TÜRKIYE

Table 1	2023
Population, million	85.4
GDP, current US$ billion	1119.6
GDP per capita, current US$	13106.3
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	1.4
Upper middle-income poverty rate ($6.85)[a]	7.6
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	78.5
Total GHG emissions (mtCO2e)	482.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2022).

Macroeconomic normalization is delivering results: disinflation has begun; growth is rebalancing; current account dynamics have improved; FX reserves are rebuilding; financial markets have stabilized; and risk premia have declined. Yet, monetary efforts need to be complemented with appropriate fiscal policies. Economic growth is projected to slow to 3.2 percent in 2024 and 2.6 percent in 2025 as the economy adjusts, calling for social policies that protect the vulnerable and reduce poverty and inequality.

Key conditions and challenges

Türkiye's normalization of macroeconomic policies after the May 2023 elections has started to deliver results. Exchange rate stability supported by capital inflows together with strong monetary policy tightening that brought the policy rate from 8.5 percent in May 2023 to 50 percent in March 2024 helped stabilize domestic markets and increase confidence in TRY assets.

The outlook calls for careful calibration of monetary and fiscal policies to rein in inflation without a hard landing; social policies to protect the vulnerable; and action to tackle structural barriers to faster economic performance, including low productivity growth, low labor force participation and employment, and weakening FDI.

Recent developments

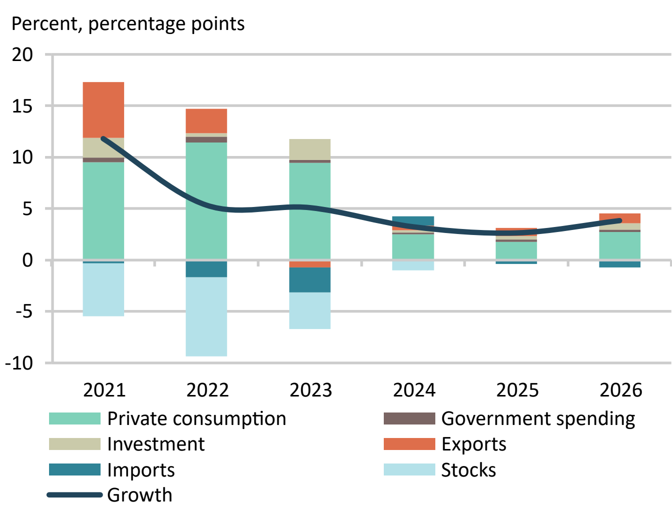
Despite substantial tightening of monetary policy, the economy expanded 5.1 percent in 2023 and 3.8 percent (yoy) in H1 2024. Private consumption continued to be the main driver of growth, and the contribution of net exports turned positive in Q1 for the first time since Q3 2022. However, growth momentum has slowed in both production and demand. The PMI, which had increased to above the 50-threshold indicating expansion in Q1, fell to 47.8 by August 2024. Automobile sales declined by approximately 16 percent (yoy) in July.

The labor market continues to be strong. The seasonally adjusted unemployment rate fell to 8.5 percent in May, before rising to 8.8 percent in July. Labor force participation rates increased, reaching 73 percent for men and 37 percent for women—the highest level for women since January 2005. The gross wages and salaries index was 115.4 percent (44 percent in real terms) higher in Q2 2024 than in 2023, due in part to large minimum wage increases in July 2023 and January 2024.

The current account deficit, down to USD 45.0 billion in 2023, continues to improve, with the 12-month cumulative deficit narrowing to USD 19.1 billion by July 2024. Risk premia continue to fall with the CDS premia at approximately 250 in mid-July compared to 500 in July 2023 and nearly 900 in July 2022. The Government's commitment to the economic program generated a surge in portfolio inflows, and the resulting real appreciation of the TRY incentivized firms and households to switch from FX to TRY assets. This helped the CBRT to significantly improve its reserves. By end-May, net reserves, excluding swaps, turned positive for the first time since early-2020. By mid-September, net reserves had reached USD 48.8 billion (USD 26.5 billion, excluding swaps). However, real TRY appreciation is negatively affecting exports in recent months, especially lower-value products, while imports of final consumption goods remain strong.

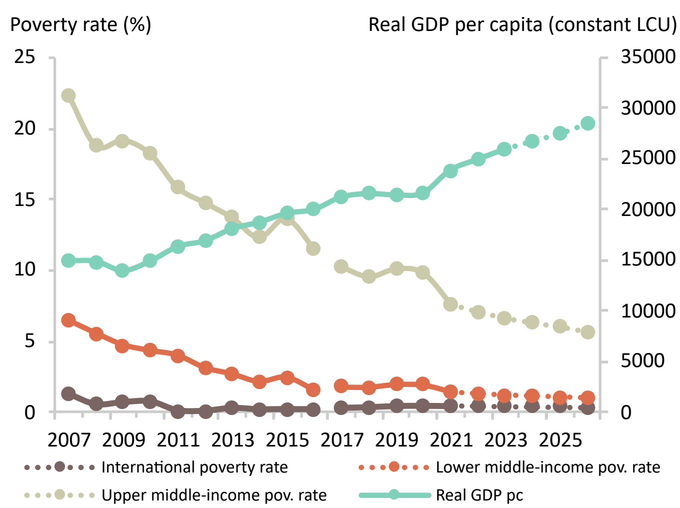
Inflation peaked at 75.5 percent in May before easing to 52.0 percent in August,

FIGURE 1 Türkiye / Real GDP growth and contributions to real GDP growth



Sources: Turkstat and World Bank staff calculations.

FIGURE 2 Türkiye / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

thanks to monetary policy tightening, exchange rate dynamics, and base effects. Inflation is particularly high in some of the categories making up a larger consumption share of poor households. For example, rental inflation reached over 120 percent in August. Expectations for inflation continue to improve; in September, market participants' expectations for the next 12 months stood at 27.5 percent.

Monetary policy normalization and gradual unwinding of macroprudential regulations have helped improve bank profitability and capital adequacy. Banks have eased commercial lending, but high policy rates that have driven up deposit and credit interest rates are constraining loan growth. The banking sector's net FX position has improved, and the risk premium for external borrowing has declined, although external debt costs have increased due to global conditions. Regulatory forbearance is being phased out, which may impact the capital ratio of some banks; however, capital buffers remain high. Tighter credit conditions have begun to take a toll on household credit and MSMEs, with increasing credit card defaults and a gradual rise in insolvency and concordat filings, although levels remain moderate.

The annualized budget deficit eased to 4.7 percent of GDP in Q2 2024, after reaching 5.2 percent of GDP in 2023. The Government has issued a new tax package to generate further revenue for the budget, including regulations to combat the informal economy. Meanwhile, general public debt to GDP remains manageable, at 28.5 percent as of Q1 2024.

Outlook

Economic growth is projected to slow in the short term, to 3.2 percent in 2024 and 2.6 percent in 2025, on the back of tighter policy and subdued global growth, before picking up at 3.8 percent in 2026. Disinflation started in June and is forecast to continue gradually, given the tight monetary policy. The current account balance is forecast to improve further in H2 2024 and remain low in 2025, due to the rebalance in growth composition, which will rely less on domestic consumption and have greater contribution from investment and net exports. General government deficit is forecast to remain high in 2024, given the economic slowdown and earthquake recovery needs, and despite fiscal consolidation efforts.

Poverty is projected to decline more slowly in the short term, to 6.3 percent in 2024, despite the economic slowdown. Strong labor market performance and minimum wage hikes exceeding CPI increases are the main drivers of continued poverty reduction. However, minimum wage hikes are less likely to reach informal workers or those out of the labor force, such as the elderly or parents with no access to childcare. Moreover, relying on the minimum wage to protect the poor has other economic consequences, notably the fueling of inflation. Well-implemented and flexible social protection programs can mitigate the economic slowdown's impact on poverty. Revamping the social protection system to improve targeting and coverage is warranted: in 2021, the share of public transfers to the bottom three deciles was lower than to the top three deciles.

Risks to the outlook continue downside. Inadequate growth rebalancing would challenge macroeconomic stabilization. Domestic private consumption is still robust, and there is a risk that the domestic adjustment will create external imbalances whereby recent real TRY appreciation could further hamper exports and boost non-oil imports. Mounting geopolitical tensions would also hinder exports. The lack of significant fiscal consolidation, primarily on the expenditure side, could slow the disinflation process.

TABLE 2 Türkiye / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	11.4	5.5	5.1	3.2	2.6	3.8
Private consumption	15.4	18.9	13.6	3.3	2.3	3.6
Government consumption	3.0	4.2	2.4	1.6	1.8	1.9
Gross fixed capital investment	7.2	1.3	8.4	0.8	1.5	2.6
Exports, goods and services	25.1	9.9	-2.8	1.9	3.4	4.1
Imports, goods and services	1.7	8.6	11.8	-4.1	1.9	3.5
Real GDP growth, at constant factor prices	12.7	6.2	4.2	3.2	2.6	3.8
Agriculture	-3.0	1.3	0.2	0.6	1.2	1.5
Industry	13.0	-0.6	2.7	2.4	3.1	3.9
Services	13.2	10.1	5.8	2.7	2.6	4.0
Inflation (consumer price index)	19.6	72.3	53.9	57.9	29.2	15.9
Current account balance (% of GDP)	-0.8	-5.0	-4.0	-1.7	-2.1	-2.4
Net foreign direct investment inflow (% of GDP)	0.8	1.0	0.4	0.9	1.1	1.4
Fiscal balance (% of GDP)	-2.6	-0.8	-6.2	-5.0	-3.4	-3.2
Revenues (% of GDP)	30.9	27.8	29.0	32.4	33.8	34.0
Debt (% of GDP)	41.5	30.3	28.4	28.5	29.6	30.8
Primary balance (% of GDP)	0.0	1.4	-3.7	-1.3	0.3	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.4	0.4	0.4	0.4	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.4	1.3	1.2	1.1	1.1	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.6	7.1	6.6	6.3	6.0	5.7
GHG emissions growth (mtCO2e)	7.9	-5.2	-0.8	3.0	3.4	4.3
Energy related GHG emissions (% of total)	78.8	77.1	75.9	75.3	74.7	74.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-SILC-C and 2022-SILC-C. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2020-2021) with pass-through = 0.7 based on GDP per capita in constant LCU.