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## Turkish Elections Update

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With the current outcome, the uncertainties in Turkish economies are off the table. AKP (governing party Justice and Development) will now have 316 seats in the parliament. This is enough to form a single party government, still, it falls short of constitutional majority – the most market friendly outcome. There will be a positive sentiment as Turkey goes back to business. After a period of deepened political uncertainties, the election outcome leads to some relief on Turkish capital markets.

### **AKP secures parliamentary majority**

After having ruled the country for 13 years, AKP won another election on 1 November 2015 by 49% of total valid votes. This indicates that there will be a single party government in Turkey.

The high election board will release the official results in 10 days. The unofficial results indicate that AKP's total votes exceeded the combined vote of the other three parties represented in Parliament:

- AKP received 49.4% of the votes vs. 40.9% in June – with 316 seats in the parliament
- CHP received 25.4% of the votes vs. 24.9% in June – with 134 seats in the parliament
- MHP received 11.9% of the votes vs. 16.3% in June – with 41 seats in the parliament, and
- HDP received 10.7% of the votes vs. 13.2% in June with 59 seats in the parliament.

### **Positive shock for the market, now back to business**

The next issue will be the formation of the government, especially the cabinet and the ministry of economy. It is likely that the form of government will be announced before we enter 2016, and the reponsibles for economics and finance might be even announced by December this year. As Turkey goes back to business, the most important factor will be the next economic

program. The structural reforms and their implementation process will also determine the pace of economic growth. Regarding the presidential system further negotiations and discussions between President Erdogan and Prime Minister Davutoglu are expected over the coming months.

### **Better macro outlook, attractive valuations**

The absence of political uncertainties will put a relief on the currency. Turkish Lira will strengthen over the US Dollar, which fell to 2.92 levels after the initial announcement. This in turn would also ease the pressure on the Central Bank of Turkey that was expected to hike the interest rates due to weak currency for a while. For the equity market, the single party government was not priced in and should therefore be perceived positively by the investor community. Turkish equity market now trades at a price-to-earnings-ratio of 9 based on the earnings expectations for 2016. This ratio represents a 12% discount (based on historical averages) relative to global emerging market equity markets (Source: MSCI, Bloomberg).

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