

TURKEY

Growth remains on a strong path and is driven by productivity gains. Job creation is picking up but remains too weak to increase the employment rate.

Policy priorities

Reduce administrative burden on start-ups

Challenge and recommendations: There is a need to address the “informality trap” which is an important obstacle to enterprise growth in the small-scale sector.

Actions taken: Regulatory requirements have been further streamlined to facilitate market entry and the registration of small-scale enterprises, but no actions have been announced to address the informality trap.

Reduce the tax wedge on labour income

Challenge and recommendations: To put in place a “company registration strategy”, it was recommended that the marginal tax and social security contribution rates faced by firms joining the formal sector be reduced during a transition period.

Actions taken: The earlier-decided investment incentive in low-income provinces, with a 50% reduction of social security contributions being granted, has been generating positive employment responses, although these were at least partly due to employment shifts from other provinces.

Reduce the scope of public ownership

Challenge and recommendations: To help privatise large state firms which dominate the energy, telecommunications, transportation and banking sectors, it was recommended that the barriers to foreign ownership be removed.

Actions taken: The authorities have raised and/or waived the foreign ownership caps and opened new privatisation tenders to foreign investors. The government has sold 55% of the incumbent telecommunications company to foreign investors, and 51% of the national oil refining company was sold to an international consortium.

Implement results-oriented budgeting in core public services

Challenge and recommendations: To enhance the quality of public expenditures in justice, education and health services, it was recommended that budget allocations be based on performance and result benchmarks.

Actions taken: The new law on Public Financial Management and Control requires the use of results-oriented budgeting starting with the 2006 budget, but actual progress has been slow.

Improve educational opportunities

Challenge and recommendations: To improve the educational prospects of girls, and more generally the labour market relevance of education, it was recommended that the minimum schooling rules be fully enforced, and that the education curricula be revised.

Actions taken: A national campaign has been launched to increase the school participation of girls. The Ministry of Education has also undertaken a thorough revision of curricula in primary and secondary education.