



PERSPECTIVES

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Turkey's Crypto Crackdown Leaves Investors Scrambling

by Gerelyn Terzo

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EXECUTIVE SUMMARY: Turkey has decided to throw down the gauntlet on the cryptocurrency industry. It has [assigned](#) money laundering and terror financing regulations to the nascent market, leaving Turkish crypto investors scrambling as they face sky-high inflation and a severely weakened national currency.

In a Turkish presidential decree on May 1, cryptocurrency exchanges were added to a list of institutions that must operate under anti-money laundering and terrorism regulations, effective immediately. The decree targets “crypto-asset service providers” that are already subject to existing regulations and that will now shoulder the additional burden of preventing digital assets on their platforms from being used illegally.

On the day this presidential decree was issued, the ink was barely dry on another crypto decree. On April 30, Turkey's central bank banned the use of cryptocurrencies as a payment method on the grounds that they are too risky. The ban was issued in the hope of stabilizing the country's fiat currency, the lira. The central bank faulted cryptocurrencies for being anonymous, which it said could lead to losses that cannot be recouped.

Chef Kadir Oner, who operates an Istanbul-based kebab restaurant, [told Reuters](#) that he has been accepting cryptocurrency payments as a way to drum up business, but the ban now makes this impossible. According to Oner, his customers were using cryptocurrencies to pay their bills 5-10% of the time.

Turkey's crypto crackdown is a real blow to the country, which boasts the highest cryptocurrency transaction volume in the Middle East, according to [Chainalysis](#). Turkey's inflation rate persistently hovers in the double-digits,

weakening consumer buying power; and the lira, which has shed roughly [10% of its value](#) vs. the US dollar year-to-date, continues to struggle. In 2020, the lira saw its value decline more than 25% vs. the US dollar.


Turks are hunting for opportunities to preserve and grow their money in the inflationary environment. They have been flocking to bitcoin (BTC), the price of which has soared 95% year-to-date through April. Rival store-of-value asset gold, meanwhile, has declined 7% over [the same period](#).

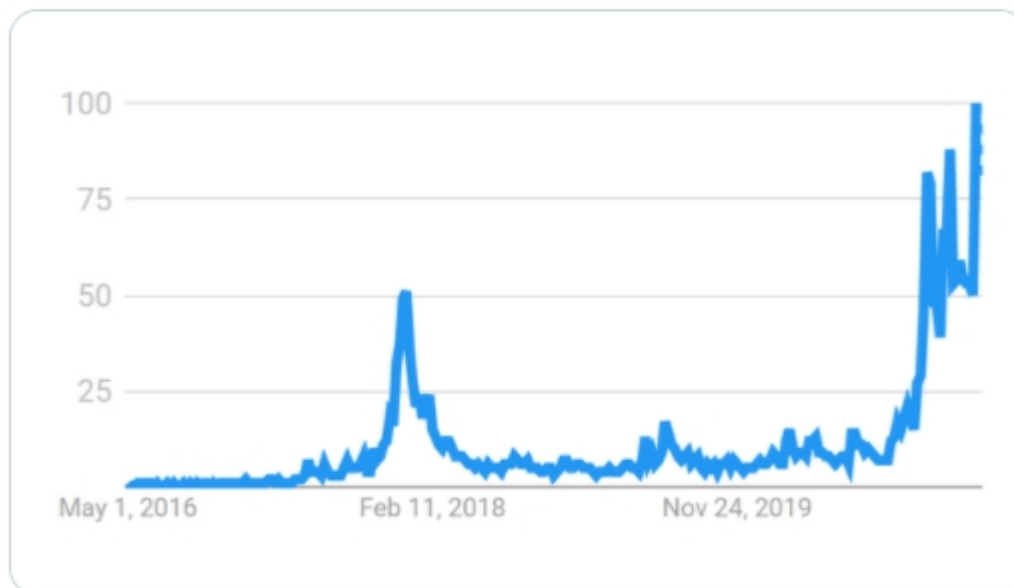
Google Trends reveals that Turkish searches for bitcoin [soared to a fresh high](#) from April 18-24, and searches for the term “crypto” have also been trending higher. The searches are especially numerous across the Batman, Sirnak, Diyarbakır, and Sirnak and Bingöl provinces.



Documenting Bitcoin ■
@DocumentingBTC



Turkey  is one of the only countries in the world right now experiencing a record amount of Google searches for "Bitcoin"



4:51 PM · Apr 27, 2021 · Twitter Web App

Source: [Twitter @Documenting BTC](#)

Bitcoin in Istanbul

Turks are no strangers to cryptocurrencies. Some [5 million Turkish citizens](#) either used or owned these digital assets in 2020. In the 12-month period

leading up to April 2021, there was a 600% jump in bitcoin transactions in the country.

A [YouTube channel](#) called Cryptocito interviewed random people on the streets of Istanbul about bitcoin. According to [interviewer @CryptoCakir](#), the locals know, trust, and invest in bitcoin. Though he added that crypto is not yet prevalent in tourist hotspots, his video featured a Turkish spa in the tourist area of Antalya in south Turkey that accepts bitcoin as a form of payment.

Crypto fallout

Two Turkey-headquartered cryptocurrency exchanges shut their doors within days of each other in the wake of the central bank's crypto payments ban. Worse, the chief executive of one of the firms fled the country with \$2 billion of investor money, [according to reports](#).

On April 19, the cryptocurrency trading platform Thodex disappeared, going offline just as founder and CEO Faruk Fatih Özer left the country for Albania. There is now a manhunt underway for Özer involving both the Turkish and Albanian authorities. Thodex reportedly had 400,000 customers who were lured to the exchange by advertisements featuring female Turkish models.

One Twitter user and Thodex customer by the name of Muhammad documented on Twitter how his withdrawal request for Dogecoin, the fourth-biggest cryptocurrency based on market cap, was [stuck](#) in "pending" with no response from the exchange.

Days after the Thodex debacle, Turkish cryptocurrency exchange Vebitcoin closed down. This exchange at least had the decency to address the situation with its customers, [saying in a statement](#) that it had decided to cease operations in response to "recent developments in the crypto [payments] industry." The Turkish authorities have [since arrested](#) Vebitcoin's founder.

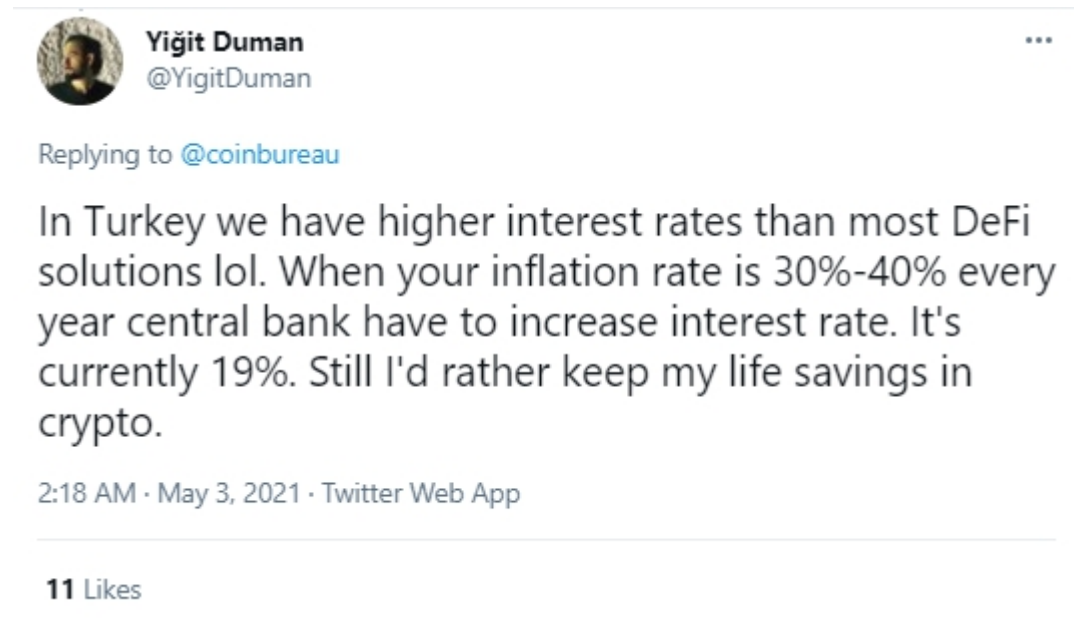
According to Bloomberg, which cites a senior official with knowledge of the situation, Turkey's government has a new central custodian bank in the works that is designed to [remove counterparty risk](#) in light of the recent events surrounding Thodex and Vebitcoin.

The Turkish economy

The demise of the two Turkish cryptocurrency exchanges adds insult to injury in a country where living conditions are growing increasingly difficult. Inflation in April came in at a two-year high, rising to 17.14% from 16% in

March—and bad as that is, [economists are saying](#) it's worse than the data suggest.

Inflation has been rising amid the one-two punch of a weakening lira and [costly commodity imports](#) that are paid for with US dollars. It is the sky-high inflation rate that has propelled some Turkish investors toward crypto.



Source: [Twitter @YigitDuman](#)

If Turkish policymakers are right, there could be relief in sight. The central bank says April was the worst of it and inflation will fall to just over [12% by mid-year](#). But the Turkish economy is far from out of the woods, with the unemployment rate alarmingly high and a lack of transparency surrounding the real data.

[According to Al-Monitor](#), there is a discrepancy between the official labor statistics reported by the government and the reality. The state-run Turkish Statistical Institute recently widened the breadth of its data, which is helping to bridge the gap between the two mechanisms. With the new data set, the country's unemployment rate hovered at 13.4% in January 2021. When you cast a wider net to include people who are out of work but are no longer looking for a job or those who are underemployed, the rate increases to 30.2%. According to this calculation, there are 10.7 million unemployed Turks.

In a glass-half-full outlook, Turkey's FM Lutfi Elvan predicts that the country's GDP will expand at a [double-digit rate](#) in the second quarter after increasing 5% in the first quarter. Time will tell.

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