

Domestic Original Sin in Public Debt Management: The Case of TURKEY (1996-2016)

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ABSTRACT

The most important decision to be made regarding debt is whether the borrowing is made from the inside or the outside. While domestic borrowing is regarded as a domestic resource transfer, foreign borrowing is transferring a new resource to the country as much as the amount of debt. As domestic currency is used in the repayment of domestic borrowing, the repayment of foreign borrowing is carried out with foreign currency. Another important decision to be made in debt is whether the debts are made in foreign currency or domestic currency. The increase in the share of foreign exchange denominated debt in the debt stock increases the cost of borrowing in the face of sudden and rapid exchange rate increase. However, domestic debt from domestic currency may not offer the possibility of long-term borrowing that is introduced by foreign currency, and risk of the renewal of debt may occur in the short term. As it can be seen, the source, foreign exchange, interest and maturity structure of the public debt stock have a big significance in debt management. It is expressed with the concept of "Original Sin" that an ending financial system of a country that is unable to borrow from domestic and foreign currencies at the level of increasing public debt stock and that becomes fragile and loses its long term borrowing from the domestic currency in the domestic market. This concept was introduced in 1999 with the pioneering work of Eichengreen and Hausman, and the original sin literature has been expanded with the contributions of Eichengreen, Panizza and Hausman (2003, 2005). The original sin is divided into two as domestic and foreign original sin. Domestic original sin is that a country cannot have a long term borrowing from domestic currency at fixed interest rates, and foreign original sin is that a country cannot have a borrowing in foreign markets through its domestic currency. In this study, firstly, indications of domestic original sin in Turkey between 1996-2016 and the rates used for measuring these indices were calculated. Then the change in the domestic borrowing market and the impact of the strategic criteria in public debt management on the domestic original sin indicators were determined by ratio analysis. According to the findings, the non-cash domestic debt stock from the mentioned indicators had half of the total domestic debt stock due to the increase of duty losses in the crisis years of 1994 and 2001. In other years, cash domestic debt stock increased its share in total. In our country, the original domestic sin problem has led to the steps taken to change the debt composition. According to the "Strategic Criteria" applied in public debt management since 2004, it is aimed that cash domestic borrowing is mostly realized with fixed interest rate and Turkish Lira, domestic borrowing with indexation is not done and domestic borrowing with foreign currency is limited.

Keywords: Domestic Original Sin, Public Debt Management, Foreign Exchange

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