



## Ahmet Zühtü Pasha's Financial Missions in Europe (1873-1877)

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### Abstract

When the Ottoman Empire fell into a severe financial crisis during the Crimean War (1853-1856), it turned to external borrowing. However, as the first loan taken in 1854 failed to cover the war expenses, it borrowed again in 1855. Afterwards, the Ottoman government started to borrow in order to withdraw the unrequited paper money issued in the previous years from the market, to cover the budget deficit and, more importantly, to pay the interest and debt installments of its debts as of 1865. To summarize, 10 years after it started borrowing, the Ottoman government was unable to pay its debts. Thanks to the appetite for easy money in European financial markets, the government continued to borrow at very high interest rates and, beginning from 1865 onwards, the discussion was not about whether it would declare bankruptcy, but when it would declare bankruptcy. In 1873, the stock markets of Europe and the United States suffered a major collapse and the Great Depression of 1873-1896 began, which would later be characterized as the first great crisis of capitalism. In addition, between 1873-1875, the Ottoman Empire suffered a catastrophic famine. It was almost impossible to borrow money from abroad, and therefore to “roll over debt with debt”. Zühtü Efendi, who was the undersecretary of the Ministry of Finance at the time, was hastily dispatched to London to obtain a new loan

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in order to alleviate the heavy budgetary costs of the rebellions in the Empire's European territories and the financial burden of the newly started Ottoman-Russian War (1877-1878). Zühtü Efendi had to find a new reliable collateral for a new loan. To this end, he saw that he could use the collateral that would be freed up by reducing the interest rates on bonds issued in previous years. After reaching an agreement with the bondholders, Zühtü Efendi managed to sign a £5 million loan agreement, known as "the Loan For Protection of the Ottoman Rights". This article discusses his borrowing adventure. For this purpose, both the Ottoman and the British archives were consulted for financial correspondence and reports from the period. The developments not always documented in the archival records were evaluated with the help of local and foreign newspapers in İstanbul, as well as newspapers published in London. The article, based on previously unused documents and information obtained through this research, aims to contribute to the literature on Ottoman external borrowing.

**Keywords:** External borrowing, Zühtü Pasha, Eastern Question, financial crisis, Ottoman bonds.

## Ahmet Zühtü Paşa'nın Avrupa'daki Mali Misyonları (1873-1877)

### Öz

Osmanlı Devleti Kırım Savaşı (1853-1856) sırasında ağır bir mali buhran içine girince dış borçlanma seçeneğine yöneldi. Ancak, 1854 senesinde yapılan ilk borçlanma savaş masraflarını karşılamayınca, 1855'te yeniden borçlanıldı. Daha sonra, önceki senelerde çıkarılan karşılıksız kâğıt paraların piyasadan çekilmesi, bütçe açığının kapatılması, bunlardan daha önemlisi, 1865 senesinden itibaren de Osmanlı Hükümeti, borçlarının faizlerini ve borç taksitlerini ödemek için borçlanmaya başladı. Özetle ifade edilirse, borçlanmaya başladıktan 10 sene sonra, Osmanlı hükümeti borçlarını ödeyemez duruma geldi. Avrupa mali piyasalarındaki kolay para kazanma iştahı sayesinde oldukça yüksek faizlerle borçlanmaya devam eden hükümetin, 1865'ten itibaren, iflasını ilan edip etmeyeceği değil, iflasını ne zaman ilan edeceği konuşulmaya başladı. 1873 senesinde Avrupa ve ABD borsaları büyük bir çöküş yaşadı ve daha sonra kapitalizmin ilk büyük krizi olarak nitelendirilecek olan 1873-1896 Büyük Bunalımı başladı. Buna ek olarak, 1873-1875 senelerinde Osmanlı İmparatorluğu'nda büyük bir kıtlık felaketi yaşandı. Dışarıdan borç bulmak, dolayısıyla "borcu borçla çevirmek" neredeyse imkansızdı. İmparatorluğun Avrupa topraklarındaki isyanların bütçeye yüklediği ağır maliyeti ve yeni başlayan Osmanlı-Rus Savaşı'nın (1877-1878) mali yükünü hafifletmek üzere yeni bir borçlanma gerçekleştirebilmek amacıyla, o sırada Maliye Nezâreti müsteşarı olan Zühtü Efendi apar

topar Londra'ya gönderildi. Zühtü Efendi, yeni bir borçlanma için güvenilir yeni bir teminat bulmak zorundaydı. Bu amaçla, önceki senelerde piyasaya sürülmüş borç tahvillerinin faizlerinde indirim sağlamak suretiyle serbest kalacak teminatı kullanabileceğini gördü. Zühtü Efendi tahvil alacaklılarıyla anlaştıktan sonra “Muhâfaza-i Hukûk-ı Osmanîye İstikrâzı” olarak anılan 5 milyon Sterlinlik bir borç anlaşmasını da imzalamayı başardı. Bu makalede onun bu borçlanma serüveni ele alınmaktadır. Bu amaçla hem Osmanlı arşivi hem İngiliz arşivi dönemin finansal yazışmaları ve raporları açısından taranmış, ardından, kimi zaman arşiv kayıtlarında yer almayan gelişmeler İstanbul'daki yerli ve yabancı gazetelerin yanı sıra Londra gazetelerinden de yararlanılarak değerlendirilmiştir. Söz konusu araştırmayla ulaşılan ve daha önce kullanılmamış belge ve bilgilere dayanarak kaleme alınan makalenin Osmanlı dış borçlanmasını işleyen literatüre böylece katkıda bulunması amaçlanmıştır.

**Anahtar Kelimeler:** Dış borçlanma, Zühtü Paşa, Şark Meselesi, mali buhran, Osmanlı tahvilleri.

## Introduction

This article focuses on Ahmet Zühtü Efendi's various financial missions in Europe during his tenure as undersecretary of the Ministry of Finance, and especially on his efforts regarding the Loan For Protection of the Ottoman Rights,<sup>1</sup> which he signed on 19 September 1877, but which failed to achieve the desired result for the Ottoman finances. At first glance, the lack of interest this time in Ottoman debt bonds, which had become a symbol of earning easy money in European financial circles, may seem surprising. However, an examination of the background of this situation reveals that the lack of interest in Ottoman bonds after 1875 was not only due to financial reasons, but also to very important and deeper political reasons. These political reasons are closely linked to the development of the Eastern Question, which, in essence, refers to both the rivalries among European states and the policies they would pursue against the Ottoman Empire as a whole in the process of weakening and disintegration of the Ottoman Empire. The anti-Ottoman sentiment in European public opinion, especially during the Bulgarian uprising in 1876, was the main reason for the reluctance to buy Ottoman bonds.

The Eastern Question, centered on the problem of how the territories of the weakening and eventually disintegrating Ottoman Empire would be shared by the great powers of Europe.<sup>2</sup> On the one hand, the European great powers wanted to seize these territories; on the other hand, they considered it against their interests for any of them to dominate these territories on their own, so they tried to prevent this. For this purpose, Britain and France, which supported the Greek uprising (1821-1829), supported the Ottoman Empire in the Crimean War (1853-1856) in order to prevent a war that Russia would otherwise win on its own.

The Ottoman government, which had repeatedly borrowed from European financial markets since 1854, had turned into a debt-addicted state by the middle of 1860s due to its failure to follow a proper fiscal policy. Its financial weakness led to economic and military weakness, which in turn triggered uprisings that brought closer the solution desired by the European powers regarding the Eastern Question. The Herzegovinian uprising of 1875 was followed by the Bulgarian uprising of 1876 and the Ottoman-Russian War (1877-1878) culminated in the Congress of Berlin (1878) which completed the first stage in the disintegration of the Ottoman Empire.

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1 This loan was officially named as *Muhâfaza-i Hukûk-ı Osmanîye İstikrâzı*.

2 For an explanation of the term in the historical process, see. Kemal Beydilli, "Şark Meselesi", *Türkiye Diyanet Vakfı İslam Ansiklopedisi (DİA)*, Vol. 38, Ankara, Türkiye Diyanet Vakfı (TDV) Yayınları, 2010, p. 352-357.

The literature on the Ottoman government's borrowing from Europe is quite rich in Turkey. Indeed, many articles and books have been written in the Republican period (after 1923) on the role of this external borrowing and the subsequent *Duyûn-ı Umumiye*,<sup>3</sup> which transferred the financial control of the state to a foreign commission, in the process leading to the collapse of the Ottoman Empire. However, especially before the Ottoman-Russian War, the government's fruitless attempt to seek financial resources for the war in London financial circles has not been analyzed so far. One reason for this is the absence of a study on Ahmet Zühtü, the Ottoman finance bureaucrat at the center of this initiative. The other reason is that Ottoman and British archives on the financial developments of the period in question (1875-1878) have not been studied. Ahmet Zühtü Efendi's attempt to borrow again from the European financial markets, which coincided with the Eastern Crisis (1875-1878) period, stands out as an example that reveals how the political and military events of this period affected the financial events.

This study is based on a comprehensive review of books and articles published in Turkey and internationally on Ahmet Zühtü's initiative, followed by an examination of documents in the Ottoman archives related to Ahmet Zühtü and the external borrowing of the Ottoman government. The information on Ahmet Zühtü's missions abroad, which is provided in the only published book<sup>4</sup> about him and in an encyclopedia article,<sup>5</sup> is incomplete because it is not based on archival documents. This study will also fill these deficiencies. Considering that Ahmet Zühtü had traveled to London for the borrowing initiative, the research was enriched by a study in the British Archives, which led to the discovery of some previously unexplored and unpublished documents. In addition to the archival documents, both the Ottoman newspapers and foreign language newspapers published in İstanbul were examined and information was obtained about events that were not reflected in the archives, such as the rejection of Zühtü Efendi's mission to London by a vote in the *Meclis-i Mebusân*.<sup>6</sup> Therefore, it is believed that this study will contribute to the literature on the financial history of the Ottoman modern period as an original work both in terms of the subject it examines and the documents it evaluates.

After providing information about Ahmet Zühtü's life, this study will discuss some of his tasks, starting with the issuance of securities and bonds abroad and

3 *Duyûn-ı Umumiye*: Public Debts.

4 Ahmet Nuri Sinaplı, *Maliye ve Maarif Nâzırı Ahmet Zühtü Paşa*, İstanbul, Lebib Yalkın Yay., (no date).

5 Ali Oraloğlu, "Zühdü Paşa", *DİA*, Vol. 44, Ankara, TDV Yayınları, 2013, p. 538.

6 *Meclis-i Mebusân*: the Ottoman Parliament.

continuing with the purchase of railway materials, which made him one of the most reliable and successful bureaucrats of the state. Prior to the borrowing attempt that constitutes the main subject of the article, the Ottoman State's previous borrowings and its declaration of financial insolvency under the circumstances of rebellions and war will be evaluated. With the outbreak of the Ottoman-Russian War, the Ottoman government's sending Ahmet Zühtü to London as a last resort in the hope of finding a new loan from Europe, the problems that arose in connection with this assignment, the admirable method of pledging collateral for a new loan and the difficult negotiations with the British bondholders' association for this purpose will be revealed through new archival documents. The last part of the article will be devoted to the signing of the debt agreement known as the Loan For Protection of the Ottoman Rights, and the fact that these bonds were not in demand in the market and the reasons for this.

### Ahmet Zühtü Pasha and His First European Mission

Ahmet Zühtü Pasha was one of the leading figures in the field of finance, especially during the reign of Abdülhamid II. Born on 3 February 1834 in the Koska district of İstanbul,<sup>7</sup> Ahmet Zühtü was educated at a newly opened school, *Mekteb-i Maarif-i Adliyye*,<sup>8</sup> whose main purpose was to train civil servants and received religious education from famous teachers of his time. He started his civil service career when he was only 13 years old and rose relatively quickly due to his success, and at the age of 37, he was appointed as the head of *Divân-ı Muhâsebât*<sup>9</sup> and undersecretary of the Ministry of Finance. During his undersecretaryship, he traveled to Europe many times on assignment, and took part in the organization of customs, one of the most important sources of income for the state. He served as the *mutasarrıf*<sup>10</sup> of Saruhan and Beirut and governor of Hüdâvendigâr.<sup>11</sup> He was appointed Minister of Finance four times, especially during periods of financial crisis.

7 BOA, DH.SAİDd 18/1. *Ma'lûmât*, Issue: 337, p. 1747, İstanbul, 22 May 1902.

8 *Mekteb-i Maarif-i Adliyye*: literally School of Education of Justice. It should be noted that "Adliyye" in the name of the school has nothing to do with the concept of justice and that these schools were referred to as such because the pseudonym of Sultan Mahmud II (reigned 1808-1839), who opened these schools, was "adli" (judicial). See Osman Nuri Ergin, *Türk Maarif Tarihi*, Vol. 1-2, İstanbul, Eser Matbaası, 1977, p. 395.

9 *Divân-ı Muhâsebât* constituted the institutional infrastructure of the Court of Accounts today.

10 *Mutasarrıf* is the governor of a *sancak* (subdivision of a province).

11 When Ahmet Zühtü was appointed governor of Hüdâvendigâr in 1886, he was promoted to the positions of vizier and pasha. Therefore, he will be referred to as Ahmet Zühtü Efendi during his activities between 1873-1877, which is the subject of this article.

Although he had a background in accounting and specialized in finance, Ahmet Zühtü was appointed Minister of Education in 1891 and served in this position until his death in 1902. Even during his tenure as Minister of Education, he served on finance commissions and wrote many reports on both finance and education. His ministry focused on ensuring that foreign and missionary schools in the Ottoman Empire complied with educational regulations and on reducing their number. Zühtü Pasha's ministry of education lasted for more than 10 years and during this period, he emphasized the inclusion of religious elements in the curriculum of schools.

Zühtü Efendi's selection to be sent to London to borrow money from the European financial markets was not a random choice, but a selection based on his success in previous missions abroad. He first traveled to Paris via Trieste in July 1873. His duties during this trip were to ensure the printing of the new securities and bonds, which were decided to be put on the market, and to purchase supplies for the railroads under construction. Zühtü Efendi, who seems to have arrived in Paris probably on August 15-16,<sup>12</sup> left Paris for London in early September of the same year.<sup>13</sup> During his stay in London, he negotiated with vendors to purchase railway equipment on the one hand, and with bank representatives to obtain the bank guarantees requested by the vendors on the other.

In London in early 1874, Ahmet Zühtü Efendi, together with officials from the Ottoman Bank, attempted to negotiate a new loan agreement with M. M. Grant and Co. in England. According to the terms of this loan agreement of 50 million Ottoman liras, the loan was to be used for the construction of "3,000 km, approximately 1875 British miles, of railroads in both European Turkey and Asian Turkey."<sup>14</sup> Although it is known that this loan agreement was signed between Zühtü Efendi and M. M. Grant and Co. on 30 January 1874, it is understood that it was not approved by the Ottoman government.

Zühtü Efendi went to Paris after signing the aforementioned Railway Loan agreement and worked with Sadık Mehmed Pasha<sup>15</sup> in February and March 1874.

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12 *La France* newspaper reported on August 19, 1873 that "Zühtü Efendi... has been in Paris for a few days".

13 FO 78/2305 (18 September 1873); HR.SFR3 198/18 (19 September 1873). These documents mention that Ahmet Zühtü Efendi wanted to visit the Greenwich Observatory with his entourage.

14 HR.ID 228/50 *Lef* 2 (16 January 1874). *Lef* (originally *leff* in Arabic) is an enclosure for the archival documents.

15 Sadık Mehmet Pasha (1826-1901) served as Minister of Finance 3 times between 1869-1872, as ambassador to Paris (1875), as governor in various provinces, and as Prime Minister for a short period in 1878.

Zühtü Efendi returned to İstanbul from his first trip to Paris and London on 27 April 1874 and was soon sent to Paris again. Although the Railway Loan of 50 million Ottoman liras signed by him did not materialize, the government was able to borrow again thanks to the increased powers of the Ottoman Bank. Zühtü Efendi, who had demonstrated through his experience in Paris that it was much cheaper to issue bonds abroad than through foreign companies in İstanbul, took on the task of arranging the issuance of the bonds for the new loan of 40 million liras and departed for Paris via Marseille on 9 September 1874.<sup>16</sup> In an indication of the dismal financial situation of the Ottoman government, Zühtü Efendi was asked to try to sell Tokat copper on the European market, the price of which had fallen well below its cost at the time.<sup>17</sup>

While in Paris, Ahmet Zühtü Efendi, together with the ambassador to Paris, signed the contract for an advance of £2.6 million to the Ottoman government.<sup>18</sup> In this way, the government's financial insolvency was delayed as long as possible. Having thus completed his duties in Paris, Zühtü Efendi returned to İstanbul on 27 March 1875 and was promoted for his achievements.

### **External Borrowing Experience of the Ottoman Empire**

Even in the very difficult financial conditions that the Ottoman Empire had been experiencing since the beginning of the 19th century, it had a disposition against external borrowing. However, as the restructuring initiated by the *Tanzimat* (1839; Reorganization) reforms increased the state's expenditures and tax revenues failed to increase sufficiently, the Ottoman government used its domestic borrowing opportunities to the fullest and accumulated a domestic debt of £15 million.<sup>19</sup> After the first external borrowings for the financing of the Crimean War (1853-1856), the government made three more borrowings of £23 million (in 1858, 1862 and 1863) in order to pay short-term domestic debts and to withdraw the unrequited paper money (*kaime*) it had been issuing for years from the market. However, the government, which had difficulty in paying the interest on these loans, borrowed again in 1865 to pay the interest on the previous loans and close the budget deficit.<sup>20</sup> In fact, in 1865, some foreign financial experts had

16 *Levant Herald*, September 11, 1874.

17 HR.İD 228/64 (7 December 1874).

18 İ.DH 697/48770 *Lef*2 (20 M 1292/26 February 1875). Clay gives the amount of the advance as £2,680,863. See Christopher Clay, *Gold For the Sultan*, London, I.B. Tauris & Co. Ltd., 2000, p. 288.

19 Emine Kiray, *Osmanlı'da Ekonomik Yapı ve Dış Borçlar*, İstanbul, İletişim Yayınları, 1993, p. 27.

20 Kiray, op. cit., p. 32.

stated that the Ottoman Empire, which had begun to borrow at higher interest rates to pay the interest on its accumulated debts, would sooner or later go bankrupt.<sup>21</sup>

The Cretan uprising that broke out in 1866 aggravated the already deteriorating financial situation. In the same year, even the coupon payments of the previous debt bonds could not be paid. However, Abdülaziz's visit to Europe in 1867 and French Empress Eugenie's visit to İstanbul in 1869 created a friendly atmosphere between the Ottoman Empire and Europe. Under the influence of this atmosphere, the Ottoman government continued to borrow for a while longer, using the state's most reliable revenues as collateral. This was made possible by the continued willingness of European investors and brokerage houses to make easy and abundant money on Ottoman bonds.

In 1871, it borrowed from London banks at a high rate of 15 percent, and in 1872, with the advances it received, it paid the installments and interest on previous debts. The borrowing process had entered a vicious circle: it became necessary to borrow in order to pay the interest on the debt. 1873 was a year of many adversities for the Ottoman Empire. After the collapse of the Vienna Stock Exchange on 9 May 1873, a crisis erupted in New York on 18 September 1873, which is now known as the first great crisis of capitalism, the "Great Depression of 1873-1896."<sup>22</sup> The empire was hit by a famine that began in 1873 and lasted until 1875 and this disaster shook the Ottoman government financially. The terms of the £40 million loan, made possible in 1874 when the Ottoman Bank was granted the status of the state's treasury bank, were extremely harsh and the issue price was 43.5 percent.<sup>23</sup>

### **Financial Bankruptcy and the Ottoman-Russian War**

The Ottoman government borrowed a nominal amount of 233,097,776 Ottoman gold liras for a period of 20 years, which in fact was equivalent to 132,830,927 Ottoman gold liras due to the high discount rates applied to the bonds sold in the market. Since 13,159,013 liras of this amount was paid as annual interest and redemption fees, the net money that entered the treasury's coffers was 119,671,914 Ottoman gold liras.<sup>24</sup> In other words, for every 100 liras of nominal

21 Clay, op. cit., p. 297.

22 Şevket Pamuk, *Osmanlı'dan Cumhuriyete Küreselleşme, İktisat Politikaları ve Büyüme*, İstanbul, Türkiye İş Bankası Yay., 2008, p. 125.

23 Donald C. Blaisdell, *European Financial Control in the Ottoman Empire*, New York, Columbia University Press, 1929, p. 37.

24 Biltekin Özdemir, *Osmanlı Devleti Dış Borçları*, Ankara, Ankara Ticaret Odası Yay., 2009, p. 68; A. Du Velay, *Türkiye Maliye Tarihi*, Ankara, Damga Matbaası, 1978, pp. 218-219.

debt, the money received was 51 liras. As a result of all these developments, with a decree issued on 6 October 1875, the Ottoman government announced that it would pay only half of the coupon payments of the debt bonds in cash.<sup>25</sup> In January 1876, after the first coupon payments were made with difficulty, the March coupons could not be paid, and in April, all debt payments were stopped and a moratorium was declared.<sup>26</sup>

On 13 May 1876, Russia, Austria-Hungary and Germany issued the Berlin Memorandum which directly interfered with the internal affairs of the Ottoman Empire. Following the Herzegovinian and Bulgarian uprisings, it was decided to convene a conference in İstanbul with the participation of the states that had signed the Treaty of Paris (1856) in order to discuss the Balkan crisis that had grown with the entry of Serbia and Montenegro into the war against the Ottoman Empire. On 23 December 1876, the opening day of the conference, in order to impress the representatives attending the conference and to assert that the reforms they wanted were no longer needed, *Kânûn-i Esâsî*,<sup>27</sup> hence the Constitutional Monarchy, was proclaimed with cannon shots heard from the conference hall. However, contrary to the expectations of the Ottoman government, these attempts did not affect the decisions already made by the participants of the meeting, and the representatives of the states participating in the conference presented a proposal in the form of an ultimatum on 15 January 1877. This proposal, which interfered with the sovereign rights of the Ottoman Empire, was rejected by a widely attended assembly convened on 18 January 1877, and on 23 April 1877, Russia first broke off diplomatic relations and then declared war on the Ottoman Empire.

Before the Ottoman-Russian War (1877-1878), the Ottoman Empire was not only financially bankrupt but also deprived of the support of other European states such as Britain and France. Having supported the Ottoman Empire against Russia during the Crimean War, Britain and France were not at all friendly towards the Ottoman government after 1875. Of course, this was not only due to the Ottoman government's declaration of financial bankruptcy. In fact, the real reason was the new form that the Eastern Question took with the Herzegovinian uprising in 1875. The Eastern Question had now turned into a nationalist wave in the Balkans and the Herzegovina uprising was followed by the Bulgarian uprising

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25 This decree is widely known as Ramadan Decree, because it was issued on 6 Ramadan 1292 AH (6 October 1875).

26 Özdemir, op. cit., p. 71.

27 *Kânûn-i Esâsî*: Constitution.

in 1876. The new policy of the European states in the Eastern Question was to support nationalist uprisings. Thus, the Eastern Crisis (1875-1877) took on a new dimension with Russia's declaration of war against the Ottoman Empire. However, Britain and France did not accept Russia's domination of the Balkans by defeating the Ottoman Empire and they restrained Russia by convening the Berlin Congress in 1878. Nevertheless, the Ottoman Empire lost some of its territories in the Balkans and Eastern Anatolia and had to hand over Cyprus to Britain.

In order to wage war against Russia, the Ottoman government first and foremost needed to find financial resources. The government, which had already been in a state of perpetual war for several years due to the uprisings in the Balkans, had already resorted to various measures such as collecting aid from the population and increasing taxes in order to meet the increasing military expenditures. However, the condition of the people due to the prolonged economic and financial crisis made it impossible to provide sufficient resources for a new war.

### **Zühtü Efendi Was Again Sent to London to Urgently Find a Loan**

The government, in great financial distress, decided on 2 May 1877 to send Zühtü Efendi to Paris and London to negotiate a new loan agreement "as soon as possible due to the aggravation of the financial crisis."<sup>28</sup> Zühtü Efendi had been to Paris and London twice before, first between July 1873 and April 1874, and the second between September 1874 and March 1875. Due to the contacts and experience he had acquired during these missions, it was thought that he would be able to handle the almost impossible task of securing a new loan. However, sending him to Europe on this mission caused controversy in the *Meclis-i Mebûsân*. According to a report dated 18 May 1877, published in the "Lettres d'Orient" (Letters from the Orient) column of the newspaper *La France*, one of the parliamentarians accused Zühtü Efendi of causing loss to the state.<sup>29</sup> According to the deputies, Zühtü Efendi had "abused his position in the financial mission to which he had been sent a few years earlier in order to enrich himself."<sup>30</sup> According to the information given in the news report, 100 of the 102 deputies in the *Meclis-i Mebûsân* voted for Zühtü Efendi's dismissal. This put the government in a difficult situation and although a telegram was first sent recalling

28 İ.MMS 56/2574-2 (18 R 1294/2 May 1877); Ali Akyıldız, *Kâğıt Para ve Sosyo-Ekonomik Etkileri*, İstanbul, Eren Yay., 1996, p. 111.

29 *La France: politique, scientifique et littéraire*, 29 May 1877.

30 *London Evening Standard*, 2 May 1877.

Zühtü Efendi, the recall was later canceled. The newspaper *Basîret*, in its article stating that the allegations of the deputies were unfounded, emphasized that such gossip was not a patriotic act during the severe distress of the state treasury.<sup>31</sup> Furthermore, Ahmet Midhat Efendi, a well-known journalist and writer of the period, stated that it was later revealed that the accusations against Zühtü Efendi were unfounded.<sup>32</sup> It seems that Grand Vizier İbrahim Edhem Pasha<sup>33</sup> tried to solve the problem by sending Morgan Foster, the general manager of the Ottoman Bank, to London to accompany Zühtü Efendi in the negotiations.

Zühtü Efendi apparently arrived in Paris on 14 May 1877 and in London on 18 May 1877. His arrival in London was noteworthy for the British newspapers, as Zühtü Efendi and Morgan Foster were to hold talks with the association representing the British citizens who were the holders of Ottoman bonds of the 1854 and 1871 loans. In particular, the source of revenue that the Ottoman Empire had provided for these bonds was the Egyptian tax, i.e. the tax that the khedive of Egypt agreed to pay to the Ottoman Empire every year.<sup>34</sup>

The Ottoman government had lost the possibility of borrowing again as a result of the Decree of 6 October 1875, which had given it a bad reputation in European financial circles and had failed to provide a reliable new guarantee. In the aftermath of this decree, the bondholders formed an association to pressure the British government and negotiate with the Ottoman government. Having made no progress in their negotiations since then, the bondholders, through their representative Randolph Stewart,<sup>35</sup> indicated that they would be willing to accept a reduction in the interest rate on their claims.<sup>36</sup> This interest rate reduction made it possible to use part of the Egyptian tax as collateral for a new loan. Therefore, this was the main topic of Zühtü Efendi and Morgan Foster's negotiations with the representatives of the British bondholders in London.

31 *Basîret*, 18 May 1877.

32 Ahmet Midhat Efendi, *Üss-i İnkılap*, ed. İdris Nebi Uysal, İstanbul, Dergah Yay., 2013, p. 417.

33 İbrahim Edhem Pasha (1818-1893) Grand Vizier (1877-1878) and Ambassador (1879-1883).

34 The loans taken by pledging this tax as collateral are called "Egyptian Tribute Loans" in English literature. According to the provisions of the loan agreement, the Egyptian tax was to be sent directly to the Bank of England.

35 Randolph Stewart was one of the representatives of the Egyptian Tribute Bondholders' League in England. See Clay, op. cit., p. 371. Stewart's booklet, *The Turkish Default and the Egyptian Tribute Loans*, published in 1876, explaining the history and current situation of the Ottoman bonds to holders of the bonds, is in the Foreign and Commonwealth Office Collection. It has been republished by the University of Manchester, The John Rylands University Library (est. 2004).

36 Du Velay, *Türkiye Maliye Tarihi*, Ankara, Damga Matbaası, 1978, p. 239.

Randolph Stewart, the representative of the bondholders' association, stated that they had reached an agreement with Grand Vizier Edhem Pasha, and that a certain reduction in the interest on the bonds would be accepted by the bondholders. Thus, £178,000 of the interest and redemption fund of these bonds would be released and made available to the Ottoman government.<sup>37</sup> Zühtü Efendi sent a telegram to the Sublime Porte as soon as he read this news. If an agreement had been reached with Stewart as stated in the news, it would put a strain on the negotiations he was conducting in London, because he was trying to increase the amount of the loan by obtaining more reduction in the interest on the bonds. Therefore, if the news was false, the London embassy should have been immediately ordered to officially retract it.<sup>38</sup> Although no information has been found on whether the news was retracted or not, it appears from the ongoing correspondence that there was no such agreement with Stewart.

Zühtü Efendi, who negotiated with the representatives of the British bondholders, was aware of two facts: First; having declared a financial moratorium, the Ottoman government did not consider itself obliged to make any payments to the bondholders. Thus, bondholders who did not come to an agreement on the terms proposed by Zühtü Efendi had no chance of receiving their payments, forcing the association negotiating on their behalf to come to an agreement with Zühtü Efendi. Second; any payment to the bondholders from the Egyptian tax, which was blocked at the Bank of England, depended on the signature of the Ottoman ambassador in London, Musurus Pasha.<sup>39</sup> Thus, unless the bondholders reached an agreement with Zühtü Efendi, there was nothing the British government could do. Musurus Pasha was in control of the bondholders' money blocked at the Bank of England. Edward H. Palmer, the Governor of the Bank of England, wrote to the British MP W. H. Smith<sup>40</sup> in a letter dated 5 June 1877, after summarizing the situation:

In order to settle the difficulties which the Turkish Government have themselves raised with the holders of the bonds of the Loans of 1854 and 1871, secured upon the Egyptian tribute, which amounts to 681,000 [iiras], a gentleman, by name Zuhdy Effendi, has arrived here. He called upon me shortly after his arrival, about ten days ago,

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37 *The Times*, 31 May 1877; *The Guardian*, 31 May 1877.

38 HR.ID 228/78 (1 June 1877).

39 Konstantinos Mousouros, also known as Kostaki Musurus Pasha (1807-1891) served as ambassador to Great Britain (1850-1885).

40 William Henry Smith (1825-1891): British MP. He was the First Lord of the Admiralty between 1877 and 1880. He later served as Secretary of State for War and First Lord of the Treasury.

and from his conversation he is imbued with the notion that if the holders of the bonds of these above-mentioned loans can be induced to accept something less than what they are entitled to under the Contracts of 1854 and 1871, he will be able to use that portion of the tribute of Egypt so liberated as the basis of a new loan.<sup>41</sup>

Zühtü Efendi and Foster, in letters dated 27 June 1877, informed Palmer<sup>42</sup> and Bouverie<sup>43</sup> that a *force majeure*, that prevented the Ottoman government from paying the 1854 and 1871 debts, had occurred. Despite its willingness to make these payments, the Ottoman government needed to be left with some funds for its immediate needs. Accordingly, the interest on the 1854 bonds and the redemption fund should be reduced to 5 percent; the interest on the 1871 bonds should be 3.75 percent and the redemption fund should be 0.25 percent. In addition, the Ottoman government should have issued an edict to the khedive of Egypt to send the tax through the Financial Commission established in Egypt for the period required for the liquidation of the debts.<sup>44</sup> Palmer and Bouverie, in their reply letter sent the very next day, objected that the proposed interest rate reduction was unacceptably inadequate. According to them, the Ottoman government should completely relinquish its control over the Egyptian tax, which was the collateral for the existing debts, and leave the distribution of the money in the bank to the British government. Only then would they be able to recommend some concessions to the bondholders.<sup>45</sup>

On 19 July 1877, Zühtü Efendi and Morgan Foster reached an agreement with the representatives of the Tribute Bondholders' League.<sup>46</sup> However, this agreement between the delegations had to be discussed and ratified at a meeting of the members of this association. This meeting was held on 24 July 1877 at the City Terminus Hotel. According to the *London Evening Standard*, the meeting was chaired by Edward H. Palmer, Governor of the Bank of England. The main topic of discussion was whether or not the annual interest rate on the 1871 Ottoman debt bond should be accepted at 4.5 percent instead of 6 percent. If this was

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41 FO 424/316 (5 June 1877).

42 Edward Howley Palmer (1811-1901) was partner of the company Dent, Palmer and Company and was director of the Bank of England (1877-1879).

43 Edward Pleydell-Bouverie (1818-1889): British politician. After serving in various positions in the Parliament, he became the president of the Foreign Bondholders' Association in 1877. He was influential in the arrangements for the payment of Ottoman bonds.

44 FO 424/316 (27 June 1877; from Zühtü Efendi and Morgan Foster to Palmer and Bouverie).

45 FO 424/316 (28 June 1877; from Palmer and Bouverie to Zühtü Efendi and Foster).

46 Clay, op. cit., p. 374.

accepted, the money held at the Bank of England in relation to the 1871 bonds could be paid to the bondholders.<sup>47</sup> A vote at the end of the meeting approved the agreement. Later, a meeting of the holders of the 1854 bonds was held in the same place. This meeting was also chaired by Edward H. Palmer and it was decided to reduce the annual interest rate on the 1854 bonds from 6 percent to 5 percent.<sup>48</sup> Following the decisions taken at the meetings, the Ottoman government had to take a decision in the same direction and instruct the Bank of England, through its ambassador in London, to pay the bondholders. On 30 July 1877, it is understood that Zühtü Efendi was given the necessary permission to sign the contract that would allow the bondholders to be paid their money held at the Bank of England.<sup>49</sup> A telegram dated 6 August 1877 conveyed Grand Vizier İbrahim Edhem Pasha's thanks to Zühtü Efendi and Foster, stating: "we are confident that you will make the same effort to conclude the loan agreement quickly and satisfactorily."<sup>50</sup>

According to the agreement reached with the holders of the bonds, the interest rate on the 1854 loan was reduced from 6% to 5% and the redemption percentage from 1% to 0.5%, while the interest rate on the 1871 note was reduced from 6% to 4.5%. On the other hand, the redemption of the 1871 loan was suspended until the redemption of the 1854 loan was completed. In this way, the Ottoman government obtained a reduction of £280,622.<sup>51</sup> Zühtü Efendi wanted to conclude a new debt agreement of £5 million by using this surplus from the Egyptian tax to pay for the annual interest on a new debt. However, the signing of a new debt agreement and the inflow of any money into the Ottoman treasury was not immediately possible. This was because, in order for a new debt negotiation to take place, the agreement reached between the Tribute Bondholders' League and Zühtü Efendi had to be finalized. That is, the representatives of the said society and the representative of the Bank of England had to sign the agreement and the agreement had to be published. Then, in order to determine the interest rate that would be the basis for a new debt agreement, the price at which the 1854 bonds would be traded on the stock exchange at the new interest rate had to be determined. Zühtü Efendi reported that the text of the agreement was ready, but the signatures could not be

47 *London Evening Standard*, July 25, 1877; Clay, *ibid.*

48 Clay, *ibid.*

49 İ.DH 752/61397 *Lef 4* (19 B 1294/30 July 1877).

50 HR.İD 228/83 (6 August 1877; telegram from Server Pasha to Musurus Pasha); HR.İD 228/84 (6 August 1877; telegram from Grand Vizier İbrahim Edhem Pasha to Musurus Pasha).

51 Faruk Yılmaz, *Devlet Borçlanması ve Osmanlı'dan Cumhuriyet'e Dış Borçlar*, İstanbul, Birleşik Yayıncılık, 1996, p. 50; Kırkor Kömürçan, *Türkiye İmparatorluk Devri Dış Borçlar Tarihçesi*, İstanbul, Şirket-i Mürettebiye Basımevi, 1948, p. 50.

obtained because the representatives of the Tribute Bondholders' League were not in London. However, knowing that the Ottoman government was in urgent need of money, he was making a concerted effort to secure an advance of £1 million.<sup>52</sup>

When a rumor spread among the British bondholders, who expected the Bank of England to pay them as soon as possible, that the Ottoman government representatives were responsible for the delay in payments, Musurus Pasha made a statement to the newspapers. He stated that the delay was due to the fact that the representatives of the Tribute Bondholders' League had sent the agreement to their lawyers on 4 August 1877, and that the representative of the Ottoman government, Zühtü Efendi, was ready to sign the agreement.<sup>53</sup>

Finally, on 17 September 1877, representatives of the Tribute Bondholders' League and Zühtü Efendi signed two agreements, one for the 1854 Loan and one for the 1871 Loan.<sup>54</sup> In the introduction of the treaties, the signatories are introduced as follows:

An Agreement made the 17th day of September, 1877, between His Excellency ZUHDY EFENDY, Under Secretary of State for Finance of the Imperial Ottoman Empire, Director-General of the Mines and Forests, Governor of the General Debt, and decorated with the Order of the Medjidie of the Second Class, now temporarily residing in London, acting under the authority of His Imperial Majesty the Sultan, and on behalf of the Imperial Ottoman Government, of the one part, EDWARD HOWLEY PALMER, of the King's Arms Yard, in the City of London, Esquire, and the Right Honourable EDWARD PLEYDELL BOUVERIE, of Wilton Crescent, in the County of Middlesex, one of Her Majesty's Privy Councillors, acting as Agents and Representatives of the Holders of Bonds of the Imperial Turkish 6 per cent. Loan, 1854, of the other part:<sup>55</sup>

52 HR.İD 228/86 *Lef* 2 (20 August 1877; telegram from Musurus Pasha to Server Pasha).

53 *The London Echo*, 24 August 1877.

54 *The Times*, 21 September 1877; *The Morning Post*, 21 September 1877; *The Economist Historical Archive*, 22 September 1877. For texts of the treaties in the Ottoman Turkish and English, see İ.DUİT 187/8 (17 and 19 September 1877).

55 İ.DUİT 187/8 *Lef* 16 (17 September 1877). This quotation is from the treaty of 1854 Loan. The change in the preamble of the treaty of 1871 Loan is the substitution of "dated 1871..." for "dated 1854...". See FO 424/316 (Appendix 2 in No. 248). *Further Correspondence Respecting Ottoman Loans, 1876-78*, p. 151. See also FO 424/316 (1 October 1877; No. 248, Mr. Welby to Lord Tenterden).

### Loan For Protection of the Ottoman Rights

Following the signing of the agreement reached with the Tribute Bondholders' League in London on 17 September 1877, the main task awaiting Zühtü Efendi was the realization of a new loan agreement of £5 million in return for the new collateral of £280,622 provided by the reduction in the bond interest rates. The *irâde-i seniyye*,<sup>56</sup> granting Zühtü Efendi the necessary authorization for both the advance of £1 million and the new loan of £5 million, was dated 27 August 1877. In the same decree, "it is also approved that this public debt should be known as *Muhâfaza-i Hukûk-ı Osmanîye*".<sup>57</sup> One week later, in a report<sup>58</sup> by the Council of Ministers sent to the grand vizierate on 3 September 1877, the reasons for the decision to borrow from abroad were explained in more detail, and it was stated that the extraordinary financial difficulties of the state could only be overcome with extraordinary measures. In this report, it is reminded that "...since even the previously issued laws and regulations and the collected public donations could not suffice not only for the future but even for the daily administration of the economy", three main measures were listed in the bill submitted to the parliament by the Ministry of Finance. The first of these was to find extraordinary remedies to increase revenues; the second was to "take money from the inhabitants of the Ottoman Empire from the profits in a compulsory manner"; and the third was to seek the possibility of an external loan. Thus, it is mentioned that although the first two of the proposals were fulfilled and since it was seen that these would not be sufficient, the parliament authorized the Ministry of Finance for an external loan, and that Zühtü Efendi, undersecretary of the Ministry of Finance, was sent to Paris and London for this purpose. The report states that "telegrams were received from Zühtü Efendi stating that a loan contract had been agreed upon with the Glyn, Mills, Currie Bank<sup>59</sup> and the committee of the Ottoman Bank" and that this situation was reported to the Parliament by the Ministry of Finance. As a result, the report suggests that "Zühtü Efendi must immediately be notified of the acceptance of the agreements by the state and that an advance of one million liras should quickly be obtained."<sup>60</sup>

56 *İrâde-i seniyye*: Imperial decree/rescript.

57 İ.DUİT 187/7 (17 Ş 1294/27 August 1877). *Muhâfaza-i Hukûk-ı Osmanîye*: Protection of the Ottoman Rights.

58 İ.DH 754/61575 (24 Ş 1294/3 September 1877).

59 Glyn, Mills, Currie and Co. was a private bank founded in 1753 in London and acted as an intermediary for international loans.

60 İ.DH 754/61575 (24 Ş 1294/3 September 1877).

Layard, the British ambassador, closely monitored the repercussions of the Ottoman government's efforts to secure a new loan in England and reported to the Earl of Derby, the British foreign secretary. In his letter dated 5 September 1877, he wrote:

I am informed that the Turkish Minister of Finance reckons upon getting about 2,500,000 l[iras] sterling from the loan which is now negotiating in London on the security of the Egyptian tribute. He is already obtaining 1,000,000 l[iras] sterling in advance. By a financial operation with the caimés held in deposit by the Imperial Ottoman Bank, the Porte hopes to be able to meet the expenses of the war for five or six months to come without any new issue of caimés.<sup>61</sup>

The agreement which was styled as Loan For Protection of the Ottoman Rights and signed on London on 19 September 1877 consisted of 18 articles.<sup>62</sup> There is another agreement signed between Zühtü Efendi and the Ottoman Bank on 19 September 1877, which was intended to provide an advance urgently needed by the government.<sup>63</sup> Zühtü Efendi sent a telegram on 21 September 1877, stating that he had sent the English copies of the contracts and the opinions of the London committee of the Ottoman Bank, and although there was a decree authorizing him to issue a new loan, he asked for a new decree to be sent, including the terms of the new loan agreement.<sup>64</sup> As stated in the telegram, he requested that the decree should include the guarantee that the Egyptian tax will be sent and paid directly to Glyn, Mills, Currie and Company without any pretext, in time of war as well as in time of peace, until the interest and principal payments of the said loan are completed. It seems to have taken some time for the decree requested by Zühtü Efendi to be sent, since in the telegram sent by Server Pasha<sup>65</sup> to Musurus Pasha on 17 October 1877, it is stated that the decree was sent by post on the same day.<sup>66</sup> An important point made in the decree is that the Egyptian tax would be used exclusively "for the purpose of paying completely the interest and the principal of the aforementioned loan, beginning from 1 October 1877 to the end

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61 FO 424/316, (5 September 1877; from Layard to the Earl of Derby).

62 İ.DUİT 187/8 *Lef* 23 (19 September 1877).

63 İ.DUİT 187/8 *Lef* 21 (19 September 1877).

64 İ.DUİT 187/6 *Lef* 3 (21 September 1877).

65 Server Pasha (1821-1886): He served as İstanbul şehremîni (prefect of a town; mayor) between 1868-1870, ambassador to Paris (1872), minister of Foreign Affairs (1877) and Justice (1885).

66 HR.İD 228/89 (17 October 1877); HR.SFR.3 251/61 (17 October 1877).

of years enough.<sup>67</sup> These considerations were intended to reassure the markets, particularly in London, where the bonds would be offered for sale. While the 1875 Ramadan Decree led to a climate of mistrust, the troubles caused by the Ottoman-Russian War also meant that the financial markets would not be interested in a new Ottoman bond. As a matter of fact, in his telegram to Musurus Pasha, Server Pasha, the Minister of Foreign Affairs, wrote: "I would like to ask Your Excellency to convey by telegram in detail your thoughts on securing a new loan and to give your opinion on whether this operation can be successful or not."<sup>68</sup> In his telegram, Musurus Pasha stated that the sale of the bonds depended on the confidence of the British public, but that some negative news about Egypt's financial situation had been spread.<sup>69</sup> The reason for the negative rumors about Egypt's financial situation was the fact that Egypt had become unable to pay its own debts as a result of the debt-based expansion policy pursued by Khedive İsmail Pasha.<sup>70</sup> In fact, the Egyptian Public Debt Administration had been established in 1876, before it was established in the Ottoman Empire. Therefore, the regular payment of the Egyptian tax, which the Ottoman government wanted to use as a guarantee for its new borrowing, had become unreliable for the financial markets.

### A Complete Fiasco in Selling Debt Bonds

The subscription to the bonds of Loan For Protection of the Ottoman Rights began in London in December 1877. Conducted by Glyn, Mills, Currie and Company and the London branch of the Ottoman Bank, it was expected that the British public, who were thought to be sympathetic to the Ottoman government fighting Britain's enemy Russia, would show interest in these transactions.<sup>71</sup> Quite on the contrary, there was almost no interest in the bonds in London and Paris. In London, only £4,000 was sold,<sup>72</sup> while in India only £3,520 worth of bonds were

67 İ.DUİT 187/6 Lef 2 (1 October 1877); İ.DUİT 187/8 Lef 24 (1 October 1877); FO 424/316 (13 October 1877). See also *Turkish Loans of 1854 & 1871*, London 1977, pp.1-3. This book was compiled from Foreign Office documents and published as a separate book. The copy of the decree in the book states that it was translated by J. W. Redhouse on 8 March 1878. James William Redhouse (1811-1892) worked for a long time in the Translation Room of the Sublime Porte and in many other positions before retiring in 1853 and returning to London, where he worked as a translator for the Foreign Office. His Ottoman Turkish-English dictionary is still considered a reliable source today.

68 HR.İD 228/87 Lef 1 (26 September 1877).

69 HR.İD 228/87 Lef 2 (30 September 1877); HR.SFR.3 247/38 (30 September 1877).

70 İsmail Pasha (1830-1895) the Khedive (*hidiv*; the viceroy under Ottoman suzerainty) of Egypt from 1863 to 1879 when he was removed at the behest of Great Britain and France.

71 Clay, op. cit., pp. 375-377.

72 İ.MMS 58/2712 Lef 2 (14 S 1295/17 February 1878).

sold. Even regular customers of Ottoman bonds saw this as an opportunity to react against the Ottoman government. The government was paying a heavy price for halving the payments of bond creditors with the Ramadan Decree of 1875.<sup>73</sup>

There is no doubt that the October 1875 decree and the subsequent financial moratorium had created a very negative atmosphere in European financial markets. Political and military developments in the Balkans further fueled this negativity. The anti-Ottoman sentiment generated in European public opinion by the Eastern Crisis (1875-1878) seemed to have reached its peak with the outbreak of the Bulgarian uprising in 1876. Although the insurgents began to attack Muslim villages as well as Ottoman officials and soldiers with weapons and ammunition they obtained from Montenegro and Austria, and began to control some areas, exaggerated reports that Ottoman soldiers were massacring Christians were spreading in Europe.<sup>74</sup> In 1876, the publication of a booklet titled *Bulgarian Horrors and the Question of the East*, written by Gladstone, who had served as Prime Minister of England several times, also contributed to turning British public opinion against the Ottoman Empire.<sup>75</sup>

After all the trouble and all the negotiations, the Loan For Protection of the Ottoman Rights was a complete fiasco for the Ottoman government, which had hoped to raise more than £2.5 million from the sale of the bonds.<sup>76</sup> However, this was of no concern to the Ottoman Bank, the intermediary of the loan. This was because such a loan bond with a collateral such as the Egyptian tax would surely appreciate in value as the financial markets returned to normal.

However, the Ottoman government had no patience to wait even for a year. Therefore, on 9 July 1878, the Ottoman Bank purchased the unsold bonds of £4,969,780 at 54 percent of its normal price.<sup>77</sup> A little over a year later, when

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73 Du Velay, op. cit., p. 240.

74 Davut Hut, "Buhranlar, İslahatlar ve Dış Müdahaleler Dönemi (1856-1876)", *Osmanlı Tarihi (1789-1876)*, eds. Zekeriya Kurşun - Davut Hut, Eskişehir, Anadolu Üniversitesi Yayını, s. 171.

75 William Ewart Gladstone (1809-1898) Scottish politician who served as Prime Minister of England four times. *Bulgarian Horrors and the Question of the East*, London, John Murray, 1876. The expression "Bulgarian Horrors" in the booklet is Gladstone's own.

76 Clay, op. cit., p. 378.

77 Clay, op. cit., p. 379. Du Velay and Clay give different figures for the percentage price at which the bonds were purchased. Du Velay states that this price was 52 percent. For the French and Ottoman documents of the offers submitted during the negotiations for the purchase of these bonds, see İ.DH 768/62600 (21 C 1295/22 June 1878). The French document is dated 7/19 June 1878.

Khedive İsmail Pasha fell from power and Anglo-French financial control began in Egypt in November 1879, the value of the bonds rose to 78 percent in January 1880 and 83 percent in mid-June 1880. As can be seen, the Loan For Protection of the Ottoman Rights of 1877 brought relatively little cash to the Ottoman government, but led to very high profits for the bankers.<sup>78</sup>

The lack of acceptance of the loan bonds in European financial markets made it even more difficult for the Ottoman government to obtain sufficient funds to continue the war with Russia. On 18 January 1878, in accordance with the advance agreement signed on the same day as the loan agreement, the Ottoman Bank granted an advance of £118,000 with an interest rate of 18 percent per annum, which was to be used mainly for the purchase of arms and ammunition.<sup>79</sup> On the other hand, not all of the £1 million advance provided by the agreement with the Ottoman Bank on 19 September 1877 was received by the government in cash; 460,000 Ottoman liras were provided by banker Zafiroplu and 500,000 Ottoman liras by banker Zarifi in *kaime*.<sup>80</sup> Mahmud Celâleddin Pasha, in his evaluation of this attempt at loan, states the following:

Zühdü Efendi had traveled to London and Paris and decided to sign a loan agreement of five million British liras in nominal terms and three million British liras in real terms, of which one million liras would be received in advance. The Council of Ministers, on the other hand, ignored some of the harsh conditions of this agreement and considered it a great success. However, since the course of the war did not turn out in favor of the Ottoman Empire, it was not possible to sell the bonds and receive their cash value. One million liras were squandered by the military departments under the name of ammunition and war material expenses before they arrived in İstanbul.<sup>81</sup>

78 Clay, op. cit., p. 380. Ottoman Bank's purchase of all unsold bonds also did not provide the government with much cash. The bank first offset the government debts from previous years and paid only 528,000 pounds in cash. See Clay, op. cit., p. 379.

79 Clay, op. cit., p. 386.

80 Clay, op. cit., p. 378.

81 Mahmud Celâleddin Pasha, *Mir'ât-ı Hakikat*, ed. İsmet Miroğlu, İstanbul, Berekât Yayınevi, 1983, p. 309. Mahmud Celâleddin Pasha (1838-1899) was an Ottoman statesman and historian.

## Conclusion

Zühtü Efendi's first European mission was to print bonds in Paris by personally taking charge of the work and, more importantly, by the government's own means, instead of having them printed by foreign companies in İstanbul. The considerable savings achieved in this way paved his way for more important missions. He was also successful in purchasing materials for the construction of railroads at more favorable prices. He demonstrated his commitment to protecting the interests of the state in his negotiations with foreign experts on behalf of the Ottoman government. In particular, his ability to negotiate firmly in his meetings with the representatives of the Tribute Bondholders' League prior to the execution of the Loan For Protection of the Ottoman Rights was praiseworthy. It is his achievement that he discovered a source of guarantee for this borrowing in circumstances where the Ottoman government had virtually no other means of borrowing. However, Zühtü Efendi's initial success was followed by a punishment of the Ottoman government by European investors during the Eastern Crisis of 1875-1878, when the Eastern Question took on a new form. Although the Defense Loan ultimately failed to provide the desired funds for the government, the fact that he was able to negotiate such a loan in the unfavorable conditions created by the Ramadan Decree of 1875 played a major role in Zühtü Efendi's later rise to the post of Minister of Finance.

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HR.SRF3 *Hariciye - Londra Sefareti* (Foreign Affairs London Embassy)

HR.TO *Hariciye Tercüme Odası* (Foreign Affairs Translation Office)

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