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## WORLD

# Turkish Lira Weakens as Central Bank Fails to Assuage Investors

Analysts think the move won't cure financial problems; increasing interest rates viewed as controversial



The latest move by Turkey's central bank failed to ease concerns over the nation's financial stability. PHOTO: MURAD SEZER/REUTERS

By *David Gauthier-Villars*

Updated Aug. 29, 2018 8:32 a.m. ET

ISTANBUL—Turkey's central bank took steps to undo some of the emergency support it provided to its banks in recent weeks, reviving investor concerns over the nation's financial stability as the Turkish lira continued its slide against the dollar.

Ratings firm Moody's also rattled investors by downgrading 18 Turkish banks on fears they will face growing difficulties in refinancing foreign-currency loans.

"There is a heightened risk of a downside funding scenario," the ratings agency said in a research note.

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Turkey's Finance Minister Berat Albayrak—the son-in-law of President Recep Tayyip Erdogan—remained unconcerned on Wednesday. "We do not see a big risk about Turkey's economy or financial system," he told reporters on a plane returning from Paris, according to Turkish media.

Mr. Albayrak has said he would announce a package of economic measures next month to address debt issues and inflation, which reached 16% last month.

The collapse of the lira—it has lost 40% of its value against the dollar this year—has sent ripples through the global financial system, raising concerns about the exposure of some European banks and denting investor appetite for emerging markets. Analysts now fear that mass defaults will weigh on Turkish banks.

In early afternoon European trading, \$1 bought 6.45 lira.

Turkey's central bank had pledged to provide banks with all the liquidity they needed earlier this month, after the lira had tumbled to its lowest reading ever against the dollar, said it had reintroduced a ceiling on such borrowing, in effect limiting banks access to short-term funding.

Analysts said the move would do little to cure Turkey's acute financial problems, which range from galloping inflation to growing fears that the nation's banks and corporations won't be able to cope with hefty foreign-currency debt. Rather, they are watching the central bank's next policy meeting in September to see if the institution increases interest rates.

"Everyone knows that what Turkish policy makers need to do to restore shattered confidence among investors is to officially raise interest rates on Sep. 13," said Piotr Matys, a strategist at Rabobank in London.

Widely regarded as the most common way to combat inflation, increasing interest rates has been fraught with controversy in Turkey because President Erdogan has said it harms the economy.

Analysts say the clock is ticking. In Germany, the government is considering providing emergency financial assistance to Turkey as concerns grow in Berlin that a full-blown economic crisis could destabilize the region, officials said.

Adding to investor concerns, Ankara and Washington have failed to resolve a dispute over the detention of a U.S. pastor in Turkey. In recent weeks, the Trump administration has piled sanctions and new tariffs on the country, raising fear of a full-blown trade war.

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