



Turkey needs currency board to stop lira ‘death spiral’, Hanke says

November 18th, 2021

Turkey should set up a currency board to halt a slump in the value of the Turkish lira, said Stephen Hanke, a professor of applied economics and director of the Troubled Currencies Project at the Cato Institute.

The lira has plummeted by more than 20 percent since September, when the central bank acted on President Recep Tayyip Erdoğan’s orders and began cutting interest rates even after inflation accelerated to almost 20 percent. On Thursday, it reached a new record low of 10.96 per dollar.

Hanke spoke after Erdoğan said on Wednesday that he would not allow Turks to be crushed by interest. The president maintains that higher interest rates lead to higher inflation, an unorthodox theory that jars with conventional economic thinking.

“RTE has it all backwards. His idiotic rate cuts are sending the lira into a death spiral, and the only way out for Turkey is to install a currency board,” Hanke said in comments on Twitter.

The central bank has reduced borrowing costs by 3 percentage points to 16 percent over the past two months at a time when monetary policymakers in other emerging markets are hiking rates to deal with an upsurge in global inflation. The bank is meeting again to decide on interest rates on Thursday. Its decision was due at 2 p.m. local time.

Hanke is known as the father of currency boards. He helped Bulgaria successfully set one up in 1997, fixing the leva to the Deutsche Mark.

“Turks are not being crushed by interest rates but by inflation, which I measure at 47.4 percent,” Hanke said.

Turkey should peg the lira to the price of gold or the euro to stabilise the currency and rein in inflation, Hanke said in an Ahval podcast in September 2018, when the country was in the middle of a currency crisis. The lira was trading at about 6 per dollar at the start of that month.