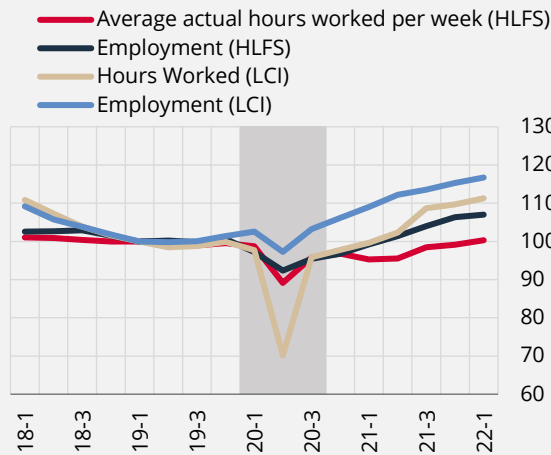


Box 2.3

Recovery in Employment in the Post-Pandemic Period

This box deals with the substantial post-pandemic recovery in employment in Türkiye. With the deterioration in labor market conditions in the first months of 2020, the unemployment rate increased despite exits from the labor market during the pandemic. In this period, there was a strong decline in economic activity due to the restrictions imposed against the pandemic and decreased mobility. Pandemic restrictions also led to a decline in labor demand, resulting in a significant decline in total labor input, or in other words, total hours worked (Chart 1). On the other hand, the Turkish economy quickly recovered from the effects of the pandemic and was among the rare countries that completed 2020 with a positive growth rate. This growth performance continued in 2021 when the growth rate reached 11%. In this context, the strong growth performance was accompanied by significant employment increases. As of May 2022, Türkiye increased its seasonally adjusted employment by 3.2 million people in total compared to the pre-pandemic period (February 2020) and reached 30.8 million people (Chart 2). Similarly, as suggested by employment developments for the pre and post pandemic period per sub-sector, the recovery in the sectors most affected by the pandemic (services sub-sectors of hotels-restaurants and administrative and support services) continues, and the rate of increase in employment in the industrial sector, especially in the last months, is positively differentiated. As of the first quarter of 2022, industrial employment increased by 1.2 million, construction employment increased by 312 thousand, and services sector employment increased by 2.5 million compared to the second quarter of 2020, when the pandemic started. Thus, the increase in non-farm employment reached approximately 4 million people.

Chart 1: Employment and Hours Worked
(Seasonally Adjusted, 2019Q1=100)

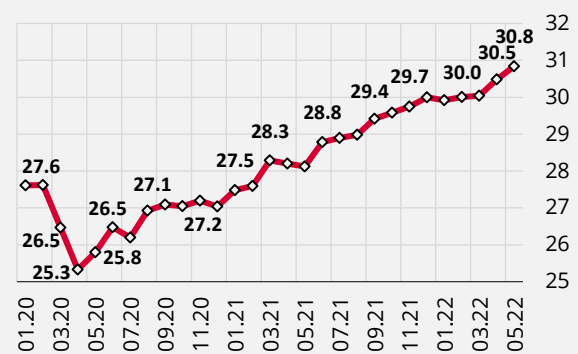


Source: TURKSTAT.
HLFS: Household Labor Force Survey.
LCI: Labor Cost Indices.

The labor force participation rate, on the other hand, dropped significantly during the pandemic, curbing the rise of the unemployment rate. The number of people available to work but not seeking work increased sharply during the pandemic. Although this rate decreased significantly after the pandemic, it has yet to return to its pre-pandemic levels (Chart 3). Data for May 2022 confirm that the increase in the labor force tracks the rise in employment. It is predicted that the labor force participation rate will increase gradually in line with economic activity, and this situation is expected to curb the decline in unemployment rates despite strong employment increases.

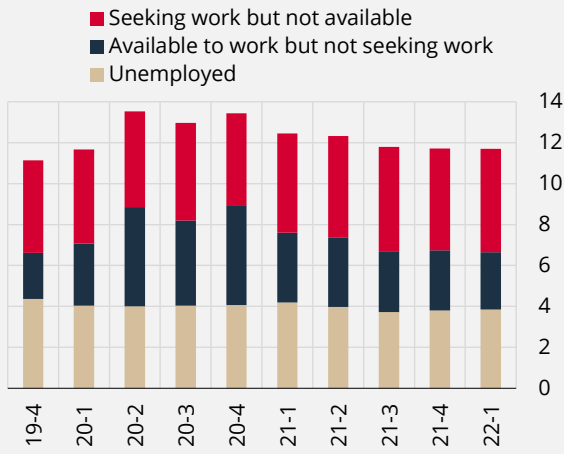
In line with the above developments, the unemployment rate increased from 12.6% before the pandemic (February 2020) to 13.2% on average during the pandemic (March 2020-February 2021), and as of May 2022, it declined to 10.9% (Chart 4).

Chart 2: Total Employment (Seasonally Adjusted, Million People)



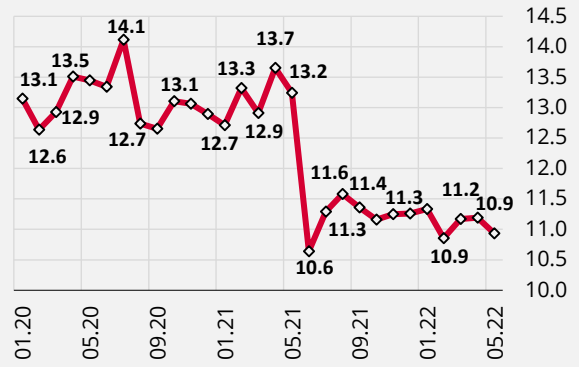
Source: TURKSTAT.

Chart 3: Labor Force Dynamics (Seasonally Adjusted, Million People)



Source: TURKSTAT.

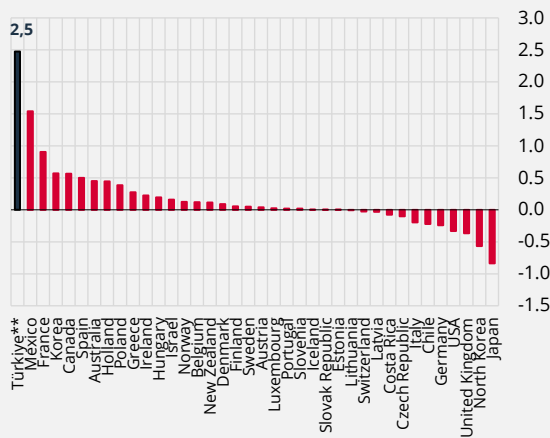
Chart 4: Unemployment Rate (Seasonally Adjusted, %)



Source: TURKSTAT.

As of the first quarter of 2022, Türkiye outperforms all other OECD countries in terms of employment increase (Chart 5). Between 2022Q2* and 2019Q4, seasonally adjusted employment growth was near 2.5 million people. Among its peers¹, the Turkish performance for employment recovery after the pandemic was also quite strong, particularly in industrial and services sectors. When the relative improvement in the employment ratio is compared with the pre-pandemic period by taking into account population dynamics, Türkiye's position is still well-above the OECD average (Chart 6). This is despite Türkiye being one of the OECD countries with the fastest growing working age population (Charts 7 and 8). Thus, Türkiye performed better than a number of countries with similar population dynamics (such as Colombia, Mexico, Israel, Iceland) considering the increase in employment ratio.

Chart 5: Change in Employment* (Calendar and Seasonally Adjusted, 2019Q4-2022Q1, Million People)

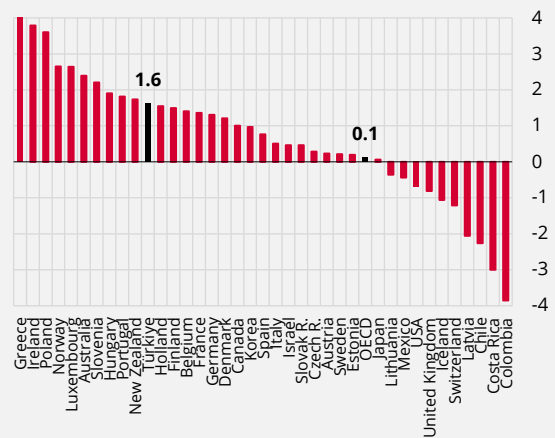


Source: OECD.

* 2022Q2-2019Q4 calculated for countries with 2022Q2 data.

** The change in April-May 2022 data compared to 2019Q4.

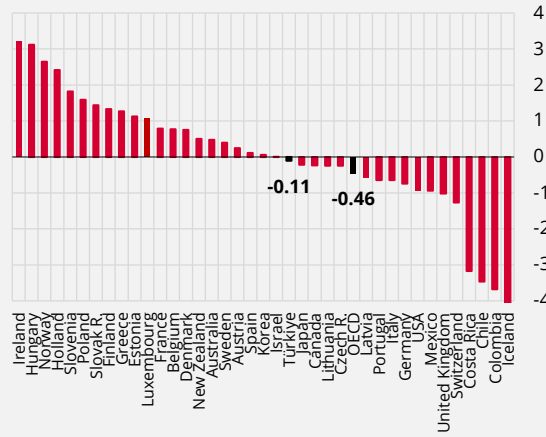
Chart 6: Change in Employment Rate (2019Q4-2022Q1, Employment/Population, Points)



Source: OECD.

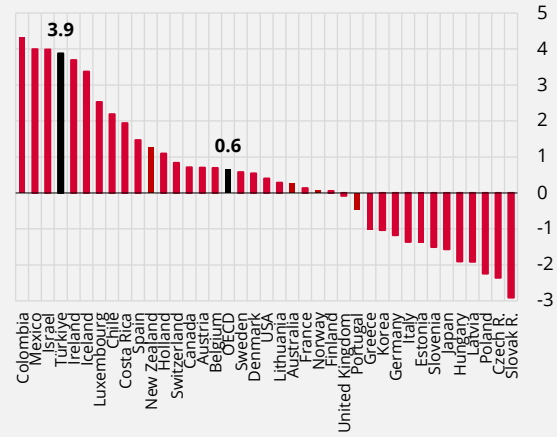
¹ Mexico, Poland, Peru, Chile, Hungary, Brazil, Romania, South Africa, Thailand, Philippines.

Chart 7: Change in Labor Force Participation Rate (2019Q4-2022Q1, Labor Force / Working Age Population, Points)



Source: OECD.

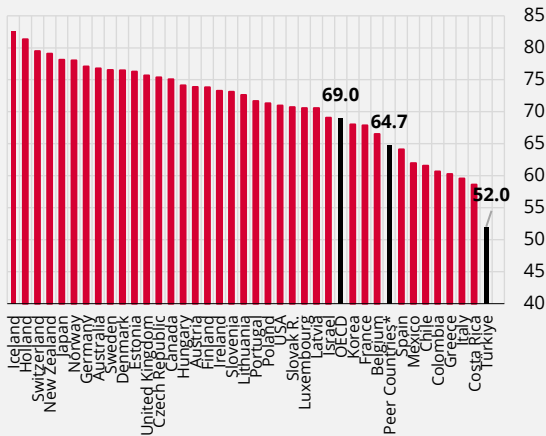
Chart 8: 15-64 Working Age Population Change (2019Q4-2022Q1, %)



Source: OECD.

Although the post-pandemic recovery in employment has been stronger compared to its peers, Türkiye's absolute rates of employment and labor force participation are still below the OECD average (Charts 9 and 10). Besides the demographic factors, when the economic growth performance and structural issues are taken into account, the improved economic growth is expected to back employment growth, and a faster employment growth is projected to support participation rates. Consequently, the rise in the potential labor force will increase production capacity.

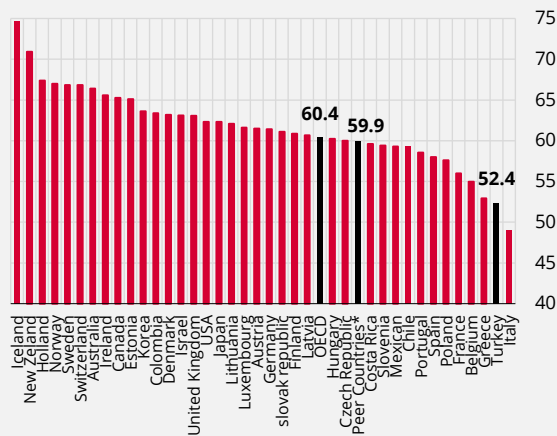
Chart 9: Employment Rate (2022Q1, Employment/Population, %)



Source: OECD.

* Peer Countries: Mexico, Poland, Chile, Hungary, Romania, Colombia, Costa Rica.

Chart 10: Labor Force Participation Rate (2022Q1, Labor Force / Working Age Population, %)



Source: OECD.

* Peer Countries: Mexico, Poland, Chile, Hungary, Romania, Colombia, Costa Rica.

In sum, Türkiye's labor market performed strongly among OECD countries as well as peers in recovering from the pandemic. However, in order to bring unemployment rates down further and attain more improvement in the labor market, this trend has to continue to keep up with population growth and increases in participation rates.