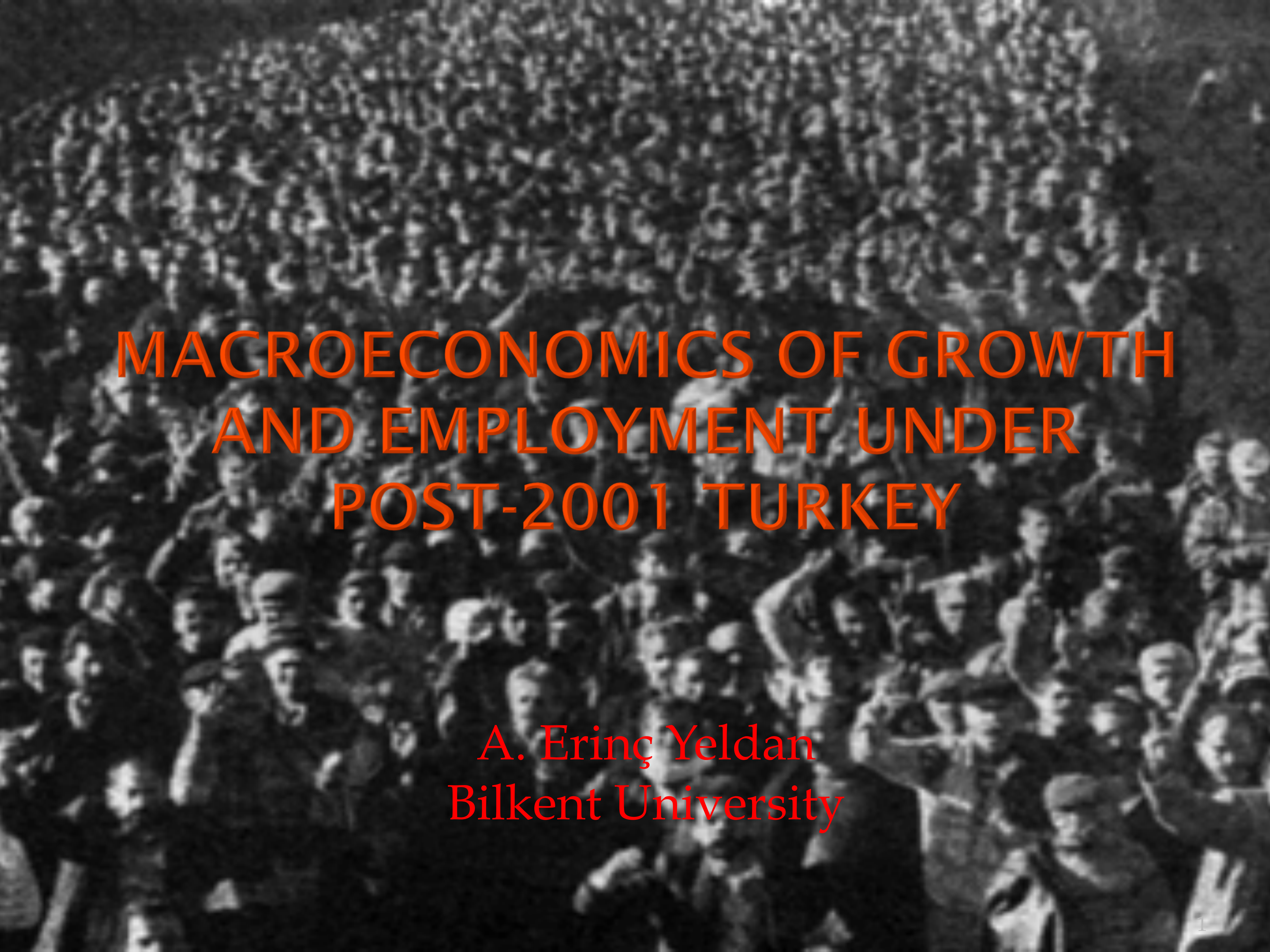

MACROECONOMICS OF GROWTH AND EMPLOYMENT UNDER POST-2001 TURKEY

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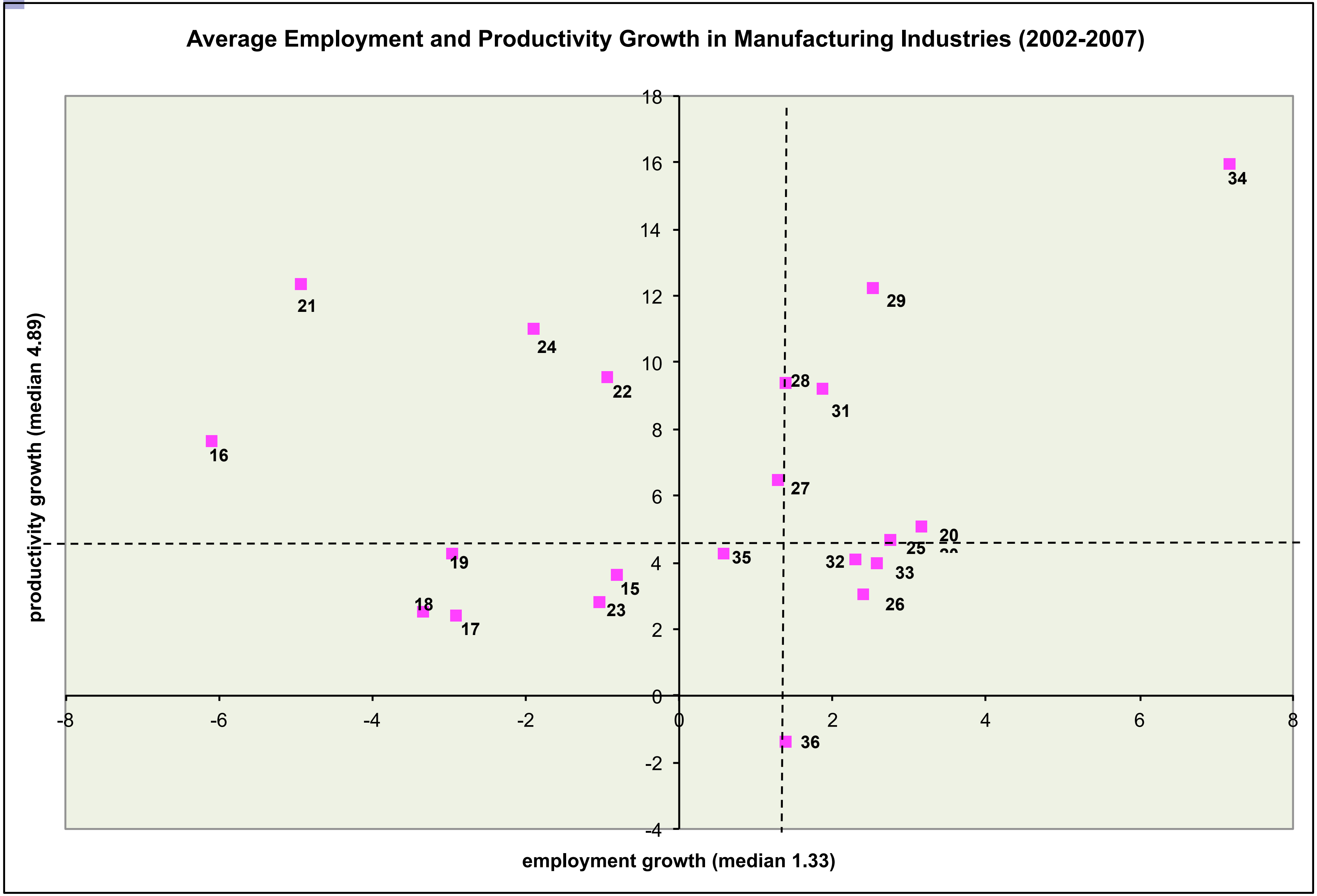
1.) Employment-unfriendly growth patterns....

Output Elasticities of Employment By Sectors (Annual averages)

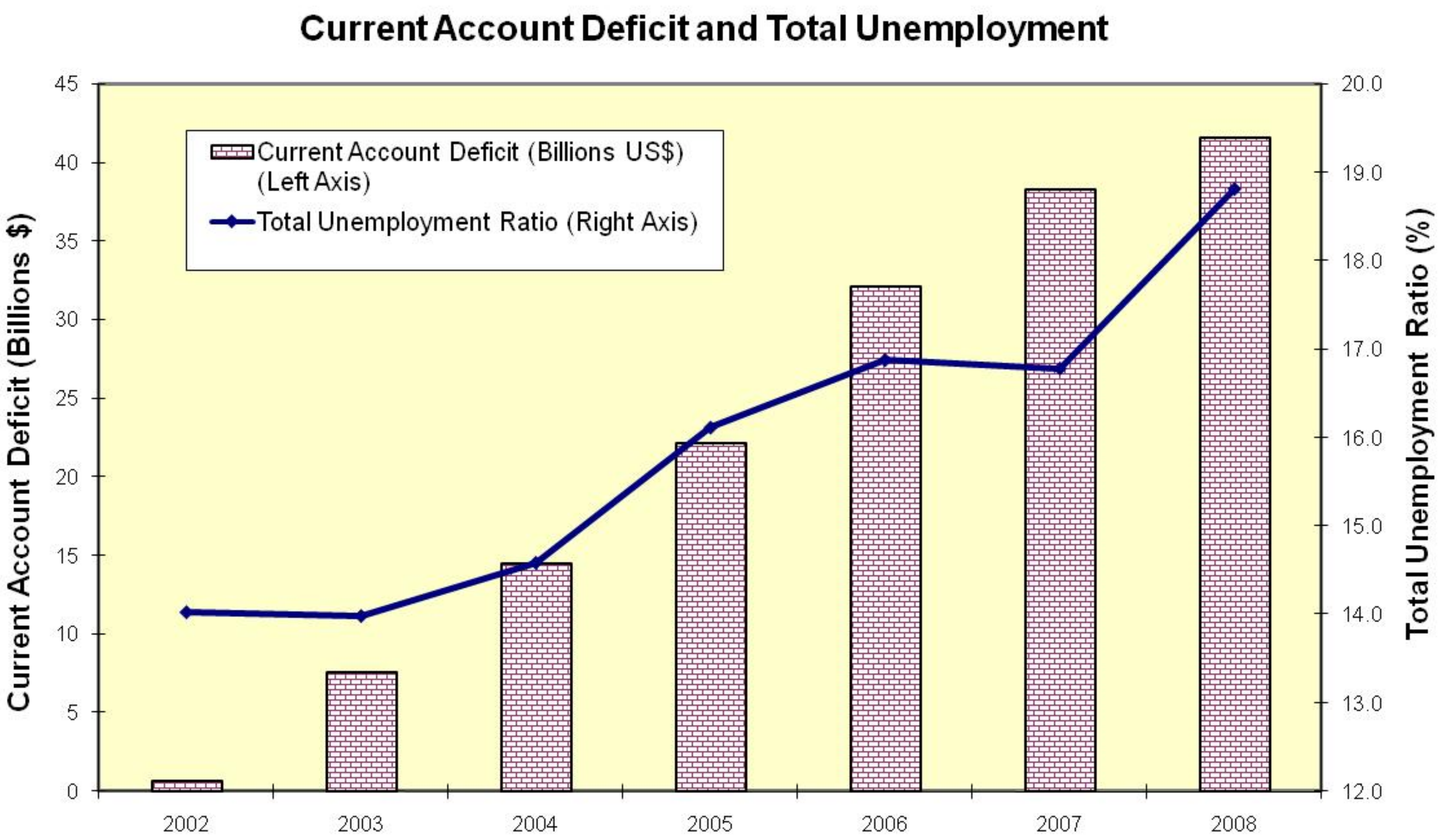
	1989-2008	1989-2000	2002-2008
Total	0.25	0.39	0.14
Agriculture	-1.19	-0.42	-1.66
Non-Agricultural Sectors	0.54	0.68	0.48
Industry	0.43	0.49	0.39
Services	0.55	0.76	0.47

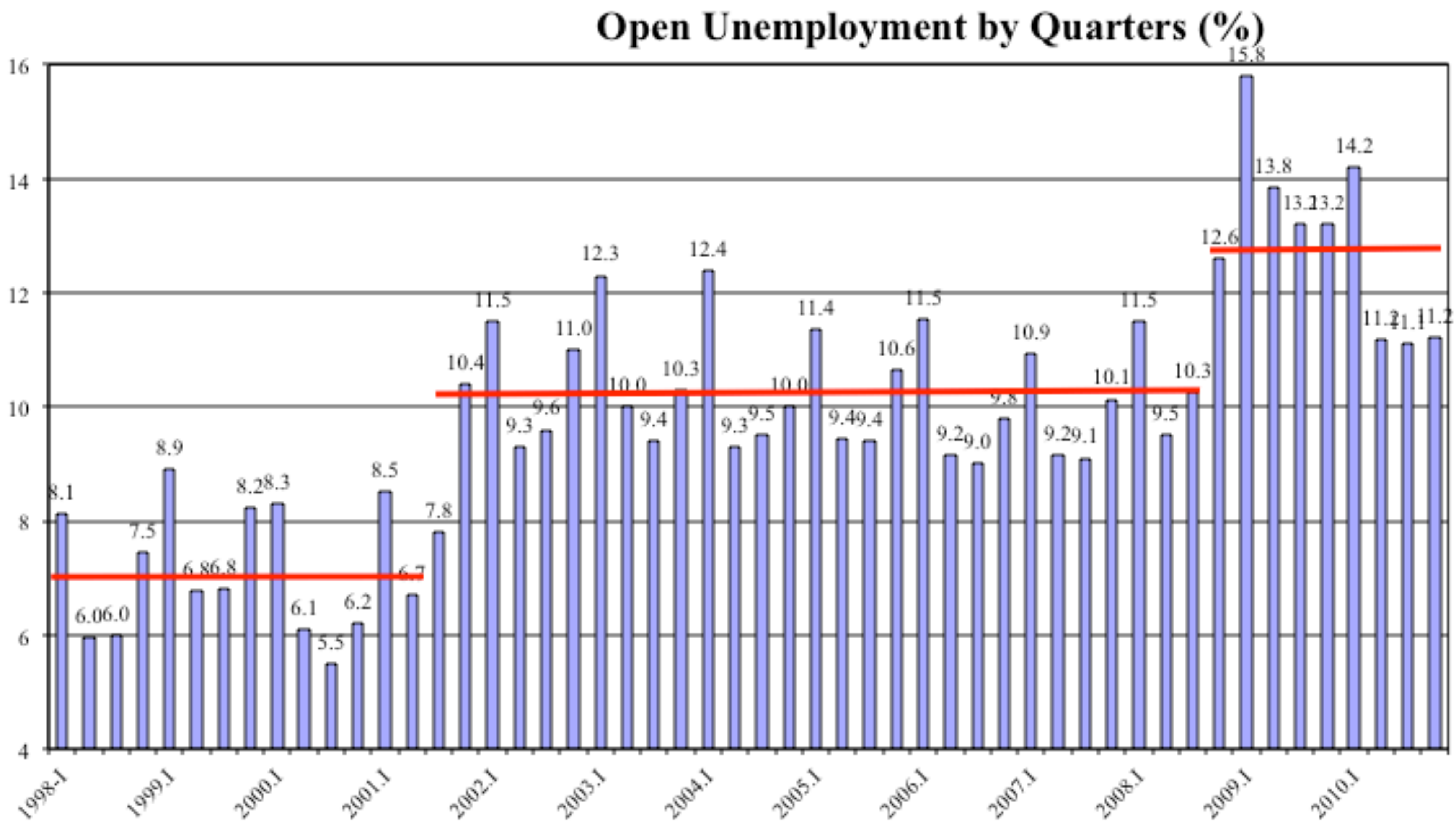
Source: Author's calculations based on Turkstat and SPO data

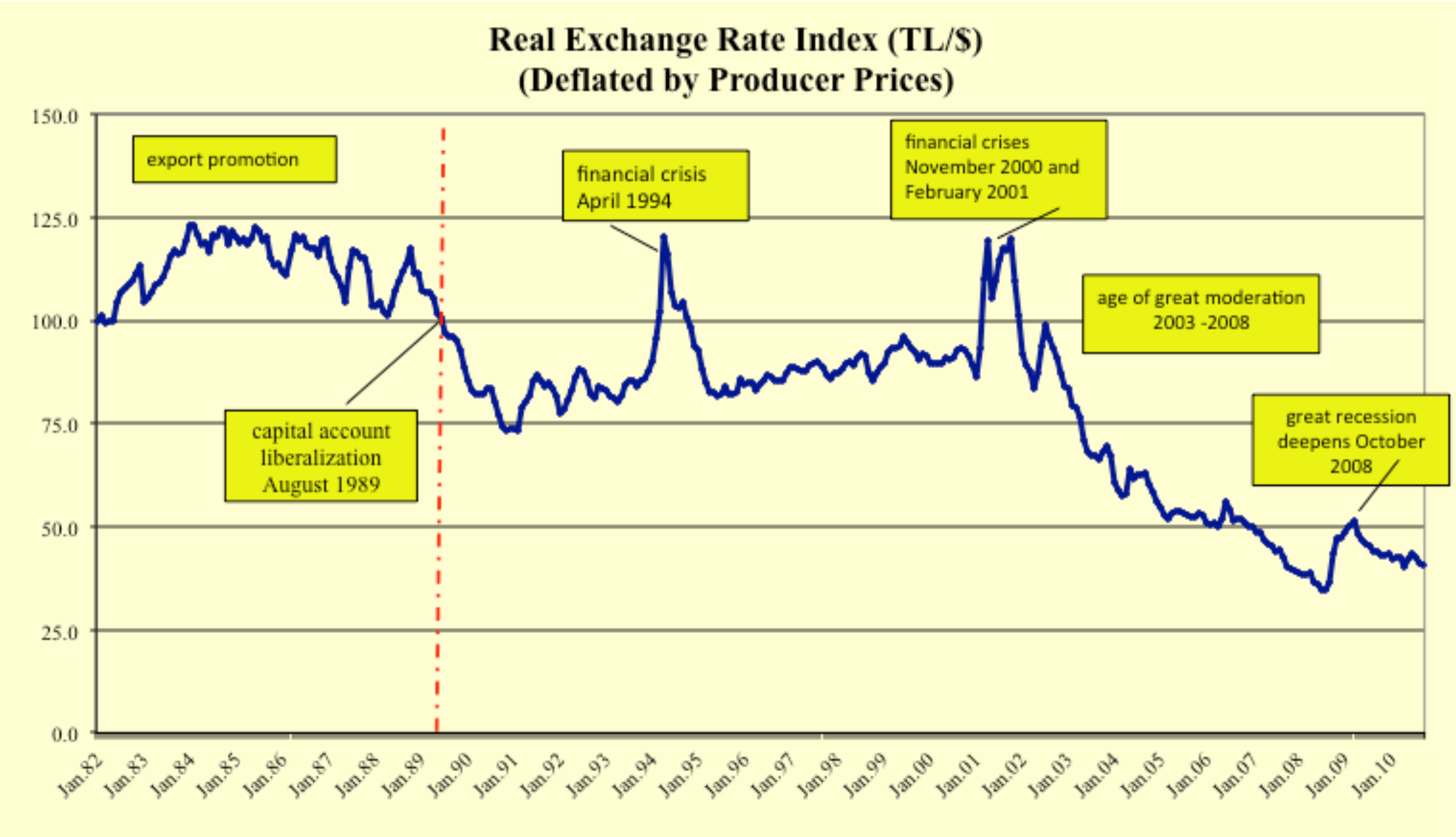

Average Employment and Productivity Growth in Manufacturing Industries (2002-2007)
productivity growth (median 4.89)
employment growth (median 1.33)
18
16
14
12
10
8
6
4
2
0
-2
-4
-8
-6
-4
-2
0
2
4
6
8
34
21
29
24
22
28
31
16
27
20
25
35
19
32
33
15
26
18
23
17
36

Over the 2000s, Turkish growth experience relied mostly on speculation-driven capital inflows with vigorous foreign debt accumulation.

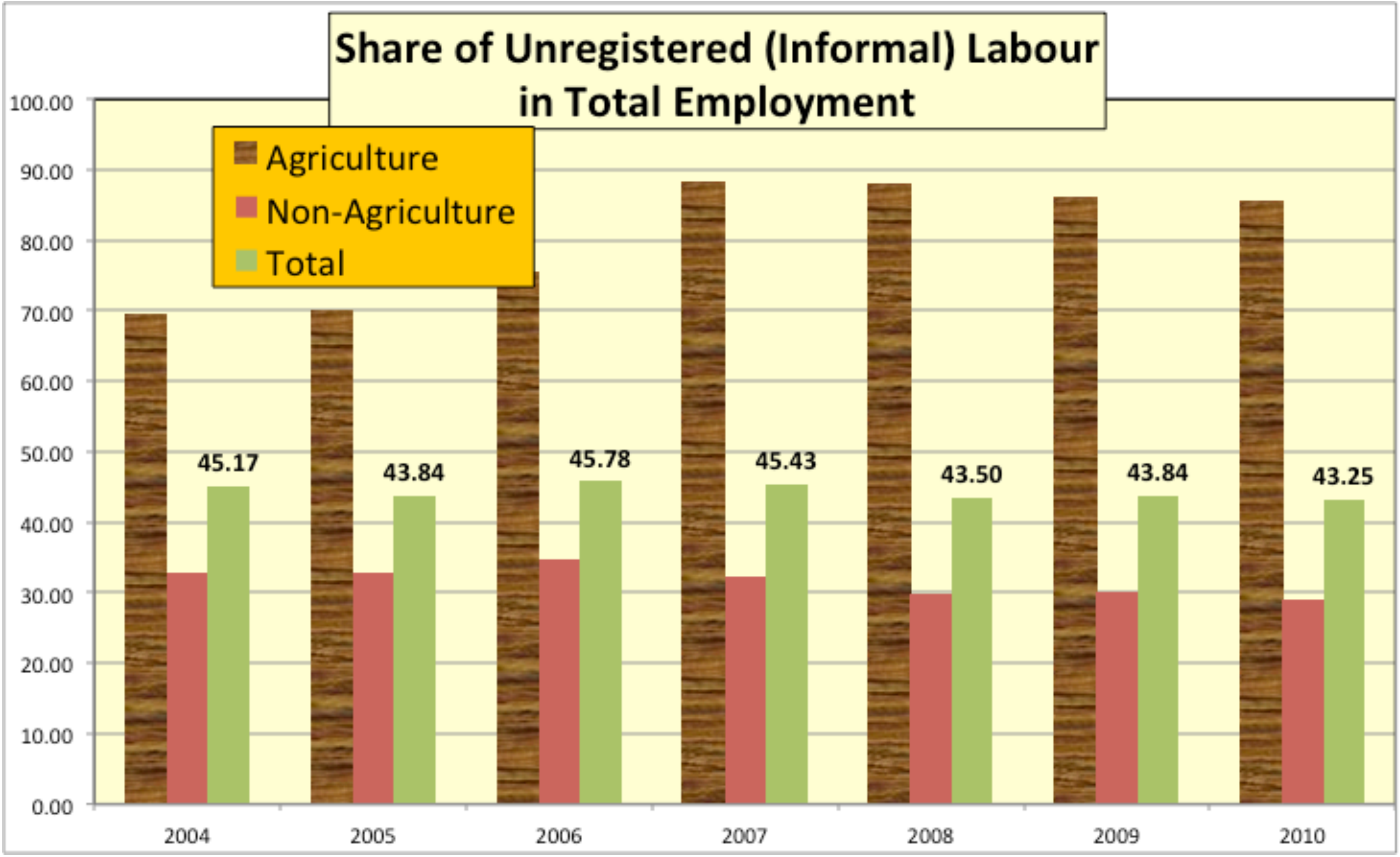
The costs of this pattern were increased fragility in the foreign economy (current account deficit) and relatively lower employment.

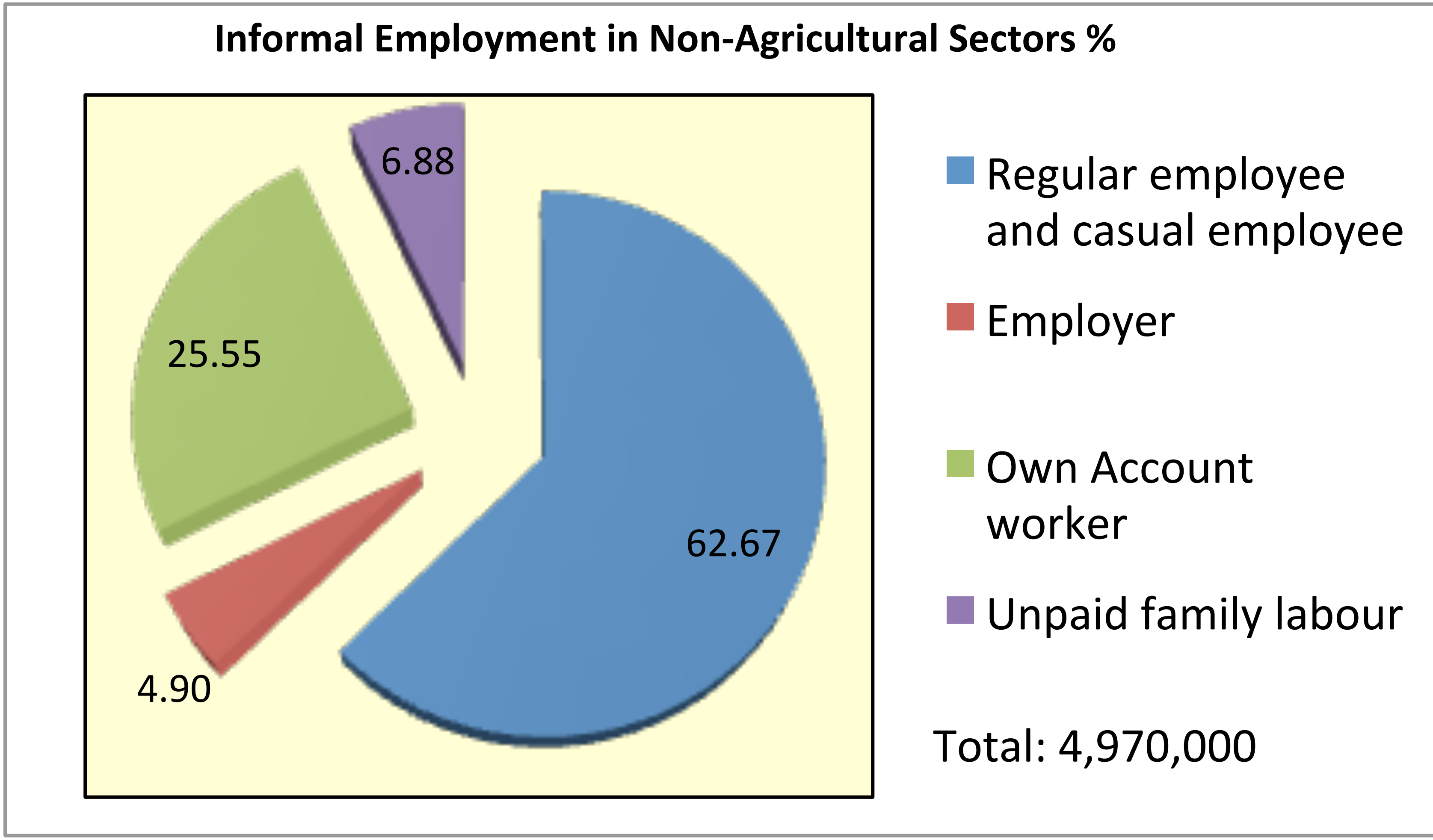

Current Account Deficit and Total Unemployment
Current Account Deficit (Billions US$) (Left Axis)
Total Unemployment Ratio (Right Axis)
Current Account Deficit (Billions $)
Total Unemployment Ratio (%)
0
5
10
15
20
25
30
35
40
45
12.0
13.0
14.0
15.0
16.0
17.0
18.0
19.0
20.0
2002
2003
2004
2005
2006
2007
2008


Open Unemployment by Quarters (%)
16
14
12
10
8
6
4
8.1
6.0
6.0
7.5
8.9
6.8
6.8
8.2
8.3
6.1
5.5
6.2
8.5
6.7
7.8
10.4
11.5
9.3
9.6
11.0
12.3
10.0
9.4
10.3
12.4
9.3
9.5
10.0
11.4
9.4
9.4
10.6
11.5
9.2
9.0
9.8
10.9
9.2
9.1
10.1
11.5
9.5
10.3
12.6
15.8
13.8
13.2
13.2
14.2
11.2
11.1
11.2
1998.I
1999.I
2000.I
2001.I
2002.I
2003.I
2004.I
2005.I
2006.I
2007.I
2008.I
2009.I
2010.I

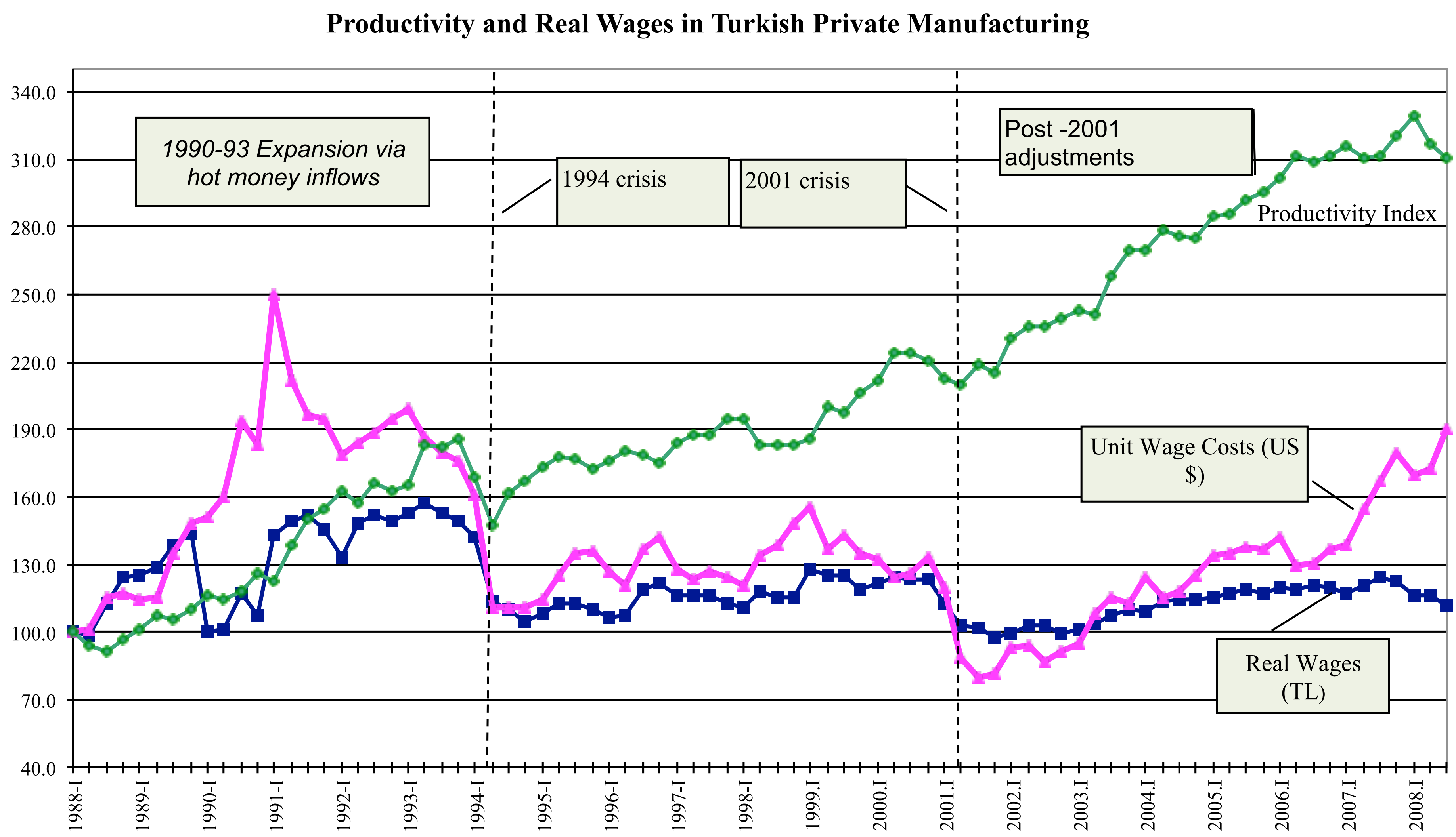

Real Exchange Rate Index (TL/$)
(Deflated by Producer Prices)
150.0
125.0
100.0
75.0
50.0
25.0
0.0
export promotion
financial crisis April 1994
financial crises November 2000 and February 2001
age of great moderation 2003 -2008
capital account liberalization August 1989
great recession deepens October 2008
Jan.82
Jan.83
Jan.84
Jan.85
Jan.86
Jan.87
Jan.88
Jan.89
Jan.90
Jan.91
Jan.92
Jan.93
Jan.94
Jan.95
Jan.96
Jan.97
Jan.98
Jan.99
Jan.00
Jan.01
Jan.02
Jan.03
Jan.04
Jan.05
Jan.06
Jan.07
Jan.08
Jan.09
Jan.10

2.) Informalization

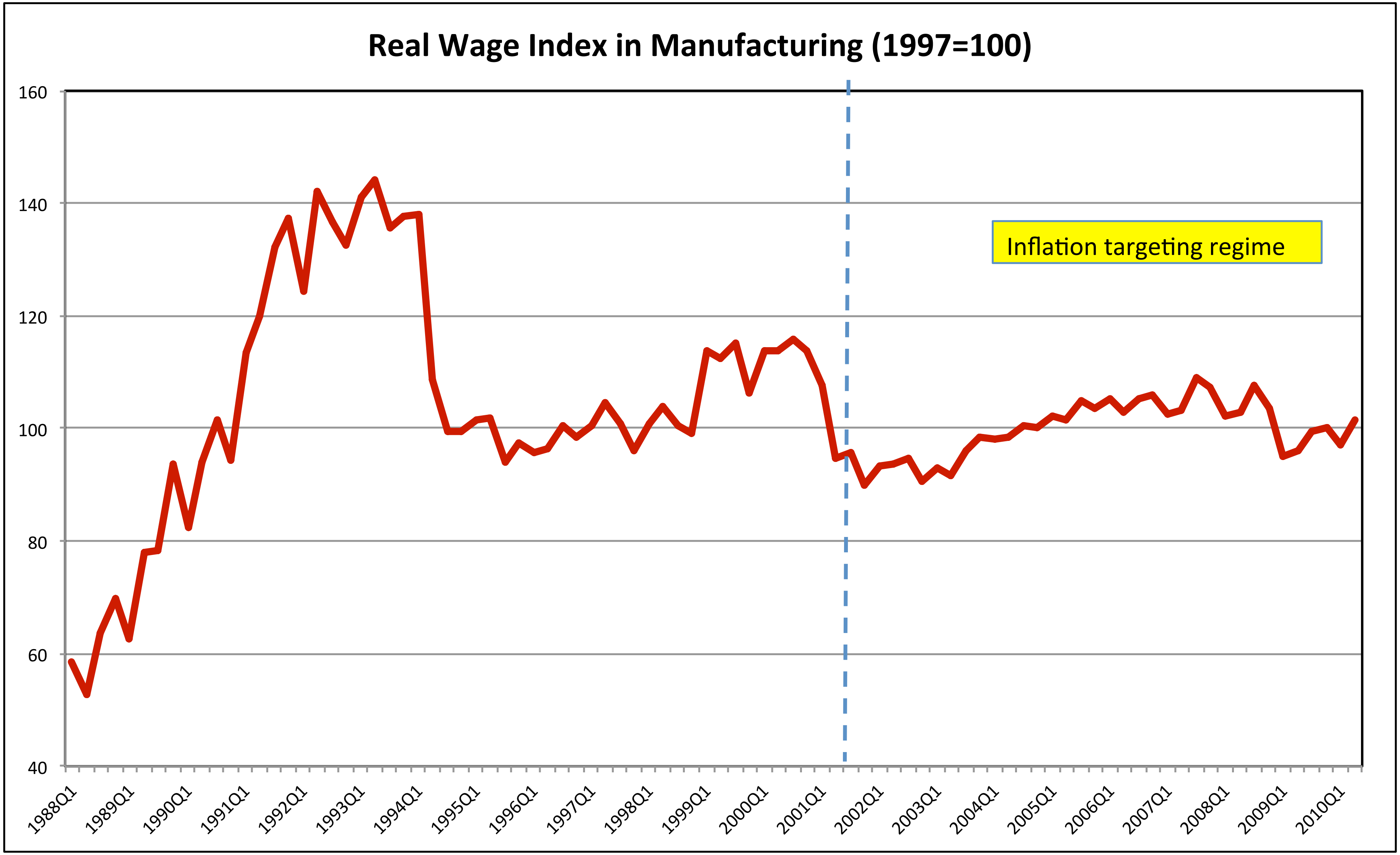

Share of Unregistered (Informal) Labour in Total Employment
Agriculture
Non-Agriculture
Total
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
45.17
43.84
45.78
45.43
43.50
43.84
43.25
2004
2005
2006
2007
2008
2009
2010


Informal Employment in Non-Agricultural Sectors %
6.88
25.55
62.67
4.90
Regular employee and casual employee
Employer
Own Account worker
Unpaid family labour
Total: 4,970,000

3.) The Wage Cycle and Flexibilization....



Productivity and Real Wages in Turkish Private Manufacturing
1990-93 Expansion via hot money inflows
1994 crisis
2001 crisis
Post -2001 adjustments
Productivity Index
Unit Wage Costs (US $)
Real Wages (TL)
340.0
310.0
280.0
250.0
220.0
190.0
160.0
130.0
100.0
70.0
40.0
1988-I
1989-I
1990-I
1991-I
1992-I
1993-I
1994-I
1995-I
1996-I
1997-I
1998-I
1999.I
2000.I
2001.I
2002.I
2003.I
2004.I
2005.I
2006.I
2007.I
2008.I


Real Wage Index in Manufacturing (1997=100)
160
140
120
100
80
60
40
Inflation targeting regime
1988Q1
1989Q1
1990Q1
1991Q1
1992Q1
1993Q1
1994Q1
1995Q1
1996Q1
1997Q1
1998Q1
1999Q1
2000Q1
2001Q1
2002Q1
2003Q1
2004Q1
2005Q1
2006Q1
2007Q1
2008Q1
2009Q1
2010Q1

Given this macroeconomic framework, it is very doubtful that micro reforms aimed at introducing more flexibilization to the labour markets will achieve any desired results.

Under the given macroeconomic environment, such actions that aim at introducing more flexibility will likely deepen the dualistic structure of the Turkish labour markets and will create more pressures towards informalization, leading to increased loss of social welfare.