TÜRKIYE

Table 1	2023
Population, million	85.8
GDP, current US$ billion	1024.5
GDP per capita, current US$	11938.8
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]	76.0
Total GHG emissions (mtCO2e)	511.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Over the past nine months Türkiye has been moving rapidly to normalize macroeconomic policies. Economic growth was strong at 4.5 percent in 2023 but is projected to moderate to 3.0 percent in 2024 before accelerating on a more solid footing in outer years. Poverty continued to decline in 2020 and 2021, though the combination of high inflation and macroeconomic policy adjustment related measures may slow progress in the short term.

Key conditions and challenges

The new economic team that took over after the May 2023 elections has been implementing an ambitious package of measures aimed at correcting previous macroeconomic imbalances. The central bank (CBRT) increased the policy rate by 4,150 bps since May 2023 to 50 percent in March 2024 while also adjusting reserve requirements, rolling back the FX-protected deposit scheme, lessening FX interventions, and providing targeted credit to exporters. Based on the new policy stance, in early March Fitch moved Türkiye's sovereign credit rating from B to B+ with a positive outlook. S&P and Moody's have not changed the credit rating but the outlook is positive.

Despite high GDP growth in recent years, there are longstanding structural challenges that undermine potential growth, including: low productivity growth; low labor force participation and employment levels; and weakening foreign direct investment. In addition, boosting domestic revenues and maximizing the efficiency of public spending will be important to counter the recent deterioration in fiscal balances. Ambitious structural reforms would help accelerate sustainable economic growth.

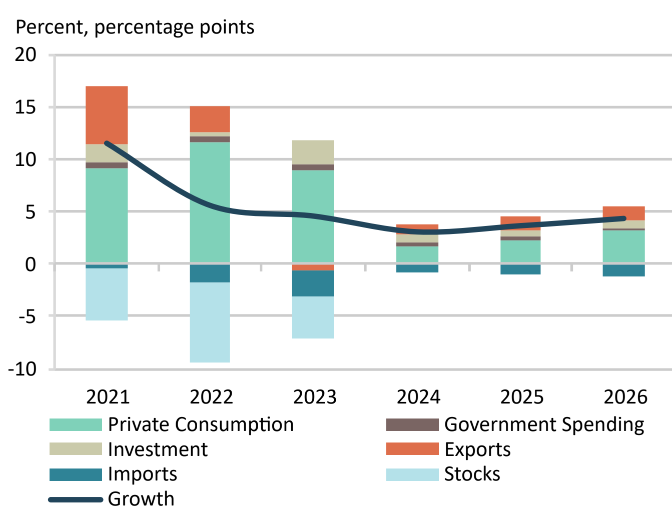
Recent developments

Türkiye's GDP expanded 4.5 percent in 2023, mainly driven by sustained growth in private consumption (12.8 percent in real terms) alongside a strong pickup in investment (8.9 percent) and government consumption (5.2 percent). Exports contracted 2.7 percent in 2023 while imports grew firmly at 11.7 percent, dragging on growth. On a sectoral basis, services growth remained resilient at 4.8 percent and construction expanded 7.8 percent with earthquake recovery. The Turkish labor market continues to be strong; the seasonally adjusted unemployment rate was 9.1 percent in January.

The current account deficit fell to US$45.4 bn in 2023 (4.2 percent of GDP) from US$49.1 bn in 2022 with a sharp improvement in the second half of the year. Fewer FX interventions, steady lira depreciation, returning portfolio inflows, and the significant decline in credit default swap (CDS; a measure of risk premium) on Turkish assets (from above 700 prior to the May 2023 elections to 320 in end-March) have allowed CBRT net reserves to continue recovering, from a negative US$5.7 billion in early June 2023 to a positive US$19.6bn as of March 15.

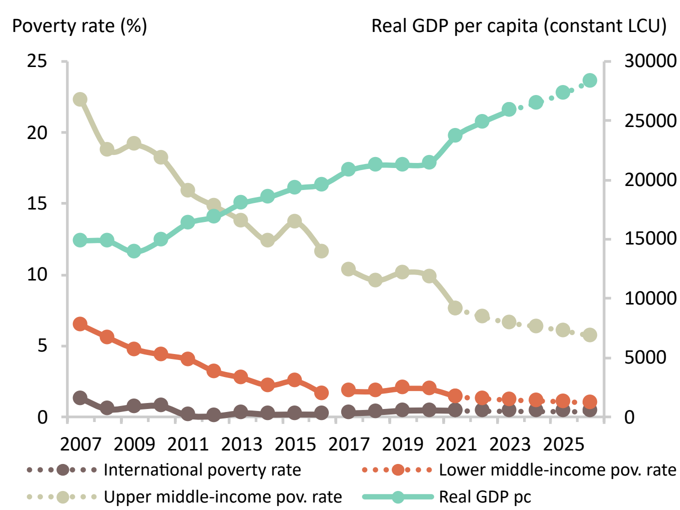
Inflation decreased from 57.7 percent in January 2023 to 38.2 percent in June 2023, but has since increased to 67.1 percent in February 2024 on the back of lira depreciation, sharp minimum wage increases (34 percent in July 2023 and 49.3 percent in January 2024), government tax adjustments, and strong demand. Interest rates are realigning and, along with high inflation and lower capital levels, are containing banks' loan growth despite the relaxation in credit market interventions: as of February 2024, nominal lira loan

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.

growth (13-week, FX-adjusted annualized trend) for state and private banks was 13.2 percent and 38.7 percent, respectively. Despite ongoing maturity mismatches, the banking sector's net FX position has improved with capitalization remaining strong. Notably, non-performing loans (NPLs) have declined since 2022 and the NPL ratio shows significant improvement (1.6 percent in January 2024 versus 4.4 percent in 2020). While tight monetary policy may impact some economic segments, particularly SMEs, the overall trend indicates a resilient banking sector.

The overall fiscal balance deteriorated to below -5 percent of GDP in 2023 (from -0.8 in 2022) due to rising expenditures and earthquake-related investment needs, and the primary balance was close to -3 percent of GDP (from +1.4 in 2022). However, the fiscal deficit is relatively low excluding earthquake-related expenditures. Public debt remains moderate at around 30 percent of GDP in 2023.

Poverty continued to decline but inequality widened between 2020 and 2021; the Gini coefficient increased to 46.0 in 2021 as the bottom and top income deciles reaped the largest benefits of growth. The bottom decile experienced the highest real increase in labor income (26 percent), likely driven by the minimum wage increase that in 2021 exceeded CPI inflation; while the top decile reaped the highest benefits from real increases in business incomes (96 percent), likely due to the surge in asset prices. Poverty reduction was largely due to increased labor earnings.

Outlook

Economic growth is projected to moderate to 3.0 percent in 2024 on the back of policy tightening and slow global growth before accelerating to 3.6 percent in 2025 and 4.3 percent in 2026 with a more sustainable growth composition. Inflation is expected to decline gradually after peaking in May 2024 given tight monetary policy, while the current account balance is projected to improve starting from 2024 with a higher contribution of net exports. Given the economic slowdown and earthquake recovery needs, the general government deficit is expected to remain high in 2024 despite fiscal consolidation efforts.

The period ahead provides opportunities for tackling structural issues. It will be important to accelerate pro-growth structural reforms to unleash private sector productivity and investment in the medium-term. Poverty is expected to continue declining in the short run as increases in average nominal wages exceeded CPI changes in 2022 and 2023. However, if the distribution of growth remains the same as between 2020 and 2021, inequality is also likely to increase, impeding potential for long-term poverty reduction.

The outlook is contingent on continuation of the current policy stance. Risks to the outlook are balanced. Downside risks include: low net reserves and high external financing requirements, which imply low buffers against external shocks; heightened geopolitical tensions; vulnerability of the fiscal position to high borrowing costs; and slower growth resulting in political pressures to reverse policy normalization. On the upside, the increasing credibility of the new economic team may result in more investment inflows, which would help stabilize the currency and accelerate the economic adjustment.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	11.4	5.5	4.5	3.0	3.6	4.3
Private consumption	15.4	18.9	12.8	2.3	3.1	4.2
Government consumption	3.0	4.2	5.2	2.5	2.1	1.7
Gross fixed capital investment	7.2	1.3	8.9	2.9	2.9	3.1
Exports, goods and services	25.1	9.9	-2.7	4.5	5.2	5.9
Imports, goods and services	1.7	8.6	11.7	3.7	4.2	5.6
Real GDP growth, at constant factor prices	12.7	6.2	4.5	3.0	3.6	4.3
Agriculture	-3.0	1.3	-0.2	1.4	1.5	1.5
Industry	13.0	-0.6	3.7	4.6	4.8	5.0
Services	13.2	10.1	4.7	2.5	3.3	4.2
Inflation (consumer price index)	19.6	72.3	53.9	57.8	28.9	16.4
Current account balance (% of GDP)	-0.9	-5.4	-4.2	-2.8	-2.4	-2.5
Net foreign direct investment inflow (% of GDP)	0.8	1.0	0.7	0.9	1.1	1.4
Fiscal balance (% of GDP)	-2.6	-0.8	-5.4	-5.4	-3.7	-2.4
Revenues (% of GDP)	30.9	27.8	26.4	26.2	26.2	26.5
Debt (% of GDP)	41.5	30.3	29.7	29.9	30.5	31.2
Primary balance (% of GDP)	0.0	1.4	-2.5	-0.8	0.6	0.7
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	1.2	1.1	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.6	7.0	6.6	6.4	6.1	5.7
GHG emissions growth (mtCO2e)	11.1	-5.2	1.8	2.3	3.0	3.5
Energy related GHG emissions (% of total)	78.6	76.5	75.8	75.2	74.6	74.1

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.