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DEPREZ, Director

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To: Ms Thérèse BLANCHET, Secretary-General of the Council of the  
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Delegations will find attached document SWD(2026) 105 final.

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SWD(2026) 105 final

**COMMISSION STAFF WORKING DOCUMENT**

**ECONOMIC REFORM PROGRAMME**

**OF**

**TÜRKIYE  
(2026-2028)**

**COMMISSION ASSESSMENT**

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## 1. EXECUTIVE SUMMARY

**The economic reform programme (ERP) 2026-28 forecasts economic growth to pick up.**<sup>1</sup> Real GDP increased by 3.6% in 2025, slightly above the ERP projection and previous year's growth. Domestic demand was the main driver of growth, with robust household consumption and investment. The economy is projected to expand by 3.8% in 2026, which is broadly plausible, and to reach 5.0% growth in 2028. The projected pickup in domestic demand could pose risks to achieving the targeted rapid disinflation and the containment of the current account deficit. The external position is sound, but capital flows are volatile and mostly short-term. Türkiye's exposure to geopolitical tensions in its neighbourhood and to energy price shocks is very high, but the economy's resilience has increased over recent years, and the authorities have appropriately tightened their policy stance as a reaction to the intensification of the conflict in the Middle East. The central bank kept monetary policy tight, slowly bringing down inflation and inflationary expectations, although they remained elevated. The authorities continued the simplification of financial sector regulations, terminating the foreign exchange (FX)-protected lira deposit scheme which was a major fiscal burden and a source of financial risk.

**Based on the 2025 fiscal outcome, the planned fiscal stance is slightly expansionary.** At 2.9% of GDP, the 2025 budget deficit was lower than planned, underpinned by robust revenue growth and spending discipline. Based on the ERP deficit assumption in 2025, which is higher than the actual deficit, the ERP targets a broadly neutral stance. However, in view of the favourable 2025 fiscal outcome, the planned fiscal stance is slightly expansionary and there is scope for a tighter-than-planned fiscal policy to better support disinflation. The headline primary surplus is envisaged to move slowly up and reach close to 1% of GDP in 2027, while the overall budget deficit is set to gradually fall to 2.6% of GDP in 2028. The budget relies on continuing strong revenue collection, largely based on existing measures and policies. Government indebtedness remains moderate. While the fiscal framework lacks strong anchors, fiscal outcomes have invariably revealed the authorities' preference for fiscal discipline. Fiscal risks appear manageable but the authorities' determination to deliver on the targeted disinflation path may potentially be weakened in view of the political cycle and the approaching 2028 presidential and parliamentary elections.

The main economic policy challenges facing Türkiye are the following:

- **Further reducing inflation in a sustainable way by maintaining sufficiently tight monetary and fiscal policies.** Inflation and inflation expectations declined further but remain elevated. The authorities appropriately envisage a continuation of the tight monetary policy stance. Fiscal policy tightened in 2025 and needs to remain tight in 2026 to continue supporting disinflation. Strengthening policy credibility and continuing safeguarding central bank independence are crucial for further advancing the macroeconomic stabilisation programme.

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<sup>1</sup> The assessment is based on the ERP submitted on 15 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

- **Strengthening economic growth fundamentals.** The country risk premium declined but remains elevated, reflecting governance weaknesses. The authorities' reform agenda is trying to address them by stimulating investments, increasing supply-chain security, and strengthening competition. Reform implementation remains key to improving the business environment and investor confidence.
- **Increasing the efficiency of the labour market, by raising the level of skills notably for women and young people.** The discrepancy in the level of skills, particularly amongst young people, and the gender employment gap remain very high. Therefore, there is a need to increase the labour force participation of women and young people by increasing green and digital skills through training opportunities and lifelong learning, and the availability of quality and affordable care infrastructure. Policies aimed at the activation of women in the labour market remain too limited in scope and budget, further restricting Türkiye's economic growth potential. Social dialogue can also create enabling conditions for more labour market flexibility, better and safer working conditions, and input for re-skilling and upskilling of low-skilled workers.
- **Boosting competitiveness and foreign direct investment, in particular by improving transparency and predictability in the regulatory and institutional environment affecting businesses.** The fundamental lack of transparency of State aid impacts investment decisions, as the business environment becomes increasingly non-transparent, unpredictable and discourages free and open competition. A determined anti-corruption strategy is needed as corruption compounds the regulatory unpredictability. Slow judicial processes, lack of judicial independence, and high informality continue to burden investment attraction. Furthermore, small and medium-sized enterprises (SMEs) continue to face barriers when accessing long-term finance. The implementation of strategies, plans and programmes in areas relevant for a favourable business environment require more rigorous monitoring, with an annual implementation report made available to the public to strengthen investor confidence in reform stability.
- **Enhancing transport, energy and digital connectivity, both domestic and regional, while accelerating the economy's green and digital transformation.** The pace of the energy transition could be further accelerated through enhanced energy connectivity, notably by upgrading and expanding transmission infrastructure, strengthening cross-border interconnectors, and improving grid flexibility to accommodate higher shares of variable renewables. Türkiye remains reliant on coal and natural gas, sustaining high external energy dependency. Digitalisation is also emerging as a key enabler of Türkiye's ambitions for domestic and regional connectivity. Türkiye's green transformation continues to make progress, yet the pace and ambition of the ERP's targets could be increased. Türkiye should also advance the decarbonisation of the transport sector. Overall, Türkiye should step up efforts to boost secure domestic and regional connectivity, as it would generate business opportunities, improve trade integration and help build competitive and resilient value chains.

**The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2025 has been partial.** The authorities kept monetary policy restrictive and tightened fiscal policy to help disinflation. They took steps to expand the tax base by removing some tax exemptions and maintained their commitment to sound fiscal policy. Fiscal risks declined following the complete elimination of the FX-guaranteed deposits scheme. The central bank continued to simplify macro-prudential measures and the authorities continued to align financial sector regulation and supervision with best international practices. The planned update of corporate governance regulations in line with international standards and the revision of the public procurement legislation to limit the use of exclusions and of negotiated procedures were delayed. Limited steps were taken to phase out fossil fuel subsidies.

The implementation of policy guidance on structural issues remains limited. Limited reform measures have been announced on the business regulatory environment, once again falling short of addressing key challenges. Structural problems regarding the independence, impartiality, accountability, and efficiency of the judicial system remain unaddressed. The implementation of an emissions trading

system (ETS) has also not yet come to fruition due to the delay in the adoption of the Climate Law. The incentives for additional employment continued, yet no additional legislative and fiscal measures were introduced in 2025. The lifelong learning participation rate has improved over the last years. Slight progress was made in addressing the labour market gender gap, but implementation remains slow also due to the limited availability of quality and affordable care services.

## 2. ECONOMIC OUTLOOK AND RISKS

**Resilient domestic demand sustained moderate economic growth in 2025.**<sup>2</sup> Following a 3.3% increase in 2024, real GDP expanded by 3.6% in 2025, slightly above the ERP expectation. Household consumption growth was robust, supported by limited gains in employment and labour income along with a strong wealth effect due to rising gold prices. The investment performance was upbeat, with a continuing strong recovery in construction. The economic policy stance tightened, curtailing domestic and external imbalances. However, in a worsening external environment, exports remained weak and the contribution of net exports to growth turned negative. Adverse weather conditions hit agriculture and activity in the sector declined sharply. Economic activity in industry, services, and construction expanded. Economic sentiment improved somewhat at the end of 2025 and high-frequency indicators pointed to improving momentum in early 2026.

**The ERP forecasts economic growth to pick up.** GDP growth is projected at 3.8% in 2026 and then to gradually pick up to 5.0% in 2028. The envisaged growth path has been adjusted downwards by 0.7 percentage points (pps) compared to last year's ERP. The programme expects a steady increase of growth across demand components, with domestic demand driving overall GDP growth. Private consumption growth is forecast to reach 4.1% in 2028, public consumption growth 6.0%, while investment growth is set to remain more stable and attain 4.9%. Import growth is forecast at 3.9% in 2028, also largely unchanged despite rising domestic demand, while the growth of exports is projected to rebound from 1.8% in 2025 to 4.4% in 2028. The contribution of net exports to growth is set to remain roughly neutral. There is still considerable uncertainty about the cyclical position of the economy. The ERP estimates that the output gap largely closed in 2025 and will be negative at around 1.0% in the following years. Potential growth is projected to increase from 4.3% in 2025 to 4.8% in 2028 with capital accumulation being the main driver of growth (contributing 2.2 pps to real GDP growth per year on average), followed by labour (1.5 pps). The estimated contribution of total factor productivity (0.7 pps) is markedly lower and more realistic than previous estimates, better reflecting historical trends and the slow pace of structural reform.

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<sup>2</sup> Macroeconomic and fiscal estimates and forecasts covering the period 2025-2028 have been taken from the ERP. If available, preliminary macroeconomic and fiscal outturn data for 2025 have been sourced from the relevant national authorities (Turkish Statistical Institute, Ministry of Treasury and Finance, Central Bank of the Republic of Türkiye).

Table 1:

**Türkiye - comparison of macroeconomic developments and forecasts**

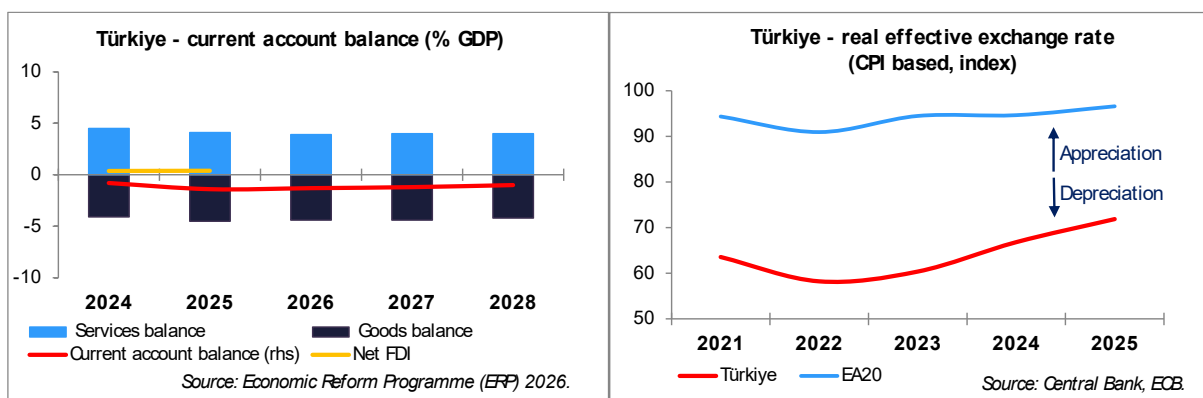
	2024		2025		2026		2027		2028	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
<b>Real GDP (% change)</b>	3.3	<b>3.3</b>	3.4	<b>3.3</b>	3.4	<b>3.8</b>	4.0	<b>4.3</b>	n.a.	<b>5.0</b>
<i>Contributions:</i>										
- final domestic demand	3.1	<b>3.5</b>	3.0	<b>3.2</b>	3.4	<b>3.8</b>	3.9	<b>4.2</b>	n.a.	<b>4.8</b>
- change in inventories	-1.3	<b>-1.2</b>	0.8	<b>0.4</b>	0.0	<b>0.0</b>	0.0	<b>0.0</b>	n.a.	<b>0.0</b>
- external balance of goods and services	1.5	<b>1.0</b>	-0.5	<b>-0.3</b>	0.0	<b>0.0</b>	0.0	<b>0.1</b>	n.a.	<b>0.2</b>
<b>Employment (% change)</b>	3.1	<b>3.1</b>	0.8	<b>0.0</b>	2.0	<b>2.2</b>	2.2	<b>2.4</b>	n.a.	<b>2.9</b>
<b>Unemployment rate (%)</b>	8.8	<b>8.7</b>	8.6	<b>8.5</b>	8.6	<b>8.4</b>	8.6	<b>8.2</b>	n.a.	<b>7.8</b>
<b>GDP deflator (% change)</b>	59.3	<b>59.3</b>	32.9	<b>35.0</b>	22.5	<b>19.7</b>	15.7	<b>10.9</b>	n.a.	<b>8.0</b>
<b>CPI inflation (%)</b>	58.5	<b>58.5</b>	35.2	<b>34.1</b>	24.8	<b>20.5</b>	17.7	<b>11.1</b>	n.a.	<b>8.3</b>
<b>Current account balance (% of GDP)</b>	-0.8	<b>-0.8</b>	-1.5	<b>-1.4</b>	-1.6	<b>-1.3</b>	-1.9	<b>-1.2</b>	n.a.	<b>-1.0</b>
<b>General government balance (% of GDP)</b>	-3.2	<b>-4.6</b>	-3.1	<b>-3.1</b>	-3.1	<b>-3.1</b>	-2.8	<b>-2.7</b>	n.a.	<b>-2.6</b>
<b>Government gross debt (% of GDP)</b>	23.6	<b>23.6</b>	24.2	<b>24.6</b>	24.2	<b>24.7</b>	23.9	<b>24.7</b>	n.a.	<b>24.2</b>

Sources: Economic Reform Programme (ERP) 2026, Commission Autumn 2025 forecast.

**The ERP's macroeconomic scenario is broadly plausible in 2026 but somewhat optimistic afterwards.** Although the ERP's growth assumptions have been scaled down, they are still on the high end in the outer year of the programme. In addition, the envisaged buoyant public consumption growth raises questions about its consistency with the planned slow decline in general government non-interest spending and the announced fiscal consolidation drive. While the expected contribution from domestic demand to growth is conceivable, the increased contribution from net exports is more doubtful as both exports and imports are likely to be under pressure. The forecast pickup in domestic demand, reflecting among others the political cycle, may also pose risks to achieving the programme's other macroeconomic goals, such as rapid disinflation and the containment of the current account deficit. The economy's resilience has increased over recent years, but Türkiye's exposure to geopolitical tensions in its neighbourhood and to energy price shocks remains very high. In view of the non-negligible domestic political risks and the highly uncertain global environment, the lack of an alternative macro-fiscal scenario in the ERP remains a weakness.

**While disinflation advanced, inflation still remains elevated and bringing it further down requires sustaining the tight policy commitment.** The central bank operates under an inflation targeting regime and has been trying to re-establish its credibility in the last few years. It kept monetary policy relatively tight, slowly bringing down inflation and inflationary expectations and improving its foreign-exchange position. The pace of rate cuts has slowed recently, with the central bank reducing the key policy rate by 100 basis points (bps) in October 2025, 150 bps. in December 2025, and by another 100 bps in January 2026, to 37.0%. It also continued to actively regulate credit, via caps on the growth of certain loan categories and selective changes in required reserves. In response to the intensification of the conflict in the Middle East, the authorities have appropriately tightened financial conditions and took measures to limit exchange rate volatility. The annual rate of inflation fell to 30.9% in December 2025, while 2025 average inflation slowed to 35.2%. The monthly inflation rate decreased to 0.9% in November and December 2025 (1.4% on average in Q4), indicating some moderation of inflationary pressures, including in service prices, but picked up in early 2026 mostly due to seasonal factors. The ERP forecasts that annual inflation will decline to 16.0% at the end of 2026, and further to 8% in 2028. This seems rather optimistic given persistent price pressures that have caused the central bank to miss its initial end-2025 inflation goal by a wide margin.

#### External competitiveness and current account



**The current account deficit is expected to remain moderate, but downside risks are sizeable.** The deficit increased to 1.6% of GDP in 2025, up from 0.8% in 2024. The ERP forecasts it to decline to 1.0% of GDP in 2028 due to smaller deficits in trade in goods and in primary income. Global trade uncertainty and increased trade protectionism are recognised as major negative risk factors. Some companies are already under pressure from Chinese export diversion, facing increased competition both domestically and abroad. In addition, Türkiye is highly exposed to geopolitical tensions in its neighbourhood and to energy price shocks, while domestic demand for gold, which acts as an important store of value, could lead to surges in gold imports. The real appreciation of the lira has hurt certain sectors like textile and furniture. At the same time, the authorities are hopeful that policies to support exports and continued market diversification and to enhance competitiveness will allow Türkiye to further increase its share in global trade, while ensuring security of supply chains. The diversity and complexity of exports have improved markedly after 2020 and the share of high and medium-high technology products in manufacturing exports has increased. Türkiye's strategic location and investments in developing its potential in energy, finance and logistics are factors supporting its competitive position.

**The external position is sound, but capital flows remain volatile and mostly short-term.** The arrest of the mayor of Istanbul triggered significant capital outflows in the spring of 2025, which were largely reversed later in the year. Still, the year ended with outflows of net portfolio investment, trade credits, currency and deposits, as well as negative errors and omissions, while the current account deficit was financed mostly via net inflows of loans and reduced official reserves. However, the stock of foreign exchange reserves increased to nearly USD 200 billion in the beginning of 2026, covering more than five months of imports of goods and services, propped up by a strong increase in the valuation of gold reserves. Foreign direct investment inflows were low at below 1% of GDP in 2025. At the same time, gross external financing needs are moderate, and balance-of-payments risks are low in view of the projected current account deficit, improved access to foreign financing, and higher official foreign-exchange reserves. The external debt roll-over ratio remained high, above 100% for both the banking and the non-banking sectors in 2025. Non-financial companies' open net foreign-exchange positions widened due to growing liabilities, but their short-term positions remained in surplus. External debt fell slightly to around 33% of GDP in 2025.

**The banking sector remained stable.** Commercial banks' capitalisation was strong at 19.7% in 2025, marginally supported by forbearance measures<sup>3</sup> that were completely phased out in early 2026. Profitability and capitalisation improved but remained generally lower in state-owned banks. The non-performing loan ratio increased slowly to 2.5% at the end of 2025 (2.0% in state-owned banks), while loan-loss provisioning and collection of impaired loans remained relatively high. Real lending

<sup>3</sup> Net of forbearance measures, the capitalisation ratio was 17.5%.

recovered in the second half of 2025, driven by the household segment as the growth of credit card loans and consumer loans was particularly buoyant.

**The authorities continued to simplify financial sector regulations, which however remain extensive.** The termination of the FX-protected lira deposit scheme last year, which had been a major fiscal burden and a source of financial risk, was an important achievement. Throughout 2025, the authorities also took several decisions regarding deposits, loans, and liquidity management with a view to strengthening the monetary transmission mechanism and supporting the use of the Turkish lira. Some of the measures, like the credit growth caps on various loan groups and segments, which were initially introduced only temporarily, have remained in place. While instrumental in achieving monetary policy objectives, their operation makes monetary policy less transparent and distorts the market the longer they remain in place.

*Table 2:*

**Türkiye - financial sector indicators**

	2021	2022	2023	2024	2025
<b>Total assets of the banking system (EURmillion)</b>	628	724	742	891	940
<b>Foreign ownership of banking system (%)</b>	25.9	24.9	25.0	24.4	24.0
<b>Credit growth (% , average)</b>	22.7	56.0	55.7	43.6	44.1
<b>Deposit growth (% , average)</b>	28.0	78.3	65.4	41.6	44.0
<b>Loan-to-deposit ratio (end of period)</b>	0.85	0.79	0.77	0.78	0.79
<b>Financial soundness indicators (% , end of period)</b>					
- non-performing loans to total loans *	3.2	2.1	1.6	1.8	2.5
- regulatory capital to risk-weighted assets	18.4	19.4	18.9	19.7	19.7
- liquid assets to total assets	13.3	11.6	14.2	13.6	13.3
- return on equity	15.5	49.9	41.5	30.5	31.5
- foreign exchange loans to total loans	42.2	32.6	32.4	36.8	37.0

\* including the impact of write-offs.

Sources: Central Bank of Türkiye, IHS Markit.

### 3. PUBLIC FINANCE

**The 2025 budget deficit was lower than planned, underpinned by robust revenue growth and spending discipline.** At 2.9% of GDP, the 2025 central government deficit was below the revised medium-term programme and the initial budget targets. It reflects strong fiscal consolidation efforts, as the primary balance improved from a deficit of 1.9% in 2024 to a surplus of 0.4% of GDP in 2025. Expenditure restraint, mainly in current spending and transfers and earthquake-related expenditure, was a key driver of consolidation. Earthquake-related expenditure declined markedly to 0.7% of GDP. However, interest payments increased by 0.4 pps to 3.3% GDP as tight monetary policy kept real domestic borrowing costs high. Total central government expenditure increased by 35.7% to 23.2% of GDP, while total revenue was up 48.0% to 20.4% of GDP in 2025. Revenue execution was above the plan, helped by better tax collection thanks to measures to expand the tax base and to reduce the informal economy.

Table 3:

**Türkiye - composition of the budgetary adjustment (% of GDP)**

	2024	2025	2026	2027	2028	Change: 2025-28
<b>Revenues</b>	31.1	31.5	33.2	33.2	33.2	1.7
- Taxes and social security contributions	24.8	25.5	26.9	27.2	27.3	1.8
- Other (residual)	6.3	5.9	6.2	6.0	5.8	-0.1
<b>Expenditure</b>	35.7	34.6	36.3	35.9	35.7	1.1
- Primary expenditure	32.7	31.2	32.6	32.3	32.3	1.1
<i>of which:</i>						
Gross fixed capital formation	2.9	2.7	2.4	2.5	2.7	0.0
Consumption	15.0	15.0	15.6	15.7	15.8	0.8
Transfers & subsidies	6.3	6.4	6.7	7.1	7.0	0.6
Other (residual)	8.5	7.1	7.9	7.0	6.8	-0.3
- Interest payments	3.0	3.5	3.7	3.5	3.4	-0.1
<b>Budget balance</b>	-4.6	-3.1	-3.1	-2.7	-2.6	0.5
- Cyclically adjusted	-5.5	-3.3	-3.0	-2.4	-2.4	0.9
<b>Primary balance</b>	-1.7	0.3	0.6	0.9	0.9	0.6
- Cyclically adjusted	-2.5	0.1	0.6	1.1	1.0	0.9
<b>Gross debt level</b>	23.6	24.6	24.7	24.7	24.2	-0.4

Sources: Economic Reform Programme (ERP) 2026, Commission calculations.

**Based on the 2025 fiscal outcome, the planned fiscal stance has become slightly expansionary.**

The ERP targets a further pro-cyclical tightening in 2026, when the general government structural primary surplus is estimated to improve slightly. The ERP also targets a broadly neutral stance afterwards. However, the better-than-expected budgetary outcome in 2025 means that, with unchanged targets, the fiscal stance would be loosening in 2026. The ERP headline primary surplus is envisaged to move slowly up and reach close to 1% of GDP in 2027-2028, while the overall budget deficit is set to fall from 3.1% of GDP in 2026 to 2.6% in 2028. After increasing to 33.2% of GDP in 2026, the revenue ratio is expected to be stable thereafter. The structure of revenue is also expected to stay largely unchanged, except for marginally higher revenue from social security contributions. Total expenditure is forecast to peak at 36.3% of GDP in 2026 before declining slightly to 35.7% in 2028, with a broadly stable level of primary expenditure. The ERP projects a steady growth of public consumption, by 5.4% on average in 2026-2028. Interest payments, although declining somewhat, are expected to remain elevated above 3% of GDP throughout the entire period, despite moderate government indebtedness.

**The 2026 budget targets an increase in the deficit compared to the 2025 outcome.** Parliament approved the 2026 central government budget on 21 December 2025, planning a deficit of 3.5% of GDP at central and 3.1% of GDP at general government level, broadly unchanged against the 2025 plans but above the actual execution. The budget is based on a 3.8% real GDP growth and a 19.7% GDP deflator. The ERP forecasts general government revenue and expenditure to increase by close to 30% over 2025 estimates. In view of the higher base, both on the revenue and expenditure side in 2025, and the notable underestimation of the 2026 GDP deflator, the budget is likely to outperform targets again. Therefore, the planned deficit seems too lax and the fiscal stance not sufficiently tight to support the declared objective of further lowering inflationary pressures.

**The budget anticipates a continuation of strong revenue collection and a moderate increase in expenditure, with few new measures and policies.** As in previous years, the ERP does not present discretionary budgetary measures and policies or estimates of their budgetary effects. On the revenue side, the authorities expect that measures to reduce the informal economy will further improve revenue collection. Revenue from social contributions should also be boosted by a lower social security rate rebate and higher maximum taxable income. The authorities envisage to further

rationalise tax expenditures, aiming to lower their fiscal cost from an estimated 6.2% of GDP in 2024 to 4.1% of GDP in 2028. The re-evaluation rate for lump sum tax and fees indexation in 2026 was determined at 25.49% (lower for certain taxes and duties, like the motor vehicles tax). On the expenditure side, the ERP is based on restrained indexation of the main public spending categories and on public finance reforms to improve spending efficiency and transparency. However, total expenditure is set to increase, driven by rising personnel expenditure and interest payments, and a budget reserve allocation of 0.5% of GDP. Expenditure on earthquake reconstruction and disaster risk reduction remains considerable, standing at 0.8% of GDP, while capital spending and subsidies are set to decline.

<b>Türkiye</b>					
<b>Composition of changes in the debt ratio (% of GDP)</b>					
	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
Gross debt ratio [1]	23.6	24.6	24.7	24.7	24.2
Change in the ratio	-5.1	1.0	0.1	0.0	-0.6
Contributions [2]:					
<b>1. Primary balance</b>	<b>1.7</b>	<b>-0.3</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-0.9</b>
<b>2. 'Snowball effect'</b>	<b>-7.9</b>	<b>-3.0</b>	<b>-1.0</b>	<b>0.3</b>	<b>0.6</b>
<i>Of which:</i>					
Interest expenditure	3.0	3.5	3.7	3.5	3.4
Growth effect	-0.6	-0.6	-0.7	-0.9	-1.1
Inflation effect	-10.3	-5.9	-3.9	-2.3	-1.8
<b>3. Stock-flow adjustment</b>	<b>1.2</b>	<b>4.4</b>	<b>1.6</b>	<b>0.6</b>	<b>-0.3</b>

[1] End of period.  
 [2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).  
 The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

*Source: Economic Reform Programme (ERP) 2026, Commission calculations.*

**BOX: DEBT DYNAMICS**

**Government indebtedness remains moderate.** In 2025, the general government debt ratio increased slightly to 24.6% of GDP. Interest expenditure, lira depreciation, and accumulation of financial assets by the government pushed the ratio up, while the strong denominator effect from high inflation was a major debt-reduction factor. Net government debt declined, from 16.0% in 2024 to 14.3% of GDP. The ERP forecasts the debt ratio to remain broadly unchanged as the debt-reducing effect of the rising primary surplus is offset by a worsening snowball effect due to much lower inflation and elevated interest costs. The

stock-flow adjustment, the largest debt-increasing factor in 2025, has historically been heavily dominated by the depreciation of the lira but as depreciation pressures wind down it is also forecast to become less relevant for debt dynamics.

**Tight monetary and fiscal policies were instrumental for the smooth functioning of the government debt market.** Türkiye’s five-year credit default swap spread fell further to close to 200 bps in January 2025, a level not seen in the last eight years, before rising to 275 bps after the military conflict in the region intensified. Until early March 2026, yields on foreign and domestic borrowing have been on a downward trend since May 2025, although remaining elevated and keeping the implicit interest rate on government debt relatively high. The ownership structure of domestic debt continued to shift away from commercial banks, which reduced their share by 8 pps to 60% in 2025, to the non-banking sector – retail and corporate investors, and mutual funds. Non-residents have returned only slowly to the government debt market, after reducing their holdings in the aftermath of the arrest of the mayor of Istanbul in March last year – a sign of the toll that domestic political tensions could exact. The pause in credit rating upgrades in 2025 was another indication of this effect, with Fitch Ratings revising the outlook on Türkiye’s long-term foreign-currency rating to positive from stable only in January 2026. The high-interest-rate environment continued to provide incentives to the government to lower the maturity of new domestic borrowing in search of lower costs. New domestic

borrowing remained denominated predominantly in Turkish lira, with a share of close to 80%, and the lira's share in total government debt increased further to 47.1%.

**Fiscal risks appear manageable.** Risks from the macroeconomic environment are moderate. Although slightly on the upside, economic growth assumptions became more realistic than in the previous ERP. Upside risks for inflation and interest rates, and bouts of depreciation pressures also remain a fixture of the macroeconomic risk environment. A potential weakening of confidence in economic policies to deliver on the targeted disinflation path may become more prominent in view of the political cycle and the approaching 2028 presidential and parliamentary elections. The geopolitical environment has worsened and can affect the Turkish economy via multiple channels: higher commodity prices and sovereign risk premia, as well as rising trade protectionism. Despite Türkiye's sustainable fiscal position, higher global interest rates are also a potential source of risk to the budget and the economy. However, the FX-protected lira deposit scheme – a major source of contingent liability – was phased out in 2025. Risks from public-private partnerships and credit-guarantee schemes are broadly manageable, while the relatively large budgetary reserve appropriations (0.5% of GDP) provide a sizeable fiscal cushion.

**The quality of public finance improved, but challenges remain.** The authorities took steps to improve the efficiency of public expenditure by strengthening the accounting and reporting structures, including the use of AI-supported accounting applications. Efforts are under way to introduce the Integrated Public Financial Management Information System in local administrations and to develop an open public financial data portal to increase transparency and accountability. Electronic payment and collection systems were also improved, providing taxpayers with an easy and fast way of settling tax obligations. The authorities have continued 'soft' consolidation by broadening the tax base and implementing public expenditure reviews, but tax exemptions and reductions are still widespread. Increasing competition by reforming public procurement and improving governance of state-owned enterprises remained a priority, although implementation has been delayed and the government continued to use the negotiated procedure in its procurement deals, undermining transparency and a level playing field. The consolidated framework for public-private partnerships has yet to be adopted and needs to be fully integrated in the budget process, improving its management and monitoring.

**The fiscal framework lacks strong anchors, but fiscal outcomes have invariably revealed the authorities' preference for fiscal discipline.** There are no national fiscal rules or independent fiscal institutions in place. However, government debt remained moderate, and the fiscal position is sustainable. Revenue collection and expenditure control strengthened in 2025, but previous ad hoc decisions continued to weigh on the public finance and the sustainability of the pension system. The medium-term budgetary framework is not sufficiently binding, and the structure of the budget is skewed towards current spending and social transfers, while spending on investment and public services remained rather low.

#### **4. KEY STRUCTURAL CHALLENGES AND REFORM PRIORITIES**

The Commission has conducted an independent analysis of the Turkish economy to identify key structural challenges the country faces in its drive towards sustainable and inclusive economic growth. The analysis shows that Türkiye is still experiencing several persistent structural weaknesses. The Commission considers that Türkiye should tackle the following key structural challenges to foster inclusive and sustainable economic growth:

- **increase the efficiency of the labour market**, by raising the level of skills notably for women and young people;
- **boost competitiveness and foreign direct investments**, in particular by improving transparency and predictability in the regulatory and institutional environment affecting businesses; and
- **enhance transport, energy and digital connectivity**, both domestic and regional, while accelerating the economy's green and digital transformation.

Moreover, long-lasting macroeconomic stability must be secured to ensure the efficiency and sustainability of structural reforms. Importantly, Türkiye also needs to improve the rule of law by enhancing judicial independence, as a prerequisite for successfully transforming the Turkish economy. Overall, the ERP contains measures to address some of the challenges identified, yet lacks ambition in addressing key structural issues.

### **Key structural challenge 1: Increase the efficiency of the labour market**

**Skills mismatches continue to limit Türkiye's economic potential, particularly its labour market efficiency and productivity.** Both overqualification and underqualification are widespread issues. In 2024, overqualification rates by economic activity in Türkiye (ages 20-64) rose to 36.3%, compared to an EU average of 21.5%.<sup>4</sup>

**The discrepancy in the level of skills is particularly evident amongst young people in Türkiye.** While the youth unemployment rate (15-24) decreased from 16.4% in 2024 to 15.4% in 2025, young people still have difficulties entering the labour market.<sup>5</sup> Additionally, the rate of unemployed young persons (15-24) participating in education and training is gradually decreasing: 40% in 2023, to 37.7% in 2024.<sup>6</sup> If this trend continues, it could increase the skills gap between young people and other participants in the labour market. Furthermore, the 'not in education, employment, or training' (NEET) rate was 16.3% for young men in 2024, while the rate for young women reached 29.6%. There are some measures which aim to bring young people into employment. For example, the NEET (not in education, employment, or training) PRO project which aimed to increase employability and labour force participation of NEETs by providing comprehensive and holistic active labour market measures was completed. Moreover, the Turkish Employment Agency (İŞKUR) continued to provide active labour market programmes (ALMP), including on-the-job trainings for young people. Given the size of the Turkish labour market, the ALMPs are too limited in outreach to have a structural impact.

**Further measures could be taken to address the structural issues which create barriers to young people obtaining skills.** Türkiye must continue upgrading its primary and secondary school, tertiary, and vocational training system and facilitate labour participation to bring young people, especially young women, into formal work. To provide more economic opportunities for young people in Türkiye, active labour market policies and activation schemes are needed. There is no programme similar to the EU Youth Guarantee to date. To diminish the skills gap, Türkiye needs to introduce reforms which strengthen job matching services, as well as provide training, upskilling and traineeship opportunities, improve labour market information, and utilise tax incentives. Moreover, specific large-scale interventions should be made for young women, who often face barriers in accessing education and training opportunities, and, as a result, encounter further obstacles accessing the labour market.

**The gender gap in the labour market remains very high.** The labour force participation rate for women was 36.8% in 2025, while the corresponding rate for men was 73.1%.<sup>7</sup> Insufficient access to training opportunities and promotion of the employment of women in industry and services, as well as traditional gender roles, all significantly slow down the increase in women joining the labour force. The entrance of women to the labour market should also be facilitated through increasing the availability, accessibility, and affordability of care infrastructure across Türkiye. This is crucial to grant women with care responsibilities the opportunity to obtain an education, participate in training to improve their skillset, and ultimately, enter the labour market. Furthermore, there are women with children who have already obtained relevant qualifications and are willing to work, but who cannot work due to the inaccessibility of care facilities and training opportunities. The introduction of paid parental leave for

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<sup>4</sup> [\[lfsa\\_eoqgan2\] Over-qualification rates by economic activity \(NACE Rev. 2\)](#)

<sup>5</sup> [une\_rt\_a] Unemployment by sex and age - annual data.

<sup>6</sup> [\[edat\\_lfse\\_18\] Participation rate of young persons in education and training by labour status \(incl. NEET rates\)](#)

<sup>7</sup> [lfsi\_emp\_a] Employment and activity by sex and age - annual data

both mothers and fathers following the EU model would facilitate the later integration of women in the workforce.

**Policies aimed at the activation of women in the labour market remain too limited in scope and budget, yielding only limited results.** For instance, active labour market programmes implemented by İŞKUR continued in 2025, yet the outreach of the programmes needs to be expanded. The piloting of a childminder system began in three big cities, in an effort to diversify childcare services. A systematic rollout of the childminder early childhood education and care system would provide childcare without significant building activities. In addition, in July 2025, the Presidency sent directives to public institutions to expand and increase nursery and daycare capacities, highlighting efforts to remove barriers to female employment. The new employment strategy (2025-2028) was also announced in 2025. It includes relevant priority areas, namely developing skills aligned with the green and digital transitions, enhancing inclusive employment, strengthening the link between social protection and employment, and promoting sustainable employment in rural areas. Furthermore, large-scale initiatives do not yet appear to incorporate explicit gender-targeting mechanisms. In developing such specific interventions, Türkiye could potentially leverage existing initiatives, such as the 'young women building their future' project. While the measures highlighted are welcome, they do not address the fundamental gender employment gap, which is a considerable impediment for productivity and growth.

**Social dialogue** can also create enabling conditions for more labour market flexibility, better and safer working conditions, and input for re-skilling and upskilling of low-skilled workers. Türkiye should step up occupational health and safety, social protection policies, and notably, social dialogue to preserve and empower the workforce. A functioning social dialogue is a cornerstone of the European social model and an advantage for inclusive growth.

**In the ERP (2026-2028), Türkiye rolled over reform measure 6 on 'Enhancing and improving the employment services and policies in line with the needs of the labour market'.** The measure includes various planned activities to support youth employment, just transition, and the employability of persons with disabilities. However, it should be noted that the realisation of activities and targets related to the REWORK project is not realistic for 2026. More tailor-made activities to increase women's labour force participation could be included.

**Reform measure 5 on skills was also rolled over from previous ERPs and remains a welcomed reform.** The measure targets skill mismatches, particularly in vocational and technical education, in line with the green and digital transition and EU priorities. The strengthened use of national occupational standards and the expansion of 'recognition of prior learning' improve labour market relevance, facilitate transitions from informal to formal employment and support inclusiveness. The development of digital learning content for online platforms also enhances access and equity, especially for disadvantaged groups. However, the measure aggregates a wide range of activities, and the transition from curriculum reform to productivity and competitiveness gains is not sufficiently specified. Its effectiveness will depend on continuous implementation and clearly defined private-sector involvement. As a result, the expected contribution to competitiveness is credible, but likely to materialise mainly in the medium- to long-term.

### ***Key structural challenge 2: Boost competitiveness and foreign direct investments***

**Issues of transparency and predictability in the regulatory and institutional environment affecting businesses have continued to restrict competitiveness and foreign direct investment (FDI) flows to Türkiye.** The implementation of strategies, plans and programmes in areas relevant for a favourable business environment need to be more rigorously monitored, with an annual implementation report made available to the public to strengthen investor confidence in reform stability. Regarding legislative initiatives, more systematic mechanisms for consultations with businesses and social partners are needed.

**The lack of transparency regarding State aid remains a significant source of concern.** A Presidency decision of November 2024 prohibited the government from publishing decisions on

project-based investment incentives. The government also discontinued publishing State aid statistics. The need remains to establish a transparent public inventory of all aid schemes and to ensure the independence and functioning of the State aid institutional structure in compliance with the EU *acquis*. The Customs Union with the EU requires Türkiye to establish an independent and effective framework for State aid control. The fundamental lack of transparency of State aid impacts investment decisions, as the business environment becomes increasingly non-transparent, unpredictable and discourages free and open competition.

**A determined anti-corruption strategy is needed as corruption compounds the regulatory unpredictability.** Türkiye still lacks preventive and anti-corruption bodies. Serious deficiencies in the anti-corruption legal framework have allowed undue political influence in public resource allocation. Due to several exceptions permitted under public procurement law, public procurement remains especially prone to corruption. Accelerating the conduct of the implementation review mechanism under the UN Convention against Corruption would yield recommendations for the anti-corruption strategy, including for the private sector. Intellectual property rights enforcement remains very weak and effective measures for appropriate and timely contract enforcement are still needed. Moreover, major obstacles discouraging potential investors remain unaddressed, such as difficulties in getting approvals and hidden market restrictions.

**Slow judicial processes and lack of judicial independence prove to be an obstacle inhibiting FDI.** Despite some positive steps regarding specialised courts and alternative dispute settlement mechanisms, effective functioning of the judiciary, together with reduced duration of court proceedings still needs to be ensured. The average time spent in court for files in enforcement and bankruptcy cases remains high (919 days in 2024), and there was no major drop in the time spent in civil, administrative and tax courts. Within civil courts, the average time spent in intellectual property rights, and labour and commercial courts continue a downward trend. Enforcement of intellectual property rights remains very weak and effective measures for appropriate and timely contract enforcement are still needed. As for alternative dispute settlement, in 2024 there were 622 607 cases under dispute settlement (a 6% increase over 2023). Yet, an agreement was reached in only 232 921 cases that year. Focus should be placed on improving the availability and functioning of dispute-settlement mechanisms (as part of the fourth judicial reform strategy). Furthermore, concerns regarding judicial independence erode investor confidence.

**While there have been increased efforts to combat the informal economy, it remains a barrier to attracting investment and accelerating economic growth,** constituting the third most constraining business environment obstacle according to the latest World Bank Enterprise Survey. The effectiveness of the action plan for the fight against the informal economy (2023-2025) is difficult to assess, as there is no publicly accessible mechanism to monitor implementation progress and the plan lacks performance indicators. As a result, the level of completion and monitoring of actions remains uncertain. Furthermore, as of March 2026, Türkiye has still not developed a new action plan for the upcoming period.

**SMEs are foundational to Türkiye's economic growth, yet access to and the cost of long-term finance remain an issue.** As noted in the ERP, as a result SMEs struggle to prioritise productivity, digitalisation, and sustainability investments within their production processes. SMEs are mostly financed through short-term loans in a still highly inflationary environment. Furthermore, microfinancing systems (non-bank financing) are not widespread, and the current macroeconomic situation with high inflation rates and high interest rates makes access to long-term finance difficult for SMEs.

**Measure 1 on 'Supporting the modernisation of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry'** was rolled over from previous years. The number of companies served by model factories has recorded a very high increase between 2025 and 2026 (from 519 to 4 604). Additionally, the plans for conducting a new, large-scale impact analysis study in 2026 covering all model factories in

operation is a positive development. For further improvements, an overall target regarding economic and industrial impact could be included. If no or limited progress is made in such overall indicators, the support programmes presented as reform measures may not be the right solutions. Türkiye could also benefit from an independent external evaluation on the support programmes.

**Measure 2 on 'Promoting sustainable tourism and branding' was also rolled over from previous years.** This year's measure presents a broader scope for applying sustainability certifications, such as the Türkiye environmental and cultural sustainability programme, and aims to scale up its implementation. A greater focus is also given on raising awareness of climate resilient designation and particularly on spatial planning process, through capacity building activities and increased regulatory studies. While the ERP outlines a comprehensive approach to sustainable tourism through the safe tourism certification programme, further clarification is needed on enforcement mechanisms, community integration, and cultural and ecosystem preservation.

### ***Key structural challenge 3: Enhance transport, energy and digital connectivity***

**Türkiye should step up efforts to boost secure domestic and regional connectivity, as it would deliver significant economic opportunities.** In particular, reducing transit times through infrastructure investment and 'soft connectivity' measures could facilitate trade along the Middle Corridor / Trans-Caspian Transport Corridor, connecting the EU and Central Asia through the Black Sea region and the South Caucasus. This could generate business opportunities in Türkiye, boost trade integration and help build competitive and resilient value chains. As regards transport, improvement of rail infrastructure and investment in multimodal logistical hubs is needed.

**In addition, Türkiye should also advance the decarbonisation of the transport sector.** In particular, Türkiye should transition away from road (currently 96% of inland emissions) to rail and maritime transport modes, as well as advance road electrification by increasing the uptake of domestic electric vehicles and charging infrastructure. Türkiye should also accelerate the production and deployment of sustainable aviation fuels and maritime decarbonisation, with a focus on greening its fleet and 'green ports'.

**The pace of the energy transition could be further accelerated through enhanced energy connectivity,** notably by upgrading and expanding transmission infrastructure, strengthening cross-border interconnectors, and improving grid flexibility to accommodate higher shares of variable renewables. Türkiye has a modern and fast-growing electricity market, synchronised with the continental European grid, with 2.2 GW interconnection capacity at the Bulgarian and Greek borders, and is a key transit country for EU energy supplies and a major energy importer on its own. Around 10% of EU gas imports reaches the EU market at the land borders with Türkiye. Türkiye continues to reduce the energy intensity of its economy and rapidly grow its renewable energy generation in line with its ambitious targets on energy efficiency, renewable energy and power grid modernisation.

**Türkiye remains reliant on coal and natural gas, sustaining high external energy dependency.** Although Türkiye has concluded long-term agreements with suppliers in the United States and Australia for liquefied natural gas (LNG) and coal in an effort to diversify away from Russia, it has prolonged its contracts with Gazprom for another year. Imports of Russian fossil fuels, currently accounting for approximately 40% of its supplies, continue to play a significant role in the energy mix. This exposure, combined with volatile international markets, has resulted in persistently high energy prices, contributing to elevated inflation and exerting pressure on the state budget. Achieving a balance between energy security, rising demand and decarbonisation will require sustained progress towards affordable, clean and stable energy supplies to support sustainable economic development. Türkiye has taken incremental steps towards gas market liberalisation, including limited progress on unbundling and third-party access, but effective competition remains constrained by the dominant role of the state-owned incumbent. Further regulatory alignment with the EU energy *acquis* and stronger enforcement are needed to attract investment and improve market transparency.

**Digitalisation is also emerging as a key enabler of Türkiye's ambitions for domestic and regional connectivity.** Secure and affordable connectivity and digital infrastructure act as an enabler of the

local and regional digital ecosystem, lowering transaction costs and boosting confidence of businesses developing their digital presence and outreach across the region. Türkiye continues to expand core digital infrastructure, notably in broadband coverage, e-government uptake, and the domestic digital services market, and it remains a significant regional hub for start-ups and talent in information and communication technology. At the same time, Türkiye should accelerate its convergence with EU digital policy priorities and tackle existing shortcomings in areas central to the digital single market, including data protection, platform governance, competition in digital markets, and cybersecurity. In particular, Türkiye should prioritise interoperability with EU standards (e.g. eCMR, ePermits, 5G cybersecurity toolbox, smart grids) and leverage its existing digital infrastructure and regional role in order to contribute to connectivity efforts. Additional attention should be given to exploring ways of securing digital infrastructure from various forms of interference, which is particularly important to businesses handling high-value sensitive data.

**Türkiye's cybersecurity ecosystem has good technical capabilities, yet some challenges remain which inhibit further economic growth.** For instance, the recently established Cybersecurity Presidency, which will eventually oversee both cybersecurity and e-governance, is not yet operational, raising questions about implementation capacity and focus. Close monitoring of secondary legislation is essential to ensuring a human-centric approach. The absence of a comprehensive approach aligned with the EU 5G Cybersecurity Toolbox, especially regarding risk-based assessments and trusted vendor policies, remains a notable gap, raising concerns about network security, supply-chain resilience, and cross-border interoperability. This can potentially harm cooperation on digital connectivity and endanger critical operations of key businesses operating in Türkiye's territory. Mitigation of such risks may entail additional investments necessary to establish and protect high-value economic operations, and may lead to significant regulatory, economic and reputational challenges.

**Türkiye's green transformation continues to progress, yet the pace of the transformation and the ambition of the ERP's targets could be increased.** Türkiye's nationally determined contributions (NDCs) do not fully capture present and future domestic developments in the country, which are reflected in the long-term low-emission development strategy, in particular on the energy transition front. As next Conference of the Parties (COP31) host, Türkiye should lead by example and therefore consider reviewing its NDC for 2030 and 2035 to establish an absolute emission reduction target and put the country on a credible sustainable trajectory towards net-zero by 2053. While the Climate Law adopted in July 2025 formally establishes a legal framework for climate action and is a clear step towards establishing a carbon price, the ETS pilot and the secondary legislation detailing the rules of its implementation are still under preparation. A meaningful and effective domestic carbon price is needed to give a sufficiently powerful economic incentive for low-emission investment and boost the country's decarbonisation.

**In the ERP, two activities under measure 3 on 'Accelerating green transformation' have been rolled over from previous years.** These are the establishment of the Turkish ETS and green taxonomy. There is no information on the implications of the delay in the start of the Turkish ETS, in particular related to the pilot phase and implementation arrangements. Furthermore, regarding the taxonomy for sustainable finance (formally established in the Climate Law), there is no reference to the recently completed project supported by AFD, and no timeline is provided for its adoption, publication, and enforcement.

**ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2025**

Every year since 2015, the Economic and Financial Dialogue between the EU and regional partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants’ shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year’s ERP assessments.

The following table presents the Commission’s assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue on 13 May 2025.

<b>Overall: Partial implementation (43.1%)<sup>8</sup></b>	
<b>2025 policy guidance</b>	<b>Summary assessment</b>
<p><b>PG 1:</b></p> <p>Maintain a sufficiently tight fiscal stance to support the ongoing disinflation process, and adopt additional measures, if needed, to achieve the deficit target.</p> <p>Expand the tax base by gradually removing tax exemptions and reductions.</p> <p>Define specific policy measures to support the gradual return to a primary surplus of close to 1% of GDP by 2027, as envisaged</p>	<p>There was <b>substantial implementation</b> of PG 1:</p> <p>1) <b>Full implementation:</b> The 2025 end-year budget deficit amounted to TRY 1 799.1 billion (2.9% of GDP), below the initially planned budget deficit of TRY 1 930.7 billion (3.1% of GDP) and the revised estimate of TRY 2 208.3 billion (3.6% of GDP) in the medium-term programme (2026-2028). The favourable deficit outcome was driven by a significant reduction in earthquake-related expenditures, tight control of non-interest current spending (in particular on goods and services), and better tax collection.</p> <p>2) <b>Partial implementation:</b> Recent policy documents (including the medium-term programme 2026-2028) continue to underline the objectives of broadening the tax base. According to preliminary data, the government increased collected taxes to 17.4% of GDP in 2025, up from 16.5% in 2024. The budget for 2026 aims to increase tax revenues to 18.1% of GDP. Audits using artificial intelligence and digital tools, as well as some revised policies (such as removal of rent payment exemptions and simplified tax procedure), have contributed to increased income tax revenues.</p> <p>3) <b>Substantial implementation:</b> The general government primary surplus is estimated at 0.4% of GDP in 2025. The ERP projects the surplus to gradually come close to 1% of GDP by 2027 (0.6% in 2026 and</p>

<sup>8</sup> For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission’s overview and country assessments of the 2017 economic reform programmes. This is available at [https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments\\_en](https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en)

<p>in the medium-term fiscal strategy.</p>	<p>0.9% in 2027). The government plans to ensure fiscal consolidation mainly by soft measures, such as rationalising public expenditure, spending reviews, broadening the tax base, increasing the share of direct taxes in budget revenues and fighting against the informal economy.</p>
<p><b>PG 2:</b></p> <p>Take steps to a gradual transition away from subsidies on fossil fuels.</p> <p>Revise the public procurement legislation to limit the use of exclusions and negotiated procedure.</p> <p>Increase accountability and strengthen corporate governance practices of public enterprises in line with OECD standards.</p>	<p>There was <b>limited implementation</b> of PG 2:</p> <p>1) <b>Limited implementation:</b> Türkiye has taken some limited steps to reduce specific fossil fuel-related subsidies (mainly for electricity consumers) on the consumption side. The 12<sup>th</sup> Development Plan only mentions that renewable resources would overtake coal and become the largest source of global electricity generation in 2025. Yet, Türkiye has not adopted an explicit plan to phase out fossil fuel subsidies as part of its climate or energy strategies.</p> <p>2) <b>Limited implementation:</b> The medium-term economic programme 2026-2028 delayed the revision of the public procurement law to the last quarter of 2025. This measure, which was initially scheduled for the last quarter of 2024, has not been implemented as of early 2026. Technical work to update public procurement practices is currently ongoing within the Ministry of Treasury and Finance and the Public Procurement Authority.</p> <p>3) <b>Partial implementation:</b> The medium-term economic programme 2026-2028 outlines the government’s plan to update corporate governance regulations in line with international standards, including the OECD Principles of Corporate Governance, and to implement a comprehensive reform agenda aimed at increasing accountability and strengthening the corporate governance practices of public enterprises by the third quarter of 2026 (for example, through the use of performance-based measurement methods). However, several of these measures have been repeatedly delayed; they were initially planned for implementation by the third quarter of 2024. In January 2026, draft legislation on the state-owned enterprises reform was finalised.</p>
<p><b>PG 3:</b></p> <p>Ensure a sufficiently tight monetary policy stance and safeguard and enhance confidence in the independence of the</p>	<p>There was <b>substantial implementation</b> of PG 3:</p> <p>1) <b>Substantial implementation:</b> In response to financial market turmoil caused by domestic political tensions, the central bank raised the key policy rate to 46% in April 2025, and resumed its easing cycle only</p>

<p>central bank, to support disinflation and anchor inflation expectations.</p> <p>Continue the simplification of macro-prudential measures and the regulatory framework, while maintaining financial stability.</p> <p>Enhance risk-based supervision and its transparency in line with the best international and European practices.</p>	<p>in July 2025, bringing the policy rate gradually down to 37% in January 2026. However, the disinflation process has experienced a slowdown largely due to persistently strong domestic demand and sticky prices of services. Inflation expectations also remain elevated, as they are predominantly formed in a backward-looking manner.</p> <p>2) <b>Substantial implementation:</b> The central bank continued with the simplification of macro-prudential measures to enhance the functionality of market mechanisms, strengthen macro-financial stability and support the monetary transmission mechanism. The most important step taken was ending the opening and renewal of FX-protected deposit accounts and eliminating all related targets for their renewal and transition to Turkish lira.</p> <p>3) <b>Substantial implementation:</b> The Turkish authorities pursued their efforts in adopting the regulatory and supervisory framework in line with the best international and European practices. The Banking Regulation and Supervision Agency also published its new strategic plan for the period 2025-2028, which highlights the priority given to further harmonising the regulatory framework with international standards and taking EU legislation into account. The ERP (2026-2028) outlines the plans to begin implementing the regulations aligned with the Basel III final reforms by the first half of 2026.</p>
<p><b>PG 4:</b></p> <p>Take steps to establish a transparent public inventory of all aid schemes and ensure the independence and functioning of the State aid institutional structure in compliance with the EU <i>acquis</i>.</p> <p>Implement contract enforcement and improve the availability and functioning of dispute settlement mechanisms in line with the 4th Judicial Reform Strategy for 2025–2029, monitor annual progress and analyse the need for specialised courts.</p>	<p>There was <b>limited implementation</b> of PG 4:</p> <p>1) <b>No implementation:</b> The transparency of the State aids further deteriorated following the Presidency decision in November 2024 allowing the government not to publish the project-based investment support decisions. Meanwhile, the government also discontinued publishing State aid statistics. There is no functioning institutional structure which complies with the EU <i>acquis</i>.</p> <p>2) <b>Limited implementation:</b> Although there are positive steps regarding specialised courts and alternative dispute settlement mechanisms, effective functioning of the judiciary with reduced duration of court proceedings still needs to be ensured. The medium-term programme (2026–2028) outlines the government’s plan to identify new areas of need through an impact analysis of specialised courts and</p>

<p>Continue to implement the action plan for the fight against the informal economy (2023–2025) and monitor annual progress.</p>	<p>based on the findings, to establish new specialised courts by the third quarter of 2026. In the fourth judicial reform strategy, it had been already identified that specialised courts will be established for environmental matters, health, insurance, traffic and workplace accidents. Meanwhile, new courthouses and administrative courts are being established in locations identified based on geographic needs. Türkiye reports that the number of courthouses has risen to 597, assise court centres to 171, intellectual and industrial property courts to 17, specialised courts to 2,809, bringing the total number of first-instance judicial courts to 10 347. Nevertheless, the average duration spent in court for files in enforcement and bankruptcy cases was still very high (919 days in 2024, as compared to 582 days in 2023, 2025 data not available) and there were no major declines in the duration spent in civil, administrative and tax courts. As a positive development, within civil courts, average time spent in intellectual property rights, labour and commercial courts were in a declining trend as of 2024. As for alternative dispute settlement, in 2024 there were 622 607 cases under dispute settlement with a 6% increase as compared to 2023. Yet, an agreement was reached only in 232 921 of them that year.</p> <p>3) <b>Limited implementation:</b> Efforts are ongoing to fight against the informal economy. However, there is no publicly accessible mechanism to assess the implementation progress of the action plan for the fight against the informal economy (2023–2025), nor does it include performance indicators. As a result, the level of completion and monitoring of actions remains uncertain. Furthermore, as of March 2026, Türkiye has still not developed a new action plan for the upcoming period.</p>
<p><b>PG 5:</b></p> <p>Adopt and implement the climate change legislation and swiftly establish an Emission Trading System (ETS) aligned with the EU ETS.</p>	<p>There was <b>limited implementation</b> of PG 5:</p> <p>1) <b>Partial implementation:</b> Türkiye adopted its Climate Law in July 2025, paving the way to the establishment of a national ETS system. The draft secondary legislation containing provisions on greenhouse gas emission reduction and climate change adaptation under the Climate Law is currently under deliberation, with adoption expected in the first quarter of 2026, after which the TR-ETS could be swiftly operationalised. For the EU-ETS, a project under IPA III is currently at advanced stages of tendering. Contract signature and start of implementation is expected by the second quarter of</p>

<p>Based on the 2053 Long-Term Strategy published in November 2024, address the energy-intensive and hard-to-abate sectors, including through increasing the use of renewables and alternative clean hydrogen.</p> <p>Continue to increase adaptation and resilience to climate change and disaster-related risks, including to ensure sustainable urban development.</p>	<p>2026 at the latest.</p> <p>2) <b>Limited implementation:</b> In 2025, the Turkish clean hydrogen action plan reached its final development stages under the coordination of the Ministry of Energy and Natural Resources and the Turkish Energy, Nuclear and Mineral Research Agency (TENMAK) with the support from the World Bank. The plan aims to define the regulatory frameworks, business models, technology choices, and implementation mechanisms for hydrogen production and use.</p> <p>3) <b>Limited implementation:</b> The medium-term programme (2026–2028) outlines the government’s prioritisation of strengthening the resilience of settlements and society against disasters. It envisages the construction of settlements that support the green transformation by being energy-efficient, aligned with zero-waste principles and resilient to disasters. Meanwhile, although not specific to disaster resilience, climate adaptation at the local level, with a particular focus to urban environments, has been a core area of EU financial and technical cooperation. Under the Enhancing Adaptation Action in Türkiye project, a dedicated climate adaptation grant scheme with a budget of approximately EUR 6.8 million supported 28 projects, over two thirds of which have already been implemented. Several of the outcomes indicate applicable and replicable solutions to local problems shared across similar geographical regions. Furthermore, a EUR 14.9 million grant programme under AAP2022 (EUR 12.9 million in EU financing) has recently been launched, supporting 25 climate action projects whose outcomes cannot yet be assessed due to their early stage of implementation. There is also a planned grant scheme under CSF 2026 with specific focus on environment, climate action and disaster which is expected to be operational by the beginning of 2027.</p>
<p><b>PG 6:</b></p> <p>Reduce the employment rate gap by bringing young people and the informally employed into formal jobs, in particular through stepping up vocational education and the provision of paid intern- and traineeships.</p>	<p>There was <b>limited implementation</b> of PG 6:</p> <p>1) <b>Limited implementation:</b> Young people, especially women, still have difficulties in entering the labour market. Unregistered employment (age 15+) was 26.9% in the third quarter of 2025, down from 27.8% in the same period in 2024. This rate remains high, particularly for women standing at 33.1% in the third quarter of 2025. The NEET rate was 25.4% in the third quarter of 2025; down from 26.3% in the same period</p>

<p>Address the employment gap between men and women through further proliferation of quality and affordable childcare infrastructure beyond the big urban centres of Türkiye, and through raising the level of skills for women by facilitating their access to and participation in training and on-the-job training.</p> <p>Continue the roll-out of the self-reflection on effective learning by fostering the use of innovative educational technologies (SELFIE) tool to assess schools' digital education capabilities.</p>	<p>in 2024. This rate remains high, notably for women, reaching 34 % in the third quarter of 2025. The new Employment Strategy (2025–2028) was announced, which includes four priority areas, namely developing skills aligned with the green and digital transitions, enhancing inclusive employment, strengthening the link between social protection and employment, and promoting sustainable employment in rural areas. The NEET PRO project was completed through the introduction of an individual action plan methodology and a mapping study. The Turkish Employment Agency (İŞKUR) continued to provide active labour market programmes, including on-the-job training for young people.</p> <p>2) <b>Limited implementation:</b> The gender gap in the labour market remained very high. The labour force participation rate for women was 36.9% in the third quarter of 2025, down from 37.3% in the same period in 2024, while the corresponding rate for men was 72.2%. active labour market programmes implemented by İŞKUR continued; however, their outreach needs to be expanded. Limited access to quality and affordable care services continued to hinder women's participation in the workforce. The Turkish government has started piloting a childminder system in three big cities, in an effort to diversify childcare services. In July 2025, the Presidency sent directives to public institutions to expand and increase nursery and daycare capacities, highlighting childcare expansion as part of structural reforms linked to the Year of the Family and efforts to remove barriers to women's employment. No other new measure was implemented.</p> <p>3) <b>Limited implementation:</b> Turkish schools have been using the SELFIE tool in pilot projects, individual school initiatives and targeted programmes. The tool exists in Turkish and continues to be relevant for digital-education assessment processes. However, there is no publicly available official aggregated national data showing that SELFIE has been fully adopted across all Turkish schools or formally embedded in a national digital education strategy.</p>
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