LUISS

Research Center
Strategic Change
"Franco Fontana"

GEOPOLITICAL RISK OBSERVATORY

Turkey

An overview

Luiss Guido Carli University

Last update: November 2026

Luiss
Libera Università Internazionale
degli Studi Sociali Guido Carli
Viale Romania 32, 00197 Roma
T +39 06 85222350
www.luiss.it

GRO Country Profile: Turkey

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

For in-depth analysis or day-to-day updates, please contact the Observatory at strategicchange@luiss.it.

Summary

- Turkey is a presidential republic where executive power is concentrated in the directly elected President, who appoints the cabinet. The unicameral Grand National Assembly legislates and provides limited oversight. Executive authority has expanded over the judiciary, central bank, and regulatory bodies, weakening checks and balances and raising investor concerns about transparency, regulatory independence, and governance.
- Turkey occupies a key geopolitical position between Europe, the Middle East, and Eurasia, pursuing a multi-vector foreign policy within NATO while also engaging with Russia and regional powers. It remains a candidate for EU membership. Regional tensions, including recent US–Israel–Iran escalation, raise risks, and Ankara has expanded strategic partnerships and influence in Africa.
- Key business challenges stem from regional security volatility and spillover risks linked to Middle Eastern tensions, combined with macroeconomic fragilities and interventionist economic policies. Frequent foreign-exchange interventions, regulatory unpredictability in financial markets and centralized decision-making continue to create uncertainty for investors and firms operating in Turkey.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	2,436	3,976 (2026 proj.)
Population (mn)	83.6	87.9 (2026 proj.)
Population under 25 (%)	38.2	35.2 (2025)
Population over 65 (%)	9.5	11.1 (2025)
Urban population (%)	76.4	77.5 (2026)
Unemployment rate (%)	13.1	8.1 (Jul 2026)
Youth unemployment 15–24 (%)	25.8	14.5 (Jul 2026)
CPI inflation (% annual average)	12.3	34.9 (2025)
General government debt (% of GDP)	40.4	24.2 (2025)
FDI inward flows (USD bn)	7.7	13.1 (2025)

Sources: IMF – World Economic Outlook, April 2026 (GDP PPP, government debt); UN World Population Prospects 2024 / Worldometer (total population, urban population); TURKSTAT – Address-Based Population Registration System and Youth in Statistics, 2020 and 2025 editions (population under 25, calculated as the 0–14 plus 15–24 age groups: 22.8% + 15.4% in 2020, 20.4% + 14.8% in 2025; population over 65, both 2020 and latest values); TURKSTAT / OECD – Main Economic Indicators (unemployment rate, youth unemployment); TURKSTAT (CPI inflation, 12-month average, both 2020 and latest values); Central Bank of the Republic of Turkey – balance of payments statistics (FDI inward flows, both 2020 and latest values).

Historical context

The Turkish Republic was founded in 1923 by Mustafa Kemal Atatürk on the ruins of the Ottoman Empire as a unitary, secular, and nationalist state. Competitive elections began in 1946, but civilian governments proved fragile: the military intervened in 1960, 1971, and 1980, and in 1997 forced out the Islamist-leaning government of Necmettin Erbakan, the political forerunner of Erdoğan's Justice and Development Party (AKP). This pattern of electoral democracy under military guardianship defined Turkish politics until the end of the twentieth century.

The 2001 economic crisis, which required an IMF programme, paved the way for the AKP's landslide victory in November 2002. Erdoğan's first decade in power (2003–2013) combined average annual GDP growth above 5%, EU accession negotiations (opened in 2005), a weakening

of the military's political role, and a tactical alliance with the Gülenist movement. Investment and FDI surged. The Gezi Park protests of May–June 2013 marked the first major fracture, revealing deep urban-secular discontent with Erdoğan's governing style.

The rupture with the Gülenist movement in late 2013 led to the July 2016 coup attempt, followed by a sweeping purge: over 150,000 people were detained or dismissed under emergency decrees. The April 2017 referendum, approved by 51.4%, replaced the parliamentary system with a presidency concentrating executive, legislative, and judicial appointment powers. The years since have combined economic crises (a lira crash in 2018, recession in 2019, and an inflation spiral in 2021–2023) with an increasingly assertive foreign policy. The 2017 agreement to purchase Russian S-400 air defence systems, delivered in July 2019, led to Turkey's exclusion from the F-35 programme that same month and to US CAATSA sanctions in December 2020. Erdoğan secured re-election in May 2023, and the arrest of İmamoğlu in March 2025 signalled an aggressive posture toward the 2028 election cycle.

Institutional Set-Up and Structural Challenges

Turkey is a unitary presidential republic under the 2017 constitution. Executive authority is concentrated in the president, who appoints ministers, issues decrees and controls the budget. The president also controls the Council of Judges and Prosecutors (HSK), directly and through the parliamentary majority: he appoints four of its 13 members, the Minister of Justice and the Deputy Minister sit on it ex officio, and the remaining seven are elected by the Grand National Assembly, where his coalition holds a majority. The AKP and its partner Nationalist Movement Party (MHP) have held a working majority in the Assembly since 2018. In practice, Erdoğan's personal authority, exercised through presidential powers, party discipline and informal networks linking state, business and religious communities, is the effective centre of political gravity.

Government stability is currently high but masks significant tensions. The main İmamoğlu corruption trial opened on 9 March 2026, with prosecutors seeking between 828 and 2,352 years in prison; after a 40-day recess it resumed on 17 August 2026, and a third series of hearings began on 2 November 2026. A separate "political espionage" trial is under way, and in January 2026 an administrative court upheld the annulment of his university degree, a legal requirement for presidential candidates. The courts have also reshaped the opposition: on 21 May 2026 an Ankara appeals court annulled the Republican People's Party (CHP) 2023 leadership congress, removing Özgür Özel and reinstating Kemal Kılıçdaroğlu. Özel left with about 90 lawmakers to found the New Party in July 2026, and İmamoğlu resigned from the CHP on 12 August to back it.

Governance indicators reflect a decade of institutional erosion. Turkey ranks 124th out of 182 countries in Transparency International's 2025 Corruption Perceptions Index (score: 31/100, down from 34), and 118th out of 143 countries in the World Justice Project's 2025 Rule of Law Index. The

Venice Commission (December 2024) found that the appointment rules give the executive "complete control" over the HSK.

Economically, Turkey is a large, diversified upper-middle-income economy, competitive in textiles, automotive components, electronics, and construction materials. Structural vulnerabilities include a persistent current account deficit driven by energy imports (about two-thirds of the energy it uses), high foreign-currency corporate debt, and low domestic savings. The US–Israel war on Iran (from 28 February 2026, with a ceasefire on 8 April and a US–Iran memorandum to end the war on 17 June) exposed these vulnerabilities: higher energy prices halted disinflation, with annual inflation rising to 32.4% in April 2026 from 30.9% in March. The central bank held its policy rate at 37% for five meetings and sold gold reserves to support the lira, before cutting to 36% on 22 October as inflation fell to 29.7% in September; the finance minister estimated that inflation would have been at least 7 points lower without war. Demographically, fertility has fallen well below replacement (1.42 in 2025), the over-65 share is rising, and income inequality is among the highest in Europe (Gini 0.410, TurkStat 2025 survey). About 2.25 million Syrians remain under temporary protection (July 2026), after roughly 700,000 returns since December 2024.

Internationally, Turkey controls the Bosphorus and Dardanelles straits, hosts the Incirlik air base and the Kürecik NATO radar, and fields NATO's second-largest army. US–Turkey relations remain strained by the S-400 purchase and US support for the Syrian YPG/SDF. EU accession negotiations have been at a standstill since 2018: the Commission's 2025 report on Turkey (November 2025) cited the continued deterioration of democratic standards and judicial independence, and the 2026 enlargement package is due on 4 November 2026. On Ukraine, Ankara balances between Kyiv and Moscow without joining Western sanctions: it condemned the invasion, closed the Straits to warships under the Montreux Convention in February 2022 and supplied Bayraktar drones to Kyiv, where Baykar is building a drone plant, damaged by Russian strikes in 2025 and due to be rebuilt. Relations with Russia remain commercially significant, through TurkStream gas transit and Turkey's role as a hub for Russian goods. The PKK dissolution process, relations with post-Assad Syria and the 2028 presidential election are the principal forward-looking political risks.

Business implications

Opportunities

Turkey offers substantial commercial opportunities rooted in its large domestic market, manufacturing competitiveness, and position as a logistics hub connecting Europe, the Middle East, Central Asia, and Africa. Manufacturing, particularly automotive (fifth-largest producer in Europe in 2025, with 1.42 million vehicles, and largest for commercial vehicles), white goods, and textiles, benefits from competitive labour costs and EU market access under the Customs Union. Italian companies are well-positioned in machinery, agri-food equipment, fashion, and

infrastructure: bilateral Italy–Turkey trade reached €26.1 billion in 2025 (Italian exports €13.7 billion, imports €12.4 billion).

The energy transition offers specific openings: Turkey targets 120 GW of wind and solar capacity by 2035, with about 41 GW in place in early 2026, and solar and wind tenders have attracted significant European investment. The 2026 energy price shock has reinforced the drive to cut import dependence. Reconstruction in post-Assad Syria and in earthquake-affected provinces, including the manufacturing hub of Gaziantep, offers medium-term infrastructure opportunities for risk-tolerant companies. Turkey's role as a transit corridor for trade with sanctioned Russia and Iran has boosted re-exports through Turkish free zones and ports, but carries secondary-sanctions compliance risk.

Challenges

- *Security challenges:* The principal security risk has historically been the conflict with the Kurdistan Workers' Party (PKK), concentrated in the south-eastern provinces and in cross-border operations in northern Iraq and Syria. The PKK declared a ceasefire on 1 March 2025 following a call by its imprisoned leader Öcalan, and formally dissolved its armed structure at its 12th Congress on 5–7 May 2025. On 10 August 2026 parliament passed (468 to 88) a law allowing lower-ranking PKK members not involved in serious crimes to return to Turkey, excluding Öcalan and senior leaders. If fully implemented, this would be the most significant improvement in Turkey's security environment in four decades, but implementation risk remains: Kurdish political and cultural rights have not yet been addressed, and Turkey continues to strike SDF structures in Syria. The US–Israel war on Iran (February–June 2026) has added an external threat on the 534-km eastern border, and the June memorandum faltered within weeks: NATO air defences intercepted four Iranian ballistic missiles heading toward Turkish airspace in March 2026 (debris fell in Hatay and Adana, with no casualties), and NATO deployed an additional Patriot battery in Malatya to protect the Kürecik radar. Ankara suspended day-trip crossings at the Iranian border and remains exposed to migration flows if Iran is destabilised. The İmamoğlu trial and related political tensions also generate periodic unrest in major cities, creating intermittent operational disruption.

  Turkey's security risk is assessed as Band 3 (medium challenges).

- *Regulatory challenges:* Turkey maintains a generally open FDI regime (full profit repatriation, no equity caps outside defence and broadcasting, Customs Union access), but policy instability, energy sector interventionism and currency risk undermine the regulatory environment. Electricity tariffs set by EPDK are adjusted in politically motivated ways, keeping industrial energy costs well above EU levels. Import controls and foreign exchange

restrictions are tightened and loosened cyclically, and in 2026 the central bank sold gold reserves to contain the lira's fall during the Iran war. The lira's depreciation, over 80% against the euro since 2019, creates hedging costs, pricing complexity and profit repatriation risk. The FATF removed Turkey from its grey list in June 2024, easing banking transactions. However, Turkey's decision not to join Western sanctions on Russia, and its gas imports from Iran (7.7 bcm in 2025), create secondary-sanctions risk for Western multinationals operating through Turkish entities or financial channels.

Turkey's regulatory risk is assessed as Band 3 (medium-to-high challenges).

- *Governance challenges:* Governance is Turkey's most acute and structurally embedded business risk. With judicial independence eroded by the post-2016 purges and executive control over the HSK, impartial contract enforcement cannot be assumed in disputes involving state-owned enterprises or politically connected counterparties. The post-2016 seizures of Gülenist business networks through state-appointed trustees (kayyum) set a precedent for politically motivated expropriation. Public procurement is opaque, with documented patterns of contracts awarded to AKP-connected groups, particularly in housing (TOKI) and energy. Compliance with FCPA and UK Bribery Act standards requires robust due diligence on Turkish partners. OECD and G20 membership and Customs Union obligations provide only a partial external constraint on the worst governance failures.

  Turkey's governance risk is assessed as Band 4 (high challenges).

Luiss
Research Center
Strategic Change
"Franco Fontana"

Viale Romania 32, 00197 Roma
T +39 06 85222350
www.luiss.it