# Trend Analysis and Assessment Report

**CLASSIFICATION LEVEL: OFFICIAL** – APPROVED FOR PUBLIC RELEASE

**Report Topic:** State of the Turkish Economy
**Production Date:** 26 February 2022
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## Turkish economy worsens under the Erdogan administration

**Key Takeaway**
Turkey's economy is in crisis, with the annual inflation rate being most recently recorded at 48.7 percent, which is a two-decade high. Turkey's annual inflation soared to a 20-year high of 48.7 percent in January, fueled by President Recep Tayyip Erdogan's push for unorthodox interest rate cuts and a resulting crash in the currency late last year [01]. It is notable that President Erdogan fired top economic advisors and the head of the State Statistics Agency due to their opposition to his economic policy. We can assess with high confidence that the rate of inflation will continue to rise, with moderate confidence that popular unrest in Turkey will become more prevalent, and with moderate confidence that the disapproval rating of the Erdogan administration will increase based on current political trends.

**Trend Pattern**
A series of recent events indicate that Turkey's economic crisis is worsening and that President Erdogan is attempting to address the situation before the 2023 presidential election.

• The Turkish Industry and Business Association (TUSIAD) expressed that there is an urgent need to abandon Erdogan's current economic policies due to their negative effects on Turkish society. Turkey's largest business group urged President Erdogan's government to abandon a monetary policy based on low rates, which has prompted a crash in the lira [02]. Many Turks have resorted to obtaining subsidized basic needs, such as bread and vegetables. Turkey is experiencing a high level of unemployment and high private debt, whereas individuals and businesses have been severely impacted by the economic policy.

• Energy prices have risen sharply since January 1, stemming from recovering demand and the two-decade high inflation rate. Natural gas prices jumped 25 percent for residential use and 50 percent for industrial use in January [03]. On February 6, the increase in energy costs sparked protests across Turkey. Turkey's Opposition Workers' Party (TIP) led protests outside the Aras and Gediz Electricity Distribution companies calling for the revocation of the hike in energy costs. Protesters also reportedly gathered in Turkey's Kiziltpe District burning their electricity bills, while calling for the resignation of President Erdogan.

• Turkey's doctors are rapidly immigrating out of Turkey with 1400 leaving in the past year, at a rate much faster than the statistic of 4000 doctors leaving in the past decade. The worsening economy and soaring inflation, which has reduced doctors' salaries close to the level of the minimum wage, have brought many to a tipping point, driving them in growing numbers to search for opportunities abroad [04]. Additionally, the change in healthcare policy to being "quantity over quality" has caused the overcrowding of medical facilities.

• On February 14, Turkish President Erdogan visited the United Arab Emirates (UAE) and signed thirteen cooperation agreements regarding free trade and the economy. Twelve of the agreements are related to agriculture and transportation. Turkey has a heavy reliance on imports and has a high-level of exports from the agricultural industry and the machinery industry. The UAE's top export is energy and oi. The goal of the agreement is to create a comparative advantage between the two countries.

• Metropoll, a Turkish polling company has indicated that the Turkish people have lost trust in the Turkish government due to their uncertainty about the future of the economy. 78 percent of those polled saw the direction of the economy as going badly, including a majority of voters for the ruling Justice & Development Party (AKP) and its coalition partner, the National Movement Party (MHP) [05]. The Independent Industrialists and Businessmen's Association (MUSIAD) expressed that their support of Erdogan has weakened as well with the continual decline in the economy.

**Assessment**
President Erodgan's economic policy is to slash interest rates to stimulate the economy. A priority of the Erdogan administration is to become a top-10 global economy within the next year by achieving a GDP of $2 trillion and a per capita GDP of $25,000. President Erdogan fired top economic officials as he has taken an authoritarian approach to the economy to achieve this goal. We can assess that it is not likely that Turkey will achieve this goal in the desired timeframe based on current trends. The continuation of this policy has increased the observable unrest in Turkey and has caused two prominent organizations to speak out on the economic crisis. While it was highly predictable for TUSIAD to comment on the economy, based on the group's anti-Erdogan stance, it is potentially highly consequential or the pro-Erdogan MUSIAD to state that its support of the Erdogan administration was weakening.

We can assess that the inflation rate will continue to increase without a drastic change in economic policy. The effect of Erdogan's economic policies on the Turkish population is worsening, with the decrease in the purchasing power of individual citizens. The lira is estimated to be at a 20-year low, which prevents market growth and leaves workers minimally compensated for their work. President Erdoga, in an attempt to garner support for the 2023 presidential election, has entered into economic talks with several European and Southeast Asian countries. We can estimate that the effects of foreign investment stemming from these talks will most likely not be sufficient to reverse the damage caused by Erdogan's unorthodox economic policies before the 2023 presidential election.

**Broader Implications**
The economic crisis has affected the European Union (EU) with the collapsing exchange rate and the immigration of Turkish citizens. The Eurozone is one of Turkey's largest trading partners and the economic crisis is having an adverse impact on European countries. Additionally, European countries are already facing a substantial refugee problem. The EU being dependent of Turkey to host a number of refugees from Iraq and Syria, the collapsing Turkish economy is most likely going to create more problems for the EU with the growing westward immigration of Turkish citizens. Additionally, the crisis has affected territories that are dependent on Turkey—notably Northern Cyprus, which has experienced an economic freefall due to its dependence on the Turkish economy. It can be observed that many citizens in Northern Cyprus have relocated to the south, lured by jobs and better living standards [06].

**Indicators**
We will be watching the inflation rate and the GDP per capita measurement to determine the economic state in comparison to the statistical measurements from before the economic crisis. The continuation of workers earning minimum wage and the increase in immigration of Turkish citizens to other countries indicates that the economy is stagnant, or worsening. The increasing disapproval rating of President Erdogan and decreasing quality of life for Turks would also indicate that President Erdogan will be unsuccessful in the 2023 presidential election. The lack of a change to economic policy would indicate that economic talks have not achieved their purpose and that the economy is not improving.

**Sources**

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