

## TURKEY

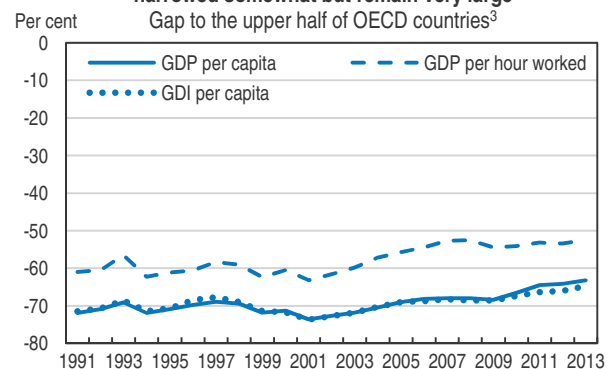
- The income gap *vis-à-vis* the upper half of OECD countries continues to narrow but remains large. The convergence achieved over the past decade has been driven by productivity gains, and more recently by strong job creation outside agriculture.
- A new, comprehensive *National Employment Strategy* was published by the Government in May 2014. However, this initiative faces political obstacles and its success hinges on the adoption of supporting legislation.
- Reforms to improve educational outcomes are essential to further narrow the income gap *vis-à-vis* higher-income countries. Encouraging formal employment, especially among underrepresented groups such as older workers and women, is key to unleash the growth potential. This can be achieved by reducing labour costs, reforming employment protection and raising incentives to work longer in the formal sector. Product market reforms are also needed to stimulate competition and productivity growth in sheltered sectors.
- Progress with vocational and life-long education, notably for youth and women would not only improve productivity and employability, but also help reduce the still wide income gaps between social groups and across regions.

### Growth performance indicators

**A. Average annual trend growth rates**  
Per cent


	2003-08	2008-13
Potential GDP per capita	2.5	2.9
Potential labour utilisation	-0.3	0.9
<i>of which:</i> Labour force participation rate	0.0	0.9
Employment rate <sup>1</sup>	-0.3	0.0
Trend employment coefficient <sup>2</sup>	0.0	0.0
Potential labour productivity	2.9	1.9
<i>of which:</i> Capital deepening	0.6	0.2
Labour efficiency	1.2	0.8
Human capital	1.0	0.9

**B. Gaps in GDP per capita and productivity have narrowed somewhat but remain very large**  
Gap to the upper half of OECD countries<sup>3</sup>



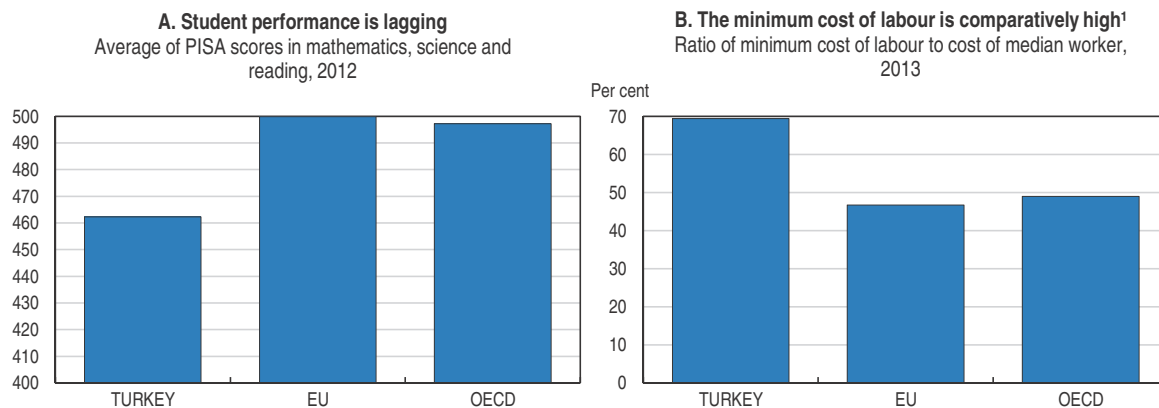
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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## Policy indicators



1. The cost of labour is the sum of the wage level and the corresponding social security paid by employers.

Source: Panel A: OECD (2014), PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>. Panel B: OECD, Employment Outlook and Taxing Wages Databases.

StatLink  <http://dx.doi.org/10.1787/888933178427>

## Going for Growth 2015 priorities

**Priorities supported by indicators**

**Improve educational achievement at all levels.** School enrolment rates are increasing but there is ample scope to improve quality and equity.

**Actions taken:** Reforms are being phased in to improve school quality by introducing mechanisms of performance accountability, including an Information Management System for Education Expenditure (e-School Budget) and a Budget Based School Performance Monitoring System (e-performance Budget).

**Recommendations:** Reduce the persisting large quality gaps among both schools and universities by granting them more autonomy and resources per student, against greater performance accountability. Develop pre-school education. Strengthen vocational education and life-long training in co-operation with the business sector.

**Reduce the cost of employment of the low skilled.** Relatively high minimum costs of labour for employers discourage the hiring of low-skilled workers in the formal sector.

**Actions taken:** Time-limited reductions in social security contributions were granted in selected provinces in 2013.

**Recommendations:** Make permanent the cuts granted during the crisis and further reduce social security contributions for low-skilled workers throughout the country, financing this by a widening of the tax base. Limit the growth of the official minimum wage and promote minimum wage settlement at regional level through local consultations between government, employer and employee representatives.

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**Reform employment protection legislation.** Rigid employment protection rules for permanent and temporary workers nurture a large informal sector.

**Actions taken:** A new and comprehensive *National Employment Strategy* was published in May 2014. It aims at replacing rigid employment protection with a “flexicurity” system adapted to Turkish circumstances.

**Recommendations:** Replace the very costly severance payment regime (available only for a minority of formal sector workers) with “portable” severance saving accounts available for all workers – as foreseen in the new *Employment Strategy*. Liberalise fixed-term and temporary work agency contracts. Broaden the scope and eligibility for unemployment insurance in order to move protection from jobs to individuals.

**Other key priorities**

**Improve competition in network industries and agriculture.** Obstacles to competition in network industries and agriculture undermine productivity growth.

**Actions taken:** The privatisation of all 21 electricity distribution companies was completed in 2013. Three power plants were also privatised in 2014.

**Recommendations:** Accelerate the liberalisation of all network sectors. Delink agricultural support from production and shift its composition away from price measures towards direct support

**Encourage formal work at older ages.** The pensionable age is 47, which creates disincentives to continued formal sector work at older ages, as the phasing in of the pension reform is only very gradual.

**Actions taken:** No action taken since the *Strategy to Combat the Informal Economy, 2012-13*.

**Recommendations:** Make continuing work in the formal sector after official retirement age more attractive and actuarially neutral. Speed up increases in the statutory retirement age. Establish a health insurance contribution for young retirees.

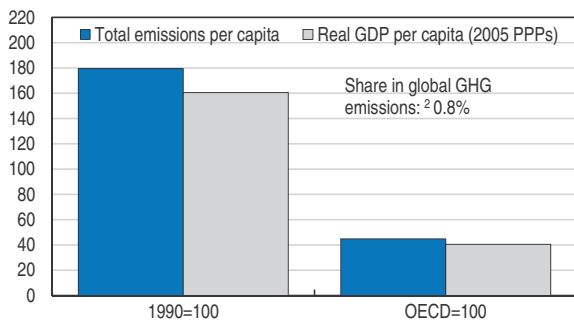
**Reform areas no longer considered a priority in *Going for Growth***

For Turkey, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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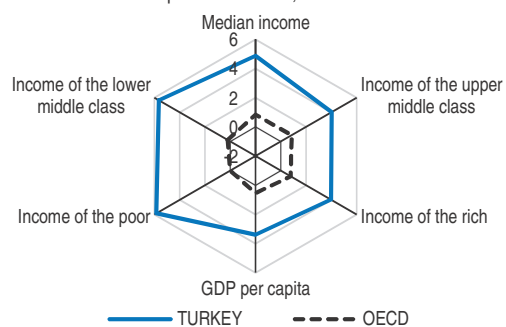
## Beyond GDP per capita: Other policy objectives

A. Emissions per capita remain below OECD average  
Average 2008-12<sup>1</sup>



B. Household income has grown by more than GDP per capita, especially for low-income households<sup>3</sup>

Average annual growth rate in real household disposable income, 2005-11<sup>4</sup>



1. Total GHG emissions including LULUCF in CO<sub>2</sub> equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Turkey.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink  <http://dx.doi.org/10.1787/888933178850>