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

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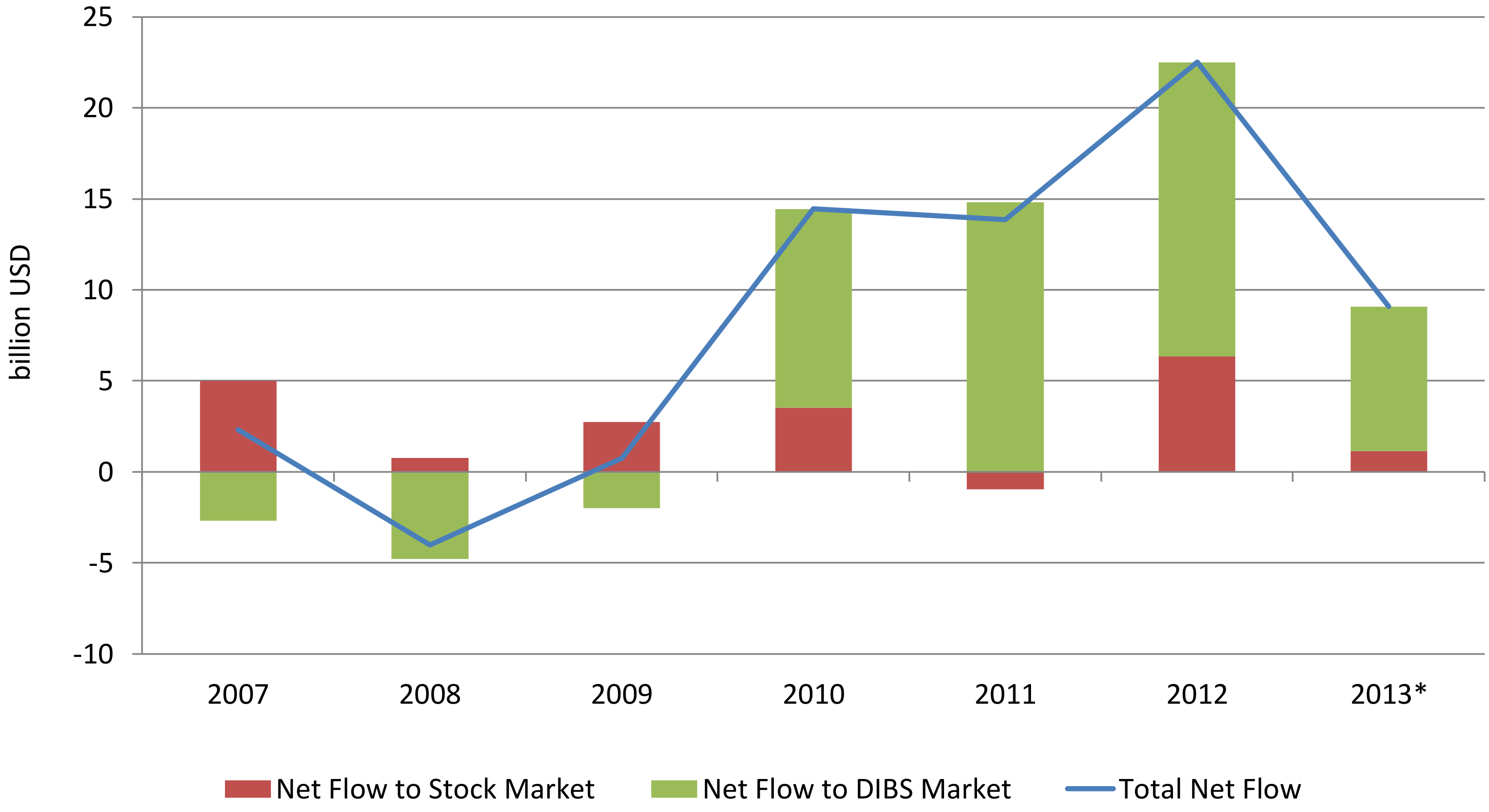
Outline

- 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)

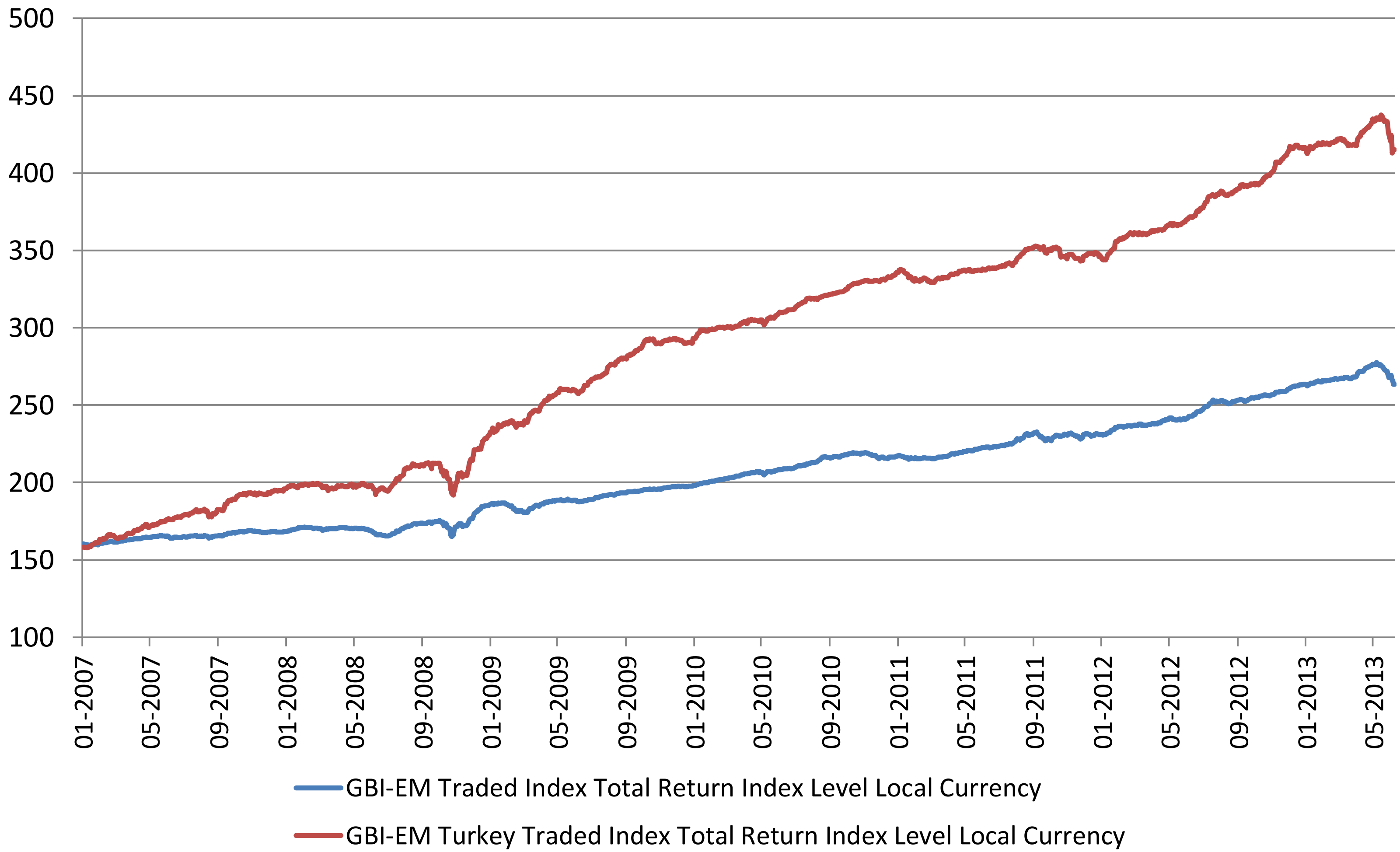
Like other EMs, capital inflows to Turkey increased after AE CBs' non-conventional policies



(*) As of 31st May, 2013

Source: CBRT

Turkey has been affected by this trend more significantly than many other EMs

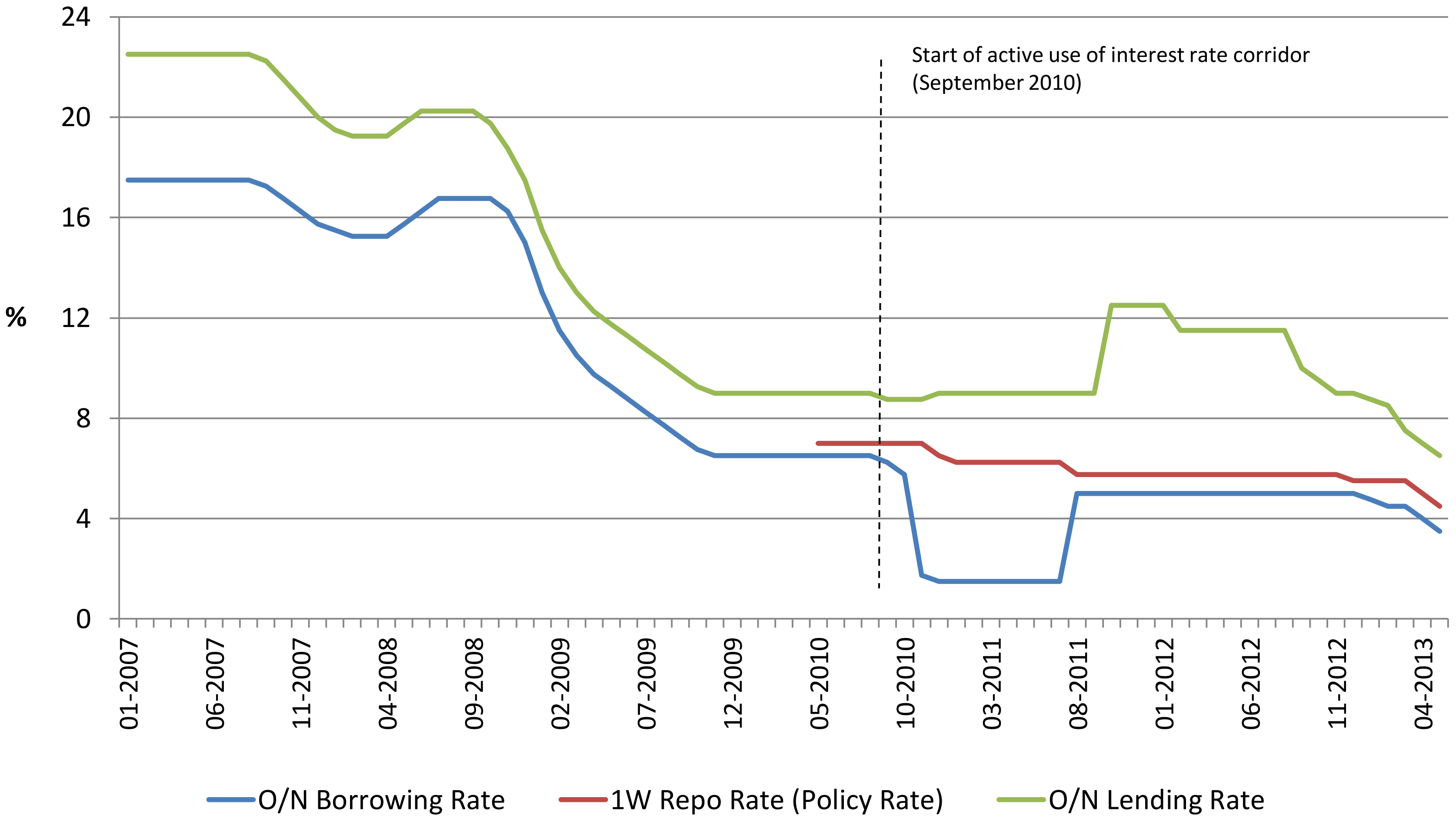


Source: JP Morgan

CBRT responded to this change with accommodative policies

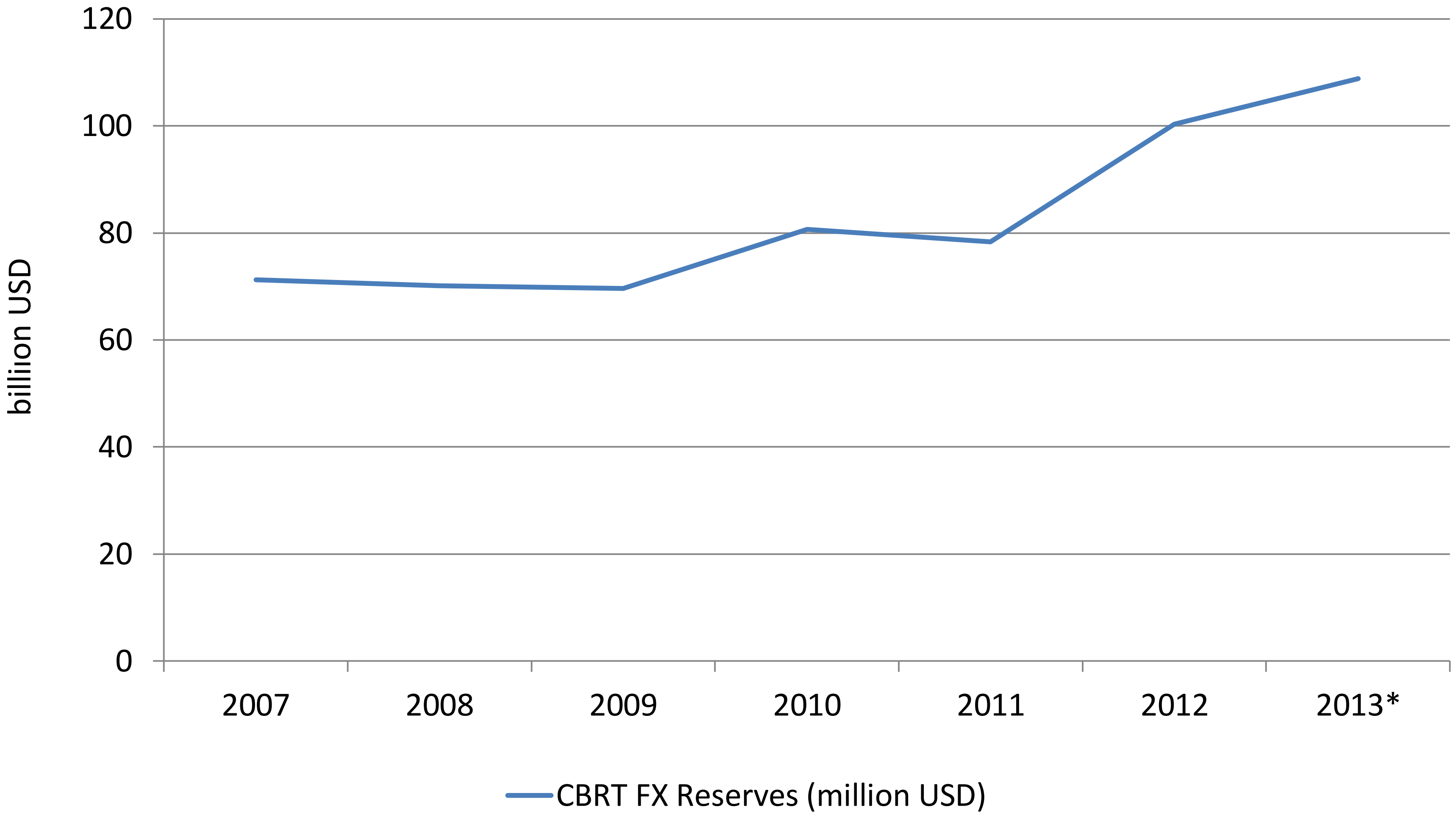
- **Objectives**
  - to sustain price stability
  - to maintain financial stability
    - exchange rate
    - credit growth
- **Tools**
  - policy rate
  - liquidity management
  - interest rate corridor
  - required reserve ratios
  - reserve option mechanism

Depending on the market circumstances, CBRT changed liquidity conditions



Source: CBRT

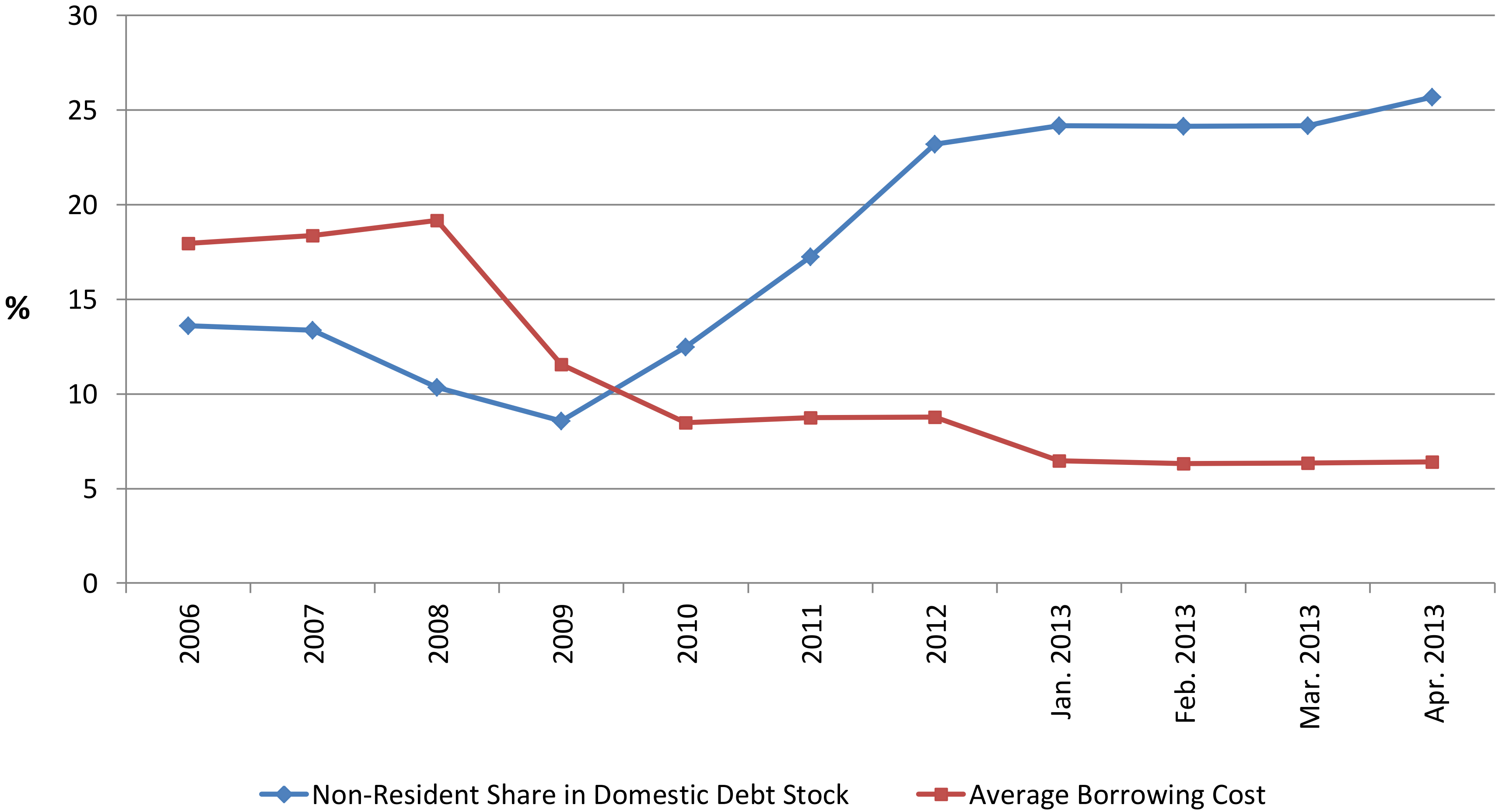
…. and increased its FX reserves



(*) As of 31st May, 2013

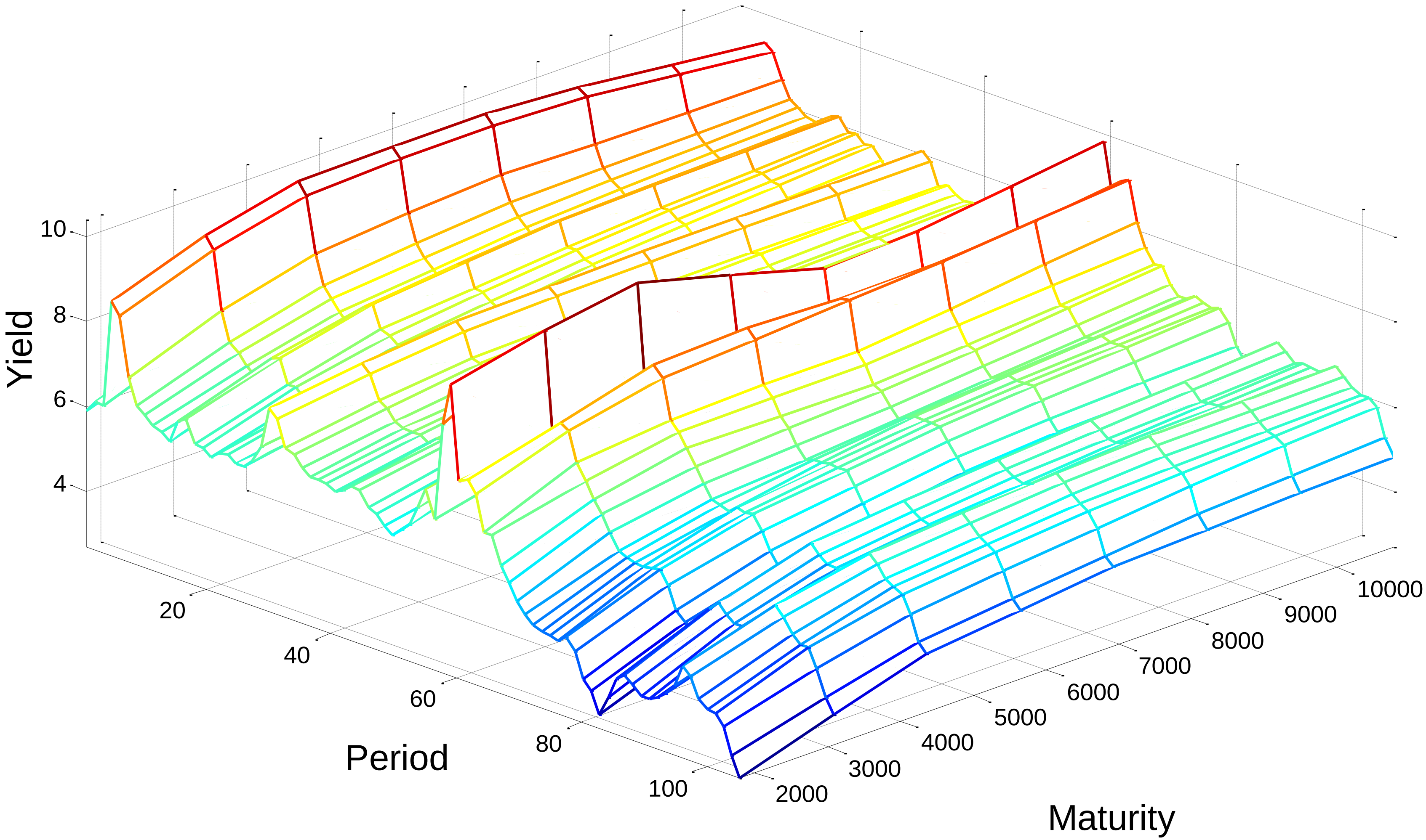
Source: CBRT

Treasury's borrowing cost significantly declined while the share of foreign investors in domestic debt increased

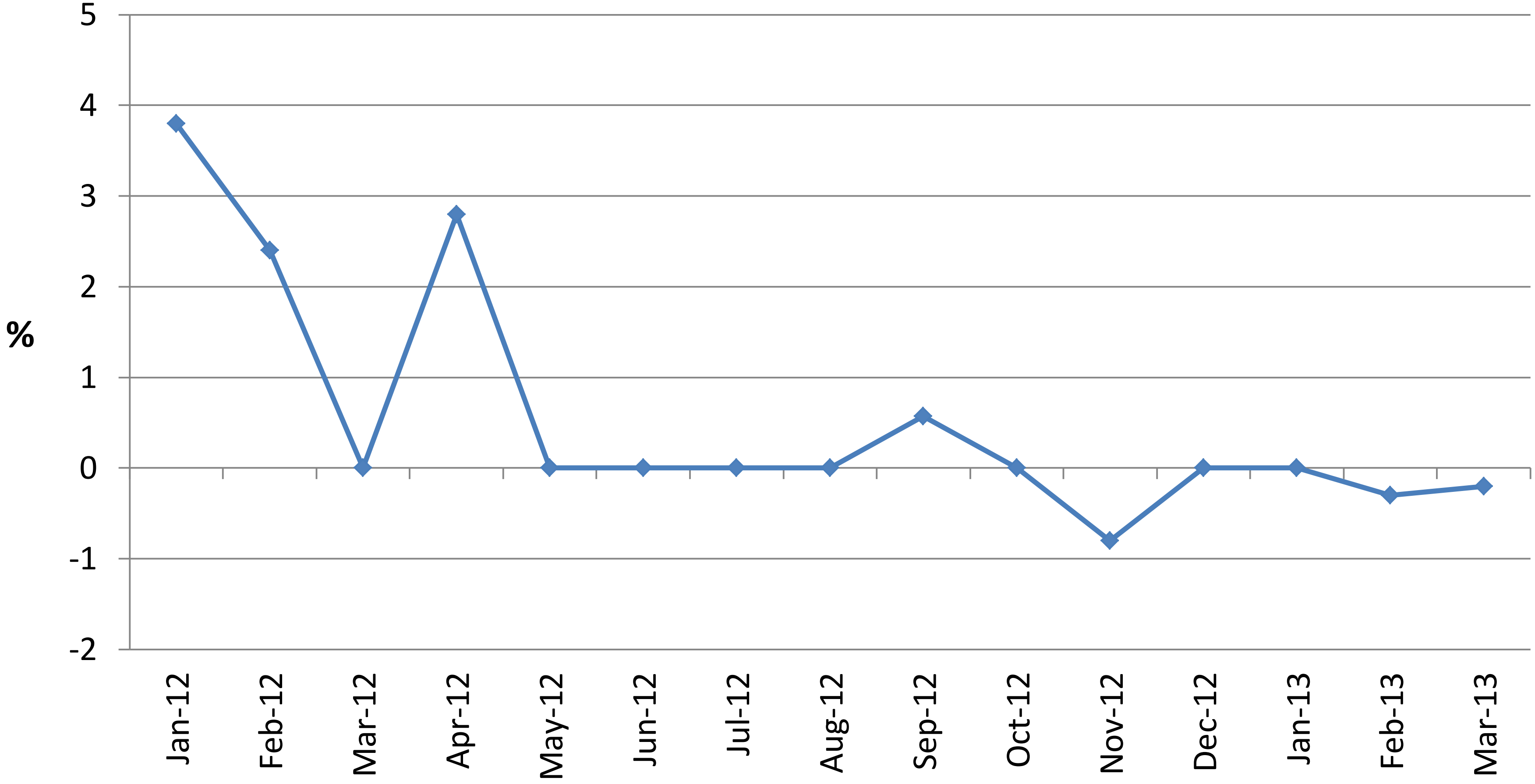


Source: Treasury, CBRT

Yields in all maturities have decreased

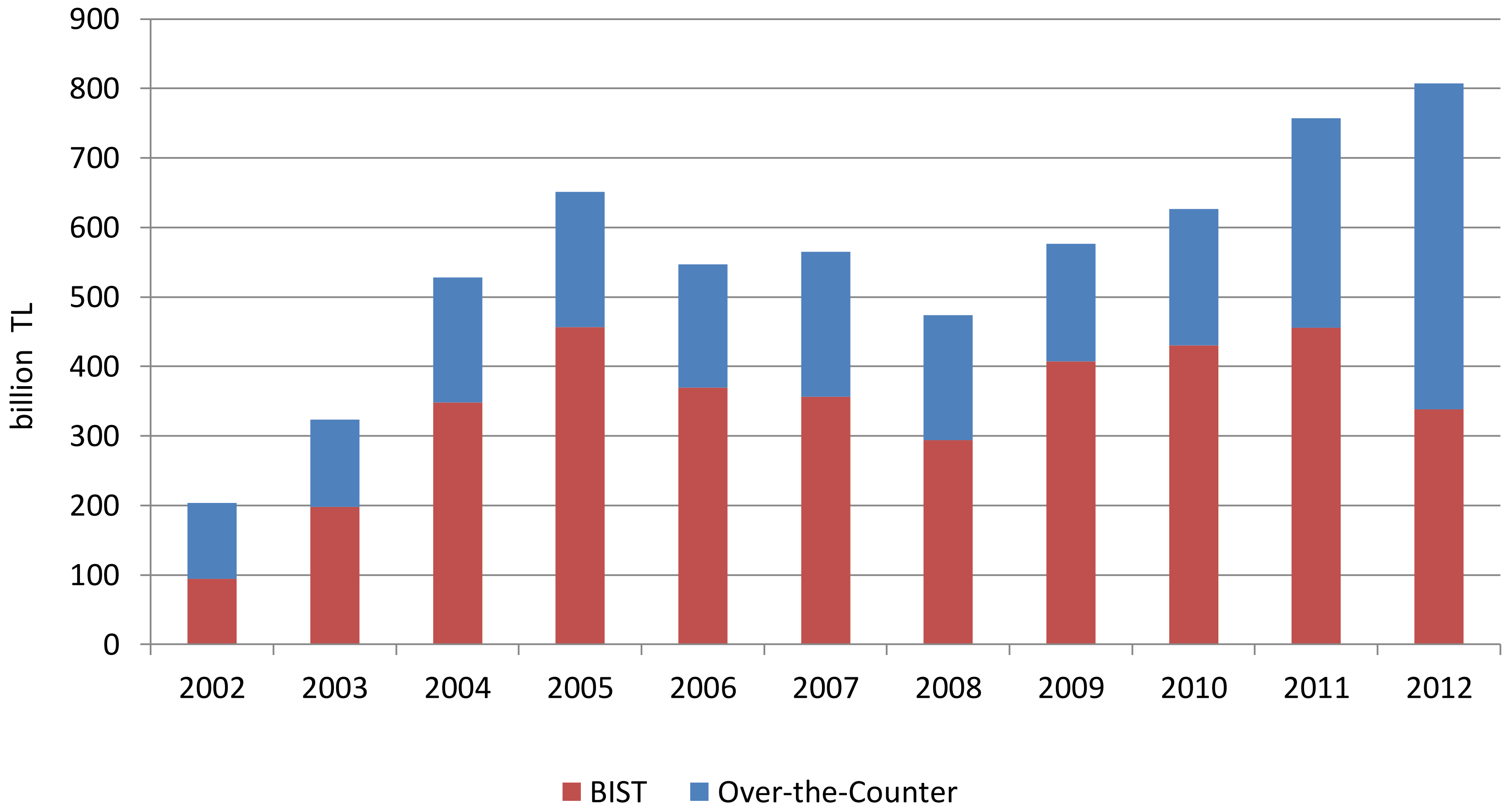


Expected real interest rate fluctuated around zero



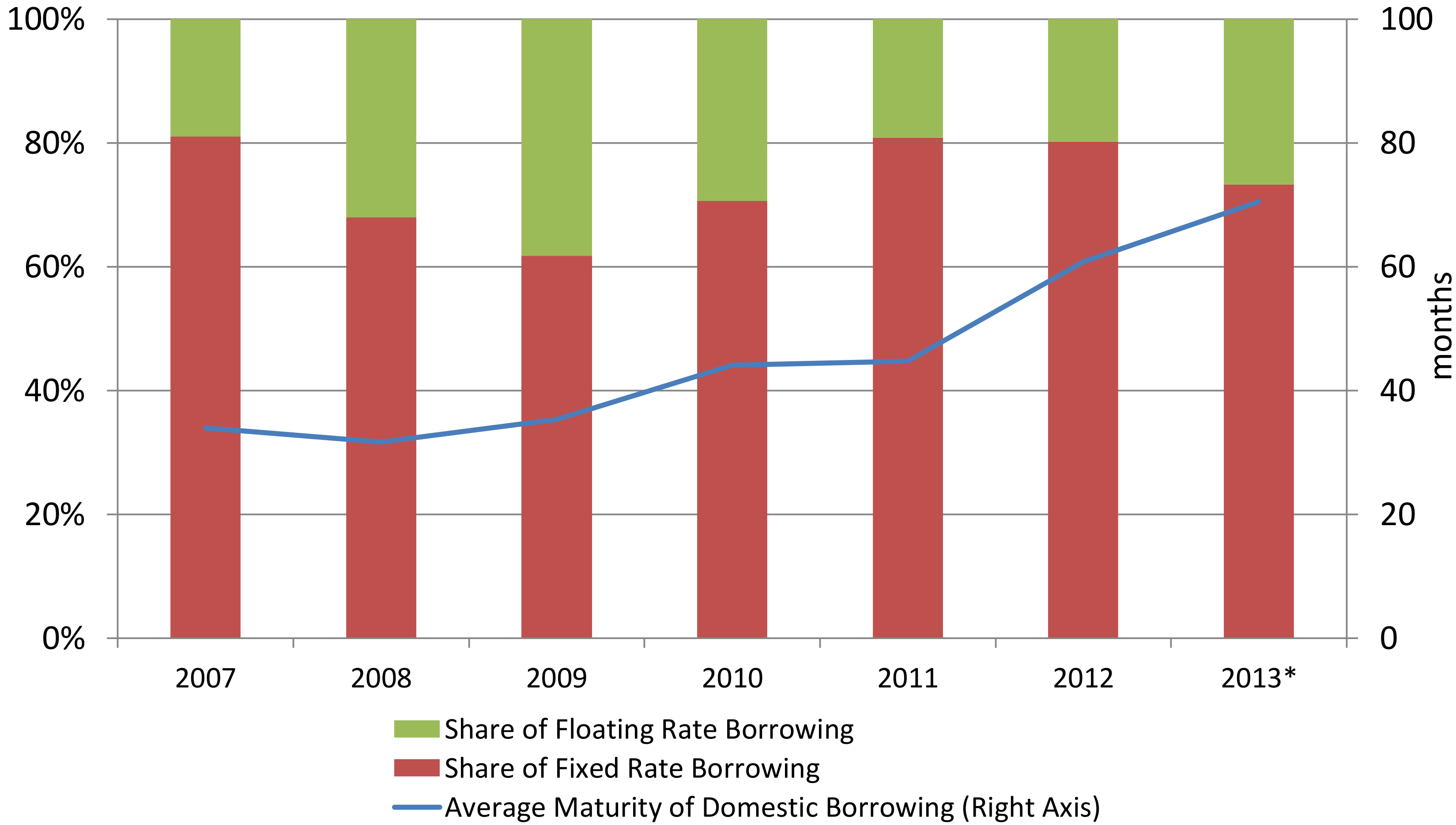
Source: Treasury

Foreign participation also enhanced secondary market liquidity



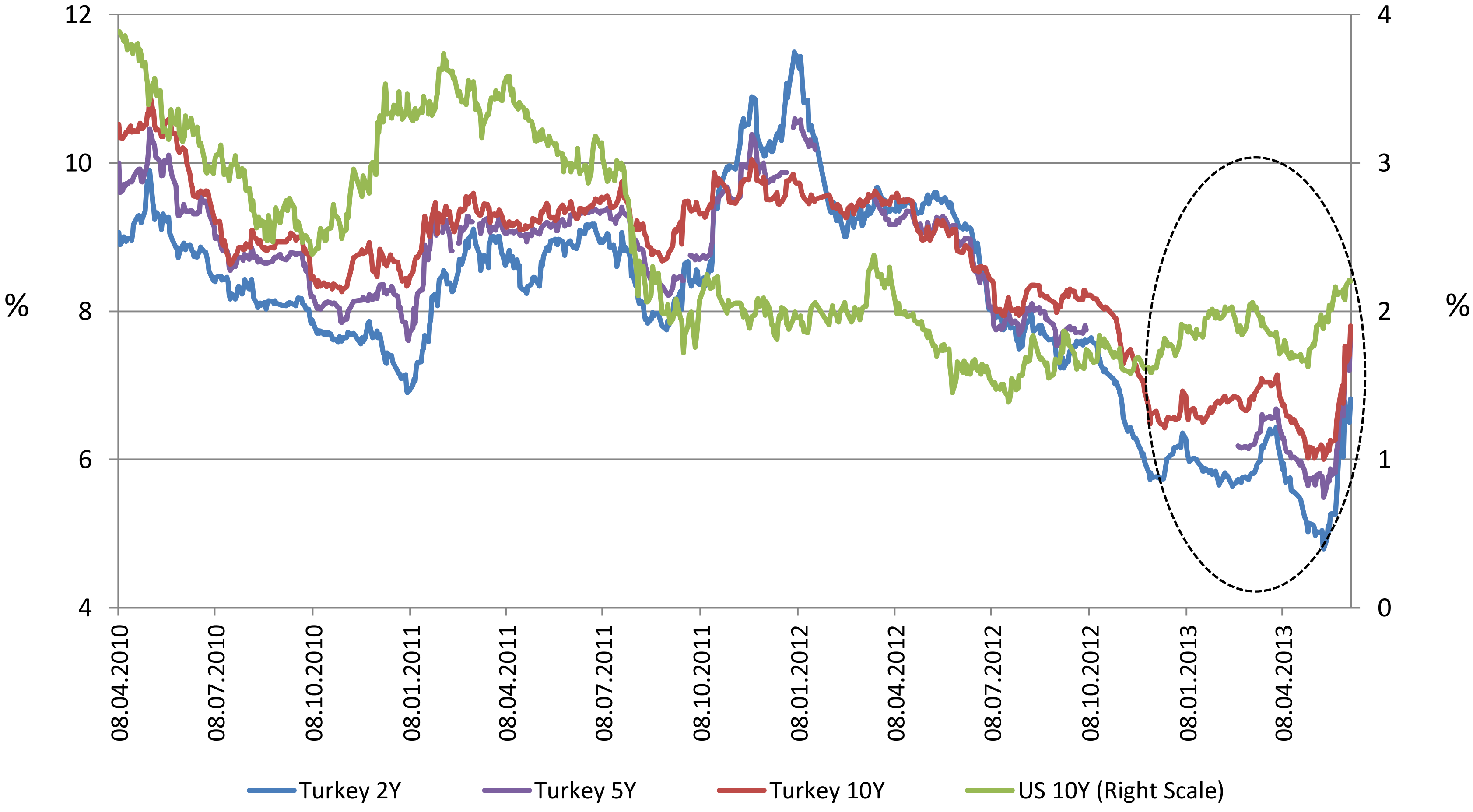
Source: Borsa Istanbul

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

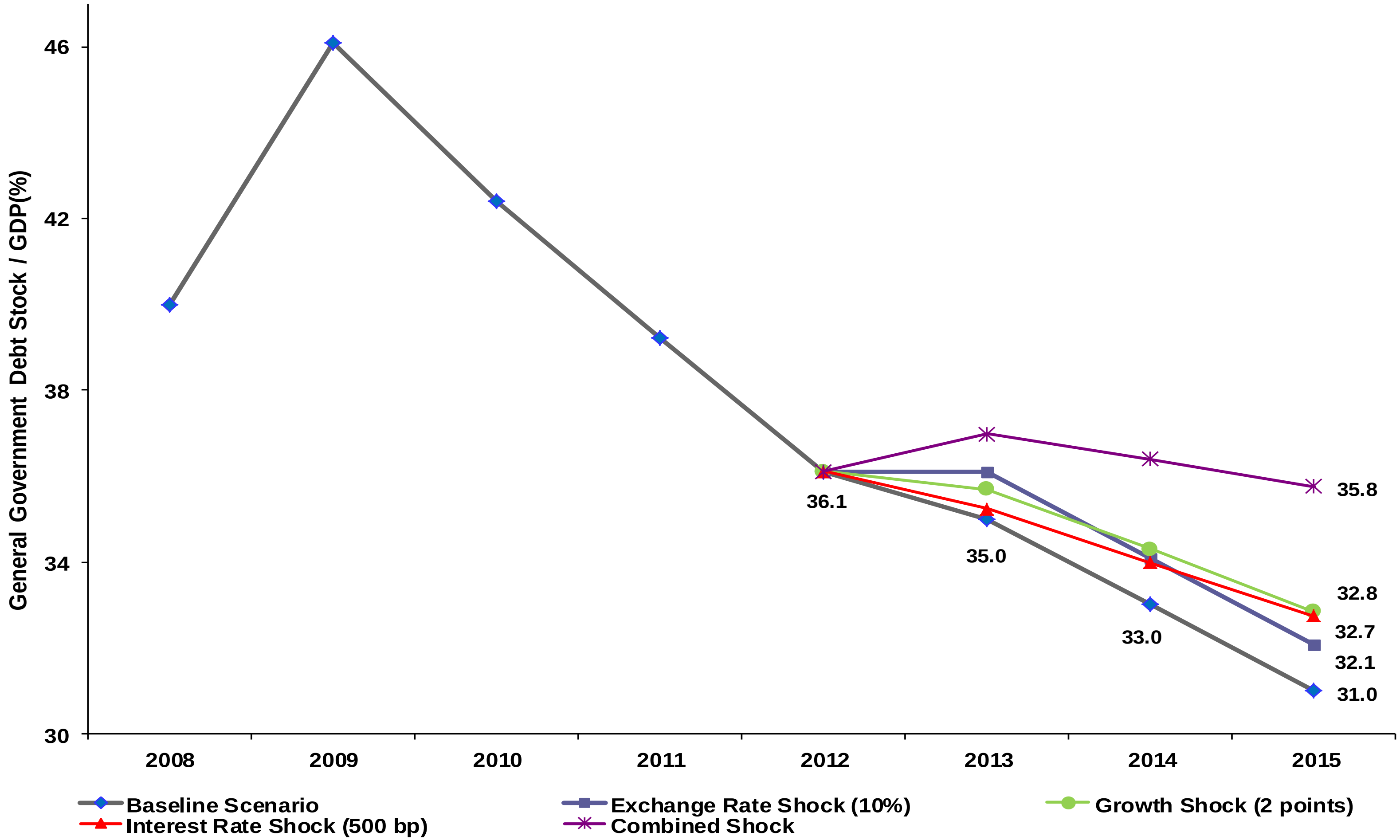
- How will AE CBs exit their non-conventional monetary policies?
- Will EMs lose all of their gains?
- How should debt managers react?

Source: Bloomberg

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



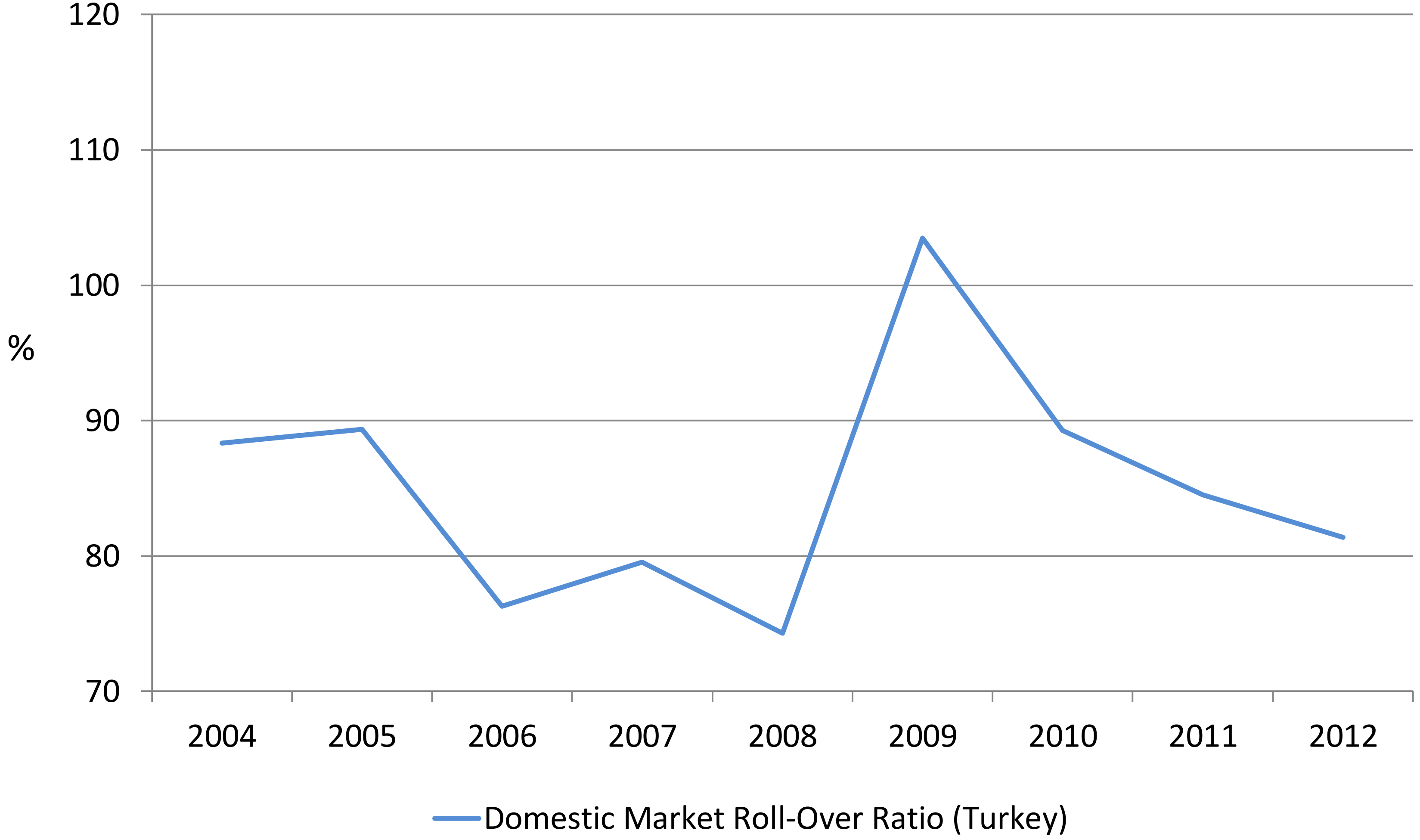
(*) 2013-2015: MTP Projections

sensitivity of debt stock to macrofiscal shocks decreased

	2001	2012
Change in real exchange rate app/dep by 5 percentage points	+ / - 2.2 points	+ / - 0.5 points
Change in TL interest rate by*		
10 percent	+ / - 2.0 points	+ / - 0.2 points
25 percent	+ / - 5.0 points	+ / - 0.5 points
Change in GDP growth rate by 2 percentage points	+ / - 1.5 points	+ / - 0.7 points

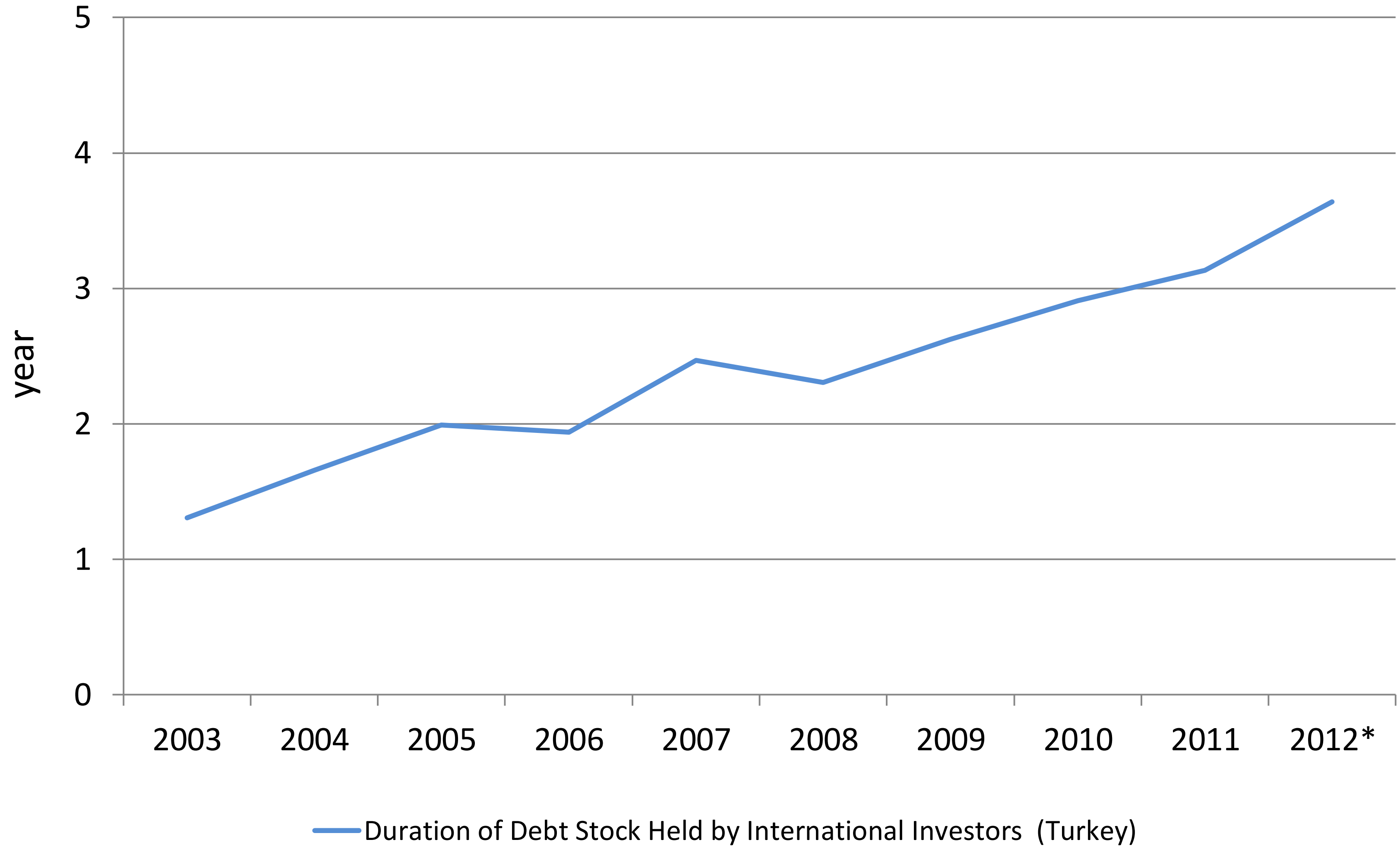
Source: Treasury

Domestic Market Roll-Over Ratio



Source: Treasury

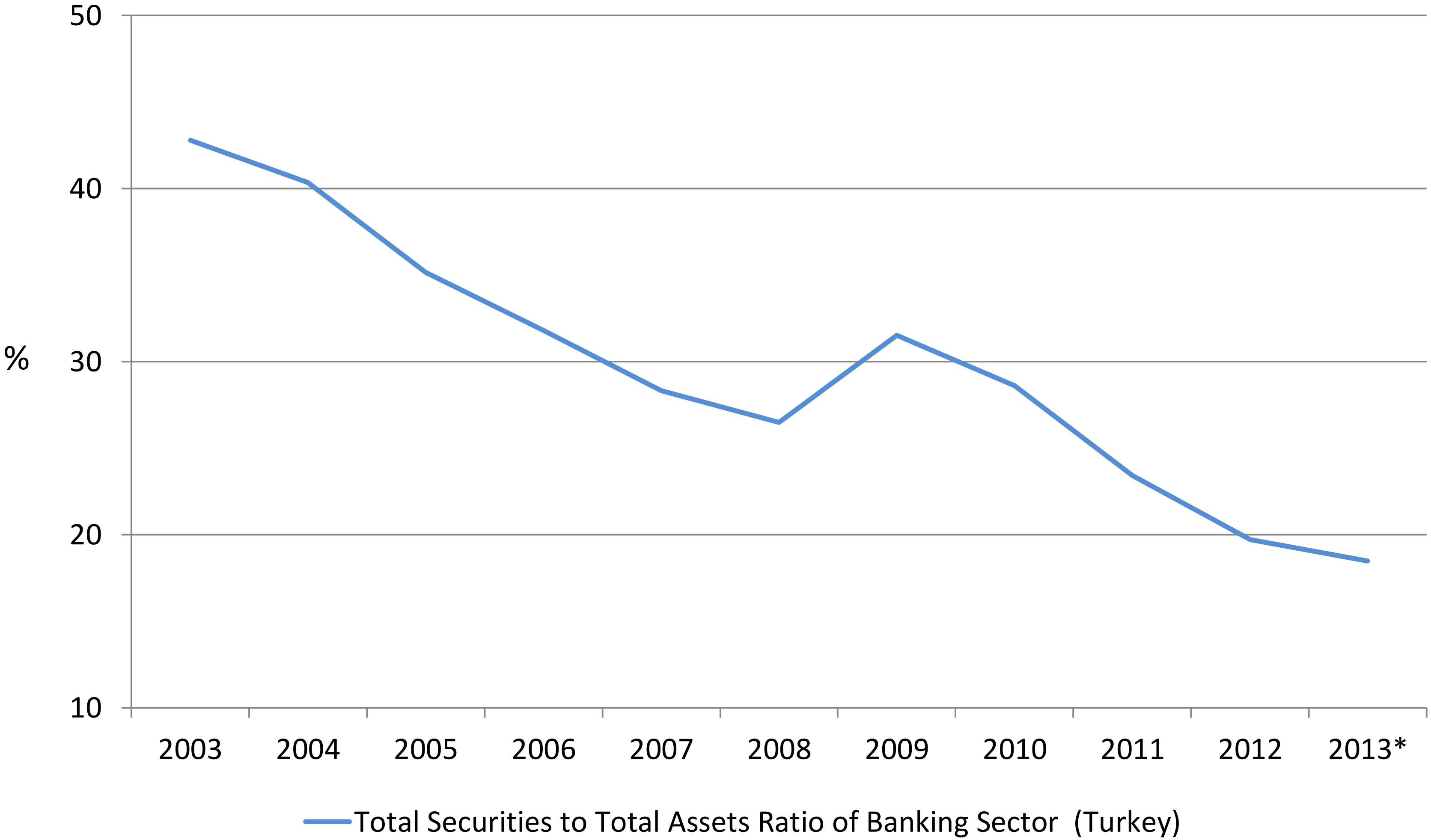
Duration of Domestic Debt Stock Held by Foreign Investors



(*) As of September 2012

Source: CBRT

Total Securities to Total Assets Ratio of Banking Sector



(*) As of April 2013

Source: BRSA