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<AT>Emerging Economies' Short-Term Private External Debt As Evidence of Economic Crisis

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<ABS-HEAD>Abstract

<ABS-P>Considering both economic stability and crises, the need to analyze the short-term private external debt (ST-PrED) of a country is notably obvious for proactive crisis management. In the economics literature, the convention is to monitor the ratio of debt to the country's Central Bank's international reserves. However, the debt itself could act as a main precursor. In this context, we examine Turkey's ST-PrED data as representative of an emerging economy. Our methodology is to use a linear growth model to fit the ST-PrED data and a Bayesian method for model estimation and forecasting strategy. The empirical findings illustrate the performance of our predictions in capturing unstable terms of the economy. As a policy implication, we recommend that policy makers place special emphasis on ST-PrED as a potent indicator of the country's financial vulnerability. Taking into account the ST-PrED level, to prevent the contagion effect of a crisis, it is essential to implement policies that are more effective in coordinating international financial flows and improving liquidity positions. Furthermore, fostering structural reform and an innovative approach to strengthen the real sector and improve education could create economic stability and sustainability in terms of debt structure among emerging economies.

<KWD>Keywords: *Short term private external debt*; *economic crisis*; *dynamic linear model*; *linear growth model*; *Bayesian estimation and forecasting*; *rolling window analysis*; *debt indicators*; *debt related policy implications.*

<H1>1. Introduction

In 2007, the subprime mortgage crisis, which started in the US, turned into one of the gravest global financial crises to have ever hit European and other advanced countries in the years 2008-2009. The crisis period dragged these countries' economies into recession. In these advanced countries, as the economic growth slowed and the real sector shrunk its demand for loans, capital flights to nearby countries occurred. The period, therefore, could be deemed as a downturn of economic conjuncture. In such a period, credit booms are typically witnessed in nearby countries. Consequently, short-term private external debt (ST-PrED) increases in these emerging economies' markets. In the crisis that occurred November 2008, these emerging nations eventually failed to refinance this debt. This is particularly evident with private sector borrowing. Meantime, The Federal Reserve (FED), and actually any advanced country's central bank, takes steps to reduce the interest rate, hoping that low rates would lead to monetary expansion in the