tries, at the informal Commonwealth of Independent States summit in Sochi, held Aug. 1-3. (The Russian Union of Gold producers claims that commercial banks have lately shifted up to 90% of Russian gold exports into the shadow economic sector, funnelling them through cutouts in the customs union countries in order to evade the Russian Federation's 5% export tax on gold.)

Ministry of Finance sources quoted in the Russian media shrugged off the Aug. 25 import-export suspension as a bureaucratic snafu; but for certain, every decision affecting the movement or accumulation of Russian gold and precious metal resources, is a point of intense political strife in Russia. Any leadership impulse to act in the national interest, tends to come into conflict with Russian raw materials operators—who made criminal fortunes during the 1990s "reforms"—and their international partners and patrons, who look at Russia as a source of loot, and who fear its actions in the direction of a New Bretton Woods.

It remains unconfirmed at this writing, whether Russian metals and gems trade will be resumed by Aug. 31, by Sept. 10, or perhaps in February or later, and on different terms. In the meantime, Pavel Loginov of the gold-exporting Rosbank complained to the *Moscow Times,* his bank and other private gold-market operators can only sell their gold to the Central Bank, not to their more lucrative commercial partners.

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Turkish Economy in Deep Depression, as IMF Makes It Worse

by William Engdahl

The economy of Turkey, a key NATO member and candidate for European Union (EU) membership, is plunging into severe depression. Not surprisingly, the worsening economic situation follows on the heels of a multibillion-dollar International Monetary Fund (IMF) "bailout" package—actually several since last December.

On Feb. 22, following a collapse of the bond market, severe pressure on the Turkish currency, the lira, forced the Central Bank to float the currency. Since then, the lira has lost 52% of its value against the dollar. Fully 10% of that fall came in August alone. This devaluation has meant disaster for Turkish banks that have dollar loans to repay, and lira earnings with which to repay them. Banks and corporations with debts in dollars must pay twice as many liras as before to service those debts, a staggering burden. Some $15 billion is due in 2001 alone.

Since the devastating economic impact of the Russian default in 1998, and the 1999 earthquake which hit northern Turkey, Turkish banks had borrowed heavily in dollars, and converted the dollars into liras under the fixed-exchange-rate regime to boost profits. With the lira, the banks had earned huge sums simply by buying government debt that paid interest rates of 20%, 30%, 40%, and, more recently, 100% and higher. With the lira float, the banks are being hit hard. Already the government has been forced to step in and nationalize several banks. One, Demirbank, has just been bought, dirt cheap of course, by London's HSBC Group. Italy's Banca Intesa is negotiating to buy Garanti Bank, and France's BNP-Paribas to buy Finansbank.

For a country dependent on imports of machinery and capital goods to modernize and build its industry, the 50% lira collapse has hurt. In January-May, Turkish imports dropped by 16.5% to $16 billion. Despite three IMF injections of funds since December, capital continues to leave the country, forcing the Central Bank to hold its overnight interest rates to banks at a staggering 60% as of Aug. 28. Given the inability to pay for needed imports for manufacturing, as well as a banking system on the brink of insolvency, it is little wonder the Turkish economy is in a tailspin. It provides yet another case in point why the IMF medicine is worse than the disease it claims to cure, and why only a New Bretton Woods system along lines proposed by Lyndon

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LaRouche is workable, in the context of a global Chapter 11 debt reorganization.

'Going to the Dogs'

For the period August to October alone, the government must come up with $10.5 billion just to service its domestic debt. Then, in November, another $8 billion in domestic commitments must be paid by the Ecevit government. The banks depend on the high-interest earnings on these government bonds to survive, but the IMF is demanding an end to that system and the closing of insolvent banks. That has done little, naturally, to get loan capital to farmers and businesses desperately in need of credit.

Yet to get IMF money released, the shaky coalition government of Prime Minister Bulent Ecevit must impose draconian budget cuts in a country where the state sector makes up most of the economy. This, in order to finance the soaring public debt, among other items.

One result of the austerity has been a negative growth rate. Latest estimates project a fall in GDP this year of 5.5%. Only weeks ago, it had been projected at less than 3%. In Istanbul, 57% of the member firms in the ISO, one of the largest industry groups in the country and representative of small and medium-sized industries, recorded losses for the first six months. Little wonder: Their capacity utilization is a depression-level rate below 50%, on average.

Industrial output of ISO companies fell 62.5% in the first half-year compared to the previous half-year. Domestic sales fell 72%, with new orders down 63.8%. For the entire Turkish economy, in June (the latest available data), the government reported a 10.4% drop compared to a year earlier.

Koc Holdings, Turkey's largest industry group, recorded a 13% drop in sales in the first six months compared to a year ago. Toyota of Japan has shut down its auto production in Turkey. The result of falling business earnings is collapsing tax revenue to a government Treasury already under pressure to cut the national budget deficit. The result is a self-aggravating downward spiral.

Soaring unemployment also cuts income tax revenues, further worsening Treasury shortfalls. The result is that it will be impossible for the government to hit the IMF target of a primary budget surplus, exclusive of interest payment on the debt.

The inflation rate for this year is expected to hit 58% officially, and according to private bank estimates, will exceed 70%, which is approaching the Weimar-style hyperinflation that Germany's Weimar Republic underwent in 1922-23. Should the crisis worsen, economists project rapid deterioration to 200% annual inflation. For people on fixed lira incomes, that would mean severe impoverishment. Many experts say that only hyperinflation—which would explode the flight-capital crisis—or a debt moratorium, offer any solution to the destructive IMF bailouts, which are, after all, aimed at bailing out foreign bankers, such as Britain's HSBC or Deutsche Bank, that have billions at risk in Turkey.

The IMF-induced economic depression comes on top of the 1999 earthquake in northern Turkey, in the industrial area some 100 miles north of Istanbul, which caused an estimated $40 billion economic loss, a loss in GDP of 6.1%, and more than 20,000 deaths.

The IMF austerity demands and resulting budget cuts have had a big impact as well on the Turkish Armed Forces, the backbone of the state model Kemal Atatürk established in the early decades of the last century, in which the military acts as the "guardian" of the Constitution and of a secular Turkey. In recent weeks, the government has announced a freeze on $19.5 billion in military procurement because of the fiscal crisis. The list includes 32 projects to modernize Turkey's military force structure. The cuts affect not only Western arms suppliers, but many domestic military manufacturers.

Minister of State for Economic Subjects Kemal Dervis, who was called back from a senior World Bank post in Washington to lend "credibility" to Turkey's IMF austerity and privatization program, is becoming a target of popular protest, as unemployment spreads and real wages fall because of soaring inflation. The country's economy is rapidly disintegrating, with the "help" of promises of IMF money.