

## TURKEY

Growth in trend GDP per capita has risen in recent years, but job creation remains too weak to reverse the sharp deterioration in labour market conditions in the 1990s.

### Priorities supported by indicators

#### **Reduce administrative burdens on start-ups**

Until recently, the process of establishing a company had been very complex and time-consuming, with no fewer than 19 different procedures to complete. Substantial regulatory obligations contribute to pushing many small-scale companies into the informal sector.

**Actions taken:** The commercial law was amended in 2003, and the number of required administrative steps to create a company was cut to two. In contrast, efforts to improve enforcement of legal obligations in order to reduce the size of the grey economy have had limited effect.

**Recommendations:** Streamline regulatory requirements for small-scale enterprises in order to facilitate formal registration for them.

#### **Reduce the tax wedge on labour income**

Social security contribution rates are among the highest in OECD and create a vicious circle encouraging unregistered activities, which already account for more than half of all employment and contribute to the steady decline in recorded participation rates.

**Actions taken:** The need to reduce the fiscal deficit has not permitted any reduction in the tax wedge, and ongoing social security reforms are unlikely to create additional room. Labour tax and social security exemptions are nevertheless being introduced for new employees in poor regions.

**Recommendations:** Rationalise social security spending, cut social contribution rates, and offset revenue losses through indirect tax increases. Put in place a “company registration strategy” that would include a reduction, during a transition period, of the marginal tax and contribution rates faced by firms joining the formal sector.

#### **Reduce the scope of public ownership**

The share of state economic enterprises in total employment has decreased, but large state enterprises still dominate the energy, telecommunication, transportation and banking sectors.

**Actions taken:** Laws have been passed to facilitate the privatisation of these large firms, but with limited success. Recently, the judiciary cancelled some of the few large-scale sales because of legal and procedural flaws.

**Recommendations:** Clarify the policy and regulatory frameworks for network industries, including with regard to public service obligations and their funding. Remove barriers to foreign ownership of privatised companies.

### Other key priorities

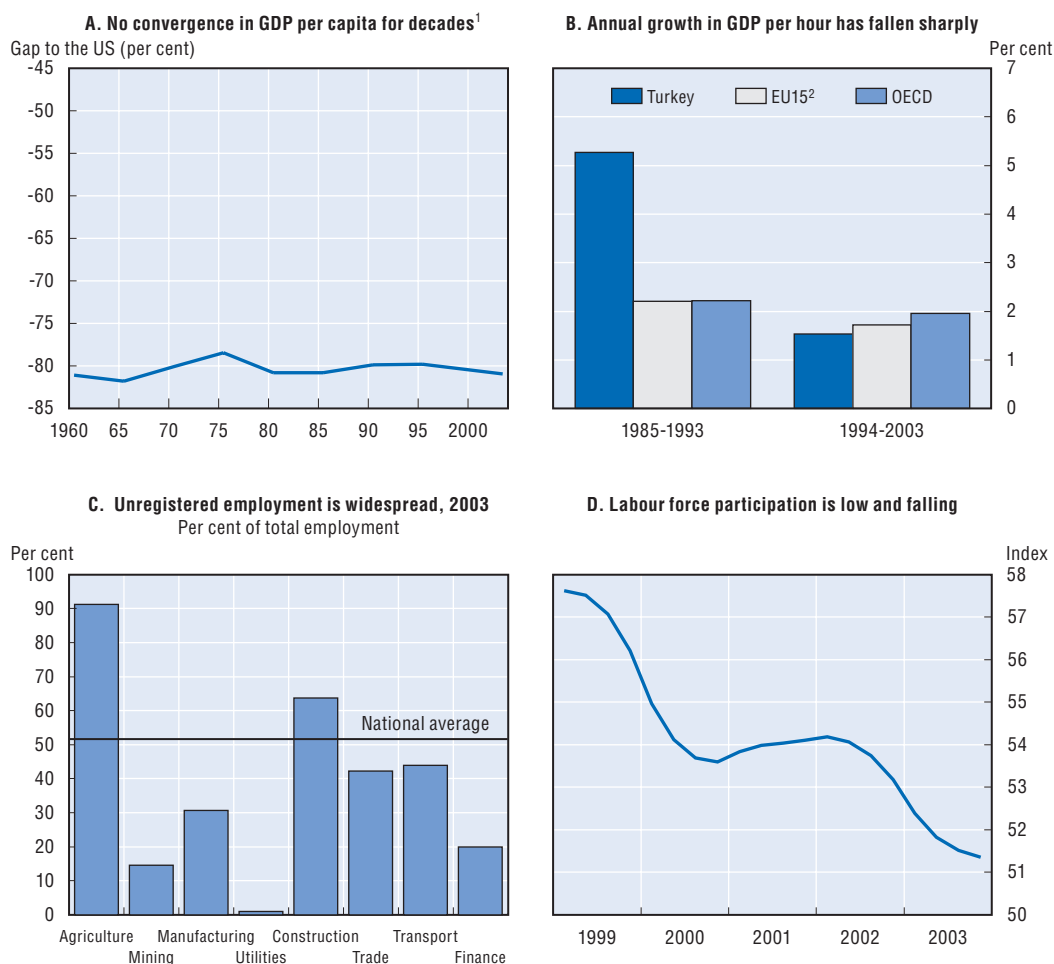
- Enhance the quality of public expenditures by implementing results-oriented budgeting in the core public services of justice, education and health.
- Improve educational opportunities for women by enforcing minimum schooling rules, and revise the curriculum of secondary schools to better align education with job-market requirements.

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## Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	2.2	1.8	0.8	2.7
Trend employment rate	59.2	55.7	53.5	51.7
Trend participation rate	64.1	60.7	57.9	56.1
Structural unemployment rate (NAIRU)	..	..	..	..

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

Source: Charts A and B: *National Accounts of OECD Countries, 2004*; *OECD Labour Force Statistics, 2004*; *OECD Economic Outlook, No. 76*; Chart C: *OECD Economic Survey, Turkey 2004*; Chart D: *OECD Labour Force Statistics, 2004*.