

ASG ANALYSIS:

Turkey's Upcoming Presidential and Parliamentary Elections

Key takeaways

- Turkey's presidential and parliamentary elections on May 14 could be one of the most consequential in the country's history. The tightly contested presidential race could come down to a run-off on May 28 between incumbent President Recep Tayyip Erdoğan and opposition leader Kemal Kılıçdaroğlu should neither win a simple majority on May 14.
- The key issues for voters are the economy – which has been plagued by spiraling inflation, currency devaluation, and high unemployment rates – and immigration, with the country hosting more than 5 million refugees from Syria, Iraq, and Afghanistan. Over the coming weeks, both candidates will seek to drive turnout among their political bases and convince the roughly 10 percent of voters who still report to be undecided that they are the right person to address their economic interests and protect the nation's borders.
- A victory for President Erdoğan would entrench his 20-year rule over the country. If he receives a new mandate, we expect that he would continue many of his policies and further consolidate presidential powers. However, he would likely need to adjust his economic policy to address the current crisis and attract investment. He has already hinted at a return to more orthodox economic policies, after years of low interest rate policies that have contributed to inflation and currency devaluation. However, details remain limited and his rhetoric ahead of the elections has focused on unveiling a series of populist spending programs and security issues. On the foreign policy front, he would likely continue his efforts to strengthen ties with Russia, China, and the Gulf – while maintaining a working, albeit tense and transactional, relationship with the West.
- A Kılıçdaroğlu victory could lead to significant economic and governance changes. The opposition coalition under his leadership has emphasized its commitment to return to a parliamentary system of governance as quickly as possible, especially if opposition parties win a sizable majority in parliament that will not necessitate a referendum. A Kılıçdaroğlu government is also expected to adopt more orthodox monetary policies under the leadership of seasoned and competent technocrats, while keeping some existing social

spending programs in place. These reforms would not stabilize the economy overnight, and we expect efforts to tame inflation with higher rates would likely cause some currency shocks in the near term. However, the expected appointment of market-friendly officials, including the former executive vice president of Babacan and former Wharton professor Bilge Yılmaz, is likely to reinstate strong investor confidence. He is also expected to normalize relations with the West and NATO, which have been at an all-time low. Such efforts could strengthen the business climate for U.S. and European companies operating in Turkey.

The presidency will come down to incumbent Erdoğan and challenger Kılıçdaroğlu

On May 14, voters will choose between four presidential candidates: incumbent President Recep Tayyip Erdoğan, opposition leader Kemal Kılıçdaroğlu, former Republican People's Party (CHP) presidential candidate Muharrem İnce, and former Nationalist Movement Party (MHP) member Sinan Oğan.

Based on current polling data, it is highly likely that the race will come down to President Erdoğan and Kemal Kılıçdaroğlu, either in the first round or in a run-off on May 28, should neither candidate win a simple (50 percent) majority on May 14. For now, Kılıçdaroğlu is leading in the polls, with poll aggregates putting him at 50 percent of the vote, and President Erdoğan at around 45 percent.

KILIÇDAROĞLU HAS FACED PRESIDENT ERDOĞAN IN PRIOR ELECTIONS WITHOUT SUCCESS. THIS TIME, HOWEVER, HE IS GAINING GROUND BY LEADING A HISTORICALLY UNIFIED OPPOSITION FOR THE FIRST TIME.

Kılıçdaroğlu leads the “Table of Six,” a coalition of six ideologically diverse opposition parties: the center-left nationalist CHP; the right-wing nationalist Good Party (İYİ); the center-right Democratic Party (DP); the Islamist Felicity Party (FP); the Democracy and Progress Party (DEVA) and Future Party (GP), both center-right, small “I” liberal, pro-European parties. Of the six, the CHP, headed by Kılıçdaroğlu, and the İYİ, led by Meral Akşener, hold the most popular support.

Kılıçdaroğlu is not a newcomer to Turkish politics. A retired and humble civil servant and politician, he has faced President Erdoğan in prior elections without success. This time, however, he is gaining ground by leading a historically unified opposition for the first time, supported by the electorate's frustration over the current government's handling of the economy and the recent earthquakes, as well as concerns over corruption. Kılıçdaroğlu has focused his campaign on these issues, as well as reviving democratic institutions and freedom of expression. His candidacy was further strengthened after naming Ekrem İmamoğlu and Mansur Yavaş – the popular mayors of Istanbul and Ankara, who beat President Erdoğan's party in 2018 – as executive vice presidents in early March.

Despite his lead in the polls, Kılıçdaroğlu faces some challenges. There are still approximately 10 percent undecided voters in the electorate, primarily young voters, who could sway the results in the tightly contested race. İnce's entrance into the race in late May also threatens to split the opposition vote, and it remains to be seen whether his voters would support Kılıçdaroğlu in a run-off, though analysts believe it is likely.

Moreover, President Erdoğan remains a formidable opponent. His ruling coalition maintains a strong base of support, primarily working and middle-class voters, which account for approximately 40-45 percent of the electorate. President Erdoğan also benefits from state resources and control over the Turkish media. In the 2018 election, some questions were raised about how these advantages helped the president outperform the polls, where he won an outright majority in the first round while most polls predicted his victory in a run-off. Some analysts remain concerned that President Erdoğan could use his power in office to interfere with elections or refuse to accept the results should the opposition win by a slim margin, despite [mostly](#) transparent systems for casting and tallying the votes.

To further strengthen his support, especially among undecided voters and other key constituencies, President Erdoğan has sought to unveil populist spending programs and run a campaign focused on identity politics and playing into voter fears about security under different leadership. He has also focused on financing high-profile reconstruction efforts in disaster-stricken provinces and pursuing diplomacy with regional adversaries.

An opposition victory in Parliament could pose a check on the presidential system

Parliamentary elections will be especially important to monitor this year. On May 14, voters will also elect 600 members of parliament (MPs) from 87 districts for a five-year term to form Turkey's 28th parliament. Current polling indicates that opposition parties are favored, though it remains to be seen whether they will be able to secure 301 seats for a majority or 360 seats for an absolute majority to change the constitution outright.

An opposition majority would have significant consequences for the country's institutions, regardless of the outcome of the presidential election. The opposition has already indicated that, should it win an absolute majority in parliament, it would seek to pass a constitutional amendment to restore Turkey's parliamentary system. Over the last several years, leveraging his coalition's majority in parliament, President Erdoğan has significantly eroded parliamentary powers by heavily centralizing presidential authority, hollowing out state institutions, and appointing loyalists to key positions. Even under a simple majority, the opposition would seek to exercise a significant legislative check on the president.

A SIZEABLE OPPOSITION MAJORITY WOULD HAVE SIGNIFICANT CONSEQUENCES FOR THE COUNTRY'S INSTITUTIONS, REGARDLESS OF THE OUTCOME OF THE PRESIDENTIAL ELECTION.

Watch for the next president's commitment to restoring orthodox economic policy, expect short-term volatility

The next president will face the challenge of restoring economic stability and investor confidence. Since 2021, when the government launched its "new economic model" – which prioritized lowering interest rates to support growth and exports – the Turkish lira has lost well over half of its value against the dollar. The current exchange rate is over 20 to 1 USD, compared to an average of roughly 9 to 1 USD in 2021. Currency devaluation, coupled with rising food and energy prices and other global inflationary pressures, has driven inflation to near-record highs. While official inflation has cooled somewhat in recent months after reaching a 20-year high of 85.5 percent in October 2022, the unofficial rate remains above 100 percent, and the government's populist spending

programs and earthquake reconstruction initiatives are likely to keep it high. Moreover, to defend further devaluation of the lira, the government has taken on costly schemes to protect converted local deposits from losses.

The combination of these measures has created significant strains on the economy. The central bank's foreign exchange deposits sit a historically low level of negative 69 billion net of SWAP agreements. Foreign cash has left bond and stock markets, and foreign direct investments have decreased. The country's current account deficit widened to \$8.8 billion in February, the highest level in a decade.

In recent weeks, President Erdoğan has given mixed messages about his economic plans. On the one hand, he has hinted at shifting his economic policy under the guidance of his former investment-friendly finance minister and deputy prime minister, Mehmet Şimşek. On the other hand, he has reiterated that he wants to keep interest rates low, and his campaign rhetoric has largely focused on short-term fixes, such as raising the minimum wage and increasing pensions, to soften the impact of inflation on the Turkish public. Given the challenges the economy faces, however, we expect that President Erdoğan will try to at least take some measures of economic and monetary policy reforms to restore investor confidence, albeit still highly centralized under his presidency.

For its part, the opposition has committed to a gradual return of orthodox and predictable fiscal and monetary policy. As a part of this, the Kılıçdaroğlu team has announced that it will place seasoned and market-friendly leaders in relevant institutions like the central bank, Turkey Wealth Fund, and the Banking Regulation and Supervision Agency. Kılıçdaroğlu also announced that Ali Babacan, head of the DEVA Party and former investment-friendly deputy prime minister and minister of economy under Erdoğan in 2018, would assume the vice presidency in charge of the economy. Bilge Yılmaz, a former Wharton business school economy professor, will take over the Treasury and Hakan Kara, former chief economist at the central bank, would become the central bank governor. Such efforts and appointments should help restore investor confidence and attract greater foreign direct investment over the longer term.

However, as a new government seeks to curb inflation, it will need to do so by raising interest rates, creating a near-term shock to the economy. The central bank will also reduce the sale of U.S. dollars, contributing to a further devaluation of the lira. Finally, the opposition has said it would not impose strict controls on social spending which, coupled with earthquake rebuilding efforts, could add to the current account deficit. It will be especially important for them to maintain these social spending programs, as Turkey will hold local elections in 10 months. As a result, investors should be prepared for several months of continued volatility as the government seeks to implement economic reforms.

Foreign policy could shift under a new government

If President Erdoğan wins the election, then his marquee foreign policy initiatives, including diplomacy with former regional adversaries and maintaining a neutral stance towards the war in Ukraine, are likely to continue. After years of growing regional isolation, caused by an assertive regional foreign policy (e.g. support for Muslim Brotherhood movements, involvement in various regional conflicts, and expansionist activities in the Eastern Mediterranean), President Erdoğan has recently prioritized rebuilding positive relations with Turkey's regional neighbors to attract

economic support for the Turkish economy. Over the past two years, Turkey has normalized relations with the UAE and Saudi Arabia and aggressively courted Gulf investments to buoy its struggling economy. Ankara has also sought to improve relations with Israel and Egypt, although significant tensions remain with both countries.

The opposition would likely continue these initiatives as well. Diplomatic rapprochement with Egypt and Syria is popular across the Turkish political spectrum, especially towards Damascus, as support for returning Syrian refugees back to Syria is high given increasingly negative sentiments towards refugees. Kılıçdaroğlu has pledged to “return Syrians back to their country” within two years of his election. On Russia, opposition foreign policy officials have indicated their desire to uphold Ankara’s neutral stance towards the war in Ukraine, maintain economic relations with Moscow, and avoid joining western sanctions. Turkey’s territorial disputes and tensions with Greece and Cyprus are likely to continue as well. However, unlike President Erdoğan’s personality-driven approach to foreign policy, staked on high-profile personal meetings with foreign heads of state, a Kılıçdaroğlu government is likely to take a more policy-driven, needs-based approach.

Nonetheless, an opposition victory could also lead to significant changes in Turkey’s relationship with NATO, the European Union, and the United States. A Kılıçdaroğlu presidency would likely lead to a more balanced relationship with the West, with a less mercantile and combative tone. Opposition officials have stated that they would seek to return Turkey to the United States’ F-35 program while attempting to meet all benchmarks for admission to the European Union. Kılıçdaroğlu has indicated that securing EU membership for Turkey is one of his main goals of his presidency. Foreign military operations, such as those in Libya and Somalia, are also likely to come under increased scrutiny. Finally, the foreign ministry would likely regain its influence after having been sidelined by Turkey’s National Intelligence Organization and President Erdoğan’s personal diplomacy.

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