

The Ottoman External Debt and Its Features Under European Financial Control (1881-1914)

Giampaolo Conte, Gaetano Sabatini
University Roma Tre

ABSTRACT

This study analyzes the most important phases of the Ottoman Empire's foreign debt between 1881 and 1914. Examining the three major financial operations of the period – 1881, 1890-92 and 1903 – we can document the way in which foreign loans, as well as increasing the empire's public spending, served the ends the great European powers imposed upon the Ottoman governing class. At the same time, the choice for foreign loans and deficit spending seemed to be the only path towards some form of modernization of the state open to the Ottoman Empire and so to a role within the European context which, if not equal to that of the great players, might at least be that of a regional power.

1. From Bankruptcy to the Mouharrem Decree: The Ottoman Public Debt from 1875 to 1881

The growth of public spending was a constant for the Ottoman Empire for almost all of the 19th Century and the early decades of the 20th. To contain Russian expansion and, above all, to meet the costs of the Crimean war, the Sublime Porte began borrowing on the international capital market in 1854¹. By turning to international financing, the Sublime Porte became increasingly dependent upon this financial instrument (which led to the founding of the

¹ Giampaolo Conte is the author of sections 1 and 3; Gaetano Sabatini is author of sections 2 and 4.

Imperial Ottoman Bank in 1863)²; uncontrolled external debt, encouraged by foreign powers and created with French and British capital, pushed the Ottoman Empire towards bankruptcy³. Bankruptcy, in fact, ensued in 1875 with the partial suspension of payment of interest – to which the financial crisis of 1873, conspicuously reducing the availability of European capital, contributed – becoming total suspension in 1874. Sultan Abdul Hamid II (1876-1909), who took power immediately after the bankruptcy, was faced with a very uncertain financial situation: it was more than five years before the Empire was able to resume paying the service charge on its debt⁴.

At the end of 1879, the *ad hoc* international Commission, set up in accordance with the decisions of the Treaty of Berlin of the previous year, submitted a technical report to the Sublime Porte on the situation of its finances and a plan for their reorganization. The financial disorder in which the Empire found itself – especially after the Russo-Turkish war of 1877-78, which had seen the emission of a significant floating debt due to the creation of the so-called *Ramazan* bonds – was so deeply rooted that it was impossible to establish the exact amount of the debt and to formulate a definitive state budget. Without a final budget, no serious financial plan of recovery could be advanced; further studies were needed but, in principle, the Commission was of the opinion that nominal debt capital should, in any case, be reduced by 35%.

² On the origin and the characteristics of the Imperial Ottoman Bank, see the well informed Edhem Eldem, *Banque Impériale Ottomane. Inventaire commenté des archives*, Istanbul, IFEA - Osmanli Bankasi, Collection Varia Turcica XXV, 1994.

³ For a complete examination of the foreign debt of the Ottoman Empire from 1854 to 1881, see C.G.A. Clay, *Gold for the Sultan: Western Bankers and Ottoman Finance, 1856-1881*, Tauris, London, 2000. For an over-all view of Ottoman economic and financial history, see C. Issawi, *The Economic History of Turkey, 1800-1914*, University of Chicago Press, Chicago, 1980; S. Faroqhi, B. McGowan, D. Quataert, S. Pamuk, *An Economic and Social History of the Ottoman Empire, vol. II, 1600-1914*, Cambridge University Press, Cambridge, 1994; R. Owen, *The Middle East in the World Economy, 1800-1914*, Tauris, London, 2002.

⁴ R. Arcucci, “Debito Pubblico Ottomano”, in *Giornale degli Economisti*, Seconda Serie, Vol. 17, July 1898 pp. 47-75.

The growing fear of Russian expansion made the European powers indulgent towards the Ottoman Empire's foreign debt – provided that a permanent international commission be appointed to oversee Ottoman finances: an indispensable condition for the Sublime Porte to win free of its serious financial fragility, which had repercussions in an ever stronger loss of international prestige. According to British creditors, in fact: “[...] *the Porte has not yet learned the bitter lesson taught by adversity, but still lives from hand to mouth, lays violent hands on the securities solemnly pledged to its creditors, and under the pressure of having to provide for the daily expenditure of the civil and military Government as well as for the extravagance of the palace, raises money at usurious interest; which but adds to the perplexities and difficulties of the situation*”⁵.

While the international Commission worked on a plan of recovery, the Constantinople government began to study a huge financial operation with the banks to free revenue from customs duties, tied up since an 1878 agreement with creditors to cover the expenses of the war with Russia. To close this operation, the Ottoman Government needed to find a plausible way to guarantee the bank loans it had obtained on that same security. With the *Irade*, Imperial Decree, emitted on November 22, 1879 – later called the *November Agreement* – the right to collect stamp duties as well as duties on spirits, fish and the tithe on silk (the so-called *six indirect contributions*) was assigned to the Imperial Ottoman Bank and a syndicate of Galata bankers for ten years, beginning in January of 1880. Further, for the same decade, the Imperial Government contracted to them its monopoly on the salt and tobacco consumed in the Empire's provinces⁶.

⁵ *Annual Report of the Council of Foreign Bondholders*, 7th General Report, London, 1879, pp. 6-7.

⁶ F. Mancardi, *Relazione dell'avvocato Francesco Mancardi alla Camera di Commercio ed Arti di Roma per rappresentare i portatori di titoli del Debito Pubblico Ottomano*, Fratelli Centenari, Rome, 1882. This agreement guaranteed payment, from January 1880, of an annual draft of 1,350,000 Turkish Pounds (£T) as service on internal and external public debt, as well as the payment of biannual interest on the nominal value of the bonds. The government was further assured of an advance of £T 8,845,000 guaranteed by revenues collected by the city of Istanbul.

In 1881, the crisis was declared officially at an end with the Decree of Mouharrem and the creation of an Administrative Council for the Ottoman Public Debt; an expression of the control exercised by the European powers over the Imperial economy and finances. This time it included not only France and Great Britain, as the Imperial Ottoman Bank had done in '63, but Italy, Germany and Austria-Hungary as well⁷. Still, just as with the earlier creation of the Bank, the Ottoman Public Debt Council, though it had taken over from the Sublime Porte the management of important sources of state income (the six major indirect items plus the monopolies on tobacco and salt), was a useful instrument for the reentry of the Ottoman Empire into the international capital market. The presence of the foreign powers in the role of controllers of Ottoman public financing, indeed, strengthened the confidence of international creditors in the safety of investment and this affected the rates of interest, which became relatively low despite the evident structural fragility of the Empire. Let us take a closer look at this important phase.

Between September 2 and December 7, 1881, the final meeting of the International Commission was held in Istanbul and, with the Imperial Decree of December 20, 1881 (known as the Decree of Mouharrem), payments servicing the debt were officially resumed and the Administrative Council for the Ottoman Public Debt established as an organism attached to the Ottoman Ministry of Finance, to which it must annually present its budget. Basically, the Decree simply applied the recommendations in the project put forward by E.P. Bouverie, chairman of London's Council of Foreign Bondholders: a project which had been advanced already in 1875 in the proposals of the English banker, Hammond, and in 1879 by the French banker, Tocqueville⁸.

⁷ For further details on the role of the Ottoman Public Debt from its formation, see B. Murat, *The Political Economy of Ottoman Public Debt: Insolvency and European Financial Control in the Late Nineteenth Century*, Tauris, London, 2010.

⁸ *Annual Rapport of the Council of the Corporation of Foreign Bondholders*, 7th General Report, op. cit., pp. 61-62.

At the request of the Ottoman Government, the only concession was the exclusion of floating debt and Russian war indemnities from the renegotiation agreement; this was not a sign of benevolence, but, rather, an indication of the European powers' desire to avoid tying the Commission's hands with political strings of any kind – like those connected to payment of Russian war indemnities – since the agreement was to figure as the result of negotiations among private subjects and not between States⁹.

The final formulation fixed the reduction of the nominal value of each category within the loan at the respective real value of the relative issue, so that the total debt was lowered from 190,066,230 Turkish Pounds (£T) to 96,763,278 £T¹⁰; to this figure were to be added the interest which had fallen due and gone unpaid since 1875, estimated at about one tenth of the total capital. The overall value of the debt was thus estimated as 106,437,234 £T¹¹. As a partial compensation for the loss of interest which, from that moment, the reduction of the debt would impose, privileged bonds, called *Priorités*, were issued with a face value of 8 million £T at 5% interest and with an annual 2% fixed depreciation, equal to 590.000 £T, until wholly redeemed.

At the meeting, the decision was made to divide and classify the public debt under four headings – A, B, C, and D – in order of redemption. Those known as “English” loans formed the first group;

⁹ The Ottoman Government had itself often – successfully – requested that negotiation in the Commission be carried out by private individuals and not by public officials. This choice was officially prompted by the fact that the public debt was in private hands and not in those of the various governments. But, in reality, these requests were motivated by the simple fact that, if it should be called upon to negotiate with the representatives of the European nations, the Ottoman Government would have very limited room in which it might manoeuvre to defend its own interests.

¹⁰ A. Arcucci, *op. cit.*, all the loans were consolidated into ten (excluding those with special guarantees): 1858, 1860, 1861, 1863-4, 1865, 1872, 1873, General Debt, *Priorité and Lots Turcs*.

¹¹ Archivio Storico, Chamber of Commerce of Rome, Bernardo Tanlongo, *Ricostruzione e servizio del debito pubblico dell'Impero Ottomano*, 1881.

the second was made up of the “French” loans; the other two were made up of “mixed” loans, enjoying no special guarantees. Group D included debts connected with railroad construction, known as *Lots Turcs*¹². The renegotiation of the public debt carried out under Sultan Abdul Hamid therefore produced a reduction in the value of outstanding loans (with the exception of *Ramazan* bonds), as visualized in Table 1:

TABLE 1
Rates of reduction the Ottoman Public Debt
(including Arrears Coupons), 1881

Loan 1858	93.15%
Loan 1860	62.90%
Loan 1862	74.5%
Loan 1863/4	76.3%
Loan 1865	71.0%
Loan 1869	62.4%
Loan 1872	107.75%
Loan 1873	55.25%
General Debt	50.25%
Lots Turcs	45.09%

Source: *Annual Report of the Council of Foreign Bondholders*, 9th General Report, London, 1881.

Naturally, the division of the debt into four groups according to a priority of redemption, produced sharp conflict among the Porte’s various creditors: those among them whose income was guaranteed by items which did not fall under the Ottoman Treasury – and so gave better guarantees of solidity and solvability – did not care to share their privilege with other creditors: for example, those guaranteed by payment of the “Egyptian Tribute”, which was, instead, handled by the Ottoman Treasury. In particular, the creditors were all wary of ending up in the cauldron of the general debt, which had accumulated chiefly between 1865 and 1874 – where the French had the bulk of their interests.

¹² F. Mancardi, *op. cit.*

Basically, the reduction of the Ottoman public debt was, on the one hand, the condition allowing international creditors to regain a conspicuous part of the loans advanced while, on the other, it permitted the Sublime Porte to re-enter the international capital market and thereby avoid not only a financial, but a political, collapse: by virtue of the device of prioritizing some creditors over others, the Ottoman Empire succeeded in counter-balancing the interests of the great powers in its territories, avoiding its own transformation into one huge Egypt.

2. The Conversion of 1890-1892: Political and Economic Aspects

Towards the end of the 1880s – less than a decade after the Decree of Mouharrem – the Ottoman Government began exploratory contacts in view of a new renegotiation of the debt: the climate had, however, changed since 1881. This time the European powers, in a context of shifting political equilibriums, could agree neither upon the form nor upon the content such a renegotiation should take. After prolonged consultations, on April 30, 1890, the Council for the Debt voted:

- 1) to convert within two years the entire A, B, C, D debt series, as well as the Privileged bonds and the part of the internal fluctuating debt composed of the Treasury Bonds called *Dahlies* and *Sehims*;
- 2) to finance this conversion manoeuvre with a loan of about 5 million £T to the Ottoman Government from a syndicate set up by Franco-Levantine financiers¹³.

In any case, the chief objective of the Sublime Porte was the conversion of the Privileged Bonds, whose interest the Government intended to reduce from 5% to 4%, lowering at the same time the annual fixed depreciation rate from 2% to 1% with an extension of

¹³ Archivio Storico Diplomatico, Ministero degli Affari Esteri (hereafter ASDMAE), Crispi Cabinet, Box 9, from Francesco Mancardi to Bernardo Tanlongo, Constantinople, April 3, 1890.

the date of maturity and a reduction of annual costs from 590,000 £T to 145,000 £T¹⁴.

The decision of the Council for the Administration of the Debt was, however, the result of a division: the delegates from Austria-Hungary, France and Italy had accepted the plan for conversion which had been put forward by the British delegate, while the German delegate refused his consent since he had no authorization from German investors. Still, the British delegate, Vincent Caillard, was severely criticized for having promoted the plan of conversion and the Italian Ambassador in Constantinople, Alberto Blanc, advanced similar criticism of the Italian delegate, Francesco Mancardi, whom he accused of having exceeded his brief by accepting a conversion which had not been approved by the debtholders whose interests he represented. According to Blanc, the conversion had been made principally to the damage of investors holding debt securities of the B,C and D series (series A being in extinction): the privileged bonds at 5% in these groups were converted into fluctuating bonds with interest at 4%, modifying depreciation procedures as well. The annual sum of 590,00 £T which, according to Articles X,XI, XII, and XIII of the Decree of 8-20 December, 1881, should have begun operating in favour of those holding C and D securities from 16 December 1890, with the conversion could not begin to be allocated to the bearers until 1934, rather than from 1906, as had originally been planned¹⁵. In addition, the privileged bonds, having been declared inconvertible by Art. III of the Imperial Decree which created them, ought not to have been included in the categories of debt reduced and consolidated. As a modest recompense for the damage suffered by creditors of debt of this nature, the renegotiation allotted 194,000 £T (derived from savings in the payment of the *Priorities'* annual

¹⁴ ASDMAE, Serie Politica "A" 1888-1891 (hereafter SPA), Box 124, Folder 2, Memorandum from Ambassador Blanc to Ministry of Foreign Affairs, Constantinople, April 30, 1890.

¹⁵ ASDMAE, Ambasciata d'Italia in Turchia 1829-1938 (hereafter AIT), Box 7, Folder 1, Telegram from Ambassador Alberto Blanc, Constantinople, April 27, 1890.

amortization), to be divided among all the series of the Ottoman Public Debt¹⁶.

The action taken by the 1890 Council damaged the holders of Ottoman public debt – nor were they, in fact, consulted by their respective national delegates before the decision was taken. The bank syndicate which financed the conversion, instead, did receive some benefits; indeed, once the conversion was accomplished, it agreed to furnish a further loan of 4,545,000 £T at 4% interest, known as the Osmanieh, in consolidation of the public debt. Indeed, the British delegate, Vincent Caillard, was accused of having acted as the spokesman of Franco-Levantine financial interests, which Germany vigorously opposed with an eye to securing viable openings for the Deutsche Bank within the Ottoman Empire.

Italy too, though more tentatively, had attempted to oppose the unofficial axis formed by local financial circles with British and French exponents, creating what amounted to a monopoly on credit within the Ottoman Empire. In the months preceding the Council's decision, the Italian Ambassador in Constantinople had, with the support of the Germans, brought pressure to bear upon the Imperial Ottoman Bank, urging a renewal of its chief executives; the effort was successful and a new Governor, Sir Edgar Vincent, was appointed to head the Bank¹⁷. As a result of this shake-up: *"it was thought that the State Bank would now no longer seek benefits in the previous system of usury and speculation – ruinous for Turkey and for creditors of good faith of the Empire itself, but in the development of the country's resources, railways, mines, etc. [...] And it was also hoped that in the Council for the Debt, which had heretofore been a passive instrument of the bank, the influence of political and financial groups in the East would cease"*¹⁸.

¹⁶ ASDMAE, AIT, Box 15, Folder 1, from Francesco Mancardi to the Chamber of Commerce of Rome, February 3, 1890.

¹⁷ A. Autheman, *The Imperial Ottoman Bank*, Ottoman Bank Archives and Research Center, Istanbul, 2002.

¹⁸ ASDMAE, Crispi Cabinet, Box 9, from Alberto Blanc to Francesco Crispi, Constantinople, April 1890

But that was not the case. In fact, Ambassador Blanc observed: *“The Ottoman Bank has notoriously remained extraneous to the healthy affairs of the Bank of Commerce and Industry, and entirely devoted to wild speculation on the Exchange, based upon the certitude of crushing even the rights of the weak with the power the coalitions of the great Franco-English speculators wield even in the Parliaments and the press of Europe”*¹⁹.

Even though the change necessary to eliminate the influence of these lobbies was under way *“these conditions have persisted, despite the new German figures who have begun to cooperate with the Italians [in the Council for the Debt], dominating not only the Ottoman Bank, but the Council [for the Ottoman Public Debt] as well, using it as instrument to collect Turkish resources to the profit of foreign firms or contrary to the political interests of the allied Powers and the financial interests of the creditors in good faith of the Ottoman Empire”*²⁰. Thus the Delegates to the Council for the Debt, instead of attending solely to their role as guarantors of the rights of investors, *“accepted paid positions in firms whose interests were contrary to those [of the investors]”*²¹.

Indeed, as Ambassador Blanc reported, most of the delegates to the Council for the Debt were engaged contemporaneously in a number of financial activities, and not simply in some which were in evident conflict not only with any project for the financial recovery of the Ottoman Empire, but even with the protection of the Por-

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ *Ibid.* An emblematic case of the simultaneous presence of interests of the Imperial Ottoman Bank and the Council of Administration is the tobacco monopoly, whose revenue guaranteed certain issues of the Ottoman public debt: after an attempt to assume control by the Baldazzi family of Levantine bankers, on April 1, 1884, administration of the monopoly was conferred on three banks – the Imperial Ottoman Bank (73.75%), the Austrian Credit Anstalt (13.75%) and the German Bieichroder (11.5%). It should, however, be noted that this opening towards Austro-German financing was a sort of compensation for the almost total control exercised by France and Great Britain over the other financial organs of the Ottoman Empire. For a more detailed discussion, see: E. Boyar, “Public Good and Private Exploitation: Criticism of the Tobacco Régie in 1909”, in E. Boyar, K. Fleet, editors, *The Ottomans and Trade*, in “*Oriente Moderno*”, XXV n.s. (LXXXVI), 1, 2006, pp. 1-20.

te's European creditors. Consequently "renewal" at the highest level of the Imperial Ottoman Bank did not change its *modus operandi* in any significant way: though created in 1863 with the promotion of commercial and industrial initiatives among its objectives, the possibility of obtaining easy profits had directed the Bank's activities towards speculation and the creation of the Council for the Administration of the Ottoman Public Debt had only made this trend stronger²².

A clear difference between the interests of Franco-British and Italo-German finance, with Austria-Hungary closer to the former, (given Vienna's chronic dependence on French capital) occurred as well in relation to another aspect of the 1890 operation: that regarding the conversion of the so-called *Lots Turcs*, issued for the construction of the railways. Though the Council for the Ottoman Public Debt had wanted to tie the conversion of the *Lots Turcs* to that of the *Priorités* in a single agreement, Berlin – which had a number of interests in railroad contracts within the territories of the Ottoman Empire – wanted to keep the two questions distinct, while Rome insisted upon the principle of consulting holders of the *Lots Turcs* before taking any decision in the matter²³. The Ottoman Government

²² According to the Italian newspaper *Corriere della Sera*, the Bleichröder bank, which represented German investors in the Council for the Ottoman Public Debt, had been sued in the Berlin courts for damages deriving from its support of the conversion which had damaged the holders of securities of the C and D series, the *Priorités* and the *Lots Turcs*. In fact, despite the protests of German investors and of the Berlin government, the German bank had at first agreed to the conversion – just as the Italian delegate had done. The newspaper reported that Berlin spokesmen affirmed openly enough that their consensus for the conversion had been given after they had been assured that the Imperial Ottoman Bank, which was conducting the operation, would include a compensatory bonus for investors in it. The Milan daily also declared that the Imperial Ottoman Bank itself had "pocketed" 110,000 £T from the manoeuvre: "[we] request the Court to declare the [German] bankers and the bank itself accountable for the sum [to be paid] to the holders of Turkish Lots", Cfr. "La Faccenda del debito s'imbroglia", in *Corriere della Sera*, October 30-31, 1892.

²³ ASDMAE, AIT. Box 7, Folder 1, from the Ministry of Foreign Affairs to Ambassador Luigi Avogadro di Collobiano, Constantinople, September 12, 1892.

had requested a reduction of yield to 45%²⁴, and the Austro-Hungarian proposal, prospecting a reduction of the *Lots Turcs* to 75% for a ten-year period²⁵, was accepted only after prolonged negotiation among the participants.

Yet, despite the criticisms this manoeuvre produced, the overall financial operation and reduction of the value of the four series of the public debt, of the *Priorités* and of the *Lots Turcs*, appears to be of modest entity when compared with the earlier 1881 and the subsequent 1903 operations: the total forced depreciation was equivalent to 7,953,390 £T – a little over 6% of total nominal capital value. The 1890 manoeuvre, instead, increased market confidence in the stability and solvability of the Sublime Porte, increasing the rating of the public debt emitted by the Ottoman Empire.

TABLE 2
Ottoman Public Debt Conversion of September 1892 (in Turkish Pounds)

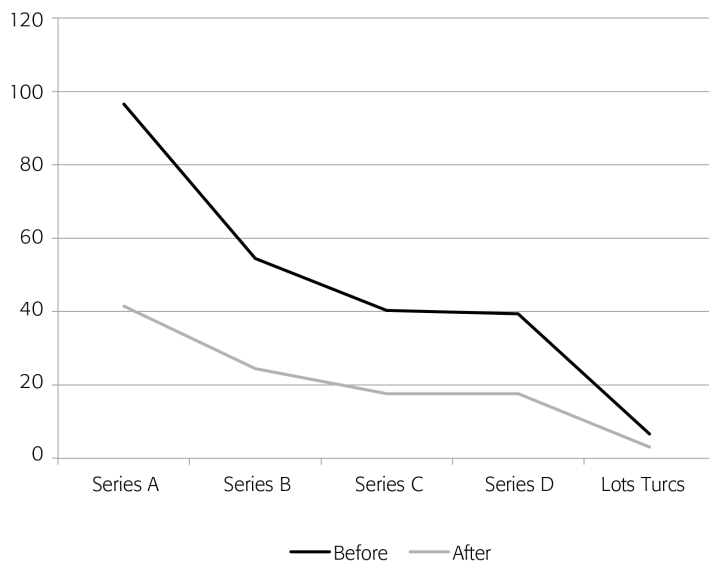
	Nominal Original Capital	Capital Redeemed	New Title Value
Series A	7,902,259	4,972,132	2,930,127
Series B	11,265,153	693,550	10,571,603
Series C	33,915,762	555,500	33,360,262
Series D	48,365,236	556,930	47,808,306
Lots Turcs	101,448,410	6,778,112	94,670,298
Priorités 4%	15,632,548	743,858	14,888,690
Other	6,649,500	254,320	6,393,180
Total	132,340,422	7,953,390	124,387,032

Source: ASDMAE, AIT, Box 7, Folder 2, from the Ministry of Foreign Affairs to the Vice President of Rome Chamber of Commerce, Tittoni, n. 127, Rome, June 6, 1893.

²⁴ ASDMAE, AIT, Box 7, Folder 1, from Minister Brin to Ambassador Luigi Avogadro di Collobiano, Rome, October 3, 1892.

²⁵ ASDMAE, AIT, Box 7, Folder 2, from the Vice president of the Rome Chamber of Commerce to Minister Brin, Rome, may 5, 1893.

GRAPH 1
Value of the Ottoman Public Debt before and after the Conversion of September 1892



Source: authors' calculations based on the data of ASDMAE, AIT, Box 7, Folder 2, from the Ministry of Foreign Affairs to the Vice President of Rome Chamber of Commerce, Tittoni, n. 127, Rome, June 6, 1893.

TABLE 3
Variations in the Value of the Ottoman Public Debt from January 14, 1890 (Prior to the Conversion of the Priorités) and September 25, 1892 (Completion of the Conversion) in British Pounds

Loans	Average value per bond on January 14, 1890	Average value per bond on September 25, 1892	%
Series A	41.50	55	+32.50
Series B	24.50	30	+22.44
Series C	17.60	22.75	+26.36
Series D	17.61	21.75	+23.50
Lots Turcs	3.03 ?	3.62.50	+19.40

Source: ASDMAE, AIT, Box 7, Folder 2, from the Ministry of Foreign Affairs to the Vice President of Rome Chamber of Commerce, Tittoni, n. 127, Rome, June 6, 1893.

3. The consolidation of Ottoman Foreign Debt of 1903

In the early years of the XXth century, the financial situation of the Ottoman Empire appeared dramatically deteriorated as compared to ten years earlier: although the income from the sources administered by the Council for the Public Debt had shown considerable growth, reaching a record level of 2,459,438 £T in 1902²⁶, year after year Imperial budgets showed conspicuous deficits and the solvability of the Sublime Porte seemed once again more than dubious. In this situation the Ottoman Government invited the French ex-Minister of Finance, Rouvier – who headed a financial syndicate of French Banks – to draw up a project of consolidation for securities in the B,C and D categories. Rouvier's plan – of which, initially, the Council for the Debt was not informed – proposed the consolidation of all B, C and D securities in a single yield type, for an overall unified capital of 32,275,000 £T amortizable in 41 years at 4% fixed interest, assigning any income in excess of that required to pay them to an extraordinary depreciation fund²⁷.

To understand the scope of Rouvier's project fully, we must turn to the contents of the 1881 Decree of Mouharem, which provided that four fifths of the income from sources administered by the Council for the Debt would be destined to payment of interest, while the remaining fifth would go to depreciation of the debt. In other words, only those holding quotas of the Ottoman public debt – that is, international creditors – benefited from increases in income: a mechanism which effectively removed any incentive for the Sublime Porte to strive for a more profitable performance of income sources, since this would produce no direct benefits for Constantinople.

The particularly favourable situation of 1902 income, which the Council would have liked to transform in 1903 into an exceptional

²⁶ *Annual Report of the Council of the Corporation of Foreign Bondholders*, 30th Annual Report, 1902-1903.

²⁷ ASDMAE, AIT, Box 99, Folder 2, Memorandum Concerning the Plan of Unification of the Ottoman Public Debt Presented by Mr. Rouvier, Constantinople, March 18, 1902.

payment of interest, induced the Ottoman Government to commission the Rouvier project to acquire these funds for its own use rather than paying them out in extraordinary interest and, more generally, to demand a consolidation of the debt²⁸. The Council for the Debt was reluctant to accept the request to pay exceptional interest, but showed itself more open to discussion on the possibility of consolidation, for the operation immediately piqued the interest of the Imperial Ottoman Bank which – as had been the case for the conversion of the *Priorités* – believed great profits could be derived from it. As Guiccioli, Italian delegate to the Council for the Debt commented: “*The Imperial Ottoman Bank is very keen on unification, which represents a huge deal for it and considerable profits, but probably the German delegate, who has hoped since the Unification that the Ottoman Government finds the necessary funds to guarantee the railway to Baghdad, would fight it – and certainly [too] the Ottoman Delegate whose Government would be extremely vexed at 1 % becoming 1.25%*”²⁹.

As an alternative to Rouvier’s proposal, the unification of the debt proposed by the bank consortium made up of the Imperial Ottoman Bank, the Parisian Comptoir National d’Escompte and the Deutsche Bank, with some other German banks (which did not, however, have the same interests as the German delegate to the Council of the Public Debt) – proposed the conversion of the diverse existing Series into a single type at 4%, with a reduced capital based on a change of securities carried out along the following lines: new debentures with a value of 70 Francs for every 100 Francs of nominal value for the former Series B securities; new debentures with a value of 40 Francs for every 100 for former Series C; new debentures at

²⁸ The modalities of the interest payment were also clearly indicated in the Decree of Mouharrem, which provided that when the revenue from the indicated sources should generate sufficient capital to pay an interest of 1.25% higher than the usual rate, the sum exceeding this level should be applied to increasing the reserves with the aim of maintaining the return stable in the following semesters; however, through 1902 the 1.25% level was never exceeded.

²⁹ ASDMAE, SPA, Box 468, Memorandum of delegate Guiccioli to Minister Prinetti, Constantinople, January 29, 1903.

37,5 Francs per 100 for former Series D. These interest rates would all be fixed and immutable so that creditors would no longer be able to benefit from increases in revenue, with gains for interest payments and depreciation of the debt. However, those holding Ottoman securities would gain the difference between the current price of securities and the value at redemption; more precisely, for Series B they would gain between 61.9 and 70 Francs, for Series C, between 33.12 and 40 Francs and for Series D, from 32.1 to 37.5 Francs.

The project also established that, hence forth, the annual revenue of incomes in guarantee of loans would be used first to pay income on the *Priorités*, then to service the rest of the debt and to amortize the new converted and consolidated debt. Of whatever remained, 75% would go to the Ottoman Government and the remaining 25% to the Council of the Debt's reserve fund³⁰. In other words, once the new system took effect, whatever sum the assets whose annual income was tied to these securities might produce, three quarters of any sum over and above the fixed payments, however large it might be, would automatically go into the coffers of the Ottoman Empire, while the remaining quarter would go on depreciation³¹.

The project was approved after it obtained the consent of the managers representing the interest of the creditors, who would derive the benefits of an immediate profit, however inferior to expectations, rather than having to face a very uncertain future³². Further, the negotiations, which attended this operation, strengthened the Council for the Debt as an expression of the interest of private financial groups. With this operation, as the Italian ambassador in Constantinople observed: "*the Council for the Ottoman Public Debt – which*

³⁰ *Ibid.*

³¹ D. Blaisdell, *European Financial Control in the Ottoman Empire. A Study of the Establishment, Activities, and Significance of the Administration of the Ottoman Public Debt*, Columbia University Press, New York, 1929. For further details: Foreign Office 78/5314, from Mr. Whitehead to the Marquess of Lonsdowne, n° 74, Confidential, Constantinople, February 10, 1903.

³² ASDMAE, AIT, Box 99, Folder 2, Memorandum of Guido Guiccioli, Constantinople, June 10, 1903, cit.

already had a certain tendency to represent private financial interests instead of national ones, since the organizations designating its delegates are for the most part Banks – will most probably take a further step in this direction after the unification of the debt is accomplished”³³.

The financial operation of 1903 may be deemed a success for Sultan Abdul Hamid II, who had managed to obtain not simply the consolidation of the debt, but to recover, as well, a not inconsiderable part of the revenue from some important sources. This success was due in part to the Sultan’s ability in cultivating the antagonisms between the great powers, but it derived, too, from the convergence of the interests of the Imperial Ottoman Bank – the indispensable instrument of consolidation –, which accompanied the operation with the negotiation of a number of short-term, speculative, loans. Fundamental to the operation’s success was the backing the Sultan received from French financial circles, conspicuously from the house of Rothschild: backing given without taking into account the request advanced by Theodor Herzl’s Zionist Movement that it make a policy favourable to Jewish settlement in Palestine the condition for facilitating the consolidation of the Ottoman public debt³⁴.

4. Debt and Foreign Loans: Comparisons with Macroeconomic Variables

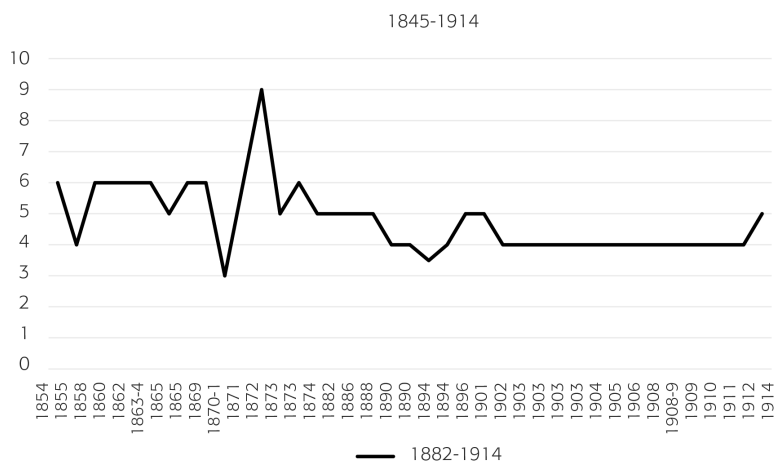
As we have already noted, after the 1875 bankruptcy, it had been necessary to find an agreement for the modalities with which payment of the servicing of the public debt might be resumed, so as to

³³ ASDMAE, SPA, Box 468, from Ambassador Malaspina to Minister Morin, n. 714/294, Terapia, June 11, 1903.

³⁴ Hertzl wanted to make the Sultan adopt a policy favourable to conspicuous Jewish settlement in Palestine in exchange for the consolidation of the Ottoman public debt. The political disagreement between Rothschild and Hertzl over this strategy lost Hertzl a precious ally. See N.J. Mandel, “Ottoman Policy and Restrictions on Jewish Settlement in Palestine: 1881-1908”, Part I, in *Middle Eastern Studies*, Vol. 10, N. 3, October, 1974, pp. 312-332; D. Gutwein, *The Divided Elite, Economics, Politics and Anglo-Jewry, 1882-1917*, E.J. Brill, Leiden, 1992.

allow the Sublime Porte to reenter the international capital market. If the Decree of Mouharrem opened a new economic phase in the history of the Ottoman Empire, the creation of the Council for the Administration of the Public Debt placed much of Constantinople's financial sovereignty in the hands of foreign powers. Yet, the consolidation of the public debt and the institution of an international committee of financial control over Ottoman finances, did, nevertheless, give some direct advantages to Constantinople – for example, the possibility of financing itself at lower rates of interest: a substantial relief for the Ottoman treasury³⁵.

GRAPH 2
Interest on Foreign Loans Negotiated by the Imperial Ottoman Empire, 1854-1914



Source: Authors' calculations, based on the *Annual Report of the Council of the Corporation of Foreign Bondholders, 1881-1914* and on C.G.A. Clay, *Gold for the Sultan: Western Bankers and Ottoman Finance, 1856-1881*, Tauris, London, 2000.

³⁵ There is a difference of opinion on this score between V.N. Geyikdagi, *Foreign Investment in the Ottoman Empire*, Tauris, London, 2011, p. 80, and P.I. Cottrell, "A Survey of European investment in Turkey, 1854-1914: Banks and the Finance of the State and Railway Construction", in *East Meets West-Banking, Commerce and Investment in the Ottoman Empire*, edited by P.I. Cottrell; co-editors, I.L. Fraser and M.P. Fraser, Ashgate Publishing Company, Burlington, 2008, p. 61). According to Cottrell there was a consolidation of

As Graph 2 shows, with the consolidation of foreign Ottoman debt and the creation of the Council of Administration, the Sublime Porte was able to return to the capital market enjoying much lower interest rates: between 1854 and 1877 the average interest rate was 5.6% compared to 4.2% between 1882 and 1914. With the resumption of service on foreign debt in 1882, Abdul Hamid showed himself to be more careful than his predecessors in recurring to international loans; yet the public debt did continue to grow, though not conspicuously, until 1903, after which, under the regime of the Young Turks and the weight of armed conflict – first with Italy, then in the context of the Balkan wars – it grew exponentially.

GRAPH 3
Value of the Ottoman Foreign Debt, 1894-1914

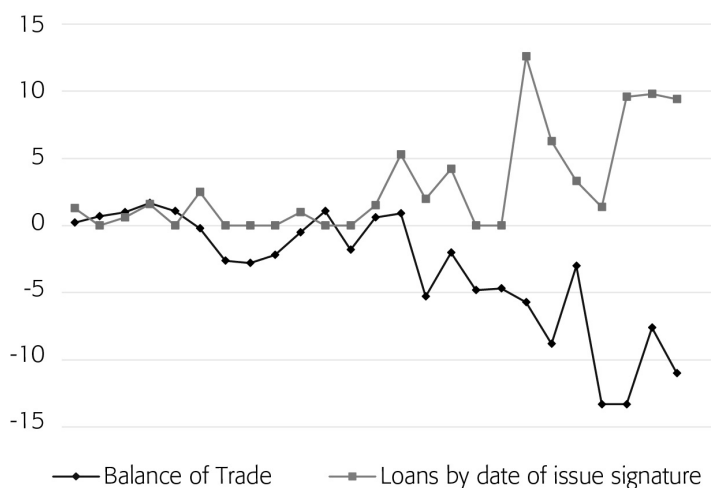


Notes: authors' calculation based on *Annual Report of the Council of the Corporation of Foreign Bondholders*, years 1894-1914.

the Ottoman foreign debt in 1880; Necla Geyikdagi, however, says that there was a conversion of the debt in 1881: "In 1881, after the conversion of the debt according to the Decree of Mouharrem [...]".

Despite the increase in indirect foreign investments, especially in railway construction, it was precisely in this sector that the Empire contributed to financing important activities, which opened formerly isolated areas of the hinterland to new international trade. In this case, investment brought profit, increasing exports in general and integrating the Ottoman economy into the world market more amply. Yet the relative growth in exports never managed to keep pace with the growth of imports and a constant deficit in the commercial balance of payments ensued³⁶. This deficit was partially covered by new loans, so that international creditors were financing the imports of the Ottoman Empire, a characteristic common to many peripheral countries in the decades at the end of the 19th century and in the early 20th century.

GRAPH 4
Balance of Trade and Ottoman Foreign Debt, 1881-1913



Source: authors' calculations based on S. Pamuk, *The Ottoman Empire and European Capitalism, 1820-1913*, Cambridge University press, Cambridge, 1987.

³⁶ For a detailed examination of twilight of Ottoman manufactures, see D. Quataert, *Ottoman Manufacturing in the Age of the Industrial Revolution*, Cambridge University Press, Cambridge, 1993.

The course of the Ottoman balance of trade is strongly influenced by the more general depression in the world economy between 1873 and 1896, caused largely, of course, by the falling price of wheat grown in the United States, where the Western prairies, "opened" by the Homestead Act, and cross-continental railways combined from the late '60s to produce 350% growth in production between 1865 and 1894, driving the price of wheat on world markets down 60% between 1874 and 1894³⁷. The deficit in the balance of trade does not, however, wholly explain the significant growth in the foreign loans contracted by the Ottoman Empire from 1908 on. With the Young Turks in power public spending increased strongly, but with an odd characteristic: the funds were destined for both direct investment and to bolster military expenditures. The political and military crises of 1911, 1912 and 1913 certainly gave the Empire no help in keeping its finances stable³⁸. The loans of 1909 and 1910, aimed at covering the growing deficit, were the first symptoms of the burgeoning unease of the Ottoman economy.

The Italian delegate to the Council for the Ottoman Public Debt, Marquis Alberto Theodoli, gives us an extremely precise and lucid evaluation in a dispatch to the Italian Ambassador in Constantinople, des Planches: *"This Young Turkey [...] full of pride and xenophobia, have, in two years of government, devoured about 13 million Turkish Pound in extraordinary revenues. It piles up unproductive expenses, instead of developing and exploiting the numerous natural riches of the country, for fear of provoking an invasion of foreign capital [...] Abdul Hamid and his Ministers have been accused of foolhardy spending, but they have left only 14 million more debt than indicated in the Decree of Mouharrem, while furnishing the empire with a network of about 5,000 kilometers of railroad tracks. The comparison of these two figures – 13 million in two years and 14 million in 27 years – cannot fail to shock the impartial observer"*³⁹.

³⁷ S. Pamuk, "The Ottoman Empire in the 'Great Depression' of 1873-1896", in *The Journal of Economic History*, Vol. 44, n. 1, March 1984, pp. 107-118.

³⁸ For further details, see G. Conte, "Regaining Control over Finances: The Ottoman Empire at the Eve of World War I", in *The Modern History of Russia*, vol. 3, 2014.

³⁹ SALT Archive, Imperial Ottoman Bank, Italian Consulate, Ottoman Public Debt, from Theodoli to des Planches, n. 87/142-89/108, November 30-December 1, 1910.

We may then legitimately judge that, if the First World War had not convulsed world order, the Ottoman Empire would very soon have been obliged to reach a new agreement with its creditors for yet another consolidation of the foreign debt. We can find further confirmation of this, too, by taking a look at the relationship between population and foreign debt per capita in Table 4. In fact, per capita indebtedness reached its maximum between 1900 and 1902, just before the 1903 conversion; the same alarming level had once again been touched on the eve of the outbreak of World War I.

TABLE 4
Population and Per Capita Foreign Debt (in Millions of British Pounds)
in the Ottoman Empire, 1894-1913

Year	Population	Per Capita Foreign Debt
1894	24,694,600	4.60
1895	27,694,600	4.15
1896	27,694,600	4.14
1898-99	27,694,600	4.11
1900-01	23,600,000	5.30
1902-03	23,600,000	4.12
1903-04	24,028,900	2.16
1905-06	30,000,000	2.11
1907	–	2.12
1908	–	2.12
1909	–	3.10
1910	–	3.70
1911	–	3.40
1912	–	3.60
1913	–	–
1914	–	5.10

Notes: authors' calculation based on *Annual Report of the Council of the Corporation of Foreign Bondholders*, years 1894-1914.

5. Conclusions

Taking together the operations of restructuring, consolidating and converting Ottoman public debt between 1881 and 1903, it

seems clear that these manoeuvres sought primarily to resolve the financial emergency in the short term, without any overall strategy aiming at lower indebtedness and the reorganization of Ottoman public financing. At the same time, it is clear that the various adjustments of the Ottoman public debt since 1881 were not simple financial operations, but also an expression of much larger political and economic interests: the battle over the Sublime Porte's finances fought out within the Council for the Administration of the Ottoman Public Debt reflects the conflict centered on the destiny of the Empire on the international diplomatic scene, where each of the great European powers was eager to extend its own zone of influence. In this setting, Sultan Abdul Hamid II, no less than the Young Turks, took advantage of the contrasting European antagonisms, succeeding in snatching advantageous conditions in various phases of debt renegotiation – conditions which would never have been attainable had the European “front” remained compact.

If these facets of the Ottoman financial story during the closing phases of the Empire seem to be adequately accepted by historians, it is less immediately evident why the creditors of the Sublime Porte accepted substantial reductions in capital and remuneration without any strong resistance. In reality, the great banking institutions representing the groups of foreigners who held the Ottoman securities and their incomes gave their approval fully aware that acquiescence to the Sultan's requests almost always meant access to new and more profitable loans. In other words, these banks – and especially the Imperial Ottoman Bank – were more than happy to sacrifice the interests of investors to obtain notable profits for themselves, operating particularly through short-term speculation. Specifically, the powerful group centered on the Imperial Ottoman Bank – increasingly an institution in the hands of French finance – found, in the person of the president of the Council for the Administration of the Ottoman Public Debt, a valid ally for an ever-tighter control of Empire finances. German and Italian complaints regarding dubious operations clearly demonstrate that a Franco-Levantine group was, with the aid of individual British businessmen, attempting to take over control of the economic life of the Empire.

Appendix

Ottoman External Loans from 1877 to 1914

Year	Name (if present) and interest	Amount	Issued by and note	Secured
1882	5%	£ 3,000,000	Issued in London by Ottoman Bank	
1885	Raccordements Loan, 5%	£ 930,600	Issued in Paris to complete two railways	
1886	Custom Loan, 5%	£ 5,909,080	Issued by Imperial Ottoman Bank	Secured by Custom
1888	German Loan, 5%	Marks 30,000,000	Secured on the Fishery and other specified revenues	
1890	Priorités Conversion, 4%	£ 7,827,240	Issued at 81.75% redeemable in 44 years	
1890	Osmanieh Consolidation Loan, 4% (Controlled by Debt Council)	£ 4,545,000	Issued in exchange for Internal Bonds	Secured on Customs from certain specified districts
1891	4%	£ 6,316,920	Issued at 93.50% redeemable in 60 years	Secured on the Egyptian Tribute
1894	Tombac Loan 4%	£ 900,000		Secured on the annuity paid by the Tombac Company
1894	Egyptian Tribute Ottoman Bonds, 3 1/2%	£ 8,212,340	Conversion and redemption bonds 5% 1854 and 4.25% 1871. Redeemable in 61 years	
1894	Railway Loan, 4%	Fr. 40,000,000	Issued at 83%	Secured on a sum of 1,500 Fr. per kilometer
1896	5% (controlled by Debt Council)	£ 2,975,200	Issued in Paris by the Imperial Ottoman Bank at 86%. Redeemable in 49 years	Secured on the sheep tax and tithes in certain Provinces
1901	5% (controlled by Debt Council)	£ 1,140,000	Negotiated with the Ottoman Bank	The annuity of £ 68,400 is secured on the surtax of 0.5%
1902	Custom Loan, 4%	£ 7,818,200	Issued by the Ottoman Bank at 86%. Redeemable in 56 years	Secured by annuity of £ 354,545 from the Custom loan of 1886
1903	Conversion German Loan of 1888, 4%	Fr. 60,000,000	Issued at 90% by Banque de Paris et des Pays Bas and the Deutsche Bank and others. Redeemable in 55 years	Secured upon revenues assigned to the loan of 1888
1903	Unified Converted Debt, 4%	£ 29,762,520	Issued under a Decree of 1-14 September 1903	

(continued)

THE OTTOMAN EXTERNAL DEBT AND ITS FEATURES UNDER EUROPEAN FINANCIAL CONTROL (1881-1914)

(continued)

Year	Name (if present) and interest	Amount	Issued by and note	Secured
1903	4%	£ 2,500,000	Not Issued to the public. Redeemable by a sinking fund of 0.5%	Secured upon 75% reverting to the Ottoman Government of the surplus receipts from revenues assigned under Decree of 8-20 Dec 1881 and Décret-Annexe
1903	4% (Controlled by Debt Council)	£ 2,424,440	Issued for the conversion of the 5% loan of 1901	Secured upon the surtax of 0.5%
1904	Baghdad Railway Loan 4% (Controlled by the Debt Council)	£ 2,160,000	Issued by Deutsche Bank in Germany and Ottoman Bank in Constantinople. Redeemable in 98 years	
1905	Tedjhizat Askérie Loan, 4%	£ 2,400,000	Issued at 87.5%. Redeemable by a Sinking Fund of 0.5%. Taken firm by Deutsche Bank at 81%	Annuity of £ 108,000 was secured by the surtax of 6%
1905	1901-1905 Loan, 4% (Controlled by the Debt Council)	£ 4,824,240	Issued in Paris at 87%. Redeemable by a Sinking Fund of 0.5%	Annuity £ 217,091 was secured upon the Revenues devoted to the service of the 4%
1906	Unified Converted Debt, 4%	£ 8,670,000	Created in virtue of the Décret-Annexe of 1903 for the conversion of the outstanding Bonds (£ 6,169,240)	
1907	4%		Agreement with Powers Custom surtax for 7 years from 8 to 11%. Surplus being devoted to the Macedonia Budget	
1908	Baghdad Railway, Loan 4%	£ 4,320,000 £ 4,760,000	Convention between the Government and the Railway Company and the Deutsche Bank.	Secured by Government's share in the surplus of the ceded Revenues. If these prove insufficient, on the sheep tax of the Provinces of Konia, Adana and Aleppo
1908-1909	Ottoman Bank Loan, 4%	£ 4,282,840	For the financial needs after payment of the Debt. Issued at 90%	Secured from the Customs and from the surplus of the tithes and new revenues collected by the Debt Council
1909	Imperial Ottoman Government 4% (No supervised by Debt Council)	£ 6,363,640	£ 1,818,182 issued in London at 89% and the remainder in Paris at 90%. Cover deficit. Redeemable in 40 years	Guaranteed by the receipts from certain Vilayets assigned as security for the Russian war indemnity of £ 318,182 per annum.

(continued)

(continued)

Year	Name (if present) and interest	Amount	Issued by and note	Secured
1910	German and Austrian Banks, 4%	£ 10,000,000	Primarily destined to cover Budget deficiencies	Secured on the Custom revenue of the Vilayet of Constantinople
1911	Loan from the Banque Française pour le Commerce et l'Industrie, 4% (Administrated by the Debt Council)	£ 2,272,728	For road construction.	
1912	Imperial Ottoman Bank 4% (No supervised by Debt Council)	£ 9,091,200		Secured on the Customs of Salonica, Smyrna, Adrianopole, Brusa and Beyrout
1914	5%	£ 20,000,000	Issued in Paris and Constantinople by the Imperial Ottoman Bank and other French banks at 93% to liquidate the financial situation created by the events of previous years	Secured on the surplus of the tithes, sheep tax, and various revenues. Custom revenues collected by the Council. In case these should not suffice, on the general revenues of the Empire.

Sources: Authors' calculation based on *Annual Report of the Council of the Corporation of Foreign Bondholders*, years from 1894 to 1914.

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