

# THE CURRENCY TURMOIL IN TURKEY

Relevant for: International Relations | Topic: Effect of policies and politics of developed countries on India's interests

The Turkish lira lost a fifth of its value against the U.S. dollar last week, hitting a new low on Monday before some recovery later in the week. The currency has lost over 40% of its value against the dollar this year.

The U.S. Treasury had recently sanctioned two Turkish Ministers in response to Turkey's continuing detention of American pastor Andrew Brunson on spying and terror charges. Mr. Brunson was detained in 2016 as part of President Recep Tayyip Erdogan's crackdown following an unsuccessful coup against him. U.S. President Donald Trump also said last week that he would double import tariffs on Turkish steel and aluminium. While these tensions precipitated the lira's descent, there are other underlying causes. The Turkish economy has been in overdrive, centred on a construction and consumption boom; inflation was more than 15% in July; and the country has had a high current account deficit and soaring foreign debt. A strengthening dollar and higher interest rates in the U.S. have compounded the lira's troubles. Mr. Erdogan's tightening grip on institutions has further exacerbated the situation.

Mr. Erdogan has said that the U.S. has stabbed Ankara in the back. He also said that the lira would stabilise soon as there was no "economic basis" for its fall. The President urged Turks to boycott U.S. electronic goods, and slapped retaliatory tariffs on American cars and alcohol. The Turkish Interior Ministry is also probing 346 social media accounts for undermining confidence in the economy.

To calm markets, Turkey's central bank, on Monday, promised to provide the liquidity needed by banks. Finance Minister Berat Albayrak, who is also Mr. Erdogan's son-in-law, vowed to defend the lira. Turkish regulators also stepped in to curb foreign accounts from placing bets against the lira.

On Tuesday, the Indian rupee breached the 70 mark against the dollar for the first time, largely caused by the lira's fall. Analysts have been concerned that the turmoil could hit other (emerging) markets. European banks that own significant stakes in Turkish lenders are also at risk. For now it looks like the lira is recovering but, longer term, Turkey will likely raise the already high interest rates, or it may even look to the IMF for financing.

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