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Is Really Debt a Man's Whip?

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Abstract

There is a growing concern for ever increasing external debt stock of countries in the worldwide. Coupled with resent global crises, the sustainability and efficient use of external debt becomes more and more important. To this end, we have tested the hypothesis of external debt led growth hypothesis for the case of Turkish economy. Our result has confirmed that Turkey's external debt both sustainable and efficiently used, at least for the last decade or so. The overall result proves also the reality of Turkish proverb "debt is a man's whip".

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1. Introduction

According to global debt clock of The Economist, the current global public debt stock is nowadays exceeding USD 53 Trillion. One of the measures of economic strength of a country is the debt burden given by the ratio of its public debt to the gross domestic product, GDP. A low level of debt burden is considered as an indication of healthy economic conditions. Public debt includes external debt to foreign investors as well as internal debt owed to citizens. Public debt can be incurred by any governmental body.

The public debt to GDP ratios indicate how able a nation will be to pay off debts. Nevertheless it seems that its sustainability and management is of paramount importance. When the Eurozone was created in 1999, member nations were required a debt to GDP ratio of under 60 % to be allowed to join the currency so as the euro would

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remain relatively stable. According the Table 1, it is interesting to note that Turkey performing good with its ratio well below the world and EU average, while Greece for example took the second place at the top of the list right after Japan with a ratio two times of the EU average.

Table 1. A Selected List of Countries for External Debt to GDP Ratio by IMF in 2012.

U. Kingdom	406	Norway	141	Korea, South	37
Netherlands	344	Cyprus	129	Malaysia	31
Belgium	266	N. Zealand	126	Pakistan	30
Switzerland	229	Hungary	115	Indonesia	28
Portugal	223	Italy	108	Turkmenistan	25
Austria	200	U. States	106	Russia	23
Sweden	187	Australia	95	S. Africa	23
France	182	Japan	60	Bangladesh	23
Denmark	180	Poland	47	India	20
Greece	174	Israel	42	Mexico	20
Spain	167	Turkey	40	Brazil	15
Finland	155	Chile	38	Egypt	14
Germany	142	China	37.5	Nigeria	5

In the table above countries are listed by external debt, the total public and private debt owed to nonresidents repayable in internationally accepted currencies, goods, or services, where the public debt is the money or credit owed by any level of government, from central to local, and the private debt the money or credit owed by private households or private corporations based in the country under consideration. This should not be confused with public debts which can be seen under 'List of countries by public debt'. For the purposes of being informative, several non-sovereign international bodies are also included in the table. Note that while a country may have a relatively large external debt (either in absolute or per capita terms), it could be a "net international creditor" if its external debt is less than the total of the external debt of other countries held by it. In this regard, Norway, Luxembourg, Switzerland, China and others are net international creditors.

From Table 1 we observe that Japan is drastically most risky country in the world due to having highest level of debt burden in the world. EU and World average is close to each other and around 80 % which is some 20 % higher than the sustainability threshold of 60 % envisaged by Maastricht criteria.

A Turkish proverb says ‘debt is a man’s whip (motivation). From the mid-19th century on, Turkish officials adopted this saying as their motto and made a career out of foreign borrowing Birdal (2010). Public debt can play a vital role in the development endeavors of countries. The relationship between public debt and GDP is not clear-cut since it is paid off over many years and even altered or added to as time goes by. Therefore, the relationship between public debt and GDP is merely used to show the financial state of a nation.

It would have been an interesting study to investigate whether there is a meaningful relationship between economic growth and debt burden of countries in a panel data analysis. However in the present study we are aiming at to investigate whether public debt burden has a positive impact on the economic performance of Turkey.

2. Literature Review