond secondary market.
  - Participation of the Treasury in the interbank repo market.
  - Policy of stable issuance with broader range of maturities.
  - Review of the status of “SVT” to make it more efficient.

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Active management of IBRD debt

The ISDA agreement:

- Tunisia signed the ISDA agreement with the IBRD on March 28, 2003

- This agreement enables the usage of market hedging instruments such as :
  - Interest rate Swaps
  - Currency Swaps
  - Caps and Collars

- November 5, 2009:

  signing of the amendment to the ISDA agreement to cover non-IBRD liabilities.

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- Key activities realized
  - **At the institutional level**

Key activities realized

At the institutional level :

- Creation of an integrated debt structure (one general division at he Ministry of Finance)
  - With a functional organization (Back, Middle et Front Office)
  - Strengthening of the Middle Office to support active debt management, including proactive management of targets.
- Conducted a study for the creation of a Debt Agency, with the support of international experts.
- Decision to create the Tunisian Treasury Agency within the 2010-2014 Presidential program.

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Key activities realized

- At the institutional level
- **At the strategic level**

Key activities realized

At the strategic level:

- Establishment of strategic debt benchmarks, regularly developed and published.
- Definition of a medium term debt strategy, within a progressive 2010-2014 plan.
- Decision to apply $2.3 Billion from the privatization of Tunisie Telecom, public telephone operator, to the reduction of debt.
- Publication of an annual report on the debt, starting in 2006.

Public Debt Benchmarks

Total Public debt (in Millions of Dinars)

	2006	2007	2008	2009
1- Value of the Public Debt :				
Nominal Dent (excluding nterests) :	22 221	22 829	23 927	25 189
Net Present Value (including interests) :	21 457	21 637	24 024	24 926
Value in Capital :	14 836	14 877	16 289	16 792
2-Public Debt Sustainability:				
Rate of Indebtedness (% du GDP) :	53.7 %	45.7 %	47.5%	42.9%
Average cost of debt:	5.1 %	5.2 %	5%	4.9%
3- Maturity :				
Average life (years) :	7,13	7,15	7.50	7.00
Duration (years):	5,59	5,39	6.14	5.83
Refinancing within 1 year: **(1)**	11,9 %	10,7 %	9.79%	11.81%
Refinancing within 5 years	44,2 %	46,22 %	44.68%	52.07%
4- Interest Rate :				
Ratio : Floating versus total debt:	12.4 %	6.83 %	5.1%	4.96%
Refixing in 1 year: **(2)**	28,6 %	23,63 %	25%	28.84%
Refixing in 5 years:	53,6 %	53,9 %	55%	61.1%

(1) : Refinancing risk quantifies the inability to obtain the financing necessary or at a reasonable cost.

(2) : Interest rate Refixing risk quantifies the length of time at the end of which all coupons (interests) are readjusted (renewed).

Key activities realized

At the strategic level:

- Within the domestic market:
  - Increased regularity and transparency of issuances
  - Regular meetings held with “SVT”.
  - Creation of new benchmark issuances of 10 and 15 years, and 10 year zero-coupon bonds.
  - Opening to Non-residents, limited to 30% of issuance.

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- **At the operational level**

Key activities realized

At the operational level:

- Increased depth of the Treasury issuance market.

	2003	2006	2009
Amounts announced	2 050	1 530	1 223
Amounts offered	2 530	8 086	4 563
Amounts issued	2 122	1 446	1 036
Issued/Offered (%)	83.9	18	22.7
Issued/Announced (%)	103.5	94.5	84.6

- Creation of new market reference, enabling a rise in the private issuances

	2003	2006	2009
Global amount issued	2 224	1 753	1 711
Private issuance (%)	4.5	12.2	39.5

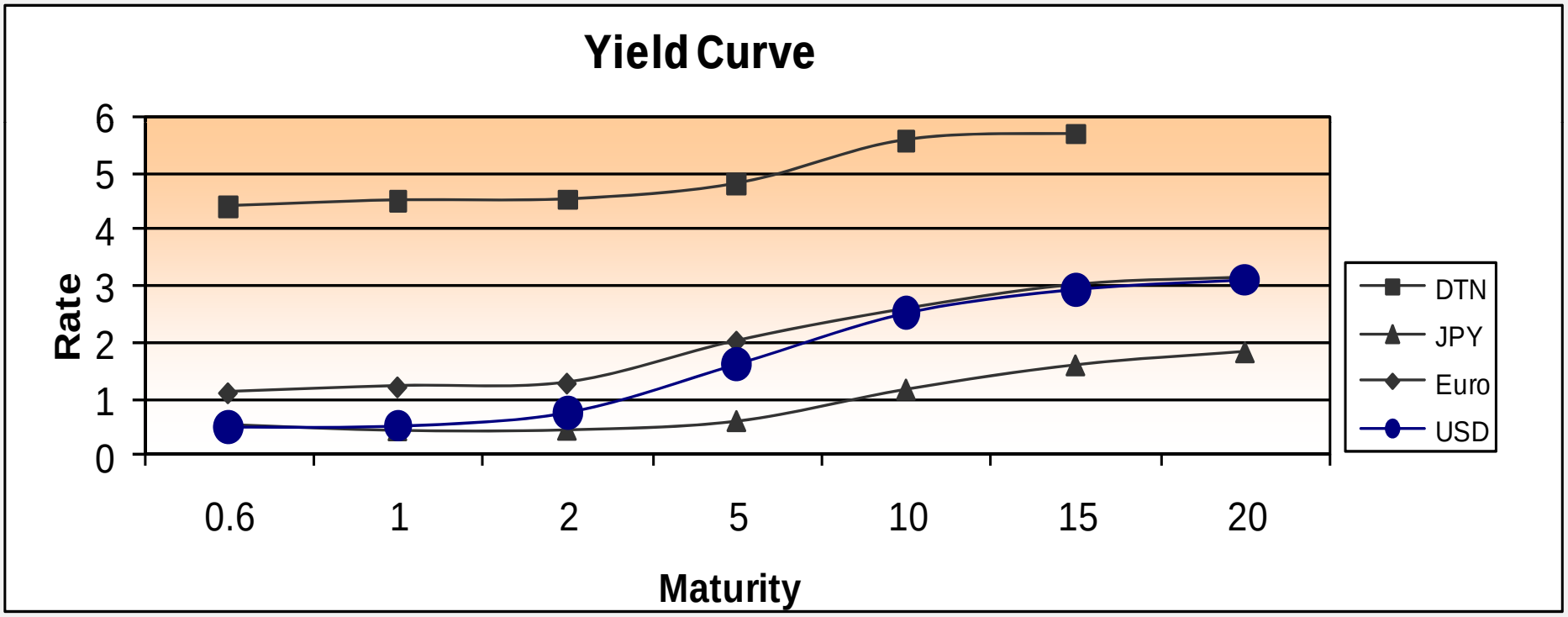
Key activities realized

- Development of the transaction volume of Treasury Bonds on the secondary market.

	2008	2009	JAN-JUL 2010
Titles traded (Nominale value) in Billion Dinars	3.3	2.7	1.5
Intragroup titles traded in Billion Dinars	2.7	1.9	1.2
Outstanding (Nominal) in Billion Dinars	5.8	6.0	5.5
Traded/Outstanding (%)	57	45	27

Key activities realized

- Creation of a yield curve, through Treasury issuances



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  - **Swap transactions executed under the ISDA agreement**

Key activities realized

Swap transactions executed within the ISDA Agreement framework:

- Interest rate swaps: Number of Transaction: 13

  Amount: $422Million

- Currency Swaps:

  Treasury does not hold accounts in currencies. → There is always a Dinar risk.

  Swap transactions could reduce the cross-currency risk ($,€,Y).

Summary

Key activities realized

Other transactions on the external debt with the IBRD:

- Conversion of the outstanding balance of the « Currency Pool» loans into « Designated Currency Pool » loans in the amount of USD1,142Million.
- Conversion of the remaining undisbursed balances of « Currency Pool » loans into « Single Currency » loans in the amount of $336.4Million.
- Adoption of principal amortization schedules customized to fit the overall debt repayment profile, used under FSL loans.

Key activities realized

- Execution of 32 interest rate fixing operations for FSL loans in the amount of $823 Million, of which 90 % in Euro.

- Pre-payment of loans bearing high interest rates (5.17% - 7.4%) in the amount of $152.4 Million, of which 93% in Euro.

- Conversion of the variable interest rates of state guaranteed "Currency Pool" loans into floating rates (average (Libor USD, Libor Euro, Libor Yen) +1%), then fixing of these rates for the remaining duration of repayments.

- Utilization of the ISDA Agreement to selectively fix the Libor portion of loans (Libor fixed, spread remains variable).

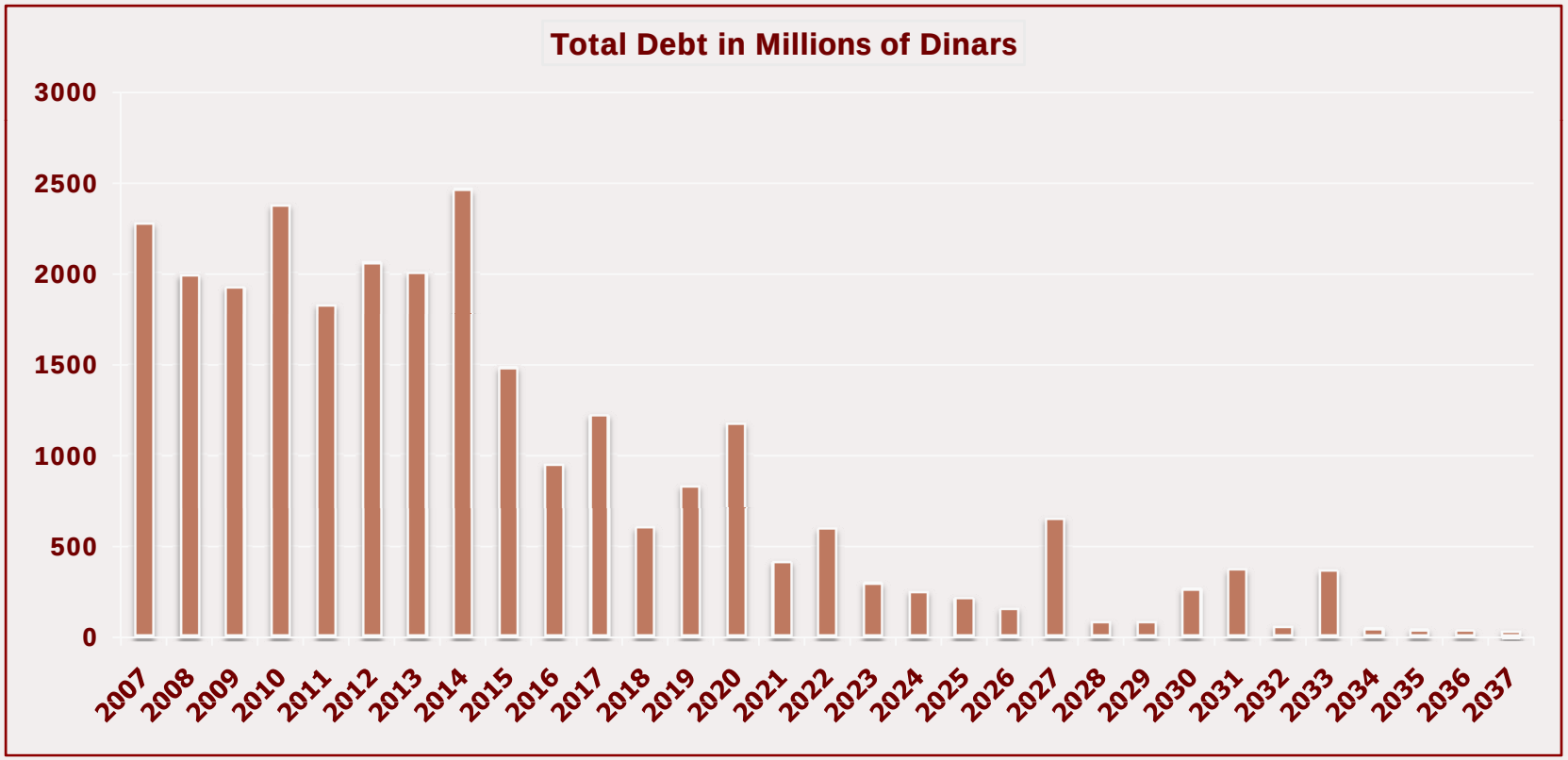
Key activities realized

- These various operations on the debt have enabled us to increase the Dinar and Euro proportions of the debt, for a better management of the exchange rate risk.

Outstanding debt	2003	2006	2009
TND	35.6%	40.2%	41.6%
EUR	27.4%	32.9%	33.3%
USD	15.2%	12.6%	8.2%
YJP	16.5%	9.5%	12.6%
Others	5.3%	4.8%	4.4%

Key activities realized

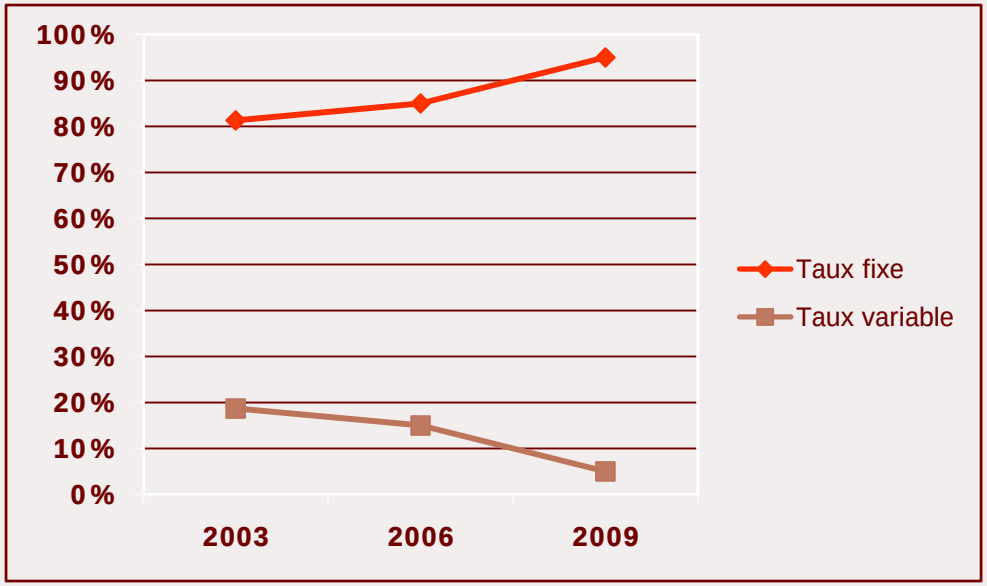
- The active management of the debt , using mainly products offered by IBRD, has enabled the smoothing of the repayment profile of the debt.



Key activities realized

- The proportion of the foreign debt in fixed rate increased from 81.3% in 2003 to 95% in 2009.

Interest rate	2003	2006	2009
Fixed Rate	81.3%	85%	95%
Variable Rate	18.7%	15%	5%



Summary

Outlook

- Increase in the amounts issued:
- Creation of a deposits entity which will enable the conversion of the postal savings and other deposit entities to Treasury Bonds (3.5 Billion Dinars) → increase in market depth.
- Development of the secondary market by increasing transparency of intra-group transactions.
- Creation of a new benchmark issuance with maturities of 20 years and more
- Publication of the regulatory framework to enable multi-lateral banks, namely the IBRD, AfDB and EIB to issue bonds on the domestic market, in Dinars.
- The convertibility of the Dinar planned for 2014 will increase the investor base.

THANK YOU FOR YOUR ATTENTION