



Increase of minimum wage in Turkey and its potential impacts

ESPN Flash Report 2016/21

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JUNE 2016

The minimum wage in Turkey was raised by 30% as of January 2016, which represents a real increase of about 22% given the inflation level in 2015. While this measure is expected to increase the real income of a large part of the population, the impact on unemployment as well as on informality in the labour market remains to be seen.

Description

Turkey's minimum wage level is set by a government-led commission that includes business, labour and government representatives (five representatives from each group). Between 2005 and 2015, the nominal minimum wage was increased by about 10% each year on average, corresponding to a cumulative real increase of 24%. In January 2016, it was sharply raised by 30% compared to the previous month, from 1,000 Turkish Lira (TL) to 1,300 TL (€331 to €430 - net figures but including tax refunds). Considering consumer prices increased by 8.81% in 2015 (Turkish Statistics Institute-TurkStat) and the target for 2016 in the latest Medium Term Fiscal Plan (2016-2018) is 6.5%, this 30% increase is considerable in real terms.

It is difficult to obtain the exact number of minimum-wage workers from official statistics, as it is a common practice in Turkey to report incomes at lower levels (and some even at the level of the minimum wage) to evade taxes and social security contributions (and pay the remainder informally). Indeed, in 2012 during national budget discussions in Parliament, the Minister of Finance stated that only about 45% of minimum wage workers in the records of the Social Security Institution were actually receiving the minimum wage.

It is estimated that 5.5 million people out of 9.5 (57.3%) registered formal employees were paid less than the newly-set minimum wage in November

2015. Especially those employed in the less developed regions (compared to metropolitan centres such as İstanbul and Ankara), those employed in small- and medium-sized enterprises, as well as youth and women, were paid less than the newly-set minimum wage. Hence, any effect of the raise, be it in the form of higher incomes or in the form of losing one's job or a switch from formal to informal employment, would have a stronger impact on these groups. Finally, informally-employed individuals, who represented 33.6% of the workforce in 2015, may also experience an increase in their wages as a result of the increase in the minimum wage (Gürsel et al., 2016a and 2016b).

During the 2015 general elections' campaign, increasing the minimum wage was presented as one of the key policy initiatives put forward first by the opposition parties and then by the governing Justice and Development Party (AKP). The rationale behind the proposal was to reflect the real GDP growth that averaged about 4% over the last decade. To support businesses, the government announced that it would subsidise part of the additional social security payments associated with the increase for one year.

As a result of the sharp increase in the minimum wage, some workers may have lost their jobs or switched to informal employment. The unemployment rates for February 2016 (the most recent available to date) indicate that the impact of the increase in the minimum

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wage on employment has been rather limited; the seasonally-adjusted unemployment rate (9.9%) is even lower than in December 2015. It is notable, though, that employment in manufacturing has decreased by about 1.5% relative to February 2015, but that was more than compensated for by the increased employment in services and construction. Informality increased by about 0.4 percentage point compared to the level a year ago (to 32.1%), but the rate was lower compared to other months in 2015. Yet, its impacts both on unemployment and informality in the medium/long-run are difficult to estimate.

The change in the minimum wage will also have an impact on certain social assistance programmes, since these programmes use a means-tested mechanism that relies on the minimum wage to set the income threshold. For example, public health insurance premiums are paid by the government if the per capita household income is lower than one third of the minimum wage. The increased minimum wage will also bring about an increase in unemployment insurance payments since these are indexed to the minimum wage.

Outlook & Commentary

Turkey has considerable poverty among the working population. According to TurkStat (2011), 15% of employed individuals were below the absolute poverty threshold of 825 TL (€382 at the average exchange rate in 2009) for a household with four members in 2009 (note that 2009 is the latest year for which this figure was calculated). The recent

increase of the minimum wage may improve their situation, especially if it puts pressure to increase the wages of those in informal employment, thus bringing relief to poor households.

This being said, there are two major concerns regarding this increase. First, Turkey has a high degree of informality in the labour market. According to TurkStat, 33.6% of employees were not registered with the social security authorities in 2015. The increased minimum wage may lead to a further increase in informal work and hence reduce job security — especially given the current situation, in which thousands of Syrian refugees are willing to accept very low-paid informal employment. Second, it may lead employers to reduce the labour force, and thus lead to unemployment.

Finally, it should be noted that some of the expected positive effects may be eroded by price increases, affecting essential goods and services if increasing labour costs are reflected in the prices. The price of bread, for example, a commodity subject to some price regulation, was raised by 25% in İstanbul and Ankara in January 2016; this was the first increase since 2013. The public health insurance premiums have been increased by 30% as well, since they are indexed to the minimum wage. However, the inflation figures from TurkStat for the first three months of 2016 show that the annual change is similar to the one from the previous year. Yet, again, what the coming months will bring remains an open question.

Further reading

Gürsel, S., Uysal, G., Kökkızıl, M. (2016a). *Asgari Ücretteki Artışın Bölgesel Etkileri* (Regional effects of the increase in the minimum wage), Betam Araştırma Notu 16/189, Betam, İstanbul.

Gürsel, S., Uysal, G., Kökkızıl, M. (2016b). *Asgari Ücret Etkisi Gençlerde ve Kadınlarda Yoğunlaşıyor* (The effects of the increase in the minimum wage is more among youth and women), Betam Araştırma Notu 16/190, Betam, İstanbul.

TurkStat (2011). *Results of the 2009 Poverty Study*. Press Release No.3, Jan.06, 2011, Ankara.

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