SECRET [redacted]

Withheld under statutory authority of the Central Intelligence Agency Act of 1949 (50 U.S.C., section 3507)

Senior Executive Memorandum

6 March 2003

This memorandum should not be reproduced.

E.O. 13526, section 1.4(c)

Memorandum

In response to a question about the implications for the US of another economic crisis in Turkey requiring international assistance and funds:

Since the Turkish legislature's veto of US troop deployment on Saturday, Ankara has worked feverishly to reach an agreement with the IMF in an effort to calm financial markets. [redacted] IMF officials are satisfied with the budget proposal and a draft tax reform bill, but Ankara must revise plans for reducing over-employment at state-owned companies and commit to banking reforms.

— Even if the government meets all the IMF's criteria, the financial repercussions of a war in Iraq would raise Ankara's foreign debt service costs—currently about $30 billion annually—by driving down the exchange rate and pushing up interest rates. Foreign commercial banks also are likely to reduce their short-term exposure because of concerns that Turkey would not be able to sustain its debt service payments and the government might have trouble rolling over its $95 billion domestic short-term debt. [redacted]

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If a financial crisis developed, the IMF and the World Bank, which have been reluctant to extend more credit to Turkey, probably would press Washington to intervene and could call for greater funding from the US and other industrial countries.

— The amount that Turkey owes to the IMF—more than $22 billion at current exchange rates—is equal to nearly 1,700 percent of Turkey's IMF quota, while the normal limit is 300 percent, and Turkey already accounts for 26 percent of the Fund's lending.

— The World Bank could lend more, as its $8.9 billion exposure in Turkey is below the $13.5 billion single country exposure limit and is equal to only 4 percent of its total lending. Budget cuts the government made to comply with the IMF's fiscal target have made it impossible for the Bank to disburse the remainder of its existing budget support loans this month, [redacted] [redacted]

E.O. 13526, section 1.4(c)

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A financial crisis could prompt Turkey to seek the rescheduling of part of the $1.8 billion owed this year to US Government agencies and other bilateral creditors. Rescheduling the $19 billion in principal payments due to private-sector creditors would be harder because Turkish banks holding government Eurobonds would be hurt.

DECLASSIFIED UNDER AUTHORITY OF THE INTERAGENCY SECURITY CLASSIFICATION APPEALS PANEL, E.O. 13526, SECTION 5.3(b)(3)

ISCAP APPEAL NO. 2014-038, document no. 1
DECLASSIFICATION DATE: November 21, 2017

continued . . .

For further information, contact the Chief, ~~Economic Security Group~~, at [redacted]

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