Turkey's snowballing economic problems hit crisis proportions this week, sending shock waves throughout U.S. and European banking circles. For more than five months, Turkey has defaulted on import payments and for two months has fallen in arrears on its short-term debt obligations. Foreign currency reserves have disappeared. "Turkey is rapidly approaching the brink of bankruptcy," wrote New York Times columnist C. L. Sulzberger from Istanbul. "It is imperative that an emergency program of economic discipline be drawn up by the (Turkish) Government to qualify Turkey for credits from the International Monetary Fund."

The situation is so precarious, noted the West German financial daily Handelsblatt, that Chase Manhattan and Citibank — the U.S. banks hardest hit by the Turkish collapse — are worried that a demand for repayment by one of the many small U.S. banks with money tied up in Turkey could trigger a series of defaults by the Turks or a possible debt moratorium. The result could be a chain reaction of debt moratoria in other developing countries, culminating in the collapse of the over-extended Wall Street banks.

Turkey's impending financial blowout terrifies the Rockefeller forces who fear her economic problems will jeopardize her role in the Carter Administration's confrontationist strategy with the Soviet Union and do equal damage to Turkey's bulwark position on NATO's southeastern flank. The Turks are reportedly "seriously considering" expanding relations with the Soviets, "not out of love but necessity," according to a Turkish government spokesman.

In a surprise development last week, the Turks signed a major accord with Soviet-allied Libya. Libya will finance seven major industrial development projects in Turkey at a cost of $570 million and is considering supplying oil for the Turks on a credit basis. The agreement with Libya, which according to a Bank of America official may involve Italian technological input, is geared explicitly for development and not for debt refinancing.

Coming just one week before an IMF delegation arrives to strongarm the Turks into imposing austerity, the Libyan-Turkish deal neatly undercuts the IMF and begins integrating Turkey into triangular trade arrangements and investment projects involving Europe, the Soviet bloc, and the Arabs. It also provides the needed backup for a declaration of debt moratorium, an option long considered by wavering Turkish government officials.

Austerity or Else

On Sept. 5, a delegation from the IMF arrives in Turkey to force through the implementation of a long-postponed austerity package. The package includes such drastic measures as a 20 to 30 percent devaluation of the Turkish lira (some bankers are demanding a devaluation as high as 60 percent!); stringent cuts in food and commodity subsidies; the stoppage of virtually all imports except oil and defense material; a massive increase in exports, including items originally earmarked for domestic consumption. The rush to export anything and everything has led to exports of wheat, resulting in bread shortages throughout the country.

Turkish Prime Minister Süleyman Demirel is expected to announce the austerity program slightly before Sept. 5 so as not to appear as having succumbed to the IMF's pressure, a tactic also designed to curry favor with the IMF along with a loan. According to the Financial Times, Demirel's austerity program is "eagerly awaited by the international banking community."

Last week, the IMF issued an ultimatum to the Turkish government to impose austerity by Sept. 24 or face a total cutoff of credit from the West.

Despite endorsements by pro-Demirel businessmen in support of austerity, the traditional pro-development outlook of the Turkish population remains dominant. Last week, the Turkish Chamber of Electrical Engineers blasted the notion of austerity and energy conservation, recently proposed by Energy and Natural Resources Minister Kamran Inan. The concept of energy conservation in a developing country like Turkey is criminal, charged the engineers, who then indicted Inan for his recent demands for cutbacks in electricity usage. Inan was recently the subject of a laudatory article in the New York Times by C.L. Sulzberger, who described Inan as Turkey's James Schlesinger.

Several New York bankers predicted that violence and protests would greet Demirel's announcement of his austerity program, adding that it would have to be implemented "sneakily" if it was to take hold.

Turkey's cash crisis does not allow its leaders time to equivocate on the austerity question. A cholera epidemic is now raging through Turkey and has spread to Syria; thousands of people have fallen ill with disease and hundreds have died. The Demirel government has officially denied that cholera has broken out, saying instead that an "acute intestinal infection usual at this time of year" is the cause of the epidemic. Ankara University hospital sharply contradicted this by
stopped sending their money back to Turkey because they are fearful of taking a loss once the devaluation goes through, so that is creating worse foreign currency problems...

I think that the military is going to move in. The violence, the unrest — I don't think the army is going to tolerate it much longer. Once austerity is announced, I am sure that there will be even more violence, riots, all kinds of protest. The IMF is trying to work out a sneaky way to implement austerity. If the IMF gives it to the Turks too strongly, Turkey will just explode, so the Fund is trying to fashion the package to be as mild as possible.

As far as I know, Demirel did make some kind of deal with the IMF and people in Washington, that after the elections he would go ahead with implementing austerity. I don't think Ecevit had that kind of communication with the IMF, though I suspect he might have had some contact and did not oppose austerity. Both Demirel and Ecevit know that they have to implement it.

Chase Manhattan, of course, is nervous. But what choice does it have? What does Chase think it can do? Call in the debt? You can call and call all you want, and I can guarantee you won't get anything. Not until the IMF gets things in order.

We are all wondering why Citibank is so bullish on Turkey. Citibank has the biggest stake in the convertible lira scheme. Yet, I understand that they are not that frightened by the situation. We think they may have inside information that we don't have. Maybe they figure — or have received assurances — that the U.S. won't let Turkey go down the drain, and that may why they are not rushing to pull out. I don't know, though. It's not clear.

**Will The IMF's New Austerity Measures Topple Sadat?**

The Egyptian government is planning to soon announce cutbacks of subsidies for a wide range of vital commodities. The austerity measure will be a scaled-down version of the January, 1977 subsidy cuts which resulted in days of rioting in Egypt's urban centers that nearly toppled the regime of President Anwar Sadat. The International Monetary Fund, which ordered the January cuts, is privately worried that this demand for further austerity may finish Sadat off.

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**EGYPT**

By announcing the measures, Sadat and his economic planners will have publicized their intentions to steer Egypt down the path toward the no-growth 19th-century-style austerity economy demanded by the IMF, World Bank, and Chase Manhattan. Sadat is thereby running on a collision course with wide sectors of the population who take a deep national pride in the strides toward progress and national sovereignty made during the regime of former President Nasser.

Confidential World Bank documents confirm that the new program of subsidy cutbacks and ensuing "price rationalization" is only the first step in a planned comprehensive "re-structuring" of the entire Egyptian economy. The basic facets of this "restructuring," as corroborated this week by Egyptian Economic Ministry officials, will include severe measures of "family planning" population control, "re-distribution" of the Cairo-centered urban population to new "development towns" and to labor-intensive agricultural projects, emphasis on manufacture for export combined with slashes of imports. The restructuring will also involve the placement of Egypt's extensive protected public sector onto the "international capital market" as collateral for loans.

These measures form the core of a new 1978-82 Five-Year Plan drawn up in late August by the Sadat government. They will supercede the 1976-80 Plan. The new Plan was worked out in close coordination with the IMF.

Sadat and his Saudi backers are leaving no stone unturned in their search for means to preempt the unrest anticipated with the implementation of the measures. Rockefeller family and Carter Administration personnel have deployed to Egypt to coordinate with Sadat the application of both the IMF reforms and new domestic security measures. Jacob Javits, the Senator from Chase Manhattan, was in Egypt in mid-July; Coca-Cola magnate and Carter funder J. Paul Austin followed one month later. In between, Kamal Adham, the head of Saudi Intelligence and the controller of the Rockefeller-connected "Saudi-Egyptian axis," arrived in Egypt for consultations with Sadat.

Next week, when the food subsidies announcements are made, U.S. Secretary of the Treasury Michael Blumenthal will be in Cairo.

From the Egyptian side, Abdel-Moneim Kaisouny, the country's IMF-connected Minister for Economic Coordination and top austerity czar, will be in Washington next week for extended consultations with the IMF and the Carter Administration. Kaisouny spent almost the entire month of July in Washington.

**Saudis Buy Time for Sadat**

Evidencing Saudi intentions to give Sadat leeway to unleash the austerity package, Egypt's financial situation has been stabilized in the very short term by extensive outlays of funds from the Gulf oil-producing states during the past few months. This effort has included the redeployment of $1.6 billion in aid from the Gulf Organization for the Development of Egypt (GODE), originally earmarked for the financing of development projects, to the support of Egypt's payments deficits. The Saudis have also guaranteed $25 million payments deficit support loan for Chase Manhattan. Other members of the World Bank-coordinated "consultative group" of Egypt's creditors,