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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

TÜRKIYE
(2024-2026)

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

The economic reform programme (ERP) 2025-27 forecasts a moderate acceleration of economic growth based on a gradual recovery of domestic demand. Real GDP increased by 3.2% in 2024, a notable slowdown in comparison to the previous year and below the ERP projection. Tight economic policies curtailed domestic demand and rebalanced economic growth towards net exports, largely due to falling imports. The economy is projected to grow by 4.0% in 2025 and growth to pick up to 5.0% by 2027 on expectations for a gradual recovery across all domestic demand components. The central bank kept monetary policy tight, which was instrumental in bringing down inflation and inflationary expectations, reducing the current account deficit, and increasing foreign-exchange reserves. The banking sector remained stable despite tighter policies and weaker credit activity, while the authorities took steps to simplify the regulatory environment. The macroeconomic scenario is ambitious and carries some risks. Amid a challenging and highly uncertain global outlook, lifting economic growth further in the medium term without posing renewed challenges to domestic and external imbalances, would depend crucially on a successful implementation of supply-side structural reforms. Maintaining investor confidence in the Turkish economy is also key in this respect. Domestic political tensions, following the arrest of the mayor of Istanbul, Mr Ekrem İmamoğlu, have triggered financial turmoil and the authorities took action to stem the fall of the lira and preserve financial stability. However, the continued political tensions are likely to have notable negative spillovers on the economy and render the ERP's baseline macroeconomic scenario largely obsolete. Thus, the lack of an alternative scenario remains a drawback of the programme.

The ERP targets a frontloaded, expenditure-based fiscal consolidation. At 4.9% of GDP, the 2024 government deficit was in line with the revised target, but below the initial budget target of 6.4% of GDP. A revenue shortfall was outweighed by lower spending, with the fall in earthquake-related expenditure contributing most to the lower deficit outturn. The general government primary balance is projected to improve substantially between 2024 and 2027, reaching a surplus of 0.8% of GDP by 2027. While the revenue ratio is expected to remain broadly stable, total spending is forecast to fall by 3.1 pps between 2024 and 2027, with most of this decline already taking place in 2025, helped by the winding down of earthquake reconstruction spending. The fiscal stance is forecast to imply a pro-cyclically tightening in 2025 and be broadly neutral in 2026 and 2027. The optimistic growth assumptions may put pressure on the planned revenue execution, although the budget has some buffers to accommodate possible slippages. The government debt ratio is set to remain moderate.

The main economic policy challenges facing Türkiye are the following:

- **Bringing down inflation in a lasting way calls for continued tight monetary and fiscal policies, while managing domestic demand to avoid a hard landing.** Although inflation and inflation expectations are clearly on a downward path, they are still elevated amid persistently high services inflation. The authorities' policy mix appropriately envisages a continuation of the tight monetary policy stance and additional support from a tighter fiscal policy in 2025. Policy credibility should be further underpinned by a firm commitment to disinflation, even in case of possible economic growth slippages, and to safeguarding central bank independence.

- **Lowering the country risk premium.** Despite a marked improvement brought about by the decisive shift in economic policies, the country risk remains elevated and is a major obstacle to growth. It bounced up again in March on the back of increased domestic political tensions and widespread protests. The authorities have proposed multiple reforms to improve the institutional environment, stimulate investments, and increase economic security. Fully implementing these reforms and improving public finance management and tax policies could go a long way in lowering risk and improving the economy's growth fundamentals. In addition, the respect of rule of law and fundamental rights remains crucial for sustaining economic confidence and reducing volatility.

- **Fostering a convergence of Türkiye's employment rate towards the EU average, in particular by bringing more women and young people to employment.** Türkiye's labour market indicators have seen a gradual upward trend in recent years. However, the significant gap between male and female rates of employment persists. While the rate of young people who are not in education, employment or training (NEET rate, 15-29) decreased, it remains structurally high especially for young women. Overall, there is a need to facilitate the swift entrance of women and young people to the labour market through increasing the level of skills, availability of quality and affordable childcare infrastructure, training opportunities, and promotion of female employment in male dominated industries and services.
- **Boosting competitiveness and attracting investments, in particular by improving transparency and predictability in the regulatory and institutional environment affecting businesses.** Structural reform implementation needs to be accelerated, notably in the areas of State-aid, dispute settlement mechanisms, and the informal economy. Tracking the implementation process of the Action Plan for the fight against the informal economy remains a key action, as well as the importance of increasing regulatory impact assessments. Focus should also be placed on improving the availability and functioning of dispute settlement mechanisms (as part of the 4th judicial reform strategy for 2025-2029). Access to long-term finance for SMEs also remains limited. Overall, transparency in the preparation and implementation of support measures, as well as regulatory predictability negatively affecting the investment environment need to be addressed.
- **Pursuing climate neutrality, energy security and the economy's green transition, in particular by advancing energy efficiency, energy market liberalisation, and decarbonising the economy.** Despite the adoption of a number of strategies and action plans, progress on climate change mitigation and adaptation falls short in terms of pace, as Türkiye remains the fastest growing emitter in the G20. Türkiye is also continuing to turn to Russia for fossil-fuel imports and nuclear energy. In addition, Türkiye has yet to articulate a clear timeframe to effectively liberalise its gas market, in a manner that aligns with long-standing national policy as well as with the EU's regulatory framework. Overall, climate and energy policies in Türkiye do not create the right conditions, especially to achieve rapid emission reductions and to initiate a just transition away from unabated coal-fired power generation. To progress, Türkiye now urgently needs to adopt the long-awaited Climate Law to swiftly start its implementation, including the establishment of an Emission Trading System (ETS) compatible with the EU-ETS.

The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2024 has been partial but improved markedly in comparison to previous years. Economic policy normalisation played an instrumental role in reducing economic vulnerabilities and attaining better implementation scores. The authorities maintained a tight macroeconomic policy mix and reduced the budget deficit significantly beyond initial plans, while reconfirming their commitment to sound fiscal policy over the medium term. They have also reduced fiscal risks by rapidly winding down the stock of FX-guaranteed deposits. However, tax exemptions have been curtailed only marginally and there are still many tax exemptions and tax-reduction schemes in place. A tax reform package adopted in the summer of 2024 targeted enhanced tax compliance and reducing informality. Despite prior commitment, the government continued providing subsidies on fossil fuels.

However, the implementation of policy guidance on structural issues has been limited. Limited reform measures have been announced on the business regulatory environment, once again falling short of addressing key challenges. Structural problems regarding independence and impartiality, accountability and efficiency of the judiciary system are still not addressed. In the absence of the expected Climate Law, the implementation of an ETS system has not yet come to fruition. The incentives for additional employment continued; however, no additional legislative and fiscal measures were introduced in 2024. The Lifelong Learning Participation Rate has improved over the last years. Slight progress was made in addressing the labour market gender gap, but the speed of implementation remains slow with the limited availability of care services.

2. ECONOMIC OUTLOOK AND RISKS

Economic growth moderated amid weakening domestic demand in 2024[1]. Tight economic policies curtailed domestic demand and rebalanced economic growth towards net exports. Consumption and investment growth decelerated strongly, while net exports contributed positively to real GDP growth, largely due to a fall in imports. Real GDP increased by 3.2% in 2024, a notable decline in comparison to the 5.1% growth in 2023 and below the ERP projection of 3.5%. On the supply side, economic activity contracted in industry, in particular in manufacturing, and weakened in services but it remained robust in agriculture and construction. Although by the end of 2024 there were signs of an uptick in economic activity, with a rebound in manufacturing PMIs and improvements in real sector and consumer confidence, economic growth likely weakened again in early 2025.

The ERP forecasts a moderate acceleration of economic growth based on a recovery of domestic demand. Economic growth is projected to pick up to 4.0% in 2025 and reach 5.0% by 2027 – a growth path that is 0.5 pps below the one envisaged in last year's ERP. The programme expects a gradual increase across all domestic demand components. Private consumption growth is forecast to reach 4.4% in 2027, a robust level but markedly below the excesses of the period of unorthodox economic policies a few years ago. Public consumption and investment are also expected to gain traction, especially in 2027. The rebound in domestic demand is projected to drive a surge in imports, and to bring down the net exports' contribution to growth from 1.0pp in 2024 to 0.2 pps in 2025. Uncertainty about the cyclical position of the economy persists. The closing of the positive output gap has taken longer than previously expected and the ERP estimates that the output gap will turn negative in 2025 and widen further to 1.0% in 2026 and 2027. Potential growth is projected to increase steadily from 4.7% in 2024 to 5.1% in 2027. By factors of production, capital is forecast to be the main growth driver (contributing 2.0 pps to real GDP growth per year on average), closely followed by employment (1.4 pps) and total factor productivity (1.3 pps).

[1] Macroeconomic and fiscal estimates and forecasts covering the period 2024-2027 have been taken from the ERP. If available, preliminary macroeconomic and fiscal outturn data for 2024 have been taken from the relevant national sources (Turkish Statistical Institute, Ministry of Treasury and Finance, Central Bank of the Republic of Türkiye).

Table 1:

Türkiye - comparison of macroeconomic developments and forecasts

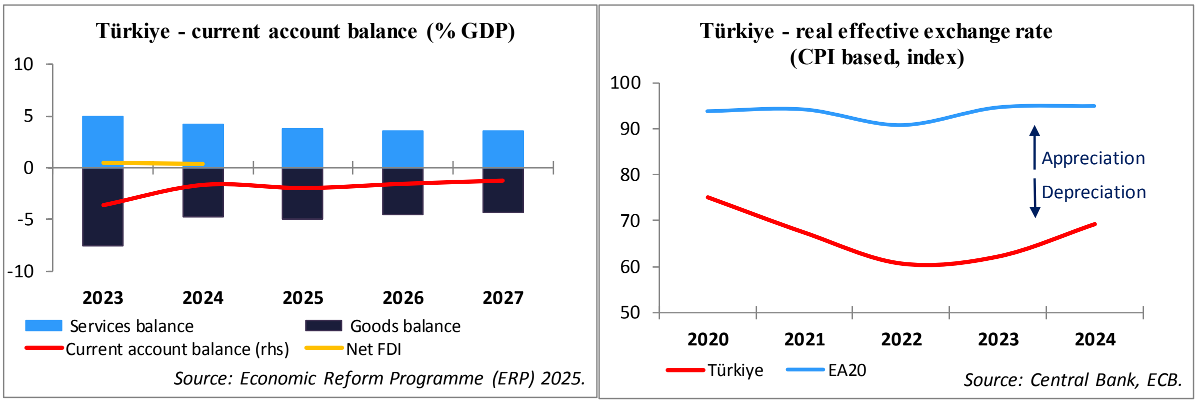
	2023		2024		2025		2026		2027	
	COM	**ERP**	COM	**ERP**	COM	**ERP**	COM	**ERP**	COM	**ERP**
Real GDP (% change)	5.1	**5.1**	3.0	**3.5**	3.2	**4.0**	4.0	**4.5**	n.a.	**5.0**
Contributions:										
- final domestic demand	10.5	**11.8**	2.6	**3.4**	2.9	**3.7**	3.9	**4.4**	n.a.	**4.9**
- change in inventories	0.7	**-3.6**	-1.1	**-0.9**	0.0	**0.1**	0.0	**-0.1**	n.a.	**-0.2**
- external balance of goods and services	-6.1	**-3.1**	1.4	**1.0**	0.3	**0.2**	0.1	**0.2**	n.a.	**0.3**
Employment (% change)	2.9	**2.9**	3.4	**3.3**	1.5	**1.6**	2.7	**2.7**	n.a.	**2.5**
Unemployment rate (%)	9.4	**9.4**	9.3	**9.3**	9.9	**9.6**	9.8	**9.2**	n.a.	**8.8**
GDP deflator (% change)	68.2	**68.2**	62.3	**60.9**	31.6	**33.9**	19.2	**13.4**	n.a.	**8.5**
CPI inflation (%)	53.9	**64.8**	59.8	**44.4**	30.8	**17.5**	17.8	**9.7**	n.a.	**7.0**
Current account balance (% of GDP)	-3.6	**-3.6**	-1.3	**-1.7**	-1.6	**-2.0**	-1.5	**-1.6**	n.a.	**-1.3**
General government balance (% of GDP)	-4.8	**-5.2**	-4.5	**-4.8**	-3.6	**-2.9**	-3.1	**-2.6**	n.a.	**-2.3**
Government gross debt (% of GDP)	29.2	**29.3**	28.0	**25.6**	28.2	**25.3**	28.8	**25.1**	n.a.	**24.8**

Sources: Economic Reform Programme (ERP) 2025, Commission Autumn 2024 forecast.

The ERP's macroeconomic scenario is ambitious but more plausible than last year, but current domestic political tensions will likely have a notable negative effect on it. Even if the ERP's growth assumptions have been tempered down in comparison to last year, they are still on the high end. Under the envisaged macroeconomic scenario, the rebalancing of economic growth towards a higher contribution of net exports that started in 2024, would weaken substantially already in 2025. Lifting economic growth further in the medium term without posing renewed challenges to domestic and external imbalances, would depend strongly on the assumption of a successful implementation of supply side structural reforms. The macroeconomic outlook continues to be affected by and could easily be challenged in a highly uncertain global environment. In addition, the domestic political tensions are likely to have notable negative spillovers on the economy and render the ERP's baseline macroeconomic scenario largely obsolete. Thus, the lack of an alternative scenario in the ERP remains a drawback of the programme.

Bold policy action turned the tide on inflation, but domestic political tensions triggered a financial turmoil. The central bank kept monetary policy tight, which was instrumental in bringing down inflation and inflationary expectations and improving markedly the foreign-exchange position of the central bank. The annual rate of inflation fell to 44.4% in December, bringing the 2024 average inflation to 58.5%. The monthly inflation rate decelerated to 1.0% in December but picked up in the beginning of 2025 due to administered price adjustments and seasonal factors. Service inflation, although still elevated and persistent, showed some signs of moderation. The ERP forecasts that annual inflation will decline further to 17.5% at the end of 2025, an overly ambitious target that has already been revised upward to a more plausible level of 24% by the central bank, and down to 7% in 2027. The central bank kept its policy rate at 50% for most of 2024 and started its rate-cutting cycle only in December (250bps), followed by two 250bps cuts in January and March 2025. The authorities have also lowered the caps on the growth of certain credit categories to help curb domestic demand and support disinflation. As a corollary, there was a build-up of excess savings and a liquidity glut which the central bank took steps to withdraw from the system. The central bank reaffirmed that it would maintain its tight monetary stance until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to the projected forecast range. Domestic political tensions, following the arrest of the mayor of Istanbul, Mr Ekrem İmamoğlu, have triggered financial turmoil and the authorities took action to stem the fall of the lira and preserve financial stability. The central bank has simultaneously tightened its policy, supported market liquidity, and intervened massively on the foreign exchange market.

Graphs: external competitiveness and current account



The current account deficit closed faster than expected and is expected to remain moderate, helped by the envisaged tight economic policies. The current account deficit fell to 0.8% of GDP in 2024, down from 3.6% in 2023 and below the 1.7% projected in the ERP. The ERP forecasts the deficit to increase temporarily to 2.0% of GDP in 2025, under pressure from geopolitical risks and uncertainties about global tariffs and trade restrictions. In the following years, however, Türkiye's competitive tradables sector is expected to drive exports of goods and services up, and as a result the ERP expects the current account deficit to decline again. In addition, tight economic policies would remain a key factor limiting import growth. They have also been instrumental in the strengthening of the lira, which gained value markedly in 2024, both in its consumer and production price-based real effective exchange rate. In addition, the steady improvement of the external position is envisaged to also be backed by measures to develop Türkiye as an energy, financial, and logistics hub, to diversify the product and geographical scope of international trade, and by the expected deepening of trade relations with key trade partners.

Türkiye's external position strengthened but its full potential to attract FDI and long-term capital remains untapped. In 2024, capital inflows increased from their lows a few years ago. Most of the inflows were in the form of debt instruments and other financial assets, while foreign direct investment inflows remained subdued at around 1% of GDP. Nevertheless, in view of the low current account deficit, improved access to foreign financing, and higher official foreign-exchange reserves, balance of payments financing risks have come down. The improved external position was also instrumental for the notable upgrades of Türkiye's sovereign credit rating last year. The external debt roll-over ratio increased markedly above 100% for both the banking and the non-banking sectors by the end of 2024, as all sectors took advantage of Türkiye's improved rating and better access to foreign financing. As a result, non-financial companies' open net foreign-exchange position widened, although their short-term position remained in surplus. External debt declined to around 42% of GDP in 2024.

The banking sector remained stable despite tighter policies and shrinking credit activity. Commercial banks capitalisation was strong at 19.7% in 2024, although this was still favourably affected by forbearance measures. Both profitability and capitalisation, however, remained lower in state-owned banks. The non-performing loan ratio increased from very low levels and stood at 1.8% at the end of 2024, and at 1.3% in state-owned banks. Loan-loss provisioning and collection of impaired loans remained relatively high, which should help shield the banking sector in the short term in view of the expected further deterioration of asset quality. Real lending continued to decline, although less so in the privately-owned banks. The decline was particularly pronounced in the corporate sector. Lending to households showed some signs of bottoming out, supported by continued strong expansion of credit card loans, despite prudential measures by the authorities. The central bank recorded a significant loss for a second year in a row in 2024.

The authorities took steps to gradually simplify the regulatory environment, amid still extensive regulatory intervention. They terminated the securities maintenance regulation and took further steps to wind down other macroprudential measures in 2024. The stock of FX-protected lira deposits declined rapidly from more than a quarter at their peak in 2023 to below 4% of the total deposit stock in March 2025, largely removing a key source of financial sector vulnerability and contingent budget liability. The share of lira-denominated deposits increased markedly to two-thirds of the total in early 2025, nearly doubling from its level three years ago. To direct credit to certain sectors and activities (exports, investment, and SMEs) and additionally tighten credit conditions, the central bank introduced credit growth caps on FX loans and lowered and differentiated the already existing growth caps on lira-denominated loans. The central bank also increased reserve requirements and took other steps to manage the excess liquidity in the system.

Table 2:

Türkiye - financial sector indicators

	2020	2021	2022	2023	2024
Total assets of the banking system (EUR million)	678	628	724	742	891
Foreign ownership of banking system (%)	25.0	25.9	24.9	25.0	24.4
Credit growth (%, average)	28.4	22.7	56.0	55.7	43.6
Deposit growth (%, average)	36.4	28.0	78.3	65.4	41.6
Loan-to-deposit ratio (end of period)	1.04	0.85	0.79	0.77	0.78
Financial soundness indicators (%, end of period)					
- non-performing loans to total loans *	4.1	3.2	2.1	1.6	1.8
- regulatory capital to risk-weighted assets	18.8	18.4	19.4	18.9	19.7
- liquid assets to total assets	9.4	13.3	11.6	14.2	13.6
- return on equity	11.4	15.5	49.9	41.5	30.5
- foreign exchange loans to total loans	34.0	42.2	32.6	32.4	36.8

* including the impact of write-offs.

Sources: Central Bank of Türkiye, IHS Markit.

3. PUBLIC FINANCE

The 2024 budget outcome was better than planned, despite a revenue shortfall. At 4.9% of GDP, the 2024 government deficit was at the revised target of 4.9%, but below the initial budget target of 6.4% of GDP. It marks a mild consolidation step in comparison to the 2023 deficit of 5.2% of GDP. Earthquake-related expenditure remained significant at 2.3% of GDP, but it was down from 3.6% of GDP in 2023, contributing the most to the lower deficit outturn. Net of this expenditure, the underlying budget deficit increased from 1.6% of GDP in 2023 to 2.4% of GDP in 2024. Total central government revenue increased by 66.5% in 2024 (30.3% of GDP) but were 4.3% lower than the revised target as revenue from corporate income tax[2] and VAT on imports underperformed. The consolidation measures adopted in August to

[2] Corporate income tax rates were increased in the aftermath of the 2023 earthquake from 23% to 25% (from 25% to 30% for the financial sector).

increase direct tax revenue, enhance tax compliance and reduce informal economy contributed only marginally to offset the significant rise in spending in 2024. Total expenditure increased 63.6% to 35.4% of GDP, with spending on personnel, purchase of goods, interest, and capital more than doubling. The removal of the age requirement for early retirement added nearly 2% of GDP to budget expenditure in 2024, undermining the sustainability of the social security system. Still, lower execution of current and capital transfers led to under-execution of total expenditure by 3.9% compared to plan.

Table 3:

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

	2023	2024	2025	2026	2027	Change: 2024-27
Revenues	30.3	31.9	31.3	31.3	31.4	-0.5
- Taxes and social security contributions	24.4	25.5	25.7	25.7	25.8	0.3
- Other (residual)	5.9	6.4	5.6	5.6	5.6	-0.8
Expenditure	35.4	36.7	34.2	33.9	33.6	-3.0
- Primary expenditure	32.8	33.6	30.9	30.7	30.6	-3.0
of which:						
Gross fixed capital formation	3.0	3.2	2.5	2.6	2.7	-0.5
Consumption	13.8	15.3	14.4	14.4	14.3	-1.0
Transfers & subsidies	6.7	7.4	7.5	7.5	7.6	0.2
Other (residual)	9.2	7.7	6.4	6.2	6.0	-1.7
- Interest payments	2.6	3.1	3.3	3.2	3.1	0.0
Budget balance	-5.2	-4.8	-2.9	-2.6	-2.3	2.5
- Cyclically adjusted	-4.1	-4.1	-2.7	-2.7	-2.6	1.5
Primary balance	-2.6	-1.7	0.4	0.6	0.8	2.6
- Cyclically adjusted	-1.5	-1.0	0.6	0.5	0.5	1.6
Gross debt level	29.3	25.6	25.3	25.1	24.8	-0.8

Sources: Economic Reform Programme (ERP) 2025, Commission calculations.

The ERP targets a frontloaded, expenditure-based fiscal consolidation. Driven by lower spending, the general government primary balance is planned to improve by 2.6 pps between 2024 and 2027, reaching a surplus of 0.8% of GDP by 2027. Total revenue is expected to decline slightly in 2025 and remain stable at 31.3% of GDP thereafter. The initial fall in the revenue ratio is projected to be driven by lower revenue from social security and factor incomes, more than offsetting the expected rise in the tax revenue ratio (from 17.4% to 18.3% of GDP). Total expenditure is forecast to decline by 3.1 pps between 2024 and 2027, most of it (2.5 pps) happening already in 2025. Spending on earthquake reconstruction is planned to decrease by 1.4 pps to 0.9% of GDP in 2025, and to expire thereafter. The ERP also projects a strong decline in 2025 in public consumption, by 0.9 pps, and public investment, by 0.7 pps, before both stabilise for the reminder of the programme. Interest payments are projected to peak at 3.3% of GDP in 2025, and to remain elevated at above 3% of GDP throughout the entire period, despite the overall moderate government indebtedness. The fiscal stance is forecast to be pro-cyclically tightening in 2025 and broadly neutral in 2026 and 2027.

The 2025 budget projects a sizeable reduction of the budget deficit, reflecting the winding down of earthquake reconstruction spending and the authorities' determination to support disinflation. The parliament approved the 2025 central government budget on 21 December 2024, planning a deficit of 3.1% of GDP at central and 2.9% of GDP at general government level. The ERP forecasts general government revenue to increase by 36.7% and expenditure by 29.7% over 2024. The budget is based on a 4% real GDP growth and 33.9%

GDP deflator – slightly optimistic assumptions that may put pressure on the execution of tax revenue. However, expenditure buffers leave some room to accommodate possible revenue slippages. The headline fiscal adjustment is appropriate to help lower inflationary pressures in the economy and address macroeconomic imbalances. At the same time, the underlying fiscal effort is far lower if earthquake reconstruction expenditure is excluded – the underlying budget deficit is projected to fall by just 0.4 pps to 2.0% of GDP in 2025.

The ERP relies on soft consolidation measures with a limited budgetary impact in the short term. The ERP does not systematically present recent discretionary budgetary measures and policies or estimates of their budgetary effects. The authorities adopted several corrective measures in August 2024 that are expected to bear fruit already in 2025. The measures focused on increasing tax revenues, improving tax compliance, and reducing the informal economy. A new minimum corporate income tax rate was introduced, as part of the adopted reforms, for both multinational and local companies. The new legislation also removed or modified some tax exemptions, increased penalties for non-compliance, and took steps to improve tax collection efficiency. The rate for lump tax and fees indexation in 2025 was determined at 43.93%. The authorities also signal readiness to review carbon taxes to support the green transition, but without the ERP providing further details. The expenditure policies rely on the envisaged restrained indexation of wages, pensions, and other public spending, and soft measures to rationalise public expenditure, such as spending reviews. Overall, the ERP projects increased revenue collection and lower public consumption and investment in 2025.

Government debt is moderate and is forecast to remain broadly unchanged. In 2024, the government debt ratio declined to 24.7% of GDP (below the ERP estimate), helped by the strong denominator effect from the very high inflation. Net government debt also declined, from 20.2% in 2023 to 16.5% of GDP, as net assets of the central bank recovered. High inflation is forecast to remain the main debt-reducing factor in the coming years, although its contribution is set to decrease substantially by 2027. Key for debt sustainability, the primary balance is planned to turn to surplus as of 2025, while real economic growth is set to accelerate and contribute to lower the debt ratio as well. Interest payments are expected to remain elevated, a conservative assumption, implying a relatively high and steady implicit interest rate on government debt. The stock-flow adjustment historically has been the largest debt-increasing factor, heavily dominated by effects of the lira's depreciation. It is forecast to remain sizeable, and even to increase in 2025, before subsiding in 2026 and 2027.

Debt dynamics

Türkiye **Composition of changes in the debt ratio** (% of GDP)					
	2023	**2024**	**2025**	**2026**	**2027**
Gross debt ratio [1]	29.3	25.6	25.3	25.1	24.8
Change in the ratio	-1.5	-3.7	-0.3	-0.2	-0.3
Contributions [2]:					
1. Primary balance	**2.6**	**1.7**	**-0.4**	**-0.6**	**-0.8**
2. 'Snowball effect'	**-10.2**	**-8.3**	**-3.7**	**-0.6**	**0.1**
Of which:					
Interest expenditure	2.6	3.1	3.3	3.2	3.1
Growth effect	-0.9	-0.6	-0.7	-1.0	-1.1
Inflation effect	-11.9	-10.7	-6.2	-2.9	-1.9
3. Stock-flow adjustment	**6.1**	**2.9**	**3.8**	**1.0**	**0.4**

[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) 2025, Commission calculations.

The functioning of the government debt market improved. The authorities lifted the securities maintenance requirement for local banks. In the new regulatory environment, banks reduced their share of domestic government debt holdings by 11 pps. to 68% in 2024. The high lira interest rates and lower risk due to the normalisation of economic policy attracted foreign investors to the domestic government debt market. As a result, non-residents increased their share on the market from 1.9% in 2023 to 9.9% in 2024. The high-interest-rate environment also incentivised the government to lower the maturity of new domestic borrowing in search of lower costs, while the disinflation expectations increased the share of floating rate offerings, largely at the expense of CPI-indexed bonds. New domestic borrowing remained denominated predominantly in Turkish lira, with a share of close to 80%, and lira's share in total government debt increased to 43.9%. Türkiye's sovereign credit rating was upgraded as rating agencies acknowledged the reserve accumulation, the decline in the current account deficit, and disinflation. Yields on foreign borrowing declined and Türkiye's 5-year credit default swap spread fell further to around 260 bps in January 2025. However, domestic political tensions in March triggered an outflow of foreign investments and led to a spike in the country risk premium.

Fiscal risks have declined and appear manageable. Risks from the macroeconomic environment are moderate, mainly stemming from the slightly optimistic economic growth assumptions. The external geopolitical environment has been a constant source of risk for Türkiye for many years now. It can affect the Turkish economy via multiple channels: higher energy prices, higher risk premium, lower foreign demand, obstacles to exports, etc. In addition, an environment of high global interest rates could also pose some risks to Türkiye. On the other hand, the rapid unwinding of the FX-protected lira deposits scheme has decreased a major source of contingent fiscal liability, although its significant costs have contributed to the large losses of the central bank in the last two years. A further risk stems from any loss of domestic confidence and trust in economic policies to deliver on the promised disinflation, which can lead to renewed dollarisation and put pressure on the exchange rate and FX reserves. A faster than justified or expected relaxation of monetary policy could also trigger market volatility. There are substantial needs for earthquake-proof infrastructure and housing, that could pose a burden on the budget. Risks from public-private partnerships and credit-guarantee schemes seem broadly manageable, while the relatively large budgetary reserve appropriations (0.5% of GDP) provide an important cushion.

The authorities are taking steps to improve the quality of public finance, but some challenges remain. Although there is limited information on them in the ERP, more details can be found in other government documents. The authorities plan to support fiscal consolidation by pursuing 'soft' fiscal measures, such as broadening the tax base and undertaking public expenditure reviews to identify possible efficiency gains. They have also tabled proposals to increase competition in public procurement and improve the governance of state-owned enterprises. On the other hand, public finance quality still suffers from major deficiencies. The structure of the budget has worsened in recent years, with increased social transfers and rather low shares of government spending on investment and public services. Numerous tax exemptions and reductions undermine the tax base. The government continued to use the negotiated procedure in its procurement deals, undermining transparency and a level playing field. The consolidated framework for all public-private partnerships has yet to be adopted and needs to be fully integrated in the budget process, improving its management and monitoring.

The authorities are committed to maintain fiscal discipline, but the fiscal framework lacks strong anchors. The authorities have repeatedly shown their preference for sustainable fiscal policies, despite taking sub-optimal and sometimes ad hoc policy decisions in the past. Although there are no national fiscal rules or independent fiscal institutions in place, government debt remains moderate and the fiscal position is sustainable. A recent decision by the Constitutional Court to cancel a provision allowing the government to spend excess revenue (over the ones adopted with the budget law), if the budget deficit limit is respected, would strengthen fiscal discipline. The Court decision means that no budget payment will be allowed if it is not approved by the parliament as part of the budget law. The removal of the age requirement for early retirement undermined the sustainability of the social security system. The medium-term budgetary framework is not sufficiently binding, while there are tensions between central government and municipal finance.

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, and accelerate the green and digital transitions:

- fostering a convergence of Türkiye's employment rate towards the EU average, in particular by bringing more women and young people to employment;
- boosting competitiveness and attracting investments, in particular by improving transparency and predictability in the regulatory and institutional environment affecting businesses; and
- pursuing climate neutrality, energy security and the economy's green transition, in particular by advancing energy efficiency, energy market liberalisation, and decarbonising the economy.

In parallel to addressing these structural issues, the country needs to secure long-lasting macroeconomic stability and sustain the ongoing post-earthquake recovery efforts. Türkiye also needs to improve the rule of law by enhancing judicial independence. Addressing these fundamental concerns is a prerequisite for successfully transforming the Turkish economy.

Key structural challenge 1: Fostering a convergence of Türkiye's employment rate towards the EU average

Türkiye's labour market indicators have seen a gradual upward trend in recent years with an increased employment rate (20-64) from 57.3% in 2023 to 58.5% in 2024. Yet, overall employment still lags far behind the EU (75.8% in 2024 - with a target of 78% by 2030), which is a considerable impediment for inclusive growth. At the same time, population growth is slowing down, which makes it even more important to activate the labour force to ensure greater contribution to Türkiye's social security system. The unemployment rate (15+) was 8.8% in 2024, representing a decrease of 0.6 percentage point as compared to 2023. The unemployment rate for women decreased from 12.7% in 2023 to 11.8% in 2024 (compared with 6.2% in the EU). However, the composite measure of labour underutilisation (consisting of time-related underemployment, potential labour force and unemployment) was 26.7% in 2024, with 3.9 percentage point increase compared to 2023. Türkiye adopted a new employment strategy (2025-2028), focusing on the green and digital transformation, inclusive employment, the relationship between social protection and employment, as well as the promotion of sustainable employment in rural areas. Raising the level of skills, formalisation of work and inclusively increasing the labour force are valid targets for Türkiye's employment policy. However, to structurally improve the employment rate, the focus should be more centred on closing the gender-employment gap.

The gap between male and female employment persists. In 2024, the employment rate was 77.5% for men and 39.4% for women, leading to a wide gender-employment gap of 38.1 pps. (against 10 pps. in the EU). Insufficient skills, training opportunities, and promotion of female employment in industry and services, as well as traditional gender roles, all slow down the increase in female labour force participation. Furthermore, childcare facilities remain limited to big urban centres and largely inaccessible in the countryside. Consequently, women with children are not adequately represented in the labour market despite relevant qualifications and a willingness to work. Policies aimed at the activation of women in the labour market have been too limited in scope and budget, yielding only limited results.

The youth unemployment rate (15-24) decreased from 17.5% in 2023 to 16.4% in 2024, yet young people still have difficulties entering the labour market. While the rate of young people who are not in education, employment or training (NEET rate, 15-29) slightly increased from 25.8% in 2023 to 25.9% in 2024, it remains structurally high, especially for young women (36.4%). There is no updated youth employment strategy. The previous strategy, in place until 2023, was not evaluated. Türkiye must upgrade its school, tertiary, and vocational training system and encourage young female labour participation to bring young people into formal work. To provide more economic opportunities for young people in Türkiye, active labour market policies and activation schemes are needed. The current active labour market policies are limited in scope and there is no policy similar to the EU Youth Guarantee.

Türkiye has further untapped potential in terms of labour market flexibility. Part-time employment accounts for only 10.7% (2024) of the overall labour market. In the EU, the figure stands at 17.2%. People with care responsibilities could access the labour market more easily with a part-time contract.

The ERP contains measures to address some of the challenges identified, yet lacks ambition in addressing key structural issues. In the ERP (2025-2027), Türkiye rolled over reform measure 6 on 'Enhancing and improving the employment services in line with the needs of the labour market'. This reform measure seeks to bring together a variety of activities and targets to ensure that the Turkish Employment Agency (İŞKUR) brings people into employment. The measure is pointing in the right direction, yet falls short of addressing structural challenges in the labour market. Virtual fairs reach a high number of people, but are not fit for the purpose of bringing about further qualifications. Employment incentives and affordable and quality childcare infrastructure is also lacking**.** On-the-job-trainings are useful for further upskilling, but more action is needed to facilitate young people's first entry into employment. The labour adaptation programme for people outside the labour market would need to be further specified in order to evaluate its effectiveness.

As regards **social protection and inclusion,** the country spent 10.1% of its GDP on social protection in 2023 (against 26.8% of GDP for the EU). The at-risk-of-poverty-and-social-exclusion rate has seen a decreasing trend from 30.7% in 2023 to 30.4% in 2024, which is likely linked to the positive trend in labour market participation. Further efforts are needed to bring the at-risk-of-poverty-rate closer to the EU average of 21.3% (2023). A systematic approach based on a social protection strategy and on a nationwide minimum income scheme is still lacking.

Social Dialogue can create enabling conditions for more labour market flexibility and input for re-and upskilling of low-skilled workers. In 2024 the Labour Assembly created a just transition strategy. The assembly identified skills development, occupational safety and health, social protection policies, active labour market policies, protection of workers' rights and the development of social dialogue as key elements to further develop. While there has been some development on skills and active labour market policies, there has been no substantial development in the other areas to date. Türkiye should step up occupational safety and health, social protection policies and notably social dialogue to preserve and empower its workforce.

As regards **Vocational Education and Training (VET)**, programmes' curricula are being updated, with a specific focus on green and digital skills, taking into account sector demands and occupational standards prepared by the Vocational Qualifications Authority. Recognition of prior leaning needs to be applied to all occupational levels and recognised by formal VET institutions. More work-based learning, such as dual education, and a focus on practical skills, would help make VET education more practically relevant and facilitate school-to-work transitions. In addition, applying EU quality frameworks for traineeships[3] and apprenticeships[4] could improve the quality and relevance of work-based learning opportunities. Türkiye should also focus on increasing participation in lifelong learning, aimed at the development of a skilled labour force fit for the green and digital transitions.

Reform measure 5 was rolled over from the 2024 ERP and remains a welcome reform for the country's path towards the digital and green economy. However, apart from the rise in the number of printed educational materials, all other result indicators fell short of targets, with either no improvements or a decrease compared with the previous year. To progress in this area, Turkish authorities should continue their work to update curricula, course materials, educational tools and digital content used in digital education in line with the EU's Digital Education Action Plan 2021-2027. Turkish authorities have expressed the intention to further

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3 Council recommendation of 10 March 2014 on a European Quality Framework for Traineeships.

4 Council recommendation of 15 March 2018 on a European Framework for Quality and Effective Apprenticeships.

scale up its use of the EU's SELFIE tool[5], which could help to address regional disparities in access to high-quality digital education. Türkiye should continue the roll-out of the SELFIE tool to assess schools' digital education capabilities.

Key structural challenge 2: Boosting competitiveness and attracting investments

Some steps to improve the business environment were taken, but insufficient transparency in the preparation and implementation of support measures, as well as weak regulatory predictability continue to negatively affect the investment environment. A significant gap persists between the announcement of initiatives and implementation in the time foreseen. Structural reform implementation needs to be accelerated, notably in the areas of State-aid, dispute settlement mechanisms, and the informal economy. The implementation of strategies, plans and programmes in these and other areas relevant for a favourable business environment need to be further monitored, with an annual report on implementation progress made available to the public. Notably, tracking the implementation process of the Action Plan for the fight against the informal economy remains a key action, as well as the importance of increasing regulatory impact assessments. Focus should also be placed on improving the availability and functioning of dispute settlement mechanisms (as part of the 4th judicial reform strategy for 2025-2029). Regarding legislative initiatives, establishing more systematic mechanisms for consultations with businesses and social partners are needed.

The lack of independence in enforcing State-aid legislation and the absence of transparency regarding the amount of State-aid provided remain a significant source of concern. The current structure for monitoring State-aid is not complete, independent, or operational. Moreover, a Presidency Decision of November 2024 allows the President to grant incentives under the Project-based Incentives without publishing the relevant decision. The Customs Union with the EU requires Türkiye to establish an independent and effective framework for State-aid control. Türkiye has not yet formally set up a comprehensive and transparent state inventory of all aid schemes, despite the obligations stemming from the Customs Union. The failure to monitor State-aid prevents the market-based consolidation of a level playing field for businesses, negatively affecting foreign direct investment (FDI) attractiveness.

Türkiye's decade-long rise in perceived corruption seems to have stalled. In support of Türkiye's reforms and FDI strategy, a determined anti-corruption strategy is needed to lower corruption that compounds the regulatory unpredictability. Türkiye still lacks preventive and anti-corruption bodies, whereas 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.

A large informal economy and slow judicial processes also remain an obstacle to investment and economic growth. Türkiye continues to implement the Action Plan for the fight against the informal economy (2023-2025). However, no performance indicators and action plan outcomes have been provided at this stage. A more determined reduction of the

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[5] SELFIE (Self-reflection on Effective Learning by Fostering the use of Innovative Educational technologies) is designed by the European Commission to help schools embed digital technologies into teaching, learning and assessment, by anonymously gathering the views of students, teachers and school leaders on their school's technology use. The tool is free of charge. See: https://education.ec.europa.eu/selfie/about-selfie

administrative, regulatory and tax burden on SMEs would complement the measures foreseen. Türkiye adopted its fourth judicial reform strategy in January 2025, and it includes some positive goals such as accelerating judiciary procedures, which should enhance the functioning of dispute settlement mechanisms. Intellectual property right 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.

Access to long-term finance for SMEs remains limited. SMEs are mostly financed through short-term loans in a still highly inflationary environment. Türkiye has taken further steps to provide equity-based finance opportunities for early-stage companies and via capital markets. However, microfinancing systems (non-bank financing) are not widespread, and the current macroeconomic situation with high inflation rates and high interest rates make access to long-term finance difficult for SMEs.

To further **boost business growth and investment attractiveness**, there is a need to further align with EU legislation in the customs sector, in particular with all digital aspects of legislation to simplify trade.

Regarding measure 2 on 'Promoting Sustainable Tourism and Branding', the tourism sector is recognised as one of the country's most competitive global industries, driving employment, fostering economic growth, enhancing the trade balance and contributing to the reduction of the current account deficit. This sector remains vulnerable to global economic and political developments, and rapidly changing consumer preferences, which partially explains the roll-over of this measure from previous ERPs. As a positive development since last year, the integration of information technologies in the promotion and marketing activities has been enhanced, exceeding 2024 projections with the interactions on GoTürkiye accounts having more than tripled. The country's efforts toward sustainable tourism, by updating the scope of the Safe Tourism Certification Programme and Türkiye Sustainable Tourism Criteria, presents a comprehensive approach which could further boost the competitiveness of the Turkish tourism industry. However, several aspects could benefit from further clarification, such as the enforcement mechanism and integration of local communities.

Overall, the ERP lacks measures to address the core structural issues affecting competitiveness in the country. Under structural reforms for competitiveness, the ERP reporting lacks a comprehensive analysis of the competitiveness of Turkish industry, weak productivity, technological composition of exports, skills' mismatch, challenges in the business environment and the reasons behind Türkiye's stagnant share in global FDI. Instead of focusing on obstacles and gaps, the ERP document primarily provides descriptive information about the available support framework in the country. Without a clear and well-defined problem, the proposed list of reform measures may not be able to deliver the appropriate solutions to tackle the most pertinent structural challenges at hand.

Key structural challenge 3: Pursuing climate neutrality, energy security and the economy's green transition

Despite the adoption of a number of strategies and action plans, progress on climate change mitigation and adaptation falls short in terms of pace, as Türkiye remains the fastest growing emitter in the G20. At the end of 2023, Türkiye adopted renewed versions of its Climate Change Mitigation Strategy and Action Plan and Climate Change Adaptation Strategy and Action Plan (2024-2030). The Long-Term Climate Change Strategy was published in November 2024; it broadly confirms existing targets, such as those included in the updated Nationally Determined Contributions (NDC) 2023. However, climate policies overall in Türkiye do not create the right conditions for rapid emission reductions yet. Türkiye now urgently needs to adopt the long-awaited Climate Law to swiftly start its implementation, including the establishment of an Emission Trading System (ETS) compatible with the EU ETS.

In 2024, Türkiye adopted the Energy Efficiency Strategy and Action Plan (2024-2030), which includes a target of USD 20 billion in investments to reduce emissions and fossil-fuel reliance. Moreover, in October 2024, Türkiye announced the Renewable Energy 2035 Roadmap. The declared goal is to increase the share of renewable energy in primary energy consumption from 16.7% currently to 23.7% in 2035, and the share of nuclear energy from zero to 5.9% in 2035. To support these objectives, it will be vital to continue coordination between energy subsidies, taxation and overall green policies, in particular a phase-out of fossil-fuel subsidies and increased taxation weighing on fossil energy compared to renewables. A new EU-funded study on Net Zero Emissions in the transport sector has started and will provide a strategy and action plan to support the initiative. Another key success factor for rapid decarbonisation and improved resilience consists in redirecting domestic financial flows towards sustainable investment. Türkiye continues working towards establishing a national sustainable finance taxonomy, which is expected to have a similar approach to the EU taxonomy. This should help mainstream sustainability across the entire Turkish financial sector.

Türkiye is an important transit country for the EU yet continues to turn to Russia for fossil-fuel imports and nuclear energy. This dependency, combined with volatile international markets, has led to very high energy prices, which are among the key factors contributing to high inflation and putting pressure on the state budget. In natural gas, Türkiye continues enhancing its regional natural gas trading role capitalising on its geographical location and increased natural gas infrastructure capacity. A balance between energy security, growing demand and decarbonisation can only be achieved through ensuring affordable, green and stable energy supplies for sustainable economic development. In this regard, Türkiye has yet to articulate a clear timeframe to effectively liberalise its gas market, consistent with long-standing national policy and with the EU's regulatory framework, notably the third energy package (2009), or its recent update, the EU's hydrogen and gas decarbonisation package (2024). Increased use of renewable-energy sources and greater energy efficiency are essential for transitioning to an energy system that is sustainable and secure, and for dealing with the risks posed by the changing international energy market. Further measures to support energy efficiency gains and the development of renewable power generation capacity are being implemented to help to reduce energy dependency and create new opportunities for businesses. Measures are also undertaken to develop the national electricity grid to accommodate a greater share of intermittent renewables. However, a higher level of ambition is still needed to enable a gradual reduction of coal-fired power generation capacity, consistent with the net-zero 2053 objective. While Türkiye has opted to use nuclear energy and to undergo the voluntary Stress Test Peer Review organised by the European Nuclear Safety Regulators Group (ENSREG), Türkiye's nuclear energy regulatory authority should make appropriate plans to follow-up on the recommended safety improvements in a timely and effective manner[6].

Measure 3 on 'Accelerating green transformation' has been rolled over from ERP 2024. In contrast to previous years, a new activity has been introduced: the establishment of a Green Transition Certification system, in line with the Industrial Emissions Regulation. The

[6] https://www.ensreg.eu/news/joint-press-release-european-nuclear-safety-regulators-group-%E2%80%93-nuclear-regulatory-authority

Regulation on the Management of Industrial Emissions has been published in the Official Gazette on 14 January 2025. Meanwhile, in the absence of the expected Climate Law, the timelines for the action points presented in 2024 under measure 3 were not realistic without a clear supportive regulatory framework. Once the Climate Law is adopted, Türkiye should swiftly proceed with establishing an EU-aligned ETS with a robust carbon price, a green taxonomy, and relevant industrial emission legislation. Measure 1 on 'Supporting the modernisation of SMEs and increasing their efficiency and competitiveness through digital transformation and green transformation in the manufacturing industry' and its activities have also been rolled over from last year. All related actions under this measure should follow an integrated and coordinated approach towards the green transformation of industry, including the establishment of clear climate policies. To facilitate this transformation, the swift adoption of the National Circular Economy Strategy and Action Plan in Türkiye is encouraged, as the circular economy can also strengthen the industrial base and foster business creation and entrepreneurship among SMEs. For further improvements, an overall target regarding economic and industrial impact could also be included.

Overall, the implementation of more climate and environment policies are becoming increasingly essential to establish the enabling environment for a successful transition to a more modern and competitive economy[7]. Additionally, as Türkiye outlined in the ERP (2025-2027), green and circular economy goals must be addressed.

[7] Infrastructure investments need to comply with the EU environmental *acquis*, national and international nature protection and water management obligations, ensure public participation and consultation, and guarantee high quality environmental impact assessment reports that include cumulative impacts on nature and biodiversity.

ANNEX 1: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2024

Every year since 2015, the Economic and Financial Dialogue between the EU and enlargement 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 2024 policy guidance jointly adopted at the Economic and Financial Dialogue on 14 May 2024.

Overall: Partial implementation (45.8%)[8]	
2024 policy guidance	**Summary assessment**
PG 1:	There was **substantial implementation** of PG 1:
Maintain a tight macroeconomic policy mix until the disinflation process is firmly established.	**1) Full implementation**: The Central Bank maintained its tight monetary policy, keeping the policy rate at 50% until December 2024, before lowering it to 47.5% amid improvement in the inflation outlook. A better policy mix, including a better than planned budget outcome, has contributed to the disinflation process. The ERP 2025-2027 revised its projections for the budget deficit for 2024 to 4.9% of GDP, down from the initially planned 6.4%.
Use any revenue over-performance as well as fiscal buffers on the expenditure side to lower the 2024 budget deficit compared to the ERP target.	**2) Substantial implementation**: The budget revenues increased by 66.5% in 2024 as compared to 2023 but were below planned. Total expenditures (including interest payments) increased by 62.6%, also below their initially planned level. Thus, the 2024 year-end budget deficit amounted to TRY 2,106.1 billion, slightly below the revised estimated budget deficit.
Present a medium-term fiscal strategy that includes specific consolidation measures to support the envisaged gradual return to a primary surplus of at least 1% of GDP.	**3) Partial implementation:** The ERP 2025-2027 projects a return to a primary surplus for the general government starting in 2025, although the surplus is not expected to reach or exceed 1% of GDP in the period covered by the programme (0.4% in 2025, 0.6% in 2026 and 0.8% in 2027). Putting aside the phasing out of expenditure for recovery and risk mitigation following the earthquake disaster, the government plans to ensure fiscal consolidation mainly by soft measures, such as rationalizing public expenditure, spending reviews,

[8] 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.

	broadening the tax base, and fighting against informal economy.
PG 2: Reduce fiscal risks by – *inter alia* – gradually phasing out the FX value guarantees on lira time deposits. Expand the tax base by streamlining tax exemptions and reductions and reducing informality. Take gradual steps to phase out subsidies on fossil fuels.	There was **partial implementation** of PG 2: **1) Substantial implementation:** The exit from the FX-protected deposits scheme has not been achieved in 2024. Yet the Turkish authorities have taken a series of measures to ensure the gradual wind-down of the scheme, especially by dissuading companies and individuals from renewing their accounts and promoting savings in TRY deposits (via amendments in reserve requirements, gradual reduction of minimum interest rate applied to protected deposits, termination of the exchange rate hedging support provided to legal entities with FX liabilities etc.). They have announced that the scheme will come to a complete end in 2025. The volume of FX-protected deposits has fallen from a historical peak of TRY 3.4 billion in August 2023 to TRY 1.1 billion at the end of 2024. **2) Substantial implementation:** In August 2024, Türkiye enacted an Omnibus Law introducing a tax reform package for the purposes of increasing direct tax revenues, enhancing tax compliance and combating unregistered economic activities. The package introduced global minimum corporate income tax rate for multinational companies and local minimum corporate income tax, modified or removed certain tax exemptions, increased corporate income tax applied for public-private partnership contracts as well as tax in penalties, whilst providing alignment in the areas of domestic and import taxation to improve tax collection efficiency. It also provided authorities with a broader toolkit to audit companies and impose penalties on those found in violation of rules, in order to reduce Türkiye's informal economy. An additional 1% corporate income tax/corporate tax levied on service providers for goods purchased on online marketplaces also contributed to expand the tax base. Yet, indirect taxes remain more prevalent than direct taxes in Türkiye's tax structure, with special consumption tax and domestic VAT accounting for 45% of total tax collections and acting as important revenue streams in the 2025 budget. The recent policy documents (including the Medium-Term Programme for 2025-2027) continues to underline the objectives of strengthening tax justice and broadening the tax base. **3) No implementation:** The 12th Development Plan only mentions that renewable resources would overtake coal and become the largest source of global electricity generation in 2025. Yet, no concrete step has been taken to phase out the subsidies on fossil fuels so far.
PG 3: Ensure a sufficiently tight monetary policy stance to entrench further disinflation and anchor inflation expectations, continue the	There was **partial implementation** of PG 3: **1) Substantial implementation:** Interest rates have been increased substantially and monetary policy is tight, with important steps taken to strengthen monetary transmission

simplification of the complex and distortive macro-prudential measures and the regulatory framework to strengthen monetary transmission while maintaining financial stability. Underline central bank independence as the institutional basis for sustainably achieving price stability and underpinning monetary policy credibility. Enhance risk-based supervision in line with best international and European practices, including by further improving the transparency and efficiency of the regulatory framework by removing regulations that hamper market-based credit allocation and loan pricing, and enhance confidence by conducting transparent asset quality reviews and publish its methodology and outcomes.	and reestablish the policy rate as the primary instrument of monetary policy. However, inflation expectations remain unanchored, posing an ongoing challenge for the central bank and hindering monetary policy transmission. As a result, the central bank resorted to caps on credit expansion and relies mainly on real appreciation of the exchange rate to rein in inflation. **2) Limited implementation**: The June 2024 decision of the Constitutional Court, which stated that the term of the central bank governor should be regulated by law and cannot be overruled by presidential decree, is a step in the right direction toward strengthening central bank independence. This should be followed by a credible and explicit return to the central bank law being the only legal source for regulating terms of office to dispel doubts that in practice presidential decrees may prevail and solicit policy reversals. **3) Partial implementation**: Progress has been made in simplifying the macroprudential and regulatory framework and improving predictability. However, some regulations constraining market-based asset and loan pricing, and credit allocation remain in place. Legislative work to comply with the final elements of Basel III regulations has been completed, with full implementation scheduled for 2025 in line with the EU's announced timeline. There are no plans to conduct independent asset quality reviews and to publish its methodology and outcomes.
PG 4: Implement legislation and enhance transparency, accountability, and predictability regarding state aid to maximise the benefit of the EU-Türkiye economic and trade relationship, as well as to achieve a meaningful level playing field. Adopt effective measures to further strengthen the rule of law, ensure adequate and timely contract enforcement and improve the availability and functioning of dispute	There was **limited implementation** of PG 4: **1) No implementation:** Since the enactment of Law No. 6015 on Monitoring and Supervision of State Aids in 2010, Türkiye has refrained implementing state aid control by failing to establish a functional organisational structure and refusing to pass the necessary implementing legislation. Moreover, in 2022 Türkiye established a new organisational and legislative structure, which does not aim to align with the EU acquis and implement the Law No.6015. The lack of independence in enforcing state aid legislation and the absence of transparency regarding the actual amount of state aid provided remain a significant source of concern. Furthermore, a recent Presidency Decision of November 2024 allows the President to grant incentives under the Project-Based Incentives without publishing the relevant decision. This new regulation increased concerns with regard to the transparency of the state aids, particularly with regard to this flagship support scheme for which the publication of support decisions for investment totalled TRY 550 billion. **2) Partial implementation:** Türkiye has adopted two judicial reform packages in March and November 2024 with some revisions and simplifications on bankruptcy and enforcement law, notary services and more importantly on data protection law laying down rules/possibility for cross-

settlement mechanisms. Track the implementation process of the action plan for the fight against the informal economy (2023-2025).	border transfer of data, which may positively impact the business environment. The Annual Presidency Programme 2025 includes actions on digitalisation of judiciary services and increasing the number of specialised courts. By the third quarter of 2025, it is planned to identify new areas of need through an impact analysis of specialised courts, and additional specialised courts will be established accordingly. In terms of alternative dispute settlements, the Programme reports that there has been an 18% increase in cases solved through conciliation as of October 2024 as compared to December 2023. The fourth judicial reform strategy planned for the period 2024-2028, which aims also at strengthening the institutional structure, and simplifying legal and administrative proceedings, is still not yet adopted. Structural problems regarding independence and impartiality, accountability and efficiency of the judiciary system are still not addressed. **3) Partial implementation:** Türkiye continues to implement its action plan to fight against the informal economy. However, the recent action plan (2023-2025) fails to provide performance indicators and the outcomes, particularly regarding the impact on informality, are not transparently available. Moreover, Türkiye refrains to conduct any relevant study to measure the size of the informal economy and the success of the action plans.
PG 5: Adopt the Climate Law focusing on enhancing climate governance, fair transition and the establishment of an Emission Trading System (ETS) aligned with the EU ETS. In the context of 'Climate Change Mitigation Strategy and Action Plan (2024-2030)' and 'Climate Change Adaptation Strategy and Action Plan (2024-2030)', effectively implement a long-term low-emission development strategy and address the energy-intensive and hard-to-abate sectors also using alternative fuels such as renewable hydrogen. Increase the resilience against climate change and disaster-related risks, including to ensure sustainable urban development.	There was **limited implementation** of PG 5: **1) Limited implementation**: The Climate Law has not been adopted yet, despite numerous statements for possible adoption in 2024. A draft of the legislation has been prepared for some time but there is no scheduled date for its adoption. As regards the ETS, the Directorate of Climate Change has already initiated a study with the World Bank financing to establish a national ETS. The tender for an EU-funded technical assistance project to align the national ETS with the EU criteria is launched but it is still in the early stages. The draft legislation for green taxonomy is open for consultation, possible adoption timeline unknown. **2) Partial implementation**: The 2053 Long- Term Strategy was published in November 2024, but its implementation is still at early stage, including for low carbon alternative fuels. A new EU funded study on Net Zero Emissions in the transport sector has started and will provide a strategy and action plan to support the initiative. **3) Limited implementation**: A technical assistance project on climate change related disasters under IPA was completed. The project enhanced risk awareness at the Disaster and Emergency Management Authority (AFAD) and other public institutions. In addition to key risk

	planning and modelling outputs, detailed assessments of climate change risks for Antalya and Trabzon were developed. However, mitigation and adaptation measures are still in the early stages of implementation. Several grant projects, supported by the Civil Society Fund (CSF) or the IPA II Enhancing Adaptation Action in Türkiye, are focused on urban resilience and climate risks. As these projects are ongoing, it is still early to assess their outcomes.
PG 6: Facilitate school-to-work transitions for young people who are not in education, employment or training (NEET) by ensuring the quality and inclusivity of the school, tertiary, and vocational training system. Address the labour market gender gap – the difference between men and women – through the establishment of affordable childcare infrastructure beyond the big urban centres of Türkiye, and through raising the level of skills for women by facilitating their participation in on-the-job training. Continue increasing the participation of adults in lifelong learning, aimed at the development of a skilled labour force fit for the green and digital transitions.	There was **limited implementation** of PG 6: **1) Limited implementation**: Young people, especially women, still have difficulties in entering the labour market. The NEET rate rose to 26.3% in the third quarter of 2024, up from 24.7% in the same period in 2023. This rate remains high, notably for women, reaching 34.9% in the third quarter of 2024, compared to 32.9% in the third quarter of 2023. The incentives for additional employment continued in 2024; however, no additional legislative and fiscal measures have been introduced in 2024. No assessment on National Youth Employment Strategy and Action Plan (2021-2023) has been released. **2) Limited implementation:** The gender gap in the labour market remained very high despite a slight progress. The labour force participation rate for women increased to 37.3% in the third quarter of 2024, while the rate was 72.7% for men in the same quarter of 2024. The new employment strategy has yet to be announced. The limited availability of care services remains a significant challenge for women's labour force participation. The home-based childcare services support program funded by the EU (EDU-CARE II) has remained ongoing, but no new measures have been introduced. Legal and fiscal measures are needed to ease and foster provision of quality care services. A new employment subsidy project (Positive Discrimination Project for Women's Employment) has been initiated to promote women's employment by İŞKUR, however, its outreach has been limited. **3) Partial implementation**: The Lifelong Learning Participation Rate has improved over the last years, reaching 7.4% in 2023, yet remaining below the EU average of 12.8%. The 12th Development Plan of Türkiye (2024-2028) sets a target of an 8% participation rate for 2028 in Lifelong Learning. As indicated in policy documents, the Turkish authorities plan to carry out curriculum analysis and regulatory updates to enhance the economic contribution of lifelong learning by the third quarter of 2025. Regarding the efforts to align the skilled labour force with the green and digital transitions, it can be observed that the number of participants in lifelong learning has increased. While the total number of participants between 2018-2020,

	in the area of Renewable Energy, solar and wind energy occupations was 2.390, this figure has reached 14.221 during the period 2020-2024. Similarly, for digital skills, the number of participants was 490.343 during the period 2018-2020, increasing to 598.638 during 2022-2024.

ANNEX 2: COMPLIANCE WITH PROGRAMME REQUIREMENTS

Türkiye's 2025-2027 ERP was submitted to the Commission on 15 January 2025. Overall, it has followed the Commission's guidance note.

Inter-ministerial coordination

Türkiye's Presidency of Strategy and Budget has been responsible for central coordination of the ERP since 2019. The Presidency works closely with the Ministry of Treasury and Finance for the sections of the ERP dealing with the macroeconomic outlook and public finance and with all other line ministries and institutions for the sections of the ERP dealing with structural reforms.

Each line ministry has designated a coordinator for the ERP, which has helped to ensure a smooth inter-ministerial ERP coordination process. The proposed measures for the new ERP were rolled over from ERP 2024-2026. These initial measures were discussed in a workshop held in July and December 2023 by the Presidency of Strategy and Budget with the ERP coordinators, experts responsible for the measures and Instrument for Pre-Accession Assistance (IPA) coordinators. Afterwards, the ERP coordinator remained in contact with the different line ministries and relevant institutions in the preparation of the document.

Stakeholder consultation

The line ministries and related institutions were involved in the preparation of the ERP document. It is mostly based on Long-Term Development Strategy (2024-2053) and 12th Development Plan (2024-2028), Medium Term Program (MTP, 2024-2026) and 2024 Presidential Annual Program. The 12th national development plan and the other policy documents were developed in a broad consultation process with stakeholders and experts (including private-sector representatives, NGOs, and academia). On 31 October 2023, the 12th Development Plan was approved by the General Assembly of the TGNA. During one-year period, 87 different ad-hoc committees and working groups were set up to obtain opinions and suggestions from various parts of society. Approximately 8,500 representatives from the public sector, private sector, academia and non-governmental organisations participated in these meetings and contributed to the ongoing studies. In addition, high-level participatory meetings were held with relevant public institutions, academia, civil society organisations, professional associations and the business community. An online citizens' survey was conducted with the participation of some 43,000 citizens. After all these inputs, the development plan was prepared, and ERP (2025-2027) is fully aligned with these policy objectives and actions.

Unlike previous years, the structural reform section was sent to NGOs such as the Union of Chambers and Commodity Exchanges of Türkiye (TOBB), the Türkiye Exporters Assembly (TİM), the Turkish Industry and Business Association (TÜSİAD), the Independent Industrialists' and Businessmen's Association (MÜSİAD) and the International Investors Association of Türkiye (YASED) for their consideration as a part of external consultation. On this basis, some improvements have been made on the text in line with the feedback but some needs to be reconsidered and require preliminary work for the medium-term period.

As part of the preparations for structural reforms, workshops were held in December 2024 with the participation of all relevant public institutions and organisations in cooperation with Connecting Europe Facility for the ERP 2024-2026. At the December workshop, the framework of measures was amended through suggestions on the scope of measures, impact assessment and their compliance with current guidelines. In the process that followed the meeting, the institutions' work on improving the measures in the ERP was carried out in mutual communication with the strategy and budget experts. As a result of these consultations, the updated contributions were finalised as of early January 2025.

Macroeconomic framework

The Chapter in the ERP on the macroeconomic framework broadly follows the outline provided in the guidance note. It covers nearly all the required elements with one major exception – it does not present an alternative scenario. This is a repeat omission and a major drawback, especially in view of the high levels of domestic and global uncertainty. Macroeconomic forecasts underpinning budgetary planning have become more realistic but would benefit from more transparency about the estimated effects of various policy measures. The analysis would have benefited from better linkage between the macroeconomic and fiscal framework sections and with the macro-relevant structural reforms.

Fiscal framework

The chapter on the fiscal framework largely follows the outline provided in the guidance note. It covers all major elements and provides information on the 2024 budget, although without presenting information on the main discretionary fiscal measures (equal to or above 0.1% of GDP). The chapter also lacks detail on the measures underlying medium-term plans. The section on contingent liabilities could be expanded to systematically cover all sources of liability. The fiscal framework chapter could be deepened to cover elements related to fiscal rules and the medium-term budgetary framework. The sections on quality of public finance, the long-term sustainability of public finance, and on fiscal risks can be developed further.

Structural reforms

Reporting on most of the implementation of the policy guidance could be improved. in the previous ERP (2024-2026), an emphasis was put on the wastewater treatment plants, introducing also a performance indicator “Completed Wastewater Treatment Plant During the Year”. However, in the ERP (2025-2027) this indicator is only mentioned in a footnote without progress detailed; “Works on wastewater treatment plant are ongoing and will be constructed when necessary”. This seems to have been a theme in this year’s ERP as a number of result indicators were removed and/or missed; the number of businesses benefitting from KOSGEB Lean Transformation Support Indicator was removed, despite predicted progress through to 2026; and, apart from the number of printed educational materials increasing, all other result indicators under measure 5 remained stagnated or fell below targets when compared to ERP 2024 indicators (one decrease; number of augmented reality content simulations). The stage of implementation for measure 3 should be lower, as the ETS is still not established due to the delays in the adoption of the Climate Law. On measure 6, the implementation score should also be lower as the target on number of virtual fairs could not be achieved. It is reported that 7 virtual fairs held against the target of 70.