

TURKEY

Despite a pick-up in trend growth in recent years, GDP per capita remains well below the OECD average. Productivity is very low and labour utilisation is weak.

Policy priorities

Reduce the minimum cost of labour

Challenge and recommendations: To reduce minimum employment costs and increase employment in the formal sector, particularly in regions where labour productivity is low, it was recommended that payroll taxes be substantially reduced and the rate of increase of the minimum wage be slowed and differentiated across regions.

Actions taken: No significant action taken on the minimum cost of labour. However, according to the government's Action Plan announced in late 2007, costly requirements on employers to hire workers from disadvantaged groups will be reduced. Also, the government's 2008 Programme contains plans to gradually reduce social security contribution rates.

Reform employment protection legislation

Challenge and recommendations: To increase employment in the formal sector, it was recommended that the level of severance payments for dismissed permanent workers be reduced and restrictions for temporary workers be eased.

Actions taken: The 2008 Programme of the government aims to increase flexibility in the labour market. In this context, special attention will be given on measures to facilitate temporary employment contracts.

Improve access to, and quality of, primary and secondary education

Challenge and recommendations: To ensure that the entire youth population receive a good education, it was recommended that spending on education be increased, financed through cuts in lower-priority areas. It was also recommended that schools be funded on a per pupil basis, taking into account varying needs of the student population, and be provided with greater managerial responsibility and accountability.

Actions taken: Following curriculum reforms in primary and secondary education in 2005, university entrance was reformed in order to give more weight to students' secondary school performance.

Simplify product market regulations

Challenge and recommendations: To improve productivity performance, it was recommended that product market regulations be simplified, in particular the sectoral licensing rules which hinder market entry, and greater competition be encouraged in network industries.

Actions taken: No action taken on administrative simplification. However, in its 2008 Programme, the government announced the start of privatisation of public electricity production and distribution plants in order to create a competitive electricity market.

Reduce early retirement incentives for workers in the formal sector

Challenge and recommendations: To strengthen labour utilisation, it was recommended that early-retirement incentives for workers in the formal sector be reduced by lowering net pension benefits and replacing retiring workers' entitlement to severance payments with a saving scheme.

Actions taken: The Social Security and General Health Insurance Law, which is expected to come into force in 2008, will raise the statutory retirement age to 65 for both men and women by 2048.