TURKISH ECONOMIC OUTLOOK

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EXECUTIVE SUMMARY

This report presents the outlook for the Turkish economy based on the policies recently implemented in Turkey and announced by the Turkish economic administration, as well as global developments. We expect the Turkish economy to slow down in 2024 due to high interest rates and tightening financial conditions. We forecast that the policy rate will peak at 45 percent in 2024. On the other hand, we expect global financial conditions to become more supportive in the second half of the year and international portfolio inflows, which turned positive at the end of 2023, to rise further in 2024, under the assumption that tight monetary policies will continue. Accordingly, we expect economic growth of 3.2 percent and 3.5 percent respectively in 2024 and 2025. We expect the disinflation process to be long and costly due to the decisions taken on administered prices inconsistent with inflation targets, tax hikes, lagged pricing shocks, and a deterioration and inertia in inflation expectations. We forecast consumer inflation of around 40 percent at the end of 2024 and 24 percent in 2025. We expect the disinflationary policies to be a burden on employment and social welfare, should the government not implement any policies to improve equity and welfare. We forecast that public finances will continue to deteriorate due to earthquake-related expenditures, the pension system, high real wage increases for public employees, and rising interest rates. We expect budget revenues to increase moderately due to low domestic demand and employment growth, a narrow tax base, and high informality. Accordingly, we forecast the central government budget deficit to be 5.9 percent of GDP in 2024 and 4.3 percent in 2025. We expect the deficit excluding earthquake-related expenses to be around 3.4 percent of GDP in 2024 and 2025. We expect the ratio of central government debt-to-GDP to rise due to the increase in the budget deficit. On the other hand, we expect the real depreciation to help ease the debt burden. Accordingly, we project the central government debt-to-GDP ratio at 31 percent in 2024 and 35 percent in 2025. We expect the current account balance to improve slightly, as external portfolio inflows keep domestic demand buoyant, to about 4.1 percent of GDP in 2024 and 3.6 percent in 2025. Risks to the outlook are tilted to the downside, and mostly relate to the global shocks.

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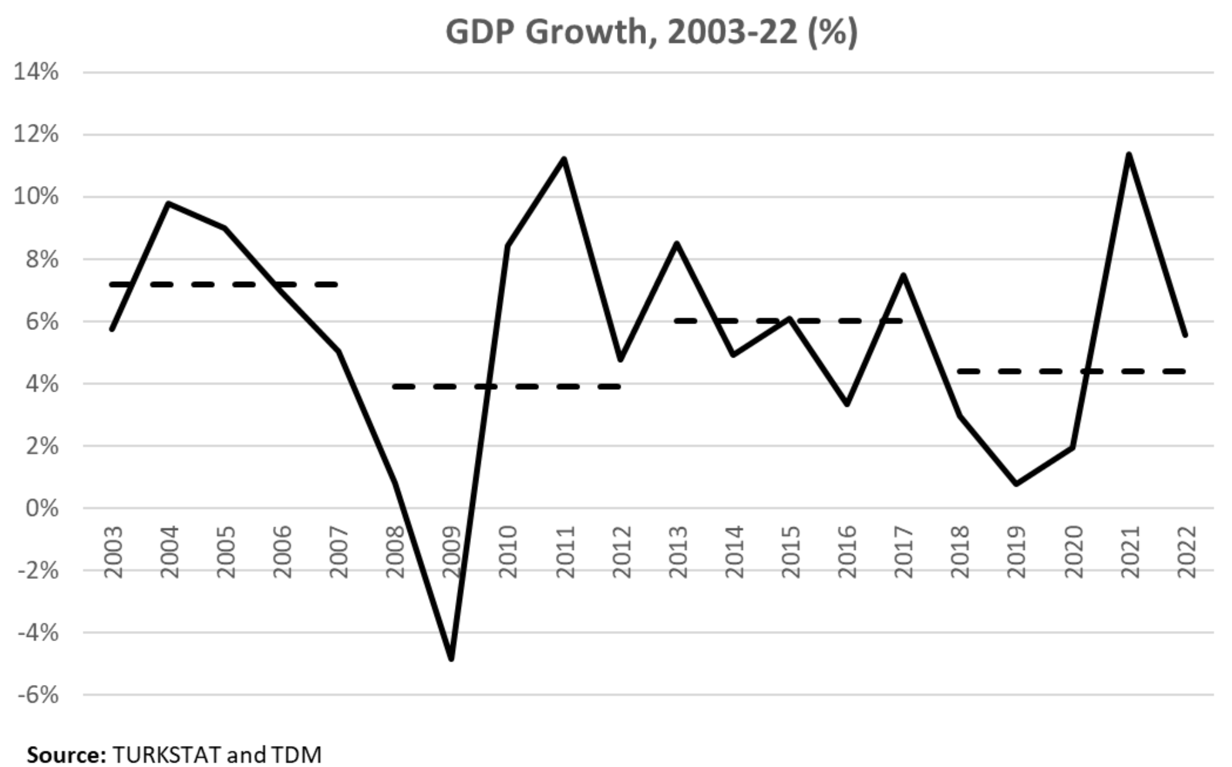
OVERVIEW

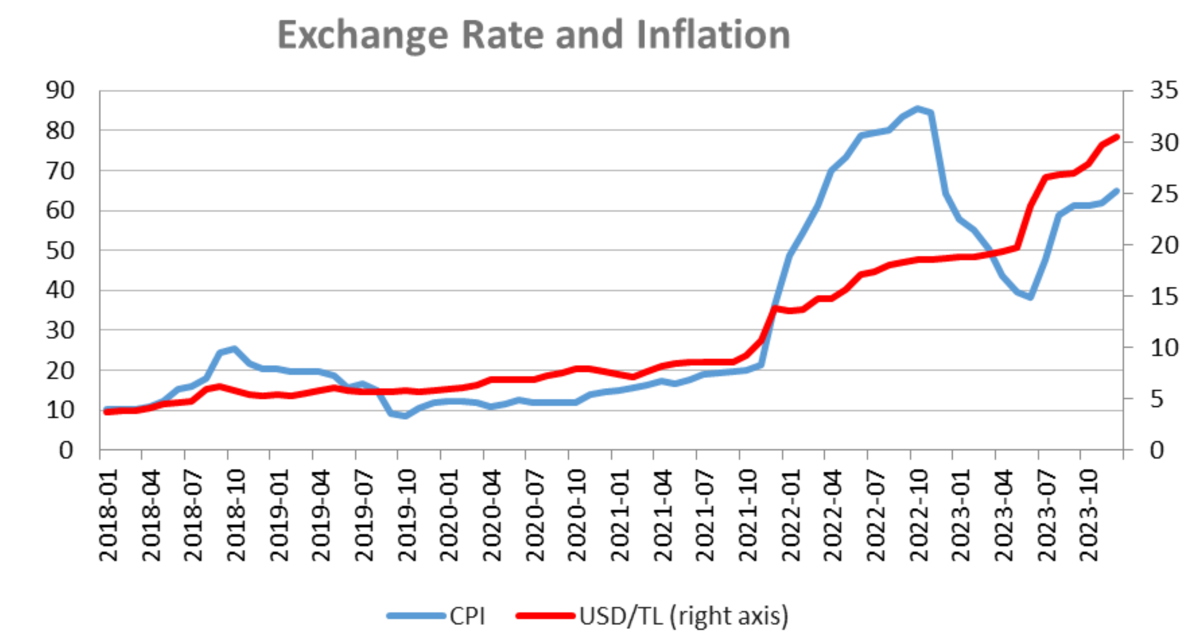
After the general elections in 2023, the Turkish economy changed its economic policy set. The policy set prior to the general elections aimed to increase growth and reduce the current account deficit and inflation by lowering the borrowing costs of firms through interest rate cuts. However, these policies led to rapid depreciation of the exchange rate and a spike in inflation. The authorities implemented various regulations and capital controls, and the Central Bank depleted its reserves to contain the rapid depreciation of the currency, but this in turn caused a vicious cycle of exchange rate depreciation and inflation, and increased further Turkey's financial vulnerabilities. After the 2023 general elections, a new economic policy was implemented to lower inflation and reduce financial vulnerabilities**.**

Negative real interest rate policy increased fluctuations in growth and reduced its size. The negative real interest rate policy coincided with a period of high global and geopolitical risk perception, resulting in a modest growth performance with high volatility in 2018-22. Despite a record growth rate of 11.4 percent in 2011, following the Covid-19 pandemic and a year of high credit growth, mainly supported by state-owned banks, the economy grew by an annualized average of 4.4 percent during 2018-22, the lowest rate since the global financial crisis**.**



Source: TURKSTAT and TDM

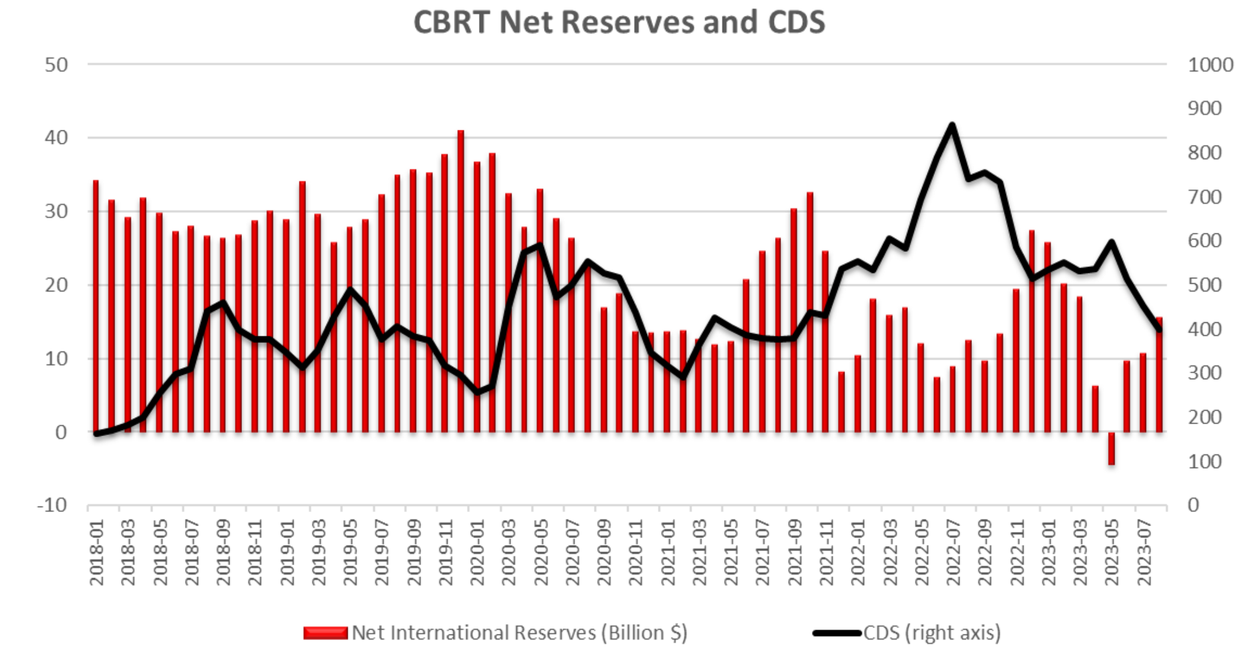
Following general elections of 2023, the Central Bank adopted a policy of gradual interest rate hikes. With gradual rate hikes, the Central Bank aimed to reduce inflation without sacrificing growth. However, in a background of a weak institutional structure, and high dollarization and inflation inertia, policy rate hikes leaving real rates at the negative territory, failed to meet market expectations, leading to a rapid depreciation of the exchange rate in the summer of 2023. In addition to exchange rate shocks, high increases administered prices, public personnel wages and pensions, and rise in indirect tax rates, in the same period, caused inflation to rise at historically high rates, in the third quarter of the year.



Source: CBRT, Turkstat and TDM

The gradual increase in interest rates had a limited impact on controlling domestic demand and inflation in 2023. To limit the deterioration of the exchange rate and inflation, the Central Bank raised the policy rate to 42.5 percent by the end of 2023; however, this did not help improve the pricing behavior sufficiently or contain the domestic demand. Therefore, consumer inflation, which was 64 percent at the end of 2022, closed 2023 at 65 percent**.**

In order to reduce financial vulnerabilities, the Central Bank started building up reserves and reducing the share of foreign-exchange deposits. The negative real interest rate policy implemented in the period before June 2023 reduced the attractiveness of TL deposits, and increased the demand for various assets, such as foreign currency and real estate. Foreign exchange-protected deposit (FXPD) accounts, which were introduced at the end of 2021 to prevent exchange rate attacks, further increased dollarization in the system and failed to provide a remedy the depletion of reserves. From the second half of 2023, the Central Bank prioritized to reduce the FXPD stock and increase its reserves. After peaking at TL 3.4 trillion in August 2023, the FXPD stock declined to TL 2.6 trillion at the end of 2023. The CBRT's net reserves, which bottomed out at -$4 billion in May 2023, rose to $35 billion by the end of the year. These policies were welcome by the markets, and Turkey’s CDS spread declined from its peak of around 600 in 2023 to around 300 by the end of the year.



Source: CBRT, Investing and TDM

On the public finance side, tax increases were also implemented to offset the increase in spending. In 2023, there were significant additional costs to public spending. According to various sources, the cost of the earthquake centered in Kahramanmaraş in February 2023 is estimated to be around $100 billion and $150 billion [Strategy and Budget Directorate (2023) and Aydin (2023b)]. In 2023, a significant number of employees over the age of 40 retired under the "People Over the Age of Retirement" regulation. In addition, high real wage increases were granted to public employees during this period. Exchange rate and interest rate shocks in the second half of the year also increased public spending. In this context, budget expenditures increased by 124 percent to TL 6.6 trillion in 2023. Despite various tax hikes throughout the year, the budget deficit reached TL 1.4 trillion in 2023, since the increase in budget revenues was 86 percent, 38 percentage points lower than the increase in budget expenditures. According to the statements of the Minister of Treasury and Finance, TL 950 billion of the deficit consists of earthquake-related expenses.

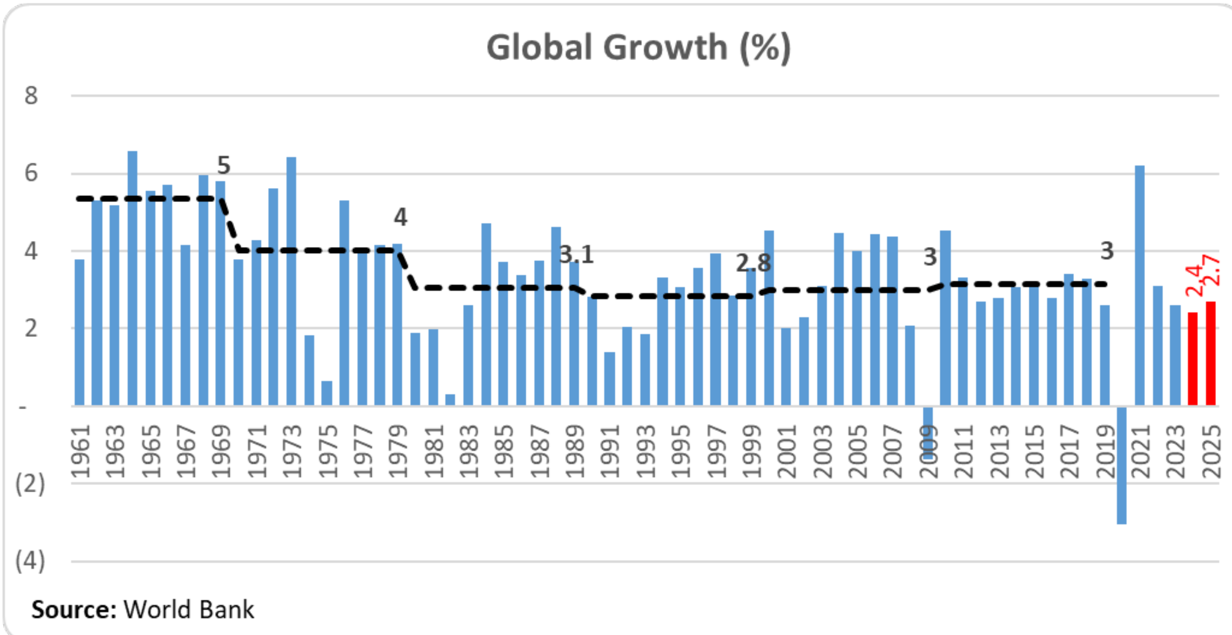
(Billion TL)	2022	2023	Rise (%)
Central Government Revenues	**2,802**	**5,210**	**86**
Tax Revenues	2,353	4,501	91
Central Government Expenditures	**2,941**	**6,585**	**124**
Excluding Interest Payments	2,631	5,911	125
Interest Payments	311	675	117
Earthquake related Payments		950	
Budget Deficit	**(139)**	**(1,375)**	
Earthquake related Payments	(139)	(425)	
Excluding Interest Payments	172	(700)	

ECONOMIC OUTLOOK

A. Global Prospects and Domestic Policies

We expect demand and financial conditions to restrain activity, although expectations for the global economy have improved. According to the World Bank's January 2024 Global Economic Prospects report, the global economy is expected to grow by 2.4 percent and 2.7 percent in 2024-25, respectively. Although these forecasts have improved over time—a year ago various institutions have marked in the risk of synchronized global recession—they are quite low comparing global economic growth over time. Global economic growth in the 2020s is the lowest growth rate observed over a decade since the 1960s. Tight monetary policies and financial conditions expected to persist over 2024-25, will likely to restrain global demand and trade, and will therefore be an underlying factor for sub-mediocre global growth projections.[1]

[1] With the Federal Reserve (Fed) and the European Central Bank (ECB) likely to cut interest rates by the summer of 2024, global financial conditions will likely be more supportive of growth, compared to the baseline we had in our previous Outlook report (Aydin 2023a). However, statements from the Fed and ECB officials suggest that real interest rates will remain in the positive territory, and quantitative tightening will continue in these regions, until inflation rates reach their target. Based on the forecasts of these institutions, the 2 percent inflation target in the U.S. and the euro area is expected to be reached in 2025.



We expect monetary policy to remain tight in 2024-26 in the Turkish economy. Tight monetary policy is expected to keep real interest rates in positive territory. It will be a long walk to reduce inflation from 65 percent at the end of 2023 to the Central Bank's inflation target of 5 percent. In the short-term, we expect the policy rate to peak at 45 percent in 2024. In the absence of further fiscal loosening and a deterioration in the institutional capacity or independence of major institutions such as the Central Bank and the Turkish Statistics Office (TurkStat), the exchange rate and inflation outlook should allow for a limited rate cut at the end of 2024, considering the inflow of so-expected international portfolio investments.

We expect limited room for fiscal tightening through revenue generating measures. We do not expect any major additional tax hikes in the run-up to the 2024 local elections. Following the elections, room for tax hikes will again be limited due to a contraction in domestic demand. We believe that the government will avoid taking measures to broaden the tax base or tackle the informal economy, considering the public backlash of such policies.

On the expenditure side, we do not expect any tightening except a few expenditure items. We expect the government to control the rise in expenditures mainly through by reducing the real wage of the public personnel and the real value of the pensions. Additional expenditure cuts may be marked through investments and current spending. On the other hand, we expect fiscal policy to be slightly expansionary on the way up to the 2024 local elections. We do not expect significant changes in structural spending bills such as pensions and the healthcare.

Given this background, we expect fiscal deficit to remain high in 2024-25. We expect the upward pressure on public spending to continue, mainly due to the rise in nondiscretionary spending on the pension system and personnel costs, the rise in cost of funding the public debt, and the significant cost of the reconstruction of the earthquake-zone. On the revenue side, we expect the increase in budget revenues to remain sub-mediocre due to a limited rise in domestic demand and high informality.

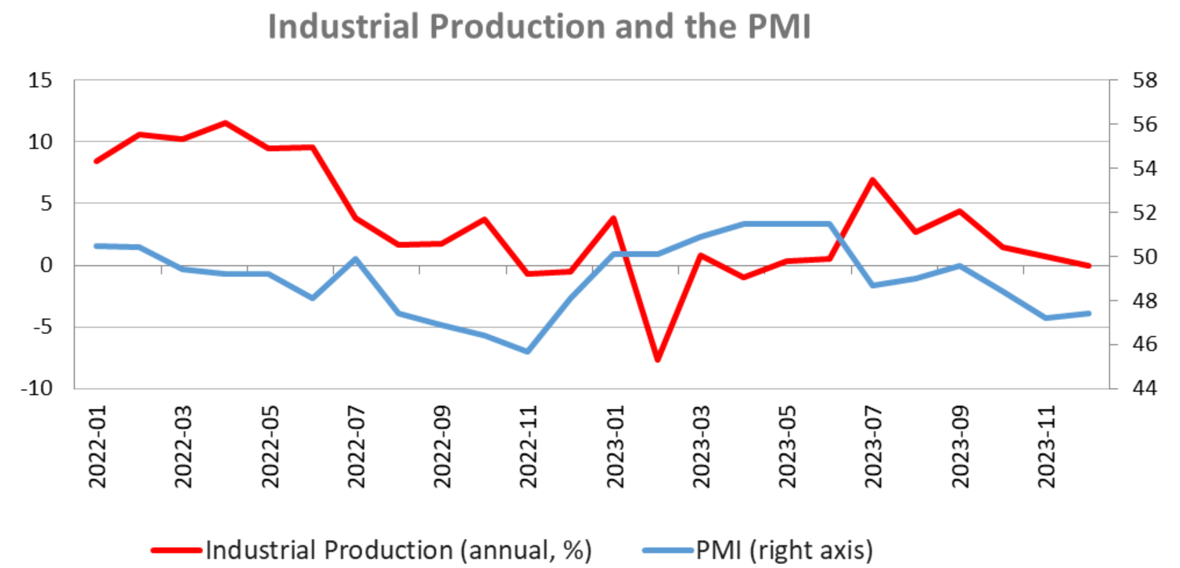
We expect the government to be sluggish on structural policies. We expect structural rigidities to persist in many areas, particularly in the legal, educational, labor force and climate fields. In this framework, we expect economic growth performance to be based on capital and employment growth, and total factor productivity to contribute negligibly to growth, as observed after 2010 [Acemoğlu D. and M. Üçer (2022)].

B. Real Economy and the Labor Market

Economic activity in the first three quarters of 2023 showed high growth, driven by domestic demand. During this period, the economic growth rate was 4.7 percent. This was due to the impact of the expansionary policies, high inflation and the rise in uncertainty triggering consumers to spend more. In fact, if we look at the national income based on expenditures, we will see that consumption and imports increased year-on-year by 13 percent and 16 percent, respectively.

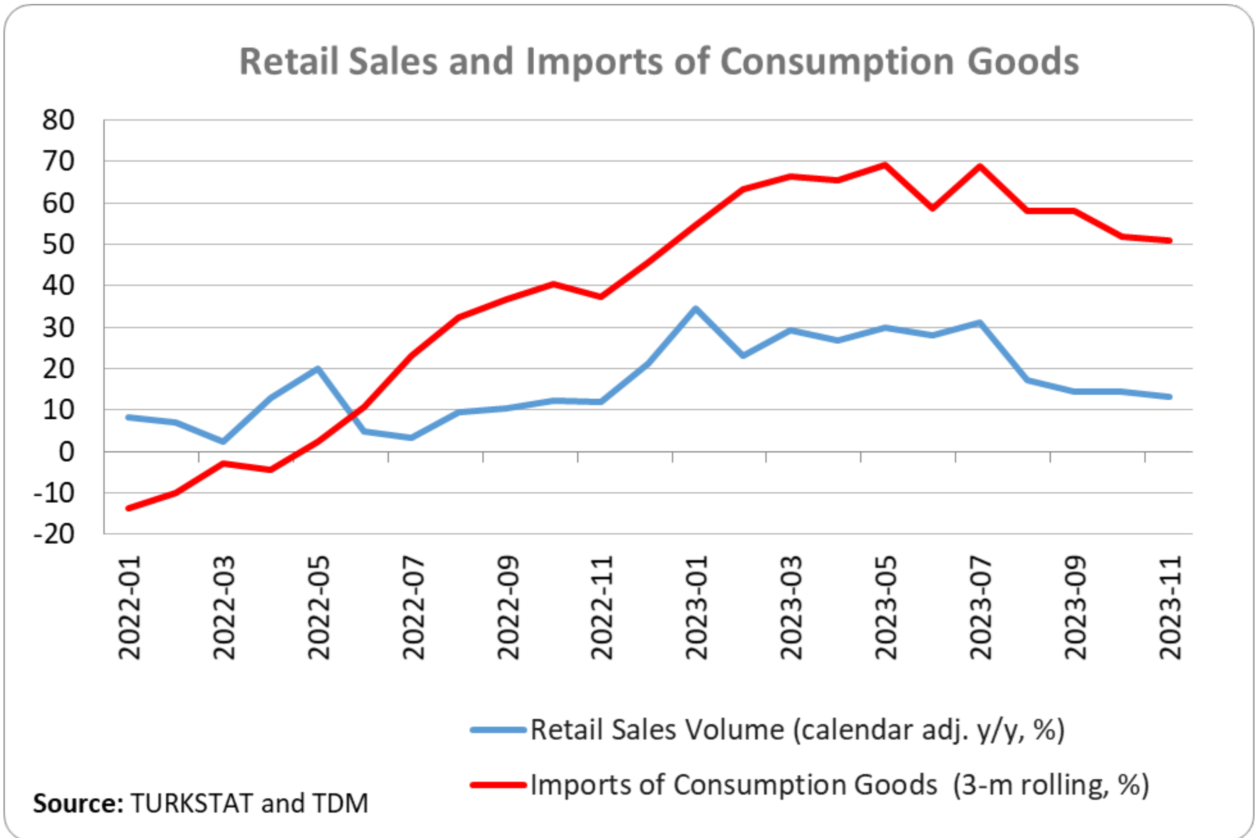
Growth was driven by the services and financial sectors on the economic activity side. In the first three quarters of the year, these sectors grew by 7.4 percent and 8.9 percent, respectively. The negative real interest rate policy, the high inflation environment and financial regulations were effective in this regard. On the other hand, agricultural production contracted by 0.1 percent in the first three quarters of the year due to the effects of the Kahramanmaraş-centered earthquake, while industrial production grew at a low rate of 0.6 percent.

Recent production data point to a slowdown. Industrial production and the PMI, which are among the most important leading indicators of production, began a downward trend in the summer months of 2023.

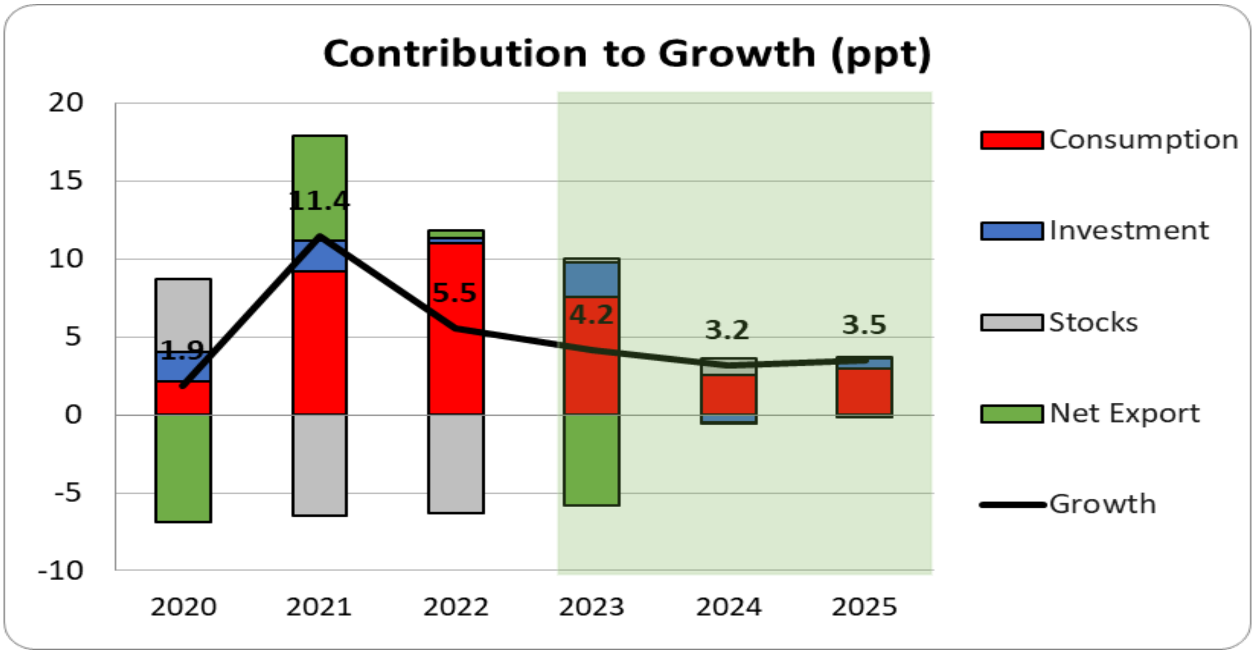


Source: Istanbul Chamber of Commerce, TURKSTAT and TDM

Consumption, the engine of growth, has not yet slowed down sufficiently. After the general elections of 2023, consumption indicators have started to ease, but the easing still lead to a very high growth rate of domestic demand. As of November 2023, retail sales volume increased by 13.2 percent year-on-year. Over the same period, imports of consumer goods increased by 51 percent. Increases in the minimum wage and public sector salaries in 2024, as well as high inflation, suggest that consumer spending may remain high in the first quarter of the year.



We estimate that the economy will grow by around 4.2 percent in 2023 based on these indicators. Our economic growth forecast for 2023 is higher than our previous estimate of 3.7 percent [Aydin (2023a)]. The upward revision to growth is due to the fact that the expected decline in consumption did not materialize. Regarding the composition of growth in 2023, we now forecast the contribution of domestic demand to growth at 9.8 percentage points, driven mainly by consumption. On the other hand, we expect net exports to subtract 5.8 percentage points from growth in 2023 due to skyrocketing imports.



In 2024, we expect the economy to start to slow down as monetary policy tightening kicks in and access to financing becomes more constrained. However, we expect the slowdown on the consumption side to start in the second quarter of the year due to the increase in minimum wages and public salaries, and the inertia in inflation and deterioration of expectations. Accordingly, we expect consumption to contract, on a quarter-on-quarter basis, in the second and third quarters of the year. A-more-than-expected fiscal expansion in the first quarter of 2023, due to the local elections, would be an upside risk to this forecast. Another risk to this baseline is international portfolio inflows, which is expected to increase in 2024, triggering imports and therefore consumption. Our projections for investments suggest a contraction in the last quarter of 2023 and the first quarter of 2024 due to a lack of access to financing. In 2024, we expect investments to be volatile, depending on the access to financing, and to contract throughout the year overall. In 2024, the weak outlook for global demand (IMF 2023) will also lead to limited export growth.

In 2025, we expect growth to rise to 3.5 percent on the back of improved macro-financial stability, assuming monetary tightening to continue. We assume that the decline in the rate of inflation and improved macro-financial conditions will help Turkey attract higher international portfolio inflows, which will in turn support domestic demand. On the other hand, a shift in monetary and fiscal stance, and/or a change in global macro-financial conditions could pose a downside and an upside risk to the economic outlook.

We expect employment opportunities to remain limited in the short-term. We anticipate that the services sector, which is the driver of employment in the economy, will create fewer jobs due to limited growth in domestic demand. In this framework, we estimate that the unemployment rate will hover around 11 percent in 2024 and 2025. Our unemployment rate projections are about 1 percentage point lower than our September 2023 projections (Aydin, 2023a). This is mainly due to increasing labor market rigidities and the rapid decline in the job-creation capacity of the economy. In 2023, Turkey will have the highest growth rate among OECD countries, but one of the lowest job creation capacities. In addition, should the minimum wage and regional income disparities rise, the public-private wage gap widen, and the rigidities in the pension system are not addressed, we expect the labor market to be even more rigid for the youth, women, and the disadvantaged groups.

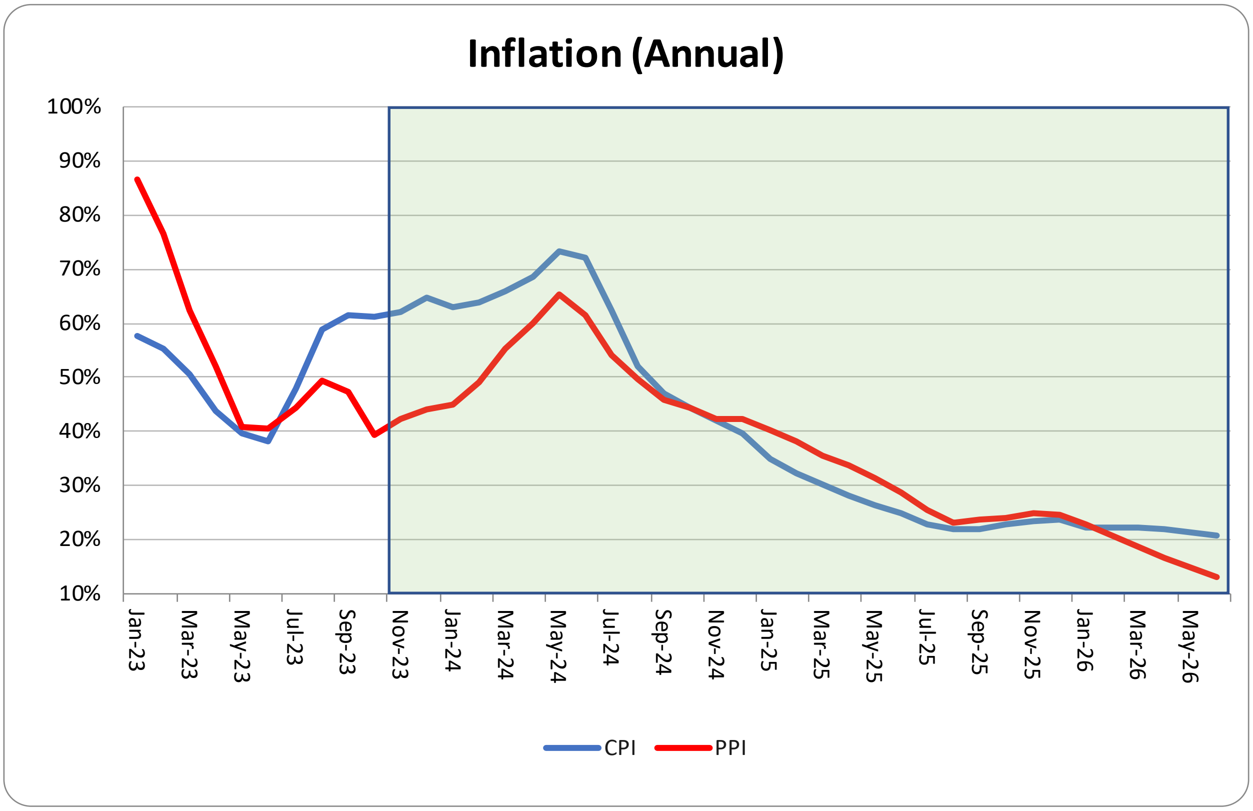
	2019	2020	2021	2022	2023	2024	2025
Employment (Million People)	28.0	26.7	28.8	30.7	31.6	32.1	32.7
Employment (%, y/y)	-2.3	-4.8	8.0	6.6	2.8	1.5	2.0
Unemployed (Million People)	4.5	4.0	3.9	3.6	3.4	3.6	4.0
Unemployment Rate (%)	13.8	13.2	12.0	10.5	9.8	10.2	10.8

C. Inflation

With the gradual tightening of monetary policy, we expect the disinflation process to continue over the medium-term. In the summer of 2023, the rapid depreciation of the exchange rate, high increases in minimum and public-personnel wages and the price effect of the rise in indirect taxes raised inflation expectations (CBRT 2023). The gradual tightening of monetary policy is also prolonging the period of negative real interest rates, causing inflationary inertia to persist. Moreover, foreign-exchange dependence in the economy also limits the effectiveness of monetary policy. In this background, consumer inflation increased to 65 percent at the end of 2023.

In 2024, we expect inflation to be high and the gains of the disinflation process to be limited. In the first half of 2024, we forecast inflation to hover around 65-75 percent. This forecast relies on the following expectations: (i) adverse base effects pushing up annual inflation, (ii) stickiness in inflation expectations, (iii) public spending being supportive of domestic demand, and (iv) real deposit rates remaining at or close to the negative territory. We also assume independence of regulatory institutions such as the Central Bank and Turkstat, and no significant widening of the fiscal stance due to local elections. Given this background, we believe that the policy rate should remain at 45 percent throughout the year, with some room for limited easing at the end of the year. In this setup, we forecast annual inflation to ease in the second half of the year, and close the year at a rate around 40 percent. Adverse shocks may require additional rate hikes.

As real interest rates rise, we expect inflation to follow a downward trend over the medium-term. Positive real interest rates will also be necessary to reduce the pressure on domestic demand due from high public spending. In this context, we expect consumer inflation to decline to around 24 percent by the end of 2025, which is still significantly high compared to other major emerging market economies.

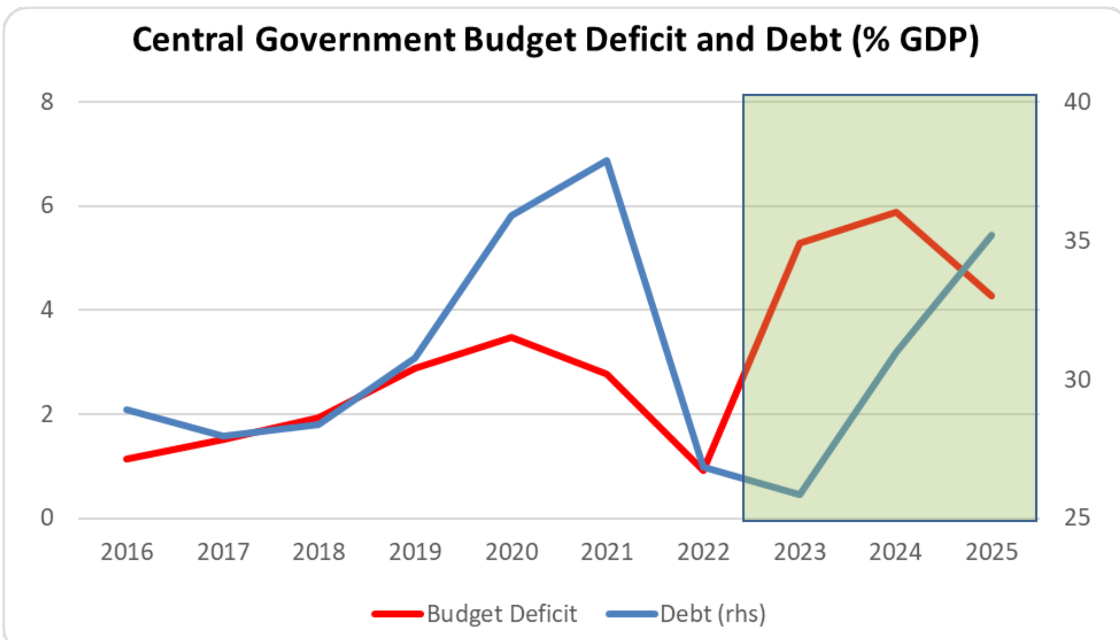


D. Public Sector

Public finances are among the most challenging areas for economic administration in the medium-term. We assess that the public revenues have limited potential for growth due to a moderate growth in domestic demand, a narrow tax base, and high informality. On the expenditure side, structural reforms are needed, especially in the social security and health care systems. Public personnel wage hikes, significantly higher than the inflation rate, has also increased the share of personnel expenditures in the GDP. The ongoing depreciation of the exchange rate and rising cost of funding will increase public expenditures, especially that of interest payments. In addition, the reconstruction cost of Kahramanmaraş-centered earthquake will be a significant cost to the public coffers.

We expect the public sector to run a high deficit over the medium-term. We forecast the public sector deficit at 5.7 percent of GDP in 2023, 6,7 percent in 2024, and 4.3 percent in 2025. Our projections for the public sector deficit in 2023 and 2024 are around 1.5 percentage points lower than our forecast in September 2023 (Aydin 2023a). The deviation is driven by the central government budget. In our September 2023 forecasts, we assumed that the economy would contract in the last quarter, which would reduce the elasticity of tax revenues to economic growth and lower tax collection capacity. However, domestic demand remained robust in the last quarter of 2023, and therefore, VAT and excise tax revenues increased more than what we had estimated previously. On the expenditure side, we had projected higher personnel expenditures and current transfers. In the case of personnel expenditures, the forecast error was driven by the impact of fixed-amount wage hikes to the public personnel, rather than ad-valorem hikes, and therefore the lower rate of increase in public personnel wage bill. In the current transfers item, increases in basic pensions, agricultural support payments, and social transfers which are lower than the inflation rate reduced the cost of these items as a share of GDP. Further, a decline in the loss incurred by the State-owned Enterprises (SOEs) as a share of GDP also eased the burden on the current transfers.

In 2024 and 2025, we forecast deterioration in the fiscal outlook unless any revenue-generating or cost-cutting measures are taken. Our forecasting model suggests that economic activity will remain weak in 2024 and 2025 due to the impact of the disinflation program. Therefore, the increase in tax revenues, which depends mainly on domestic demand, will make a limited contribution to the budget. Second, personnel and current expenditures, interest payments, and earthquake-related expenditures will be a burden on the budget in 2024 and 2025. In this framework, we forecast the central government budget deficit at 5.9 percent of GDP in 2024. We estimate deficit excluding earthquake-related expenses at 3.4 percent of GDP. In 2025, we forecast the budget deficit ratio at 4.3 percent of GDP and that net of earthquake-related expenses at 3.3 percent of GDP.



We foresee that the burden of the earthquake-related expenses in the 2024-25 budgets will gradually decline. Earthquake-related expenses were calculated as follows. The expense amount for the earthquake-related spending in 2023 was taken from the interview given by the Minister of Treasury and Finance, Mehmet Şimşek, to Anadolu Agency, on January 15, 2024, and marked as 950 billion TL (3.7 percent of GDP). For the years 2024 and 2025, we relied on the Medium-Term Program (2024-26), annual budget appropriation amounts, as a share of GDP. Accordingly, the ratio of total expenditures and appropriations for earthquake-related expenses is 3.7 percent, 2.5 percent and 0.9 percent of GDP, respectively, for the years 2023-25. These rates, in sum, correspond to approximately $80 billion. This amount is approximately half of the $150 billion calculated by Aydın (2023b) for the cost of the Kahramanmaraş-centered earthquake on the Turkish economy. This indicates that the earthquake-induced reconstruction process will be completed in the long-term.

We also marked in revenues in the budget for earthquake-related spending. In the preamble of the laws discussed in 2023, in the Turkish Grand National Assembly, regarding the additional Motor Vehicle's Tax (MVT) and additional Corporate Income Tax (CIT), it was stated that the additional taxes were introduced due to the earthquake-related spending.[2] We estimate the ratio of these taxes-to-GDP at 0.4 percent of GDP in the 2023. There were various other tax hikes in 2023, but we did not mark them directly to the earthquake-related spending.[3]

We expect the public sector debt burden to rise along with the fiscal deficit. Accordingly, we estimate that central government debt as a share of GDP at 26 percent, 31 percent, and 35 percent in 2023-25, respectively. The largest forecast error in the previous edition of Economic Outlook Report was in our projections of the public debt stock (Aydin 2023a). In our September 2023 report, we had estimated that the debt stock as a share of GDP would rise to 34 percent in 2023. The error in our debt projections stems mainly from two factors. First, about half of the central government's budget deficit was not reflected in the Treasury's cash balance. Therefore, the deterioration in the cash deficit has been shifted to the debt stock figures for 2024. Another exceptional case is that the depreciation of the exchange rate at the end of 2023 remained well below the GDP deflator, due to the exchange rate policies implemented by the authorities. Therefore, the share of FX-denominated debt in GDP also decreased due to the change in the exchange rate deflator. We have revised our debt stock projections for 2024 and 2025 by incorporating an assumption of real exchange rate appreciation in 2024.

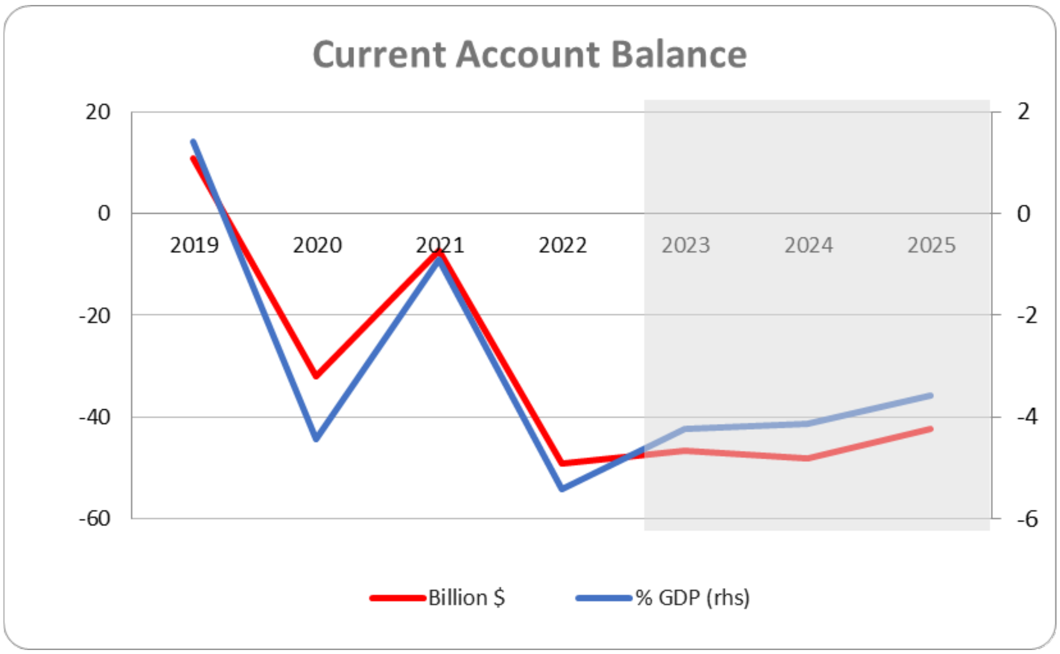
[2] With the Law No. 7440 on the Restructuring of Certain Receivables and Amendments to Some Laws, which was discussed and ratified at the General Assembly of the Turkish Grand National Assembly in March 2023, a 10 percent additional earthquake-related tax was imposed on the corporate tax exemption and discount amounts for 2022 by corporate taxpayers, and again within the scope of the same law, since the premium exemption is not counted among the exemptions and discounts exempt from additional tax, the emission premium exemption is 10 percent; A one-time additional tax of 5 percent has been imposed on exempt earnings obtained from abroad with corporate tax exemptions and proven to carry a tax burden of at least 15 percent. With the "Law on the Creation of Additional Motor Vehicle Tax and Amendments to Certain Laws and the Decree Law No. 375 for the Compensation of Economic Losses Caused by the Earthquakes Occurring on 6/2/2023" ratified on 14/07/2023, tax payers became obliged to pay the tax Motor Vehicle Tax two times in 2023.

[3] Other major tax measures of 2023 are as follows. The corporate tax rate has been increased from 20 percent to 25 percent (from 25 percent to 30 percent for the financial sector). VAT rates were increased by 2 ppts, from 8 percent to 10 percent and from 18 percent to 20 percent. Excise tax amounts in petroleum products have been increased and the automatic adjustments have been introduced in line with the increase in PPI. Fixed fee amounts have been increased by 50 percent. Tax rate on consumer loans was increased from 10 percent to 15 percent.

E. External Sector

We expect a large current account deficit in 2023 due to the external deficit, despite high tourism revenues. In the summer of 2023, tourist arrivals reached pre-pandemic levels, supporting a significant inflow of foreign exchange into the country. Nevertheless, the current account deficit reached $43.6 billion in the first 11 months of the year. We expect current account deficit at $47 billion by the end of the year.

In line with the domestic demand, we expect the current account deficit to decline gradually over time. Our forecast model suggests that the current account deficit will decline to around 3.6 percent of GDP in 2025, depending on the impact of monetary tightening on domestic demand. Unexpected shifts in economic and structural policies, geopolitical developments, and changes in external demand and financing conditions pose upside and/or downside risks to the current account deficit projections.



F. Risks to the Outlook

Risks to the economic outlook are mainly tilted to the downside. Downside risks are mostly driven by the global outlook. In 2023, geopolitical tensions increased with additional military conflicts happening in the Middle East and Asia, in addition to the ongoing conflict between Russia and Ukraine. If these tensions, which have led to the closure of the Red Sea to international transportation, are not resolved, we could face increased financial risks, a spike in global freight and commodity prices and inflation, and a decline in global trade and activity. 2024 is also an election year in many countries. The emergence of more populist and protectionist governments will have a negative impact on global inflation, economic activity, and the fight against climate change. The increase in extreme climate events in recent years is another downside risk to the economic outlook.

On the domestic front, we see three main factors that pose downside risks. The first of these risks relates to the central bank's monetary tightening process. Any doubts on the Bank's independence and/or effectiveness in the tightening process could have a negative impact on financial risk indicators and inflation. The fact that foreign currency and foreign exchange deposits account for more than half of total deposits increases the multiplier effect of this risk. The second is the risk to Turkey's access to international financing. Although financial risk indicators have improved, they still point to high vulnerabilities and do not support domestic portfolio inflows sufficiently. A deterioration in perceptions could lead to a sharp contraction in external financing, exchange rates and economic activity. The third risk is the possibility of a long-term deterioration in fiscal balances.

There are also upside risks to the economic outlook. The disinflation process can be completed in a shorter period and in a less costly manner, should the domestic investors perception on TL-denominated instruments improve. The second factor is a significant increase in international investors' interest in Turkey, which would allow Turkey to access the financing it needs, especially in public finance, on more favorable terms. In this context, securing large amounts of financing from the Gulf region and international financial institutions is even more important. The third is the rapid implementation of structural reforms to increase Turkey's sustainable growth potential.

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TABLES: Selected Economic Indicators

Table 1: Real Economy and the Labor Force, Quarterly

	23-Q1	23-Q2	23-Q3	23-Q4	24-Q1	24-Q2	24-Q3	24-Q4
Q-on-Q Change (%, Seasonally and Working Day Adjusted)								
Consumption	2.1	4.4	-1.3	1.1	2.8	-0.8	-0.4	0.2
Household	2.3	4.7	-1.7	1.0	3.0	-1.0	-0.3	0.1
Public	0.9	2.8	1.8	1.5	2.0	0.5	-1.0	0.5
Investment	3.3	3.1	5.4	-5.0	-2.0	1.5	-1.0	0.5
Export	-0.3	3.3	0.3	0.5	-0.8	2.0	2.0	1.0
Import (-)	-0.4	-1.3	5.4	0.2	2.2	-0.7	-1.3	1.5
Gross Domestic Product	-0.3	3.3	**0.3**	**-0.4**	**1.4**	**-0.1**	**-0.4**	**0.2**
Y-on-Y Change (%, Headline)								
Consumption	15.1	14.0	10.3	6.2	8.9	-1.4	5.6	1.1
Household	16.9	15.4	11.2	6.0	8.4	-2.2	6.1	1.0
Public	6.0	6.1	5.3	7.1	12.7	3.2	2.2	1.2
Investment	3.8	5.6	14.7	6.3	2.5	-3.6	-3.0	-1.8
Export	-3.3	-9.4	1.1	3.2	6.1	-2.6	1.9	3.5
Import (-)	13.7	19.8	14.5	3.2	6.8	-2.8	4.0	0.9
Gross Domestic Product	4.0	3.9	**5.9**	**2.9**	**4.1**	**-3.3**	**5.9**	**5.3**
Y-on-Y Contribution to Growth (ppt, Headline)								
Domestic Demand	11.4	11.3	11.0	6.0	7.5	-2.1	2.9	0.4
Consumption	10.2	9.5	7.0	4.2	6.7	-1.0	3.8	1.0
Household	9.5	8.8	6.4	3.4	5.1	-1.4	3.6	0.6
Public	0.7	0.7	0.6	0.8	1.7	0.4	0.2	0.3
Investment	1.2	1.8	3.9	1.8	0.7	-1.1	-0.9	-0.5
Stocks	-1.3	3.8	0.3	-1.7	-2.4	-1.5	4.1	3.4
Net Exports	-6.2	-11.2	-5.3	-1.4	-0.9	0.4	-1.2	1.4
Export	-1.3	-3.7	0.4	1.1	2.0	-0.7	0.6	1.0
Import (-)	4.9	7.5	5.7	2.5	2.9	-1.1	1.7	-0.4
Employment (Period Average)								
Employment (Million People)	30.9	31.5	32.0	32.0	31.4	31.0	33.0	32.9
Unemployment (Million People)	3.6	3.2	3.3	3.7	3.7	4.3	3.0	3.5
Unemployment Rate (%)	10.4	9.2	9.3	10.3	10.5	12.2	8.4	9.7

Table 2: Real Economy and the Labor Force, Annual

	2020	2021	2022	2023	2024	2025	2023	2024	2025
Economic Growth (%)							**Difference from 23-Q1 (ppt)**		
Domestic Demand	4.1	11.5	12.5	10.3	2.3	3.5	2.3	0.6	0.5
Consumption	3.0	13.0	16.3	11.0	3.4	3.8	1.9	1.1	0.1
Household	3.2	15.4	19.0	11.9	3.2	3.8	2.1	1.4	0.1
Public	2.2	3.0	4.2	6.2	4.5	3.9	1.3	-0.3	0.1
Investment	7.3	7.2	1.3	7.7	-1.6	2.4	3.5	-1.3	2.1
Export	-14.6	25.1	9.9	-2.0	2.2	4.0	-2.0	-5.7	-0.3
Import (-)	6.8	1.7	8.6	11.9	2.1	3.7	1.4	0.7	0.1
Gross Domestic Product	**1.9**	**11.4**	**5.5**	**4.2**	**3.2**	**3.5**	**0.5**	**0.2**	**0.0**
Contribution to Growth (ppt)							**Difference from 23-Q1 (ppt)**		
Domestic Demand	4.1	11.2	11.3	9.8	2.1	3.6	2.4	0.5	1.0
Consumption	2.2	9.2	11.0	7.6	2.5	3.0	1.3	0.9	0.4
Household	1.8	8.7	10.4	6.8	1.9	2.4	1.2	0.9	0.3
Public	0.3	0.5	0.5	0.7	0.6	0.6	0.1	0.0	0.1
Investment	1.9	2.0	0.4	2.2	-0.5	0.6	1.0	-0.4	0.6
Stocks	4.7	-6.5	-6.3	0.2	1.1	0.0	-0.4	1.8	-0.8
Net Exports	-6.9	6.8	0.5	-5.8	0.0	-0.1	-1.4	-2.1	-0.2
Export	-4.8	7.3	3.6	-0.8	0.7	1.2	-0.8	-1.8	-0.1
Import (-)	2.0	0.5	3.0	5.1	0.7	1.4	0.6	0.2	0.0
Economic Size (%)							**Difference from 23-Q1 (%)**		
GDP (Billion TL)	5,049	7,256	15,012	25,989	41,285	53,200	-1	-6	-14
GDP (Billion $)	717	807	906	1,096	1,177	1,190	3	4	-2
GDP per Capita ($)	8,600	9,592	10,655	12,735	13,495	13,468	3	4	-2
Employment (Period Average)							**Difference from 23-Q1 (ppt)**		
Employment (Million People)	26.7	28.8	30.7	31.6	32.1	32.7	-0.1	-0.3	-0.4
Unemployment (Million People)	4.0	3.9	3.6	3.4	3.6	4.0	-0.3	-0.6	-0.9
Unemployment Rate (%)	13.2	12.0	10.5	9.8	10.2	10.8	-0.4	-1.5	-1.9

Table 3: Prices, Quarterly

	23-Q1	23-Q2	23-Q3	23-Q4	24-Q1	24-Q2	24-Q3	24-Q4
Prices (%, Change)								
CPI (eop)	50.5	38.2	61.5	64.8	66.0	72.0	47.1	39.5
CPI (pa)	54.3	40.4	56.2	62.7	64.4	71.3	53.4	42.0
PPI (eop)	62.5	40.4	47.4	44.2	55.2	61.4	45.8	42.3
PPI (pa)	74.5	44.1	47.1	42.0	49.8	62.3	49.7	43.0
Commercial Credit Interest Rate (pa)	13.5	14.9	32.7	50.6	55.4	53.4	51.4	50.4
Consumer Credit Interest Rate (pa)	23.5	24.8	38.2	59.2	64.3	61.3	58.3	56.3
Deposit Interest Rate (pa)	26.4	33.1	34.7	47.0	51.0	49.4	49.4	48.4
Exchange Rate ($/TL, eop)	19.0	23.1	27.0	29.1	32.3	35.1	36.7	39.9
Exchange Rate ($/TL, pa)	18.8	20.7	26.8	28.5	31.2	34.3	36.1	38.8
Oil Prices - (Brent, $, pa)	80.9	76.1	85.4	84.4	78.6	82.0	84.0	85.5

Table 4: Prices, Annual

	2021	2022	2023	2024	2025	2023	2024	2025
Prices (%, Change)						**Difference from 23-Q1 (ppt)**		
CPI (eop)	25.8	64.3	64.8	39.5	23.8	(0.8)	0.6	(2.2)
CPI (pa)	19.6	72.3	53.9	56.2	25.8	0.0	2.5	(4.6)
PPI (eop)	60.6	97.7	44.2	42.3	24.6	(15.2)	5.9	2.1
PPI (pa)	43.9	128.5	49.9	50.6	28.9	(3.6)	(5.6)	1.2
Commercial Credit Interest Rate (pa)	20.1	21.7	27.9	52.6	38.7	2.5	4.9	(4.0)
Consumer Credit Interest Rate (pa)	23.5	26.2	36.4	60.1	44.6	4.1	9.3	(1.0)
Deposit Interest Rate (pa)	18.1	19.0	35.3	49.5	36.7	2.4	4.8	(3.0)
						Difference from 23-Q1 (%)		
Exchange Rate ($/TL, eop)	13.5	18.6	29.1	39.9	48.9	(3.9)	(0.4)	(1.3)
Exchange Rate ($/TL, pa)	8.8	16.5	23.7	35.1	44.7	(1.0)	(1.8)	(0.9)
Oil Prices - (Brent, $, pa)	69.6	100.8	81.7	82.5	79.9	(2.3)	(9.6)	(10.8)

Table 5: Current Account, Quarterly

	23-Q1	23-Q2	23-Q3	23-Q4	24-Q1	24-Q2	24-Q3	24-Q4
Current Account (Billion $)								
Current Account Balance	**-24,332**	**-12,419**	**-4,142**	**-5,773**	**-27,483**	**-12,296**	**-5,411**	**-3,053**
Trade Balance	-29,488	-21,371	-21,612	-13,928	-32,505	-21,971	-23,461	-11,997
Export of Goods	60,951	60,585	62,342	67,429	67,255	61,389	66,341	73,099
Import of Goods	90,439	81,956	83,954	81,357	99,760	83,360	89,802	85,096
Services Account Balance	7,740	12,139	20,000	11,328	7,972	12,625	21,000	11,894
o.w. Tourism	6,291	9,714	16,005	8,634	6,480	10,103	16,805	9,065
Prices								
Real Exchange Rate (CPI)	58.5	56.2	52.2	55.5	55.5	55.2	56.9	55.8
Real Exchange Rate (PPI)	94.1	91.7	85.4	87.5	85.9	87.1	90.9	88.6
Brent Petrol	81.2	78.3	86.6	83.3	78.6	82.0	84.0	85.5

Table 6: Current Account, Annual

	2020	2021	2022	2023	2024	2025	2023	2024	2025
Current Account (Billion $)							**Difference from 23-Q1 (%)**		
Current Account Balance	**-31,888**	**-7,232**	**-49,065**	**-46,666**	**-48,243**	**-42,413**	**-2**	**2**	**-13**
Trade Balance	-37,874	-29,313	-89,600	**-86,399**	**-89,934**	**-86,461**	-6	-7	-14
Export of Goods	168,378	224,686	253,352	251,307	268,084	289,538	-2	0	2
Import of Goods	206,252	253,999	342,952	337,706	358,018	375,999	-3	-2	-2
Services Account Balance	14,359	31,812	49,665	51,207	53,491	55,848	-4	-6	-7
o.w. Tourism	12,290	24,984	37,317	40,644	42,453	44,326	-4	-5	-6
Current Account (% GDP)							**Difference from 23-Q1 (ppt)**		
Current Account Balance	**-4.4**	**-0.9**	**-5.4**	**-4.2**	**-3.9**	**-3.6**	**0.1**	**0.0**	**0.0**
Trade Balance	-5.3	-3.6	-9.9	-7.9	-7.7	-7.3	0.6	0.1	0.1
Export of Goods	23.5	27.8	28.0	22.9	22.9	24.4	-0.7	1.1	3.6
Import of Goods	28.8	31.4	37.9	30.7	30.6	31.7	-1.3	0.9	3.5
Services Account Balance	2.0	3.9	5.5	4.7	4.6	4.7	-0.3	0.0	0.3
o.w. Tourism	1.7	3.1	4.1	3.7	3.6	3.7	-0.2	0.0	0.3
Prices							**Difference from 23-Q1 (%)**		
Real Exchange Rate (CPI)	67.3	60.4	54.3	55.6	55.9	53.6	0.5	3.0	-1.1
Real Exchange Rate (PPI)	76.6	76.1	83.0	89.7	88.1	86.7	1.4	-0.2	0.3
Brent Petrol	41.8	70.7	100.8	82.4	82.5	79.9	-1.5	-9.6	-10.8

Table 7: Central Government Budget and the Debt Stock (Billion TL)

(Billion TL)	2020	2021	2022	2023	2024	2025
Central Government Revenues	**1,028**	**1,402**	**2,802**	**5,210**	**8,092**	**10,603**
Tax Revenues	833	1,165	2,353	4,501	6,977	9,113
Personal Income Tax	159	220	356	694	1,073	1,383
Corporate Income Tax	105	178	507	786	1,321	1,756
VAT (Domestic)	72	123	175	505	784	1,027
Excise Taxes	207	205	420	928	1,404	1,862
Import Taxes	185	297	658	1,095	1,651	2,128
Other Taxes	105	141	236	492	743	958
Non-Tax Revenues	195	237	449	710	1,115	1,490
Central Government Expenditures	**1,204**	**1,604**	**2,941**	**6,585**	**10,522**	**12,879**
Non-Interest Expenditures	1,070	1,423	2,631	5,911	9,159	10,911
Public Personnel incl. Premiums	336	404	712	1,510	2,477	3,139
Consumption of Goods & Services	97	133	257	453	719	900
Current Transfers	498	627	1,126	2,374	3,921	5,152
Public Investment	94	131	276	543	891	1,080
Public Transfers	0	0	0	858	779	161
Lending	45	127	259	173	372	479
Interest Expenditures	134	181	311	675	1,362	1,968
Budget Balance	**-175**	**-202**	**-139**	**-1,375**	**-2,430**	**-2,277**
Earthquake Related Expenses				**950**	**1,031**	**505**
Earthquake Related Taxes				**105**	**0**	**0**
Budget Balance excl. Earthquake Exp				**-530**	**-1,398**	**-1,772**
Budget Balance excl. Interest Payments	**-41**	**-21**	**172**	**-700**	**-1,067**	**-308**
Central Government Debt Stock	**1,813**	**2,748**	**4,033**	**6,723**	**12,794**	**18,720**

Table 8: General Government Balance (%, GDP)

(% GDP)							**Difference from 23-Q1 (ppt)**		
Central Government Revenues	**20.4**	**19.3**	**18.7**	**20.0**	**19.6**	**19.9**	**0.9**	**-0.1**	**-0.5**
Tax Revenues	**16.5**	**16.1**	**15.7**	**17.3**	**16.9**	**17.1**	**0.7**	**-0.3**	**-0.7**
Personal Income Tax	3.1	3.0	2.4	2.7	2.6	2.6	0.1	-0.3	-0.4
Corporate Income Tax	2.1	2.5	3.4	3.0	3.2	3.3	-0.1	0.0	0.0
VAT (Domestic)	1.4	1.7	1.2	1.9	1.9	1.9	0.3	0.3	0.1
Excise Taxes	4.1	2.8	2.8	3.6	3.4	3.5	0.3	0.0	0.0
Import Taxes	3.7	4.1	4.4	4.2	4.0	4.0	-0.1	-0.4	-0.5
Other Taxes	2.1	1.9	1.6	1.9	1.8	1.8	0.2	0.1	0.1
Non-Tax Revenues	**3.9**	**3.3**	**3.0**	**2.7**	**2.7**	**2.8**	**0.2**	**0.2**	**0.2**
Central Government Expenditures	**23.8**	**22.1**	**19.6**	**25.3**	**25.5**	**24.2**	**-0.7**	**-2.4**	**-2.0**
Non-Interest Expenditures	**21.2**	**19.6**	**17.5**	**22.7**	**22.2**	**20.5**	**-0.6**	**-2.2**	**-1.4**
Public Personnel incl. Premiums	6.7	5.6	4.7	5.8	6.0	5.9	-0.3	-1.1	-0.9
Consumption of Goods & Services	1.9	1.8	1.7	1.7	1.7	1.7	0.0	0.0	0.0
Current Transfers	9.9	8.6	7.5	9.1	9.5	9.7	-0.8	-1.0	-0.1
Public Investment	1.9	1.8	1.8	2.1	2.2	2.0	0.0	0.2	0.2
Public Transfers	0.0	0.0	0.0	3.3	1.9	0.3	0.0	0.0	0.0
Lending	0.9	1.8	1.7	0.7	0.9	0.9	0.0	0	0
Interest Expenditures	**2.7**	**2.5**	**2.1**	**2.6**	**3.3**	**3.7**	**-0.1**	**-0.2**	**-0.5**
Budget Balance	**-3.5**	**-2.8**	**-0.9**	**-5.3**	**-5.9**	**-4.3**	**1.6**	**2.3**	**1.5**
Earthquake Related Expenses				**3.7**	**2.5**	**0.9**	**0.0**	**0.0**	**0.0**
Earthquake Related Taxes				**0.4**	**0.0**	**0.0**			
Budget Balance excl. Earthquake Exp				**-2.0**	**-3.4**	**-3.3**			
Budget Balance excl. Interest Payments	**-0.8**	**-0.3**	**1.1**	**-2.7**	**-2.6**	**-0.6**	**1.5**	**2.1**	**1.0**
Central Government Debt Stock	**35.9**	**37.9**	**26.9**	**25.9**	**31.0**	**35.2**	**-7.9**	**-9.0**	**-8.6**

Table 9: Public Sector Balance (Billion TL)

(Billion TL)	2020	2021	2022	2023	2024	2025
Public Sector Balance	**-198**	**-160**	**-358**	**-1,484**	**-2,752**	**-2,282**
General Government	**-199**	**-166**	**-120**	**-1,406**	**-2,628**	**-2,282**
Central Government	-175	-202	-143	-1,375	-2,430	-2,277
Local Government	4	5	-40	-83	-132	-53
Nonbudgetary Funds	0	11	20	0	17	48
Unemployment Fund	-28	12	34	52	-83	0
Social Security Institutions	2	0	7	0	0	0
Fixed Capital Establishments	-1	6	2	0	0	0
State-owned Enterprises	**0**	**7**	**-238**	**-78**	**-124**	**0**

Table 10: Public Sector Balance (%, GDP)

Public Sector Balance							Difference from 23-Q1 (ppt)		
(% GDP)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
Public Sector Balance	**-3.9**	**-2.2**	**-2.4**	**-5.7**	**-6.7**	**-4.3**	**1.4**	**1.5**	**1.2**
General Government	**-3.9**	**-2.3**	**-0.8**	**-5.4**	**-6.4**	**-4.3**	**1.6**	**1.7**	**1.2**
Central Government	-3.5	-2.8	-1.0	-5.3	-5.9	-4.3	1.6	2.3	1.5
Local Government	0.1	0.1	-0.3	-0.3	-0.3	-0.1	0.0	-0.3	-0.1
Nonbudgetary Funds	0.0	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Unemployment Fund	-0.6	0.2	0.2	0.2	-0.2	0.0	0.0	-0.3	-0.2
Social Security Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Capital Establishments	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State-owned Enterprises	**0.0**	**0.1**	**-1.6**	**-0.3**	**-0.3**	**0.0**	-0.2	-0.2	0.0