TURKEY

Turkey’s economic freedom score is 56.9, making its economy the 107th freest in the 2022 Index. Turkey is ranked 42nd among 45 countries in the Europe region, and its overall score is below the regional and world averages.

The Turkish economy grew slowly from 2017 through 2020 but picked up in 2021. Unfortunately, a five-year trend of gradually declining economic freedom has accelerated. Dragged down by sharp decreases in scores for fiscal health and rule of law, Turkey’s economic freedom has plummeted 8.3 points since 2017, and the country has fallen from the “Moderately Free” category to the “Mostly Unfree” category. Trade freedom and investment freedom are highlights, but monetary freedom has deteriorated.

IMPACT OF COVID-19: As of December 1, 2021, 77,038 deaths had been attributed to the pandemic in Turkey, and the government’s response to the crisis ranked 133rd among the countries included in this Index in terms of its stringency. The economy grew just 1.8 percent in 2020.

BACKGROUND: Turkey is a constitutionally secular republic, but President Recep Tayyip Erdogan’s Justice and Development Party (AKP) has pursued an Islamist agenda and has eroded democracy. Erdogan further consolidated power after 2018 elections allowed an AKP coalition with the Nationalist Action Party to retain control of the unicameral national assembly while Erdogan managed by a slim margin to win a second four-year term as president. Turkey’s largely free-market and diversified economy is driven by its industrial and service sectors, but traditional agriculture still accounts for about 25 percent of employment. In 2021, the economy enjoyed significant growth, but that growth came in part after a currency devaluation driven by artificially low interest rates that affected price stability.
Although secured interests in property are generally recognized and enforced and there is a reliable recording system, the government seized at least $11 billion in private business assets after the 2016 coup according to Freedom House. Purges after the coup also inflicted immense damage on the judicial system, which is heavily influenced by the executive. Pervasive corruption is a major problem at all levels of government.

The top individual income tax rate is 40 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax. The overall tax burden equals 23.1 percent of total domestic income. Government spending has amounted to 34.7 percent of total output (GDP) over the past three years, and budget deficits have averaged 4.9 percent of GDP. Public debt is equivalent to 36.8 percent of GDP.

Recent laws have increased regulations on data, social media platforms, online marketing, online broadcasting, tax collection, and payment platforms, chilling business investment. Both unskilled and semi-skilled labor are abundant, but there is a shortage of high-tech workers. Vocational training is increasing. A new central bank governor appointed in March 2021 began a monetary loosening cycle despite rising inflation.

Turkey has 23 preferential trade agreements in force. The trade-weighted average tariff rate is 4.7 percent, and 347 nontariff measures are in effect. Foreign investment is welcome, but restrictions remain in force in several sectors. Investors face lingering bureaucracy in the regulatory environment. The financial system has undergone a transformation that has increased transparency and competitiveness.