

G20 Country Briefs



International
Labour
Office

TURKEY'S RESPONSE TO THE CRISIS

Rise in unemployment, workers shift to agriculture

Turkey experienced a strong and sustained period of economic expansion after the 2001 recession, with gross domestic product (GDP) growing at an average annual rate of 6.8 per cent between 2002 and 2007. The global economic crisis had a sharp impact, as GDP grew at a much slower pace of 0.7 per cent in 2008 and contracted by 4.7 per cent in 2009. However, the 6 per cent growth rate recorded in the fourth quarter of 2009 compared to a year earlier indicates that the Turkish economy has started to emerge from the crisis (figure 1).

The labour market felt the impact of the shock through rising unemployment. As demand fell, the unemployment rate, which averaged about 10 per cent in 2006–2007 increased to 11 per cent in 2008 and 14 per cent in 2009. With the rise in unemployment, the number of people receiving unemployment insurance more than doubled from 221,600 in 2007 to 471,600 in 2009. Some of those who lost their jobs due to the contraction in industrial output turned towards work in the agricultural sector. As a result, agricultural employment, which had been shrinking

since 2000, rose from just under 4.9 million in 2007 to nearly 5.3 million in 2009.

Higher unemployment was accompanied by an increase in the number of unemployed people who gave up looking for work due to difficult labour market conditions. Such discouraged workers rose from 701,000 in February 2008 to 930,000 a year later, although the number had declined to 736,000 by the end of 2009.

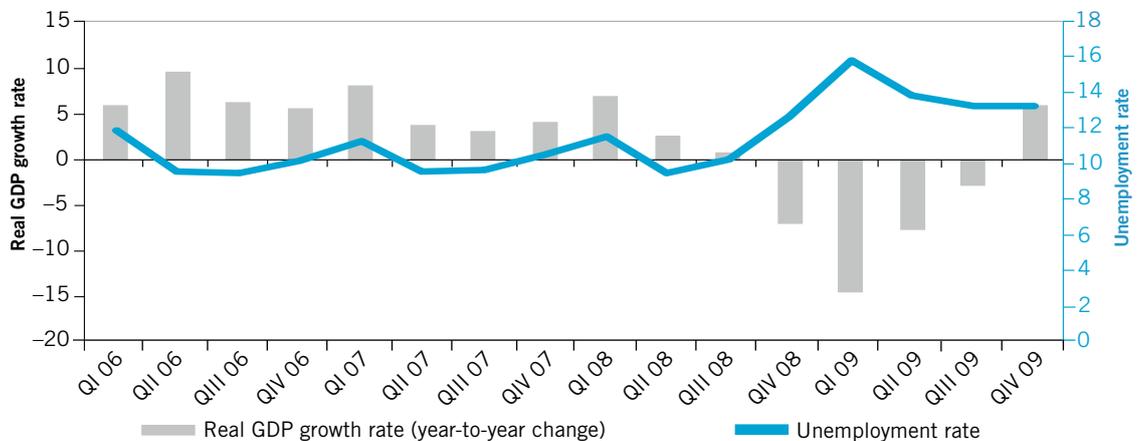
The ratio of the unregistered workers to total employment – at about 43 per cent – is relatively high, reflecting considerable numbers of people in informal employment. Nonetheless, this figure has been on a downward trend since 2005, when it stood at 50.1 per cent, and showed little change during the crisis.

Stimulus packages

The government enacted a series of stimulus packages to combat the loss of jobs and output. As a ratio of GDP, the stimulus packages represented an estimated 0.83 per cent in 2008, 2.17 per cent in 2009 and 2.15 per cent in 2010 (table 1).

The first package, announced in October 2008, included the following measures related to labour markets:

Figure 1. Unemployment rate and real GDP growth rate, by quarter, 2006–2009 (percentage)



Source: TURKSTAT. Data are not seasonally adjusted

- A reduction of 5 percentage points was made in employers' social security premiums, so that the employers' share of these premiums decreased from 19.5 to 14.5 per cent.
- A social security premium incentive was introduced for employers who employ young people (aged 18-29) and women.
- Payments made to the unemployed increased by 11 per cent.
- Previously, employers with 50 or more workers were obliged to employ disabled people at the rate of 3 per cent of their workforce, ex-convicts at the rate of 2 per cent and terror victims at the rate of 1 per cent. The obligation to employ ex-convicts and terror victims was lifted for the private sector and incentives were provided to those employing disabled workers at the rate of 3 per cent.
- Administrative requirements for private enterprises were lifted regarding the establishment of sports facilities, kindergartens and workplace health and safety units.
- The employer's share of social security premiums for people recruited before the end of December 2010 will be paid by the Unemployment Insurance Fund for six months. This marked the second extension of an earlier measure that initially applied to people recruited after April 2009.
- Subsidies from the Treasury to meet employers' insurance premiums (implemented in 49 provinces) that had been due to finish at the end of 2009 were extended until 2012.
- A social security premium incentive was provided to employers for recruiting workers receiving unemployment insurance payments.
- Tax reductions, investment and interest subsidies as well as premium incentives for employers were introduced with a view to reducing regional development differences and promoting sectoral clustering,

The 2009 package also sought to support small and medium-sized enterprises (SMEs) engaged in export. The government offered credit with no interest to such SMEs as well as the possibility to pay back debt in two years instead of one.

Further significant measures were a reduction in the VAT rate for items ranging from housing to information technology products and machinery and equipment, as well as a cut in the private consumption tax rate for motor vehicles. There was also a reduction from 15 to 10 per cent in a levy for the Resource Usage Support Fund when applied to consumer credits to individuals. Moreover, additional resources were allocated for the Southeast Anatolian Project, other infrastructure and irrigation projects and roads, and transfers to local administrations were increased significantly.

It is estimated that employers saved at least 32 Turkish liras (TRY) a month per worker between October 2008 and June 2009, and TRY33.5 since June 2009 as a result of the reduction in the social security premiums. The cost of this measure was TRY3.41 billion (US\$2.2 billion),¹ corresponding to 0.36 per cent of 2009 GDP.

In 2009, further stimulus measures were introduced:

- The Short-Time Work Programme was extended from three to six months for the years 2008–2009 and 2010 and payments under the programme were increased by 50 per cent.

Table 1. Measures taken in response to the global crisis and their cost

	Estimated cost (millions of TRY)			
	2008	2009	2010	2008–2010
As of October 2008, a reduction of 5 percentage points in employers' security premiums (over 21.5%), with this amount to be paid by the Treasury.	0	3,406	3,898	7,304
Social security premium incentive for the employment of young people, women and the disabled.	30	102	148	280
Increase in short-time working payments of 50 % and extension of duration from 3 to 6 months.	0	163	52	215
Public workfare programmes.	0	112	151	263
Cost of the other active labour market policies (vocational training courses, on-the-job training programmes, entrepreneurship programmes).	0	198	343	541
Cost of other incentives implemented.	40	198	293	531
Cost of employment-related measures.	70	4,179	4,885	9,134
Cost of other measures.	7,837	16,558	17,266	41,661
Total cost of measures.	7,907	20,737	22,151	50,795
Ratio of measures to GDP;				
Employment related measures	0.01	0.44	0.47	-
Other measures.	0.82	1.74	1.68	-
Total measures	0.83	2.17	2.15	-

Source: State Planning Organization. 2010 estimated GDP is taken from the *Medium-Term Programme (2010–2012)*.

Table 2. Active labour market programmes

Year	Training courses		Public workfare programmes		On-the-job training		Total	
	Persons	Expenditure (thousands of TRY)	Persons	Expenditure (thousands of TRY)	Persons	Expenditure (thousands of TRY)	Persons	Expenditure (thousands of TRY)
2007	33,000	29,672	-	-	-	-	33,000	29,672
2008	30,536	35,000	140	511	-	-	30,676	35,511
2009	166,713	197,366	45,467	111,497	1,285	2,100	213,465	310,963

Source: ISKUR and Ministry of Labour and Social Security.

Active labour market policies

Resources allocated for active employment programmes run by the Turkish Employment Agency (ISKUR) were significantly increased. These programmes include vocational courses, job training, on-the-job training, entrepreneurship and guidance for job applicants and public workfare programmes. An allocation of TRY551 million was earmarked for these programmes to be spent by the end of 2009, and TRY509 million for 2010.

Vocational training courses

Among the active employment programmes are labour training courses. These are vocational training programmes organized by ISKUR in the fields required by the labour market to increase employability and facilitate employment of the jobless, as well as meet the demand for skilled labour. To participate in such programmes, a person must be unemployed and registered with ISKUR, be at least 16 years old, and not have participated in a training course during the previous 24 months. Participants in the vocational training courses are paid TRY15 and insured against the risk of work accidents and occupational diseases.

According to ISKUR data at the end of 2009, 7,897 vocational training courses were opened throughout Turkey. In total, 166,713 people (85,756 men and 80,957 women), participated in these courses (table 2). The cost of the courses was TRY197.4 million, and 23 per cent of those who successfully completed the courses found employment.

Internship programmes

Internship, or on-the-job training programmes aim to make job placement of the unemployed by ISKUR easier.

To participate in these, a person must be unemployed and registered with ISKUR, be at least 16 years old, and have graduated from high school or its equivalent. On-the-job training takes place in private workplaces with 10 or more workers. Participants are paid TRY15 and insured against the risk of work accidents and occupational diseases. According to ISKUR data at the end of 2009, 1,285 people benefited from 555 on-the-job training programmes throughout Turkey. The total cost of these programmes amounted to TRY2.1 million.

Public workfare programmes

Public workfare programmes were introduced as a component of the government's active employment programmes in 2009. These were designed to reduce unemployment linked to the crisis and help unskilled workers participate in the labour force. The programmes aim to provide short-term employment in exchange for public-related work or service, such as renovating schools and hospitals, refurbishing public parks and other similar activities. Participants are paid the minimum wage and their social security premiums are covered.

To participate in these programmes, a person must be unemployed and registered formally with ISKUR, be at least 18 years old, and not be receiving retirement, family orphanage payments or any other income under a similar programme. According to ISKUR data as of the end of 2009, 1,627 public workfare programmes were organized throughout Turkey and 45,467 people (33,229 men and 12,238 women) benefited. The total cost was TRY111.5 million.

Table 3. Distribution of vocational training courses according to economic activity

Economic activity	Ratio (%)
Information services	24
Textiles and manufacture of textile products	16
Other social or individual services (Individual care services, goldsmiths, tailors, etc.)	15
Security services	8
Hotel, restaurant and tourism services	7
Base metals and manufacture of metal products	5
Construction	4
Wholesale and retail trade	4
Health and social services	3
Other	14
Total	100

Source: ISKUR and Ministry of Labour and Social Security.

References:

ISKUR (2009): *Report to the Vth General Assembly; Undersecretary of Treasury* (Ankara).

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State Planning Organization (2009): *Pre-accession Economic Programme 2009*, (Ankara) Sep. www.spo.gov.tr

State Planning Organization (2009): *Medium-Term Programme, 2010-2012*, (Ankara) July.

TURKSTAT: *Household Labor Surveys* (Ankara).

Short-time work

The Short-Time Work Programme initially was launched in 2005 to compensate workers employed in enterprises where production and employment were reduced or halted due to economic crisis or other adverse conditions. For workers to benefit from the programme, their employer's application must be approved by the Ministry of Labour, and they must satisfy the general eligibility conditions for obtaining unemployment insurance. These require that a worker has been employed for at least 120 days without interruption and has paid insurance premiums for at least 600 days over the three years prior to termination of employment.

Daily payment for the entitled workers is set at the same level as unemployment insurance. This yields a payment amounting to between 40 and 80 per cent of the gross minimum wage. Short-time work payments were initially made for maximum of three months. In February 2009, the short-time work period was extended to a maximum of six months for the years 2008, 2009 and 2010. The amount of short-time work payments was increased by 50 per cent.

The programme had an extremely weak take-up when it was first initiated, with 21 employees granted payment in 2005, 217 employees in 2006 and 40 employees in 2007. But with the expansion of the programme in February 2009, the number of applications surged, and 192,244 employees received payments totalling TRY162.5 million in 2009.

Outlook and challenges

There are signs that the measures taken in 2008 and 2009 have helped to bring a partial recovery in the employment situation, which had deteriorated due to the global economic crisis. Nonetheless, the unemployment level remains high and there has been a shift to low-value added employment and less-qualified work in agriculture. In this context, the government expects its expansion of vocational training services to bring improvements in labour productivity, enterprise competitiveness and labour demand.

Turkey's *Medium-Term Programme (2010–2012)* had predicted that GDP would shrink by 6 per cent in 2009 and grow by 3.5 per cent in 2010. Given that the 2009 decline in GDP of 4.7 per cent was less steep than had been forecast, the government now estimates that 2010 growth will exceed the *Medium-Term Programme* target. Nevertheless, GDP growth is expected to remain well below the strong gains recorded before the crisis. Despite the projected improvement in the output, labour markets will show a partial recovery in 2010. The time lag in labour market response to economic growth reflects not only rigidities in the labour market, but also the expansion of the labour force, due particularly to rising (albeit still rather low) participation of women and demographic growth.

¹ Based on an exchange rate of US\$1=TRY1.55.