

Turkey 2025: Turning the Page on the PKK and First Gains from Monetary Policy



In 2025, Turkey navigated a year of profound political and economic transformation against a backdrop of regional and global turbulence.

Domestically, the country witnessed an escalation in tensions between the government and opposition. Simultaneously, it moved toward resolving one of its most intractable security challenges by initiating a process to end its decades-long conflict with Kurdish militants a potential historic turning point.

On the foreign front, Ankara emerged as an active diplomatic player, from Gaza to the South Caucasus, maintaining a delicate balance between its Western partners and traditional Eastern allies.

Economically, Turkey undertook a year of drastic shifts in monetary policy, aiming to rein in inflation and restore market confidence. Rising investment flows and significant strides in the energy sector bolstered its ambitions to play a central role in regional energy security.

Domestic Politics: Cracks Within the Opposition

The political landscape in 2025 was marked by unprecedented turbulence, with intensifying confrontations between the government and the opposition. One of the most significant upheavals in a decade erupted after a sweeping legal and

security campaign targeted opposition figures.

The Republican People's Party (CHP), still the largest opposition force, entered 2025 with new leadership. Following a 2023 election loss, longtime leader Kemal Kılıçdaroğlu stepped down, and the party elected Özgür Özel a 51-year-old reformist figure promising to regroup and revitalize the opposition.

However, Özel's unification efforts quickly ran into legal obstacles. Dozens of CHP officials were detained or investigated on charges ranging from corruption to abuse of power. The confrontation peaked on March 19, when Istanbul Mayor Ekrem İmamoğlu and over 100 party members were arrested just days ahead of a primary election expected to launch his presidential bid.

Mass protests erupted in Istanbul and other major cities, prompting the government to impose a wide-ranging security clampdown including bans on public gatherings, road closures, and restrictions on social media access.

While the opposition decried a "soft coup" against the popular will, the government insisted the actions stemmed from legal investigations. Officials alleged entrenched corruption networks within opposition-led municipalities and accused İmamoğlu of unlawfully using Istanbul's population data and seeking foreign funding through intermediaries linked to intelligence agencies.

In July, İmamoğlu was sentenced for insulting the public prosecutor, followed by espionage charges in October. Authorities also shuttered the opposition-aligned Tele1 TV channel, citing its role in an alleged "media conspiracy."

These events plunged Turkey into a period of fierce political polarization and attempts to reshape the party system. The government, meanwhile, strengthened its grip under the banner of "anti-corruption," amid widespread skepticism and unrest.

Despite setbacks, the opposition notched a symbolic legal victory in October when an Ankara court upheld Özel's leadership of the CHP, rejecting a challenge from a dissident member who alleged financial and procedural irregularities during the party's 2023 convention.

The ruling was seen as a rare instance of judicial independence and a morale boost for the Özel faction.

A Historic Shift in the Kurdish Conflict

In a landmark development, Turkey made unprecedented progress in ending its decades-long armed conflict with the Kurdistan Workers' Party (PKK). Signs of de-escalation emerged in late 2024, including tentative outreach to imprisoned PKK leader Abdullah Öcalan. The breakthrough came in May 2025, when the PKK officially declared an end to its armed struggle, initiating a ceasefire and a UN-

monitored disarmament process.

In July, PKK fighters symbolically destroyed a cache of weapons in the Qandil Mountains, followed by a full withdrawal from Turkish territory into northern Iraq in the fall. Media coverage highlighted armed militants crossing the border in what was framed as a celebratory ushering in of a new peace era.

The Turkish government cautiously welcomed the development, calling it a “strategic transformation” and a gateway to long-delayed development projects in the country’s southeast. President Erdogan stated, “We are closing a bloody chapter and opening one of unity and progress.”

However, the PKK stressed that the shift to democratic struggle must be met with reciprocal state reforms to ensure Kurdish political and cultural rights.

Security concerns remained elevated throughout 2025. A September attack on a police station in Izmir killed three officers; authorities blamed a suspected ISIS affiliate. Interior Minister Ali Yerlikaya announced in December that security forces had thwarted seven terrorist plots and arrested over 2,000 suspects.

One of the largest counterterrorism operations occurred in December, targeting ISIS cells across 21 provinces. A deadly clash in Yalova province left three police officers and six militants dead, followed by the arrest of 357 suspects.

Meanwhile, Turkish intelligence pursued espionage cases, arresting three defense industry employees in November for allegedly leaking sensitive information to foreign entities.

Foreign Policy: Diplomatic Outreach and Cautious Realignments

Turkey pursued a proactive and calibrated foreign policy in 2025 aimed at reinforcing its regional role and safeguarding national interests.

Tensions with Washington eased somewhat after Turkey’s parliament ratified Sweden’s NATO accession in early 2024, following mutual guarantees. The move paved the way for a long-delayed \$23 billion US arms deal, including 40 new F-16s and upgrades for 79 aircraft—a “diplomatic trade-off” that revived Turkey’s air force modernization efforts after its ejection from the F-35 program.

Syria saw major upheaval following President Bashar al-Assad’s flight and the formation of a transitional government in late 2024. An initial agreement in spring 2025 between the interim government and the Syrian Democratic Forces (SDF) proposed integrating the SDF into the national army within a year a move Turkey cautiously welcomed.

However, Ankara remained skeptical. During a high-level visit to Damascus in December, Foreign Minister Hakan Fidan warned that SDF showed little real

commitment to integration and accused it of stalling and colluding with Israel to obstruct talks.

Turkey insisted that dismantling the SDF's leadership structure was essential for any future merger and maintained a military presence in northern Syria, linking withdrawal to the elimination of what it views as PKK-linked terrorist threats.

In the Israeli-Palestinian conflict, Turkey seized on a fragile ceasefire in early 2025 to push for a permanent truce and humanitarian arrangements. It played host to Hamas political leaders in December and positioned itself as a guarantor state for Gaza's ceasefire, seeking to act as a mediator in ways Western capitals could not.

Turkey also deepened ties with Gulf states and Egypt. Following President Abdel Fattah el-Sisi's September 2024 visit to Ankara, cooperation expanded in trade, investment, and regional affairs—particularly Libya, Sudan, and Gaza despite lingering disagreements managed pragmatically.

Relations with the EU remained cool but stable, with Turkish calls to modernize the customs union and ease visa rules met by European hesitation over democracy and human rights concerns. Still, cooperation continued on refugees and border security.

In the Eastern Mediterranean, tensions were subdued, with major disputes including Cyprus and maritime boundaries kept within the bounds of "conflict management."

In the Caucasus, Turkey played a central role in supporting peace between Azerbaijan and Armenia. After a breakthrough agreement in Washington in August 2025, steps were taken toward a peace treaty. Infrastructure projects like the Iğdır-Nakhchivan gas pipeline opened new regional corridors, enhancing Turkey's connectivity with Central Asia.

Economic Transformation: Stabilization and Early Wins

On the economic front, 2025 marked a turning point. Under Finance Minister Mehmet Şimşek, Turkey embraced a more orthodox monetary and fiscal approach to tackle inflation and restore investor confidence.

Tight fiscal discipline and high interest rates slowed growth to about 3.3%, driven by weak domestic demand. Yet, exports, tourism, and energy gains helped offset the slowdown. Official unemployment hovered around 9%, amid concerns about underemployment and shrinking real incomes due to inflation.

Inflation fell sharply from a mid-2024 peak of nearly 75% to 31.1% by year-end, following aggressive rate hikes to 40.5% before a cautious taper. A March currency plunge prompted emergency measures that strengthened monetary

resolve.

These moves restored some policy credibility. Turkey earned successive credit upgrades, thanks to tighter monetary policy, fiscal discipline, and growing reserves, though concerns lingered about potential policy backtracking.

The government cut the fiscal deficit through tax reforms, subsidy reductions, and spending controls. The current account deficit shrank to around 1.3% of GDP, with rising exports and lower luxury imports.

The lira remained weak but more stable, ending the year at around 43 per dollar, compared to 35 at the start. August saw the phase-out of a costly exchange-protected deposit scheme, signaling a shift away from extraordinary measures.

Foreign trade and tourism generated strong hard currency inflows, and Turkish industries expanded their export footprint, including in defense.

In energy, dependence on imports declined thanks to growing Black Sea gas production, new discoveries, higher domestic oil output, and accelerated investment in renewables and hydrogen infrastructure.

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