

# The implications of Turkey's Executive Presidency

A new system of government has begun in Turkey. We look at the implications for the country's politics and economy, not least what this means for Turkey's central bank



Recep Tayyip Erdogan,  
President of Turkey

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## The system in summary

With the approval of constitutional changes in April 2017 referendum that redesigned: 1) duties & powers of the executive with allowing of executive order 2) relations between the legislative, executive and judiciary branches 3) regulations addressing the judiciary 4) the investigation and trial procedures for the President & the Cabinet 5) the budget approval process 6) elections process, Turkey laid the ground for Executive Presidency in which the President (Recep Tayyip Erdogan, pictured) is both the head of state and head of government of Turkey and does not need parliament to form the government.

The new system of government that eliminated the key positions in the previous administrative system i.e. undersecretaries, deputy undersecretaries and many deputy general managers is mainly based on the Cabinet, Councils and Offices to function.

## The cabinet

It will be heading the bureaucracy and in charge of the execution with 16 ministries, down from 26 ministries previously. Accordingly, in the new structure, some ministries are united under a single portfolio: 1) Foreign Ministry with European Union Ministry 2) Ministry of Finance and Treasury (merger of Ministry of Finance and Under secretariat of Treasury) 3) Ministry of Trade (merger of Ministries of Customs & Trade and Economy) 4) Ministry of Industry and Technology (formerly Ministry of Science, Industry and Technology) 5) Ministry of Labor, Social Services and Family (merger of Ministries of Labor & Social Security and Family & Social Policy) 6) Ministry of Agriculture and Forest Management (merger of Ministries of Food, Agriculture & Livestock and Forest & Water Management).

## Councils

Nine councils within the Presidency, focusing on policy design with a focus on key areas i.e. economy, local governments, social issues, health, culture, security, education, science and legal issues. In other words, a total of 65 existing boards, commissions and committees established with laws and other regulations are merged under nine entities, according to some analysts. These councils, each headed by the President, will develop, supervise and coordinate relevant policy suggestions. They will be formed by at least three members, to be directly appointed by the President. Specifically, the Council for Economic Policies is tasked to provide analysis and policy recommendations on investments, trade policies, and systemic risks as well as to closely watch economic developments and global financial issues.

## Offices

Reporting directly to the Presidency, four new offices on 1) human resources (supervise the state's human resources), 2) finance (in charge of monitoring financial markets and banking system domestically and abroad), 3) investment and 4) digital transformation (institute the state's digital transformation so as to adapt to the digital age) are established to improve governance process. Being special budgetary institutions, these offices are to work with a focus on long-term strategies for key themes. The new structure shows that Councils and Offices will determine the policy framework under the participation and supervision of the President, while the Cabinet will be in charge of the execution of the policies.

## Transition still in progress

In the first phase, Turkey held its first dual parliamentary and presidential elections on 24 June, earlier than the originally scheduled date, despite insistence from the Government that the general elections would take place on the scheduled time. Erdogan has been re-elected as the country's first president under the new presidential system. After the elections, the Justice and Development Party (AKP) government issued a series of harmonisation decrees with an objective of integrating the new system into the existing legislation.

In the second phase, President Erdogan was sworn in on 9 Jul and then two extensive decrees, changing the structural organisation of the state as well as redefining the hierarchical scheme

were issued. Including professionals from the business community, experts from fields such as education and health, and politicians in President Erdogan's close circle, the new cabinet was also announced on 9 Jul.

The names in charge of the economy are:

- i. **Minister of Finance and Treasury:** Berat Albayrak, former Minister of Energy and Natural Resources and President Erdogan's son-in-law
- ii. **Minister of Trade:** Ruhsar Pekcan, a businesswoman serving as vice chair of the Council of Female Entrepreneurs at the Union of Chambers and Commodity Exchanges of Turkey (TOBB)
- iii. **Ministry of Industry and Technology:** Mustafa Varank, a former Chief Advisor to President Erdogan

According to President Erdogan, policy council appointments and the remaining high-level appointments would be completed in the coming days. Given that not only the cabinet members but also key economic appointments to Councils and Offices are important for policy direction, markets will remain alert on names to get a signal for a continuation of market-friendly policies given a backdrop of increasing economic concerns due to high inflation, high external imbalances, rising borrowing costs and a volatile currency with a less supportive global environment.

## Policy mix under focus

As part of a transition to the new system, the CBT law is revised. In addition to technical (wording) adjustments following the shift to the executive presidency, the revisions change:

- i. **Appointment:** The Governor, Deputy Governors and MPC members will directly be appointed by the President, while Deputy Governors were appointed by a joint decision on the recommendation of the Governor before the revision.
- ii. **Qualifications:** Less strict requirements on education and work experience
- iii. **Serving period:** Set as four years for the Governor, Deputy Governors and MPC members, down from five previously.

No impact is expected on the CBT's current management team and the MPC in the near term as all were appointed in 2016 and thereafter.

## The Turkish Central Bank

The revised legislation allows the President to determine the compensation of the CBT management team (the Cabinet previously), though bars him from removing the CBT governor (unchanged in both versions). In addition to the CBT governance, the policy outlook in the aftermath of elections matters for the markets given current macro vulnerabilities and the economy being on course for a slowdown, as we discussed in a [recent note](#).

Accordingly, macro and financial actions by the new government addressing short-term vulnerabilities with a focus on tight monetary policy and a commitment to fiscal prudence would be key for the markets, while reviving the reform agenda in social, economic and political areas would also be crucial in taking Turkey to a recovery path. In fact, we see increasing warnings from

credit rating agencies that there should be more policies that could take the Turkish economy to a sustainable growth, protect the government's fiscal strength and re-establish price stability.

In the election declaration, ruling party, AKP, stated to

- 1) decisively maintain macroeconomic and financial stability
- 2) improve efficiency in public expenditure and revenues for fiscal discipline.

Turning the plan(s) to policy action on the fiscal front will help reduce risk anticipation about the Turkish economy. Also, in the near term, the CBT actions would be key for the stabilisation of the markets. June inflation data showed further worsening in the price dynamics driven by cost factors, while elevated levels of inflation and an ongoing deterioration in inflationary expectations continue to pose further risks to the pricing behaviour. Accordingly, addressing the deterioration in the inflation outlook would be key for the CBT to rebuild credibility and the July MPC on 24th will be closely watched by the markets.

Sustainable improvements as far as uncertainty is concerned, with more clarity about the government system and detailed statements on future policy actions, will help reduce ongoing volatility.

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