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Despite relatively strong growth in recent years, a significant GDP-per-capita gap vis-à-vis best performing countries persists because of relatively low productivity in competition-sheltered services and relatively low employment rates of older workers. In recent years, reforms have aimed at improving public sector efficiency and strengthening work incentives, but further measures are needed, especially in the areas below.

### Priorities supported by indicators

#### **Reduce barriers to entry in network industries**

High network access prices and remaining state ownership in some network industries deters new entry, hindering greater competition, thus depressing productivity and sustaining high prices.

**Actions taken:** No action taken.

**Recommendations:** Ensure that access prices are not kept artificially high. Relax ownership restrictions that create high barriers to entry at various stages in the production and distribution of electricity. Achieve full privatisation in the telecommunication and electricity sectors when financial conditions stabilise. Introduce competition in rail transportation. Reduce or eliminate remaining cross-subsidies in all network industries.

#### **Reduce the implicit tax on continued work at older ages**

Even after recent pension reforms, high implicit taxes on continued work at older ages still encourage early retirement and reduce labour force participation.

**Actions taken:** The 2003-04 pension reforms were a major step forward in reducing the fiscal subsidisation of early retirement, but in 2007 some of the reform measures were relaxed. In particular, the government halved the pension discount rate for each year of early retirement from 4.2% to 2.1%, partly undermining the goal of increasing the currently very low employment rate for older workers.

**Recommendations:** Phase in all provisions of the 2003-04 pension reforms, and restore (actuarially neutral) discount rates applicable before the standard retirement age. Automatically adjust the legal retirement age in line with demographic developments. Tighten eligibility criteria to ensure that disability pensions are only used by people unable to work.

#### **Improve graduation rates from tertiary education**

The share of the labour force with tertiary education is low, and the quality of some vocational and tertiary education programmes remains sub-standard. This holds back productivity growth and innovation.

**Actions taken:** No new measures since 2007, when the first three-year performance agreement between the universities and the government was introduced, with a formula-driven budgeting system to strengthen the financing and autonomy of universities: 20% of the university budget is now allocated according to output-related qualitative and quantitative indicators.

**Recommendations:** Allow universities to select students and to set their own tuition fees to help improve service quality and enhance student incentives. Introduce a system of loans with income-contingent repayments to avoid the exclusion of cash-constrained students from poor families.

### Other key priorities

- **Marginal tax rates:** Enhance work and entrepreneurship incentives by lowering marginal income tax rates financed by further broadening the tax base through reducing numerous tax allowances.
- **Regulation of services:** Restrictive regulations remain widespread in services, limiting competition and acting as a drag on productivity growth. Statutory regulation of trades and professions should be reduced. Compulsory chamber membership for the liberal professions should be abolished. Although legal shop opening hours were extended in January 2008, restrictions should be further eased in retail trade to promote competition.

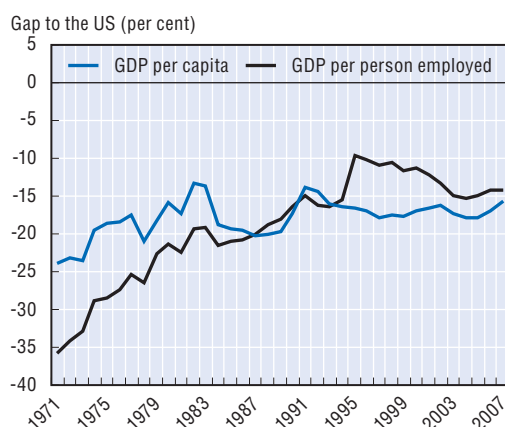
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## Structural indicators

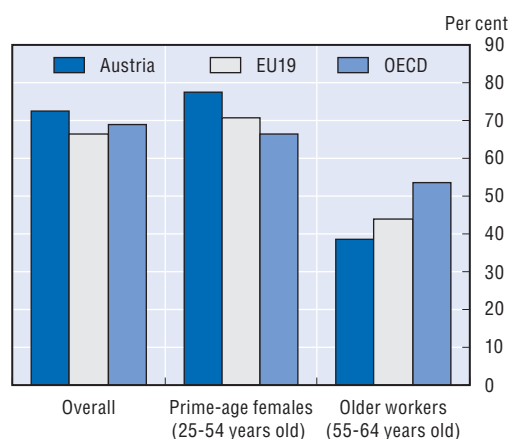
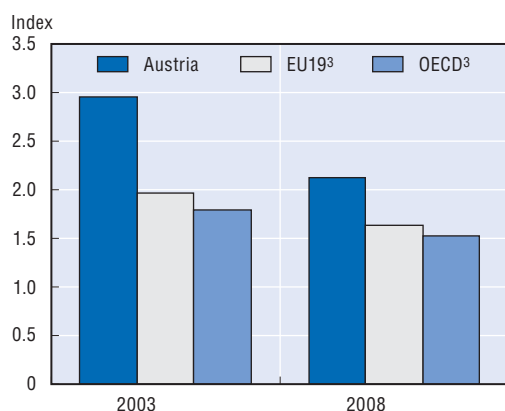
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	2.0	2.2	1.8
Labour utilisation	0.2	0.4	0.0
of which: Employment rate	0.3	0.5	0.2
Average hours	-0.1	-0.1	-0.2
Labour productivity	1.7	1.8	1.7
of which: Capital intensity	0.6	0.6	0.5
Multifactor productivity	1.2	1.2	1.2

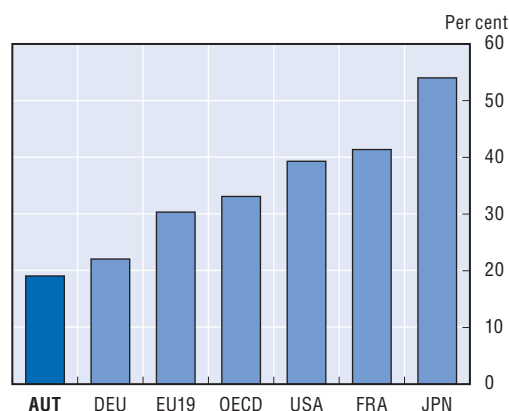
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Convergence in GDP per capita and productivity has stalled<sup>1</sup>

B. The employment rate of older workers is low, 2007

C. The administrative burden to set up a business has fallen but remains high<sup>2</sup>

D. The share of population aged 25-34 with tertiary education is low, 2006




1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).

2. Index scale of 0-6 from least to most restrictive.

3. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Product Market Regulation Database; Chart D: OECD (2008), Education at a Glance.

StatLink  <http://dx.doi.org/10.1787/533853331362>