Currency market turmoil impoverishes millions of Turkish workers

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24 December 2021

Millions of workers' living standards are plunging after President Recep Tayyip Erdo?an announced financial measures and the Central Bank released massive dollar reserves in a desperate attempt to stem the collapse of the Turkish lira (TL). The most obvious result of Monday's operation is the overnight enrichment of the financial aristocracy, both internationally and in Turkey, at the expense of the working class.

After a cabinet meeting Monday evening, to encourage Turks to leave their deposits in lira, Erdo?an promised to cover whatever gains they would have received had they bought dollars: "If the returns made by our people on Turkish lira at the bank are higher than the increase in the exchange rate, they will receive these returns; but if the returns given by the exchange rate are higher, the margin will be directly paid to our citizens."

This state guarantee given to Turkish lira deposit accounts will be covered by the Central Bank printing money, for which the working class will pay the price via more inflation. Recently, it was known that about 65 percent of individual deposits in Turkey are in foreign currency. Workers and middle-class people who tried to protect themselves from the depreciation of lira by investing their limited savings in foreign currency, saw a severe depreciation of their savings overnight.

On Monday, the Turkish lira fell to over 18 TL against the US dollar, from 7 TL at the beginning of February. While Erdo?an announced his measures on Monday evening, the Central Bank reportedly sold US$7 billion on Monday evening and Tuesday, according to U?ur Gürses, a former Central Bank economist and journalist. Gürses states that this supply of dollars did not come directly by the Central Bank as before, but indirectly through public banks. The dollar then fell back to 12.5 TL on Tuesday.

While the depreciation of the foreign currencies against TL continued this week, price hikes made for a long time due to the increase in the exchange rate remained. Turkey's import-reliant economy is severely affected by global price fluctuations. Over the past year, there has been an increase of around 100 percent in prices for energy and basic necessities.

While official annual inflation was announced as 21 percent in November, the real rate was at least 59 percent, according to a study by the independent Inflation Research Group (ENA group). As this fueled anger and demands for significant wage increases in the working class, Erdo?an responded last week by announcing a nearly 50 percent minimum wage increase for 2022.

This was in reality a "raise" that would again be largely borne by the working class, as it was combined with a substantial tax cut for corporations. Moreover, despite this raise and the rise in the value of the TL this week, the monthly minimum wage has still fallen in dollar terms: it is only US$370 after having been US$384 at the beginning of 2021.

Price increases in Turkey are part of a global surge in inflation, especially after the COVID-19 pandemic began, as central banks pour trillions of dollars into world financial markets. This is accompanied by the disruption caused by the pandemic in global supply chains.

This surge in inflation adds pressure on central banks to tighten monetary policy, raising interest rates to keep providing positive real returns on capital to investors. However, Erdo?an has been pressing the Turkish Central Bank for some time to cut interest rates to support economic growth in the export and construction

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sectors. With another 1 percent discount last week, the Turkish Central Bank has cut interest rates by 5 percent overall in the last four months—despite the international financial oligarchy's expectation of an interest rate increase.

This fiscal policy accelerated international finance capital's flight from the lira and the massive depreciation of the Turkish currency in 2021, while the US Federal Reserve signaled an interest rate hike for 2022. The interest rate of 15 percent was below the official inflation rate of 21 percent, which meant a 6 percent negative interest rate for the TL. Moreover, growing tensions between Ankara and its NATO imperialist allies undermined the financial elite's confidence in Turkish markets.

On the other hand, despite Erdo?an's "anti-interest" populist rhetoric, the new currency-protected deposit policy he announced means an indirect interest rate increase. The Erdo?an government's latest intervention came as a response to growing fear in ruling class circles of a general crisis as well as sharp criticisms of current financial policies.

On Friday, Union of Chambers and Commodity Exchanges of Turkey Chairman Rifat Hisarc?k-l?o?lu reacted on Twitter to the latest 1 percent cut in interest rates: "The turbulence in the markets and the level of exchange rates worry and negatively affect many of our companies. We expect urgent measures to stabilize the markets and ensure predictability."

Istanbul Chamber of Industry President Erdal Bahç?van also said last week: "We are watching with surprise as the Central Bank, which cut interest rates yesterday, released its precious foreign exchange resources to the market today."

The Turkish Industry and Business Association (TÜS?AD), representing the dominant sections of the Turkish bourgeoisie, called to "quickly return to the generally accepted rules of economic science," stating: "It has become clear that the intended results will not be achieved with the economics program being tested. We emphasized the risk of this process resulting in severe depreciation in TL, acceleration in inflation, suppression in investments, economic growth and employment, and most importantly, our impoverishment as a country."

It added, "As a matter of fact, after the steps taken within the scope of new economic preferences, an environment of insecurity and instability has emerged."

There is no reason to think that the latest measures will permanently reverse the collapse of the Turkish currency. In fact, the fluctuation in lira provided a suitable environment for the financial oligarchy to make massive profits with speculation. Now they also get an exchange rate difference guarantee from the Treasury. It is clear that the exchange rate difference guaranteed by the government will be covered by printing money, which will fuel inflation that will further impoverish the working class.

While these measures have stopped the lira's slide for now, the financial elite's doubts on the Turkish economy are growing. Turkey's five-year CDS score has increased to 623, marking growing concern in financial circles of possible state bankruptcy. Moreover, the Borsa Istanbul (BIST 100) index has dropped from 2,400 to 1,800 since December 17. The index had its worst performance since the pandemic hit Turkey in March 2020.

As Turkey has become a paradise for the profiteers of financial aristocracy, they will try to meet the price of this massive wealth transfer, which peaked during the pandemic period, with the general impoverishment and brutal exploitation of the working class. Fierce class battles undoubtedly lie ahead.

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