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# *Foreign Currency Debt And Economic Growth In The Region Of The Black Sea Economic Cooperation*

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**Abstract**

Foreign currency liabilities are often considered as a financial risk factor in the economies. The developing and newly emerging economies had great experiences on the effect of this risk.Mexico, Russia and Turkey were just a few of those countries who suffered from the foreign currency risk in 1994 and 1997. Later, Turkey had one more experience in 2001. The Euro crises which started in 2010, have unexpectedly changed policies in Greece. Foreign currency risk and foreign currency liabilities have a special importance for the member countries of the Black Sea Region. Current paper analyzes the risk which has emerged due to foreign currency volatility in foreign currency liabilities for the economies of the Black Sea Economic Cooperation (BSEC) members. The regional cooperation was started by Turkey's initiative in 1991 and the organization was found in 25 June, 1992. However, after the 2007 global financial crises, firstly for Greece, economic stability became the primary objective. The BSEC did not offer governments with alternative tools to finance their economies, for instance, by using local currency denominated debts on international bond markets. Emerging economies had more liquidity than before. Expansion of financial markets increased their reserves. However, it is argued that foreign currency debt contracts and their potential financial risks have not been eliminated. In this paper, foreign currency debt management of the BSEC and its effect after 2008 financial crisis will be analyzed.

**Keywords**: *foreign currency debt, economic growth, Black Sea Economic Cooperation Region, financial crises*

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## 1. INTRODUCTION

The Black Sea Economic Cooperation (BSEC) was established by the initiative of Turkey in the Black Sea region in 1992. This cooperation is a significant one, since the BSEC members aimed providing a harmonized relationship with respect to their economies and political life in the region. The organization was crucial for the region since it was established following the dissolution of Soviet Socialist Union which was one of the superpowers of the region and the World before 1991.This area was reshaped for the second time following the World War I. With one of the largest population areas, BSEC region offers great opportunities for the transition of the economies in the region as well for a wider Europe in the 21st century. Greece, Bulgaria, Romania and Turkey are already members and associate members of the EU and have longer history of market economy, however the other BSEC countries have engaged in liberal policies of market economy later. All the countries have rich resources. In this paper, the main aim is to research whether these resources are adequate for a transition from a planned economy to the market economy by itself or they borrowed in terms of foreign currency. Firstly, the Black Sea Economic Cooperation and its effect on the region will be discussed. In the second part, theories on foreign currency borrowing will be analyzed. Finally, the effect of the foreign currency debt on the economies of the Black Sea Economic Cooperation will be taken under consideration.

## 2. BLACK SEA ECONOMIC COOPERATION (BSEC) REGION

Black Sea region is at the crossroads of Turkey, Russia, Ukraine, the Eastern Balkans and the Caucasus where a geo-strategic nature is still very important as well as representing economic nature.The region, brings together some of the most important challenges that shape the security of today's and tomorrow's Europe: from illegal migration to environmental degradation, the security of energy supplies, illicit trafficking of drugs and weapons and frozen conflicts.Black sea is a civilizational crossroads at the confluence of orthodox, Muslim and increasingly very western political and societal cultures.

As a regional economic cooperation, the Black Sea Economic Cooperation is different from the free trade area, the customs union, the common market, the economic union and the political union.Following Istanbul Summit Declaration of 5 June 1992, the Black Sea Economic Cooperation came into existence and became the organization of the Black Sea Economic Cooperation by 1999. So, what could a regional economic cooperation serve different from other integration types and why it was stated (BSEC, 1992)?

Regions can be integrated depending for political, economic or social reasons. Neumann (1994) argues that each member considers itself at the core of the region where the core covers territorial and functional concepts. Accordingly, this denotes the use of power and knowledge. Two approaches exist in the literature; one is the *Inside-out* approach and the other is the *Outside-in* approach. The Inside-out approach defines the region as a cultural integration and the Outside- in approach focuses on the geopolitics (Neumann, 1994). Sometimes a region emerges from outside; in general, the foreign policy practices and international organizations require such a change. Sometimes, regions would emerge as a result of networking of movements (Neumann, 1994). Currently, in Europe, regions have emerged for community building purposes, supporting cultural cooperation, civil society development, trade or cooperative security in variety of areas. So, they can be considered as multilevel and multidimensional. Neumann (1994) defines *region* as the area built at a transnational level.

Regions as organization designed a consequence of the process of developing policies to address perceived common problems (Manoli, 2010). Regional cooperation, therefore, varies among issues and over time. It is a process that requires stakeholders to mutually adjust their behavior through the policy coordination. The rationale behind a regional cooperation would be to achieve additional benefits which the independent actions of states cannot. By looking at the initiative and the establishment of such a regional cooperation, in general, Black Sea Economic Cooperation, the end of Cold War and NATO are considered as exogenous factors (Manoli, 2010). The end of cold war, failure of communism and the effect of technology revolution changed the global political economy. Especially, since the late 1980s the world witnessed the extraordinary growth of economic regionalism as a counter movement to economic globalization (Gilpin, 2001). Where the original roots were based on European Common Markets and European Economic Community, regional cooperation became also one of the highly preferred way of cooperation.

Even though, it is argued that there has been no previous experience for social and economic unity in the Black Sea region, in the past, firstly Ottoman Empire then Russia had the hegemony in this area. Ottoman Empire sustained its hegemony more than three centuries. Particularly in the 19th century, the process of state building implies new subgroups for the identity of Black Sea. It was the same for Russia, Russia established its hegemony over a quite large part of the region for a long time. There were various factors unifying countries in the region such as the balance of power and geopolitical situation. So, the cultural political cohesion already existed in this region. Currently, after the collapse of Russia, for liberalization the wave of globalization has become the corner stone for the cooperation power among the states. However, historically, the Black Sea has also been a zone of tension between the Europe, the Russian and Ottoman Empire. In this period, regional Black Sea states came face to face with the issues on vital national interests arising from the different political and economic policies of the actors on the region. Russia's policies for North Caucasus, South Caucasus and Moldova are just one of the important discussion subjects in this respect. The Black Sea region is a crossroads of different civilizations as well as multiple religions. The region offers opportunities for the future of the Wider Europe. On the other hand, illegal migration, environmental degradation, the security of energy supplies, illicit trafficking of drugs and weapons are common areas of conflict in the region (Tassinari, 2014). The European Commission and NATO refers to the Black Sea region as the area whose member states have close ties in history. The Black Sea region is an energy rich. It stands a kind of barrier against possible trans-national threats. (Pop & Dan, 2007).

Here, in this study, one of the subjects which is an important threat to economic development and growth has been analyzed. This threat is the foreign debt stock and the growth relationship in the region. By 1990s, the total of GDP in the region was USD$ 834 billion; however, it decreased by 1992. The 1994 and 2001, 2002 financial crises in Turkey had influences on the performances of the economies in the region. Today, Black Sea Economic Cooperation region offers opportunities with a population of 330 million people and the total of USD$ 3.5 trillion of GDP. The capital outflow from the developed economies to developing economies had a positive effect for the region. In 2015, the total GDP increased to USD$ 3.791 billion. However, in 2015, the total GDP value of the region contracted by 25% and decreased to USD$ 2.639. In addition to Greece Euro crises, as oil exporting countries Azerbaijan and Russia had severe currency account deficit and financial problems due to severe volatility on oil prices in the world market (Mamedov, 2011).

## 3. FOREIGN CURRENCY DEBT

The recent global economic and financial crises after the Euro crisis led to extraordinary increase in debt across the world. By the end of 2016, total amount of the World GDP was equal to USD $ 75 trillion while the total debt GDP ratios were equal to 60%. This ratio was equal to 107 % in advanced countries till 2013. This is not only a recent trend, historically, one of the main concerns of the economists has been finding an answer to the optimal level of borrowing. Debt is considered as a substitution of taxes with the foreign debt to finance government expenditure (Baro, 1974).In this view, as long as the government increases expenditure, an increase in government debt can be considered as an increase in taxes (Baro, 1974). In these chains, sometimes additional taxes are needed (Baro, 1974). Finance expenditures by bond is a kind of future tax that would not be necessary unless the expenditures are financed by the current taxation already (Baro, 1976).

The relationship between debt and growth of the economies is one of the major concerns in studies as well as economic and political issues in the countries. In some of the economic approaches, the policy makers are in favor of the government borrowing while the others are not.However, foreign currency liabilities are often considered as financial weakness in emerging markets (Bordo, Stuckler and Meisnner, 2010). While the reasons of foreign debt are considered as important factors in determining the level of growth, most of the time, the war debts were the main type of foreign debt in the past. Large debts accumulated in peace time reduce uncertainty in the future growth.In their analysis, Reinhart and Rogoff (2010) argued that the growth after the World War II was high as war-time allocation of manpower and resources (Reinhart and Rogoff, 2010). Even, in high war-time, the government spending was the main source of peace. On the other hand, the increases in debts during peace were the indicator of instability in economic development in the future (Reinhart and Rogoff, 2010). After the World War II, the government debt gas led to an increase in the typical household’s understanding of net wealth since debt has expansionary effect on aggregate demand and it provides a lower level of cost to the host country at the time of high global liquidity (Baro, 1976). The borrowers who consider potential advantages of external borrowing, may come at high costs of external default, currency mismatch, inability to tax foreign currency, asymmetric crisis shocks and external political interference.

During the first financial globalization period, from 1870 to 1939, most countries financed themselves with foreign currency denominated debt. Money and credit grew just a little faster than the GDP in the first few decades of the classical gold standard era but then remained stable relative to the GDP until the Great Depression. In the long run, the level of money and credit were volatile. Jorda et al (2012) consider that the money growth and credit growth were following each other in nature after the World War II. The loans continued to increase in the Bretton Woods period. Banks performed better compared to GDP, by the 1970s. A higher leverage and the new sources of funding such as debt securities increased bank liabilities (Schularik and Taylor, 2009). After World War II, international lending was based on lending from the World Bank or the International Monetary Fund to government, later lending turned into government to government. By 1970, banks became lenders to developing countries instead of the governments. In the late twentieth century, many advanced countries had significant amounts of foreign currency debt relative to their total external debt liabilities, however, most of them did not cause crises. Before, 1982, international commercial banks were providing medium and long term credits to residents of developing countries.

External borrowing in foreign currency was a major reason for the severity of these financial crises (Eichengreen and Hausmann, 1999). Turkey, Mexico and Russia were some of them. In these countries, the fixed exchange rates were providing exchange rate stability. However, households, domestic banks, and non-financial firms had significant short term debts denominated in US dollars. Domestic banks were borrowing from international markets in terms of USD $ and lending in the domestic market where payments are in national currency. A high ratio of foreign currency liabilities to total international liabilities was called "*original sin*" by Eichengreen and Hausmann (1999). Eichengreen and the others continue to define that debt intolerance and the original sin as different concepts (Eichengreen et al, 2003). The original sin would be due to the inefficiency of governments in foreign debt management. The government may raise the foreign reserves in order to stabilize the large volatility in currency and fulfil its obligation as a lender of last resort. The country's borrowing abroad are matched by gross foreign currency assets that the government holds in the form of international reserves (Eichengreen et al, 2003).

Theoretical models are not clear in resolving the losses arising from the exchange rate depreciation when foreign currency debt is large. In accordance with the Marshall Lerner condition, the expansionary effect of depreciation on increased exports and decreased imports can compensate the impact. The effect depends on the degree of capital market imperfections, the share of foreign goods in their consumption, the share of foreign exchange denominated debt in total debt (Krugman, 1999). Krugman (1999) also derive conditions under which real depreciation can be contractionary. Jeanne (2000) argues that when foreign currency debt solves a moral hazard problem it may be an efficient solution, but when there is adverse selection, it is suboptimal.

The optimal level of borrowing and lending became the main question one more time due to the recent financial crises during the last century. The international lenders take care of the risk of national default since the government of the borrower's country can always intervene in the outflow of the national debt service payments and remittances, independent of a particular loan's profitability (Hanson,1974). Such an intervention is one of the major differences between international and interregional economic transactions. Not only the governments and international organizations but also the capital markets serve as the intermediaries for lending to developing countries. While private capital markets were a vehicle for capital inflows to industrial countries. In addition to a large literature that is studied on foreign exchange volatility and foreign currency debt, the recent studies made by Bordo, Stuckler and Meisnner (2010), Reinhart and Reinhart (2011), Reinhart and Rogoff (2011) and the others are reviewed here shortly.

Bebczuk, Galindo and Panizza (2006) found that foreign currency debt is directly associated with the lower growth rates when the real exchange rate depreciates. On Bleakley and Cowan's (2008) study, in a sample of Latin American countries, they found no evidence that firms' investment decisions are affected by hard currency debt even in the face of depreciation.

Bordo, Stuckler and Meissner (2010) analyzed the empirical relationship between foreign currency debts and economic growth. They have found strong evidence for foreign currency debt crises especially when international reserves are low. These countries that are under review had large losses in growth. They also pay attention whether the countries have developed financial markets or not. They argued if the country does not have well developed markets, they may still have financial crises. On the other hand, especially the emerging markets are very open to debt crises and had high financial instability (Reinhart et al, 2012).

Countries would avoid financial crises and keep financial development and their sustainable fiscal positions by sound debt management even though high percentage foreign currency denominates debt exist. Reserve accumulation and high export ability can avoid the volatility that is associated with foreign currency debt. However, even if countries do not have well developed financial markets, they can reduce the risk of crises by limiting their currency mismatches (Eichengreen et al, 2003).

Bordo, Meissner and Stuckler (2010) studied the relationship of foreign currency debt with financial crises and economic growth. They have analyzed the credit channel mechanism (Bordo et al, 2010). Reinhart and Rogoff (2010) studied a multi-country, long term historical database on central government debt as well as more recent data on external debt in order to search for a systematic relationship between debt levels, growth and inflation. They found out that at normal debt levels, the relationship between growth and debt seems relatively weak. Emerging market economies and advanced economies have similar relationship between public debt and growth. However, emerging markets have a much more binding threshold for total gross external debt (public and private) which is almost exclusively denominated in a foreign currency and there was no systematic relationship between high debt levels and inflation for advanced economies (Reinhart and Rogoff, 2010). Following Reinhart and Rogoff (2010) analysis, Herndon, Ash and Pollin (2013) studied the variables at the same period and have criticized their findings; in order to build the case, they had established a new set of criteria regarding public debt levels and GDP growth. Herndon et al (2013) criticized Reinhart and Rogoff (2010) regarding the validity of their findings for a range of countries and time periods.

**Table 1:**Public Debt GDP growth Rate

| | Public Debt/ GDP | Public Debt/ GDP | Public Debt/ GDP | Public Debt/ GDP |
|---|---|---|---|---|
| | <30% | 30-60% | 60-90% | >90 % |
| Reinhart & Rogoff | 3.8 | 2.9 | 3.4 | -0.1 |
| Herndon | 4.2 | 3.1 | 3.2 | 2.2 |

*Source:* Herndon et al, 2013

Presbitero (2010) discusses the relationship between total public debt and economic growth in low- and middle-income countries. The results contrast with the findings of the study by Reinhart and Rogoff (2010) regarding the growth slowdowns when public debt exceeds 90 percent of GDP. However, apart from these differences in the methodological approach, the main reason for explaining the antithetic results is likely to be the composition of the sample.

Eggert (2013) had evidence on the negative nonlinear relationship between debt and growth. Kourtellos et al (2012) contribute to the debate on the relationship between public debt and long-run economic performance from a different perspective. Kourtellos and the others' finding suggest that the relationship between public debt and growth is reduced crucially by the quality of a country's institutions. When a country's institutions are not at high quality, then, more public debt leads to lower growth.Woo and Kumar (2015) study the period of 2007–2009 financial crises, their finding focuses on the fact that crises increased public debt, led to sovereign debt crisis in Europe. They find out some evidence of non-linearity, with only high (above 90% of GDP) levels of debt having a significant negative effect on growth. Eberhardt and Presbitero (2015) made three contributions to the empirical literature: first, the long-run relationship; secondly, empirical specifications which allow the heterogeneity in the long-run relationship across the countries; thirdly, the potential non-linearity in the debt–growth relationship, focusing on the possibility of a debt–growth nonlinearity both across and within countries.

In addition to the theoretical models, Maastricht Treaty (1992), as one of the solid sources for determining the optimum level of borrowing, defines the foreign debt rules. Since the three members of Black Sea Economic Cooperation are already members of the EU area, they must follow these rules. However, Greece had the severest economic crises among the others.

## 4. FOREIGN DEBT IN BLACK SEA ECONOMICS COOPERATION REGION

Table 2 shows Gross Domestic Product (GDP) of the member countries which have an increasing trend in GDP growth with the exception of 1994, 1998 and 2009 financial and economic crisis of global economy.

**Table 2:** GDP in the Black Sea Economic Cooperation Region Billion USD $

| | ALB | ARM | AZE | BUL | GEO | GRC | MDA | ROU | RUS | SRB | UKR | TUR | Total | Change % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1991 | 1 | 2 | 0 | 10 | 6 | 108 | 0 | 29 | 517 | 0 | 0 | 147 | 820 | -0.02 |
| 1999 | 3 | 2 | 5 | 13 | 3 | 141 | 1 | 36 | 188 | 18 | 31 | 246 | 687 | -0.14 |
| 2000 | 4 | 2 | 5 | 13 | 3 | 131 | 1 | 37 | 253 | 7 | 30 | 263 | 749 | 0.09 |
| 2001 | 4 | 2 | 5 | 14 | 3 | 137 | 2 | 40 | 302 | 12 | 37 | 191 | 749 | 0 |
| 2002 | 5 | 2 | 6 | 17 | 3 | 154 | 2 | 46 | 339 | 16 | 42 | 228 | 860 | 0.15 |
| 2003 | 6 | 3 | 7 | 21 | 4 | 201 | 2 | 59 | 417 | 21 | 50 | 297 | 1088 | 0.27 |
| 2004 | 7 | 4 | 8 | 26 | 5 | 238 | 3 | 73 | 578 | 25 | 64 | 387 | 1418 | 0.3 |
| 2005 | 8 | 5 | 12 | 30 | 6 | 248 | 3 | 97 | 745 | 26 | 85 | 478 | 1743 | 0.23 |
| 2006 | 9 | 7 | 18 | 33 | 8 | 268 | 4 | 119 | 961 | 30 | 106 | 525 | 2088 | 0.2 |
| 2007 | 11 | 10 | 28 | 42 | 10 | 310 | 5 | 166 | 1271 | 39 | 141 | 641 | 2674 | 0.28 |
| 2008 | 13 | 12 | 44 | 52 | 13 | 344 | 7 | 203 | 1614 | 48 | 178 | 723 | 3251 | 0.22 |
| 2009 | 12 | 9 | 41 | 50 | 11 | 323 | 6 | 165 | 1183 | 42 | 115 | 607 | 2564 | -0.21 |
| 2010 | 12 | 10 | 49 | 50 | 11 | 293 | 6 | 165 | 1478 | 39 | 134 | 725 | 2972 | 0.16 |
| 2011 | 13 | 11 | 61 | 56 | 14 | 280 | 8 | 182 | 1974 | 45 | 159 | 768 | 3571 | 0.2 |
| 2012 | 12 | 11 | 63 | 53 | 16 | 247 | 8 | 169 | 2086 | 39 | 173 | 782 | 3659 | 0.02 |
| 2013 | 13 | 12 | 69 | 55 | 16 | 239 | 9 | 187 | 2152 | 44 | 180 | 815 | 3791 | 0.04 |
| 2014 | 13 | 12 | 73 | 56 | 16 | 235 | 9 | 197 | 1985 | 42 | 132 | 791 | 3561 | -0.06 |
| 2015 | 11 | 11 | 51 | 49 | 14 | 196 | 7 | 174 | 1294 | 35 | 89 | 708 | 2639 | -0.26 |

*Source:*http://www.bstdb.org/publications/BSTDB_Annual_Report_2013.pdf

In 1994, contraction in total GDP was due to the financial and economic crises in Turkish economy. Similarly, Russian Crisis had negative effects on her own economy and the region. It was one of the most effective crises after Russia experienced a political and an economic change. Third important contraction was the 2008 global crisis; its effect was felt much deeper in 2010. All the economies in the region suffered from GDP contraction. Although some of the economies have recovered, this recovery was not stable every year. The foreign debt statistics for the Members of BSEC countries have been given in Table 3.

**Table 3:** Foreign Debt Stock in the Black Sea Economic Cooperation Region/000USD$

| | ALB | ARM | AZE | BUL | GEO | GRC | MDA | ROU | RUS | SRB | UKR | TUR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1991 | 1 | 0 | 0 | 12 | 0 | 0 | 0 | 0 | 2 | 0 | 16 | 51 |
| 1999 | 1 | 1 | 1 | 12 | 2 | 0 | 1 | 16 | 9 | 180 | 11 | 102 |
| 2000 | 1 | 1 | 2 | 12 | 2 | 0 | 2 | 14 | 11 | 147 | 12 | 117 |
| 2001 | 1 | 1 | 2 | 11 | 2 | 0 | 2 | 22 | 13 | 141 | 12 | 113 |
| 2002 | 1 | 2 | 2 | 12 | 2 | 0 | 2 | 23 | 17 | 138 | 11 | 130 |
| 2003 | 2 | 2 | 2 | 14 | 2 | 0 | 2 | 26 | 23 | 186 | 14 | 144 |
| 2004 | 2 | 2 | 2 | 17 | 2 | 0 | 2 | 32 | 30 | 214 | 15 | 160 |
| 2005 | 2 | 2 | 2 | 19 | 2 | 0 | 2 | 35 | 39 | 250 | 16 | 174 |
| 2006 | 2 | 2 | 3 | 28 | 3 | 0 | 3 | 54 | 54 | 311 | 20 | 211 |
| 2007 | 3 | 3 | 4 | 44 | 3 | 0 | 3 | 81 | 84 | 416 | 26 | 260 |
| 2008 | 4 | 4 | 4 | 53 | 8 | 0 | 4 | 99 | 99 | 419 | 30 | 290 |
| 2009 | 5 | 5 | 5 | 56 | 9 | 0 | 4 | 105 | 114 | 406 | 34 | 279 |
| 2010 | 5 | 6 | 7 | 51 | 10 | 0 | 5 | 124 | 115 | 418 | 33 | 301 |
| 2011 | 6 | 7 | 7 | 48 | 11 | 0 | 5 | 135 | 120 | 544 | 32 | 305 |
| 2012 | 7 | 8 | 10 | 51 | 12 | 0 | 6 | 132 | 121 | 592 | 34 | 337 |
| 2013 | 9 | 9 | 10 | 51 | 13 | 0 | 7 | 148 | 124 | 669 | 36 | 389 |
| 2014 | 8 | 9 | 12 | 48 | 14 | 0 | 7 | 131 | 112 | 550 | 33 | 401 |
| 2015 | 8 | 9 | 13 | 37 | 15 | 0 | 6 | 123 | 96 | 468 | 31 | 398 |

*Source:* National Statistical Agencies IMF Black Sea and Trade Development Bank http://www.bstdb.org/publicationsb/BSTDB_Annual_Report_2015.pdf

All countries of the Black Sea Economic Cooperation have an increasing level of foreign debt, despite Greece being one of the EU Members. Similar to Spain and Ireland, Greece did not manage performance obligations and the budget deficit and debt/GDP criteria and had a severe financial and economic crisis and by 2015 figures, it seems it still suffers from the economic crisis. Azerbaijan is the other country which suffered from high devaluation in 2016. In January 2016, 50% devaluation caused 7 banks out of 42 banks to go bankruptcy. Russia suffered a significant devaluation in 2015 in addition to the large fluctuations in oil prices. In Table 4, foreign debt to GDP ratios are given. Foreign debt to stock has increased in all countries in the recent years.

**Table 4:**Foreign Debt to GDP Ratio in Black Sea Economic Cooperation Region %

| | ALB | ARM | AZE | BUL | GEO | GRC | MDA | ROU | RUS | SRB | UKR | TUR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1991 | 100 | 0 | | 120 | 0 | | | 7 | 0 | | | 35 |
| 1998 | 33 | 50 | 25 | 79 | 50 | | 0 | 24 | 68 | 61 | 32 | 36 |
| 1999 | 33 | 50 | 20 | 92 | 67 | | 0 | 25 | 96 | 61 | 52 | 41 |
| 2000 | 25 | 50 | 40 | 92 | 67 | | 200 | 30 | 58 | 171 | 47 | 44 |
| 2001 | 25 | 50 | 40 | 79 | 67 | | 100 | 33 | 47 | 100 | 59 | 59 |
| 2002 | 20 | 100 | 33 | 71 | 0.67 | | 100 | 37 | 41 | 69 | 55 | 57 |
| 2003 | 33 | 67 | 29 | 67 | 50 | 48 | 100 | 39 | 45 | 67 | 52 | 48 |
| 2004 | 29 | 50 | 25 | 65 | 40 | 51 | 67 | 41 | 37 | 60 | 50 | 41 |
| 2005 | 25 | 40 | 17 | 63 | 33 | 57 | 67 | 40 | 34 | 62 | 41 | 36 |
| 2006 | 22 | 29 | 17 | 85 | 38 | 60 | 75 | 45 | 32 | 67 | 51 | 40 |
| 2007 | 27 | 30 | 14 | 105 | 30 | 66 | 60 | 51 | 33 | 67 | 57 | 41 |
| 2008 | 31 | 33 | 9 | 102 | 62 | 73 | 57 | 49 | 26 | 63 | 56 | 40 |
| 2009 | 42 | 56 | 12 | 112 | 82 | 84 | 67 | 69 | 34 | 81 | 91 | 46 |
| 2010 | 42 | 60 | 14 | 102 | 91 | 101 | 83 | 70 | 28 | 85 | 93 | 42 |
| 2011 | 46 | 64 | 11 | 86 | 79 | 99 | 63 | 66 | 28 | 71 | 85 | 40 |
| 2012 | 58 | 73 | 16 | 96 | 75 | 124 | 75 | 72 | 28 | 87 | 76 | 43 |
| 2013 | 69 | 75 | 14 | 93 | 81 | 133 | 78 | 66 | 31 | 82 | 82 | 48 |
| 2014 | 62 | 75 | 16 | 86 | 88 | 134 | 78 | 57 | 28 | 79 | 99 | 51 |
| 2015 | 73 | 82 | 25 | 76 | 107 | 139 | 86 | 55 | 36 | 89 | 138 | 56 |

*Source:* National Statistical Agencies IMFBlack Sea and Trade Development Bank http://www.bstdb.org/publications/BSTDB_ *Annual_Report_2015.pdf, http://www.bstdb.org/publications/BSTDB_ Annual_Report_2013.pdf, http://ec.europa.eu/eurostat/tgm/table. do?tab=table&init=1&language=en&pcode=tipsii20&plugin1*

Bulgaria, Ukraine, Romania, Russia and Turkey have high foreign debt to stock ratio since 2009 due to contraction in their economies arising from 2007 financial crises. However, in Turkey, the ratio of foreign debt to GDP ratio increases since 2001. One of the effects of high foreign debt to GDP ratio can be observed on inflation rates.

Among all member states, Greece, Turkey, Romania and Bulgaria's foreign debt level are significant. The ratio to GDP is also high for these states. It was a reason for Euro crisis in Greece and it continues to be a threat to the economic stability of these member states.Reinhart and Trebesch (2015) argue that the country's default or consequences of the boom-bust cycles based on external borrowing were not only economic, but political as well. In the case of Greece, the debate has focused on other issues, such as debt sustainability, contagion effects, the need for reform and the associated political economy problems. Armenian economy would be analyzed specifically. Despite being one of the smallest economies of the region and having had a well performance during transition period, Armenian foreign debt burden must be under control. The main problem in the country is the limitation on trade. Although, Azerbaijan is a neighboring country and the two countries are expected to trade more, due to political conflicts, they have limitation for trade (World Bank, 2017). The fact that Armenia has become a member of the Customs Union of the Eurasian Economic Union, contributes to the Armenian economy. In addition to a challenging growth export, the economy was performing well during 2015. However, private transfers inflow declined by 11.4% in 2016 compared to 2015. There is serious distrust in society towards the current authorities over economic issues. After 3% GDP growth in 2015 the index of economic activity in Armenia started to decrease again by 2016.

One of the other smaller countries, Serbia with her 7 million population, would produce 38 billion USD per year. 2007-2009 economic crises caused Serbian economy to grow smaller. Serbian economy was followed to grow internally till very recent years (The World Bank, 20173).

Azerbaijan's economy is facing critical challenges due to the fall in oil prices, high inflation, and the crisis in the financial sector in addition to the influences of 2007-2009 financial crises. In countries where saving rates are low, the level of foreign debt is high. Armenia, Greece and Ukraine are some examples to these countries. Saving to GDP ratio would be one of the good indicator why countries are borrowing. In Albania, Armenia and Russia saving to GDP ratios were high at the beginning of 2000s. In Albania and Armenia, the ratio decreased to 18%. However, in general, due to the sufficient levels of saving in the region high level of foreign currency borrowing was not required.

**Table 5:** Saving to GDP Ratio in the Black Sea Economic Cooperation Region

| | ALB | ARM | AZE | BUL | GEO | GRC | MDA | ROU | RUS | SRB | TUR | UKR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1991 | -7 | | | 17 | | 27 | | 25 | | | 22 | |
| 1998 | 19 | -3 | 3 | 25 | 18 | | 6 | 11 | 17 | | 26 | 18 |
| 1999 | 18 | 0 | 13 | 16 | 20 | 17 | 17 | 12 | 28 | | 22 | 22 |
| 2000 | 29 | 3 | 17 | 14 | 22 | 18 | 16 | 16 | 36 | | 21 | 24 |
| 2001 | 35 | 13 | 20 | 16 | 24 | 19 | 18 | 17 | 33 | | 21 | 25 |
| 2002 | 30 | 18 | 22 | 18 | 22 | 17 | 18 | 19 | 29 | | 22 | 28 |
| 2003 | 33 | 20 | 25 | 17 | 22 | 18 | 17 | 16 | 29 | | 20 | 28 |
| 2004 | 32 | 24 | 28 | 17 | 25 | 18 | 22 | 16 | 31 | | 21 | 31 |
| 2005 | 30 | 29 | 43 | 17 | 22 | 16 | 22 | 15 | 31 | | 23 | 26 |
| 2006 | 32 | 34 | 48 | 15 | 16 | 15 | 22 | 17 | 31 | | 24 | 23 |
| 2007 | 28 | 31 | 49 | 10 | 12 | 13 | 26 | 18 | 30 | 13 | 23 | 22 |
| 2008 | 20 | 28 | 53 | 15 | 3 | 10 | 23 | 21 | 32 | 10 | 24 | 21 |
| 2009 | 20 | 18 | 42 | 20 | 2 | 6 | 14 | 22 | 23 | 13 | 21 | 16 |
| 2010 | 19 | 20 | 47 | 22 | 10 | 6 | 14 | 22 | 27 | 12 | 21 | 18 |
| 2011 | 18 | 15 | 47 | 23 | 14 | 5 | 11 | 23 | 28 | 12 | 22 | 16 |
| 2012 | 18 | 15 | 44 | 22 | 17 | 9 | 15 | 22 | 26 | 10 | 23 | 1 |
| 2013 | 18 | 16 | 41 | 24 | 19 | 10 | 18 | 25 | 23 | 12 | 23 | 9 |
| 2014 | 12 | 13 | 40 | 23 | 20 | 9 | 19 | 24 | 25 | 12 | 24 | 10 |
| 2015 | 16 | 18 | 27 | 23 | 22 | 10 | 15 | 24 | 27 | 14 | 25 | 16 |

*Source:* World Bank Statisticshttps://data.worldbank.org/indicator/NY.GNS.ICTR.ZS

Table 6 shows inflation rates in the region. The great depression in Greece economy caused decreases in prices. It is common that, due to political instability, most of the countries that were in transition in 1992 such as

Albania, Armenia, Azerbaijan, Georgia, Romania, Russian Federation and Ukraine suffered from the hyperinflation. Although, after the austerity policies were taken in area, inflation became much lower and more stable, however, the countries still have inflation and inflation related problems.

**Table 6:** Inflation Rates in Black Sea Economic Coopera tion Area

| | ALB | ARM | AZE | BUL | GEO | GRC | MDA | ROU | RUS | SRB | UKR | TUR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1991 | 38,57 | 79,39 | 83,55 | 226,54 | 62,23 | 19,79 | | 195 | 128,63 | | 59,16 | 95,62 |
| 1998 | 8,43 | 10,7 | -0,96 | 32,16 | 6,94 | 5,1 | 5,65 | 48,13 | 18,54 | 25,41 | 137,96 | 12,01 |
| 1999 | 1,53 | 0,05 | 2,16 | 2,01 | 9,73 | 3,62 | 44,83 | 49,51 | 72,39 | 33,24 | 54,18 | 27,4 |
| 2000 | 3,98 | -1,37 | 12,49 | 7,2 | 4,68 | 1,59 | 27,33 | 43,07 | 37,7 | 78,58 | 49,23 | 23,12 |
| 2001 | 3,33 | 4,07 | 2,52 | 6,11 | 5,38 | 3,47 | 12,09 | 37,88 | 16,49 | 89,24 | 52,85 | 9,95 |
| 2002 | 2,41 | 2,37 | 3,12 | 3,79 | 5,92 | 3,35 | 9,83 | 22,63 | 15,49 | 18,04 | 37,42 | 5,12 |
| 2003 | 5,38 | 4,56 | 6,01 | 2,27 | 3,42 | 3,45 | 14,87 | 23,41 | 13,78 | 12,59 | 23,27 | |
| 2004 | 2,36 | 6,31 | 8,32 | 5,63 | 8,37 | 3,06 | 7,99 | 15,5 | 20,28 | 9,09 | 12,4 | 9.35 |
| 2005 | 2,62 | 3,24 | 16,14 | 6,5 | 7,93 | 2,24 | 9,34 | 12,1 | 19,31 | 14,33 | 7,08 | 7.72 |
| 2006 | 2,7 | 4,62 | 11,3 | 6,74 | 8,48 | 3,5 | 13,42 | 10,55 | 15,17 | 11,86 | 9,33 | 9.65 |
| 2007 | 3,58 | 4,23 | 20,98 | 11,07 | 9,69 | 3,42 | 15,91 | 12,79 | 13,8 | 8,22 | 6,22 | 8.39 |
| 2008 | 3,86 | 5,99 | 27,76 | 8,16 | 9,71 | 4,34 | 9,24 | 15,6 | 17,96 | 10,62 | 11,99 | 10.06 |
| 2009 | 2,42 | 2,56 | 18,93 | 4,05 | -2,01 | 2,57 | 2,17 | 4,76 | 1,99 | 8,3 | 5,29 | 6,53 |
| 2010 | 4,49 | 7,77 | 13,76 | 2,59 | 8,54 | 0,67 | 11,07 | 5,42 | 14,19 | 5,88 | 5,68 | 6,40 |
| 2011 | 2,31 | 4,28 | 22,57 | 5,98 | 9,45 | 0,8 | 7,26 | 4,74 | 23,64 | 9,56 | 8,58 | 10.45 |
| 2012 | 1,04 | 5,35 | 1,44 | 1,56 | 1,07 | -0,37 | 7,89 | 4,69 | 8,3 | 6,26 | 6,9 | 6.16 |
| 2013 | 0,22 | 3,37 | 1,02 | -0,7 | -0,76 | -2,35 | 4,13 | 3,42 | 4,77 | 5,44 | 6,17 | 7.40 |
| 2014 | 1,42 | 2,31 | 0,2 | 0,45 | 3,78 | -1,85 | 6,38 | 1,69 | 8,99 | 2,71 | 8,27 | 8.17 |
| 2015 | 0,16 | 1,18 | -8,85 | 2,21 | 5,78 | -1,04 | 9,58 | 2,92 | 7,68 | 2,68 | 7,43 | 8.81 |

*Source:* The World Bank Statistics

At the region, the lending interest rates are higher than the advanced economies lending interest rates. In all the developed economies such as the USA, the EU area and Japan, the interest rates were zero during 7 years after the 2007 financial crises. However, in the region, the interest rates were so high that even these high interest rates would stop new investments and high growth rates.

**Table 7:** Lending Interest Rates in the Black Sea Economic Cooperation Area %

| Country Code | ALB | ARM | AZE | GEO | GRC | MDA | ROU | RUS | UKR | TUR | SRB |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1991 | | | | | 29.45 | | | | | | |
| 1998 | | 48.49 | | 35.75 | 18.56 | 30.83 | 55.32 | 41.79 | 54.50 | 103 | 60.86 |
| 1999 | 21.62 | 38.85 | 19.48 | 29.67 | 15.00 | 35.54 | 65.64 | 39.72 | 54.95 | 80 | 46.06 |
| 2000 | 22.10 | 31.57 | 19.66 | 24.67 | 12.32 | 33.78 | 53.85 | 24.43 | 41.53 | 80 | 6.30 |
| 2001 | 19.65 | 26.69 | 19.71 | 22.27 | 8.59 | 28.69 | 45.40 | 17.91 | 32.28 | 35 | 34.50 |
| 2002 | 15.30 | 21.14 | 17.37 | 23.58 | 7.41 | 23.52 | 35.43 | 15.70 | 25.35 | 60 | 19.71 |
| 2003 | 14.27 | 20.83 | 15.46 | 23.76 | 6.79 | 19.29 | 25.44 | 12.98 | 17.89 | 60 | 15.48 |
| 2004 | 11.76 | 18.63 | 15.72 | 22.09 | 9.55 | 20.94 | 25.61 | 11.44 | 17.40 | 55 | 15.53 |
| 2005 | 13.08 | 17.98 | 17.03 | 17.55 | 8.47 | 19.26 | 19.60 | 10.68 | 16.17 | 17 | 16.83 |
| 2006 | 12.94 | 16.53 | 17.86 | 17.06 | 7.89 | 18.13 | 13.98 | 10.43 | 15.17 | 14 | 16.56 |
| 2007 | 14.10 | 17.52 | 19.13 | 17.09 | 7.70 | 18.83 | 13.35 | 10.03 | 13.90 | 15 | 11.13 |
| 2008 | 13.02 | 17.05 | 19.76 | 18.04 | 8.65 | 21.06 | 14.99 | 12.23 | 17.49 | 15 | 16.13 |
| 2009 | 12.66 | 18.76 | 20.03 | 17.87 | 8.59 | 20.54 | 17.28 | 15.31 | 20.86 | 10 | 11.78 |
| 2010 | 12.82 | 19.20 | 20.70 | 15.85 | 9.79 | 16.36 | 14.07 | 10.82 | 15.87 | 7,5 | 17.30 |
| 2011 | 12.43 | 17.75 | 18.99 | 15.00 | 10.16 | 14.44 | 12.13 | 8.46 | 15.95 | 6,5 | 17.17 |
| 2012 | 10.88 | 17.23 | 18.35 | 14.81 | 8.19 | 13.42 | 11.33 | 9.10 | 18.39 | 5,75 | 18.20 |
| 2013 | 9.83 | 15.99 | 18.21 | 13.59 | 7.62 | 12.29 | 10.52 | 9.47 | 16.65 | 4,75 | 17.07 |
| 2014 | 8.66 | 16.41 | 17.86 | 11.91 | 7.29 | 11.01 | 8.47 | 11.14 | 17.72 | 4,75 | 14.81 |
| 2015 | 8.73 | 17.59 | 17.53 | 12.49 | | 14.15 | 6.77 | 15.72 | 21.82 | 4,50 | |

*Source:*TheWorld Bank Statistics https://data.worldbank.org/indicator/FR.INR.LEND, http://www.ziraat.com.tr/tr/UrunHizmetUcretleri/GecmisDonemMevduatKrediFaizOranlari/Documents/1994_2001_uygulanan_tefe_faiz.pdf, http://www.ziraat.com.tr/tr/UrunHizmetUcretleri/GecmisDonemMevduatKrediFaizOranlari/Documents/tl_mevduat_hesaplarina_uygulanan_faiz.pdf

## 5. CONCLUSION

In this research, mainly the foreign debt risks of the member states of the Black Sea Economic Cooperation have been analyzed. In the paper, the first focus was on the advantages of a regional cooperation. The reasons bringing twelve nations together support the well-being of the national economies in the region. Although, the regional cooperation has emerged in 1992, the related states have had a historical connection among themselves. These ties sometimes offered opportunities on export and import and sometimes brought disadvantages. Being a part of the region was not enough to prevent political conflicts in the region. The conflicts between Russia, Georgia and Ukraine and the conflicts between Azerbaijan and Armenia increased the effects of risks in the region. Where most of the member states were already parts of Soviet Union before 1992, they did radical change on their economic system. The countries already had financial and economic crises in the early years of the cooperation following their economic revolution. In the early years, similar to most of the ex- Soviet Union states, all states in the region suffered from high inflation, low capital accumulation and very high interest rates. However, beside Bulgaria and Romania, Greece should have had a good economic performance, but she did not. Greece economy suffered from the foreign currency denominated debt, still, she had the lower growth rate. Although Turkey suffered from 1994 and 2001 foreign currency related financial crises, during the same period, she was much more eligible to manage foreign currency denominated debt. However, still, she is one of the economies that has a large risk. Although, Russia came face to face with a high risk of current account imbalances due to severe volatility of oil prices, she also managed well and demonstrated a good performance during the last petroleum based crises. However, Azerbaijan, one of the oil exporting countries, had instability due to the changes in oil prices. Even though there is a high instability in Azerbaijan economy, the country is managing its foreign debt level. Although, member countries manage well, foreign currency debt level offers uncertainty on the BSEC Region.

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