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The income gap relative to the upper half of OECD countries narrowed significantly prior to the crisis, before starting to widen again. This gap is largely explained by a shortfall in labour productivity. The recent introduction of a one-stop shop for companies to reduce the burden of setting up a business, as well as personal and corporate income tax reforms, should boost performance. Further reforms are still needed in the areas below.

Priorities supported by indicators

Reduce state involvement in the economy

High market concentration and heavy state involvement in the business operations of major firms through widespread asset holdings are pervasive across network industries and the financial sector, hampering FDI inflows and productivity growth.

Actions taken: Some privatisation has been undertaken, particularly in the retail food and banking sectors. The two State funds significantly reduced the number of companies in their portfolios, though the State increased its ownership share in strategic firms. Parliament adopted legislation in 2010 establishing a central ownership agency to manage State assets.

Recommendations: Facilitate new entry by reducing state ownership in network industries. Boost competition in the electricity sector by removing existing restrictions on distributors to buy electricity from different sources rather than from the cheapest source. Ensure that the appointment of supervisory and management boards of the firms in which the State holds a stake is transparent and based on merit. Devise a rigorous and transparent regime for determining which State assets should remain in public hands and set up a new privatisation plan.

Ease employment protection legislation

Employment protection legislation for regular contracts is overly restrictive, creating a dual labour market.

Actions taken: In October 2010, Parliament adopted a “mini jobs” bill, which allows students, pensioners and the unemployed to work limited hours in low-pay, more flexible jobs. Severance pay has been reduced to one-fifth of the average salary in the last three months of employment for all workers.

Recommendations: Further reduce notice periods and administrative burdens on individual dismissals and relax the conditions under which individual dismissals are legitimate.

Raise the statutory retirement age and reduce disincentives to work at older ages

The low statutory retirement age and a poorly designed pension system unduly reduce the labour supply of older workers.

Actions taken: The government presented to Parliament in October 2010 a new draft legislation that seeks to increase the retirement age, extend contributory period requirements and reduce the generosity of pension benefits.

Recommendations: Increase the statutory retirement age and limit access to early retirement. Introduce greater financial incentives to deferred retirement. Give more weight to inflation in the pension benefit indexation formula.

Other key priorities

Improve tertiary educational outcomes

Despite some progress, tertiary graduation rates remain low, undermining human capital formation and productivity.

Actions taken: No action taken.

Recommendations: Tie access to student benefits to adequate progress in studies. Introduce and develop tuition fees in public institutions, along with student loans with income-contingent repayments, in order to encourage completion and provide higher education institutions with adequate funding while maintaining equitable access.

Reform wage bargaining

The minimum wage and public sector wages are indexed to the average wage in the manufacturing sector and growth in private sector wages, respectively. As a result, wage bargaining is insufficiently tied to overall economic conditions.

Actions taken: The minimum wage was increased by 23% in early 2010 to be implemented by 2012.

Recommendations: Abolish the indexation of public sector wages and ensure the minimum wage is indexed to inflation for a while.

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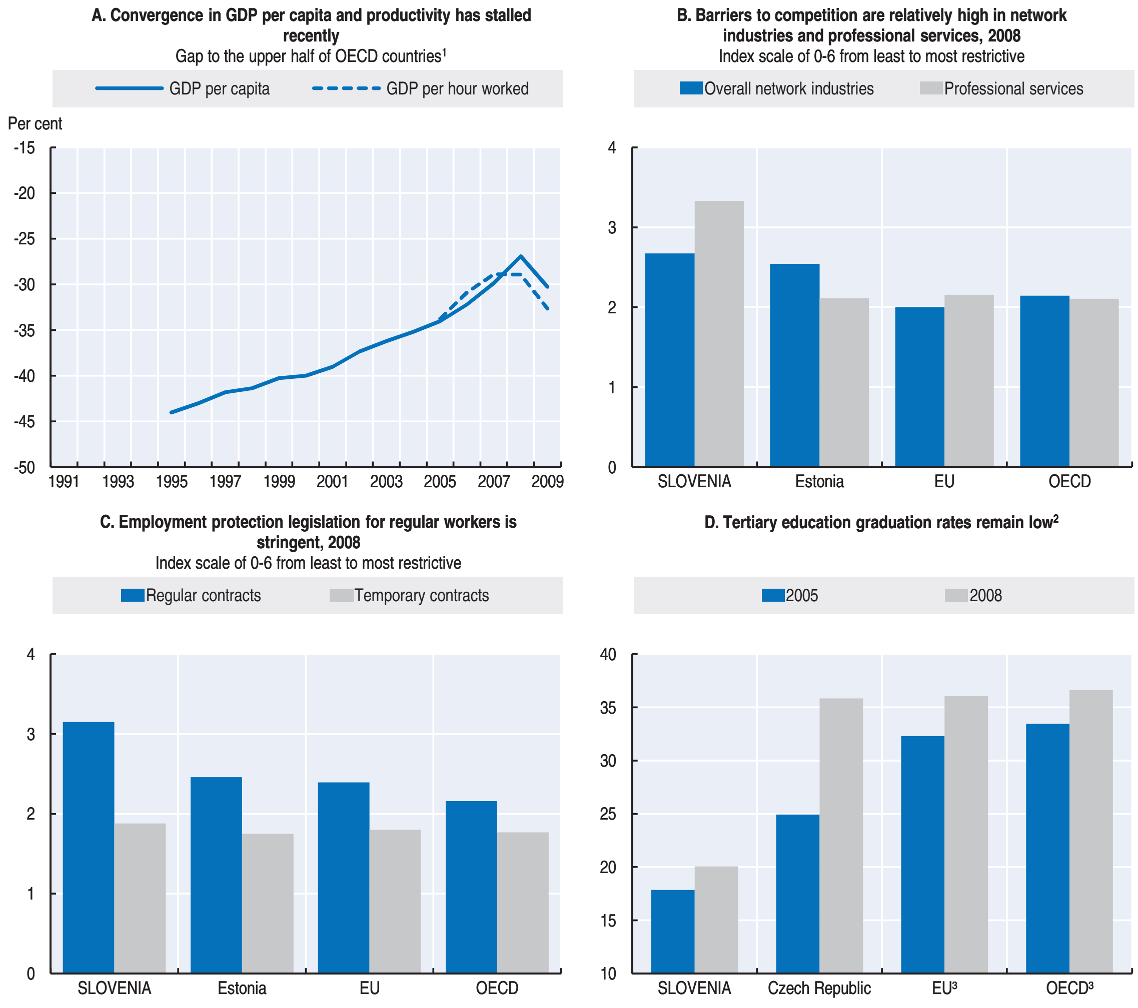
Structural indicators

Average annual trend growth rates, per cent

		1999-2009	1999-2004	2004-09
GDP per capita		3.1	4.1	2.2
Labour utilisation		. .	. .	. .
of which:	Employment rate	0.4	0.7	0.0
	Average hours	. .	. .	. .
Labour productivity[1]		2.7	3.3	2.2
of which:	Capital intensity	. .	. .	. .
	Multifactor productivity	. .	. .	. .

1. Labour productivity is measured as GDP per employee.

Source: Estimates based on OECD (2010), *OECD Economic Outlook* No. 88: *Statistics and Projections Database.*



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. First-time graduation rates for single year of age at tertiary-type A level.
3. Average of European countries in the OECD. EU and OECD averages exclude Belgium, Chile, Estonia, France and Korea.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook* No. 88 *Databases*; No. Chart B: OECD, *Product Market Regulation Database*; Chart C: *Employment Database*; Chart D: OECD (2010), *Education at a Glance.*

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