



Turkey in crisis: Lira slides after Russian ambassador shot

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The Turkish lira fell to session lows against the dollar Monday after Andrey Karlov, the Russian ambassador to Turkey, was shot and killed in a gun attack in Ankara. The gunman — who was part of the Ankara police department's special operations unit — shouted about Aleppo, the Syrian city where rebels were defeated this month by Russian-backed government forces, as he carried out the attack at an art exhibit.

The lira was down about 0.6 percent, at 3.526 lira per dollar, at press time.

The Turkish currency has lost nearly 20 percent against the dollar this year, a large enough drop to declare a currency crisis, said Steve Hanke, director of the Troubled Currencies Project at the Cato Institute. Political turmoil and acts of terrorism that have plagued the country in recent months have put Turkey's \$720 billion economy at a tipping point.

Turkey's economy is shrinking for the first time since 2009, by 1.8 percent in the third quarter. The situation has led to a drop in foreign investment.

Earlier this month, President Tayyip Erdoğan appealed to Turkish citizens to convert savings held in foreign currencies into gold and Turkish lira. Gold is on track for one of its worst quarters in two decades.

According to economists, the fear is if uncertainty persists, it could induce capital flight out of Turkey, and that could put the country on shaky ground.

"The key concern for foreign investors relates to the erosion of the rule of law," according to Sinan Ulgen, managing partner at Istanbul Economics and a visiting scholar at the Carnegie Endowment for International Peace. "Turkey is going through exceptionally difficult domestic conditions following the botched military coup of last July."

The currency crisis comes in the wake of a series of events, including the European Parliament voting to suspend talks with Turkey on EU membership; Donald Trump's election, which roiled emerging markets; and the erratic behavior by Erdoğan.

In the past three weeks, he has threatened to allow about 3 million migrants to flood the European Union if the EU halted membership talks, which it did temporarily in response to his

targeting of political dissidents. Erdoğan also launched what Hanke called "a war with his own central bank."

He has been resisting the normal response to a sliding currency — higher interest rates — and instead asked Turkish citizens to buy lira and gold to prop up the lira.

Just as alarming is the crackdown Erdoğan has imposed to root out perceived internal enemies. It has included shutting down social media channels, including Facebook and Twitter, and taking over some 496 companies, some with publicly held units, in the hunt for coup plotters. Purges have even included the Capital Markets Board, preventing voting on debt and capital issuances for more than two months until the government appointed new board members.

For U.S. companies with major investments in Turkey, the turbulence is unsettling. Microsoft, Intel and Coca-Cola are among U.S.-based multinationals that have regional headquarters there and are exposed to domestic market turmoil.