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GDP per capita has converged towards the OECD average but the gap remains substantial because of large shortfalls in both labour utilisation and productivity levels. Some progress has been made to encourage labour supply in recent years, but more efforts are needed, notably in the following areas.

Priorities supported by indicators

Reduce the tax wedge on labour income

The average tax wedge on single earners and one-earner households are among the highest in the OECD, reflecting high social charges for employers. This reduces the demand for labour and encourages under-reporting of economic activities.

Actions taken: Recent government initiatives aim at reducing effective taxes on low-income workers. In particular, the government has introduced employment-conditional tax credits that lower the effective marginal tax rate for this group.

Recommendations: Lower tax wedges over the medium run by reducing social charges and finance the reduction by maintaining the momentum of public spending cuts, in particular addressing social transfers and subsidies, as well as through further efforts to raise the efficiency of government services. To improve net income of low-wage workers, continue efforts to replace tax allowances and deductions with earned-income tax credits.

Reduce disincentives to withdraw early from the labour force

The availability of disability benefits, though not initially intended to provide retirement income, has ended up discouraging continued work by older workers, thus contributing to the observed upsurge in early retirement. This problem is compounded by the possibility of retiring via unemployment benefit schemes.

Actions taken: Legislation implemented in early 2008 strengthens incentives to work by increasing the emphasis on rehabilitation when assessing the extent of disability. A 2008 amendment makes the criteria for early retirement considerably more stringent, initially raising the contribution years for eligibility in early retirement programs, effective in 2009, and abolishes the early retirement option that allows individuals to retire on a full pension from 2013 onward. No action has been taken that would reduce the possibility of retiring via unemployment benefit schemes.

Recommendations: Support the emphasis on rehabilitation by tackling administrative bottlenecks in the job placement system. Encourage continued work of older workers by raising the standard age of retirement and through further adjustment of pensions for early and late retirement.

Ease business regulations

High administrative burdens on enterprises discourage entrepreneurship, hindering productivity growth. Special requirements restrict entry in professional services and retail trade. In network industries, incumbents still have excess market power in some instances.

Actions taken: Recent actions in the energy sector have focused on promoting vertical separation and reducing price subsidies for household consumption. In 2007, the government privatised the national airline company, and in 2008, it launched the privatisation of the rail freight segment of the national railway company.

Recommendations: Simplify entry and exit procedures and reduce statutory regulations of retail trade and professional services. Further limit state involvement in the operations of network industries by reducing price controls. Lift remaining constraints preventing freedom of choice between telecommunications service suppliers as a means to strengthen competition in that sector.

Other key priorities

- **Education system.** Make the education system more efficient and equitable, postponing early tracking of students and reforming teacher education and training, while also addressing incentive problems in their pay scales. Strengthen vocational training by making it more relevant for the labour market and providing career guidance to students on the range of programmes available as well as their respective outcomes. Introduce university study fees accompanied by student loans with income-contingent repayments.

- **Public sector efficiency.** Promote more efficient ways to manage public spending by bringing forward programmes to modernise public administration as well as to ensure cost-efficient delivery of services. At the local level, foster collaboration between municipalities by providing more effective incentives to exploit economies of scale. Also, facilitate the monitoring and evaluation of goal achievement by public administrations.

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Structural indicators

Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	4.2	4.7	3.8
Labour utilisation	0.8	1.3	0.4
of which: Employment rate	1.0	1.3	0.7
Average hours	−0.1	0.0	−0.3
Labour productivity	3.4	3.3	3.5
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

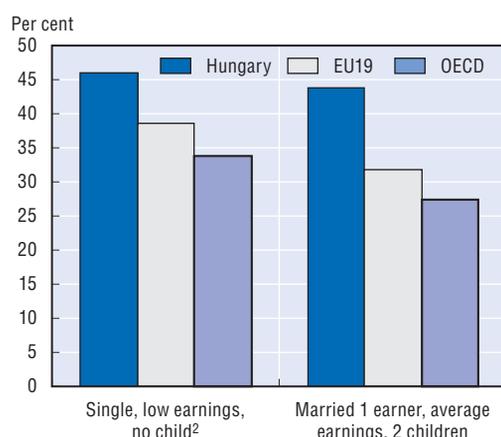*Source:* Estimates based on *OECD Economic Outlook*, No. 84, Vol. 2008/2.

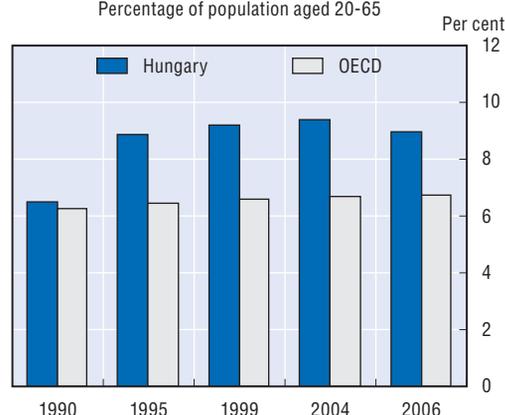**A. Gaps in GDP per capita and productivity are narrowing but remain large**
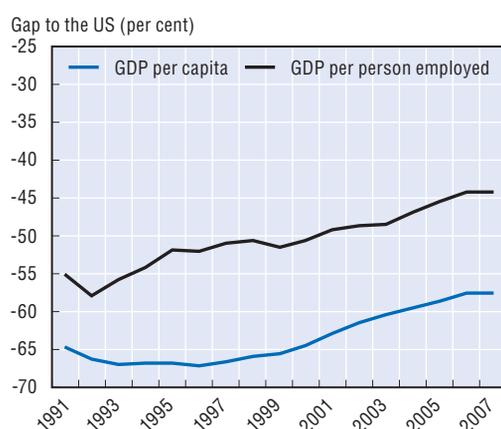
B. The employment rate of older workers is very low, 2007
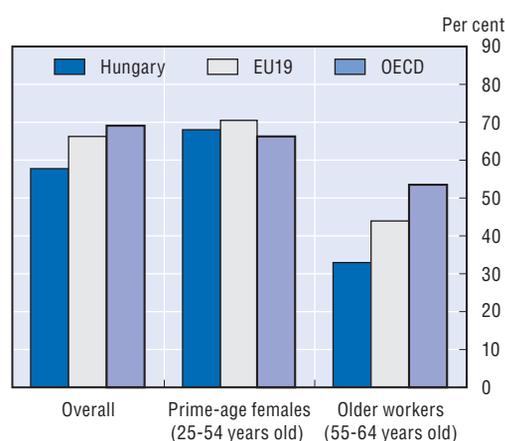
C. Average tax wedges are relatively high, 2007

D. The share of working-age population receiving disability benefits remains high[3]

Percentage of population aged 20-65

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).
2. Low earnings refer to two-thirds of average earnings.
3. Disability benefits include benefits received from schemes to which beneficiaries have paid contibutions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.

Source: Chart A: OECD, *National Accounts Database*; Chart B: OECD, *Labour Force Statistics Database*; Chart C: OECD, *Taxing Wages Database*; Chart D: OECD (2003), *Transforming Disability into Ability* and OECD estimates.

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