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Convergence in GDP per capita has stalled, although performance compares more favourably on the basis of current international prices. Productivity growth has increased recently, in part reflecting the downsizing of residential construction, where productivity is low, whereas labour utilisation has dropped. In the housing market, enforcement of rental contracts has improved and the tax treatment of rental and owner-occupied housing has been equalised. Progress has been made notably in the labour market area, but further reforms are needed in the following fields.

Priorities supported by indicators

Improve educational attainment in secondary education

The high school drop-out rate in lower secondary education limits pupils' labour-market prospects.

Actions taken: The government has proposed nation-wide testing of all pupils and has taken steps to facilitate the transition of academically-weak pupils from lower secondary to vocational upper secondary education. Draft legislation has been presented to parliament to adapt vocational schools' curricula to local businesses' needs and improve access of graduates to tertiary education.

Recommendations: Minimise grade repetition, including by linking the conditions for moving to higher grades more closely to core competencies. Strengthen hiring autonomy of schools with respect to hiring decisions. Evaluate vocational schools with respect to labour market outcomes of graduates and publish results.

Make wages more responsive to economic and firm-specific conditions

Wage agreements are insufficiently tailored to firm-specific conditions, raising unemployment especially in periods of economic slack.

Actions taken: The 2010 labour market reform substantially eases the conditions for firms to opt out from higher-level collective bargaining agreements.

Recommendations: Abolish the legal extension of collective wage agreements. Simplify the system of collective bargaining, giving more room for wages and other work conditions to be decided at the firm level.

Ease employment protection legislation for permanent workers

The severance pay for workers on permanent contracts is high, resulting in excessive use of temporary contracts with adverse effects on productivity and unemployment for certain population groups.

Actions taken: The 2010 labour market reform is expected to make it easier for firms to have dismissals accepted as justified, potentially reducing dismissal costs significantly. The reform also facilitates the use of permanent contracts with reduced severance pay. From 2012, employers will pay a yet to be specified part of the dismissal compensation into a fund from which the workers will be able to draw upon dismissal, retirement, training or mobility purposes. The government reform tightens the use of temporary contracts progressively between 2012 and 2015.

Recommendations: Reduce severance pay further for all new permanent contracts. Consider introducing a single contract with initially low, but moderately increasing severance payments linked to job tenure.

Other key priorities

Reduce the disincentives for older workers to continue working

High implicit tax rates on continued work contribute to a low effective retirement age. This lowers labour supply especially at a time when demographic ageing sets in.

Actions taken: After the end of the GfG priority identification process, the government and the social partners have reached an agreement on a pension reform proposal, which includes an increase of the legal retirement age from 65 to 67 years for workers with contribution records of less than 38.5 years and some lengthening of the contribution periods required for a full pension.

Recommendations: Further lengthen the contribution periods required for a full pension. Index the retirement age or other parameters to increases in life expectancy. Reduce the duration of extended unemployment benefits paid to workers before they receive an old-age pension. Abolish subsidies to partial retirement.

Ease regulation of retail outlets

Restrictive regulation of large retail outlets limits firm entry and competition in the retail trade sector.

Actions taken: The national license requirement for large surface outlets was abolished in 2010, but regional governments may still require an authorisation under overriding reasons related to public interest. The transposition of the EU services directive outlaws the use of economic criteria for licensing requirements.

Recommendations: Lower remaining regional barriers for the establishment of large-surface retail outlets.

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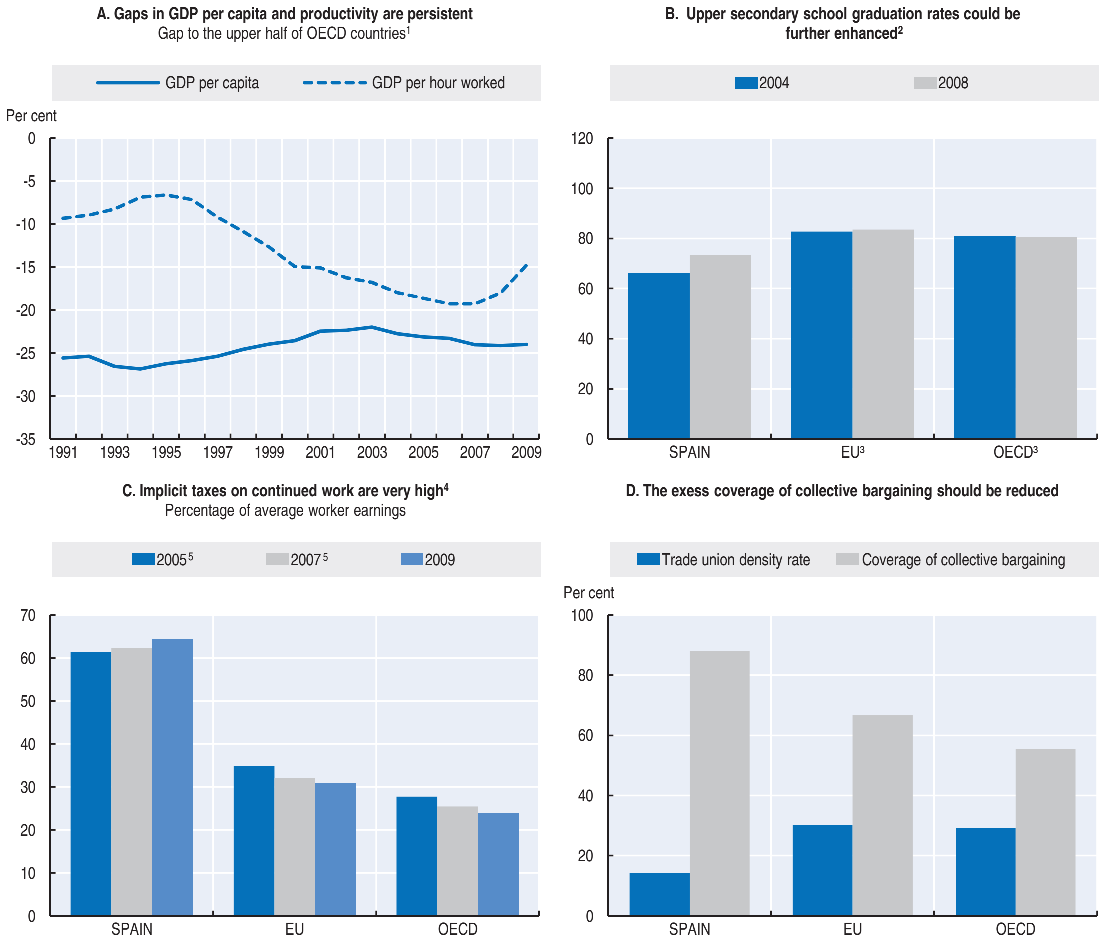
Structural indicators

Average annual trend growth rates, per cent

		1999-2009	1999-2004	2004-09
GDP per capita		1.8	2.3	1.2
Labour utilisation		0.9	1.7	0.1
of which:	Employment rate	1.3	2.1	0.5
	Average hours	–0.4	–0.4	–0.4
Labour productivity		0.9	0.6	1.1
of which:	Capital intensity	1.2	1.0	1.3
	Multifactor productivity	–0.3	–0.4	–0.2

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 upper secondary level.
3. Average of European countries in the OECD. EU and OECD exclude Australia, Austria, Belgium, Estonia, France and the Netherlands.
4. Implicit tax on continued work in early retirement route, for 55 and 60-year-olds.
5. Average of European countries in the OECD. EU and OECD exclude Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook* No. 88 *Databases*; Chart B: OECD (2010), *Education at a Glance*; Chart C: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economics Department Working Papers*, No. 370 and OECD calculations; Chart D. *Employment Outlook Database*.

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