

# Research Turkey

## Erdogan's Final Countdown?

- **Turkey is closing in on the most exciting elections in decades as Turks go to vote in both parliamentary and presidential election on Sunday, May 14.**
- **During the past two years, President Erdoğan's unorthodox economic policies have derailed the Turkish economy and eroded his popularity, and for the first time in decades, he has an actual chance of losing the presidency.**
- **The race will be tight and the risks are skewed. In a status quo, market impact will be limited. But in the case of an opposition victory, we expect a prompt normalisation of monetary policy, implying large rate hikes and lira appreciation.**

President Erdoğan and his main opposition rival Kılıçdaroğlu are currently running neck and neck in the presidential race, both having a 45-47% support in recent polls. A winning candidate would need at least 50% of the votes in the first round in order to be elected. Hence, it is unlikely we would know the winner this week, but rather, the final result is expected only after the second round on May 28. Erdoğan's alliance now leads the parliamentary polls, but in Turkey's highly centralised system, that vote is less important.

Tensions are building as the election date draws closer. On Sunday, one of the leading opposition figures, Ekrem İmamoğlu's campaign event in Erzurum was halted because his campaign bus came under stoning attack. Erzurum city administration, led by Erdoğan's AKP, had tried to prevent the campaign event, and the local police is said to have followed the unrest without intervening. The incident underlines how AKP could leverage its vast control over the country's institutions in an effort to secure an election victory.

Even if outright rigging in the fear of a response by the international community is less likely, Erdoğan's attempts to sway the public opinion are a good showcase of his creativity. Since last year, his government has lowered the retirement age and increased the basic pension fivefold. Minimum wage has been tripled and brought close to median earnings, and further hikes are planned. Also, over the past month, Erdoğan has inaugurated the country's first nuclear plant built by Russian Rosatom, and celebrated a gas discovery in the Black Sea, followed by a promise for free natural gas for household consumption.

Many of the above measures weigh on public finances but Turkey has some leeway. Government debt is below 40% of GDP and budget deficit remains limited at 0.9% of GDP. Yet, imbalances keep growing as CA deficit reached record-high in January and net reserves lie at meagre USD 6bn due to CBRT's frequent intervention on lira. Despite the policy rate at 8.5%, banks are offering 35% interest rates to attract deposits.

We remain sceptical that this is yet the final countdown for Erdoğan, as the most recent polls have come in his favour, but if it is, market impacts will be significant. The new government would most likely move to restore central bank's independence, implying a convergence in the policy rate above 30%. This would likely bring extreme volatility in lira short term, but in the medium term, lira could appreciate substantially as flows reverse. But while opposition win would mark a U-turn for economic policy for sure, in many ways, their ability to rule could be curtailed by AKP's broad presence in public offices.

### Turkish election

- Presidential and parliamentary election takes place on May 14.
- President Erdoğan and his challenger Kılıçdaroğlu are running neck and neck.
- A second round in the presidential race is likely, and to be held on May 28.
- An opposition win would mark a new era in Turkey's politics and a U-turn in economic and monetary policy.

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