

## Turkey's Currency Crisis

### Why in news?

\n\n

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

\n\n

### What caused this?

\n\n

\n

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

\n

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

\n

- 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.

\n

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

\n

- 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.)

\n

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

\n

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

\n

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

\n

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

\n

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

- \n
- These factors affected the exchange rate of lira heavily.
- \n
- **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.
- \n
- Lira experienced a further blow when Trump Administration said doubled the tariffs on Turkish steel and aluminium.
- \n
- **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.
- \n
- But in Turkey, Mr Erdogan has made sure he controls the reins.
- \n

\n\n

### **What are the consequences?**

\n\n

- \n
- To repay loans in dollars and euros, as the weakened lira means there is now more to pay back.
- \n
- 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.
- \n
- Only upside to this is that the tourism industry has been flourishing due to the fall of lira.
- \n

\n\n

### **How did this affect Rupee?**

\n\n

- \n
- This turmoil has impacted many emerging markets due to deteriorating emerging-market sentiment among investors.
- \n
- Rupee faced a huge blow as it was already being affected by lack of FII inflows and growing oil prices.
- \n

- Hence the rupee plunged to hit a record low of 70.08 a dollar.  
\n
- 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.  
\n
- Experts feel that the fall is not so dramatic and so not a time to panic.  
\n
- Foreign investors investing in government bonds or fixed income may feel some impact due to this.  
\n
- But the fall provides a big opportunity for exports especially at a time when trade wars are happening.  
\n

\n

