

<https://blog.en.erste-am.com/afterthoughts-turkish-referendum/>

## Afterthoughts on the Turkish referendum

Gast-AutorIn / Guest Author



© (c) Fotolia

Author: Sevdâ Sarp

Research Analyst

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, İzmir, 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.

Author:

**Sevda Sarp** joined Erste Asset Management in 2013, as a research analyst covering the financial sector. She worked for Erste Group since from 2011 to 2013 as a Senior Banking Analyst. Prior to that, she worked at UniCredit Istanbul and Ata Securities covering the Turkish banking and insurance sector, for a total of 6 years. Before becoming an equity analyst, she spent more than two years at Finanzbank and Deutsche Bank as a Financial Controller preparing financial reports, and was responsible for the consolidation of subsidiaries. Sevda holds an MSc degree in International Finance.

### Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website [www.erste-am.com](http://www.erste-am.com) under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website [www.erste-am.com](http://www.erste-am.com). A summary of the investor rights is available in German and English on the website [www.erste-am.com/investor-rights](http://www.erste-am.com/investor-rights) and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

**Note:** You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at [www.erste-am.com](http://www.erste-am.com).

**N.B.:** The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

**Please note:** Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.



**Gast-AutorIn / Guest Author**