

TURKEY

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

Priorities supported by indicators

Reduce minimum cost of labour

A high minimum wage relative to the median wage and high payroll taxes keep minimum employment costs very high in the formal sector. This discourages the employment of low-skilled workers in the formal sector, particularly in regions where labour productivity is low.

Actions taken: No action has been taken to reduce the minimum cost of labour.

Recommendations: Substantially reduce payroll taxes and finance this with a package of other reforms, including a reduction in early retirement incentives. Slow the rate of increase of the minimum wage and differentiate it across regions.

Reform employment protection legislation

Employment protection is rigid for both permanent and temporary workers, contributing to maintaining resources in inefficient informal activities.

Actions taken: No action taken recently.

Recommendations: Reduce the distortionary effect of employment protection regulation by lowering the level of severance payments for dismissed permanent workers and further easing restrictions in the case of temporary workers.

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

The average academic performance of the education system is very low. The lack of basic skills for a large share of the population results in low productivity and hampers growth.

Actions taken: Curriculum reforms in 2005 aimed at increasing the quality of primary and secondary education.

Recommendations: To ensure that the entire youth population receives a good education, increase spending on education when aggregate fiscal constraints permit. Schools should be funded on a per-pupil basis and be provided with greater managerial responsibility and accountability.

Other key priorities

- To improve productivity performance, simplify product market regulations, in particular the sectoral licensing rules which hinder market entry, and encourage greater competition in network industries.
- To strengthen labour utilisation, reduce early retirement incentives for workers in the formal sector by lowering net pension benefits and removing retiring workers' entitlement to severance payments.