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- The income gap vis-à-vis leading OECD economies has remained unchanged since 2007, reflecting a marked deceleration of labour productivity that more than overshadowed higher capital intensity.
- Public procurement has been strengthened by measures to increase transparency and surveillance.
- The income convergence process could be restarted by reducing barriers to competition, removing obstacles to female labour market participation and moving towards a more growth-friendly tax system (i.e. relying more on consumption and green taxes and less on labour taxes).
- Reforms to raise female labour market participation and equity in education would reduce income inequality, as well as boosting growth. Green and growth-friendly tax reforms could lower the economy's high energy reliance and thus CO₂ emissions.

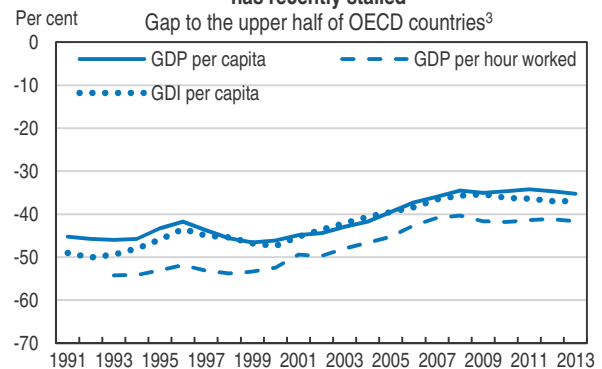
Growth performance indicators

A. Average annual trend growth rates

Per cent


	2003-08	2008-13
Potential GDP per capita	2.8	1.1
Potential labour utilisation	0.0	-0.1
<i>of which:</i> Labour force participation rate	-0.2	-0.1
Employment rate ¹	0.2	0.1
Trend employment coefficient ²	0.0	0.0
Potential labour productivity	2.8	1.1
<i>of which:</i> Capital deepening	0.0	0.5
Labour efficiency	2.3	0.3
Human capital	0.5	0.4

B. Convergence of income and productivity levels has recently stalled



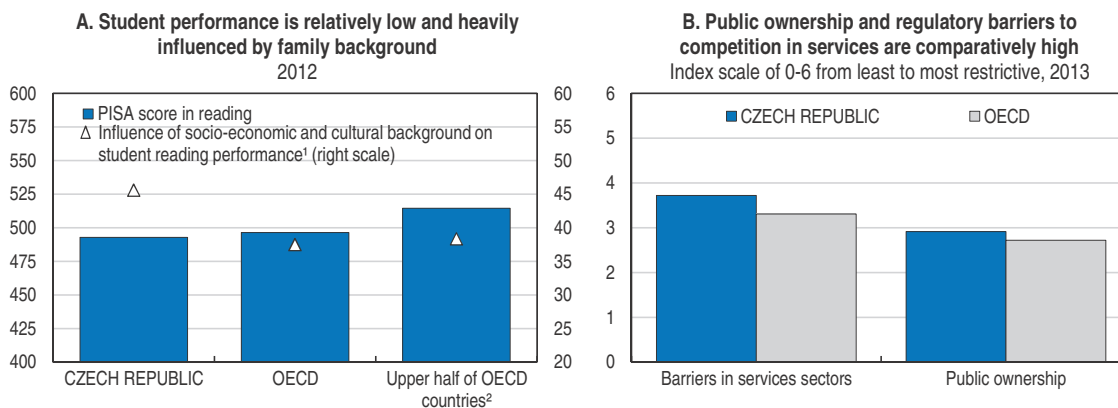
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage 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: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. Measures the strength of the link between the reading score and the socio-economic index. Defined as the estimated coefficient from the country specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS).
2. Upper half of OECD countries in terms of PISA score in reading.

Source: Panel A: OECD (2014), PISA 2012 Results: *What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>; and OECD (2013), PISA 2012 Results: *Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264201132-en>. Panel B: OECD, *Product Market Regulation Database*, www.oecd.org/economy/pmr.

StatLink <http://dx.doi.org/10.1787/888933178165>

Going for Growth 2015 priorities

Priorities supported by indicators

***Enhance competition in the domestic economy.*¹** A competitive service sector is key to boost value added in production, stimulate innovation and exploit domestic sources of growth.

Recommendations: Privatised and divested state-owned enterprises and activities in competitive sectors and segments. Concentrate governance of remaining state-owned enterprises within a single authority. Ensure that the leniency programme to unearth cartels works properly and that efforts to eliminate bid-rigging are successful. Remove the special sector regulation protecting small suppliers of food to retailing chains from the competition policy framework. Boost competition in vertically-integrated industries via effective ownership unbundling or via holding structures with financial separation of activities.

Enhance equity and outcomes in education. Strengthening skill development and school-to-work transitions would raise employment among low-skilled workers and facilitate the adoption of higher value-added production.

Actions taken: Tax deductions were introduced to support workplace training in 2014. The Government approved the Education Policy Strategy 2020, a policy framework aiming at enhancing quality of education in general and specifically addressing equity in education. Parts of the Strategy have entered the legislative phase.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an “**”.

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Recommendations: Phase out early streaming. Increase employers' participation in vocational training by simplifying the institutional framework and governance of vocational education and training (VET). Review the effectiveness of the recently-introduced training incentives in terms of encouraging employers to provide training to young unskilled workers and VET students experiencing difficulty finding work placements. Attract and retain high-quality personnel in schools with pupils from low socio-economic background. Secure quality and resources for tertiary education by introducing output-based accreditation criteria for university staff and student fees, accompanied by a system of means-tested grants and income-contingent repayment loans.

Remove obstacles to female labour market participation. Raising female labour force participation would foster economic growth and help families to reconcile family and working lives.

Actions taken: In 2014, legislation was passed to increase the scope of childcare facilities, by encouraging provision from parents' employers, churches, municipalities, foundations and universities. At the same time, the authorities introduced a tax credit for pre-school care and education expenses (up to an amount equivalent to the minimum wage per child and per year).

Recommendations: Monitor the effectiveness of the new legislation on childcare services, with a view to ensuring quality along with quantity. Conditional on an adequate supply of affordable and high quality early childcare facilities, reduce the maximum duration of parental leave and lower the parental allowance commensurately with the newly introduced tax credit.

Other key priorities

Reform the tax system. High tax wedges on labour income have adverse employment effects.

Actions taken: No action taken. Backward steps took place in 2014 by abandoning both the planned "Single Collection Point" (foreseen for a range of taxes) and the unification of VAT rates.

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 distorting taxes, such as environmental and immovable property taxation while linking the latter to actual market prices.

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

Actions taken: The current co-operation programme between enterprises and higher education institutions is planned to be continued over the period 2014-20. In 2014, the tax deduction for R&D business spending increased from 100% to 110% for new spending compared with the previous tax period. A 2012-15 project was launched to create a new system for evaluation and financing of research, development and innovation.

Recommendations: Further reinforce industry-science linkages. Evaluate whether the shift of public R&D spending from institutions to competitively-awarded project funding has raised the effectiveness of R&D support. Expand the scope of international R&D collaboration.

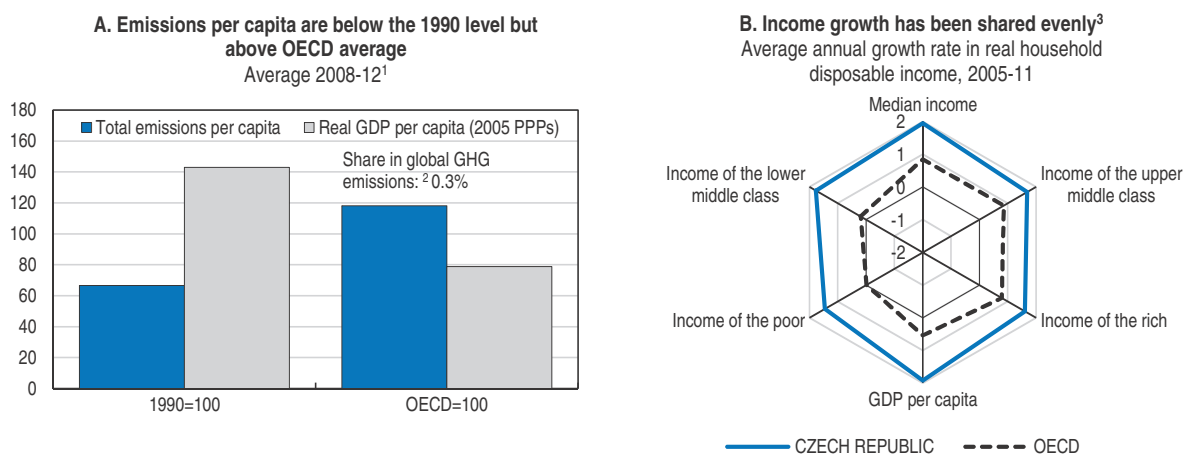
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Reform areas no longer considered a priority in *Going for Growth*

Improve efficiency in public procurement. In order to support productivity while preserving fiscal objectives, it was recommended to improve efficiency in public procurement practices.

Actions taken: Reforms introduced in April 2012 raised the effectiveness of surveillance of public procurement procedures, by: i) requiring the contracting authority to publish tender documentation and the price actually paid; and ii) introducing sub-contractors in public procurement. Nevertheless, adequate support for the administration of the procedures is critical.

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO₂ 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.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and United Nations Framework Convention on Climate Change (UNFCCC) Database. Panel B: OECD, *National Accounts and Income Distribution Databases*.

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