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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

Turkish growth rebounded strongly from the initial impact of the pandemic, reflecting a dynamic private sector and stimulative policies, the country being among the few countries not to dive into recession. Turkey's growth was buoyant in 2022 (+5.5%) and continued expanding in 2023 as sizeable pre-election stimulus further boosted domestic demand. For the year as a whole, the IMF estimated GDP growth at 4%, with household consumption as the main driver, coupled with government consumption and upbeat investment in machinery and equipment; whereas the contribution of net exports was negative. Following the March 2024 local election period, private consumption is expected to make a lesser contribution to growth. In contrast, government expenses are anticipated to maintain a positive impact, primarily driven by reconstruction following the February 2023 earthquakes (estimated at approximately USD 26 billion) and potential additional expenditures preceding the local elections. Overall, the IMF forecasts a GDP growth of around 3% over the forecast horizon.

Fiscal policy remained supportive in the first half of 2023. However, following the general and presidential elections in May, the authorities have gradually intensified the monetary policy position, leading to a doubling of the policy rate from June to September, reaching 30%. Additionally, the government has implemented numerous substantial tax hikes aimed at mitigating the substantial budget deficit and funding expenditures related to earthquake reconstruction. The government deficit was estimated at 6.4% of GDP in 2023 and is expected to remain high this year (4.4%) before declining marginally in 2025 (3.8%). Despite such a deficit, the substantial snowball effect stemming from elevated inflation contributed to keeping the government debt-to-GDP ratio near its 2022 level, notwithstanding the influence of lira depreciation, although the share of foreign-currency-denominated debt at end-July remained high at 67.1% (Fitch Ratings). Despite the adoption of a more restrictive policy stance, the expectation is that inflation – at 51.2% in 2023 - will remain elevated in the short term. This is attributed to factors such as inflation inertia, persistently high inflation expectations, and the repercussions of recent lira depreciation and tax increases. The gradual adjustment of excessive domestic demand is expected to play a role in a moderate reduction in inflation and the gradual improvement of external imbalances.

According to IMF estimates, employment partially recovered along with the rebound in economic activity, hence the unemployment rate decreased to 9.9% in 2023, its lowest level in nearly a decade, and is forecast to stabilize at around 10% over the projected period. Market conditions remain challenging, particularly among females and the youth. Wage inequality and the size of the informal sector remain long-standing problems. In 2023, the IMF estimated the country's GDP per capita (PPP) at USD 41,888, 26.4% below the EU average.

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP <i>(billions USD)</i>	905.84	1,154.60	1,340.69	1,402.11	1,454.23
GDP <i>(Constant Prices, Annual % Change)</i>	5.5	4.0	3.0	3.2	3.2
GDP per Capita <i>(USD)</i>	10,622	13,384	15,368	15,899	16,317
General Government Balance <i>(in % of GDP)</i>	-3.1	-6.4	-4.4	-3.8	-3.7

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
General Government Gross Debt <i>(in % of GDP)</i>	31.7	34.4	31.9	32.2	31.5
Inflation Rate <i>(%)</i>	n/a	51.2	62.5	52.5	48.1
Unemployment Rate <i>(% of the Labour Force)</i>	10.3	9.9	10.1	10.2	10.2
Current Account <i>(billions USD)</i>	-48.41	-48.51	-40.10	-39.26	-39.57
Current Account <i>(in % of GDP)</i>	-5.3	-4.2	-3.0	-2.8	-2.7

Source: IMF – World Economic Outlook Database , October 2021

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

The agricultural sector constitutes 6.5% of Turkey's GDP. Despite employing 17% of the active population, the sector continues to suffer from low productivity due to reliance on small farms. Approximately 11% of Turkey's territory is used as agricultural land. Wheat is the country's main crop, though Turkey is the world's third-largest exporter of tobacco and the largest producer of hazelnuts (nearly 70% of global production). Turkey continues to be a net exporter of agricultural products, but livestock imports are growing exponentially to compensate for the shrinking animal breeding sector. Mineral resources are abundant but under-exploited. According to the latest estimates from Turkstat, in 2023 cereals production increased by 7.4% when compared with the previous year (to 41.5 million tonnes), same as for that of wheat (+10.4% - 21.8 million tonnes), barley (+5.9% - 9 million tonnes), and fruits, beverage and spices crops (+2.2% - 27.4 million tonnes).

The secondary sector accounts for 31.3% of GDP and employs 27% of the workforce. Manufacturing is the main industrial activity of the country, accounting for 22% of GDP (World Bank). Car manufacturing and textile spearhead the Turkish industry, and other important segments are food products, basic metals and fabricated metal products, plastic products, chemicals, and electrical equipment. Turkey is the fifth-largest textile exporter in the world. The iron and steel sector in Turkey is of great importance for the general performance of the manufacturing industry due to its increasing production capacity, export potential and the inputs it provides to other sectors. In 2022, the value of manufacturing exports in Turkey reached an all-time high of USD 185.9 billion, accounting for 73.1% of total exports.

The services sector grew rapidly in the early 2000s, peaking at above 57% of GDP in 2009 but has fallen since to account for 51.7% of GDP in 2022, while employing 56% of the country's workforce (World Bank, latest data available). Tourism represents around 7% of GDP and is a major source of foreign currency for the nation. Although the sector was severely affected during the COVID-19 pandemic, it recovered in 2022, when 45 million foreign visitors visited the country, which recorded its highest tourism revenue in history, at USD 46.3 billion (data Invest Turkey). As per the Turkish banking sector, it is comprised of 53 banks: 34 deposit banks (of which three are state-owned), 13 development and investment banks, and 6 participation banks (European Banking Federation).

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector <i>(in % of Total Employment)</i>	17.1	26.5	56.3
Value Added <i>(in % of GDP)</i>	6.5	31.9	51.2
Value Added <i>(Annual % Change)</i>	0.6	0.9	9.7

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
Turkish Lira (TRY) - Average Annual Exchange Rate For 1 USD	3.02	3.65	4.83	5.70	7.01

Source: World Bank - Latest available data.

FOREIGN TRADE

Turkey's economy is open to foreign trade, which represents 81% of its GDP (World Bank, latest data available). Automobiles (8.5% of total exports including passenger cars, transport vehicles and accessories for vehicles), petroleum oils (5.2%), and iron and steel (1.7%) were the top exports in 2022, with machinery exports also being pivotal. The main imported products were gold (5.6%), petroleum oils (5.1%), ferrous waste (2.7%), col (2.3%), and motor cars (2.2% - data Comtrade). In 2022, micro enterprises with 1-9 employees, constituting 64.2% of exporter enterprises, accounted for 19.4% of total exports. Small enterprises (10-49 employees) contributed 18.9% to exports, medium-sized enterprises (50-249 employees) represented 19.4%, and large enterprises (250+ employees) held a share of 42.3% (Turkstat).

Germany (8.3% of all exports), the U.S. (6.6%), Iraq (5.4%), the United Kingdom (5.1%), and Italy (4.9%) were among the top destinations for Turkish exports. Russia (16.2%), China (11.4%), and Germany (6.6%) were the main suppliers of goods to Turkey, followed by Switzerland and the United States (4.2% each - data Comtrade). Turkey has 23 active [free trade agreements](#) (FTAs), including its very first trade deal with the European Economic Area in 1991 and the most recent one with the United Kingdom. The FTAs signed with Lebanon, Qatar, Sudan and Ukraine are under ratification process. At the same time, Turkey has pursued FTA negotiations with Japan, Thailand and Indonesia and will start renegotiating the terms of its existing agreements with Georgia, Malaysia and Moldova. Furthermore, the UAE and Turkey signed a joint statement on starting negotiations for a bilateral trade and investment deal.

Turkish trade structure has been characterised by a wide deficit, mainly due to energy imports. Also, as most of its exports are tied to imports of intermediate, semi-finished or raw products, the evolution of the trade balance has been traditionally linked to economic growth and the lira's value against the U.S. dollar. In 2022, Turkey's imports of goods totalled USD 363.7 billion, whereas the total value of its exported goods reached USD 254.2 billion (+34% and +12.8% year-on-year, respectively - data WTO). According to WTO, exports of services in 2022 were higher than imports, at USD 90.2 billion and USD 40.4 billion, respectively. Overall, the trade balance was negative by 4% of GDP (it stood at +0.4% one year earlier - World Bank). According to preliminary figures by Turkstat, in the first ten months of 2023, exports amounted to USD 209.9 billion (+0.2% year-on-year), while imports reached USD 303.8 billion (+1.1%). During the same period, an overall deficit of USD 93.9 billion was reported, showing an increase of 3.2% compared to the first ten months of 2022.

Foreign Trade Values	2018	2019	2020	2021	2022
Imports of Goods (million USD)	231,152	210,345	219,517	271,426	363,711
Exports of Goods (million USD)	177,169	180,833	169,638	225,214	254,192
Imports of Services (million USD)	28,453	28,657	23,884	29,596	40,413
Exports of Services (million USD)	59,341	67,217	38,243	61,408	90,285

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
Foreign Trade (in % of GDP)	62.6	62.7	61.0	70.8	80.5
Trade Balance (million USD)	-40,726	-16,781	-37,874	-29,313	-89,684

Foreign Trade Indicators	2018	2019	2020	2021	2022
Trade Balance (Including Service) <i>(million USD)</i>	-9,838	21,779	-23,515	2,499	-39,812
Imports of Goods and Services <i>(Annual % Change)</i>	-6.2	-5.0	6.7	2.4	7.9
Exports of Goods and Services <i>(Annual % Change)</i>	8.8	4.2	-14.4	24.9	9.1
Imports of Goods and Services <i>(in % of GDP)</i>	31.4	30.2	32.2	35.5	42.6
Exports of Goods and Services <i>(in % of GDP)</i>	31.2	32.5	28.7	35.3	37.9

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
Volume of exports of goods and services (Annual % change)	-4.1	5.4	1.6	0.4	-0.1
Volume of imports of goods and services (Annual % change)	20.7	10.0	6.2	3.1	0.1

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

Turkey is a member of the following international economic organisations: G-20, WTO, IMF, Pacific Alliance (observer), OECD, ICC, among others. For the full list of economic and other international organisations in which participates Turkey click [here](#). International organisation membership of Turkey is also outlined [here](#).

Free Trade Agreements

The complete and up-to-date list of Free Trade Agreements signed by Turkey can be consulted [here](#).

Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
Germany	8.3%
United States	6.6%
United Kingdom	5.1%
Italy	4.9%
Spain	3.8%
See More Countries	71.3%
Main Suppliers <i>(% of Imports)</i>	2022
China	11.4%

Main Suppliers <i>(% of Imports)</i>	2022
Germany	6.6%
Switzerland	4.2%
United States	4.2%
Italy	3.9%
See More Countries	69.7%

Source: Comtrade, Latest Available Data

POLITICAL OUTLINE

Current Political Leaders

President: Recep Tayyip Erdoğan (since August 2014)

Next Election Dates

Presidential: 2028

Legislative: 2028

Current Political Context

Turkey held presidential and parliamentary elections on May 14, 2023. The ruling Justice and Development Party (AKP) and its allies won a majority in the parliamentary elections, but President Recep Tayyip Erdoğan fell short of an outright majority in the presidential elections. A second round was held on May 28, which Erdoğan won by a narrow margin.

Although being part of NATO (with the second largest army of the Alliance after the U.S.), Turkish President Recep Tayyip Erdogan tried to maintain a neutral stance towards Russia and there have been tensions inside the Alliance as Turkey opposed Finland and Sweden's talks to join NATO. The objections centred on accusations that the two countries harboured Kurdish militants who are considered terrorists by Turkey. Finally, the parliament voted to approve the applications of the two Nordic countries.

Turkey has restored its relations with the United Arab Emirates and the two countries have signed 13 cooperation agreements in various sectors. Furthermore, Erdogan put an effort into normalizing diplomatic relations with Saudi Arabia. On the other hand, despite the fact that Turkey's relations with Israel improved in recent years, with the two countries agreeing on the resumption of diplomatic ties, tensions with the Jewish country escalated after Hamas' terrorist attack on Israel and the retaliation of the latter, with Erdogan severely condemning the invasion of Gaza.

Main Political Parties

The main political parties represented in the Turkish parliament are:

- Justice and Development Party (AKP): centre-right, primary leading party, socially conservative
- Republican People's Party (CHP): centre-left, primary opposition party based on social-republican values
- Peoples' Equality and Democracy Party (DEM): pro-Kurdish, left-libertarian, formerly known as Party of the Greens and the Left Future
- Peoples' Democratic Party (HDP): pro-minority, left-wing, socialist and democratic
- Nationalist Movement Party (MHP): nationalist party, allied of the AKP
- The Good Party (İYİ): nationalist, conservatist
- New Welfare Party (YRP): far-right, Islamist
- Workers' Party of Turkey (TIP): socialist, left to far-left.

Executive Power

The [President of the Republic](#) is the head of state and the head of the government. He or she is elected by direct universal suffrage for a five-year term of office. The President has the function of an arbitrator (promulgation of laws, signature of decrees) and appoints the Council of Ministers. The President also appoints the judicial organs and other governmental organs. The position of Prime Minister was abolished following the constitutional referendum of April 2017.

Legislative Power

Legislative power in Turkey is unicameral. The Parliament, called the [Grand National Assembly of Turkey](#), has 600 seats and its members are elected by universal suffrage for five years, according to a system of proportional representation.

COVID-19 COUNTRY RESPONSE

Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

Economic recovery plan

For the general overview of the key economic policy responses to the COVID-19 pandemic (fiscal, monetary and macroeconomic) undertaken by the government of Turkey please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).