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## 9 Things You Need To Know About Turkey

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Turkey is in a mess.

Its currency is in a tailspin and inflation is out of control.

There really is a lot going on so here are some key things you need to know.

### **Qatar Providing Help**

The oil-rich state promised \$15 billion in support of Turkey and cut an agreement to help stabilize the lira. Those efforts will likely fail due to Turkey's insane economic policies.

### **Zero Investor Confidence in Turkey's Policies.**

The problem with Turkey's policies is two-fold. First, cheap money and a government-sponsored credit boom allowed the economy to overheat. Even when that was obvious the country kept interest rates too low to contain inflation. Second, its central bank has lost all semblance of independence and credibility.

That makes investors nervous, which is a problem because foreign cash is vital for any country, and more so emerging economies like Turkey's. New York-based bank Brown Brothers Harriman sums it up in the following manner:

The precipitous decline in the currency reflects another crisis, and that is a crisis of confidence over its policies, which seem to purposefully disregard the requirements of capital. Tightening regulations, a promise of investment by Qatar, and the release of the Brunson will not be sufficient to attract investors.

### **Brunson is the U.S. Pastor Who Turkey Jailed.**

Turkey's president Erdogan is recalcitrant over releasing the pastor is making matters worse. Now the country must deal with the ire of U.S. president Donald Trump. In other words, a malaise is being made worse by stubbornness.

### **The Real Inflation Rate Is Massive.**

On August 14 annualized inflation was running at 101% according to an estimate by Steve Hanke, professor of applied economics at Johns Hopkins University. That estimate is far higher than the government-calculated rate of 15.85% in July, according to data collated by [tradingeconomics.com](http://tradingeconomics.com).

Hanke uses the prices of goods inside the country versus their costs in the global market to calculate the implied rate of inflation.

### **The value of the Turkish Lira will likely fall further.**

Hanke holds vast knowledge about troubled currencies and how to fix them. He's head of the [Troubled Currencies Project at the Cato Institute](#) and has a storied history of helping stabilize countries with such problems. In other words, he's Mr. fix-it when your currency is a mess.

Unfortunately, Hanke sees the Turkish currency declining further, [according to a recent post on ZeroHedge](#). It already depreciated a lot. Recently one dollar would fetch 6.09 Turkish lira, versus 3.5 a year ago, [according to data from Bloomberg](#). Hanke now sees it going to a rate of \$1 = 7 Turkish lira.

### **Erdogan has no clue on economics.**

Erdogan has no idea how economics works, at least based on what he says. He believes high-interest rates cause inflation, which is the opposite of how it really works. Check out [Foreign Policy magazine's](#) discussion. Hanke agrees that Erdogan's view is nonsense, according to the ZeroHedge piece.

### **Turkey's problem is quickly solvable.**

The economic crisis is fixable but only if Turkey's leadership is open to a fix that could work.

Reversing Turkey's lack of credibility on economic and monetary policy could take a while. Until then, investors will likely remain skeptical, even if Turkey's central bank got back its independence.

However, the country has an immediate problem of spiraling inflation.

The solution is to use another currency's credibility, which is what Hanke suggests. This method, known as a currency board, was used in Hong Kong to fix a triple political/fiscal/currency crisis in 1983. Then the Hong Kong dollar got pegged to the U.S. dollar. The same technique has been successfully and repeatedly used elsewhere.

Under a currency board, any monetary policy decisions are surrendered. If Turkey backed the lira with euros then all monetary policy decisions would come from the European Central Bank, a more credible institution than Turkey's central bank.

However, for Turkey to use a currency board, Erdogan would need to swallow his pride. The upside is that the problem could be fixed in days. It was in Hong Kong.

### **Turkey to leave NATO soon.**

As if that wasn't enough, analysts at New York-based financial firm Academy Securities see Turkey leaving the military alliance within months as the country shifts its focus eastwards, a recent report from the firm stated. It continues:

Academy has surveyed its Geopolitical Intelligence Group (GIG), comprised of ten retired admirals and generals, on the rising tensions with Turkey. Consistently, our GIG has identified this deteriorating relationship as a significant foreign policy concern. Additionally, the GIG sees the potential for Turkey to leave NATO by years end as likely.

Such a move won't help foster closer ties with richer liberal democracies. It also could scare investors away if leaving NATO also coincides with a move to more autocracy and less rule of law.

### **President Trump is not responsible for Turkey's woes.**

It's worth reiterating, President Trump's recent decision to hit some Turkish products with tariffs did not cause the economic malaise in which Turkey now finds itself. Turkey's leaders are primarily to blame.