



REPUBLIC OF TURKEY
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY

PUBLIC DEBT MANAGEMENT REPORT

2011

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INTRODUCTION



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In 2010, the world economy has entered the process of recovery and the exit strategies have been started to be implemented. However, a quick rewinding to the pre-crisis conditions does not seem to be probable. In this regard, there exist significant risks for the year 2011 and ahead. Most importantly, there are concerns over fiscal sustainability in advanced economies, especially in the European Union member countries. The credibility losses faced by the states, resulting from the reflections of financial sector risks on the public balance sheets, pose significant threats upon global macroeconomic and financial stability.

The effects of the crisis felt in our economy have been limited thanks to the coordinated policies and early-implemented exit strategy, also the exit process has been completed relatively fast together with a couple of countries compared to the rest of the world. Strong macroeconomic fundamentals generated by consistent policies, a healthy financial sector and the low level of public debt stock have increased the options in the economic decision-making process.

In the Medium Term Program (MTP) announced in October 2010 for the period of 2011-2013, the priorities of the Turkish economy for the coming periods and the policies to be followed in order to achieve these priorities have been given. The MTP, prepared by realistic assumptions, has aimed at assuring that all actors in the economy take informed decisions for the future.

Turkey, as a result of the measures taken and the policies implemented, recorded a growth rate of 8.9 percent for the year 2010, being the best performer in Europe.

On the other hand, our resilience to the global economic crisis and the consistent policies put forward have been confirmed by the credit rating agencies as they raised Turkey's credit rating, following the pricing of the Turkey's credit default swap (CDS) premiums at the levels of investment grade countries.

Undersecretariat of Treasury has had enormous contributions to the efforts of limiting the effects of the global financial crisis in our country, with its strong institutional infrastructure developed since 2002 and the consistent and prudent financial management strategies followed both during and after the crisis. As a requirement of transparency and accountability, which are among the basic principles of debt management, the Treasury publishes each year the Annual Public Debt Management Report. I firmly believe that the Treasury, providing enlightening information through these reports on the developments and implementations in public debt management at the national and international platform will continue to work successfully with the same determination and dedication.

Ali BABACAN
Minister of State and Deputy Prime Minister

Dear Readers,

We are publishing the fourth issue of the Annual Public Debt Management Report in line with the transparency and accountability principles of the Undersecretariat. In this issue, along with the general framework of public debt management, the developments in the area of public borrowing in the global crisis environment which has been affecting the world, as well as qualitative and quantitative analyses are shared with public.

Financing requirements in many countries have brought about the concerns over public debt sustainability, while increasing the public debt stocks significantly. As a reflection of this, credit rating agencies have lowered many countries' ratings one after the other. In our country, on the other hand, the gains obtained by following consistent fiscal and debt management policies for years have enabled us to remain as one of the least affected countries from the crisis, as well as to overcome those effects in a short period of time.

The significant reduction in the ratio of public debt stock to GDP achieved through tight fiscal policies that were implemented in the pre-crisis period, provided a large room of maneuver for fiscal policy during the crisis and exit periods. By this means, precautionary measures for reducing the adverse effects of the crisis could be taken while the effects of the global volatilities on the debt stock could be constrained. When compared to the EU member countries, our country today is currently among those countries with low levels of debt stock.

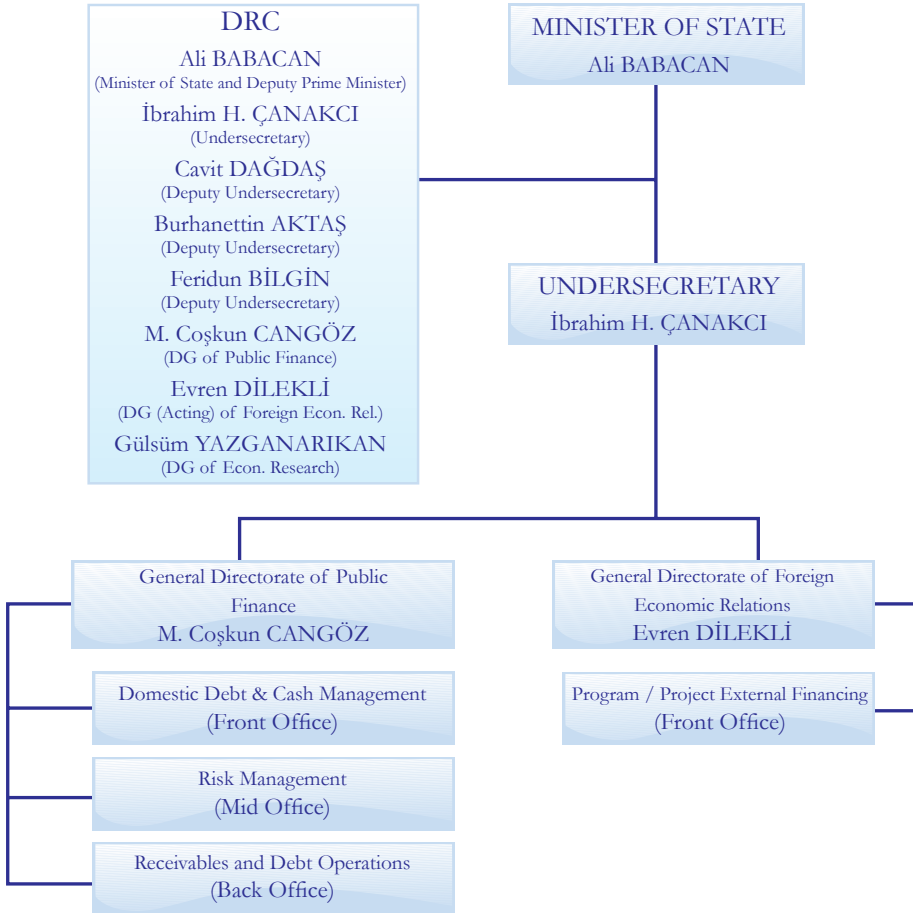
Within the framework of our public debt management where we conduct international best practices, a substantial improvement in the structure of debt stock has been achieved following the deterioration occurred after the crisis, thanks to the capacity we have and the strategies we have developed with a long-term perspective, while the sensitivity of our debt stock to the external shocks has continued to be reduced.

During a period in which the debt managers operating even in the advanced markets face the issues of low demand and short maturities, our borrowing costs decreased to historically low levels and the maturities reached their highest levels, and it is foreseen that the costs will further diminish because of the confidence and the stability environment provided.

In the following parts of the report, all of these developments are elaborated in detail. As I am introducing the Public Debt Management Report of the year 2011, I would like to thank all my colleagues who provided the utmost contribution in preparing this document.

İbrahim H. ÇANAKCI
Treasury Undersecretary

ORGANIZATION STRUCTURE OF DEBT MANAGEMENT



Debt and Risk Management Committee (DRC)

Debt and Risk Management Committee (DRC) is the decision making authority within the Treasury, having the duty of designing the main borrowing policies and providing coordination among units responsible for public debt management. The responsibilities of the Committee are set in Article 12 of the Law No. 4749 on Regulating Public Finance and Debt Management. Minister of State responsible for Treasury chairs the DRC which comprises Undersecretary of Treasury, Deputy Undersecretaries, Director General of Public Finance, General Director of Foreign Economic Relations and Director General of Economic Research. However, the meetings held for monitoring the implementations or providing coordination are chaired by the Undersecretary.

PRINCIPLES & STRATEGIES OF DEBT MANAGEMENT

MAIN PRINCIPLES

The main principles of debt management are defined in the Regulation on the Principles and Procedures for Coordination and Implementation of Debt and Risk Management dated September 1, 2002 with No. 24863, as follows:

- Maintenance of a sustainable, transparent and accountable borrowing policy in consistency with monetary and fiscal policies taking account of macroeconomic balances
- Fulfillment 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 implemented on the bases of medium and long term programs that consider the cost and risk balance.
- The auction schedule and financing program are announced in order to ensure transparency and predictability.
- Through the benchmark security issuance policy, secondary market liquidity of the securities is enhanced and an efficient yield curve is generated.
- By adopting the Primary Dealership system, primary and secondary markets are strengthened.
- Through the “strategic benchmarks” defined as the indicators and criteria representing the general risk/cost objectives of debt management, medium and long term market risks are taken under control. In this context;
 - Liquidity risk** – A strong level of cash reserves is kept, a smooth repayment profile is ensured and the borrowing maturity is increased.
 - Interest rate risk** – With the aim to reduce interest rate sensitivity, borrowing is made mainly through fixed rate instruments.
 - Exchange rate risk** - Borrowing is conducted mainly in TL instruments and the composition of foreign exchange denominated debt stock is determined.
- Risk and cost indicators of debt dynamics are monitored closely.
- In order to control credit risks, risk account, guarantee fee, partial guarantee and guarantee limit are applied.
- In order to address operational risks, technical analyses are conducted and results are reported.
- Annual and monthly Public Debt Management Reports are published and presented to the public.

**DEVELOPMENTS
AND
PROSPECTS**



MACROECONOMIC AND FINANCIAL FRAMEWORK

The global economy has been exposed to the deepest recession since the Second World War and contracted by 0.5 percent in 2009. In 2010, with the support of extraordinary stimulus measures taken by governments and central banks, global economy has entered into the recovery period. Production, world trade and consumption have rebounded and as a result, the world economy grew by 5 percent in 2010. However, the recovery of the world economy in 2010 differentiated across the regions. During this period, especially the emerging-market economies in Asia have led the growth. In emerging economies, strong macroeconomic indicators, sufficient fiscal spaces, low external debt and public debt stock levels, played a buffering role against the crisis. Among the advanced countries, the US economy performed better when compared to the Euro Area and Japan. However, with the help of the remarkable growth performance of Germany, a revival of the economic activity in the Euro Area has also been observed recently.

Although the global economy has been recovering, downside risks still remain. Natural disasters and political tensions at the regional level, soaring commodity prices particularly of food and crude oil, high unemployment rates in major economies, weak outlook of the US housing market, inflationary pressures and signs of overheating in emerging economies, concerns about public sector debt of Euro Area countries, are major downside risks to the global recovery. Meanwhile, increasing consumption expenditures in advanced economies, strong corporate profits and recovering investments are the upside risks for the global economic outlook.

Turkish economy, which has entered into the recovery period starting with the second quarter of 2009, has been displaying a strong growth performance since the last quarter of 2009. Growing by 8.9 percent in 2010, Turkish economy took part in outstanding economies in its region. With this performance, Turkey also became the fastest growing economy in Europe. Strong domestic demand supported the growth in this period. Thus, investment and consumption expenditures were the main determinants of growth since the last quarter of 2009. On the other hand, the fact that the external demand conditions have not yet been stabilized has a limiting impact on the economic growth.

On the other hand, while external demand remained weak, domestic demand displayed a stable rise and thus the current account posted a deficit of USD 48.4 billion in 2010. Besides the increase in trade deficit, the decline in services incomes compared to the previous year contributed to the expansion of the current account deficit as well. In 2010, capital inflows (excluding reserves) amounted to USD 42.2 billion. Banks were net borrowers in the said period,



while the non-bank private sector continued to be net re-payer as in 2009; and foreign direct investments remained at low levels. Portfolio investments and the rise in deposits in domestic banks became main components of capital inflows in 2010. Thus, short-term inflows of the post-crisis period continued to be the primary source of financing in 2010.

In 2010, although the inflation rate increased in the first quarter due to the low base effect, tax adjustments and substantial increases in the unprocessed food prices, end-year inflation rate was realized as 6.4 percent, below the target rate of 6.5 percent. As of April 2011, the annual inflation rate was realized as 4.3 percent due to the high base effect and decreases in the unprocessed food prices.

Strong capital structure, profitability and effective risk management in the banking sector have been among the factors mitigating the negative impacts of the global crisis. In 2010, capital adequacy ratio was realized as 18.9 percent, well above the legal rate of 8 percent. Despite the fact that the banking systems in many advanced and developing countries recorded losses due to the global crisis and had to be supported by the public resources, Turkish banking sector increased its profit by 9.6 percent and return on equity was realized as 20.1 percent in 2010. The banking sector kept its robust capital structure and profitability without receiving any state support and played an important role in the recovery of our economy after the crisis.

The ratio of non-performing loans to the total loans increased to 5.4 percent as of October 2009 due to the global crisis. However, as a result of the measures taken and the revival of economic activity it has since been following a declining trend. As of April, 2011, non-performing loans to total loans ratio decreased to the level of 3.1 percent.

Together with the normalization of global financial markets and economic recovery, the Central Bank of the Republic of Turkey (CBRT) announced the monetary policy exit strategy on April 14, 2010. Within this context, the CBRT has decreased excess liquidity gradually, increased the required reserve ratios in both local and foreign currencies gradually and widened the interest corridor.

Turkey has performed well in terms of major macroeconomic outlook both during and after the global financial crisis. In such a period, when the post-crisis volatilities and the political turmoil in our region continue, preserving macroeconomic stability will continue to be the main focus of monetary and fiscal policies.

FISCAL POLICY

In order to mitigate the effects of the global economic crisis on the economy, a fiscal stimulus package was adopted. The main components of the fiscal plan were, reducing the indirect tax rates (Special Consumption Tax and VAT) and the fees levied on consumer loans, increasing the credit support to small and medium sized enterprises (SMEs) in order to promote employment and lowering the fees charged on the acquisition of real estates. The combined effect of these measures and the declining tax revenues resulting from the contraction of the economy, led to the deterioration of fiscal balances. As a result, the central government budget deficit was realized as 5.5 percent of the GDP in 2009.

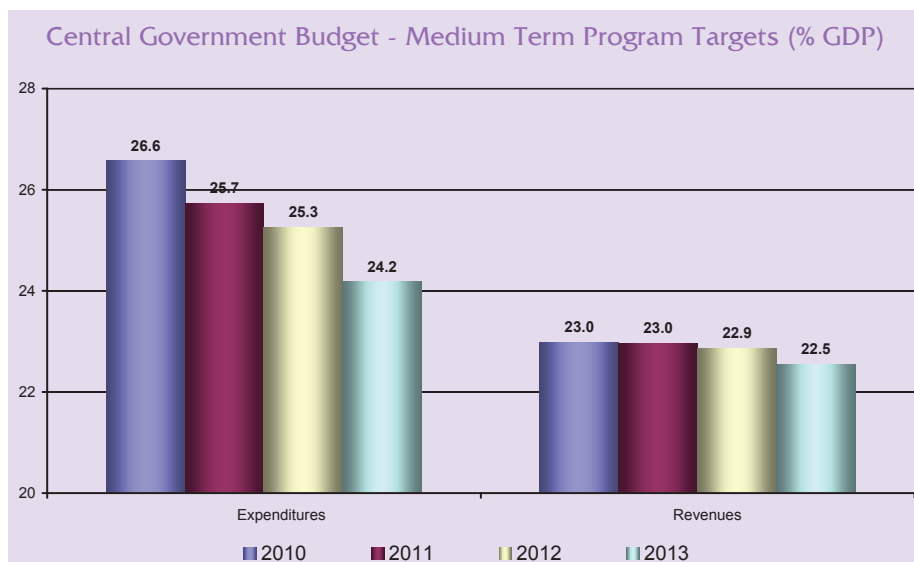
The Medium Term Program 2010-2012 (MTP) announced in October 2009 introduced the exit strategy to gradually restore fiscal balances. In the context of the MTP, it was envisaged to revoke the temporary measures which were adopted during the crisis and to implement additional fiscal policies. In this framework, an annual operation fee to be charged from each bank branch has been adopted starting from 2010, the fees levied on consumer loans were restored to their pre-crisis levels, the fee and stamp taxes were decided to be increased at a rate above the inflation rate and the regulations were made for determining the real estate revaluation rates. As a result of these fiscal measures along with the rapid economic recovery in 2010, the central government tax revenues increased to 19.1 percent of GDP in 2010 from 18.1 in 2009. As a result of the fiscal discipline on the expenditure side, the budget balance improved during this period.

The 2010 budget deficit, which was anticipated as TL 50.2 billion according to the Central Government Budget Law, was revised to TL 44.2 billion in the 2011-2013 MTP which was announced in October 2010, as a result of the high performance achieved in the revenue side. The realization has even been stronger indicating a better fiscal performance as the budget deficit stood at TL 39.6 billion. As a share of GDP, the deficit narrowed to 3.6 percent compared to the 4.9 percent Budget Law target.

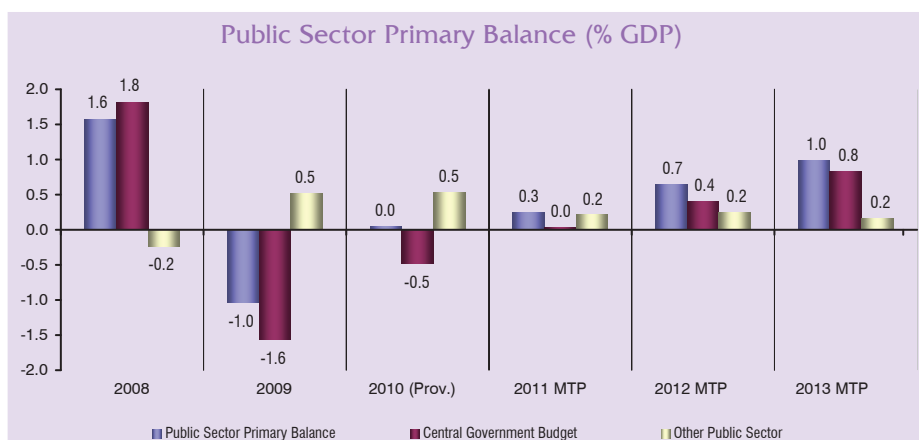
CENTRAL GOVERNMENT BUDGET 2010 ^(*)			
(Billion TL)	Budget Law	OVP Est.	Realization
Budget Balance	-50.2	-44.2	-39.6
Primary Balance	6.6	5.3	8.7
Budget Revenues	236.8	252.8	254.0
-Tax Revenues	193.3	210.2	210.5
-Other Revenues	43.5	42.6	43.5
Budget Expenditures	287.0	297.0	293.6
-Primary Expenditures	230.2	247.5	245.3
-Interest	56.8	49.5	48.3

* Provisional.

The MTP for 2011-2013 sets as a target the reduction of the ratio of budget deficit to GDP to 1.6 percent by the end of 2013. For this period, the central government revenues are expected to decrease to 22.5 percent from 23 percent of GDP, while the expenditures would be reduced to 24.2 percent from 26.6 percent. Of this expenditure cut of 2.4 percent of GDP, 1 percent is expected to be provided by the decrease in interest expenditures.



As a result of the positive developments in the central government budget balance in 2010, the program defined primary balance of the public sector improved as well. The public sector primary deficit, which was 1 percent of GDP in 2009 is expected to be around zero by the end of 2010. Furthermore, the 2011-2013 MTP envisages a gradual decrease in the general government deficit and sets a target of 1 percent by the end of 2013.



It is anticipated that the central government budget deficit will decrease by 1.3 points whereas the deficit of rest of the public sector will decrease by 0.3 points as a share of GDP during the program period.

The primary deficit of the local governments was realized as 0.4 percent of GDP in 2009 and it is estimated that it has declined to 0.1 percent of GDP in 2010, because of the impact of the growth in general budget tax revenues.

On the other hand, the primary surplus of the state economic enterprises is estimated to be 0.3 percent of GDP in 2010, which was 0.6 percent of GDP in 2009.

Extra budgetary funds' primary balance worsened in 2009 due to the increase of transfers from the Social Aid and Solidarity Incentive Fund aimed at mitigating the adverse effects of the crisis on low income groups. Despite the improvement in the Fund's balance in 2010, the primary deficit of extra budgetary funds remained at 0.1 percent of GDP due to the increase in expenditures of the Privatization Fund and the Defense Fund.

The Unemployment Insurance Fund's primary surplus was 0.2 percent of GDP in 2009 reflecting the cost of measures to promote employment and to enhance labor market efficiency. While in 2010, the Fund's primary surplus increased to 0.3 percent of GDP as falling unemployment rates led to an increase in the premium revenues.

In addition, it is anticipated that the revolving funds' primary surplus is 0.1 percent of GDP in 2010.



CASH MANAGEMENT

As a result of the exit strategy implemented in 2009, there has been an improvement of the Treasury cash balance in 2010 compared to the previous year. Due to the revival in economic activity, cash based revenue collection reached TL 240.4 billion in 2010. Moreover, increase in public expenditures was limited until December 2010 and non-interest expenditures, including both deferred payments of the previous years and the current year budget appropriations, amounted to TL 234.2 billion, which created a primary cash surplus of TL 6.2 billion. On the other hand, the interest revenue transfers from Unemployment Insurance Fund to Treasury amounted to TL 3.7 billion and the Privatization Fund transferred TL 3.1 billion cash surplus to Treasury in 2010. These transfers are regulated by provisional articles of Law No.4447 and Law No.4046, respectively, and are planned for the period between 2008 and 2012. Decrease in interest rates as a result of the positive internal economic outlook and external factors, strong revenue collection performance together with the robust financing strategies resulted in a total interest expenditure of TL 47.9 billion which is well below the budget appropriations of TL 56.8 billion. This in turn has led to a cash deficit of TL 34.9 billion in 2010.

Treasury Cash Realizations ⁽¹⁾				
(billion TL)	2007	2008	2009	2010
1. Revenues	176.2	194.1	202.8	240.4
2. Expenditures	195.9	219.6	259.7	282.1
Non-interest expenditures	149.1	170.1	207.2	234.2
Interest payments	46.8	49.5	52.5	47.9
3. Primary Balance	27.1	24.0	-4.4	6.2
4. Privatization and Funds Income ⁽²⁾	7.0	9.2	7.7	6.7
5. Cash Balance (1+4-2)	-12.7	-16.3	-49.2	-34.9
6. Financing (7+8+9+10+11)	12.7	16.3	49.2	34.9
7. Borrowing (Net)	7.2	10.2	53.8	26.9
Foreign Borrowing (Net)	-5.2	-0.1	3.0	4.2
Borrowing	10.5	10.9	11.3	14.9
Payment	15.7	11.0	8.3	10.7
Domestic Borrowing (Net)	12.4	10.3	50.8	22.8
Borrowing	108.8	96.3	138.9	159.0
Payment	96.4	86.0	88.1	136.2
8. Privatization ⁽³⁾	2.0	0.0	0.0	0.0
9. Transfers from SDIF	0.1	0.2	0.6	0.7
10. Receipts from On-lending	0.7	0.6	0.8	1.4
11. Change in Bank Accounts ⁽⁴⁾ -(5+7+8+9+10)	2.7	5.4	-6.1	6.0
12. Effect of Change in Exchange Rate ⁽⁵⁾	-2.1	3.6	0.6	-0.4
13. Net Change in Bank Accounts ⁽⁴⁾ (11-12)	4.9	1.8	-6.7	6.4

(1) Provisional

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

(3) This row indicates the amount transferred from Turkish Privatization Administration 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

On the other hand, as part of the modernisation efforts in cash management which have started in 2007 and the secondary regulation that came into effect in 2009, technical studies were conducted to enable public institutions to send the notification of their three-month and weekly cash demands to Treasury electronically. Pilot practice for sending cash demands via web-based Cash Demand Notification System was initiated with selected public institutions.

Public Treasurership

The studies which started in 2009 with an aim of improving the public treasurership to follow not only the financial assets but also the liabilities of the public institutions have been continued during 2010.

In the newly-developed structure, the reporting system is based on the Tax Identification Numbers (TINs) of the public institutions; while the previous reports were being provided through a code structure where the names of public institutions were used. Through this way, it is aimed at eliminating the reporting errors and being able to provide detailed controls as regards to the implementation of the communiqué. For this purpose, TINs were obtained and classified from approximately 60,000 public institutions, covering general and special budget institutions, revolving funds, other funds, local administrations and social security institutions. The infrastructure necessary for the banks to start reporting under the new system as of February 2011 has been established.

It is envisaged that the new system will be launched by May 2011, while the previous reporting system will be abandoned completely

DEBT MANAGEMENT

DOMESTIC BORROWING

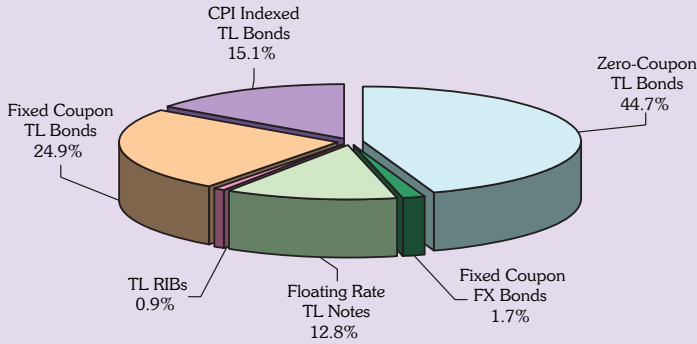
With the deepening of global financial crisis, fiscal and financial measures taken by the countries caused an increase in public deficits in 2008 and 2009 which in turn led many countries to face concerns regarding debt sustainability in 2010. Thanks to the sound debt management policies put into practice in line with the monetary policy since 2002, sensitivity of the Turkish financial system to external financial shocks has been reduced. In accordance with the strategic benchmarks implemented since 2003, borrowing has been conducted mainly by issuing fixed rate bonds and TL denominated securities which reduced the interest rate and exchange rate risks and thus, debt sustainability has not become a concern in Turkey, contrary to some other countries.

In 2010 when the effects of the global crisis have started to fade away, in an effort to diversify the instruments and to increase the liquidity of the yield curve, 3 year TL denominated fixed coupon bonds were started to be issued regularly, in accordance with the borrowing strategy. Besides, the issuance of 5 year TL denominated fixed coupon bonds which have been being issued since 2005 have continued during the year.

On the other hand, in 2010, parallel to the improvements of the risk perceptions for Turkey, the downtrend of interest rates reduced the borrowing costs and by issuing the 10 year CPI indexed and fixed rate domestic borrowing bonds for the first time in history, the maturity was lengthened.

In order to diversify the borrowing instruments and broaden the investor base, Revenue Indexed Bonds (RIBs) had been issued for the first time in 2009. By the issuance of third and fourth tranches of RIBs in February and August 2010, the total amount of the issuance reached TL 1.4 billion in 2010. Moreover, in 2011 Borrowing Strategy it was announced that new RIBs would be issued in February and August 2011, and accordingly in February 2011 Treasury raised TL 475.7 million at the new RIBs issuance.

Domestic Borrowing by Instruments in 2010 ⁽¹⁾



(1) Excluding switching auctions.

Last year, 44.7 percent of total cash borrowing was conducted through TL denominated zero coupon bonds, while TL denominated fixed coupon bonds, CPI indexed bonds and TL denominated floating rate notes accounted for 24.9, 15.1 and 12.8 percent of total borrowing respectively. In the same period, TL denominated RIBs and FX denominated fixed coupon bonds made up the 0.9 and 1.7 percent.

In 2010, 99.1 percent of domestic borrowing was accomplished through 58 auctions and the remaining 0.9 percent with direct sales. Cumulative average bid to cover ratio was approximately 2.3. The average maturity of cash-based domestic borrowing increased from 35.3 months to 44.1 months in 2010, compared to the previous year. On the other hand, the annual weighted average cost of TL denominated zero coupon bonds decreased from 11.6 percent to 8.1 percent in the same period. As of April 2011, the average maturity of cash-based domestic borrowing was 53.4 months and the annual weighted average cost of TL denominated zero coupon bonds was 8 percent.

Besides, 6 switching auctions were conducted in 2010 in accordance with the active debt management strategy framework. With these auctions, domestic debt redemptions of 2010 and 2011 decreased by TL 1.5 billion and TL 1.3 billion, respectively. Moreover, a regular Buy-back Program, which covered September-December 2010 period, was declared to buy back maximum TL 200 million of domestic borrowing securities in every week. As a result, 13 regular buy-back auctions were conducted during that period and TL 1.6 billion of domestic borrowing securities were bought back. Hence, liquidity risk for the first quarter of 2011 has been mitigated.



On the other hand, a total of TL 8 billion non-cash domestic debt securities, which had been issued to the CBRT after the 2001 crisis, have been redeemed by the end of December 2010 so that the burden of the crisis on the Central Bank balance was removed. Also, the redemption of non-cash domestic debt securities issued to the public banks during the crisis was also completed in 2010.

In 2010, TL 194.8 billion domestic and external debt was redeemed and TL 173.9 billion worth of securities were issued. Moreover, as a result of the high budgetary performance, TL 21 billion of the total debt service was financed by non-debt creating sources, although the amount had been estimated as TL 5 billion at the beginning of the year.

Thanks to the economic recovery that positively affected the primary surplus and the decreasing trend of interest rates, 2010 domestic roll over ratio was realized as 89.3 %, which was lower than the projection of 99.5 % at the beginning of the year while the this ratio is projected to be 88 % in 2011.

Treasury Financing Program ⁽¹⁾				
(billion TL)	2010		2011	
	Program	Realization	Program	Realization ⁽²⁾
I- TOTAL DEBT SERVICE	200,3	194,8	152,8	65,2
Domestic Debt Service	182,6	178,1	135,0	58,5
Principal	138,4	136,2	99,3	44,6
Interest	44,2	41,9	35,8	13,9
External Debt Service	17,7	16,7	17,8	6,7
Principal	11,2	10,7	11,0	3,9
Interest	6,5	6,0	6,8	2,8
II- FINANCING	200,3	194,8	152,8	65,2
Financing Other Than Borrowing ⁽³⁾	5,0	21,0	21,1	6,3
Total Borrowing	195,3	173,9	131,7	58,9
External Borrowing	13,7	14,9	12,5	5,1
Domestic Borrowing	181,6	159,0	119,1	53,8
TOTAL ROLL-OVER RATIO (%)	99,5	89,3	88	91,9
Memo (Billion TL)				
NET BORROWING (Borrowing - Principal Payments)	45,7	27,0	21,4	10,3
Net Domestic Borrowing	43,2	22,8	19,9	9,1
Net External Borrowing	2,4	4,2	1,6	1,2

(1) Cash based.

(2) Realization for January-April.

(3) The cash primary balance, privatization revenues, receipts from on lending and guaranteed debt, receipts from SDIF, use of cash account and FX changes

As in previous years, 2011 Financing Program, which was announced in October 2010, has been prepared by taking into account the liquidity, interest rate and currency risks of the total debt stock and with due regard to the strategic benchmarks ensuring the cost and risk balance. In this respect, it is envisaged that the majority of funds will be raised through TL denominated securities while foreign exchange denominated debt securities will not be issued, except for the probable issuance to the public institutions. On the other hand, it is targeted that the fixed rate TL denominated instruments are used as the main source of domestic cash borrowing in order to decrease the share of debt which has interest rate fixing period less than 12 months. In this context, 3 year TL denominated fixed coupon bonds will be issued every month according to the regular issuance strategy. The policy of preserving high cash reserves, which provided important flexibility in debt management during the global financial crisis, is planned to be continued.

In the first four months of 2011, TL 58.5 billion worth of domestic debt service was financed by 53.8 TL billion of domestic borrowing, so that 43.3 percent of total domestic debt service and 45.2 percent of total domestic borrowing announced in the 2011 Program were realized as of April 2011. In this respect, total domestic roll-over ratio was realized as 91.9 percent in the first four months of 2011.

The Primary Dealership System, reinitiated in 2002 with an aim to improve the primary and the secondary markets, has been successfully operated in 2010 and has become more efficient by a comprehensive revision in 2010. Main revisions regarding the Primary Dealership System are set out below.

	2009 - 2010 PD Contract	2010 - 2011 PD Contract																		
General Issues Regarding the Primary Dealership System	<ul style="list-style-type: none">Yearly signed PD ContractPeriod of the contract, September-AugustAccess to PD System at the beginning of the contract.	<ul style="list-style-type: none">Automatically renewed contract unless annulment of the contract is declared one month before the end of the contractPeriod of the contract, January-DecemberAccess to PD System by applying one month before the beginning of every 3 month period.																		
Purchase Obligation of the Primary Dealers	<ul style="list-style-type: none">Primary Dealers shall purchase at least 3% in each month and at least 5% in each three month period <table><tr><td>Borrowing Maturity</td><td>Coefficient</td></tr><tr><td>0-3 year(3 year included)</td><td>1</td></tr><tr><td>3-5 year (5 year included)</td><td>1.3</td></tr><tr><td>+ 5 year</td><td>1.5</td></tr></table>	Borrowing Maturity	Coefficient	0-3 year(3 year included)	1	3-5 year (5 year included)	1.3	+ 5 year	1.5	<ul style="list-style-type: none">Monthly and three month purchase obligations are calculated by multiplying the amount issued by 0.36 and 0.6, respectively, and then division of the number to the number of Primary Dealers <table><tr><td>Borrowing Maturity</td><td>Coefficient</td></tr><tr><td>0-3 year(3 year included)</td><td>1</td></tr><tr><td>3-5 year (5 year included)</td><td>1.2</td></tr><tr><td>+ 5 year</td><td>1.4</td></tr><tr><td>+ 10 year</td><td>1.6</td></tr></table>	Borrowing Maturity	Coefficient	0-3 year(3 year included)	1	3-5 year (5 year included)	1.2	+ 5 year	1.4	+ 10 year	1.6
Borrowing Maturity	Coefficient																			
0-3 year(3 year included)	1																			
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Borrowing Maturity	Coefficient																			
0-3 year(3 year included)	1																			
3-5 year (5 year included)	1.2																			
+ 5 year	1.4																			
+ 10 year	1.6																			
Quotation Obligation of the Primary Dealers	<ul style="list-style-type: none">The Primary Dealer has to select 4 benchmark securities out of 6 benchmark securities designated by the Undersecretariat.Primary Dealers renew the quotations in 2 minutes.	<ul style="list-style-type: none">The Primary Dealer has to select 6 benchmark securities out of 9 benchmark securities designated by the Undersecretariat consisting at least 4 fixed rate, 1 floating rate and 1 CPI indexed security.Primary Dealers renew the quotations in 5 minutes.																		
Primary Dealers' Code of Conduct		<ul style="list-style-type: none">The Primary Dealer shall not distort competition in the primary market by negotiating and acting coordinated with the other primary dealers and/or participants. If it is identified Primary Dealer's contract will be annulled, immediately.																		

In line with the aim of sustaining transparency and predictability in debt management, the domestic borrowing strategy, previously announced in monthly periods, is disclosed for quarterly periods since January, 2010. This practice will continue during the year 2011.

EXTERNAL BORROWING

Program Finance

Financing from International Capital Markets

In 2010, despite the concerns on global outlook and fiscal problems in Eurozone countries, Turkey was able to differentiate itself with its strong growth performance and sound fiscal position. As a reflection of this, the Treasury raised a total of USD 6.7 billion equivalent of financing from international capital markets through five Eurobond issuances in 2010.

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. The yield of US Dollar denominated bond with 11 years maturity issued in March and reopened in August corresponds to the lowest cost achieved among all US Dollar denominated bonds issued by the Treasury. In April, with a landmark 10 year transaction in the Euro market after three years, Treasury raised 1.5 billion Euros, which is the largest Euro denominated offering done by the Treasury so far.

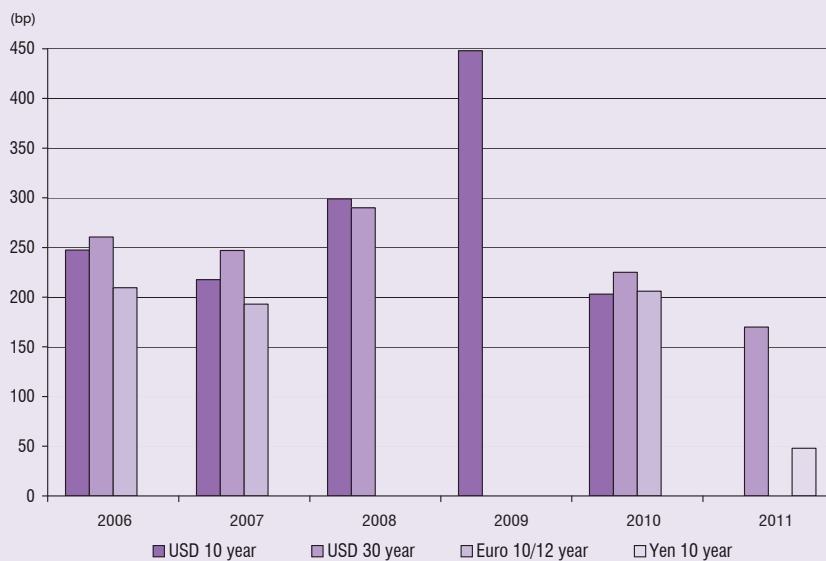
In 2011 financing program, on the other hand, approximately TL 12.5 billion is anticipated to be raised from international capital markets. In January-April period of 2011, a total of approximately USD 3.3 billion was raised from international capital markets through two Eurobond issuances.

Moreover, the lowest cost of borrowing to date among 30 year maturity bond offerings of the Treasury was achieved with the bond issued in January 2011. Besides, a landmark 10 year Yen denominated bond was issued in Japanese markets in March 2011, which is the first bond issuances by the Treasury in Japanese Yen market since 2000.

Eurobond Issuances in 2010-2011

Issue Date	Maturity Date	Currency	Amount	Coupon (%)	Yield-To-Investor	
					(%)	Spread (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	Euro	1,500,000,000	5.125	5.204	Bund + 206 bp
05.08.2010	30.03.2021	USD	1,000,000,000	5.625	5.250	UST + 227 bp
12.11.2010	18.05.2020	USD	500,000,000	5.125	4.250	Bund + 197 bp
12.01.2011	14.01.2041	USD	1,000,000,000	6.000	6.250	UST + 170 bp
18.03.2011	18.03.2021	Yen	180,000,000,000	1.870	1.870	10y ¥ Swap + 48 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 26, 2011).

Developments in the International Capital Markets

Despite some volatility in periods during which sovereign debt and banking systems concerns dominated the market, a relative improvement in financial markets was achieved in 2010 as result of the recovery in global economy and investors' risk appetite. The low rates and expansionary monetary policies of developed countries together with the strong growth performance of developing countries boosted the interest in developing countries' assets.

The yield level of our benchmark bond due in 2030 decreased to 5.6 percent at the end of 2010 in line with the general improvement in global markets, after reaching 6.4 percent at the end of 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 248 and 177 basis points (bp) at the end of 2010, down from 274 and 197 bp respectively at the end of 2009. The 5 years CDS levels of Turkey decreased to 141 bps at the end of 2010, compared to 184 bps at the end of 2009.

Since the beginning of 2011, due to the increased tension in MENA region and developments in peripheral Euro countries, the yield of our benchmark bond due in 2030, EMBI+ Turkey sub-index and 5 years CDS levels increased to 6.0 percent, 204 and 158 bp respectively as of end of March 2011.

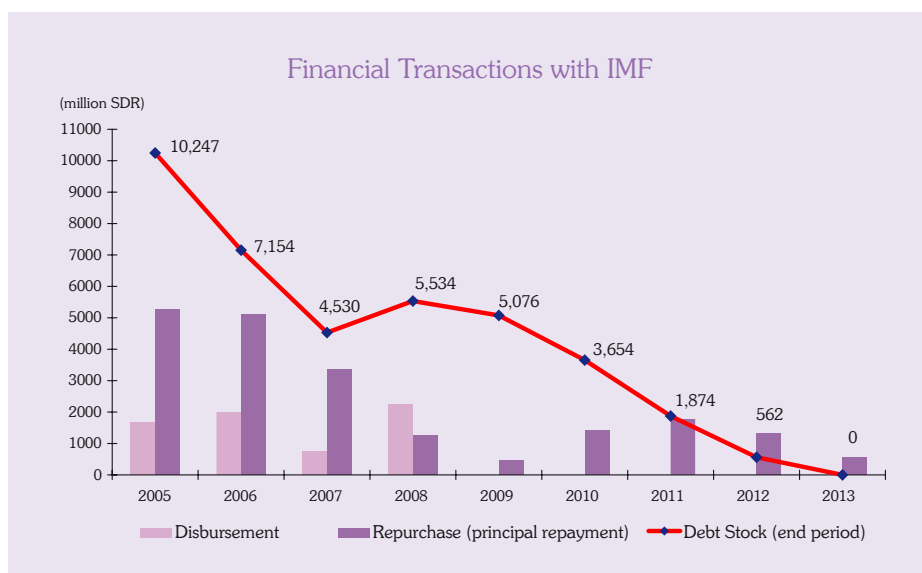
Program Financing from IMF

The 19th stand-by arrangement with the International Monetary Fund (IMF) was completed in May 2008. In 2009, total repayment to the IMF amounted to SDR 582 million (of which SDR 458 million was principal and SDR 124 million was interest). In 2010, total repayment to the IMF has been SDR 1.508 million (of which SDR 1.423 million was principal and SDR 85 million was interest).

Net Financing from International Monetary Fund ^{(1) (2)}								
Million SDR	2000 2004	2005	2006	2007	2008	2009	2010	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	1.508	31.403
Principal	10.232	5.267	5.092	3.373	1.244	458	1.423	27.088
Interest	2.292	644	543	368	258	124	85	4.314
III. Net Financing (I-II)	10.907	-4.245	-3.637	-2.992	746	-582	-1.508	-1.309
IV. Net Financing Excluding Interest	13.200	-3.601	-3.094	-2.624	1.004	-458	-1.423	3.005
V. IMF Debt Stock (end of period)	60.745	10.247	7.154	4.530	5.534	5.076	3.654	..

(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-Dec 2010 \$/SDR exchange rate is 1.54003.



Program Financing from European Investment Bank (EIB)

The loan in the amount of EUR 450 million was secured from the EIB on October 22nd, 2010 for the purpose of financing budgetary expenditures made/to be made concerning the academic research and development activities performed by TÜBİTAK and TÜBİTAK Research Institutes in the period 2010-2011. With regard to the referred loan, EUR 450 million was disbursed by the EIB on December 22nd, 2010 and this source was transferred to the treasury account for the partial financing of R&D expenditures. On the other hand, the average maturity of the EIB program credits was 9 years in 2010.

Program Financing from the World Bank

In 2010 Restoring Equitable Growth and Employment Programmatic Development Policy Loan (REGE DPL) in the amount of Euro 931 million (approximately USD 1.3 billion) has been obtained from the World Bank. The loan supports the reforms on improving competitiveness and employment, efficient provision of high quality public services and other reforms related to public sector as well as the measures taken to alleviate the impact of the global crisis. The Agreement for the said loan was signed on March 24, 2010 and the loan proceeds were fully disbursed on April 15, 2010.

Furthermore, Second Programmatic Environmental Sustainability and Electricity Sector Development Policy Loan (ESES DPL II) in the amount of Euro 519.6 million (approximately USD 700 million) has been obtained from the World Bank in order to support the reforms on the areas of (i) energy sector, (ii) sustainable environmental management and (iii) climate change. The Agreement for the said loan was signed on July 1, 2010 and the loan proceeds were fully disbursed on August 25, 2010.

The average maturity of the loans obtained from the World Bank in 2010 is 18 years.

Project Finance

As of the end of 2010, external financing amounting to USD 6,817 million was provided by governments, commercial banks, export agencies and international financial institutions through 36 loan agreements signed for financing of various projects. The sectoral distribution of these loans is as follows: 42.9 percent for defense, 21.5 percent for transportation, 13.6 percent for SMEs and 11.3 percent for urban infrastructure projects. In 2010, 76.6 percent of the loans were sovereign debt, 19.5 percent were provided under Treasury guarantee and 3.9 percent were on-lent debt.

Out of the total loans provided in 2010, 37 percent were provided under ECA guarantee schemes, 28.1 percent were extended by the international financial institutions, 27 percent were commercial loans, 7.9 percent were ODA Credits/ Soft Loans.

As a result of the positive developments in the global financial markets, the weighted average of total maturity (nominal maturity) of external debt provided in 2010 was realized as 18.9 years, which was 17.3 years in 2009. Besides, weighted average of the grace period of the external debt provided in 2010 was 6.8 years and weighted average of average maturity/duration was 12.8 years. Moreover, the weighted average of total maturity (nominal maturity) for commercial loans provided in 2010 was 10.6 years, weighted average of the grace period was 8.3 years and weighted average of average maturity/duration was 9.5 years.

The Classification of Project Financing According to Their Sources Between 2005-2010							
(Million USD)	2005	2006	2007	2008	2009	2010	Total
ODA Credits/ Soft Loans	1,090	255	0	182	304	541	2,372
Commercial Credits	567	1,644	2,650	797	867	1,843	8,368
ECA	303	321	1,439	221	11	2,511	4,806
International Financial Institutions	2,133	2,571	1,556	2,935	3,885	1,922	15,002
Total	4,093	4,791	5,645	4,136	5,067	6,817	30,548

The Classification of Project Financing According to Their Sources Between 2005-2010							
(%)	2005	2006	2007	2008	2009	2010	Total
ODA Credits/ Soft Loans	26.6	5.3	0.0	4.4	6.0	7.9	7.8
Commercial Credits	13.9	34.3	46.9	19.3	17.1	27.0	27.4
ECA	7.4	6.7	25.5	5.3	0.2	36.8	15.7
International Financial Institutions	52.1	53.7	27.6	71.0	76.7	28.2	49.1

As can be seen in the above tables, during 2005-2010 the share of international financial institutions as a source of project finance was 49.1 percent, the share of commercial loans was 27.4 percent, the share of loans provided under ECA guarantee schemes was 15.7 percent and the share of ODA Credits/Soft Loans was 7.8 percent.

DEBT STOCK

The central government gross debt stock increased from its 2009 level of TL 441.5 billion to TL 473.5 billion in 2010. However, the central government gross debt stock to GDP ratio decreased from 46.3 percent to 42.9 percent.

On the other hand, the ratio of EU-defined general government debt stock - which is calculated each year based on the European System of Accounts 95 (ESA 95) methodology and reported to the Eurostat - to the GDP was realized as 41.6 percent in 2010, indicating a decline of 3.9 percent from the 2009 level of 45.5 percent. Contrary to many EU member countries, this ratio is well below the Maastricht Criteria of 60 percent. General Government Sector consists of the central government, local administrations, non-budgetary funds, revolving funds and social security institutions.

On the other hand, the central government total debt stock stood at TL 485.9 billion as of March, 2011. Domestic debt comprises 74 percent of the total stock while the share of external debt is 26 percent, whereas the share of TL denominated debt in central government debt stock reached 72.9 percent at the end of March, 2011. This ratio was 70.9 and 73.3 percent in 2009 and 2010 year ends respectively. As regards to the interest composition the share of fixed rate debt stood at 57.3 as of the end of March, 2011. These changes in the composition of the debt stock have continued to decrease the vulnerability of the debt stock to exchange and interest rate changes.

Central government domestic debt stock has improved in terms of both maturity structure and currency composition as the years and the share of the foreign exchange denominated/indexed debt stock in the total debt stock has declined to considerably low levels in accordance with strategic benchmarks which have been initiated since 2003. The ratio of foreign exchange denominated/indexed domestic debt stock to total domestic debt stock which was 35.6 percent at the end of 2001 declined to 1.6 percent by the end of 2010. Furthermore, time to maturity of cash domestic debt stock increased to 30.9 months as of end 2010 from the 19.2 months at the end of 2001. This significant increase resulted from the regular issuance of fixed couponed securities which have 3-5 years maturity since 2010 and 10-year-maturity securities which are firstly issued in 2010.

On the other hand, due to non-cash bonds which had been issued for restructuring of public banks and the banking sector after the crisis of 2000-2001, the share of non-cash securities in the total domestic debt stock had raised to 52.6 percent at the end of 2001. As a result of the redemption within the last 10 years the stock of the so-called non-cash securities has ended as of the end of 2010. Consequently, the share of non-cash securities in the total domestic debt stock has fallen to a level of 0.7 percent as of the end of 2010.

Public Debt Stock

(Million TL, %)	2005	2006	2007	2008	2009	2010
Central Government Gross Debt Stock	331,520	345,050	333,485	380,321	441,508	473,549
Central Government Gross Debt Stock/GDP	51.1%	45.5%	39.6%	40.0%	46.3%	42.9%
General Government Debt Stock Defined by EU Standards	339,427	349,487	332,544	375,237	433,413	459,515
General Government Debt Stock Defined by EU Standards/GDP	52.3%	46.1%	39.4%	39.5%	45.5%	41.6%
Public Sector Net Debt Stock	270,243	258,153	248,396	267,970	309,808	317,425
Public Sector Net Debt Stock/GDP	41.6%	34.0%	29.5%	28.2%	32.5%	28.7%

Note: Figures may vary due to revision of external debt data

The public net debt stock reached the level of TL 317.4 billion at the end of 2010, increasing by TL 7.6 billion from its level in 2009. In the same period, the public net debt stock to GDP has decreased from 32.5 percent to the level of 28.7 percent. In the mean time, as a result of the strategic benchmarks, improvement of TL/FX composition of the public net debt stock continued in 2010 and the share of the FX denominated debt stock in the public net debt stock which was about 8.2 percent at end of the 2009 decreased to about 2.8 percent at the end of 2010

MANAGEMENT OF TREASURY GUARANTEES AND RECEIVABLES

TREASURY GUARANTEES

Treasury guaranteed foreign debt stock has increased 11 percent in 2010 and reached USD 7.4 billion from its level of USD 6.6 million in 2009. This rise is mostly due to the Treasury guaranteed credits provided to the public sector financial institutions (Türkiye Halk Bankası, Türkiye Kalkınma Bankası, Türkiye Vakıflar Bankası) for the renewable energy and for the projects of small and medium sized enterprises.

The undertakings from the Treasury repayment guarantees has fallen to 9 percent in 2010 from its level of 25 percent in 2009, due to the improvements in the financial positions of the state owned enterprises (SOEs) in the energy sector. During the year, Treasury undertook a total of TL 210.4 million, TL 116.8 million of which is due to the investment guarantees and TL 93.6 million is due to the repayment guarantees. In the same period, TL 984 million of debt was repaid by the borrowing institutions in the context of Treasury repayment guarantees. In the same category, TL 19 million has been undertaken by the Treasury until the end of March 2011, and a total of TL 132 million debt has been serviced by institutions. In the same period, Treasury undertook TL 31 million due to the investment guarantees.

As there have been sufficient revenues of the Risk Account from which Treasury guaranteed payments are made, there were no transfers from the budget allocations of the Risk Account in 2010. In this context, the total of TL 210.4 million undertaken by Treasury was paid from own resources of the Risk Account.

Repayments of Treasury Guaranteed Credits ⁽¹⁾						
(Million TL)	2010			March 2011		
	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)	Paid by Treasury	Paid by Institution	Undertaken Ratio (%)
Local Administrations	85	145	36,9	19	18	52,1
Funds	..	51	1	..
Financial Institutions	7	76	7,9	..	1	..
Non-Financial Institutions	2	261	0,8	..	34	..
Private Sector Financial Institutions	..	309	48	..
Private Sector Non-Financial Institutions	..	141	30	..
Total	94	984	8,7	19	132	12,7

(1) Consists of repayment guarantees only.

TREASURY RECEIVABLES

“Treasury receivables” are defined in the Law No. 4749 as the claims arising from the Treasury guarantees given for financing facilities obtained from any foreign financing source or from disbursement of such facilities through on-lending or from the transactions which, while remaining outside the scope of mentioned items, stem from relevant legislation and which arise in connection with all kinds of payments which the Treasury becomes obliged to assume and/or with the State Domestic Borrowing Notes (SDBN) issued by the Treasury for lending.

As of December 2010, Treasury receivables stock was TL 25.3 billion, of which the overdue receivables stock was TL 8.3 billion while the remaining part, TL 17 billion is composed of the projected receivables. By the end of March 2011, Treasury receivables are TL 25.6 billion in which the overdue stock amounts to TL 8.4 billion.

In 2010, overdue receivables stock decreased by TL 0.8 billion compared to the previous year. Overdue receivables from local administrations account for the largest part of the overdue stock, followed by the SOE's and other debtors.

Treasury Receivables Stock ⁽¹⁾						
(Million TL)	2010			March 2011		
	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivable Stock	Total
Local Administrations	7,790	6,892	14,682	7,908	6,920	14,829
SOE's ⁽²⁾	433	5,570	6,003	463	5,681	6,144
Banks	0	888	888	0	920	920
Social Security Institution	0	9	9	0	10	10
Public Banks	0	585	585	0	604	604
Other Public Enterprises	0	1,285	1,285	0	1,248	1,248
Central Administrations ⁽³⁾	67	1,656	1,723	68	1,696	1,764
Organizations ⁽⁴⁾	0	23	23	0	21	21
Insurance Institutions	0	48	48	0	48	48
Private Institutions ⁽⁵⁾	0	4	4	0	5	5
Foundations ⁽⁶⁾	0	21	21	0	19	19
TOTAL	8,289	16,982	25,272	8,439	17,171	25,610

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

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

(3) Represents central administrations except public agencies under general government budget, Higher Education Council, universities and higher institutes of technology.

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

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

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



Collections from the Treasury receivables were realized as TL 2.6 billion in 2010 which is composed largely of the collections from the SOEs. On the other hand, collections from local administrations consist mainly of the withholdings from tax shares of local administrations that are transferred from the general budget.

Collections from Treasury Receivables ⁽¹⁾				
	2010		March 2011	
	Million TL	(%)	Million TL	(%)
Funds	0	0	0	0
Local Administrations	453	17.1	120	27.2
SOE's ⁽²⁾	1,684	63.7	230	52.1
Banks	157	5.9	13	2.9
Social Security Institution	1	0	0	0
Public Banks	67	2.5	8	1.8
Other Public Enterprises	184	7.0	64	14.5
Central Administrations	53	2.0	1	0.3
Organizations	16	0.6	4	0.8
Insurance Institutions	21	0.8	0	0
Private Institutions	3	0.1	0	0
Foundations	3	0.1	2	0.4
TOTAL	2,641	100	442	100

(1) Provisional

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

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. In line with the public’s overall risk and cost objectives, strategy proposals related to the major risks concerning the public debt and receivable portfolio are presented to the DRC by the Risk Management Department of the General Directorate of Public Finance. Major risks, market risk, credit risk and operational risk, arising from public debt and receivable portfolios are being regularly monitored and managed under the principles and policies set by DRC.

MARKET RISK MANAGEMENT

Market risk, which is defined as the effects of the volatilities in the exchange rates, interest rates and prices, arising from the changes in the market conditions, on the borrowing costs as well as the liquidity (financing) risk described as the inability to roll-over existing debt because of the limited access to the necessary cash or cash equivalents when the repayments are due are amongst the key risks that the public debt managers should take into consideration. Public debt managers face with the cost and risk trade-off in implementing borrowing policies. In order to address this, public debt managers use analytical methodologies that create a platform to compare cost and risk indicators of the alternative strategies and accordingly, determine strategic benchmarks in line with the risk/cost objectives of the decision makers. These forward-looking debt management policies also constitute a guideline for the borrowing units.

In this context, financing strategies for the current and the following two years has been set within the framework of strategic benchmarks since 2003 in line with public’s overall risk and cost objectives and borrowing programs are conducted in accordance with specified benchmarks. The analyses for determining strategic benchmarks are carried out with “Cost at Risk” approach. The changes in the debt metrics are assessed within a certain confidence interval, in a specific time period and expected cost and risk indicators of alternative borrowing strategies are estimated under different macroeconomic scenarios through this approach. The findings from the “Cost at Risk” approach together with the outcomes of the sensitivity and sustainability analyses performed are analyzed by DRC so as to determine strategic benchmarks.



Within this framework, the strategic benchmarks proposed for the period 2011-2013 are stated 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 re-fixing 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 foreign exchange denominated instruments in domestic borrowing.

Methodological Developments in Market Risk Management

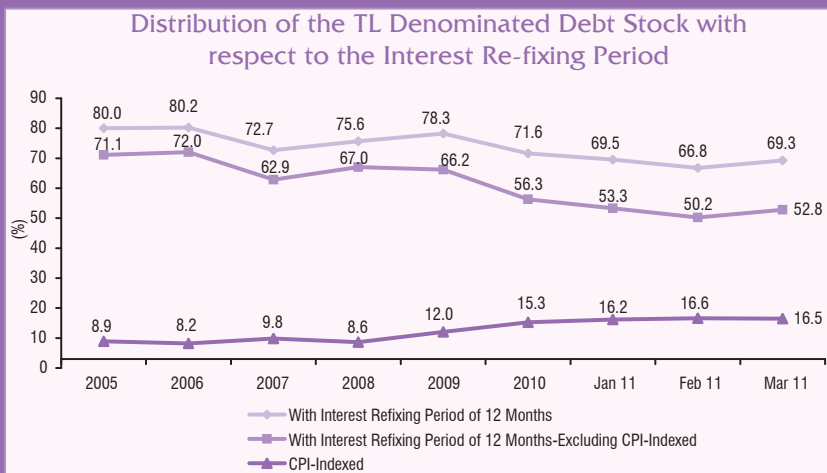
In this section, changes in the analytical methodologies in the area of market risk management that are implemented in parallel to the developments in debt management are presented in details. The first one of the mentioned improvements is the introduction of the concept of "Accrued Inflation Adjusted Nominal Value of Debt Stock" for the inflation indexed bonds and the second one is the design of the percentile shock scenarios that enables to assess interest rate volatility in a better way, in the course of sensitivity analyses.

1.A Supplementary Cost Concept in the Cost at Risk Approach: Accrued Inflation Adjusted Nominal Value of Debt Stock

"Cost at Risk Approach" has been employed in the Turkish Treasury in order to determine strategic benchmarks and the details of the modeling approach is available in Annual Public Debt Management Reports for the years 2008 and 2010. The cost and risk concepts in this methodology are of vital importance in comparing cost and risk indicators of different strategies and thereby in determining the strategic benchmarks. In parallel to the increasing share of the Inflation-Indexed Bonds in debt portfolio, a third cost metric of "Accrued Inflation Adjusted Nominal Value of Debt Stock" is adopted in addition to the existing cost indicators of "Cash-Based Interest Expenditures" and "Nominal Value of the Debt Stock".

CPI-Indexed bonds display a remarkable difference when compared to the other instruments with regard to the structure of the interest payments and interest rate volatility. While, the real coupon payments of these instruments are made in coupon periods, all of the accrued inflation on the nominal value of the bonds is carried until the maturity date. Due to this unique payment design of these securities, a comparison of CPI-Indexed bonds with the other financing instruments by just relying on the traditional cost metrics that the Turkish Treasury have been using may be misleading. Therefore, a new cost indicator through which accrued inflation compensation for Inflation-Indexed bonds has been added to nominal value of debt stock has been introduced in 2010. In this calculation, for every year in the horizon period; related portion of the total accrued inflation is added to the end of year nominal debt stock.

In line with this, "Share of CPI-Indexed Bonds in the TL Denominated Debt Stock" and "Share of TL Debt Stock with Interest Re-fixing Period of 12 Months-Excluding CPI-Indexed Bonds" indicators are also monitored in addition to the indicator of "Share of TL Debt Stock with Interest Re-fixing Period of 12 Months" for a more comprehensive analysis of the interest rate risk exposure of the public debt portfolio.



2. Redesign of the Interest Rate Shock in the course of Sensitivity Analyses: Interest Rate Percentile Shock

Within the framework of sensitivity analyses, how debt dynamics are affected from the changes in the interest rates, exchange rates and the growth rate is analyzed. Detailed information on the “Accounting Approach” that is employed in the sensitivity analyses of the Turkish Treasury can be found at the Annual Public Debt Management Reports of 2009 and 2010. In the previous years’ sensitivity analyses, a constant interest rate shock is assigned to all periods analyzed for interest rate shock scenarios. However, considering the significant decline in the borrowing costs in recent years, aforementioned scenarios are re-designed. As a matter of fact, the probability of 500 basis point change in interest rates in 2001 and 2010 differs dramatically, owing to the differences in the borrowing costs in these two years. Hence, a percentile shock is carried out in this year’s interest rate shock scenario rather than a constant change scenario.

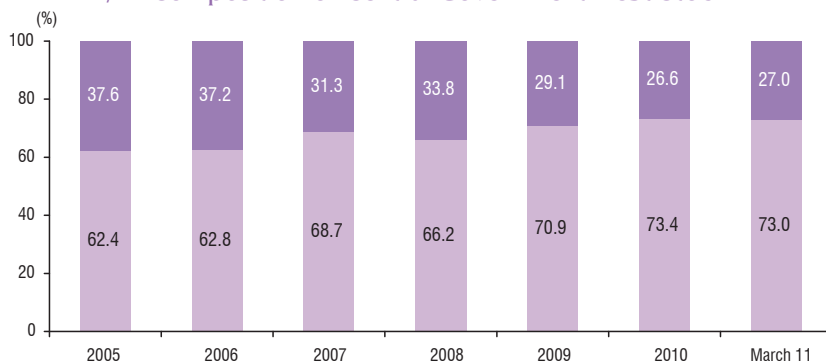
Within this new approach, the sensitivity of the debt stock to GDP ratio to interest rate fluctuations in 2001 and 2010 is analyzed under two different interest rate shock scenarios. Interest rate shocks are designed as the increase in the interest rates of a certain percentile (10 percent and 25 percent) rather than a constant level of shock (e.g. 500 basis points). This approach enables to make a better comparison of the sensitivities of debt stock to the interest rates between two years given the significantly different borrowing costs in these periods.

Sensitivity of Gross Public Debt to Shocks		
	2001	2010
Change in real exchange rate app/dep by 5 percentage points	+/- 2,2 Points	+/- 0,6 Points
Change in TL interest rate by		
10 percent*	+/- 2,0 Points	+/- 0,3 Points
25 percent*	+/- 5,0 Points	+/- 0,7 Points
Change in GDP growth rate by 2 percentage points	+/- 1,5 Points	+/- 0,8 Points
Change in Primary Surplus/GDP ratio by 1 percentage point	+/- 1,0 Points	+/- 1,0 Points

(*) Reflects percent change in TL interest rate in succeeding years.



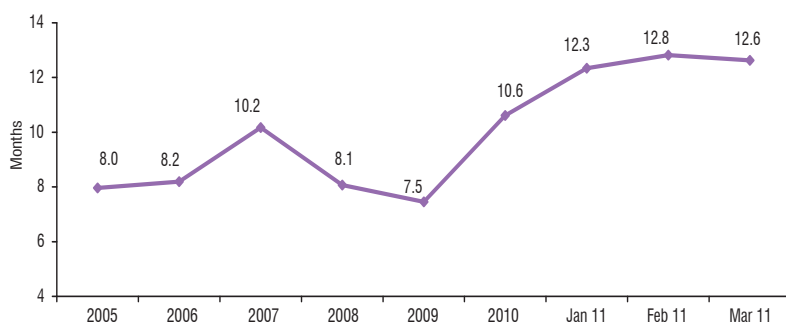
TL/FX Composition of Central Government Debt Stock



Share of Domestic Debt Maturing within 12 Months



Duration of TL Denominated Domestic Debt Stock (*)



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

CREDIT RISK MANAGEMENT

Treasury guarantees and on-lent loans are methods that are used to provide funds on favourable terms to the projects that involve public interest or promote development of various sectors. These methods are the main source of the credit risk for the government. Credit risk, in other words default risk, is defined as the possibility that the beneficiary institutions will fail to meet their obligations on time, under the terms of guarantee or on-lent loan agreements. The default of the beneficiaries can put the government under an unexpected and high amount of obligation in a short period of time. The additional cash needed in order to meet these obligations may lead to an increase in borrowing requirement. Credit risk has been actively and closely monitored and managed in order to estimate and reduce those unexpected cash requirements.

The first step that has been taken under credit risk management since 2002 has been to ensure transparency in the management of Treasury guarantees and on-lent loans. For this purpose, institutional and technical capacity has been strengthened. The issuance of Treasury guarantees is subject to the institutions' compliance with a number of criteria reflecting the debt payment performance and financial viability. Since on-lent and guarantee facilities involve similar credit risks, the principles and procedures of these facilities were aligned through "The Regulation on the Principles and Procedures of External Borrowing under the Law No. 4749" which was enacted in December 2009. In order to restrict the amount of Treasury guarantees and on-lent loans provided, a limit is set through budget law each year. The payments due to the undertaken guarantees have been made from the Risk Account which was established in 2003. The collections of the undertaken amounts are the main sources of this account. If the collections are insufficient to make the payments from the account, a budget allocation is transferred. Estimation of this budget allocation ensures that credit risk is taken into account during budget preparations. Since 2009, the collections of the Risk Account are sufficient enough to cover the undertaken amounts and budget allocation has not been used. These credit risk management practices enable enhanced fiscal discipline and allow transparent budgeting.

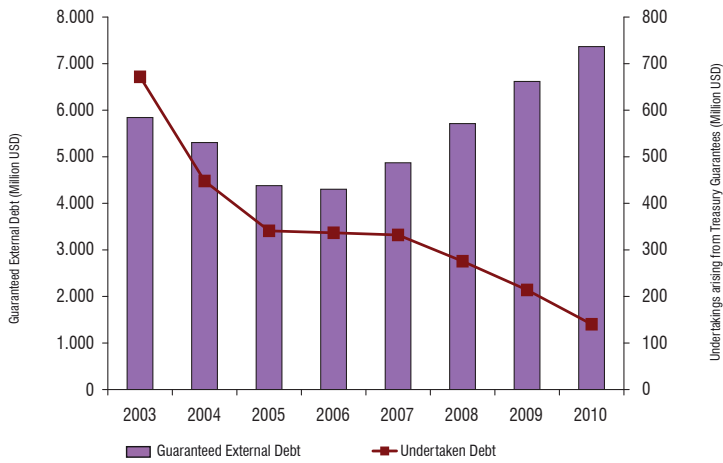
The Percentage of Undertaken Guarantees Covered by Non-Budgetary Sources of the Risk Account



Within the scope of the credit risk management, in order to cover the losses arising from the undertaken guarantees and on-lent loans, a guarantee/on-lent fee is charged to the beneficiaries. The fee is determined as up to 1 percent of the provided amount according to the financial viability of the institution. In addition, in order to assure risk sharing between Treasury and the creditor in the event of default of the institutions and prevent moral hazard, partial guarantee practice is put into effect. "Credit Rating Model" has been used in order to measure and manage the credit risk exposure due to the Treasury guarantees and on-lent credits. The model enables internal credit rating and measurement of the expected loss by taking the institutions' financial soundness and payment performance to the Treasury into account.

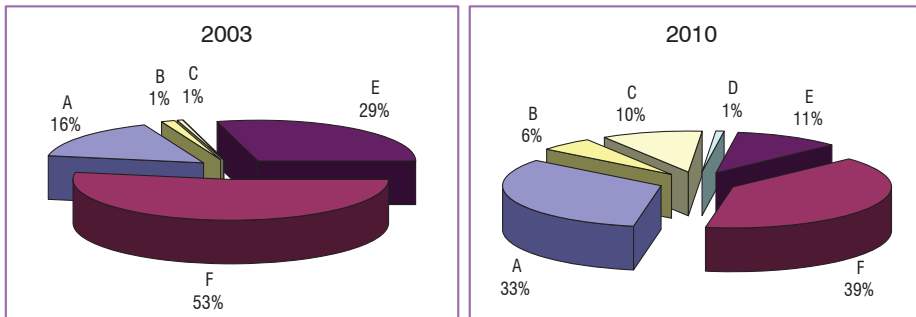
As a result of comprehensive and effective management of the credit risk, the amount of undertaken guarantees has been decreasing since 2003. Besides, contrary to the increase in the Treasury guaranteed debt stock, a significant fall can be observed in the undertaken Treasury guarantees since 2007.

Treasury Guaranteed External Debt Stock and Treasury Guarantees Undertaken



The risk profile of the portfolio has a similar trend. Between 2003 and 2010 the share of A rated institutions in the portfolio increased from 16 percent to 33 percent; whereas in the same period the share of E and F rated institutions decreased from 82 percent to 50 percent.

Breakdown of Treasury Guaranteed Debt and Receivable Stock by Credit Rating





Credit Rating:

Credit ratings are assigned according to the institution's probability of default that is calculated by Credit Rating Model. Credit ratings from A to D are assigned to the institutions that didn't default during the previous two years, whereas the institutions that were defaulted in at least one of the last two years take E or F rating.

Credit Rating	Description	Default Status in last Two Years	Probability
A	Minimum Risk	Non Defaulted	$P(D/ND) \leq 5\%$
B	Very Low Risk	Non Defaulted	$5\% < P(D/ND) \leq 15\%$
C	Low Risk	Non Defaulted	$15\% < P(D/ND) \leq 30\%$
D	Medium Risk	Non Defaulted	$P(D/ND) > 30\%$
E	High Risk	Defaulted	$P(D/D) < 100\%$
F	Very High Risk	Defaulted	$P(D/D) = 100\%$

* $P(D/ND)$ = Probability of default if the institution didn't default in the last period

** $P(D/D)$ = Probability of default if the institution defaulted in the last period

Consistent with the model results, past performance of the credit ratings indicates that 2 percent of the A rated institutions and 97 percent of the F rated institutions are defaulted in the consecutive year.

The change in the risk profile of the portfolio indicates that the credit risk management measures enable a structural and stable improvement in the portfolio's risk structure.

OPERATIONAL RISK MANAGEMENT

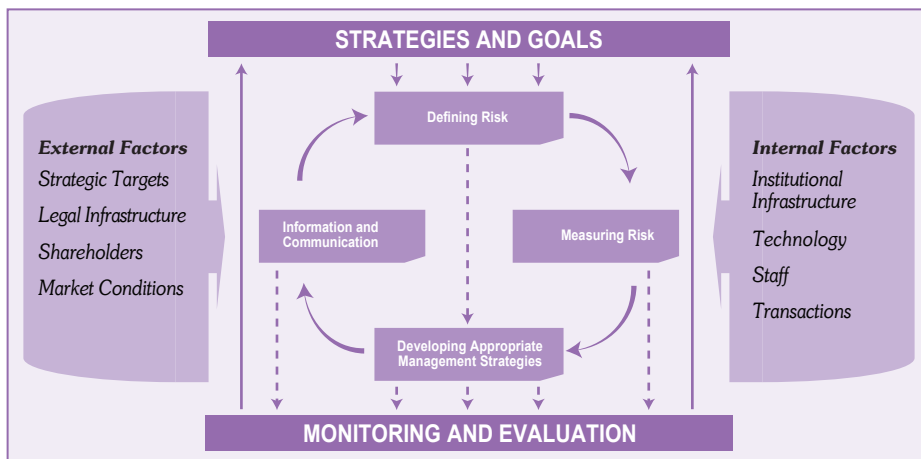
Within the framework of the operational risk management practices that have started in General Directorate of Public Finance in 2007, potential risks have continued to be monitored and controlled during the year 2010. The studies, which were based on the COSO¹ model, target the economic and efficient use of resources for the purposes of the units, ensuring compliance with the legislation and timely and reliable transfer of information to the senior management.

In order to manage operational risks in an effective manner, alongside the current control mechanisms, new control mechanisms have been developed foreseeing the likelihood and impact levels of risks with the overall objective of ensuring that the responsibilities assigned to the General Directorate of Public Finance by Law No. 4059, Law No. 4749 and other related legislation are conducted in a correct, complete and timely manner.

Operational risks have a dynamic structure because of the increasing needs stemming from new business processes, technological changes, unexpected events and new legislations. Therefore, it was decided that the risk profile table should be updated annually in order to monitor the processes efficiently. For the purpose of monitoring of risks and the preparing the analytical results, “Incident Reports” and “Monitoring Reports” were generated. High level risk areas in the risk matrix were reported and monitored in the “High Level Risk Report” in 2010. Besides, the “Monthly Operational Risk Report” was presented to the unit managers and “Operational Risk Bulletin” was represented to the DRC on a quarterly basis.

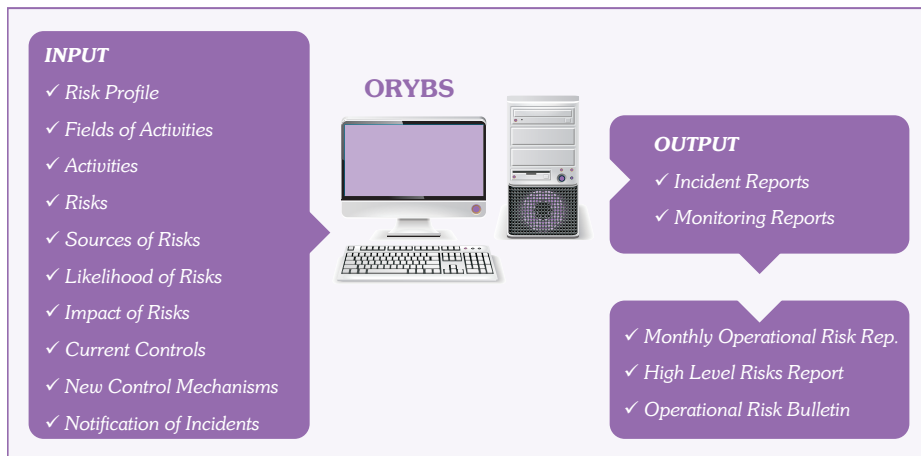
¹ Committee of Sponsoring Organizations of the Treadway Commission

Operational Risk Management Processes



A technical infrastructure was needed in order to prevent data loss and create a user friendly environment in operational risk management processes. Internet-based “Operational Risk Management Information System” was initiated in 2010 in order to fulfill these needs. The data stored in Excel files was transferred to a central system and safer environment was created for producing the reports

Operational Risk Management Information System



INTERNATIONAL DEBT MANAGEMENT ACTIVITIES

In line with the vision of applying best international practices in the area of public debt and cash management and becoming a model at the international level, Turkish Treasury conducts regular exchange of information with other debt administrations, international institutions and pays great importance to the capacity building in debt and cash management. In this regard, the official delegations from Kyrgyzstan, Lebanon, Sudan, Albania, Tajikistan, and Vietnam were informed about our debt management structure and cash and risk management practices in 2010.

On the other hand, a visit was made to the Center of Excellence in Finance in Slovenia, where the experiences of our country in the area of cash and debt management were shared. In addition, the experiences and practices of Turkish Treasury were also shared with other countries in many international platforms provided mainly by the World Bank, IMF, and the OECD. In this regard, the Treasury actively participated in the meetings of the Working Party on Debt Management in OECD.

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

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



**RESEARCH
AND ANALYSES**



RETAIL BORROWING AND SOME COUNTRY PRACTICES IN THE WORLD

Retail borrowing which is defined as the direct sale of government bonds to small investors in the primary market has been performed by many developed and emerging countries for long years as an alternative public financing method. The countries convey the borrowing instruments to the individuals via intermediary institutions or directly through this way. With this borrowing method, not only the goal of meeting borrowing requirement but also the goals such as providing alternative investment products to individuals, decreasing the cost of financing, extending the maturity of borrowing, deepening the financial markets and broadening the investor base are pursued. On the investors' side, they can reach the government bonds without incurring any intermediary costs.

Definition of Retail Borrowing

Retail borrowing targets mainly the small investors. Within this scope, individuals and small and medium sized enterprises or organizations are included in the target group.² On the other hand, another feature of retail borrowing is that the investors can purchase the borrowing instruments at issue price without paying any commission in the primary market.

Letting the small investors bid in the Treasury competitive auctions can be considered as retail sales. However, the small investors need minimum knowledge in order to purchase the government bonds at a price not far from the average price through competing with big financial institutions and follow the secondary market transactions.

Objectives of Retail Borrowing

One of the fundamental goals of retail borrowing is creating an alternative source in order to finance budget deficits by broadening investor base. The debt offices meet the financial requirements substantially through the wholesale of borrowing instruments to the banks and intermediary institutions. Financing through retail sales can not be an alternative to wholesales considering the magnitude of financial requirements. In addition to that, retail borrowing is an important method since it contributes to reduce fund demand of the government from the financial system and reaches the funds outside the financial system.

2 https://www.riksgalden.se/templates/RGK_Templates/Startpage_RetailBorrowing_EN____1566.aspx



Furthermore, with the improvement of retail market financial instruments are diversified. By this, both people's knowledge of financial investment products through promotions and people's tendency to save and invest in financial products increase.

Countries have different approaches apart from the goals mentioned above. As a matter of fact, while the objective of retail borrowing in the USA is reducing financial costs, in Italy it is providing alternative investment opportunities to investors. On the other hand, South Africa pursues many goals such as diversifying investor base and financial instruments as well as encouraging saving culture and mitigating the dependency on the banks (Krupa vd, 2007).

Retail Borrowing Instruments

In the countries performing retail sales, two types of financial instruments are provided to investors separately or together. These are mainly called marketable and non-marketable borrowing instruments.

The table below shows the variety of instruments offered by some countries carrying out retail sales:

Retail Borrowing Instruments Offered by Some Countries			
Countries	Marketable	Non-Marketable	
	Standard Securities	Savings Bonds	Lottery Bonds
Belgium	X	√	X
Brazil	√	X	X
Bulgaria	X	√	X
Canada	X	√	X
China	X	√	X
Germany	√	√	X
Indonesia	X	√	X
India	√	√	X
Ireland	√	√	√
Italy	√	√	X
Japan	X	√	X
Pakistan	√	√	√
South Africa	X	√	X
Sweden	√	√	√
UK	√	√	√
USA	√	√	X

(Krupa vd, 2007)

Promotion Activities

Promotion is an important factor of retail borrowing which is different from traditional Treasury borrowing operations. Within this scope the promotions regarding retail borrowing instruments are prepared covering simple, understandable and sufficient information in order to attract the individuals who do not want to invest in banks with various reasons and increase the financial awareness of the society.

In the countries performing retail borrowing, the advertisements include return rates, sales and redemption conditions and if available early redemption right and tax advantages. In addition, in Ireland the promotions focus on the government guarantee and reliability of the retail borrowing instruments.³

Promotions and advertisements mostly take place in mass media. For instance, in Swedish National Debt Office's promotions and public relations department there are 16 staff (Keskin, 2009).

Sales and Distribution Channels

The traditional Treasury auctions are performed periodically at pre-announced dates. As it is in Turkey; the auctioning systems are structurally designed in a way to let the financial sector function efficiently, although it is open to individual investor access. Thus, various distribution channels are used to ease the accessibility of individual investors to borrowing instruments. These distribution channels may be the internet, telephone, post offices, banks and even supermarkets. Within this framework, distribution channels can be classified as internet sales, intermediary institution sales and phone sales.

Although at the beginning a certain amount of expenditure is made to establish infrastructure for internet sales, USA and Brazil prefer this channel since it reduces the back office operations and administrative costs. However, since the system requires computer using skills, it is not seen as successful as the other channels for broadening the investor base.

Another distribution channel is conveying the borrowing instruments to individuals by post offices, banks and supermarkets. This distribution channel is used in Ireland, Poland and South Africa. This distribution channel is especially for individuals who have little information about financial products. In this method, sales are performed after getting information of the individuals through a face to face contact.

The retail sales via telephone are not a method used on its own; but rather as a supplementary method for sales through internet or subsidiaries.

3 www.statesavings.ie



SOME RETAIL BORROWING PRACTICES IN THE WORLD

Many developed and emerging countries have retail borrowing markets. Among these countries, USA, for its use of internet channel and Ireland, in using post offices are the two leading countries. Thus, in this section transition period of the USA and Ireland to retail borrowing and current retail sales practices of both countries are examined.

The United States of America

The purpose of retail borrowing in USA, as one of the world's most developed market, is borrowing at the minimum cost.

The first borrowing in USA was made in the 18th century for financing Independence War. Looking at the issuances of retail borrowing instruments in US history, issuances were performed during war periods to finance wars. The borrowing was made by emphasizing the patriotism. Alexander Hamilton, the first US Secretary of Treasury, in one of his speeches in 1790 said that "The United States debt, foreign and domestic, was the price of liberty."⁴ Recently after September 11 attacks the same marketing strategy was followed and patriot bonds were issued.

Right now, retail sales in US have been performed over www.treasurydirect.gov web site. The first version of the system was put into service in October 2002. Afterwards this version was improved and got the last form. The individuals and small enterprises can open an account in the system to purchase and sell bonds. In other words, small investors have the opportunity to invest in government bonds in electronic platform easily. In order to open an account in the system, social security numbers and bank account numbers are required. A kind of password card is sent to the investor by mail and investors can start investing over the internet in approximately in 1-2 weeks. The website gives information about how an account is created, the returns of the instruments and tax advantages. In addition, there is a distinct part on the web site regarding the financial education of children. Also, the individuals can participate in the wholesale auctions via the system and submit non-competitive bids. In the treasury direct system there are 285.000 accounts in the system as of the end of 2010.

The retail borrowing instruments used in US can be categorized as standard borrowing instruments and savings bonds. Standard borrowing instruments include treasury bills, fixed rate bonds and inflation protected securities. These securities are directly influenced by market rates. On the other hand, savings bonds are separated into two: EE savings bonds and I savings bonds.

⁴ <http://www.publicdebt.treas.gov/history/history.htm>

EE savings bonds are issued in USD, have 30 years maturity and a fixed return. If the securities are redeemed before 5 years, the interest will be discounted by 3 month rate. They can be sold in printed form or on electronic platform; however there is 5.000 USD purchase limit per year for printed and electronic purchases separately.⁵ In addition to that, US Treasury indicates that the ultimate goal is removing the printed securities from the market to provide cost efficiency and completely moving to the electronic form.

I savings bonds are another kind of savings bonds which are indexed to inflation. These securities aim to protect the investors from inflation risk. The I Bond earnings rate is a combination of two separate rates; a fixed rate and an inflation rate. Like EE savings bonds they are issued with 30 years maturity and they can be purchased in printed form or on electronic platform. The penalty for early redemption and purchase limits are the same as EE bonds. In addition, both EE and I savings bonds are exempt from any state tax but subject to federal income tax.

There are ongoing efforts to improve the retail sales in US, where the share of retail debt stock in total is around %1,67.

Ireland

In Ireland, debt management was carried out by Ministry of Finance until 1990. In 1990, National Treasury Management Agency (NTMA) was established by a law regulating the transfer of borrowing and debt management responsibilities to the NTMA on behalf of the Ministry of Finance.⁶

In Ireland, retail borrowing has the objective of offering investors an alternative investment and goes back to 1920s. While the proportion of retail borrowing in total borrowing was %25 in 1960s, it has been approximately %8-9 in 1980s. However, National Treasury Management Agency (NTMA) has succeeded to increase this ratio to a %15 level.

In order to define all the functions regarding retail borrowing and retail instruments, “state savings” statement is used. In other words, state savings means the goods and services related to retail borrowing that Ireland government offers and “state savings” has become a trademark. Moreover, a web site called www.statesavings.ie was set up so as to give detailed information about retail instruments. The information about return of the securities, purchase limits, tax applications take place at the web site. In addition, it is focused on %100 reliability of the state savings products and it is stated that the borrowing instruments are under the government guarantee.

5 http://www.treasurydirect.gov/indiv/products/prod_eebonds_glance.htm

6 <http://www.ntma.ie/AboutUs/aboutUsIntro.php>

Below are the main retail investment products that Ireland offers to investors:

- 3 year Savings Bonds
- 4 year National Solidarity Bonds
- 5½ year Saving Certificates
- 6 year Installment Savings
- 10 year National Solidarity Bonds
- Prize Bonds
- Saving Stamps
- Deposit Accounts
 - Ordinary Deposit Account
 - Deposit Account Plus

Savings Bonds, Saving Certificates and National Solidarity Bonds have a fixed return each year and at the maturity they have a very high bonus return. However, only investors who hold the securities until the maturity can obtain this bonus return and this return is exempt from tax. By this way, NTMA aims that the investors hold the bonds until maturity and aims to prevent early redemptions.

Installment savings are another investment product in which a fixed amount not exceeding 1.000 Euro is invested for 12 months. Installment savings gain interest in the following 5 years and the total payment is made at maturity.

Saving stamps are similar to installment savings and like installment savings a fixed amount is invested for 12 months and it is especially designed for children. In saving stamps, either children at or above seven years old or their parents on behalf of them can invest. The minimum amount to invest is 25 Euro and the monthly maximum amount is 1.000 Euro.

Deposit accounts are an alternative for investors who do not prefer to invest in banks. There is no maturity or amount limit on the accounts opened at the post offices. The investors can open demand deposit accounts (%1 return yearly) and 30 day deposit accounts (%3 return yearly) at the post offices.

On the other hand, there is a different product among retail instruments called prize bonds. Prize bonds are sold in denominations of 6,25 Euro, and the minimum purchase limit is 25 Euro. Every prize bond has a draw right. The draw takes place every week and there are around 7.000 cash prizes each week. There are many prizes ranging from 75 Euro to 1 Million Euro in draws and 1 million Euro prize is delivered at last draw of the month. As long as the investors hold the bonds, the investors have the opportunity to win in every week draw. In other words, the investors can get prize more than once with the same bond. The distributed prize in draws comprise %3 of total debt stock. Early redemption of prize bonds is only possible at least three months after the purchase. Moreover, the prize bonds are exempt from tax. NTMA cooperates the draws and prize distributions with its agent "The Prize Bond Company".

While there is no purchase limit for deposit accounts and prize bonds, there are purchase limits for the other retail instruments. These limits per person are below;

- 3 year Savings Bonds - 120.000 Euro
- 4 year National Solidarity Bonds - 250.000 Euro
- 5½ year Saving Certificates - 120.000 Euro
- 10 year National Solidarity Bonds - 250.000 Euro

There is no lapse of time for state savings products in Ireland and the protection of the investments is under the guarantee of the government. If the investor notifies 7 days in advance, he can withdraw the principal before the maturity. In early redemptions, the investors can not get the interest accrued for that year and bonus interest which can be obtained only at the maturity.

The retail products can be purchased in various ways. The investors can buy the savings bonds from the post offices, on the phone through giving payment order with a debit card or via the internet by filling out a form.

Once the investors want to use internet to buy the securities, the form at the web site is filled out and sent to the NTMA. This form covers the information such as the amount of bonds to purchase, investor's bank account number and investor's payment order to his/her bank.

Another method is reaching NTMA by phone and purchasing securities. The investor gives personal information and debit card number. The cash is withdrawn from this card in return for the securities purchased.

The most common distribution channel in Ireland is "An Post" (the name of post offices). "An Post" has a wide network throughout the country and is very well known. "An Post" as an agent of NTMA sells retail borrowing instruments in its 1.200 branches, 6 days a week. Irish people frequently work with post offices because of widespread branches and longer working hours than the banks. In Ireland, each post office works as an intermediary institution. All the information about the accounts and account holders are kept in post offices and many operations in terms of promotion, marketing and sales are carried out by post offices.

CONCLUSION

Retail borrowing is an alternative borrowing method that many developed and emerging countries have been performing and it enables the reach of individual investors to the government borrowing instruments directly. Retail borrowing has some goals such as reducing financing costs, offering new financial instruments, broadening investor base, deepening the financial markets and extending the borrowing maturity.

Retail sales which enables borrowing other than traditional Treasury borrowing tools is an important borrowing method so as to reduce the funding needs of debt offices through the primary market; although it is not an alternative to wholesales. The main target group for retail sales is small investors and the promotions regarding retail borrowing contributes to an increase in the financial awareness of society. Thus, through this awareness, the tendency to save increases in the society and these savings are brought into the financial system.

Moreover, in 2011 Turkish Treasury Performance Programme, there is a target of increasing the proportion of sales of government bonds via internet or directly to the retail investors. In this respect, Turkish Treasury has been working on different sales and distribution channels regarding retail sales to reach this target.

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- 10- <http://csb.gc.ca/home/?redirected=1>
- 11- http://www.tesouro.fazenda.gov.br/english/public_debt/treasury_direct.asp
- 12- <http://www.bwp-direkt.de/ibis/ibis/start.html>

CREDIT DEFAULT SWAPS (CDS) AS A MARKET INDICATOR⁷

Spreading from the financial markets, the current global economic crisis has eventually led to the deterioration of public finances of many countries, making sovereign risk reappear as an important issue. In the assessment of sovereign risk, interrelated risks (political, institutional, transfer, and counterparty risks) need to be taken into account. The OECD has recently called for the redefinition of sovereign risk on the grounds that the crisis has led to an unprecedented expansion in sovereign balance sheet items, such as contingent liabilities. Thus, it is suggested that a new “balance sheet approach”, replacing “the traditional debt sustainability framework” is needed (Blommestein et al., 2010).

Credit Rating Agencies (CRA), assessing the credit risks of financial products, corporations and sovereigns, are being questioned for their being late in evaluating the markets and economic developments. Arising needs of timely assessment of risk led to many studies on whether credit default swaps (CDS) measure the risks of the market participants accurately and if they can substitute for ratings. On the other hand, some analysts suggested that the market measures of sovereign risk such as CDS spreads “...are not a good measure for sovereign risk; they are hedging instruments and only express a specific market sentiment” (Wehinger G., 2010).

This study examines the CDS as a market indicator, summarizes the developments in the CDS market, and observes the relationship between CDS spreads and CRA rating changes where the reference assets are sovereign obligations. In conclusion, the findings reached indicate that the changes in the CDS spreads anticipate the credit rating falls to a significant extent, but within the scope of the data used, the same relationship was not valid with the same strength as regards to the credit rating increases.

CDS – Definition, Structure and Market Information

Credit derivatives market consisting mainly of the CDS has been in existence since the mid-1990s. Being exact, J.P. Morgan & Co. created the first modern credit swap in 1994. The International Swaps and Derivatives Association (ISDA)⁸ defines the CDS as follows;

⁷ This study was prepared by Arzu AYTEKİN BALİBEK, Division Chief, and Lerzan ÜLGENTÜRK, Expert, at the General Directorate of Public Finance.

⁸ Representing participants in the privately negotiated derivatives industry ISDA is among the world's largest global financial trade associations as measured by number of member firms. Among other activities it facilitates initiatives to strengthen the infrastructure for CDS transactions and enhance the liquidity and transparency of the markets for standardized CDS.

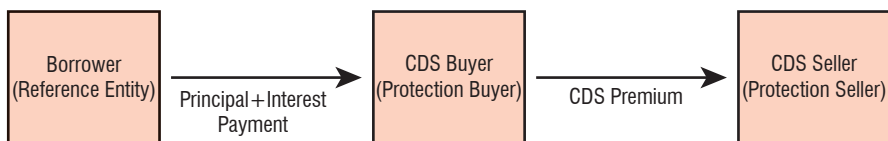
“A credit default swap is a credit derivative contract in which one party (protection buyer) pays a periodic fee to another party (protection seller) in return for compensation for default (or similar credit event) by a reference entity. The reference entity is not a party to the credit default swap. It is not necessary for the protection buyer to suffer an actual loss to be eligible for compensation if a credit event occurs.”

In a CDS transaction the protection buyer gives up the risk of default by the reference entity while taking on the risk of simultaneous default by both the protection seller and the reference entity. On the other side, the protection seller takes on the default risk of the reference entity, which is similar to the risk of a direct loan to the reference entity. On the other hand, in the CDS transactions the part of the credit assumed to be recovered by the borrower is called the “recovery rate”, and in case of default, the protection seller pays the part of the credit not recovered to the protection buyer.

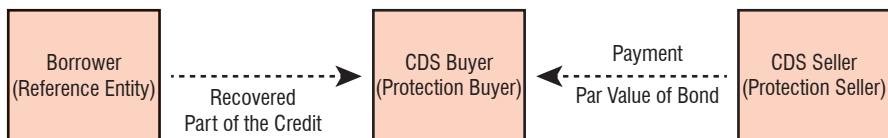
The quoting convention for CDS is the annual premium payment as a percentage of the notional value of the reference obligation. Under certain conditions, this CDS premium should be approximately equal to the credit spread (yield minus risk-free rates) of the reference bond of the same maturity. In addition to confirming this stylized fact, empirical work suggests that the CDS premium tracks the spread over dollar swap rates more closely than the spread over US Treasury rates (Hull et al (2004)). For example, in order to ensure a million USD, a CDS spread of 460 basis point shows an annual payment of 46.000 USD premium has to be made by the protection buyer to the insurer. The following diagram shows how a CDS transaction materializes:

CDS transaction

No default case:



Default case:



As regards to the size of the CDS market, there are two basic measures:

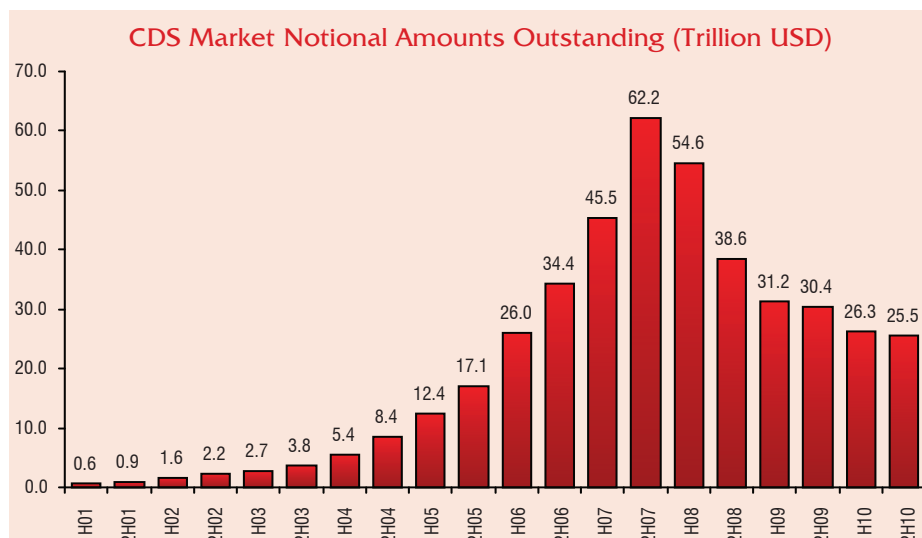
- gross notional amount
- net notional amount



“Gross notional amount” refers to the total amount of all past transactions that have not yet matured. It is used to derive the premium payment calculations for each payment period and the recovery amounts in the event of a default. Although it is a useful measurement tool, gross notional amount significantly overstates the market size.

“Net notional amount”, on the other hand, is the basis for calculating the net payment obligation in a credit event and it represents the maximum cash flow from the seller of protection to the buyer assuming that the recovery rate at default is zero.

The CDS market has grown at an extremely rapid pace: from USD 180 billion in gross notional amount in 1997, to USD 25.5 trillion as of December 31, 2010. The net notional amount as of that date is USD 2.3 trillion. The Graph below shows the gross notional amounts outstanding in the CDS market for the period 2001-2010⁹.



When compared with the corporate market, sovereign CDS market is relatively new and small. Like the corporate market, it is used by a variety of market participants, mainly investment banks, hedge funds and asset managers. The gross notional amount in the market was around USD 2 trillion with a net notional of USD 196 billion in early 2010, representing about 6 percent of the total global bond market in volume. Among the 20 largest sovereigns in the CDS market, net notional/total government debt ratio is around 2 percent on average, and do not exceed 7 percent in any country (IMF, 2010a).

⁹ Source: International Swaps and Derivatives Association (ISDA) and Depository Trust & Clearing Corporation (DTCC)

However, it is important to note that the sovereign market has shown a strong growth of around 30 percent, from 2009 to 2010, as sovereign credit risk has begun attracting more attention in the wake of the global financial crisis.

Regulation and Transparency Issues in the CDS Market

The CDS market is an over-the-counter (OTC) market, i.e., transactions are executed directly between contracting parties with no clearing house, and as such, little information is available concerning the flows in the market. There have been recent efforts aimed at increasing the market transparency and as a result, there is now more information available by ISDA (annual and semi annual data, since 2001), Bank for International Settlements (BIS) (since 2004) and DTCC Trade Information Warehouse (TIW) (weekly data). The amount of outstanding CDS and weekly transaction activity for the 1.000 largest names (including sovereign CDS) are also publicly available through the website of DTCC's TIW.¹⁰

In the debate for providing better regulation in the CDS market, the suggestions range from a complete ban of CDS transactions to doing nothing. In order to advise on the appropriate policy measures, it is crucial to understand the market, with due regard to the benefits it serves and the risks it poses for the global financial system.

As regards to the benefits, the major argument is that the CDS serve for efficient allocation of the risks in the economy. A bank, for instance, can buy credit protection by buying a CDS and thus transfers the risk to another party who can bear that risk at a lower cost. Hakenes and Schnabel (2009) argue that such risk transfers might increase systemic stability and improve the access to finance for households and firms. The authors suggest that the use of CDS for speculative purposes serve to the benefit of the system, by providing a source of information on the credibility of the reference entities.

On the other side of the coin, there exist the risks that the CDS market poses on the stability of the financial system, which call for better regulation. First, the opportunity to transfer the risks might be used by the banks for the purpose of transferring their risks to the unregulated hedge funds, thereby bypassing prudential regulation (this practice is often called "regulatory arbitrage"). Second, as the credit risk spreads within the economy through the use of CDS, monitoring it becomes more difficult. Third, the return structure of the CDS might cause excessive-risk taking as small positive returns are earned while the risk of big loss is very low. And fourth, the counterparty risk (the CDS seller's default risk) is

¹⁰ www.dtcc.com/products/derivserv/data/index.php



very high given the absence of a clearing house guarantees in the market, which also indicate a high level of systemic risk. In this regard, the AIG bail-out by the US government in September 2008, was an example of trying to avoid the results of such a systemic risk. At the time, if AIG had gone bankrupt, financial stability would have been threatened as many financial institutions had sold CDS protection on AIG.

One suggestion for lowering the systemic risk in the CDS market is the establishment of a clearing house, interposing itself as a counterparty to every trade, performing multilateral netting and ensuring that the failure of a clearing member does not affect the other members. There have been recent initiatives which resulted in the establishment of several CDS clearing houses in the US, Europe and Japan; while it is questioned whether a single clearinghouse is still a more ideal alternative for better regulation.

The recent decision of the EU to ban “the naked CDS” (the type of CDS where one does not own the underlying asset) on sovereign debt, which needs to be approved by the member states, has received some negative reactions. It is argued that such an outright ban is not the solution to the problems of the regulation in the sovereign CDS markets on the following grounds: it can easily be circumvented by “creative” financial engineering, treating sovereign CDS market differently causes regulatory inconsistency and that it is difficult to differentiate between legitimate and illegitimate uses of a financial product. Furthermore, it is argued that this ban would limit the purpose of CDS only to hedging and make the above discussed information benefits of speculation disappear from the market.

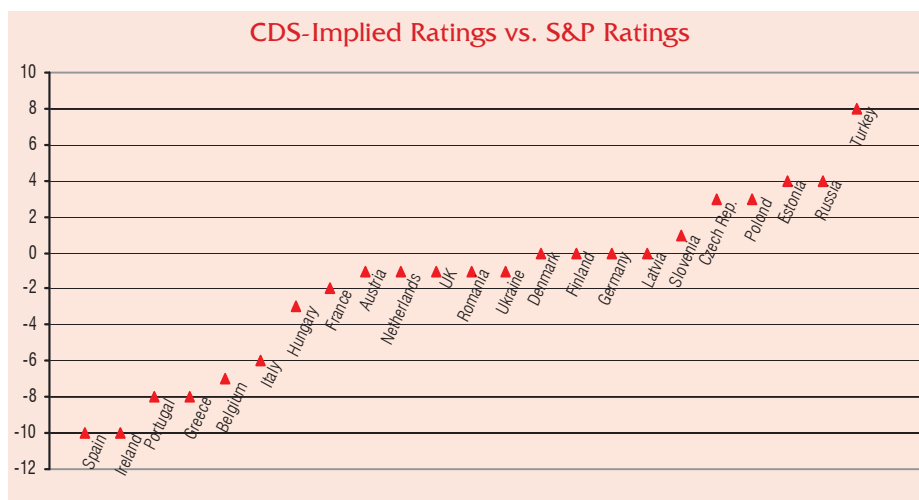
CDS Spreads and Credit Ratings

A Short Review of Literature

It is now generally admitted that in the increasingly complex global financial markets no single indicator is sufficient to follow the changes in the credit risk profiles of corporates and governments. However, the need to understand the informative value of different indicators has led to an increasing number of studies on CDS and credit ratings, most of them are comparative studies, trend and causality analysis.

Hull et al. (2004) found out that while the CDS market anticipates negative credit events of companies they do not anticipate the positive ones though average changes in their adjusted CDS spreads were mostly negative. They state two reasons for their results; “The first is that positive rating events are anticipated much less than negative rating events. The second is that the number of positive rating events is not large enough to get significance.” Shen and Huang (2010) in their recent study covering the period of 2001-February 2010, divide their

sample of 31 sovereigns into six sub-samples by region and investigate whether there is a causality relation between ratings and CDS spreads. They found out that there is a long-run interdependence and short-run convergence between ratings and CDS spreads.



There are also studies examining the effect of CRA ratings on the CDS market. For example, on the IMF Global Financial Stability Report (2010b) rating's information value on the market is analyzed by the IMF staff using five year CDS spreads. They state that crossing of the investment grade threshold lead to statistically significant widening of CDS spreads and conclude that some of the market impact associated with rating changes is related to their "certification" services.

Some financial analysts, on the other hand, suggest that it is possible to make direct comparisons between the so called "CDS-implied ratings" and the ratings of CRA, and the large differences observed are an indication of CRA's inability to timely follow the changing default probabilities of sovereign borrowers.

The above graph has been derived from such a study¹¹, where the ratings calculated by CMA (a credit market specialist firm) and the domestic ratings of Standart & Poors (S&P) are compared. All the ratings are ranked with keys, revealing negative differences as high as -10 for the so called PIGS countries (Portugal, Ireland, Greece and Spain). It is shown that the market-derived ratings of those countries are much lower than their S&P credit ratings; while for some emerging countries, especially for Russia and Turkey, CDS-implied ratings are much higher than their S&P ratings. For Turkey, the CDS-implied rating calculated by the CMA is AA (ranked 11 in the rating scale), while its S&P rating is BB+ (ranked three in the rating scale), the difference being eight units.

¹¹ CMA and IndexUniverse, as of 25 November 2010.



Observations on the CDS Spreads of 20 Largest Sovereigns in the Market¹²

In this part of the study, top 20 countries in terms of notional transaction amounts in the CDS market are taken into consideration and developments in their five year CDS spreads and credit ratings given by the S&P during the last four years are examined. The aim is to find out to what extent CDS spreads changes prior to the credit rating changes.

As of April 1, 2011, total transaction amount of sovereign debt is USD 2.5 trillion in notional terms according to the DTCC and 77.6 percent of this amount belongs to the top 20 countries as shown in the table. It is also important to note that 17 of these countries have the largest number of contracts¹³ in the market as of April 1, 2011. Among these countries,

six (Russia, Hungary and PIGS countries) experienced only rating fall, three countries (Turkey, Brazil and Japan) only rating increase, while three countries (Mexico, Argentina, Ukraine) experienced both fall and increase. In total, there were 27 rating changes and credit ratings of eight countries (Germany, France, Italy, UK, Venezuela, Philippines, Korea, Austria) did not change during the period. 11 of 27 rating changes belong to the PIGS countries. A rating change was excluded in the study if it is within 90 business days following the previous rating change in order to control contamination.

Percentage changes in CDS spreads in 30 and 60 business days before each rating change can be seen in columns I and II in the following table. As one would expect, in most of the cases the relationship between CDS spreads and CRA ratings change, shows up as negative; the higher (lower) the CDS spread the worse (better) the credit rating. When we come to the increase of CDS spreads

Shares in Total CDS Notional Transactions of Sovereigns

Italy	12.6%
Spain	7.2%
Brasil	7.1%
Turkey	5.8%
Mexico	5.0%
Russia	4.0%
France	3.6%
Greece	3.6%
Germany	3.5%
Portugal	3.3%
Hungary	2.6%
UK	2.5%
Argentina	2.3%
Venezuela	2.3%
Philippines	2.2%
Ireland	2.1%
Korea	2.1%
Japan	2.1%
Austria	1.9%
Ukraine	1.7%

¹² The CDS data have been provided from Bloomberg.

¹³ Three countries which are not among the largest in terms of the number of contracts are Ireland, Germany and Austria.

5 Year CDS Spread Changes			
	Ratings Falls		Date of Rating Change
	I	II	
1 Grade			
Portugal	20%	43%	21.01.2009
Ireland	-30%		30.03.2009
Ireland	24%	14%	24.08.2010
Greece	10%	167%	14.01.2009
Greece	67%	105%	16.12.2009
Spain	31%	80%	19.01.2009
Spain	119%	37%	28.04.2010
Hungary	83%	227%	17.11.2008
Hungary	-12%	21%	30.03.2009
Argentina	35%	48%	11.08.2008
Ukrain	21%	12%	12.06.2008
Ukrain	463%	606%	24.10.2008
Mexico	-14%	-8%	14.12.2009
Russia	-27%	285%	08.12.2008
2 Grade			
Portugal	173%	86%	27.04.2010
Ireland	20%	53%	23.11.2010
Ukrain	19%	79%	25.02.2009
3 Grade			
Greece	157%	95%	27.04.2010
Average	64%	115%	
	Rating Increases		Date of Rating Change
	I	II	
1 Grade			
Brasil	-13%	-19%	16.05.2007
Brasil	-31%	-18%	30.04.2008
Turkey	15%	-5%	19.02.2010
Japan	-20%	-22%	23.04.2007
Mexico	-19%	28%	08.10.2007
Argentina	14%	-5%	13.09.2010
Ukraine	-18%	-42%	11.03.2010
Average	-10%	-12%	
I : 30 Business Day ; II : 60 Business Day			

in 60 business day the unexpected signs of change drops down to two which belong to Mexico. Before a rating fall, CDS spreads increased by 64 percent in thirty days and 115 percent in sixty days on the average. When the rating increases are considered, these ratios of change, fall to 10 and 12 percent respectively with the negative sign as expected. These results are in line with the previous studies at which it is shown that CDS spread changes anticipates credit ratings falls but as regards to the ratings increases, this relationship is not that powerfull. In addition, rate of increases of CDS spreads do not double or triple when it comes to two and three grade changes.

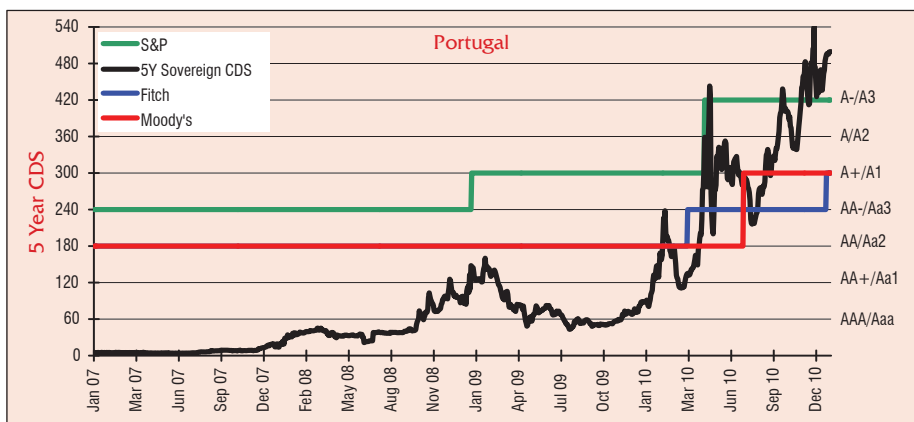
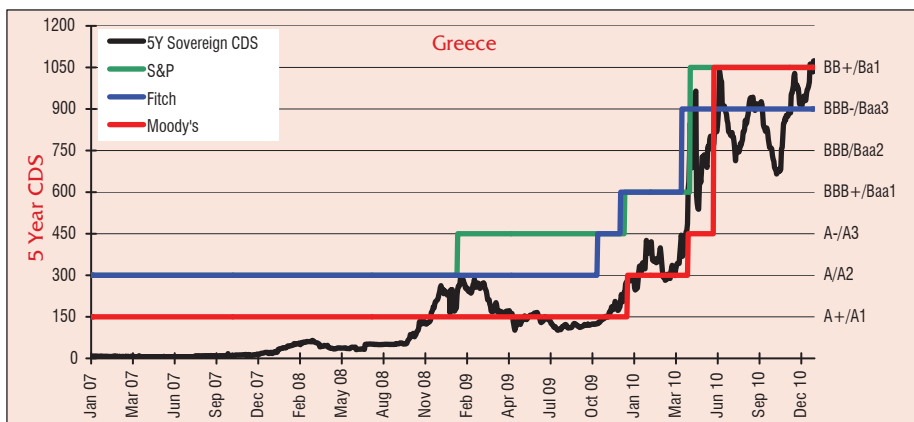
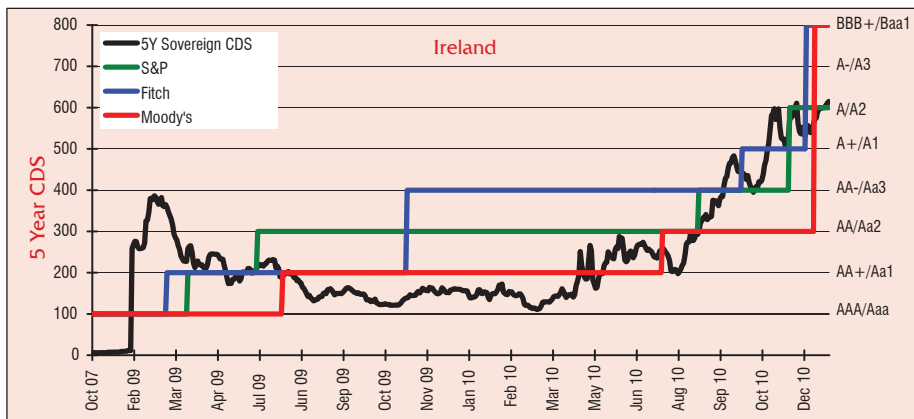
An Empirical Test on the Informative Value of the CDS Spreads

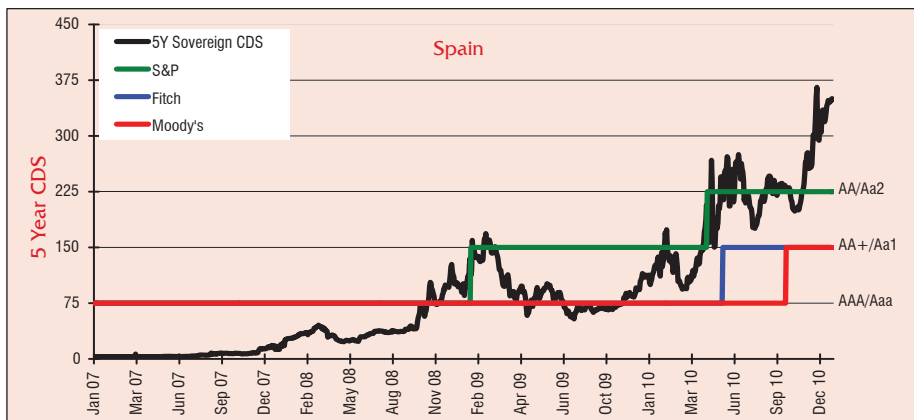
In order to investigate the relationship between the credit ratings and CDS spreads, ratings were regressed against spreads by the method of pooled least squares under the assumption of the regression parameters did not change over time and they did not differ between various cross-sectional units. Regression was run for the first and the second group of countries which experienced only rating fall and only rating increase respectively. The numerical values of the S&P credit ratings were used, AAA being 16 and CCC+ being 0 and, as ratings and CDS spreads have unit roots first differences of series were used in the regression.

Due to the lack of CDS spreads data of Ireland for 2008, first group's regression was run for the period 2009-2010. As Russia did not experience any rating change during the period 2009-2010, only PIGS countries and Hungary were included in the first group. For the second group consisting of Turkey, Brazil and Japan, regression was conducted for the period of 2007-2010. The estimation results reveal that for the first group the coefficient of the CDS spreads explaining the credit ratings is statistically meaningful, while for the second group the same conclusion was not reached. However, the relationship between the CDS spreads and the credit ratings was found to be negative as in the first group, as expected.

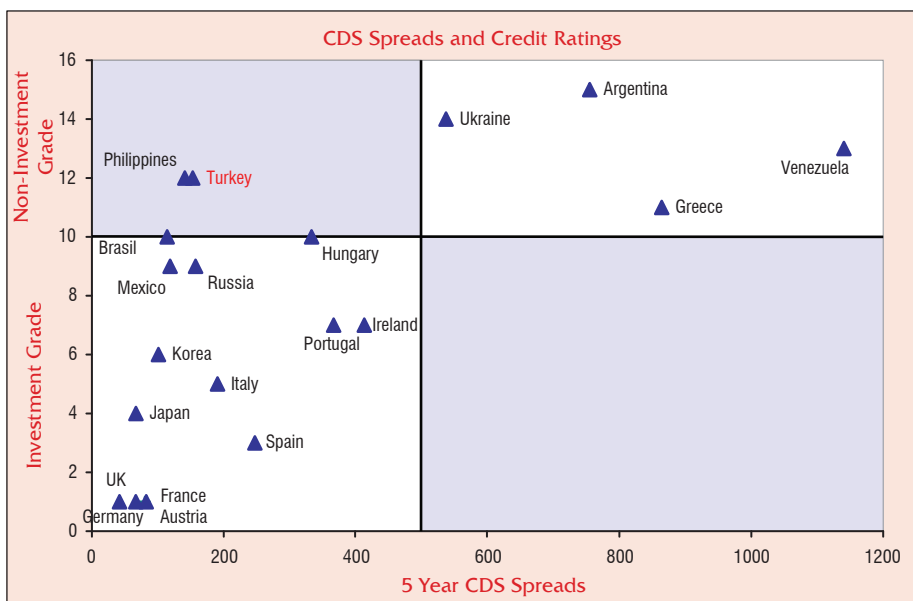


In fact, when we consider the PIGS countries which experienced many rating falls during the last two years, simple CDS and rating graphs, given below separately for each country, show that rating changes follows the increases in the CDS spreads which have begun through the end of the 2007 but the first rating changes came only in 2009.





In addition to the analysis above, we also looked at the relation between the credit ratings given by the S&P and the July-December average of five year CDS spreads of the countries as of the end of 2010, in terms of the investment threshold. The following graph shows that there is quite a variation in the CDS spreads that are observed for sovereigns below the investment grade. For investment grade countries, CDS spread levels are more concentrated. If we divide the graph at 500 bp into two parts, we observe that there are no investment grade countries on the bottom-right corner while some non-investment grade countries appear on the top-left corner.



In order to complement this study and answer the question why the market discriminates more in the non investment grade area than the CRA do, it would be appropriate to look at the main indicators of these countries' economies like their fiscal positions and external balances as well as others and to examine how well these indicators are taken into account by the CRAs.



CONCLUSION

In this study, the CDS market and the informative value of the CDS spreads as a market indicator have been examined with a special focus of the CRA rating changes, by using data on 20 largest sovereigns in the market for a period of last four years. Our findings indicate that the CDS spreads provide a source of information for the market participants, anticipating the CRA rating falls to a large extent. However, the results on the rating increases do not support this relationship firmly. This might be due to the small size of the sample where there were few number of rating increases.

It is believed that the CDS market might serve as an important indicator for the credit quality of the market participants. However, a better regulatory framework and more transparency would increase the benefits for the overall global financial system.

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**INFORMATION
FOR
INVESTORS**



GOVERNMENT DEBT SECURITIES

1. Domestic Debt Securities

Zero Coupon (Discount) Bonds:

Zero coupon bonds are issued by The Treasury with a minimum 6 months to a maximum 22 months maturity, but the maturity is subject to change when needed. The principal and interest payments are made on the redemption date. As the security has a fixed return, the payment is determined on the issue date.

Among these bonds, the bond which has a 22 months maturity is called “benchmark security” and its rate is called “benchmark rate” by the market players. It is the most traded security in the market. Within the context of benchmark borrowing strategy, benchmark 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 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 the investor. Fixed coupon bonds can have a maturity of 3 years with 3 month coupon period, 5 years with 6 month coupon period and 10 years with 6 month coupon period. As announced in the Treasury Financing Program for 2011, 3 year bonds are planned to be issued every month, whereas the 5 year bonds issued in February are planned to be issued in May, August and November.

Floating Coupon Bonds:

- a. Floating Rate Notes (Indexed to Issuances): period of these notes are three or six months, with a maturity of 5 or 7 years. Coupon payments of the notes are based on the weighted average compound rate of the discounted TL denominated government bond auctions, which are conducted in the last three or six months before the beginning of each coupon period.
- b. CPI Indexed Bonds: These type of bonds are issued with 5 year maturity since 2007 and 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 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, securities of which coupon payments will be 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” have been designed. The securities have a minimum return guarantee and a maximum return limit for each coupon payment. Investors’ Guide for RIBs can be found on www.treasury.gov.tr

2. International Bonds

Undersecretariat of 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, also known as the book-building process. Following the book-building process, pricing and allocation of the securities to the investors take place. As of April 2011, a total of 26 bonds issued by the Undersecretariat of Treasury, -19 denominated in USD, 6 denominated in Euro and 1 denominated in Japanese Yen- are being 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 the currency 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 Undersecretariat of Treasury make semiannual coupon payments while Euro denominated Eurobonds make annual coupon payments.

International bonds can be offered to a wide range of investors in various countries simultaneously. 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.

PRINCIPLES ON PARTICIPATING IN THE DOMESTIC DEBT SECURITIES AUCTIONS

I. DEFINITIONS:

Auction Date: The day when the auction is held.

Clean Price: Clean price is the price of a security excluding accrued interest.

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

Dirty Price: Dirty price is the price of a security including the accrued interest.

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

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

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

Non-Competitive Bid: The bid submitted on auction day till 10:30 to purchase the auctioned security at the average price of the auction or the price determined at the auction.

Primary Dealer: A bank which has been selected according to some pre-set criteria in order to increase effectiveness of the tenders for domestic debt securities and of the transactions of the secondary market for the said notes.

Post Auction Sale: It is the right to purchase the auctioned security after the auction, from the average price of the auction or the price determined at the auction. It is an exclusive right for Primary Dealers.

Settlement Price: Settlement price is the price that is used in calculating the settlement amount of the trade, and is calculated with reference to the inflation coefficient for inflation-indexed Government Bonds. For other securities, it is equal to the dirty price.

Private Placement Notes: Domestic debt securities, which have been issued under the relevant legislation and the Budget Laws of the relevant year. No cash inflow is obtained by means of these notes.

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

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

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

II. RULES OF THE AUCTION PROCESS:

1. Auction Announcement and General Issues:

- Auctions are announced on the Treasury web site at least one day before the auction. All announcements can be found on www.treasury.gov.tr.
- One year is calculated on 364 day basis whereas on the secondary market, one year is calculated on 365 day basis.
- All the operations related to auctions are conducted by CBRT as the fiscal agent of Treasury.

2. Auction Bids:

- Retail and corporate investors can participate in Treasury auctions through branches of CBRT, banks or through brokers. While banks can bid through EFT, brokers can bid through TETS and insurance companies can bid through fax. Retail investors can bid by using their citizen identification number.
- Competitive and non-competitive bids are submitted in the Treasury auctions. In current practice, non-competitive bids can only be submitted by public institutions and Primary Dealers. Post auction sales can only be made by Primary Dealers.
- There is no limit on the number of investors.
- 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 bound to their bids until the end of the auction. If the price determined in the auction is applied to all investors, the auction type is called “single price auction”; if each investor buys the security at its bid price, then the auction type is called “multiple price auction”.
- There is no restriction for number of bids. Retail and corporate investors can bid minimum 1,000 TL and maximum 500 million TL nominal in multiples of 1 TL. Also, total bid amounts with the same price can not exceed 500 million TL.
- Retail and corporate investors can bid minimum 10,000 USD and maximum 100 million USD in USD denominated auctions, in multiples of 10,000 USD. Also, in EUR denominated auctions they can bid minimum 10,000 EUR and maximum 100 million EUR nominal in multiples of 10,000 EUR. Total bid amounts with the same price can't exceed 100 million TL.



- Investors should deposit a collateral of one percent of their nominal bid amount before submitting the auction bids.
 - ✦ In FX indexed and TL denominated auctions, if the investors' bids are rejected, the collateral is returned to the investor on issue date. If the investors' bids are accepted, then they must pay the remaining amount on the value date.
 - ✦ In FX denominated auctions, the collateral is paid in TL that is calculated by the FX 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 the investors' bids are accepted, then the collateral is returned to the investor on the value date, and the required amount is expected to be paid in FX.
- The breakdown of the bids submitted 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 obliged to pay any stamp or seal payments.

3. Announcements of Auction Results:

- Auction results are announced to public by the CBRT. Related information is also announced on Treasury web-site. Also, auction results can be followed on CBTI, CBTH, CBTK pages of Reuters.

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 at least 4 auctions with twenty percent of collateral. If these investors do not pay the required amount over the collateral, they must attend at least 4 auctions with 100 percent of collateral. After attending 4 auctions with the increased collaterals, investors may attend to the auctions with 1 percent collateral rate after Treasury approval.
- After 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 which is the fiscal agent of CBRT.

PRIMARY DEALERSHIP SYSTEM

Primary Dealership System can be described as a system which is designed with the purpose of reducing roll-over risk, broadening investor base, constituting 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.

According to the Law on Regulating Public Finance and Debt Management, only banks can be appointed as Primary Dealer in Turkey. To be a Primary Dealer, the applications should fulfill the Primary Dealer Selection Criteria.

The contract of 2010-2011 Primary Dealership System has been revised comprehensively in order to bring the contract in tune with the changing requirements of the market.

In order to match contract period with calendar year, the contract period of 2010-2011 Primary Dealership System has changed in such a way that the length of the contract is determined as 16 months, for the period September 2010 -December 2011. In this respect, the following Primary Dealership agreements in 2012 will cover January to December period.

On the other hand, the calculation of obligations related to purchase amount from primary market has changed in the new contract in such a way that the monthly and three month purchase amounts are calculated by multiplication of the amount issued via auction by 0.36 and 0.06, respectively, and then division of this number to the number of Primary Dealers. In the previous contract, the Primary Dealers shall purchase at least 3% in each month and at least 5% in each three month period of the securities issued via auctions.

Moreover, by taking into account of increase in borrowing maturities of the Treasury, the classification of securities based on the borrowing maturities has been enhanced and the coefficients to weight the purchase amount have been changed during the calculation of obligations related to purchases from primary market.

Finally, the number of benchmark securities to which Primary Dealers quote bid and offer prices have been increased and the pool of benchmark securities have been enhanced. Also, renewal time for quotations of bid and offer prices for benchmark securities increased from 2 minutes to 5 minutes.

Primary Dealer Selection Criteria and 2010-2011 period Primary Dealership Agreement which includes the rights and obligations for Primary Dealers can be reached under the Public Finance section at www.treasury.gov.tr.

The 12 Primary Dealers for the 2010–2011 period are listed below:

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

TAXATION OF GOVERNMENT SECURITIES¹⁴

The rates of the withholding tax on the interest income and capital gains of the domestic debt securities issued after 01.01.2006, regulated in the provisional Article 67 of the Income Tax Act, are as follows according to the Council of Ministers Decree dated 01.10.2010:

- 0% for capital stock companies (Including investment funds),
- 10% for other taxpayers (Real persons and other institutions).

Provisional Article 67 is not applied for interest incomes and purchase and sale incomes of Eurobonds regardless of their issuing date. Interest income is declared by resident taxpayers when the declaration limit of the preceding year is surpassed while purchase and sale income is declared for the remaining amount over the cost value indexing and exemptions. For non-resident taxpayers, income of the Eurobonds is not declared.

¹⁴ Information about taxation of domestic debt securities are based on from "Taxation Guide For Real Persons 2011" which is published by Revenue Administration

INVESTOR RELATIONS OFFICE

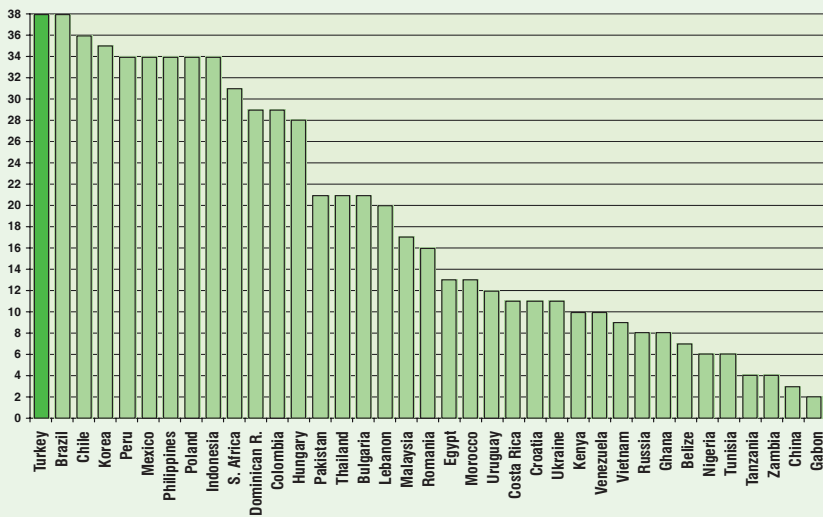
The Investor Relations Office (IRO) was established in August 2005 as part of the efforts to foster and improve Turkey's relations with international investors. The primary objective of the Office is to enable investors to access first hand, reliable and timely information regarding the economic developments 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 and 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 the 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 brief 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 to investors. In the latest IIF report dated October 2010, Turkey's IRO score was announced as 38 (out of 38) for fulfilling all of the 20 criteria, placing Turkey first in ranking together with Brazil. The IRO ranking of those 38 countries is presented below. The IRO continues its efforts to improve and broaden the criteria.

Data Transparency and Investor Relations Ranking (IIF – October 2010)



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

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



**SELECTED
STATISTICS**



CENTRAL GOVERNMENT DEBT STOCK ^{(1) (2)}

		2007			2008			2009			2010			2011 March		
		Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%	Million TL	Million USD	%
TOTAL DEBT STOCK	GRAND TOTAL	333,5	286,3	100	380,3	251,5	100	441,5	293,2	100	473,5	306,3	100	485,9	313,9	100
	Fixed	186,0	159,7	55,8	216,7	143,3	57,0	235,9	156,7	53,4	265,2	171,6	56,0	278,4	179,8	57,3
	Variable	147,5	126,6	44,2	163,6	108,2	43,0	205,6	136,5	46,6	208,3	134,7	44,0	207,6	134,1	42,7
	TL	229,2	196,8	68,7	251,8	166,5	66,2	312,8	207,8	70,9	347,3	224,7	73,3	354,4	228,9	72,9
	Fixed	117,0	100,4	35,1	126,3	83,5	33,2	144,9	96,2	32,8	170,3	110,2	36,0	178,3	115,2	36,7
	Variable	112,2	96,3	33,6	125,6	83,0	33,0	167,9	111,5	38,0	177,0	114,5	37,4	176,1	113,7	36,2
	FX Debt	104,3	89,6	31,3	128,5	85,0	33,8	128,7	85,5	29,1	126,2	81,6	26,7	131,5	85,0	27,1
	FX	103,1	88,5	30,9	127,7	84,5	33,6	128,7	85,5	29,1	126,2	81,6	26,7	131,5	85,0	27,1
	Fixed	69,0	59,3	20,7	90,5	59,8	23,8	91,1	60,5	20,6	94,9	61,4	20	100,1	64,6	20,6
	Variable	34,1	29,3	10,2	37,3	24,6	9,8	37,6	25,0	8,5	31,3	20,2	6,6	31,5	20,3	6,5
	FX Indexed	1,2	1,0	0,4	0,8	0,5	0,2	0	0	0	0	0	0	0	0	0
	Fixed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,2	1,0	0,4	0,8	0,5	0,2	0	0	0	0	0	0	0	0	0
DOMESTIC DEBT STOCK	Total Domestic Debt Stock	255,3	219,2	100	274,8	181,7	100	330	219,2	100	352,8	228,2	100	359,9	232,4	100
	Total Fixed	128,1	110	50,2	140,6	93,0	51,2	155,1	103,0	47,0	175,7	113,7	49,8	183,7	118,7	51,1
	Total Variable	127,2	109,2	49,8	134,2	88,7	48,8	174,9	116,2	53,0	177,1	114,6	50,2	176,2	113,8	48,9
	TL	229,2	196,8	89,8	251,8	166,5	91,6	312,8	207,8	94,8	347,3	224,7	98,4	354,4	228,9	98,5
	Fixed	117,0	100,4	45,8	126,3	83,5	45,9	144,9	96,2	43,9	170,3	110,2	48,3	178,3	115,2	49,5
	Variable	112,2	96,3	43,9	125,6	83,0	45,7	167,9	111,5	50,9	177,0	114,5	50,2	176,1	113,7	48,9
	CPI Indexed ⁽³⁾	22,5	19,3	8,8	21,7	14,3	7,9	37,7	25,0	11,4	53,0	34,3	15,0	58,3	37,7	16,2
	FX	24,9	21,4	9,8	22,2	14,7	8,1	17,2	11,4	5,2	5,5	3,6	1,6	5,5	3,6	1,5
	Fixed	11,2	9,6	4,4	14,3	9,5	5,2	10,2	6,8	3,1	5,4	3,5	1,5	5,4	3,5	1,5
	Variable	13,8	11,8	5,4	7,9	5,2	2,9	7,0	4,6	2,1	0,1	0	0	0,1	0	0
	FX Indexed	1,2	1,0	0,5	0,8	0,5	0,3	0	0	0	0	0	0	0	0	0
	Fixed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,2	1,0	0,5	0,8	0,5	0,3	0	0	0	0	0	0	0	0	0
	Government	66,9	57,4	26,2	65,8	43,5	23,9	60,9	40,5	18,5	51,4	33,2	14,6	53,7	34,7	14,9
	TL	62,5	53,7	24,5	61,0	40,3	22,2	57,2	38,0	17,3	49,5	32,0	14,0	51,8	33,5	14,4
	Fixed	16,6	14,3	6,5	19,6	12,9	7,1	18,8	12,5	5,7	20,1	13,0	5,7	22,5	14,5	6,3
	Variable	45,9	39,4	18,0	41,4	27,4	15,1	38,4	25,5	11,6	29,4	19,0	8,3	29,3	18,9	8,1
	CPI Indexed	17,8	15,3	7,0	14,8	9,8	5,4	10,8	7,2	3,3	6,8	4,4	1,9	7,7	5,0	2,1
	FX	3,1	2,7	1,2	4,0	2,7	1,5	3,7	2,5	1,1	1,9	1,2	0,5	1,9	1,2	0,5
	Fixed	2,7	2,4	1,1	3,8	2,5	1,4	3,6	2,4	1,1	1,9	1,2	0,5	1,9	1,2	0,5
	Variable	0,4	0,3	0,2	0,2	0,1	0,1	0,2	0,1	0	0	0	0	0	0	0
	FX Indexed	1,2	1,0	0,5	0,8	0,5	0,3	0	0	0	0	0	0	0	0	0
	Fixed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,2	1,0	0,5	0,8	0,5	0,3	0	0	0	0	0	0	0	0	0
	Market	188,4	161,8	73,8	209,1	138,3	76,1	269,1	178,7	81,5	301,4	195,0	85,4	306,2	197,8	85,1
	TL	166,6	143,1	65,3	190,9	126,2	69,4	255,7	169,8	77,5	297,8	192,6	84,4	302,6	195,4	84,1
	Fixed	100,4	86,2	39,3	106,7	70,6	38,8	126,1	83,8	38,2	150,2	97,2	42,6	155,8	100,6	43,3
	Variable	66,3	56,9	26,0	84,2	55,6	30,6	129,6	86,0	39,3	147,6	95,5	41,8	146,8	94,8	40,8
	CPI Indexed	4,7	4,0	1,8	6,9	4,6	2,5	26,9	17,8	8,1	46,3	29,9	13,1	50,6	32,7	14,1
	FX	21,8	18,7	8,5	18,2	12,0	6,6	13,4	8,9	4,1	3,6	2,4	1,0	3,6	2,4	1,0
	Fixed	8,4	7,2	3,3	10,5	6,9	3,8	6,6	4,4	2,0	3,6	2,3	1,0	3,6	2,3	1,0
	Variable	13,4	11,5	5,2	7,7	5,1	2,8	6,8	4,5	2,1	0,1	0	0	0,1	0	0
	FX Indexed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Fixed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EXT. DEBT STOCK	Foreign Debt Stock	78,2	67,1	100	105,5	69,8	100	111,5	74,1	100	120,7	78,1	100	126,0	81,4	100
	Fixed	57,9	49,7	74,0	76,1	50,3	72,2	80,9	53,7	72,5	89,5	57,9	74,1	94,6	61,1	75,1
	Variable	20,3	17,4	26,0	29,4	19,4	27,8	30,6	20,3	27,5	31,2	20,2	25,9	31,4	20,3	24,9
CURRENCY COMPOSITION OF CENTRAL GOVERNMENT DEBT STOCK	TOTAL DEBT STOCK	333,5	286,3	100	380,3	251,5	100	441,5	293,2	100	473,5	306,3	100	485,9	313,9	100
	TL	229,2	196,8	68,7	251,8	166,5	66,2	312,8	207,8	70,9	347,3	224,7	73,3	354,4	228,9	72,9
	USD	63,2	54,2	18,9	73,9	48,9	19,4	72,8	48,3	16,5	71,7	46,4	15,1	73,4	47,4	15,1
	EUR	29,5	25,4	8,9	36,0	23,8	9,5	36,0	23,9	8,2	36,2	23,4	7,6	37,0	23,9	7,6
	SDR	8,3	7,1	2,5	13,0	8,6	3,4	14,2	9,4	3,2	11,0	7,1	2,3	10,4	6,7	2,1
	JPY	2,7	2,3	0,8	4,8	3,2	1,3	4,8	3,2	1,1	6,4	4,1	1,4	9,6	6,2	2,0
	Other	0,6	0,5	0,2	0,9	0,6	0,2	0,8	0,5	0,2	0,9	0,6	0,2	1,0	0,6	0,2
	Domestic Debt	255,3	219,2	76,6	274,8	181,7	72,3	330	219,2	74,7	352,8	228,2	74,5	359,9	232,4	74,1
	TL	229,2	196,8	68,7	251,8	166,5	66,2	312,8	207,8	70,9	347,3	224,7	73,3	354,4	228,9	72,9
	USD	19,9	17,1	6,0	16,6	11,0	4,4	12,9	8,6	2,9	5,5	3,6	1,2	5,5	3,6	1,1
	EUR	6,3	5,4	1,9	6,4	4,2	1,7	4,3	2,8	1,0	0	0	0	0	0	0
	SDR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Foreign Debt	78,2	67,1	23,4	105,5	69,8	27,7	111,5	74,1	25,3	120,7	78,1	25,5	126,0	81,4	25,9
	USD	43,3	37,2	13,0	57,3	37,9	15,1	59,9	39,8	13,6	66,2	42,8	14,0	67,9	43,9	14,0
	JPY	2,7	2,3	0,8	4,8	3,2	1,3	4,8	3,2	1,1	6,4	4,1	1,4	9,6	6,2	2,0
	EUR	23,3	20	7,0	29,6	19,6	7,8	31,7	21,1	7,2	36,2	23,4	7,6	37,0	23,9	7,6
	SDR	8,3	7,1	2,5	13,0	8,6	3,4	14,2	9,4	3,2	11,0	7,1	2,3	10,4	6,7	2,1
	Other	0,6	0,5	0,2	0,9	0,6	0,2	0,8	0,5	0,2	0,9	0,6	0,2	1,0	0,6	0,2
\$ Buying Rate		1.1647			1.5123			1.5057			1.5460			1.5483		
USD/EURO		1.4683			1.4156			1.4347			1.3254			1.4090		
USD/SDR		1.57712			1.54732			1.56312			1.54071			1.57604		

(1) Geçici / Provisional

(2) TL equivalents of external debt figures are calculated by end of relevant period US \$ buying rates.

(3) Contains non-competitive bids sale via auction and non cash bonds issued to CBRT.

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

(Million TL)	2005	2006	2007	2008	2009	2010
A- GENERAL GOVERNMENT DEBT STOCK ⁽²⁾	335,888	348,660	336,745	386,582	448,912	481,063
Central Government	331,520	345,050	333,485	380,321	441,508	473,543
Other Public Institutions	4,368	3,610	3,260	6,261	7,404	7,519
B- DOMESTIC DEBT STOCK	247,435	253,284	256,599	277,149	332,764	354,983
Central Government	244,782	251,470	255,310	274,827	330,005	352,841
Other Public Institutions	2,654	1,814	1,289	2,322	2,760	2,142
C- EXTERNAL DEBT STOCK	88,453	95,376	80,146	109,432	116,147	126,079
Central Government	86,738	93,580	78,175	105,494	111,504	120,702
Other Public Institutions	1,715	1,796	1,971	3,939	4,644	5,377
D- ADJUSTMENT ITEMS ⁽³⁾	3,539	827	-4,202	-11,345	-15,499	-21,548
Central Government	22,234	24,292	27,796	26,417	24,121	21,272
Other Public Institutions	-18,695	-23,465	-31,998	-37,762	-39,620	-42,820
ESA DEFINED GENERAL GOVERNMENT DEBT STOCK						
GENERAL GOVERNMENT DEBT STOCK (A + D)	339,427	349,487	332,544	375,237	433,413	459,515
GDP	648,932	758,391	843,178	950,534	952,559	1,105,101
GENERAL GOVERNMENT DEBT STOCK / GDP (%)	52.3	46.1	39.4	39.5	45.5	41.6

(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	2010
Total Public Sector Net Debt (I-II-III-IV)	270,243	258,153	248,396	267,970	309,808	317,425
I- Total Public Sector Debt Stock (Gross)	351,288	365,842	355,474	408,210	465,612	496,745
A-Domestic Debt	259,757	268,237	273,217	295,765	347,301	368,915
Central Government	244,782	251,470	255,310	274,827	330,005	352,841
Rest of the Public Sector	14,976	16,767	17,907	20,938	17,296	16,074
B- External Debt	91,531	97,605	82,257	112,445	118,311	127,830
Central Government	86,738	93,580	78,175	105,494	111,504	120,702
Rest of the Public Sector	4,793	4,024	4,082	6,951	6,807	7,128
II- Central Bank Net Assets	30,793	45,685	41,769	60,371	65,995	86,216
Net Foreign Assets	49,480	67,136	70,977	92,835	92,497	114,572
Other Asset and Obligations (Net)	-18,687	-21,451	-29,208	-32,464	-26,502	-28,356
III- Public Sector Deposits	32,223	38,256	34,603	41,516	47,713	47,166
Central Government	18,701	24,745	20,712	19,621	27,974	25,537
Rest of the Public Sector	13,522	13,511	13,892	21,895	19,739	21,629
IV-Unemployment Insurance Fund Net Assets	18,029	23,748	30,705	38,352	42,095	45,939
Memo						
Net External Debt Stock	42,051	30,468	11,280	19,610	25,814	13,258
Net Domestic Debt Stock	228,192	227,685	237,116	248,361	283,994	304,167
Public Net Debt Stock/GDP (%)	41.6	34.0	29.5	28.2	32.5	28.7
GDP	648,932	758,391	843,178	950,534	952,559	1,105,101



GROSS EXTERNAL DEBT STOCK OF TURKEY

(Million USD)	2004	2005	2006	2007	2008	2009	2010
TOTAL	160,977	169,872	207,761	249,425	280,444	268,764	290,350
SHORT TERM	32,205	38,283	42,623	43,135	53,104	49,716	78,641
PUBLIC SECTOR	1,840	2,133	1,750	2,163	3,248	3,598	4,353
FINANCIAL INSTITUTIONS	1,815	1,733	1,555	2,163	3,148	3,598	4,353
Banks	1,815	1,733	1,555	2,163	3,148	3,598	4,353
NON-FINANCIAL INSTITUTIONS	25	400	195	0	100	0	0
SOE's	25	400	195	0	100	0	0
CBRT	3,287	2,763	2,563	2,282	1,874	1,776	1,576
Dresdner Bank Scheme	3,286	2,762	2,562	2,281	1,873	1,775	1,575
Other	1	1	1	1	1	1	1
PRIVATE SECTOR	27,078	33,387	38,310	38,690	47,982	44,342	72,712
FINANCIAL INSTITUTIONS	13,118	17,210	20,702	16,629	24,489	22,554	48,795
Banks	12,714	16,562	19,993	16,167	24,269	22,253	47,789
Non-Banking Institutions	404	648	709	462	220	301	1,006
NON-FINANCIAL INSTITUTIONS	13,960	16,177	17,608	22,061	23,493	21,788	23,917
LONG TERM	128,772	131,589	165,138	206,290	227,340	219,048	211,709
PUBLIC SECTOR	73,828	68,278	69,837	71,362	75,037	79,853	84,570
GENERAL GOVERNMENT	70,114	65,921	67,854	68,813	72,362	77,139	81,552
Central Government	68,584	64,643	66,577	67,121	69,757	74,054	78,074
Local Administrations	1,112	960	1,030	1,505	2,466	2,993	3,417
Funds	418	318	248	187	138	91	61
FINANCIAL INSTITUTIONS	656	318	487	620	590	1,106	1,744
Banks	656	318	487	620	590	1,106	1,744
NON-FINANCIAL INSTITUTIONS	3,058	2,039	1,496	1,929	2,086	1,609	1,274
SOE's	2,840	1,894	1,390	1,812	1,892	1,437	1,133
Other	218	145	106	117	194	172	141
CBRT	18,123	12,662	13,115	13,519	12,192	11,529	10,251
CBRT Loans	2,995	0	0	0	0	0	0
Dresdner Bank Scheme	15,119	12,654	13,106	13,510	12,183	11,520	10,242
NGTA	9	8	9	9	9	9	9
PRIVATE SECTOR	36,821	50,648	82,186	121,409	140,111	127,665	116,889
FINANCIAL INSTITUTIONS	8,565	16,059	28,493	41,861	41,092	35,409	34,195
Banks	5,794	12,334	22,063	30,921	30,025	27,952	28,277
Non-Banking Institutions	2,771	3,725	6,429	10,939	11,067	7,457	5,918
NON-FINANCIAL INSTITUTIONS	28,256	34,589	53,693	79,548	99,019	92,256	82,693

NET EXTERNAL DEBT STOCK OF TURKEY

(Million USD)	2004	2005	2006	2007	2008	2009	2010
I- Gross External Debt Stock, Excluding Banking Sector (A-a-b)	118,588	123,499	147,985	183,752	208,347	200,549	196,360
A. Gross External Debt Stock	160,977	169,872	207,761	249,425	280,444	268,764	290,350
a. Central Bank of Turkey (-)	21,410	15,425	15,678	15,801	14,066	13,305	11,827
b. Banks (-)	20,979	30,947	44,098	49,871	58,031	54,909	82,163
II- BANKING SECTOR / MONETARY SECTOR NET FOREIGN ASSETS ⁽²⁾	15,628	24,508	39,411	50,014	57,241	54,723	26,843
A. Monetary Authorities and Deposit Money Banks ⁽¹⁾	17,097	25,906	41,063	53,106	60,933	57,609	32,314
B. Investment and Development Banks & Participation Banks	-1,469	-1,398	-1,652	-3,092	-3,692	-2,887	-5,472
III- NET EXTERNAL DEBT STOCK (I-II)	102,961	98,991	108,574	133,738	151,106	145,827	169,518
NET EXTERNAL DEBT STOCK / GDP (%)	26.4	20.6	20.6	20.6	20.4	23.6	23.0
Memo:							
GDP (USD)	390,387	481,497	526,429	648,754	742,094	616,703	735,828
End of Period \$/TL Buying Rate	1.3421	1.3418	1.4056	1.1647	1.5123	1.5057	1.5460

(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 CBT'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.

REPAYMENTS OF TREASURY GUARANTEED CREDITS																					
Million TL	2005			2006			2007			2008			2009			2010			2011 ⁽¹⁾		
	Paid by Treasury	Paid by Institution	Undertaken Ratio %	Paid by Treasury	Paid by Institution	Undertaken Ratio %	Paid by Treasury	Paid by Institution	Undertaken Ratio %	Paid by Treasury	Paid by Institution	Undertaken Ratio %	Paid by Treasury	Paid by Institution	Undertaken Ratio %	Paid by Treasury	Paid by Institution	Undertaken Ratio %	Paid by Treasury	Paid by Institution	Undertaken Ratio %
Local Administrations	262	112	70.15	199	142	58.38	113	134	45.73	70	122	36.39	77	167	31.59	85	145	36.9	19	18	52.1
Funds	-	169		-	135		-	99		-	80		-	85		-	51		-	1	
Financial Institutions	-	157		-	160		-	58		-	28		-	44		7	76	7.9	-	1	
Non-Financial Institutions	25	425	5.51	105	365	22.29	152	176	46.35	110	213	34.06	190	144	56.91	2	261	0.8	-	34	
Private Sector Financial Institutions	-	42		-	88		-	152		-	285		-	326		-	309		-	48	
Private Sector Non-Financial Institutions	-	532		-	351		-	199		-	167		-	176		-	141		-	30	
Total	287	1,437	17	304	1,243	20	265	818	24	180	894	17	267	943	22	94	984	8.7	19	132	12.7

(1) Provisional, 31.03.2011



Million TL	TREASURY RECEIVABLES STOCK ⁽¹⁾								
	2009			2010			March 2011		
	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total	Outstanding Overdue Receivables	Projected Receivables Stock	Total
Local Administrations	7,263	7,132	14,395	7,790	6,892	14,682	7,908	6,920	14,829
SOE's ⁽²⁾	1,728	7,009	8,736	433	5,570	6,003	463	5,681	6,144
Banks	0	1,073	1,073	0	888	888	0	920	920
Social Security Institution	0	10	10	0	9	9	0	10	10
Public Banks	0	652	652	0	585	585	0	604	604
Other Public Enterprises	0	1,363	1,363	0	1,285	1,285	0	1,248	1,248
Central Administrations ⁽³⁾	57	1,736	1,794	67	1,656	1,723	68	1,696	1,764
Organizations ⁽⁴⁾	0	33	33	0	23	23	0	21	21
Insurance Institutions	0	65	65	0	48	48	0	48	48
Private Institutions ⁽⁵⁾	0	7	7	0	4	4	0	5	5
Foundations ⁽⁶⁾	0	24	24	0	21	21	0	19	19
TOTAL	9,048	19,104	28,152	8,289	16,982	25,272	8,439	17,171	25,610

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

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

(3) Represents central administrations except public agencies under general government budget, Higher Education Council, universities and higher institutes of technology.

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

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

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



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PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY