Letter to *The Financial Times*: Turkey's currency crisis and the threat of contagion, 26 November 2021. From: https://www.ft.com/content/ddce395c-b4c5-47c6-b253-9c1dd0fdc7e2

From Professor Costas Milas, Management School, University of Liverpool, Liverpool, UK

You write that the steep drop in the value of the Turkish currency is caused by President Recep Tayyip Erdogan's "unorthodox" thinking that interest rate cuts will not make inflation spiral out of control (Report, November 24).

Although Erdogan's policies are destabilising the Turkish economy, one might also ask whether the Turkish economic crisis has the potential to create contagion effects for the rest of the world. One way of answering this question is to look at the exposure of international banks to Turkish private and public debt.

Data from the Bank for International Settlements are quite informative. The exposure of selected banks around the world to Turkish private and public debt is fairly low. Despite the longstanding tensions between Greece and Turkey, Greek banks used to have a high exposure (as much as 20 per cent of their total exposure around the world) to Turkish debt in 2015; their exposure has now declined to less than 1 per cent. French banks have a 0.72 per cent exposure to Turkish debt. The exposure of British banks and US banks is even lower at 0.35 per cent and 0.24 per cent, respectively.

On the other hand, the exposure of Spanish banks to Turkish debt stands at 3 per cent (of their total exposure worldwide). The exposure of Spain will presumably increase if the BBVA plan to buy the rest of Garanti bank is approved.

All this suggests that there is not currently much concern for possible contagion effects. However, it would make sense to keep an eye on Spanish banks because there is a remote possibility that the Turkish economic crisis, if it continues long enough, will knock on Europe's door.

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