



# Turkey

A recap of events and some thoughts on the future



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offer their thoughts in the wake of the failed military coup in Turkey

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In an extraordinary turn of events on the evening of Friday 15th July, a faction of the Turkish military outside of the chain of command attempted to overthrow President Erdogan and take over the government. Military personnel blocked bridges across the Bosphorus and Istanbul Ataturk airport was closed. TV channels, including the state broadcaster TRT were taken off air and a curfew was announced. The government and President Erdogan responded by calling everyone to take to the streets and stand up against the attempted coup.

In the early hours of the morning of Saturday 16th July, President Erdogan announced to a jubilant crowd of supporters that government forces had taken back control and that the attempted coup had failed after the soldiers and officers participating in the attempt surrendered. In excess of 2,800 soldiers and officers were detained, including six generals who were then arrested on charges of plotting to overthrow the government.

President Erdogan laid the blame on the supporters of Fettullah Gulen, a cleric living in exile in the US, leading a widely followed and popular movement. Once very close allies, Gulen and Erdogan fell out acrimoniously about three years ago and since then the Gulenist movement has been branded a terrorist organisation by the Turkish government. Mr. Gulen himself has condemned the coup attempt and categorically denied having any involvement or influence.

With the coup attempt decisively crushed, President Erdogan's popularity will undoubtedly increase. Leaving aside an initial increase in market volatility, we expect little short-term impact to the economy and the macro outlook. That said, the turn of events is likely to have far reaching consequences in the medium to longer term.

This provides a golden opportunity for President Erdogan to further consolidate power. A massive purge of judiciary ranks is already underway and this will help redouble the efforts to cleanse the state apparatus of Gulenists and any other opposition. Constitutional changes are now more likely to receive a broader based support in the parliament and the efforts to switch to a presidential system will gain further momentum. Added to the backdrop of the Kurdish insurgency in the southeast and recent ISIS terror attacks, Erdogan is likely to receive increased public support for his agenda. It is an encouraging aspect of the events of the



weekend that all three opposition parties – the CHP, the MHP and the pro-Kurdish HDP – all came out strongly against the coup attempt and in favour of the democratic process.

The key question for investors is whether this expected consolidation of power is likely to have any significant adverse impact on the investment climate and opportunities in the country in the medium term. Perceived political risk has increased, as has governance risk, which in turn will have to be reflected in appropriate cost of capital calculations in our company valuation models. However, this should not be overstated as Turkey was on a path towards a more autocratic executive presidential system even before Friday's events. In that sense, whilst the attempted coup is likely to accelerate this move, it is unlikely significantly to alter the final outcome whilst the political opposition to the AKP has been weak for many years now.

For quite some time now we have argued that economists often overlook the fact that almost half of the electorate are supporters of the AKP and President Erdogan. Why does this matter? It matters because the majority of these AKP supporters are from the growing lower/middle income segments of Turkish society who are ultimately the drivers of consumption as their incomes grow and they feel more empowered and confident with the political system. Friday's attempted coup and its political consequences are unlikely to change this and if anything we are likely to see increased financial support for this group as Erdogan continues to strengthen his grip on Turkey's politics. The minimum wage hike seen earlier this year was a good example of government largesse for political ends. As investors we welcome the consumption story and are positioned to continue to benefit from this trend.

The stockmarket in Turkey is likely to see some nervousness over the coming days but we expect this to be relatively short-lived as political control is re-established and Turkey continues to benefit from global trends that are broadly supportive for emerging markets at present.

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