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- The closing of the income and productivity gaps relative to the upper half of OECD countries has stalled since 2008. The income gap reflects a large productivity shortfall, while there is also room for raising labour utilisation.
- Much has been done to ease product market regulation and job protection, while less progress has been achieved in reducing the high labour tax wedge and enhancing the education outcomes.
- Reforms of the tax-benefit system to foster female labour force participation as well as job creation would raise labour utilisation. Improving the quality and the equity of the education system would promote human capital accumulation. Public support to research and development (R&D) should be made more efficient in view of increasing the pace of innovation.
- Providing a more equitable secondary education system would boost employment of low-skill workers and contribute to further reduce inequality. Shifting the tax structure towards environmental taxation could help promote sustainable growth.

Growth performance indicators

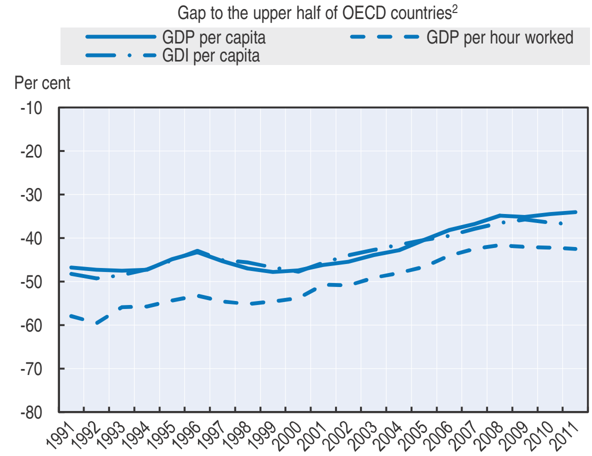
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		3.3	2.0
Potential labour utilisation		-0.2	0.0
of which:	Labour force participation rate	-0.3	-0.2
	Employment rate[1]	0.1	0.2
Potential labour productivity		3.5	2.0
of which:	Capital intensity	0.9	1.0
	Labour efficiency	2.4	0.9
	Human capital	0.2	0.1

B. Convergence of income and productivity levels has recently stalled

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/10.1787/888932776238

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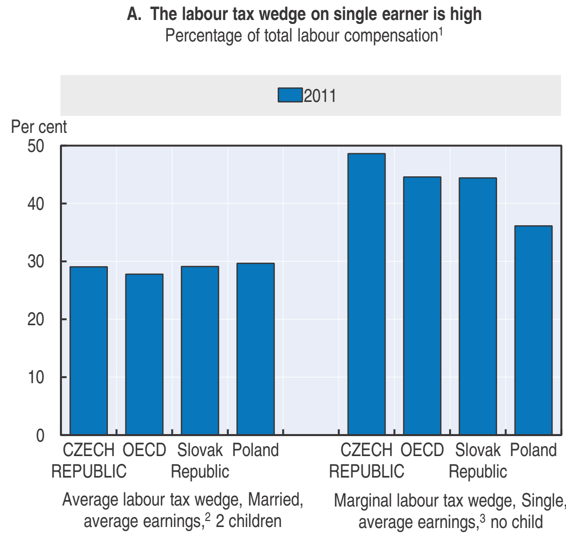
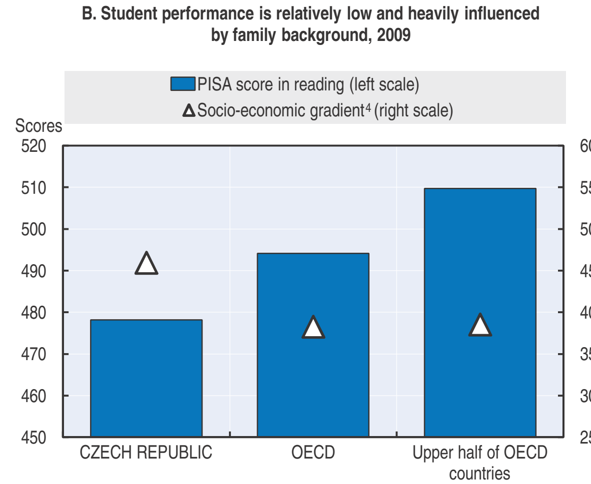
Policy indicators





1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
3. At 100% of the average worker earnings.
4. Defined as the estimated coefficient from the single bivariate regression of PISA reading performance of all participating students on their corresponding index of economic, social and cultural status (ESCS) and measured by the change in the reading score per unit of the socio-economic index. The average of the socio-economic gradient shown in the chart refers to the upper half of OECD countries in terms of PISA scores.

Source: OECD, *Taxing Wages* and *Education at a Glance Databases*.

StatLink http://dx.doi.org/10.1787/888932776257

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

***Strengthen policies to support female labour force participation*.**[1] Raising female labour force participation would foster economic growth.

Recommendations: Reduce the implicit tax on returning to work for single parents and households' second earners by raising public expenditures on childcare services. Support earlier return of parents with children to the labour market by promoting flexible working arrangements. Decrease the duration of combined maternity and parental leave to two years.

Reform the tax system. A high tax wedge on labour income can have adverse employment effects.

Actions taken: VAT rates have been increased with unification planned for 2016. Temporary tax hikes for top earners and a percentage point increase in property taxes are in the legislative process.

Recommendations: Lower the average labour tax wedge for low income earners and increase the progressivity of the tax system. Shift the tax burden from direct to less

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

distorting taxes by increasing environmental and immovable property taxation while linking the latter to actual market prices.

Enhance education outcomes. A more equitable education system would help to raise employment rates among low-skill workers.

Actions taken: No significant actions taken in recent years to address the continuous deterioration in average student performance over the last decade. A reform of tertiary education aiming at improving quality and diversification of universities and introduction of tuition fees along with a new system of financial assistance for students is still under discussion.

Recommendations: Phase out streaming at the age of eleven and avoid elitism in secondary education. Raise incentives to attract and retain high-quality principals and teachers in schools with low social and economic status, enhance schools' accountability. Implement the proposed tertiary education reform.

Other key priorities

Improve efficiency in public procurement. More efficient public procurement practices support productivity while preserving fiscal objectives.

Actions taken: A reform of the act on public tenders to increase transparency and competition by improving access to small tenders and tightening publication requirements for major public procurements, has been adopted in 2012.

Recommendations: Ensure adequate support for the development of e-government services that are particularly important in public procurement procedures.

****Raise effectiveness of public R&D expenditure****. Relatively high public R&D expenditure does not translate into strong innovation outcomes.

Recommendations: Reinforce industry-science linkages by strengthening cooperation between public and private research in line with past reforms, continue the shift from public R&D spending on institutions towards competitively-awarded project funding, expand the evaluation of public R&D spending effectiveness including for R&D tax expenditure, and reinforce international collaboration in R&D.

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

Reduce barriers to business entry. Considering the adverse impact of barriers to business entry on job creation and productivity growth, it was recommended to reduce minimum capital requirements for business start-ups and to reduce the cost of judicial proceedings for contract and bankruptcy enforcement.

Actions taken: Several amendments to the acts on business corporations, trade licensing, insolvency and protection of competition have been adopted in 2012 in order to ease business entry, reduce the administrative burden on entrepreneurs, improve firm management and expose cartel agreements.

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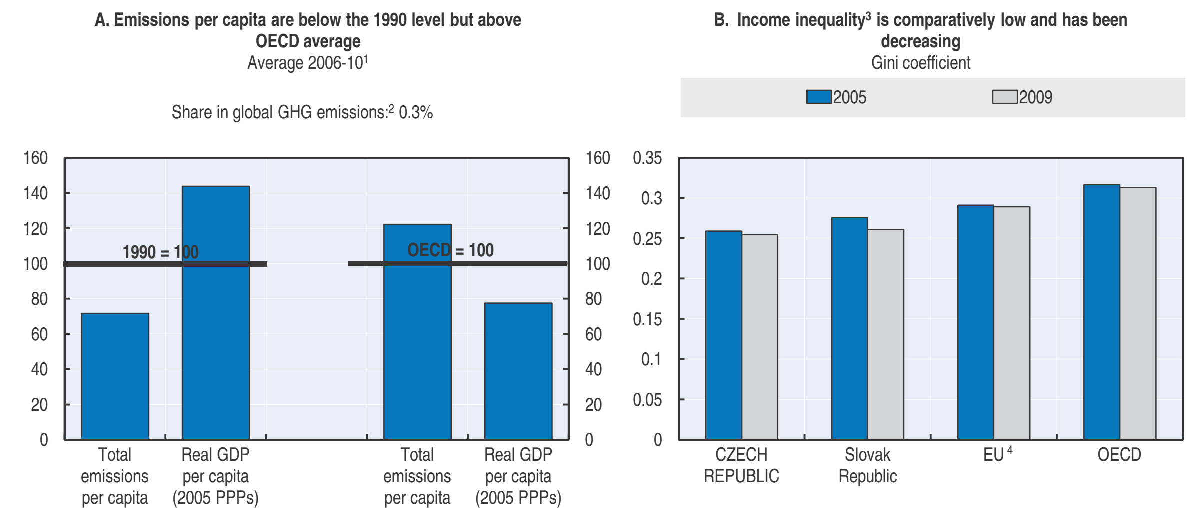
Relax employment protection legislation. Given that overly strict employment protection legislation on regular workers discourages businesses from hiring them, it was recommended to relax associated regulations, notably by linking severance pay and the notice period to job tenure as well as by easing dismissal procedures.

Actions taken: In 2012, amendment of the labour code linked severance pay to job tenure, enabled employers to condition severance payment on a judicial decision, extended the trial period for managerial employees, and increased the maximum length of a fixed term employment from two to three years.

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/10.1787/888932776276