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The GDP-per-capita gap vis-à-vis best performing countries remains substantial. This reflects low employment rates of older workers and immigrants as well as geographical labour market mismatches.

Policy priorities

Further reduce the implicit tax on continued work at older ages

Challenge and recommendations: In order to raise the effective retirement age, which is low by international standards, it was recommended that the measures outlined in the 2005 Solidarity Pact Between Generations be supplemented by the phasing out of alternative routes to early retirement via realigning access conditions to such schemes with those for standard old-age pensions; the removal of the possibility for accumulating pension rights for persons in special early retirement schemes; and making early receipt of old-age pensions more actuarially neutral.

Actions taken: Two key measures of the 2005 Solidarity Pact were legislated in 2007: a pension supplement for those continuing to work beyond the age of 62, and a gradual increase in the minimum age of entry into early retirement via the old-age pension system from 58 to 60. No measures aside from the Solidarity Pact have been introduced.

Further reduce the tax wedge on low-income workers

Challenge and recommendations: To improve labour market participation rates among low-income workers and immigrants, it was recommended that further targeted cuts in social security charges and personal income tax rates for low-income workers be implemented together with offsetting spending cuts.

Actions taken: The multi-year tax reform has been fully implemented. Additional measures taken to make work pay include a reduction in individual social security contributions targeted at low-income workers (the “employment bonus”).

Ease regulation in the retail sector

Challenge and recommendations: To stimulate job creation and competition in the retail sector, it was recommended that regulations of zoning and shop opening hours, which remain stringent even after the 2006 reforms, be relaxed.

Actions taken: No action taken since the reforms in 2006.

Make wages more responsive to local labour market conditions

Challenge and recommendations: To reduce the large and persistent geographical mismatches in the labour market, it was recommended that the scope for individual companies to opt out from sectoral agreements be increased.

Actions taken: No action taken.

Strengthen efficiency of active labour market policies

Challenge and recommendations: To facilitate return to work, it was recommended that job-search requirements for the unemployed be strengthened, funds for active labour market policies be redirected from subsidised employment to training and co-ordination between placement agencies in different regions be improved.

Actions taken: In July 2007, the regional placement agencies created an interregional association with the purpose to exchange job offers and to enhance cooperation in the field of training.