TURKEY

Turkey’s economic freedom score is 64.6, making its economy the 68th freest in the 2019 Index. Its overall score has decreased by 0.8 point, with declines in scores for judicial effectiveness and government spending exceeding modest increases in business freedom and labor freedom. Turkey is ranked 33rd among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

Political turbulence spawned by the government’s transition to an executive presidency has blocked the economic reforms needed to improve the business and investment climate. Nonetheless, Turkey’s economy has shown resilience, in large part because of its solid public finances, well-capitalized and well-regulated banking sector, and dynamic, diversified private business sector. Critical challenges include lack of transparency in government and erosion of the rule of law. The judicial system has been severely disrupted and has become much more susceptible to political influence.

**ECONOMIC FREEDOM SCORE**

- **2015: 63.2**
- **2016: 62.1**
- **2017: 65.2**
- **2018: 65.4**
- **2019: 64.6**

**Trend:** Down 0.8 point

**World Average:** 60.8

**Regional Average (Europe):** 68.6

**Relative Strengths:** Fiscal Health and Trade Freedom

**Historical Index Score Change (Since 1995):** +6.2

**Concerns:** Government Integrity and Labor Freedom

**Quick Facts**

- **Population:** 80.8 million
- **GDP (PPP):** $2.2 trillion
- **7.0% growth in 2017**
- **5-year compound annual growth 6.0%**
- **$26,893 per capita**
- **Unemployment:** 11.3%
- **Inflation (CPI):** 11.1%
- **FDI Inflow:** $10.9 billion
- **Public Debt:** 28.5% of GDP

**Background:** Turkey is a constitutionally secular republic, but President Recep Tayyip Erdogan’s Justice and Development Party (AKP) has pushed an Islamist agenda and eroded democracy. Erdogan further consolidated power after snap elections in June 2018 allowed the AKP to form a coalition with the Nationalist Action Party to retain control of the unicameral national assembly while Erdogan eked out a slim victory for a second four-year term as president. Turkey’s largely free-market economy is driven by its industrial and service sectors, although traditional agriculture still accounts for about 25 percent of employment. Domestic political uncertainty, populist spending measures, increasing government interventionism, and security concerns are generating financial market volatility and having a negative effect on Turkey’s economic outlook.
Property rights are generally enforced. A reduction in transfer fees in 2018 eased the property registration process. The judiciary is independent but influenced by the executive through appointments, promotions, and financing. Although President Erdogan was reelected on an anticorruption platform, pervasive corruption, cronyism, and nepotism persist in government and in daily life. Some officials engage in corrupt practices with impunity.

The top personal income tax rate is 35 percent, and the top corporate tax rate is 22 percent. Other taxes include value-added and environment taxes. The overall tax burden equals 25.5 percent of total domestic income. Over the past three years, government spending has amounted to 34.1 percent of the country’s output (GDP), and budget deficits have averaged 2.0 percent of GDP. Public debt is equivalent to 28.5 percent of GDP.

The process of starting a business has become easier, with less time required for registration, but bureaucratic red tape and ineffective enforcement of regulations continue to be drags on entrepreneurship. Despite some progress, the labor market remains rigid. Turkey has few price controls, but the government’s promises of more subsidies for agriculture and education played a major role in the outcome of the 2018 elections.

The combined value of exports and imports is equal to 54.2 percent of GDP. The average applied tariff rate is 2.7 percent. As of June 30, 2018, according to the WTO, Turkey had 317 nontariff measures in force. Critical impediments to more dynamic foreign investment flows include lingering bureaucracy and the lack of transparency. About 72 percent of adult Turks have access to an account with a formal banking institution.