



By: **Emre Alkin**

Reading the Election Results Correctly



There are several reasons lying behind the second defeat of the ruling party in Turkey after the 2015 general elections. The current situation of the economy is obviously the most outstanding reason amongst others: everything comes down to the economy.

The Government has been making the nation pay the price for their wrong-headed economic policies which have been in place since 2018. And this stubbornness was perhaps the main determining factor of the electoral outcome.

In nationwide **local elections** on Sunday, people punished the Government who did not deem retirees worthy of wages above the minimum wage while clearing or reducing tax burdens or tax-related debts of large companies.

Encouraged by the unsubstantiated praises of international financial institutions and supported by leading business people in Turkey, the Government's economic team began to make mistake after mistake and made the unorthodox policies of the past look like a big success.

The reason why I keep saying "unorthodox" is this: not every economic policy that is not orthodox is heterodox.

These policies implemented in the past were not only unsuccessful, but also caused almost irreparable damage to the economy and markets, and it would not be correct to use an economic term to refer to these failed economic policies.

The big picture

Soon after their assignment in June, the new members of the economic team made a good first impression with their brave and rational economic ideas, as opposed to their predecessors whose practices had been heavily criticised for being inconsistent with any economic theory.

As people began to think "it can't get any

worse than this", they would soon applaud them and their polished CVs. But it was not long before Central Bank Chair Erkan had to say goodbye to her post due to her behaviour unbecoming of an officeholder.

Those who did not read the details of the decision to appoint the previous Central Bank Chair, Şahap Kavcıoğlu, as the President of the Banking Regulation and Supervision Agency of Turkey (BRSA), had failed to see the "big picture".

Markets were pleased to hear Minister Şimşek say "we have no other choice but to return to rational policies"

The economic team was replaced after the general elections, and the appointment of Kavcıoğlu, who was heavily criticised for his practices - as the President of the BRSA while holding onto his position as Central Bank Governor and thus allowing him to protect his honour meant that the appointment of Mehmet Şimşek was in fact out of necessity despite his unsatisfactory performance that he gave years ago.

Markets were pleased to hear Minister Şimşek say "we have no other choice but to return to rational policies", as soon as he took office. But after a while, he too started to do the very same things that he had described as irrational.

He agreed to selling billions of dollars to control exchange rates as the budget deficit was constantly growing. He remained silent as interest rates fell behind inflation.

Meanwhile, he made another political mistake by posting on social media the following comment about the person to replace Gaye Erkan: "the person I prefer will take office as the CBRT Chair". Maybe he had to because of the rumours that he was supporting another candidate.

Promises and expectations

In the meantime, Şimşek's promise of billions of fund inflow remained unfulfilled. The government let the expectations get too high, relying on Şimşek's international connections and cordial relations with foreign investors.

I, personally, do not think that Mehmet Şimşek has actually made a promise of bringing billions of dollars to the economy. However, from time to time, he has said, in his speeches, certain things that caused expectations to rise.

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Of course, the likelihood that Turkey could be removed from the Financial Action Task Force's (FATF) grey list was also an important factor. It is a fact that Şimşek has raised expectations by making this possibility seem like a realistic probability.

The real problem is the economy

So, in summary, the key reasons for the government's defeat in local elections are: the net assets of the CBRT have been reduced to critically low levels by constantly selling foreign currency; the inflation target was unrealistic; policy interest rates have been lower than the projected inflation rate; banks' loan rates have reached record-high levels; businesses have been experiencing difficulties accessing funds; constant revision of the economic targets; ever-increasing taxes have been making people's lives more and more difficult; the Government said, "There is no money", when it came to retirees while the big corporations have been receiving all the funds; and as a consequence, further deterioration in pricing behaviour, not to mention the current

trade regime that creates inflationary effects, and of course, the state of Turkish football, which has been going downhill lately, in terms of both quality and fair play.



The economic team of the Government, which speaks rationally but does not act rationally, must change the way it handles the problems - Emre Alkin

In fact, there are many other reasons that need to be put under microscope, such as the fight among justice institutions, powerful politicians switching to opposition parties, or declining public confidence in local governments. However, none of these do not change the fact that the real problem is the economy.

Therefore, the economic team of the Government, which speaks rationally but does not act rationally, must change the way it handles the problems.

If they are not willing to do that, then they have to be replaced with people with rational thinking, who both speak and act rationally. But obviously, actions matter more than words. People make promises all the time. The important thing is that they have to make sure to deliver it.