

The Turkish Labor Market: A Few Facts and Figures

Prakash Loungani

Advisor, Research Department, IMF

April 22, 2013

I thank Ezgi Ozturk for excellent research assistance.

The views expressed in this presentation are those of the author and should not be attributed to the IMF.

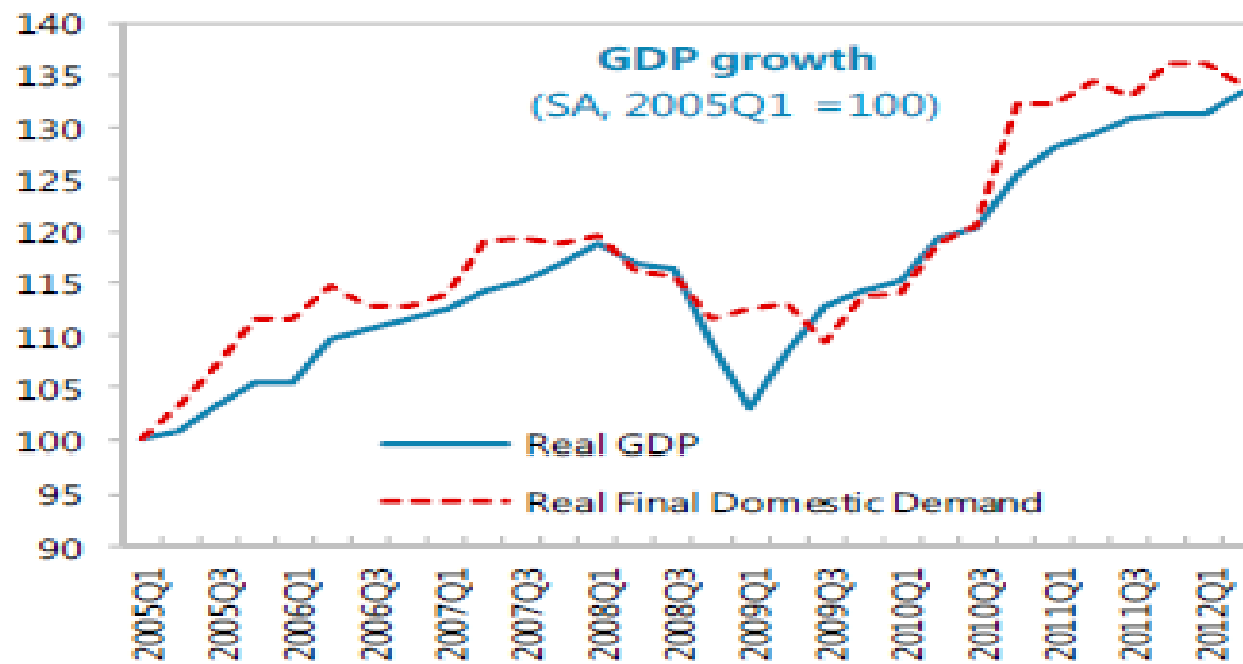
Outline of talk

- Turkish labor market performance during the global financial crisis

- A broader look
 - Beveridge Curve
 - Okun's Law

- Medium-term: challenges and opportunities

Recovery from the crisis



Sources: Haver and IMF staff estimates.

Output and unemployment during the crisis

Year	GDP growth	Unemployment rate	<i>LTU</i> rate	Unemployed total	0-6 months	6-12 months	b/w 1&2 years	2+ years
2007	4.7%	10.3%	3.1%	100.0%	57.6%	12.1%	17.2%	13.1%
2008	0.7%	11.0%	2.9%	100.0%	61.4%	11.8%	15.8%	11.0%
2009	-4.8%	14.0%	3.5%	100.0%	59.9%	14.8%	15.6%	9.7%
2010	9.2%	11.9%	3.4%	100.0%	58.4%	13.0%	17.6%	11.0%
2011	8.5%	9.8%	2.6%	100.0%	61.2%	12.3%	16.5%	10.0%

Source: Hakan Ercan (2012)

Unemployment by duration

Year	LF	Unemployed	1-2	3-5	6-8	9-11	LTU	b/w 1&2	b/w 2&3	3+
		total	months	months	months	months	total	years	years	years
2007	23,114	2,376	684	592	281	99	720	408	173	139
2008	23,805	2,611	801	698	314	99	699	413	168	118
2009	24,748	3,471	973	938	506	177	877	542	200	135
2010	25,641	3,046	922	732	378	143	871	536	210	125
2011	26,725	2,615	878	617	318	110	692	431	169	92

Share of long-term unemployment

Year	Unemployed	1-2	3-5	6-8	9-11	<i>LTU</i>	b/w 1&2	b/w 2&3	3+
	total	months	months	months	months	<i>share</i>	years	years	years
2007	100.0%	28.8%	24.9%	11.8%	4.2%	30.3%	17.2%	7.3%	5.9%
2008	100.0%	30.7%	26.7%	12.0%	3.8%	26.8%	15.8%	6.4%	4.5%
2009	100.0%	28.0%	27.0%	14.6%	5.1%	25.3%	15.6%	5.8%	3.9%
2010	100.0%	30.3%	24.0%	12.4%	4.7%	28.6%	17.6%	6.9%	4.1%
2011	100.0%	33.6%	23.6%	12.2%	4.2%	26.5%	16.5%	6.5%	3.5%

Unemployment by gender

Year	Unemployment MEN	<i>Share in total</i>	Unemployed MEN	0-6 months	6-12 months	b/w 1&2 years	2+ years
2007	1,716	72.2%	100.0%	61.2%	11.8%	15.0%	12.0%
2008	1,877	71.9%	100.0%	64.2%	11.8%	14.0%	10.0%
2009	2,491	71.8%	100.0%	62.5%	14.9%	14.0%	8.6%
2010	2,088	68.5%	100.0%	62.2%	13.0%	15.0%	9.8%
2011	1,730	66.2%	100.0%	65.3%	12.1%	13.6%	8.8%
Year	Unemployment WOMEN	<i>Share in total</i>	Unemployed WOMEN	0-6 months	6-12 months	b/w 1&2 years	2+ years
2007	660	27.8%	100.0%	48.3%	12.9%	22.6%	16.1%
2008	734	28.1%	100.0%	54.0%	11.9%	20.6%	13.6%
2009	979	28.2%	100.0%	53.3%	14.6%	19.8%	12.4%
2010	959	31.5%	100.0%	50.2%	12.9%	23.3%	13.6%
2011	885	33.8%	100.0%	53.2%	12.5%	22.0%	12.2%

A broader look: unemployment and vacancies

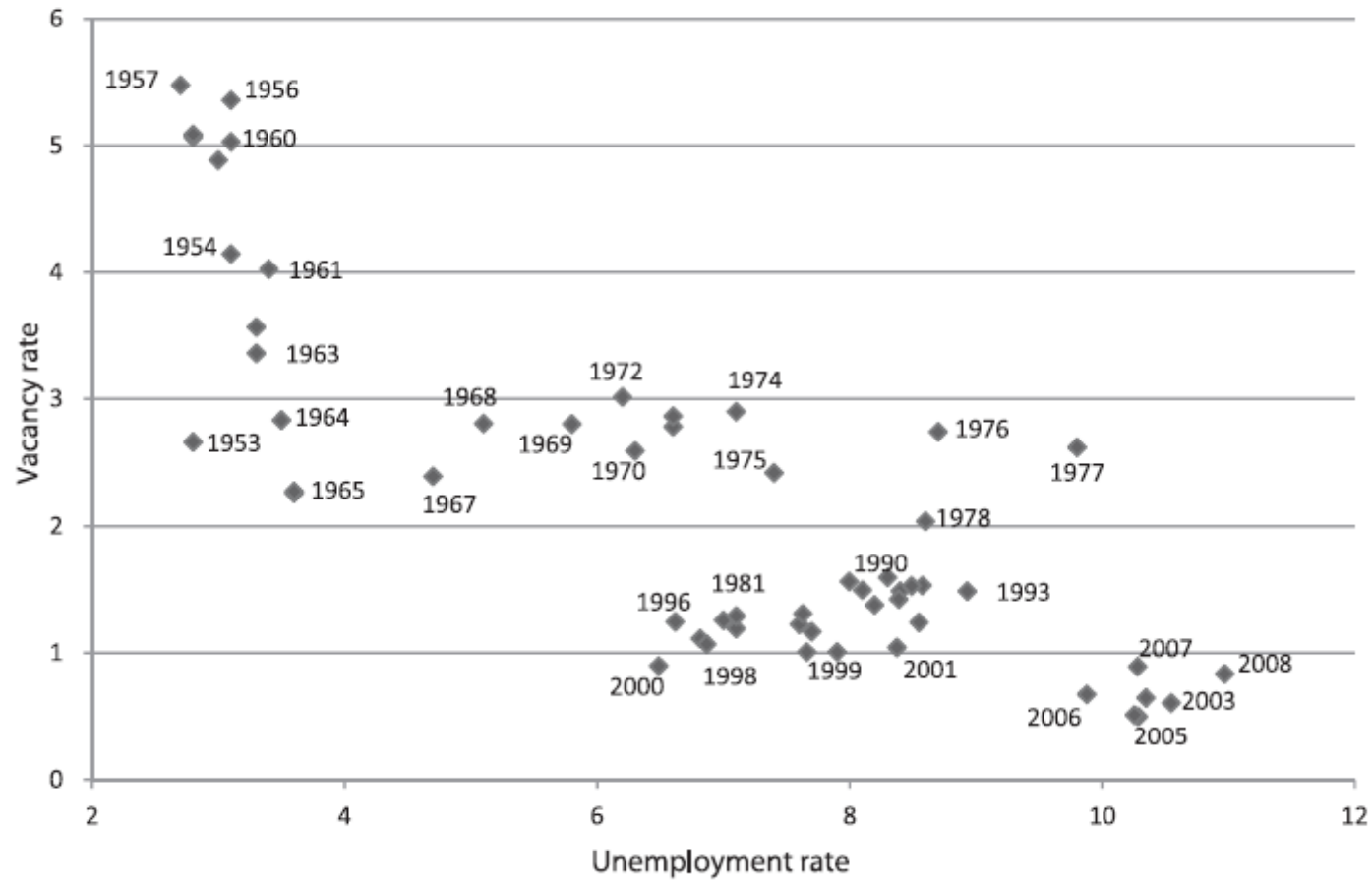
Table 1. Labour market dynamics in Turkey, 1950 to 2008

Period	Labour market tightness	Unemployment rate	Vacancy rate	Growth rate of real GDP	Labour market participation rate	Labour force growth rate
1950s	1.39	2.64	3.83	7.34	74.09	2.55
1960s	0.86	3.94	3.14	5.88	69.16	2.20
1970s	0.33	7.54	2.55	4.64	65.06	1.77
1980s	0.16	7.81	1.32	3.75	58.09	1.53
1990s	0.16	7.77	1.29	3.47	54.22	1.45
2000s	0.07	9.56	0.72	5.05	48.47	1.47

The Beveridge curve and labour market dynamics in Turkey

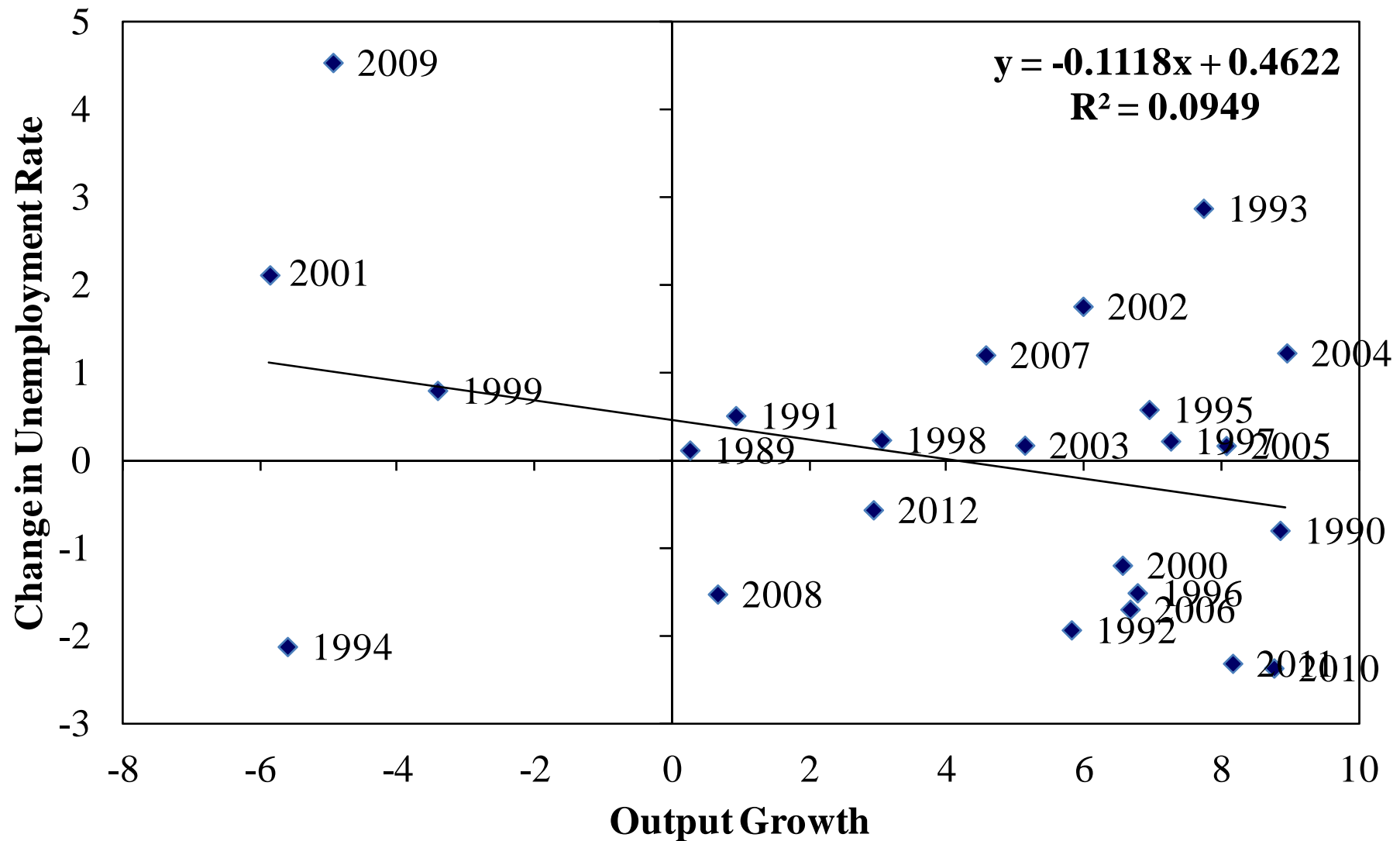
Bahar Bayraktar Saglam and Burak Gunalp*

Beveridge Curve for Turkey



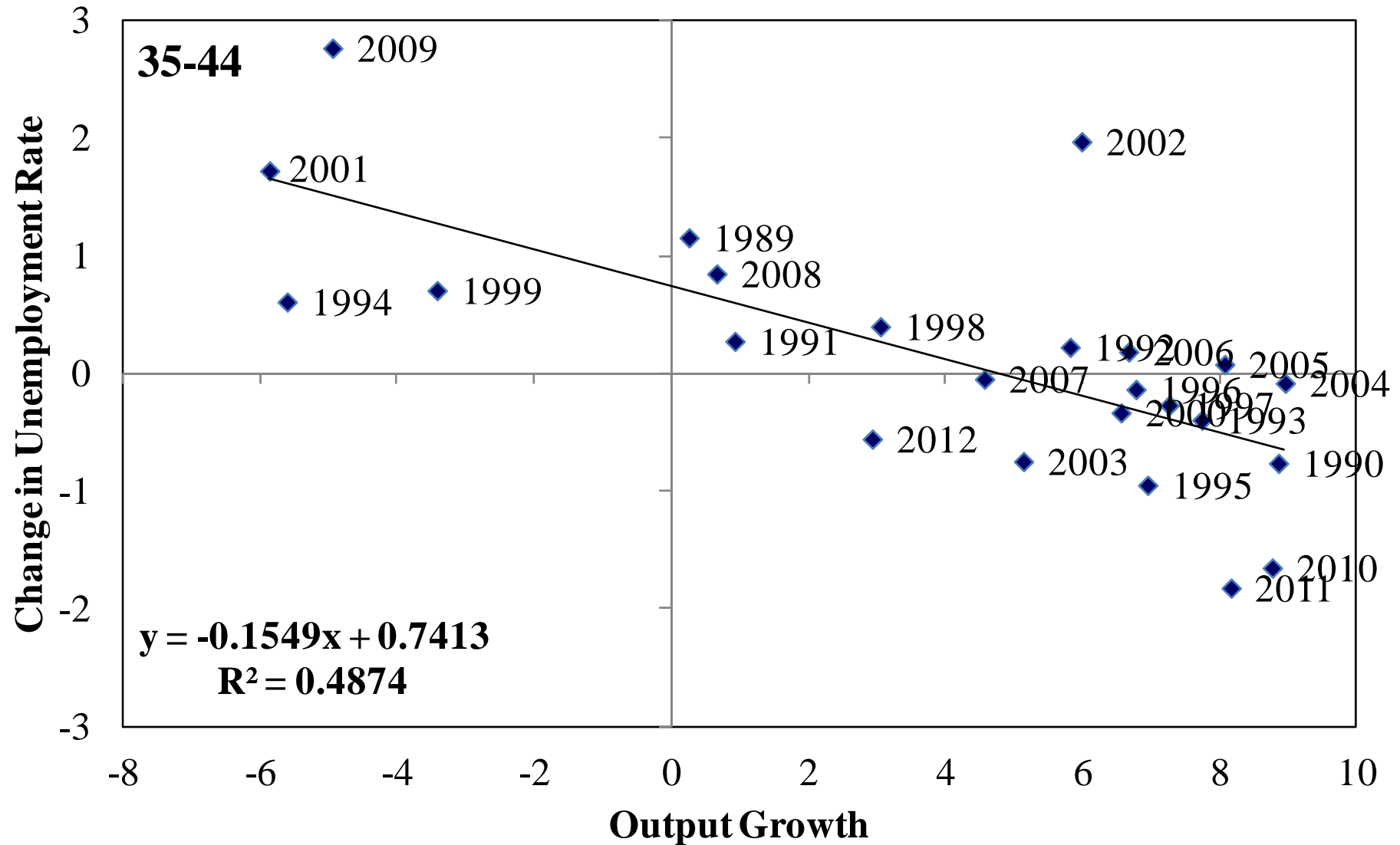
Okun's Law in Turkey

1989-2012



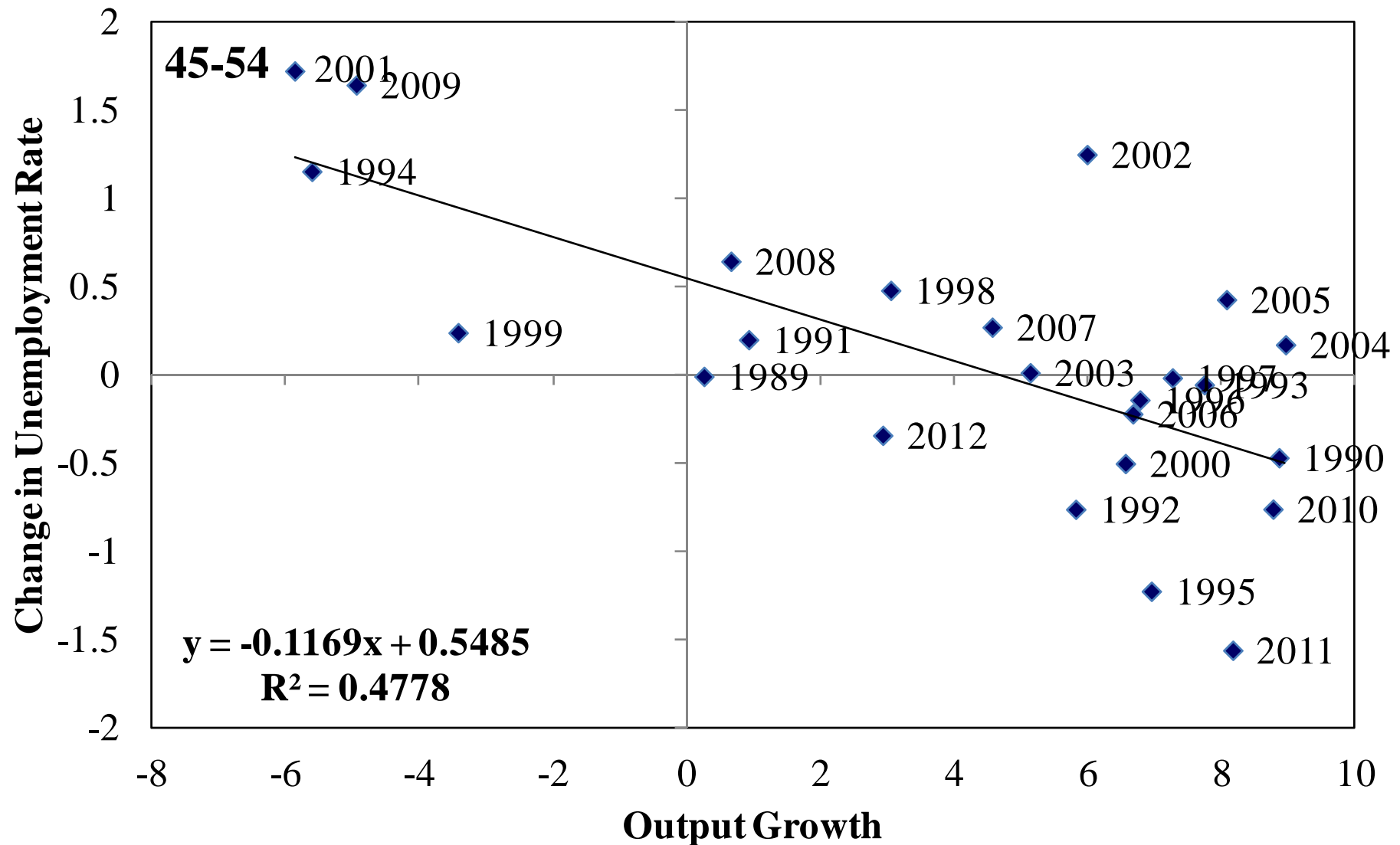
Okun's Law in Turkey: Age Group of 35-44

1989-2012



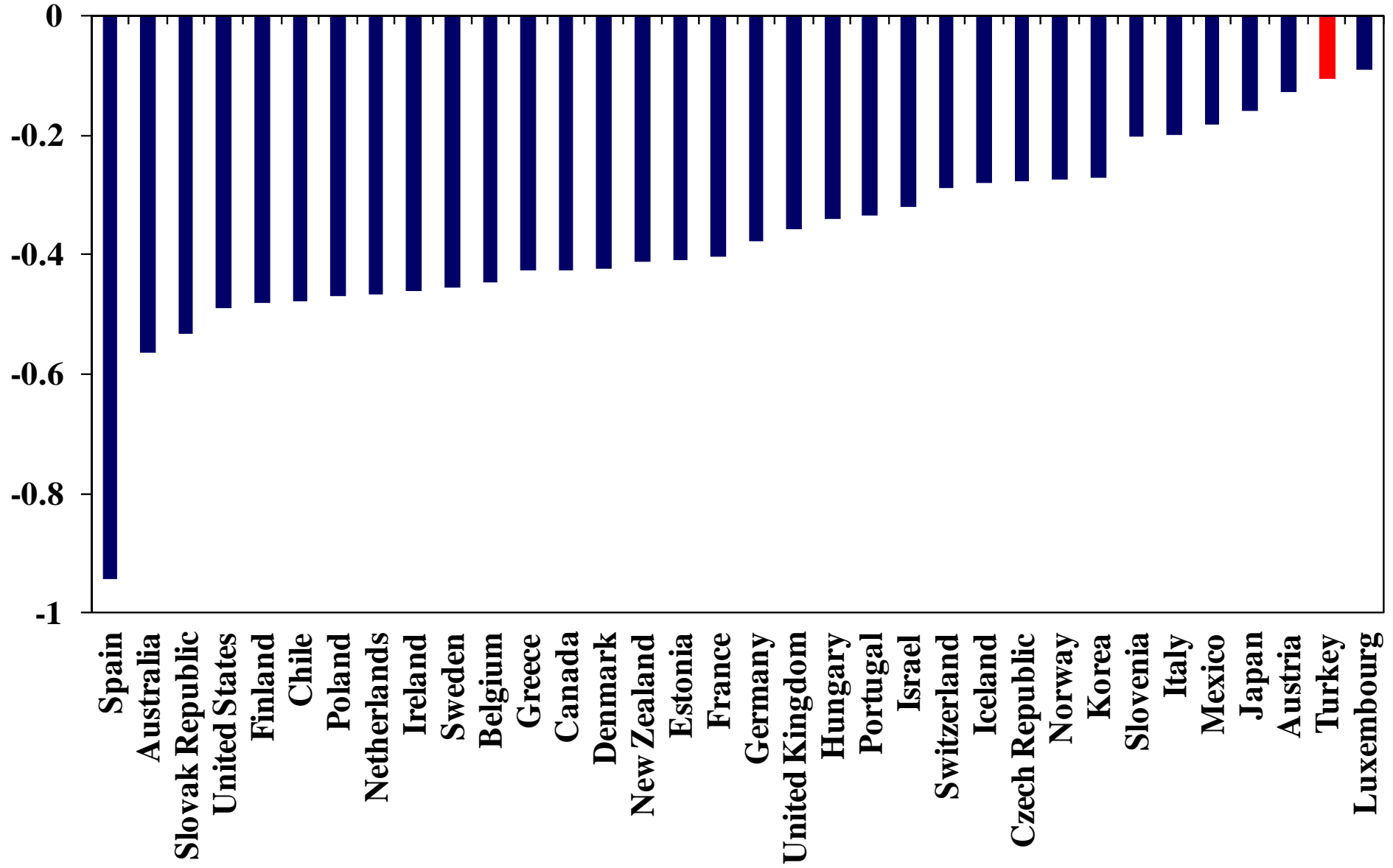
Okun's Law in Turkey: Age Group of 45-54

1989-2012

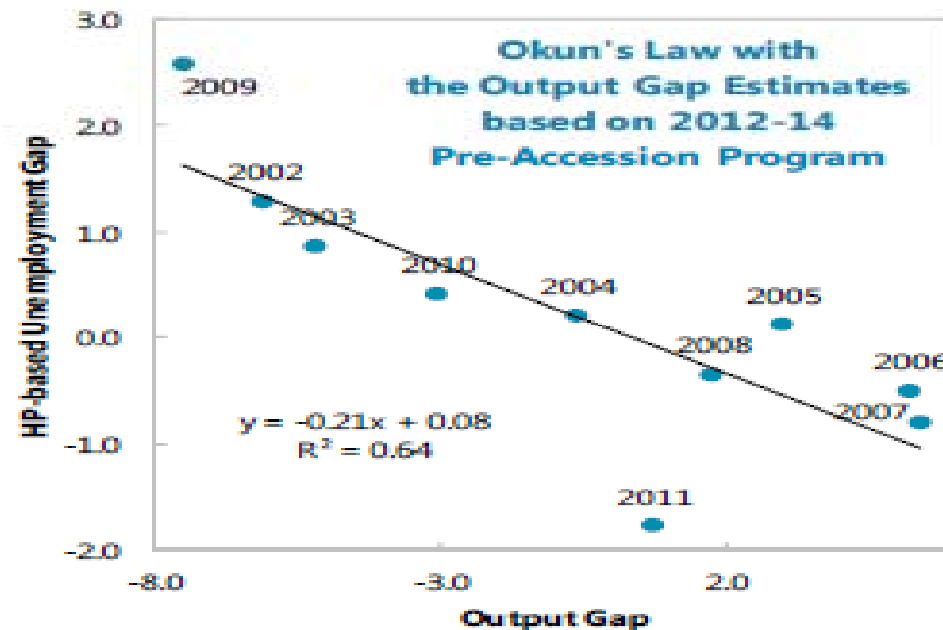


Okun's Law Coefficients: OECD Countries

1978-2011



Okun's Law during the Crisis



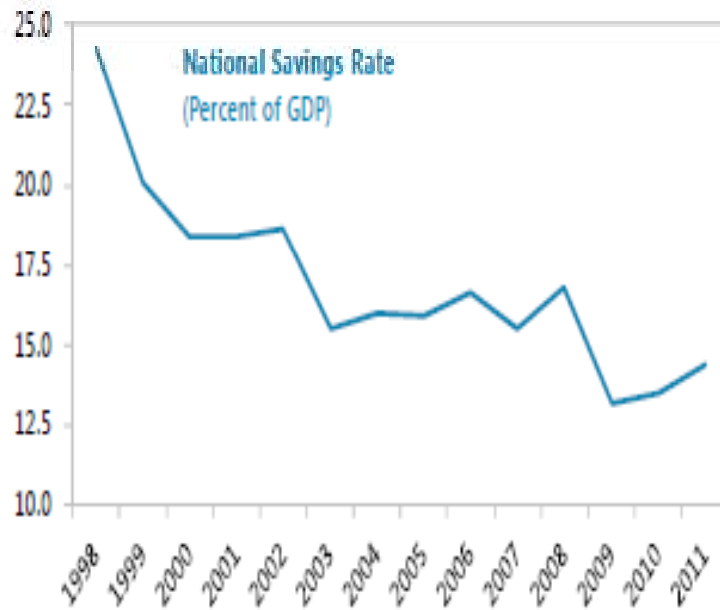
Source: National authorities; IMF staff estimates.

Medium-term:

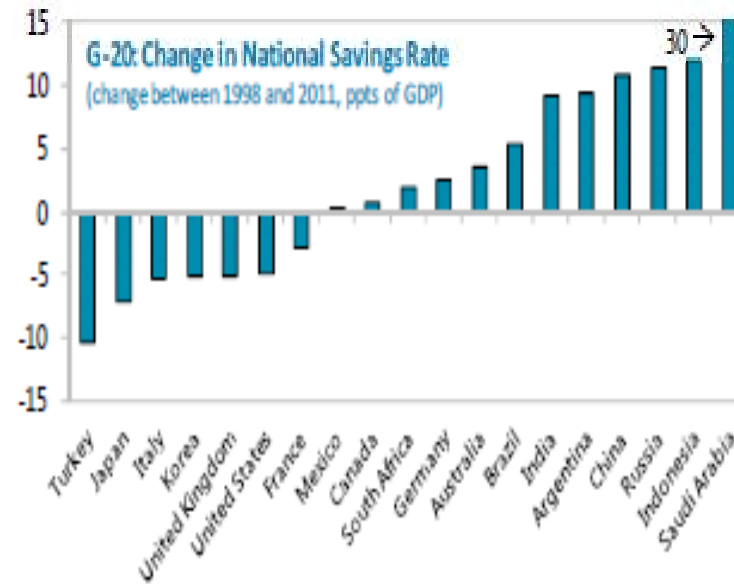
IMF advice on avoiding boom-bust cycles

- **Due to its low savings, Turkey remains prone to boom-bust cycles driven by capital flows.**
- **Fiscal policy has a role to play in raising national savings and mitigating the economy's excessive cyclical swings.**
 - Contain real primary spending growth below the potential growth rate of 4 percent in the next three years and change the public pension system; in particular, by increasing contribution rates without raising benefits
 - public spending on health programs, which has grown significantly in recent years, could be reexamined;
 - tax base should be broadened by eliminating tax exemptions and improving tax administration.
- **Recent reforms to boost private savings**

Savings Rate in Turkey



Source: Ministry of Development.



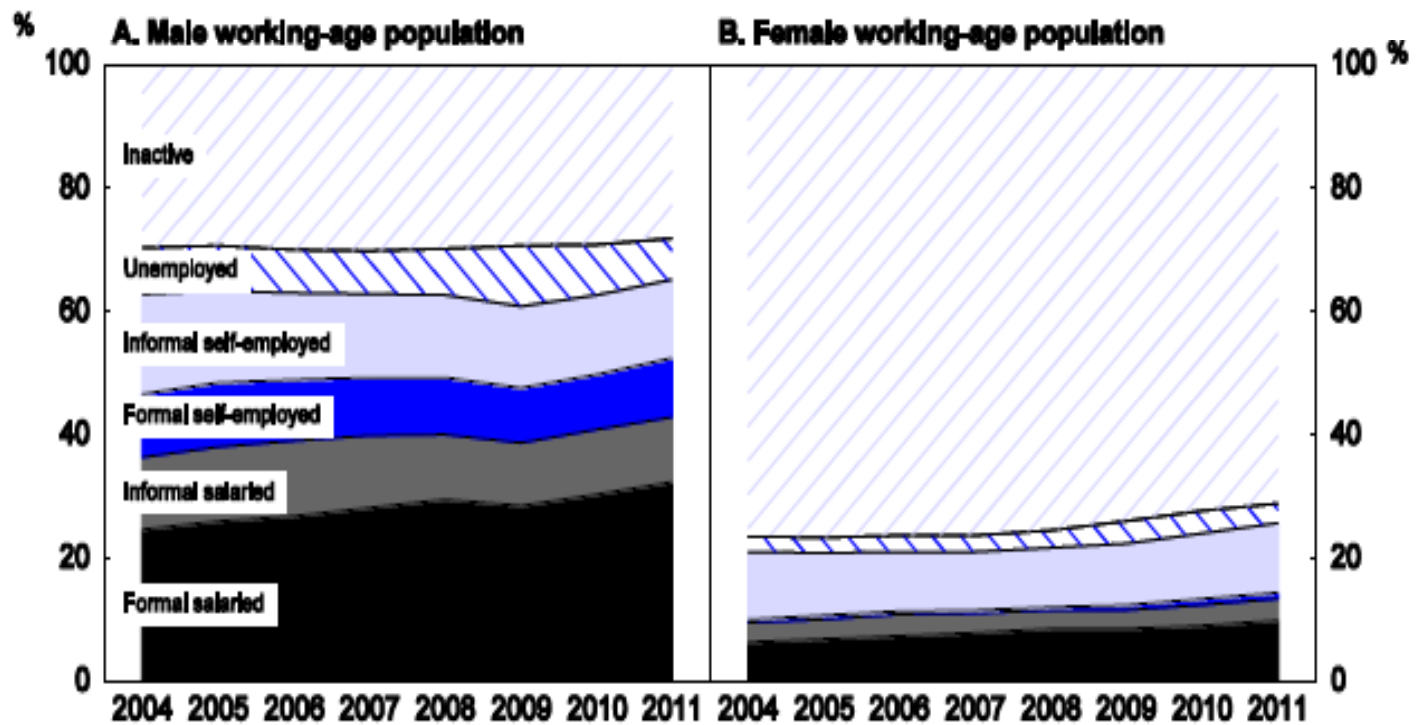
Source: WEO, and IMF staff calculations.

IMF advice on supporting domestic saving

- Boosting competitiveness more broadly would support domestic saving.
 - The recently introduced Commercial Code helps improve corporate governance and encourages FDI.
 - The recent package of investment incentives could, if properly administered, help stimulate investment in advanced technology sectors and lower the import content of production.
- But past experience with similar schemes, depending on tax exemptions, showed mixed results. Thus, expectations should be modest and higher priority should be given to maintaining broad VAT and income tax bases.

IMF advice on labor market reforms

- **Efforts to address the large informal sector, which have had some success in recent years, need to be sustained.**
 - Evidence suggests firms in informal sector more liquidity constrained, invest less, are less profitable, and grow more slowly than in formal sector.
 - Informal workers save less than their counterparts in the formal sector.
- **The labor market needs to become more competitive**
 - greater use of part-time and temporary labor
 - reform of the severance pay system, and slowing the growth of the high minimum wage, while ensuring an adequate safety net.
 - Continue improving the quality of its workforce by bolstering the education system and training programs.
 - Measures to boost the female participation rate, which at about 30 percent remains well below that of most middle-income countries.



Source: Turkish Statistical Institute, Household Labour Force Survey results.

OECD advice

Labour market and education policies

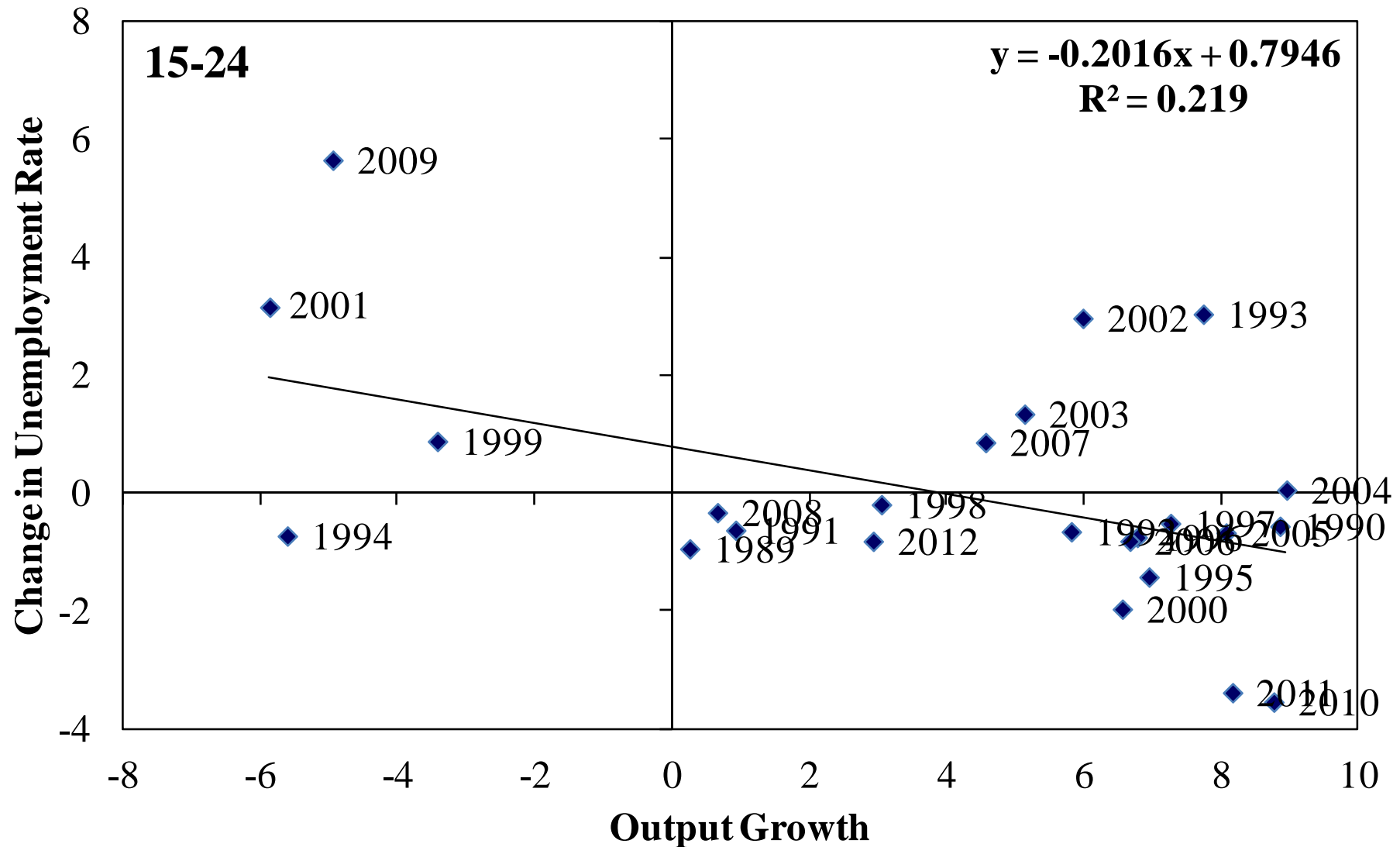
- The *severance payment* regime should be re-designed in line with international best practices to make permanent labour contracts more flexible. *Temporary and agency employment* should be allowed, without sectoral restrictions.
- Official *minimum wages* should be kept in check. Wage adjustments to productivity gains should be sought more through collective bargaining at enterprise level.
- The scope and eligibility conditions for the official *unemployment insurance* scheme should be broadened. This is key for progress towards “flexicurity” adapted to the Turkish context.
- Offer effective *lifelong education* programmes to upgrade the labour market skills for adults whose schooling was inadequate.
- Reduce the large quality gaps among both *schools and universities* by granting them more autonomy in exchange for more accountability for performance, and by shifting to per-student funding, with adjustments for socio-economic disadvantages.
- Increase *women’s labour force participation* by providing high-quality and affordable child and elderly care.

Thank you

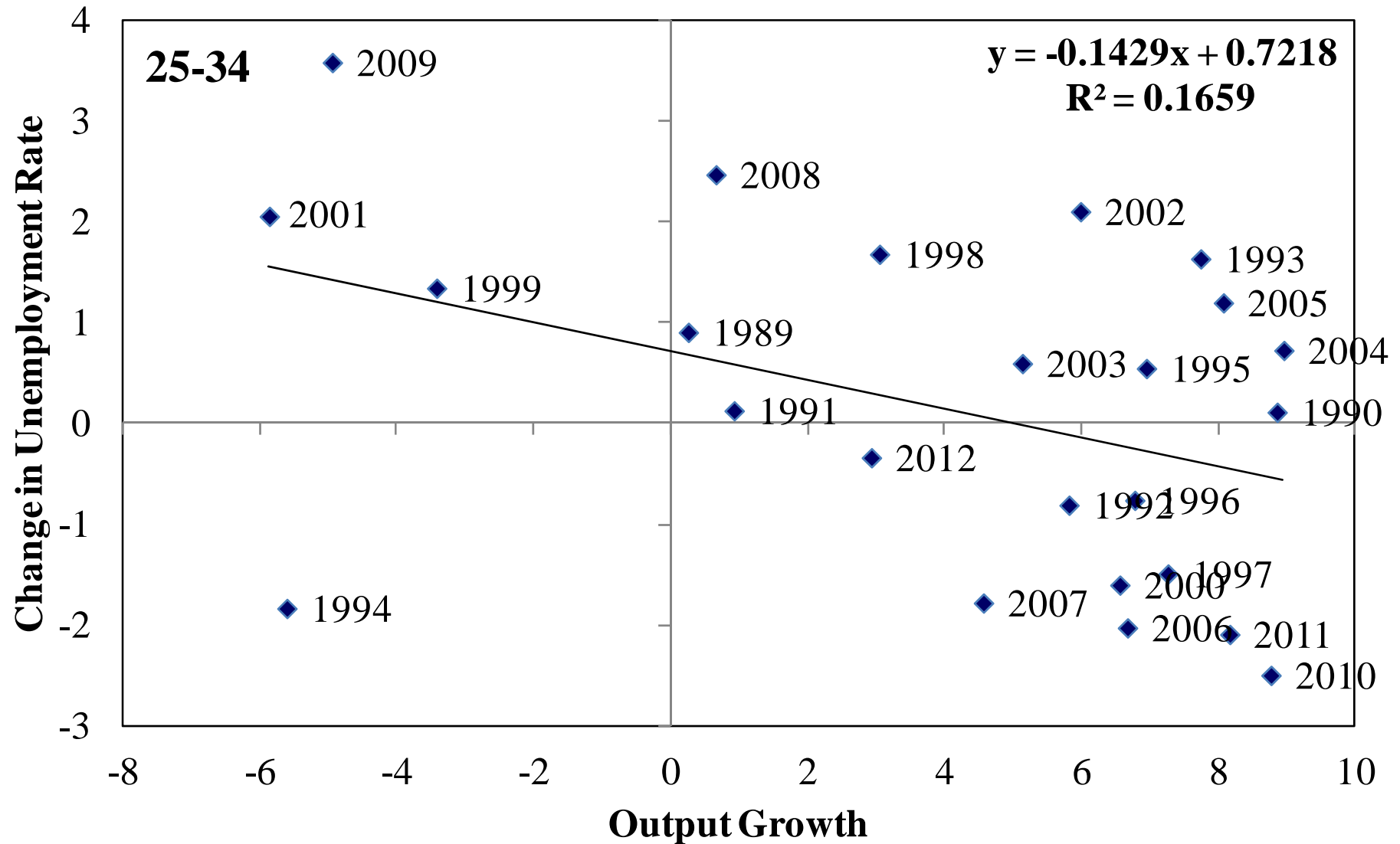
Additional slides on Okun's Law

Okun's Law in Turkey: Age Group of 15-24

1989-2012

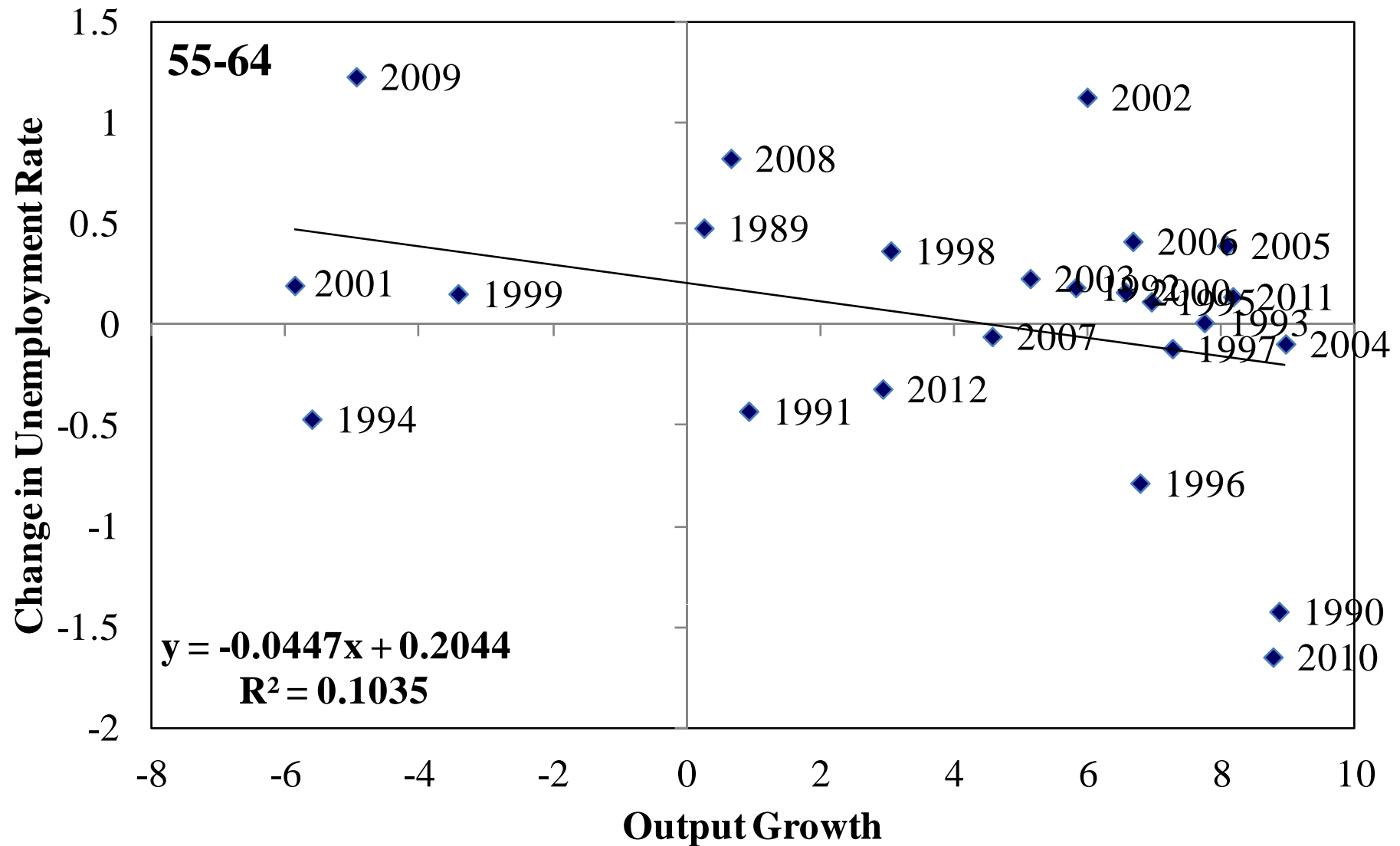


Okun's Law in Turkey: Age Group of 25-34 1989-2012

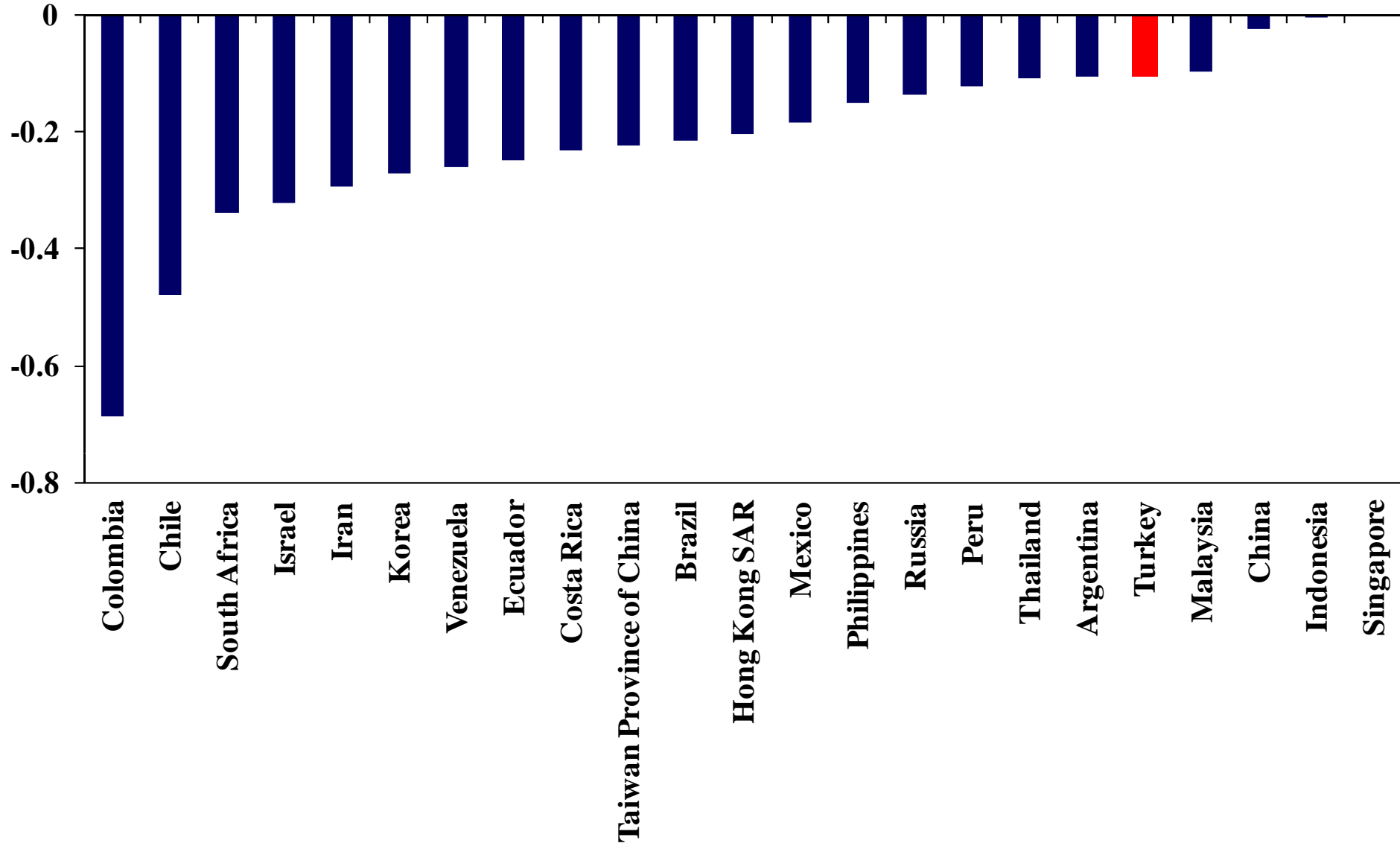


Okun's Law in Turkey: Age Group of 55-64

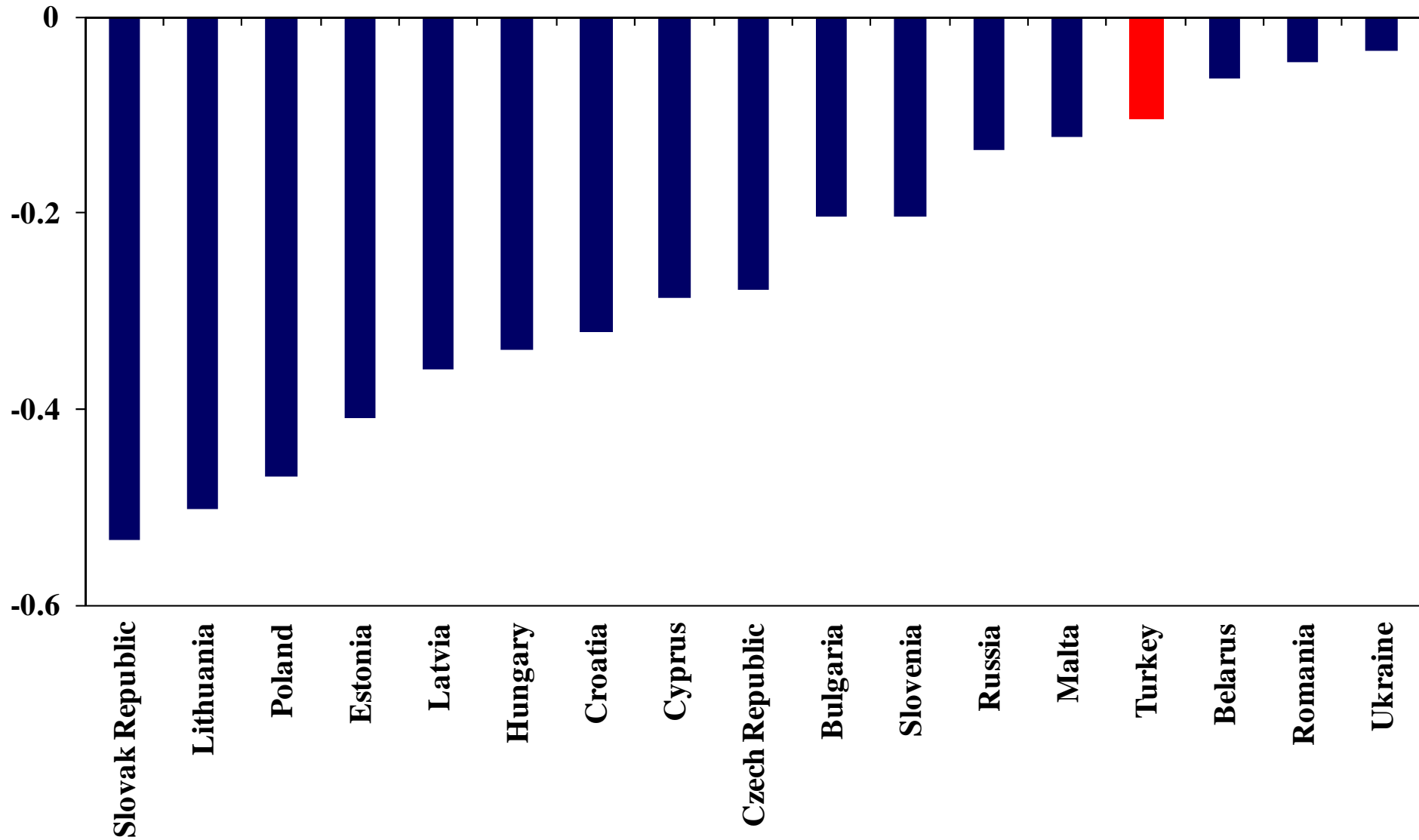
1989-2012



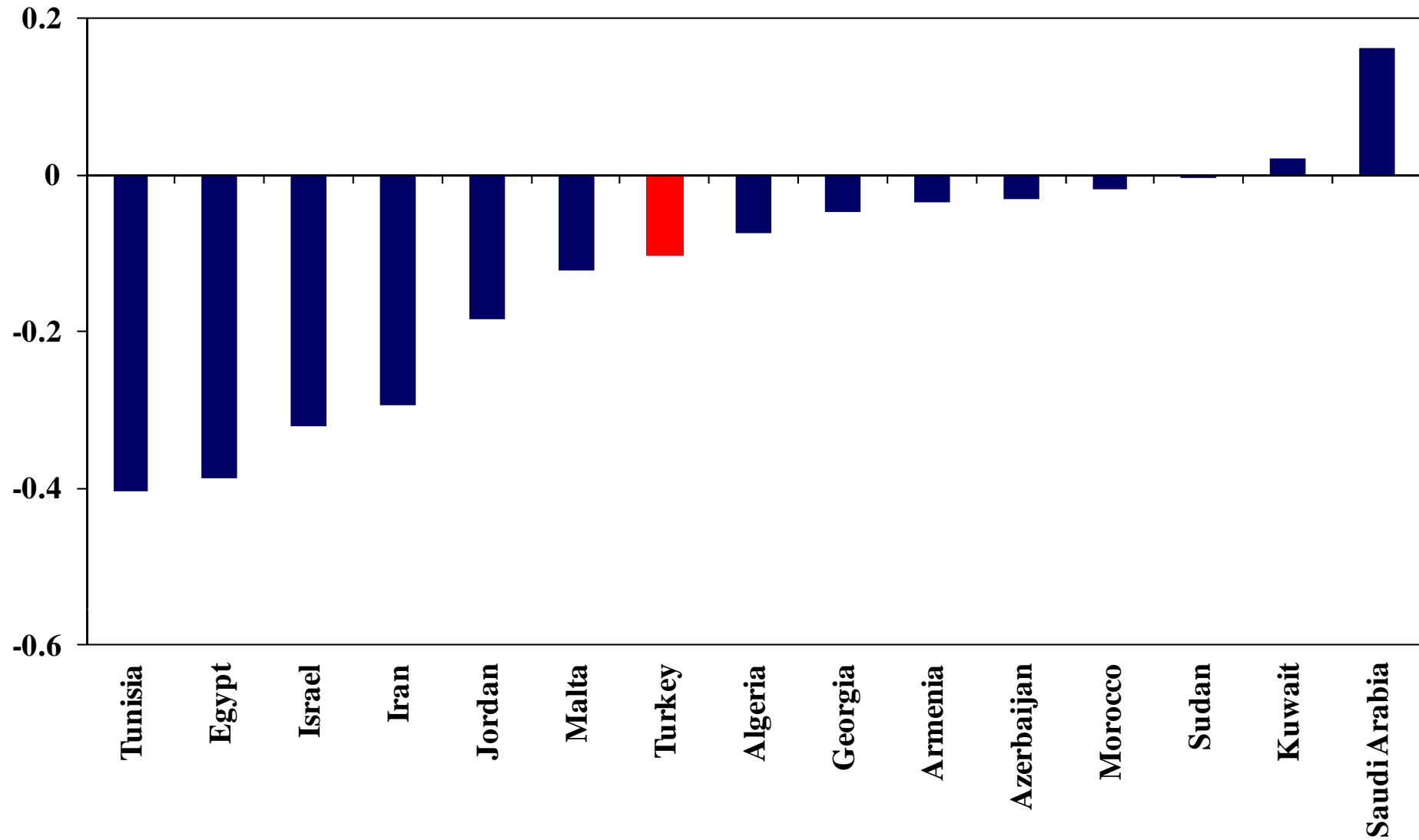
Okun's Law Coefficients: Emerging Market Countries *1978-2011*



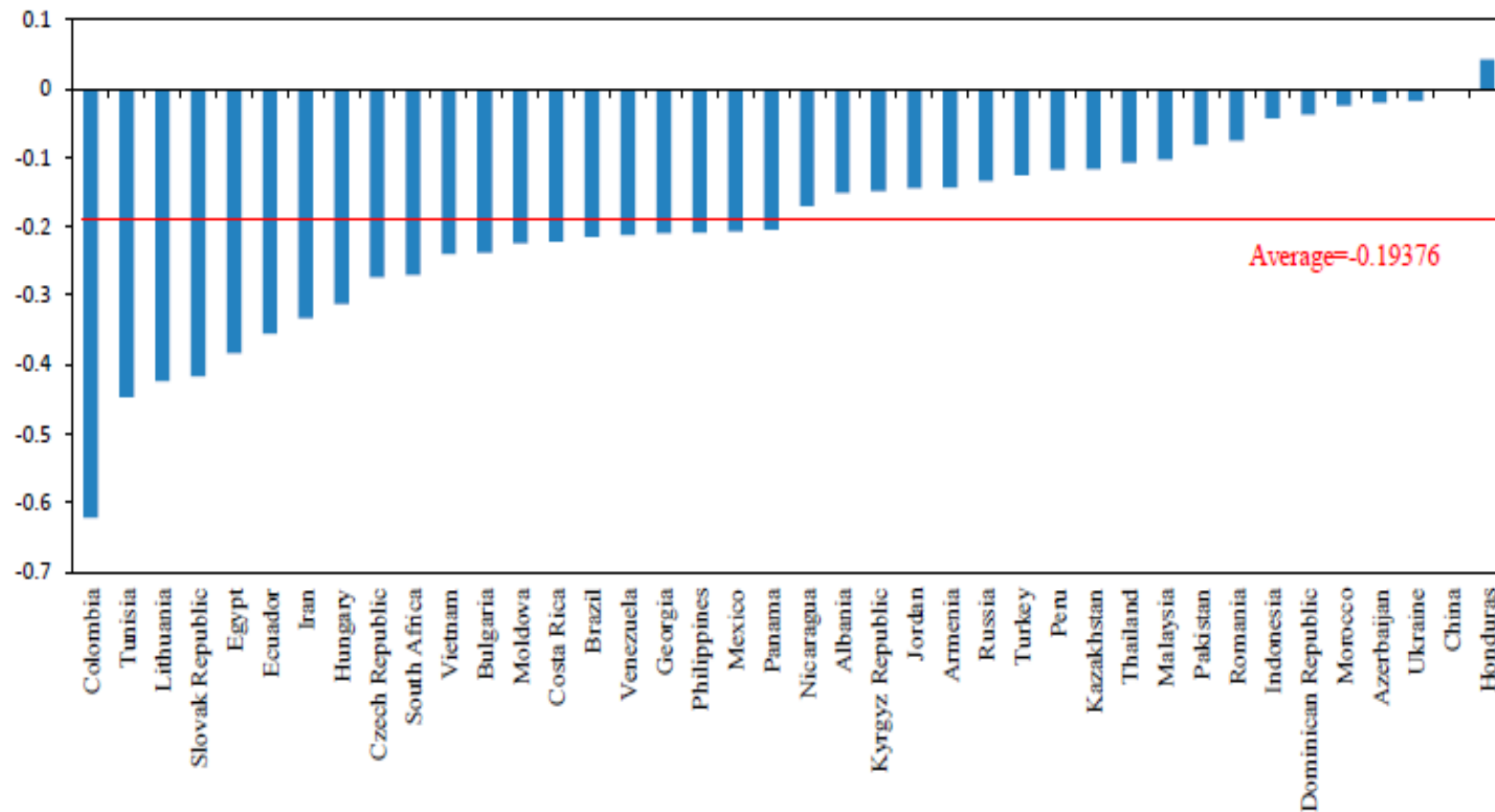
Okun's Law Coefficients: Emerging European Countries 1978-2011



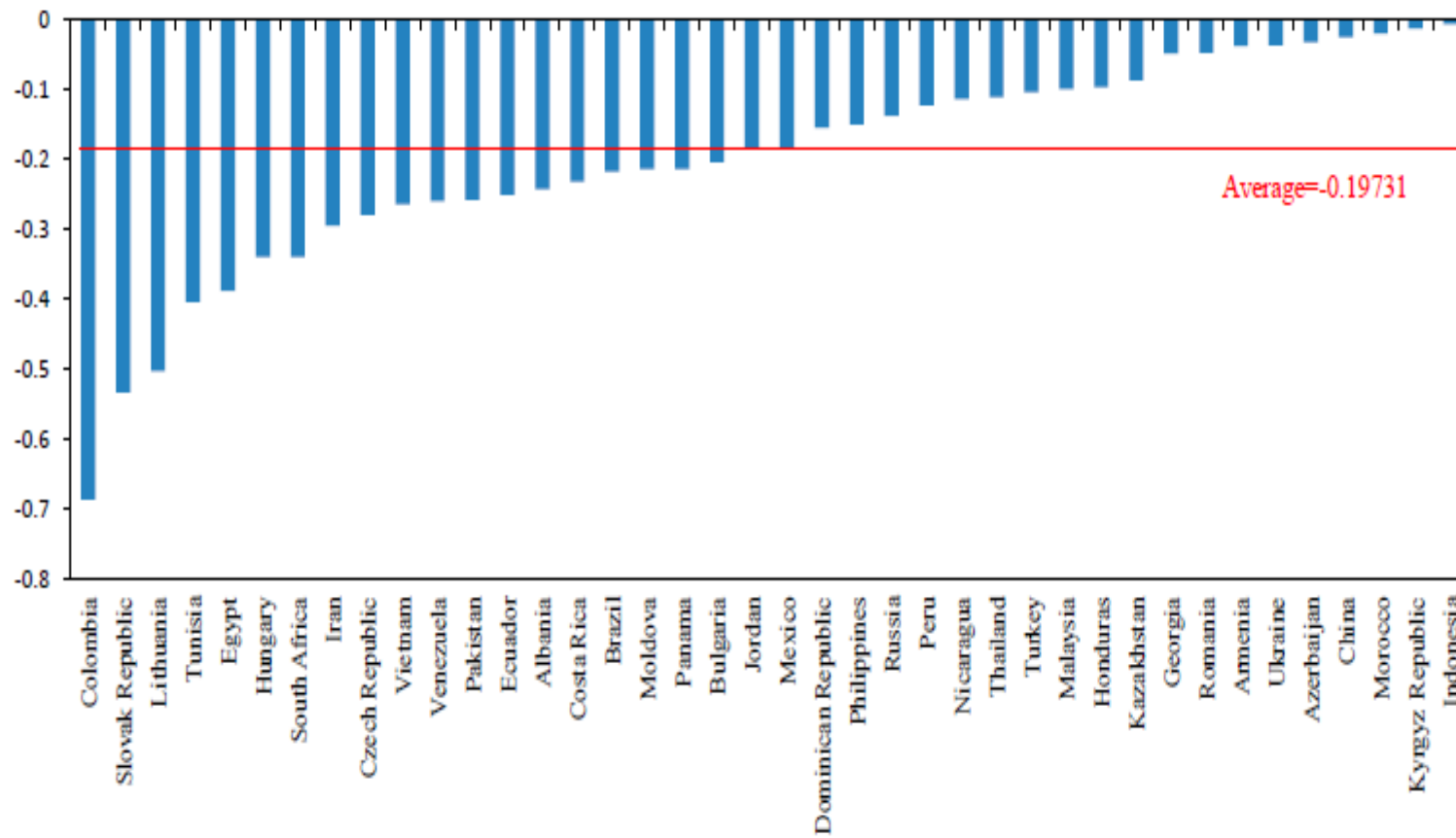
Okun's Law Coefficients: MENA Countries 1978-2011



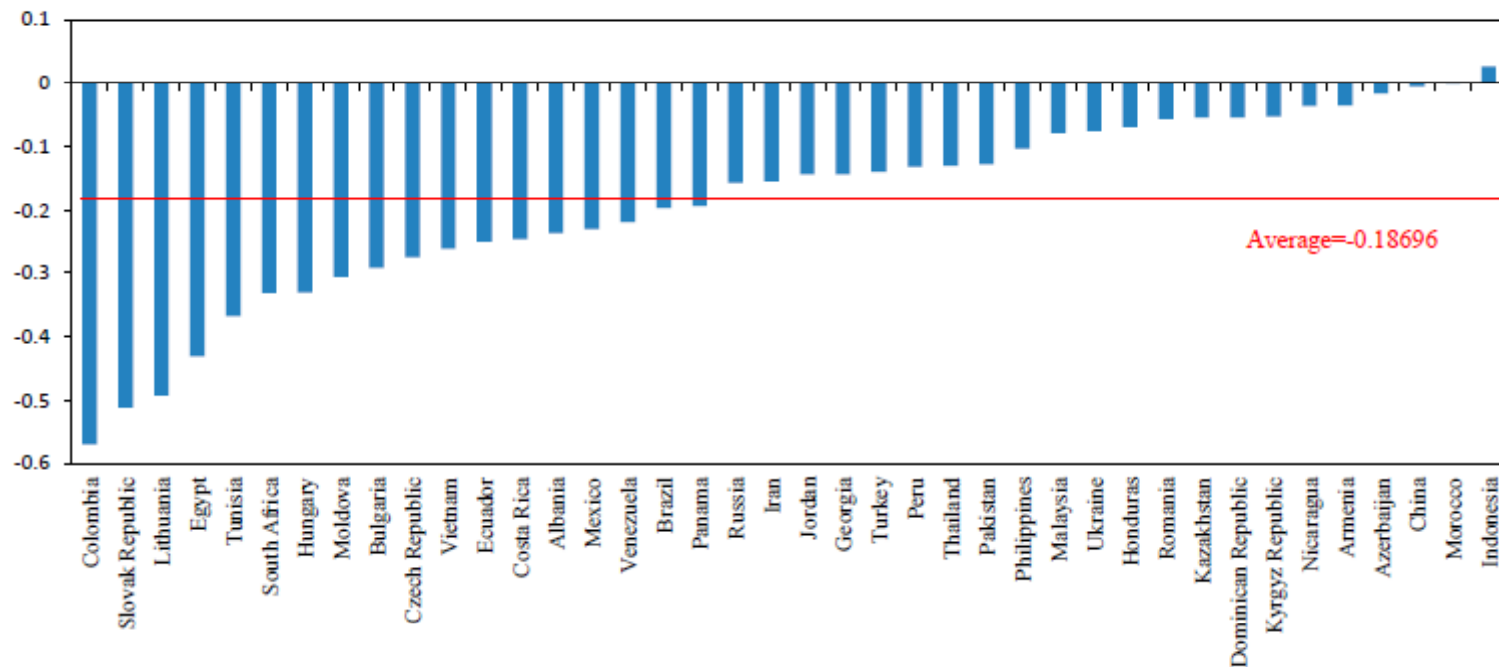
Okun's Law: Countries with Comparable Data Quality



Okun's Law: Countries with Comparable Data Quality



Okun's Law: Countries with Comparable Data Quality



OECD on Turkish labor market

Turkey's labour market has been characterised by five major features since the early 2000s, with important effects on labour mobilisation and potential growth:

- i) Accelerated migration of working-age individuals from rural to urban areas, notwithstanding an increase in rural employment in the post-crisis years 2009-11.
- ii) Steady increases in the employment of skilled workers with secondary education or above, who represent around 36% of total employment (and 33% of the labour force and 16% of the working age population).
- iii) A U-shaped pattern in the employment of the low-skilled majority of the labour force. The employment rate of workers with primary education or less declined through the 2000s but appears to have reached a trough in 2008-09 and has increased since then.
- iv) The large informal sector. Many workers continue to be employed without social security coverage (even if many can now access health care through the "green card" and, starting from 2012, will be able to do so through a universal health insurance system), or are in self-employment or unpaid family work. Salaried unskilled workers in the formal sector are still a minority (Figure 10).
- v) A large and persistent gap in labour market participation between men and women.

More on OECD advice on labor markets

Box 4. Labour market and formalisation recommendations

- A new and more flexible labour contract should be negotiated with social partners, as envisaged in the ongoing discussions on a National Employment Strategy. It should be introduced for all new hires on permanent contracts.
- The severance payment regime should be re-designed in line with international best practices, to make permanent labour contracts more flexible. Temporary and agency employment should be allowed, without sectoral restrictions.
- Official minimum wages should be kept in check. Wage adjustments to productivity gains should be sought more through collective bargaining at enterprise level.
- The scope and eligibility conditions for the official unemployment insurance scheme should be broadened. This is key for progress towards “flexicurity” adapted to the Turkish context.

Turkey: Poverty and Inequality

