Turkish lira hits record low as Erdogan sacks central bankers

Embattled Turkish currency has lost nearly a fifth of its value so far this year

ISTANBUL: The Turkish lira sank to a record low against the US dollar yesterday after President Recep Tayyip Erdogan fired three central bank members in an overnight decree. The embattled Turkish currency has lost nearly a fifth of its value so far this year as market concerns over the policy-setting bank's independence hit fever pitch.

Erdogan removed two deputy governors and a member of the monetary policy committee, according to a decision published in the official gazette. One of the dismissed bankers was reportedly the only one to vote against a surprise interest rate cut that sent the lira on a new downward spiral last month.

"The direction of travel is worrying and there can't be many (if any) investors left that believe the central bank of Turkey is still taking the fight against inflation seriously," analyst Jason Tuvey of Capital Economics told AFP. The Turkish lira fell overnight by around one percent to 9.19 to the dollar, a record low, before rallying to 9.13 in the afternoon. Emerging market currencies are weakening across the world on expectations that the US Federal Reserve and European Central Bank will soon start raising interest rates, making their assets more attractive. But Turkey's currency is falling faster than most others because of political concerns about Erdogan. The lira moved past the nine to the dollar mark for the first time on Monday, when Erdogan suggested that Turkey might conduct a new military operation in Syria.

A dollar was worth 3.75 lira at the start of 2018. Erdogan has fired three central bank governors since 2019, undermining investor confidence and leading to losses in the value of the lira that make life more difficult for ordinary Turks. The powerful Turkish leader has called high interest rates "the mother and father of all evil", demanding cheap money policies that stimulate lending, investment and economic growth. But this push for economic expansion at all costs has seen the annual inflation rate soar to nearly 20 percent-four times higher than the government's official target. Current central bank governor Sahap Kavcioglu had resisted lowering interest rates during his first five months in the job, leading to speculation that he was about to be dismissed. But the bank lowered the one-week repo rate to 18 percent from 19 percent on September 23. —AFP

ISTANBUL: A currency exchange official counts Turkish Lira banknotes in front of the electronic panel displaying currency exchange rates at an exchange office in Istanbul. —AFP

US Trade Rep signals shift towards WTO disputes

GENEVA: US Trade Representative Katherine Tai yesterday signaled a shift in Washington's stance on the World Trade Organization's dispute resolution process. "We all recognize the importance of the WTO, and we all want it to succeed," Tai said in a speech to be delivered at The Geneva Institute's Geneva Trade Platform.

But she said the WTO must be "flexible." Under the administration of former president Donald Trump, the United States brought the WTO's dispute settlement system to a grinding halt in December 2019 by blocking the appointment of new judges to the key Appellate Body.

Tai, who was appointed by Trump's successor Joe Biden, indicated Washington is looking to thaw relations with the global trade body and improve how trade conflicts are settled. "We believe we may succeed in reforming the negotiating pillar if we create a more flexible WTO, change the way we approach problems collectively, improve transparency and inclusiveness and restore the deliberative function of the organization," she said, according to excerpts of her speech.

The organization's seven-member Appellate Body can uphold, modify or reverse a dispute panel's initial findings. US criticism of the process predates Trump, although he cranked up hostilities to new levels. While Washington has won most of the cases litigated by the WTO, Trump's administration accused the body of exceeding its powers with judgments viewed as violating of national sovereignty.

Even Tai noted that the dispute settlement proves "has become synonymous with litigation-litigation that is prolonged, expensive, and contentious." WTO chief Ngozi Okonjo-Iweala hopes to get the problem resolved before the next trade ministerial conference later this year. —AFP

Fed officials lean towards cutting back on stimulus

WASHINGTON: Unless the US economic situation changes dramatically, Federal Reserve officials are leaning towards cutting back on monetary stimulus as soon as November, according to a central bank document released Wednesday. The date when the Fed will pull back on its monthly bond purchases has been a closely watched topic for months, and the policy-setting Federal Open Market Committee (FOMC) last month indicated the time could come "soon."

The minutes of the FOMC meeting released Wednesday showed officials speaking positively of plans to begin cutting back on the bond purchases as soon as after their next meeting scheduled for November and end it by mid-2022. Officials indicated that "provided that the economic recovery remained broadly on track, a gradual tapering process that concluded around the middle of next year would likely be appropriate," according to the minutes.

If the FOMC makes the decision at the next meeting then "the process of tapering could commence with the monthly purchase calendars beginning in either mid-November or mid-December." The central bank currently buys $80 billion in Treasury bonds and $40 billion in mortgage-backed securities each month, a policy implemented early last year as the COVID-19 pandemic caused an unprecedented downturn.

But the policy has increasingly been questioned in recent months amid rising inflation. The minutes showed participants favored a plan to cut purchases of Treasury bonds by $10 billion a month, and reduce mortgage-backed securities by $5 billion a month. With inflation spiking through much of this year, central bankers' forecasts released at last month's meeting showed interest rates could be hiked off zero as soon as next year.

KARACHI: A stockbroker watches an index board showing the latest share prices during a trading session at the Pakistan Stock Exchange (PSX) in Karachi yesterday. —AFP

According to the minutes Fed officials acknowledged inflation could worsen. "Most participants saw inflation risks as weighted to the upside because of concerns that supply disruptions and labor shortages might last longer and might have larger or more persistent effects on prices and wages than they currently assumed," the minutes said. Fed officials also discussed the ongoing impact of COVID-19, noting that the increase in labor force participation expected once vaccines were rolled out "had not yet materialized." Employers nationwide have struggled to fill open positions, even though the economy remains about five million jobs short of its pre-pandemic total.

"Various participants suggested that a complete return to pre-pandemic conditions was unlikely" since many people had decided to leave the workforce through retirement and other means, the minutes said. But some Fed officials predicted the labor force would snap back to where it was in February 2020, once the virus receded. —AFP