



Turkey: When domestic politics intervene

COMMENTARY | BY JENS BASTIAN *

Turkey in 2025 is an instructive example about how to derail a macro-economic stabilization program that was starting to take root. In September 2023, the newly appointed Turkish finance minister, Mehmet Simsek, initiated a much-needed policy turn-around to address the combination of hyperinflation and steep currency depreciation.

With the blessing of re-elected president Recep Tayyip Erdogan, Simsek's interventions focused on tighter government spending and a coordinated strategy with the Turkish Central Bank governor, Fatih Karahan, to replenish depleted foreign currency reserves as well as implement a U-turn from unorthodox low interest rates.

Simsek's policy mix proved in part successful. While certain macro-economic indicators gradually improved, the former Merrill Lynch executive pleaded for patience at home and sought to reassure investors abroad who were considering committing financial resources into Turkey. But popularity at foreign investor conferences and resentment at home could not prepare Simsek for what happened after March 19th, 2025. This is where domestic politics intervened and blindsided those working to further execute Turkey's stabilization program.

The arrest of Istanbul Mayor Ekrem Imamoglu and the mass protests his incarceration triggered across the country had an immediate and profound effect on Simsek's policy program. Financial panic followed in the aftermath. The Turkish Central Bank had to reverse its monetary course and increase its benchmark interest rate to 46%. The Turkish lira dropped to record lows against the US dollar. The stabilization efforts to stem the depreciation required massive amounts of hard foreign currency reserves from the bank's recently replenished coffers. Foreign portfolio investors, as could be expected, took flight, selling Turkish debt, abandoning the Istanbul Stock Exchange, while international companies revised prospective investment projects.

The partial economic recovery that was taking root in Turkey, even if many citizens and companies had yet to benefit in real terms from this development, is now subject to pro-



A water cannon truck drives past the Istanbul Metropolitan Municipality building during a university student protest against the detention of Istanbul Mayor Ekrem Imamoglu, on March 21, 2025. Recep Tayyip Erdogan's crackdown on the opposition and critics raises questions about how far the Turkish president is willing to accept the exigencies of economic rationality, according to the writer.

How can Finance Minister Simsek continue to credibly advocate his stabilization program when it can be politically obliterated by the autocratic impulses of his superior?

found execution risks and policy uncertainties. The political crackdown on Imamoglu, the arrest of members of his staff and other mayors from opposition parties has rekindled the question of how far President Erdogan is willing to accept the exigencies of economic rationality. Put otherwise, how can Finance Minister Simsek continue to credibly advocate

consequences of the KKM scheme. This plan included a government guarantee for lira deposits in case the domestic currency depreciated against the US dollar.

The economic pain felt by Turkish citizens and corporates for years now is real and is now being aggravated by the consequences of quashing any political opposition. Those subject to prosecution not only include members of the largest (social democratic) opposition party, CHP. The Turkish judiciary is also going after representatives of business' associations such as TUSIAD. Its president, Orhan Turan, and chairman, Omer Aras, were charged with "publicly disseminating misleading information" and "attempting to influence a fair trial" during their speeches at TUSIAD's general assembly this year.

Speaking truth to power publicly has its risks and ramifications in Turkey. International investor conferences in Istanbul can take place in magnificent former Ottoman palaces, but the substance of analysis delivered by independent Turkish representatives is rather subdued and outright criticism of President Erdogan is seldom voiced in plenary commentary. The fear of potential retaliation is feasible for those Turkish participants who are not talking as cheerleaders of the government in Ankara.

The rationale of "Erdoganomics" since his re-election in September 2023 had been to balance the risk of temporarily losing popular support in order to let his finance minister and the central bank execute their economic reform program. This political trade-off came to a crashing end on March 19th, 2025. The elements of any new policy equation between Erdogan and his economic team remain to be seen. Muddling through now appears the order of the day. But that is not a policy recipe to reassure Turkish citizens and incentivize foreign investors. Instead, it is a formula for further economic uncertainty and heightened political risks in Turkey.

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