

TURKEY

The process of catch-up with the OECD average GDP per capita resumed in the 2000s, but the gap remains very wide due to major productivity and labour utilisation shortfalls. Measures to ease restrictions on foreign direct investment have been introduced in recent years, but strong reform efforts are needed, especially in the areas below.

Priorities supported by indicators

Reduce the minimum cost of labour

A high minimum wage relative to the average wage and high payroll taxes keep legal employment costs of low-skilled workers very high. This discourages the hiring of these workers by firms in the formal sector, in particular in regions and sectors where labour productivity is low.

Actions taken: A personal income tax allowance was introduced in 2007, reducing the labour tax wedge by 3 percentage points for workers earning 67% of the average wage. An *Employment Package* adopted in March 2008 reduced the wedge by an additional 2½ percentage points – applicable from end-2008.

Recommendations: Reduce the very high minimum wage/average wage ratio by containing the growth of mandatory minimum wages and creating a framework to differentiate minimum wages across sectors and regions. Continue cuts in the labour tax wedge, especially on low earnings, without undermining long-term financial balances of the pension system.

Improve educational achievement

The average academic performance in secondary education, and enrolment rates in tertiary education, remain very low in international comparison. The lack of basic skills for a large share of the population results in low productivity and hampers growth.

Actions taken: No new action taken, although curriculum reforms decided previously are still being implemented.

Recommendations: Increase spending on public education and finance it by broadening the tax base through an increase in formalisation of economic activities. Schools should be funded on a per pupil basis, and provided with greater managerial responsibility and accountability. New universities should be adequately funded, and expenditure per student should be increased.

Reform employment protection legislation

Employment protection is rigid in the formal sector for both permanent and temporary workers. This contributes to maintaining resources in inefficient informal activities.

Actions taken: No action taken.

Recommendations: Ease employment protection in the formal sector by facilitating temporary work and reforming severance pay entitlements.

Other key priorities

- **Product market regulation.** To improve productivity performance, simplify product market regulations, in particular the sectoral licensing rules which hinder market entry, and advance privatisations and encourage greater competition in network industries.
- **Work incentives in the formal sector.** To stimulate employment in the formal sector, reduce incentives for early retirement from the formal sector to take up work in the informal sector, by lowering net pension benefits and establishing a health insurance contribution for young retirees.

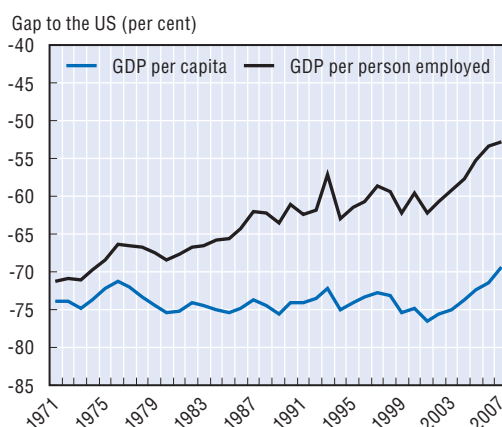
TURKEY

Structural indicators

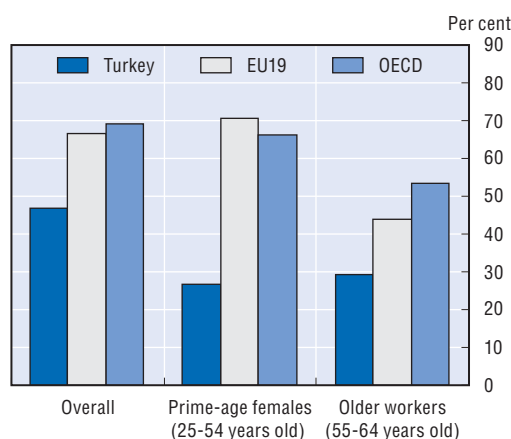
Average annual trend growth rates, per cent

	1997-2006	1997-2002	2002-2006
GDP per capita	3.4	2.3	4.6
Labour utilisation	0.2	-0.3	0.7
of which: Employment rate	0.1	-0.6	0.7
Average hours	0.1	0.3	0.0
Labour productivity	3.2	2.6	3.8
of which: Capital intensity
Multifactor productivity

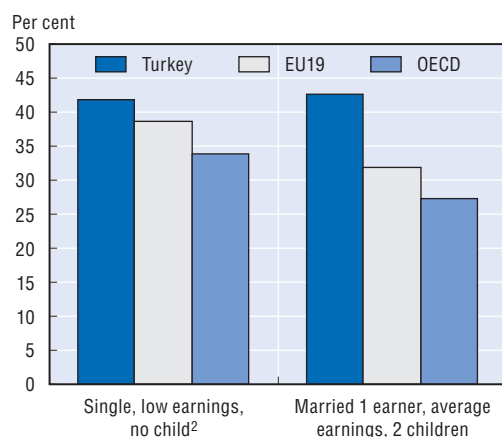
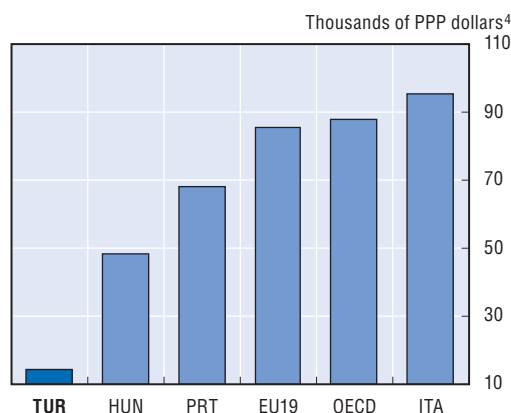
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity are narrowing but remain large¹

B. Employment rates are well below OECD average, 2007



C. Average tax wedges for low and middle-income earners are high, 2007

D. Cumulative expenditure per student in primary and secondary education is low, 2005³

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

2. Low earnings refer to two-thirds of average earnings.

3. Public institutions only, except for EU19 and OECD. Year 2004 for Turkey.

4. In equivalent USD converted using GDP PPPs.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Taxing Wages Database; Chart D: OECD (2008), Education at a Glance.

StatLink  <http://dx.doi.org/10.1787/533865864603>