

Turkey's Currency Crisis

Why in news?

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The value of Turkey's currency, lira, has nosedived since January and has lost more than 34% of its value against the dollar.

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What caused this?

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- **Construction Boom** - The Turkish economy has been in slow-motion decline for a while, with the lira sliding steadily downhill since 2016.

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- A construction boom was happening and it reached its height in 2013 and 2014, as Turkish banks issued low-interest loans.

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- This construction frenzy has been at the heart of Turkey's economy, accounting for up to 20% of the country's GDP growth in recent years.

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- But this was not accompanied by having enough foreign capital.

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- So property developers funded this construction frenzy with cheap loans in foreign currencies. (In a parallel to the 2008 financial crash, the boom was funded by low-interest loans and ballooning debt.)

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- Turkey is also heavily reliant on imports for construction materials.

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- Much of the properties were built with the expectation that it would be bought by wealthy investors from Gulf countries.

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- But the demand from the Gulf failed to rise to the level hoped.

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- This lack of demand, alongside rising costs for iron and steel, has caused many projects to stall.

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- This was further complexed by poor regulation of this industry.

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- These factors affected the exchange rate of lira heavily.
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- **Foreign Relations** - The present crash was triggered by a spat with the US government over Turkey's ongoing imprisonment of the American pastor Andrew Brunson, who is accused of involvement with a 2016 coup attempt.
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- Lira experienced a further blow when Trump Administration said doubled the tariffs on Turkish steel and aluminium.
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- **Central Bank** - In many nations, the central bank is independent of government. This means it can keep control of inflation by raising them when necessary.
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- But in Turkey, Mr Erdogan has made sure he controls the reins.
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What are the consequences?

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- To repay loans in dollars and euros, as the weakened lira means there is now more to pay back.
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- Many middle class homebuyers who paid for new apartments upfront are also affected as these apartments are now on permanent hold because the companies can't afford to build them.
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- Only upside to this is that the tourism industry has been flourishing due to the fall of lira.
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How did this affect Rupee?

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- This turmoil has impacted many emerging markets due to deteriorating emerging-market sentiment among investors.
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- Rupee faced a huge blow as it was already being affected by lack of FII inflows and growing oil prices.
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- Hence the rupee plunged to hit a record low of 70.08 a dollar.
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- Central bank intervened to slow the pace of fall but it is unlikely that there could significant intervention as factors impacting the currency are coming from external sources.
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- Experts feel that the fall is not so dramatic and so not a time to panic.
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- Foreign investors investing in government bonds or fixed income may feel some impact due to this.
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- But the fall provides a big opportunity for exports especially at a time when trade wars are happening.
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