

Key Summary:

- President Erdoğan is likely to exploit the 15 July coup attempt to purge the judiciary and state bureaucracy of political opponents.
- With Erdoğan's popularity having peaked post-coup, a bid to establish an executive presidency is likely.
- The surge of political uncertainty, security risks, and escalation of Turkish military actions will have a substantial negative impact on the Turkish economy.
- The fight against the militant Kurdistan Workers' Party (PKK) is unlikely to abate, given the latter's newfound foothold inside Syria.

Risk maps

Overall	2.9 ⇒
	HIGH
▶ Political	2.6 High ⇒
▶ Economic	3.4 Very High ↘
▶ Legal	2.9 High ⇒
▶ Tax	2.4 High ⇒
▶ Operational	2.2 Elevated ⇒
▶ Security	3.8 Very High ↗
▶ Individuals	3.1 High ⇒
▶ Cargo and transport	3.0 High ⇒



Structure and calculations



Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period.

Overall risk scores are calculated as equally weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security.

Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

Business environment - strengths and weaknesses

Strengths	Weaknesses
Large unsaturated market and growing young consumer population.	Elevated security risks, particularly in southeast Turkey, the heart of the PKK insurgency, as well as Istanbul and Ankara, where there is a high risk of IED attacks targeting tourists, diplomatic assets and the security forces.
Low labour costs, driven even further down with the Syrian refugee influx.	High consumption taxes (value added taxes and excise duties).
Strategic geographic location between European and Middle Eastern markets.	High dependency on energy imports, which accounts for a chronically large current account deficit.
Continued adherence of government to pro-market business policies.	Discriminatory treatment of companies affiliated with the government's political rivals.

Country risk - overall statement

The benefits from a decade-long liberal economic platform and the implementation of EU-aligned business laws under the ruling Justice and Development Party (AKP) are at risk of evaporating. Reforms and prudent economic policies helped the country navigate the 2008–09 global economic downturn, but policies have grown increasingly politicised since then. The investment environment continues to deteriorate as the AKP consolidates power over all aspects of economic policy, eroding critical institutional strength and trust. These shifts are jeopardising critical foreign capital inflows that are needed to finance a chronically large current-account deficit. Large-scale infrastructural projects are underway, including what will be the world's largest airport terminal in Istanbul. An obstructive bureaucracy and corruption remain endemic problems. In addition, Turkey is ranked as facing the highest security threat relative to its emerging market peers. The PKK insurgency in southeast Turkey continues unabated, with an eventual return to the negotiation table with the militant group unlikely in the one-year outlook. The Islamic State also maintains numerous affiliates throughout the country, raising the risk of retaliatory attacks to Turkey's recent operations against the jihadists in northern Syria. Overall, Turkey's geostrategic location between Europe and the Middle East, its young population, not to mention its status as a large Muslim country in NATO, all ensure that the country will remain a pivotal player in international politics.

Detailed Analysis

President Erdoğan is likely to exploit the popular momentum he gained following the 15 July coup attempt to push for an executive presidency.

With the post-coup purge of close to 3,000 judges and prosecutors, including from the high courts, the government has eliminated a key institutional constraint to pushing through the executive presidential system.

IHS Markit assesses that Erdoğan is highly unlikely to wait until the next scheduled general election in 2019 to push ahead with his ambition. Instead he is likely to seek to capitalise on the surge of support he has seen following the coup attempt, which has been further bolstered by the bravado surrounding Turkey's intervention in northern Syria. The key risks to his 'super-presidential' bid remain a potential escalation by the militant Kurdistan Workers' Party (PKK) that would undermine his 'strongman' appeal, or an economic downturn that would jeopardise the support of his business constituency.

The surge of political uncertainty, security risks and escalation of Turkish military involvement in northern Syria are likely to have a substantial negative impact on the Turkish economy.

Most critically, the inflow of foreign capital is likely to be threatened, jeopardising the country's ability to finance its external obligations. The lira is facing significant uncertainty, plunging sharply since late September 2016, while inflation is likely to accelerate, particularly as the Central Bank succumbs to pressure from the government to pursue expansionary monetary policy, at the expense of its erstwhile prudent approach. Finally, the real economy will be hurt by a delay in gross fixed capital formation and huge losses in key value-added sectors, including the tourism sector.

The fight against the militant Kurdistan Workers' Party (PKK) is unlikely to abate, with the latter likely to exploit the weakness of the Turkish security forces post-coup.

With more than a year having passed since the resumption of the conflict in July 2015, the government has been unable to rein in the PKK insurgency in southeast Turkey. Further complicating the matter is Turkey's hostile position towards the Democratic Union Party (PYD) – the PKK's Syrian counterpart – for which there remains widespread support among Turkey's Kurds. Improvised explosive device (IED), arson and shooting attacks are highly likely in the region, targeting government assets, security forces, and energy infrastructure, particularly hydropower dams and pipelines. The attacks are likely to be concentrated in the provinces of Hakkari, Şırnak, Diyarbakır, and Tunceli, and, to a lesser extent, Siirt, Mardin, Batman, and Ağrı. Attacks targeting the hydropower projects – although militants do not possess the capability to breach dam walls – are likely to include the theft or burning of construction equipment and vehicles.

The Turkey-backed military operation in northern Syria is likely to incite retaliatory attacks from both the Islamic State and PKK affiliates, at a time when the post-coup purge of the police and intelligence agencies from coup plotters has weakened their capacity to counter terrorism risks.

The Turkey-backed Euphrates Shield operation in northern Syria was directly targeted the Islamic State but also pre-empted the territorial expansion of the Kurdish forces affiliated with the militant Kurdistan Workers' Party (PKK). As such, retaliatory attacks are likely by both groups, at a time when the fallout from the failed coup in July 2015 has undermined trust and co-operation between the military, the police forces and national intelligence. The Islamic State's strategy is likely to remain focused on inflaming sectarian conflict in Turkey by attacking Alevis and PKK-affiliated Kurds. In five attacks since January 2016, including the 28 June attack on Istanbul Atatürk Airport, 64 have been killed and at least 309 more injured, including mostly civilians. Further attacks are likely against foreigners in beach resorts and other tourist sites across the country, as well as diplomatic, government, and security services targets in Istanbul, Ankara and Gaziantep. Besides targets associated with the PKK and Alevis, the militants are furthermore likely to target secular individuals, peace activists, and other opponents of Sunni Islamism in the country. Separately, the 18 February, 13 March 2016 and 10 December suicide vehicle-borne IED (SVBIED) attacks by PKK offshoots in Istanbul and Ankara indicate their adoption of suicide bombing attacks in western Turkey as a tactic to retaliate against the government's increasingly effective usage of technological solutions, such as drone patrols, to crack down on militants in the southeast. Their target set is likely to remain restricted to the security forces, however, while accepting civilian casualties as necessary collateral.