Türkiye

A country of contrasts – growth, inflation and the search for stability

By Koen De Leus

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Foreword - Türkiye for Business

An introduction for Belgian entrepreneurs

Türkiye is a country of striking contrasts. It is a G20 economy with 86 million inhabitants, a young and entrepreneurial population, and a geographical position at the crossroads of Europe, Asia and the Middle East. At the same time, it is a country where inflation has repeatedly exceeded 70%, where independent institutions have seen their remit steadily curtailed, and where a single presidential decree can change the rules of the game overnight. For Belgian companies, it is neither an easy market nor one that can be ignored.

To understand today's Türkiye, you need to understand its history. Modern Türkiye was born in 1923 out of the ruins of the Ottoman Empire, when Mustafa Kemal Atatürk proclaimed a secular republic and set out to anchor the country firmly in the West. His reforms were revolutionary — the caliphate abolished, the Latin alphabet introduced, women granted political rights — but they also created deep fault lines between secular elites and religious conservatives that would define Turkish politics for a century. The army repeatedly intervened to protect the secular order, staging coups in 1960, 1971 and 1980.

It was against this backdrop that Recep Tayyip Erdoğan rose to power. A product of Istanbul's poor religious districts, he won the 2002 elections on a wave of economic frustration and political distrust. His first decade was genuinely impressive: growth of 6 to 7% a year, falling inflation, EU accession negotiations and an expanding middle class. Türkiye was held up as a model of Islamic democracy successfully integrating into the global economy. But from around 2007 onwards, the model shifted — away from productivity and exports towards construction, cheap credit and political clientelism. A failed coup attempt in 2016 resulted in a sweeping concentration of power. Today, Türkiye is governed by presidential decree, with limited institutional checks, a partially captured judiciary and a media landscape that operates under significant political pressure.

The economic consequences of this trajectory are visible and consequential. Between 2021 and 2022, Erdoğan overruled his own central bank and cut interest rates while the economy was overheating. Inflation surged from 8% to over 70% in just over a year. The lira lost more than 80% of its value against the euro over five years. After his re-election in 2023, Erdoğan entrusted economic policy to Finance Minister Mehmet Şimşek, a former Merrill Lynch economist who introduced orthodox stabilisation measures. Inflation has since declined to around 30 to 35%, and the policy rate stands at 40%. But credibility remains fragile. Markets ask not just whether today's figures are better, but whether the policy line will survive the inflationary pressures of the 2027 pre-election cycle, fuelled by political giveaways.

And yet, the country's fundamentals are not without merit. Government debt stands at just 24% of GDP. One million university graduates enter the labour market each year. Engineering talent in Istanbul, Izmir and Ankara is comparable in quality to Poland or the Czech Republic, at a fraction of Belgian labour costs. The customs union with the EU, in place since 1996, means that goods manufactured in Türkiye enter the European market duty-free, making it a compelling nearshoring platform — particularly as supply chain fragility, rising Asian transport costs and geopolitical risk push European companies to source closer to home. Delivery times from Türkiye to Northern Europe run at under 50 days, compared with 150 to 170 days from Asia.

Beyond manufacturing, Türkiye is a country in sectoral transition. Its defence industry has gone from a major arms importer to a top-10 global exporter in less than two decades. Its tourism sector welcomed 60 million visitors in 2025. Its automotive plants — Ford, Renault, Toyota, Hyundai, Fiat — supply European markets duty-free. A national electric vehicle brand, TOGG, outsold the Tesla Model Y in 2024. And the government's HIT-30 programme is deploying 30 billion U.S. dollars in public support to accelerate the shift towards electric vehicles, batteries, semiconductors and renewable energy. The ambition is clear: to escape the middle-income trap that has long kept Türkiye's exports concentrated in textiles, assembly and appliances, and to move up the value chain.

For Belgian companies willing to engage, the practical challenge is not whether there is opportunity — there clearly is — but whether they have the organisational agility and local knowledge to operate in an environment defined by volatility. Turkish finance professionals are widely acknowledged to be among the most capable in the world at managing currency risk, inflation hedging and balance sheet complexity. That expertise did not emerge in a vacuum. It is the product of decades of living with structural instability. For foreign companies, the lesson is clear: invest in the right local partnerships, price in hard currency, plan for the short term and build for the long term.

This guide is structured around three interlocking dimensions. Part 1 examines the political and geopolitical evolution of Türkiye — from Atatürk's secular republic through the AKP's rise and the executive consolidation under Erdoğan, to the current constitutional and succession landscape. Part 2 analyses the economy — the reform anchor of the early 2000s, the loss of that anchor, the inflation spiral and the current stabilisation effort, as well as the structural vulnerabilities that persist. Part 3 turns to the practical realities of doing business in Türkiye — from managing exchange rate risk and navigating the legal environment, to identifying the most promising sectors and understanding the cultural dynamics that determine whether a business relationship succeeds or fails. The accounts and observations of Belgian business leaders who operate in Türkiye today and of academics run as a thread throughout all three parts.

Türkiye will not suit every company. But for those who approach it with open eyes, the right partners and a long-term perspective, it offers something increasingly rare in a fragmenting global economy: scale, proximity, connectivity and ambition, all in one market. I hope this guide will help your company succeed.

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1. The political and geopolitical evolution of Türkiye: from republic to centralised power

Türkiye has evolved from a secular republic founded on Kemalist principles into a personalised presidential system centred around one dominant leader. Erdoğan began as a reformer and pro-Western moderniser but has since become a leader who centralised power and reshaped institutions. Today, Turkish society is grappling with economic pressure, political polarisation and a changing democratic landscape.

1. The transition from the Ottoman Empire to a secular republic (1923 – 1990s)

Modern Türkiye emerged from the ruins of the Ottoman Empire, which was one of the world's most important empires for six centuries. Acting as a bridge between Europe, Asia and the Middle East, it controlled strategic trade routes and straits.

Following defeat in the First World War, in which it had fought alongside Germany and Austria-Hungary, the Ottoman Empire (encompassing Türkiye, Syria, Lebanon, Israel, the Palestinian territories, Jordan, Iraq, western Saudi Arabia and parts of Yemen) was dismantled by the Allied powers. In response, Mustafa Kemal – later known as Mustafa Kemal Atatürk – launched a war of independence against foreign occupation and internal fragmentation in 1919.

In 1923, the Republic of Türkiye was proclaimed. Atatürk transformed the former empire into a secular, national state. His reforms were revolutionary: the caliphate was abolished, marking the end of Türkiye's role as the religious leader of the Islamic world; Islam was no longer recognised as the state

religion; the legal system was secularised; the Latin alphabet was introduced; and women were granted political rights. Religious symbols were removed from the public sphere and religion was placed under strict state control. Atatürk aimed to anchor Türkiye in the West and break with its Ottoman past.

These reforms created a modernisation project that profoundly reshaped society. While they laid the foundations for a strongly centralised republic, they also alienated large parts of the religious population. From then on, the army saw itself as the guardian of the Kemalist, secular model.

After Atatürk's death in 1938, Kemalism remained the state ideology. Türkiye joined NATO in 1952 and positioned itself as an ally of the West during the Cold War. Nevertheless, domestic politics remained unstable. The army carried out coups in 1960, 1971 and 1980, and forced the government to resign in 1997 in an event that became known as the "postmodern coup". Each time, the army justified its intervention as necessary to protect the secular nature of the state.

The 1980 coup was particularly far-reaching, leading to mass arrests and repression. The political chaos of the 1970s and 1980s weakened the economy and undermined public trust in government. By the 1990s, Türkiye was formally a democracy, but was characterised by weak coalition governments, high inflation, corruption and a deep divide between secular elites and religious-conservative segments of the population.

This context created fertile ground for a new political force.

2. The rise of Erdoğan (1990s)

Recep Tayyip Erdoğan grew up in a religious environment and was educated at an imam-hatip school. In Türkiye's strictly secular system, this often meant social and institutional disadvantage, and Erdoğan came to see himself as discriminated against. Atatürk had abolished Islamic schools to ensure state control over religious education.

Erdoğan was elected mayor of Istanbul in 1994, representing the Islamist-oriented Refah Party. This was a notable victory at the time, as the secular establishment had traditionally dominated Türkiye's largest and most important economic city. He gained popularity as an efficient administrator, presenting himself as the voice of religious and conservative citizens who felt marginalised. This earned him the nickname 'the imam of Istanbul'. Many secular critics feared that he would "Islamise" the city. Statements such as "If the people want it... then secularism will of course disappear" only served to reinforce these concerns. According to the mayor, however, it was the will of the people, not his own.

> "If the people want it...
> then secularism will of course disappear"

In 1997, he went a step too far by quoting a religious-nationalist poem during a speech. He was convicted of inciting religious hatred in 1998 and served four months in prison. What the establishment intended to be the end of his career became, for his supporters, a symbol of persecution by the secular elite.

In 2001, he founded the Justice and Development Party (AKP). In 2002, the AKP won a landslide election victory amid an economic crisis and a climate of political distrust.

3. A decade of reform and economic success (2002–2007)

When he became prime minister in 2003, Erdoğan positioned himself as moderately Islamist, economically pragmatic and pro-Western. He promised not to interfere in citizens' private lives and pursued EU membership. Official accession negotiations with the European Union began in 2005.

The first ten years of AKP rule brought significant economic growth. Structural reforms, financial discipline and foreign investment – policies encouraged by the European Union and the IMF – led to strong expansion. This growth expanded the middle class. Millions of people in the previously disadvantaged and more religious Anatolian regions experienced real social mobility. During this period, Türkiye was presented as a model: an Islamic democracy successfully integrating into the global economy.

However, around 2007, a fundamental shift began. The model of export-driven, productivity-focused growth was gradually replaced by one based on cheap credit, domestic consumption and, above all, construction. This later became known as the "economy of concrete".

Human and financial capital flowed massively into real estate, shopping centres, luxury housing projects and large-scale infrastructure. While the construction sector expanded, industrial competitiveness lagged behind. Large public contracts were awarded to a select group of favoured conglomerates, leading to accusations of clientelism and corruption.

4. Power struggle, rupture and executive consolidation (2007–2016)

Although the AKP won the elections, the Kemalist elites still controlled the army, judiciary and bureaucracy. To survive, Erdoğan formed a tactical alliance with the Fethullah Gülen movement, which combined Islamic principles with modern liberal ideas and held strong positions within the police and judiciary.

Between 2008 and 2013, the infamous Ergenekon and Balyoz trials took place, resulting in the arrest of hundreds of senior officers and critics. These trials definitively broke the political power of the army, which had previously been the guardian of the secular state.

> "Today, society is completely polarised. Supporters of the AKP stand directly opposed to the opposition."

After eliminating the common Kemalist establishment, the alliance between Erdoğan and Gülen collapsed. In 2016, this conflict escalated into a failed coup attempt. Erdoğan accused Gülen of orchestrating it. A two-year state of emergency then followed. Over 150,000 civil servants were dismissed and more than 100,000 people were arrested. Around one-third of all judges and prosecutors were removed.

"Anyone with links to Gülen was arrested and had their companies confiscated," says Mahir, a Turkish expat who has been working in Brussels for the past decade. "Today, society is completely polarised. Supporters of the AKP stand directly opposed to the opposition."

The coup also marked the systematic restructuring of the state under direct presidential control. Under the pretext of promoting stability and efficiency while protecting democracy, the transition to a presidential system was approved by referendum in 2017. Parliament lost substantial power, the role of prime minister was abolished, and executive power was concentrated in the presidential palace. This system has evolved into what is often described as "Erdoğanism": governance by presidential decree and extensive micromanagement.

5. Economic crisis and Erdoğanomics (2018–present)

The structural weaknesses of the construction-driven economic model became apparent as growth slowed. In 2021, the Turkish lira lost 44% of its value, followed by a further 30% in 2022. Official inflation reached 86% in October 2022, though independent estimates suggested it had exceeded 100%.

The crisis was exacerbated by Erdoğan himself. Contrary to conventional economic logic, he blocked interest rate increases in order to maintain cheap credit for the construction sector and private consumption. As the May 2023 elections approached, the economy needed to be performing well. In 2021, Erdoğan replaced the governor of the Turkish central bank, something that can be done by presidential decree in Türkiye. He appointed a sympathetic academic who duly lowered interest rates. Within a year, inflation had risen from 8% to over 30%. It was only at the end of 2023 that he approved a policy shift, raising interest rates to 50% and introducing austerity measures.

Today, inflation hovers around 30%, interest rates stand at 40%, and the lira remains fragile. While the early AKP years had brought prosperity, later economic policies have led to structural instability.

The May 2023 elections were preceded by a series of powerful earthquakes in large parts of south-eastern Türkiye, resulting in over 50,000 deaths and widespread destruction. The Turkish government was criticised for its slow

initial response to the relief and coordination efforts. Opposition parties also highlighted the insufficient enforcement of building regulations.

"Antakya, where my brother lives, was severely affected by the earthquake," Mahir tells me. "His six-month-old apartment was wiped out. Yet they were supposed to be earthquake-resistant. There are supposedly inspections for this, and you receive a certificate."

Despite the criticism, Erdoğan remained popular, with the AKP winning 10 out of the 11 provinces worst affected. However, according to political analysts, the earthquake contributed to a very narrow victory. Erdoğan secured 52.2% of the vote in the second round and remained president. His AKP party received around 36% of the vote, its worst result since 2002, but still enough to govern with its allies in the People's Alliance.

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6. Political future and succession

Today, Türkiye is a constitutionally secular state with an increasingly religious political and public sphere. The suppression of the opposition continues.

In March 2024, the opposition secured a significant victory in the municipal elections. The largest opposition party, the Republican People's Party (CHP), became the biggest party nationwide. The figure with the most momentum was Ekrem İmamoğlu. He was Mayor of Istanbul and was seen as a potential presidential candidate. However, in 2025 he was arrested and barred from running for the presidency. This reinforced the perception of selective use of the legal system.

Under the current constitution, Erdoğan's term will end in 2028. However, he is working on a new constitution. The governing coalition does not have sufficient parliamentary support to pass the changes without a referendum. Potential constitutional reforms could reset term limits, enabling Erdoğan to stand for two full terms. If he wins, he would surpass Urho Kekkonen, President of Finland from 1956 to 1982, as Europe's longest-serving elected leader since 1945.

Several factors play in favour of the opposition. The economy is weak, high inflation is eroding purchasing power, and unemployment is rising. There is also the popular figure of Ekrem İmamoğlu, although it remains uncertain whether he will be legally permitted to stand. Finally, a generational shift is underway: younger voters are less loyal to the AKP, and economic frustration is growing among the middle classes.

Erdoğan, however, counters this with his overall control of the state apparatus and the media. He continues to perform strongly in religious-conservative provinces and the Anatolian interior. He presents himself as a strong leader and Türkiye as an independent geopolitical player. This resonates with many Turks who value unity and the idea of "rallying behind the flag".

2. Türkiye between a reform anchor and the inflation trap

Anyone looking at the Turkish economy today sees a country of contrasts. It is a G20 economy with a young population, a strong industrial base and a geographical position that makes it both a bridge and a pivot point. At the same time, the country is struggling with persistent inflation, exchange-rate volatility, a high financing risk premium and a political climate in which predictability is in short supply. To understand the current economic landscape, we need to go back to the start of this century, when Türkiye was regarded as a model of reform and modernisation.

1. The positive growth period (2000–2005)

2001 was a turning point. After more than a decade of chronically high inflation, large budget deficits, weak banks and high short-term debt, a severe financial crisis broke out in February 2001. GDP contracted sharply, the lira depreciated significantly and banks collapsed. The country turned to the IMF and implemented a far-reaching reform programme. This laid the foundations for a period of stability, discipline and rapid growth.

During this time, Erdoğan appointed internationally respected technocrats to his team. The central bank was granted independence, budget deficits were reduced, the banking sector was reformed and privatisations were carried out.

At the same time, the prospect of EU accession provided a further anchor. The role of the military in politics was curtailed, the judiciary was reformed, minority rights were expanded, especially for Kurds, and the death penalty was abolished.

This external framework imposed reform discipline and strengthened the confidence of foreign investors. “Erdoğan benefited from a number of things that he had not necessarily devised himself,” says an active banker in Türkiye who wishes to stay anonymous and from here on is called Rudy. “His merit, however, was that he allowed those programmes to continue.”

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The economic impact was considerable. Real income per capita grew by around 6 to 7% a year in the following years, creating a middle class. From 2005 onwards, inflation was kept below 10%. During this period, Türkiye was seen as a model of successful reform in an emerging market.

At the same time, the foundations were laid for a growth model that would later prove vulnerable: growth heavily reliant on capital inflows with high returns in Türkiye compared to developed economies, credit expansion and construction projects. This works during a period of economic growth. However, when interest rates rise in the EU and the U.S. and confidence declines, investors pull their money out of riskier countries. This causes Türkiye's financing costs to rise and its economy to slow. The economic logic of the "Turkish miracle" was real, but not fully robust.

2. The loss of the 'anchor' (2006–2023)

After 2008, the momentum of reforms began to fade. The EU process slowed, checks and balances weakened, and economic policy gradually shifted towards short-term stimulus. An increasing proportion of growth was driven by real estate, infrastructure and consumption, rather than by productivity gains and export upgrading. In the latter case, an economy grows because it becomes more productive. In the former, it grows because it becomes bigger. This type of growth depends on the financing cycle, making the economy far more vulnerable.

Mahir, who spent years carrying out investment analysis for potential acquisitions and business expansions in Türkiye, outlines a related problem. An important element in the early successes was privatisation. "The Turkish government launched a huge privatisation programme, which it used to finance growth.

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In practice, Istanbul became a showcase for new bridges, roads, towers and mega-projects. "These public investments were often carried out at prices far above market value," says Mahir. "Corruption became a major problem." The economic damage caused by corruption is rarely just budgetary. For companies, it often leads to higher project costs, longer lead times, less transparent procurement processes and a higher risk premium on long-term investments.

A second, deeper problem is polarisation, which intensified sharply after 2013. Social fault lines existed prior to 2000, pitting secularists against religious conservatives, nationalists against the Kurdish minority and the urban elite against the conservative Anatolian population. Many researchers view 2013, the year of the Gezi protests in Istanbul, as a turning point. What began as local opposition to the planned redevelopment of Gezi Park in Istanbul grew into a nationwide protest against authoritarianism, police violence and Erdoğan's policies.

> "There are two camps within the Turkish population: those who hate the government and those who worship it."

The 2016 coup further intensified this polarisation. "There are two camps within the Turkish population: those who hate the government and those who worship it," says Mahir. "As an entrepreneur, it is best to be on good terms with everyone, otherwise you will not do much business, certainly not in public works." Rudy agrees. "You're either for or against the policy. Today, politics is discussed less and less openly, because it is too sensitive."

After the coup, Erdoğan increasingly surrounded himself with yes-men. By around 2021, he had completely broken with orthodox macroeconomic policy. Erdoğan publicly defended the idea that low interest rates would fight inflation. "He said that interest was the enemy of everything," recalls Yvan De Cock, former BNP Paribas Fortis representative on Türk Ekonomi Bankasi's (TEB) Board of Directors. "You should not forget that the Koran strongly condemns 'riba', or receiving more without giving anything in return. Erdoğan received the same education as an imam. That is why he wanted to keep interest rates as low as possible, with all the catastrophic consequences that followed."

> "Once you're dealing with figures like that, it takes time to bring them back under control. You create a spiral."

When the central bank cut interest rates while the economy was already overheating, inflation exploded. "Within a year, inflation went from 8 to 30%. Two years later, it had reached 70 to 80%." The credibility of the policy was severely damaged. "Once you're dealing with figures like that, it takes time to bring them back under control. You create a spiral." And that should be taken quite literally. If companies and households expect prices to keep rising, they will buy, index and raise prices sooner. The government also indexes the minimum wage, which plays well electorally. Inflation then becomes not just a consequence of policy, but also of behaviour and expectations, and those are difficult to reverse. Which brings us to...

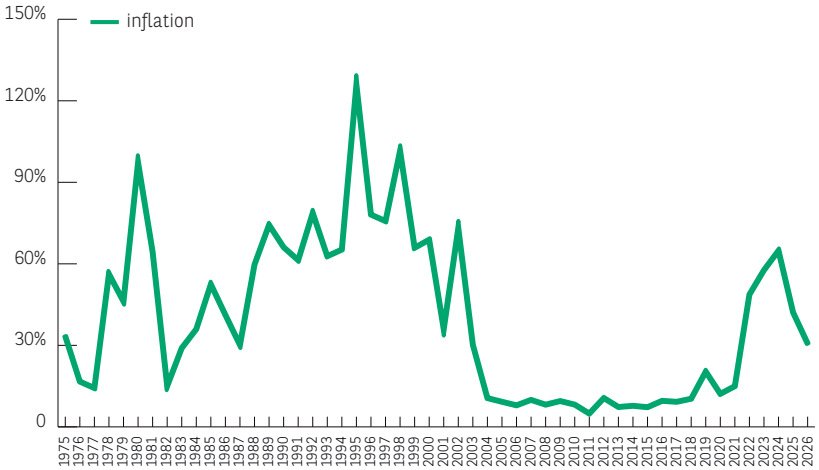
3. The inflation problem

Inflation became the dominant macroeconomic problem. Between 2004 and 2017, it remained almost constantly between 5% and 10%. "But that is actually exceptional," notes De Cock. "Türkiye has very often experienced high inflation throughout its history. Turks are used to living with it." Inflation tends to rise particularly in the year before elections. "That is when political parties compete for voters' favour and start handing out gifts." In 2023, both the ruling AKP and the opposition presented themselves as 'protectors of purchasing power' and promised to increase the minimum wage. This was politically crucial, given that more than a third of workers in Türkiye earn the minimum wage. It was, however, economically unwise, as it fuelled inflation further. Even less responsible, at least from a budgetary perspective, was the reform introduced by the government just before the elections, which gave millions of workers the right to early retirement with no minimum age. "Further down the list of gifts were one month of free natural gas and coal, and even refrigerators."

Price-setting also works differently compared with Western Europe. "When a Turkish shopkeeper raises prices, they do so immediately by 10 or 20%." This reinforces inflation inertia and makes it harder to keep expectations stable.

Türkiye has a long history of high inflation

Inflation Türkiye (CPI, % YoY)



The drivers of structurally high inflation are multiple. Energy dependence makes the country sensitive to rising oil prices. The Central Bank of the Republic of Türkiye (CBRT) estimates that a 10% increase in energy prices adds a full percentage point to inflation. For the eurozone, that effect is estimated to be around 0.1%. The much larger impact, which is also evident in other growth markets, stems from energy and food accounting for a far greater proportion of an average household's spending.

Across the entire CEEMEA region, Central and Eastern Europe, the Middle East and Africa, our colleagues at BNP Paribas Global Markets estimate that Türkiye is at the greatest risk of renewed inflation due to war in Iran. Until now, the CBRT had aimed to reduce inflation from 30% in January to 24% by the end of the year. However, if the oil price does not quickly fall back to 65 dollars a barrel, inflation could stall at 26.5% at an average price of 80 dollars a barrel or rise to 28.5% if it exceeds 100 dollars. In that scenario, short-term interest rates would also remain around 4 percentage points above our expected rate of 30% by the end of the year.

In both scenarios, the current account deficit would rise from 1.6% of GDP to 2.0% and 2.5% respectively. This would not be dramatic for the Turkish lira, given the large foreign currency reserves that the CBRT could deploy to allow depreciation to happen gradually. Nevertheless, caution is needed. For example, rating agency S&P warned of a downgrade for Hungary in the event of a prolonged rise in energy prices due to rising inflation, a significant

deterioration in the current account and a sharp depreciation of the forint. Türkiye can already see what may be coming.

Türkiye's headline inflation index had risen fourfold between January and November 2022, from 21.6% to 85.5%. It went down to 38% in June 2023 to double again by May 2024. These extreme inflation figures have completely undermined the Turkish lira against the euro and the dollar.

Today the flight to safety is giving the dollar an extra boost. And that is pushing up the bill for rising oil prices in Turkish lira even further. The weak lira also drives higher food prices. Türkiye produces large quantities of vegetables, fruit, hazelnuts – just ask Nutella – olives and cereals. It also imports a great deal: wheat, maize and soy. As a result, the weakening of the currency pushes up costs quickly. Add inefficient logistics, drought in some years and a rapidly growing population, alongside the many refugees it hosts (partly funded by the European Union), and food prices become structurally volatile.

In February 2026, the Financial Times reported on the government's crackdown on "exorbitant" food prices, as well as on its attempts to suppress rumours on social media about an extremely expensive plate of meatballs costing 22,850 Turkish lira, equivalent to 522 U.S. dollars. Deputy Trade Minister Mahmut Gürcan felt compelled to respond, issuing an official statement: "Through investigation, it has been determined that the aggrieved customer, named Murat Ş, had also ordered other dishes, as well as alcoholic and non-alcoholic drinks," he said. This may have put the matter to rest, but it shows how sensitive the Turkish population is to high food inflation.

In a country that likes to see itself as an agricultural powerhouse, these high prices are about more than just statistics. They affect purchasing power, social stability and the political contract between town and countryside. Food inflation is politically sensitive because it affects everyone every day. It is also economically persistent: energy or rent can still be compensated for temporarily, but food prices have a direct impact on wages and create social tensions because they hit the least well off hardest.

4. Consequences of high inflation

One of the most visible consequences of high and volatile inflation is dollarisation. When citizens lose confidence in the purchasing power of their national currency, they seek protection in foreign currencies. In Türkiye, this translates into a rising share of dollar and euro deposits. "More than 60% of our deposits were in dollars," says Yvan De Cock. "Why? Because Turks know very well that they have high inflation. They convert their savings into dollars or gold."

According to TEB economist Yasemin Basyigit, a share of dollar deposits below 40% is positive. "The 40% dollarisation rate in Türkiye is now lower compared to recent years. 40% is significantly more manageable than the 70%+ levels seen during the peak of the currency crisis in late 2021. The primary driver of this decline has been the return to conventional monetary policies (aggressive rate hikes) and sustained disinflation. From a trend perspective, the momentum is positive (de-dollarisation)." In the past, political tensions or legal action against opposition figures have also led to sudden shifts in capital into dollars.

In March 2025, for example, the dollarisation of deposits rose quickly after the arrest of political rival Ekrem İmamoğlu. Too quickly. "So, a way had to be found to encourage citizens to keep their money in lira. The central bank introduced a lira product whose interest rates were linked to the lira's performance against the dollar. They also sold dollars on a massive scale to meet demand and prevent further pressure on the lira. This is how they eventually regained control of the situation." To absorb these temporary spikes in demand, the CBRT always keeps sufficient dollar reserves on hand.

Alongside dollars, many Turks also choose to save in gold. In the long term, gold is assumed to be a reliable hedge against rising global inflation. This is not enough in itself to offset Turkish inflation. However, since the precious metal is priced in dollars, there is a 'double' hedge. Gold's popularity is also reflected in how it is used in society. "When someone gets married, people buy gold for the bride" says De Cock. "No wedding list, just gold coins."

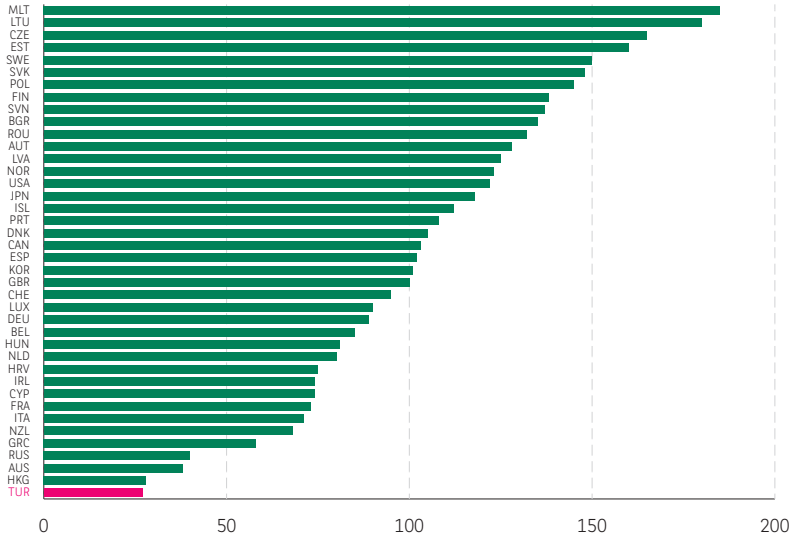
According to the IMF country report, the sharp rise in the gold price in 2025 produced a wealth effect that boosted household consumption. Conversely, a sudden fall in the gold price could have the opposite effect. In response to fluctuating demand and supply, the CBRT built up substantial gold reserves. On 20 March, gross gold reserves reached 134 billion dollars. Gross foreign currency reserves, most likely in the form of dollars, totalled 55 billion dollars, amounting to total reserves of 189 billion dollars.

If people were to put less money into traditional deposits and more into gold, banks would have less funding and a smaller base from which to extend credit. But Turkish banks have adapted. For years, they have offered gold deposit products that they can put to work. "Managing Turkish bank balance sheets – what banks receive, lend and invest – is extremely complex due to the high volatility of both interest rates and the lira exchange rate against the dollar," says De Cock. The same applies to companies active in Türkiye. We will examine this in more detail in the chapter 'How to do business in Türkiye'.

Real estate also acts as a hedge against inflation. In recent years, house prices have risen faster than consumer prices because of the shift towards tangible assets. Rents have also increased dramatically, indicating a structural

shortage in the rental market. Consequently, buying a home became an even more pressing matter. Between January 2018 and January 2026, the average cumulative rise in house prices reached 1983%, nearly a nineteen-fold increase. Wages have lagged behind, meaning the average house-price-to-income ratio now stands at around 10.7 for Türkiye as a whole.

Average housing affordability index over the sample period by country



(source: World Population Review).

For major cities such as Istanbul and Ankara, the figure is even higher. This is comparable to France at 10.3, higher than Germany at 9, Belgium at 6.8 and the U.S. at 3.3, but lower than most Eastern European countries.

Above all, it is the cost of financing that makes buying a home almost impossible for much of the population, especially young people. It rose from around 10% in 2020 to nearly 40–45% in 2025. Loan repayments have therefore more than doubled. This difficult combination of relatively high house prices and extremely high borrowing costs results in a very low housing affordability index (see chart). This measures the relationship between a household's average income and the income required to qualify for a typical mortgage. A ratio of 25 for Türkiye means that the average household earns only a quarter of the income needed to finance a home.

This pressure on living standards also affects demography and the labour market. "Young people cannot afford to rent, let alone buy, a flat," says Mahir.

> "Young people cannot afford to rent, let alone buy, a flat," says Mahir. "As a result, they stay living with their parents until they are 30 or 35."

"As a result, they stay living with their parents until they are 30 or 35." In this way, the demographic bonus of a young population becomes a source of frustration, with lots of young people, too few stable jobs and little sense of the future. Young Turks have limited opportunities to improve their economic position compared with their parents, or even compared with their current situation. "Social mobility is not high in Türkiye either," observes Rudy. "And if wealthier people send their children abroad to study and work, then I fear you are losing your top layer." Such a brain drain would undermine Türkiye's ambitions to move up the value-added ladder.

5. Recent stabilisation period

After the 2023 elections, a clear change was introduced. A new economic team led by Finance Minister Mehmet Şimşek announced a return to more orthodox policies. Erdoğan needed someone with economic credibility to tackle inflation, the weak lira and the loss of investor confidence. Previously an economist at Merrill Lynch, Şimşek had already served as minister from 2009 to 2015. Policy rates were raised sharply and the central bank emphasised the importance of positive real interest rates.

According to IMF estimates, inflation declined gradually from an official peak of 86% in late 2022 to 31%. Are we likely to quickly return to the period between 2005–2015, when inflation remained below 10%? "There is not really any conviction that we will get back to single digits in the short term," says our active banker Rudy.

An austerity programme was also introduced, which was sometimes informally referred to as Türkiye's 'DOGE'. This involved reducing the number of official cars, postponing government building renovations, limiting operating costs and freezing recruitment. Privatisations were relaunched to replenish the state coffers and improve the debt position. However, Mahir warns that the major problem is not just today's policy, but tomorrow's credibility. "They are taking action today, but no one can guarantee that Erdoğan will not change course again in a year's time, when new elections come around." Markets do not just look at today's interest rate but consider whether it will remain free from political influence in the future. Business leaders are not asking "Are the

figures better today?" but "Is the policy line predictable enough to invest five years ahead?" If the answer is uncertain, capital remains short term, expensive and cautious.

> "Markets do not just look at today's interest rate, but consider whether it will remain free from political influence in the future."

6. Vulnerabilities

Despite the recent stabilisation, Türkiye remains vulnerable. Its energy dependence is the first of its structural weaknesses. Although the share of renewable energy in installed capacity increased from 40% in 2000 to 62% in 2025, the country is still sensitive to oil and gas prices. Hydropower, whose capacity has remained relatively stable for decades, accounts for an average of 21% of electricity generation, though considerably less in drought years. Wind and solar power accounted for most of the increase in renewable energy and now represent 22.4% of electricity generation (IMF 2025). A further acceleration of the green transition is needed to ease structural pressure on the current account.

The current account is also negatively affected by the low added value of exports. Türkiye runs on trade, but relies on imports. Exported products are mainly concentrated in the lower segments of the value chain, particularly medium-tech industries such as car assembly, household appliances and textiles. These industries are characterised by labour-intensive production and the use of large amounts of imported energy, goods and foreign technology. Due to the lira's decline in recent years, imports have become more expensive, production costs have risen, margins have fallen and inflation has increased. This significantly heightens macroeconomic vulnerability. In contrast, economies with a stronger high-tech base, supported by patented technology, brand value and design, achieve higher margins and more stable export income, and are less sensitive to price pressure.

Structurally, therefore, Türkiye's high exports of goods and services, around 30 to 35% of GDP, are matched by even higher imports of around 35 to 40%. The trade balance for goods is heavily in the red. The services sector partly offsets this. Over the past 20 years, the current account deficit has generally fluctuated between 2% and 4%. In 2025, the deficit remained relatively limited at 1.5%, thanks to weaker domestic demand, strong tourism with 60 million visitors and lower energy prices.

However, a lower deficit does not mean that the problem has disappeared. Even with a deficit of 1.5% of GDP, Türkiye still needs to attract substantial financing each year. Total gross external financing needs – the current account deficit plus debt maturing with foreign creditors – fell from 21.2% to 18.1% of GDP in 2024, and were expected to decline further to 14.8% by 2026. This is still huge and leaves Türkiye vulnerable to changes in capital flows. If investors lose confidence, they will not provide the necessary financing or refinancing. The country would then need to seek funding elsewhere or at much higher interest rates. The fact that a large share of external debt is concentrated among companies and banks makes the country particularly sensitive to exchange-rate shocks, as they must repay debt in another currency while earning revenue in lira.

Political risk is a second vulnerability. Legal action against prominent opposition figures and tensions with Western partners regularly lead to higher risk premia. The credit default swap spread – the price in basis points that you pay to insure yourself against the risk of a country defaulting on its debts – is higher for Türkiye than for many other emerging markets. The result is higher borrowing costs.

Then there is Türkiye's dependence on Europe, which is by far its main trading partner. Türkiye's share of total EU imports rose from 2.5% in 2012 to 4.1% in 2025. This creates opportunities, particularly when the euro strengthens

against the dollar, as it did in 2025. "But if Europe is not performing particularly well, this is immediately felt in Türkiye too," Rudy notes.

> "We kept a backpack with supplies next to our bed, just in case..."

A final structural risk that should not be underestimated is earthquakes. "90% of Turkish territory is prone to earthquakes," explains De Cock. Banks and companies actively take this into account. "We kept a backpack with supplies next to our bed, just in case..." Earthquakes are also a macro risk: they destroy capital, factories, homes and infrastructure, putting pressure on budgets. There has been massive reconstruction in Türkiye in recent years, which can put insurance markets under strain and shift investment budgets away from productive growth towards recovery.

3. Doing business in Türkiye

Introduction: Türkiye at a glance

Türkiye is more than an emerging market. Home to 86 million people, it is positioned at the crossroads of Europe, Asia and the Middle East, and is a strategic, cultural and economic hub. For Belgian companies, Türkiye offers opportunities in manufacturing, export, nearshoring and regional expansion. However, doing business in Türkiye also requires an understanding of key structural challenges: inflation, exchange rate risk, geopolitical tension and legal uncertainty.

Population	86 million (+ approx. 4 million refugees)
GDP per capita	approx. USD 15,000 (middle-income country)
Inflation (2025)	approx. 30–35% (peak: 70% in 2022)
Government debt/GDP	approx. 24% (well below the EU benchmark of 60%)
Trade partner	EU: 40–42% of total trade
NATO member	Yes, second-largest army

1. Geopolitical position: opportunity and challenge

Türkiye occupies a unique geopolitical position. The country connects Europe with Asia, controls the Bosporus and the Dardanelles – the maritime passage between the Black Sea and the Mediterranean – and serves as an energy and trade corridor for gas and oil pipelines from Russia, Azerbaijan and the Middle East.

Under President Erdoğan, Türkiye has moved away from the Kemalist principle of 'Peace at home, peace in the world'. Military interventions in Syria and Libya, support for Azerbaijan in Nagorno-Karabakh and the 'Blue Homeland'

doctrine[1] reflect a more assertive foreign policy. At the same time, Erdoğan presents himself as a peace broker and an indispensable partner. "He positions himself as a mediator between Russia and Ukraine and presents this to his domestic audience: 'Look, I am putting Türkiye on the international stage,'" says Yvan De Cock. "At the same time, Europe has needed Türkiye for migration management, allowing him to secure his place at the international table."

Ankara maintains this unique position through careful diplomatic balancing. Despite its NATO membership, Türkiye purchased the S-400, a fourth-generation Russian surface-to-air missile system. As a result, it was excluded from the U.S. F-35 programme, yet Türkiye refuses exclusivity and seeks to maintain relations with all major powers. "And just as Türkiye is a secular state with strong Islamic influences, I think President Erdoğan is signalling: we are a bit of everything," says our anonymous banker, Rudy.

Türkiye's importance within NATO is difficult to overstate. With 355,000 active personnel, it has the second-largest army in the alliance. In terms of military strength, it ranks ninth out of 145 countries (Global Firepower Index, 2025), supported by a strong technological and industrial base. The defence sector is unquestionably one of the leading sectors in the Turkish economy (see further).

For Belgian companies, this constant ambiguity is a key consideration: Türkiye is a reliable partner within Western institutions (NATO, EU customs union), but political volatility requires caution when making decisions about a long-term presence.

Transit hub

The 'Middle Corridor' (see map) is another major asset Türkiye can leverage. This trade route runs from China via Central Asia (Kazakhstan, Uzbekistan), the South Caucasus (Azerbaijan, Georgia) and through Türkiye to Europe. With the closure of the Russian air corridor and the sanctions following the invasion of Ukraine, this has become a key emerging trade route. "Türkiye can become a natural hub, a transit hub toward Europe," says Dr Kadri Tastan, senior non-resident fellow at the German Marshall Fund of the United States in Brussels. "Türkiye has political and cultural affinity with these Central Asian countries, and the infrastructure is well connected." It also maintains strong and expanding relations with Africa. "Flights to the continent with Turkish Airlines continue to increase, and we are also opening more embassies there."

[1] The 'Blue Homeland' doctrine is an ambitious maritime strategy through which Türkiye seeks to expand its influence and control over surrounding seas, specifically the Black Sea, the Aegean Sea and the eastern Mediterranean. It involves claims to extensive maritime zones and natural resources, often at the expense of Greek and Cypriot interests.

Türkiye is investing heavily in infrastructure to realise its ambition to become a transit hub. In recent years, it has made major investments in ports, railways and airports. "These projects progress remarkably quickly," says De Cock. "The new international airport in Istanbul was built in just four years. In my neighbourhood an 800-metre tunnel was completed in six months. Work continued day and night." Istanbul Airport is one of the largest in Europe and serves almost all destinations in Asia and Africa. This logistical strength makes Türkiye an attractive regional operational base.

The Belgian company Pollet Water Group serves Africa, the Middle East and the 'Stan' countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – from Türkiye. "In 2003, we invested in a fast-growing Turkish client, Esli in Antalya," explains CEO Sofie Pollet. "We initially took a 51% stake and gradually increased it. At the time, it was the smallest company in our group. Then the local management told us: 'One day we will be the biggest.' And today, that is indeed the case." This clearly reflects the mindset of Turkish entrepreneurs.

Esli's production is roughly split between the domestic Turkish market and exports to those regions. "The mentality in Türkiye and in these regions is much more aligned," says Pollet. "They secure contracts there that we, as Westerners, would never win." The same applies to Africa. "Our Turkish sales teams actively attend trade fairs in Kenya, the Congo and South Africa. These are not particularly stable regions, but neither is their home market, Türkiye. They thrive in that kind of environment."

2. Türkiye as a production platform for Europe

Türkiye's competitive edge is underpinned not only by its modern transport, logistics and industrial infrastructure, but also by the strategic advantages arising from its deep economic integration with the European Union. "The Türkiye–EU Customs Union, effective from the beginning of 1996, covers industrial goods and forms the backbone of bilateral merchandise trade," explains a Turkish public official who wants to remain anonymous. We refer to him as Ali in the rest of this guide. "Within this framework, customs duties and quantitative restrictions on industrial goods have been abolished, while Türkiye aligns its external trade regime in relevant areas with the EU's Common Customs Tariff. This high degree of integration, combined with Türkiye's diversified manufacturing base, continues to offer a compelling platform for investors seeking efficient access to European markets. Goods manufactured in Türkiye and placed in free circulation may therefore reach the EU market without tariffs."

The customs union is certainly an asset for European investors. The agreement dates back to 1996. It covers industrial goods and processed agricultural products, but excludes services, e-commerce, agriculture and public procurement. In its current form, however, it disadvantages Türkiye: when the EU concludes a trade agreement with India, India gains access to the Turkish market, without Türkiye gaining reciprocal access to the Indian market. "Türkiye has no say in EU trade policy, yet is bound by it," says Tastan. "That is an unusual situation."

At the same time, "the fact that Türkiye is now included in the 'Made in EU' debates and the Industrial Accelerator Act proposal is a very strong sign of EU support." Products manufactured in Türkiye could thus obtain a 'Made in EU' label, further increasing the country's attractiveness as a production base for the European market.

The European Union remains Türkiye's principal trading partner, while Türkiye is among the EU's major merchandise-trade partners. "At the same time, Türkiye's external trade structure provides a degree of resilience in an increasingly fragmented global environment," says our public official. "A significant share of Türkiye's exports is directed either to countries with which it has free trade arrangements (62%) or to its broader near geography, including Europe, Central Asia, the Middle East and North Africa (80%). In that sense, Türkiye's value proposition is not limited to access to the EU market alone; it can also function as a regional production, distribution and connectivity hub across several adjacent markets."

An upgrade of the customs union to include services, e-commerce and agriculture would further expand export opportunities with Europe. "The modernisation and expansion of the Customs Union remain a strategic objective for Türkiye," says Ali. "Extending the present framework to areas such as services, digital trade, agriculture and public procurement would have the potential to unlock further bilateral trade and investment flows." This is particularly relevant in a global setting marked by supply-chain diversification, nearshoring and friendshoring dynamics. "In this context, Türkiye is increasingly positioning itself not merely as a cost-competitive manufacturing location, but as a reliable and proximate industrial and logistics base for Europe. Its geostrategic location, developed infrastructure, skilled labour force and embeddedness in European value chains together strengthen its attractiveness for resilience-oriented investment decisions", says Ali who really knows how to promote his country.

Türkiye is currently Europe's fifth-largest trading partner, accounting for 4.2% of the EU's total trade in goods within the world (2024). In 2023, combined EU exports to Türkiye, Morocco, Ukraine and the Balkan countries exceeded those to China for the first time.

A potential concern is that the customs union may offer third countries a backdoor into the European market, also with zero tariffs. Chinese EV manufacturers, for example, are setting up factories to benefit from this. According to Ali, however, this is not an insurmountable issue. "The solution lies in applying strict rules of origin. For example, a minimum of 30% local production could be required to benefit from Türkiye's preferential status. This mechanism already exists in other EU trade agreements." Ali refers here to the €150 billion in SAFE funding allocated to EU Member States for the joint procurement of defence equipment. Only equipment for which at least 65% of component costs are of European origin qualifies.

Nearshoring

The global landscape has changed in recent years. International trade has become more volatile. Deglobalisation is gradually gaining ground over the globalisation trend of the past 50 years. China is losing some of its attractiveness due to geopolitical risks, rising transport costs and increasing wages. The Covid pandemic exposed the risks of overly complex supply chains. European companies are actively seeking alternative production locations closer to home and to Europe.

Will Türkiye become the near- or friendshoring hub of the future, and therefore become even more important for Europe? "We recently asked exactly that question at our Turkish operations, and our employees believe it will," says

Sofie Pollet. "Türkiye borders Europe. Transport costs are rising. Everyone wants to source closer to home. All of this makes Türkiye even more attractive as a production hub."

Ali couldn't agree more. "As protectionist tendencies become more entrenched and the multilateral trading environment grows more uncertain, regional integration appears increasingly important as a stabilising mechanism," he says. "This logic is reflected in Türkiye's efforts to pursue new trade arrangements, upgrade existing ones and invest in transport and logistics corridors linking Europe with the Gulf, Central Asia and Asia more broadly. Accordingly, Türkiye's strategic relevance increasingly derives not only from its manufacturing base, but also from its role within emerging regional connectivity architectures."

3. Inflation and exchange rate risk

In our economic chapter, we already examined Türkiye's structural inflation problem in detail. This not only affects companies' sales and purchasing prices, but also exchange rate and interest rate risk. Inflation has now been reduced from an official peak of over 70% to around 30 to 35%. However, the war between the U.S./Israel and Iran, and the resulting sharp rise in oil and gas prices, could hit energy-dependent Türkiye hard. The objective of reaching single-digit inflation by 2027 is becoming an almost impossible challenge. By the end of 2026, inflation is expected to stand at around 23% (CPI), with a policy rate of 28%. The current fiscal tightening will likely continue until the end of 2026. But at some point in 2027, the run-up to the presidential and parliamentary elections will begin, which must take place by 14 May 2028 at the latest. At that time, fiscal discipline is likely to give way to pre-election spending.

The challenge for foreign companies in managing this environment is considerable. "Türkiye experiences levels of inflation and devaluation that are difficult to grasp, even for Western economists," says Francis Van Eeckhout, who trained as an economist himself. The middle class has been hit hard by soaring inflation. Imported products are extremely expensive, but this also applies to many domestic goods and food. "At times, companies also take advantage of these turbulent conditions to raise prices more quickly and widen their margins. We like troubled waters, as they say."

How should companies operate in such a volatile environment? Successful companies in Türkiye typically rely on a combination of strategies, explains Ethem Tokgözlü. He represents the Presidential Investment & Finance Office in the Netherlands, the Turkish agency responsible for promoting and facilitating business investment in Türkiye. His advice:

- "The successful ones told us they increased their local supply significantly, sourcing from domestic companies in Turkish lira, which reduces the risks they face …"
- "…and they increased exports as much as possible." Revenues in hard currencies provide a safe haven against the often downward swings of the lira. Surpluses in lira are best converted into hard currency as quickly as possible.
- Shorter contracts and quarterly pricing with indexation clauses.

Ethem also notes that "Turkish finance professionals are very experienced. What I heard from some Belgian companies is that our Turkish finance managers teach colleagues in other locations how to manage volatilities." Yvan De Cock agrees. "Turkish professionals are used to operating in a high-inflation environment. There is a built-in understanding of how to deal with these conditions. Many CEOs in the banking sector have a background in asset liability management[2]. That underlines the importance of this expertise."

Hedging in practice

"Inflation in Türkiye is high and weighs on many companies," says Matthieu Gorris in an interview with VOKA[3]. "That is why we usually work with clear payment terms, advance payments or letters of credit. This provides security for both parties." Gorris is Sales Director at Power Climber, which produces steel cable-driven hoists that allow people to work safely at height. Türkiye is an important market for temporary and permanent suspended platforms used for façade work and maintenance.

Clear payment arrangements are also standard practice at Pollet Group. "For sales within Türkiye, mechanisms are agreed with customers," explains CFO Mathias Christiaens. "At the invoicing stage, we look at the exchange rate between the lira and the dollar to determine the amount to be invoiced in lira. This allows the company to protect itself against exchange rate fluctuations. In addition, we produce entirely locally, which avoids costly imports. The only risk we cannot avoid is translation risk when consolidating the results of our Turkish subsidiary into the group's euro-denominated accounts."

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[2] The combination of high inflation, sharply fluctuating interest rates and a volatile lira creates a complex situation for banks. A bank that, on the asset side of its balance sheet, grants long-term loans today at a fixed rate may tomorrow face significantly higher deposit rates on the liability side that it must pay. Planning in a stable way in such an environment is challenging.

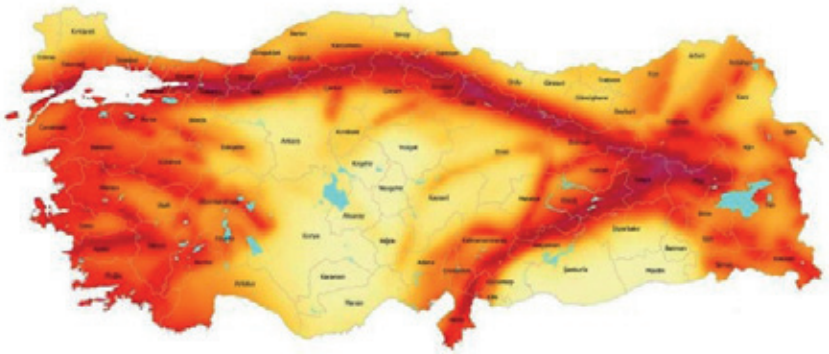
[3] Negotiating in Türkiye is a game, and you need to play along, VOKA, 24/11/2025

"Agile" is the word that comes to mind for Francis Van Eeckhout when he thinks of Türkiye. "The first meeting of the day for our Turkish director is a 15-minute check-in with the purchasing director. He wants to understand what is happening in the market and respond immediately. Price adjustments for our own products are implemented very quickly. Emails are sent to customers announcing price increases that take effect as early as the following Sunday. Increases of 8 to 10% are not uncommon. In Europe, this process takes much longer."

In practice, companies often work with multiple price lists. Customers struggle to keep track. "That is correct," confirms Van Eeckhout. "At certain points, there may be five price lists in circulation. We then tell the customer: you can order 10% from the old price list, but your order must also include 60% from the new one. This results in a different average price for each customer."

4. Earthquakes: living with a structural risk

Türkiye lies in a seismically active zone. The 1999 earthquake in the Marmara region, which caused around 18,000 deaths, and the devastating earthquake of February 2023 in south-eastern Türkiye, with more than 50,000 deaths, illustrate the scale of the risk. Izmir and Istanbul are located in earthquake-prone areas, while Ankara, the political centre of Türkiye and more centrally located, lies just outside these zones.



Since the 1999 disaster, the Turkish authorities have significantly tightened building regulations. Industrial infrastructure is subject to strict standards. Without approval for earthquake resistance, a building cannot be put into use.

There are also plans to relocate industry to safer zones. Notably, both the most economically developed and the least developed regions are located in earthquake-prone areas. The south-east and east of Türkiye are both the least developed and the most seismically active regions.

The February 2023 earthquake hit these regions particularly hard, including Kahramanmaraş, Hatay, Adıyaman and Malatya. This is no coincidence. Earthquakes slow economic activity in these regions by destroying capital, discouraging investment and delaying infrastructure development. At the same time, the most developed regions are, paradoxically, also highly vulnerable. Istanbul, the country's most developed economic centre, lies on the North Anatolian Fault and is considered by seismologists to be one of the cities with the highest disaster risk in the world. A major earthquake is widely regarded as inevitable. Only the timing remains uncertain. Izmir, another economic hub, was also struck by a severe earthquake in 2020. Earthquake insurance, known as DASK insurance, is legally required for residential properties. This is not the case for commercial or industrial buildings, but additional cover is strongly recommended.

Business continuity planning

Companies investing in seismically sensitive areas must design their infrastructure to higher standards, which requires significant additional investment, so that facilities can withstand even major earthquakes. "As a company, you turn to the Japanese for advice," says Yvan De Cock. "Work with a strong Japanese engineering firm. They have extensive experience in constructing buildings that can withstand severe earthquakes."

Critical functions should always be backed up. "In our business continuity planning, we had a recovery site in place. The Japanese firm we worked with assessed the situation and confirmed that the likelihood of our headquarters in Istanbul and our recovery site in Izmir being hit by an earthquake at the same time is very low." Pollet Group follows a similar approach. "Our production is spread across two different regions, Antalya and Kayseri. The largest company also operates several local production sites. This is another way to reduce risk."

An alternative strategy is to deliberately choose a seismically safer region, such as the area around Ankara. "A battery investment project chose a location near Ankara because their main priority was to be in an earthquake-free zone," explains Tokgözlü. "A competitor chose an earthquake-prone area to stay close to customers, but had to invest more to make its facilities resistant to major shocks. Türkiye is big enough to present many available sites for investors of different kinds."

Stricter building regulations are a step forward. However, not everyone is convinced they are fully effective in practice. “Since the 1960s, Türkiye has, at times, allowed legal exemptions for contractors and property owners, enabling them to bypass safety inspections by paying a fine,” writes Robert Ferrell of the Washington Surveying and Rating Bureau[4]. The organisation, an independent public body serving the State of Washington, helps insurers and their clients assess risk efficiently. “In the earthquake-affected areas, at least 75,000 buildings were found to have benefited from such ‘construction amnesties’. Across Türkiye, the number is far higher. Some estimates place the total number of non-compliant buildings in the tens of millions.”

5. Labour market: youthful strength with a structural paradox

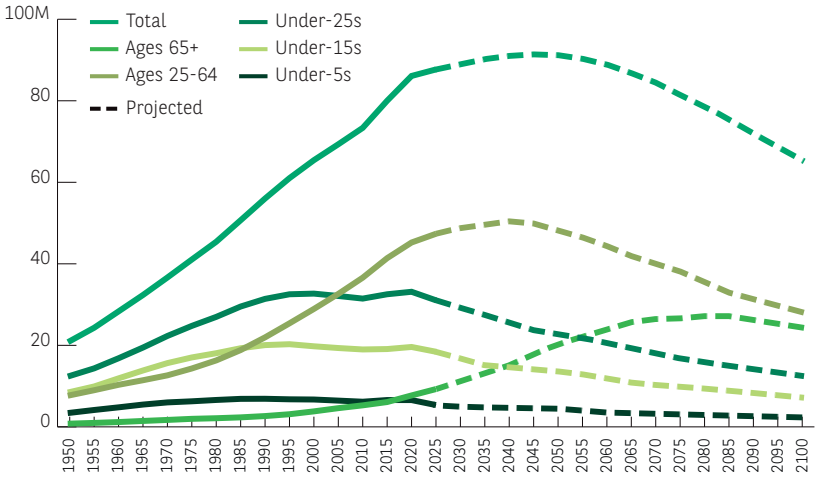
Türkiye’s population pyramid is both promising and highly challenging. A few figures illustrate this. Türkiye has 86 million inhabitants with a relatively young population structure. The working-age population (25 to 65) is expected to grow by 4.7% between 2026 and 2050, from 46.7 million to 48.9 million, with a peak of 49.5 million in 2044. By comparison, Europe’s total population stands at around 740 million. However, the peak in Europe’s working-age population is already behind us and is projected to decline by 14% over the same period, from 391.6 million to 336 million.

Türkiye’s current position remains favourable but is changing rapidly. The share of 0 to 14-year-olds has fallen from 26.4% in 2007 to 20.4% today. The proportion of people aged 65 and over has increased from 7.1% to 11.1%, and the median age has risen from 28.3 to 34.9. The main driver of this rapid demographic shift is the sharp decline in fertility. Between 2001 and 2014, the fertility rate fell and stabilised from 2.4 to 2.2 children per woman, before dropping further to 1.48. This is the fifth fastest decline worldwide. In Europe, the average stands at 1.38, although the decline began earlier, in the 1970s.

[4] Robert Ferrell, Türkiye, Building Codes, and the Importance of Regulation, WSBR, May 17, 2023

Population by age group, Türkiye

Historic estimates from 1950-2023, and projected to 2100 based on UN medium scenario



President Erdoğan has described this as “an impending demographic crisis”. Türkiye, alongside countries such as South Korea, Iran, Brazil and Colombia, is among those experiencing the steepest declines in fertility from initially high levels. The Turkish government sees this as an existential issue. “If the current trend continues, the sharp fall in the fertility rate could close the current demographic window of opportunity much faster than previously expected, potentially before 2035,” warned Vice President Cevdet Yılmaz at the end of January. The period from 2026 to 2035 has since been declared the ‘Decade of the Family and Population’.

Despite these long-term challenges, around one million university graduates enter the labour market each year. In the main industrial hubs, including Istanbul, Izmir, Ankara and Bursa, there is a strong supply of English-speaking professionals and engineers, with quality comparable to that in Poland or the Czech Republic. “Quality-wise, engineering talent is among the strongest in Central and Eastern Europe,” says Türkiye promoter Tokgözlü. “In terms of wages, we are still below those countries, so you get similar quality at lower cost.”

Sofie Pollet agrees on the quality aspect. “We employ a large number of engineers at our two Turkish sites, and they are generally well trained. We also employ many blue-collar workers, and we are equally satisfied with them.” This solid level of education is combined with a strong work ethic and commitment, her CFO adds. “That was the first thing that struck me during my

initial visit: how long the working day actually is. For many people in industrial roles, working hours are long compared to Belgium. But they are used to it. I believe the work ethic is still somewhat stronger than in Belgium."

Tokgözlü is pleased to hear this. "What we hear from international investors is that they are very satisfied with employee loyalty. Turkish people see their job as something very sacred. They put in a great deal of effort into making the company successful." Francis Van Eeckhout is particularly struck by the dynamism of Turkish professionals. "They see opportunities everywhere. They want to win and to move forward. That is what I like about them. They are businesspeople at heart. They want to make deals."

Best cost location

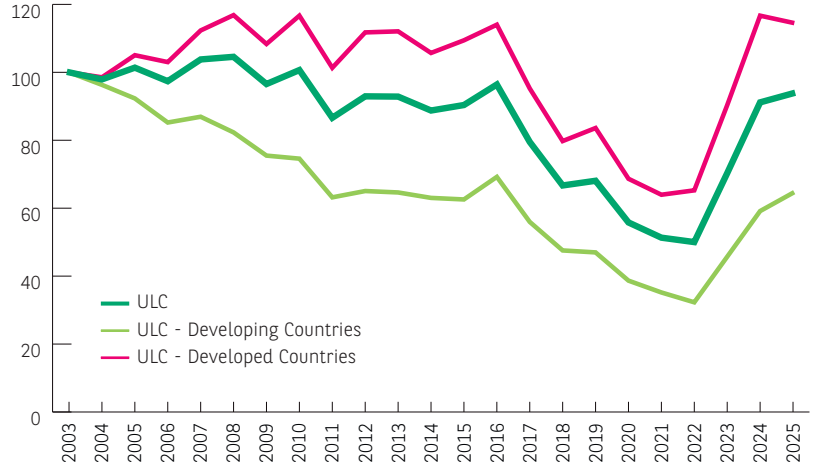
Türkiye is no longer the low-cost production country it once was. Due to inflation dynamics and the relative appreciation of the lira as part of the macroeconomic stabilisation programme, real labour costs have increased. "I have my own Deceuninck index," says Van Eeckhout "To compare labour costs across countries, I always look at the second-lowest income category in each country. These are not the people sweeping the floor, but those operating machines. In Türkiye, you paid around €2 to €2.5 per hour. Today that is €6. In Belgium, it is €45. But even €6 is already becoming expensive. And the quality delivered is still not at the level of the best Western standards."

Pollet also notes that labour in Türkiye has become more expensive in recent years. "It remains cost-effective, of course, especially compared with Belgium or Europe in general. But the advantage is narrowing. The next question is: how do you respond? We are investing more in the automation of our production processes. This has accounted for the bulk of our investments in recent years. Turkish employees also understand why this matters. They realise that investing in additional automation and capacity works in their favour. The payback period for such investments is relatively short."

Today, Türkiye positions itself not as the cheapest, but as the most efficient combination of labour cost and productivity. "It's the best cost location," says Tokgözlü. "Not cheap anymore, but our productivity and efficiency are very different from our competitors. If we compare labour productivity and add the average cost, we see that Türkiye is positioned very efficiently."

Türkiye: Unit Labour Cost

(adjusted for evolution of real exchange rate) - Based Real Effective Exchange Rate (2003=100)



Sources: Central Bank of the Republic of Türkiye- Data Governance and Statistics Department -Balance of Payments Division

The graph shows Türkiye's unit labour costs (ULC), adjusted for developments in the real effective exchange rate (REER). In calculating the real exchange rate, relative inflation is taken into account alongside exchange rate movements. If inflation rises faster than the currency depreciates, Türkiye loses competitiveness at a given ULC, and vice versa. The result? Türkiye gained competitiveness against both developed and emerging economies between 2003 and 2022, before losing part of that advantage in recent years. Extremely high inflation eroded the gains from currency movements, causing REER-adjusted ULC to rise and competitiveness to decline. Over the full 22-year period, Türkiye still shows a clear improvement in competitiveness compared with emerging economies, but a slight decline compared with developed economies. Despite this, Türkiye's share of European imports peaked at 4.1% in 2025, up from just 2.5% in 2012.

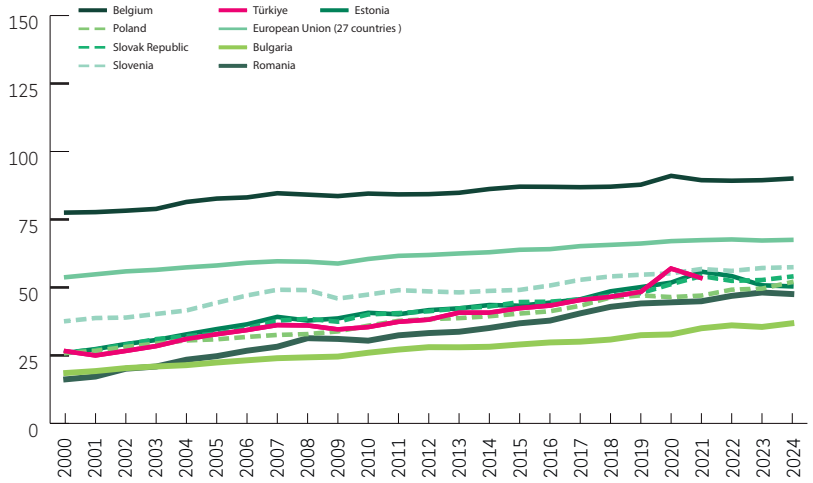
Key competitors

Tokgözlü sees Central and Eastern European countries, such as the Czech Republic and Poland, as Türkiye's main competitors in terms of quality. Bulgaria is also emerging as a strong rival. "Volkswagen had planned to build a new factory in Türkiye," says Kadri Tastan. "But in the end, the investment went to Bulgaria." Labour costs in Bulgaria are currently significantly lower than in Türkiye, although this is also reflected in lower productivity.

Turkish productivity ranks in the upper quartile among its Central and Eastern European competitors. Measured by GDP per hour worked (in volume terms), Türkiye's productivity doubled between 2000 and 2021 (see graph). Poland lagged slightly behind this trend, Slovakia recorded a similar performance, while Estonia, Latvia, Lithuania and Romania saw much stronger growth.

Evolution productivity vs Central and Eastern Europan countries

(GDP/ hour in US$, Purchasing power parity, constant prices, 2020)



"Eastern Europe has become expensive for business investment," says Van Eeckhout. In Poland, for example, wages are rising much faster than productivity, which is eroding the cost advantage. "At the same time, however, these countries are creating a consumer market that is growing very rapidly."

Van Eeckhout sees the new investment hotspot in countries such as Kosovo, Albania and Slovenia. Productivity in Slovenia is already among the highest in the Central and Eastern European region.

Middle income trap

We conclude that Türkiye's competitiveness remains at a solid level. However, it must be careful not to become stuck in the 'middle income trap'. This is a hurdle faced by all emerging economies. Many countries fail to make the transition from producing low value-added goods, benefiting from low wages, to producing goods with much higher value added, where quality and technology take precedence and labour costs are less decisive. Historical examples include Brazil and Argentina. Both remained too dependent on commodity exports, Brazil on soy, iron ore and oil, and Argentina on grain and meat. Both also artificially protected their domestic industries, resulting in inefficient, uncompetitive sectors that never made the transition to higher-quality exports.

A country such as China appears to be making that transition. It is no longer simply the world's factory, but is gradually moving up the technological value chain. The products it exports to Europe are increasingly comparable to those of major European economies such as Germany and Italy. This technological convergence is particularly visible in cars, machinery, electrical equipment and clean technologies. These sectors form the backbone of Europe's industrial model and export performance. The issue is not only that China exports more, but that it exports more of the same products as Europe. That, however, is a discussion for another time.

Türkiye has not yet made this transition. It exports a relatively large share of mid-range value chain products, such as textiles, automotive assembly and household appliances, but less in high-tech, patented technologies or strong brand value. Türkiye assembles and processes, but much of the value lies in imported components, energy and technology. Countries positioned higher in the value chain benefit from more stable export revenues and higher margins.

"Either labour costs need to fall again," says Van Eeckhout. "Or the country needs to move up in terms of quality. Because, to be honest, that quality is not yet at European level." Ali agrees, and that is what his country is doing, he says. "The country's macroeconomic strategy has increasingly focused on moving beyond volume-driven growth towards a model centred on higher

value-added, technology-intensive and productivity-enhancing investment. The objective is no longer simply to produce more, but to move upward in the value chain through advanced industry, innovation and digital transformation."

Subsidies and tax incentives

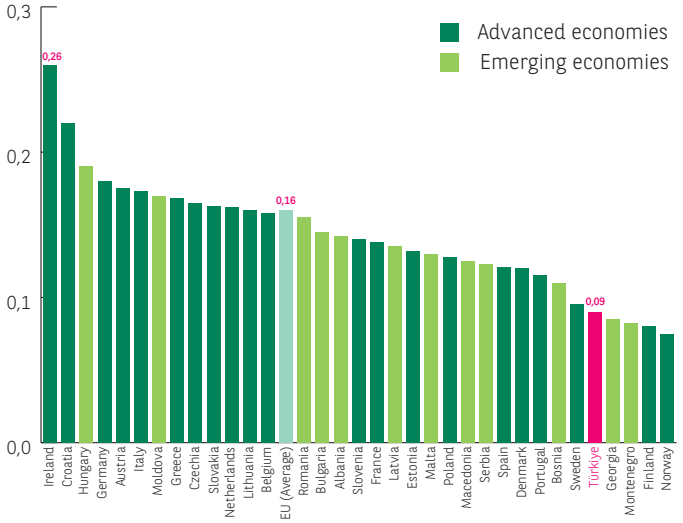
The Turkish government aims to shift exports towards more technology-intensive goods through the HIT-30, or High-Tech Investment Programme, the largest incentive programme in the history of the Turkish Republic. The government is allocating up to $30 billion in public support through tax incentives, subsidies and market support measures. This is expected to generate at least $20 billion in private investment in sectors such as electric vehicles, battery and semiconductor technologies, solar cells, wind turbines, and research and development. The aim is to increase the share of technology-intensive exports from 42% to 50%. "Within Türkiye's investment and industrial policy framework, free zones, organised industrial zones, technology development zones and other specialised investment areas constitute important instruments for supporting production, investment, innovation and export capacity", says Ali.

The ambition is clear, as are the advantages. "A key pillar pillar supporting foreign direct investment is Türkiye's layered incentive system. Eligible projects may benefit from instruments such as VAT exemption, customs-duty exemption, tax reduction, social-security premium support, interest or profit-share support and, where applicable, land allocation. Depending on the programme type, the project's scale, technological content and regional location, the support package may vary. Priority treatment is also foreseen for certain R&D-intensive, strategic and high-technology investments, including software and IT-related production in specialised zones. This incentive architecture is designed not only to attract capital inflows, but also to channel investment into sectors aligned with Türkiye's broader structural-transformation goals." Public debt stands at just 24.6% of GDP, giving the government fiscal room for incentive measures.

The Turkish government also supports companies through substantial subsidies on energy costs, which are around 60% of the European average. The government controls a quarter of the country's total installed electricity capacity and offers prices below market level. In addition, there are specific support mechanisms such as YEKDEM, under which producers receive a guaranteed price in dollars for renewable energy. One open question is whether this advantage can be fully maintained after the introduction of CBAM levies. These low prices are partly supported by an energy mix that still relies heavily on coal (see further). With CBAM in place, that would, in theory, increase the export price to Europe.

Electricity prices for industry

(€/kWh, first half of 2025)



Sources: European Commission, Eurostat.

Underemployment and brain drain

Despite a large labour pool, Türkiye faces a significant mismatch problem. "What is challenging for industry is finding qualified people," says Kadri Tastan. "Too many people go to university. We do not have a system like in Germany, where those less suited to university are more likely to choose vocational training." In some regions, industry faces a shortage of blue-collar workers.

The foundation for vocational training lies in primary and secondary education. Every three years, the OECD conducts the Programme for International Student Assessment (PISA), measuring the skills of 15-year-old students in mathematics, science and reading across more than 65 countries, representing around 90% of the global economy. With a score of 1,385, Türkiye performs relatively well. The global average in 2022, the most recent data available, was 1,322. Türkiye ranks 36th out of 81 participating countries, well ahead of the previously mentioned 'Stan' countries and those of the former Yugoslavia. Kosovo, for example, ranks 79th. However, Slovenia, Latvia, the Czech Republic and Poland perform significantly better, ranking 22nd, 23rd, 17th and 15th. Belgium ranks 20th.

The unemployment rate currently stands at 8.5%. From a historical perspective, this is one of the lowest levels in the past two decades, and almost half the

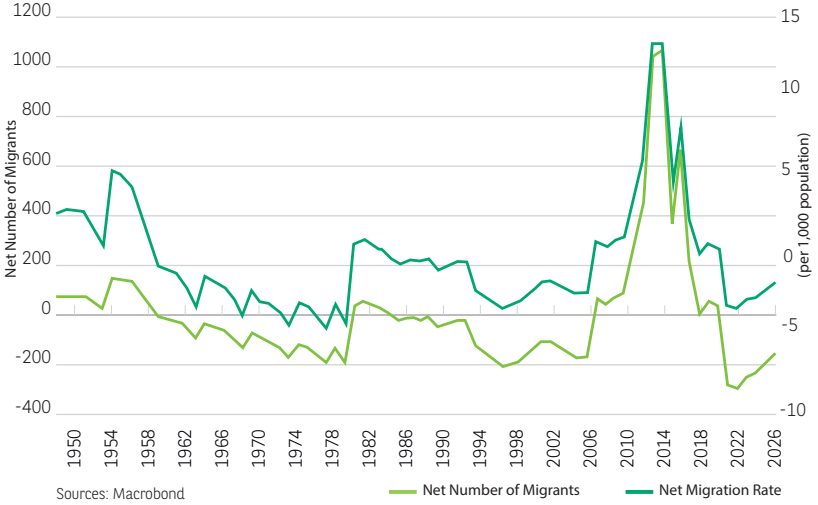
peak of 14% recorded in 2019. The currency crisis of 2018 led to high inflation, sharply rising import costs and a sudden slowdown in economic activity. The cost of imported materials surged, while domestic demand contracted. Unemployment peaked in the year following the shock. Covid added a further spike in 2020, as it brought tourism, typically accounting for 5 to 6% of GDP, to a standstill.

In reality, the current rate of 8.5% is a significant underestimate. If we include those working part-time but seeking full-time employment, as well as discouraged jobseekers, the figure rises to around 20%. A broader definition of unemployment also includes the potential labour force. This includes, for example, women who stay at home for family reasons but would work if circumstances allowed, or young people who have left education but are not actively seeking work. In Türkiye, this group is particularly large, mainly due to the structurally low participation rate among women. According to TurkStat, the unemployment rate then rises to just under 30%.

Economists therefore criticise the official unemployment figure as overly optimistic. "If you want a job in Türkiye, you will find one," says Yasemin Basyigit of TEB. "But for many young people there are skills mismatches and entry-level hardships. Rising enrolment in universities and post-graduate programmes keep many young people formally out of the labour force. High inflation also erodes entry-level pay, weakening the incentive to search for jobs."

Türkiye, Migration

(United Nations projection, constant fertility)



Sources: Macrobond

Basyigit adds: "In a high inflation environment, firms prefer part-time hiring instead of committing to full time hires. They want to avoid fixed labour costs and adjust the hours with demand conditions. This creates a workforce that is formally employed but not utilised at full capacity. There is as well a dominance of service sectors such as retail, tourism and hospitality. In these sectors demand is seasonal and volatile. As a result, workers often face involuntary part-time employment, and most young people just do not want part-time work." Therefore, many young people remain inactive or try their luck abroad.

Türkiye is currently experiencing net outward migration. Traditionally, it has been a country of emigration, with large waves of guest workers moving to Western Europe. The period from 2010 to 2020 was an exception. For the first time in its modern history, Türkiye experienced net inward migration, for several reasons.

First, Türkiye enjoyed a period of strong economic growth in the decade up to 2013. This attracted foreign workers and reduced the incentive for Turks to emigrate. Second, from 2011 onwards, millions of Syrians entered Türkiye. At its peak, the country hosted between 3.5 and 4 million registered refugees, the largest refugee population in the world. Third, some migrants returned from Europe during the eurozone crisis of 2010 to 2013. Prospects, particularly

in Southern European countries, deteriorated, while Türkiye's economy was performing strongly.

Since 2022, net emigration has resumed as economic conditions have worsened. "A lot of young and skilled people are leaving the country," confirms Mahir. "That is the biggest threat to Türkiye's future, because the country is losing its most talented people." A strategy to reverse this trend is urgently needed.

6. Promising sectors for foreign investors

Tourism

Türkiye's economy rests on several pillars. Tourism is a flagship sector, attracting millions of visitors each year to the Turkish Riviera. In peak years such as 2023 and 2024, tourism reached record levels of up to 50 million visitors, compared with a population of 86 million, a ratio of 58%. By comparison with leading tourist destinations such as Italy, France and Spain, this remains relatively modest. In those countries, the ratios reach 95% in Italy, with 57 million tourists for 60 million inhabitants, 147% in France and 177% in Spain.

However, the impact on Türkiye's GDP is at least as significant for two reasons. First, GDP per capita is lower, so each euro of tourist income carries more weight. Second, the relatively weak lira gives foreign tourists considerable purchasing power in Türkiye. This means that European and Arab visitors tend to spend more relative to local price levels.

"Be aware that the country has also become expensive for foreign tourists," warns Van Eeckhout. "We travelled there with our board. For a starter of hummus and anchovies, followed by sea bass and a third of a bottle of wine, you pay €80 per person. Although the wine represents a large share, those are Western prices. At the moment, Türkiye is expensive, certainly for Turks themselves, but also for us."

The relatively low ratio of tourists to inhabitants suggests that there is still considerable growth potential. With its location, historical heritage and extensive coastline, Türkiye could structurally attract more visitors. The country borders three seas: the Black Sea to the north, the Mediterranean to the south and the Aegean Sea to the west, as well as the Sea of Marmara in the northwest. In total, this represents 7,000 to 8,000 kilometres of coastline, much of it along warm seas with a long bathing season. This is almost double that of Spain and comparable to Italy. The potential is there. The key requirement is sustained political stability and a consistent image as a safe destination.

Construction

Companies with strong expertise in construction can also find opportunities in Türkiye, according to Van Eeckhout. The majority of the window profiles produced by Deceuninck are sold locally. The year 2024 started strongly, driven by persistently high inflation, which resulted in negative real interest rates. This encouraged continued investment in housing and new projects. Monetary and fiscal tightening led to a slowdown from the second half of the year. The construction sector also benefited from post-earthquake reconstruction following the 2023 disaster.

"Türkiye has several very large construction companies," says Yvan De Cock. "I estimate there are around ten firms, each comparable in size to Belgium's Besix." These companies were a key driver of economic growth between 2002 and 2018. Interest rates remained relatively low during this period, and mortgages became widely accessible to the Turkish middle class for the first time. At the same time, several large-scale infrastructure projects were launched, including the third Bosphorus bridge, the new Istanbul airport and

new hospital campuses. "We could learn a great deal from the speed at which these projects were delivered," says De Cock.

The currency crisis of 2018 brought this boom to an abrupt end. The policy rate rose from 8% to 24% between May and September, making mortgage financing unaffordable. Construction costs surged due to a reliance on imported materials such as steel and cement. Foreign capital flowed out of the country. The construction sector contracted, and the official unemployment rate doubled.

Turkish construction companies are also active internationally. "They are bold," De Cock continues. "They have no hesitation working in high-risk countries such as Syria, Iraq, Iran or Libya. Many Turkish contractors are also active in Russia. For years, they have been building airports in Moscow and are present in Morocco." Van Eeckhout agrees. "They are always looking to move forward. They want to expand globally. And they do not like to lose. That is something I appreciate about them."

Construction, and tourism in particular, are largely focused on the domestic economy. If we look at more internationally tradable sectors, textiles and apparel, automotive, defence, and agriculture and food processing stand out. Exports to the EU more than doubled over the ten years to 2024, from €46.8 billion to €98.4 billion. Imports from the EU increased from €70 billion to €112 billion. The shift from a balanced trade position in 2018 and 2019 to a deficit of around €14 billion over the past five years is notable.

Several factors explain this. First, Türkiye's industrialisation and investment drive. The HIT-30 programme, the expansion of the automotive sector and the development of the defence industry require substantial imports of European machinery, capital goods and semi-finished products. Second, the increase in re-exports, whereby Türkiye imports goods, processes them and re-exports them, which drives up imports from Europe. Third, energy transition investments, including the rapid deployment of solar and wind energy, also require imports of European equipment and components. Finally, there is the Chinese bypass strategy. Chinese companies investing and producing in Türkiye, such as BYD and Chery, partly source their capital goods and installations from Europe.

Textiles and agriculture

Textiles and apparel remain key export sectors and form the historical backbone of Türkiye's export industry. They still account for around 15% of exports to the European Union. Major groups such as Inditex, H&M and the Belgian brand C&A rely on multiple production partners in Türkiye. More than a quarter of European fashion brands consider Türkiye a key sourcing country.

Proximity to the European market and short lead times are major advantages. Delivery times from Asia to Northern Europe range from 150 to 170 days. From Türkiye, this is less than 50 days, with an average transit time of around seven days. This speed advantage is critical for fast fashion, allowing smaller, trend-driven collections to be adjusted quickly without long planning cycles.

Nearshoring has also become increasingly important in this sector, particularly since 2015[5], with a fivefold increase in sector-specific trade barriers and ongoing supply chain disruptions. At the same time, rising labour costs and competition from countries such as Egypt are putting pressure on the Turkish textile sector.

Turkish agricultural products are also widely exported to Europe. Türkiye is one of the world's largest agricultural producers, including tomatoes, hazelnuts (Nutella!), figs, wheat and cotton. The food processing industry is also well developed. Agriculture still accounts for a relatively high share of employment compared with other OECD countries.

Transport equipment, together with smaller machinery and appliances, represents the main export category to Europe. The machinery sector has increased its exports tenfold over the past 20 years and now accounts for 17% of exports

[5] How fashion is shaking up its global sourcing strategies, BOF Insights, McKinsey & Company, 18 November 2024

to the EU. This sector is supported by the annual graduation of more than 39,000 mechanical engineers. "They are particularly strong in mid-range capital goods," confirms Rudy. "This includes household appliances such as kitchen equipment, washing machines and climate control systems. Well-known brands in Europe include Beko and Grundig, both part of the Turkish conglomerate Arçelik. These are solid products, but not top-tier brands."

This remains a key challenge. Türkiye is still largely absent from the premium segment. In addition, dependence on imported components, such as semiconductors and precision parts from Germany, Japan and South Korea, remains high.

Transport equipment

European Union: Trade with Türkiye - 2024

Import into the EU			Export towards Türkiye		
Product	million EUR	% Total	Product	million EUR	% Total
Transport equipment	22,120	**22.5**	**Machinery and appliances**	27,928	**24.9**
Machinery and appliances	16,881	**17.2**	**Transport equipment**	26,274	**23.4**
Textiles and textile articles	14,252	**14.5**	**Products of the chemical or allied industries**	12,048	**10.7**
Base metals and articles thereof	13,162	**13.4**	**Base metals and articles thereof**	11,716	**10.4**
Plastics, rubber and articles thereof	6,364	**6.5**	**Plastics, rubber and articles thereof**	7,504	**6.7**

The main exports to the EU consist of cars and automotive components. In 2023, two-thirds of the vehicles produced in Türkiye were exported, while one third was sold domestically. New cars were often seen as a hedge against inflation. Consumers financed these purchases with bank loans carrying interest rates below the level of annual inflation, making them highly attractive. To curb demand, the Turkish central bank introduced restrictions, leading to a sharp decline in sales. "The Turkish market is highly volatile and everything can change within a few days," confirms Samir Cherfan, Chief Operating Officer at Stellantis Middle East and Africa, in an interview[6]. "You can have at any time a decision by the government that changes the rules of the game. So, in Türkiye you operate with low stocks."

Türkiye is a key production hub for European and international car manufacturers. Fiat, Ford, Renault, Toyota and Hyundai all have production facilities in the country. It supplies automotive components at competitive prices. Türkiye also imports intermediate goods and semi-finished products, and exports finished vehicles to the EU. For the European automotive industry, it also serves as a gateway to other markets, including the Middle East and Africa. The sector accounts for a significant share of industrial employment. However, according to consultant Cigdem Guven, it is at a turning point. Its role as a low-cost assembly hub must evolve towards a model based on technology, software, low-carbon production and integrated supply chains.

The customs union with the EU remains a lasting advantage. Vehicles produced in Türkiye can enter the European market duty-free. Türkiye is using this advantage strategically. At the end of December 2024, it increased import tariffs on vehicles produced in China from 40% to 50%. This is intended to encourage Chinese manufacturers to invest locally rather than simply export to Türkiye. BYD has since invested $1 billion in Manisa. Other Chinese manufacturers, such as Speedy Working Motors and Chery, are also planning to build production facilities in Türkiye.

Türkiye is also seeking to move up the value chain. It aims to move beyond being solely an assembly country and to develop its own automotive brands. The national electric vehicle brand TOGG sold 30,094 units of the Togg T10X in 2024, making it the best-selling EV ahead of the Tesla Model Y, which sold 11,534 units. TOGG has also made its international debut on the German market, a symbolic step with limited economic impact so far. Türkiye's shift beyond pure assembly is also reflected in the presence of major R&D centres operated by Ford, Stellantis and Daimler.

This move towards a knowledge- and innovation-driven economy extends beyond the automotive sector. Türkiye now has more than 1,600 recognised R&D centres, employing over 100,000 researchers. More than 150 foreign companies operate their own R&D centres in the country. The regulatory framework offers substantial tax incentives, with minimal taxation on R&D activities and income from innovation. "Since 2008, companies that receive certification for R&D or design activities pay almost no tax on those activities," says investment promoter Tokgözlü.

[6] Matt Smith, Auto industry buoyant despite Türkiye's woes, AGBI, 11 April 2024

Defence and energy

A knowledge economy relies on technology. “During my recent visits, I noticed that many companies are moving into new areas,” says Gorris. “This reflects their technical expertise and their ability to adapt quickly to a changing environment. This flexibility is characteristic of the Turkish economy. Companies move quickly and are willing to take risks.” We have heard that before.

In particular, the Turkish defence industry has undergone a remarkable transformation in recent years, from a major importer to a top-10 global exporter. The well-known Bayraktar drones are a clear example and are exported to dozens of countries. Baykar, the company behind the drones, was founded by the father of Selçuk Bayraktar, the son-in-law of Erdoğan. Selçuk serves as Chairman and Chief Technology Officer and holds 52.5% of the shares. His brother Haluk is CEO and holds the remaining 47.5%. In 2024, Baykar achieved revenues of $1.8 billion, of which 90% came from exports. This places it among the top 10 exporting companies in Türkiye.

The defence sector is expanding rapidly, attracting talent and benefiting from substantial government investment. In April 2023, a drone carrier entered service, the world’s first warship whose air wing consists primarily of unmanned aircraft. By the end of 2024, an unmanned combat aerial vehicle (UCAV) had, for the first time in history, successfully taken off from and landed on the relatively short deck of such a vessel. In 2025, the Turkish navy began construction of a domestically designed MUGEM-class national aircraft carrier.

This maritime focus serves several objectives. It is intended to project Türkiye’s regional naval power. The country asserts interests in surrounding seas, and an aircraft or drone carrier provides reach and strike capability far beyond that of neighbouring countries. International prestige also plays a role, as Türkiye seeks to open up a new export market. Finally, there is the ambition of technological sovereignty. Türkiye aims to reduce its dependence on foreign designs for strategic capabilities. “Defence and technology are truly booming sectors in Türkiye, and many European and Belgian companies are showing interest in joint ventures,” says Kadri Tastan.

According to him, the same applies to the renewable energy sector. Since the late 1970s, hydropower has accounted for around 20% of Türkiye’s electricity supply, compared with 40% in the 1980s, slightly less than gas. Coal still accounts for around one-third of electricity generation. “Despite the strong growth of solar and wind energy, with renewables now representing 35 to 40% of the energy mix, Türkiye continues to invest in coal.” The reason is that lignite is domestic and inexpensive. Although it is the most polluting type of coal, it does not require foreign currency. The mining sector still supports tens of thousands of jobs, directly and indirectly. In addition, the Turkish government keeps industrial and residential energy prices artificially low through socio-economic subsidies. Cheap domestic lignite, although partly supplemented by imports from Russia, helps to maintain affordability.

The focus on renewable energy nevertheless remains clear. “It is the best way to reduce the current account deficit and dependence on imported energy such as gas and oil,” explains Tastan. Türkiye is also actively building its first nuclear power plant, with the first reactor expected to become operational in 2026. Once all four reactors are in service, the Akkuyu plant will cover around 10% of Türkiye’s electricity demand, with an installed capacity of 4.8 GW. This is expected to double by 2035 and reach 20 GW by 2050. The aim is to reduce energy dependence. However, there is a paradox. Akkuyu is being fully built, owned and operated by the Russian company Rosatom. Gas dependence is effectively being replaced by nuclear dependence on the same supplier.

7. Doing business in practice: culture, negotiation and establishment

Türkiye is a large market where a functioning market economy is combined with a high degree of business flexibility. Negotiations are generally fast and pragmatic, unlike in China or India, where long-term relationship building is often required. “Türkiye offers a commercially dynamic and often pragmatic operating environment,” says Ali. “Negotiations can move quickly and decision-making may be relatively flexible compared with more procedural business cultures.”

According to Francis Van Eeckhout, this ease of doing business is also reflected in other areas. More government support when setting up a business, for example? “No, less interference from the government. Most entrepreneurs do not ask for support. They ask for a clear legal framework and will comply with it. That would be ideal. But here, and in Europe more broadly, we are constantly being checked. The general attitude towards entrepreneurs is negative. That makes me rather pessimistic about Europe.”

Van Eeckhout continues. “My father-in-law always told me: if you get stuck, take a step back, separate the essentials from the non-essentials, and decide. In Europe, we no longer seem to know what the essentials are. That should be health and safety. But policymakers try to regulate everything. For example, in a factory we are building in England, we are not allowed to drill stabilising support piles into the ground in May. The reason? The vibrations could disturb

fish spawning at sea. And we are 500 metres from the coast. This kind of bureaucratic rigidity stands in stark contrast to Turkish flexibility."

Gorris also praises Türkiye as a smoothly functioning market. "Logistics are efficient, and customs procedures are faster than in many other countries. Compared with Dubai or Saudi Arabia, exporting to Türkiye is remarkably straightforward. It is a country that encourages entrepreneurship, with strong technical expertise and a solid industrial base. You can feel the ambition."

For an objective comparison of this ease of doing business, the World Bank's Ease of Doing Business report, published since 2002, used to be a useful reference. However, an audit in 2021 revealed that senior officials within the Bank had pressured experts to manipulate the data for 2018 and 2020. The ranking matters. Combined with other data, companies often used them to decide whether to invest in one country or another.

In the most recent available report from 2020, Türkiye rose from 68th place in 2017 to 33rd. This put it ahead of both Belgium (46th) and the Netherlands. The reason lies in the methodology. The index mainly measures administrative procedures, such as how quickly a business can be set up, how easily property can be registered and how efficiently taxes can be filed. Türkiye implemented targeted reforms in these areas.

Anyone working with Turkish companies quickly notices that business culture differs from that in Western Europe. "What always strikes me is how open people are," says Matthieu Gorris. "In many Turkish factories, technicians and the CEO sit at the same table for lunch. The hierarchy you often feel elsewhere is much less present. People speak openly with each other, which creates a direct and pleasant atmosphere."

"My wife always tells me: when you come back from Türkiye, you are happy," adds Van Eeckhout. "But when you come back from a European factory, you feel fatigued. There is always something people complain about. 'It cannot be done, boss, because we still need that certificate. The translation is not ready, or the EPD (environmental product declaration) ...' There is always a reason why something does not work. Turks, on the other hand, say: 'That is a potential customer. They might buy.' They are flexible people. The glass is always half full in Türkiye."

The culture of negotiation

Anatolia has been a crossroads of trade routes for thousands of years. The Silk Road passed through it, and Constantinople was for centuries a major trading hub between East and West. The bazaar economy, with the Grand Bazaar in Istanbul as one of the oldest and largest covered markets in the world, has shaped a culture in which negotiation is a social norm, not just an economic practice. Prices are not fixed, but are established through interaction.

"In Türkiye, negotiation is a game," explains Gorris. "They expect you to take part. If you simply say, 'this is my price and I will not move', you are actually disappointing them. Even if your price is competitive, they want to feel that they have gained something. It is part of how business is done. You need to build in margin, because prices are often negotiated down by twenty percent or more."

For many Flemish entrepreneurs, this requires an adjustment. "For us, negotiation is practical. You move quickly towards a deal. In Türkiye, it is part of the process and part of the relationship. You show respect by taking the time for it. Those who understand this gain trust and, in time, customers." Relationships are essential, Gorris adds. "Once you have their trust, Turkish entrepreneurs are extremely loyal. They focus on the long term and remain committed to the partnership. That is different from some other markets, where you have to prove yourself again every year."

Trust is not built only in the office. "You need to invest time in your clients outside working hours as well," he says. "Going out for dinner together, talking, laughing, spending time in the city, it is all part of it. It is part of their culture. In Türkiye, the day rarely ends before midnight. In Istanbul, you can still walk through shopping streets at two in the morning with clothing stores open. That sense of energy and hospitality is remarkable. Once you experience it,

you better understand how closely business relationships are tied to personal connections."

Work relationships

Turkish employees also have high expectations of their employer, particularly in terms of stability and recognition, as highlighted in a presentation for foreign entrepreneurs by market entry advisor ERAI Türkiye and AWEX, the Walloon Export and Foreign Investment Agency. ERAI Türkiye is the only company officially recognised by Wallonia and AWEX Export as an export service provider on the Turkish market. Loyalty to the company is strong in Türkiye, especially in family-owned businesses and local SMEs. Within organisations, the collective is often prioritised over the individual.

At the same time, there is strong appreciation for employees' work and professional commitment. Colleagues are not just colleagues. De Cock explains: "Arkadaş means friend in Turkish. But you also have 'iş arkadaş', where 'iş' means work, so 'work friend', or colleague. What does that mean in practice? To be a good colleague in Türkiye, you also need to be somewhat of a friend. In our context, you can be a good colleague without being friends. That is also possible there, but it is better to have a closer relationship."

"At the same time, that idea of friendship has its limits. At one point, a Turkish member of my management team took me aside and said: 'Yvan, you are actually a bit too soft.' Turkish employees expect their manager to be firm at times." Authority and hierarchy remain important, despite the relatively informal way in which managers and employees interact, as also noted by AWEX and ERAI Türkiye. When it comes to closing a deal, the final decision almost always rests with senior management or the founder.

Are there things best avoided? "Absolutely," says De Cock. "There was once an article in a Turkish newspaper listing ten commandments for expats in Türkiye. I only remember the first: never say to a Turk 'don't take it personally', because they take everything personally. And if you need to criticise someone, you call them into your office, close the door and say: 'This needs to change.' That is fine. But never do it in front of colleagues. Turks are very proud people. You do not undermine them in public."

Challenges

Although Türkiye offers many opportunities, there are also significant challenges for businesses. What the 'Ease of Doing Business' index captures less effectively are factors such as the rule of law, political stability, corruption risk and macroeconomic predictability. These are areas where Türkiye scores structurally weaker. The World Governance Indicators of the World Bank, the Corruption Perceptions Index of Transparency International, and the Economic Freedom Index of the Fraser Institute provide insight into these aspects.

The World Governance Indicators include six dimensions: Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. For investors, the latter two are likely the most relevant. Türkiye scores below the European and Central Asian average across all indicators, while Belgium performs better, with the exception of political stability in 2024. The most striking feature is the downward trend for Türkiye after 2013. In the years before that, Türkiye performed relatively well, reflecting early AKP reforms and EU accession negotiations. After the failed coup attempt in 2016 and the transition to a presidential system in 2018, scores declined significantly, particularly for Voice and Accountability and Rule of Law. A decline in Control of Corruption had already been visible from 2013 onwards, following the Gezi protests and corruption scandals involving Erdoğan's circle.

Worldwide Governance Indicators

Indicator	Economy	Year	Governance Score (0 to 100)
Voice and Accountability	Belgium	2014	
		2024	
	Europe & Central Asia	2014	
		2024	
	Türkiye	2014	
		2024	
Political Stability	Belgium	2014	
		2024	
	Europe & Central Asia	2014	
		2024	
	Türkiye	2014	
		2024	
Government Effectiveness	Belgium	2014	
		2024	
	Europe & Central Asia	2014	
		2024	
	Türkiye	2014	
		2024	
Regulatory Quality	Belgium	2014	
		2024	
	Europe & Central Asia	2014	
		2024	
	Türkiye	2014	
		2024	
Rule of Law	Belgium	2014	
		2024	
	Europe & Central Asia	2014	
		2024	
	Türkiye	2014	
		2024	
Control of Corruption	Belgium	2014	
		2024	
	Europe & Central Asia	2014	
		2024	
	Türkiye	2014	
		2024	

Source : Worldwide Governance Indicators (www.govindicators.org)

The Corruption Perceptions Index (CPI) of Transparency International measures corruption in the public sector, based on the perceptions of businesspeople and experts. Scores range from 0, highly corrupt, to 100, very transparent. It is not a direct measurement, but an aggregate of 13 data sources, including the World Economic Forum, the World Justice Project and various regional development banks. The most recent edition dates from 2024. A score of 36 confirms the weak corruption sub-score observed in the WGI. Türkiye is among the countries with the most significant decline over the past twelve years, comparable to Venezuela and other autocratic states. In 2013, Türkiye still scored around 50, in line with middle-income countries moving towards stronger governance. Since then, there has been a steady decline to 36, driven by the centralisation of government powers, the weakening of judicial independence and the close entanglement of politics and business. Belgium consistently scores between 73 and 75.

Finally, there is the Fraser Institute Economic Freedom Index. This liberal economic index measures economic freedom across five areas: size of government, including taxation and spending, rule of law and property rights, monetary freedom, including inflation stability, freedom to trade internationally, and the regulatory environment. With a score of 5.4 in 2023, the most recent data available, Türkiye ranks 139th out of 165 countries. It sits just ahead of countries such as Iraq, Ukraine and Lebanon, and close to Suriname, Sierra Leone and Pakistan. In 2011, Türkiye reached its highest score of 7.06, ranking 57th.

Türkiye consistently underperforms in two subdomains that weigh heavily on its overall score. Its monetary freedom score has fallen sharply since 2018, driven by high inflation and an unorthodox interest rate policy, with inflation peaking at 85% in 2022. On rule of law and property rights, a gradual decline has been visible since 2013, in line with the WGI index. Türkiye performs relatively well on international trade, thanks to the customs union with the EU. It also scores relatively well on the size of government, as public spending as a share of GDP remains lower than in Western Europe. Belgium, ranking 31st, scores below top performers such as the Netherlands at 10th and Germany at 15th due to high tax burdens and complex labour market regulation, but remains well above the EU average on rule of law and property rights.

The pattern across these three indicators is consistent. Türkiye experienced an upward trajectory until around 2010 to 2013, followed by a clear deterioration in line with increasing political centralisation. The gap between Türkiye and the EU average is significantly wider on governance indicators than administrative indices such as the former Doing Business report might suggest, and that gap has widened rather than narrowed over the past decade.

Partnerships sought

As in other markets, a thorough understanding of the local environment and its specific characteristics is essential. This is even more important in non-European markets. Local companies have insight into the regulatory and administrative framework, which helps to avoid delays and legal issues, according to AWEX and ERAI. Unlike in some other countries, there is no obligation to enter into a joint venture with a local partner. Fully foreign-owned subsidiaries are permitted. However, working with local partners increases the likelihood of success. The choice of partner is therefore critical. "Appoint local management or work with young Turkish professionals who have been educated in the West and understand both cultures," advises Van Eeckhout. "The European way of doing business is not successful in Türkiye." Adapting products and services to local expectations in terms of pricing, distribution and communication is essential.

Local partners also help Western companies address another challenge: not all Turkish professionals speak English. "When I worked at TEB bank, there were around 10,000 employees," says Yvan De Cock. "Of those, about 50 spoke English fluently and another 200 could manage. As a Belgian entrepreneur, that presents a real challenge. You want to do business, but you often have to rely entirely on local management."

All official documents are in Turkish. "You can hire Turkish people that have worked in Europe and speak Turkish and English. That is what we did. The advantage is that they also bring a Western mindset. Or you can work through a joint venture, but you need to be very careful in selecting your partner." According to ERAI, choosing the right local partner is one of the key success factors.

This also applies when applying for a building permit or purchasing real estate. "I always advise companies and private individuals: even if you have the full amount in cash, take out a bank loan for part of the investment, even if it is only 20%. The Turkish bank will verify whether all permits and certificates are in order. That removes a major concern."

Inevitably, issues do arise from time to time, such as a Turkish counterparty refusing to pay or disputing the amount due. "From a legal and institutional standpoint, Türkiye's foreign investment regime continues to rest on the principle of national treatment," explains Ali. "Under the Foreign Direct Investment Law in force since 2003, foreign investors are to be treated on an equal footing with domestic investors, and investment procedures are to be administered on a non-discriminatory basis in accordance with the applicable legislation. In practical terms, a well-prepared contractual framework remains essential to legal certainty and predictability in cross-border commercial operations.

Avoid politics and religion

"Politics is a sensitive topic," Gorris emphasises. "Just like religion. That applies in many places, but in Türkiye it is a strict no-go. Even if a conversation seems harmless, it is better to avoid it. You can connect in other ways, through food, family or simply a good conversation about work. That is where trust is built." Discussions about the military or Atatürk should never be initiated. Atatürk is regarded as an almost sacred figure in Türkiye, and criticism is seen as offensive and can even be punishable by law. The same applies to the Kurdish issue and the Armenian genocide.

Companies should also bear in mind that Türkiye is a Muslim country. For industrial goods, logistics and services, Türkiye aligns with European standards and complies fully with global trade rules and WTO standards. But for sensitive consumer items, you need to take religious customs into account. For example, no pork, no alcohol. In Istanbul and major coastal cities, alcohol at business dinners is common. However, in inland Anatolia, many businesspeople are more conservative and do not drink. A simple rule applies: never offer alcohol yourself, but let your host take the initiative.

8. Five opportunities and risks for businesses

Five opportunities

- Strategic location as a production and transit platform. Thanks to the customs union with the EU, companies producing in Türkiye benefit from zero tariffs on industrial goods exported to Europe. Türkiye is the EU's fifth-largest trading partner and is positioning itself as a nearshoring hub at the crossroads of Europe, Asia and the Middle East. The Middle Corridor further strengthens its role in trade routes towards Central Asia and Africa.

- Young, skilled and loyal workforce. Each year, around one million graduates enter the labour market. Engineers and professionals in Istanbul, Izmir and Ankara are highly skilled and cost-competitive compared with countries such as Poland or the Czech Republic. Turkish workers are known for their work ethic, loyalty and entrepreneurial mindset. Turkish finance managers are often praised by multinationals for their ability to manage crises in volatile environments.

- Attractive investment incentives and tax advantages. Corporate tax is around 20%. Salaries of R&D staff are exempt from income tax by 80% to

95%. Manufacturing companies in free zones are exempt from corporate tax on export-related profits. Energy costs are around 60% of the European average. The HIT-30 programme provides $30 billion in public support for high-tech investment. Low public debt, at around 24% of GDP, gives the government room for further stimulus measures.

- Large and growing domestic market. With 86 million inhabitants and a growing middle class, Türkiye offers a substantial domestic market. A relatively young population combined with rising consumption expectations makes it attractive for consumer goods, construction, tourism and services. The depreciation of the lira also provides a competitive advantage for European exporters in euro terms.

- Broad sector opportunities in growth markets. The Turkish economy offers opportunities across multiple sectors: construction and real estate, including post-earthquake reconstruction, tourism, with strong growth potential driven by coastline and heritage, textiles, with fast delivery to the EU, automotive, with production platforms for brands such as Ford, Renault and Hyundai, and the rapidly growing defence industry, with exports exceeding $7 billion in 2024. Renewable energy and high-tech sectors also offer new entry points.

Five risks

- Inflation and exchange rate volatility. Inflation peaked above 70% in 2022 and currently stands at around 30%. The lira has depreciated structurally in recent years. This creates complex challenges for pricing, contract management and profit consolidation. Successful companies typically apply quarterly pricing with indexation clauses, invoice in hard currencies such as euros or dollars, maximise local sourcing in lira and limit exposure to local currency surpluses.

- Political volatility and legal uncertainty. The centralisation of power under President Erdoğan, the weakening of judicial independence and regulatory opacity create risks for foreign investors. Türkiye scores significantly below the EU on governance indicators such as WGI and CPI, and perceptions of corruption have increased. Political tensions can lead to sudden market disruptions.

- Earthquake risk and operational continuity. Türkiye lies in a seismically active zone. Major cities such as Istanbul and Izmir are considered high-risk areas, and a major earthquake affecting Istanbul is widely seen by experts as inevitable. Companies must invest in earthquake-resistant infrastructure, business continuity planning and geographic diversification.

- Middle-income trap and pressure on competitiveness. Türkiye exports a relatively large share of mid-range products, such as textiles, automotive assembly and household appliances, but less high-tech output. Rising real labour costs have reduced its cost advantage compared with Eastern European competitors. Bulgaria recently attracted a Volkswagen investment away from Türkiye. Chinese producers are also targeting Türkiye as a gateway to Europe. Türkiye needs to move beyond its role as an assembly base and capture a larger share of the value chain.

- Demographic transition and brain drain. The fertility rate has fallen to 1.48, one of the fastest declines globally. The demographic window of opportunity is closing faster than expected. At the same time, a growing number of highly educated individuals are leaving the country due to economic uncertainty and political tensions. Structural labour market mismatches, with too many university graduates and too few technically trained workers, make it difficult to recruit qualified industrial staff.

Successful companies in Türkiye typically combine strong local partnerships, active currency management, informed sector selection and a long-term perspective. They do not see Türkiye's complexity as an obstacle, but as a learning environment that sharpens their financial and operational management.

Koen De Leus

Chief Economist BNP Paribas Fortis

Koen De Leus (b. 1969 in Bonheiden) has been **Chief Economist at BNP Paribas Fortis since September 2016**. He is also a guest lecturer in 'Behavioral Finance' on the Investment Management programme at EHSAL Management School and in Real Estate at KU Leuven. Since March 2026, Koen has been president of the Economic Commission of the VBO/FEB.

In 2006, he published, along with co-author Paul Huybrechts, a book entitled **Naar Grijsland** (A Greying Country), an in-depth analysis of the social and economic consequences of an ageing population. The book was one of three works nominated for the ABN Amro Prize awarded for the non-fiction book of the year.

In 2012 he published **Gouden Beursleuzen** (Golden Stock Market Tips), in which he reviewed and updated stock market tips from the world's leading investors and examined the most common emotional pitfalls in which investors fall. In June 2017, Koen published his third book about the digital revolution and its economic and social impact on our society : **"The Winners' Economy: Challenges and opportunities of the digital economy"**.

End of December 2023, Koen published his latest book: **"The New World Economy – Investing in times of Superinflation, Hyperinnovation & Climate Transition"**, which he co-authored with Philippe Gijsels, Chief Strategist at BNP Paribas Fortis.

The opinions in this reference work are those of Koen De Leus as Chief Economist, BNP Paribas Fortis and do not necessarily reflect the position of BNP Paribas Fortis.

Türkiye | A country of contrasts

Growth, inflation and the search for stability

By Koen De Leus

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