

International Commentary — May 11, 2023

Turkey 2023 Presidential Election Scenario Analysis Update

Summary

General elections in Turkey are set to take place on May 14, and with the first round of elections this weekend, we updated our election scenario analysis. Typically, we would note that the outcome of the presidential election is not as important as parliament/congressional elections; however, with President Erdogan controlling the overarching policy direction for Turkey—especially economic and monetary policy—the presidential election is more consequential than Turkish parliamentary elections. As far as our views, we continue to believe President Erdogan will retain office, and our base case forecast for the Turkish lira includes President Erdogan winning the election via second round runoff. Despite the challenges associated with Turkey's economy and the new challenges associated with the earthquakes, we believe Erdogan is still popular enough to receive a sufficient amount of votes, or is able to influence voting intentions or challenge results as a way to win re-election. We place a 50%-55% probability Erdogan retains office. However, the likelihood of this scenario unfolding has fallen since we published our [original scenario analysis](#), and the probability of regime change has increased. At the heart of the regime change scenario are unsustainable economic conditions, although an underwhelming and inadequate response to the earthquakes is contributing meaningfully to the opposition Nation Alliance gathering momentum over the last few months. In addition, the Nation Alliance has demonstrated further unity by putting forward a common candidate in Kemal Kilicdaroglu and rallying around technocratic policy frameworks. We now assign a 45%-50% likelihood of regime change materializing.

[Figure 1](#) outlines the Erdogan retaining office and regime change scenarios in more detail, and provides the local financial market implications in both situations. In our view, should President Erdogan retain office, the Turkish lira is likely to experience another large depreciation on expectations of policy continuity. Longer-term, as economic trends and monetary policy frameworks go unchanged, additional large lira depreciations could materialize, but at a minimum we expect lira depreciation through the middle of 2024. In our regime change scenario, the lira could experience one of the most sizable rallies in modern history as an independent central bank gets restored and an orthodox monetary policy framework is implemented. Should Nation Alliance take office, we would adjust our USD/TRY exchange rate forecasts to show material and prolonged lira strength as a policy sea change results in foreign investor capital returning to TRY and lira-denominated assets.

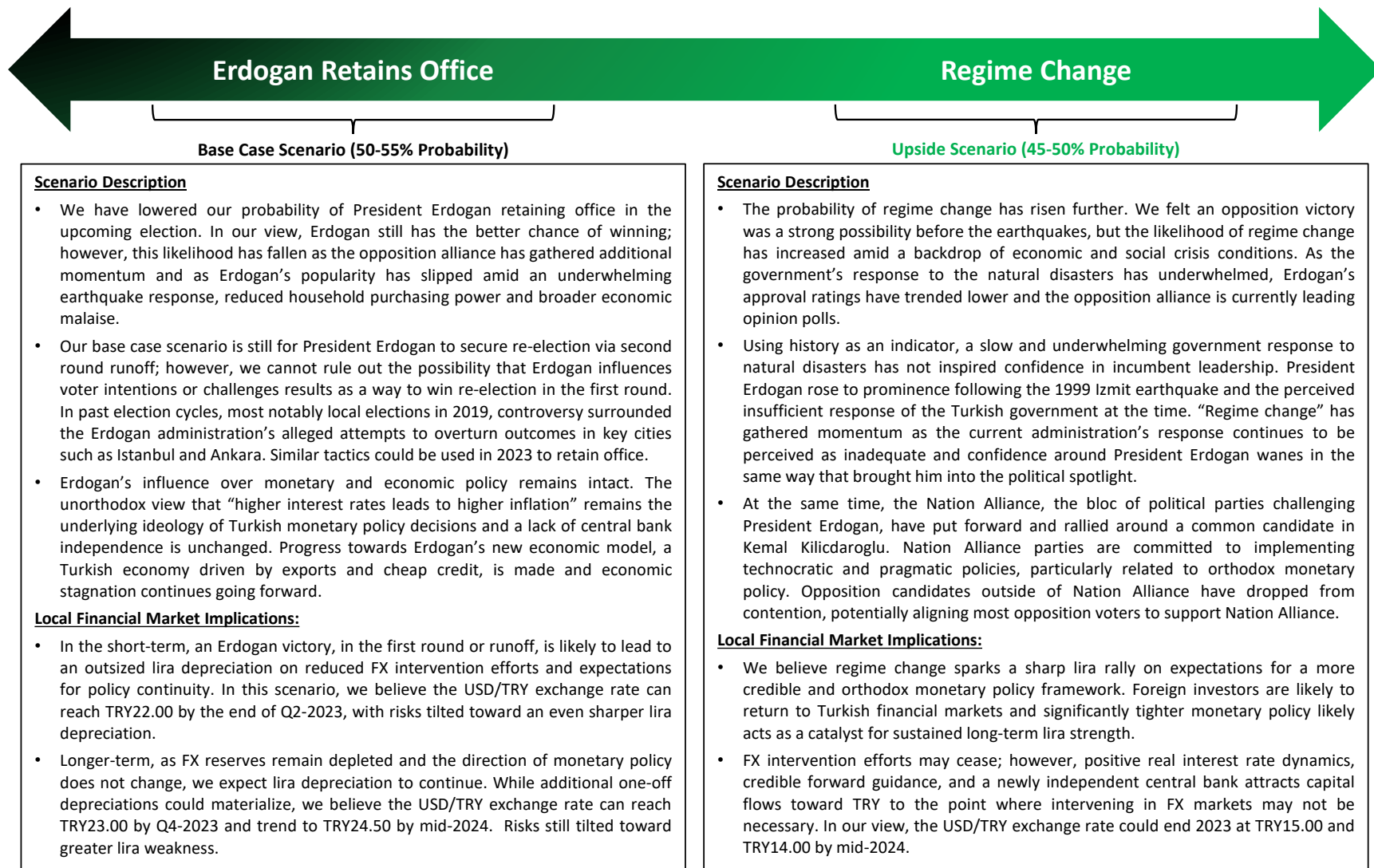
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Figure 1

Turkey 2023 Presidential Election Scenario Analysis



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