No. E-59

CONFIDENTIAL



This report is restricted to those members of the staff to whose work it directly relates.





INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT



# TURKEY'S CREDITWORTHINESS

August 3, 1949

Economic Department
Prepared by E. Harrison Clark

## Conclusions

1. The Bank has approached ECA with a request that ECA provide a share of the assistance to Turkey from ECA funds in the form of grants rather than loans. No decision has yet been reached by ECA since ECA legislation is still pending in the U.S. Congress, nor is there any certainty as yet that the final legislation would permit ECA to finance Turkey's program through grants. It is therefore necessary to assume that ECA assistance will continue to be in the form of loans and that these will be in a range of $60 m. to $90 m. over the next three years. If the full $90 m. were to be provided by ECA, and the Bank were to lend $30 m., the maximum dollar payment by Turkey would be $10.9 m. in 1951. It would be $9.2 m. in 1959.

In view of the present level of exports of Turkey to the U.S., it is probable that Turkey would be able to bear this burden but any additional dollar debt above this amount would impose a questionable load on Turkey. The Bank should therefore limit its present consideration of loans to Turkey to $30 m., pending future clarification of a) grants versus loans by ECA and b) the future extent of loans by ECA to Turkey.

2. Turkey has taken steps to bring about a balanced budget through substantial fiscal reform and has given assurances that it will welcome the Bank's assistance in meeting its internal difficulties. These are favorable factors in Turkey's approach to the Bank.

3. Turkey's sterling debt remains her principal problem. Payments on the sterling debt will reach $23.8 m. in 1956. Her main hope of meeting such payments, without curtailing sterling imports too drastically, lies in an expansion of production and of exports to the sterling area. There will be some small margin of dollar earnings, together with the gold reserve, to meet the sterling debt payment.

Economic Department
E. Harrison Clark
August 4, 1949

# Turkey's Creditworthiness

1. This memorandum summarizes the principal issues affecting Turkey's credit position.[1/] The memorandum is tentative, pending the receipt of additional information requested from the Turkish Government. The Turkish position is discussed under five heads a) past debt record b) internal financial situation c) present and future dollar position d) present and future sterling position e) other external indebtedness.

## Turkey's Past Debt Record

2. Turkey's record in regard to the Ottoman debt is not very attractive. From 1875 to 1944, Turkey engaged in a continual series of negotiations leading to readjustments of the debt. In addition, the Turkish Republic issued railway and other bonds for foreign property sequestrated by the Government at various periods during the Republic, and these also were subject to readjustments in the thirties. Turkey, however, contracted no other long-term external indebtedness, from 1923 to 1938 (except a small gold loan from the U.S.S.R. of $8 m. in 1934). As a result of the various adjustments and repayments, the present debt contracted before 1938 is small ($38 m.).

3. Since 1938, Turkey has contracted a series of inter-governmental loans with the U. S., U. K., Germany, France, Czechoslovakia, and Sweden. On December 31, 1948, the amount outstanding on these loans was $297 m. There has apparently been no default on any of these intergovernmental obligations except the German reichsmark debt for obvious reasons. However, payments on the old Ottoman debt of the City of Constantinople (which is now very small), which were tied in with the British credit of 1938, are in dispute with the Council of Foreign Bonholders.[2/]

---

1/ These are covered more completely in two IBRD studies: a) Economic Report on Turkey, April 22, 1949, and b) Turkey's External Public Debt History, May 24, 1949.

2/ As to payments in lire or pounds sterling. The Turkish lire equivalent have been deposited in the Central Bank.

4. More complete information is expected from the Turkish Government which will confirm the non-existence of other defaults.

5. The U. K. is the largest holder ($200 m.) of Turkey's apparent total external debt of $341 m.[1/] The U. S. is next with $87 m. and Switzerland third with $37 m.

6. Of Turkey's existing indebtedness, $182 m. (53%) is payable in Turkish goods or lire which mitigates the transfer problem for Turkey but does not eliminate it because of Turkey's present relatively low export potential.

Turkey's Internal Financial Position

7. Internal financing of the development program remains a serious problem for the Turkish Government. In 1949, the ordinary budget has a deficit of $43 m. out of expenditures of $489 m. There is a further deficit of $23 m. in the annexed budgets. The deficits are mainly for capital expenditures. The Government has had to resort to extensive Central Bank financing because of the very inadequate internal market for its bonds. Inflationary pressures are increasing. The wholesale price index increased 17% in the seven months from August 1948 to March 1949, or 2½% a month. Some of this increase, however, was attributable to the severe winter which hampered marketing, rather than to monetary inflation.

8. A measure has recently passed the Turkish General Assembly which broadens and reforms its income tax system and this measure should begin to provide additional revenue to the State by 1950. It will not be fully effective before 1951. The Bank has also proposed to the Government measures to promote institutional savings. The Turkish Government has already taken some of the appropriate steps to improve its internal financial position.

Dollar Position

9. On December 31, 1948, Turkey's dollar debt amounted to $86.7 m.[2/], including an ECA loan of $38 m. It is assumed in the study on Turkey's external debt

---

1/ Includes $309.5 m. outstanding and $31.3 m. unutilized as of December 31, 1948.
2/ Including $60.8 m. utilized and $25.9 m. unutilized.

that additional ECA loans would amount to $90 m. over the next three years. This was a reasonable assumption at the time of the report but recent developments make this figure appear too high. It is more likely to be around $60 m. An additional IBRD loan of $30 m. would raise Turkey's probable future dollar debt to about $170 m. as compared with no dollar debt before the war.

10. Appendix V of the debt study notes the required interest and amortization payments on existing dollar debts and prospective ECA loans. Assuming an additional IBRD 25-year loan of $30 m. repayments to the Bank would reach $1,350,000 per annum from 1951 to 1954 and about $2,250,000 per annum thereafter.

11. Turkey's heaviest dollar debt repayments will be from 1950 to 1954 because of very large amortization schedules for the dollar loans. Such repayments will reduce Turkey's external dollar indebtedness by $42 m. by the end of 1954, or by substantially more than the proposed IBRD loan on which principal repayments (assuming 5 years grace) will not begin until after 1954. Turkey should have no difficulty in meeting amortization payments from 1950 to 1954.

12. An evaluation of Turkey's future exports to the U. S. will be found in an attached annex. Even under the most unfavorable circumstances, including a severe U. S. business recession, Turkish exports to the U. S. are unlikely to drop below $25 m. at any point. If no such recession develops Turkish exports should hold well above this level, and very likely close to the current level ($50 m.). The maximum dollar payment on Turkish dollar debts occurs in 1950 ($10.8 m.) and, after 1952, is less than $9 m. including assumed IBRD and ECA loans totalling $90 m.

13. Turkey in 1948 balanced her dollar accounts, limiting her licensed imports from the U. S. mainly to capital goods. It will be possible therefore for Turkey in the future to continue to balance her dollar accounts, including debt repayments, with adequate import controls.

14. Turkey's present gold holdings amount to $162 m., or an amount exceeding present dollar obligations ($87 m.) plus estimated future ECA loans ($60 m.). Her net dollar holdings at the end of 1948 were, however, nearly exhausted ($3.9 m.) as were holdings of other convertible currencies.

15. Turkey's gold holdings can be considered as an emergency reserve to cover her dollar debt payments.

Turkey's Sterling Position

16. The Turkish sterling debt amounts to $200 m., of which $138 m. is payable in goods or lire. Total payments per annum for interest and amortization, according to the study on external debt, will amount in 1949 to $17.2 m., and in 1956 will reach a peak of $23.8 m. This is very close to the total exports in 1948 of Turkey to the U. K. ($26 m.). Exports in 1948 were abnormally low to the U. K. because of Turkey's policy of diverting exports to other areas; in 1947 they were unusually high ($52 m.) since Turkey sold grain to the U. K. at a price above even the extraordinary price levels of 1946. Imports from the U.K. on the other hand were unusually low in 1947 ($30 m.) and exceptionally high in 1948 ($65 m.) because of the lack of dollars. Taking these two years as an average, however, Turkey's U. K. exports were $39 m. and her imports $48 m., with a deficit of $9 m. There was a small deficit with the sterling area, largely because of oil purchases. The total deficit was $16 m., on the average for the two years.

17. Payments in goods on the sterling debt are used for the U. K.'s principal imports from Turkey (dried fruits, nuts and tobacco) which account for fifty to sixty percent of Turkey's exports there. These are used for payments on the two issues (3%, 1939 loan of £ 15 m. and the 4%, 1939 loan of £ 25 m.). In addition 20% of other commercial exports in sterling each year are earmarked for payments on the 3% loan of 1940 (£ 2 m.).

18. Assuming that Turkey's average exports to the sterling area for the past two years represent a reasonable projection for the next few years during which sterling debt payments are heavy, Turkey's exports to the U. K. of $39 m. (plus $10 m. to the sterling area) would include the $13.6 m. in debt payments, leaving $36.3 m. in cash receipts to cover her cash debt payments. These reach a peak of $9.7 m. - $10.1 m. during 1953-56, again because of large amortization. This would leave Turkey with $26.2 m. to pay for actual imports from the sterling area, or only 40% of her import average for the past two years. The possibility of her curtailing imports to this extent are open to question, e.g. her oil imports from the sterling area alone were close to $10 m. in 1948, and oil requirements are increasing. The only alternative for Turkey therefore lies in the expansion of exports to the sterling area, the use of dollar receipts (or gold reserves) to cover the payments or refinancing to extend existing scheduled payments. From 1957 on, sterling cash payments drop to $3.7 m. The problem is therefore relatively short-term.

Exports to the U. K.

19. The U. K. is prepared to take a wide variety of Turkish products: cotton, grains, oilseeds, fruits, nuts, raisins, fish, meat and dairy products, and, more recently tobacco. The U. K. has recently had an agricultural mission in Turkey to survey the economy. Except for nuts, raisins and tobacco (and increasingly, oilseeds), Turkish domestic production is too small, or inflationary domestic demand too great, to provide more than small surpluses for export to the U. K.

20. The program recommended to the Turkish Government includes a) a long-range agricultural development program b) measures to increase taxation and savings in order to reduce inflationary domestic demand and c) measures to promote production and exports (especially of industrial crops) and to provide more adequate control of non-essential imports, many of which come from the sterling area. These measures have been, in part, based on the existence of the large sterling debt and the inadequacy of exports to the sterling area. Certain parts

of Turkey's development program (e.g. the Adana project) are designed to expand production in crops suitable as a basis for exports to Europe (and particularly the U.K.). If these measures are reasonably successful, they should affect Turkey's sterling exports well before 1959, the last year of large payments to the U. K. Thereafter the Turkish debt in sterling largely disappears (It will be down to $3.1 m. in 1963 and vanishes altogether in 1967).

Other External Indebtedness

21. The remaining external debt does not appear to represent a serious problem. Fuller information, including the provisions of the agreement with Switzerland, will require the information requested of the Turkish Government.

## Annex A

### Future Turkish Exports to U.S.

Turkish exports to the U.S. during 1946-48 have been running around $50 m. a year. Exports during 1949 have been at a higher level than usual. During the first five months exports have been $30 m., or an annual rate of $72 m. The outlook for future exports is summarized below by commodity:

**Tobacco:** The secular trend of cigarette consumption in the U.S. continues upward. Turkish type tobacco is now around 10% of the American cigarette, although the percentage varies somewhat in accordance with prices. Turkish tobacco exports to the U.S. for the past two years have been around $35 m. Two factors which could influence unfavorably Turkish tobacco exports to the U.S. are a) a business recession which would reduce cigarette consumption and b) increased Greek competition. If both effects operated at the same time, it would be possible for Turkish dollar receipts from tobacco sale to drop as low as $15 m., but this would be under the most unfavorable circumstances possible.[1/] At present, Greek tobacco production continues well below pre-war and Turkish-type tobacco prices show no signs of weakening. The factors operating on U.S. tobacco purchases in the Turkish market in the foreseeable future tend to hold imports of Turkish tobacco by the U.S. close to the present level.

**Chrome:** The U.S., which produces little or no chrome ore, consumes between one-half and two-thirds of the world's chrome ore production. The U.S., in addition, to its normal imports, has been stockpiling chrome ore. In 1948, the U.S. imported metallurgical chrome ore, and chemical and refractory ore from Turkey with a total value of $8 m.

---

1/ According to estimates of the Department of Agriculture.

The outlook for chrome ore in the immediate future depends largely on Russia's shipments to the U.S. and other areas. Over the longer run, the rate of growth of stainless steel production has been very rapid and promises to continue at a high rate, ensuring a high rate of consumption of metallurgical ore and reasonable stability of prices except in periods of great depression.

Opium : Turkey has a small but profitable market for crude opium in the amount of $3 m. There is little competition from other countries.

Nuts : Turkey's sales of nuts in the U.S. in 1948 amounted to $3 m. As a luxury, nuts would be unfavorably affected by a recession, but imports would not be eliminated entirely.

Other Products : Turkey has a few specialities (sponges, carpet wool, poppy seed, licorice and canary seed) the combined value of whose exports amounted in 1948 to $2 m. and additionally there are furs, figs, raisins and other products in which sales amounted to $4 m. in 1948.