Turkey's Waning Economy

What is the issue?

Attempts to stabilize Turkey's currency Lira could further endanger Turkey's lean foreign currency reserves.

What is the status of Turkey's economy?

- Turkey has about $36 billion in foreign exchange reserves, a number that is barely enough to defend a sustained assault on its currency.
- Considering the actually usable forex reserves, taking into account beefed up gold reserves and commercial banks' forex requirements, stood at just $29 billion as of the end of August
- Net reserves are negligible in Turkey, the Turkish central bank has no real reserve resources to fight lira weakness if and when it arises.
- Under a stress scenario, the public and private sectors may even be forced to compete for foreign-exchange liquidity.
- Last year, a standoff with the United States was an aggravating factor in a 30% fall in the lira, prompting an economic recession in the country, which is heavily dependent on imports as well as foreign investors flows.
- Even countries such as Russia and China, with their much greater reserves, have found their forex firepower eroded quickly once pressure mounted.
- As households and businesses have shifted savings into hard currency, dollarization has climbed to record highs, providing little reassurance.

Why US announced sanctions on Turkey?

- The lira's history is littered with examples of tension with Washington dramatically amplifying exchange rate moves, while inflationary pressure and its implications for central bank efforts to lower interest rates are present.
- Yet having just emerged from a 2018 economic crisis and a near 50% collapse in the lira's exchange rate fueled by a standoff between Washington and Ankara.
- Turkey launched the cross-border assault on Kurdish fighters after Trump withdrew some US troops from the region, drawing sharp criticism from fellow Republicans who accused him of abandoning allies who had helped him fight against the Islamic State of Iraq and the Levant (ISIL or ISIS)

armed group.

- Turkey says the offensive aims to remove the Kurdish-led Syrian Democratic Forces (SDF) from the border area and create a "safe zone" to which millions of Syrian refugees can be returned.
- Ankara considers the Kurdish People's Protection Group (YPG), which forms the backbone of the SDF, a "terrorist" group linked to Kurdish separatists inside Turkey.
- Following turkey's action, US administration recently imposed sanctions on Turkey over Ankara's military operation in northeast Syria and called for an immediate ceasefire.

What measures are taken by turkey to address the issue?

- State-owned banks are reported to have helped prop up the pressured lira in recent weeks.
- According to one estimate, $2 billion were funnelled into markets on a single day this week to defend the currency.
- The deal to pause military operations in Syria has come as a respite for Turkish assets.
- The government has also tried to make it harder for investors to short the lira.
- Turkey made a temporary short-selling ban on some bank stocks, and traders reported some Turkish banks were curbing lira supplies to overseas counterparts.
- Turkey's foreign debt liabilities are also under scrutiny, over the next 12 months, some $180 billion of debt is maturing of which some $75 billion faces a higher rollover risk.

What lies ahead for the Turkish economy?

- Non-residents, according to the Institute of International Finance, make up the rest of trade credits as well as lira and forex deposits.
- More pressure on the lira could hurt companies' ability to pay back or roll over those dues, analysts said.
- Some investors and economists are puzzled about the best way to measure net reserves and how the central bank accounts for swaps in its calculations.
- The strength of domestic demand for the hard currency has become a gauge of faith in the authorities' ability to manage the lira and the country's finances.
- Any potential sanctions restricting dollar funding for companies would be a game-changer.
- If that happened, Turkish companies might face liquidity shortages, which would then require the central bank to step in.

Source: Indian Express

