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The Increasing Uncertainty of Turkey's Politics/Economy and the Outcome of General Election

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Concerns continue to rise about Turkey, one of the key countries of the Middle East. No significant improvements were done about the worries of the country's large current account deficient and external debts and stagnation of the domestic economy continues. Recently it was reported that in 2014 real GDP growth rate was 2.9%, resulting in a large drop from last year's growth rate of 4.2%. Due to the stagnate world economy exports are sluggish, employment environment is worse, high inflation and interest rate are making sentiments bad for the household and retail sales growth continue to be slow. No sight of economic recovery can be seen due to, the slow recovery of Turkey's largest export destination the European economy and the instability of their major export counterparties, the Middle East and Russia.

In this situation, attention is focused on Turkey's general election which to be held on the 7th at the end of this week. President Erdogan, after his appointment in August of 2014, has been active in reinforcing his power and in January 2015 made clear the policy to strengthen the powers of the president. And in doing so, in this election, if the Justice and Development Party or AKP, the ruling party which he has power over, gains the necessary seats, there is a high possibility he will head in the direction of amending the constitution to change from the current parliamentary cabinet system to a presidential system, in which he can easily control his authority. Therefore, the point is whether or not the AKP gains, two-thirds or 367 out of the 550 seats of the parliament needed to pass an amendment of the constitution, or three-fifths or 330 out of the 550 seats of the parliament needed for a national election to decide on an amendment of the constitution. Also, starting with the future of Deputy Prime Minister Babacan who has shown considerable talent in economic policy and is being trusted in and outside the country, the formation of the cabinet after the election will also be a focus of attention.

On others, it is hard to overlook the existence of the Kurds in Turkey, who are frustrated at the Turkish government's actions against the radical group ISIS. If support towards the Kurdish related party rises and the AKP cannot become a single majority party and is forced to

setup a coalition government, compared to an one party ruling government, which in Turkey has been lasting a long time, governmental stability will be lost.

Due these political and economic concerns, the Turkish Lira continues to drop. The Turkish Lira to US dollar rate, after a dropping by 14% in 2014, entering 2015 its pace of decline is accelerating and still compared to purchasing power parity the exchange rate is about 5% over valued meaning there still room to drop. From the point of view of the effects towards to the exchange rates as well, there is need to carefully watch the results of the general election and the governmental management afterwards.

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