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- After the major setback during the economic crisis, economic convergence *vis-à-vis* the upper half of the OECD has resumed. However, the productivity and output per capita gaps remain substantial.
- Important progress has been already achieved in reducing product market regulation, including by opening the electricity market, removing remaining obstacles to foreign direct investment (FDI) and extending e-services to reduce administrative costs. Appropriate legislative action has been made to tackle the bad loans problem, even though these will remain a drag on growth for some time.
- Strengthening active labour market policies, reducing the labour tax wedge for low-wage earners and reforming the disability benefits system would be important to recover crisis-related employment losses. At the same time, higher quality vocational training, more accessible tertiary education, and increased R&D spending would be essential to reduce the productivity gap.
- Strengthened active labour market and education policies, as well as a pro-poor tax wedge reduction would not only stimulate growth, but also make it more inclusive. A shift to environmental taxation and targeted innovation support would likely improve energy and resource efficiency while boosting GDP growth.

Growth performance indicators

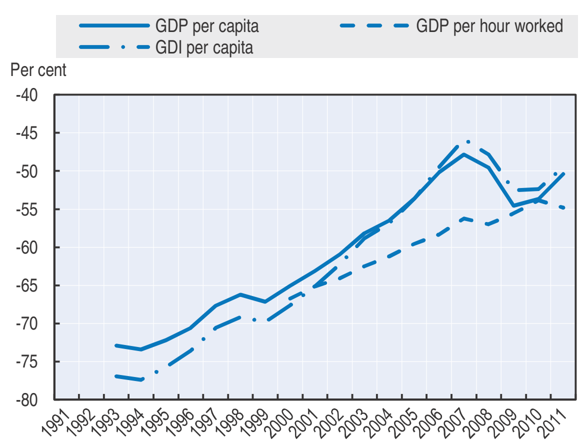
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		5.2	2.3
Potential labour utilisation		1.0	0.5
of which:	Labour force participation rate	0.6	0.7
	Employment rate[1]	0.5	-0.2
Potential labour productivity		4.2	1.8
of which:	Capital intensity	2.6	1.7
	Labour efficiency	1.3	0.1
	Human capital	0.2	0.0

B. Convergence in GDP per capita has recently resumed

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, National Accounts and OECD Economic Outlook 92 Databases.

StatLink http://dx.doi.org/10.1787/888932776352

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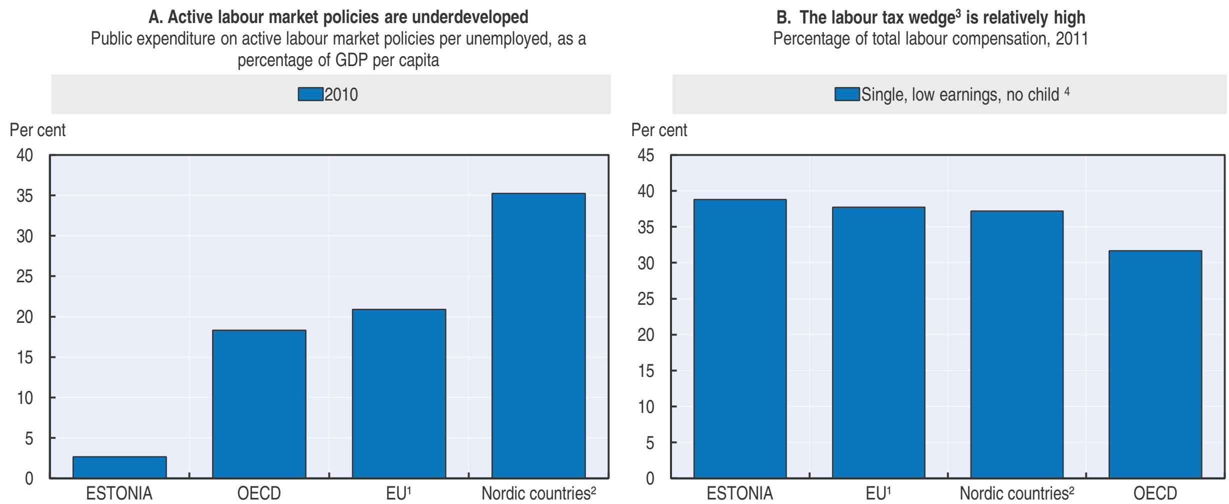
Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Average of Denmark, Finland, Norway and Sweden.
3. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
4. Low earnings refer to two-thirds of average earnings.

Source: OECD, Public expenditure and participant stocks on LMP, *OECD Economic Outlook and Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888932776371

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Strengthen active labour market policies. High long-term unemployment and skills mismatches reduce potential output.

Actions taken: Spending on activation policies increased strongly in the aftermath of the crisis, but remains low in international comparison. Higher flexibility in individual action plans allows for better addressing specific job-search and counselling needs. A full range of job-search activities has been made available online and the training voucher programme extended.

Recommendations: Increase further overall spending on activation policies and target them at key risk groups. Raise efficiency by allowing public procurement of training courses to take greater account of the quality of service providers, by encouraging stronger involvement of employers and enhanced ex-post evaluation. Target wage subsidies at net hiring of low-wage earners.

****Reduce the labour tax wedge*.**[1] High labour tax wedges reduce employment opportunities, particularly among the low-skilled.

Recommendations: Reduce labour taxation by shifting the burden to environmental and property taxation, including by taxing houses and apartments and using market-based

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

land valuation. Target the initial labour tax cuts to low-wage earners so as to maximise employment gains.

Strengthen support to R&D. Estonian firms tend to spend relatively little on innovation, missing on important productivity gains.

Recommendations: Rebalance public resources for innovation support to prepare Estonian firms to export and make sure the necessary services for small exporting firms are available at reasonable costs. Promote firm-level innovation through better pricing of environmental externalities and *via* direct support targeted at energy saving to reduce the very high energy- and resource-intensity of production.

Other key priorities

Reform the disability benefits system. The share of disability benefit recipients is very high and on the rise as a result of the crisis.

Recommendations: Reform the disability system by opening activation measures to disability benefit recipients and strengthening the role of employers in prevention and rehabilitation measures.

Improve quality of vocational training and access to tertiary education. Low vocational education quality and poor access to tertiary education complicate school-to-job transitions.

Recommendations: Strengthen the involvement of employers for offering subsidised apprenticeship places while monitoring their quality. Establish an obligation to offer learning opportunities for youth not in education, employment or training. Reduce the negative funding gap *vis-à-vis* general education. Ensure that a means-tested student support and student loan system allow all talented youth to engage in full-time tertiary education. Consider making repayment contingent on incomes.

Previous *Going for Growth* recommendations no longer considered a priority

Reduce entry barriers in network industries. Given the detrimental effects of high barriers to entry in electricity sector on economic efficiency, it was recommended to open the market to more suppliers and to use market incentives to increase energy efficiency.

Actions taken: The integration with regional Nordic-Baltic electricity networks has been improved, notably with the construction of a new large-capacity power connection with Finland. The power market will be fully liberalized in January 2013.

Reduce administrative burdens on businesses. In order to boost entrepreneurship, it was recommended to further improve the regulatory environment for businesses and to ease restrictions on land purchases by non-EU citizens who are permanent residents.

Actions taken: Restrictions on land purchase have been abolished and legislation changes reducing administrative burdens were adopted in several areas, including administration, social and environmental laws. Ongoing development of e-services included the launch of a Central Commercial Register portal that allows companies to prepare and submit reports online.

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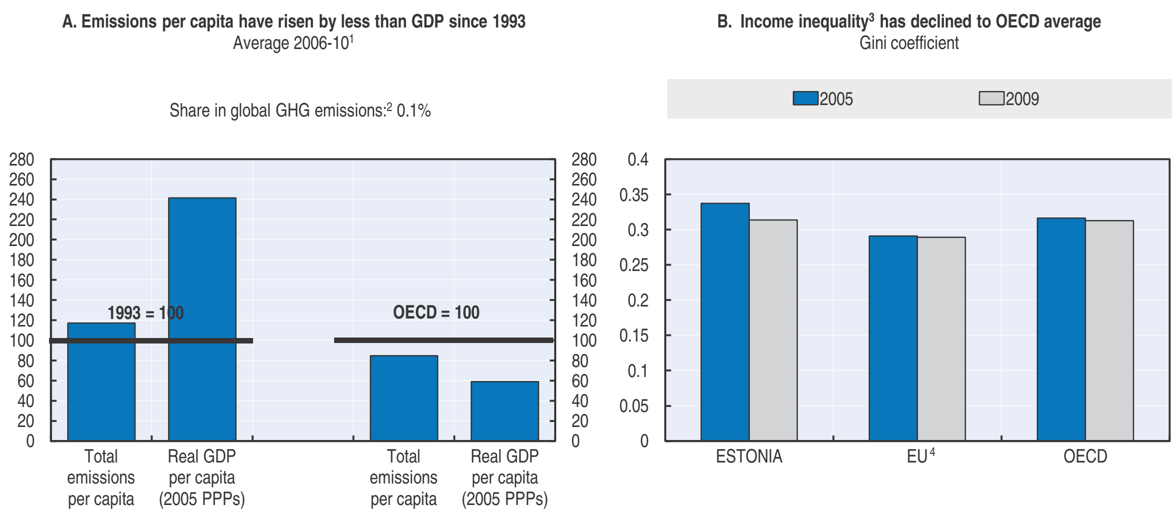
Improve the attractiveness for FDI in export-oriented manufacturing. To encourage FDI flows, it was recommended to monitor the effectiveness of entrepreneurship policies, in particular the grants-based approach to supporting businesses which requires the ability to pick winners.

Actions taken: Enterprise Estonia evaluated economic results of all completed support projects conducted between 2006 and 2010.

Improve private bankruptcy procedures. To help reduce unsustainably high household debt burdens, it was recommended that bankruptcy procedures be reviewed, including those pertaining to debt restructuring.

Actions taken: The Debt Restructuring and Debt Protection Act came into force in April 2011, facilitating debt restructuring. An amendment to the Bankruptcy Act shortened the minimum period after which the court may partially relieve a person of remaining obligations.

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; *OECD, Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776390