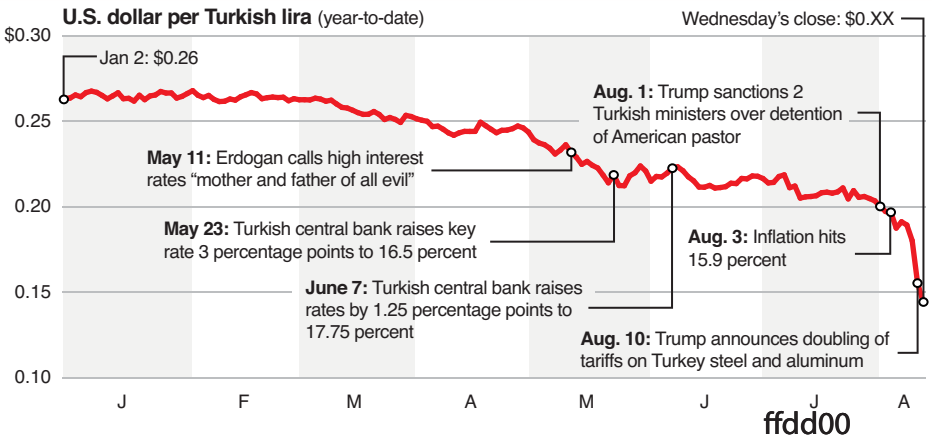
Turkey melt

They told you so. Turkey's currency collapse might have surprised some investors and certainly came as an unpleasant shock for people in Turkey with rapidly devaluing liras in their pockets. But this crisis wasn't impossible to see coming.

Turkey's economy ran hot, fueled by foreign borrowing in dollars and euros for construction projects — instead of by pro-business reforms. The falling lira now makes those dollar debts much harder for banks and companies to pay. The central bank could have cooled inflation and borrowing with rate increases — but didn't, amid pressure from President Recep Tayyip Erdogan.

University of Maryland economist Sebnem Kalemli-Ozcan pointed out dangerous levels of dollar borrowing in a 2014 article, saying "the key vulnerability is not only the magnitude of the credit boom, but also the nature of this debt." The International Monetary Fund cautioned in April about a potential "sudden stop." So far, the impact on countries beyond Turkey seems limited. But as the Federal Reserve increases interest rates further, effectively drawing money away from emerging markets, more turmoil could be in store.



Source: FactSet

David McHugh; Alex Nieves • AP