



Turkey implements extensive employment subsidies

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Description

Since 2017, several policies have been implemented to support businesses to hire new employees. Along with other policies, employment subsidies contributed to a drop of two percentage points in the unemployment rate. The use of unemployment insurance funds and the sustainability of employment continue to be serious concerns.

Turkey has been experiencing in the last decade economic growth which does not translate into lower unemployment rates; these fluctuate above 10 percent since 2015. In this context, Turkey implemented a number of employment subsidy programmes during 2017. The policy initially provided subsidies to businesses recruiting employees from among people who had been unemployed for at least two months and 20 days in the preceding three months (informal employment, not observable by definition, was not included). The subsidy covered all social security contributions at the minimum wage level (in 2017, these contributions amounted to 773 Turkish Liras [TRY] per month, i.e. €155 – of which 416.05 TRY [€83] would normally be paid by the employer and the rest deposited to Social Security Institution by the employer on behalf of the employee).

In 2018, these programmes were extended until 2020 and the subsidies were significantly increased in some sectors, with total social security contributions covered by the state varying between 883.01 TRY and 2151.45 TRY (€177 and €430) per month, depending on the salary of the employee and the sector of employment. The duration of support was set at 18 months for female and young employees (18-25 year olds) and at 12 months for others, not to exceed December 2020.

Another programme, launched in 2018, targets the employment of young people (18-25 year olds) in manufacturing firms with between one and three employees in the preceding year. Employers must have a “certificate of mastery/proficiency (ustalık belgesi)” in that business. Both the salary (at the minimum wage) and all the social security contributions (together amounting to 2486.14 TRY [€497]) of the employee are paid by the state every other month until December 2018 for up to two new employees.

Additionally, a programme to support women, young people and those with a “certificate of professional competence (mesleki yeterlilik belgesi)” was implemented in 2018, to encourage the hiring of people who have been unemployed for at least six months. Depending on age and gender, the employer’s share of social security contributions (between 416.05 TRY and 3120.37 TRY [€83 and €624]) is paid by the state. The length of coverage depends on registration with İŞKUR, the official employment agency, in addition to age, gender, and whether the person holds a certificate of professional competence.

The government is also set to pay the employer’s share of social security contributions linked to the minimum wage (416.05 TRY [€83]) for 18 to 29 year olds who are employed within three months of on-the-job training. The subsidy is paid for 42 months in the manufacturing sector and 30 months in

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other sectors, and covers training programmes starting in 2018. Furthermore, on-the-job training programmes where the trainee's wage is paid by the state have been extended from three to six months in the manufacturing and computing sectors, and to nine months for 18 to 29 year olds in the cyber-security, renewable energy, cloud computing and coding sectors. In the latter, wages are set to be 20 percent higher than the minimum wage. In the manufacturing sector, women with young children will also receive 400 TRY (€80) in childcare support.

Finally, to encourage exit from unemployment insurance, the Social Security Institution will pay all but one percentage point of the social security contributions at the minimum wage level (679.88 TRY [€136]) for the remaining duration of unemployment insurance, when people are hired as an additional employee. Support for employing a disabled individual, over and above the legal requirement, has been changed to complete coverage of social security contributions at the minimum wage level (416.05 TRY [€83]), and the 100 TRY (€20) support toward minimum wage social security premiums has been extended to nine months.

Outlook & commentary

The subsidies were introduced in response to the economic slowdown and rise in unemployment in 2017, following the July 2016 attempted military coup. All subsidies are financed from the Unemployment Insurance Fund, which had reached a total of 116.7 billion TRY (€23 billion) by the end of 2017.

The initial subsidy implemented in 2017 had benefited 401,636 employees in 164,940 businesses by December 2017 (out of a total of approximately 15.3 million

registered non-agricultural employees in the country); 168,882 of these employees were female. The total cost for the month of December 2017 was 216 million TRY (€43 million).

The unemployment rate decreased significantly over 2017, from 11.8 percent in January 2017 to 9.9 percent in January 2018. The drop was even more pronounced in non-agricultural unemployment (2.4 percentage points, to 11.7 percent) and youth unemployment (2.7 percentage points, to 19.2 percent).

It should be noted that massive subsidies were provided to the credit market in the same time period, along with other fiscal measures which boosted the economy in terms of investment, consumption and production activities. This may also have contributed to the improvement in unemployment rates.

The major problem with the new subsidies concerns the use of unemployment insurance funds. These funds are made up of contributions collected from employee wages, employer contributions and government contributions. Although the original law forbids use of the funds for purposes other than unemployment insurance, a series of additional legislations since 2008 has enabled the use of these funds at gradually increasing rates for active labour market policies and subsidies.

While the subsidies were warmly welcomed by businesses, their temporary structure and the complexity of the conditions for getting them were criticised by employers.

Finally, it is apparent that the subsidies only provide a temporary solution. Structural reforms are needed to tackle unemployment effectively.

Further reading

Studies on the impact of earlier employment subsidies:

Binnur Balkan, Seyit Mümin Cilasun and Belgi Turan, 2016. "The Impact of the Turkish Employment Subsidy Programs on Increasing the Level of Social Protection For Women", Working Papers 1022, Economic Research Forum, revised June 2016.

A. Erinc Yeldan, 2016. "Turkey's Employment Subsidy Program under the Great Recession: A general equilibrium assessment", International Review of Applied Economics, 31:2, 225-254, DOI: 10.1080/02692171.2016.1240154

Gökçe Uysal, 2013. "Incentives Increase Formal Female Employment", Research Brief 13/151, BETAM.

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