



REPUBLIC OF TURKEY
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY

**PUBLIC DEBT
MANAGEMENT REPORT**

2010



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INTRODUCTION





In 2009, the world economies have entered a phase of contraction and the increases in the public debt and deficit levels have come out to be serious sources of risk against the fiscal balances as the effects of the financial crisis deepened. Turkish economy, together with all those countries integrated with the global economy, was adversely affected by the crisis, nevertheless, with coherent policies carried out; these effects were limitedly felt. Thanks to the structural reforms put into practice after the 2001 crisis, the financial system has been strengthened and there has been a significant improvement in the fiscal balances. At a period in which the crisis has become widespread throughout the world; the strong macroeconomic fundamentals, stable financial sector and the low level of public debt stock environment as a result of these coherent policies, has provided policy flexibility and ensured our country to stay out of the debt sustainability debate, contrary to a number of countries.

As a matter of fact, Turkey is one of the first countries to develop an exit strategy. The Medium Term Programme (MTP) of 2010-2012, which was announced last September, has presented the priorities of the Turkish economy in the forthcoming period and the policies to be followed in order to put these priorities into practice. The MTP, as an exit program from the crisis, that is based upon realistic assumptions, enables all actors in the economy to make prospectively clear judgements by increasing predictability.

Our country has exhibited a strong growth performance since the last quarter of 2009 and has entered a fairly rapid recovery phase compared to the other world economies. Turkey's strength against the external shocks together with timely exit strategies has led the international rating agencies to confirm what market indicators such as bond prices suggest and Turkey's credit rating has been upgraded.

For the permanence of these improvements, it is of vital importance to decisively pursue the steps taken for the consolidation of the economic structure. Within this framework, a fiscal rule reform in public fiscal management will be put into practice. Thereby, another important step will be taken towards accountability and predictability. The fiscal rule will not only assure fiscal sustainability but also will provide the permanence of these improvements gained through the successful policies implemented since 2003. In this regard, the Turkish Treasury, that has great contributions in minimizing the effects of the global crisis, with its strong institutional capacity and the well-qualified human resource, is publishing the Annual Public Debt Management Report which is regarded as best practice in public debt management in terms of transparency and accountability. I believe that these efforts made so far in the area of public debt management in national as well as international platforms by the Turkish Treasury will continue with the same determination and dedication.

Ali BABACAN
Minister of State and Deputy Prime Minister



Dear Readers,

We are publishing the third of the Annual Public Debt Management Reports which have been prepared since year 2008 in line with our transparency and accountability principles. In this issue of the report, in addition to the general framework of public debt management, the developments in the area of public borrowing in the global crisis environment which continues to take the world economies under influence, are presented with data and qualitative analyses.

2008 and 2009 were globally extraordinary years and the developments that had an impact on all world economies affected the fiscal and debt management policies particularly and dramatically. While in most of the countries, the public debt stocks rose due to the increasing financing needs, the global recession have brought concerns about the fiscal sustainability. This situation is reflected in the downgrades of the credit ratings of several countries by the credit rating agencies.

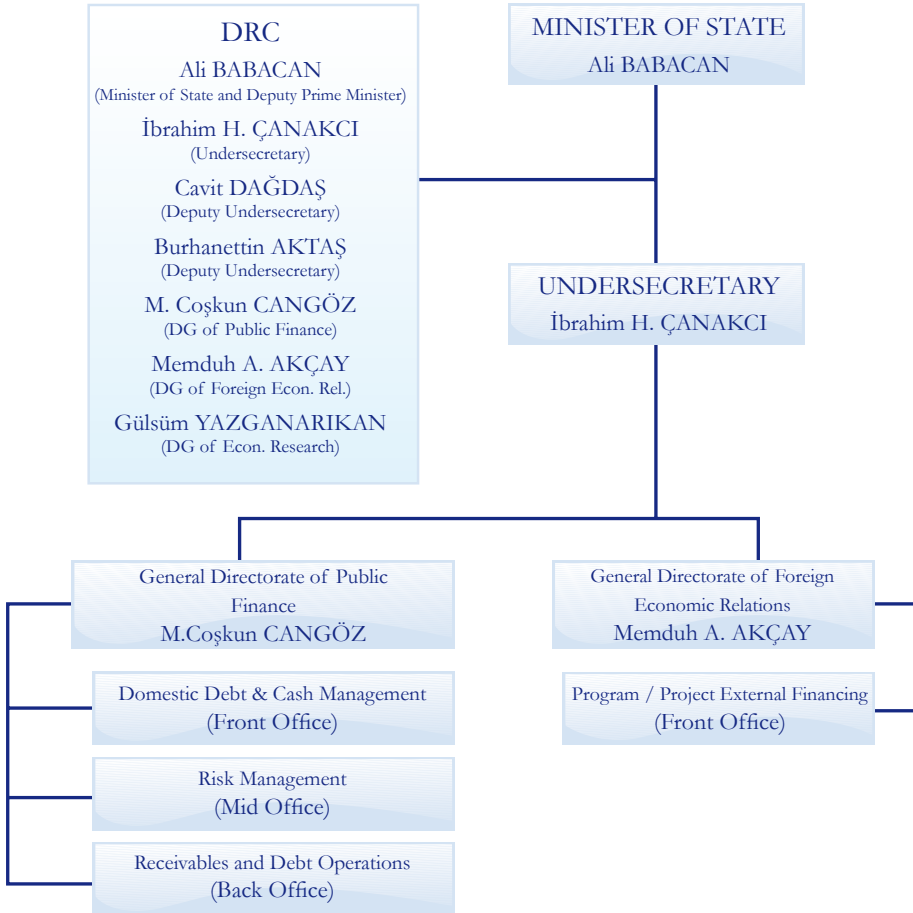
In our country, improvements obtained through the coherent fiscal and debt management policies which have been carried out decisively for years, came forward as a crucial basis in this extraordinary period. The significant reduction in the public debt stock to GDP ratio achieved through contractionary fiscal policies that were implemented in the pre-crisis period, provided a room for fiscal policy. By this means, some precautionary measures were adopted in order to reduce the adverse effects of the crisis and the affects of the global volatility on the debt stock were limited. Our country is currently in the range of those countries with a low level of debt stock when compared to the European Union (EU) member countries.

In the previous years, the legal and administrative basis of debt management was improved and this proved to be another important element that limited adverse impacts of the financial crisis. Debt management policies, in line with the international best practices, yielded a substantial improvement in the composition of debt stock and the sensitivity of our debt stock to external shocks was reduced thanks to the borrowing strategies developed with a long-term perspective. As a result of the confidence ensured in the financial markets, the borrowing costs decreased to historically lowest levels and the maturities reached to highest levels in 2009, a period in which there were cancellations of auctions in some countries from time to time.

In the following parts of the report, all of these developments are analyzed in details. As I am introducing the Public Debt Management Report of year 2010, I would like to thank all my colleagues who put effort in preparing this document.

İbrahim H. ÇANAKCI
Treasury Undersecretary

ORGANIZATION STRUCTURE OF DEBT MANAGEMENT



Debt and Risk Management Committee (DRC)

The Debt and Risk Management Committee (DRC) is the highest decision making authority for designing main borrowing policies and providing coordination among the units responsible for public debt management. The responsibilities of the Committee are set in law 4749 and in the “Legislation on the Principles and Procedures of Coordination and Execution of Debt and Risk Management” dated September 1, 2002 and No 24863. Minister of State responsible for Treasury chairs the DRC, which comprises the Undersecretary of Treasury, Deputy Undersecretaries, Director General of Public Finance, Director General of Foreign Economic Relations and Director General of Economic Research. The meetings related with monitoring the debt management operations or activities are chaired by the Undersecretary.

MAIN PRINCIPLES & STRATEGIES OF PUBLIC DEBT MANAGEMENT

MAIN PRINCIPLES

By the regulation dated September 1, 2002 with No 24863 on the Principles and Procedures for the Coordination and Administration of Debt and Risk Management, the main principles of debt management are defined as follows:

- The maintenance of a sustainable, transparent and accountable borrowing policy in consistency with monetary and fiscal policies taking account of macroeconomic balances
- The fulfilment of financing requirements at the lowest possible cost in the medium and long term in accordance with the levels of risk determined in consideration of domestic and external market conditions and cost factors.

STRATEGIES

- Borrowing strategies are set up within the framework of medium and long term programs.
- Annual and monthly Public Debt Management Reports are published and presented to the public.
- Medium and long term market risks are managed through the strategic benchmarks.
 - ❖ **Liquidity risk** – To keep a strong level of cash reserves and achieve a smooth repayment profile.
 - ❖ **Interest rate risk** – To borrow mainly in fixed rate instruments in order to reduce interest rate sensitivity.
 - ❖ **Exchange rate risk** - To borrow mainly in TL and to set the composition of FX denominated debt stock.
- Risk and cost indicators of debt dynamics are monitored closely.
- In order to address operational risks, technical analyses are conducted and results are reported.
- In order to control credit risks, the risk account system, guarantee fees, partial guarantees and guarantee limits are applied.
- Primary and secondary markets are being strengthened by adopting the Primary Dealership system.
- Liquidity of the securities is enhanced through the benchmark security issuance policy.
- Auction schedule and financing program are announced in order to enhance transparency and predictability.

**DEVELOPMENTS
AND
PROSPECTS**



MACROECONOMIC AND FINANCIAL FRAMEWORK

The world economy has recently entered into a recovery period, after the sharp contraction due to the crisis which started in the financial markets of developed countries and spread across the globe starting from the last quarter of 2008. In fact, the world output has started to increase since the last quarter of 2009 compared to the same period of the previous year.

Strong fiscal and monetary policy supports were effective on the initiation of the global recovery. Depletion of stocks during the crisis also facilitated the revival of global economic activity. Moreover, relatively strong domestic demand and increasing commodity prices have contributed further to economic prospects in the emerging economies.

Despite the signs of recovery in the global economy, risks still keep their importance. Timing of the exit strategies from the extraordinary measures has a critical importance in terms of sustaining the global recovery. Premature exit from supportive policies could weaken the recovery before domestic demand becomes self-sustaining, while delayed exit might result in inflation and extended public finance problems. In fact, particularly in some European countries, concerns related to fiscal sustainability are raising and the countries having higher budget deficits and public debt stocks are perceived as riskier compared to the others.

Different regions of the world has entered recovery period at different times and the speed of recovery vary considerably across the globe. This points out the importance of cooperation for global recovery. In this context, it is urgent that pursued and prospective policies should not jeopardize financial stability and fiscal sustainability in the medium and long term.

While Turkey was hit by the global crisis like all other countries integrated to the world economy, she entered into a gradual recovery period before many of them. In the first quarter of 2009, Turkish economy contracted by 14.5 percent due to intensified global uncertainties. However, together with the policies that were introduced to mitigate the effects of crisis, the contraction rate decelerated in the following quarters and in the last quarter, the economy grew by 6 percent. As a result of the strong rebound in the last quarter of 2009, overall contraction for 2009 was limited to 4.7 percent, although 6 percent contraction was projected in the Medium Term Programme (MTP) for 2009. Moreover, the indicators related to the first quarter of 2010 point out that the growth process is continuing. Economic growth is influenced by the previous year's low base, enhancement of financing in line with the favorable expectations about Turkish economy, improvement in the external demand and revival of the domestic demand due to fiscal stimulus packages.



The global crisis caused a reduction in employment and an increase in unemployment rates in most of the countries. The unemployment rate in Turkey reached to its highest level in February 2009, and has been moderating in the following months except for the temporary increases due to seasonal factors. Unemployment rate was 14 percent in 2009, below the MTP estimation of 14.8 percent. Similarly, employment was forecasted to be 20.9 million in MTP, whereas, the number of employed people exceeded this figure and reached to 21.3 million in 2009. Although not at the desired level, the recovery in economic activity has been reflected favorably to the labor market. In fact, the unemployment rate was realized as 13.7 percent in March 2010, declining by 2.1 percentage points compared to the same period of the previous year. Similarly, the number of unemployed people has declined in January-March period compared to the same period of the last year.

Turkey's exports, which declined after October 2008 in parallel to the shrinking external demand, has started to show an upward trend since October 2009 due to the recovery in the world trade volume and expansion of Turkey's market share in Europe.

Sluggish domestic demand and lower commodity prices resulted in a rapid decline in the inflation rates in Turkey like in many countries. Hence, 2009 end-year inflation rate decreased to 6.5 percent, below the target. At the beginning of 2010, annual inflation rate soared significantly due to the low base effect, tax adjustments and substantial increases in the unprocessed food prices. Likewise, annual inflation figure as of May 2010 increased to 9.1 percent. Although it is expected that the upward pressure in the annual inflation rate will continue some time in the forthcoming period due to tax adjustments and base effect, the core inflation is estimated to remain low.

Global crisis led to deterioration in fiscal balances in our country similar to many other countries. Tax revenues were adversely affected from the slowdown in the economy, whereas expenditures increased due to the fiscal stimulus measures to mitigate the adverse effects of the global financial crisis. In this context, many measures including adoption of Asset Peace Law, new investment incentive package, actions to reduce the cost of labor, increasing credit subsidies to Small and Medium Size Enterprises (SMEs), temporary value added tax and special consumption tax cuts on specific sectors, increasing the amount of short-term working allowance and lengthening its duration, supplementing the sources of credit guarantee fund in order for SMEs to easily access financing facilities and reconstructing credit card loans, were taken by the government. The policy elasticity and fiscal space obtained as a result of fiscal discipline and borrowing strategies implemented since 2002 provided an important facility to implement these stimulus packages.

Public borrowing requirement rose due to the expansionary budget implementations during the crisis period. The EU defined general government debt stock to GDP ratio increased slightly from its level of 39.5 percent in 2008 to 45.5 percent in 2009, which was below the MTP prediction. As stated in the MTP and Pre-Accession Economic Programme (PEP), a gradual improvement in the budget balance and debt stock is predicted in the forthcoming period.

As a result of the comprehensive structural transformation process following the 2001 crisis, the fiscal indicators did not deteriorate significantly during the global crisis period compared to peer countries. Similarly, Turkish banking system is ranked among best performing countries with a capital adequacy ratio of above 20 percent. In many advanced and developing countries, the banking system whose capital structure deteriorated due to the global crisis could only survive by the government support. Despite the negative effects of the global turmoil, banking sector in Turkey was able to maintain its strong capital base without any public support and played a significant role in diminishing the adverse effects of the crisis on the economy.

The adverse effects of the global crisis on the economy were also reflected in the credit repayments. Ratio of non-performing loans to total loans increased starting from October 2008. However, the increasing rate of non-performing loans moderated by courtesy of economic measures and has been in a declining trend since October 2009. This ratio is expected to come down to even lower levels in parallel to the economic recovery started in 2010.

Together with the flexibility gained in the monetary policy stance as a result of decline in the inflation and inflationary expectations, the CBRT (Central Bank of the Republic of Turkey) decreased the policy rates by 10.25 points in aggregate from November 2008 to November 2009 during the global financial crisis. In addition to interest rate cuts, the CBRT provided liquidity supports to the markets.

Turkey was one of the leading countries who introduced its exit strategy from the crisis. MTP including the macroeconomic priorities of Turkish economy in the forthcoming periods and the necessary policies to realize these priorities, covering the period of 2010-2012, was announced in September 16, 2009. On the other hand, CBRT announced that exit strategies from the crisis would also be developed on the monetary policy side. In this context, with the press release in April 14, 2009, the general framework of the “Exit Strategies” including withdrawal of measures taken during the global crisis and operations for normalizing monetary policies were presented to the public opinion.

Consequently, as a result of policies developed against the crisis and the strength of our economy, four different credit rating agencies, one with two notches, upgraded Turkey’s credit rate within short time intervals. With these upgrades, the reduction in the risk premium of Turkey was also confirmed by credit rating agencies.



Ministry of Finance

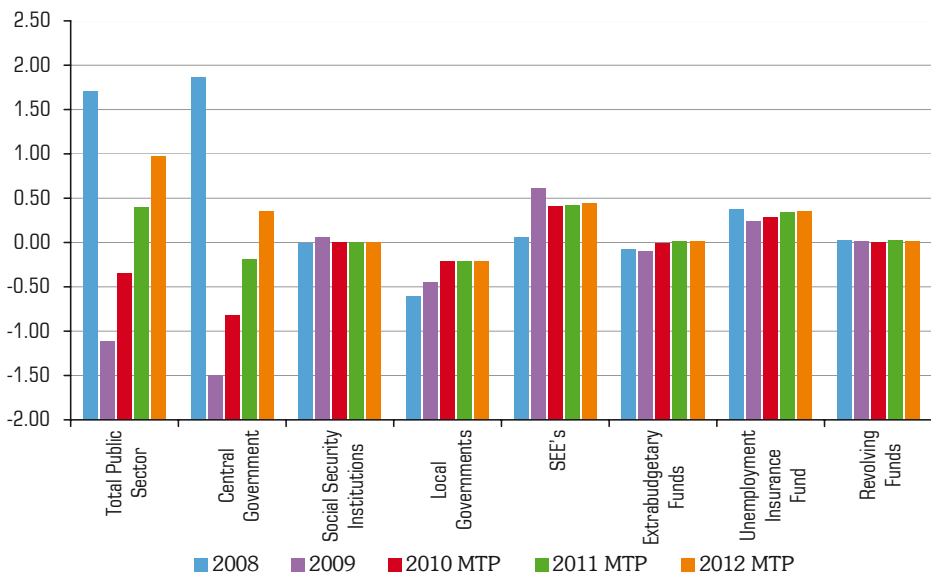
Source: Vehbi Koç and Ankara Research Center (VEKAM) Archives

TOTAL PUBLIC SECTOR FISCAL OUTLOOK

The global financial crisis that started during the last quarter of 2008, significantly affected the fiscal outlook of both developed and emerging countries, including Turkey in 2009. Total public sector primary balance which had surpluses since 2002, turned out to have a deficit of 1.1 percent of GDP in 2009.

In 2009, the program defined primary balance of the central government budget, which constitutes the most significant part of the total public sector, generated a deficit of 1.5 percent as a share of GDP, while the central government budget deficit was at 5.5 percent of GDP. Program defined revenues decreased by 2.8 percent whereas program defined expenditures increased by 14.4 percent in real terms in the same period. The decline in revenues was mainly due to 3.5 percent real decrease in tax revenues in parallel to the economic downturn. The increase of program defined expenditures was driven by the raise in budgetary transfers to the Social Security Institution, financing need of which increased due to lower premium collection. Budgetary transfers to the Social Security Institutions increased by 41.1 percent in real terms from 2008 to 2009. Although MTP envisaged the 2009 deficit as 6.6 percent of GDP for the central government budget, the realization figure turned out to be almost 1 percent below the expectation due to the recovery of the economy at the end of the year that led to an increase in tax revenues.

Total Public Sector Primary Balance (% of GDP)





The primary balance of local governments had been in deficit since 2006. However, the deficit increased significantly and reached 0.5 percent of GDP in 2007 and its peak level of 0.6 percent in 2008. In 2009, local governments' shares from tax revenues that are collected by central government were increased. As a result, the primary balance of local governments is expected to have a slight improvement in 2009 with a level of -0.5 percent of GDP.

The primary balance of 15 State Owned Enterprises (SOEs) that are followed in consolidated government sector segment increased from 0.1 in 2008 to 0.6 percent of GDP in 2009. This increase was due to price rises related to cost based pricing and the decrease in international oil prices as a result of the global crisis.

The primary deficit of extra-budgetary funds, which was 0.07 percent of GDP at the end of 2008, increased to 0.1 due to the higher expenditures of the Social Solidarity and Aid Fund's social programs aiming at mitigating the effects of the global crisis on low income groups.

The primary balance of the Unemployment Insurance Fund which was 0.4 percent of GDP in 2008, decreased to 0.2 in 2009, due to increased expenditures stemmed from the extended duration and coverage of short-working facilities and decreased premium collections driven by increased unemployment rate.

In order to eliminate the negative impacts of the global crisis on fiscal outlook, a gradual adjustment is envisaged in the MTP and total public sector primary balance targets are set 0.4 percent for 2011 and 1 percent for 2012 as shares of GDP.

CASH MANAGEMENT

In 2009, total revenues amounted to TL 202.8 billion whereas non-interest expenditures were TL 207.2 billion on cash basis. As a result, primary deficit stood at TL 4.4 billion. Together with the interest expenditures of TL 52.5 billion, the Treasury cash balance had a deficit of TL 49.2 billion.

Treasury Cash Realizations ⁽¹⁾			
(million TL)	2007	2008	2009
1. Revenues	176,168.4	194,065.9	202,818.9
2. Expenditures	195,877.7	219,601.8	259,696.7
Non-interest expenditures	149,075.4	170,080.9	207,190.2
Interest payments	46,802.3	49,520.9	52,506.6
3. Primary Balance	27,093.0	23,985.0	-4,371.3
4. Privatization and Funds Income ⁽²⁾	6,966.2	9,227.6	7,705.7
5. Cash Balance (1+4-2)	-12,743.0	-16,308.2	-49,172.1
6. Financing (7+8+9+10+11)	12,743.0	16,308.2	49,172.1
7. Borrowing (Net)	7,210.7	10,218.5	53,813.7
Foreign Borrowing (Net)	-5,153.7	-112.1	2,998.0
Borrowing	10,521.2	10,877.9	11,289.0
Payment	15,674.8	10,990.0	8,291.0
Domestic Borrowing (Net)	12,364.4	10,330.6	50,815.8
Borrowing	108,784.5	96,286.5	138,876.1
Payment	96,420.1	85,955.9	88,060.4
8. Privatization ⁽³⁾	2,020.6	0.0	0.0
9. Transfers from SDIF	97.2	156.1	633.9
10. Receipts from On-lending	690.5	553.2	807.1
11. Change in Bank Accounts ⁽⁴⁾ -(5+7+8+9+10)	2,724.0	5,380.5	-6,082.5
12. Effect of Change in Exchange Rate ⁽⁵⁾	-2,145.8	3,627.6	629.0
13. Net Change in Bank Accounts ⁽⁴⁾ (11-12)	4,869.8	1,752.8	-6,711.5

(1) Provisional

(2) This amount indicates the transfers made by Turkish Privatization Administration (PA) that will be recorded as budget revenue in the Public Accounts Bulletin (PAB). Additionally, the amounts transferred from PA and Unemployment Fund for South Eastern Anatolia Project that will be recorded as budget revenue in the PAB are shown here.

(3) This row indicates the amount transferred from PA for budget financing.

(4) A decrease / increase in bank accounts is denoted by + / - sign.

(5) This row indicates the change in the value of the items held in foreign exchange as a result of the exchange rate movements.



Collecting the Cash Requirement Information of Public Institutions

In order to increase the effectiveness of the Treasury's cash management activities, a secondary regulation titled "Regulation on Determination of Cash Requirements of Public Institutions and Enterprises" has been issued in the official gazette on 09.04.2009. This regulation aims to enable the Treasury to make cash planning more accurate via increasing the information sharing between the Treasury and spending units. According to this regulation, public institutions that receive the funds necessary for their activities from the Treasury, inform the Treasury regarding their cash requirements.

According to the regulation, institutions are obliged to send the cash requests of their central and provincial units for the upcoming three months to the Treasury, on a monthly basis. Similarly, at the end of each week, accounting units of these institutions are also obliged to send their cash needs for the upcoming week.

This information is taken into account during the Treasury's cash program preparations and cash transfer is made according to this program. Institutions are informed about their weekly cash allocation amounts for the coming month and they are expected to perform their payments based on this program.

With this regulation, a significant progress was made regarding efficient cash management and harmonization of public expenditures in terms of time, amount and place. This regulation is also in line with the international best practices.

Treasury Single Account and Public Electronic Settlement System

The studies on the modernization of public payment and collection transactions have been on-going since 2007. In this framework, Public Electronic Settlement System (PESS) project, that is the second phase of the new Treasury Single Account (TSA) also continued in 2009. The PESS project is designed to enable the Treasury to receive the cash requirement information and send the allocated cash information to the public institutions electronically. With PESS, public payments will be delivered via electronic fund transfer from one center.

New TSA covers all provincial (more than 1000) and 14 central accounting units. With this system, an accounting unit is able to send its cash need to the Treasury on-line. The Treasury produces a request report and decides the amount that will be met for each unit. Decision is based on the cash program. Then, the payment order for the cash transfer from the Treasury's account to the accounting units' accounts is given to CBRT and to Ziraat Bank.

The ongoing PESS project is planned to be completed by the end of 2010. Once the PESS is implemented, public settlement system will work in a more efficient, faster, cheaper and centralized way. In addition to the payments; all tax offices will also be included in the PESS and their collections will be swept overnight.

Via PESS, all accounting units' payment accounts will be held with CBRT as the sub-accounts of the Treasury's payment account. When an accounting unit completes the necessary transactions and the Treasury confirms the cash transfer for the payment, cash will be transferred from the Treasury's payment account to the related accounting unit's payment account. Then the CBRT will transfer the cash to the beneficiary's account via electronic fund transfer. Unlike the previous system, this one enables the cash flows to be instantly monitored and provides more efficient cash management. The PESS project is carried out in close cooperation with Ministry of Finance, CBRT and Revenue Administration.

DEBT MANAGEMENT

DOMESTIC BORROWING

In 2009 the effects of global crisis deepened and financing requirement for Turkey increased –similar to many countries- due to elevated fiscal deficits driven by economic contraction. Although, the borrowing from external markets and other financing items remained at levels foreseen at the beginning of the year, domestic borrowing exceeded the programmed amounts significantly, parallel to the deterioration of the primary balance. Nevertheless, demand for government bonds was high, while the average cost of borrowing remained low. In addition, borrowing policies which have been implemented within the strategic benchmark framework since 2003, helped maintain acceptable costs at reasonable risk levels. On the other hand, the high levels of cash reserves shaped by strategic benchmarks contributed to reduce the liquidity risk when demand was relatively low and/or the costs were rising. Moreover, the strategic benchmark related to borrowing mainly with Turkish Lira denominated government bonds helped the sustainability of domestic borrowing even at the times of sharp depreciation of Turkish Lira.

In 2009, as in previous years, zero coupon bonds which are accepted as “benchmark” securities were re-issued in order to enhance liquidity. Issuances of fixed coupon bonds, which were ceased since 2008 October due to the decreasing demands of foreign investors and the uncertainty as a result of the global crisis, resumed in June 2009. On the other hand, issuances of CPI indexed bonds in large amounts helped widen the investor base, increase average maturity of borrowing and demand for auctions.

In 2009, eleven switching auctions were conducted in 2009 in accordance with the debt management strategy framework. As a consequence of these auctions, domestic debt redemptions were reduced by TL 1.1 billion and TL 5.5 billion in 2009 and 2010 respectively; thus the liquidity risk in the first quarter of 2010 was mitigated.

Treasury Financing Program ⁽¹⁾

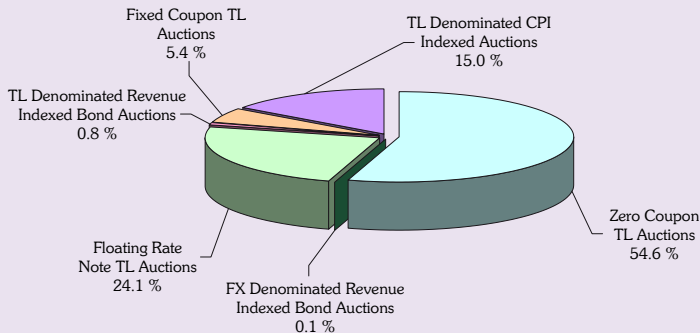
(billion TL)	2009		2010	
	Program	Realization	Program	Realization ⁽²⁾
I- TOTAL DEBT SERVICE	153.9	148.9	200.3	77.0
Domestic Debt Service	135.1	134.2	182.6	70.8
Principal	85.4	88.1	138.4	51.8
Interest	49.7	46.2	44.2	18.9
External Debt Service	18.7	14.6	17.7	6.2
Principal	11.6	8.3	11.2	3.5
Interest	7.2	6.4	6.5	2.8
II- FINANCING	153.9	148.9	200.3	77.0
Financing Other Than Borrowing	36.5	4.8	5.0	6.3
Primary Surplus	28.5	-4.4	-4.3	4.5
Receipts From On Lending & Guaranteed Debt	0.5	0.8	0.6	0.4
Other	7.5	8.3	8.7	1.4
Total Borrowing	117.4	150.2	195.3	74.0
External Borrowing	12.2	11.3	13.7	9.5
Domestic Borrowing	105.1	138.9	181.6	64.5
Use of Cash Account	0.0	-6.7	0.0	-2.7
Currency Valuation of FX Deposit ⁽³⁾	0.0	0.6	0.0	-0.5
TOTAL ROLL-OVER RATIO (%)	77.8	103.5	99.5	91.2
Memo (Billion TL)				
NET BORROWING (Borrowing - Principal Payments)	20.4	53.8	45.7	18.7
Net Domestic Borrowing	19.7	50.8	43.2	12.7
Net External Borrowing	0.7	3.0	2.4	6.0

(1) Cash based.

(2) Realization for January-April.

(3) Figures reflect the changes of FX deposits due to exchange rate. Positive sign indicates an increase whereas negative sign shows a decrease of FX reserves in TL terms.

In 2009, TL 4.8 billion of total debt service was met by sources other than borrowing, while TL 150.2 billion was financed by domestic and external borrowing and Treasury cash reserves increased by TL 6.7 billion. While the domestic debt service amounted to TL 134.2 billion, the domestic borrowing totalled TL 138.9 billion. As a result, the total domestic debt roll-over ratio stood at 103.5 percent in 2009.

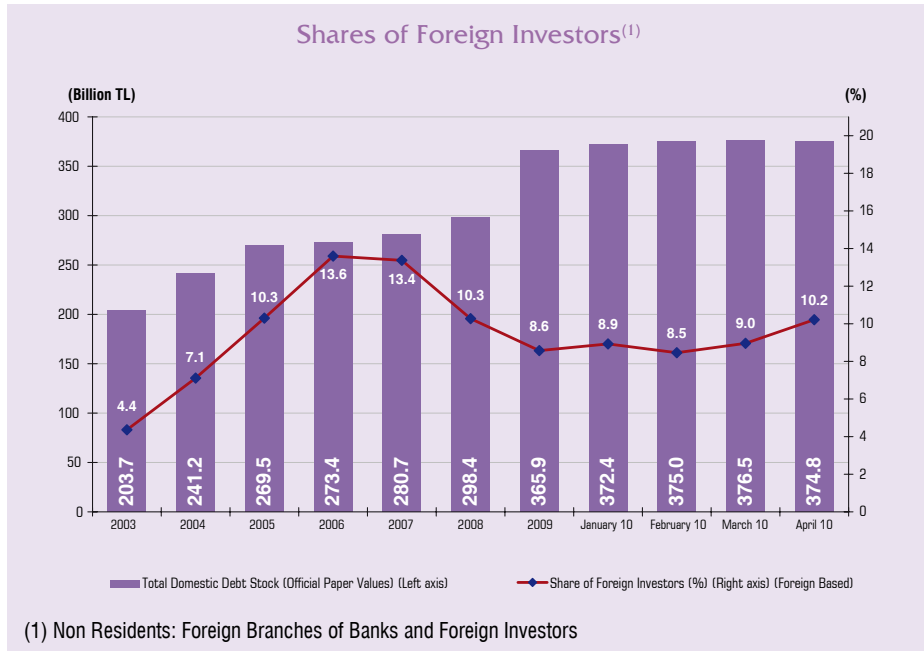
Domestic Borrowing by Instrument in 2009 ⁽¹⁾

(1) Including switching operations and switching auctions.

Last year, the share of TL denominated zero coupon bonds in total cash based borrowing was 54.6 percent while TL denominated floating rate notes, TL denominated CPI indexed bonds, TL denominated fixed coupon bonds comprised 24.1, 15 and 5.4 percent respectively. In the same period, the shares of TL and FX denominated revenue indexed borrowings were 0.8 percent and 0.1 percent.

In 2009, 99.1 percent of domestic borrowing was accomplished through 43 auctions, and the remaining 0.9 percent through direct sales. Total bid to cover ratio was approximately 2.5. Total bid to total market redemption ratio was 482 percent (including sales through non-competitive offers to Primary Dealers).

As a result of the global crisis, foreign capital outflows increased and foreign investors' shares in the total domestic debt stock decreased to 8.6 percent in 2009. As of April 2010, foreign investors' share again rose up to 10.2 percent.



On the other hand, the cost of TL denominated zero coupon bonds decreased from its early 2009 levels of 16 percent to the one-digit levels after August, and to its historically lowest level of 7.5 percent in October, parallel to the high demand from domestic markets and the Central Bank rate cuts. In the first four months of 2010, the average cost of TL denominated zero coupon bonds was 8.2 percent. Decreasing borrowing costs together with stability of Turkish financial sector during the global crisis increased public confidence and contributed to the extension of borrowing maturities. Furthermore, in order to achieve an extended



yield curve, a 10 year fixed coupon bond in January 2010 and a 10 year CPI indexed bond in April 2010 were issued via auctions in line with the strategic benchmarks. These two issues represent the longest auction maturities in local currency achieved in the history of Turkish Republic. The average maturity of cash-based domestic borrowing increased to 35.3 months in 2009 from its 2008 level of 31.7 months and reached 40.5 months as of April, 2010. In the first four months of 2010, TL 64.5 billion of domestic borrowing was made for TL 70.8 billion domestic debt service.

In order to diversify the borrowing instruments and broaden the investor base, third-group of Revenue Indexed Bonds were issued in February 2010. These bonds were previously issued in January and April 2009. The amount of the issuance in 2010 was TL 944 million.

The aim in 2010 is to raise the majority of funds in TL, as in the previous years, and to maintain the decreasing trend of the share of foreign currency denominated debt in the Central Government Debt Stock. FX denominated domestic borrowing roll-over ratio is planned to be limited to a maximum of 50 percent in 2010. The Treasury also aims to use fixed rate TL instruments as the major source of domestic cash borrowing and decrease the share of debt which has interest rate fixing period less than 12 months, taking into account market conditions. Other objectives are to increase the average maturity of domestic cash borrowing taking market conditions into consideration and decrease the share of debt maturing within 12 months in order to reduce the liquidity risk. The policy of maintaining high cash reserve levels, which provided important flexibility in debt management in 2009, will be continued.

In line with the aim of sustaining transparency in debt management, financing programs and debt data will continue to be announced on a regular basis in 2010 and onwards. In this context, the domestic borrowing strategy, previously announced in monthly periods, is disclosed for three-month periods starting from January, 2010.

Buy-back and switching auctions will be continued within the framework of strategic benchmark policies, with the aim of smoothing out the redemption profile. As a result of 6 switching auctions conducted in the first four months of 2010, the amount of debt services of 2010 and 2011 were reduced by TL 1.5 and 1.3 billion respectively.

EXTERNAL BORROWING

Program Finance

Financing from International Capital Markets

In 2009, approximately USD 3.5 billion was anticipated to be raised through Eurobond issuances from international capital markets taking into account the volatility in financial markets. As the markets gradually recovered especially starting from March 2009, using the appropriate windows, Treasury raised a total of USD 3.75 billion from international capital markets through three USD denominated transactions.

In 2010 financing program, the Treasury plans to raise approximately USD 5.5 billion through Eurobond issuances from international capital markets. In January-April 2010, a total of approximately USD 5 billion, which corresponds to approximately 90 percent of the annual Eurobond financing target, was raised through three transactions in international capital markets.

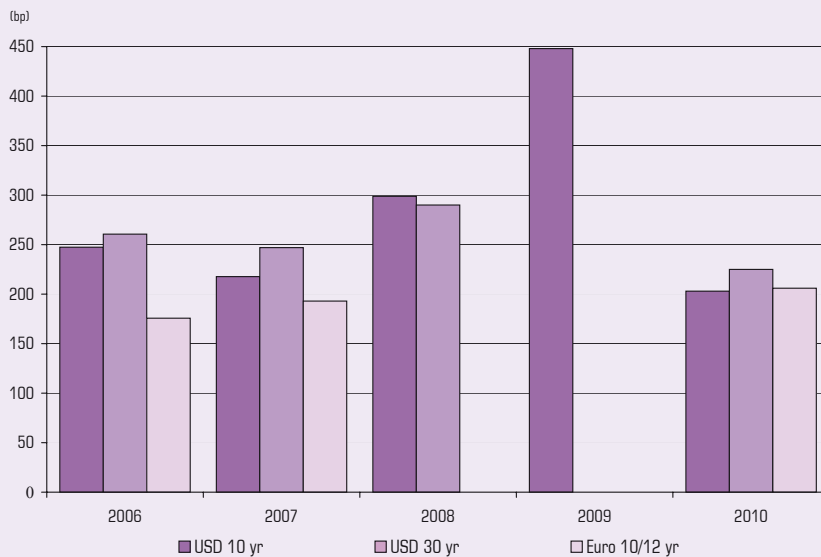
The bond issued in January 2010 with 30 years maturity and USD 2 billion nominal amount marks the largest ever emerging market sovereign transaction with a similar maturity and the Treasury's largest bond offering since January 2005 in the dollar market. The yield of USD denominated bond issued in March with 11 years maturity corresponds to the lowest cost achieved among all USD denominated bonds issued by the Treasury. In April, with a landmark 10 year transaction in the Euro market after three years, Treasury raised EUR 1.5 billion, which is the largest Euro denominated offering done by the Treasury so far.

Eurobond Issuances in 2009- 2010

Issue Date	Maturity Date	Currency	Amount	Coupon (%)	Yield-To-Investor	
					(%)	Spread (bp)
14.01.2009	14.07.2017	USD	1,000,000,000	7.500	7.500	UST + 501 bp
07.05.2009	07.11.2019	USD	1,500,000,000	7.500	7.600	UST + 448 bp
31.07.2009	14.07.2017	USD	1,250,000,000	7.500	6.650	UST + 298 bp
12.01.2010	30.05.2040	USD	2,000,000,000	6.750	6.850	UST + 225 bp
18.03.2010	30.03.2021	USD	1,000,000,000	5.625	5.750	UST + 203 bp
22.04.2010	18.05.2020	EUR	1,500,000,000	5.125	5.204	Bund + 206 bp



Risk Premiums for International Bond Issuances ⁽¹⁾



(1) The values are the weighted averages of the spreads and the nominal amounts of the bonds issued during the year corresponding to the given maturity (as of April 20, 2010).

Developments in the International Capital Markets

In 2009, despite some signs of recovery indicating that the worst period of the global financial crisis is over, the risk appetite did not increase significantly and concerns regarding the pace of the global recovery continued.

The markets recovered modestly especially starting from the end of the first quarter of 2009 as the volatility in the capital markets that peaked after the collapse of Lehman Brothers began to subside. With the help of the extraordinary measures on monetary and fiscal policies taken especially by US and other developed and emerging countries that were affected by the crisis, signs of stabilization and recovery in global economy started to emerge in 2009. However, the uncertainties regarding the economic outlook and pace and shape of the recovery continued to be the main discussion topics throughout the year. As the signs of recovery became more visible in the latter part of the year, the discussions took a new form and centered on when and how to unwind these extraordinary fiscal and monetary policies, so-called “exit strategies”.

With this gradual recovery in place, the yield of our benchmark bond with 2030 maturity decreased to 6.7 percent at the end of 2009, after reaching 9.5 percent at the beginning of March 2009. Similarly, JP Morgan Emerging Markets Bond Index (EMBI+) and the EMBI+ Turkey sub-index, which are composed of all major emerging market sovereign bonds and widely used as a benchmark to gauge the performance of emerging economies as a whole and individually, were 273 and 197 basis points at the end of 2009, down from 698 and 632 basis points respectively at the beginning of March 2009. During this recovery period in global financial markets, Turkish Eurobonds outperformed the benchmark EMBI+ index.

During the first quarter of 2010, the yield of our benchmark bond with 2030 maturity and EMBI+ Turkey sub-index were almost stable, and as of March 2010, trading around approximately 6.5 percent and 206 bps, respectively.



Ankara State Guest House

Source: Vehbi Koç and Ankara Research Center (VEKAM) Archives

Program Financing from IMF

The 19th stand-by arrangement with the International Monetary Fund (IMF) was completed in May 2008. Total repayment to the IMF amounted to SDR 582 million (of which SDR 458 million was principal and SDR 124 million was interest) in 2009. In the period between January-May 2010, total repayment to the IMF was SDR 272 million (of which SDR 226 million was principal and SDR 46 million was interest).

Net Financing From International Monetary Fund ^{(1) (2)}								
Million SDR	2000 - 2004	2005	2006	2007	2008	2009	2010 Jan-May	TOTAL
I. Disbursement	23,431	1,666	1,999	749	2,248	0	0	30,093
II. Debt Service	12,524	5,910	5,635	3,741	1,502	582	272	30,167
Principal	10,232	5,267	5,092	3,373	1,244	458	226	25,891
Interest	2,292	644	543	368	258	124	46	4,276
III. Net Financing (I-II)	10,907	-4,245	-3,637	-2,992	746	-582	-272	-74
IV. Net Financing Excluding Interest	13,200	-3,601	-3,094	-2,624	1,004	0	-226	4,202
V. IMF Debt Stock (end of period)	60,745	10,247	7,154	4,530	5,534	5,076	4,851	..

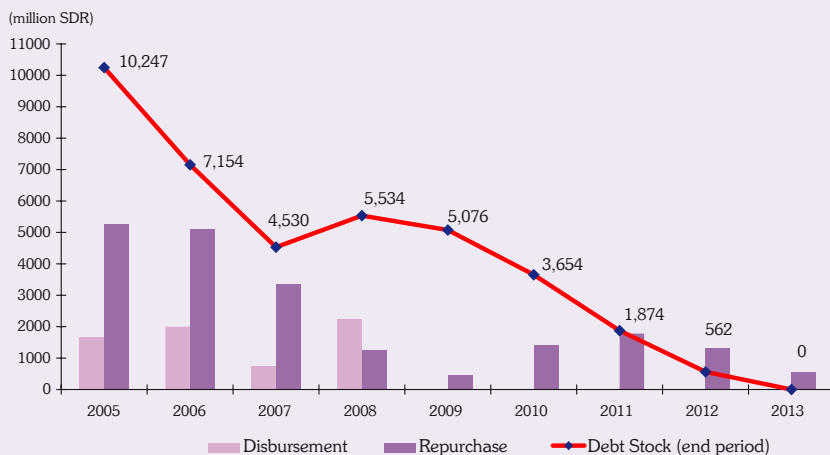
(1) The Undersecretariat of Treasury and the Central Bank combined. The Central Bank made its last disbursement in 2001 and completed its repayment obligations in 2005.

(2) End-May 2010 \$/SDR exchange rate is 1.47433.

The Executive Board of the IMF approved the decision changing principal repayment (repurchases) policy for the IMF resources financed through the General Resources Account, including the Stand-By Arrangements, on March 24, 2009. According to the decision, the policy of making repurchases on “Expectation Basis” (repayment in 4 years with 8 installments with a grace period of 2 years and 3 months) was abolished, effective as of April 1, 2009. As a result of this decision which applies to all members, IMF resources shall be repaid under the “Obligation Basis” (repayment in 5 years with 8 installments with a grace period of 3 years and 3 months). In line with this development, repurchase obligations to the Fund due in the rest of 2009 was deferred by 1 year. Turkey has started to repay its IMF debt stock on April 30, 2010, following the end of the deferral period. The repayment schedule for the remaining IMF debt stock is shown below.



Financial Transactions with IMF Disbursement - Repurchase - Debt Stock



SDR Allocation

The International Monetary Fund (IMF) made a general SDR (Special Drawing Rights) allocation equivalent to USD 250 billion to all member countries on August 28, 2009 in order to ease the adverse effects of the global economic crisis on the international markets by supplementing foreign exchange reserves, meeting emergency external financing needs of the member countries and providing liquidity to the global economic system. In addition, the IMF's 1997 decision to make a special one-time SDR allocation in an amount of SDR 21.4 billion became effective as of August 10th 2009.

In this regard, in 2009 the IMF made a general SDR allocation equivalent to SDR 883.1 million and a special one-time SDR allocation equivalent to SDR 75.9 million totaling SDR 959 million to Turkey. Total SDR allocation of Turkey has reached to SDR 1,071.3 million.

Program Financing from European Investment Bank (EIB)

A loan totaling to EUR 335 million was obtained from EIB on June 8th, 2009 for the purpose of financing budgetary expenditures made/will be made concerning the academic research and development (R&D) activities performed by public universities in the period 2008-2010 through Higher Education Council (YÖK). The whole amount of this loan was disbursed on August 10th, 2009 and this source was transferred to the treasury account for the partial finance of R&D expenditures.

Program Financing from the World Bank

The Programmatic Electricity Sector Development Policy Loan (PEDPL I) in the amount of EUR 548.4 million (USD 800 million equivalent) was obtained from the World Bank in order to support the reforms on;

- ensuring sustainable electricity supply security,
- ensuring financial viability of the energy sector,
- improving operational efficiency and the conditions for enhancing private sector investments and
- improving energy efficiency in the supply and consumption of electricity.

The Loan Agreement for the said loan was signed on June 12, 2009 and the loan proceeds were fully disbursed on July 16, 2009.

Furthermore, Restoring Equitable Growth and Employment Programmatic Development Policy Loan – REGE DPL in the amount of EUR 931 million (approximately USD 1,300 million) was received from the World Bank in order to support the reforms on improving competitiveness and employment, efficient provision of high quality public services and other reforms related to public sector as well as to support the measures taken to alleviate the impact of global crisis. The agreement was signed on March 24, 2010 and the loan proceeds were fully disbursed on April 15, 2010. In this context, the average maturities of program loans obtained from the World Bank in 2009 and 2010 are 18 years

Project Finance

As of 2009, total external borrowing for project financing obtained from international financial institutions, bilateral sources and commercial banks through 37 loan agreements reached to USD 5,067 million. The sectoral distribution of these loans is as follows: 36.2 percent for transportation, 26.3 percent for energy, 23.2 percent for SMEs, 12.8 percent for urban infrastructure and 1.6 percent for social sector projects. In 2009, 54.5 percent of the loans was provided under Treasury guarantee, 45.2 percent was sovereign debt and 0.3 percent was on-lent debt.

Out of the total loans provided in 2009, 76.7 percent was extended by the international financial institutions, 17.1 percent was commercial loans, 6 percent was ODA Credits/Soft Loans and 0.2 percent was provided under ECA guarantee schemes.

The weighted average maturity (nominal maturity of project credits), which stood at 20.5 years in 2008, declined to 17.3 years in 2009 as a result of negative developments in global financial markets. Besides, weighted average of the grace period of the external debt provided in 2009 was 5.2 years and average maturity/duration was 11.2 years.



Moreover, the weighted average of total maturity (nominal maturity) for commercial loans provided in 2009 was 5.8 years, weighted average of the grace period was 5.2 years and average weighted maturity was 5.5 years.

The Classification of Financing According to Their Source Between 2005 - May 2010

(Million USD)	2005	2006	2007	2008	2009	2010 May	Total
ODA Credits/ Soft Loans	1,112	255	0	183	305	37	1,892
Commercial Credits	567	1,644	2,650	797	867	1,100	7,625
ECA	303	321	1,439	221	11	0	2,295
International Financial Institutions	2,133	2,826	1,556	2,935	3,885	18	13,353
Total	4,115	5,046	5,645	4,136	5,067	1,155	25,165

The Classification of Financing According to Their Source Between 2005 - May 2010

(%)	2005	2006	2007	2008	2009	2010 May	Total
ODA Credits/ Soft Loans	27.0	5.1	0.0	4.4	6.0	3.2	7.5
Commercial Credits	13.8	32.6	46.9	19.3	17.1	95.2	30.3
ECA	7.4	6.4	25.5	5.4	0.2	0.0	9.1
International Financial Institutions	51.8	56.0	27.6	71.0	76.7	1.6	53.1

During the 2005-2010 May period, the share of international financial institutions in project finance was 53.1 percent, the share of commercial loans was 30.3 percent, the share of loans provided under ECA guarantee schemes was 9.1 percent and the share of ODA Credits/Soft Loans became 7.5 percent.

The increase in the share of international institutions as a source of project finance resulted in significant decrease in project financing costs and increase in maturity.

During January-May 2010 period, USD 1,155 million was obtained for project financing. Out of this figure, 95.2 percent is commercial loan, 1.6 percent was obtained from the international financial institutions and 3 percent was obtained from the ODA Credits/Soft Loans.

DEBT STOCK

With the impact of global crisis on domestic markets, the central government gross debt stock¹ increased from its 2008 level of TL 380.3 billion to TL 441.5 billion in 2009. Hence, the central government gross debt stock to GDP ratio increased from 40 to 46.3 percent. Throughout the same period, debt to GDP ratio defined by European Union (EU) standards also increased by approximately 6 points and reached to 45.5 percent in 2009.

The central government total debt stock stood at TL 456.9 billion as of April, 2010. Domestic debt stock comprises 75.1 percent of the total stock while the share of external debt stock is 24.9 percent. As a result of the current borrowing strategies, share of TL denominated debt stock in central government debt stock continues to rise and reached to 72.1 percent at the end of April, 2010. This ratio was 66.2 percent for 2008 and 70.9 percent for 2009. The share of fixed rate debt stock stood at 52.5 as the end of April, 2010. These changes in the debt stock have continued to decrease the vulnerability of the debt stock to exchange and interest rate changes.

Public Debt Stock					
(Million TL, %)	2005	2006	2007	2008	2009
Central Government Gross Debt Stock	331,520	345,050	333,485	380,321	441,507
Central Government Gross Debt Stock/GDP	51.1%	45.5%	39.6%	40.0%	46.3%
General Government Debt Stock Defined by EU Standards	339,428	349,488	332,543	375,237	433,923
General Government Debt Stock Defined by EU Standards/GDP	52.3%	46.1%	39.4%	39.5%	45.5%
Public Sector Net Debt Stock	270,275	258,198	248,421	267,990	309,740
Public Sector Net Debt Stock/GDP	41.6%	34.0%	29.5%	28.2%	32.5%

¹ The methodological information for the calculation of central government debt stock can be found in the 2009 Public Debt Management Report



General Government Nominal Debt Stock Defined By EU Standards					
(% of GDP)	2005	2006	2007	2008	2009
EU (27 countries)	62.7	61.4	58.8	61.6	73.6
EU (25 countries)	63.1	61.9	59.4	62.3	74.3
Euro area (16 countries)	70.1	68.3	66.0	69.4	78.7
Euro area (15 countries)	70.3	68.5	66.2	69.7	79.0
Italy	105.8	106.5	103.5	106.1	115.8
Greece ⁽¹⁾	100.0	97.8	95.7	99.2	115.1
Belgium	92.1	88.1	84.2	89.8	96.7
Hungary	61.8	65.6	65.9	72.9	78.3
France	66.4	63.7	63.8	67.5	77.6
Portugal	63.6	64.7	63.6	66.3	76.8
Germany	68.0	67.6	65.0	66.0	73.2
Malta	70.2	63.7	61.9	63.7	69.1
United Kingdom	42.2	43.5	44.7	52.0	68.1
Austria	63.9	62.2	59.5	62.6	66.5
Ireland	27.6	24.9	25.0	43.9	64.0
Netherlands	51.8	47.4	45.5	58.2	60.9
Cyprus	69.1	64.6	58.3	48.4	56.2
Spain	43.0	39.6	36.2	39.7	53.2
Poland	47.1	47.7	45.0	47.2	51.0
Turkey	52.3	46.1	39.4	39.5	45.5
Finland	41.8	39.7	35.2	34.2	44.0
Sweden	51.0	45.7	40.8	38.3	42.3
Denmark	37.1	32.1	27.4	34.2	41.6
Latvia	12.4	10.7	9.0	19.5	36.1
Slovenia	27.0	26.7	23.4	22.6	35.9
Slovakia	34.2	30.5	29.3	27.7	35.7
Czech Republic	29.7	29.4	29.0	30.0	35.4
Lithuania	18.4	18.0	16.9	15.6	29.3
Romania	15.8	12.4	12.6	13.3	23.7
Bulgaria	29.2	22.7	18.2	14.1	14.8
Luxembourg	6.1	6.5	6.7	13.7	14.5
Estonia	4.6	4.5	3.8	4.6	7.2

(1) According to the declaration of Eurostat, due to uncertainties on surplus of social security funds for 2009, on the classification of some public entities and on the recording of off-market swaps Greek debt stock to GDP ratio may be revised by 5 to 7 percentage points after completion of the investigations.

Source: Eurostat, Undersecretariat of Treasury

General government nominal debt stock defined by the EU standards increased about TL 60 billion compared to end of 2008 and reached to TL 433.9 billion by the end of 2009. Nonetheless, Turkey's debt stock which is 45.5 percent as of 2009 is fairly under the debt stock/GDP average of 27 EU countries.

General Government Nominal Debt Stock Defined by the European Union Standards

General government nominal debt stock defined by the EU standards is calculated within the framework of convergence criteria that is also known as "Maastricht Criteria". Methodology of EU defined general government nominal debt stock is defined in the European System of Accounts 95 (ESA 95) Manual on Government Deficit and Debt.

EU defined general government nominal debt stock consists of central government, local administrations, extra-budgetary funds, revolving funds and social security institutions (including Unemployment Insurance Fund). Debt stock is calculated in nominal terms and a consolidation is done between the sub-sectors constituting general government.

Within the framework of ESA 95 Fiscal Notification Process, together with the government deficit data, EU defined general government nominal debt stock is sent to the Eurostat every year with the coordination of Turkish Statistical Institute. Eurostat announces the debt stock of the member and nominee countries.

Since the effects of global financial crisis that emerged from U.S. credit markets and spreaded to other countries deepened after the second quarter of 2008, the increase in debt stock ratios of countries was limited in that year. However, average debt stock of EU countries increased about 12 points in 2009. Particularly, increases of the debt stocks for Ireland (20.1 points), Latvia (16.6 points), England (16.1 points), Greece (15.9 points), Lithuania (13.7 points), Spain (13.5 points), Slovenia (13.3 points), Portugal (10.5 points), Romania (10.4 points) and France (10.1 points) are remarkable. These countries have also the highest budget deficit in the union.

Regarding the increase of the debt stock ratios, decrease of the GDP plays an important role together with the increase of debt stock of EU member countries. Among the EU member countries only GDP of Malta and Poland did not decrease in 2009. On the other hand, due to the strong growth in the last quarter, GDP of Turkey increased in 2009 in nominal terms and consequently debt stock of Turkey was below the projected level of 47.3 percent in MTP.



General Government Deficit (-) / Surplus (+)					
(% of GDP)	2005	2006	2007	2008	2009
EU (27 countries)	-2.4	-1.4	-0.8	-2.3	-6.8
EU (25 countries)	-2.5	-1.4	-0.8	-2.3	-6.8
Euro area (16 countries)	-2.5	-1.3	-0.6	-2.0	-6.3
Euro area (15 countries)	-2.5	-1.3	-0.6	-2.0	-6.3
Ireland	1.7	3.0	0.1	-7.3	-14.3
Greece ⁽¹⁾	-5.2	-3.6	-5.1	-7.7	-13.6
United Kingdom	-3.4	-2.7	-2.8	-4.9	-11.5
Spain	1.0	2.0	1.9	-4.1	-11.2
Portugal	-6.1	-3.9	-2.6	-2.8	-9.4
Latvia	-0.4	-0.5	-0.3	-4.1	-9.0
Lithuania	-0.5	-0.4	-1.0	-3.3	-8.9
Romania	-1.2	-2.2	-2.5	-5.4	-8.3
France	-2.9	-2.3	-2.7	-3.3	-7.5
Poland	-4.1	-3.6	-1.9	-3.7	-7.1
Slovakia	-2.8	-3.5	-1.9	-2.3	-6.8
Cyprus	-2.4	-1.2	3.4	0.9	-6.1
Belgium	-2.7	0.3	-0.2	-1.2	-6.0
Czech Republic	-3.6	-2.6	-0.7	-2.7	-5.9
Slovenia	-1.4	-1.3	0.0	-1.7	-5.5
Italy	-4.3	-3.3	-1.5	-2.7	-5.3
Netherlands	-0.3	0.5	0.2	0.7	-5.3
Hungary	-7.9	-9.3	-5.0	-3.8	-4.0
Bulgaria	1.9	3.0	0.1	1.8	-3.9
Malta	-2.9	-2.6	-2.2	-4.5	-3.8
Austria	-1.6	-1.5	-0.4	-0.4	-3.4
Germany	-3.3	-1.6	0.2	0.0	-3.3
Denmark	5.2	5.2	4.8	3.4	-2.7
Finland	2.8	4.0	5.2	4.2	-2.2
Estonia	1.6	2.5	2.6	-2.7	-1.7
Luxembourg	0.0	1.4	3.6	2.9	-0.7
Sweden	2.3	2.5	3.8	2.5	-0.5
Turkey	-0.6	1.2	-1.0	-2.2	-

(1) According to the declaration of Eurostat, Greek deficit to GDP may be revised by 0.3 to 0.5 percentage points for 2009.

Source: Eurostat, Undersecretariat of Treasury

The public net debt stock reached the level of TL 309.7 billion at the end of 2009, increasing by TL 42 billion from its level in 2008. In the same period, the public net debt stock to GDP has increased to 32.5 percent from the level of 28.2 percent. However, as a result of the strategic benchmarks, improvement of TL/FX composition of the public net debt stock continued in 2009. The share of the FX denominated debt stock in the public net debt stock which was about 10 percent at end of the 2008 decreased to about 8 percent at the end of 2009.

MANAGEMENT OF TREASURY GUARANTEES AND RECEIVABLES

TREASURY GUARANTEES

As of end-2009, the Treasury guaranteed foreign debt stock stood at USD 6,507 million, with an increase of 14 percent from its level of USD 5,712 million in 2008. The rise in stock is mostly due to the increase in the disbursements of Treasury guaranteed credits provided for the public sector financial institutions. In addition, the stock of guaranteed foreign credits provided to private sector financial institutions and local administrations also increased in 2009.

In 2009, Treasury undertook a total of TL 324.8 million, TL 57.9 million of which is due to investment guarantees and TL 267 million of which is due to repayment guarantees. In the same period, TL 922 million of debt is repaid by institutions in the context of Treasury repayment guarantees. Therefore, the undertaking ratio due to Treasury repayment guarantee in 2009 was 22 percent. In the January-April 2010 period, Treasury undertook a total of TL 73.5 million; TL 38.9 million of which is due to investment guarantees and TL 34.6 million of which is due to repayment guarantees. In the same period, the repayments of institutions to creditors amounted to TL 334 million. Hence, the undertaking ratio due to Treasury repayment guarantees decreased to 9.4 percent as of April 2010.

By courtesy of sufficient revenues of Risk Account from which Treasury guaranteed payments are made, there were no transfers from budget allocations for the Risk Account in 2009. As of April 2010, the revenues are still high enough to cover all payments so there have been no transfers from budget allocations.

Repayments Of Treasury Guaranteed Credits ⁽¹⁾						
(Million TL)	2009			April 2010		
	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)
Local Administrations	77	149	34.1	28	31	47.3
Funds	..	85	..	..	2	..
Financial Institutions	..	44	..	..	18	..
Non-Financial Institutions	190	142	57.2	7	105	5.9
Private Sector Financial Institutions	..	325	..	..	127	..
Private Sector Non-Financial Institutions	..	176	..	..	51	..
Total	267	922	22.4	35	334	9.4

(1) Treasury repayment guarantees included.



Opera House

Source: Vehbi Koç and Ankara Research Center (VEKAM) Archives

TREASURY RECEIVABLES

Treasury Receivables and Other Treasury Claims

Treasury receivables are the claims arising from Treasury Guarantees given for financing facilities obtained from any foreign financing source or from disbursement of such facilities through onlending or from the transactions which-although remaining outside of the mentioned items-stem from relevant legislation and that arise in connection with all kinds of payments which the Treasury becomes obliged to assume and/or with the Government Domestic Borrowing Securities issued by the Treasury for lending.

Other Treasury claims, consist of the claims which are not covered by Article 3 of Law 4749 and include the receivables stemming from the transactions in which the Treasury represents the legal entity of the State. Accordingly, the claims of the Treasury which originate from the relevant legislation, from intergovernmental protocols, from the credits given by the Decree of the Council of Ministers (No.2001/2312), from the amounts determined by the supervisions of the Board of Treasury Supervisors and Turkish Court of Accounts, from onlent amounts, and from the amounts which are determined by court decisions are recorded within the scope of other Treasury claims.

Treasury Receivables

As of December 2009, Treasury receivables stock stood at TL 28.1 billion, TL 9 billion of which is for overdue outstanding debt. As of end of April 2010, total Treasury receivables are TL 25.7 billion, TL 7.8 billion of which consists of overdue receivables stock.

Overdue receivables stock increased by around TL 0.8 billion compared to previous year. Overdue receivables from local administrations have the highest share in the stock. SOE's overdue outstanding debt follows the local administrations.

Treasury Receivables Stock ⁽¹⁾

(Million TL)	2009			April 2010		
	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total
Local Administrations	7,263	7,132	14,395	7,385	6,917	14,301
SOE's ⁽²⁾	1,728	7,009	8,736	311	6,347	6,659
Banks	0	1,073	1,073	0	945	945
Social Security Institution	0	10	10	0	9	9
Public Banks	0	652	652	0	595	595
Public Enterprises	0	1,363	1,363	0	1,337	1,337
Central Government Organizations ⁽³⁾	57	1,736	1,794	60	1,667	1,727
Insurance Institutions	0	65	65	0	55	55
Private Institutions ⁽⁴⁾	0	7	7	0	6	6
Foundations ⁽⁵⁾	0	24	24	0	22	22
TOTAL	9,048	19,104	28,152	7,756	17,931	25,687

(1) Provisional. Indicates the total amount of outstanding overdue and projected receivables.

(2) Due to the provisional article 16 of Law No. 4749, receivables from TCDD which amounted to TL 1,219 million were offset in April 2010

(3) Represents Industrial Zones, Trade Unions and Istanbul Olympic Games Preparation & Organizing Board.

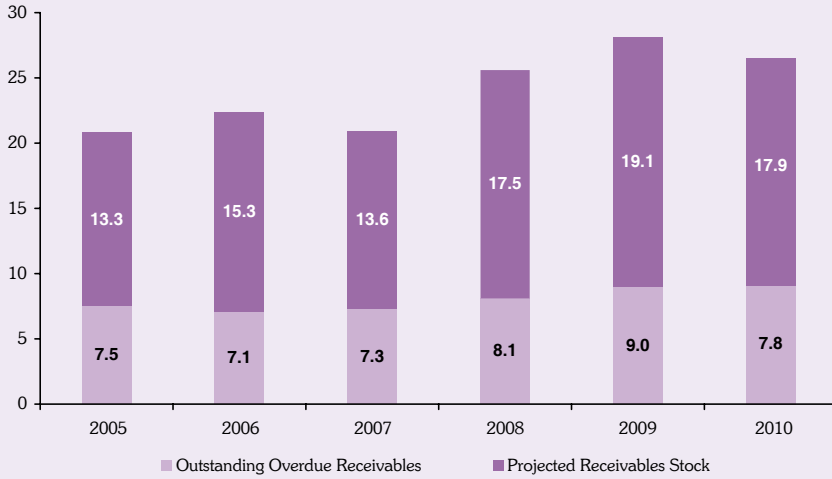
(4) Represents privatized SOE's and corporations governed by foundations.

(5) Represents universities subordinated by foundations and Foundation of Technological Improvements in Turkey.

In 2009 compared to 2008, the projected receivables stock rose about TL 1.7 billion while receivables arising from Treasury guarantees or from onlending decreased by TL 0.3 billion. During the course of the year, Government Domestic Borrowing Securities of TL 2 billion issued by the Treasury for onlending to Turkish Grain Board caused rise in the projected receivables stock. Regarding the borrower decomposition, the local administrations have the same proportion as SOE's in the projected receivables stock.

The following graph suggests that the stock of Treasury receivables (excluding the claims from SDIF) is inclined to rise between 2005 and 2010 despite not following a regular course.

Debt Stock of Treasury Receivables, SDIF Excluded ⁽¹⁾ (billion TL)



(1) As of April 2010, Provisional.

In 2009, total collections of Treasury claims amounted to TL 1,794 million. In terms of borrowers, TL 645 million was collected from SOE's, TL 631 million was collected from local administrations and TL 225 million was collected from public corporations. TL 1,339 million of total collections were paid by beneficiaries whereas TL 440 million of collections was made through deductions from tax shares and TL 15 million was collected based on the Law No 6183, on Procedures of Collection of Public Receivables.

Collections of Treasury Claims ⁽¹⁾

	2009		April 2010	
	Million TL	(%)	Million TL	(%)
Funds	0	0.0	0	0.0
Local Administrations	631	35.1	230	27.6
SOE's ⁽²⁾	645	36.0	423	50.7
Banks	131	7.3	57	6.8
Public Banks	66	3.7	27	3.2
Public Enterprises	225	12.5	76	9.1
Central Government	46	2.5	1	0.2
Organizations	21	1.2	6	0.8
Insurance Institutions	16	0.9	11	1.3
Private Institutions	9	0.5	1	0.1
Foundations	4	0.2	2	0.2
Social Security Institution	1	0.1	0	0.0
TOTAL	1,794	100	834	100

(1) Provisional

(2) TL 1,219 million was offset against TCDD's receivables from Ministry of Transportation and its unpaid capital in accordance with the provisional article 16 of Law No. 4749 in April 2010.



Collection of the overdue receivables, arising from Local Administrations' loans and their debt resulting from swap, offset and deduction operations, are executed within the context of the article 7 of the "Law On Giving Share From General Budget Tax Revenues to Special Provincial Administrations and Municipalities, No 5779" which was amended via Law No 5951 in 1/28/2010. This article authorizes the Cabinet (Council of Ministers) to regulate the deductions from the tax shares given to grand municipalities, special provincial administrations, municipalities and their affiliates from the general budget tax revenues. In this context, Cabinet decree was enacted on 15.03.2010.

By the aforementioned Cabinet decree, deductions on the shares of local administrations from the general budget tax revenues was determined as 25 percent, provided that these institutions have no overdue debt after 01.03.2010, and as 40 percent otherwise. By lower deduction ratios from those institutions which fulfill their obligations regularly, this arrangement aims to prevent accumulation of new overdue obligations .

Other Treasury Claims

Other Treasury claims amounted to TL 2.7 billion as of 2009 and TL 2.6 billion as of April 2010.

When the structure of the other Treasury claims is taken into consideration, the highest share in total claims is constituted by the claims from public banks, followed by the claims from municipalities and incentive credits.

Stock of Other Treasury Claims ⁽¹⁾						
(Million TL)	2009			April 2010		
	Outstanding Overdue Claims	Projected Claims Stock	Total	Outstanding Overdue Claims	Projected Claims Stock	Total
Municipalities	0	232	232	0	184	184
Credits from the Decree of the Council of Ministers (No.2001/2312)	0	26	26	0	8	8
Public Banks	0	2,183	2,183	0	2,143	2,143
Onlending Agreements	0	1	1	0	1	1
Incentive Credits	0	149	149	0	148	148
Foundations	0	12	12	0	12	12
Other	0	141	141	0	141	141
TOTAL	0	2,743	2,743	0	2,636	2,636

(1) Provisional. Including the stock of overdue and projected claims.

The collections within the scope of other Treasury claims amounted to TL 203 million in 2009. When the collections of 2009 are evaluated in terms of institutional basis, TL 101 million is collected from public banks, TL 89 million is collected from municipalities and TL 13 million is collected from incentive credits. Furthermore, TL 114 million of collections are from the payments of the institutions and TL 89 million of collections are from the deductions of tax revenues shares of the indebted municipalities.

As of April 2010, the collections from other Treasury claims amount to TL 118 million. 81.9 million of this amount is the collection from public banks and TL 35.3 million is the collection from municipalities.

Collections from the Other Treasury Claims ⁽¹⁾				
	2009		April 2010	
	Million TL	(%)	Million TL	(%)
Municipalities	89	43.8	35.3	29.9
Credits from the Decree of the Council of Ministers (No.2001/2312)	0	0.0	0.8	0.7
Public Banks	101	49.7	81.9	69.2
Onlending Agreements	0	0.0	0.0	0.0
Incentive Credits	13	6.6	0.3	0.2
Foundations	0	0.0	0.0	0.0
Other	0	0.0	0.0	0.0
TOTAL	203	100	118	100

(1) Provisional.

(2) The collected amounts comprise transactions of foreign exchange gains or losses and stock revisions which are done yearly.



RISK MANAGEMENT

Within the framework of the Law 4749 on Regulating Public Finance and Debt Management and the consequential legal regulations, “Debt and Risk Management Committee (DRC)” is responsible for determining the general strategies concerning the management of public assets and liabilities. Under the principles and policies determined by the DRC, major risks concerning the public debt and receivables portfolio i.e. market, credit and operational risks are actively monitored and managed.

MARKET RISK MANAGEMENT

Market risk is defined as the adverse effects of the volatility in the exchange rates, interest rates and prices, arising from the changes in the market conditions, on the borrowing costs. One of the key risks that the public debt managers should take into consideration is the liquidity (financing) risk which is defined as the inability to rollover existing debt because of limited access to the necessary cash or cash equivalents when the repayments are due.

In this context, market and liquidity risks faced by the Treasury in public debt management operations are monitored through a variety of indicators and reported regularly. The sensitivity of debt against the changes in exchange and interest rates are tracked with indicators such as currency composition, maturity and duration of debt. Public debt management policies are shaped within the framework of the strategic benchmarks in order to keep these indicators under control.

Borrowing strategies, i.e the strategic benchmarks, of the current and the following two years are set in line with government’s overall risk and cost objectives. Since 2003 the financing programs are prepared in accordance with specified benchmarks. The fundamental analysis in determining strategic benchmarks is the “Cost at Risk” approach. In this context, the alternative borrowing strategies are tested under different macroeconomic scenarios in the “Debt Simulation Model” built in-house and the expected values and probability distributions of indicators such as interest payments, stock levels are obtained. Together with the assessments supported by sensitivity and sustainability analyses the strategic benchmarks for the three-year term are determined by the Debt and Risk Management Committee taking into account market conditions.

The main pillars of the benchmarks for the 2010-2012 period are presented below:

➤ **Liquidity Risk:**

- To keep a certain level of cash reserves so as to reduce the liquidity risk associated with cash and debt management.
- To increase the average maturity of domestic cash borrowing, taking market conditions into consideration and to decrease the share of instruments in the domestic debt stock with a remaining time to maturity of 12 months.

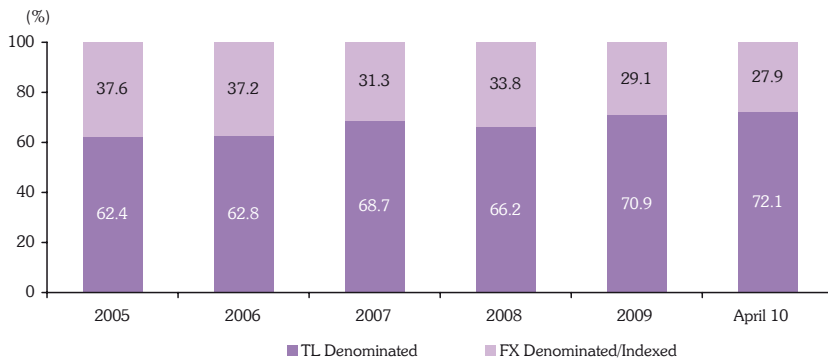
➤ **Interest Rate Risk:**

- To use fixed rate instruments as the major source of TL borrowing and to decrease the share of instruments with an interest rate refixing period of 12 months or less in the TL debt stock.

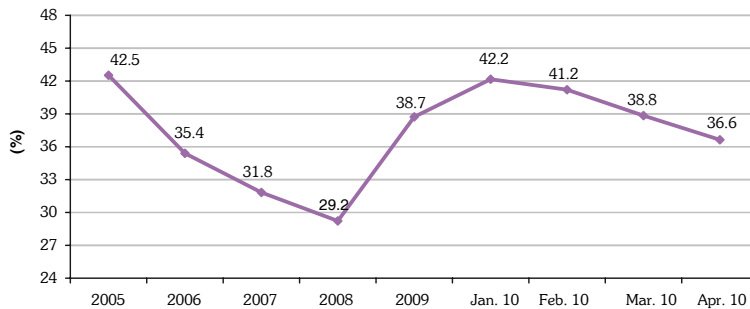
➤ **Exchange Rate Risk:**

- To use TL instruments as the major source of domestic cash borrowing and to decrease the share of FX denominated/indexed instruments in domestic borrowing.

TL/FX Composition of Central Government Debt Stock

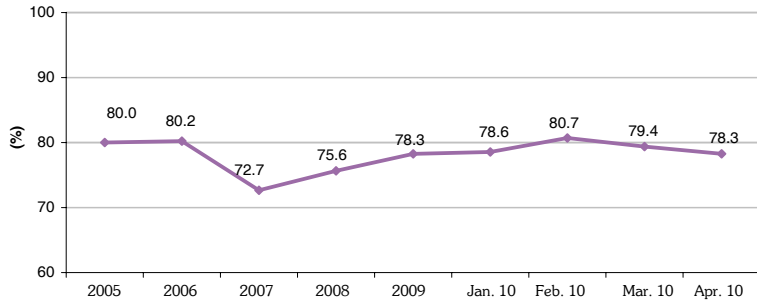


Share of Domestic Debt Maturing within 12 Months

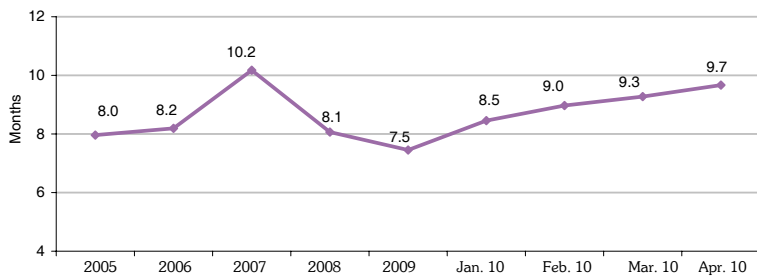




Share of TL Debt Stock with Interest Refixing Period Less Than 12 Months



Duration of TL Denominated Domestic Debt Stock ⁽¹⁾



(1) Non-cash borrowing instruments and the CPI Indexed bonds are excluded.

Sensitivity Analysis

In terms of public debt sustainability, the impacts of the fluctuations in macroeconomic variables; including real interest, growth and exchange rates, on debt stock are crucial. The sensitivity of debt to such debt dynamics is measured through the “Accounting Approach”. This analysis measures the possible effects of percentage changes in the debt dynamics such as real interest, growth and exchange rates on debt stock / GDP ratio.

$$b_t = -ps_t - pri_t + \left[\frac{(1+r_t^d)}{(1+g_t)} \right] b_{t-1}^d + \left[\frac{(1+r_t^f)}{(1+g_t)} \right] (1 + \Delta rer) b_{t-1}^f$$

b_t	Net Debt / GDP	r_t^d	TL Real Interest Rate
b_{t-1}^d	TL Denominated Debt / GDP of Previous Period	r_t^f	FX Real Interest Rate
b_{t-1}^f	FX Denominated Debt / GDP of Previous Period	g_t	Growth Rate
ps_t	Primary Surplus / GDP	Δ_{rer}	Change in Exchange Rate (TL/\$)
		pri_t	Privatization / GDP

The results of sensitivity analysis, calculated through the equation presented above, are presented in the table below. With the impact of significant reforms on public debt and risk management in recent years, the sensitivity of the public debt stock to debt dynamics improved significantly.

Sensitivity of Gross Public Debt to Shocks

	2001	2008	2009
5 Percentage Points Change in Real Exchange Rate	+/- 2.2 Points	+/- 0.8 Points	+/- 0.7 Points
5 Percentage Points Change in TL Real Interest Rate	+/- 1.6 Points	+/- 1.4 Points	+/- 1.6 Points
2 Percentage Points Change in GDP Growth Rate	+/- 1.5 Points	+/- 0.9 Points	+/- 0.9 Points
1 Percentage Point Change in Primary Surplus/GDP Ratio	+/- 1.0 Points	+/- 1.0 Points	+/- 1.0 Points

Tight fiscal policies and strategic benchmarking implemented in recent years have important roles in decreasing the sensitivity of General Government Debt to GDP ratio to the changes in debt dynamics. While decrease in the borrowing requirement and debt stock levels have limited the effects of changes in debt dynamics, decline in the share of foreign currency denominated/indexed debt in line with the strategic benchmarks has enabled to mitigate the sensitivity to exchange rate shocks.



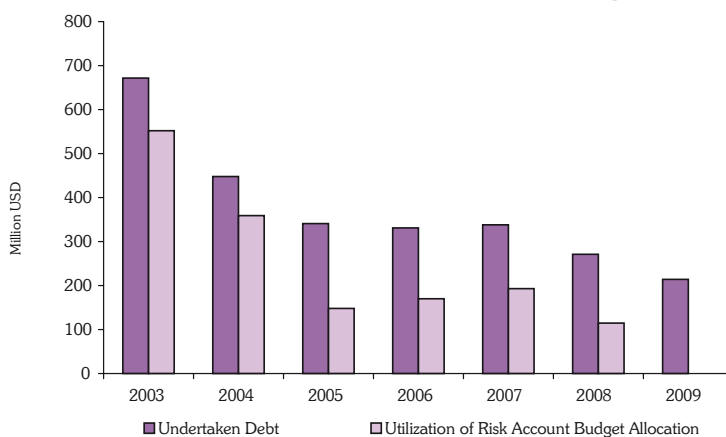
Ethnography Museum of Ankara and Turkish Nationalist Club
Source: Vehbi Koç and Ankara Research Center (VEKAM) Archives

CREDIT RISK MANAGEMENT

Treasury guarantees and on-lent credits to public institutions are the main sources of the credit risk which is defined as the possibility that the indebted person or institution will fail or will not be able to meet its obligations. The main purpose of both issuing Treasury Guarantees and on-lending of foreign debt is to enable the beneficiaries to access funds with favourable financial terms. Although these methods reduce the cost of funding and enhance easy access to funds for the beneficiaries, they may increase the financing requirement of the Treasury when these institutions have difficulty in fulfilling their obligations. This additional financing does not only result in an increase in debt stock but also worsen the terms of financing. In addition, the credit risk may lead to a need for holding reserves.

The main method of credit risk management, in accordance with international practices is estimation and incorporation of cash requirement that can be caused by the realization of the risks, in the budget. For this purpose, in 2003, the Risk Account was established and the payments due to undertaken guarantees have been paid out from this account. The collections related with the repayments and budget allocations are the main sources of Risk Account. In last few years, budget allocations were reduced significantly due to the decrease in undertaken guarantees and the increase in collections. In 2009 the collections were sufficient to cover the undertaken amounts and budget allocation was not used.

Undertaken Debt and Utilization of Risk Account Budget Allocation



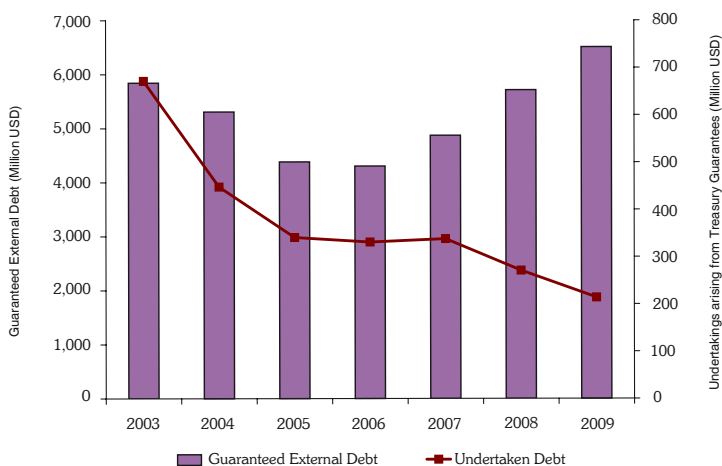
Another method used for credit risk management is setting a limit on the amount of Treasury guarantees and on-lent loans provided through budget law. In addition, in order to cover the losses arising from the undertaken guarantees and uncollected receivables, a guarantee/on-lent fee is charged to beneficiaries. This fee is up to 1 percent of the guaranteed/on-lent loan and determined according to the financial position of the institution and its payment performance to Treasury. The partial guarantee application enables risk sharing between Treasury and the



creditor, where the creditor undertakes some of the losses in the event of default of the beneficiaries. Thus, the debt payment capacity of the beneficiaries is analyzed more detailed by the creditors. Within this context, guaranteed amount is limited to 95 percent of the credit amount, however the credits provided by international institutions are exempt from this practice.

Credit Score Model has been used since 2007 in order to measure and manage credit risk. In addition, local administrations have to open “External Debt Payment Account” in a commercial bank and transfer a proportion of their revenues to this account in order to secure full and on time payments by local administrations. As a consequence of all these measures the undertaken guarantees were reduced in spite of the increase in the guaranteed debt stock.

Stock of Treasury Guaranteed External Debt and Undertaken Debt



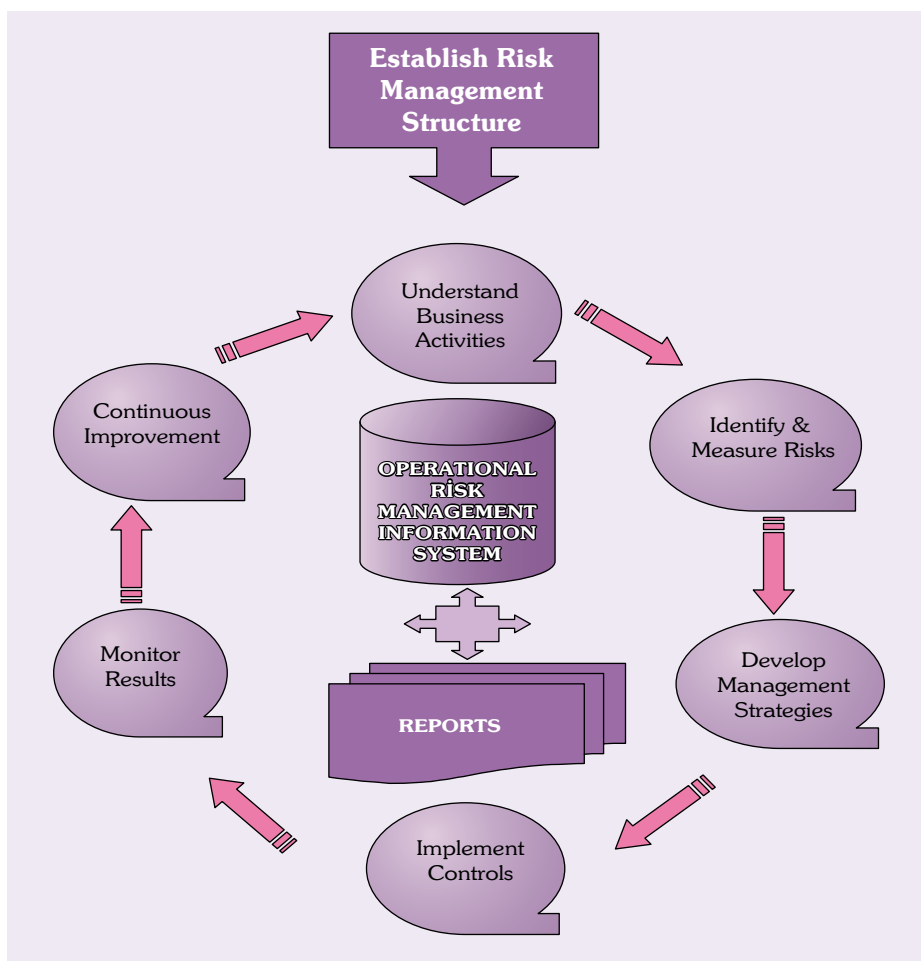
With “the Regulation on the Principles and Procedures of External Borrowing under the Law No 4749” enacted in December 2009, principles and procedures of on-lent and guarantee facilities were harmonized since these facilities present similar credit risks when institutions fail to meet their obligations.

OPERATIONAL RISK MANAGEMENT

Operational risk management, a part of public financial management and control system, serves as a means to ensure effective internal control environment in debt management business processes and to identify, measure and control the risk capacity of institution by determining internal and external risks.

The scope of pilot operational risk management project, started in December 2006, was broadened to cover all units of General Directorate of Public Finance in 2008. The individual risk profiles of offices are merged in 2009 to cover the General Directorate and a collective risk profile was developed. The following graph shows the process in operational risk management in General Directorate of Public Finance.

Operational Risk Management Processes



A qualitative technique, known as COSO (Committee of Sponsoring Organizations of the Treadway Commission) approach, was employed to measure operational risks. This method, particularly applied by debt management offices, is used in conditions where the numerical determination of damage is unavailable. In this context, the “Likelihood” and “Impact” levels of operational risks were determined at five levels and a “Risk Matrix” was formed to determine the primary operational risks. The “Risk Matrix” analyzing the relationship between variables, is presented below.

Risk Matrix

		Impact				
		Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood	Very Low					
	Low					
	Medium					
	High					
	Very High					

In order to monitor and report operational risks, an “Operational Risk Bulletin” is presented to Debt and Risk Management Committee on quarterly basis.

In 2009, the consulting service from SIGMA (Support for Improvement in Governance and Management, a joint initiative of EU and OECD) continued to support the project within the context of “Peer Collaboration Mechanisms” in order to ensure international standards in operational risk management studies.

INTERNATIONAL DEBT MANAGEMENT ACTIVITIES

In line with the vision of applying the best international practices in the area of public debt and cash management and becoming an influential, dynamic and credible institution that is acknowledged as a model at international levels, Turkish Treasury closely monitors applications of foreign countries and presents its own practices in various international platforms.

In this regard, the 9th International Monetary Fund (IMF) Debt Managers' Forum, an international platform where developed and emerging country representatives share their knowledge and experiences on public debt management, was hosted by the Turkish Treasury in İstanbul on June 8-9, 2009. The forum took place with the participation of debt managers, central bank officials and representatives of the private sector from 25 countries. The impact of the current global economic crisis on debt management and borrowing markets was the main topic of the forum.

In 2009, delegates from Afghanistan, Albania, Palestine, Georgia, India, Kazakhstan, Lithuania, Lebanon, Egypt, Uzbekistan, Sudan, Syria, Jordan, Yemen, Zimbabwe and students from UK and Ukraine visited the Treasury and were informed about our debt management structure and cash and risk management practices. In addition, the experiences and practices of Turkish Treasury were shared with other countries in many international organizations held by various institutions such as the World Bank and IMF. The Treasury actively participated in the meetings of the Working Party on Debt Management in OECD of which Director General of Public Finance has been vice-chair of the "Steering Committee" since 2008.

As part of activities regarding investor relations, investors were informed about the Turkish economy via roadshows that took place in major financial centers in USA, Europe and Asia.

Study tours to UK, Denmark, Sweden and France were organized through Leonardo da Vinci Mobility Project coordinated by Center for the European Union Education and Youth Programs of the State Planning Organization in order to exchange information on debt and risk management.



Ankara Train Station

Source: Vehbi Koç and Ankara Research Center (VEKAM) Archives



**RESEARCH
AND ANALYSES**





ASSET LIABILITY MANAGEMENT APPROACH²

“Asset Liability Management” (ALM) approach is a model which comprises the coherent management of all assets and liability of an institutions’ within specific risk and cost targets and/or limits. In that framework, in order to avoid financial risks institutions aim to match risk structure of their assets and liabilities as they target certain ‘level’ of profit (cost).

1. Conceptual Framework

The purpose of ALM approach is to limit the differences between the sensitivities of the assets and liabilities to the maturity structure and to the market variables such as interest rates and exchange rates and to minimize possible losses in the corporate balance sheets. In this way, the asset side of the balance sheet is immunised to risks from the liability side of the balance sheet, and vice versa. The ALM framework for risk management which has been in use in financial markets for a few decades, especially in the banking sector, has started to be adopted by other companies and even by public institutions in recent years. The processes of the innovation and widespread usage of derivative instruments in financial markets –such as options, swaps, futures and forwards- and the extensive practice of ALM have arised and developed together in a parallel and mutually supported way.

Debt management offices (DMOs) have started the use of “Asset-Liability Management Approach” in designing borrowing strategies. In this context, debt administrations are taking into consideration the structure and the sensitivity of tax and other revenues, which are the main public assets, within the decision making process, and the receivables from various institutions are managed on that score. Derivative instruments which are the main elements of ALM are also frequently used by DMOs of developed countries in recent years.

2. The ALM Approach in Public Sector Financial Management

Traditionally, the purpose of public debt management is to borrow at the lowest cost and with a reasonable risk level while strengthening the structure of debt stock against external shocks. On the other hand, when public assets and liabilities are evaluated in a comprehensive way, vulnerability of public balance sheets to external shocks may differ according to the degree of harmony of the structures of public debt stock and the assets.

Constructing a balance sheet which is routinely used by private companies as a financial statement has spreaded to government sector rapidly. The main reason of the adoption of balance-sheet approach, apart from the budget that displays the flow values relating to the revenues and expenditures, is to enable monitoring of the stock values of all assets and liabilities.

² This paper was prepared by Fatos Koc, Division Chief at the Risk Management department under the Public Finance Directorate of Turkish Treasury.

Sovereign balance sheet, -unlike the private sector-, is constituted of sub-categories or items corresponding to separate public institutions and, accordingly, these are managed on the basis of distinct objectives, functions and governance mandates. Within this framework, even though optimal results can be achieved through an efficient risk management in the sub-portfolio basis, sovereign balance sheets as a whole may be exposed to various risks and/or there would be opportunities that may be overlooked in the sub-portfolio basis analysis.

Main Components of the Public Sector Balance Sheet

Assets	Liabilities
Cash Reserves	Government Debt
International Reserves	Fiscal Expenditures
Fiscal Revenues	Social Security System Deficits
Wealth Funds	Contingent Liabilities
SOE's and Infrastructure Investments	
Treasury Receivables	

Source: Based on Blommestein H., Koç F.,(2008).

In recent years, not only the amounts of sovereign assets and liabilities have increased but also their structures have become more complex. (Blommestein, Koç 2008). There has been a significant increase in financial assets with the rise in international reserves and establishments of the wealth funds. Moreover, as a result of the measures taken against the global crisis; both financial assets -representing nationalized private sector equities- and debt stocks - due to the increasing borrowing requirements- have grown substantially. Besides, due to the guarantee facilities provided, the level of contingent liabilities have increased, foremost in those countries which are most severely affected by the crisis. As a result of these developments, the ALM approach is capturing increased attention in terms of the analysis and management of risks in the public sector.

The information gathered by consolidating sovereign balance sheets, generates a sovereign risk map. In this regard, the identification of a mismatch between the financial characteristics of assets and liabilities is of crucial importance for displaying the risk factors analytically.

Within the framework of active ALM, the aim is to overcome interest, exchange rate and maturity mismatches between assets and liabilities and to provide a natural hedge for the balance sheet. For example, a country would not be exposed to exchange rate risks if it has foreign exchange (FX) assets and liabilities proportionally; on the other hand, if a country with no substantial FX revenues borrows via foreign denominated securities, that would increase



the sensitivity of the balance sheet to exchange rate movements. This case which is known in the literature as “original sin” is assessed as a significant risk factor, especially for developing countries (Eichengreen, Hausmann and Panizza, 2003).

Moreover, it is also possible to limit the effects of structural and periodical fluctuations in public revenues and expenditures on balance sheets. In case of a high sensitivity of public revenues to short term interest rates, i.e. when assets have short duration, long term fixed rate borrowing may cause an increase in the sensitivity of the balance sheet to interest rates (Antonio Velandia, 2002). Furthermore, regarding the sensitivity of the economy to demand and supply shocks, selection of borrowing instruments in a way to provide a correlation between interest expenditures and primary balance may decrease the volatility of the balance sheet items.

In light of these assessments, it is clear that different borrowing strategies analyzed in the context of ALM approach have a crucial role in reducing the risks arising from the balance sheet. A holistic risk management analysis within the framework of ALM creates more efficient results than those of the approaches which take into account only the level and the structure of debt stock. In various applications, information on the structure of the assets and liabilities can be evaluated during the modeling analysis in which alternative borrowing strategies are developed or at the stage of selecting the borrowing strategies. Another work as part of balance sheet approach is the calculation of “Net Value” or “Net Debt” which are arrived at by netting down the market values of whole or some part of assets and liabilities. While net value of sovereign balance sheet, which is computed by deducting all liabilities in the balance sheet from the market values of all tangible and intangible assets, is a comprehensive and complex analysis, net debt is calculated simply by netting down public debt by the financial assets.

Together with the aforementioned advantages of the ALM approach in risk management, it presents some difficulties in public sector applications, such as formation of a sovereign balance sheet, identification of scope and priorities, decision on the methodology of risk analysis and use of derivative instruments. First of all, it may pose important challenges to the coordination and communication among various institutions. This is indeed very important for regularly obtaining homogeneous data. Moreover, there are also difficulties in pricing of non-financial assets. In addition to the constitution of balance sheet, the determination of scope and priorities to be evaluated at the stage of analysis and management may also create problems in the decision mechanism. On the other hand, the risk analysis on the balance sheet calls for specialist staff and a developed technical infrastructure. Finally, some difficulties may also arise in the use of derivative instruments to mitigate mismatches, since it requires a developed and deep financial market.

3. Application of the ALM Approach in Public Sector

Applications of the ALM approach vary due to several difficulties in the application process and because of different needs of various countries. The scope of country applications are affected by the benefits and adversities of such practices evaluated together.

The only country which analyses and evaluates all sovereign assets and liabilities via a model and which determines the debt management policies in accordance with the results of these analyses is New Zealand. In this context, New Zealand makes use of derivative instruments such as exchange rate/ interest swaps in order to remove exchange rate and interest rate mismatches between assets and liabilities.

On the other side, together with Turkey, countries like Australia, Denmark, Hungary, France, Canada, Belgium and Czech Republic employ a relatively narrow-scope ALM approach which takes into account a part of their assets in addition to the debt stock. The applications of ALM approach, which are supported by the World Bank, International Monetary Fund (IMF) and the Organization of Economic Cooperation and Development (OECD) and which have become vital due to the growing size and more complex structure of sovereign balance sheets, are becoming widespread in recent years. Mostly adopted by the developed countries, this approach is utilized in a narrower scope in the developing countries due to data problems, weak institutionalization and the difficulties in the use of derivative instruments.

Through a survey conducted in 2008, the OECD investigated the practices regarding ALM approach in the debt offices of member countries. The survey results indicate that-unlike private companies- assets and liabilities of governments are managed primarily at the portfolio level by different public institutions on the basis of each individual institution's objectives and functions. In other words, the joint management of sovereign assets and liabilities and related risks is not -yet- a widespread practice. In general, model-based ALM is used for very limited purposes, mostly for management of foreign reserves and foreign debt stocks. However, the survey reveals that the scope of debt management covers the asset management activities when they fall under the responsibility of DMOs. For example, cash balances and debt stocks are usually managed by the DMOs on a consolidated basis. A similar situation occurs when the management of special purpose funds falls under the responsibility of the DMOs. The survey results also show that 30 percent of debt management offices are responsible for the management of Special Purpose Funds, including pension reserve funds.

4. Asset Liability Management Approach Practice in Turkey

Public debt and receivables management in Turkey is executed principally based on the ALM approach. Legal framework on the issue was set in Law No.4749 “Regulating Public Finance and Debt Management” and in the “Legislation on the Principles and Procedures of Coordination and Execution of Debt and Risk Management”. The scope and responsibilities in the ALM framework are recognized with the following expression in the Law No.4749: “The strategic benchmarks and implementation framework for the management of the Treasury’s financial assets and liabilities shall be identified by the Debt and Risk Management Committee composed of the Minister, Undersecretary, Deputy Undersecretaries and General Directors in the Undersecretariat and approved by the Minister.”

In the current organizational structure of the Treasury, in addition to market, credit and operational risks, medium-term budget framework is also monitored and modeled by Risk Management Unit of General Directorate of Public Finance. Besides risk management, General Directorate of Public Finance is also responsible for domestic borrowing, cash management and Treasury receivables management³. Centralization of main financial assets and liabilities together with public debt stock with respect to their administrative functions is a factor that creates further incentive to adopt the ALM approach in public finance.

In Turkey’s ALM practice, a holistic approach that assesses not only the outcomes of the simulation model based on Treasury’s direct liabilities but also qualitative and quantitative aspects of Treasury’s financial assets, other liabilities and budget outlook is followed. Thus, main financial items like Treasury cash reserve, undertaken guarantees and collections from these guarantees, on-lent credits, collections from Treasury receivables and risk account are used as inputs for debt and risk management in terms of both amount and composition and have an important role in designing policies.

3 Ref.Organization structure of debt management in Turkey, Page 3 and Law No.4749 Article 2(a)

Quantitative Modeling Approach for Developing Strategic Benchmarks:

Cost-at-Risk (CaR) Methodology

The CaR methodology, adopted to develop strategic benchmarks, enables to quantify the costs and risks associated with alternative borrowing strategies under various macroeconomic scenarios. The model consists of three main modules. The first module, “Debt Database”, holds detailed records of current borrowing instruments in Treasury debt portfolio. “Macroeconomic Scenario Simulator” is used to create scenarios for macroeconomic variables such as interest rates and exchange rates that would have an effect on debt dynamics by taking into account historical relationships of these variables. “Cash-Flow Engine”, the final module of the modeling methodology, enables to measure cash flows and cost and risk values for alternative financing strategies under macroeconomic scenarios developed and outstanding bond data provided by “Debt Database” module.

The cost and risk concepts that are used in CaR methodology have a critical role in the comparison of alternative borrowing policies in terms of cost and risks and hence in determination of strategic benchmarks.

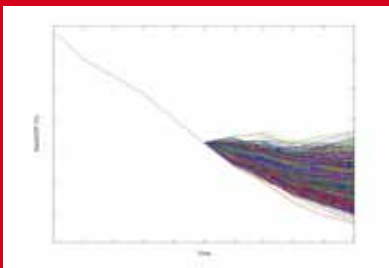
Cost Concept: In Cost-at-Risk methodology, two different cost concepts are used: “**Cash Based Interest Expenditures**” and “**Nominal value of the Debt Stock**”. Cash Based Interest Expenditures indicator reflects the interest expenditures in central government’s budget. This enables debt managers to compare the cost of alternative financing strategies with the cash based interest expenditures and determine borrowing policies accordingly. Furthermore, in order to assess the effect of the volatility in exchange rates and other financial variables on public debt stock, a supplementary cost indicator, namely the “Nominal Value of Debt Stock” is also taken into account.

Risk Concept: “Conditional Cost-at-Risk” or “Tail Cost-at-Risk” measure has been used as risk concept within modeling approach followed for 2010-2012 strategic benchmarks. “Tail Cost-at-Risk” focuses on the average of the expected cost values that occur in the tail of the probability distribution. This enables to evaluate the effects of sudden and high-level fluctuations in market variables which are usually common in the case of emerging countries.

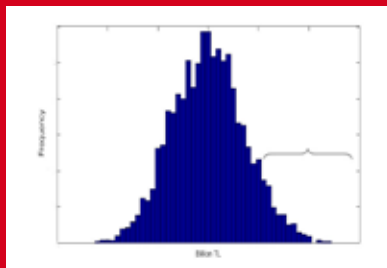


Based on cost and risk concepts discussed above, the simulation model produces expected values and probability distributions of indicators such as interest expenditures and stock levels for alternative borrowing strategies. The illustrative results regarding simulation model are presented below:

Distribution of Debt Stock Projections



Distribution of Interest Costs



In line with this approach adopted in 2002, in the first place, capacity building activities in public finance area were fulfilled and starting from 2003, the models developed within ALM approach have become a very important tool for decision-making in public debt and risk management and monitoring risk indicators. Given that Treasury has a limited amount of FX denominated assets, reducing the share of FX denominated debt has been the main priority to minimize exchange rate risk in the context of strategic benchmarks. The share of FX denominated public net debt stock in GDP declined to 2.7 percent in 2009 from its 2002 level of 35.4 percent as a result of this strategy.

In addition, Treasury cash reserve has been used actively in recent years to reduce liquidity risk. The high level of cash reserves acts as an efficient measure to cope with the possible adverse effects of short-term demand-sided auction uncertainties on borrowing costs. Like cash reserves, collections from Treasury receivables and undertaken guarantees are also taken into account in developing borrowing strategies and mainly used as inputs in estimating financing requirement.

As an extension of ALM approach, the selection of borrowing instruments also aims at reducing the effects of both supply and demand-sided shocks on budget dynamics. Issuances of “Inflation Indexed Bonds” are expected to have a positive influence on budget balance since interest expenditures of these securities change in a way that is similar to the effects of supply-sided shocks on budget revenues. Furthermore, the interest expenditures of “Revenue Indexed Bonds” have an indexation to the revenues of State Owned Enterprises which is a sub item of public sector assets. This enables

budget smoothing due to correlation between interest expenditures and primary surplus.

Another reflection of ALM approach is related to debt stock calculations. Turkish Treasury developed a methodology for “Public Net Debt Stock” and “Net External Debt Stock of Turkey” calculations and the outcomes have been published since 2003. These calculations provide better understanding and analysis of public debt sustainability by focusing not only public financial liabilities but also its assets.

5. Conclusion

This paper investigates the application of ALM approach in public sector as well as the Turkish case. The ALM methodology entails a holistic approach for risk management and thus aims at a coherent risk structure for sovereign assets and liabilities. This provides a natural hedge mechanism to external shocks by reducing the sensitivity of public balance sheet to market variables such as interest and exchange rates. ALM approach requires debt managers to define risks by taking into account financial assets in addition to other financial liabilities, in the process of developing borrowing strategies that mainly aims to minimize costs.

Country practices of ALM suggest that it is not a widespread practice in managing sovereign assets and liabilities and related risks. Nevertheless, debt management offices mostly take into account financial assets and liabilities of which fall under their responsibilities. In this framework, the ALM approach in Turkey has very important reflections on decision-making, monitoring risk indicators and forecasts. On the other hand, with the impact of the on going global crisis sovereign balance sheets have grown strongly and while at the same time they have been getting increasingly complex in terms of risks since September 2008. As a result, the consolidated sovereign balance sheet as a whole needs more careful attention so as to avoid possible significant mismatches. These perspectives make the use of an integrated sovereign ALM approach on analysis and management of sovereign risks more important than in the past.



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CREDIT GUARANTEE SCHEMES IN TURKEY AND THE WORLD⁴

The low profitability of bank loans provided to Small and Medium Size Enterprises (SMEs)⁵ due to high administrative costs⁶ and difficulty of collecting information on the SMEs have led these firms to be characterized as “high risk” enterprises. In addition, the inability of these firms to provide sufficient collateral has made banks somewhat reluctant to provide financing for them. In this respect, reducing the administrative costs by setting up credit guarantee schemes with or without government support has been a commonly used method.

Credit guarantee funds, which exist since the beginning of the 20th century and are considered as a tool for transferring and diversifying risk, have recently become more popular. In general, credit guarantee funds are in the form of:

- ‘Mutual Guarantee Associations’ as a group of independent businesses, gathered to provide guarantees to the loans issued to their members (without government support)
- ‘Publicly Operated National Schemes’ to support financing of SMEs operating in specific areas or sectors of the economy (In some cases managed by the private sector as well)
- ‘Corporate Associations’ financed and managed by the private sector.

These funds can provide guarantees to the creditors either directly or with governments’ or international institutions’ counter-guarantee.

A credit volume which is considerably higher than the guaranteed amount can be created with such facilities. The ratio calculated as the amount of credit volume divided by the guarantee amount is called the “leverage ratio”. This ratio can also be calculated by using the ‘borrower default rate’. The credit volume through credit guarantees can be projected by using this leverage ratio.

1. Credit Guarantee Funds – International Practices

There are currently more than two thousand credit guarantee facilities in nearly one hundred countries around the world. There are also similar schemes designed by multilateral development banks in order to expand credit opportunities of SMEs.

4 This paper was prepared by Nilüfer Turan, Head of Department and Hakan Bingöl, assistant specialist at the General Directorate of Public Finance.

5 Enterprises which employ less than 250 people with the net annual sales revenue or fiscal balance less than TL 25 million are considered as SME’s.

6 High administrative costs are due to the asymmetric flow of information and thus high costs for obtaining information prior approval.



One of the good examples in this respect is the French guarantee agency, “OSEO”. As a semi-public institution, OSEO is financed through the central government budget and consequently its objectives are set by the government. However the agency is solely autonomous in selecting the methods to be used in reaching these objectives. The guarantee ratio provided by the agency varies between 40 and 70 percent annually. Similarly, commission rate is also determined annually and added to the interest to be charged to the firm, for the guarantee provided. This rate changes between 50 to 150 basis points. The guarantee portfolio of the fund is 4.6 billion EUR with a leverage ratio of 30.

Another example is a publicly financed fund providing guarantee for SMEs in Italy⁷. The amount of the guarantee fund is 4.6 billion Euros with a leverage ratio of 20. While the rate of guarantee is 50 percent on average; it ranges between 25 and 88 percent, depending on the scale and location of the firms. The default rate for the loans subject to guarantees was 3.63 percent in year 2004.

Credit Guarantee Corporation (CGC) in Japan, that has been established as a group of public institutions by law, represents another successful example. Nearly 40 percent of the credits provided to the SMEs by banks are covered by this guarantee facility. There is a certain guarantee limit for each firm while the rate of guarantee is 100 percent. The rate of commission to be charged for the guarantee changes between 0.5 and 2.2 percent depending on the credit rating score of the firm. CGC operates with a leverage ratio of 15.

A study by the World Bank Development Research Group called “The Typology of Partial Credit Guarantee Funds around the World”⁸ explains different credit guarantee fund implementations around the world. It includes an evaluation based on detailed information from a survey on 76 credit guarantee funds from 46 countries⁹. The study includes data from 20 high income, 25 middle income and 1 low income countries. The results on credit guarantee funds obtained through this analysis are summarized below:

7 Fund for Guarantees to SMEs.

8 This study was presented at the conference for “Partial Credit Guarantee Schemes Experiences and Lessons “ which was held during March 13 and 14, 2008

9 These countries are: Argentina, Bahamas, Belgium, Brazil, Canada, Chili, China, Colombia, Costa Rica, Croatia, Egypt, El Salvador, Estonia, France, Greece, Honduras, Hungary, India, Israel, Italy, Korea, Lithuania, Luxemburg, Macedonia, Malta, Mexico, Moldavia, Netherlands, Organisme International, Panama, Paraguay, Peru, Portugal, Romania, Slovakia, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, England, U.S.A., Uruguay, Venezuela.

- 60 percent of the funds are non-profit and 48 percent of them are tax-exempt.
- Most of the funds in middle and low income countries are managed by the public authorities while the ones in high income countries are mostly formed as autonomous entities.
- Although governments have an important role in financing these funds, they have a limited role in terms of management, risk assessment and receipts.
- All but five of these funds provide guarantees directly to the funds. There is a counter guarantee requirement in the other five funds.
- 40 percent of the funds provide guarantees up to 100 percent. This rate is around 50 percent for most of the other funds and the average guarantee rate is calculated as 80 percent.
- 40 percent of the funds set an upper limit for the duration of the guarantee that is 10 years on average from 3 to 25 years.
- 74 percent of the funds provide guarantee at least for the principal payments while 34 percent of them guarantee only interest payments and 30 percent for both principal and interest payments.
- 63 percent of the funds require a fee per credit while 30 percent of them charge an annual payment and 15 percent of them charge membership fee.
- In case of default of an entity, the funds undertake the repayment immediately in developed countries however repayments are made after the banks initiates legal action in developing countries. This method is expected to lessen the “moral hazard”¹⁰ of the banks.
- The default rate on the guarantees provided by the funds that were established 10-15 years ago is higher because of the faster accumulation of losses due to those guarantees in the later period of the funds.
- The public funds are exposed to higher probability of default due to ineffective use of risk management tools

There is not a consensus on the effectiveness and success of the credit guarantee fund schemes in the international literature. These funds are criticized because of their deterioration effect on the market economy and “moral hazard” risk that they might create for both borrowers and lenders. Thus it is argued that the “co-funding”¹¹ method is preferable to credit guarantee fund approach. There is no concrete evidence on the enhancing power of these funds on the financing opportunities for the SMEs as well. On the other hand it is also argued that indirect subsidies like guarantees let the lenders make their decisions and hence these guarantees are regarded

10 Misuse of informational advantage.

11 The purpose of “co-funding” is to prevent moral hazard by efficient risk share at the financing process.

as compatible tools with the market and have less negative impact on the economy compared to the other support mechanisms. The moral hazard effect arising from these funds will be limited as both banks and SMEs would not prefer to have poor reputation. Furthermore, introducing some limits such as partial guarantee and having an effective work sharing mechanism between public and private sector could prevent the moral hazard risk resulting from the credit guarantee fund method.

2. Credit Guarantee Fund System in Turkey

The first credit guarantee entity in Turkey is the Credit Guarantee Fund, Inc. (CGF) which was established in 1991. CGF was formed in order to improve the financing opportunities of the SMEs that have constraints in borrowing from banks by providing guarantees and charging a commission on the guarantee.

As a result of the studies started in 2009 to restructure SMEs' debt to banks in an environment of the global financial crisis, the decision was to provide Treasury support to the credit guarantee entities and some regulations have been adopted accordingly.

2.1 The Structure and Functions of the Credit Guarantee Fund, Inc. prior to Treasury Support

CGF was established in order to support the SMEs by providing guarantees and enable access to bank loans in financing of investments and enterprises. The capital structure of CGF prior to Treasury support is presented below:

Shareholding Structure of CGF

Shareholders / Names Of Institutions	Subscribed Capital (TL)	Share Capital By Percent
TOBB (The Union Chambers and Commodity Exchanges of Turkey)	30,591,650.00	50.99%
KOSGEB (Small and Medium Industry Development Organization)	29,125,050.00	48.54%
TESK (Confederation of Tradesmen & Craftsmen)	258,250.00	0.43%
TOSYÖV (Turkish Foundations for Small & Medium Business)	8,350.00	0.01%
MEKSA (Foundation for the Promotion of Vocational Training and Small Industry)	8,350.00	0.01%
Halkbank (State Bank for SMEs)	8,350.00	0.01%
Total	60,000,000.00	100%

The SMEs from all the regions in Turkey, craftsmen and artisans, agricultural enterprises and farmers, women and young entrepreneurs are among the groups that are supported by CGF. The applications to CGF are made by banks that will provide the loans. After the evaluation of the SME by the bank that received the credit application, the SMEs' guarantee request is sent to CGF and the guarantee is granted to the applicant as long as CGF has a positive evaluation.

Collateral Process of the CGF



The applicants pay a certain amount of evaluation fee to CGF at the time of application. After the eligible applications are selected and guarantee request is approved by CGF, a commission payment is collected each year throughout the life of the credit. Depending on the cash and non-cash portions and/or other conditions of the credit, the commission varies between 1 percent and 2 percent of the outstanding balance.

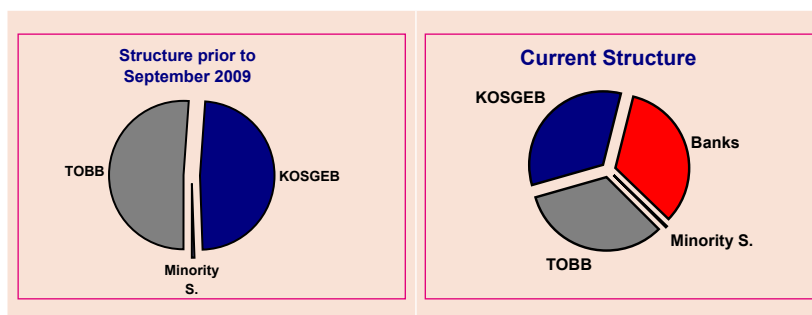
The upper limit of the guarantee is TL 750 thousand for each SME whereas the limit for the SMEs that constitute a direct or indirect risk group is TL 1 million. The guarantee is provided up to 80 percent of the loan.

In the period between 1994 and 2008, the total amount of guarantee request had reached to TL 1 billion. The amount of guarantee provided was around TL 523.2 million and the credit volume created through this guarantee facility amounted to TL 758.9 million in the same period. Eighty percent of the guarantee amount was provided for the manufacturing sector while twenty percent for the services sector. The loans raised under the guarantees were mostly used in order to cover capital requirement.

2.2 The Structure of CGF after Treasury Support

A provisional article on Treasury support was inserted to the Law on Regulating Public Finance and Debt Management (Law No. 4749) with the Law No. 5909 published in the Official Gazette on June 24, 2009. With this amendment, Treasury was authorized to issue Special Category Government Domestic Borrowing Securities and / or to transfer cash up to TL 1 billion to credit guarantee institutions. Based on the provisional article No.20, a decree by the Council of Ministers on “Principles and Procedures Regarding the Treasury Support to the Credit Guarantee Institutions” (Decision No. 2009/15197) was put into effect and published in the Official Gazette on July 15, 2009.

Change in CGF's Partnership Structure



Following these regulations, a protocol was signed between CGF and the Treasury which introduced CGF as the first credit guarantee institution benefiting from Treasury support and changes in CGF's managerial and organizational structure were put into effect.

Shareholding Structure of CGF

Shareholders/Names of Institutions	Subscribed Capital (TL)	Share Capital by Percent
TOBB (The Union Chambers and Commodity Exchanges of Turkey)	79,645,000.00	33.18542%
KOSGEB (Small and Medium Industry Development Organization)	79,622,000.00	33.17583%
TESK (Confederation of Tradesmen & Craftsmen)	689,000.00	0.28708%
TOSYÖV (Turkish Foundations for Small & Medium Business)	22,000.00	0.00917%
MEKSA (Foundation for the Promotion of Vocational Training and Small Industry)	22,000.00	0.00917%
BANKS	80,000,000.00	33.3334%
Total	240,000,000.00	100%

(1) Following the Treasury support, 20 banks became shareholders with an equal proportion.

Within this framework, twenty banks became shareholders of CGF and its capital has been raised from TL 60 million to TL 240 million. In this respect, CGF can provide guarantee to SMEs both with and without Treasury support. The loans supplied without Treasury support are granted with the same conditions that were set prior to Treasury support.

The credits provided with Treasury support has to comply with the Council of Ministers' Decision on the Principles and Procedures Regarding the Treasury Support to the Credit Guarantee Institutions and other related regulations.

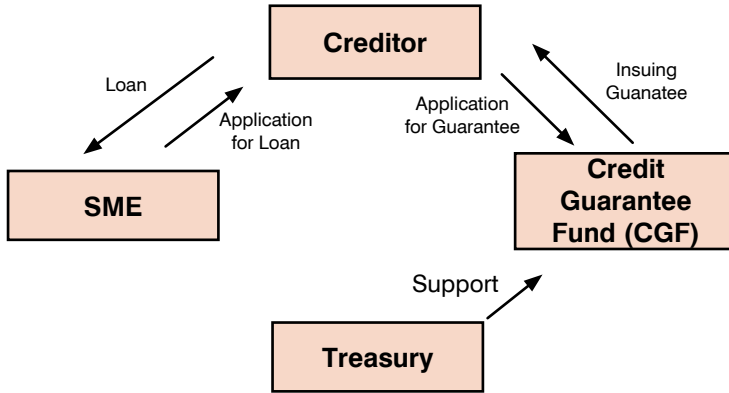
While setting out the principles related with the support, the starting date of the global financial crisis was determined as June 6, 2008. The eligibility criteria for the support are summarized as follows:

- Beneficiaries should be operating for at least two years,
- Beneficiaries, the natural or legal persons that supervise or manage the beneficiaries and the firms that have partnership with the beneficiaries should not be in the process of bankruptcy, bankruptcy-deferral, dissolution or deed of arrangement,
- Beneficiaries shall not have any overdue payments, restructured payments or overdue payments due to restructured payments to the tax authority and Social Security Administration at the time of loan disbursement.
- Beneficiaries which were established after June 6, 2008 shall not have any record of non performing loans at the Central Bank's reports in accordance with the "Regulation for Specifying the Qualifications of Banks' Credits and Other Receivables and Setting the Principles of Allowances for these Receivables".
- Beneficiaries which were established before June 6, 2008 shall not have a record of non performing loans at the Central Bank's reports on June 6, 2008 even if they have a record of non performing loans at the time of application.

The applications for the CGF guarantee under Treasury support are made via co-partner banks. After the evaluation of the application by CGF, a guarantee can be provided up to 65 percent of the credit. Loans supplied within this category can be TL or FX denominated with a maturity range from 6 months to 4 years. Loans that will be newly issued, reissued and extended can be under the Treasury support scheme with a limit of TL 1 million per beneficiary and TL 1.5 million per a risk group of beneficiaries.



How Is Guarantee Scheme Under Treasury Support Working?



Based on the actions taken recently, the leverage ratio is expected to be 10, considering the default rate of SMEs, whereas the leverage ratio of CGF was around 7.5 before the Treasury support. Hence a credit volume of TL 10 billion is expected to be generated by TL 1 billion of Treasury-support.

3. Final Remarks

It is expected that the Treasury- supported guarantee scheme will contribute to both financial and non-financial sector as well as the general welfare of the economy. To that end, companies will have healthy cash flows by restructuring of their non performing loans and this will enable them to make a more realistic planning, improve their production capacity and thus increase the employment level of the country. This productivity increase will help the firms have a robust relationship with the financial sector and also increase their ability to pay their taxes. In addition, the decrease in the non performing loans of the real sector is expected to increase the repayments of loans. Eventually, this will increase the quality of the assets on the banks' balance sheets and therefore the sector as a whole could improve through this mechanism. Accordingly, since the productivity boost in the industry and improved fiscal structure of both non-financial and financial sector is an important factor in the economic welfare of nations, the recent policy moves can be expected to have a positive impact on the stability of the economy.

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Ulus Town Square

Source: Vehbi Koç and Ankara Research Center (VEKAM) Archives

**INFORMATION
FOR
INVESTORS**





GOVERNMENT BONDS

1. Domestic Government Bonds

Zero Coupon (Discount) Bonds:

Zero coupon bonds are issued by Turkish Treasury with a minimum 6 months to a maximum 22 months maturity, but the maturity can be changed when needed. The principal and interest payments are made in the redemption date. As the security's rate is fixed, the amount of payment is already definite at the time of issuance.

Among these bonds, the bond which has a 22- month-maturity is called as the "benchmark security" and its rate referred to as the "benchmark rate" by the market participants. It is the mostly traded security in the secondary market. In line with the benchmark borrowing strategy, these bonds are issued in January, April, July and October and can be reissued in the two consecutive months following the first issuance.

Coupon Bonds:

The Undersecretariat of Treasury issues fixed coupon bonds, floating rate notes and indexed bonds under this category.

Fixed Coupon Bonds: These securities provide a fixed and pre-determined payment to its investor. Fixed coupon bonds can have a maturity of 5 years with a 6 month coupon period; 3 years with a 3 month coupon period (since January 2010) and 10 years with a 6 month coupon period. As it is announced in the Treasury Financing Program for 2010, in order to diversify the investor base and increase liquidity, 3 year bonds issued in January, February and April are planned to be issued in May, July, August, October and November whereas the 5 year bonds lastly issued in March are planned to be issued in June, September and December.

Floating Coupon Bonds:

- a. Floating Rate Notes: Coupon period of these notes are three months, with a maturity of 5 or 7 years. Coupon payments of the notes are based on the weighted average compound rate in the TL denominated zero coupon government bond auctions in the last three months before the beginning of each coupon period.
- b. CPI Indexed Bonds: These type of bonds had been issued in 5-year-maturity since 2007 and have a 5-10 year maturity since 2010, with a coupon period of 6 months. These bonds provide a real return and protect the investor against changes in inflation. Investors' Guide for CPI Indexed Government Bonds can be found on the website; www.treasury.gov.tr.

- c. Revenue Indexed Bonds (RIB): In 2009, with the aim of increasing domestic savings, diversifying borrowing instruments and broadening the investor base, RIB's were designed. Coupon payments of these securities are indexed to the transfers from 4 state owned enterprises (Turkish Petroleum Corporation, State Supply Office, State Airport Authority and Coastal Safety) to Budget as "Revenue Shares". The securities have a minimum return guarantee and a maximum return limit for each coupon payment. Investors' Guide for Revenue Indexed Bonds can be found on www.treasury.gov.tr.

2. International Bonds

The Treasury has been issuing eurobonds in international capital markets since 1988. The issuance process starts with the announcement of the specifics of the securities offered such as currency, maturity and lead managers. Treasury mandates international banks that act as lead managers, which are responsible for the execution of the transaction. Lead managers act as an intermediary between the issuer and the investors and collect bids from investors. This process is known as book-building. Following the book-building process, pricing and allocation of the securities to the investors take place. As of April 2010, a total of 26 bonds issued by the Undersecretariat of Treasury, -19 denominated in USD and 7 denominated in Euro- are traded in international capital markets

A 'eurobond' is an international bond issued in accordance with the applicable laws in effect in the country that the bond is issued and in a currency other than that of the country in which the bond is issued. The Eurobonds are named according to the currency in which they are denominated (Ex: A Eurobond denominated in USD will be called EuroDollar; a Eurobond denominated in JPY will be called EuroYen). An issuer has to get the necessary approvals and consent from the competent authority of the country in order to offer these bonds to investors in that particular market.

A 'foreign bond' is another type of international bond. These are issued by a non-resident, in accordance with the applicable laws in effect in the country that the bond is issued, denominated in the currency of that country and sold particularly to the investors domiciled in that country. These bonds are named according to the place of issuance. For example, a JPY denominated international bond issued in Japan by a non-resident is called a Samurai Bond. Similarly, a GBP denominated international bond issued in UK by a non resident is called a Bulldog Bond and a USD denominated international bond issued in USA by a non resident is called a Yankee Bond.



The international bonds are generally book-entry securities and issued in bearer form with fixed coupon payments, medium to long term maturities and bullet principal payments at the end of maturity. The coupon payment frequency varies according to the market conventions. USD denominated Eurobonds issued by the Treasury make semiannual coupon payments while Euro denominated Eurobonds make annual coupon payments.

International bonds can be offered simultaneously to a wide range of investors in various countries. These bonds are relatively more appealing to international investors since they are governed by the laws in effect at the place of issuance and are cleared and settled through international clearing houses like Clearstream, EuroClear and DTC. Although almost all of secondary market trading of international bonds is carried out in over-the-counter markets, bonds are listed on stock exchanges especially for institutional investors that are usually restrained from investing in securities not listed on a formal stock exchange.

TAXATION OF TURKISH TREASURY BORROWING NOTES¹²

According to the provisional Article 67 of the Income Tax Act, withholding tax rate of the interest income and capital gains of the domestic borrowing notes issued after 01.01.2006 is 10% for resident taxpayers and 0% for non-resident taxpayers.

Within the framework of the Provisional Article 67, interest income and capital gains on Eurobonds regardless of their issuing date are exempt from taxation. Interest income is declared by resident taxpayers when the declaration limit of the preceding year is surpassed while capital gains is declared on the remaining amount calculated after cost value indexing and application of exemptions. For non-resident taxpayers, any gains derived from the Eurobonds is not declared.

However, the Constitutional Court has cancelled the law that provides different withholding tax rates between resident and non-resident investors with the Decision No:2006/119 on 15.10.2009. Efforts are underway to enact a new legislation. In this scope, a new law draft has been submitted to Turkish Grand National Assembly on 25.05.2010. In the draft, differentiation of withholding tax rates on interest income and capital gains of the domestic borrowing notes based on resident and non-resident investors criteria is annulled. The new legislation proposes the following changes;

- Withholding tax rate will be 0% for capital stock companies (including investment funds),
- 10% for other taxpayers (individuals and other institutions).

¹² Information about taxation of state borrowing notes are based on "Taxation Guide For Individuals 2010" which is published by Revenue Administration.

PRINCIPLES ON PARTICIPATING IN THE DOMESTIC BORROWING NOTE AUCTIONS

I. DEFINITIONS:

Domestic Borrowing Notes: Debt securities issued by the Treasury in the domestic market.

Treasury Bill: Debt securities whose maturity is less than one year (up to 364 days) as of the date of their issuance.

Government Bond: Debt securities with a maturity of one year (364 days) or more as of the date of their issuance.

Coupon Securities: Debt securities paying interest at the end of each coupon period.

Zero Coupon (Discount) Bonds: Bonds whose principal and interest payments are made at the maturity date.

Auction Date: The day on which the auction is held.

Value Date: The day when the interest rate calculation starts. In this day, payments to the CBRT must be done by the winners of the auction.

Maturity Date: The day when principal payment is made. In case it is a weekend day or official holiday, the payment is made on the following business day.

II. RULES ON THE AUCTION PROCESS:

1. Auction Announcement and General Issues:

- Detailed information regarding the note to be issued in the auction is announced in the Treasury web site at least one day before the auction.
- One year refers to 364 days in Treasury auctions whereas it refers to 365 days on the secondary market.
- All the operations related to auctions are conducted by the Central Bank of the Republic of Turkey (CBRT) as the fiscal agent of Treasury.

2. Auction Bids:

- Retail and corporate investors can participate in Treasury auctions through branches of the CBRT, banks or through brokers. While banks can bid through Electronic Fund Transfer System (EFT), brokers can bid through Takasbank Electronic Transfer System (TETS) and fax and insurance companies can bid through fax. Retail investors can bid by using their citizen identification number.
- Competitive and non-competitive bids can be submitted to Treasury auctions. In the existing application, non-competitive bids can only be given by Public Institutions and Primary Dealers. Only the Primary Dealers are allowed to participate in switching and buy-back auctions. Post auction sales can only be made by Primary Dealers.

- There is no limit on the number of investors participating in the auctions.
- Investors submit their bids in terms of price and nominal amount until 12:00 a.m.
- All bids submitted are final bids for investors. Investors are bounded to their bids until the end of the auction. If the price that is determined in the auction is applied to all investors, the auction type is called “single price auction”; if each investor buys the security at own bid price, then the auction type is called “multiple price auction”.
- There is no restriction for the number of bids. In TL denominated auctions, retail and corporate investors can bid nominally minimum TL 1,000 and maximum TL 500 million with the same price and in multiples of TL 1. Also, total bid amounts with the same price can't exceed TL 500 million.
- Retail and corporate investors can bid nominally minimum USD 10,000 and maximum USD 100 million in USD denominated auctions, in multiples of USD 10,000. Also, in EUR denominated auctions they can bid nominally minimum EUR 10,000 and maximum EUR 100 million in multiples of EUR 10,000. Total bid amounts with the same price can't exceed USD or EUR 100 million.
- Investors should give a collateral of one percent of their nominal bid amount before submitting the auction bids.
 - In TL denominated and FX indexed auctions, the collateral is returned to the investor whose bids are rejected in the issue date. Investors whose bids are accepted, are expected to pay the required amount that remains in the value date.
 - In FX denominated auctions, the collateral may be paid either in FX or TL that is calculated by the FX buying rates that CBRT announces on the auction day. The collateral is one percent of the nominal bid amount. If the bids are rejected, the collateral is returned to the investor after the auction. If an investor's bids are accepted, then the collateral amount in TL is returned to the investor on the value date. In case of a USD or EUR collateral payment, once investors' bids are expected, this collateral amount is deducted and the remaining amount is expected to be paid in FX in the value date.
- The breakdown of their submitted bids and a contact phone number are given to the individual investor so that they can learn if their bids are accepted.
- The investors are not required to make any stamp or seal tax payments.

3. Announcements of Auction Results:

- Auction results are announced to public by the CBRT. Related information is also announced on the Treasury website.



4. Post-Auction Process:

- If investors do not pay the required amount over the collateral, the collateral is recorded as revenue to the budget. These investors must attend to at least 4 auctions with a 20 percent of collateral rate before their rate is reduced to 1 percent. If these investors do not pay the required amount over the collateral, they must attend at least 4 auctions with 100 percent of collateral rate. After attending 4 auctions with the increased collaterals, investors may attend to the auctions with 1 percent collateral rate after Treasury approval.
- After the auction process is completed, investors can buy securities in the secondary market through banks or brokers. At this stage, securities are subject to operations conducted between numerous buyers and sellers. Treasury issues securities only to investors in the primary market

5. Redemption:

- On the maturity date, payment is made through branches of CBRT or branches of Ziraat Bank Inc. which is the fiscal agent of CBRT.

BUY-BACK / SWITCHING AUCTIONS

Buy-back and switching auctions are planned to be continued within the framework of active debt management and strategic benchmarking policy, with the aim of smoothing the redemption profile, minimizing the liquidity risk and increasing the efficiency in the secondary markets.

With buy-back auctions, Treasury makes early redemption for securities by making cash payments to the investors.

By switching auctions, time to maturity of the debt stock is increased by issuing a longer maturity security in exchange to the security bought back. Switching auctions are held in two different ways:

- The price announced at the Official Gazette at the auction date is assigned as the price of the security to be bought back and the newly issued security is auctioned.
- The price of the security to be bought back is auctioned, and the price announced at the Official Gazette at the auction date is assigned as the price of the security to be issue.

Only the Primary Dealers are allowed to participate in the switching auctions in accordance with the Primary Dealership system. There are no non-competitive and post-auction sales at these auctions. Also, the Treasury has the right to cancel these auctions when the price doesn't reflect the market conditions.

INVESTOR RELATIONS OFFICE

The Investor Relations Office (IRO) was established in August 2005 as part of the efforts to foster and improve Turkey's relations with international investors. The primary objective of IRO is to enable investors to access first hand, reliable and timely information regarding the economic developments in Turkey. In this respect, a continuously updated web site is maintained. In this web site, investors can access the most recent statistics on macroeconomic aggregates, details of the important policy decisions, presentations and speeches made by Treasury's senior management.

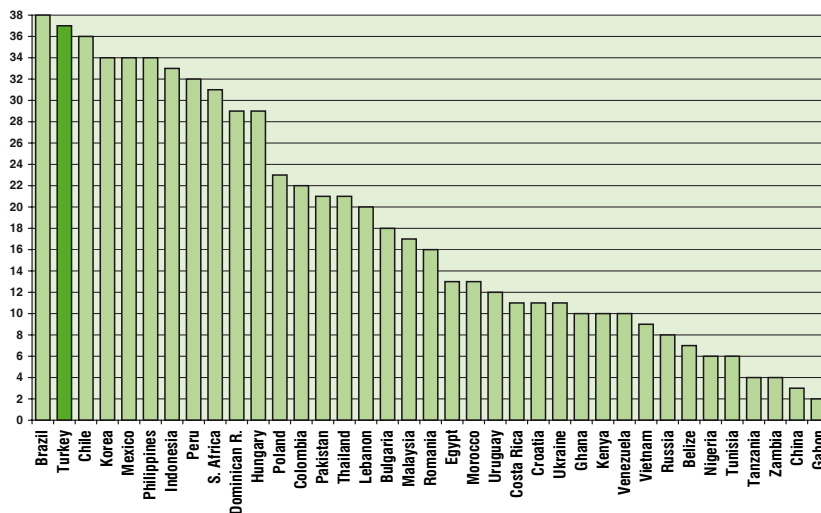
In addition to a dedicated web site, the IRO disseminates the latest economic and financial statistics through regular Newsletters on a subscription basis and replies investor queries via phone or e-mail. The IRO replies any question directed by investors who have invested or are planning to make a portfolio investment in Turkey. In this respect, the IRO acts as a coordination unit between investors and other government agencies.

Another function of the IRO is to bring the investors and senior Turkish government officials together via organizing roadshows both in Turkey and in international financial centers in Europe, Asia or the USA and inform investors about the Turkish economy.

Improving investor relations is essential for creating better functioning financial markets. In its annual report, the International Institute of Finance (IIF) evaluates investor relations activities of 38 prominent emerging market countries. The evaluation criteria include, among others, the presence of institutionalized investor relations activities, availability of Central Bank and government agency website(s) in English, ability of investors to register for website subscription, dissemination of macroeconomic data and policy information in line with certain standards, availability of historical data, organization of bilateral meetings and conference calls with investors, reflection of investor feedback in policy decisions and accessibility of senior policy makers by investors. In the latest IIF report dated October 2009, Turkey's IRO score was announced as 37 (out of 38) for fulfilling 19 out of a total of 20 criteria, placing Turkey in the second spot after Brazil. The IRO ranking of those 38 countries is presented below. The IRO continues its efforts to fulfill all of the 20 criteria.



Data Transparency and Investor Relations Ranking (IIF – October 2009)



Note: The number of criteria fulfilled by the Turkish IRO increased to 19 in 2008, from 17 in 2006.

The IRO website can be accessed through <http://www.treasury.gov.tr/iro.htm>, and the investors can subscribe to the e-mail dissemination list through <http://193.25.125.6/subscription/deisubscription.aspx>.

PRIMARY DEALERSHIP SYSTEM

Primary Dealership (PD) System can be described as a system which is designed with the purposes of reducing roll-over risk, broadening investor base, developing a transparent, competitive and more organized market and also increasing liquidity and reducing volatility in the secondary market by giving certain official rights and obligations related to primary and secondary market of government debt securities to a group of professional intermediaries. In Turkey, the PD System has been implemented since May 2000, however, in May 2001 – September 2002 period, it has been suspended due to the negative financial conditions. Up to May 2001, there were 19 Primary Dealers, but in the second period, after the suspension, the number of primary dealers is decreased to 10. In the third period, the number has risen to 11, and since the fourth period, up to the present ninth period, the number remains at 12. In the current situation, 2009-2010 period PD System is in effect. The period started on September 1, 2009 and is going to end on August 31, 2010. Within the framework of the PD System, annual agreements are made with the Primary Dealer Banks. 2009-2010 period PD Agreement which includes the rights and obligations of Primary Dealers can be reached through www.treasury.gov.tr, the Public Finance section.

The 12 Banks that are selected as Primary Dealers for the 2009–2010 period are listed below

Akbank
Deutsche Bank Inc.
Fortis Bank
Finansbank Inc.
HSBC Bank Inc.
ING Bank Inc.
T. Garanti Bank Inc.
T. İş Bank Inc.
T. Vakıflar Bank
T. Halk Bank Inc.
T.C. Ziraat Bank Inc.
Yapı ve Kredi Bank



**SELECTED
STATISTICS**



CURRENCY AND INTEREST RATE COMPOSITION OF OUTSTANDING DEBT OF CENTRAL GOVERNMENT (1)(2)

	2005			2006			2007			2008			2009			2010 April		
	Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%
TOTAL DEBT STOCK	331,520	247,071	100.0	345,050	245,482	100.0	333,485	286,327	100.0	380,321	251,485	100.0	441,508	293,224	100.0	466,868	308,611	100.0
Fixed	196,385	123,912	50.0	186,355	127,866	54.0	183,071	139,713	55.8	187,315	141,315	57.0	235,940	156,735	58.4	253,971	162,099	52.5
Variable	135,135	123,159	36.6	158,695	117,616	34.1	150,414	146,616	43.9	193,006	140,170	42.1	205,568	136,489	44.8	212,897	145,512	44.0
TL	206,632	154,160	62.4	216,800	154,240	62.8	219,168	166,525	67.8	251,836	166,525	66.2	312,837	207,765	70.9	329,555	222,812	72.1
USD	124,893	68,919	24.6	141,852	63,372	21.8	131,246	100,000	33.1	141,170	74,645	23.3	142,731	88,460	30.4	143,280	77,299	24.9
FX	10,444	75,603	31.8	11,457	79,295	32.3	11,257	100,449	33.6	12,627	83,496	33.2	14,489	96,229	32.8	14,316	101,366	32.9
FX Debt	105,408	82,811	31.8	105,343	74,945	30.5	112,175	95,312	33.6	125,566	83,030	33.0	137,945	111,540	38.0	127,464	121,227	39.3
FX	12,667	92,911	37.6	12,659	90,046	36.7	10,431	108,566	30.9	12,721	84,545	33.6	12,671	85,458	29.1	17,313	85,969	27.9
FX Variable	64,951	48,309	19.6	74,878	53,771	21.7	69,024	59,263	20.7	90,464	63,919	23.8	91,056	60,774	20.6	127,313	85,999	27.9
FX Indexed	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4
FX Fixed	5,570	0	0.0	1,681	0	0.0	1,211	1,040	0.4	764	505	0.2	0	0	0.0	0	0	0.0
FX Variable	5,570	1,681	1.7	1,681	1,196	0.5	1,211	1,040	0.4	764	505	0.2	0	0	0.0	0	0	0.0
Total Domestic Debt Stock	244,782	182,428	73.8	251,470	178,906	78.2	255,310	219,207	78.0	274,827	181,728	74.2	330,005	219,170	78.1	343,163	231,804	78.1
Total Fixed	111,061	82,770	24.7	121,053	86,122	48.1	125,148	110,027	50.2	140,614	92,960	51.2	155,076	102,993	47.0	157,063	106,095	45.8
Total Variable	134,059	99,359	29.7	137,637	91,494	26.5	125,262	106,580	31.8	152,392	107,210	32.0	150,492	93,496	27.0	155,834	99,417	29.1
TL	206,632	154,160	62.4	216,800	154,240	62.8	219,168	166,525	67.8	251,836	166,525	66.2	312,837	207,765	70.9	329,555	222,812	72.1
USD	124,893	68,919	24.6	141,852	63,372	21.8	131,246	100,000	33.1	141,170	74,645	23.3	142,731	88,460	30.4	143,280	77,299	24.9
FX	10,444	75,603	31.8	11,457	79,295	44.3	11,693	100,449	45.8	12,627	83,496	45.7	14,489	96,229	43.9	14,316	101,366	43.7
FX Debt	105,408	82,811	31.8	105,343	74,945	41.9	112,175	95,312	43.9	125,566	83,030	45.7	137,945	111,540	50.9	179,464	121,227	52.3
FX	12,667	92,911	37.6	12,659	90,046	38.8	12,438	119,302	45.3	12,671	85,458	38.1	12,671	85,458	38.1	17,313	85,969	40.0
FX Variable	64,951	48,309	19.6	74,878	53,771	21.7	69,024	59,263	20.7	90,464	63,919	23.8	91,056	60,774	20.6	127,313	85,999	27.9
FX Indexed	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4	1,138	1,138	0.4
FX Fixed	5,570	0	0.0	1,681	0	0.0	1,211	1,040	0.5	764	505	0.3	0	0	0.0	0	0	0.0
FX Variable	5,570	1,681	1.7	1,681	1,196	0.7	1,211	1,040	0.5	764	505	0.3	0	0	0.0	0	0	0.0
Government	75,488	56,244	30.8	71,410	50,804	28.4	66,676	57,419	26.2	65,571	43,478	23.9	60,923	40,461	18.5	62,320	42,097	18.2
TL	68,812	51,293	28.1	66,088	47,017	26.3	62,657	43,478	23.9	60,973	40,318	22.2	57,181	37,977	17.3	58,911	39,794	17.2
Variable	12,501	9,317	5.1	12,726	9,054	5.1	16,625	14,274	6.5	19,560	12,934	7.1	16,787	12,407	5.7	19,241	12,997	5.6
Fixed	10,251	8,382	3.6	10,404	7,149	3.6	14,962	11,821	5.9	17,635	11,740	5.4	15,112	11,160	4.9	17,346	11,700	4.9
CPI Indexed	18,427	13,733	7.5	17,778	12,648	7.1	17,801	15,284	7.0	14,801	9,787	5.4	10,794	7,169	3.3	12,285	8,298	3.6
FX	4,972	3,706	2.0	3,611	2,590	1.4	3,138	2,694	1.2	4,014	2,655	1.5	3,741	2,485	1.1	3,409	2,303	1.0
FX Debt	2,983	2,201	1.2	3,116	2,217	1.2	2,744	2,356	1.1	3,846	2,543	1.4	3,582	2,379	1.1	3,262	2,204	1.0
FX	2,019	1,505	0.8	2,525	3,773	2.0	394	338	0.2	168	111	0.1	159	106	0.0	147	99	0.0
FX Indexed	1,663	1,254	0.7	1,681	1,196	0.7	1,211	1,040	0.5	764	505	0.3	0	0	0.0	0	0	0.0
FX Variable	0	0	0.0	0	0	0.0	0	0	0	0	0.0	0	0	0.0	0	0	0.0	
Market	1,683	1,254	0.7	1,681	1,196	0.7	1,211	1,040	0.5	764	505	0.3	0	0	0.0	0	0	0.0
TL	169,314	126,184	68.2	180,060	128,102	71.6	188,434	161,789	73.8	209,076	138,250	76.1	269,082	178,709	81.5	280,843	189,708	81.8
Variable	138,040	102,877	56.4	138,040	102,877	59.9	138,040	102,877	59.9	138,040	102,877	59.9	138,040	102,877	59.9	138,040	102,877	59.9
Fixed	88,943	66,286	36.3	98,731	70,241	39.3	100,369	88,716	39.3	106,710	70,562	38.8	126,194	83,751	38.2	130,850	88,388	38.1
CPI Indexed	49,097	36,991	20.1	51,992	36,992	20.7	66,273	56,901	26.0	84,153	55,646	30.6	129,551	86,040	39.3	139,794	94,430	40.7
FX	2,338	20,411	0.0	29,349	20,670	0.0	4,680	4,018	1.8	6,885	4,352	2.5	28,884	17,842	8.1	36,882	24,813	10.7
FX Debt	1,664	14,967	5.7	6,489	4,619	2.6	6,411	7,222	3.3	10,497	6,941	3.8	6,602	4,385	2.0	3,709	2,995	1.1
FX	668	6,684	2.5	22,888	16,289	9.1	13,392	11,490	5.2	7,716	5,102	2.8	6,824	4,532	2.1	6,490	4,384	1.9
FX Indexed	3,886	2,896	1.6	0	0	0.0	0	0	0.0	0	0.0	0	0	0.0	0	0	0.0	
FX Variable	3,886	2,896	1.6	0	0	0.0	0	0	0.0	0	0.0	0	0	0.0	0	0	0.0	
Foreign Debt Stock	86,738	64,643	26.0	93,580	66,576	28.0	76,175	67,120	29.0	105,493	69,757	30.4	111,503	74,054	28.9	113,705	76,807	30.0
Total Fixed	49,097	36,992	13.5	49,097	36,992	13.5	49,097	36,992	13.5	49,097	36,992	13.5	49,097	36,992	13.5	49,097	36,992	13.5
Variable	37,641	27,651	12.5	44,483	29,584	14.5	27,078	30,128	12.5	56,406	32,765	16.9	62,406	37,067	17.4	64,618	38,815	18.6
TL	331,520	247,071	100.0	345,050	245,482	100.0	333,485	286,327	100.0	380,321	251,485	100.0	441,508	293,224	100.0	466,868	308,611	100.0
USD	206,852	154,160	62.4	216,800	154,240	62.8	219,168	166,525	67.8	251,836	166,525	66.2	312,837	207,765	70.9	329,555	222,812	72.1
EUR	27,086	20,186	22.4	27,086	20,186	22.4	27,086	20,186	22.4	27,086	20,186	22.4	27,086	20,186	22.4	27,086	20,186	22.4
JPY	19,062	14,653	5.9	19,062	14,653	5.9	19,062	14,653	5.9	19,062	14,653	5.9	19,062	14,653	5.9	19,062	14,653	5.9
Other	3,647	4,822	0.2	3,700	4,989	0.2	3,647	4,822	0.2	3,647	4,822	0.2	3,647	4,822	0.2	3,647	4,822	0.2
Domestic Debt	244,782	182,428	73.8	251,470	178,906	78.2	255,310	219,207	78.0	274,827	181,728	74.2	330,005	219,170	78.1	343,163	231,804	78.1
TL	206,852	154,160	62.4	216,800	154,240	62.8	219,168	166,525	67.8	251,836	166,525	66.2	312,837	207,765	70.9	329,555	222,812	72.1
USD	33,933	23,799	9.6	33,933	23,799	9.6	33,933	23,799	9.6	33,933	23,799	9.6	33,933	23,799	9.6	33,933	23,799	9.6
EUR	5,996	4,469	1.8	5,996	4,469	1.8	5,996	4,469	1.8	5,996	4,469	1.8	5,996	4,469	1.8	5,996	4,469	1.8
JPY	1,000	750	0.3	1,000	750	0.3	1,000	750	0.3	1,000	750	0.3	1,000	750	0.3	1,000	750	0.3
Other	0	0	0.0	0	0	0.0												



GENERAL GOVERNMENT DEBT STOCK ⁽¹⁾ DEFINED BY EUROPEAN UNION STANDARDS

(Million TL)	2005	2006	2007	2008	2009
A- GENERAL GOVERNMENT DEBT STOCK ⁽²⁾	335,889	348,653	336,697	386,400	449,422
Central Government	331,520	345,050	333,485	380,315	441,507
Other Public Institutions	4,369	3,604	3,212	6,085	7,914
B- DOMESTIC DEBT STOCK	247,435	253,284	256,599	277,149	333,236
Central Government	244,782	251,470	255,310	274,827	330,005
Other Public Institutions	2,654	1,814	1,289	2,322	3,231
C- EXTERNAL DEBT STOCK	88,454	95,370	80,098	109,251	116,185
Central Government	86,738	93,580	78,175	105,488	111,503
Other Public Institutions	1,716	1,790	1,923	3,763	4,683
D- ADJUSTMENT ITEMS ⁽³⁾	3,539	827	-4,202	-11,345	-15,499
Central Government	22,234	24,292	27,796	26,417	24,121
Other Public Institutions	-18,695	-23,465	-31,998	-37,762	-39,620
ESA DEFINED GENERAL GOVERNMENT DEBT STOCK					
GENERAL GOVERNMENT DEBT STOCK (A+D)	339,428	349,481	332,496	375,055	433,923
GDP	648,932	758,391	843,178	950,144	953,974
GENERAL GOVERNMENT DEBT STOCK / GDP (%)	52.3	46.1	39.4	39.5	45.5

(1) Consolidated nominal debt stock defined in European System of Accounts 95 (ESA 95) deficit and debt manual.

(2) Unconsolidated gross debt of General Government

(3) Adjustment Items:

For Central Government:

- nominal adjustment of zero coupon securities and valuation of inflation indexed bonds
- the stock of circulating coins issued by Treasury
- securities held by central government institutions

For Other Public Institutions:

- securities held by other public institutions.

PUBLIC NET DEBT STOCK

(Million TL)	2005	2006	2007	2008	2009
Total Public Sector Net Debt (I-II-III-IV)	270,275	258,198	248,421	267,990	309,740
I- Total Public Sector Debt Stock (Gross)	351,289	365,842	355,474	408,210	465,518
A-Domestic Debt	259,757	268,237	273,217	295,765	347,192
Central Government	244,782	251,470	255,310	274,827	330,005
Rest of the Public Sector	14,976	16,767	17,907	20,938	17,188
B- External Debt	91,531	97,605	82,257	112,444	118,325
Central Government	86,738	93,580	78,175	105,493	111,503
Rest of the Public Sector	4,794	4,026	4,082	6,951	6,823
II- Central Bank Net Assets	30,793	45,685	41,769	60,371	65,995
Net Foreign Assets	49,480	67,136	70,977	92,835	92,497
Other Asset and Obligations (Net)	-18,687	-21,451	-29,208	-32,464	-26,502
III- Public Sector Deposits	32,191	38,211	34,578	41,496	47,687
Central Government	18,701	24,745	20,712	19,621	27,974
Rest of the Public Sector	13,490	13,466	13,867	21,875	19,713
IV-Unemployment Insurance Fund Net Assets	18,029	23,748	30,705	38,352	42,095
Memo					
Net External Debt Stock	42,051	30,469	11,280	19,609	25,828
Net Domestic Debt Stock	228,224	227,729	237,141	248,381	283,912
Public Net Debt Stock/GDP (%)	41.6	34.0	29.5	28.2	32.5
GDP	648,932	758,391	843,178	950,534	953,974

GROSS EXTERNAL DEBT of TURKEY - by BORROWER

(Million USD)	2004	2005	2006	2007	2008	2009
TOTAL	160,980	169,732	207,593	249,386	277,669	271,140
SHORT TERM	32,205	38,283	42,616	43,134	50,447	52,030
PUBLIC SECTOR	1,840	2,133	1,750	2,163	3,248	3,598
FINANCIAL INSTITUTIONS	1,815	1,733	1,555	2,163	3,148	3,598
Banks	1,815	1,733	1,555	2,163	3,148	3,598
NON-FINANCIAL INSTITUTIONS	25	400	195	0	100	0
SOE's	25	400	195	0	100	0
CBRT	3,287	2,763	2,563	2,282	1,874	1,776
Dresdner Bank Scheme	3,286	2,762	2,562	2,281	1,873	1,775
Other	1	1	1	1	1	1
PRIVATE SECTOR	27,078	33,387	38,303	38,689	45,325	46,656
FINANCIAL INSTITUTIONS	13,118	17,209	20,702	16,606	21,830	24,882
Banks	12,714	16,562	19,993	16,167	21,613	24,591
Non-Banking Institutions	404	647	709	439	217	291
NON-FINANCIAL INSTITUTIONS	13,960	16,178	17,601	22,083	23,495	21,774
LONG TERM	128,775	131,449	164,977	206,252	227,222	219,110
PUBLIC SECTOR	73,828	68,278	69,837	71,361	75,037	79,856
GENERAL GOVERNMENT	70,114	65,922	67,855	68,812	72,361	77,164
Central Government	68,583	64,643	66,576	67,120	69,757	74,054
Local Administrations	1,113	961	1,031	1,506	2,466	3,004
Funds	418	318	248	187	138	106
FINANCIAL INSTITUTIONS	656	318	487	620	590	1,099
Banks	656	318	487	620	590	1,099
NON-FINANCIAL INSTITUTIONS	3,058	2,039	1,496	1,929	2,086	1,593
SOE's	2,840	1,894	1,390	1,812	1,892	1,421
Other	218	145	106	117	194	172
CBRT	18,123	12,662	13,115	13,519	12,192	11,529
CBRT Loans	2,995	0	0	0	0	0
Dresdner Bank Scheme	15,119	12,654	13,106	13,510	12,183	11,520
NGTA	9	8	9	9	9	9
PRIVATE SECTOR	36,824	50,508	82,025	121,371	139,993	127,725
FINANCIAL INSTITUTIONS	8,576	16,075	28,531	41,933	41,129	35,403
Banks	5,798	12,341	22,078	30,942	30,049	27,893
Non-Banking Institutions	2,778	3,734	6,453	10,991	11,080	7,510
NON-FINANCIAL INSTITUTIONS	28,248	34,433	53,494	79,438	98,864	92,322

TURKEY'S NET EXTERNAL DEBT STOCK by YEARS

(Million USD)	2004	2005	2006	2007	2008	2009
I- Gross External Debt Stock, Excluding Banking Sector (A-a-b)	118,587	123,352	147,803	183,692	208,203	200,654
A. Gross External Debt Stock	160,980	169,732	207,593	249,386	277,669	271,140
a. Central Bank of Turkey (-)	21,410	15,425	15,678	15,801	14,066	13,305
b. Banks (-)	20,983	30,954	44,113	49,892	55,400	57,181
II- BANKING SECTOR / MONETARY SECTOR NET FOREIGN ASSETS ⁽²⁾	15,628	24,508	39,411	50,014	57,241	54,723
A. Monetary Authorities and Deposit Money Banks ⁽¹⁾	17,097	25,906	41,063	53,106	60,933	57,609
B. Investment and Development Banks & Participation Banks	-1,469	-1,398	-1,652	-3,092	-3,692	-2,887
III- NET EXTERNAL DEBT STOCK (I-II)	102,960	98,845	108,392	133,678	150,962	145,931
NET EXTERNAL DEBT STOCK / GDP (%)	26.4%	20.5%	20.6%	20.6%	20.3%	23.6%
Memo:						
GDP (USD)	390,387	481,497	526,429	648,754	742,094	617,611
End of Period \$/TL Buying Rate	1.3421	1.3418	1.4056	1.1647	1.5123	1.5057

(1) As the Treasury's obligations to the IMF is included in the liability side of the Monetary Survey table and Gross External Debt Stock, this amount is subtracted from CBRT's liabilities in order to avoid double counting.

(2) Central Bank's Banking Survey data, that is not published anymore, is used for the period before 2005. After 2005, Monetary Survey data is used as a net foreign assets of monetary sector.

TOTAL PUBLIC SECTOR PRIMARY BALANCE (PROGRAM DEFINED)

(% of GDP)	2005		2006		2007		2008		2009 (1)	
Total Public Sector Primary Balance		5.0	4.6	3.1	1.7	-1.1				
Central Government		4.1	4.3	2.6	1.8	-1.5				
Rest of Public		0.9	0.4	0.5	-0.1	0.4				

(1) Provisional

REPAYMENTS OF TREASURY GUARANTEED CREDITS 2005-2010

Million TL	2005		2006		2007		2008		2009		2010(1)						
	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)	Undertaken Ratio (%)	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)	Undertaken Ratio (%)	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)	Undertaken Ratio (%)					
Local Administrations	282	112	70.1	142	199	134	45.7	122	70	122	36.4	77	149	34.1	28	31	47.3
Funds	-	169	-	135	-	99	-	80	-	80	-	85	-	85	-	-	2
Financial Institutions	-	157	-	160	-	58	-	28	-	28	-	44	-	44	-	-	18
Non-Financial Institutions	25	425	5.5	365	105	176	46.3	213	110	213	34.1	190	142	57.2	7	105	5.9
Private Sector Financial Institutions	-	42	-	88	-	152	-	285	-	285	-	325	-	325	-	-	127
Private Sector Non-Financial Institutions	-	532	-	351	-	199	-	167	-	167	-	176	-	176	-	-	51
Total	287	1,437	16.6	1,243	304	818	24.4	894	180	894	16.7	287	922	22.4	35	334	9.4

(1) Provisional 30.04.2010

TREASURY RECEIVABLES STOCK (1)

Million TL	2005			2006			2007			2008			2009			April 2010		
	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total
Funds	26,204	29,280	55,484	37,194	42,591	79,785	46,215	39,893	86,108	0	0	0	0	0	0	0	0	0
Local Administrations	5,107	7,333	12,440	5,250	7,684	12,935	5,978	7,004	12,983	6,631	7,365	13,996	7,263	7,132	14,395	6,917	6,917	14,301
SOEs	763	3,903	4,665	137	5,111	5,247	1,232	4,327	5,559	1,456	5,238	6,694	1,728	7,009	8,736	311	6,347	6,659
Banks	0	879	879	0	1,043	1,043	0	912	912	0	1,148	1,148	0	1,073	1,073	0	945	945
Social Security Institution	0	0	0	0	0	0	0	0	0	0	2	2	0	10	10	0	9	9
Public Banks	0	579	579	0	645	645	0	551	551	1	675	677	0	652	652	0	595	595
Public Enterprises	15	299	314	19	319	338	26	312	338	58	1,389	1,446	0	1,363	1,363	0	1,337	1,337
Central Administrations	18	101	119	19	260	279	20	325	345	65	1,446	1,511	57	1,736	1,794	60	1,667	1,727
Organizations (2)	0	82	82	0	69	69	0	41	41	0	37	37	0	33	33	0	31	31
Insurance Institutions	0	50	50	0	90	90	0	68	68	0	78	78	0	65	65	0	55	55
Private Institutions (3)	0	49	49	0	29	29	0	19	19	0	16	16	0	7	7	0	6	6
Foundations (4)	0	32	32	0	32	32	0	24	24	0	27	27	0	24	24	0	22	22
TOTAL	32,106	42,586	74,693	42,619	57,872	100,491	53,471	53,475	106,946	8,211	17,421	25,632	9,048	19,104	28,152	7,756	17,931	25,687

(1) Provisional. Indicates the total amount of outstanding overdue and projected receivables.

(2) Represents Industrial Zones, Trade Unions and Istanbul Olympic Games Preparation & Organizing Board.

(3) Represents privatized SOEs and corporations governed by foundations.

(4) Represents universities subordinated by foundations and Foundation of Technological Improvements in Turkey.

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REPUBLIC OF TURKEY
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY