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high interest rates aggravate the illiquidity problems and tend to discourage a vigorous investment recovery in the manufacturing sector, which provides the major productive base, besides tourism and some services, to sustain export expansion. Favorable supply conditions for export and GNP growth are essential to sustain the trade-liberalization process and to maintain an adequate capacity to service external debt.

As we argued in section 8.4, macroeconomic stability is particularly important for a harmonized savings-investment balance in the Turkish economy. The large fiscal deficits pose a threat to macroeconomic stability and growth because their monetization remains a tempting policy option, given the historical precedents in the Turkish context. With limited possibilities to reduce public consumption further, a noninflationary fiscal adjustment will have to be based on a socially acceptable mix of public revenue increase and restrained public investment for a brief transitional period. This process may require complementary actions for a partial refinancing and/or rescheduling of the public sector's external debt in such a way as to avoid a deterioration in Turkey's hard-earned creditworthiness in the international financial markets.

Finally, toward the end of the 1980s, Turkey's public finance system requires further qualitative changes and improvements aiming at noninflationary methods of revenue mobilization, deeper SEE rationalization (including gradual privatization), and streamlining of extrabudgetary funds and local government finances. While seeking a greater macrolevel flexibility in fiscal policy, efforts may also be usefully directed to the redesign of budgetary methods for a more efficient allocation of public resources.

9 External Financial Relations and Debt Management

Since the early 1970s, Turkey's relations with the international financial community have been consistently out of synch with those of most other highly indebted countries. Turkey entered its debt crisis in 1977, at a time when a general crisis was still far off in the horizon. Its recovery and export boom in 1981 coincided with increasing difficulties experienced by debtors in Latin America and elsewhere. In 1982, just as the rest of the developing world became engulfed in a debt crisis and new flows from commercial banks dried up, Turkey reentered private international capital markets. Since

then, Turkey has emerged as the international financial community's only major example of a successful recovery from debt crisis—"a Baker Plan country before the Baker Plan," as the former secretary of the treasury is reported to have told Prime Minister Özal.

Previous chapters have stressed the role of the domestic policies behind the debacle of 1977 and the adjustment of the 1980s. In the present chapter we turn to some specific aspects of Turkey's external financial relations which have played a critical role. Foremost among these is Turkey's important geopolitical role in the Middle East and as a NATO member bordering on the Soviet Union. We will emphasize that after 1979 this has been critical in mobilizing Western support—in terms of both debt relief and new flows—of a magnitude not experienced in any other recent case. The enthusiasm of official lenders has also affected the policies of the IMF and the World Bank, which showered Turkey with generous amounts of program lending. This chapter provides some detail on these flows and discusses the various rounds of debt rescheduling that took place between 1978 and 1982.

The narrative here throws into sharper relief the fact that Turkey was spared the necessity, thanks to the combined effects of debt relief and new official inflows, of going through as intense a squeeze on the current account as most other heavily indebted countries have experienced since their debt crisis. This, in turn, greatly facilitated the implementation of a wide range of economic reforms as discussed in chapter 4, as well as setting the stage for a recovery.

We conclude the chapter with a discussion of some debt-management issues which have plagued the Turkish macroeconomy. We will stress here the recurring penchant of policymakers to rely on rather exotic borrowing arrangements with relatively short-term maturities and high premia over international rates. These have not served Turkey well in the past and there are some questions as to whether they will do so in the future.

9.1 Official Assistance since 1977

It is instructive to start with a look at the overall volume of external financial flows in the aftermath of the 1977 crisis. Between mid-1977 and 1982, Turkey was effectively cut off from private capital markets.[1] As reserves had already been substantially depleted, current account deficits had to be financed exclusively by official inflows (and initially to some extent by payments arrears, which show up as short-term credits in official statistics).

An interesting exercise is to compare the net inflows to Turkey in its post-crisis period with the analogous figures for other highly indebted developing countries after 1982. Table 9.1 displays the current account and noninterest current account for Turkey and a group of seventeen other highly indebted developing countries. The years after 1977 and after 1982, respectively, provide the relevant post-crisis periods for purposes of comparison. It

Table 9.1 **Post-Crisis Comparisons**

	Turkey (% of GNP)		17 Highly Indebted LDCs (% of GDP)	
Year	CA deficit	Noninterest CA deficit	CA deficit	Noninterest CA deficit
1977	7.1	6.4		
1978	2.6	1.9		
1979	2.1	1.3		
1980	5.5	4.4		
1981	3.5	1.5		
1982	2.2	−0.5	5.9	0.8
1983	3.5	0.7	1.9	−2.8
1984	2.8	−0.4	0.1	−4.8
1985	1.9	−1.4	0.1	−4.2

Sources: For Turkey, OECD and SPO; for others, Choksi (1986).

is immediately clear from the figures that the net resource transfers to Turkey were substantially larger during the first few years after its debt crisis than were the corresponding transfers to the other countries. During the first four years after the crisis of 1977 (1978–81), external flows allowed the Turkish economy to run an average current account deficit of 3.4 percent (of GNP) and an average noninterest current account deficit of 2.3 percent. In fact, the Turkish noninterest current account turned positive for the first time only in 1982, a comfortable five years after the original crisis.

The contrast with the post-1982 experience of other countries could not be starker. During 1983–85, these countries experienced a sharp reduction in their current deficits to an average of 0.7 percent (of GDP) and a drastic turnaround in their noninterest current account balance to an average *surplus* of 3.9 percent. It is hard to avoid the conclusion that Turkey was treated more favorably by the international financial community than were the post-1982 cases of near-default.

Table 9.2 provides a closer look at the kinds of financial assistance that were made available to Turkey in the immediate aftermath of the 1977 crisis. For the table we calculated a hypothetical figure for each year, corresponding to the total amount of external financing needed. This is taken to be the sum of the current account balance (before debt relief) and of principal amortization on long-term debt, and adds up to $12 billion over 1978–81.[2] The gap was closed by debt relief granted through the reschedulings undertaken by the OECD consortium for Turkey (29 percent); bilateral official assistance (26 percent); and lending from multilateral institutions, mainly the World Bank and the IMF (22 percent). In addition, there were hidden private inflows—which do not show up in table 9.2 on either side of the ledger—insofar as maturing short-term debt owed to private creditors (e.g., CTLDs) was rolled over and then rescheduled.

Table 9.2 **Financing the Balance of Payments, 1978–81 (in million $)**

	1978	1979	1980	1981	1978–81	% Financed
Noninterest current account	−676	−403	−2,270	−476		
Interest payments (before relief[a])	−489	−1,010	−1,138	−1,443		
Current account balance (before relief[a])	−1,165	−1,413	−3,408	−1,919		
Debt repayment (before relief[a])	−451	−945	−1,556	−1,185		
Total financing	1,616	2,358	4,964	3,104	12,042	100.0
a. Debt relief[a]	295	924	1,450	850	3,519	29.2
Interest	100	464	470	250		
Principal	195	460	980	600		
b. Multilateral lending (excl. IMF)	236	390	507	655	1,788	14.8
of which: IBRD	173	280	313	454		
c. IMF (net)	213	11	422	268	914	7.6
d. Bilateral lending	356	751	1,078	894	3,079	25.6
of which: special assistance under OECD auspices	0	225	996	315		
e. Other[b]	516	282	1,507	437	2,742	22.8
of which:						
short-term credits	421	194	216	−212	(619)	(5.1)
change in reserves	−187	76	−512	−263		

Sources: Central bank, World Bank, and OECD.

[a]Refers to debt relief granted by OECD consortium.

[b]Includes short-term credits, change in reserves, FDI, and errors and omissions.

These were the outcome of a complicated series of negotiations and initiatives on the part of Turkey and its creditors after 1977. The negotiations involved a wide circle of concerned parties: commercial banks, creditor governments, foreign export suppliers, the IMF, and the World Bank. They soon turned into "a tangled web of condition and precondition with the conclusion of an agreement with one creditor group wholly dependent upon implementation of the measures by the other."[3] Commercial banks, in particular, insisted that Turkey submit to IMF tutelage before they would reschedule the CTLDs, and dragged their feet until the Turkish government gave in.

The next two sections will discuss more fully some of the key components of this exceptional experience and the underlying political environment that influenced it. We will first review the string of debt renegotiations that took place during 1978–82. Next, we will turn to the official and multilateral flows that have taken place since 1977.

9.2 Debt Renegotiations

At the end of 1977, more than half of Turkey's foreign debt consisted of short-term liabilities, most of which had been incurred under the CTLD scheme and, increasingly after 1976, as a result of payments arrears to

commercial suppliers (see table 2.10). Long-term liabilities to public and publicly guaranteed sources amounted to only 38 percent of the total. Between 1978 and 1982, Turkey experienced an extensive restructuring of its debt, both long- and short-term, in a series of debt renegotiations which were the largest undertaken to date by the international financial community. By March 1982, practically all short-term debt had been consolidated and transformed into long-term debt. In addition, all of the principal payments on OECD-guaranteed debt falling due between May 1978 and June 1983 had been rescheduled. Such was the scope of these renegotiations that by year-end 1981 no less than 70 percent of Turkey's total debt (exclusive of liabilities to multilateral organizations) had been rescheduled.

Table 9.3 summarizes these renegotiations and the terms agreed upon. With respect to official creditors, there were three consecutive arrangements with OECD governments involving bilateral loans and guaranteed export credits amounting to a total of $5.5 billion.[4] The terms of the successive agreements reveal a general relaxation over time with respect to grace and maturity periods, a consequence of the deepening economic crisis in Turkey as well as of a fundamental change in OECD attitudes toward Turkey after 1979 (on which more below). The last of the three agreements was the widest ranging in scope. Signed in July 1980, it entailed a multiyear rescheduling (unusual in official debt renegotiations) and consolidated payments falling due during the next three years.

With regard to private creditors, two arrangements stand out. The more important of the two was the consolidation and rescheduling of $2.3 billion of CTLDs, constituting more than 90 percent of outstanding CTLD liabilities to foreigners. These CTLDs were converted into long-term debt and tied to a schedule of repayment on terms indicated in table 9.3. With this arrangement, the Turkish central bank shouldered the CTLDs as its own liability, effectively completing a socialization process which had begun de facto with the exchange guarantee.[5] The negotiations with the group of eight banks, representing some 220 individual creditor institutions, proved to be long and arduous.[6] In the end, the Turkish side was unsuccessful in obtaining the banks' agreement on two key demands: (1) no IMF supervision, and (2) longer grace and maturity periods than the three and seven years, respectively, eventually settled on. On account of the first sticking point, the final agreement with the banks was delayed for a year while Turkey's existing standby with the Fund went awry. The banks signed the agreement only when a new standby arrangement came into effect in July 1979. Meanwhile, the banks came up with a new syndicated loan of $407 million. Three years later (in March 1982) they also agreed to modify the original arrangement to somewhat improve the maturity profile (see table 9.3).

The $1.2 billion of "suppliers' arrears" settled in April 1980 was an altogether different story. Ostensibly these were arrears on nonguaranteed trade credits extended by foreign exporters. They resulted from the inability

Table 9.3 Summary of Turkish Debt Renegotiations, 1978 to Present

Date	Creditor	Type of Debt	Amount Renegotiated (million $)	Terms[a]
Official Creditors				
May 1978	OECD governments	bilateral loans, M&ST insured export credits	1,300	3 yrs grace, 5 yrs maturity (for 80% of M< debt); 2 yrs grace, 4 yrs maturity (for ST debt); 4.7%–7.5%
May 1978	Iraq	oil debt	312	interest free
July 1979	OECD governments	bilateral loans, M&ST insured export credits	1,200	4 yrs grace, 5 yrs maturity (for M< debt); 3 yrs grace, 4 yrs maturity (for ST debt); 5.2%–8.7%
July 1980	OECD governments	bilateral loans, M&ST insured export credits	3,000	5 yrs grace, 10 yrs maturity; (4 yrs grace, 8 yrs maturity for previously rescheduled loans)
Private Creditors				
June 1979	commercial banks	banker's credits	429	3 yrs grace, 7 yrs maturity; LIBOR + 1.75
August 1979	commercial banks	convertible TL deposits	2,269	same as above
April 1980	suppliers	nonguaranteed suppliers' arrears	1,200	4½ yrs grace, 10 yrs maturity, interest ≤ 8%; option of payment in TL for specified uses
August 1981	commercial banks	third-party reimbursement claims	100	no grace, 3 yrs maturity; LIBOR + 1.50
March 1982	commercial banks	convertible TL deposits	(2,269)	renegotiation of the August 1979 agreement: 2-yr extension on grace & 3-yr extension on maturity
		TOTAL RENEGOTIATED	9,810	

Sources: World Bank (1983a), vol. 2 (3 June 1983), table A2.7; and IMF (1983), tables 7 and 12.

[a]These are the key features of the agreed terms. Some of the agreements (notably those with the OECD) contain additional terms which apply to certain small portions of the consolidated amounts.

of the central bank to undertake the necessary foreign exchange transfers to foreign exporters whose goods had already been received, and for which the local importers had already deposited with the central bank the requisite amounts in domestic currency. In reality, few foreign exporters were willing to extend nonguaranteed credits to Turkish importers at a time when Turkey was in deep financial trouble; they naturally demanded payment up front. And, by all accounts, most foreign suppliers had indeed been prepaid by domestic importers, who had obtained the foreign exchange from the black market. Given the widespread shortages of the period (see chap. 3),

importing was profitable even if it meant paying for it twice: once to make the requisite deposit with the central bank, and the second time around to purchase the foreign exchange on the black market. The authorities were not unaware of what was going on.[7] But as long as it helped imports flow in, it became a convenient fiction for the authorities to suppose that the central bank's growing foreign-currency arrears were to foreign suppliers rather than to domestic importers.

The realization that these "suppliers' arrears" were predominantly liabilities to domestic residents encouraged the government to propose an imaginative approach to settling them. Under a plan put forth in early 1980, the creditors were given two options. They could elect to receive payments in foreign currency, in which case they would be reimbursed over a ten-year period with a 4½-year grace period at interest rates depending on the currency but not exceeding 8 percent. Or, they could choose immediate payment in Turkish currency for purposes of specified investments and other activities within Turkey, at varying rates of discount depending on the activity selected. This early form of debt-equity swap turned out to be relatively successful. Roughly half of the outstanding liabilities were eventually redeemed in domestic currency.

9.3 Official Flows and Changing Western Attitudes

While these complicated debt restructurings were taking place, the attitude of Western governments toward Turkey was also undergoing a transformation. Initially, the American and European governments had showed little interest in the economic crisis brewing in Turkey. For reasons discussed below, the attention devoted to the Turkish crisis grew over time, culminating in a major rescue operation launched in 1979.

Until late 1978, relations between Ankara and the Western capitals were dominated by military considerations. Foremost on Prime Minister Ecevit's agenda was the lifting of an arms embargo imposed by the U.S. Congress in the aftermath of the Turkish landing on Cyprus in 1974. To underscore his seriousness, Ecevit initiated a policy of rapprochement with the Soviet Union. Alarmed by the implications for the southern flank of NATO, President Jimmy Carter made the repeal of the embargo his highest foreign policy priority by mid-1978, and his efforts were successful in October of that year.[8]

Insofar as foreign relations were concerned, the arms embargo and the importance attached to it by both sides had overshadowed the economic crisis in Turkey. But with the arms issue out of the way, the economic dimension began to attract increasing attention in Western capitals. Further, events elsewhere in the Middle East fortified the perceived importance of Turkey. The Iranian revolution and the eventual fall of the Shah, in particular, served to concentrate the collective mind of the Western alliance

on Turkey as it had never been before. By the beginning of 1979, it became a commonplace assessment that "[t]he strategic importance of Turkey . . . is too great for Ankara's fate to be left to the [International] Monetary Fund and commercial banks abroad."[9] As a *New York Times* editorial succinctly put it, "Turkey is now the only clearly pro-Western state between the Soviet Union and the Middle East; it guards the straits between the Soviet Black Sea fleet and the Mediterranean and offers the main remaining land site from which electronic intelligence bases can monitor Soviet missile-test launchings" (22 January 1979). The Soviet invasion of Afghanistan in early 1980 added further urgency to Western efforts.

In early January 1979, a rescue operation was started by the Big Four (U.S., West Germany, France, and Great Britain) in their Guadeloupe summit. After much hard work by the Americans and Germans behind the scenes, the OECD countries agreed in May to pledge close to $1 billion in bilateral assistance. This included fast-disbursing emergency loans (at low interest rates and with long repayment periods) as well as special trade credits to finance Turkish imports. The catch was that the loans were conditional on Turkey's acceptance of a new IMF standby arrangement to replace the earlier one (of April 1978) which had proved unsuccessful. With the OECD arrangement and the CTLD restructuring with commercial banks both hinging on an IMF program,[10] Ecevit finally succumbed in June and undertook the major policy change advocated by the IMF: a devaluation of the currency. This cleared the way for a standby arrangement in July 1979 and for the OECD funds. Further OECD assistance was pledged in subsequent years. As table 9.2 showed, the impact of the OECD program was felt most heavily in 1980 when $1 billion flowed in, providing essential support in the wake of the second oil crisis.

The OECD program also played a role in triggering additional flows to Turkey. As is shown in table 9.4 summarizing all medium- and long-term commitments received in 1979–81, Turkey became the recipient of flows from such diverse sources as the European Investment Bank (EIB), OPEC (principally Saudi Arabia), and the centrally planned economies (CPEs). The total medium- and long-term commitments received in 1979–81 were on average twice as large as in the earlier 1975–78 period, and public commitments were three times as large. As the title of a contemporary news account in the *Stuttgarter Zeitung* put it bluntly, "Ecevit turn[ed] Turkish geography into dollars."[11]

The generous mood of the OECD governments was also reflected in the policies of the World Bank and IMF. From 1980 on, Turkey became the recipient of exceptional flows from these two institutions. Alongside its regular project credits, the World Bank extended five consecutive SALs totaling $1.6 billion, the largest number of such loans ever made to a single country. These loans, containing mild levels of conditionality, were made in support of the economic reforms undertaken since January 1980

Table 9.4 **Medium- and Long-Term Commitments, 1975–81 (million $)**

	1975–78 Annual Average	1979	1980	1981
Official sources	623	1,131	2,683	1,799
Bilateral	360	659	1,671	988
OECD	226	596	1,138	491
OPEC	11	54	288	56
CPEs	124	9	245	441
Multilateral	263	472	1,012	811
World Bank	224	306	616	570
EIB	10	112	271	55
ERF	25	39	104	110
Other	4	15	21	76
Private sources	494	634	299	249
of which: syndicated loans	131	407	0	0
Total	1,117	1,765	2,982	2,048

Source: World Bank (1983a), vol. 2 (3 June 1983), table A2.5.

Note: CPEs are centrally planned economies; EIB is the European Investment Bank; and ERF is the European Reconstruction Fund.

(see chap. 4). The IMF entered into a three-year standby arrangement in June 1980 for a total of SDR 1.25 billion (table 9.5). This amounted to 625 percent of Turkey's IMF quota at the time, and together with previous purchases brought total IMF commitments to Turkey to 870 percent of quota, the largest multiple awarded by the IMF until then. Indeed, many executive directors of the Fund felt uneasy about the special flexibility shown to Turkey and the speed with which such resources were made available, at a time when Turkey was one of many countries experiencing economic difficulties.

It is hard to judge the extent to which these multilateral flows were directly influenced by the overall political/strategic importance placed on Turkey by the OECD countries. Whatever that influence might have been, it

Table 9.5 **Chronology of Standby Arrangements with the IMF, 1978–85**

Date	Duration Envisaged (yrs)	Amount (million SDR)	% of Quota	Comments
April 1978	2	300	150	not drawn fully
July 1979	1	250	125	SDR 230 million drawn; replaced by next arrangement
June 1980	3	1,250	625	fully drawn
June 1983	1	225	75	cancelled at request of new government after elections of November 1983
April 1984	1	225	52	replaces previous standby; last purchase (one-fourth of total) not made

is clear that the World Bank and the IMF became especially enthusiastic as a result of the signals sent by Turgut Özal, who was appointed in December 1979 by the incoming prime minister Demirel as his deputy in charge of economic affairs. A former staff member of the World Bank, Özal appears to have been intent on showing his seriousness about economic reform. Hence the devaluation and price hikes announced on 24 January 1980 were rumored to have been in excess of what the IMF was willing to settle for. The Fund is reported to have advocated a depreciation of the lira to somewhere in the range of TL 60–70 to the dollar (from a rate of TL 47.10 for most transactions), with some up-side padding presumably added to leave room for negotiation. Özal's strategy was to distinguish himself clearly from previous Turkish negotiators by picking the top of the range (TL 70 = $1). The visiting IMF chief of mission is reported to have been ecstatic upon hearing of Özal's intentions (Colaşan 1983, 61–139).

Since the January 1980 reform package, the enthusiasm and support of the Bretton Woods institutions for Turkey has been unfailing. This despite an awkward episode in 1983 in which the Turkish authorities were caught doctoring monetary statistics in order to fulfill IMF ceilings. In essence, the central bank was found to have instructed the state-owned Agricultural Bank to make cash payments to it at the end of each week, with the transaction reversed at the beginning of the next. Since the IMF calculated the domestic credit extended by the central bank by averaging figures for domestic assets each Friday, this enabled the authorities to exceed the IMF's ceilings and give the economy a boost on the eve of the general elections of November 1983. The IMF staff eventually became suspicious as the calculated money multiplier started taking odd turns. The episode took place after Özal had resigned from the government, so he was not directly implicated. In fact, since it was Özal's party that won the elections and he became prime minister, the IMF decided to keep quiet about the transgression and to give the new government the benefit of the doubt.[12]

It is scarcely in the interest of the Fund to make waves: after years of strong support and having hailed Turkey as a success story, the IMF and the World Bank both have a substantial interest at stake in seeing that the Turkish economy indeed sails smoothly.

9.4 Debt Management

Turkey's historical experience with private international capital markets has not been a happy one. A borrowing binge during the nineteenth century had left the public finances of the disintegrating Ottoman empire almost completely under the control of foreigners. The memory of this event partly accounts for why Turkish authorities invited practically no foreign lending by private sources until 1975. But as we have discussed in chapter 2, the resort to private capital markets came with a vengeance after this date. The CTLDs

were the worst possible kind of borrowing: they were short term, high cost, and encouraged overborrowing. By the very nature of the scheme, the authorities were unable to control the level of borrowing that took place. The irony is that at the time Turkey could well have relied on more commonplace (and safer) means of borrowing, such as syndicated bank loans.[13] That it did not is explained partly by the lack of recent experience with private lenders and partly by the false sense of security generated by the pace at which CTLD funds were flowing in.

Since the debt debacle of 1977, Turkish authorities have paid considerably more attention to issues of debt management. The oversight agency for public sector debt is the Treasury, which has reported to the prime minister's office (rather than the finance ministry) since December 1983. The Treasury is empowered to set targets for overall flows in light of balance-of-payments and investment requirements. All direct foreign borrowing by the public sector is subject to the approval of the Treasury, as is all borrowing by the private sector exceeding two years' maturity.[14] Responsibility for monitoring debt flows rests with the Treasury (for medium- and long-term debt) and the central bank (for short-term debt). An ongoing computerization project promises to make aggregate data and information available to policymakers in a more timely fashion than has been possible so far.

Yet in many ways the debt-management issues of the 1980s are little changed from those of the 1970s. Two such issues deserve special emphasis.

First, there is a recurring tendency to rely on special lending arrangements which are both short term in nature and relatively costly. The period since the debt restructurings of 1978–82 has seen a renewed rise in the share of short-term debt. Part of this rise is due to the liberalization of capital account flows and the greater reliance of private banks and enterprises on short-term foreign credits. But an important part is due to the increasing importance of the Dresdner Bank scheme, which accounted for 40 percent of all short-term debt by the end of 1985.[15] This scheme is an arrangement whereby the Dresdner Bank makes available to the central bank deposits made by Turkish workers abroad. To attract such deposits, the central bank has been paying the Dresdner Bank—and ultimately the Turkish workers—fairly high interest rates. As of the summer of 1986, the rates on two-year deposits were 12 percent on dollar accounts and 11 percent on deutsche mark accounts. (Prior to January 1985, the rates had stood at 14 percent for all currencies.) This implies a spread over LIBOR of 4–5 percentage points, well above what most other developing countries have to pay for syndicated loans. Hence, preexisting long-term debt gets serviced by being transformed into substantially more expensive short-term debt.[16] Interestingly, the highest spread witnessed during the recent spate of reschedulings has been 2.25 percentage points. In principle, then, Turkey could be better off simulating a debt crisis than continuing servicing debt in the present fashion. However, short of another round of debt reschedulings, the Dresdner scheme provides

a useful financing function as its cost is still modest compared to domestic borrowing.

A second and related issue has to do with the important role played by the central bank, and of the banking sector in general, in debt accumulation. The CTLDs of the 1970s and the Dresdner Bank accounts (as well as various balance-of-payments loans) of the 1980s have ultimately been the liability of the central bank. The advantage of these kinds of borrowing is that they provide a degree of latitude in their use which project credits do not allow. But this may also be a disadvantage to the extent that they allow a disjuncture between decisions on debt accumulation on the one hand, and decisions on resource allocation and investment patterns on the other. Whether this is dangerous or not depends on how finely tuned the central bank is to the investment possibilities in the public and private sectors. These arrangements have an additional consequence: they tend to bias the debt-servicing process toward money creation rather than public sector budget adjustments.

9.5 Concluding Remarks

This chapter has focused on Turkey's external financial relations in the aftermath of the crisis of 1977. The importance of the support provided during this period by the international financial community (mostly OECD governments and eventually the IMF and World Bank) cannot be underestimated. No other country has been the beneficiary of comparable amounts of financial assistance. We have argued here that the West's concern with the Turkish economy was at heart strategic; as one foreign banker colorfully put it, "supranational agencies such as the IMF, as well as Western governments, showed little interest in Ankara's financial difficulties until Turkish real estate suddenly became more valuable to NATO."[17]

In this key respect, Turkey's adjustment experience is likely to prove nontransferable. Of course, this qualification does not reduce the importance of the domestic policies undertaken since January 1980, nor does it diminish their relative success. But it puts the experience into a proper perspective.

10 Conclusions and Prospects

In many ways, the Turkish encounter with foreign debt has combined the best and worst in the debt-management experience of the developing world. During the 1970s, Turkish policymakers got the country into a debt crisis by relying on an intrinsically destabilizing form of foreign borrowing, and