

AKP party achieves victory in key constitutional referendum

The much awaited referendum on constitutional reforms was held on Sunday, September 12. With nearly all of the votes having been counted, preliminary results showed that 58% of the voters supported the package of constitutional changes backed by the government, while 42% voted against it. Turnout of the eligible electorate was 77%. The outcome was stronger than that suggested by a number of opinion surveys conducted ahead of the poll, which signaled marginal support in favor of the amendments (50-55%).

Among others, the constitutional amendments proposed by the AKP include:

- ❖ changes in judiciary, ie. the structure and the way the Supreme Board of Judges and Prosecutors (HSYK) are elected,
- ❖ making military personnel accountable in civilian courts for civilian claims,
- ❖ allow for military court decisions to be appealed,
- ❖ waiver of immunity from prosecution of members of the National Security Council and technocrats involved in the 1980 junta,
- ❖ strengthening of equality and children's rights,
- ❖ right of membership in more than one labour union and right to strike in the private sector,
- ❖ lawmakers will be allowed to remain in Parliament even if their party is banned from politics by the court.

The government says that the constitutional changes will make the country more democratic and help improve the prospects of EU accession. Most of the 26 articles to be amended in the plebiscite were broadly uncontroversial. However, some of the changes are seen by staunch secularists as a threat on the basis that they limit the powers of the military and judiciary.

The outcome of the referendum was seen as a key test for the government, being considered as a vote of confidence on its policies and as an indication of public support ahead of the July 2011 general elections. The high share of votes in favor of the amendments added to hopes that the pro-business ruling AKP is braced to win a third consecutive general election and form a single-party government next year.

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Worries over fiscal loosening in the run up to the polls also lessen. Although some additional expenditure may still emerge ahead of the vote, that would not be of a magnitude to unnerve investors and jeopardize the country's financial stability. Moreover, enhanced morale may add to the government's drive to instrument a broader overhaul of the constitution, a note already made by Prime Minister Tayyip Erdogan shortly after the announcement of the referendum's outcome.

Such a move would help to accelerate EU membership progress. The EU has repeatedly urged Turkey to overhaul its constitution, which was ratified in 1982 following a military coup and is being criticized as outdated containing articles seen as obstacles to the country's accession bid.

Meanwhile, the much-awaited "fiscal rule", which was initially expected to be endorsed in parliament this summer but was later said to be delayed, may be back on the agenda. The reform is seen as a valuable policy anchor for budget deficits in the coming years, especially in the absence of a new IMF loan deal. Endorsement in parliament and adequate implementation will not only improve Turkey's finances but also bring about upgrades in the country's sovereign credit ratings. It is also worth mentioning that the door remains open for a snap elections scenario now that the government received concrete evidence of strong public support and may opt to alleviate uncertainty related to a protracted pre-election period.

On a less positive note, social polarization may deepen and political friction may escalate further in an ongoing power-play between the secular elite and the Islamist-rooted government. Among such risk-triggering events is a renewed drive towards constitutional amendments that have in the past stirred significant turmoil in Turkey's domestic politics. Among the latest was the AKP-backed waver of the ban on Muslim headscarf in universities. In 2008 the Constitutional Court had blocked the government's last such effort.

News of the plebiscite's outcome was well received by domestic financial markets. In the wake of the referendum's outcome, Turkish assets rallied with the main stock index XU100 being propelled to a record high of 62,164, while the Turkish lira marked its biggest daily gain since June 10 vs. the USD with the USD/TRY sliding as far as a near 1-month trough of 1.4850. Benchmark bond yields slid by ca 11bps.

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