FOREIGN BORROWING, REASONS AND RESULTS TURKEY SAMPLE

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Abstract

The first steps of the external indebtedness of the Republic of Turkey have been taken in the late years of the Ottoman with approximately 3 to 5 million liras as a start and advanced to the discouraging state of quarter trillion dollars in 1.5 centuries.

External debt is evaluated as one of the mutual problems of many developing countries in the global world at the present day. 20% of the present day world population lives in the developed countries and the rest of the 80% lives in the developing countries. There is a very big difference in the distribution of income that falls per capita between these two classes and the developing countries struggle in the cycle of external indebtedness and dependence. The developing countries need sufficient savings to be able to make development investments. The countries in such circumstance refer to external borrowing with the reason of the internal borrowing made from domestic borrowing parties such as the banks, wealthy people and the financial institutions causing economical imbalances. In the scope of the article; the concept of the external debt is evaluated, the statistics and data are discussed and it is attempted to make solutions and suggestions orienting the subject.

Key Words: Foreign Debt, External debts and exchange rates, External debts and public borrowing, Economic crises and debts, external debts and Turkey Sample
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1. EXTERNAL BORROWING

1.1. Definition
Generally, borrowing is accepting money or similar valuable things to return them after a specific time. Government borrowing is also obtaining credit from resources other than their own sources by a government or governmental institutions. However government external borrowing is the transfer flows supplied from foreign resources which arise as a result of international relations that make an increasing or decreasing effect on the national income at the time when they are borrowed or being paid back (Adıyaman, 2006, 22).

Treasury of Turkey, however, defines the external debt as; ‘Gross external debts of a country within a period including the total of short, medium and long term obligations obtained based on an agreement from people who are not settled in that country.’ (Bal, 2001, 14).

External borrowing may be confined under two headings in terms of countries who borrow:
1. Countries who make external borrowing by their own currency (developed countries such as USA, England, France, Germany and Japan)
2. Countries who make external borrowing by foreign currency (e.g. Turkey, Argentina, Brazil, Hungary, and Russia)

Borrowing made in a country’s own currency is not accepted as external debt. For example, external debt is classified generally under four headings such as ‘publicly guaranteed debt’, ‘unguaranteed private credits’, ‘Central Bank deposits’ and ‘debts to the IMF (IMF credits)’ (Eker, Meriç, 1999, 8).

1.2. Reasons of External Borrowing
Developing countries need external financing or external borrowing because of the following reasons:
- inadequate internal saving,
- industrialization and development efforts that requires financing,
- dependence on outside due to industry production because of intermediate goods import,
- shortages in foreign trade, balance of payments and the amount of national foreign exchange,
- military expenses in huge amounts,
- public sector deficit,
- expensive domestic financing compared to foreign financing,
- economy being open to short term capital flows,
- necessity of rendering the external debts which become due (Lessard, 1986, 3; Ulusoy, 2001).

1.3. Types of External Debt
The types of external debt may be categorized according to their due dates, debtors and creditors in accordance with the classification of the World Bank. The due date is the duration between the agreement date and the date of last back payment. If the said due date is up to one year then it is short termed; if between one and five years then it is medium termed; if more than five years it is described as long termed debt (Ulusoy, 2001, 33-34). The credits may be classified as unguaranteed debts, public debts and publicly guaranteed debts according to their debtors. Anyhow, in the debt classification according to the debtors, the differentiation of the debts from official sources and debts from private sources appear in the forefront. Excluding these differentiations, the external debts may be classified as the project and the program credits, tied and untied credits, debt postponement and refinancing credits according to their modes of utilization (Sarı, 2004, 5-6).
1.4. External Debt Stock and External Debt Burden

The debt stock of a country is the total amount of its internal and external debts. The debt burden is the ratio of that country’s total debt stock to the GDP in a particular period. The concepts of the debt stock and debt burden may be formulated as follows:

Total Debt Stock = Internal Debt Stock + External Debt Stock
Total Debt Burden = Total Debt Stock / GDP

The structure of the debt stock is divided into three parts such as debtors, creditors and foreign currency composition.

2. HISTORY OF EXTERNAL DEBTS IN TURKEY

2.1. Main World Crises since the Republic and The External Debts

Other than particular reasons of the external debts of Turkey, there lie notable crises behind the external debt figures presently because of various reasons for years. Therefore, it is necessary to mention these crises. Consequently, it is apprehended in a better way why the debts have accrued so much throughout these years. Especially after the World War II, the time dimension of the crises which Turkey has experienced showed a surprising ordinance: Turkey has experienced intensive or mild crises right at the end of the each period in every ten years (between the 7th and 9th year of the ten years). The crises which started on the 8th year in every twenty years (1958, 1978, 1998) have been in extraordinary intensity and length and very costly for Turkey in context of independency in the policies to be followed. This evaluation is effective especially for the period which has started with 1978.

Some of the eminent crises in the last century Turkey directly faced and their remarks are mentioned below.

The Korean War, which lasted three years, from 1950-1953, affected the all the world and, thus, Turkey. There was a decline of claim experienced after the war, the agricultural products descended which ascended during the war and an economic stagnation began in the whole world, Downfall of the agricultural prices affected Turkey in a negative direction whose economy was agriculture oriented (http://www.textara.com, 2010).

A similar scenario was experienced in the Gulf War in 1990 and the war happened in Iraq naturally affected the economy of its border neighbor, Turkey. Before the war, Iraq was the second big partner of Turkey following Germany with a ratio of 8% within the exports. This situation changed after the war and moved down to the lowest levels and the petroleum prices were also affected rigorously. The price of the raw petroleum which average for three months was 16 US Dollars per barrel before the crisis reached the level of 40 US Dollars. Furthermore, with the increasing terror events because of the war, many problems arose such as migration, termination of businesses and unemployment especially in Southeast Anatolian Region. Serious downfalls occurred in the investments made in the region. The growth rate which was 9.4% in 1990 fell to 0.3% after the Gulf War, and the budgetary deficit showed an increase of 180%.

Other than all of these worldwide crises, Turkey took its share in the year of 2001 from the crisis of February 21st which was evaluated as the biggest economic crises in the history of the Republic. The external debts which were about 119 billion US Dollars in the year of 2000, descended to 114 billion but ascended to the level of 130 billion US Dollars one year later.

2.3. External Borrowing after the Republic (up to 1980)
The Republican government took over 84.6 million Turkish Liras (TL) of the external debts equalling to 156.4 million Ottoman Liras (or 142.2 million English Pounds) which was the debt balance of the Ottoman in 1914 as an inheritance and never went for external borrowing after this date until the year of 1930 with the lesson it took from the bitter experiences of the Public Debtor. The first external debt in the Republic period is the hardware credit in the amount of 10 million US Dollars which was taken from an American organization for the purpose of the formation of the Central Bank in 1930. Later on, 8 million US Dollars of external debt were taken from the Soviet Union in 1934 and total of 16 million pounds from England in the years of 1936-1938 (Akdiş, 2003, 11).

The 1939-1950 is a period that the external debts of Turkey accrued according to the prior times. 49.5 million pounds from England, 1.5 million pounds from France, 5 million US Dollars from the USA, 35 million US Dollars or 100 million Reich Marks from Germany were procured in this period. Moreover, 517 million Turkish Liras of note payables were given to the foreign institutions for nationalization. Namely, the consolidated external debts which were 236 million US Dollars in consideration of the end of the 1938 advanced up to 439 million US Dollars as the year of 1945 when the war ended (Şahin, 2000, 90). External borrowing also continued after the war, following the IMF membership in 1947, at first 5 million US Dollars from the IMF; then 24 million US Dollars from America, later on various credits totalling 25.4 million US Dollars from the World Bank were borrowed. In conclusion, the external debt amount which was 356 million TLs at the end of the year of 1945 rose to 703 million TLs at the end of the year of 1949 (Akdiş, 2003, 11).

The external borrowings continued in the later years and Turkey borrowed total of 1.416 billion US Dollars in the 1950-1960 period as project, program, IMF, OECD and military credits. Anyhow, 1.107 billion US Dollars of this amount were ensured by the USA (Şahin, 2000, 116). The 1963-1977 period are the years when the external indebtedness of Turkey increased again. The external resource need which the planned economic practices required starting from 1960s, the industrialization model based on import substitution, the costs of petroleum crisis in 1973 and the economic difficulties encountered after the Cyprus Peace Operation in 1974 increased the need for external borrowing (Çelik, 2007).

Turkey went for external borrowing for the financing of the investments, financing of the remaining debts from the Ottoman Empire and transportation in the first years of the Republic. The actual intensive period in terms of external borrowing started after 1950. Especially, Turkey orientating to west after the World War II, becoming a member of the OECD and NATO, and the Marshall Aids which were started upon the report by OECD concerning that Europe needed help for the reconstruction during these years. In this context, 225 million US Dollars fell to Turkey’s share. The increase in deficit in the balance of payments after 1950s brought down the external borrowing to an unfavorable situation. Turkey had to postpone its due debts and go for a new credit guarantee of 350 million US Dollars in 1957. The external debts of Turkey showed a serious increase in the ratio of 410 percent between 1930 and 1960. Borrowings were made to overcome the domestic savings deficiency with the start of the planned period. The big majority of the credits taken in this period were supplied from consortium credits (Adıyaman, 2006, 26).

The 1977-1980 period are the years when Turkey could not find any external debts and with its famous expression, it was “even in need of seventy cents”. Turkey became unable to pay for the convertible account (DÇM) debts and their interests which were due in 1977. They went out to beg for external debt country by country and short and/or long termed, high and/or low interest and whatever was found were taken. Accordingly, Turkey borrowed 15.2 billion US Dollars of external debt between the years of 1963-1979 and could only pay 5.9 billion US Dollars of them (Akdiş, 2003, 11).
5. CONCLUSION

The borrowings are made to meet the basic needs, to counter a luxury necessity and/or to make investments. Borrowings from foreign sources are made in case the domestic sources are not enough. Actually, Turkey has approximately 271 million US Dollars of external debt as of end of 2009. It seems a better strategy to continue to be indebted in terms of sustainability other than paying back this debt promptly. Consequently, by carrying on the relationship between the IMF and the World Bank in a good way, Turkey should attract more foreign investors. Moreover, it must apply external debt management policies and strategies orienting repaying the debts in a proper manner.

If there may be new and effective ideas formed about the external indebtedness circle, and if the indebtedness situation is turned to the favor of Turkey, we, as citizens, will learn many things and have positive outcomes from the said indebtedness. In other words, if we can create a positive value from being indebted instead of being pessimistic and criticizing the situation, it may be understood that the situation is not that bad. Maybe, our debt of around 1/4 trillion US Dollars may not be representing such a bad situation. Accordingly, it may at least be provided to prevent the increase of the external indebtedness by applying essential policies and developing new improvement formulas where the theory and practice meet. For this, a strong government, strong citizens and, thus, a strong country are necessary.

Besides, Turkey is not the only developing country in the world which has external debts. According to information published at http://www.brillig.com/debt_clock on 18 May 2010 at 10.43 GMT the total public debt of the USA eventuated about 12,941,117,369,651 US Dollars. In this respect, debt distribution per each person who lives in this country with a population of around 308 million is about 41,963 US Dollars. Furthermore, it is mentioned at the website that the national debt increases approximately 4.09 billion US Dollars a day since September 28, 2007.

When a comparison is made, the ones who think pessimistic must think again. That is, other similar information should be taken into consideration while evaluating the situation of Turkey. Consequently, it is wrong to blame only the ones who govern us. Maybe, the external indebtedness is not a bad thing as it seems. When an evaluation is made in comparison of these figures, it is easily understood that the USA which is one of the most developed countries in the world also has its own debts and its citizens are also called as indebtedness per person. Accordingly, they must act carefully in the process oriented to the bettering of the external debt management practices and there must be future oriented smart steps taken in the direction of becoming a stronger country by keeping the positive oriented economic stability in a sustainable manner. In Turkey, as a part of the world economy, therefore, the debts must be reduced to more minimal levels by implementing advisable policies and strategies accordingly.

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