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- The persistently wide gap in GDP per capita relative to the upper half of the OECD is driven primarily by a low level and growth rate of labour productivity.
- The 2011 competition policy reform has reduced the scope for anti-competitive behaviour but further action is needed to overcome remaining barriers to entry. Significant reforms have also been implemented to boost formal employment and raise educational outcomes, yet they remain priority areas. No progress has been achieved in reducing the very high barriers to foreign direct investment.
- Raising educational achievement and reducing job informality is needed to boost productivity and improve labour market performance. Reducing barriers to foreign direct investment and lowering entry barriers in network industries would also help to stimulate investment and further strengthen competition. More broadly, legal institutions need to be improved to provide a more supportive environment for businesses.
- In addition to boosting productivity, improving primary and secondary educational achievement outcomes would foster human capital accumulation and reduce the degree of earnings inequality. Labour and product market reforms to promote formal employment could help to improve equity.

Growth performance indicators

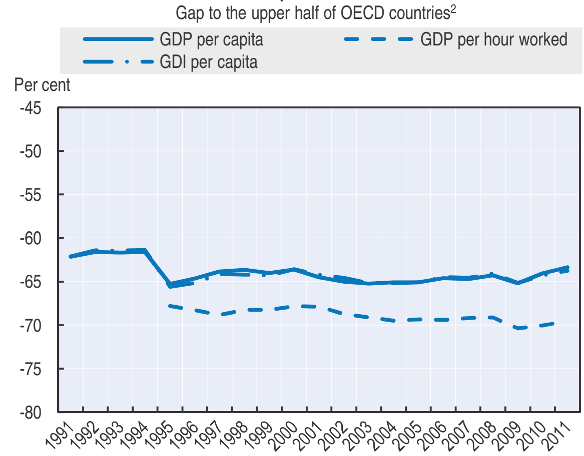
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.4	0.6
Potential labour utilisation		-0.2	0.0
of which:	Labour force participation rate	-0.1	0.2
	Employment rate[1]	-0.2	-0.2
Potential labour productivity		0.6	0.6
of which:	Capital intensity	0.8	1.0
	Labour efficiency	-0.9	-0.9
	Human capital	0.6	0.5

B. Gaps in GDP per capita and productivity are wide and persistent

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/10.1787/888932777264

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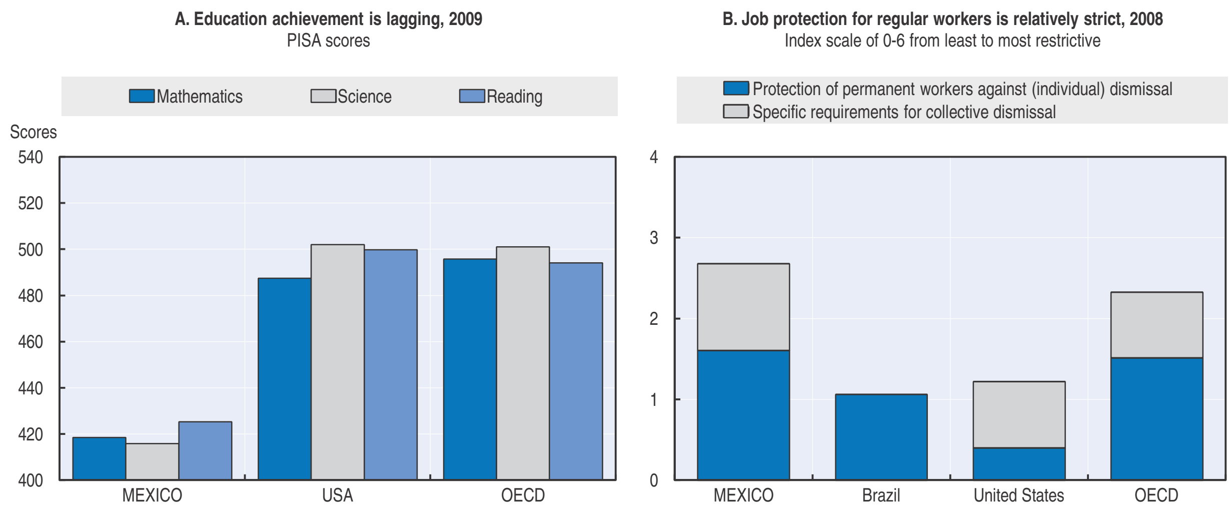
Policy indicators



Source: OECD, *PISA 2009 and Employment Databases.*

StatLink http://dx.doi.org/10.1787/888932777283

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Raise education achievement. Low educational enrolment and quality limit productivity gains and contribute to high inequality.

Actions taken: Reforms have been introduced over the past two years to establish competency-based standards for student achievement based on a national assessment. Teacher and school leadership standards have been enunciated. Most states are now allowing competition in teacher selection.

Recommendations: Apply national standards for primary and secondary teacher performance, introduce a teacher evaluation system, and professionalise the training and selection of principals. Provide schools with reliable financing through a more efficient allocation of resources.

****Reduce job protection on formal contracts****.[1] Institutional rigidities in the labour market hurt productivity growth and aggravate informality, harming equity.

Recommendations: Reduce hiring and firing costs for regular workers, and ease restrictions on shorter-term contracts. Simplify labour court procedures and make their outcomes more predictable.

Reduce barriers to foreign direct investment. Barriers to foreign direct investment in services and infrastructure are among the most stringent in the OECD, harming trade, investment and technological upgrading.

Actions taken: No action taken.

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

Recommendations: Relax foreign equity restrictions in transport, media and fixed-line telecom, as well as in financial services.

Other key priorities

Improve the rule of law. Weaknesses in the legal system hurt the efficacy of contracts and the security of property rights, reducing firm size and investment.

Actions taken: Seven additional states have begun to implement judicial procedural reforms that make use of oral trials since 2010, but major efforts are still needed in the lagging states. Only the federal government and the Federal District have started to implement the new civil law procedures.

Recommendations: Improve the accountability and professionalism of the judicial sector. Further promote state-level implementation of the 2008 constitutional amendments that revamped the framework for penal justice, and the extension of these to civil cases that began in 2011.

Reduce barriers to entry and competition. Anti-competitive product market regulation hampers productivity and formal employment. Costly registration procedures and lack of contestability in key network sectors drag on growth.

Actions taken: A set of reforms to centralise business entry procedures under a single ministry are being carried out and have already helped simplify new business approval, reduce the required fees and eliminate minimum capital requirements. A 2011 Supreme Court decision limited the ability of telecom companies to ignore rulings of the regulator while challenging them in court, and has given more weight to the public interest in *amparo* rulings.

Recommendations: Reduce barriers to entrepreneurship and start-ups to promote formal sector employment. Further reduce barriers to entry operation in multiple network sectors. Relax restraints to private investment in the national oil company, PEMEX, and improve its governance.

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

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

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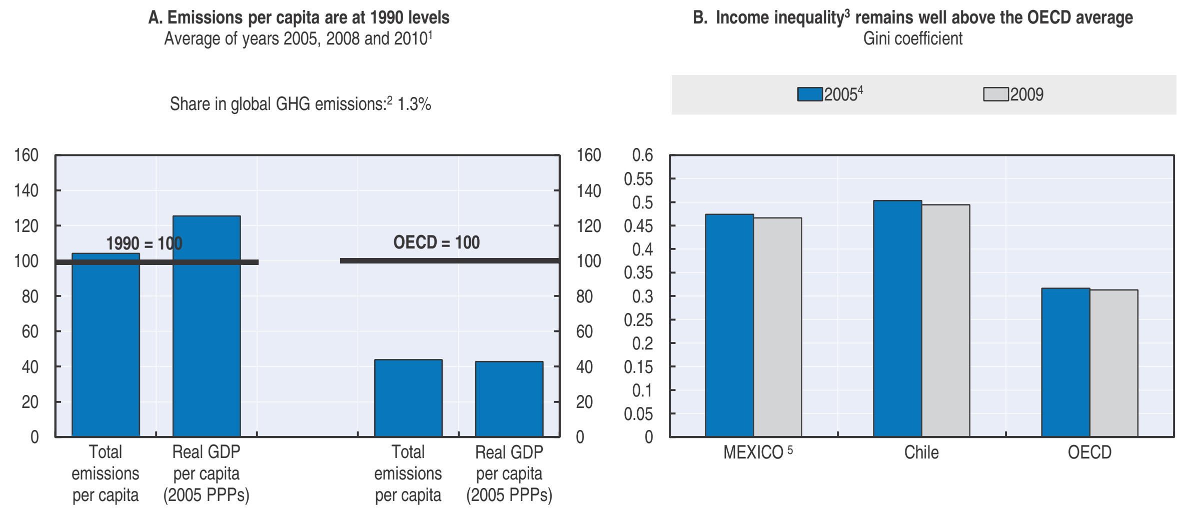
Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using 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. Data refer to 2006 for Chile.
5. Data refer to 2004 and 2010.

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/10.1787/888932777302