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World Markets Brace for Impact of Turkish Lira Crisis

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The key question in major financial markets when they open for trading today will be the impact of the ongoing Turkish financial and currency crisis amid warnings that it could have far-reaching global implications.

The *New York Times* economics columnist **Paul Krugman**, in a piece published over the weekend, said that the Turkish lira plunge was a re-enactment of the Asian financial crisis of 20 years ago.

One of the world's largest bond trading companies, Pimco, has warned that the Turkish crisis is the outcome of a shift in the global financial environment resulting from the increase in US interest rates by the Federal Reserve and the winding down of its holdings of financial assets.

The increase in interest rates heavily impacts on countries, like Turkey, that took out dollar-denominated loans when they were low. As US interest rates and the dollar start to rise, the cost of servicing those loans increases, raising the prospect of bankruptcy for borrowers.

Turkey has been a major borrower on international markets with a total foreign debt of $467 billion.

In a note issued on Sunday, **Joachim Fels**, global economic adviser at Pimco, wrote:

> "This looks like another example of how a combination of bad domestic economic policies turning worse and deteriorating global liquidity that makes bloated dollar-funded balance sheets vulnerable can produce high volatility and contagion.
>
> "Who said shrinking the Fed's balance sheet and raising the funds rate in a gradual fashion wouldn't have global implications?"

The European Central Bank has put on watch major European banks that are heavily exposed to Turkish debt. They include Spain's BBVA, which has lent Turkey $83.3 billion, Italy's Unii Credit, $38.4 billion, and France's BNP Paribas, $17 billion.

With the inflation rate running at more than 16 percent, international financial markets are demanding that the central bank lift interest rates to bring about financial stability and step up attacks on the working class. But this demand has so far been refused by Turkish

President Recep Tayyip Erdogan.

In a series of speeches over the weekend, Erdogan continued with his populist rhetoric, declaring that there was an "operation" by other countries to bring down the Turkish economy.

Speaking to rally of members of his ruling Justice and Development Party in the city of Rize, Erdogan said an increase in the interest rate was a "vehicle of exploitation that will make the rich richer and the poor poorer."

The Turkish lira plunged by as much as 18 percent in trading on Friday, its sharpest fall since a financial crisis in 2001, and is set to fall even further when markets open. It dropped by another 12 percent in initial early morning trading in Asia, down to the 7 lira per dollar mark, with predictions that it could quickly go to 10.

In an interview with the *Hurriyet* newspaper published online on Sunday, Turkey's Finance and Treasury Minister **Berat Albayrak**, the president's son-in-law, said he had a new action plan to stabilise the economy, describing the plunge in the value of the lira as an "attack."

> "From Monday morning onwards our institutions will take the necessary steps and will share the announcements with the market," he said, without providing any details of what the measures could involve. A plan had been prepared for the banks and the economy at large and the government would take "the necessary steps with our banks and banking watchdog in a speedy manner."

Erdogan has dismissed suggestions that Turkey was in a financial crisis like that which took place in Asia in 1997–98, sparked by a fall in the Thai baht, which ripped through the region with an economic impact equivalent to the effects of the Great Depression of the 1930s.

He said the fall in the lira did not reflect the fundamentals of the Turkish economy. "What is the reason for all this storm in a tea cup? There is no economic reason for this. … This is called carrying out an operation against Turkey."

The lira plunge is being exacerbated by the drive by the Trump administration to utilise the financial crisis to force Turkey into line with its foreign policy objectives in the Middle East.

Last week it doubled the tariffs imposed on Turkish steel exports in response to the lira plunge and the Turkish government's refusal to release evangelical pastor Andrew Brunson, who was arrested on espionage and terrorism charges in connection with the attempted coup against Erdogan in July 2016.

The conflict over Brunson is only the latest in a series of conflicts between Turkey and the United States. Turkey is opposed to the backing provided by the US to Kurdish militia groups in Syria, which it denounces as terrorist organisations. Turkey has also come into conflict with the US and other NATO allies over its turn to seek closer relations with Russia and China.

These issues were set out in an opinion piece authored by Erdogan and published in the *New York Times* on Friday, along with criticism of the US position in the attempted coup. Erdogan said two key aides had been killed by death squads and he would have suffered the same fate had the coup been successful.

But instead of denouncing the coup in the name of "democracy" the US had only called for "stability and peace and continuity within Turkey." Erdogan did not mention it in his comment piece, but it has been reported that he only escaped death because he was tipped off by Russian intelligence sources.

The opinion piece pointed to the long strategic alliance between Turkey and the US, warning that continued unilateral action could only "serve to underline America's interests and security" and "failure to reverse this trend of unilateralism and disrespect will require us to start looking for new friends and allies."

Whatever the immediate course of events, the Turkish crisis and the warnings of its far-reaching implications, not only for so-called emerging markets but also for major international banks, have underscored the fact that the measures enacted by the US Federal Reserve and other major central banks did not resolve the contradictions of the global capitalist economy which erupted in the global meltdown of 2008.

The lowering of interest rates to record lows combined with the pumping of trillions of dollars into the financial system produced a bonanza for the global corporate and financial oligarchy in the form of rising financial assets and stock prices. The US stock market has risen four-fold since its low point of March 2009.

But this has only created the conditions for the eruption of another global crash even more devastating than that of a decade ago—a crisis which, as the experience of the past 10 years has shown, will lead to an immediate stepped- up assault on the international working class.