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Research Report

Turkey on the path to autocracy: Economic consequences and policy options for the EU and Germany

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SWP Comment

NO. 20 MAY 2025

Turkey on the Path to Autocracy

Economic Consequences and Policy Options for the EU and Germany

Yaşar Aydın

Turkey is at risk of descending into autocracy. That risk persists even though the resistance put up by the opposition Republican People's Party following the arrest of Mayor of İstanbul Ekrem İmamoğlu has saved the party – at least for now – from being placed under a trustee and the İstanbul Metropolitan Municipality from being subjected to the administration of the state. The complete autocratisation of Turkey can be prevented only if opposition resistance receives broad and consistent support from among the population, economic growth is jeopardised by political instability and the European Union responds in a unified manner. It is in the interest of neither the EU nor Germany for Turkey to become politically and economically destabilised through further autocratisation, as this would impede the country's ability to fulfil its regional responsibilities, which include curbing migration, deterring Russia and stabilising Syria. The EU can exercise a constructive influence over Turkey by offering the prospect of talks on the modernisation of the customs union and the facilitation of visas and by promising it a greater say in the European security architecture – on condition that Ankara respects democratic principles and the rule of law.

On 19 March 2025, the mayor of İstanbul, Ekrem İmamoğlu, and 99 people associated with him were arrested in a large-scale police operation. İmamoğlu should have been first summoned for questioning, which raises doubts about the formal legality of the investigative process. At the same time, the targeted denunciation of İmamoğlu and the opposition Republican People's Party (CHP) through campaigns in government-aligned (social) media and the revocation of the university degree he received in 1994 have aroused suspicion that the criminal proceedings are politically motivated. And that suspicion is reinforced by Presi-

dent Recep Tayyip Erdoğan's interference in the investigation.

İmamoğlu is accused of manipulating public procurement tenders, carrying out illegal financial transactions and unlawfully using the personal data of İstanbul residents. He is also charged with "supporting terrorism", which has been made based on the "urban consensus" strategy pursued by the pro-Kurdish Peoples' Equality and Democracy Party (DEM) and the CHP in the 2024 local elections. The DEM refrained from running its own candidates in western Turkish cities, opting instead to support the CHP.



Reasons for the campaign against the opposition and its consequences

The latest actions against the Turkish opposition are part of a series of operations ordered by the judiciary in recent months. Since Istanbul appointed a new chief public prosecutor last October, three CHP district mayors have been arrested; and last month, several local politicians from the CHP and the DEM were detained, mainly in operations that received a great deal of publicity. Meanwhile, the police detention of the two top representatives of the Turkish Industry and Business Association (TÜSİAD) following their criticism of the instrumentalisation of the judiciary as a political weapon drew a large amount of attention.

However, the resistance of the CHP is turning the strategy of the Turkish judiciary and law enforcement into a boomerang for President Erdoğan. Following İmamoğlu's arrest, hundreds of thousands took to the streets in Istanbul, Ankara, İzmir and numerous other towns throughout the country. The protests continue to grow and are increasingly evolving into a broad-based resistance movement against Erdoğan.

Is the government following a power logic or an economic logic?

The arrests and the ensuing wave of protests have also had a significant impact on the domestic economy. The stock market has plummeted, the value of the Turkish lira has decreased significantly and billions in foreign currency have been injected into the foreign exchange market in a bid to stabilise the national currency. This raises the question of why President Erdoğan has allowed criminal investigations and proceedings to be initiated against İmamoğlu and other CHP mayors at a time when there are still more than three years until the next presidential election.

There are two possible answers to that question — one related to geopolitics and the other to the political situation in Turkey itself. The geopolitical reading points

to Turkey's enhanced strategic importance owing to tensions between the United States and the EU, its support for Ukraine in Russia's war of aggression against that country and the influence it wields in Syria. President Erdoğan is believed to have counted on a restrained response from the US government and the EU to the suppression of the Turkish opposition by judicial means.

The domestic political reading is that Erdoğan opted for a confrontational stance towards the opposition because of the erosion of both his power and that of his government. In early March, President Erdoğan was significantly trailing behind İmamoğlu and Mansur Yavaş, the CHP mayor of Ankara, in the opinion polls, while his Justice and Development Party (AKP) has ceased to be the strongest political force in Turkey. This suggests the legal proceedings against the mayor of Istanbul can be seen as an attempt to divide the CHP and the DEM and weaken the opposition. Indeed, the heavy police presence and restrictions on the right to assembly in Istanbul — and, to some extent, in other cities as well — only reinforce the impression that there is a deliberate attempt under way to intimidate the opposition.

To fully understand the motives behind Erdoğan's strategy, it is necessary to analyse the economic background. A solely power-political perspective falls short of explaining the president's actions and must be complemented by an analysis that takes into account the economic interests and constraints shaping the measures taken by Erdoğan.

The economic importance of CHP-led municipalities

Following the 2024 local elections, the CHP became the strongest political force in the country as well as a significant economic factor. For the past year, the party has governed 14 metropolitan municipalities, 21 provincial capitals, 337 districts and 61 towns. Combined, these CHP-led municipalities are home to 62 per cent of the population, generate 73.4 per cent of GDP, hold

84.5 per cent of total private savings and account for 79.6 per cent of Turkey's total exports. Moreover, the average per capita income of CHP-governed municipalities exceeds that of those governed by the AKP.

This has given the CHP a strategic advantage through which it is able to exercise a decisive influence on the national economic cycle and thereby establish an alternative sphere of power. The CHP-led municipalities are able to commission infrastructure projects of significant value and have thus become not only clients for businesses but also major customers in wholesale trade and the employers of several hundred thousand workers. As a result, entrepreneurs and construction companies, among others, no longer need to depend solely on contracts from the central government, which allows them to be more assertive in their dealings with President Erdoğan and his government. Some entrepreneurs have already turned their backs to some extent on the president and his government. And this new economic power of the CHP is particularly important insofar as high interest rates on loans have served as a brake on investments and orders in the construction sector for almost two years now.

The economic significance of the İstanbul Metropolitan Municipality can hardly be overestimated. Under the AKP from 1995 to 2019, the municipality received revenues totalling US\$85 billion from 130 major development projects. The loss of İstanbul in 2019 meant the loss of a central economic lever and what was, financially, a crucial "lifeline" for the AKP, the absence of which is still clearly felt in the current time of financial constraint. This explains why the Erdoğan government is determined to recapture the metropolis through judicial measures and, if necessary, will ensure control over the city by putting it under the administration of the state.

The municipalities governed by the CHP — above all, İstanbul and Ankara — have made a name for themselves through their social municipal policies. They have taken various measures to counter the rising cost of living and poverty, realised

social benefits, awarded scholarships for students and built student accommodation. Of great importance are the non-profit municipal restaurants (*Kent Lokantaları*) subsidised by the CHP-led municipalities, which help relieve the burden on the low-income segment of the population. That the central government is uneasy about these municipal restaurants is evident from the investigation launched by the Ministry of Trade into gastro critic Vedat Milor over "clandestine advertising". Milor had visited one of those restaurants in Üsküdar (İstanbul) in January 2025 and shared his culinary impressions on his YouTube channel.

The CHP has succeeded in improving the everyday lives of broad segments of the electorate through its social policies in the municipalities it governs, particularly the İstanbul Metropolitan Municipality, and promoting itself as a potential governing party at the national level. Such an approach serves as an alternative to the Erdoğan government's economic model, which is based on high interest rates, a reduction in purchasing power and cuts to social benefits. Against the background of the nationwide frustration with the current economic misery — high inflation, loss of purchasing power, poverty and fears for the future amid today's precarious conditions — the CHP's local policies are clearly undermining the reputation of the Erdoğan government.

The price of instability

At the same time, the government crack-down on the opposition entails risks for the economy. Immediately after the arrest of İmamoğlu and others close to him, the market capitalisation of companies fell by around 1.9 trillion Turkish lira. Capital outflows accelerated and investors shifted from domestic assets to foreign currencies. The benchmark interest rate rose from 37.1 per cent to 44.6 per cent, pushing up the government's borrowing costs by 7.5 percentage points. And the Turkish risk premium rose from 250 basis points to 383, which significantly increased the cost of foreign loans.

For its part, the Central Bank of Turkey (CBRT) had to sell foreign currency on the market to prevent a drastic rise in the exchange rate; as a result, its reserves fell by almost US\$25 billion. The total assets of the banking sector plummeted, too — by 25 per cent. The CBRT's Monetary Policy Committee convened a special meeting to stop the erosion of the bank's reserves and raised the overnight rate from 44 per cent to 46 per cent. These recent developments are expected to have a negative impact on the assessments of the rating agencies that evaluate Turkey's credit and investment worthiness.

Thus, the arrests and street protests have clear economic consequences. And this in itself suggests that the economy may prove decisive in dissuading the Erdoğan government from pursuing any further escalation or autocratisation.

What next for Turkey?

Do the street protests and the CHP's resistance sound the death knell of the Erdoğan era? Or are they simply an obstacle on the road to full autocracy? There are several scenarios — not predictions but possibilities for further political development — that could be sketched out here. Three are analysed in detail below.

Three scenarios

Consolidation of autocracy: The street protests subside, the EU and the US are restrained in their criticism and İmamoğlu is banned from politics after being convicted of corruption and supporting terrorism. Erdoğan and his government secure their grip on power and continue with the repressions. The opposition fragments and is no longer able to act; the parliament is dissolved at a politically favourable time from the government's point of view. Erdoğan and his People's Alliance emerge victorious from the early elections and the autocratic regime is consolidated.

This consolidation of autocracy causes economic instability. Turkey is dependent

on foreign direct investment and capital inflows to boost growth; but the imprisonment of an elected mayor on flimsy charges and the arrests of well-known figures — from actors and journalists to influential business leaders — on an almost daily basis create an unfavourable investment environment. The subsequent stagnation of the economy has a negative impact on German and European exports to Turkey, fuelling further migration from Turkey to the EU and especially Germany.

Disintegration of the governing bloc: Amid internal tensions within the AKP and the People's Alliance, mounting international criticism — particularly the uncompromising stance of the EU — and growing dissatisfaction among the population and the business community over the political and economic situation, the MHP withdraws its support for Erdoğan and the AKP. The CHP, the MHP, the DEM and other opposition forces form a parliamentary alliance with a two-thirds majority and dissolve the parliament. This paves the way for new parliamentary and presidential elections. İmamoğlu or another consensus candidate runs for the Presidency and defeats Erdoğan. However, an alliance comprised of parties with such divergent political agendas is unlikely to ensure a smooth transition or democratisation; rather, it could well usher in a period of political instability.

Agreement on early elections: Fearing the economic consequences of further escalation, Erdoğan yields to public pressure, opposition resistance and criticism from the EU. He uses the criminal proceedings against and pre-trial detention of İmamoğlu as a strategic bargaining chip vis-à-vis the CHP leadership. Against this backdrop, the two sides agree to hold early elections. İmamoğlu is released from pre-trial detention and the charges against him dropped — provided that the CHP consents to the dissolution of the parliament and new elections. This sequence of events could lead to a more stable political transition — one in which Turkey establishes a new electoral system and repositions itself politically under a new president and a CHP-led alli-

ance. Moreover, the orderly transfer of power, accompanied by political and economic stability, would offer the chance to reset EU–Turkey relations and could strengthen the EU’s geopolitical standing.

All three scenarios are conceivable. Whether any of them materialises — and if so, which one — will depend on both the political dynamics within Turkey and the reactions and developments in the international arena. A key factor will be whether the street protests continue to be non-violent and whether the CHP is able to increase pressure on the Erdoğan government, maintain a broad opposition alliance and gain the support of civil society, trade unions and business associations. The degree to which the EU acts with unity will play a crucial role, too. Ultimately, the interplay between domestic and international pressure could force the Turkish government to reconsider its repressive, autocratic course in order to achieve its geopolitical, foreign-policy and trade objectives.

For their part, Germany and the EU have security and economic policy instruments at their disposal with which to exercise a constructive influence over Turkey.

Policy options for the EU and Germany

The “consolidation of autocracy” scenario would be in the interest of neither the EU nor Germany, as further autocratisation in Turkey would likely lead to political and economic instability. As a result, Ankara would no longer be able to meet its regional responsibilities, which include managing migration flows, deterring Russia and contributing to the stabilisation of Syria.

The scenario of the “disintegration of the governing bloc” would be undesirable, too, as it could fuel political instability and thereby impair Turkey’s ability to act. Turkey’s geopolitical standing would be weakened and the strategic interests of the EU and Germany in the region jeopardised.

The “agreement on early elections” scenario aligns with European and German in-

terests, as it would hold out the possibility of the political stabilisation of Turkey and a realignment of relations with the EU. But given that the member states are pursuing divergent approaches towards Turkey based on their own interests, it is unclear whether the EU could adopt a unified position during the election campaign and maintain a critical stance towards Erdoğan.

So far, there has been little criticism from the US of the recent developments in Turkey, while the responses from EU institutions and Germany have been somewhat restrained. In Germany, two approaches are being debated: i) avoiding closer security cooperation with Turkey under the current government; and ii) continuing to engage with the Erdoğan administration through quiet diplomacy that urges adherence to the rule of law and democratic principles. The latter approach is based on the assessment that the EU depends on a stable Turkey — both as an important NATO partner, especially for deterring Russia, and as a buffer for containing migration flows to Europe.

While this assessment is sound, it overlooks a crucial aspect: in the current geopolitical situation, Turkey continues to need NATO protection and the EU — as an economic partner and as a market for Turkish goods and services — in order to ensure its national security and keep its economy on a growth trajectory. That reality is underscored by Turkey’s active pursuit of a key role in the European security architecture. The same applies to the Turkish defence industry: despite technological advancements, Ankara remains dependent on the EU in many areas. Total disengagement from this dependency through cooperation with other states or blocs is unrealistic. Indeed, the sustainable development of Turkey’s defence industry will continue to require close collaboration with EU member states.

Against this backdrop, Germany and the EU could exercise influence on Turkey by laying down the following conditions for increased security cooperation, further integration into the European security architecture and more cooperation in the defence



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sphere: Turkey must return to the rule of law, it must halt the move towards full autocracy and it must respect human rights.

Another important leverage would be negotiations on the modernisation of the customs union and the facilitation of visas. Both issues are of significant importance to Turkey as it seeks to improve the domestic investment climate. The Turkish economy is closely intertwined with that of the EU, and the return to economic dynamism is highly dependent on the further deepening of those ties. Turkey and its industrial sector are aiming for greater integration into European supply chains; but if the country were to continue to drift further towards autocracy, its chances of benefiting from reshoring would be significantly reduced, which means there would be a major economic incentive to reconsider the autocratic course. The EU and Germany could dangle the prospect of greater supply-chain integration while warning the Turkish government against carrying on down the path to autocracy.

At the same time, the new German government would still have the option of limiting export guarantees for German companies doing business with Turkey, as it did in 2018. This measure led to the Turkish government doing a U-turn on the practice of imprisoning German citizens, including entrepreneurs and human rights activists, on trumped-up charges and putting German companies on a “terrorist list”.

Turkey stands at a crossroads, faced with decisions that will not only shape its own future but also affect its relations with the EU and Germany as well as the geopolitical stability of the region. It is therefore in the interest of both the EU and Germany to send a clear signal to Ankara that there can be no strategic partnership with an autocratic Turkey. Levers are available that can avoid a complete rupture in EU-Turkish relations while nonetheless sending a clear political message.

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