

Social spending stays at historically high levels in many OECD countries

www.oecd.org/social/expenditure.htm

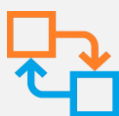
Key Facts



Since 2009, public social spending has been around 21% of GDP on average across the OECD.



Pensions and health expenditures account for two-thirds of public social spending in OECD countries.



Countries spending more on the working-age population tend to have lower levels of income inequality.



Private social spending (11% of GDP in the US) and taxation of benefit income and its consumption (8% of GDP in Denmark) are key features of tax/benefit systems in many OECD countries.

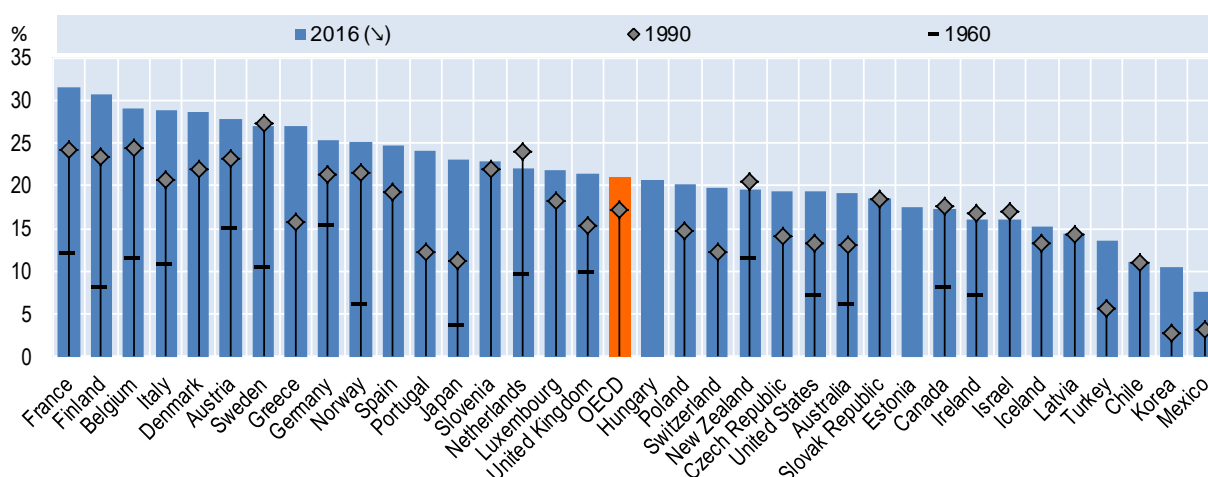
Public social spending remains high across OECD countries

Following the Great Recession, public social spending rose to just over 21% of GDP in 2009, and the OECD average has stabilised at this historically high level. Public social spending-to-GDP ratios are highest at just over 30% of GDP in Finland and France, but Austria, Belgium, Denmark, Germany, Greece, Italy, Norway and Sweden also devote more than a quarter of their economic resources to public social protection. In contrast, countries such as Chile, Korea, Latvia, Mexico and Turkey, spend less than 15% of GDP

on public social support. As the spending data in Figure 1 illustrate, it takes some time for mature social protection systems to develop. In many European countries, Australia, Japan and the United States social systems have expanded over the past 50 years into the comprehensive state they are in now. Although still relatively low in international comparison, over the past 25 years the public social expenditure to GDP ratio doubled in Mexico and Turkey and quadrupled in Korea.

Figure 1. Public social spending is worth 21% of GDP on average across the OECD

Public social expenditure as a percent of GDP, 1960, 1990 and 2016



Note: Estimated for 2016, on the basis of national sources for non-European OECD countries, OECD (2016), *OECD Economic Outlook*, No. 99, as in June 2016 and EC DG ECFIN (2016), the European Union's *Annual Macro-economic Database* (AMECO) as in May 2016. For detail on the underlying methodology regarding estimates for recent years, see Adema, W., P. Fron and M. Ladaïque (2011), "Is the European welfare state really more expensive? Indicators on social spending, 1980-2012 and a manual to the *OECD Social Expenditure Database* (SOCX)", *OECD Social, Employment and Migration Working Papers*, No. 124, www.oecd.org/els/social/expenditure.htm.

Instead of 2016, data for Mexico refer to 2012, 2013 for Turkey and 2015 for Canada, Chile and New Zealand. Data for Chile, Israel and Slovak Republic refer to 1995, for Slovenia to 1996, and for Latvia to 1997 instead of 1990. Data for 1960 are only available for Australia, Austria, Belgium, Canada, France, Finland, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, United Kingdom and United States.

Source: OECD (2016), *OECD Social Expenditure Database*, www.oecd.org/social/expenditure.htm.

Pensions and health are the largest areas of public social spending

Social protection covers a range of contingencies; in terms of spending, public outlays on old-age and survivors constitute the largest social policy area, at just above 8% of GDP on average across the OECD (Figure 2.A). There is great variety across countries in pension spending which to some extent is related to differences in the age structure of populations, the number of senior citizens who have access to pensions and their payment rates. For example, public spending on pensions in Portugal accounted for 14% of GDP in 2013 while it was only 1.8% of GDP in Mexico. To some extent this is explained by Mexico being a relatively young country with more workers per senior citizen, but also because most Portuguese seniors receive a pension compared to less than half of older people in Mexico.

Japan has a similar age structure to Portugal and most Japanese seniors receive a pension. But there are differences in pension systems. In Portugal public spending on pensions is 4 percentage points of GDP higher than in Japan. However, Japan has a greater reliance on private pensions: private pension spending amounted to

3.4% of GDP in Japan compared to 0.6% in Portugal (see the last section of this brief).

Public expenditure on health is the second largest social spending area (Figure 2.A). On average across the OECD, public expenditure on health has increased from 4% in 1980 to 6% of GDP in 2013/14. This increase was related to various factors including rising relative health prices and the cost of medical technology, and also an increase in the proportion of the elderly population (*OECD Health Statistics 2015*).

Other areas of social policy spending are much smaller. Public spending on family benefits and incapacity-related benefits (disability and sickness payments) made up 2.1% of GDP on average across the OECD in 2013/14. Spending on labour market policies averaged at 1.4% of GDP (Figure 2.A). This includes 0.9% of GDP on unemployment benefits, and 0.5% on active labour market policies (ALMP). Similarly, public spending on housing and other social policy contingencies amount to half a percent of GDP each, on average across the OECD.

Spending trends and policy experiences vary across social policy areas and countries

Economic trends affect social spending, most directly in the area of labour market policy. The economic recovery is gradually translating into an employment recovery, and public spending on labour market policies actually fell since 2009 as spending on unemployment compensation declined after the crisis (Figure 2.B – data by country underlying the overall trends are available online on the [online on the OECD Social Expenditure Database](#)). Nevertheless, around two-thirds of the 35 OECD countries have yet to regain their pre-crisis employment rates. The jobs gap remains largest in Greece, Ireland and Spain: in the latter two countries spending on unemployment compensation remained highest at over 2% of GDP (*OECD Employment Outlook 2016*). Public spending on unemployment benefits can also decrease because the entitlement of jobless persons to unemployment benefit has run out forcing them to draw on lower paid social assistance benefits (as for example, can be seen from the [spending data at programme level](#) for France and Spain). Continued demand for social assistance support has kept real annual growth of spending on “other” social contingencies around 3% (Figure 2.B).

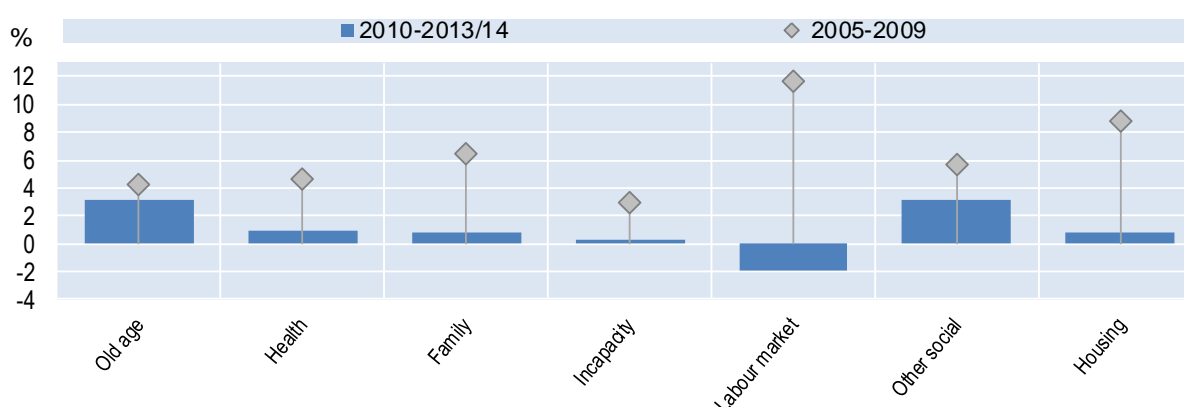
The economic crisis has also affected demand for affordable housing, while at the same time fiscal space for housing support remained tight. This helps to explain the overall stability in public spending on rental assistance at 0.4% of GDP on average across the OECD (Figure 2.A). The most notable deviations from this pattern are related to fiscal consolidation-induced cutbacks in spending in Greece, Hungary, Portugal and Spain. By contrast, public expenditure on support with housing costs grew fastest in real terms in the Czech Republic and Ireland, related to the 2010 introduction of mortgage assistance payments for jobless owner-occupiers in Ireland.

Figure 2. Pensions and health are the main spending areas, but growth has slowed down since the crisis

A. Public social expenditure by broad social policy area, as a percent of GDP, in 2014 or latest year available
OECD average



B. Average annual growth rate in real public social spending by category, 2005-2009 and 2010-2013
OECD average



Note: Data for Australia, Canada, Chile, Israel, Korea, New Zealand refer to 2014, they refer to 2012 for Greece and Poland, 2011 for Mexico otherwise they refer to 2013. Old age refers to "old age and survivors" and labour market refers to "unemployment and active labour market programmes". Data for the period 2005-2009 refer to the average of each annual growth rate from 2005 (ie. 2004/05) to 2009 (i.e. 2008/09).

Pensions

Figure 2.B clearly shows that the slowdown in social spending was weakest in the "pensions area". Over the 2010-2013/14 period, public expenditure on pensions kept increasing in real terms in all but two OECD countries: Estonia, where increases in nominal spending were outpaced by inflation rates (as consumer prices increased on average by 2.9% over 2010-2013 compared to 1.8% in the OECD area; *OECD Economic Outlook 2016*) and Poland, where early retirement benefits were cut and standard retirement ages have started to increase (reforms introduced after 2014 do not affect spending trends in Figure 2). The upward pension-spending trend is related to an increasing number of people retiring and their increased life expectancy on average. Furthermore, there is a growing number of retiring women with higher lifetime earnings, leading to greater pension entitlements and payouts than in the past, even though gender pension gaps remain substantial (*OECD Pensions at a Glance 2015*).

Across OECD countries, various measures were introduced to slow the increase in pension spending over the 2010-2013 period, including an often gradual increase of retirement ages (Australia, Belgium, the Czech Republic, Greece, Hungary, Italy, Poland and Spain), the tightening of access and/or reduced generosity of early retirement schemes (Belgium, Canada, Greece, Poland and Portugal), (temporarily) reduced increases in pension payments by changing the indexation rules (e.g. the Czech Republic), and abolition of additional payments, such as 13th (Hungary) and 13th and 14th pension months in Portugal (*OECD Pensions at a Glance 2013*).

A number of countries (Austria, Greece, the United Kingdom and the United States) introduced one-off payments for retirees in 2009. New means-tested social safety-net benefits for the elderly were introduced, for example, in Chile, Finland, Greece and Mexico, while Australia and Spain enhanced existing safety-net provisions for

some or all low-income elderly (*OECD Society at a Glance 2014*). In 2014, Korea introduced a new basic pension programme to provide a stable income stream for poor senior citizens.

Health

In most social policy areas other than pensions, average spending growth since 2009 has been limited to less than 1% per annum. The long-term trend of strong growth in public health expenditure came to a halt with the crisis. Since 2009, public spending on outpatient care and long-term care has continued to grow by 2-3% per annum on average across the OECD, but spending on pharmaceuticals and health prevention actually declined (*OECD Health Statistics 2015*). In line with fiscal consolidation measures, real health spending was substantially reduced (around 3% or more per annum) over the 2010-2013/14 period in Greece, Ireland, Latvia, Portugal and Spain. Spending cuts concerned pharmaceuticals, hospital care or out-patient care and increased out-of-pocket payments. Similarly, while national levels of social spending on incapacity-related benefits (disability and sickness benefits) remained stable, the crisis led to the most pronounced declines in spending on such benefits in Greece and Hungary.

Only three countries – Israel, Japan and Mexico – recorded higher annual average growth in public health spending than pre-crisis. In all three countries hospital care spending increased, with additional increase in out-patient care (Mexico and Japan) and long-term care supports in Japan with its ageing population. Chile and Korea are the only countries with annual average growth rates in health spending in excess of 5% since 2005, which in Korea is also related to the expansion of coverage of the long-term care system.

Family supports

On average across countries, family benefit spending trends are in line with health spending trends. Since 2009 falls in spending on family benefits were most pronounced in Greece, Latvia, Portugal and Spain, where fiscal consolidation reforms reduced family and child allowance payments, and in Latvia and Portugal where it led to cuts in income support during parental leave.

However, many countries managed to safeguard spending on families. In fact, spending on family benefits increased by at least 2% per annum since 2005 in Australia, Germany, Israel, Luxembourg, Poland, the Slovak Republic, Sweden and Switzerland. The largest growth rates in family benefit spending materialised in Japan, Mexico, Turkey and Korea, where such spending is well below the OECD average.

Mexico and Turkey increased public spending on children both on cash benefits and investment in early childhood education and care (ECEC). In ten years, participation rates of 3-5 year-olds increased by 20 percentage points in Turkey to 30% and by 40 percentage points to 90% in Mexico in 2013/14, which is remarkable given that both these countries have a relatively large share of young children in their population.

By contrast, in Japan and Korea where total fertility rates are very low, the numbers of children are falling. Nevertheless, spending on family benefits is going up. This is driven by the policy objective to reduce barriers to having children and support parents with both the cost of children and help them reconcile work and care commitments. In Japan, the recent spending increase is largely due, since 2010, to increasing child benefit eligibility to all children aged under 16 (it was an income-tested benefit for children up to 12 years of age) and increased payments rates.

Korea has no universal child benefit, and the large annual increase in spending on family benefits is related to increased spending on parental leave payments, but mostly driven by the rapid development of a comprehensive ECEC system. The enrolment rate of children aged 0-2 increased from 4% in 2002 to 36% in 2014 and for children aged 3-5 increased from 31% in 2005 to 92% in 2014. In July 2009, a child allowance for home care was introduced for households with children who do not use formal ECEC services. As with formal childcare supports, in 2013, income-related eligibility criteria were abolished, so that Korea now has a universal programme of public assistance for home or centre-based care for all pre-school aged children, regardless of household income level.

How is social support redistributed across income groups?

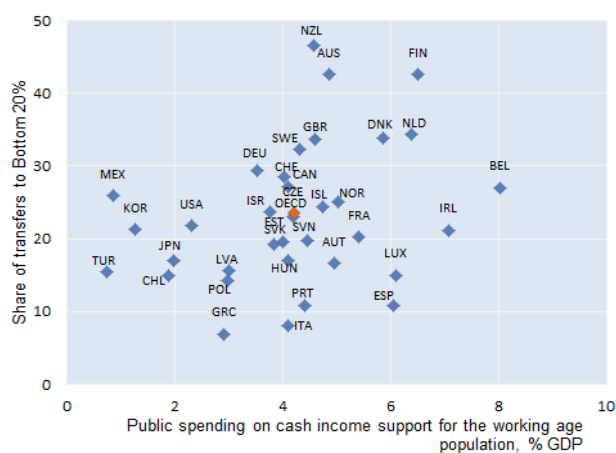
Social support is not necessarily provided to households because they are poor. For example the level of pension payments to retirees is often related to their past earnings. Similarly, the level of social insurance payments (e.g. unemployment or disability) is generally related to earnings levels. Child benefits are often universal and not income dependent. By contrast, eligibility to social assistance type benefits aimed at poor households is determined by an income and/or means test.

The extent to which social support goes towards low-income households depends on the prevailing mix of insurance-type and assistance-type benefits within national social protection systems. Figure 3.A shows the share of public social cash benefits (excluding pensions) going to the poorest quintile of working-age households (y-axis) as well as the share of public social expenditure on cash income support to the working-age households as a percentage of GDP (x-axis). The nature of social systems varies greatly among countries with Australia, Finland and New Zealand getting more than 40% of public cash transfers for the working-age to the poorest households. By contrast this is 10% or less in Greece, Italy Portugal and Spain, where social insurance type payments are more dominant in overall spending on income support for the working-age population.

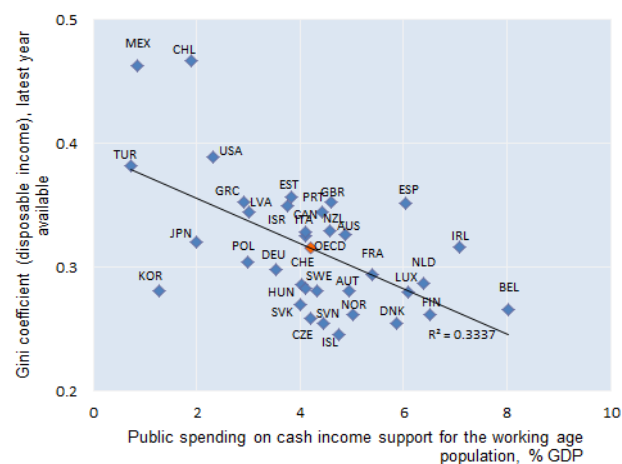
Figure 3.B relates spending on cash transfers to the working-age population to income inequality in countries [The Gini coefficient takes values between 0 (where every person has the same income, i.e., low inequality), and 1 (where all income goes to one person, i.e., high inequality)]. Not surprisingly, countries that have both relatively high levels of social spending on the working-age population and which are relatively successful in reaching low-income households tend to have less income inequality among the working-age population (e.g Denmark, Finland and the Netherlands). On the other hand, in countries such as Chile and Mexico, informal employment is more widespread, leaving many households without access to social support. Only a small proportion of workers has access to work-related social support, spending on cash transfers to working-age households is low, and income inequality is high. Relating public spending on pensions to income equality shows a much weaker relationship (figures available online). Pension payments are often related to past earnings, and as a result, the proportion of pension spending that goes to the bottom 20% of the population over 65 ranged from 10-20% in most OECD countries in 2013. Figure 3.A shows that in some countries almost half of the income support to the working-age population goes to the bottom 20% of working-age households.

Figure 3. Countries spending more on the working-age population tend to have lower levels of income inequality

A. Percentage of public social benefits in cash paid to the lowest quintiles and social expenditures as % of GDP, working-age population, 2013



B. Public spending on cash income support to the working-age in % of GDP and Gini coefficient of disposable income, working-age population, 2013



Note: The working-age population refers to 18-65 year-olds. Lowest/highest quintile is defined as 20% of the population living the lowest/highest equivalised disposable income. Data refer to current transfers received from public social security. Values of the Gini coefficient range from 0 in the case of "perfect equality" (each person receives the same income) and 1 in the case of "perfect inequality" (all income goes to the person with the highest income). Measure of income inequality is based here on people's household disposable income – post-taxes and social transfers.

When private social expenditures and tax systems are included, total spending differences diminish across countries

Private social expenditure

Private social expenditure concerns social benefits delivered through the private sector (not transfers between individuals) which involve an element of compulsion and/or inter-personal redistribution, for example through pooling contributions and risk sharing in terms of health and longevity. In 2013, private social spending totalled, on average, 2.7% of GDP across the OECD. Private social spending plays the most important role in the United States where it amounted to almost 11% of GDP, while it ranged from 6-8 % of GDP in Iceland, the Netherlands and Switzerland.

Pensions constitute an important part of both public and private social expenditure. Private pension payments can derive from mandatory and voluntary employer-based (sometimes occupational and industry-wide) programmes (e.g. in the Netherlands or the United Kingdom), or tax-supported individual pension plans (e.g., individual retirement accounts in the United States). In 2013, private pension benefit payments were around 3-4% of GDP in Canada, Iceland, Japan and Sweden, around 5% of GDP in Denmark, Switzerland, the United Kingdom and the United States, and highest in the Netherlands at around 6% of GDP.

Private social benefits are much less likely to concern cash transfers to the working-age population. In terms of spending, sickness and disability-related benefits were highest in Iceland at around 2% of GDP and in Austria, France, Germany, the Netherlands, Norway and Switzerland where they amounted to 1% of GDP. Private social spending also includes social services and benefits provided by non-governmental organisations (NGOs) to those most in need, but such outlays are often not centrally recorded, and relevant spending is under-reported in the *OECD Social Expenditure Database*.

Individual out-of-pocket spending on health services is not regarded as social spending, but many private collective health insurance plans across the OECD involve pooling of contributions and risk sharing across the insured population. On average across the OECD, such private social health expenditure amounted to 0.6% of GDP in 2013. It was 1.5% of GDP in France and 1.2% of GDP in Chile, but across OECD countries private health insurance is highest in the United States where it amounted to 5.8% of GDP. When private health spending in the United States is added to public spending on health (8% of GDP) and the value of revenue foregone on tax breaks on health premiums (just over 1.2% of GDP), total social health spending in the United States amounted to

over 15% of GDP in 2013 – 5 percentage points higher than in France, which is the second biggest “health spender” among OECD countries.

Impact of tax systems

Tax systems can affect social spending in three different ways:

1. Governments can levy direct income tax and social security contributions on cash transfers to beneficiaries. In 2013 the Danish Government clawed back almost 5% of GDP through direct taxation of benefit income, and tax levied over benefit payments also exceeds 3% of GDP in Finland, Italy, the Netherlands and Sweden.

2. Government also levy indirect taxation on consumption out-of-benefit income and on average across the OECD this was worth 2% of GDP in 2013. Tax rates on consumption are often considerably lower in non-European OECD countries where tax revenue on consumption out-of-benefit income often amounts to less than 1% of GDP. In Europe, relevant tax revenue ranges from 1.6 to 3.8% of GDP.

3. Governments can also use so-called “tax breaks with a social purpose” (TBSP) to directly provide social support or with the aim to stimulate the private provision of social support.

- a) TBSPs which directly provide support to households are similar to cash benefits and often concern support for families with children, e.g. child tax allowances or child tax credits. Such TBSPs amounted to around 1% of GDP in the Czech Republic, France, Germany, and Hungary – which introduced a Child Tax Credit in 2011.

- b) TBSPs to stimulate provision of “current” private social benefits is largest in the United States at around 1.4% of GDP, of which almost 80% concerns exclusion of employer contributions of medical insurance contributions.

Accounting for these features results in a “net tax effect” (Figure 4). The value of benefit income clawed back through direct and indirect taxation exceeds the value of TBSPs in almost all countries, particularly in Europe, and the claw-back is 5% of GDP or more in Austria, Finland, Luxembourg, the Netherlands, Norway and Sweden, and is highest at 8% of GDP in Denmark. In non-European OECD countries, the overall tax clawback over social spending is much smaller and negligible in Korea and Mexico, and in the United States the value of TBSPs and the tax clawback over benefit income is broadly similar.

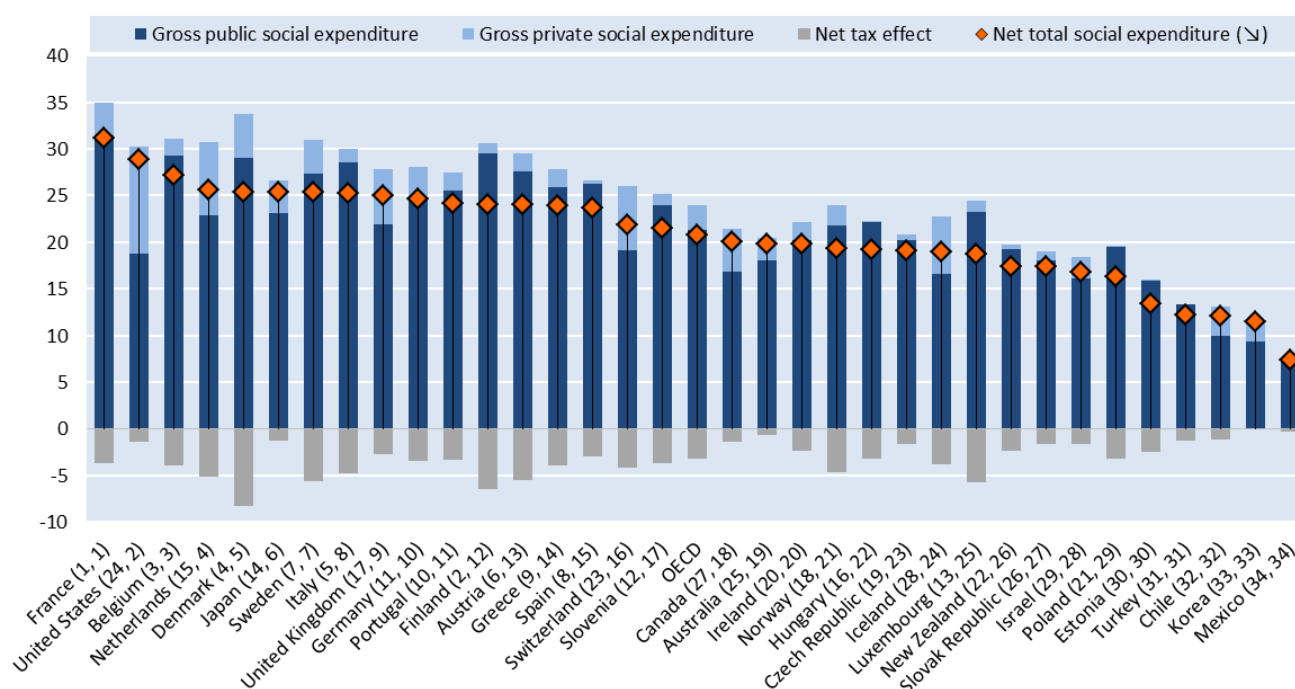
Cross-country rankings

Putting together the information on gross public and private social spending and the impact of tax systems produces an indicator on net total social expenditure (Figure 4). This indicator shows greater similarity in spending levels across countries and changes in the ranking among countries.

Because of the large “net tax effect,” Austria, Luxembourg, Scandinavian and Southern European countries drop down the rankings (Figure 4). The “net tax effect” is also considerable in Iceland, Switzerland, the Netherlands and the United Kingdom, but the large role of private social benefits ensures that in spending terms these countries move up the rankings when considering net total social expenditure.

The combination of small “net tax effects” and considerable private social spending ensures that Australia, Canada, Japan and in particular the United States move up the international social spending ladder. As private social spending (including health) is so much larger in the United States compared with other countries, its inclusion moves the United States from 24th in the ranking of the gross public social spending to 2nd place when comparing net total social spending across countries. However, low-income workers often do not have access to private social benefits. Therefore, more private social spending does not necessarily contribute to more distributive outcomes.

Figure 4. From gross public to total net social spending, as a percent of GDP at market prices, 2013



Note: The figures in brackets refer to the ranking of countries in term of gross public and net total social expenditure from number 1 being the highest spender to the lowest, i.e. the United States ranks 24th in OECD in term of gross public social expenditure and 2nd in terms of net total social expenditure.

Data on TBSPs for the Netherlands were estimated using available information for 2011; indicators on direct taxation of benefit income for Switzerland were also estimated on basis of available information for 2012 and TBSPs were estimated as well to account for cantonal and communal tax breaks. Data for Greece, Mexico and Poland refer to 2011. Data are not available for Latvia.

The “Net tax effect” includes direct taxes and social contributions, indirect taxes and net tax breaks for social purpose similar to cash benefits (TBSPs). TBSPs also include favourable tax treatment of “current” private social benefits (e.g. donations to charities or exemptions of private health insurance contributions) and favourable treatment of pension saving that “ultimately” benefits households (e.g. favourable tax treatment of private funds). The value of the TBSPs toward “current” private benefits is not included in this figure, as it is equivalent to financing of private social benefits, and thus has to be excluded to avoid double counting when calculating total net (public and private) social spending. For methodological reasons there is no comprehensive cross-nationally comparable dataset on the value of TBSPs for pensions. Because of the complexities with calculating the value of tax reliefs for pension that are given at various stages (e.g. including tax exemptions for contributions to private pensions and tax relief for investment income of capitalised pension funds) there is no fully comparable cross-national data set available on TBSPs for pensions. Hence, available data are not included in the overall calculation of net total social spending.

What is in the *OECD Social Expenditure Database (SOCX)*?

The new release of the *OECD Social Expenditure Database (SOCX)* includes detailed social expenditure programme data for 1980-2013/14 for 35 OECD countries. SOCX presents public and private benefits with a social purpose grouped along the following policy areas: old age, survivors, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing and other social policy areas. SOCX includes public spending on early childhood education and care up to age 6, but SOCX does not include public spending on education beyond that age. In addition to the detailed information available for 1980-2013 (including 2014 for Australia, Canada, Korea, New Zealand; and 2015 for Chile and Israel), SOCX includes indicators on aggregate public social spending for 2014-2015 based on national aggregates and estimates for 2016. The 2016 data were estimated on the basis of national sources for non-European OECD countries, and/or OECD (2016), OECD Economic Outlook 99, as in June 2016 and EC DG ECFIN (2016), the European Union's Annual Macro-economic Database (AMECO) as in May 2016. SOCX also includes indicators on net (after tax) social expenditure for 34 countries for 2013 (information on taxation of benefits often does not become available until two years after the fiscal year). Time series for the majority of countries are available since 2001. Relevant fiscal detail involves direct taxation of benefit income, indirect taxation of consumption out-of-benefit income, and tax breaks with a social purpose.

Data for 25 European countries were provided by Eurostat as based on the information in their European system of integrated social protection (ESSPROS), while information for other countries is provided by national correspondents. Data on health and active labour market programmes were taken from OECD Health Data and the OECD/Eurostat Database on Labour Market Policies. Information on the direct taxation of benefit income and tax breaks with a social purpose was provided by the delegates to the Committee on Fiscal Affairs' Working Party No. 2 on Tax Policy Analysis and Tax Statistics.

It should be borne in mind that the quality of data on the effect of tax systems (frequently estimates based on tax models), and private and social spending and spending by local government (because of under-reporting), is not as high as the quality of information on budgetary allocations towards social purposes. For more detail regarding the sources and methodology underlying SOCX and its indicators on social spending, see Adema, W., P. Fron and M. Ladaique (2011), "Is the European Welfare State Really More Expensive? Indicators on Social Spending, 1980-2012 and a Manual to the *OECD Social Expenditure Database (SOCX)*", *OECD Social, Employment and Migration Working Papers*, No. 124, <http://dx.doi.org/10.1787/5kg2d2d4pbf0-en>.

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Useful links

This document as well as all figures and underlying data can be downloaded via <http://www.oecd.org/social/expenditure.htm>.

SOCX is available via the OECD statistical browser OECD.Stat. To facilitate international comparisons, this information is related to gross domestic product, gross national income, total government expenditure, and in purchasing power parities per head.

Further reading

OECD (2013 and 2015), *Pensions at a Glance*, <http://oe.cd/pag>.

OECD (2016), *Society at a Glance*, <http://oe.cd/sag>.

OECD (2015); *Health Statistics 2015, Focus on health spending*, www.oecd.org/health/health-systems/Focus-Health-Spending-2015.pdf

OECD (2016), *OECD Employment Outlook 2016*, www.oecd.org/employment/outlook.

OECD Family Database, www.oecd.org/social/family/database.htm.

OECD Income Distribution Database, <http://oe.cd/idd>.

Source

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Notes

Throughout this document, (↗) (or ↘) in the legend relates to the variable for which countries are ranked from left to right in increasing (or decreasing) order.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.