Debt Management in a non-Conventional Monetary Policy World: Turkish Experience

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Outline

Reflections of non-conventional monetary policies on Turkey
- capital flows
- monetary policy responses
- debt dynamics
Turkish economy has continued to improve since 2002

- **High level of growth:**
  - average real growth rate between 2002-2012 is 5.2%

- **Strong banking sector:**
  - capital adequacy ratio of banking sector as of 2012 stands at 17.9%

- **Robust fiscal position:**
  - average public sector primary balance (imf defined) to GDP ratio between 2003-2012 is 2.6 %

- **Improved debt dynamics:**
  - general government debt to GDP ratio decreased to 36.1% in 2012 (74% in 2002)
  - time to maturity of central government debt increased to 4.6 years in 2012 (<1 year in 2002)
  - Local currency debt as a percentage of central gov’t debt stands at 73% as of 2012 (42% in 2002)
  - floating rate debt as a percentage of central gov’t debt declined to 40% in 2012 (55% in 2002)
Like other EMs, capital inflows to Turkey increased after AE CBs’ non-conventional policies

(*) As of 31st May, 2013

Source: CBRT
Turkey has been affected by this trend more significantly than many other EMs.

Source: JP Morgan
CBRT responded to this change with accommodative policies

- **Objectives**
  - to sustain price stability
  - to maintain financial stability
    - exchange rate
    - credit growth

- **Tools**
  - policy rate
  - liquidity management
  - interest rate corridor
  - required reserve ratios
  - reserve option mechanism
Depending on the market circumstances, CBRT changed liquidity conditions.
.... and increased its FX reserves

(*) As of 31st May, 2013
Source: CBRT
Treasury’s borrowing cost significantly declined while the share of foreign investors in domestic debt increased.

Source: Treasury, CBRT
Yields in all maturities have decreased
Expected real interest rate fluctuated around zero

Source: Treasury
Foreign participation also enhanced secondary market liquidity

Source: Borsa Istanbul
Treasury used this opportunity to extend borrowing maturities and to concentrate on fixed rate borrowing.

(*) As of 31st May, 2013
Source: Treasury
Turkish Government bonds yields

Source: Bloomberg
Challenges Ahead

- How will AE CBs exit their non-conventional monetary policies?
- Will EMs lose all of their gains?
- How should debt managers react?
Challenges Ahead

- An international monetary coordination is required
  - AE CBs should coordinate with other countries on exit of their non-conventional monetary policies

- EMs should implement prudential measures
  - Fundamentals
    - Fiscal discipline
    - Structural reforms
  - Monetary Policy
    - EM CBs should continue to react to maintain financial stability
  - Debt Management
    - sensitivity of debt stock to risks (esp. interest rate, exchange rate, and liquidity risks) should be decreased
Turkey’s debt to GDP ratio has significantly declined
sensitivity of debt stock to macrofiscal shocks decreased

<table>
<thead>
<tr>
<th>Event</th>
<th>2001</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in real exchange rate app/dep by 5 percentage points</td>
<td>+ / - 2.2 points</td>
<td>+ / - 0.5 points</td>
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<tr>
<td>Change in TL interest rate by*</td>
<td></td>
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<tr>
<td>10 percent</td>
<td>+ / - 2.0 points</td>
<td>+ / - 0.2 points</td>
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<tr>
<td>25 percent</td>
<td>+ / - 5.0 points</td>
<td>+ / - 0.5 points</td>
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<tr>
<td>Change in GDP growth rate by 2 percentage points</td>
<td>+ / - 1.5 points</td>
<td>+ / - 0.7 points</td>
</tr>
</tbody>
</table>

Source: Treasury
Domestic Market Roll-Over Ratio

Source: Treasury
Duration of Domestic Debt Stock Held by Foreign Investors

(* As of September 2012
Source: CBRT
Total Securities to Total Assets Ratio of Banking Sector

(*) As of April 2013
Source: BRSA