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Convergence towards average OECD living standards has suffered a reversal since 2000 due to particularly weak labour productivity growth. Recent reforms have included some easing of employment protection legislation and improved upper-secondary education, but additional reforms are still necessary, notably in the following areas.

Priorities supported by indicators

Improve secondary education attainment

The educational attainment of the working-age population is low and intergenerational educational mobility has been slow by international comparison. The international student performance survey (PISA) shows that reading, mathematics and science results are well below the OECD average. Low investment in human capital depresses productivity performance.

Actions taken: Very small schools have been closed to increase efficiency, and changes to teachers' timetables are allowing a more efficient allocation of human resources. Teachers' training has been overhauled. Upper-secondary education has been diversified to incorporate technical and vocational courses. The government is expanding the *New Opportunity* initiative aimed at preventing school drop-outs and up-skilling the adult population.

Recommendations: Increase the proportion of education spending on non-wage items. Continue to strengthen teachers initial and on-the-job training. Fully implement a performance-based evaluation and career-progression system for teachers. Continue developing vocational and technical education. Monitor and evaluate results of the *New Opportunity* initiative, as its scale expands.

Reduce administrative burdens on business

Starting, running and closing a business have been hampered by onerous regulation, including a cumbersome licensing regime that has weakened competition and thus productivity growth throughout the economy. Insufficient harmonisation of regulations with major trading partners has impeded trade, particularly in services.

Actions taken: The government is implementing SIMPLEX, a wide-ranging initiative to ease product market regulation, including replacing traditional over-the-counter services with online services. Licensing procedures requiring government consent are being progressively replaced by trust-based declarations and the "silence is consent" rule.

Recommendations: Fully implement the SIMPLEX programme, including replacing licensing by trust-based declarations for most business activities. Increase collaboration between central government and municipalities to ensure efficient implementation at the local level. Harmonise regulations with major trading partners, including service sector standards and qualification requirements.

Reform employment protection legislation

The protection of workers against individual dismissal has been one of the most restrictive in the OECD, with very cumbersome procedures. Temporary employment is restricted to specific situations with ceilings on the maximum number of renewals and cumulated duration. Restrictive EPL may encourage informal activities and dualism in the labour market with adverse effects on efficiency in the long term.

Actions taken: In the second half of 2008, the government put forward new legislation that, when enacted, will significantly simplify dismissal procedures. The most important changes include notice periods for dismissals being reduced for employees with less than four years tenure, a distinction to be made between dismissals that are illegal and those that are merely irregular, and the length of time that employees will have to launch an unfair dismissal claim will be reduced from one year to 60 days.

Recommendations: Despite the importance of the recent reforms, protection of regular workers against dismissals will remain more restrictive than in the average OECD country. There is scope to further ease restrictions for temporary employment. It is essential that the reform measures be implemented promptly and enforced.

Other key priorities

- **Network competition.** In telecommunications, ensure no discrimination of mobile telephone termination charges between calls within and across networks. Increase the ownership independence of the newly separated copper-wire and cable-owned telecommunications networks. Encourage price competition in port services by facilitating yard-stick competition. Introduce competitive tendering for rail services. Encourage an increase in new entrants' electricity generation capacity through expansion of the Virtual Power Plants scheme and issuance of licenses to new power plants.
- **Tax system.** Simplify the tax system and broaden the corporate tax base. Reduce tax expenditures and avoid frequent changes to the tax code.

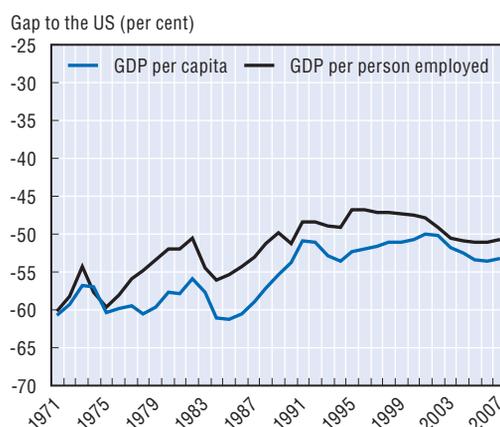
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Structural indicators

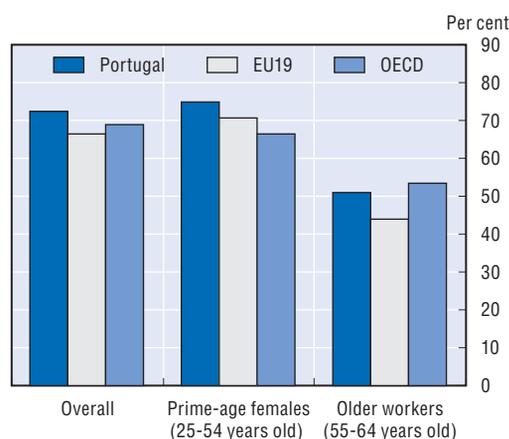
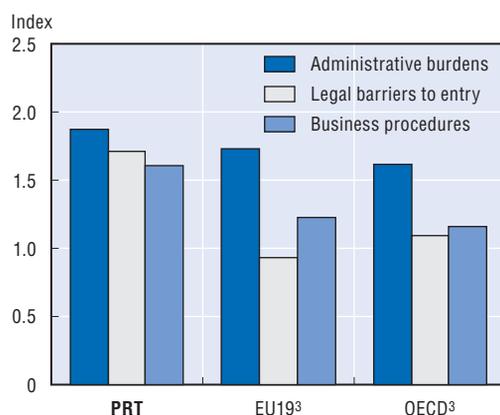
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.5	1.9	1.1
Labour utilisation	-0.2	-0.2	-0.2
of which: Employment rate	0.3	0.4	0.3
Average hours	-0.5	-0.6	-0.4
Labour productivity	1.7	2.1	1.3
of which: Capital intensity
Multifactor productivity

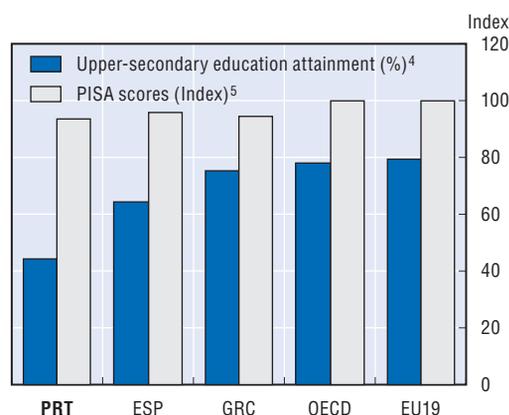
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity are wide¹

B. The overall employment rate is above the OECD average, 2007

C. Product market regulation is relatively strict, 2008²

D. Secondary school attainment and achievement are poor, 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.

4. Percentage of population aged 25-34 that has attained at least upper-secondary education.

5. Average mean score of mathematics, science and reading scale. OECD = 100.

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 and OECD, PISA 2006 Database.

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