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- The gap in GDP per capita related to the most advanced OECD remains large and convergence has been slow in the aftermath of the crisis. Declining investment has constrained productivity growth.
- Income inequality, which is above the OECD average, has increased recently in particular as the poorest 20% lost ground.
- Significant legislative and budgetary measures proposed in *Going for Growth 2015* have been taken in order to boost vocational education, encourage the recipients of disability benefits to return to work and to reduce the labour tax wedge on low-income earners. These measures will reduce skill shortages and high structural unemployment.
- Improving collaboration in applied research between domestic and foreign institutions, strengthening infrastructure, in particular by expanding access to European transport networks, and shortening corporate insolvency procedures would accelerate productivity growth. Further strengthening vocational education would boost productivity of low wage workers, thereby making growth more inclusive.
- Aligning energy tax rates across different energy sources more closely and raising them according to their CO_2 content would help improve energy efficiency, which is lower than in most OECD countries.

Going for Growth 2017 priorities

Reduce skill mismatches by improving vocational education and activation. Shortages of skilled labour contribute to structural unemployment and constrain competitiveness while out-of-work working-age individuals face a higher poverty risk.

Actions taken: Legislation was passed in 2015 to introduce quality standards, increase the visibility of adult training, and launch a system for labour market monitoring and forecasting skill demands. A reform of disability benefits was implemented in mid-2016, improving access to activation for benefit recipients and strengthening the assessment of their capacity to work.

Recommendations: Improve access to upper-secondary vocational education by providing more financial assistance to students. Expand workplace-based training by introducing a tax-free lower minimum wage for apprenticeships. Strengthen collaboration of business and schools at the local level. Further increase overall spending on activation policies and target them at key risk groups, namely disability benefit recipients and youth not in employment, education or training.

Reduce labour taxation and costs in private pension schemes. High labour tax wedges on low-income earners and high operating costs of compulsory private funded pension pillar born by workers discourage employment.

Actions taken: The unemployment insurance contribution rate was reduced in 2015. The basic personal income tax allowance was raised in early 2015 and 2016. A further income tax reduction has been introduced in 2016 for low-pay workers.

Recommendations: Further reduce the tax burden on labour earnings by reducing social security contributions on low-pay workers. Abolish the lump-sum minimum social tax. Raise more revenue from real estate taxation by removing exemptions and by evaluating property according to market prices. Reduce the operating costs of compulsory private pension systems, in particular marketing expenses, through further disclosure of information on costs in a standardised manner.

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Growth performance and inequality indicators

A. Growth

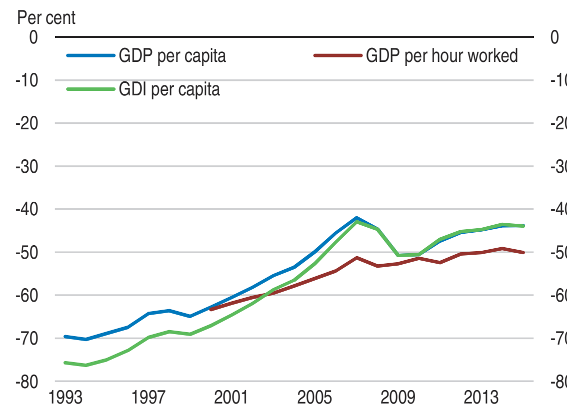
Average annual growth rates (%)		2003-09	2009-15
GDP per capita		2.4	3.5
Labour utilisation		-0.2	2.2
of which:	Labour force participation rate	0.9	0.8
	Employment rate[1]	-0.6	1.4
	Employment coefficient[2]	-0.4	0.0
Labour productivity		2.6	1.9
of which:	Capital deepening	2.8	-0.1
	Total factor productivity	-0.2	2.0
Dependency ratio		-0.1	-0.6

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient[3]	36.1 (31.7)*	0.8 (0)*
Share of national disposable income held by the poorest 20%	6.3 (7.7)*	-0.2 (0)*

* *OECD average*

C. Convergence in GDP per capita is slowing
Gap to the upper half of OECD countries[4]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

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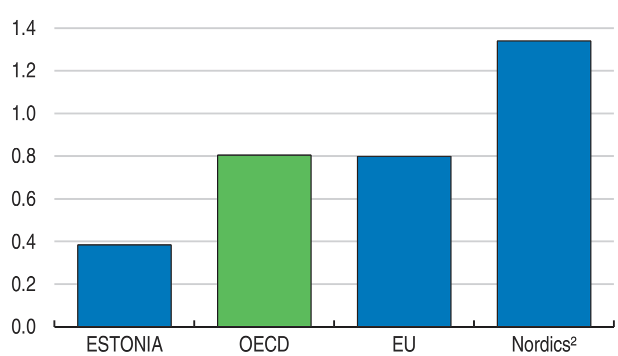
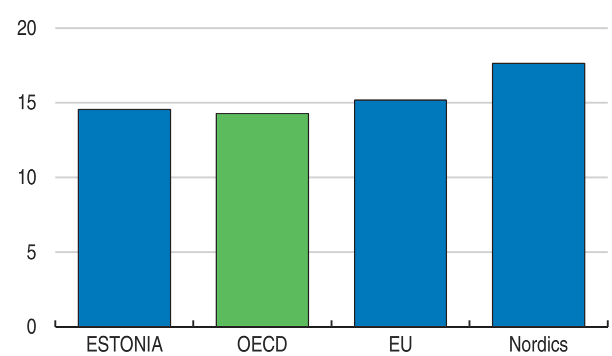
Policy indicators

A. Public spending on childcare[1] is low
Percentage of GDP, 2013



B. Collaboration on innovation between firms and higher education institutions is modest
As a percentage of product and/or process-innovating in SMEs, 2010-12



1. Public spending on childcare includes childcare and pre-primary. Childcare expenditure cover children under three years old enrolled in childcare and children between three and five years old enrolled in pre-school. Childcare refers to formal day-care services, such as day-care centres and family day-care. Pre-primary includes kindergartens and day-care centres which usually provide an educational content as well as traditional care for children (ISCED 0 under UNESCO's classification system).
2. Average of Denmark, Finland, Norway and Sweden.

Source: Panel A: OECD, *Family Database* (preliminary data); Panel B: OECD (2015), *OECD Science, Technology and Industry Scoreboard 2015: Innovation for growth and society*.

StatLink http://dx.doi.org/10.1787/888933455483

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Enhance the effectiveness of innovation policies. Expenditure on Research and Development is relatively high but has not resulted in more exports of high-tech products or faster productivity growth.

Actions taken: Financial support for the collaboration between research institutions and firms in applied research was stepped up in 2015, especially in key areas defined in the smart specialisation strategy. The government also adopted a regulation defining a framework for Estonia's participation in EU's Research, Development and Innovation partnerships.

Recommendations: Strengthen knowledge transfer to domestic firms, especially SMEs, by further promoting collaboration between firms and higher education institutes and between domestic and foreign research institutions. Hold inter-ministerial working groups co-ordinating innovation policies accountable and review their performance regularly. Shorten corporate insolvency procedures in order to promote entrepreneurship and resource allocation.

Promote efficiency in the regulation of energy markets. Low energy efficiency and uneven tax rates across energy sources are contributing to high CO_2 emissions.

Actions taken: The gasoline excise tax rate has been progressively raised and should increase by 10% by 2018. Diesel and light fuel oil excise rate were increased by 14% in 2016.

Recommendations: Further align and raise tax rates on energy sources according to the externalities they generate. Improve incentives for increasing efficiency in district heating, for instance by applying benchmark regulation. Raise incentives of households and building owners to invest in energy efficiency in building, for example by providing more financial support to low-income households for energy-saving investments. Adjust subsistence payments for changes in energy prices.

****Improve economic and social infrastructure.**** *[1] Infrastructure bottlenecks as well as shortage of social infrastructure such as childcare services are constraining labour mobility and well-being.

Recommendations: Expand access to EU energy and railway networks. Provide sufficient funding to rural infrastructure projects. Improve inter-modal transport connections. Increase access to childcare services for children below 1.5 years old and in some municipalities for those below 3 years old.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an "*".

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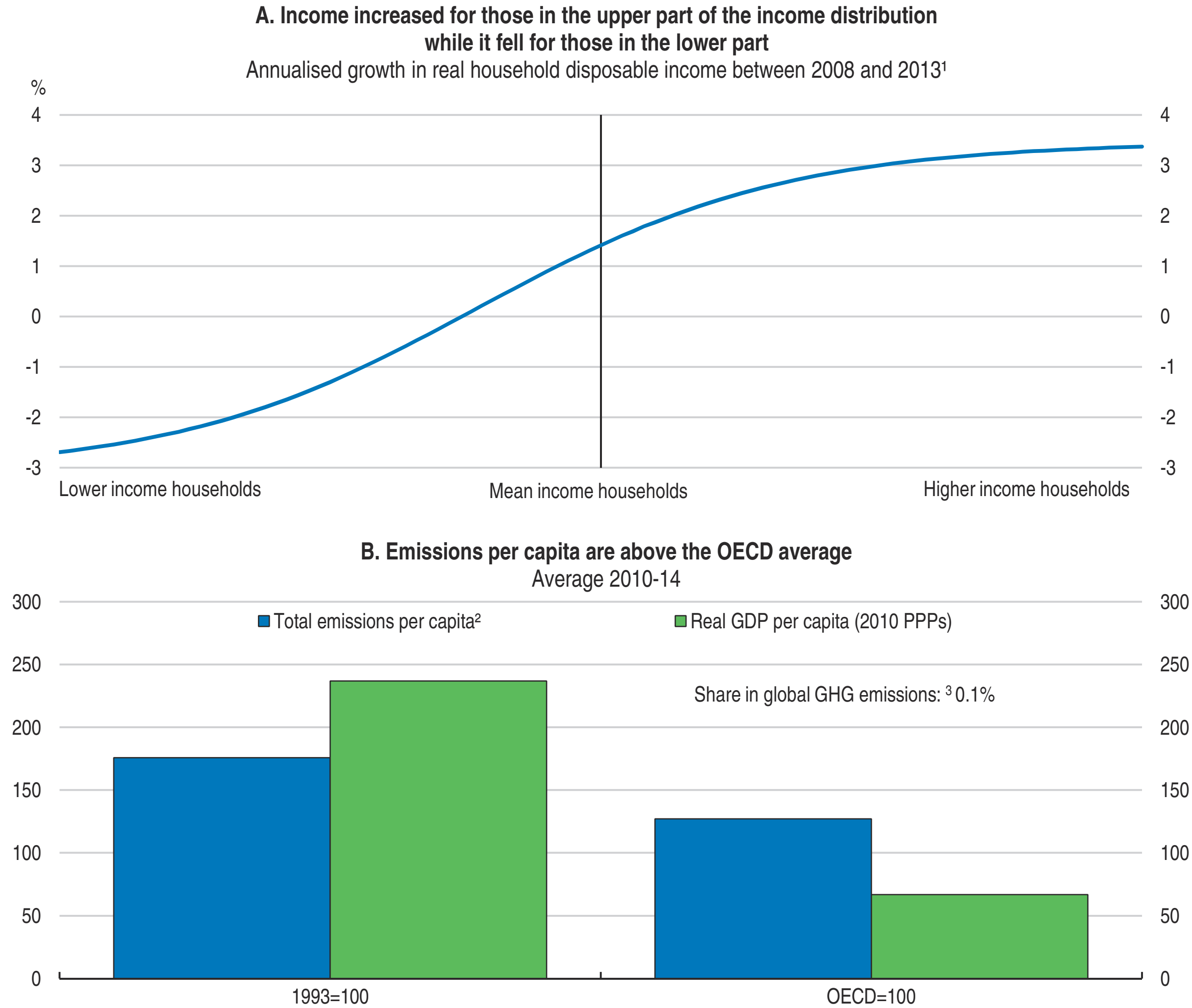
Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

StatLink http://dx.doi.org/10.1787/888933455944