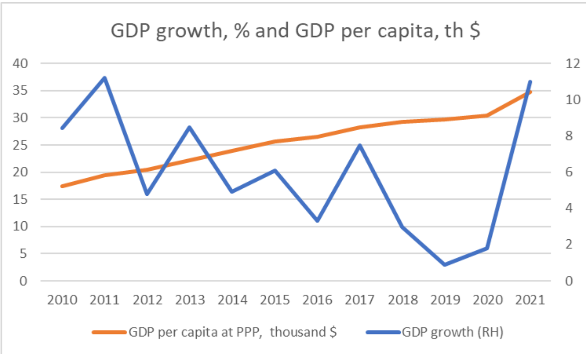
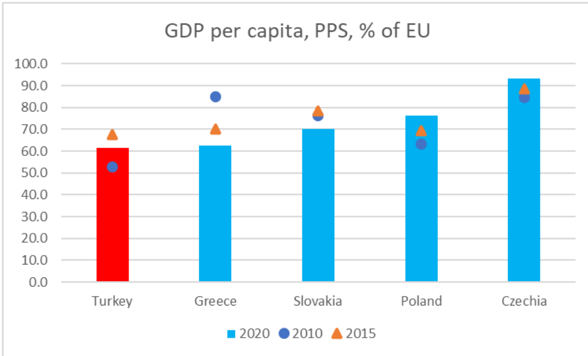
TÜRKIYE
Country brief

Economic Overview

A dynamic but volatile economy with large regional discrepancies

Türkiye is a large upper middle-income country. Its economy has experienced rapid but volatile growth over the last decade, with recurrent macroeconomic imbalances. However, the process of income convergence with the EU, which advanced rapidly in the first half of the decade, reversed in the second half. The growth has been driven by a comparatively large investment rate and the continued expansion of the labour force, although capital and productivity growth have declined recently. Regional disparities are significant, with the lowest income regions situated in the east of the country, where agricultural activities are prevalent. Economic activity is concentrated in the Western regions, which account for around four fifths of GDP.

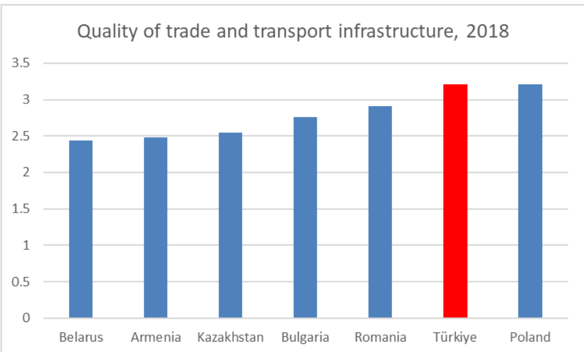


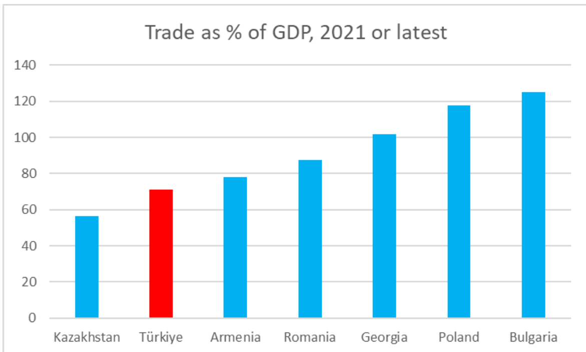


Source: IMF, Eurostat

Regulatory changes would facilitate further integration in the world economy

Türkiye is a large country, which partly explains the relatively low degree of openness of the economy. However, there is still scope for improving the regulatory environment, which has deteriorated in recent years. This would facilitate further the integration into the world economy, thus more fully materialising the potential of the Turkish economy. Transport infrastructure is good, although the road fatality rate is comparatively high, in relation to other UNECE countries.

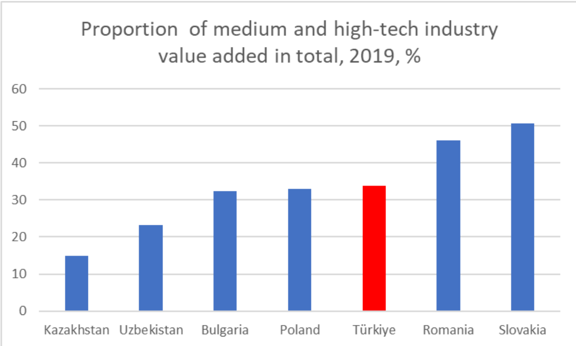


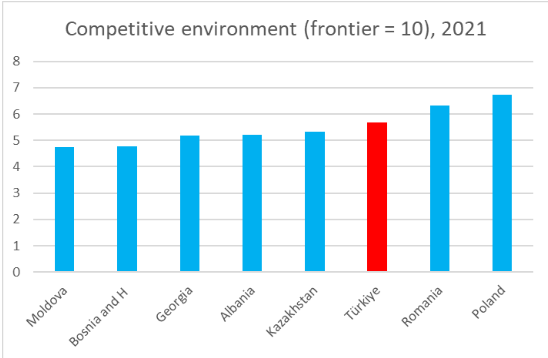


Source: World Bank Development Indicators

Labour market shortcomings constrain growth potential, despite a competitive environment

Türkiye has a dynamic private sector but its development remains constrained by skill gaps. The labour market is characterised by low participation rates and high levels of informality, with significant employment access problems for young and women. The gender labour force participation rate gap is around 37 percentage points. Although innovation performance vis-à-vis the EU was in an upward trend in recent years, the most recent data points to a sharp reversal. The country, however, scores relatively well in terms of the sophistication of its good exports, the ability to develop innovative products and the extent of digitalisation.

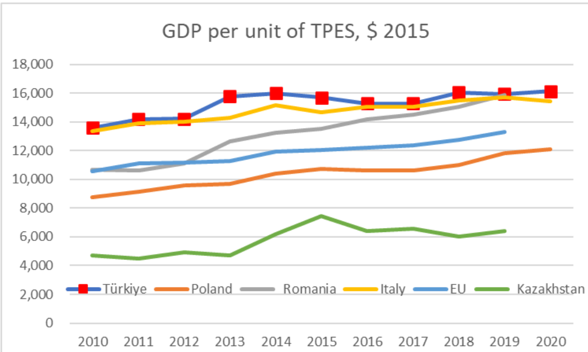


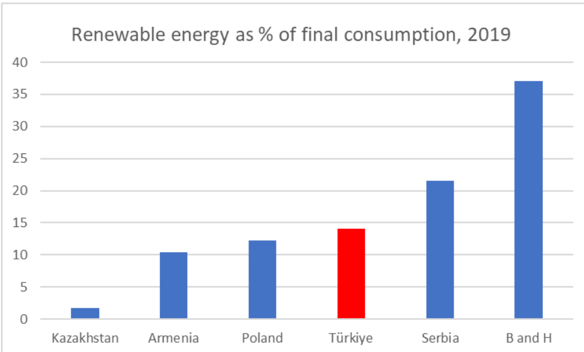


Source: SDG UNECE database, EBRD

Green and circular transition is necessary to address environmental problems

Due to its geography, Türkiye is affected considerably by climate change and is at the same time highly exposed to natural disasters which makes promoting the economy climate neutrality and circularity very important. However, while overall energy efficiency of the economy is comparatively high, energy performance is worse in the building and manufacturing sectors. Air pollution has been declining but related economic costs and attributed mortality rates remain high. Water shortages are having a detrimental impact on agriculture. A low recycling rate suggests a significant scope for advancing circularity and improving waste management. Increasing the share of renewables would contribute to reduce a very large energy import bill.

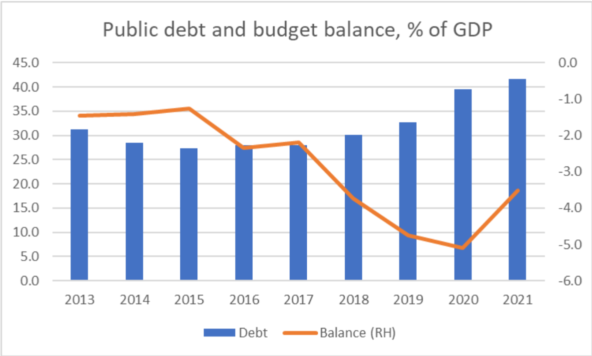


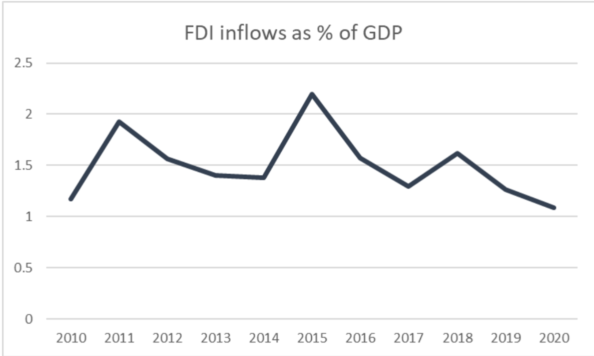


Source: IEA, SDG UNECE database

Private engagement will be key for infrastructure development

The Turkish economy largely relies on foreign capital, which represents a recurrent source of vulnerability. Domestic capital markets are increasingly sophisticated but still underdeveloped. The persistent shortage of long-term capital remains a development challenge. Foreign direct investment has dropped in recent years, in a context of marked macroeconomic instability. Public finances have deteriorated, driven by increasing financing costs, currency depreciation and COVID-19 expenditures. Public-private partnerships for infrastructure development have been extensively used.





Source: IMF, UNCTAD