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Afterthoughts on the Turkish referendum

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After the ballots were counted on 16 April 2017, the state-run Anadolu news agency reported that “Yes” had won by securing 51.4% of the votes, which was later also confirmed by the Electoral Commission. Serious concerns were raised by the OSCE. It is also important to note that the referendum took place during a “state of emergency”. That is to say, in a highly repressive climate in which the President and the government controlled the media, jailed critical journalists and leaders of pro-Kurdish parliamentary opposition, and arbitrarily detained and prosecuted the President’s opponents. The result of the referendum has paved the way for the most controversial changes that Turkey has faced in its history.

The outcome of the referendum itself was no surprise to the capital market, as the polls were already leaning towards a Yes of this sort of magnitude. One of the important aspects, however, was the fact that the number of No votes was marginally higher in Istanbul and Ankara, which are traditionally AKP strongholds, and votes from Southeast of the country were an important driver of the Yes-vote.

With this referendum, the public has approved to shift the governance of the country from a parliamentary system to an executive presidency. This will give enormous centralized power to the President. The scope of the presidential system will bring the following changes:

- The role of the Prime Minister will be abolished. Instead, two or three vice presidencies will be installed.
- The President's tenure will be limited to two terms.
- The President will be head of the executive and head of state. He or she can maintain ties to a political party.
- The president alone can impose a state of emergency and dismiss the parliament.
- He or she will be given new powers, will be eligible to appoint ministers, prepare the budget, choose the majority of senior judges, and enact certain laws by decree.
- The number of MPs (members of parliament) will increase from 550 to 600.
- The parliament will be able to investigate the President on the basis of a two-thirds majority vote by MPs .
- The President will be able to appoint six out of 13 top judges, with others chosen by lawmakers.
- Presidential and parliamentary elections will be held on the same day every five years.

What are the next steps?

With the referendum done, the next item on the agenda is snap elections. Considering the number of No-votes coming from the country's biggest cities (Istanbul, Ankara, Izmir, which are the economic centres) and the small margin between Yes- and No-votes we think that the likelihood of snap elections has diminished. This would mean the next election is scheduled for November 2019, but this is subject to clarification.

Meanwhile, President Erdogan has maintained his non-conciliatory tone towards the West, especially towards the European Union. For example, in his first victory speech, President Erdoğan hinted at the prospect of reintroducing the death penalty, if necessary by another referendum. The following day, the first action his government took was to extend, again, the state of emergency. All of this indicates that the relations with the West will remain strained and that Mr. Erdogan will continue on his autocratic path.

Market Impact

The referendum brought a small relief-rally for all asset classes in Turkey. The stock market has gained around 4% since 17th of April. The Turkish lira initially rose by about 2% against the euro, but has in the meantime returned to its pre-referendum level.

For the longer term, investors would like to see economic recovery and a better predictability on open political issues. In the short term, we expect the equity market to consolidate, given the fact that economic growth is still below historical average, the latest inflation figures (11%; TurkStat) are at the highest level since October 2008, and the unemployment level of 12% (in absolute terms, 3.9mn people) is the highest since 2010.

What kind of developments can influence market sentiment?

Political issues: e. g. changes in the cabinet and a possible reshuffle of the cabinet; the timing of the next elections; developments in connections with Turkey's EU membership process. Economic and monetary issues: changes in fiscal and monetary policy.

Stay tuned.

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