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TURKEY

Turkey’s medium-term plan signals slower disinflation path in 2027

Turkey s Medium-Term Plan for 2027-2029, which projects above-consensus growth led mainly by domestic demand, also sees higher inflation, increased primary spending, and a wider current account deficit than the previous plan for the next year

At the weekend, Vice President Cevdet Yılmaz, Finance Minister Mehmet Şimşek, and Central Bank of Turkey Governor Fatih Karahan unveiled the Medium-Term Plan (MTP) for 2027-2029, setting out the government’s macroeconomic forecasts and key policy and reform priorities.

The MTP expects the global economy to be shaped by geopolitical developments, supply security concerns, evolving trade and supply chains, artificial intelligence, elevated public debt, rising defence spending, demographic shifts, and climate-related pressures. According to the programme, these interconnected factors will continue to fuel uncertainty, weaken policy predictability, and increase the importance of economic stability, resilience, productivity, and technological transformation.

Against this backdrop, the government’s objectives include achieving balanced, sustainable, and inclusive growth, strengthening job creation, broadening prosperity across society, and supporting a fairer income distribution. Vice President Yılmaz emphasised that the programme seeks to reinforce macroeconomic stability, expand high value-added production, improve productivity, and enhance competitiveness through price stability, fiscal discipline, and financial stability.

While reaffirming its commitment to disinflation, the government projects year-end inflation of 28.4% in 2026. This forecast is above the 16% projection in the previous plan, close to the central bank's 28% forecast, and slightly lower than the 29.4% expectation in the latest Market Participants Survey. During the presentation of the August Inflation Report release last month, Governor Karahan had stated that the Bank maintained its 2027 forecast in light of geopolitical risks and ongoing MTP preparations that could affect the macroeconomic framework. Accordingly, the MTP substantially revised its 2027 inflation forecast upward to 21%, compared with 9% in the previous plan. The new projection is broadly in line with the 21.9% consensus in the Market Participants Survey.

At this weekend's meeting, Karahan noted that the upward revision to the 2027 forecast was driven partly by the carry-over impact of higher-than-expected inflation this year on the following year's starting point, and partly by the global economic backdrop. According to CBT calculations, the impact of the US-Iran war and related global developments on 2026 inflation is estimated at around 7ppt. After eliminating war-related factors, inflation would be below 25%. With this estimate, the Governor implied that next year's figure is easily reachable.

The programme also lowered the 2026 GDP growth forecast by 0.5ppt to 3.3%. Growth is then expected to accelerate to 4.2% in 2027 (close to the previous plan forecast at 4.3%) and reach 5.0% by 2029. Official projections for 2026 and 2027 remain somewhat higher than the corresponding expectations in the Market Participants Survey. Additionally, relative to the previous plan, the MTP envisages a growth composition driven more by private consumption and less by private investment, while the public sector is expected to follow the opposite pattern.

On the fiscal side, the MTP projects a central government budget deficit of 3.1% of GDP in 2026 (down from 3.5% previously), rising to 3.5% in 2027 before gradually declining to 2.8% by 2029. Despite reconstruction and recovery spending in the earthquake-affected region having been largely completed this year, primary spending is expected to increase significantly, rising to 21% of GDP from 19.7%, mainly due to higher current transfers, reserve allocations, and interest payments. This increase is expected to be partially offset by stronger revenue collection, equivalent to around 1% of GDP. Policymakers also stressed that fiscal policy would support disinflation, implying reduced reliance on inflationary tools such as administered price increases.

On the external front, the government forecasts a current account deficit of 2.6% of GDP in 2026, followed by a gradual improvement in subsequent years. While the new projections are higher than those in the previous plan, the elevated and gradually increasing growth path outlined in the MTP raises questions about the achievement of this external adjustment.

Regarding exchange rate assumptions, the MTP's implicit USD/TRY projections are broadly consistent with market expectations for this year. For the following years, the programme assumes average annual increases largely in line with inflation forecasts, implying little or no change in the currency's real value.

MTP (2027-2029) vs MTP (2026-2028)

	MEDIUM TERM PLAN (MTP)				PREVIOUS PROGRAM		
MACRO ASSUMPTIONS	**2026E**	**2027F**	**2028F**	**2029F**	**2026F**	**2027F**	**2028F**
GDP (TRY bn)	85,346	111,207	133,184	153,141	77,257	89,406	101,397
GDP (USD bn)	1,821	1,984	2,091	2,225	1,658	1,763	1,886
GDP growth (%)	3.3	4.2	4.6	5.0	3.8	4.3	5.0
Unemployment Rate (%)	8.1	8.0	7.8	7.6	8.4	8.2	7.8
Employment Rate (%)	48.6	49.2	49.8	50.6	49.8	50.5	51.6
Labor Force Participation Rate (%)	52.9	53.4	54.0	54.7	54.4	55.1	56.0
Inflation (%)	28.4	21.0	13.5	9.0	16.0	9.0	8.0
C/A Balance (USD bn)	-47.5	-38.5	-37.0	-35.5	-22.3	-20.5	-18.5
C/A Balance (% GDP)	-2.6	-1.9	-1.8	-1.6	-1.3	-1.2	-1.0
Foreign Trade Balance (USD bn)	-105.0	-105.0	-108.5	-110.0	-96.0	-99.0	-102.0
Exports (USD bn)	282.0	292.0	302.5	316.0	282.0	294.0	308.5
Exports / Imports (%)	72.9	73.6	73.6	74.2	74.6	74.8	75.2
USD/TRY (implied, avg)	**46.9**	**56.1**	**63.7**	**68.8**	**21.5**	**24.6**	**25.8**
FISCAL TARGETS % GDP							
Central Administration Balance	-3.1	-3.5	-3.1	-2.8	-3.5	-3.1	-2.8
Revenues	20.0	21.0	21.0	21.0	21.0	21.0	21.0
Expenditures	23.0	24.5	24.1	23.8	24.5	24.0	23.8
Central Administration Primary Balance	0.2	0.1	0.4	0.6	0.0	0.3	0.5
Public Sector General Balance	-2.7	-3.3	-3.1	-2.7	-3.1	-2.7	-2.6
Public Sector General Balance (IMF def.)	-0.2	-0.6	-0.3	0.2	-0.2	0.2	0.3
EU Defined Public Debt Stock	21.8	21.7	22.8	23.9	24.7	24.7	24.2

Source: Presidency of Strategy and Budget, ING

Overall, compared with the previous plan, the MTP projects a growth performance with a larger contribution from private consumption, a significantly higher inflation path, a notable increase in primary spending, and a wider current account deficit in the coming year. Upward revisions to the inflation forecasts indicate that the disinflation process has been pushed back further in the current stabilisation programme, in place since mid-2023. Finally, the programme pledges to maintain commitments to price stability, fiscal discipline, financial stability, and broader economic competitiveness ahead of the 2028 election period.

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