

VAKIFBANK TURKISH ECONOMY WEEKLY

**One of The Major Problems in 2011 is
Unemployment: Turkey and the World**



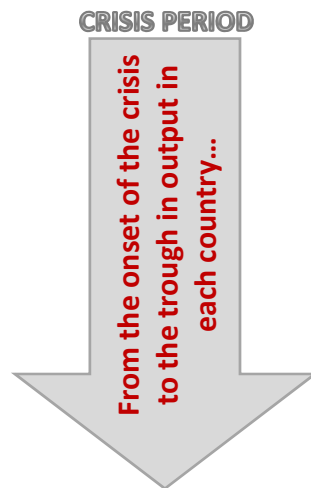
T. Vakıflar Bankası T.A.O



Unemployment rates in the world have reached the highest levels since 2007 which is the beginning of the crisis...


I-Crisis Period

- In contrast to the other countries, Turkey has shown the strongest performance in employment conditions since the end of crisis.
- Strong growth performance of Turkish economy has a profound effect on the recovery of employment.
- As seen in the table below, most of the countries are placed in the region of negative growth and positive unemployment rate during crisis.
- Although Turkey had more moderate outlook than countries like Estonia, it has still weak growth and high unemployment rate. On the other hand, Ireland have the lowest growth rate and highest unemployment rate.

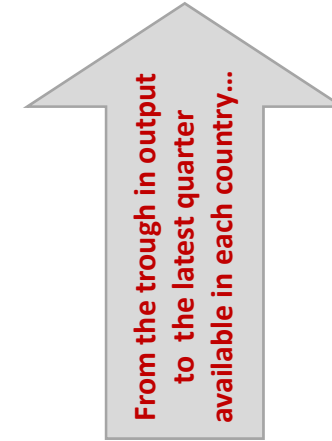


		Unemployment Rate (percentage change)			
		<0	0 , <2	2, 5	>5
GDP (percentage change)	>0				
	0 , >-2	Colombia	Australia, Israel, Philippines		
	-2 , -5		Austria, Belgium, Brazil, Czech Republic, France, Korea, New Zeland, Norway, Portugal, South Africa, Switzerland	Canada, Cyprus, Greece, United States	
	<-5	Germany	Croatia, Finland, Hong Kong (China), Italy, Japan, Malaysia, Mexico, Netherlands, Singapore, Slovakia, Sweden, Taiwan (China)	Bulgaria, Denmark, Hungary, Russian Federation, Slovenia, <u>Turkey</u> , United Kingdom	Estonia, Ireland, Latvia, Spain

II-Recovery Period

 As shown in the table below, while developing countries have more positive outlook than other country groups, Turkey is the only country which has the highest GDP growth and the lowest unemployment rate.

Unemployment Rate (percentage change)					
GDP (percentage change)	<0	>0	0 , >-2	-2 , -5	<-5
	0 , <2	Belgium, Bulgaria, Croatia, Finland, France, Ireland, Italy, Netherlands, Norway, Portugal, Sweden	Austria, Germany, Greece, Hungary, Latvia, Spain, Switzerland, United Kingdom		
	2, 5	Kolombiya, Çek Cumhuriyeti, Danimarka, Estonya, Japonya, Yeni Zelanda, Filipinler, Slovenya, Güney Afrika	Canada, Israel, United States		
	>5	Avustralya, Kore Cumhuriyeti, Meksika, Slovakya	Brazil, Hong Kong (China), Malaysia, Russian Federation, Singapore, Taiwan (China)	<u>Turkey</u>	

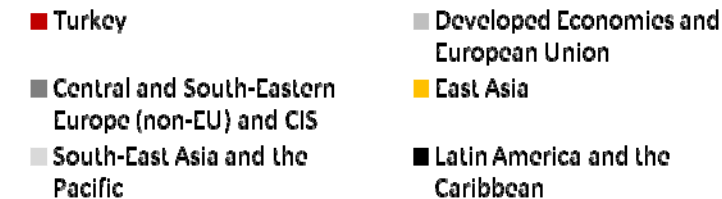
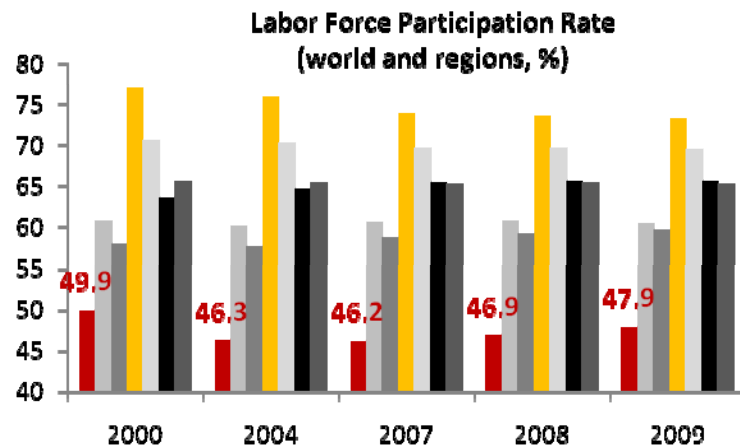


RECOVERY PERIOD

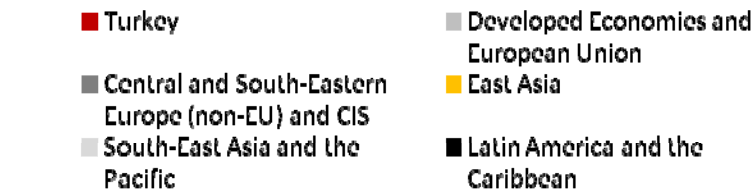
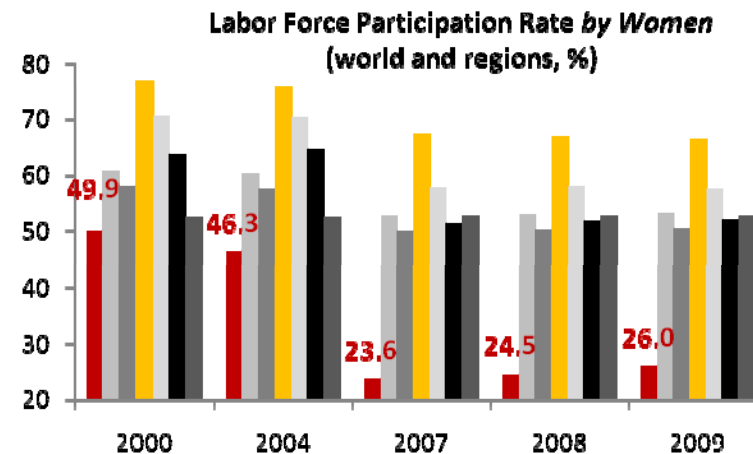
Source: ILO

Developing countries have lower labor force participation rate than developed countries...

- Turkey's labor force participation rate declined sharply between 2000-2004 period while the labor force participation of other country groups had limited decreases even in times of crisis.
- While the global labor force participation rate was 65.3%, Turkey's rate was 47.9% at the end of 2009.
- Rapid decline in women labor force participation rate is the main factor behind the decline of the total labor force participation rate in Turkey.
- During the crisis women labor force participation rate increased to 26% from 23.6% in Turkey. With the increase of women labor force participation rate unemployment rate also increased.
- If women labor force participation rate reaches to 60%-70% as in some developed countries, it seems to be possible that the unemployment rate will be much higher in Turkey.



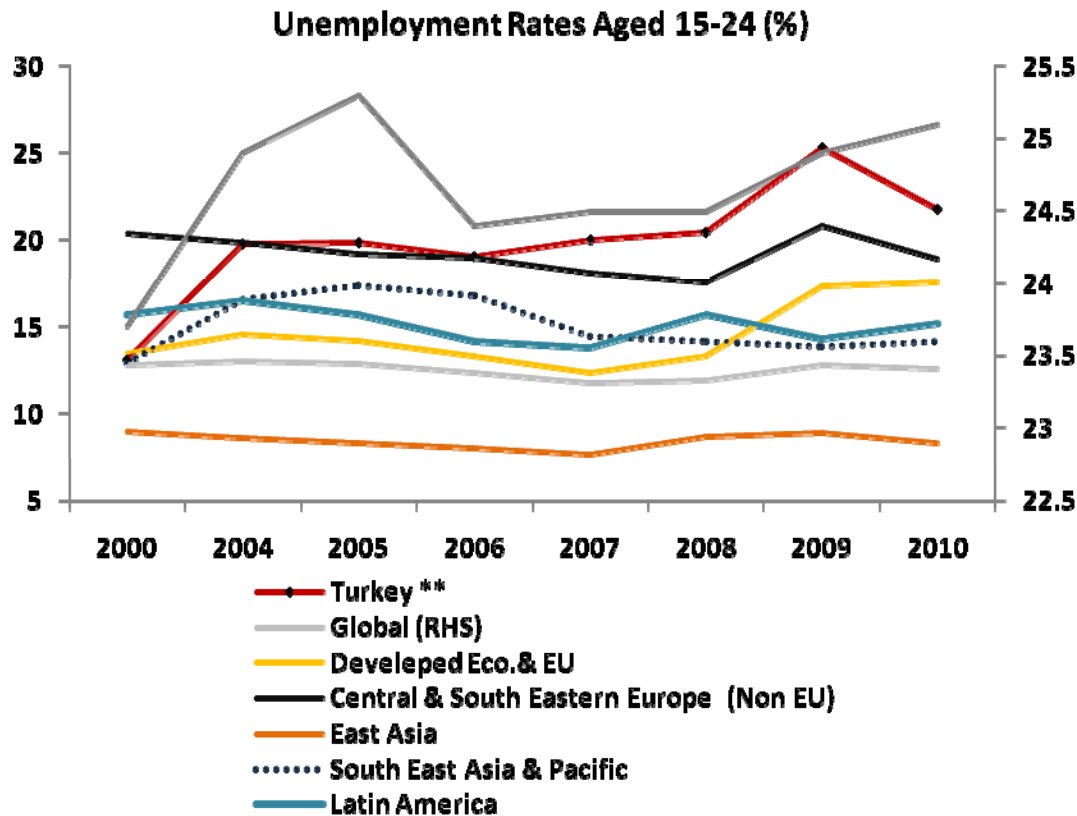
Source: ILO, Turstat



Source: ILO, Turkstat

Turkey's youth unemployment rate (21.8%) is well above many country groups'....

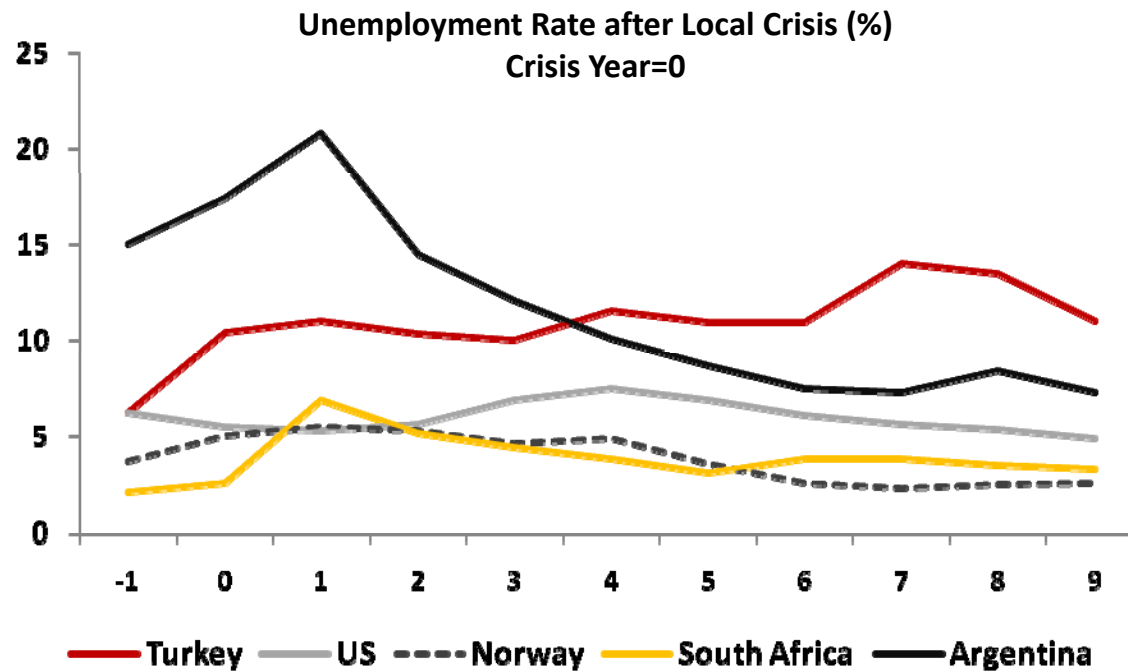
The recent events in Middle East once more reveal that there is a demonstrated link between youth unemployment and social exclusion.



The number of global unemployed youth (aged 15–24) is estimated to decline from 79.6 million in 2009 to 77.7 million in 2010. Whereas this level is still above the 2007 level of 73.5 million. As it is seen in the graph LHS, the global youth unemployment rate is expected to be 12.6% in 2010, up from 11.8% in 2007. The Middle East youth unemployment rate at 25%, continues to be the highest regional rate in the world.

Source: Turkstat, ILO
 ** 11 month average, *Forecast

Although there is a significant improvement in macro economic conditions, Turkey's unemployment rate is still above pre-crisis level. The rigidity of unemployment rate and structural problems in labor markets could be the main reasons...



Source: Bloomberg, Turkstat

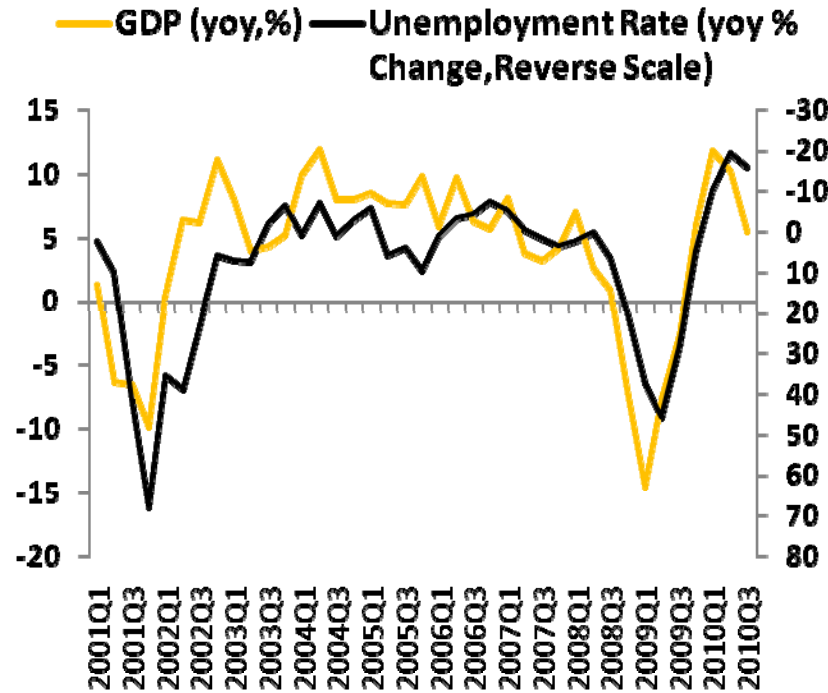
In the analysis; US 1988 crisis, Norway 1991 crisis, South Africa 1997 crisis and Turkey 2001 crisis are compared.

Turkey's unemployment rate has experienced the severest rise with 16.5% in 2009. Although there is a significant improvement in macro economic conditions after crisis, the unemployment rate has not fallen below the two digit levels.

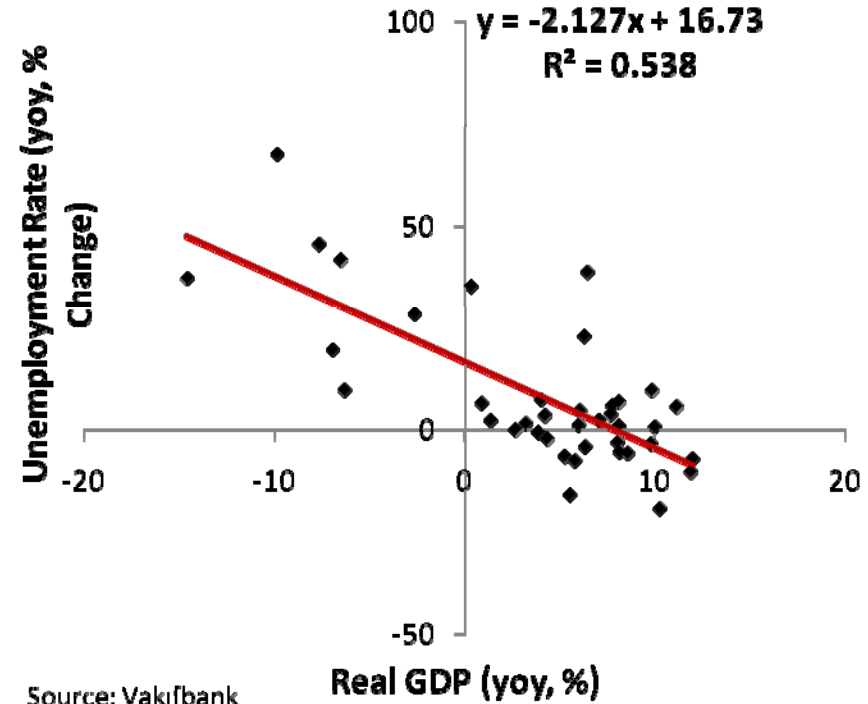
In order to make an analysis, different countries unemployment rates after local crisis have been examined. It is observed that in many countries unemployment rates have come down from their post crisis highs towards pre-recession lows in medium term unlike Turkey.



The relationship between the unemployment rate and the real growth rate...



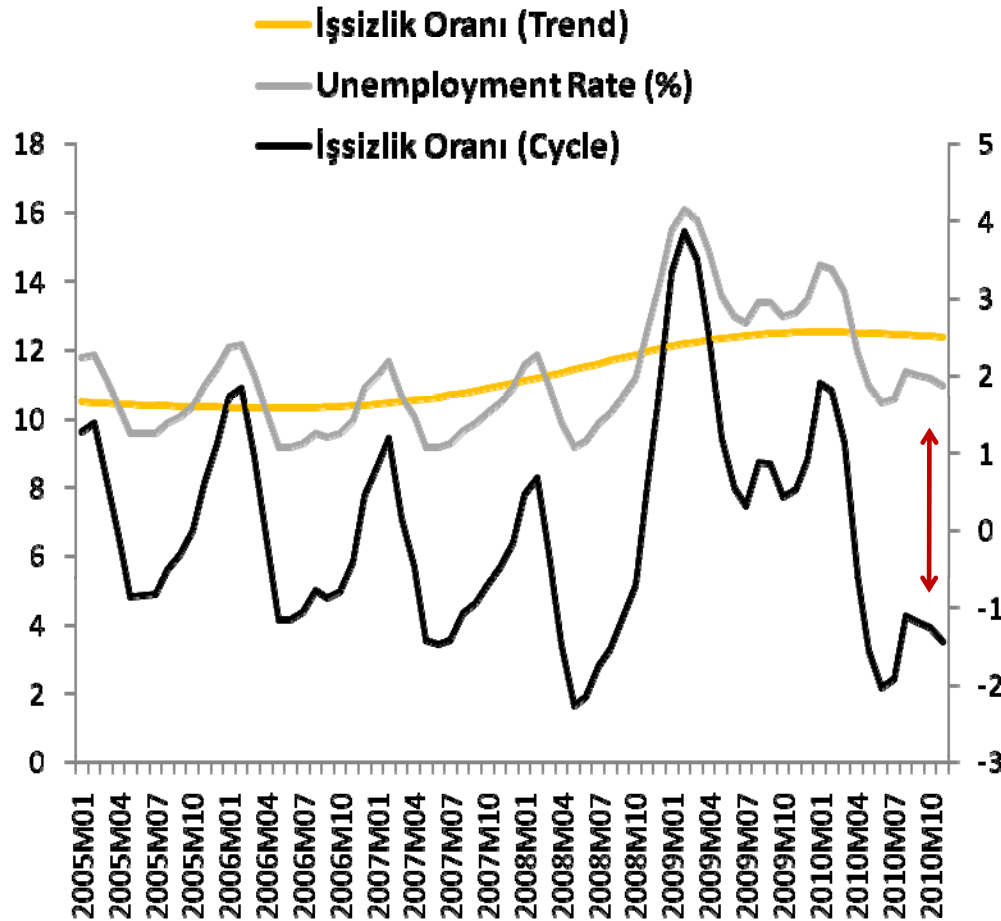
Source: TurkStat



Source: Vakifbank

- ✔ As seen in the scatter graph above, there is a negative relationship between the annual percentage change of the unemployment rate and the annual real growth rate .
- ✔ In the light of our econometric model results , when the real GDP increases by 1 point, the unemployment rate decreases by 2.1 points.
- ✔ If GDP grows by 7.5%, we would see the unemployment rate improve .

In spite of economic recovery, trend series have been at its high levels...



Unemployment rate is decoupled as trend and cycle series using HP Filtering Method.

The cycle shows downward movement with the economic recovery but there has been no improvement in the trend series.

Moreover the spread between the unemployment rate and the cycle series has increased since the second half 2010. This indicates that the improvement in the unemployment rate arise from the cyclical improvement in the Turkish economic environment.

The high levels of trend series show the structural problems in labor market.

To sum up...

- ✓ **Although there is a significant improvement in macro economic conditions and Turkey's unemployment rate performs better than many other countries, the unemployment rate is still above pre-crisis level.**
- ✓ **Differently from other economic indicators, the rigidity of employment markets could be the main reason.**
- ✓ **Due to Turkey's structural problems arising from its internal dynamics, the improvement in unemployment rate seems to take time even longer.**

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