Webinar
December 18, 2012

Transparency and Reporting on Public Debt:
Notes from the Turkish Experience

Emre BALIBEK, PhD.
Deputy Director General of Public Finance
Turkish Treasury
Outline

- Legal Framework
- Practices
  - Reporting
  - Investor Relations
- Conclusion
  - Costs and Benefits
Legal Framework

Public Finance and Debt Management Law

- Requires the preparation of a quarterly Public Debt Management Report (PDMR)
  - Sent to
    - the Parliamentary Budget Commission
    - Council of Ministers
    - Relevant public institutions
  - Covers
    - Borrowing and repayment transactions
    - Risk management indicators and practices
    - Treasury guarantees
    - On-lent loans etc
Legal Framework

Principles of Debt and Risk Management

- To follow a sustainable, transparent and accountable debt management policy that conforms to monetary and fiscal policies, considering macroeconomic balances.

- To meet financing requirements at the lowest possible cost in the medium and long term, taking into account the risks, regarding costs as well as domestic and international market conditions.
Practices: Reporting

Public Debt Management Reports

- **Monthly**
  - Contains Statistical Data
    - Debt profile
    - Borrowing and redemptions
    - Debt and risk management indicators
    - Treasury guarantees and receivables

- **Annual**
  - Descriptive Information
    - Macro-financial environment
    - Debt, Risk and Cash management policies and practices
    - Information for potential investors
Practices: Reporting

Treasury Website: www.treasury.gov.tr

- Statistics
  - Debt profile
  - Budget finances
  - Cash balances

- Press Releases
Practices: Investor Relations

Annual Borrowing Strategy

- Redemption profile
- Borrowing targets
- Overall strategy

T.R.
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY

OCTOBER 31ST, 2011

PRESS RELEASE

TREASURY FINANCING PROGRAM:
2011 DEVELOPMENTS AND 2012 PROJECTIONS

The Medium Term Programme (MTP) of 2012-2014 was announced on October 13th, 2011, and Central Government Budget (CGB) was submitted to the Grand National Assembly of Turkey in October 17th, 2011.

Treasury Financing Program for 2012 has been prepared based on the MTP and CGB projections.

I–Financing Program

a) 2011 Developments

<table>
<thead>
<tr>
<th>TREASURY FINANCING PROGRAM (*)</th>
<th>2011 (Realization)</th>
<th>2012 (Program)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt Service</td>
<td>194.6</td>
<td>198.5</td>
</tr>
<tr>
<td>Principal</td>
<td>185.9</td>
<td>190.1</td>
</tr>
<tr>
<td>Interest</td>
<td>41.9</td>
<td>36.7</td>
</tr>
<tr>
<td>Domestic Debt Service</td>
<td>178.1</td>
<td>192.3</td>
</tr>
<tr>
<td>Principal</td>
<td>156.0</td>
<td>165.1</td>
</tr>
<tr>
<td>Interest</td>
<td>22.1</td>
<td>22.1</td>
</tr>
<tr>
<td>External Debt Service</td>
<td>16.7</td>
<td>14.2</td>
</tr>
<tr>
<td>Principal</td>
<td>10.7</td>
<td>11.0</td>
</tr>
<tr>
<td>Interest</td>
<td>6.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Other Financing (**)</td>
<td>20.0</td>
<td>27.2</td>
</tr>
<tr>
<td>TOTAL ROLL-OVER RATIO</td>
<td>89.3</td>
<td>86.2</td>
</tr>
</tbody>
</table>

(*) Cash based
(1) The cash primary balance, privatization revenues, receipts from unemployment insurance funds and OCP, receipts from foreign loans, and guarantees are shown in the table.

7
Practices: Investor Relations

- Quarterly Auction Calendar
  - Monthly redemptions and financing program
  - Auction dates and instruments
  - Announced every month on a rolling-horizon basis
  - Complemented by weekly announcement of auction details

REPUBLIC OF TURKEY
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY

SEPTEMBER 28TH, 2012

DOMESTIC BORROWING STRATEGY
OCTOBER - DECEMBER 2012

A. DOMESTIC DEBT REDEMPTIONS

Domestic debt payments and their distribution among institutions in October - December 2012 period are as follows:

<table>
<thead>
<tr>
<th>Domestic Debt Redemptions (1)</th>
<th>(Million TRY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composition by Lenders</td>
<td></td>
</tr>
<tr>
<td>Market</td>
<td>Public Institutions</td>
</tr>
<tr>
<td>03.10.2012</td>
<td>587</td>
</tr>
</tbody>
</table>

C. ISSUANCE CALENDAR

Issue calendar for October - December 2012 period and related details are as follows:

<table>
<thead>
<tr>
<th>Issuance Calendar for October 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Auction Date</strong></td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>05.11.2012</td>
</tr>
<tr>
<td>06.11.2012</td>
</tr>
<tr>
<td>06.11.2012</td>
</tr>
<tr>
<td>06.11.2012</td>
</tr>
</tbody>
</table>
Practices: Investor Relations

- **Primary Dealer (PD) Meetings**
  - Monthly meetings with Treasury directors of 12 PD banks in the domestic market
  - Serves as a platform for exchange of information regarding
    - Developments in the financial markets
    - Instrument preferences

- **Road Shows**
  - Addressed to international Investors
  - Serves for communication of information regarding
    - Developments in the Turkish Economy
    - Economic programs and targets
Practices: Investor Relations

- Investor Relations Office (IRO) [www.treasury.gov.tr/iro.htm](http://www.treasury.gov.tr/iro.htm)
  - Dedicated to improve and sustain relations with international investors
  - Aims to enable constant information flow
  - Disseminates latest economic and financial statistics through regular Newsletters on a subscription basis
Practices: Investor Relations

- International Institute of Finance (IIF) monitors and ranks 38 emerging market country’s IRO practices based on two criteria:

  - **Investor Relations and Data Transparency Practices**
    - Turkey, Brazil and Indonesia rank the highest in this category (scoring 38 out of 38), as the only three emerging economies fulfilling all the 20 criteria

  - **Data Dissemination Practices**
    - Turkey ranks the highest in this category (scoring 42 out of 42), as the only emerging market country which fulfills all the 23 criteria
Practices: Social Media

- Treasury also shares its public announcements via social media applications
Concluding Remarks: Costs & Benefits

 Costs:
  - Tangible costs:
    - Dedicated staff for PDMR and IRO
    - Publication and dissemination of reports (costs are reducing as technology improves)
    - Road Show costs
  - Intangible costs:
    - Arguably reduced flexibility

 Benefits:
  - Legal compliance
  - Building investor loyalty
    - They receive direct and accurate information
    - They learn not to expect surprises
  - Enhancement of the investor base
    - Reaching new markets
www.hazine.gov.tr
www.treasury.gov.tr
BREAKOUT SESSION 6 - Transparency and reporting on public debt: does it pay off? A discussion on Brazil

Paulo Vieira da Cunha
Partners and Head of Emerging Markets Research
Tandem Global Partners
New York, N.Y.
Debt management is conditioned by fiscal policy and, more broadly, the macroeconomy.

You have seen this...

\[
d_t = \frac{(1+i_t)}{(1+g_t)(1+\pi_t)} \frac{d_{t-1} - (b_t + \Delta m_t)}{d_{t-1} - (b_t + \Delta m_t)}
\]

- The ability for all players to get a good grip on this equation is what drives the demand for timely information on public debt
- It is not only about debt: Fiscal, Inflation, Growth ➔ Policies
- Debt has to be sold—repeatedly
- There may be some strategic advantage in withholding information... but because this is a repeated game the cost in loss of credibility outweighs any transitory gain

Institutions matter...
But to some extent they are endogenous to the economy

- 25-30 yrs ago this was not well understood
- Issuers (Brazil was no exception, on the contrary) ➔ Sought to gain “advantage” by being secretive, even deceptive
- Information was hard to get; markets embryonic or non-existent confined to dealings between the Treasury and captive banks
- Central bankers ➔ Managing a “black box” ➔ Delphic prophesies, occasionally
- The underlying reason for this was the macroeconomy itself ➔ unbalanced, mismanaged and unsustainable
- Cost = Repeated crises
Instability = short planning/management horizon
Increased financial sophistication Vs. Crippling lack of information for debt management

• 1981 crisis ➔ 1982 external debt rescheduling (IMF)
• Successive debt-cum-rescheduling crises post-1982
• History of chronic inflation ➔ Inflation indexed paper (1964) Obrigações Reajustáveis do Tesouro Nacional (ORTN)
• Law 6404 of 1976 ➔ Correção Monetária or “monetary correction” of balance sheets and most financial assets
• Financial indexation ➔ Unbalanced and ultimately unworkable: Indexed finance vs. Non-indexed real economy
• Debt management in disarray... public sector did not know its own accounts (Public Enterprises-SEST) and Treasury lacked even a rudimentary cash management system (SIAFI)
Severe macro instability ➔ Daily roll-over of the stock of debt ... Debt management was done at the trading desk of the Central Bank

• Re-democratization ➔ Political struggles (partial wage indexation) ➔ Cruzado Plan (1986): First attempt to forcefully de-index the economy
• **FAILURE**: Fiscal & external transfer problems ➔ Partial confiscation of domestic debt (imperfect indexation); default of external debt
• Bouts of near hyper-inflation ➔ Wiped out base money (M0) ➔ Quasi-moneys indexed DAILY to estimated inflation
• Extremely tight external constraint ➔ forced adjustment in CAD w/large external transfers for debt servicing
• Inertial inflation ➔ **Passive indexed money** ➔ created by indexed debt w/daily rollover of nearly the entire stock of public debt!
Indexed money with indexed debt; inertial, volatile and extremely high inflation:
Debt management = Debt trading
Binding external constraints reinforced domestic financial repression... And yet, ultimately, the State faced crippling restrictions in its financing capacity.
1994 ➔ Turning point
Systematic attempt to redefine the nature of the State, its institutions & management

- Real Plan (1994) ➔ **Successful stabilization**
- Partial exchange rate anchor ➔ Unsustainable = Combination of mounting Fiscal (primary) and Current Account deficits
- Huge international interest rate differentials ➔ accumulation of large stocks of short term external debt w/widening real appreciation of the currency ➔ “the mother of all carry trades”
- Nov/1998 post-Russian Crisis ➔ Run on the BRL ➔ Presaged the end of the system ➔ **Fiscal dominance**
- After usual skirmishes (inc deliberate misinformation about the volume of reserves and the composition of the public debt) ➔ New system Mar/1999
A history of high and volatile real interest rates that impact public debt dynamics nearly instantaneously. LFTs = 0 duration bonds.

The average real rate in the post Real Plan period (exchange rate anchor regime) was 23%pa.
The external constraint closed again in Dec/1988
And it took post-WTO China (2005) to remove it in a
more durable way
A macro regime that works; institutions & know how to manage the public debt... and the bonus of China post-WTO (largest positive ToT shock since WWII)

- Did the trick! **“The New Holy Trinity”** ➔ Flexible exchange rate; Enforceable fiscal target (Fiscal Responsibility Law aimed at stabilizing the Debt/GDP ratio); Inflation Targeting
- Right combination to sustain macroeconomic stability
- A hallmark of this regime is transparency and accountability: in the fiscal accounts; in the conduct of monetary policy; in debt management. The impetus in one area reinforced the other; arguably, it could not have been done in any one area independently
- 1986 = Secretaria do Tesouro Nacional (STF)
- 1999 = Study group on debt management (BACEN/STF)
- 2001 = Reorganization of STF ➔ New debt management system
A long and turbulent road to building an effective debt management system

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>Secretaria do Tesouro Nacional</td>
</tr>
<tr>
<td>1987</td>
<td>Plano Bresser - Partial de-indexation</td>
</tr>
<tr>
<td>1988</td>
<td>New Constitution - Redefinition of Public Debt</td>
</tr>
<tr>
<td>1989</td>
<td>Plano Verão - Partial de-indexation</td>
</tr>
<tr>
<td>1989</td>
<td>First rescheduling of sub-national domestic debts</td>
</tr>
<tr>
<td>1990</td>
<td>Plano Collor - Freeze on deposits &amp; forced de-indexation of debt</td>
</tr>
<tr>
<td>1993</td>
<td>Second rescheduling of sub-national domestic debts</td>
</tr>
<tr>
<td>1994</td>
<td>Plano Real - De-indexation &amp; introduction of new currency (w/URV)</td>
</tr>
<tr>
<td>1995</td>
<td>PROER Sanitization &amp; recapitalization of the private banking system (concluded in 2000)</td>
</tr>
<tr>
<td>1996</td>
<td>PROES Sanitization &amp; recapitalization of public banks (concluded in 2001)</td>
</tr>
<tr>
<td>1997</td>
<td>Third rescheduling of sub-national domestic debts</td>
</tr>
<tr>
<td>1999</td>
<td>Currency crisis and IMF-1</td>
</tr>
<tr>
<td>1999</td>
<td>Floating rate regime; Inflation Targeting &amp; IMF-2</td>
</tr>
<tr>
<td>1999</td>
<td>Conclusion of the rescheduling of sub-national debts</td>
</tr>
<tr>
<td>2000</td>
<td>Fiscal Responsibility Law &amp; IMF-3</td>
</tr>
<tr>
<td>2001</td>
<td>Recapitalization of public banks (inc. Banco do Brasil) &amp; ENGEA</td>
</tr>
<tr>
<td>2001</td>
<td>New Payments System (BACEN)</td>
</tr>
<tr>
<td>2001</td>
<td>Reorganization of STF = NEW DEBT MANAGEMENT SYSTEM</td>
</tr>
</tbody>
</table>
Post-2005: Debt structure that while still vulnerable (26% indexed to overnight interest rate) is consistent with countercyclical stabilizers
Indexed debt & fiscal dominance (or quasi-dominance) ➔ pro-cyclical adjustment

2002 shock: vicious circle

Domestic shock

Higher risk
Decrease in confidence
Devaluation (US$/BRL)
Increase in spread

Fiscal dominance

Large stock of debt
Large share of debt
Indexed to FX
Increase in spread

Compromised
Monetary policy

PRO
cyclical policy

Large impact
output
employment

Increase in the
Debt stock
Increase in inflation
(High pass-through)
De-indexed debt & public sector as a net external creditor → anti-cyclical adjustment

2009 shock: virtuous circle

External shock

Fiscal resilience

Effective Monetary policy

Reduced impact output employment

- Decrease in Debt stock
- Controlled inflation (Low pass-through)
- Devaluation (US$/BRL)
- Higher risk
- Decrease in confidence

Small stock of debt Public sector net creditor in FX

COUNTER cyclical policy
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Sovereign Ratings Methodology & Debt Management

Lisa M. Schineller
Managing Director, Sovereign Ratings
Economist, Latin America

December 18, 2012
Transparency & Reporting on Public Debt: Does It Pay Off?

The World Bank

FABDM Webinar

December 18, 2012
Agenda

• Sovereign credit ratings and other definitions

• Latin America’s Sovereign Ratings

• Sovereign ratings methodology

• Role of Debt and Debt Management
Definitions: Rating Sovereigns, Not Countries

• Standard & Poor’s rates sovereign governments and other public and private sector entities which can issue debt; it does not rate countries.

• For example, Standard & Poor’s rates the United Mexican States, the Socialist Republic of Vietnam, and the Federal Republic of Germany, but not Mexico, Vietnam, or Germany.
Definitions: What A Rating Is And Is Not

A Standard & Poor’s sovereign rating is:

• A current opinion of the creditworthiness of a sovereign government, where creditworthiness encompasses likelihood of default and credit stability (and in some cases recovery).

• A globally comparable, independent, forward-looking opinion.

• A reflection of medium-term fundamentals -- through economic and political cycles.

A Standard & Poor’s sovereign rating is not:

• A country risk rating.

• A statement of fact or a recommendation to buy, hold, or sell a particular instrument or make any investment decisions.

• A measure of liquidity, volatility, or market value of a financial instrument.
Standard & Poor’s Ratings

- 128 rated sovereigns worldwide
- 27 rated sovereigns in Latin America & the Caribbean
<table>
<thead>
<tr>
<th>Country</th>
<th>Rating</th>
<th>Country</th>
<th>Rating</th>
<th>Country</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>A+/AA</td>
<td>Colombia</td>
<td>BBB-/BBB+</td>
<td>Venezuela</td>
<td>B+/B+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Montserrat</td>
<td>BBB-/BBB-</td>
<td>Dominican Republic</td>
<td>B+/B+</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>A/A</td>
<td>Uruguay</td>
<td>BBB-/BBB-</td>
<td>Honduras</td>
<td>B+/B+</td>
</tr>
<tr>
<td>Aruba</td>
<td>A-/A-</td>
<td>Barbados</td>
<td>BB+/BB+</td>
<td>Ecuador</td>
<td>B/B</td>
</tr>
<tr>
<td>Curacao</td>
<td>A-/A-</td>
<td>Costa Rica</td>
<td>BB/BB</td>
<td>Argentina</td>
<td>B-/B-</td>
</tr>
<tr>
<td>Brazil</td>
<td>BBB/A-</td>
<td>Guatemala</td>
<td>BB/BB+</td>
<td>Jamaica</td>
<td>B-/B-</td>
</tr>
<tr>
<td>Bahamas</td>
<td>BBB/BBB</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Mexico</td>
<td>BBB/A-</td>
<td>Bolivia</td>
<td>BB-/BB-</td>
<td>Grenada</td>
<td>CCC+/CCC+</td>
</tr>
<tr>
<td>Panama</td>
<td>BBB/BBB</td>
<td>El Salvador</td>
<td>BB-/BB-</td>
<td>Belize</td>
<td>SD/CCC+</td>
</tr>
<tr>
<td>Peru</td>
<td>BBB/BBB+</td>
<td>Paraguay</td>
<td>BB-/BB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Suriname</td>
<td>BB-/BB-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Close to 85% of the region’s weighted average GDP is Investment Grade

Rating: Foreign Currency / Local Currency  -----  Outlook: Positive, Stable, Negative
Ratings as of September 7th, 2012.
Source: Standard and Poor’s Ratings Services

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Framework for Sovereign Ratings (Updated June 2011)

Chart 1
Sovereign Rating Framework

Five key areas to determine a sovereign’s creditworthiness:

- Political score
- Economic score
- External score
- Fiscal score
- Monetary score

Political and economic profile

Sovereign indicative rating level

Exceptional adjustment factors

Foreign currency sovereign rating

Zero to two notches of uplift

Local currency sovereign rating
### Table 2
Indicative Rating Levels From The Combination Of (1) The Political And Economic Profile With (2) The Flexibility And Performance Profile

<table>
<thead>
<tr>
<th>Political and economic profile</th>
<th>Category</th>
<th>Score</th>
<th>Superior</th>
<th>Extremely strong</th>
<th>Very strong</th>
<th>Strong</th>
<th>Moderately strong</th>
<th>Intermediate</th>
<th>Moderately weak</th>
<th>Weak</th>
<th>Very weak</th>
<th>Extremely weak</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility and performance profile</td>
<td><strong>Category</strong></td>
<td><strong>Score</strong></td>
<td><strong>1</strong></td>
<td><strong>1.5</strong></td>
<td><strong>2</strong></td>
<td><strong>2.5</strong></td>
<td><strong>3</strong></td>
<td><strong>3.5</strong></td>
<td><strong>4</strong></td>
<td><strong>4.5</strong></td>
<td><strong>5</strong></td>
<td><strong>5.5</strong></td>
<td><strong>6</strong></td>
</tr>
<tr>
<td>Extremely strong</td>
<td><strong>1 to 1.7</strong></td>
<td>aaa</td>
<td>aaa</td>
<td>aaa</td>
<td>aa+</td>
<td>aa</td>
<td>a</td>
<td>a-</td>
<td>bbb+</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very strong</td>
<td><strong>1.8 to 2.2</strong></td>
<td>aaa</td>
<td>aaa</td>
<td>aa+</td>
<td>aa</td>
<td>aa-</td>
<td>a</td>
<td>a-</td>
<td>bbb+</td>
<td>bbb</td>
<td>bb+</td>
<td>bb-</td>
<td></td>
</tr>
<tr>
<td>Strong</td>
<td><strong>2.3 to 2.7</strong></td>
<td>aaa</td>
<td>aa+</td>
<td>aa</td>
<td>aa-</td>
<td>a</td>
<td>a-</td>
<td>bbb+</td>
<td>bbb</td>
<td>bb+</td>
<td>bb</td>
<td>b+</td>
<td></td>
</tr>
<tr>
<td>Moderately strong</td>
<td><strong>2.8 to 3.2</strong></td>
<td>aa+</td>
<td>aa</td>
<td>aa-</td>
<td>a-</td>
<td>a-</td>
<td>bbb</td>
<td>bbb</td>
<td>bb+</td>
<td>bb</td>
<td>bb-</td>
<td>b+</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td><strong>3.3 to 3.7</strong></td>
<td>aa</td>
<td>aa-</td>
<td>a-</td>
<td>a-</td>
<td>bbb+</td>
<td>bbb</td>
<td>bb+</td>
<td>bb</td>
<td>bb</td>
<td>b+</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>Moderately weak</td>
<td><strong>3.8 to 4.2</strong></td>
<td>aa-</td>
<td>a+</td>
<td>a</td>
<td>bbb+</td>
<td>bbb</td>
<td>bb+</td>
<td>bb</td>
<td>bb-</td>
<td>b+</td>
<td>b</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>Weak</td>
<td><strong>4.3 to 4.7</strong></td>
<td>a</td>
<td>a-</td>
<td>bbb+</td>
<td>bbb</td>
<td>bb+</td>
<td>b</td>
<td>bb-</td>
<td>b+</td>
<td>b</td>
<td>b-</td>
<td>b-</td>
<td></td>
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<tr>
<td>Very weak</td>
<td><strong>4.8 to 5.2</strong></td>
<td>N/A</td>
<td>bbb</td>
<td>bbb-</td>
<td>bb+</td>
<td>bb</td>
<td>bb-</td>
<td>b+</td>
<td>b</td>
<td>b-</td>
<td>b-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extremely weak</td>
<td><strong>5.3 to 6</strong></td>
<td>N/A</td>
<td>bb+</td>
<td>bb</td>
<td>bb-</td>
<td>b+</td>
<td>b</td>
<td>b</td>
<td>b-</td>
<td>b-</td>
<td>ccc/cc</td>
<td>ccc/cc</td>
<td></td>
</tr>
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</table>

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Fiscal Analysis

Our fiscal analysis focuses on:

- Fiscal flexibility.
- Fiscal trends and vulnerabilities.
- Debt structure and funding.
- Contingent liabilities.
Debt Structure and Funding

• Debt level and cost of debt starting point

• Worse assessment if
  – Significant exposure to exchange rate movements and refinancing risk such as if more than 40% of debt is denominated in foreign currency or the average maturity is typically less than three years
  – Non residents hold consistently more than 60% of central government commercial debt
  – Debt service is vulnerable due to amortization profile that varies by more than 5% of GDP from one year to the next or due to possible acceleration from puts or rating triggers
  – Resident banking sector balance sheet has a large share of central government debt which limits room for additional lending to government without crowding out private sector
Lower debt levels in Latin America, but composition of debt and the development of local markets key improvement

**Net General Government Debt / GDP**
(avg, weighted by GDP share)

Source: Standard & Poor’s Ratings Services.
Example Brazil and Mexico rely on local markets

Brazil

• **Lower debt burden and better composition of debt facilitated**
  – Elimination of dollar linked debt
  – Reduction in floating rate paper, more fixed rate issuance
  – Lengthen maturity; 10-year yield curve; longer inflation-linked paper
  – Annual Borrowing Plan; Tesouro direto

Mexico

• **Track record of predictable and systematic debt management**
  – Local fixed rate issuance of 30 years; and longer inflation-linked paper
  – 100 year global bond
  – Annual Financing Plan, Cetesdirecto for retail investors; syndicated local issuance for new benchmarks
  – Joined Citibank’s WGBI 2010
Contingent Liabilities

• Our analysis focuses primarily on the size and health of nonfinancial public sector enterprises (NFPEs) and the robustness of the financial sector.

• Standard & Poor’s defines contingent liabilities as any obligations with the potential to become a fiscal burden and impair fiscal flexibility.

• The largest sovereign contingent liability is almost always that posed by the risk of a systemic crisis in the financial system. The impetus to assist banks is strong, since banking system soundness is generally viewed to be essential to macroeconomic stability and sustained economic growth.

• NFPEs pose a risk to a sovereign because they generally are formed to further public policies and can suffer from weak profitability and low (or virtually nonexistent) equity bases, which leave them vulnerable to adverse economic circumstances.
Conclusions

• Reduced fiscal vulnerabilities follow from lower debt levels, but also better composition of debt

• Solid debt profile stems from active debt management

• Clear and transparent communication by debt management offices with investors facilitates building local yield curves