



FORMULATING AND IMPLEMENTING DEBT MANAGEMENT STRATEGY IN TURKEY

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Debt Management Objectives

Public debt management should consider;

- development and well functioning of secondary markets,
- diversification the investor base.

Principles of Borrowing Policies

Liquidity

- The main characteristics of a liquid security or market are depth and timeliness
- Liquid markets serve as price discovery mechanisms
- The prices of securities in a market which is not liquid, don't reflect the real value of those securities

Principles of Borrowing Policies

Transparency and Accountability

- The objectives for debt management should be clearly defined and publicly disclosed and the measures of cost and risk that are adopted should be explained
- Important aspects of debt management operations should be publicly disclosed
- The government should regularly publish information on the stock and composition of its debt
- Debt management activities should be audited regularly

Principles of Borrowing Policies

Simplicity

This principle involves the simplicity of:

- Borrowing procedures,
- Debt instruments,
- Secondary market operations,
- Redemption operations,

Organizational Infrastructure

- **Debt Management Committee (DMC)**
Consists of the Minister and high level debt managers,
Serves as a decision making and co-ordination mechanism in debt management issues.
- **Risk Management Unit (the Middle Office)**
Responsible for formulating the risk-based debt and claims management strategy,
Monitors the associated risks and reports them to the DMC for decision making.
- **Front Office**
Conducts and implements short and medium term borrowing strategies,
Monitors and evaluates market.
- **Back Office**
Both domestic and external debt redemptions are carried out,
Producing and announcing statistical data.

Primary Dealership System

PD system aims;

to increase the efficiency of both the primary and secondary markets of domestic public debt securities by bringing obligations to the Primary Dealers in the primary and secondary market while providing some privileges in these markets.

Primary Dealership System – Turkish Case

The Main Liabilities of the Primary Dealers:

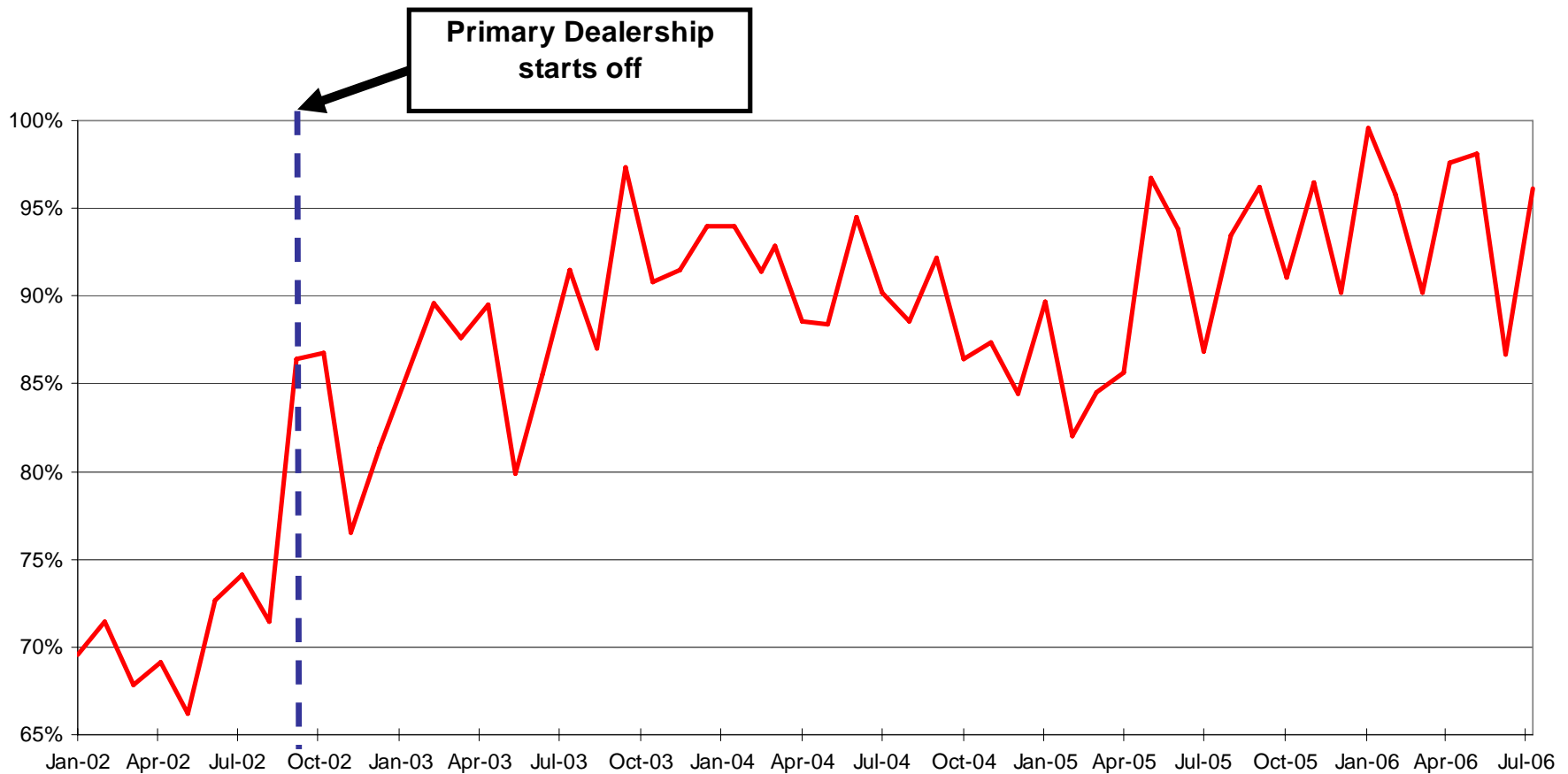
- to buy a certain amount of government securities issued in the primary market.
- to give two-way quotations continuously in the secondary market.

The Main Privileges of the Primary Dealers:

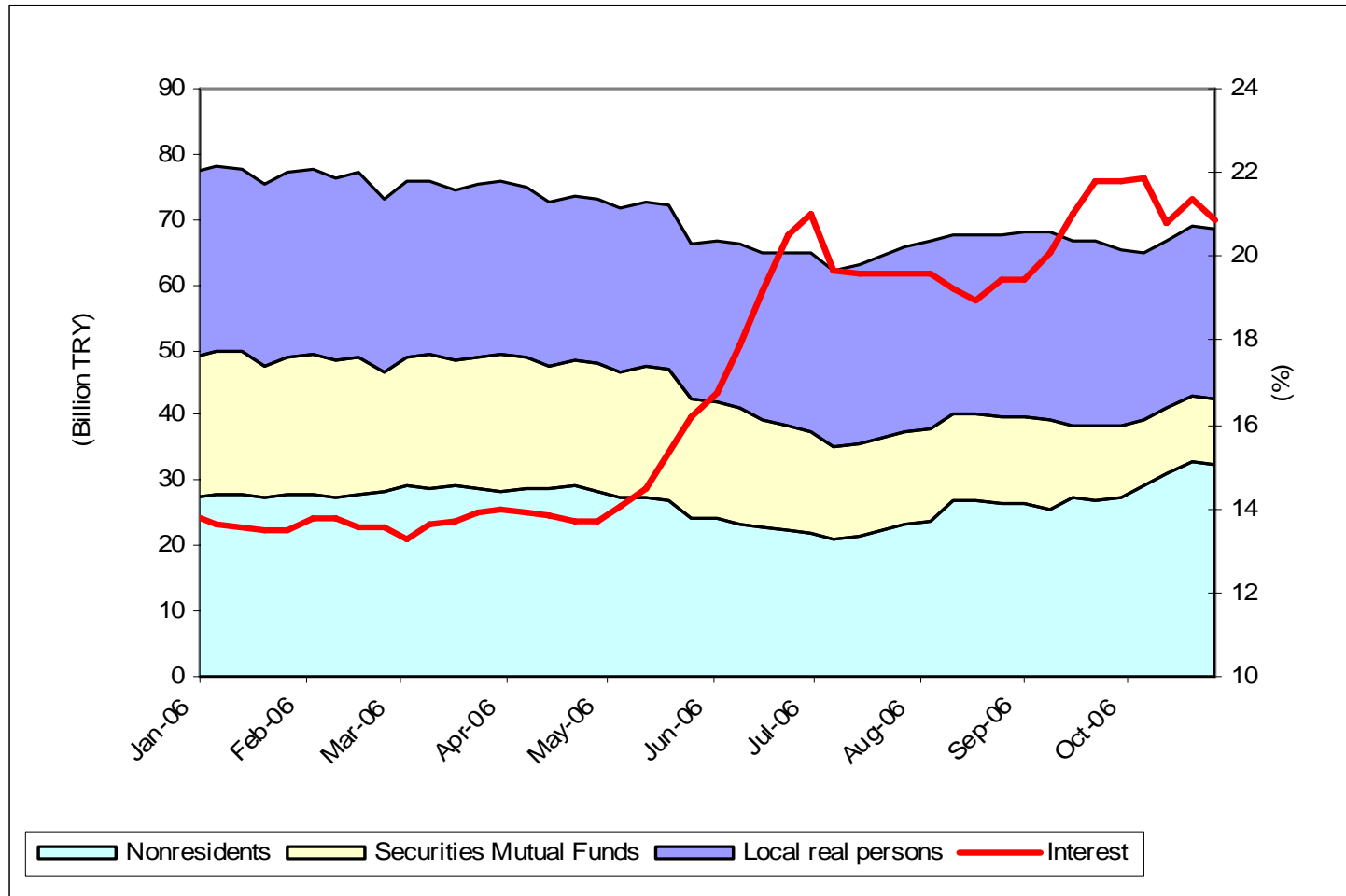
- to use the title of “Primary Dealer in Turkish Government Domestic Borrowing Securities”
- to bid non-competitively in the sales auction.
- to bid for option after auctions.

The system is in effect since September, 2002 and there are 12 Primary Dealers in the current system.

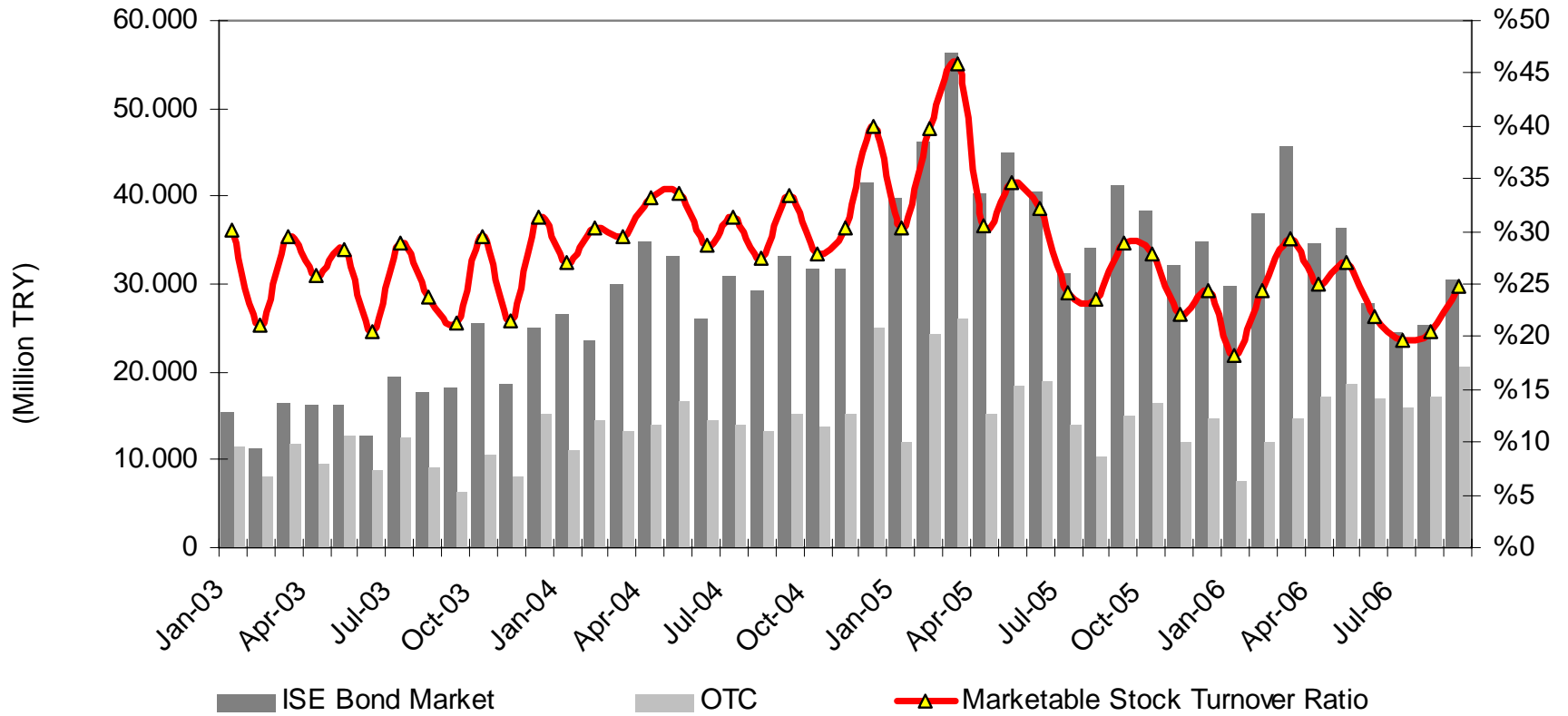
Share of PD Banks in Primary Market



Government Bonds Held by Non Bank Sector Residents and All Sectors of Nonresidents



Liquidity in Secondary Market



Debt Management Policies

In order to conduct a more transparent and predictable debt management strategy, Treasury,

- Announces annual financing program at the beginning of the year and monthly financing program together with the auction calendar,
- Issues a single benchmark security on a quarterly basis which is to be re-issued in the following 2 months.
- Regularly issues floaters and fixed couponed securities monthly in line with the market conditions.
- Carries strong cash reserves to mitigate roll-over risk.
- Aims to provide liquid secondary markets and enhance the yield curve.

Coordinated Debt Management Strategy

Treasury maintains close coordination with both investors and public financial agencies.

- Monthly meetings held with PD's.
- Data flow from MoF regarding cash needs, high primary surplus targetted to reduce government debt.
- Regular meetings held with Central Bank with respect to CBT market liquidity management.

Borrowing Strategy

Based on the strategic benchmarks; borrowing strategy will be to:

- continue to implement active debt management strategies in line with economic and market conditions.
- lengthen the average maturity of borrowing, taking into account the market conditions.
- borrow mainly in fixed terms and local currency.
- keep certain level of cash reserve as a cushion.