TURKEY

The income gap vis-à-vis the upper half of OECD countries narrowed in the 2000s but remains very large, reflecting both low labour productivity and utilisation levels. Strong catch-up until the 2009 crisis reflected mainly productivity gains, while labour utilisation remained very low. A new draft Commercial Code has been prepared and should be adopted to improve financial transparency and facilitate financing investment. Structural reforms in the areas below are needed to improve overall economic performances.

Priorities supported by indicators

Reduce the minimum cost of labour

A high minimum wage relative to the average wage and high social security contributions keep labour costs very high for low-skilled workers. This discourages employment in the formal sector, in particular in regions where activity and living costs are low.

Actions taken: The *Employment Package* introduced in late 2008 reduced tax wedges for all workers and, in a higher proportion but temporarily, for young and female workers. Additional reductions were granted in selected provinces and for all new hires across Turkey at the end of 2009 as part of the crisis response.

Recommendations: Limit the growth of official minimum wages and differentiate them across regions. Continue reducing social security contributions and make these cuts permanent. Reduce pension benefits in actuarially neutral terms and top them up with a voluntary savings scheme into which the difference would be paid between the employees [ldquoe]current (high) and future (low) social security taxes.

Improve educational achievement

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

Actions taken: No new action taken, although previously-introduced curriculum reforms in primary and secondary education continue to be implemented.

Recommendations: Increase the availability of high quality education and finance this by broadening the tax base. Fund schools on a per-pupil basis and give them greater managerial responsibility and accountability. New universities should be adequately funded.

Reform employment protection legislation

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

Actions taken: No action taken. The government announced in 2010 that a new National Employment Strategy will be introduced.

Recommendations: Ease employment protection by reducing severance pay costs and liberalise temporary work and temporary work agencies. Allow more flexible forms of labour contracts on a voluntary basis.

Other key priorities

Simplify product market regulation

Product market conditions, in particular sectoral licensing rules and state ownership in large network industries, hinder competition and productivity in the formal sector.

Actions taken: The Co-ordination Council for the Improvement of the Investment Environment (YOIKK) started simplifying licensing rules. Privatisations in electricity distribution have resumed.

Recommendations: Pursue the simplification of licensing rules and advance privatisations.

Reduce incentives for early retirement

Incentives for early retirement from the formal sector encourage taking up work in the informal sector.

Actions taken: No action taken.

Recommendation: Make benefits more actuarially neutral and establish a health insurance contribution for young retirees.
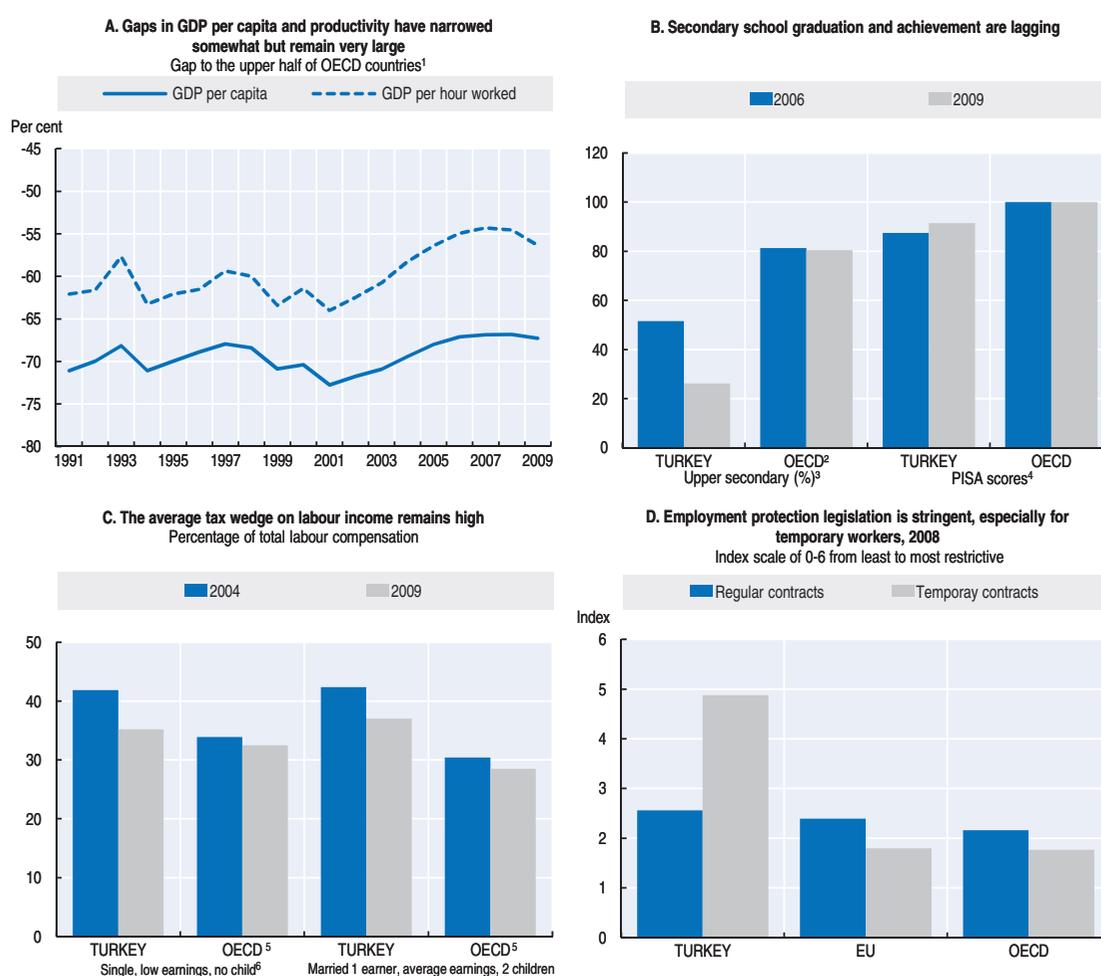
TURKEY

Structural indicators
Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	3.0	2.7	3.3
Labour utilisation	0.2	−0.2	0.6
of which: Employment rate	0.1	−0.4	0.6
Average hours	0.1	0.1	0.0
Labour productivity	2.8	2.9	2.7
of which: Capital intensity	. .	. .	. .
Multifactor productivity	. .	. .	. .

Source: Estimates based on OECD (2010), *OECD Economic Outlook No. 88: Statistics and Projections Database.*

A. Gaps in GDP per capita and productivity have narrowed somewhat but remain very large
Gap to the upper half of OECD countries[1]

B. Secondary school graduation and achievement are lagging

C. The average tax wedge on labour income remains high
Percentage of total labour compensation

D. Employment protection legislation is stringent, especially for temporary workers, 2008
Index scale of 0-6 from least to most restrictive

1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Average of OECD countries excluding Australia, Austria, Belgium, Estonia, France and the Netherlands.
3. First-time graduation rates for single year of age at upper secondary level, years 2006 and 2008.
4. Average score of student performance in mathematics, science and reading. Index OECD = 100.
5. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.
6. Low earnings refer to two-thirds of average earnings.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook No. 88 Databases*; Chart B: OECD (2010), *Education at a Glance; OECD, PISA 2009 Database*; Chart C: OECD, *Taxing Wages Database*; Chart D: OECD, *Employment Database.*

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