

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/as-turkey-teeters-germany-considers-offering-a-financial-lifeline-1535459427>

## WORLD

# As Turkey Teeters, Germany Considers Offering a Financial Lifeline

Berlin fears a meltdown of the Turkish economy could spill over into Europe with dire consequences



Germany is considering providing emergency financial assistance to Turkey. Such aid would mark a striking rapprochement between Germany and Turkey, close allies for over a century that have become increasingly estranged in recent years. PHOTO: LEFTERIS PITARAKIS/ASSOCIATED PRESS

By *Bojan Pancevski*

Updated Aug. 28, 2018 4:35 p.m. ET

ISTANBUL—The German government is considering providing emergency financial assistance to Turkey as concerns grow in Berlin that a full-blown economic crisis could destabilize the region, German and European officials said.

While the talks are at an early stage and may not result in any aid, the possibilities being discussed range from a coordinated European bailout similar to the kind deployed during the eurozone debt crisis to project-specific loans by state-controlled development banks and bilateral aid.

Berlin fears a meltdown of the Turkish economy could spill over into Europe, cause further unrest in the Middle East and trigger a new wave of immigration toward the north.

“We would do a lot to try to stabilize Turkey,” a senior German official said. “We don’t have much choice.”

Other European governments have grown equally concerned. Hosting his Turkish counterpart in Paris on Monday, French Finance Minister Bruno Le Maire said it was important to support Turkey’s efforts to repair its economy.

But economists say it is too early to pin down how much money Turkey, a member of the North Atlantic Treaty Organization, might need because much of its potentially troubled debt is in private hands. They have pointed to Argentina, a smaller emerging economy facing similar problems, which received a \$50 billion credit line from the International Monetary Fund in June.

Two senior officials in Berlin said German Finance Minister Olaf Scholz had discussed some of the options with his Turkish counterpart Berat Albayrak in recent conversations.

Such aid would mark a striking rapprochement between Germany and Turkey, which despite having been close allies for over a century have become increasingly estranged in recent years as Turkish President Recep Tayyip Erdogan’s rule has grown more authoritarian.

Mr. Erdogan is due to visit Berlin on Sept. 28. Financial aid will be on the agenda a week earlier, when Messrs. Scholz and Albayrak are expected to meet in Berlin to prepare the president’s trip.

Germany’s attitude contrasts with that of the U.S., which has shown little interest in calming markets as they pummeled the Turkish currency, the lira, earlier this month. On the contrary,

President Trump, locked in a dispute with Mr. Erdogan over the detention of a U.S. pastor in Turkey, has piled sanctions and new tariffs on the country.

German officials said such policies might have amplified Turkey's woes and reduced market confidence.

"This is an absolutely insane and ill-informed policy," said one senior German official.

---

READ MORE ON TURKEY

---

- What Turkey Can Do if Market Troubles Return
- How Erdogan's Push for Endless Growth Brought Turkey to the Brink
- Investor Lessons From Turkey's Crash to Earth
- Turkey Shifts Toward Russia as Sanctions Sour U.S. Relations

Berlin's main concern is that a crisis could undo a landmark deal with Turkey under which Ankara has cracked down on Europe-bound refugees passing through its territory in exchange for funding. Germany experienced a popular backlash after the country took in nearly two million asylum seekers

since 2015.

The collapse of the lira—it has lost 40% of its value against the dollar this year—has pushed up inflation and put pressure on companies and individuals who have loans denominated in foreign currency. The threat of mass defaults, in turn, has been weighing on Turkish banks.

Countries facing balance-of-payment problems have in the past turned to the Washington-based International Monetary Fund, which can provide liquidity to its shareholders in exchange for often unpopular economic reforms.

But with the U.S. threatening to veto any Turkish request for IMF funding, officials in Berlin and Brussels said Europe might have to step in on its own.

Two Brussels-based senior European Union officials confirmed discussions about a possible bailout but insisted the IMF would have to be involved. Other avenues short of a full-fledged bailout could involve loans by the European Investment Bank or the European Bank for Reconstruction and Development for specific projects, one of the officials said. Any such measure would require an agreement among the EU's member states.

Without the IMF's participation, new instruments would have to be created, which would require an EU consensus, one German official and two EU officials said.

"Turkey would have to initiate this demand and only then would we discuss what support we could bring them," a French finance ministry official said.

A spokesperson for the U.S. embassy in Ankara declined to comment.

A spokesman for the Turkish finance ministry dismissed any bailout talk and Turkish officials said they had no intention of soliciting outside support.

Even if that were to change, a European aid package—like the kind offered to cash-strapped eurozone member state during the region's debt crisis—would require an austerity package that Mr. Erdogan may balk at accepting. The president, who was re-elected in June on the promise of building a stronger Turkey, has said the Turkish economy was robust.

Germany could consider bilateral aid in the form of untied financial credits, an instrument used to help Hungary in the 1980s, a German official said.

However, another German official cautioned that neither Germany nor Europe had enough resources to offer anything other than limited and temporary support to Turkey without the IMF.

Any German assistance for Mr. Erdogan could also involve political risks for German Chancellor Angela Merkel. A Deutschlandtrend poll published last week found that 72% of Germans were opposed to any financial aid to Turkey.

It could also risk further fanning tensions between Ms. Merkel and Mr. Trump, who has been scathingly critical of Germany's liberal immigration policies, low military spending, energy policy and large export surplus.

Ultimately, however, Europe may find it inevitable to provide some form of assistance to Turkey, a senior EU diplomat in Ankara said.

“We cannot just sit and watch Turkey go down the drain. The migration pressure and the geostrategic importance, as well as the economic links, are too important,” this person said.

**Corrections & Amplifications**

Other avenues short of a full-fledged bailout for Turkey could involve loans by the European Investment Bank or the European Bank for Reconstruction and Development for specific projects, a senior European official said. An earlier version of this article incorrectly identified the latter of those entities as the European Bank for Research and Development.

Copyright ©2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.