by the Central Bank. On July 11, government spokesmen had to issue statements throughout the day, denying that a run on the banks had begun. By July 12, dollars were so scarce, that a delay in the arrival of a United Airlines plane carrying greenbacks from the United States forced several banks to restrict bank withdrawals to $1,000 dollars per person.

On July 14, Moody's Investors Service downgraded three categories of Argentine debt, including its rating on the foreign currency bank deposit ceiling. The latter dropped from B3, to Caa1. A Commerzbank Securities analyst told Bloomberg wire service that the "C" rating on bank deposits "tells you that bank deposits are flying out of the window, and there are only so many reserves around to back M1 (money that can be converted to cash)." By July 16, foreign reserves were $19.75 billion, a drop of 13% in July alone.

Third, there is the $8.8 billion in government debt which comes due in 2001. Financiers are calculating: The $4.1 billion in non-Treasury bills which come due this year, can be covered by $4.7 billion which Argentina is to receive under the International Monetary Fund bailout signed in December 2000; that leaves $600 million towards the $4.3 billion in Argentina's Treasury notes, *Letes,* which come due this year. The focus is to get banks and private pension funds to swap enough of their *Letes* for one-year paper, to be able to cancel, at least for a few months, the biweekly auctions used to roll them over. The auctions make it so public that no one is willing to buy Argentine government paper; they have become "a flashpoint for investors' fears about the country's solvency," as the *Wall Street Journal* put it on July 18.

Should Argentina and its creditors be able to fake it past big payments due in August and September (as far ahead as anybody is thinking right now), there is the fourth factor ticking away: the nightmare of Brazil, and its $500 billion in foreign obligations.

Turkey in Hyperinflation

A new crisis of much greater intensity has broken out in Turkey, a NATO member and a candidate to join the European Union. On July 17, the Turkish lira went into a free fall and panic erupted in financial markets after a government bond auction failed to raise funds, even though it offered 105% interest rates. The bond auction failure signalled a full-blown crisis of confidence, with the lira plunging 13% overnight as Turks sold lira for foreign currency at panic levels. By end of the day, the lira stood at 1.6 million to one U.S. dollar. The day before, it had been 1.3 million, and a month earlier it had been 900,000 lira to a dollar.

"Turkey is at the end of the road unless she can stop the lira free fall," warned City of London banker S.J. Lewis. "The country is in hyperinflation. The real problem is in the domestic lira debt held by Turkish banks. The total cost to the government to service this bond debt is now greater than the total estimated annual tax receipts of the government. Were Turkey a private company, it would be de facto bankrupt. Instead, it is going into hyperinflation." On July 16, Finance Minister Sumer Oral reported that the government spent 92% of its entire tax revenues in the first six months of the year on interest payments on state debt.

According to Lewis, "If you take the official rate of inflation of the past three months, and annualize that, inflation now is running at an 1,800%. The country was teetering on the brink of just such a hyperinflation crisis when events exploded last February, with the government crisis. Now the lira has been destroyed and hyperinflation is here." Since the crisis last February, the lira has floated freely against foreign currencies.

On July 17, a day after the lira crisis broke, financial markets rejoiced on news that Transport Minister Enis Oksuz, the leading opponent of International Monetary Fund-dictated austerity and privatization "reforms," had resigned. The lira recovered 8% and interest rates fell by 14%. That hardly means a return to normal, as rates are still 100%.

The joy will be short-lived however. The "winner" from the Oksuz resignation is the savage IMF austerity plan and its chief architect, former World Bank technocrat, Kemal Dervis. Dervis was brought in by the Ecevit coalition government after the February crisis, in a bid to regain the confidence of the IMF and international investors. The IMF in return pledged $15.7 billion to Turkey on the implementation of its austerity demands. Oksuz had had repeated open clashes with Dervis over IMF demands to privatize the state telecom company to cut the budget deficit.

Already the Turkish economy is in a deep depression as a result of the long banking crisis, soaring interest rates, and earlier IMF austerity demands. For June, manufacturing industries operated at only 71.7% of capacity. Shortages of raw materials and soaring prices have been a major factor in the industrial depression.

In the latest crisis, Turkish companies simply stopped paying their bills and invested in the rising dollar with their lira as the currency weakened. Bedrettin Karaboga, head of the Turkish industrialists association, GUNSIAD, remarked, "As an industrialist, I could not collect my checks and deeds. People invest in foreign currencies rather than pay their debts." He warned, "Turkey will be seized by social explosions if measures are not taken to save the real sector from depression."—*William Engdahl*