



# Macro Scope

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## Weekly Economic and Strategic Review

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### Solution or Dissolution?...

The first half of March was occupied with developments that gave rise to political uncertainties, followed by boosted political tension and polarization on the back of uncompromising attitudes of the opposing sides. The unfavourable repercussions of these political problems on the markets have become more visible in an environment of declining volatility compared to previous weeks in the external markets. The initiation of the climbing political disputes dated back to the Constitutional Court's decision on March 6<sup>th</sup> to hear a case after the submission of a lawsuit by the main opposition Republican People's Party (CHP) and Democratic Left Party (DSP) regarding **annulment of the constitutional amendments that lift headscarf ban at universities**. Then, the political developments entered into a new phase on March 14<sup>th</sup>, when Turkey's Chief Public Prosecutor, Abdurrahman Yalcinkaya, **filed a case with the country's Constitutional Court asking the dissolution of the ruling Justice and Development Party (AKP)** and barring 71 of its members, including President Gul and Prime Minister Erdogan, from politics for five years. He accused the party of spearheading "anti-secular activities" in violation of the Turkish Constitution.

While on one hand, it is possible to claim that the two cases are independent from each other and hence there would be completely different decision making process for them, the decision regarding the constitutional amendments may also be argued to have some implications for the AKP closure case, as many constitutional lawyers have been suggesting. Those experts think that if the Constitutional Court annuls the amendments that remove the headscarf ban, assuming they are against the unamendable articles of the constitution, then this decision would be taken as strengthening the evidences adduced as AKP's anti-secular attempts in the petition filed to shut down the party. **However, the Court did not give any signal supporting this presumption, instead, the closure case has been hinted as the primary agenda, as claimed in Kilic's, President of the Court, explanations. This puts the political arena under threat of extended uncertainty, considering that party closure cases last much longer (Closure cases of Welfare Party (RP) and Virtue Party (FP) lasted for 8 months and 25 months, respectively).**

The first key development that would be influential in the evolvement of the case is expected to be finalized in a couple of days. According to the latest news, the rapporteur, who has been assigned by the Constitutional Court to write a report on the merits of the case, submitted his report to the members of the Constitutional Court yesterday and the Court will likely decide on accepting the case on Monday. His report is not binding for the members and they may well decide on the contrary. If after examining the case file procedurally, the Court rejects the indictment, then the prosecutor can revise the case file in accordance with the defects pointed by the Court. If the Court approbates the case, then the

case will officially start and the indictment will be sent to AKP. **Although the party closures were made more difficult via the constitutional amendments in 2001, where the number of votes necessary to close a party was revised to a qualified majority (7 out of 11 members), rather than a simple majority, the legal experts attach a greater chance to Court deciding in favor of dissolving the party, based on the fact that 8 members of the Court had been assigned by former President Sezer.**

The ruling AKP seems to agree with the above speculation, as the party has already designed constitutional amendment proposals to prevent the possible closure of the party. The proposal aims to amend Articles 68 and 69 of the Constitution. With this proposal AKP will make the conditions for closing a party more difficult via for example changing the definition of “becoming a centre” for the execution of activities that violate the provisions of forming a party, while abolishment of 5-year political barring, setting the violence and terrorism related actions of the parties as the sole criteria for filing a closure suit and necessity to receive the permission of the Parliament are also part of the planned proposal. Moreover, AKP is seen to add a temporary article to ensure that the amendments apply to ongoing AKP case, as well.

The final move that boosted the political tension seems to have come from AKP when they played the trump card by accepting the risk of going for a referendum, after opposing Nationalist Movement Party (MHP) refused supporting their proposal. However, even if the amendments are approved at either the Parliament or at the referendum, and even if the Court rejects a possible CHP objection to the amendments, there remain doubts as to whether the amendments would apply to the AKP closure suit. The Constitutional Court has rejected to reopen the United Communist Party of Turkey (TBKP) closing case by seven votes against four, even though the European Court of Human Rights ruled that closure of the TBKP was in violation of the European Convention on Human Rights. Taking the Court’s reasoned judgement, released a couple of days before, as a reference, suggests that the Constitutional Court may not accept the amendments, even if they are approved before AKP closure case is finalized.

In addition to the discussed scenarios that can take place before the Court finalizes the decision, as well as the possible strategies of the sides and how likely they are, **the political uncertainty seems to climb up in case the Court decides to dissolve AKP.** Obviously, the cabinet would be terminated if the party is closed. In this case, AKP’s deputies who are not barred from the politics would be independent deputies and if they form a new party, the head of this new party would be assigned for establishing the new government. That is because; they would continue having the highest numbers of chairs at the Parliament. Note that 39 out of 71 AKP members who are asked to be suspended from politics are at the same time members of the Parliament.

**In case the number of vacant seats reaches five percent of the total number of seats, i.e. 28, then the Constitutional law calls for a by-election within 3 months,** although normally by-elections cannot be held unless 30 months have elapsed from the date of the previous general elections. More interestingly, according to the Constitution, **elections for local administrative bodies, which are to be held within a year before or after the general or by-elections for deputies, shall be held simultaneously with the general or by-elections for deputies.** Therefore, the next local election which is planned to be held in March 2009 will likely be merged with the possible by-election. Another scenario can be built on the assumption that AKP forms another party and calls for an early election before seeing the Court’s decision. However, in case of the dissolution of AKP, the parliament membership of the barred deputies would automatically be terminated even if they are re-elected as a deputy of another party. **Regarding the head of AKP, Prime Minister Erdogan, he would be able to be elected as an independent deputy to the Parliament, since political bar forbids his party membership only, in case the Court decides to dissolve AKP. He would also be able to become an “independent prime minister” supported**

**by the new party deputies.** On the other hand, if Abdullah Gul is also barred from politics, his presidency would not be terminated since he does not have any ties with the party.

As can be seen from the above lines, the government needs to handle a complicated process that can be described as follows: First there will be a stressful waiting term to last for an unknown period of time until the Court's judgement. After the decision, assuming that AKP does not call for an early election, the new cabinet, which is missing the leading team of the party, would be governing the country until the by-elections are held in three months simultaneously with the local elections. On the other hand, if AKP calls for an early election, then they will be heading into an even more complicated process, with the outcome being very hard to foresee from the beginning. What an ideal atmosphere to take critical business decisions! Isn't it?...

Obviously, it is yet early to say that all the hopes have been vanished. Following the leading NGOs' efforts recently, some columnists started to give voice to ways out for solving the conflict. For instance, Ismet Berkan, from daily *Radikal*, wrote yesterday: *"One solution that comes up to mind is a compromise among the four parties at the Parliament, or at least a compromise between AKP and CHP. Needless to say, the agreement will be about the Constitutional amendments that would prevent a possible dissolution of AKP, while CHP would ask for some commitments from AKP, maybe some concrete amendments of laws/constitutional laws."* CHP leader Baykal was quoted in a separate news as claiming that *"AKP's dispute is involved with constitutional order, the judicial system and universities. If AKP sets itself in order regarding those issues, stops pushing the constitutional order and refrains from anti-secular attempts, then the current tension may be dispelled in a short while."*

Unless the political tension eases substantially, these dispute terms happen to wear nerves of all sides and result in waste of energy that could otherwise be spent for political and economic reforms. In this atmosphere, some of the long-awaited reforms have taken back seats at the agenda, while the relevant sides have failed to pay the desired attention to some other reforms, which are finally in progress with a considerable delay. This has put them at risk of falling short of their aims. The days of premium payments, one of the most critical parameters of social security reform, were agreed to be revised down to 7.200 days from the originally planned 9.000 days. This revision lacked objection from media and the business circles, and became a good example for the mentioned risk. **The progress in IMF and EU anchors, which help improving Turkey's resilience against external shocks, are not at desired levels, either.** While the new initiative to unify the two sides of Cyprus is encouraging for the elimination of one of the most important obstacles on the road to EU accession, there is news that EU's term President Slovenia is facing difficulties to open new negotiation chapters with Turkey on April 21<sup>st</sup> after the recent political jitters. **Separately, the explanations regarding the assessments with the IMF once more showed that the new program will remain unknown until the last minute. What is worse, the two alternatives (post-program monitoring or precautionary stand-by) considered for the new program are at the two opposite extremes in terms of the disciplines they urge for.**

In conclusion, political jitters weigh further on the economy in such a period of substantially heightened risks over growth and inflation. This in turn limits the chance of benefiting from the slight recovery in the foreign markets. Due to the elevated tension, Turkey wastes the energy and effort needed for political and economic reforms and the reforms in progress lack the desired support. Eventually, Turkey keeps delaying the steps needed for convergence to the developed countries.

## Economic and Political Agenda

- The Central Bank will release summary statement of the March 19<sup>th</sup> MPC meeting notes on Monday. On the political arena, we will eye the developments regarding AKP closure case.
- In addition to the loaded data agenda abroad, Fed Chairman Bernanke's testimony on economic outlook will be important on Wednesday.
- The Treasury will reveal April borrowing program on Monday. We calculate that there will be YTL12.8bn domestic debt service, with the most important redemption dates being April 2<sup>nd</sup> (YTL1.3bn) and April 9<sup>th</sup> (YTL 10.9bn) Total financing requirement will likely be some YTL13.8bn, including YTL1bn external debt service.

### Data issuances at Home

Importanc	Indicator	Unit	Date of issuance	Fortis forecast	Consensus forecast
High	Growth, 4Q & 2007	% q/q	Mar. 31 <sup>st</sup> , 8:00 GMT	5.5 & 5.2	4.8 & 5.0
High	Imports, Feb.	Mn US\$	Mar. 31 <sup>st</sup> , 15:00 GMT	15,500	15,766
High	Exports, Feb.	Mn US\$	Mar. 31 <sup>st</sup> , 15:00 GMT	10,600	10,553
Medium	TEA's Preliminary Exports, Mar.	Mn US\$	April 1 <sup>st</sup>	10,760	-
Medium	CNBC-e Cons. Conf. Index, Mar.	-	April 1 <sup>st</sup>	-	-
High	ICC Price Index, Mar.	% m/m	April 1 <sup>st</sup> , 10:00 GMT	-	-
High	CPI, Mar.	%m/m	April 3 <sup>rd</sup> , 15:00 GMT	0.6	0.7
High	PPI, Mar.	%m/m	April 3 <sup>rd</sup> , 15:00 GMT	1.9	1.2

### Data issuances Abroad

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	Eurozone	Manufacturing PMI, Mar.	-	April 1 <sup>st</sup> , 8:00 GMT	52.0
High	U.S.	Manufacturing ISM, Mar.	-	April 1 <sup>st</sup> , 14:00 GMT	48.0
Medium	U.S.	ADP Employment, Mar.	K	April 2 <sup>nd</sup> , 12:15 GMT	-38.0
High	Eurozone	Services PMI, Mar.	-	April 3 <sup>rd</sup> , 8:00 GMT	51.7
High	U.S.	Non-manufacturing ISM, Mar.	-	April 3 <sup>rd</sup> , 15:00 GMT	49.0
High	U.S.	Non-farm Payrolls, Mar.	K	April 4 <sup>th</sup> , 12:30 GMT	-40.0
Medium	U.S.	Unemployment, Mar.	%	April 4 <sup>th</sup> , 12:30 GMT	5.0

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2006-2009

	2006	2007f	2008f	2009f
GDP (TRY - mn)	758.4	863.5	915.6	999.8
GDP (US\$ - bn)	530.5	663.5	735.4	772.7
GDP Growth (y/y % chg)	6.9%	5.3%	4.5%	5.0%
PPI (y/y % chg)	11.6	5.9	4.0	4.3
CPI (y/y % chg)	9.7	8.4	5.5	4.5
Trade Balance (US\$ - mn)	-54.0	-62.8	-68.0	-66.7
Exports (FOB, excl. luggage trade)	85.5	107.2	121.9	138.1
Imports (CIF, incl. gold)	139.6	170.0	189.9	204.8
Current Account Balance (US\$ - mn)	-32.2	-38.0	-42.6	-40.5
Current Account Balance / GDP (%)	-6.1%	-5.7%	-5.8%	-5.2%

### Financial Indicators Forecasts

	Mar. 28 <sup>th</sup>	1M	3M	6M	12M	2008	2009
US\$/TRY	1.2579	1.2640	1.2805	1.2990	1.3090	1.3100	1.3200
EUR/TRY	1.9855	1.9655	1.9590	1.9360	1.8720	1.9100	1.8500
FX Basket	3.2434	3.2295	3.2395	3.2350	3.1810	3.2200	3.1700
EUR/US\$	1.5784	1.5550	1.5300	1.4900	1.4300	1.4600	1.4000
O/N	15.25%	15.25%	15.25%	15.25%	14.25%	14.50%	13.00%
Benchmark Bond	18.50%	18.30%	17.90%	17.00%	15.30%	15.60%	13.90%

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