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# First borrowing period at Ottoman Empire (1854-1876): Budget policies and consequences

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The financial troubles of Ottoman Empire which started in 16th century reached its ultimate point in 19th century. The Ottoman Empire searching to get rid of these troubles directed towards making some reform activities during the Tanzimat Era. Some of the money needed for these reform activities was met via the external borrowings which the Ottoman Empire had applied reluctantly and then could not preclude. During the period of 1854-1876 which was included in the Tanzimat Era and called as the first borrowing period, the Ottoman Empire signed 15 external borrowing agreements totally. However, the loans received as a result of these agreements were not used properly and then the budget deficit could not be settled. At the end of these developments, a financial bankruptcy was experienced in the Ottoman Empire in 1876.

**JEL Classifications:** H61, H62, H63, N15, N95.

**Keywords:** Ottoman empire; debt; financial crisis; Tanzimat period; budget deficit.

## Introduction

Ottoman Empire experienced financial problems, which had started in the mid of 16th century and deepened in 17th and 18th centuries and caused the collapse of the empire in 19th century. Ottoman State, in order to get out of the financial dilemma it was experiencing, firstly pursued domestic borrowing and then the foreign borrowing. However, the domestic borrowings, obtained with high interest rates and consecutive the foreign borrowings, could not afford the financial amelioration that was expected by the Ottoman Empire. The foreign borrowings that were obtained for closing the budget deficit had had an adverse effect and increased the budget deficit instead of closing it. The high interest rates and the foreign loans that were obtained extremely under the values indicated in loan agreements had not resulted in the expected revenues.

Ottoman Empire, due to the foreign loan burden and unavoidable budget deficits in 19th century, had become a good market for Europe. The Western countries, while having voice in Ottoman finance (treasury) due to the foreign loans that they had provided, had caused revenue to the savers in their countries with the profit they had gained. The period between 1854 and 1876, related with the foreign loans that the Ottoman Empire had obtained in order to get out of the financial crisis in 19th century, is defined as the first borrowing period. In the first section of the study the reasons, development and consequences of the foreign borrowings, obtained in this period by the Ottoman Empire; and in the second section; the budget applications of the Ottoman Empire between 1854 and 1876 and the place of borrowings in the budgets are examined.

## General economic condition in reform (Tanzimat) era (1839-1876)

As a result of the activities carried out by the Ottoman Government in order to cause the foreigners to raise confidence in the Ottoman State, the position of which had become negative in international arena and to prevent any intervention of west to the Ottoman, the Reform Edict (Tanzimat Fermanı - Gülhane Hatt-ı Humayunu) was announced on

November 3rd 1839. With the word Reform, it was aimed to eliminate the chaos in the country and to provide the order of state and governance mechanism. Therefore, this period between 1839 and 1876 is called as Reform Era. With the Reform Edict, Padishah Abdülmecid declared that the lives, properties and decency of his nation was guaranteed and that the taxes would be collected justly due to the income of every one and that the military service and the duration of military service would be reviewed (Oner, 2005, p.246). In the Reform Era, while the financial crisis continues, the betterment activities broader than those initiated before the Reform had started. Within this frame, it is necessary to examine the reasons of the financial crisis in the Reform Era at first and then the betterment activities that were carried out for the solution.

### **Reasons of financial crisis in reform era**

As a result of the development before and in the Reform Era, the Ottoman Empire was in financial crisis. The reasons of Reform Era financial crises can be listed under three headings in general.

#### ***Unsuccessful borrowing policies***

Although the Ottoman Government had tried hard not to obtain foreign loans until 1854, Abdülmecid, the Padishah of that time, was urged to make the first foreign loan agreement in order to meet the expenses of Crimea War. Since the loan obtained was not used for the war expenses but other places, the second foreign loan, just after the first one, had took place in 1855. As the foreign borrowing attempts were realized under harder conditions, Ottoman Empire was obliged to compromise on some issues. Besides the foreign borrowings, the domestic borrowings continued and in the long term the financial problems were increased incrementally.

#### ***Wrong money policies***

Mahmut II, the Padishah between 1808 and 1839 before the Reform Era, issued money under several proofs and names in order to get over the financial crisis cause by the wars and riots and debased (decrease of the proof of the money) the money many times. The money, the proofs of which were changed, lost value in the world market fast. The foreign loans firstly obtained in 1854 during the Crimea War and continued to be obtained in the following years with the kaime (banknote) that was enacted in 1840 after the edict of Reform and cancelled in 1862, was added on these problems. Kaime converted in debenture bond (esham kavaimi) system upon the Küçük Kaynarca Agreement signed after the Ottoman-Russia war (1775). Kaime lost value due to reasons such as some of them, which were used as treasury bonds during the domestic borrowings, were not numbered and become subject to counterfeit; the people did not prefer banknotes in their daily transactions and the bankers did not take kaime into account as money (Bayraktar, 2002).

The total of foreign and domestic borrowings of the Ottoman Empire in 1861 was about 334 000 sacs and this figure was 1/8 of the general expenditures of the state. However, these debts were neither paid by kaime, issued continuously nor the budget was balanced as long as the kaime problem had continued (Cakir, 2001). Another problem in the money market of the Ottoman State was the rational imbalances in the distribution of the money among the regions and the slow circulation of the money. In fact one of the reasons for the establishment of a national bank was to accelerate this slow circulation of the money. One other important problem experienced in money issue was the speculation of money shortage in Istanbul since the money circulation had directed to the towns from Istanbul during harvesting times as the Ottoman Empire was an agriculture country (Bayraktar, 2002).

## **Lack of defined tax policies**

The major weakness of the State was its failure in collecting taxes. Only some parts of the taxes were collected by the taxmen (mültezim) through the tax farming system (İltizam) (Pamuk, 2005). The economic damages of this system applied were huge for the Ottoman State. Taxmen, in order to increase their profits, were exploiting their tax obligations and sending the central government only some part of the taxes they had collected.

In an environment, where there was serious decrease in the tax revenues in 19th century, the only potential sources for tax in the Ottoman had become foreign trade. Between 1838 and 1846 this source had lost its importance in a shot while as the Ottoman signed a series of trade agreement firstly with Britain and then the other West countries. After this period, the West started to dominate the Ottoman domestic market and the foreign and domestic borrowing period for Ottoman started (Acba, 1995).

## **Solution for financial crisis: Betterments**

The financial crisis, which had started at the end of 16th century, deepened more in spite of the betterment activities and in the beginning of 19th century some betterment activities concluded by the Reform. The general aim of the betterment activities was to carry the Ottoman from localized system to a centralized system and thus to overcome the financial crisis. However, the betterment activities carried out in the Reform Era was not able to prevent the financial crisis of the Ottoman Empire (Falay, 1989). In the Reform Era, Fuat Pasa, Minister of Finance at that time, had carried out some betterments with regards to the financial system. The first of those betterments was the keeping the records in a proper manner. Thus, the accounts of the state would have been traced easier. The second betterment was the preparation of a detailed budget. In the budget prepared in details the decrease of the expenditures, increase of the revenues and the announcement of the annual budgets to the public were the essential principles (Cakır, 2001).

One of the betterments of the Reform Era is related with the monetary system. On 1840s, the coin debasing had become a very costly method for the Ottoman State in order to provide an additional revenue source. The debasing caused fluctuations on the value of the monetary unit and thus triggered the inflation and created uncertainty and decreased the tax revenue. Upon these developments, the Ottoman State, in 1844, rearranged the coinage system by a transaction called “Proof Adjustment” or “Sikke Adjustment”. With this adjustment, cent (kuruş), containing one grams of pure silver and one gold lira, the value of which equals to a hundred silver cents and which contains 6.6 grams pure gold, were accepted as basic monetary units. However, these adjustments did not work for a monetary unification within the Ottoman Empire. Meantime, in different regions of the country European, Russian and Iranian monies were continued to be accepted. Moreover, as a result of the value loss of silver against gold; the silver cents were treated under different rates of exchange outside İstanbul. All these regional differences had affected the domestic and foreign trade negatively. One another betterment in relation with the monetary unit was the release of banknotes named “kaime”. Kaime, issued in huge amounts, had lost its value against the coins and had continuously pulled out of the market until 1860s as they had not gained currency in domestic and foreign market (Pamuk, 2005).

One of the financial betterments carried out by the Reform was the simplification of the tax system. It was aimed to centralize the financial administration by providing the unification of the treasury and the budget through betterments such as removing many types of taxes and including some of taxes within the general tax groups and thus simplifying the taxation and assessing taxes in accordance with the income of the taxpayers and abolishing the tax farming system (Oner, 2005). Another betterment that the Reform had brought to taxation was the commissioning of paid finance officials

(called as muhassil-i emval) upon the abolishment of tax farming system and decommissioning the governors and taxmen from collecting taxes (Aksin, 2002).

Another betterment carried out in the Reform Era was realized in banking sector. With the Betterment Edict, announced on 18 February 1856, it was declared that banks and similar institutions could be established and thus a step forward from money changers (sarraf) to banks was taken (Cadırcı, 1997). The most important factors in the efforts of establishing a state bank were to overcome the exchange problems arising from export-import imbalance caused by increasing foreign trade with the West and to remove the negative effect of the banknotes, the values of which were decreased due to the increasing emission volume and which had caused increase in the prices, on the foreign trade by pulling them out of the market. The Galata bankers (Pamuk, 2004, p.24)<sup>1</sup> and foreign investors that were trying to a state bank had proposed some projects to the Ottoman Government. However, since the Ottoman Government was not lean on foreign investment the proposed projects had remained inconclusive (Bayraktar, 2002). Although the Ottoman Government was willing to incorporate the bank with domestic bankers and investors, it was obliged to have foreign shareholders in order to find foreign loan and to be recognized in European money market (Bayraktar, 2002). Starting from this fact, the first state bank, the Ottoman Bank was incorporated in London in 1856 with British capital. The bank, the name of which was changed by the royal edict as "Bank-ı Osmani-i Şahane" upon the addition of French capital in 1862, had performed significant roles in the debt management of the Ottoman (Hanioglu, 2008).

Upon the betterments carried out after the edict of Reform with regards to the transition to a centralized system, the revenues of the Treasury were increased and so the expenditures. Moreover, together with the transition from tax farming system to paid finance officers, the revenues started to enter into the treasury with delay. All these developments had contributed to the increase of financial problems (Oner, 2005). The financial burden arising from the betterments of the Reform Era had caused the increase of the budget deficit. The Ottoman State applied money and budget policies in order to balance the budget deficit. In terms of money policy some measures such as melting the gold and silver plates at the place, debasing sikke and taking by force the solid sikke from the people and replacing them with the debased sikke and obtaining loans from Galata bankers and paying the debts of the state expenditures by bonds, the due dates of which were indefinite, had applied till the Reform. However, neither the debasing nor the short-term loans from bankers were sufficient to close the budget deficit (Oner, 2005).

## Reasons of foreign borrowings

In the beginning of 19th century, the Ottoman Government carried out some arrangements in order to prevent the collapse of the state and to centralize both the revenues and the expenditures to apply the betterments upon the pressure of the West.

The major solution for the centralization of the expenditures was the foreign borrowings. The aim of the foreign borrowings was to increase the centralized supervision and also the centralized bureaucracy and to empower the state against the foreign threats and the powers, formed by the locals (the community leaders) and the notables, with a well-equipped centralized army by using most of the loans in the military area. Some part of the foreign borrowings was obtained to be used in betterment activities addressed to the increase of the revenues (Kiray, 1995). It is possible to group the reasons of foreign borrowings in two groups; internal and external factors.

<sup>1</sup>People known as being non-Muslims and leaders; The Galata bankers, Baltazzi, Camondo, Coronio, Eugenides, Mavrocordato, Misirlıoglu, Ralli and Zarifi, had provided short term loans to Ottoman from Europe in the 19th century.

### **Internal factors**

The circumstances such as cease of conquests in Ottoman Empire, non-transfer of tax revenues completely to the central government, decrease of production and increase of the expenditures for the ascending civil commotions, had caused the increase of the budget deficit (Yilmaz, 2002). Moreover, some part of the territory was lost and some regions had become subject to enemy invasion due to the defense wars made against Russia, Austria and France as of the second half of the 18th century. The long lasting wars had caused the Ottoman Empire to incur extraordinary expenditures and accompanied by the war compensations paid upon the wars, in which the Ottoman Empire was defeated (Cadirci, 1997). All these developments increased the budget expenditures and affected the budget negatively.

The solution methods, such as debasing the money, issuance of state bonds and obtaining domestic loans from Galata bankers and some other tradesmen; that could work for the remedy of the financial situation of the Ottoman Empire did not prevent the budget deficit (Yilmaz, 2002). Another internal reason for borrowings was the imbalance of the payment balance. The West was able to sell their goods easily in the Ottoman State due to the low customs taxes resulted from the rights granted to some Western countries under the name of "Capitulations" since 16th century. In fact, it was not possible for domestic goods to be sold with the same easiness due to the higher rate of domestic customs taxes. Moreover, the local tradesmen could not compete with the foreign tradesmen for reasons such as lack of capital and loan opportunities (Cadirci, 1997). These developments had negatively affected the domestic production and caused significant revenue losses in the country.

Another internal reason was the "Sivis Years". Sivis Year is a condition realized once in every 33 years as the income budgets are prepared due to solar year (365 days) and the expenditure budgets are prepared due to lunar year (354 days). The 11 days difference between the solar year and the lunar year was causing the expenditures budget not to match with the income budget once in every 33 years. The income-expenditure incongruity, arising from Sivis years, had caused major negative effects on the Ottoman finance (Falay, 1989). Another important reason for borrowings is the interest to the western consumption concept. Ottoman Empire, which was obliged to make some arrangements concordant with the developments in the West, had carried out some arrangements as of the second half of the 18th century especially in military area. While arms and clothes were bought for the needs of the Nizam-ı Cedit Army, all cloths of the officials and soldiers were imported from foreign countries. In Abdulmejid era, new expenses were added to these expenses and it was started to adopt the luxurious life of the West. As a result of luxury consumption the trade balance was distorted and the budget deficit became non-closable. Another internal reason was that the trade roads within the borders of the Ottoman Empire had lost its attraction since the Western countries had discovered new trade roads. Upon the discovery of South Africa sea route, the silk, spices and other eastern products were started to be transported to the West by seaway instead of transportation through Ottoman territory after the second half of the 17th century. Therefore, the Ottoman Empire had significantly lost its importance with regards to the trade between Europe and Asia (Cadirci, 1997).

### **External factors**

As a result of excessive capital accumulation in Western countries in the 19th century, the investors in France and England were willing to provide loan to the Ottoman State (Falay, 1989). When the Ottoman State started to obtain loans, the lending investors would gain commission and the small savers would gain interest income. Moreover, the Ottoman State requested import goods with some part of the loan and this was in parallel to the interest of the Western countries (Yilmaz, 2002).

The Western countries were willing to provide loan to the Ottoman State, since they would have power on the Ottoman economy by providing loans. The West, while obtaining interest income in one hand, was able to form the structure of the empire in accordance with their plans by imposing the so-called betterments to the Ottoman. It was seen from the obtained foreign borrowings that the Ottoman State, with every foreign borrowing, had granted more and more privileges to the Western countries (Dura, 2004).

### **Searches before applying to foreign borrowing**

In 1850s the revenue and expenditures of the state was balanced with short term domestic borrowings. However, this balance was broken down with the Crimean War in 1854 and thus the first foreign borrowing was obtained as a result of the Crimean War in 1854.

The reason for the Ottoman State in not obtaining foreign borrowing until 1854 can be linked to three basic reasons. The first reason is that the Ottoman Government was considering it humiliating to obtain loans from foreign countries. The second is that the countries that would provide loans to the Ottoman State were unwilling to lend until the Crimean War. The third reason is that especially England and France were searching for profitable areas that they would invest with their excessive money as a result of extreme capital accumulation in the Western countries in the second half of the 19th century (Falay, 1989). Before applying to foreign borrowings, the Ottoman State had searched for some solutions in order to get out from the financial problems. The first of these solutions was the debasing of the money and banknote emission. However, this first solution resulted in problems for the economy and finance of the country. The second solution was the sales of the tax revenues of a couple of years before their due dates. Although this transaction was a kind of indirect borrowing, it became an income opportunity the Galata bankers (Falay, 1989).

### **Foreign borrowing during 1854-1874**

The use of the loans obtained through 15 loan agreements in total between 1854 and 1874 can be summarized as below (Onsoy, 1999):

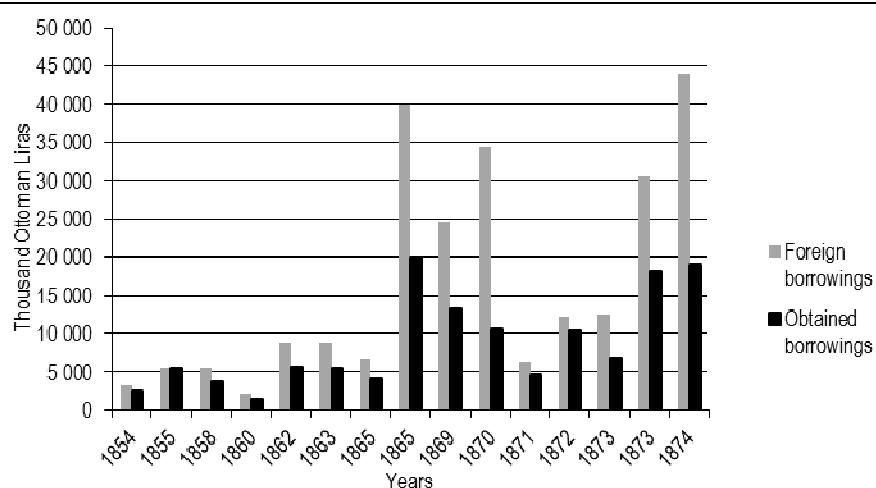
- Borrowings of 1854 and 1855 were used in meeting of the Crimean War and purchase of arms;
- 1858 borrowing was obtained in order to prevent the financial and economic crises and to pull the kaime out of the market;
- 1860 borrowing was used for the repayment of debts and to demonetize the kaime;
- Most of the money obtained by 1862 borrowing was used for the repayment of domestic borrowings to Galata bankers. The kaimw was demonetized;
- With the 1863 borrowing, the short-term loans were repaid;
- 1865 borrowing was obtained for the repayment of former debts and to convert the domestic borrowings to long term loans;
- With the 1869, borrowing the budget deficit was closed and floating debts were repaid;
- Loan obtained in 1870 was not used, for the first time, for the current expenditures but used as investment for the construction of Rumeli railway system;
- 1871 borrowing was obtained in order to close the budget deficit and to meet the interest and amortization of the foreign borrowings;
- Money obtained by the 1872 borrowing was used for closing the budget deficits and repayment of the foreign loan installments;
- 1873 and 1874 borrowings were obtained in order to repay the foreign borrowing installments and to close the budget deficit.

TABLE 1. THE PROPERTIES AND THE USES OF THE FOREIGN BORROWINGS  
OBTAINED DURING 1854-1874 (OTTOMAN LIRA)

Years	Foreign borrowings	Interest	Emission/commission accounts	Obtained borrowings	Older borrowings	Military expenditures	Treasury expenditures	Other expenditures
1854	3.300	6%	725	2.575	277	2.267	-	31
1855	5.500	4%	28	5.472	54	5.418	-	-
1858	5.500	6%	1.716	3.784	72	-	3.531	181
1860	2.240	6%	840	1.400	891	509	-	-
1862	8.800	6%	3.136	5.665	2.983	2.455	25	202
1863	8.800	6%	3.260	5.540	4.658	198	684	-
1865	6.600	6%	2.533	4.067	4.067	-	-	-
1865	40.000	5%	20.000	20.000	20.000	-	-	-
1869	24.444	6%	11.243	13.201	9.898	-	3.303	-
1870	34.348	3%	23.650	10.698	-	-	10.698*	-
1871	6.270	6%	1.693	4.577	4.577	-	-	-
1872	12.238	9%	1.835	10.403	10.403	-	-	-
1873	12.610	5%	5.780	6.830	6.830	-	-	-
1873	30.550	6%	12.373	18.177	18.178	-	-	-
1874	44.000	5%	24.860	19.140	19.140	-	-	-
Total	245.200	Average 5.6%	113.671	131.529	102.028	10.847	18.241	414
The ratio of accounts to total borrowings			46.4%	53.6%	41.6%	4.4%	7.4%	0.2%

Note: \* Investment

Source: Oner (2005, p.347).

FIGURE 1. FOREIGN BORROWINGS DURING 1854-1874 AND  
THE AMOUNTS TRANSFERRED TO THE TREASURY

Source: Table 1.

Table 1 shows the foreign borrowings obtained between 1854 and 1874; the interest, emission and commission amounts; the obtained amounts and use of the obtained foreign borrowings. Starting from the data in this table, it is calculated that the average of the 15 separate foreign borrowings is 16 346 667 Ottoman liras and the average interest is 5.6% and the loan amount received after the deduction of the commission per loan is about 8 768 613 Ottoman liras.

The above mentioned interest rates are those indicated in the written loan agreements. Although these interest rates are determined as 5-6%, the real interest rates were realized fairly higher than those indicated in writing. Especially in 1860s the interest rates were rarely under 10%. The high interest rated applied to the Ottoman in such a period, where the interest margins were decreased, shows that the Ottoman Empire obtained the loans under very negative conditions (Onsoy, 1999).

Between 1854 and 1874, the Ottoman Empire had obtained a total of 245 200 000 liras loan and spent 46.4% of the loans to the emission and commission expenditures. 102 028 100 liras were used in the former debts and 10.847.000 liras were used for military purposes and 18 241 300 liras were used for treasury, while 413 000 liras were used for other expenditures. The Ottoman State had spent only 10 698 000 liras of the loans obtained in 1870 for investments. In Figure 1, the differences between the 15 foreign borrowings obtained between 1854 and 1874 and the amount received after the deduction of emission and commission expenditures from those loans. Only 53.64% of the foreign borrowings obtained with the period of 20 years were realized as usable amount. The remaining 46.36% was spent for emission and commission expenses. Especially the significant difference between loans obtained through 1865, 1869, 1870, 1873 and 1874 foreign borrowings and the amount received were used for emission and commission expenditures.

The Ottoman State had consistently borrowed loans between 1854 and 1874 obtained in a manner one borrowing per each year. These borrowings are not a state-to-state transaction but realized as the purchase of Ottoman debenture bonds especially by the French and British savers and foreign brokers (Oner, 2005). The foreign borrowings between 1854 and 1874 can be grouped in two due to their properties

### **Foreign borrowings during 1854-1865**

In those years, the borrowing conditions were more optimistic. The average amount of 6 loan agreements was 5.690.000 Ottoman lira and the average interest rate was 5.6% (Onsoy, 1999).

### **Foreign borrowings during 1865-1874**

The amount of the loans differs between those dates. The average amount of the loans was increased to 23 451 111 Ottoman liras with an increase ratio of 412%, but the average interest rate was remained same with 5.6% (Onsoy, 1999).

While the budget income for the years 1874-75 was about 25 million Ottoman liras, the amount of the installments of the loans repaid in that year was 13.2 million liras. Moreover, there was a floating debt of 17 million Ottoman liras apart from those. Thereupon, the government published a decree on 16 October 1875 and decided to repay only half of the principal amount and the interest repayments of domestic and foreign borrowings in cash within 5 years as of that date and the remainder with 10 years' debenture bonds with 5% interest rate. In March 1876, the Ottoman Government had stopped all cash repayments (Oner, 2005).

All these indicators showed the time for financial bankruptcy of the Ottoman Empire. Although the non-payment of debts is an indicator of a financial bankruptcy, it is not a reason for financial bankruptcy. The main reasons for the financial bankruptcy were that firstly the government was not able to create a budget surplus and secondly the existing

economical system could not create investment, productivity and thus foreign trade surplus (Kiray, 1995).

## **Results of foreign borrowings**

The foreign borrowings have an important place in the history of the Ottoman Empire due to the economic, financial and political results they had caused. Ottoman State had got used to foreign borrowings very quickly and with hot money borrowed the market was mobilized, the needs of the place was met and the salaries were paid timely. However, the first borrowing was accompanied by new borrowings. The foreign borrowings were not for to support of the production and economy. Because in the Ottoman Empire there were not any qualified human resources required for these aims and the necessary technologic knowledge, infrastructure and management and thus the foreign borrowings were used for purposes other than production (Onsoy, 1999).

The first borrowing obtained in 1854 was followed by the others and the foreign borrowings were being able to be paid completely in 1954; 100 years later. Most part of the foreign borrowings obtained with high interest rates were used for areas that do not generate any income such as military and luxurious expenses. The Ottoman Empire, which could not afford to pay the principal amount and interest of the former debts, were obliged to incur new borrowings continuously. The Western countries made the Ottoman Empire to get use to borrowings and attempted to have power on the Ottoman finance. These countries, with the reports they had prepared and the loan agreements, requested the betterment activities from the Ottoman State. Although the Ottoman State had carried out several betterment activities in many areas, it could not be possible to remedy its financial situation (Oner, 2005).

The high risk of the foreign borrowing bonds of the Ottoman Empire caused the debenture bonds to be realized lower than their real nominal values in the foreign markets. Moreover, the real interest rates were realized higher than the interest rates indicated in the loan agreements and in Table 1 as a result of the emission and commission expenses. Accordingly, the Ottoman State was not able to gain the sufficient income from the borrowings. Another result is the lending money of the major countries to the Ottoman State as a result of their capital export needs and this situation was realized in favor of them. By this, the major countries had obtained stability in the trade they were performing with the Ottoman State. These countries had prevented the valuation of the Ottoman currency through foreign borrowings and had the chance to import raw materials and agricultural products with competitive prices (Cakir, 2001).

## **Budget applications in the first borrowing period (1854-1876) of the Ottoman Empire**

### ***Concept of budget in the Ottoman Empire***

When taken into account with the historical development, budgets were emerged as a result of the acts and events addressed for the limitation of the executive organ of the state. In Turkish history, it is a debatable issue that which budget was the first in the Ottoman Empire. There are different opinions on this matter that arising from lack of information and the uncertainty in the meaning of budget concept (Sener, 2006). Before the Reform Era, it was not possible in the Ottoman State to have an estimation of the general revenues and expenditures. Moreover, the accepted principle was not revenue per expenditures but expenditures per revenue. Only the income derived from definite sources was allocated to certain services. Due to all these reasons, although income-expenditure tables were prepared since the 15th century, they will not be correct to call them budgets (Oner, 2005).

In 1839, there was not any clear provision regarding the budget in the Reform Edict. However, in the edict, it was announced that the expenditures necessary for the defense of the state from land and sea and for the other services had to be firstly determined and then limited by law and the application had to be carried out accordingly (Duru et al., 1982). The decisions for the preparation of a modern budget depending on estimation and allocation principles beforehand in every year were taken in 1845. While the authorization for the preparation of the budget was granted to Meclis-i Vala (the high court dealing with the cases between the nation and the government) and Ministry of Finance, it was decided to prepare the budget every year starting from 1846, on which the first budget was prepared (Cakir, 2001). The first regulation that was carried out in the Reform Era within the frame of the Western model budget applications was the unification of the treasuries such as Mansure Treasury, Redif Treasury and Hazine-i Amire in 1840 under the name of Finance Treasury. The Finance Treasury and the Ministry of Finance had become the sole treasury and the administration with regards to all income and expenditures, while the allocation of certain income and expenditures to certain treasuries was prevented. After this date, the Finance Treasury had started to prepare annual books under the name of "Muvazene (Balance)" (Oner, 2005, p.312). Although the Ottoman budgets between 1846 and 1855 were prepared in parallel to the decisions taken in 1845, there still was no legal regulation regarding budgets (Oner, 2005).

The first legal regulation on budget was the statute enacted in 1855. In this statute, the provisions on how the state budget would be prepared, examined and approved and how the application and audits would be performed were regulated. Due to the statute, the income and expenditure estimations carried out by the Ministry of Finance would be written down on separate books and submitted to Babiali, namely the government, at least two months before March, the financial year beginning. These estimations would be sent to Meclis-i Tanzimat, which was working as a budget commission. Upon the examinations held by the commission with the participation of several people from Meclis-i Vala, the budget ("balance book") would be read in the Meclis-i Umumi (the General Parliament) with the presence of all ministers for general discussion and the income and expenditures of each state office would be negotiated separately. Upon the decision taken by majority, the whole budget would be voted and the transaction would be concluded (Duru et al., 1982, p.12). The studies would be completed one week before the financial year beginning and submitted to the Padishah and enter into force upon the approval of the Padishah. Moreover, the approval of allocation of monies from one ministry to another or from one service to another within the same ministry was granted to the Meclis-i Vala and the Padishah and the allocation was prohibited before such approval. The ministries were obliged to present next coming year the calculation of the expenditures they had incurred within one year (Duru et al., 1982).

The first budget statute dated 1855 is a statute of 13 articles regulating the points in the preparation of budget. In the statute the state expenditures were divided into two sections; the first was the expenditures of the state offices and the second was the general expenditures. The state revenues were divided into two sections; directly collected and indirectly collected (Cakir, 2001). In this statute, the authority to collect the state revenues and to pay expenditures was granted to the Meclis-i Tanzimat, which was the legislative organ, but some powers of the Padishah over the budget could not be limited. Because, the budget was voted and approved by the members elected by the Padishah and the Padishah had the last word on the budget.

In 1874 the second budget statute was enacted. Between the first and second budget statutes (1855-1874) several budgets were issued. However, the first budget within the meaning of West was the budget for 1863-64 financial year. In the 1863-64 budget; it was started, as a new application, to announce the budgets. The 1874 statute is the same of the first with regards to the main frame. According to the second statute, the budget, prepared by the Ministry of Finance, would firstly be discussed before a "Budget Commission" appointed by Board of Ministers (Meclis-i Vükela) and then before Board of Ministers (Meclis-i Vükela) and would enter into force upon the approval of the Padishah. Should a

comparison is made between those two statutes; the first difference is that in 1855 statute the board, where the first discussions took place, were constituted by the Meclis-i Tanzimat with the participation of some members of Meclis-i Vala and related ministers and officials, while in 1874 statute this board was replaced by a budget commission. The second difference is that the board, where the second discussions took places, was the General Parliament (Meclis-i Umumi) in 1855 statute, while that place was Board of Ministers (Meclis-i Vukela) due to 1874 statute (Sener, 2006).

One of the regulations made in the Reform Era regarding the budget was the commencement of using Julian calendar (financial year) instead of Islamic calendar for financial matters. While some expenses and revenues were made in accordance with the Islamic calendar, some were made in accordance with the Julian calendar. This had caused several financial problems. Upon the commencement of use of Julian calendar, the financial year had started in March and closed in February.

Before the Reform, the state had granted the authority to collect some direct taxes to persons providing services in consideration to the services. Moreover, some individuals were exempted from taxes as they provided wood, coal and other goods needed by the state. Another tax exemption was granted to the individuals that supply physical labor such as repair of roads and bridges and opening of water channels. With the Reform all these applications were regulated and changed. The exemption of the individuals providing goods needed by the state, was cancelled and it was decided to include such services in the state treasury as expenditures (Oner, 2005). In the Constitution (Kanun'u Esasi) published in 1876, a broad section was provided for budget. The constitutional regulations on budget are generally as follows (Duru, 1982):

- Budget will be negotiated and accepted by the General Parliament. The income and expenditure estimations will be discussed in details;
- No payment shall be made from the state assets (revenues), unless it is regulated by a special code;
- In case when the General Parliament does not convened, it is needed due to extraordinary reasons to incur expenses not included in the budget, such expenses can be made upon the order of the Padishah provided that the draft code on such expense, under the responsibility of Board of Ministers will be submitted to the General Parliament when it is convened;
- The budgets are valid for one year. In case of extraordinary circumstances, the Padishah is authorized to apply the previous year's budget for one more year;
- In articles 103 to 107 of the Constitution, provisions on the establishment of Court of Accounts and its powers on the auditing of the budget were regulated.

As seen, with the 1876 Constitution important regulations on the budget were enacted. However, Padishah did not release some of its powers by acting as a consultancy organ regarding the budget.

### **State revenues**

The tax revenues, which were divided into two before the Reform as *tekalif-i seriyye* and *orfiyye*, are divided into two groups under the “balance books” arranged after the Reform. This separation was started to be done as ‘*tekalif-i bilavasita*’ (indirect tax) and “*tekalif-i bilvasita*” (direct tax) since 1861. After the Reform era there had been several separations on the revenues.

The most important revenue items on the budgets prepared in the Reform Era are; *virgu*, *cizye*, *asar*, customs fees and *agnam* duty. One of the innovations introduced to the taxation system by the Reform was the unification of taxes of various types and names under a sole tax. Another innovation was the acceptance of cash basis instead of *in rem* basis in the taxation (Falay, 1989). The taxes, which were collected previously under the name of “*tekalif-i orfiyye*” with many types and collection manners and depending on the

household or land were unified and became a sole tax depending on the payment power. The amount of the tax named “Virgu” was determined by the Ministry of Finance only for the level of liva(district). For each liva, this amount was shared between first the towns, then the quarters and villages. Another revenue item of the Ottoman State was a poll tax called “Cizye” and collected from adult non-Muslims. Cizye was grouped in three depending on the payment power (Guran, 1998).

TABLE 2. DISTRIBUTION OF FIVE IMPORTANT REVENUE ITEMS WITHIN THREE DIFFERENT BUDGETS

TYPE OF REVENUES	FINANCIAL YEARS		
	1849-50	1861-62	1875-76
Virgu	34.1	23.7	14
Cizye	6.5	4.9	3.3
Asar	22	29.5	36.4
Customs revenues	9.3	13.5	8.7
Agnam duty		7.4	8.6
Other revenues	28.1	21	29
Total	100	100	100

Source: Guran (1998, p.86).

In the Reform Era, the principle of collection of the taxes from the religious leader of each community was accepted. One other important revenue item in the budget was the “Asar tax” collected over agricultural production. Another important item in the budget was the “customs taxes”. Customs taxes were applied in the Reform Era as 5% for import and 12% for export. However, due to the agreement signed with the Western countries and the USA in the period of 1861-62, the import taxes were increased to 8% from 3% and the export taxes were decreased to 8% from 12%. Moreover, the import taxes were progressively decreased with 1% in every year and applied as 1% since 1869. It was decided to collect the customs taxes directly by means of officer and taxmen. However, since the expected collection results were not achieved, the tax farming system was started to be applied on the customs borders other than Istanbul, Jeddah and Yemen customs. Another important revenue item in the budget was the Agnam Duty (Tax) collected over the small cattle. With regulations made as of 1859 financial year, the tax were determined as 10% of the yields obtained from small cattle in the Rumelia region and 1.5 cents over each small cattle in Anatoli and Arabia (Guran, 1998).

With the above Table 2, it is possible to evaluate the shares of virgu, cizye, asar, customs revenues and agnam duty of three financial years within the budget revenues. Although it is not included in the period between 1854 and 1876, it is important to examine the shares of these five important revenue items within the 1849-50 budget, the first budget, which enables us to evaluate the combination of state revenues (Guran, 1998). In order to interpret the same revenue items included in the 1875-76 budget, last financial year of the first borrowing period. For instance, the percentage ratios of virgu and asar duty in 1849-50, 1861-62 and 1875-76 budgets as shown in Table 2, is higher than the other revenue items. However, while the ratio of virgu is decreasing within the overall state revenues, the ratio of asar duty is increased.

Talking about the higher ratio of personal taxes such as virgu and cizye in the 1849-50 budget, it is possible to see that the percentage ratio of these taxes was decreased in 1861-62 budget. While the share of such personal taxes within the revenues, was decreasing, the share of asar duty and customs taxes, collected over production and trade, was increasing (Guran, 1998). In general, 62.7% of the tax revenues, constituting a significant parts of the revenues since the beginning of 1860s, were the direct taxes. The highest share within the direct taxes (almost half) was the asar duty (Oner, 2005). It is seen from the revenue distribution in the 1875-76 budget that the share of virgu and cizye duty was decreased more, however the share of the asar tax was increased; and that the share of customs tax within the same revenue items was decreased to 8.7%. The reason for the decrease of

customs taxes, which were 13.5% in the revenue items of 1861-62 budget, was the trade agreements and the decrease in the export customs taxes (Guran, 1998).

### **State expenditures**

The state expenditures are grouped under 4 sections. The most important of the budget expenditures is the military expenditures. In this group the expenditures of the bodies such as Nizamiye army, Armory and Shipyard. Another important expenditure within the budget is the administrative expenditures. The expenses of all administrative units of the state, the salaries of state officials and other related expenses are included in this expenditure item. Another section in the budget expenditures is the expenses of the sultan and the palace. Finally, in the fourth section, the transfer expenditures, the principal and interest repayments for domestic and foreign borrowings and the compensations paid to the landlords, whose lands were sequestrated by the state are included (Guran, 2003).

TABLE 3. DISTRIBUTION OF FOUR IMPORTANT EXPENDITURE ITEMS  
WITHIN THREE DIFFERENT BUDGETS

Expenditure groups	Financial years (%)		
	1846-47	1861-62	1875-76
Military expenses	46.6	37.7	19
Administrative expenses	33.2	29.5	25
Expenses of The Sultan	10	9.3	4.6
Transfer expenses	10.2	23.5	51.4
Total	100	100	100

Source: Guran (1998, p.89).

As seen from the above Table 3, the highest rate the four main items in the 1846-47 budget which was the first modern budget, belongs to the military expenses. However, the share of the military expenses in the 1861-62 budget and 1875-76 budget, which was the final financial year of the first borrowing year, were progressively decreasing. The administrative expenses and the expenses of the sultan is decreasing in a stable manner in terms of ratio in those three budget periods. All these decreases are the result of the policies directed to the decrease of expenses since the beginning of 1870s.

In the 1861-62 budget the effects of the borrowing process caused by the Crimean War can clearly be seen. In this budget; while the military expenses, administrative expenses and the expenses of the sultan were decreasing in terms of ration, the share of the transfer expenses were increasing (Guran, 1998). Transfer expenses consist of the principal and interest repayments of the domestic and foreign borrowings that the Ottoman State had obtained after Crimean War. The significant raise in the transfer expenses are also evident in the expenditure items of 1875-76 budget. In 1875-76 budget, the highest rate among the four main expenditure items belong to the transfer expenses with 51.4%.

### **Revenues, expenditures and budget deficits due to the budgets of the first borrowing period (1854-1876)**

Between 1854 and 1876, both the state revenues and the state expenditures were continuously increased. The most important reasons for the increase in the state revenues were the positive economic developments and the betterment carried out in the financial area. Especially the increase in agricultural production and the developments in foreign trade upon the trade agreement of 1838 had increased the state revenues. Important

betterments were carried out in budget and taxations areas and the state revenues were increased. The reasons for the increase in the state expenditures arise mainly from the state undertaking new functions. The Ottoman State, with the betterment activities, had taken a more effective role in the economy and started to set aside a share in the budget to economical investments and thus the expenditures were increased. Another important reason for the increase in the expenditures was that the state purchased some goods and services not over the official prices but market prices (Guran, 2003).

TABLE 4. REVENUES, EXPENDITURES AND BUDGET DEFICITS DUE TO THE BUDGETS DURING 1853-1876<sup>1</sup>

Financial years	Revenues (Ottoman Liras)	Expenditures (Ottoman Liras)	Budget deficit (Ottoman Liras)	The revenues/ expenditures coverage ratio (%)	The ratio of budget deficits to revenues (%)
1853-54	7 574 597	7 791 172	-216 575	97.22	2.86
1856-57	8 880 535	9 293 625	-413 090	95.56	4.65
1857-58	10 429 400	11 315 800	-886 400	92.17	8.5
1858-59	11 333 015	12 006 655	-673 640	94.39	5.94
1859-60	11 613 760	13 671 982	-2 058 222	84.95	17.72
1860-61	12 000 675	13 116 270	-1 115 595	91.49	9.3
1861-62	12 211 842	13 934 075	-1 722 234	87.64	14.1
1862-63	13 213 238	14 906 930	-1 693 692	88.64	12.82
1863-64	14 209 905	14 845 025	-635 120	95.72	4.47
1866-67	15 585 665	18 004 668	-2 419 003	86.56	15.52
1867-68	15 979 939	18 683 185	-2 703 246	85.53	16.92
(Budget Surplus)					
1868-69	17 128 395	17 010 905	117 49	100.69	-0.69
1869-70	16 789 895	17 297 140	-507 245	97.07	3.02
1871-72	19 200 815	22 765 335	-3 564 520	84.34	18.56
1872-73	20 637 210	21 404 450	-767 240	96.42	3.72
1874-75	24 807 420	25 134 580	-327 160	98.7	1.32
1875-76	23 882 940	28 929 095	-5 046 155	82.56	21.13

Source: Guran (1998, p.84).

As seen from the Table 4 above regarding the budgets between 1853-54 and 1875-76; in all budgets the revenues and expenditures are increasing in a stable manner. As of 1857-58 budget the revenues and expenditures were realized more than 10 million Ottoman liras. This course was followed by the increase up to 20 million Ottoman liras in terms of revenues of 1872-73 budget and the expenditures of 1871-72 budget. While the revenues in 1853-54 budget was 7.57 million Ottoman liras, the expenditures were realized as 7.79 million Ottoman liras. The revenues were realized as 24 million Ottoman liras and the expenditures were realized as 29 million Ottoman liras in 1875-76 budget, the final year of the Reform Era. During the time between 1853-54 budget to 1875-76 budget, the revenues were increased 3.16 times and the expenditures were increased 3.72 times. Moreover, when the ratio between the revenues and expenditures are examined it is seen that this ratio was decreased although there was a fluctuating course as of 1853-54 budget.

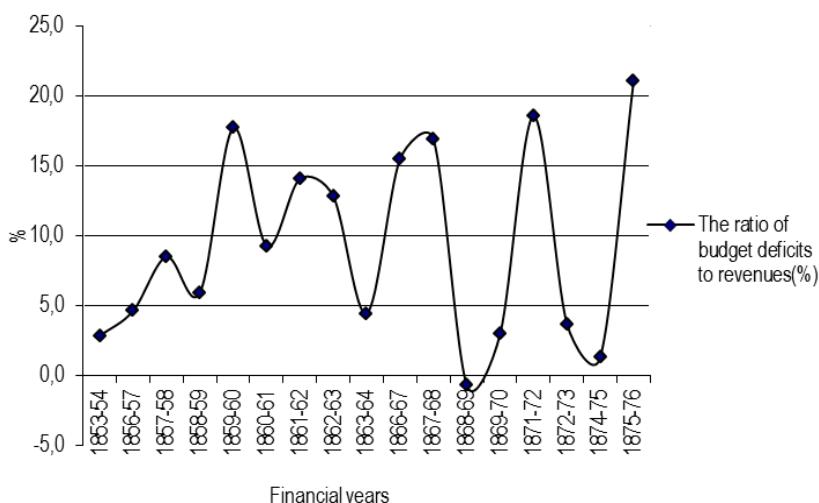
When the budget deficits of the financial years between 1853-54 and 1875-76 as seen from Table 4 are examined; it will be seen that the only surplus was about 117.5 thousand Ottoman liras in 1868-69 budget and there was budget deficit in all other budgets. In the first borrowing period, a fluctuating course is seen as some financial years have instant increases while some have instant decreases. The budget deficit, which was about 217 thousand Ottoman liras in 1853-54 budget, was increased with 23 times and became 5

<sup>1</sup> In 1844, One Ottoman lira was accepted as 100 cents. Depending on this development, the above data were converted into Ottoman liras and reflected on the table.

million Ottoman liras in 1875-76 budget. While the ratio of the budget deficit to the revenues in 1874-75 financial year was 1.3%, this ratio was increased with 16 times and realized as 21.1% in the next financial year. This serious increases show the size of the problems within the Ottoman budget.

Since the war expenses incurred for the Crimean War in 1854 are not included within the budget, the budget deficits did not increase. However, the reflection of the Crimean War to the budget was experienced depending on the increase of loan repayments after the war (Guran, 1998). In fact, as seen from the below Table 4, the budget deficit in the 1859-60 budget had increased 3 times when compared with the budget deficit of the previous year. The budget deficits had followed a fluctuating course between the budgets of 1853-54 and 1875-76.

FIGURE 2. THE RATIO OF BUDGET DEFICITS TO REVENUES DURING 1854-1876



Source: Table 4.

The above Figure 2 shows the percentage of the ratio of the budget deficits to the budgets for the financial years between 1854 and 1876. It is possible to see from the figure the fluctuating budget deficits during 1854 and 1876 financial years. The budget deficit/revenue ratio started to increase as from the 1853-54 budget was significantly decreased in the 1868-69 budget and there was not any budget surplus between 1854 and 1876. After this budget terms the budget deficit/revenue ratio had started to increase rapidly.

The reason for the increase in budget deficit/income ratio was the non-prevention of budget deficits despite all measures tried to be applied and the second reason was the failure to increase the state revenues in spite of all regulations.

One of the solutions that the Ottoman State applied for to close the budget deficit was the foreign borrowings. During the period between 1854 (on which the first foreign borrowings were obtained) and 1874, 14 new foreign borrowings were obtained. However, the budget deficits could not be closed in that period of the foreign borrowings, obtained to close the budget deficits. Because the principal amount and interest repayments of the borrowings had caused significant burden on the Ottoman budgets. For instance, the budget deficits in the period of the Agnam Loan, obtained in 1865 in order to close the budget deficits, and the Loans of 1869 and 1873 (foreign borrowings) are seen so high both in the budget of their periods and the budget of the following

financial year. For instance, as seen from the data of Table 4, while the budget deficit of the 1869-1870 financial year was 507 245 Ottoman liras (1 Ottoman lira =100 cents), the budget deficit in 1871-1872 budget was realized as 3 564 520 Ottoman liras. The second highest budget deficit in the period between 1854 and 1876, was experienced just after the foreign borrowing of 24 million Ottoman liras in the same year. Another way for the closing of the budget deficits was the domestic borrowings. Cash was obtained especially from non-Muslim tradesmen and money changers by showing certain revenues as guarantee. Those monies were mostly not paid on time and new loans were obtained by showing new guarantees (Cakir, 2001). For instance, the 1863-64 budget was hardly prepared and applied as the other budgets and the domestic and foreign borrowings were used in order to close the budget deficits. Similarly, while the revenues in 1875-76 budget were 23 882 940 Ottoman liras, the expenditures were 28 929 095 Ottoman liras and the budget deficit was 5 046 150 Ottoman liras. This deficit, which is known as the highest budget deficit of the Reform Era, was thought to be closed by means of domestic and foreign borrowings (Duru, 1982).

The third way applied for closing the budget deficits was the collecting of annual taxes of some provinces before their due dates and thus increasing the tax revenues. For closing the budget deficits significantly increased in 1861-62 budget, it became necessary to limit the expenses and increase the taxes. Fuat Pasa, the Minister of Finance at that time, had caused the announcement of a religious rule (fatwa) regarding the collection of gold, silver and copper goods of the population in order to coin sikke. The goods in the palace were also included in that fatwa. On the other hand, the expenses of state offices were limited. The monthly allocation of the Padishah was decreased with 5 000 sacs. The salaries of all civil servants and military personnel were decreased. But the budget deficit had reached such serious point that only saving measures were not sufficient to close the deficits. It became necessary to find new revenue sources in order to close the budget deficits. For this purpose the tax on tobacco was increased and the real estate tax, which was not collected until 1861, was released since this date (Acba, 1995).

### **The place of borrowings in the budgets during 1854 and 1876**

There were important changes in the budgets of the Ottoman State since 1854, on which the Ottoman State had started to obtain foreign borrowing. While the repayments of the principal amount and interest of the foreign borrowings were increased on one hand, the budget deficits were increased on the other hand. When a total of 15 foreign borrowings, obtained from 1854 to 1876 were added on the domestic borrowings before and after 1854, the imbalance of the state budget had grown.

The effect of the first borrowing due to Crimean War and the following foreign borrowings was seen in 1861-62 budget. In this period, the loan repayments occupied 23.5% of the budget expenditures. Yet, the expenditure items of military expenses, administrative expenses and the expenses of the sultan in the 1861-62 budget was decreased (Guran, 2003). In 1862-63 financial year, the total of the domestic and foreign borrowings of the Ottoman State was 45 million Ottoman liras. This debt burden of the Treasury was about 3, 5 times of the state revenues (13.2 million Ottoman liras) of 1862-63 budget. When the debts, the time and condition of which had not been determined yet, of 20 million Ottoman liras were added to this burden, the total debt burden of the Ottoman treasury became 65 million Ottoman liras and constituted about 5 times of the 1862-63 budget. In 1874, only the foreign borrowings of the state were 220 million Ottoman liras, 9 times of the budget income of 1874, which was about 25 million Ottoman liras. This bad situation had worsened in 1875 when the Ottoman Empire announced moratorium (Guran, 1998).

In 1875 the foreign borrowings of the Ottoman State was about 200 million pounds. The annual repayments for principal amount and interest were 11 million pounds (12.1 million Ottoman liras), while the total of the revenues of the Ottoman State were about 18 million pounds (19.8 million Ottoman liras) (Tabakoglu, 2003). In the financial year of 1875-76,

the ratio of the debt repayments to the state revenues had reached a significant level of 62.7%. Namely, in other words, the 2/3 of the state revenues was meeting the debt repayments (Guran, 2003). Another development in the budget between 1854 and 1876 financial years regarding the borrowings was experienced in the transfer expenses included in the state expenditures. With the increase in the domestic and foreign borrowings, the repayments of principal amount and the interest had increased and thus the transfer expenditures and the budget expenditures were drastically increased.

TABLE 5. SOME BUDGET EXPENDITURES, DOMESTIC BORROWINGS AND FOREIGN BORROWINGS  
BETWEEN 1860-1875 FINANCIAL YEARS (OTTOMAN LIRA)<sup>1</sup>

Financial years	Total expenditures (Ottoman Lira)	Foreign borrowings (Ottoman Lira)	Domestic borrowings (Ottoman Lira)	Total of foreign and domestic borrowings (Ottoman Lira)	The ratio of total foreign and domestic borrowings (%)
1860-61	14 760 000	1 012 000	1 452 000	2 464 000	16.69
1862-63	14 910 000	1 353 000	2 112 000	3 465 000	23.24
1866-67	16 800 000	1.936 000	2 871 000	4 807 000	28.61
1868-69	17 000 000	3 190 000	3 080 000	6 270 000	36.88
1869-70	16 970 000	3 190 000	110 000	3 300 000	19.45
1870-71	22 770 000	6 820 000	110 000	6 930 000	30.43
1872-73	21 400 000	7 161 000	110 000	7 271 000	33.98
1874-75	25 130 000	8 624 000	110 000	8 734 000	34.76

Source: Kiray (1995, p.85).

In the above Table 5, there shown total expenditures, total of and foreign and domestic borrowings of the expenditures items and the ratio of the total of foreign and domestic borrowings to the total expenditures in some budgets between 1860 and 1875 financial years. The expenditures of the state increased in general from 1860 to 1875. It can be said that the share of the foreign borrowings in the state expenditures was increased and especially after 1870 it was significantly increased. Nevertheless, it is seen that the domestic borrowings, especially obtained from Galata bankers, were fixed after 1869. Because, the state preferred to replace the short term loans with long term foreign loans a few years before that date. While the ratio of the total of domestic and foreign borrowings (actually the main share belongs to the foreign borrowings) to the total state expenditures in 1860-61 budget was 16.69%, this ratio had almost doubled in 1874-75 budget with a ratio of 34.76%. In 1872-73 budget serious saving measures were taken. In all expenditure items of the state (except forestry administration) serious deductions were made. The total of the deductions was 1 237 075 pounds (1 360 783 Ottoman liras), while the increase in the expenditure items was 411 835 pounds (approximately 450 019 Ottoman liras) and the major part of this increase with an amount of 289 075 pounds (317 983 Ottoman liras) was caused by the increase in the interest of the state debts (Varcan, 2000). All these results show that the Ottoman, which cannot abstain itself from foreign borrowings in spite of heavy conditions, could not prevent the rapid increase of the state expenditures.

## Conclusion

Ottoman continued to obtain foreign loans with loan agreements after the first borrowing of 1854. The Ottoman Empire, which had obtained foreign loans as a solution in order to remove the financial problems of 3 decades and to close the budget deficits, experienced greater financial problems and budget deficits as it continued to obtain foreign loans. The

<sup>1</sup>The total of domestic and foreign debts and the ratio of these debt to the total expenses are derived from Kiray (1995) and these figures are reflected to the table by me by using the equation 1 pound = 1.1 Ottoman liras

Western countries that progressively increased the economic pressure and desires on the Ottoman had provide loans to the Ottoman Empire in order to remedy this bad progress in parallel to their interests and as though helped the Ottoman out. The economic and financial crises, started from the end of the 16th century had worsened in spite of the betterment activities and some betterment activities were concluded upon the Reform. The general aim of the betterment activities was to overcome the financial crisis by converting the Ottoman from local system to a centralized system. However, the betterment activities held in the Reform Era could not prevent the economic and financial crisis of the Ottoman.

In the 19th century, when serious decreases were experienced in the tax sources, the only tax source of the Ottoman state had become the foreign trade. Between 1838 and 1846, the Ottoman State had signed a series of trade agreements first with England and then other Western countries. After this period, Europe became dominant in the domestic market of the Ottoman state and the period of domestic and foreign borrowings of the Ottoman state had begun. In the first borrowing period, which lasted for a short term like 22 years but an important period, the foreign borrowings that were obtained for to overcome the financial problems and to close the budget deficit did not achieve the expected aim as they were not used properly. Accordingly, the foreign borrowings started to be obtained as of the second half of the 19th century and then transformed into a habit, did not work as a solution of the financial crisis of the Ottoman state but increased the crisis.

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