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Turkey's coup attempt

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What happened?

Last Friday evening, a fraction of the Army mostly medium rank officers, had undertaken a coup attempt and seized airports, bridges, TV stations and military headquarters, before attacking the Turkish parliament, leaving the building charred and damaged, and have reasoned to seize power to protect the democracy from the Government.

A number of government officials, including President Erdogan and Prime Minister Yildirim, spoke to the media through FaceTime, saying the coup attempt was staged by military officers that are affiliated with Gulen movement. Prime Minister Binali Yildirim and Erdogan named the attempt as 'uprising' and perceived it as an attack to democracy.

Erdogan and the mosques called people to take to the streets and stand against the coup. People reacted strongly and took over the streets. Within a couple hours police forces took control and restored the order in most places. People walked on top of tanks and chanted against the coup. Also, several high rank military officers from different parts of Turkey strongly expressed their opposition against the coup and sided with the government.

The government and Erdogan claimed that Gulen movement to be responsible from the failed coup attempt, while Gulen movement rejects this claim and indicates they don't even know the army forces who had undertaken the attempt, while also condemned the coup. The claim is that there will be High Military Council meeting during August 1-4, in which President Erdogan is expected to expel a group Gulen supporters from the Army.

On Saturday, the Parliament convened with an extraordinary meeting and all the members of parliament from the secular/social-democrat CHP (Cumhuriyet Halk Partisi), nationalist MHP (Milliyetçi Hareket Partisi) and left-wing HDP (Halkların Demokratik Partisi) opposed the coup attempt, and there were no one who supported.

Sadly, 200 people were dead and more than 1,500 wounded in the aftermath of the failed coup attempt and another crackdown on the group's supporters has begun. More than 2.800 military personnel were arrested and more than 2.600 judges are laid-off and arrest orders for 140 Council of State members, more than 48 High Court of Appeals members and five HSYK (High Council of Judges and Prosecutors) members are released.

As expected, President Erdogan calls US to extradite Fethullah Gulen again while US officials requested for solid evidence that Gulen is involved in the coup attempt.

What could be the consequences?

The unsuccessful coup attempt will make President Erdogan more powerful now and Turkey is closer to presidential system. There are still question marks whether there will be early elections but the possibility increased significantly. AKP (Adalet ve Kalkınma Partisi – Party for Justice and Development) supporters were on streets throughout the weekend and it looks like the unsuccessful coup attempt would increase AKP's popular support, which may also trigger the early election possibilities.

On the macro side, the failed coup attempt may have negative impacts on consumption and investment appetite and the struggling tourism sector probably will take another hit. After hitting above 3.0 levels against US Dollar, the Turkish Lira recovered of some of its losses during the weekend.

Deputy Prime Minister Simsek and the CBT (Central Bank of Turkey) Governor Murat Cetinkaya made conference call with the investors on Sunday evening and indicated that the Government has room in the budget and they don't think there will be permanent negative consequences on the growth of the economy. The CBT also provided some measures to be taken to minimize the market impact. Accordingly, it was announced that the Central Bank will provide banks with needed liquidity without limits and the commission rate for the intraday liquidity facility will be zero. The bank further announced that market depth and prices will be closely monitored and all measures will be taken to ensure financial stability, if deemed necessary. The central bank is scheduled to hold a policy meeting Tuesday, where the market expects no change in the policy rate.

Erdogan's full stance and response when all the dust settles down will be more crucial than ever this time for the economy. In addition, the failed coup attempt showed that there cannot be a coup in Turkey anymore and paves away the concerns over any military intervention going forward.

Equity market impact looks inevitable at this stage with the political turmoil. Although the Deputy PM & CBT Governor made efforts to sustain confidence for the foreign investor community and the recovery in the TRY, equity market is likely to seen off to a negative opening. Please note that Turkish Lira is still trading 2.5% weaker compared to Friday's market close.

Turkey

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