

Going for Growth 2021: Shaping a Vibrant Recovery

Editorial

A unique opportunity to shape a vibrant recovery

After a devastating 2020 prospects are improving. The rollout of vaccines is giving us hope while extraordinary monetary and fiscal buffers continue to support firms, jobs and incomes, limiting the social and economic fallout of the pandemic. Importantly, COVID-19 has exposed how structural weaknesses can weigh on economic resilience. How we respond will shape the recovery and the future of our economies. Governments need to act now to address the structural obstacles to growth, build resilience and sustainability; boost productivity and facilitate reallocation; and help people adapt to change.

The cost of unpreparedness to COVID-19 is counted in lives lost, livelihoods damaged and in long-lasting social and economic scars. Most healthcare systems struggled with a global outbreak on such an unprecedented scale. Social safety nets were unevenly prepared for dealing with the consequences of lockdowns. Jobs and incomes were lost with the most vulnerable people often the hardest hit. As large parts of economic, social and educational activity moved on-line, the opportunity costs of limited digital skills and insufficient infrastructure became real. Governments reacted with emergency measures, unprecedented in size and scope, to cushion the shock. Yet the measures will not fix the underlying structural problems, which left us vulnerable in the first place.

The crisis has only added to pre-existing challenges. Before the pandemic, many economies were struggling with sluggish productivity growth amid declining business dynamics. Structural problems in many labour markets included stubbornly high long-term unemployment, informality and poor job quality and security. Moreover, environmental sustainability alongside more general resilience concerns were often absent from growth strategies. As economies reopen in a world of rising digitalisation, changes to workplace practices, corporate restructuring and job transformation, reforms to enhance business dynamism and productivity growth also need to help people and firms adjust and reallocate in order to seize new opportunities.

Going for Growth 2021 provides first-hand advice to governments of OECD and major non-OECD economies on the structural policy priorities needed for a vibrant recovery. It is the OECD's contribution to the debate on what governments need to do to break away from unsustainable past practices and achieve stronger, more resilient, more equitable and sustainable growth.

The pandemic has also underlined the importance of international cooperation, which can make policy action more effective and less costly. This is why, for the first time, we are putting forward priorities for international policy cooperation: in healthcare, on climate change, on global trade and on the taxation of multinational enterprises. By acting together can help to achieve more.



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Acknowledgements

Going for Growth 2021 was prepared by the Economics Department's Going for Growth workstream: Tomasz Koźluk, Zuzana Smidova, Dan Andrews, Agnes Cavaciuti and Filippo Maria D'Arcangelo; Ilai Levin, Patrizio Sicari, Assia Elgouacem and Tobias Kruse, under the supervision of Asa Johansson and the general supervision of Laurence Boone, Luiz De Mello and Alain De Serres. The Going for Growth exercise relies heavily on contributions from the Country Desks of the Country Studies Branch of the Economics Department and co-operation with other OECD directorates. The publication also benefitted from comments from country delegates and inputs from across OECD directorates, in particular the Environment Directorate, the Directorate for Employment, Labour and Social Affairs, the Trade and Agriculture Directorate and the Centre for Tax Policy Analysis. Editorial support was provided by Celia Rutkoski, Michelle Ortiz and Dacil Kurzweg.

Earlier drafts of the report were discussed by the Economic Policy Committee's Working Party No. 1. This report is published under the responsibility of the Secretary-General of the OECD.
<http://www.oecd.org/eco/growth/going-for-growth>

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ISO codes

ARG	ARGENTINA
AUS	AUSTRALIA
AUT	AUSTRIA
BEL	BELGIUM
BRA	BRAZIL
CAN	CANADA
CHL	CHILE
CHN	CHINA
COL	COLOMBIA
CRI	COSTA RICA
CZE	CZECH REPUBLIC
DNK	DENMARK
EST	ESTONIA
EU	EUROPEAN UNION
FIN	FINLAND
FRA	FRANCE
DEU	GERMANY
GRC	GREECE
HUN	HUNGARY
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SVN	SLOVENIA
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ESP	SPAIN
SWE	SWEDEN
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TUR	TURKEY
GBR	UNITED KINGDOM
USA	UNITED STATES

Executive Summary

The COVID-19 pandemic is exposing long-standing structural weaknesses in our economies and widening gaps in living standards among countries, regions and people. Some of these structural challenges have exacerbated the short-term costs of the crisis and risk imparting long-term scars on growth, job prospects and undermining sustainability. Just as the vaccine rollout gradually instils hope, the post-pandemic recovery creates new opportunities to set in place the foundations for a vibrant recovery. With continued macroeconomic support, policymakers can shape the recovery to boost growth, enhance resilience and inclusiveness, and improve environmental sustainability.

Going for Growth 2021 provides country-specific strategic priorities for the recovery for OECD and selected non-member countries. There is no one-size-fits-all strategy, but the policy advice can be described around three – partly overlapping – pillars: building resilience and sustainability, facilitating reallocation and supporting people through transitions (Figure 1).

Building resilience and sustainability

The pandemic has highlighted a lack of resilience on a number of fronts including in supply chains of medical goods, uneven access to social safety nets and climate change.

Structural policies can improve the first line of defence against shocks by improving the coverage of health care and social safety nets and by investing in critical physical and digital infrastructure, including high-speed internet connection. Policies can also strengthen the private sector's incentives to take into account longer-term sustainability, for example by directing investment and technological change to serve environmental objectives. This can be achieved by setting clear carbon price trajectories, and by phasing out fossil fuel subsidies and tax expenditures.

Facilitating reallocation and boosting productivity

The recession risks leaving considerable economic and social scars. Past experience shows that

labour market entry during a downturn can leave lasting scars on the earnings and employment prospects of young workers. Scarring may also emerge from school closures and the switch to online learning, disrupting human capital accumulation and hence lifelong earnings, particularly for students from disadvantaged backgrounds.

Steering growth in a more resilient and inclusive direction requires enhancing market competition and reallocative capacity, which had hampered productivity growth before the pandemic. This necessitates removing policy barriers, where they exist, for firms to become more dynamic, innovative and greener, and adapting competition policy for the digital age. Failure to do so will reduce job opportunities and output growth, which in the longer run will hamper efforts to improve public finances.

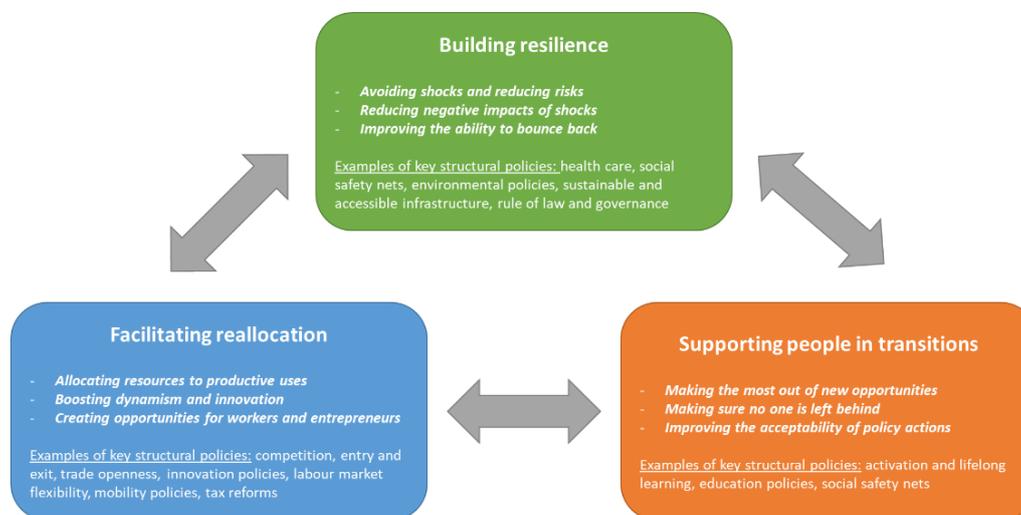
Investment today will put in place capital structures, equipment and technologies that can last several decades. Hence, macroeconomic stimulus packages need to be carefully designed to avoid undermining carbon transition efforts by subsidising polluting activities or locking-in carbon-intensive technologies.

Supporting people through transitions

The pandemic is accelerating digitalisation, not least through increased recourse to teleworking and on-line shopping. On the one hand, this brings opportunities to revive productivity growth via technological adoption and within-industry reallocation. On the other hand, it is reshaping work relations and practices in a manner that aggravates digital divides as some do not have access and skills to fully benefit from such opportunities.

A high share of workers in many countries have been protected by job retention schemes. As the recovery takes hold, such broad support to firms and workers should shift towards more targeted measures focusing on early interventions – especially prior to job displacement – that are more likely to be effective in maintaining labour market attachment.

Figure 1. Structural policies for a stronger, more resilient and inclusive recovery



Part of the green transition will happen via downsizing or closing down polluting firms and less productive ones that cannot invest to make production environmentally sustainable. Policies need to provide appropriate support during these transitions by equipping people with skills and education; offering activation and retraining schemes, particularly targeted at the vulnerable; and facilitating access to social safety nets. Generating adequate incentives for taking up opportunities rather than creating dependence requires aligning taxes and benefits. Labour market relevant training and life-long learning make it easier and quicker to find quality jobs and enhance resilience to shocks.

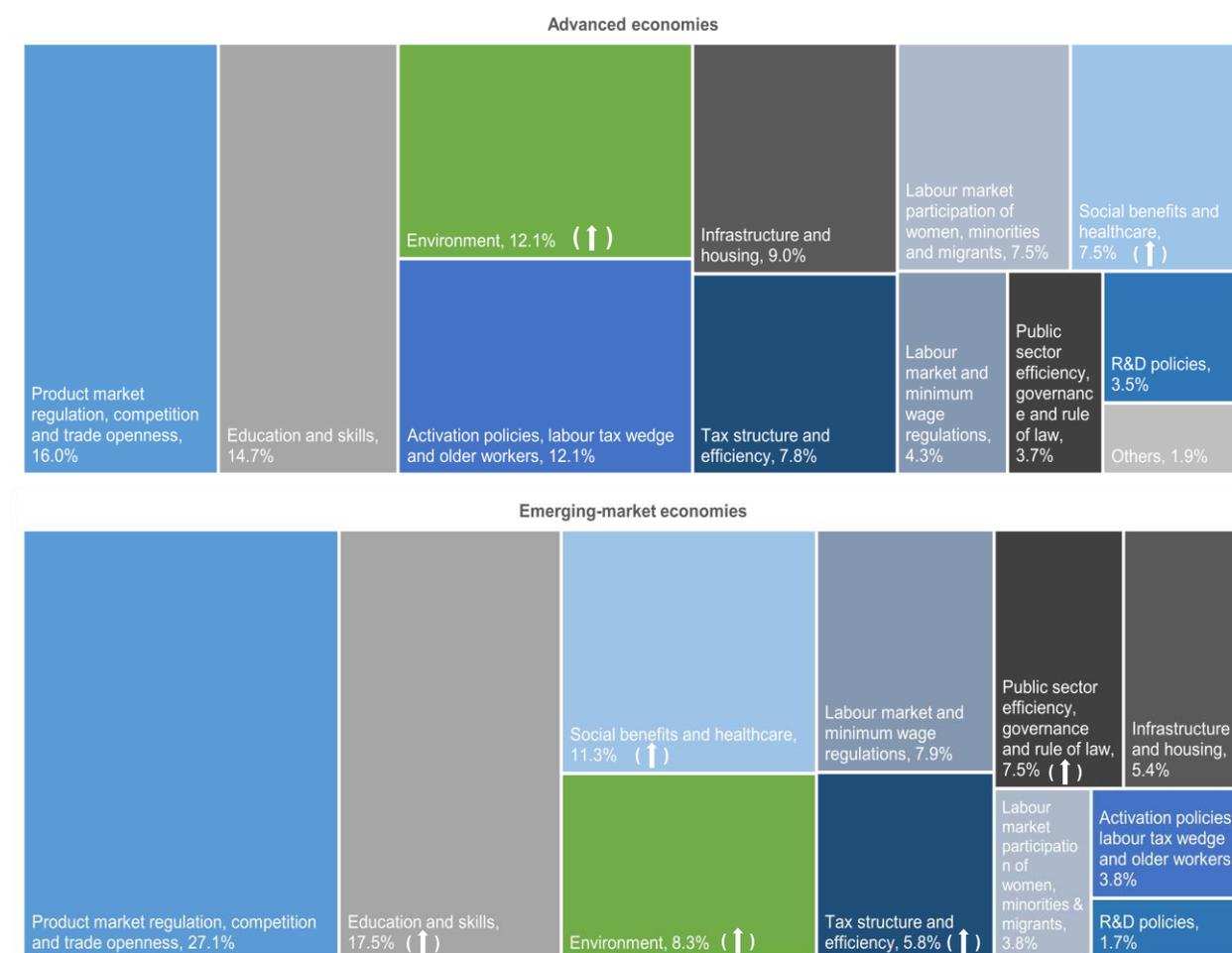
Strategic vision for a vibrant recovery

Given uncertainty about the pace and strength of the recovery, the sequencing of reforms is vital. Expansionary fiscal policies -- such as public infrastructure investment, and health and social safety net reforms -- and measures to improve the

rule of law should be frontloaded to support the recovery as well as enhance long-term growth prospects. This is also true for measures preventing social damage, such as reforms of education and activation programmes. Other measures – for instance, including strengthening of job-search conditions in unemployment benefit schemes, increasing carbon taxes and reducing the stringency of employment protection – should be contingent on the state of the economy or implemented only gradually.

The crisis has also underscored the importance of resilience and environmental sustainability (Figure 2). The prominence of priorities on social safety nets and health care has increased in both advanced and emerging-market economies, with particular emphasis on inclusiveness. In emerging-market economies, priorities addressing the rule of law, education and skills, and labour market regulations have gained importance, partly due to increased emphasis on tackling informality.

Figure 2. Distribution of 2021 priorities across countries



Note: Upward-pointing arrows denote priority areas having increased their relative share in the distribution of priorities, with respect to *Going for Growth 2019*. In this publication, the group of advanced economies comprises all OECD member countries excluding Chile, Colombia, Mexico and Turkey. These four countries, alongside Argentina, Brazil, China, Costa Rica, Indonesia, India, Russia and South Africa are labelled emerging-market economies.

While domestic policies are central to recovery strategies, the pandemic has highlighted the need for stronger international co-operation. Several areas identified in *Going for Growth 2021* require decisive domestic as well as international policy

action. These include health care and the manufacturing and distribution of vaccines and health care equipment; tackling climate change; taxation of multinationals in the digital economy; and reducing trade barriers.

1 Structural policies to deliver a stronger, more resilient, equitable and sustainable COVID-19 recovery

The COVID-19 pandemic exposed structural weaknesses of our economies. Many of them were pre-existing challenges, which have increased the short-term costs of crisis and risk leaving long-term consequences on growth, wellbeing and sustainability. As the roll-out of vaccination gradually installs hope, policy focus should turn to recovery packages that provide the foundations for stronger, more equitable and sustainable medium-term growth. The 2021 edition of *Going for Growth* advises on country-specific structural policy priorities for the recovery. This chapter frames the main policy challenges and structural policy priorities along three main pillars: building resilience; facilitating reallocation and boosting productivity growth for all; and supporting people in transition. A key message from the pandemic is the marked increase in the attention to building resilience.

In Brief

Reinvigorating economic growth and ensuring its resilience, sustainability and inclusiveness are key as the world emerges from the COVID-19 pandemic. Meeting this objective requires adjusting structural policies to tackle pre-existing weaknesses and those arising from the pandemic:

- COVID-19 exposed existing structural weaknesses in health care systems, social safety nets and public administration efficiency.
- With the pandemic accelerating digitalisation, the lack of digital skills, access and digital infrastructure among parts of the population became more evident, reinforcing inequality dynamics.
- Many economies were struggling with sluggish productivity growth, lack of quality job creation and the transition costs of restructuring before the pandemic. COVID-19 adds challenges related to low growth, increased risk of unemployment and bankruptcies, scarring effects on youth, and the aggravation of physical and mental health of the vulnerable.
- Large-scale investment and support foreseen in recovery packages provide an opportunity to boost growth but also enhance resilience, inclusiveness and address environmental sustainability challenges.

Fiscal and monetary policies are already supporting the economies and financial market policies have a role to play, not least in dealing with the potential wave of bankruptcies. Nevertheless, it is structural policies that need to address the underlying challenges exposed by the pandemic and previous years of subpar growth. *Going for Growth* provides first-hand country-specific advice on structural policy priorities for the recovery. These can be categorised across three main dimensions:

Building resilience and sustainability: Structural policies can improve the first line of defence to shocks (health care and social safety nets, critical infrastructure), improve public governance and strengthen firms' incentives to better take into account longer term sustainability considerations.

Facilitating reallocation and boosting productivity growth. Steering growth in a more durable, resilient and inclusive direction requires structural policy action to increase labour mobility and support firms becoming more dynamic, innovative and greener.

Supporting people through transitions. Policies should ensure that people are not left behind in transitions, so that reallocation is socially productive and builds resilience. This requires investments in skills, training and more generally easing access to quality jobs – particularly amongst vulnerable groups – and broad-based social safety nets that provide income assistance during transitions and incentivise learning and access to work.

Finally, international cooperation – spanning health care, climate change, trade and the taxation of multinational enterprises – can enhance the effectiveness of domestic policies and underpin the shift to more sustainable, resilient and equitable globalisation.

Going for Growth 2021 illustrates a new policy emphasis on resilience and environmental sustainability. Resilience is built through stronger growth, inclusiveness and the ability to reallocate resources swiftly, reducing harmful frictions that hamper the response to change. Addressing such challenges will enhance the efficacy of policy stimulus during the recovery and boost medium-term growth.

Structural policies for the recovery

The COVID-19 pandemic has wreaked havoc across the globe since early 2020, with over 2.7 million deaths on record by end of March 2021. Uncertainty about the health and economic prospects remains elevated at the time of writing, but the gradual roll-out of vaccination offers hope for some improvement in the coming months. When preparing and implementing policies for the recovery, policy makers have the opportunity to shape the quality and strength of post-COVID growth.

The pandemic caught many economies unprepared and existing structural weaknesses amplified the shock. Health care systems, often under pressure due to years of budgetary restrictions, proved ill-prepared for a global pandemic of such a scale. Patchy and ineffective social safety nets in many countries left people exposed to risks of poverty due to income loss. Limited digital skills and access to digital infrastructure became particularly evident and penalised many. A number of these problems weighed on growth prior to the pandemic, slowing productivity growth, population ageing and deepening inequality. COVID-19 adds new challenges. Increases in unemployment and bankruptcies threaten to scar the prospects of those struggling to enter or re-enter the labour market, while the lockdowns may widen education gaps and aggravate physical and mental health of the vulnerable in the longer term.

At the same time, the pandemic accelerated digital trends, which could also provide opportunities in terms of organisation of work and teaching, as well as consumption patterns. This will have long-term impact on the need for physical presence at a workplace for many, possibly leading to less commuting. In some sectors it brought disruptive innovation, and there are now high expectations that such disruption will entail a digital dividend. Similarly, the enhanced focus on resilience has made climate change concerns more acute. Against this backdrop, decisive policy action to reset growth is urgently needed.

From economic lifelines to higher quality growth

The extent of damage caused by the pandemic remains uncertain (Baker et al. 2020), but without strong policy action many temporary damages risk becoming long-term brakes on growth. Unsurprisingly, in 2020, governments focussed on addressing urgent pandemic-related issues. Structural policies can play a crucial role in shaping the recovery and bring long-lasting benefits.

The pandemic highlighted the lack of resilience

Structural weaknesses in many health care systems were unaddressed, despite increasing epidemiological warnings of the risk of pandemics due to shifts in and destruction of wild habitats, and rising global interconnectedness and urban density (OECD, 2011). Some Asian countries with past epidemic experience have coped better for example via early warning systems, stocks of personal protective equipment, and decisive testing, tracing and isolation. Still, in the absence of a medical solution restrictions on economic activity were the most common tool to slow the virus' spread in many countries.

Pandemic-induced lockdowns highlighted gaps in social safety nets, leading governments to step in with massive, generalised policy support. COVID-19 hit low-income earners, informal and non-standard contract workers, women, migrants, children and youth, and those with disabilities and chronic health conditions particularly hard (OECD, 2020a, Caselli et al. 2020). These groups were already vulnerable prior to the crisis, with weaker coverage in social safety nets in many countries. As such, the pandemic risks undoing progress on labour market inclusion and poverty eradication.

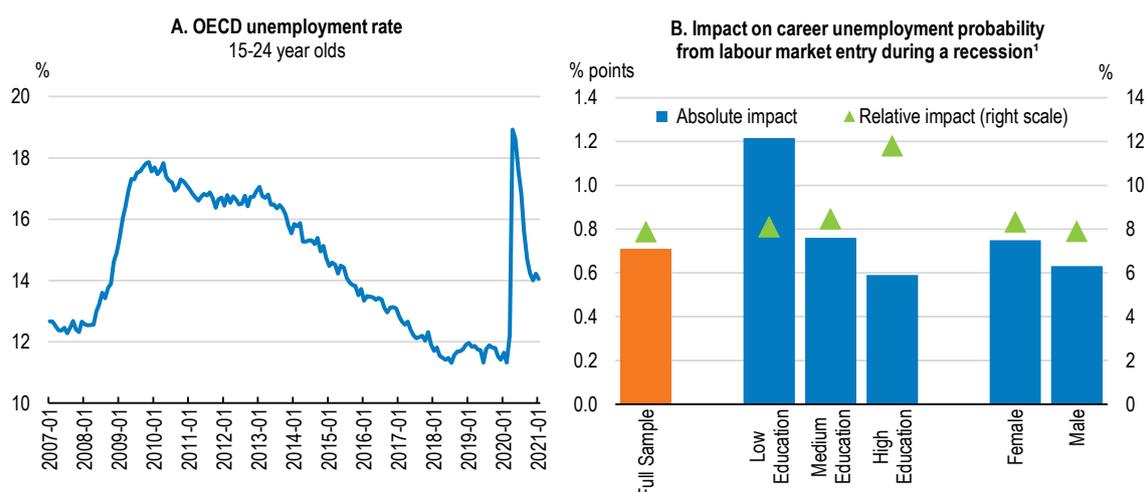
Several other sources of vulnerability were highlighted by the pandemic. Concerns over temporary shortages in certain goods at the height of the pandemic underpinned increasing calls for governments to do more to avoid disruptions to production and provision of essential goods. Past experience shows that global production networks can be disrupted and play a role in the propagation of economic shocks across countries and industries (OECD, 2020b). But diversified global value chains (GVCs) can also mitigate

shocks and help firms and countries to recover faster, for example in the supply of essential goods (Chapter 2). Vulnerabilities also emerge from digital security risks, which increase with digital transformation but also with the inefficiency and obsolescence of legal and judicial systems to pursue them.

The recession risks leaving lasting economic and social scars

Labour market entry during a downturn carries persistent adverse consequences for individuals' earnings and employment and the youth unemployment rate more generally (Figure 1.1, Panel A). New OECD cross-country evidence shows that labour market entry during a recession is associated with a larger absolute increase in the career unemployment probability for the least educated workers and women (Figure 1.1, Panel B) – two groups particularly exposed to the pandemic. But recessions also impart scars on highly educated workers, which are material relative to their lower baseline risk of unemployment. This may reflect the tendency for recessions to disrupt labour market matching (Barlevy, 2002), with those graduating into a recession tending to join (and remain in) lower productivity – and thus paying – firms (Andrews et al., 2020), which may cause skills to atrophy. Scarring may also emerge from school closures and the switch to online learning, disrupting human capital accumulation and hence lifelong earnings, particularly for students from disadvantaged backgrounds (Section: Policies to support people in recovery and transitions).

Figure 1.1. Recessions impart lasting scars on young workers



1. The chart shows the (predicted) difference in probability of unemployment for an individual who entered a weak labour market, defined as a youth unemployment rate that is 5.9% higher than usual (this corresponds to the average increase observed in our sample countries between 2007 and 2008), relative to an individual who entered during stronger economic times. On average, a worker entering such a labour market is estimated to have a 0.70 percentage point higher probability of unemployment throughout their career (Absolute impact), which amounts to an increase of 8% in the baseline risk of unemployment (i.e. relative to the sample average unemployment rate; Relative impact).¹

Source: OECD, Labour Force Statistics Database and OECD calculations based on European Union Labour Force Survey (EU-LFS).

StatLink  <https://stat.link/jr8dp7>

The pandemic is accelerating digitalisation

The pandemic has encouraged a wave of experimentation with novel modes of business, work and consumption from which new habits may form. Survey evidence from the United States and Europe suggests that working from home could increase substantially – due to both behavioural changes and new technologies that facilitate it – while business travel could permanently fall (Barrero, Bloom and Davis, 2020; ECB, 2020). More generally, accelerated digitalisation could present opportunities to revive productivity growth – via technological adoption and within-industry reallocation – but also challenges to

inclusive growth by further reshaping the nature of work and potentially urban structures (Autor and Reynolds, 2020).

Pressures from automation – which is replacing routine and non-cognitive tasks in middle-skilled occupations – may increasingly be felt by the lower skilled, particularly women who are more likely to work in jobs that have high automation potential and risk of infection (Chernoff and Warman, 2020). The demand for certain tasks (e.g. those servicing inner city businesses) may fall, and displaced workers will need to face costly transitions to other occupations and sectors, with the pressure on policy to manage such reallocation (OECD, 2020c). This risks reinforcing inequality, especially if the new tasks created by automation benefit high-skilled workers, while low-skilled and non-standard workers – whose tasks are more prone to be displaced by automation – remain less likely to access reskilling policies (Acemoglu and Restrepo, 2020; OECD, 2019b).

The Green Transition adds restructuring challenges

The pandemic has put resilience at the core of peoples' concerns (OECD, 2021a). In this respect, the recovery presents an opportunity to address the pressing challenge of climate change. Policy intervention and investments will play a key role in steering the transition: the initial drop in emissions as a consequence of the pandemic proved only short-lived, in December 2020 they were already 2% higher than the same month a year earlier (IEA, 2021). Annual global energy investment will need to roughly double until 2050 to achieve the Paris agreement's climate targets (IEA, 2016). The transition towards global net zero emissions will hence rely on an acceleration in green innovation and the reallocation of resources *across* industries, but also *between* firms *within* a given industry – in order to underpin the rapid expansion of green and innovative firms – and *within* firms to commercialise and implement new ideas (Marin and Vona, 2019).

Part of the shift will be accommodated through the downsizing or exit of polluting firms and less productive ones that cannot accommodate such investment, which entails transition costs that are politically challenging (for an example on the phase-out of coal-fired power plants in Germany, see OECD, 2020d). This process can be costly for: *i*) workers in declining (i.e. polluting) sectors (Walker, 2013; Marin and Vona, 2019); and *ii*) firms in expanding (i.e. green) activities, if they encounter difficulties in hiring workers to fulfil their demand for green skills. These transition costs partly depend on the transferability of skills between green and polluting activities: task-based evidence suggests that the general skills requirements of jobs associated with polluting activities are often close to those of green jobs (Vona et al., 2018). But when workers cannot be reskilled and re-employed, they risk falling into unemployment or exiting the labour market. Countries that minimise obstacles to such reallocation – and carefully manage transition costs – will transition more smoothly.

Weak reallocative capacity risks deepening the scars from the pandemic

Weak reallocative capacity can imply that economies are poorly prepared to face any pandemic-related restructuring as well as the digital and green transitions, which may amplify scarring effects, mute wage and career prospects and hinder economic growth. Reallocative capacity and productivity growth were declining prior to the crisis, which has been partly attributed to structural policy weakness, including regulation-induced rigidities in services delivery (Andrews, Criscuolo and Gal, 2016; Hermansen, 2019) and corporate restructuring (Adalet McGowan, Andrews and Millot, 2017).

The economic vitality of OECD economies has been waning for some time with potential output per capita growth roughly halving since the late 1990s due to slowing TFP growth and capital deepening. This was underpinned by a divergence in the productivity performance of global frontier and laggard firms, which is symptomatic of barriers to: *i*) knowledge diffusion; and *ii*) creative destruction, whereby new firms enter and replace old ones, and resources are reallocated towards more productive firms (Andrews, Criscuolo

and Gal, 2016). This trend coincided with increasing market concentration and mark-ups, – especially in digital-intensive sectors – raising concerns that market power was stifling inclusive growth.

This decline in market dynamism adversely affected workers. More fluid labour markets – characterised by higher *voluntary* job-to-job transitions – reduce the risk of long-term unemployment and can improve worker-job match quality, especially for young workers who are more prone to skill mismatch. More fluid labour markets can also improve bargaining power by increasing the number of outside options for workers to assert in wage bargaining negotiations (Karahan et al., 2017) and lower wage inequality (Criscuolo et al., 2021). This decline in job mobility suppressed wage growth and was connected to lower firm entry – as new firms create outside options – and higher product market concentration which amplified monopsony power. This strengthens the case for policies that support market competition, labour mobility and inclusion more generally.

Structural policies for stronger, more sustainable, resilient and equitable growth

Beyond the immediate crisis-related interventions – including the need to maintain highly accommodative macroeconomic policy settings for some time – policy focus should be on medium-term objectives in order to speed-up and shape a vibrant recovery. Structural policies can support economies ability to bounce back strongly and rapidly (Duval, Elmeskov and Vogel, 2007). But as outlined above, there is a case for advancing structural policies to achieve a recovery that also delivers more sustainable, resilient and equitable growth.

Policies to boost growth are particularly pressing given upward pressure on public expenditure, notably on public pensions and health care, coming from population ageing and rising relative price of services. Trend growth rates have generally declined due to demographic change and a slowdown in productivity growth. Public debt to GDP is projected to increase by a fifth between 2020 and 2022 (OECD, 2020c). Without structural reforms that boost growth, the ability of governments to deliver resilience and buffer future shocks may be limited. In similar vein, maintaining current public benefits and services while stabilising public debt ratios would require a substantial increase in taxation (Guillemette, 2021, forthcoming).

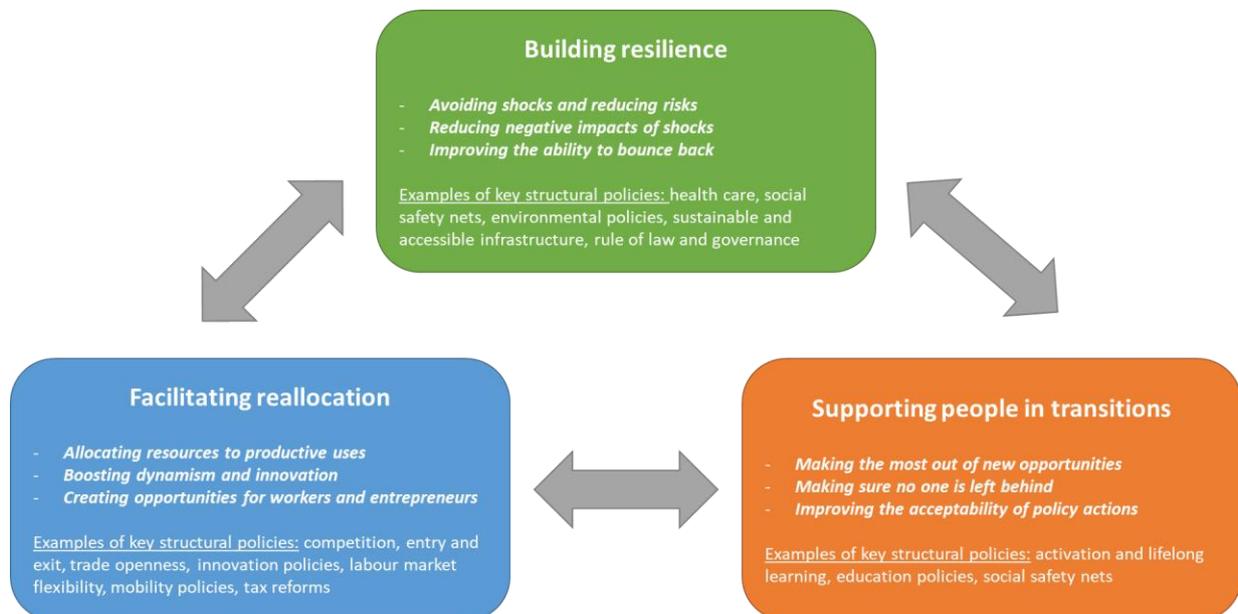
Going for Growth 2021 provides country-specific advice on how to achieve a recovery that delivers a stronger, more resilient, equitable and sustainable growth. The key structural challenges to be addressed are identified within the *Going for Growth* framework (Annex 1) by OECD Country Desk experts and presented as packages in the Country Notes. There is no one-size-fits-all strategy, but the overall objective is to make economies more resilient and to take a turn for change. To achieve this, policy advice can be described around three – often overlapping – pillars (Figure 1.2):

- *Building resilience and sustainability*: Resilience is the capacity to detect and avoid risks, reduce the negative impacts of shocks when they materialise, and recover faster and stronger. Structural policies can improve the first line of defence to shocks (health care and social safety nets, crucial infrastructure) and strengthen the private sector's incentives to take into account longer-term sustainability considerations, such as by directing investment and technological change to serve environmental objectives. Hence, resilience is also about reconciling short-term efficiency towards a perspective of stronger longer-term growth. These policies are discussed in Section: Policies to build resilience and sustainability.
- *Facilitating reallocation and boosting productivity*. Steering growth in a more resilient and inclusive direction requires swift reallocation of resources. This means removing policy barriers, where they exist, for firms to become more dynamic, innovative and greener thereby facilitating the reallocation of resources, both within and between firms. Failure to reduce reallocation frictions can also reduce job opportunities, stifle innovation, limiting productive career prospects and technology adoption, thus hampering productivity growth (Section: Policies to facilitate reallocation and boost productivity).

- *Supporting people through transitions.* Policies need to ensure that people are not left behind in these transitions, by reducing impediments to finding quality jobs and shortening the time to do so, thus enhancing resilience to shocks. These policies include skills and education, activation and retraining schemes – in particular targeted at vulnerable populations – but also social safety nets, which can provide income assistance during transitions. Such policies should provide adequate incentives for taking up opportunities rather than creating dependence (Section: Policies to support people in recovery and transitions).

Domestic policies are the key levers for recovery strategies. But the pandemic also highlighted the need for stronger international cooperation (OECD, 2020e). Several policy areas identified in the Country Notes, while requiring domestic policy action, could be achieved even more effectively and efficiently with international co-operation. Examples include health care and the manufacturing and distribution of health care equipment and vaccines, tackling climate change, taxation of multinationals in the digital economy, and reducing trade barriers. Motivated by the existence of cross-border spillovers, this edition of *Going for Growth*, presents for the first time structural policy priorities in these four key areas, with a view of making globalisation work better for all (Chapter 2).

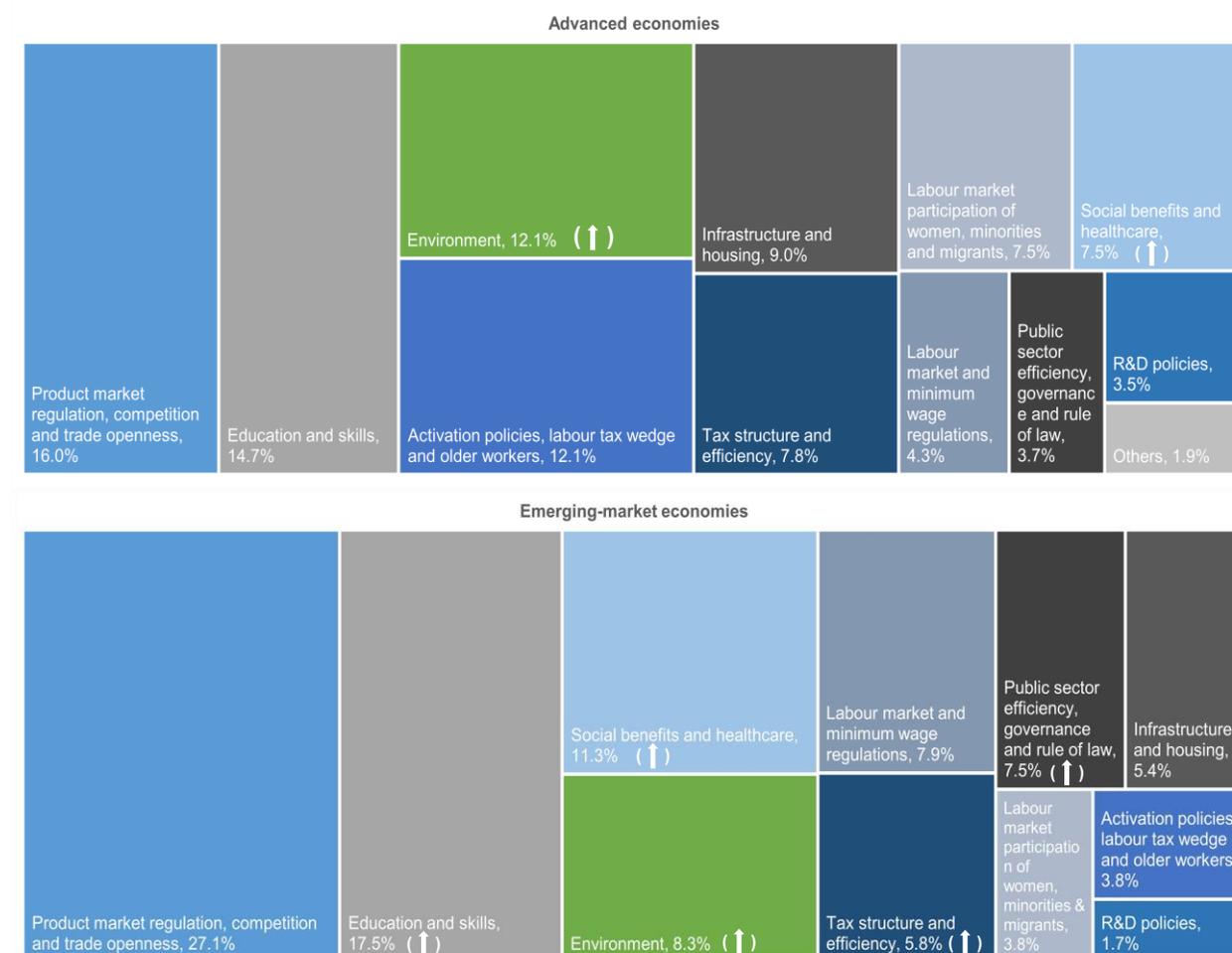
Figure 1.2. Structural policies for a stronger, more resilient and inclusive recovery



What are the structural policy priorities for a vibrant recovery?

The broad priority areas primarily reflect the increased emphasis on resilience. The prominence of social safety nets and health care has increased in advanced and emerging-market economies² (Figure 1.3), with a particular emphasis on inclusiveness. Environmentally motivated priorities have also gained importance in both groups of countries, likely as recovery policies constitute an opportunity to address long-standing environmental and climate sustainability issues (OECD, 2020f). In emerging-market economies, priorities addressing the rule of law, education and skills, and labour market regulations have gained importance, partly due to increased emphasis on informality.

Figure 1.3. Distribution of 2021 priorities across countries



Note: Upward-pointing arrows denote priority areas having increased their relative share in the distribution of priorities, with respect to *Going for Growth 2019*. In this publication, the group of advanced economies comprises all OECD member countries excluding Chile, Colombia, Mexico and Turkey. These four countries, alongside Argentina, Brazil, China, Costa Rica, Indonesia, India and South Africa are labelled as emerging-market economies.

Packaging structural reforms: Sequencing, synergies, trade-offs and state contingency

Given uncertainty about the shape of the recovery, the sequencing of reforms is vital.

Stimulating the recovery

Some structural policies are fiscally expansionary because they either necessitate higher spending or improve the effectiveness of fiscal stimulus. Rolling them out early can both stimulate the recovery and enhance long-term prospects:

- Public infrastructure investment can stimulate demand. Projects that are already prepared and have high (social) return should be frontloaded. Examples can include the expansion of digital infrastructure that will improve the equality of opportunities or investments in transport or energy infrastructure in underdeveloped regions.

- Reforms to improve people's prospects – spanning education, rule of law and infrastructure governance – can boost confidence and people's resilience to future shocks, even if their actual effects take time to materialise. Such policies enhance the effectiveness of fiscal spending.
- Policies to address economic inclusion of poor households (e.g. health care and social safety net reforms) can raise the effectiveness of fiscal spending, as these households have a higher propensity to spend. Rapid actions to improve health care resilience – via increases in capacity and accessibility – can support recovery by expediting the vaccine roll-out.

Preventing significant and long-lasting social damage

Policies that prevent social damage – such as health, poverty and scarring – should be implemented with priority:

- Education reforms take time to show macroeconomic gains but underpin health, poverty reduction and resilience. As 'learning begets learning', improvements at the pre-primary and primary levels will affect the ability of pupils to learn in later grades. Hence, education reforms need to compensate for the pandemic-related learning losses, particularly by ensuring that tele-schooling becomes an effective backstop option for all students, in case of future disruptions.
- Preventive health care may bring most benefits later but improve resilience, as witnessed by the pandemic which hit harder those with pre-existing conditions or poor health.
- Strengthening activation policies and skills will support those looking for jobs and accelerate their re-entry into the job markets, reducing scarring effects.

Gradual or state-contingent implementation

Other reforms should be implemented gradually, or linked to the state of the economy, as they may hamper the recovery:

- Introduction or strengthening of job-search conditions in unemployment benefit schemes is important for job-search incentives, but should be state-contingent (i.e. vary with labour market conditions) as job opportunities may remain scarce initially in the recovery. Increasing stringency of eligibility criteria could force benefit recipients out of the labour force, which could increase the risk of poverty, undermine confidence and create uncertainty. Moreover, stringent unemployment benefits programmes need to be complemented with efficient activation policies (ALMPs) and public employment services that help job-to-job transitions.
- Reforms to achieve more growth-friendly tax structures require a gradual phasing-in and cautious approach in the recovery. Such reforms generally include reducing income taxes and shifting revenues to consumption, property and environmental taxes, as well as broadening tax bases. Fiscal sustainability concerns imply that these reforms should be implemented as a package so that they are budget neutral, but this still risks adverse consequences for consumption and inclusion. If such reforms are nevertheless required, personal income tax cuts and reductions of taxation for low-income workers should be brought forward, while government should commit to tax increases only once a durable recovery takes hold (OECD, 2020f).
- Early commitment to increasing use of carbon taxes later in the recovery phase – with clear price trajectories – can provide forward guidance to investors, without immediately burdening businesses with new taxes (Van Dender and Teusch, 2020) and lower policy-related uncertainty, thus incentivising investment and innovation in low-carbon technologies (Dechezleprêtre, Kruse and Berestycki, 2021). To effectively manage expectations (e.g. on fiscal sustainability and on environmental taxation signals), the tax increases need to be planned and clearly communicated in advance, as well as be mindful of distributional effects.

- Restructuring firms where governments took equity stakes during the crisis is complicated by the difficulty to value firms in such circumstances and the job losses associated with the restructuring (Arnold, 2018; Brown et al, 2019). Restructuring will need to be accompanied by early intervention focused on retraining (Adalet McGowan, Andrews and Millot, 2017). If firms remain state-owned (SOE), better and more transparent governance is needed. This can be done by firewalling the government's role as an owner, which can improve the effectiveness of crisis-induced bailouts and the entire SOE portfolio (Abate et al., 2020). This will help ensure that SOE presence in markets does not disadvantage private sector competitors and undermine downstream competitiveness.
- Increasing the flexibility of labour markets aids productivity-enhancing resource reallocation but during weak economic times, reducing employment protection legislation (EPL) can be contractionary (Section: Policies to facilitate reallocation and boost productivity). This may be particularly harmful in early recovery phases and in countries where reskilling policies do not support people to make use of the new opportunities. In this light, one option is to loosen EPL for new hires, while monitoring developments carefully.
- Once the recovery is firmly in place, the post-crisis environment will provide an opportunity for countries to undertake a reassessment of their tax and spending policies along with their overall fiscal framework. Such a reassessment will need to take into account both the challenges brought to the fore by the crisis as well as those related to ongoing structural trends (e.g. population ageing, digitalisation, rising inequalities, the need to address climate change) in order to determine the mix and range of fiscal policies needed to deliver inclusive and sustainable economic growth over the longer term.

Policies to build resilience and sustainability

The first line of protection – reducing the human cost of the crisis

Health care systems

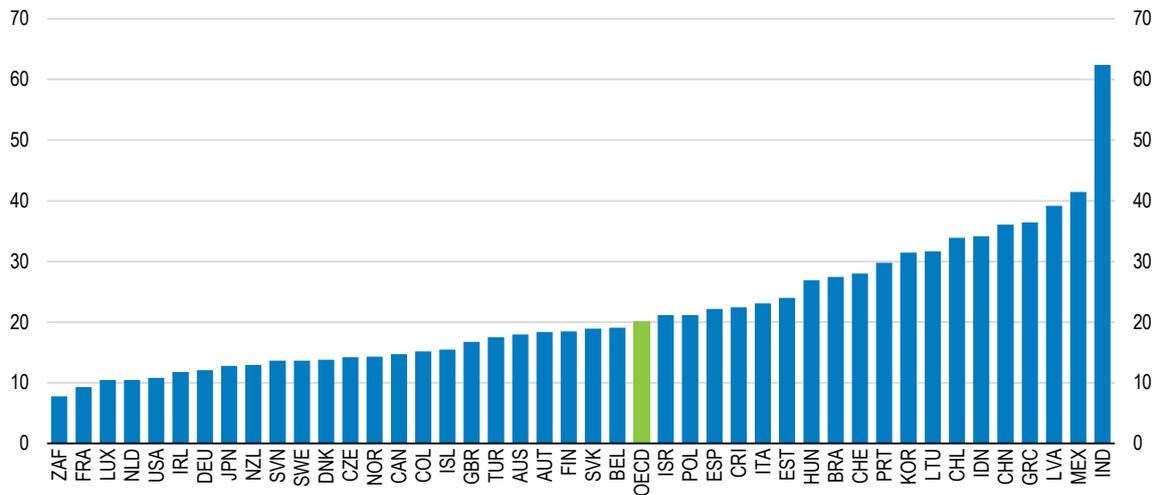
COVID-19 has highlighted structural weaknesses in many health care systems: weak resilience, shortages of health care workers, a lack of surge capacity, insufficient emphasis on prevention, a strong impact of social background on health outcomes and quality and safety issues in long-term care (OECD, 2020i, OECD, 2020j, OECD, 2020k). Health care is identified as a priority area in the recovery packages for 10 countries.

Considerable shares of the population do not have access to health care, especially in emerging-market economies (OECD, 2020g). But coverage for core services remains below 95% in seven OECD countries, and is lowest in Mexico, Costa Rica, the United States and Poland. In the United States, the uninsured tend to be working-age adults with lower education or income levels, while in Mexico lack of coverage is often linked to informality (OECD, 2020l). Most OECD countries have ensured access to and coverage of pandemic-related products and services.

High out-of-pocket payments can discourage early diagnosis and treatment, thus increasing the spread of diseases. For example, pre-COVID-19 figures show nearly 30% of people in the lowest income quintile (on average across countries) forgo care because of affordability issues (OECD, 2020g). In several countries, over one-third of health care spending is paid directly by patients (out-of-pocket payments) and serious illnesses can result in financial stress (Figure 1.4).

Figure 1.4. Out-of-pocket payments can be a significant part of healthcare expenditure

Household out-of-pocket payments as a percentage of current expenditure on health, 2019¹



1. 2019 or latest available year.

Source: OECD Health Database.

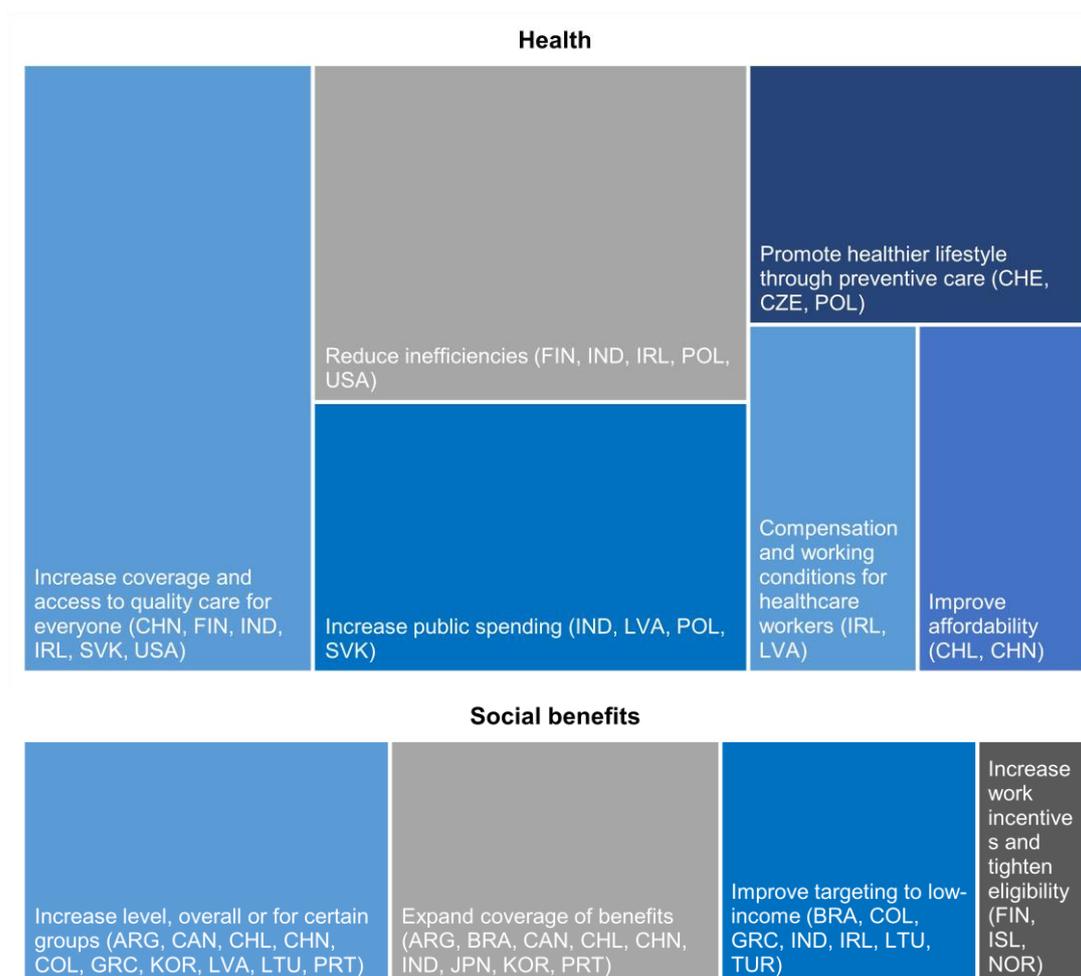
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Coverage needs to be increased permanently and ensuring equal access is a priority in several countries. Health care reforms should also focus on reducing out-of-pocket payments. The need to improve the overall quality of health care provision has become more pressing, particularly by addressing the lack of access to quality services in rural areas. Cost-efficiency remains crucial in light of resource constraints, but COVID-19 may lead to prioritising issues of reserve capacity, rapid warning and response preparation.

The pandemic is a reminder of the importance of prevention and the major contribution of environmental and lifestyle risk factors to chronic diseases, which increase mortality. In fact, chronic diseases have compounded the human costs of the pandemic, with severe cases of COVID-19 disproportionately affecting those who are obese or with pre-existing conditions. Some risk factors – e.g. smoking, alcohol consumption, poor nutrition, lack of physical activity and obesity – can be reduced by prevention-focused health policies (Figure 1.5). COVID-19 mortality also has a clear social gradient, a bleak reminder of the importance of the social determinants of health outcomes (OECD, 2020j).

Domestic policy responses to massive global health challenges, as demonstrated by COVID-19, can benefit from international cooperation: on containing the spread across borders, improving the resilience of health care systems, harnessing the spillovers from R&D and coordination on the distribution of medical materials, equipment and vaccines (Chapter 2. Cross-border priority note).

Figure 1.5. Key recommendations on health and social benefits



Note: Based on policy priorities identified in Country Notes.

Social safety nets

The pandemic highlighted gaps and shortcomings of social safety nets, both in advanced and emerging-market economies. A shock can be particularly damaging if it pushes people into poverty or has persistent distributional impacts. Increasing resilience requires social safety nets that curb such effects and facilitate a swift return to work, in order to lower the risk of scarring (De Fraja et al, 2019).

Unemployment benefits are key instruments to provide income protection against job losses, yet, some workers do not meet the criteria to receive adequate support. Even when entitlements are the same for all dependent employees, conditions on minimum employment duration or earnings before the unemployment spell are often harder to meet for those on part-time jobs or those who frequently transition between work and unemployment (OECD, 2020a). Workers in informal and non-standard jobs often have less or no access to existing social protection (e.g. paid sick leave) and job loss can tip them into poverty.

Most governments stepped up income support to workers and households affected by the pandemic, extending health care coverage, unemployment benefits, minimum-income benefits and wage subsidies to self-employed, part-time and temporary workers, as well as to workers in other non-standard jobs (OECD, 2020h). In the United States – where only 43% of part-time workers are covered by an employer-provided paid sick leave plan, compared to 89% of full-time workers – part-time workers (including those

in the “gig economy”) and the self-employed received access to up to two weeks of paid sick leave amongst other measures. Many governments also introduced temporary programmes to support self-employed workers and small firms, while some emerging-market economies (Chile, Indonesia and Turkey) have devised new schemes to support informal workers. There may be a case for institutionalising the new schemes to build a more resilient social safety net that can better react to extreme shocks.

Gaps in the social safety net coverage are partly linked to labour market dualism, a long-standing problem in several countries (Figure 1.A.3 in Annex A). Dualism between workers on permanent contracts and those on various types of non-standard contracts and between formal and informal employment often implies that the most vulnerable – with incomplete access to social safety nets – are hardest hit in downturns. The pandemic has also struck along this line of dualism, with non-standard workers accounting for around 40% of total employment on average across European countries in the sectors most affected by containment measures (e.g. tourism, entertainment, retail; OECD, 2020i). This may further exacerbate women’s exposure to shock (Section: The pandemic is accelerating digitalisation) given that women are often more likely to have non-standard work contracts. Moreover, the pandemic presents further challenges to duality – given the growing importance of the gig economy – and more generally the quality of jobs (OECD, 2020i).

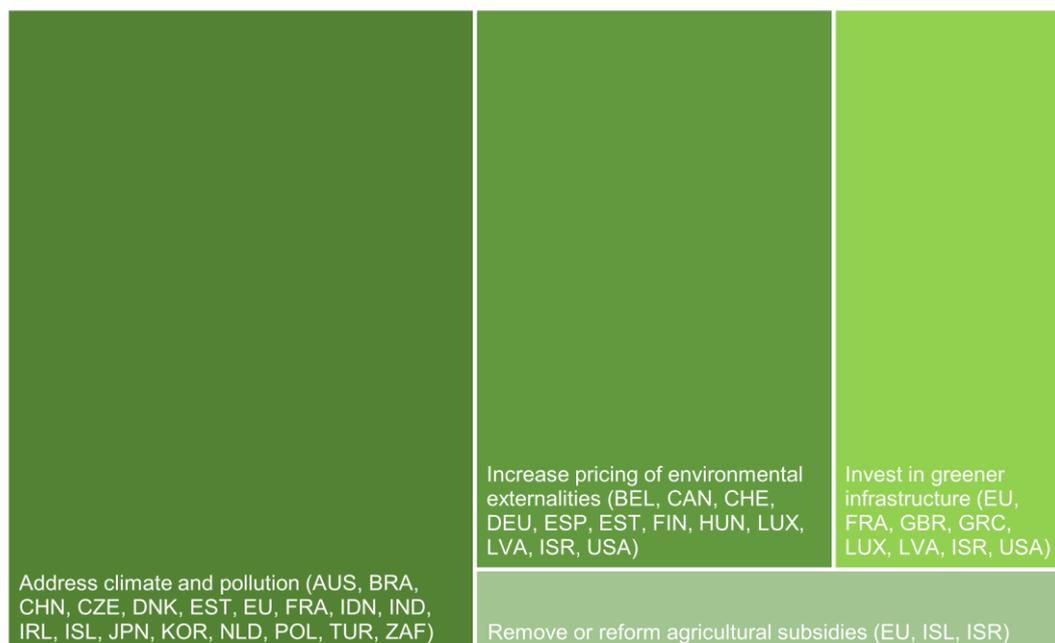
In a dual labour market, such shocks will aggravate income inequalities and reduce equality of opportunity. For instance, the urban-rural divide remains an important source of inequality of access to social security, education and job opportunities in China. In the United States, much health care coverage is linked to formal jobs. Income poverty has long lasting effects on well-being of whole families, jeopardising future economic prospect of children. To reduce such divides, longer-term solutions are needed. Broader based access to social protection could increase job quality and reduce labour market inequalities.

Mitigating future risks through an environmentally sustainable recovery

The pandemic has raised awareness of environmental challenges such as climate change, pollution and associated health costs, biodiversity loss and water scarcity. Recovery strategies present an opportunity to put growth on a more sustainable path, and to accelerate a Green Transition (OECD, 2020c). Left unaddressed, environmental pressures seriously threaten current wellbeing: each year well over 4 million people die from air pollution, natural disasters have more than doubled in the past two decades and biodiversity loss is already threatening human health and economic prosperity (CRED-UNDRR, 2020).

Environmental priorities saw a marked increase among *Going for Growth* policy recommendations (Figure 1.6). Addressing environmental sustainability – specifically in the domain of climate change – are now a priority for 17 countries and the European Union. In this respect, most countries are advised to prioritise “green” public investment and subsidies, especially early in the recovery. In addition to the countries with outright environmental priorities, a commitment to future rises in environmental taxes – to instigate behavioural changes and as “forward guidance” for investors – is advocated for another 14 countries. This reflects the fact that strong and stable price signals, e.g. on carbon pricing, are still lacking (Section: Directing and facilitating a green recovery). Finally, several countries should phase out or reform agricultural subsidies, including in a way so that they incentivise more environmentally sustainable outcomes.

Figure 1.6. Key recommendations on green growth



Note: Based on policy priorities identified in Country Notes.

To address concerns of leakage across borders, which could disrupt the global level playing-field, and to improve the effectiveness of innovation policies, climate change mitigation requires co-ordinating actions across countries (Chapter 2). More generally, while environmental policies can direct behaviour, consumption and innovation, a successful transition will require reallocation of resources in line with the new incentives set by policies (Section: Directing and facilitating a green recovery).

Enhancing trust and credibility with public governance and rule of law

Emerging research suggests that areas with high trust in public authorities had better compliance with stay-at-home restrictions during the pandemic (Bargain and Aminjonov, 2020; Brodeur et al 2020). A lack of confidence in government coupled with growing disinformation linked to the pandemic may hinder the effectiveness of the roll-out of vaccines, health measures enacted to limit the virus and economic recovery policies (OECD, 2020p). As the social fabric will have been harmed by the economic consequences of the pandemic, and state intervention in the economy increased, strong governance will be even more important.

More generally, public sector efficiency, rule of law and good governance are key determinants of confidence in public institutions, with important implications for productivity (Egert, 2017) and public support for – and ultimately success – of reforms (OECD, 2017a). Public trust can also lead to greater compliance with regulations and tax systems (OECD, 2013). Their absence, manifested through corruption, weak legal accountability and legal delays, can undermine growth by diverting scarce resources from their most productive use. Public governance has been a long-standing challenge for many countries, as identified in past editions of *Going for Growth*.

The pandemic added urgency to improving public governance in state-owned enterprises (SOEs), as equity injections in businesses were often part of the emergency measures taken to sustain the economy (Abate et al. 2020). Public ownership is prevalent in many OECD economies, and adequate, arm's-length

regulation in line with the 2015 OECD Guidelines are crucial to ensure performance of SOEs and maintain a competitive landscape (Abate et al. 2020; EBRD, 2020).

Improving resilience and well-being through infrastructure

The pandemic highlighted the benefits of reliable digital infrastructure for resilience. Infrastructure investment can also enhance economic performance and well-being in the medium term. Investment needs were already large before the pandemic, with public capital relative to GDP flat or falling over the past decade and infrastructure quality deteriorating in a number of OECD economies. Similarly, the stock of infrastructure in emerging-market economies remains insufficient to supply universal access to basic amenities such as electricity, water and sanitation, needed to achieve the Sustainable Development Goals (Rozenberg and Fay, 2019). On top of these, the Green Transition requires a substantial investment, particularly in clean energy and transport infrastructure.

Public infrastructure investment can also provide effective short-term demand stimulus, particularly where there is economic slack and fiscal multipliers are higher (Abiad et al, 2015, Schwartz et al, 2020). With long-term interest rates low, the social rate of return on public investment is likely to exceed financing costs for many projects. But the aggregate benefits of infrastructure investment depend upon effective: *i*) project selection; and *ii*) planning, delivery and management of projects (Box 1.1).

There is scope to improve digital infrastructure – particularly in rural areas – in all countries. Moreover, physical infrastructure continues to hamper inclusive growth in a number of countries. Insufficient transport infrastructure can create traffic bottlenecks, and raising citizens' exposure to pollution. Addressing these gaps should be part of the recovery strategies in Colombia, Costa Rica, India, Israel and South Africa, as infrastructure deficiencies often restrict access to job opportunities and health care. In other countries, including the advanced ones, infrastructure governance can be improved.

The pandemic also renewed concerns about overcrowded housing, which has undermined the effectiveness of: *i*) self-isolation protocols, thus propagating the spread of the virus; *ii*) working from home; and *iii*) online schooling (OECD, 2020q). Housing also shapes resilience. Housing policy reforms that remove barriers to geographic or job mobility can mitigate the scarring effects of recessions (Section: Remove barriers to labour mobility) and create opportunities to climb the socioeconomic ladder (Judge, 2019), thus enhancing inclusive growth. In Denmark, Sweden and the Netherlands, much emphasis remains on reducing policy-induced housing market distortions. Finally, rising housing costs disproportionately burden low-income households (OECD, 2020q) – with housing affordability and quality a persistent issue in cities in Germany, Latvia, and United Kingdom. Housing can also pose risks to macroeconomic stability by raising household debt.

Box 1.1. Good infrastructure governance can deliver substantial benefits

On average, more than one-third of the resources spent on creating and maintaining public infrastructure are lost due to inefficiencies and better governance could make up half of the efficiency losses (IMF, 2015; Schwartz et al, 2020). If a country moved from the lowest to the highest quartile in public investment efficiency, it could double the impact of public investment on growth (IMF, 2015). Sound public infrastructure governance is also associated with higher productivity growth at the firm-level in upstream sectors and in downstream sectors (such as utilities, transport and communication; Demmou and Franco, 2020). Stronger infrastructure governance is associated with higher levels of efficiency, less volatile investment flows and lower levels of perceived corruption (Schwartz et al, 2020).

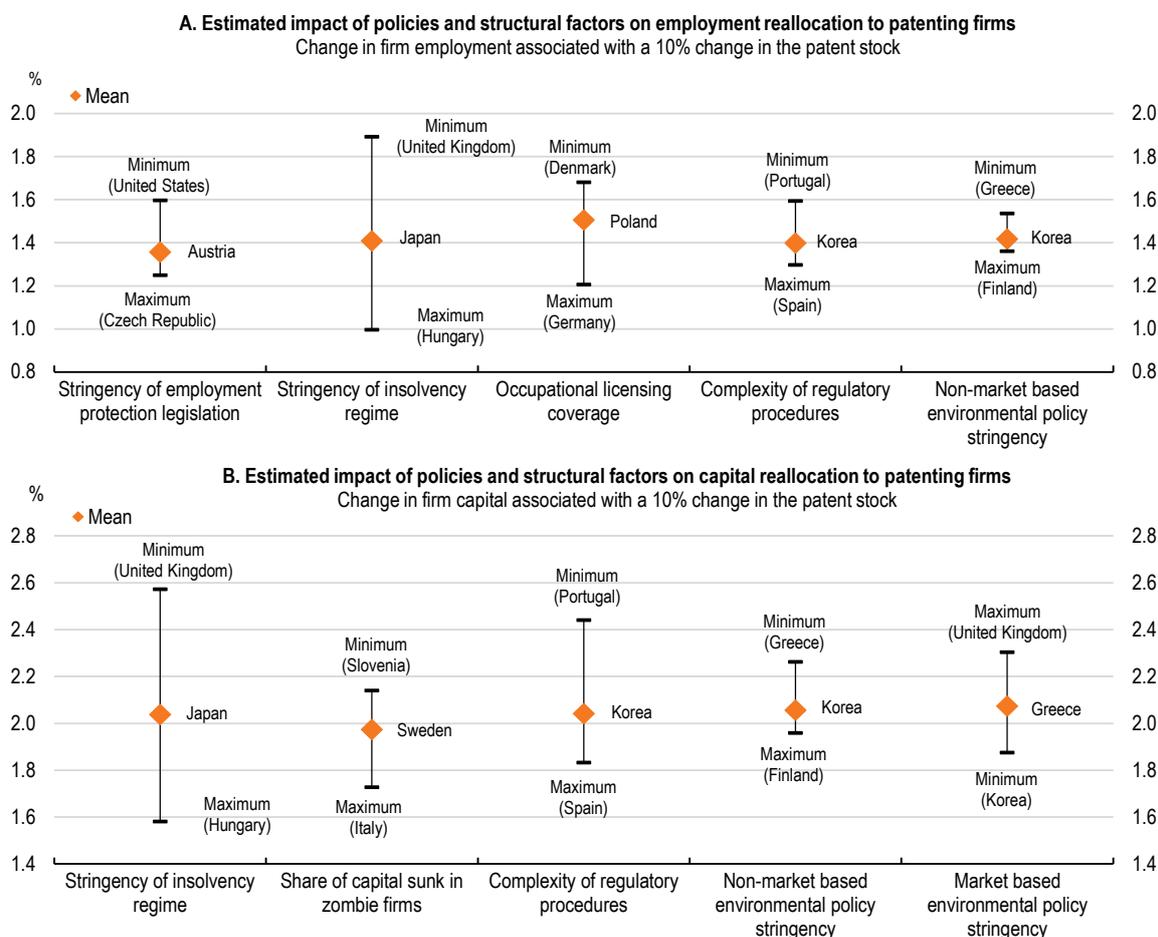
Institutional design of infrastructure governance is often better than effectiveness of the system itself (Schwartz et al, 2020). Gupta et al (2014) found that project selection and implementation are particularly important contributors to public capital and economic growth among low income countries, while for middle-income countries it was the appraisal and evaluation that mattered the most.

Policies to facilitate reallocation and boost productivity

Recessionary episodes over the past 40 years demonstrate that losses to potential output tend to be smaller in environments which more readily accommodate reallocation (Ollivaud and Turner, 2014). Increasing pressures for restructuring may arise from the interaction of pandemic-induced changes and digitalisation and the Green Transition. But the apparent decline in the reallocative capacity of OECD economies may increase the costs of adjustment, raising questions about the ability of current structural policy settings to effectively navigate this reallocation challenge. The pandemic may intensify this challenge if crisis policies that protected the economic structure during lockdowns become entrenched which risks exacerbating scarring effects for younger workers, and market concentration further rises with liquidations.

A speedier recovery will depend on the ability of economies to adjust to the organisational changes induced by the pandemic and undertake the restructuring necessary to embrace digitalisation, adapt to ageing and make progress on environmental goals. In this context, a key issue is the ease with which *innovative* firms can attract the complementary tangible resources – i.e. scarce capital, labour and skills – to test, implement and commercialise new ideas and eventually produce at a commercially viable scale. One metric of this process is the extent to which patenting firms can attract resources and grow, relative to other firms within industries, after controlling for country-specific industry level shocks (Andrews, Criscuolo and Menon, 2014). For the purposes of this chapter, this analysis was updated. On average across countries, a 10% increase in the firm patent stock is associated with a 1.4% increase in employment and a 2.1% increase in the capital stock (Figure 1.7) and evidence suggests a causal link between patenting and firm growth (Andrews, Criscuolo and Menon, 2014). But as discussed below, this process of resource reallocation to innovative firms varies significantly with the structural policy environment.

Figure 1.7. Well-designed policies can support resource reallocation to innovative firms¹



1. The charts show how the sensitivity of firm employment (Panel A) and capital (Panel B) to a 10% increase in patent stock varies with the policy environment and structural factors based on the methodology in (Andrews, Criscuolo and Menon, 2014).³
Source: OECD calculations based on Andrews, Criscuolo and Menon (2014).

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While a range of reallocation-friendly policies can support trend productivity growth, their impacts on short-run aggregate demand can vary. Priority should be given to those reforms that can be expansionary in the short run (Caldera Sánchez, de Serres and Yashiro, 2016) by removing impediments to firm entry, competition in market services and job mobility. Other examples include adapting competition policy for the digital age and some reforms to insolvency regimes. These reallocation-friendly reforms should be accompanied by policies to support workers (Section: Policies to support people in recovery and transitions) as they may lead to job displacement.

Removing obstacles to reallocation

Reduce barriers to entry

Market services have been particularly disrupted through pandemic-induced lower activity and changes in business models. More generally, this sector is relatively sheltered from competition in many countries. Stringent licensing and permits systems also create administrative burdens and regulatory complexity for firms in many countries. New OECD evidence suggests that reducing the complexity of regulatory procedures from the average level in Korea to the low level in Portugal could raise capital reallocation to innovative firms by 20% (Figure 1.7, Panel B).

Reducing entry barriers in service sectors with large pent-up demand and low entry costs can unleash firm entry, with the investment and employment gains materialising quickly (Forni, Gerali and Pisani, 2010). Such reforms can potentially leverage pent-up demand for some services as restrictions are lifted in the aftermath of the pandemic. Reducing economy-wide administrative burdens on firms can also improve expectations on future business conditions and spur firm entry, as evidenced from Southern Europe during the Global Financial Crisis (GFC, Ciriaci, 2014). Entry of new firms can help accommodate the organisational changes induced by the pandemic and the emergence of green technologies, as young firms have a comparative advantage in implementing radical technological and organisational innovations (Henderson, 1993). Reforms to entry barriers in the services features as one of the top priorities for many advanced economies, including Australia and United States as well as Indonesia (Figure 1.A.7).

Eliminate barriers to trade

Despite several major trade agreements and a noticeable increase in trade-facilitating measures over recent years, many distortionary barriers to trade remain (OECD, 2020o). Trade tensions between major economies have raised the need for policy action and several emerging-market economies continue to impose trade barriers that limit local firms from tapping into wider export opportunities (Argentina, Brazil, India). Multilateral cooperation (see Chapter 2) is crucial to grasp the benefits of lower trade barriers, which can provide opportunities to tap into markets that have recovered, thus supporting domestic employment, while spurring knowledge transfer and productivity growth over the longer run. Such policies should be coupled with well targeted support for workers who suffer from long-lasting displacement and lower earnings as a consequence.

Adapt competition policy for the digital age

Enhancing competition policy is one of the most frequent recommendation in the area of product markets regulation (Figure 1.A.7). The pandemic further highlights the need to adapt policy for the digital age. The shock has accelerated the shift in activity towards online marketplaces, thereby: *i*) sustaining production while traditional economic activities were severely disrupted; *ii*) reducing transaction costs, information asymmetries and entry costs for new providers with potential benefits for productivity; and *iii*) delivering services – e.g. low-cost logistics and payment services – that may especially benefit SMEs. While this may level the playing field between large and small firms, network effects can give rise to winner-takes-most dynamics that undermine competition against a backdrop of rising demand for digital services. Moreover, the assignment of data property rights to firms – as opposed to consumers – reinforces the high switching costs that result from network effects and the tendency for incumbent firms to hoard their data, stifling competition from start-ups that require access to data to train their algorithms. Recently, anti-trust cases against digital companies with substantial market power have been initiated by the US public authorities and the European Commission, while the European Commission also proposed for a new rulebook on digital services.

Competition authorities should pay attention to: *i*) new acquisitions by large technology firms (Cunningham, Ederer and Ma, 2018) and conglomerate mergers – i.e. between firms that are not current competitors, but may have products in related markets – which are more likely to occur in digital markets; *ii*) anti-competitive conduct by digital firms, including abuses of dominances or monopolisation (OECD, 2020r); *iii*) demand-side characteristics in markets, such as consumer behavioural biases (Fletcher, 2016); *iv*) the potential harm to follow-up innovation in their deliberations, since anti-competitive practices in digital markets are not always detectable in prices (OECD, 2018b); and *v*) placing the burden on dominant firms to show the consumer benefits of mergers and acquisitions (OECD, 2019c).

Remove barriers to labour mobility

Reducing barriers to geographic or job mobility can increase the speed of employment gains in difficult times. Reforms to reduce transaction taxes on housing purchases, the stringency of rental regulation and

housing supply frictions can promote residential mobility and labour match quality (Adalet McGowan and Andrews, 2015), which is crucial to mitigating scarring effects. There is also much scope to reduce the stringency of occupational licensing and the fragmentation of regimes within countries, which can boost job mobility, diffusion and productivity (Bambalaite, Nicoletti and Von Rueden, 2020). For example, reducing workforce coverage of licensing regimes from the high level in Germany to the average level in Poland could boost labour reallocation to innovative firms by 25% (Figure 1.7, Panel A).

Caution is warranted when reducing the stringency of EPL early in the recovery. By reducing labour adjustment costs, such reforms can channel resources to innovative firms (Figure 1.7, Panel A) but they may prove contractionary in weak economic times if they trigger immediate layoffs, while only gradually increase hiring over time (Duval, Furceri and Jalles, 2020). For this reason, reforms to housing markets and occupational licencing should take priority.

Reform insolvency regimes and promote access to finance

The exceptional magnitude of the crisis and high levels of uncertainty firms face about the shape of recovery (in particular in sectors where demand may have decreased permanently) could push viable firms into liquidation, especially smaller enterprises. Moreover, insolvency frameworks tend to be less efficient in times of crisis, especially when courts get an increased caseload.

These headwinds strengthen the case for reforms to insolvency regimes that reduce the cost of entrepreneurial failure and barriers to corporate restructuring, even if crisis have so far kept insolvencies at artificially low levels. This would help to foster efficient capital reallocation and the restructuring of zombie firms that hamper productivity growth (Andrews, Adalet McGowan and Millot, 2018). New OECD evidence shows that such reforms to insolvency regimes may also help support the growth of innovative firms (Figure 1.7). Reforming insolvency regimes is among the top five priorities for a number of countries, such as Greece, India, Italy, Latvia, Portugal and the Slovak Republic (Figure 1.A.7)

More specifically, given the risks of a corporate debt overhang to investment, insolvency regimes should assign priority to new financing ahead of unsecured creditors but some countries do not offer any priority to new financing (Estonia, Hungary, Norway). It is important to strike a balance, however, as assigning priority to new financing ahead of secured creditors – as occurs in Belgium, Italy and Portugal – risks adversely affecting credit supply (Adalet McGowan and Andrews, 2018). There is also scope to promote pre-insolvency frameworks and simplified (out-of-court) procedures for SMEs in many countries, including Greece, Latvia and the Slovak Republic. Long discharge periods and the lack of a “fresh start” in personal insolvency regimes – i.e. the exemption of future earnings from obligations to repay past debt due to liquidation – overly penalise entrepreneurial failure in Belgium, Estonia, Hungary, Portugal and Norway.⁴ This is crucial to mitigate scarring effects as lenders – prior to incorporation – often require personal guarantees or collateral, meaning that corporate insolvency often leads to personal insolvency.

These reforms could be deployed with tools to support equity financing to recapitalise firms and mitigate debt overhang via measures such as equity and quasi-equity injections (e.g. preferred stocks), phasing in an allowance for corporate equity and debt-equity swaps (OECD, 2020s). This aims to reduce the number of viable and productive firms that would be otherwise liquidated, while encouraging the timely restructuring of unviable firms. But other crisis-induced changes to insolvency regimes – e.g. moratoriums on debt restructuring and the suspension of provisions that prevent trading while insolvent – should be regularly reviewed to ensure that they do not become a permanent impediment to reallocation.

As policy stimulus is withdrawn, reforms to diversify the source of corporate financing away from bank lending towards market-based debt and equity financing can help spur productivity growth, given that investments in new knowledge are more reliant on equity financing. In fact this is a priority for Austria. Well-functioning financial markets can bring forward the gains from reforms by facilitating income smoothing – both to anticipate future gains and to offset temporary income losses – and financing investment.

Directing and facilitating a green recovery

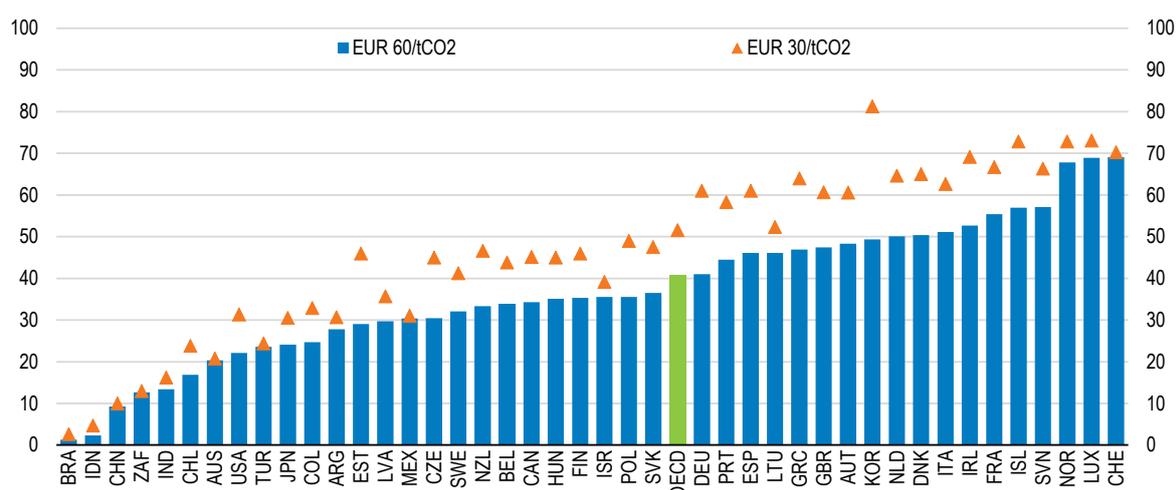
While the recovery from the GFC had not put the world on an environmentally sustainable path, this need not to be the case today. The pandemic could trigger behavioural changes in the way people work, travel and trade and adequate policies can ensure that such behavioural changes lead to permanent environmental improvements. To anchor long-term growth to a green path, strong and stable price signals are necessary but lacking (Figure 1.8). Most emissions are currently under-priced: in the 44 OECD and G20 countries, responsible for 80% of global emissions, 81% of emissions are priced below EUR 60/tCO₂ (OECD, 2021c).

Early commitment to the increasing use of carbon taxes later in the recovery phase – with clear price trajectories (based on the social cost of carbon) – can provide forward guidance to investors, without immediately burdening businesses with new taxes (Van Dender and Teusch, 2020). This will lower uncertainty and help fill the green investment gap (Section: The Green Transition adds restructuring challenges) given that higher environmental policy uncertainty (e.g. arising from frequent policy reversals) significantly dampens investment, especially amongst capital-intensive firms (Dechezleprêtre, Kruse and Berestycki, 2021). Clear and certain price trajectories – coupled with the phasing out of fossil fuel subsidies and tax expenditures – promise significant emission reductions, while maintaining economic growth in the recovery. Increases of carbon tax are among the top reform priorities in the Czech Republic, Denmark, Ireland, Iceland and South Africa.

Stronger environmental policies do not necessarily hinder aggregate productivity growth. Productive firms facing stricter environmental policies can capitalise on new opportunities to raise revenues (e.g. via new and expanding markets or satisfying demand for greener goods) and reduce costs (e.g. via technological spillovers and lower borrowing costs) (Dechezleprêtre et al., 2019). By contrast, stringent environmental policy can force the downsizing/exit of less productive firms – by disproportionately raising their costs (Albrizio, Kozluk and Zipperer, 2017) – which creates space for productive firms to expand (Dechezleprêtre, Nachtigall and Stadler, 2020), thus boosting aggregate productivity.

Figure 1.8. Most countries under-price their carbon emissions

Carbon pricing score,¹ 2018



1. The carbon pricing score (1- carbon pricing gap) shows how close countries are to pricing carbon in line with carbon costs. EUR 60 is a midpoint estimate for carbon costs in 2020, a low-end estimate for 2030. Pricing all emissions at least at EUR 60 in 2020 shows that a country is on a good track to reach the goals of the Paris Agreement to decarbonise by mid-century economically.

Source: OECD, Effective Carbon Rates 2021 Database.

Strong environmental policies would align firms' incentives with the collective interest of environmental sustainability. The experience of the GFC shows that green recovery packages alone are insufficient to provide sustained incentives for green investment – notably, carbon capture and storage (CCS) technologies – as they did not benefit from a clear commitment to long-term carbon pricing trajectories that can render such investments more viable (OECD, 2020f). Thus, emissions recovered quickly after an initial dip and green stimulus measures were overshadowed by a polluting recovery.

Beyond establishing effective environmental policy signals, policymakers should be mindful of four considerations as they attempt to engineer a green recovery and transition over the longer term: *i*) the impacts of policy decisions on reallocation; *ii*) the importance of complementary policies; *iii*) minimising cross-border leakage; and *iv*) the need to design policy packages to ensure their public acceptability.

Designing environmental policies with reallocation in mind

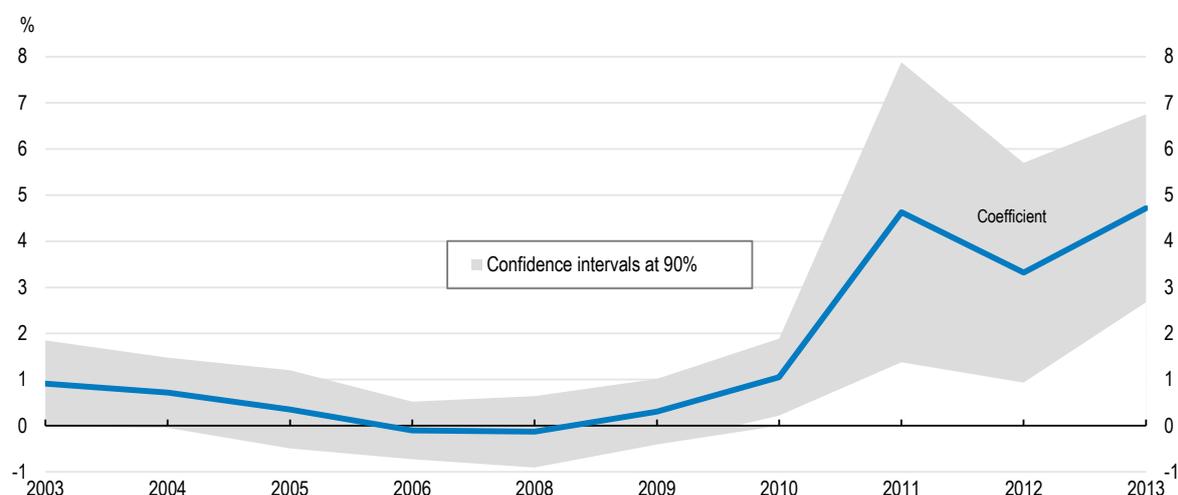
Since investment cycles can last several decades, macroeconomic stimulus packages need to be carefully designed to ensure they do not excessively subsidise polluting activities or lock-in carbon-intensive technologies. In this regard, the GFC provides a cautionary tale. Whereas the prevalence and resources sunk in zombie firms increased after 2007 (Adalet McGowan, Andrews and Millot, 2018), this phenomenon was more pronounced in heavily polluting industries (Figure 1.9). This suggests that the GFC and related policy response may have inadvertently slowed restructuring in polluting industries. This increased “high emission” zombie congestion can hinder necessary reallocation: *i*) between firms, if zombie firms crowd-out growth opportunities for innovative firms; and *ii*) within firms, if cash-strapped zombie firms are not able to respond to environmental policy signals and invest in low-emission technologies.

Some environmental policies are more reallocation-friendly than others. For example, tighter market-based Environmental Policy Stringency (EPS) is associated with stronger patterns of capital reallocation to innovative firms (Figure 1.7, Panel B). This is consistent with the idea that market-based policies achieve the largest emission reductions where it is the cheapest to abate them, without prior knowledge of the firms' cost structure, and can be geared towards minimising administrative costs and maintaining competition (Albrizio, Kozluk and Zipperer, 2017).

Non-market based environmental policies (e.g. standards) are associated with weaker reallocation to innovative firms (Figure 1.7). But this may partly reflect the tendency for non-market tools to explicitly differentiate on plant vintage or provide a more favourable treatment to existing installations based on prior use (“grandfathering”). Vintage differentiated regulations may be necessary to garner policy support but to the extent older plants and installation are associated with incumbent firms they can impede market rejuvenation, as evidence from the coal-fired power plant industry suggests (Coysh et al., 2020).

Figure 1.9. In emission-intensive industries zombie congestion rose more after the Global Financial Crisis

Share of capital stock sunk in zombie firms in emission-intensive versus other industries¹



1. After the Global Financial Crisis, the share of capital in zombie firms grew proportionally more in emission intensive industries. By 2013, one standard deviation in emission intensity is associated with an increase in the zombie capital share rising by 5 percentage points, relative to an average share of 12% of capital in zombie firms in that year. Annual estimates are obtained from regressing the share of capital in zombie firms on industry-level demand-embedded emission intensity for 9 European countries. In a year, one standard deviation in emission intensity is associated with an industry-level change in the share of capital in zombie firms equal to a dot; the lines are confidence intervals at 90%. The regression includes years and country fixed effects. The emissions are those of 2015 to avoid simultaneity problems. Three-way clustered standard errors (country, industry, and year).

Source: OECD calculations based on Adalet McGowan et al. (2018).

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Complementary structural policies to support the Green Transition

The Green Transition also requires policies to rectify market imperfections that impede the flow of finance, knowledge and skills to green firms. For example, there is an urgent need to update financial market architecture (Box 1.2), given that firms subject to financial constraints after the GFC had higher emission intensities (Figure 1.9 and IMF, 2020a). There is also a case for policy support to green R&D (Box 1.2) through a combination of: *i*) “Technology-push” tools (e.g. direct subsidies, tax credits, project grants and loans) directed at technologies with the largest potential for emissions reduction that are furthest from the market (i.e. CCS, batteries for intermittent energy sources, and smart grids); and *ii*) “Market-pull” tools (i.e. tariff incentives, renewable portfolio standards), which can increase demand for green goods and thus spur green innovation. But the effectiveness of innovation policy support is enhanced when skilled labour is more readily reallocated to productive firms, given that the supply of researchers is fixed in the short-run (Acemoglu et al., 2018). Given partial transferability of skills between green and brown activities (Section: The Green Transition adds restructuring challenges), structural policies – which can reduce skill mismatch (Section: Removing obstacles to reallocation) – can help reallocate scarce skills to green firms. This is relevant at the current juncture, as skill mismatches reduced the gains – especially in the short run – from green stimulus measures during the GFC (Popp et al., 2020).

Box 1.2. Addressing imperfections in financial and knowledge markets

Investors are progressively reinforcing their positions on ESG (Environmental, social and corporate governance) assets but financial market imperfections still place the financing of green projects at a disadvantage. There is potential to reduce the information asymmetries and level the playing field by: i) specialising the informational and disclosure tools on sustainability (i.e. establish standards for how firms disclose and report environmental information to stakeholders), which can spur divestments into carbon-intensive firms (Mésonnier and Nguyen, 2021); ii) favouring the adoption of standards in project financing and banking operations; iii) providing a favourable regulatory and institutional environment for new financing products (e.g. green bonds), benchmark indexes that track environmental performances, and specialised investment vehicles (e.g. responsible investment funds) (OECD, 2015c); and iv) mainstreaming of climate considerations in central banking operations (e.g. portfolio management).

Even if the pollution externality is addressed, policy support for green R&D is warranted to address under-investment in R&D caused by knowledge spillovers. Green R&D is further disadvantaged by path-dependencies in fossil fuels use but policy support can help break this lock-in and then be phased-out as green technologies become profitable (Acemoglu et al., 2012). It can also decrease abatement costs and liberate firms' resources for productive purposes while stable public R&D subsidies can spur green patenting, especially when coupled with strong environmental policies (Aghion et al., 2016).

Preventing cross-border leakage of emissions

Emission leakage – whereby stringent domestic climate policies push production (and thus emissions) to more permissive jurisdictions – is a key challenge, as environmental policy stringency rises against a backdrop of mobile production in the global value chain. Emission leakage reduces the effectiveness of climate mitigation policies (as emissions are displaced rather than cut) and weakens political support for the implementation of climate policies, if foregone production implies fewer jobs and less fiscal revenues. Compensating firms in emission-intensive trade-exposed industries to retain their domestic production does not align with the “polluter-pays” principle and can result in substantial overcompensation (D’Arcangelo, 2020). By contrast, Border Carbon Adjustments – a measure to address carbon-leakage and competitive advantage concerns through pricing the carbon embedded in imports – could be a less distortive tool to address leakage. But their implementation could result in trade and environmental tensions if perceived as tools for ‘green protectionism’. As such, Border Carbon Adjustments require careful design, including a review of their compatibility with trade agreements; types of emissions covered; estimation of carbon content; and the status of export rebates (OECD, 2020t).⁵ In any case, global co-ordination on climate mitigation policies is the most cost-efficient solution (Chapter 2).

Public acceptability will determine the success of Green Transition policies

The implementation of environmental policies to steer the Green Transition hinges upon their public acceptability (Coglianese, Finkel and Carrigan, 2013), as exemplified by significant policy reversals in Australia (the repeal of a carbon permits system, *Clean Energy Act 2011*) and the United States (the signing, subsequent withdrawal and recent re-joining of the 2015 Paris Agreement). While most people care about the environment, environmental policies – particularly market-based policies (e.g. carbon taxes) – can raise concerns about the consequences for job security and the cost of living.

These fears are not completely unfounded. While the Green Transition entails net-positive health and economic effects (Vona, 2019), it implies fundamental restructuring from which transition costs arise:

- Major direct impacts on specific sectors, such as mining and fossil fuel and energy-intensive industries (Chateau, Bibas and Lanzi, 2018) through competitiveness losses due to higher costs – particularly in the case of unilateral actions or potentially direct phasing out of activity due to bans on specific inputs and outputs.
- Income loss of some workers in pollution-intensive industries, as well as through knock-on effects in sectors heavily reliant on activity in these sectors, driven by both non-employment and lower-income in future employment (Walker, 2011).
- Low-skilled workers are particularly affected, especially if their competencies are automated or offshored, and poorly matched to the skill requirements of new green jobs (Marin and Vona, 2019).
- Increases in relative prices of electricity and heating, which tend to constitute a larger share of spending for lower-income households (Levinson, 2019).

When the burden falls heavily on vulnerable groups, the policies' fairness – a stronger acceptability determinant than their assessed effectiveness (Clayton, 2018) – will be perceived poorly by the public (Douenne and Fabre, 2020). These attitudes may be reinforced in the context of the global debate on to what extent advanced economies should carry more responsibility for climate change (CSO Equity Review, 2019). Capitalising on these perceptions, some pollution-intensive firms may seek to advance “job-killing” arguments against green policies or to exert direct political pressure on policymakers, especially if their assets would become stranded under the new regime (Deng, Wu and Xu, 2020). All this implies that ramping up environmental policies faces resistance, but several design aspects of environmental policy reform have been identified as helpful in securing public support (Box 1.3).

Box 1.3. Strategies for garnering public support for environmental policies

Mechanisms to counter the distributional effects of environmental policies are crucial for their acceptability. Taking the case of carbon pricing, while there is no silver bullet, public support for carbon pricing can be enhanced by:

- **Phased-in, transparent policy stringency increases** (e.g. gradual carbon price increases), which provides households with adequate certainty to plan their due adjustments (Coady, Parry and Shang, 2018). A notable example is the Pan-Canadian Framework (PCF), which has introduced annual carbon pricing increments since 2019 and will reach its full capacity in 2022.
- **Revenue recycling** to finance universal transfer payments, lower (income and labour) taxes and targeted support for affected communities (Coady, Parry and Shang, 2018). Effective implementation can be aided by efforts to: *i*) reduce existing inefficiencies in the tax system, which would also promote the novel taxation's image of equity and efficiency (Klenert and Mattauch, 2019); and *ii*) make visible the immediate benefits the scheme delivers to households (Klenert et al., 2018).
- **Transparent revenue use, perceived as equitable and efficient.** Progressivity is key: targeted transfers to exposed households are most effective, followed by universal lump-sum transfers. Cuts to labour taxes have mixed distributional consequences and capital or corporate taxes are more regressive (Klenert et al., 2018).
- **Revenue earmarking to environmentally-related measures** (Hsu, Walters and Purgas, 2008), such as green R&D support, targeted fiscal incentives (e.g. capital grants), public infrastructure investments to address externalities and regulation of knowledge spillovers via renewable generation shares. An example is Europe's Common Agricultural Policy, which aims to create a stronger link between direct support for farmers and their environmental footprint.
- **Public communication and education campaigns** to emphasize the benefits of carbon pricing and correct public misperceptions, as support for green policies increases with climate

change knowledge and the belief of human causation (Sibley and Kurz, 2013). They should also highlight that climate change will especially harm the poor without policy action (Leichenko and Silva, 2014) – demonstrating that climate mitigation policies have the benefit of providing revenues to offset such effects – and engage the local business community to garner its support or soften its opposition (Chu, Wu and Van den Broeck, 2014).

- **Non-aversive policy naming and branding.** Avoiding wording that implies taxation (e.g. the Swiss labelling of the “CO₂ Levy”) can avoid evoking general distrust in government and its capacity to spend the revenues for the common good (Klenert et al., 2018).
- **Promoting actions that increase trust in the local political and government institutions,** as that is associated with higher support for environmental policies (Harring and Jagers, 2013).

Policies to support people in recovery and transitions

As the recovery gains momentum, a key challenge will be to gradually withdraw support and allow resources to be reallocated. Reallocation creates opportunities, but can come at a cost, especially for the less skilled and those already on the margins of the labour market. In order to convert these challenges into opportunities, people need the right skills, income support during the transition and protection for vulnerable populations.

Turning passive support into activation and coping with creative destruction

With a high share of workers protected by job support schemes, a comprehensive exit strategy will be needed, that should include a requirement for workers to register with the public employment services (and benefit from job search assistance, career guidance and training can support transitions from unviable to viable jobs). To underpin a swift recovery, policy should shift away from broad support to firms and workers towards more targeted measures (Box 1.4). Early interventions – especially prior to job displacement – can be very effective in this regard (OECD, 2018c).

Box 1.4. Job retention schemes – reforming popular emergency tool to support recovery

By May 2020, job retention schemes (JRS) supported about 50 million jobs across the OECD – about ten times as many as during the GFC. These schemes typically allow firms to adjust working hours at zero costs, greatly reducing the number of jobs at risk of termination due to liquidity constraints. While intended to temporarily maintain employer-employee links during the pandemic, JRS may become a permanent institutional feature of labour markets.

To support the recovery, JRS need to be re-designed to: *i*) align replacement rates with those of unemployment benefit schemes (currently not the case in many countries); and *ii*) ensure that their interaction with income support benefits does not undermine work incentives and reinforced inequalities. Well-designed JRS should give employers incentives to use them only as an emergency tool while containing adequate incentives for workers to search for jobs. This can be achieved by:

- Requiring firms to contribute to the costs of hours not worked or increasing the employer contribution over time, so that JRS only subsidises job matches that the firm deems viable.
- Limiting the job retention support in time, while allowing some flexibility regarding the health and economic conditions.
- Registering beneficiaries of the JRS with public employment services (PES) and making them available to be hired. This allows workers to benefit from job-search assistance, career guidance and training and encourages mobility towards viable jobs. Early, targeted interventions to encourage labour mobility are efficient (Andrews and Saia, 2017).
- Promoting training for workers on reduced working hours to improve the viability of their current job or improve the prospect of finding a new one.
- Easing restrictions on combining income from JRS with income from other jobs to incentivise workers to seize new job opportunities.

Source: Blanchard, Philippon and Pisani-Ferry (2020); OECD (2020a), OECD (2020n).

Protecting low-income workers

Low-income workers and those working in essential activities were strongly affected by the crisis, spurring discussions about the minimum wage and overall job and social protection of these workers. In several emerging-market economies (Turkey, Indonesia, Colombia and Costa Rica) the policy challenge is to avoid possible unintended consequences of pricing some low skilled workers out of the formal labour market due to excess minimum wages remains (Figure 1.A.3). In several advanced economies, the pandemic and ongoing labour market changes (e.g. skills-biased technological change and increased popularity of non-standards work forms) brought the issue of minimum wages to the fore, as a means to ensuring decent incomes of the low income workers. This is particularly the case in the United States, where raising the federal minimum wage is among the top priorities. Recent evidence suggests that increases of the minimum wage up to 59% of the median wage have little negative impact on employment (Dube, 2019).

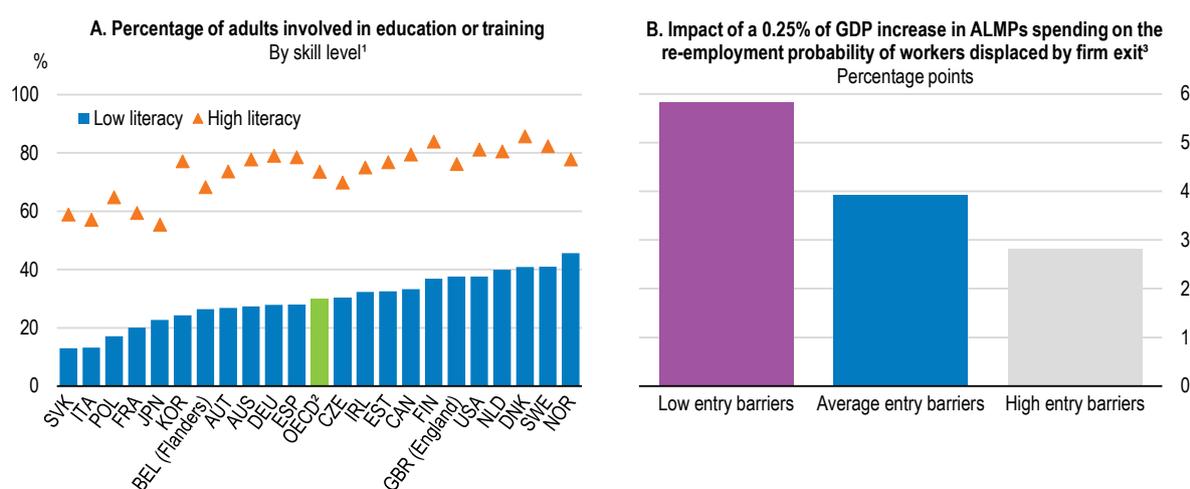
Raising incentives to work and hire in the tax-benefit systems can also result in a wider wage distribution among those employed (OECD, 2015b). A number of countries should focus on lowering the tax wedge on labour incomes (Figure 1.A.9). In particular, tax system can be an efficient tool to ensure an inclusive recovery, for example through earned income tax credits and tax credits for low-income families with children, who are more likely to spend it, hence also reinforcing the recovery (OECD, 2020u).

Enhancing employability

Active labour market policies (ALMPs, e.g. job search and retraining support schemes) can help upskill workers at risk of unemployment, especially when the support measures are withdrawn. Reforming ALMPs is a priority for 17 countries (Figure 1.A.8). Many mature adults lack digital skills, which are increasingly essential (OECD, 2019d). Thus, reskilling should focus on building digital capabilities among the lower skilled and other vulnerable groups, which are more exposed to labour market adjustments induced by the pandemic and digitalisation but are less likely to participate in training (Figure 1.10, Panel A). People with lower skills can also find themselves in a low-skill trap, characterised by limited opportunities for development and precarious tenure (i.e. frequent and at times prolonged unemployment spells; OECD, 2017), which reduces the returns to training (OECD, 2019d). Some countries made participation in JRS conditional on upskilling and made on-line training and development courses freely available (e.g. the Netherlands), others provide financial incentives to firms or workers (e.g. France, Germany).

Activation policies can help return displaced workers especially when paired with reforms that lower firm entry barriers, which tend to stimulate job creation, particularly by young firms. For example, a 0.25% of GDP increase in ALMP spending is associated with a 6 percentage point increase in the re-employment probability of displaced workers when regulatory entry barriers are low, compared to a gain of less than 3 percentage points when entry barriers are high (Figure 1.10, Panel B).

Figure 1.10. Policy considerations for active labour market policies



1. Low literacy refers to level 1 or below (adults are at most able to read short texts) and high literacy refers to level 4/5, where adults are able to at least perform multiple-step operations to integrate, interpret, or synthesise information from complex or lengthy continuous, non-continuous, mixed, or multiple type texts, as defined in the OECD Survey of Adult Skills (PIAAC). Adults refers to 25-65 year olds. Training refers to both formal and non-formal training.

2. The OECD average includes countries presented in the chart.

3. The bars show the percentage point impact on the re-employment probability of a 0.25% increase in spending on Active Labour Market Policies (ALMPs as a share of GDP) for three levels of entry barriers corresponding to the: i) average of the two best performing countries over the sample period (purple bar); ii) average level observed over the sample period (blue bar); and iii) average of the two worst performing countries over the sample period (grey bar).

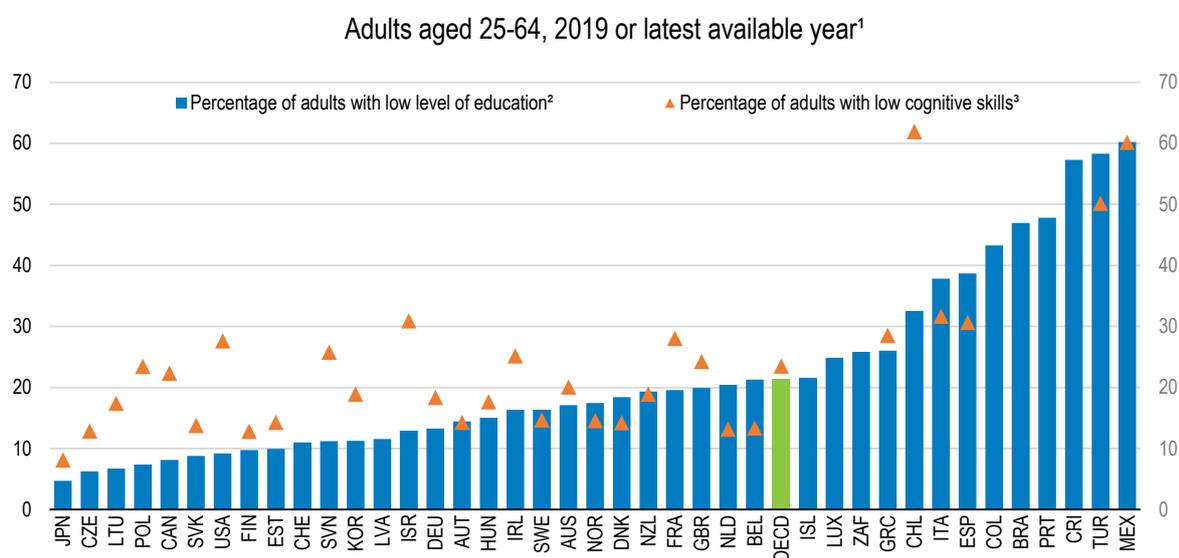
Source: Panel A: OECD calculations based on OECD (2017), *Educational Opportunity for All: Overcoming Inequality throughout the Life Course*, Educational Research and Innovation; Panel B: Andrews and Saia (2016).

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Improving life-long learning is a priority for 16 countries, where recommendations broadly follow the 2019 Skills Strategy (OECD, 2019e). On average across OECD countries, 57% of adults with medium and high wage participate in adult learning, while among the low wage adults this is only 35% (OECD, 2019d). The

policy challenge is to attract those with low levels of education or cognitive skills, whose shares can be considerable across some countries (Figure 1.11). The experience of Denmark, Sweden and Norway illustrates that it is possible to attain similar participation of workers across the wage spectrum.

Figure 1.11. Gap in education and cognitive skills point to large upskilling needs



1. 2012-2015 for PIAAC data on cognitive skills.

2. Low level of education is defined as below upper secondary education.

3. Low cognitive skills is defined as numeracy proficiency level 1 or below as assessed by the PIAAC scale. Data for Belgium refers to Flanders only; data for the United Kingdom refers to England and Northern Ireland only; data on cognitive skills are not available for Brazil, Colombia, Costa Rica, Iceland, Latvia, Luxembourg, Portugal, South Africa and Switzerland.

Source: OECD, Education at a Glance Database; OECD (2016), Skills Matter: Additional Results from the Survey of Adults Skills.

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Equipping people with the skills needed

The impact of the pandemic on human capital is difficult to estimate, in part due to the challenge of gauging the value of human capital across countries (Botev et al, 2019). At the height of school closures around the world in April 2020, 90% of the school-aged children and youth around the world were affected, accounting for more than 1.5 billion students. This may carry lifelong consequences since ‘learning begets learning’, i.e. investment into human capital is complementary across time (Bjoerklund and Salvanes, 2010). Although estimates vary, a lost school year could represent a loss between 7-10% of one’s lifetime income (OECD, 2020t), and estimates suggest that school closures of four months could generate sizeable GDP losses, especially in low income countries (Psacharopoulos et al, 2020).

Policies to augment human capital are the second most frequent priority area for both advanced and emerging-market economies, particularly those targeted at reforming adult learning and pre-school childcare (Figure 1.A.8). Education policy reforms can make growth more inclusive and resilient (OECD, 2017c) but their macroeconomic impact can take time to materialise (Egert, et al 2019).

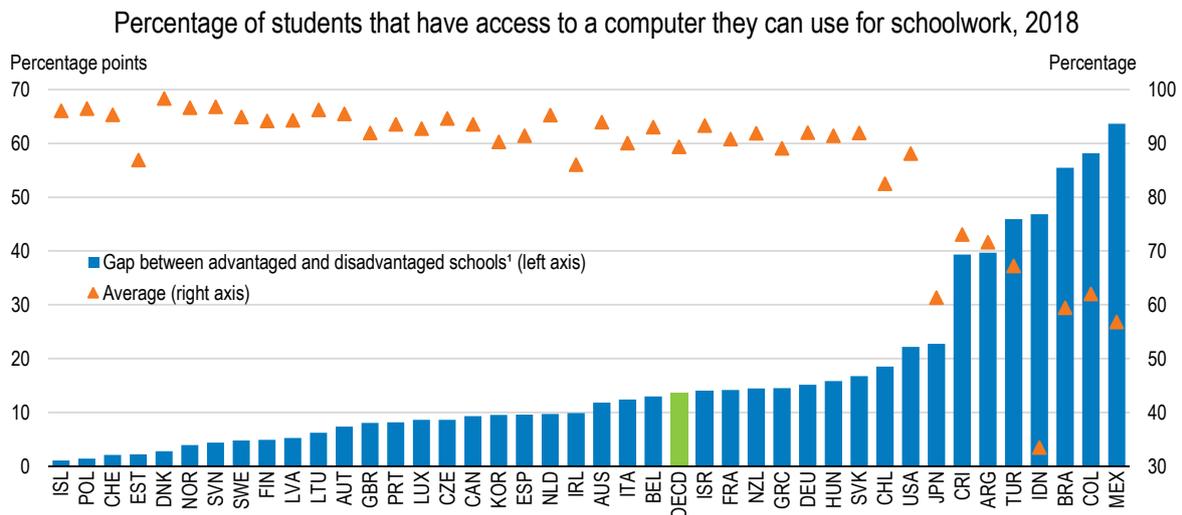
The large scale shift to online learning has provided an invaluable ‘experiment’. Before the pandemic: *i*) teachers’ familiarity with integrating technology instructional practice was limited in many countries (OECD, 2020t); *ii*) 9% of 15-year-old students (on average across OECD countries) did not have a quiet place at home to study; and *iii*) access to digital learning was much lower for schools in disadvantaged areas

(Figure 1.12). The crisis revealed the need for innovation that is absent in many education systems, both in terms of developing infrastructure for online and remote learning and augmenting the capacity of teachers and students to use these new channels (OECD, 2020t).

With the shutdown of schools, disparities in digital access and knowledge have become clear at all levels of education. For students, remote learning placed greater demands on autonomy, capacity for independent learning and self-monitoring, all essential non-cognitive skills, some of which have been linked to school attainment and educational achievement (OECD, 2020t; Cunha et al, 2005). Development of such skills among the most vulnerable groups can have a particularly positive impact on overall educational achievement, though these are rarely part of official curricula (Heckman, Stixrud and Urzua, 2006).

Children from disadvantaged backgrounds appear to have suffered the most in terms of lost learning (Engzell, Frey and Verhagen, 2020). Education programmes targeted at these children can help make up their learning loss, as for instance recommended for Australia. Recommendations to focus on disadvantaged students at both primary and secondary level pre-dates the pandemic for a number of countries (Figure 1.A.9).

Figure 1.12. Access to digital learning is unequal in many countries



1. A socio-economically disadvantaged (advantaged) school is a school whose socio-economic profile (i.e. the average socio-economic status of the students in the school) is in the bottom (top) quarter of the PISA index of economic, social and cultural status amongst all schools in the relevant country.

Source: OECD, PISA Database.

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Notes

¹ Results are obtained using the individual-level regression: $y_{icgt} = \beta_0 + \beta_1 \text{UE}_{cg} + \text{FE}_c + \text{FE}_t + \text{FE}_g + \text{FE}_a + \epsilon_{icgt}$ where the unit of observation is the individual i of age a interviewed at time t living in country c who graduated in year g . The outcome of interest is unemployment status and the explanatory variable of interest is UE_{cg} represents the youth unemployment rate (20-24 years) – observed in country c in graduation year g . Also included are country fixed effects, year of graduation fixed effects and cohort and age fixed effects. The model is estimated using cross-sectional data for around 20 million individuals over 1983-2019 in 25 countries. Education is based on ISCED-3 levels.

² In this publication, the group of advanced economies comprises all OECD member countries excluding Chile, Colombia, Mexico and Turkey. These four countries, alongside Argentina, Brazil, China, Costa Rica, Indonesia, India, Russia and South Africa are labelled emerging-market economies.

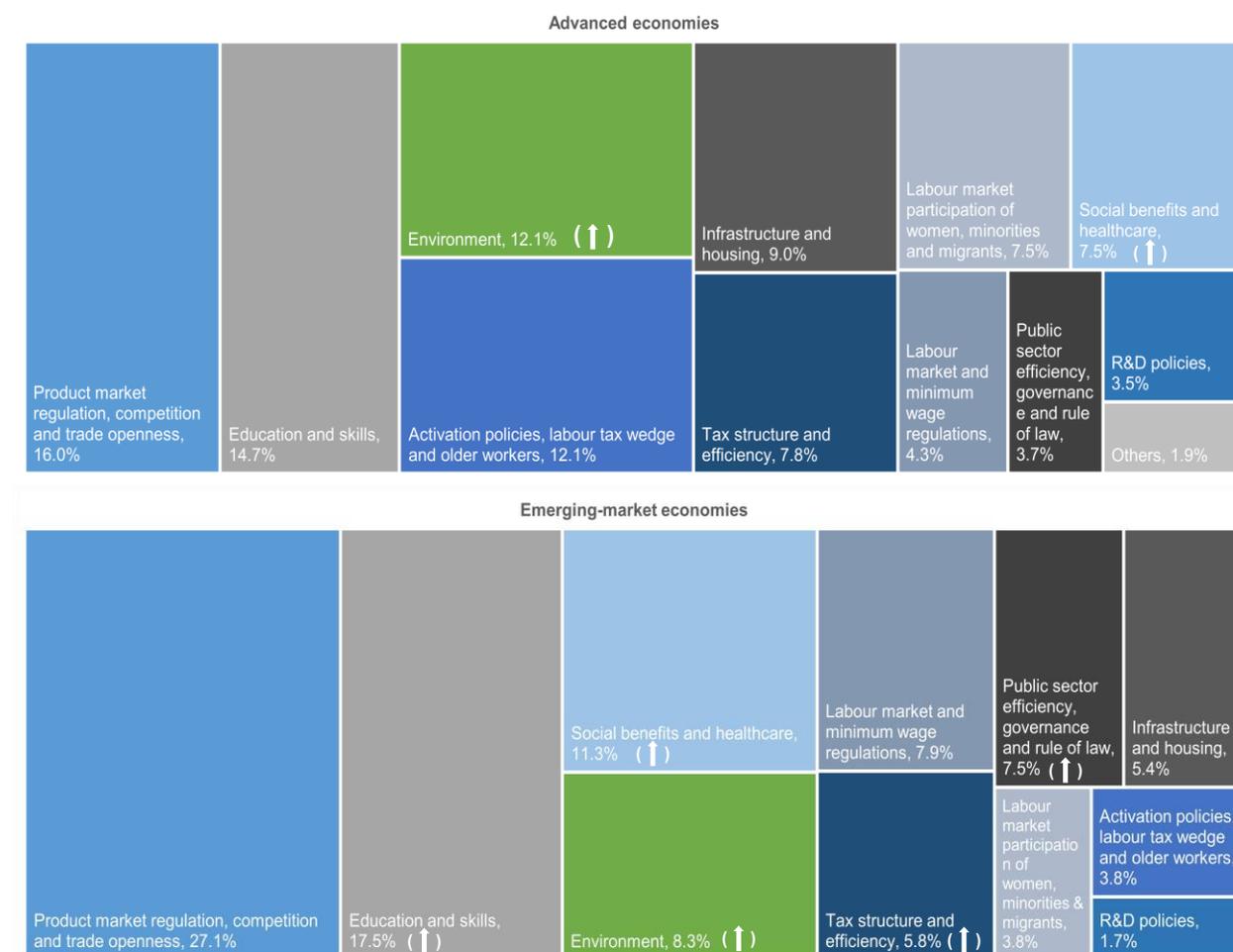
³ This involves estimating a firm-level regression: $\ln(Y_{isct}) = \beta_1 \ln(\text{PatS}_{isct}) + \sum_j \beta_2^j \ln(\text{PatS}_{isct} * P_{ct}^j) + \eta_i + \mu_{sct} + \epsilon_{isct}$. Where: Y is the respective outcome variable (log employment or capital stock), PatS is firms' patent stock. P is the respective policy variable or structural factor. η_i are firm fixed effects, μ_{sct} are country-industry-year fixed effects, and ϵ_{isct} is the usual error term. To calculate the effects of policies and structural factors, coefficient estimates -- statistically significant at least at the 10% level -- are combined with the latest available indicators for each country over the sample period. The model is estimated over the years 2003-2014, and across 23 OECD countries. The labels "Minimum" ("Maximum") denote the country with the lowest (highest) value for the given indicator. The fitted value for stringency of employment protection legislation is based on 2014 OECD EPRC values. The stringency of insolvency regimes is based on 2010 "Insol13" indicators from (Adalet McGowan and Andrews, 2018). Occupational licencing coverage is based on 2015 values from (von Rueden and Bambalaite, 2020)]. Complexity of regulatory procedures is based on 2013 values from OECD PMR. Environmental policy stringency data is based on 2012 values from OECD EPS (Botta and Koźluk, 2014)]. The zombie capital share is based on 2013 values from (Andrews, Adalet McGowan and Millot, 2018).

⁴ As the EU Directive on Preventive Restructuring Frameworks and Second Chance recommends the harmonisation of discharge periods in Europe to a maximum of three years for honest entrepreneurs, countries could bring forward reforms in this area to reduce the stigma of failure associated with personal insolvency.

⁵ Other instruments are available. OECD (2020t) offers an overview of their strengths and weaknesses.

Annex 1.A. Overview of 2021 priority areas

Figure 1.A.1. Distribution of 2021 priorities across countries



Note: Upward-pointing arrows are associated with priority areas having increased their relative share in the distribution of priorities, with respect to *Going for Growth 2019*.

Figure 1.A.2. Key recommendations on health and social benefits

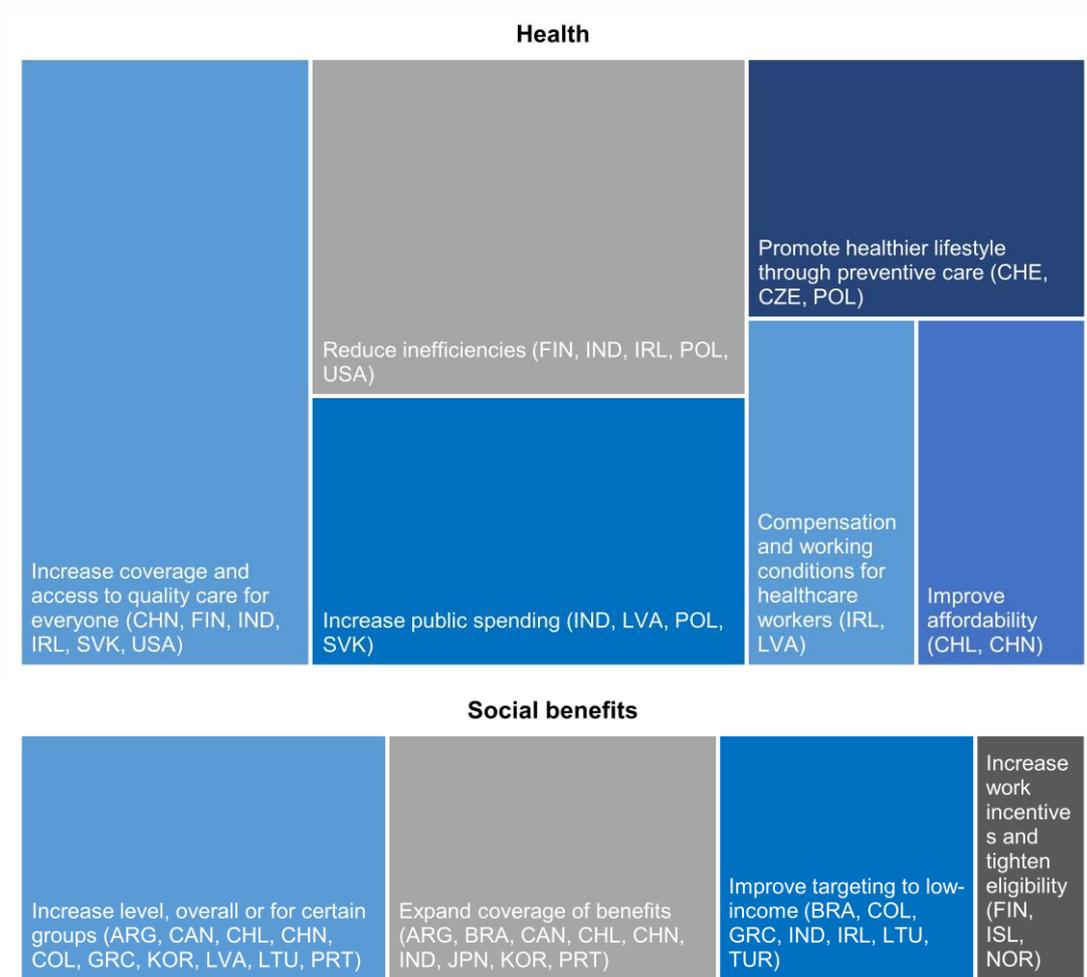


Figure 1.A.3. Key reform recommendations on labour market duality



* Key recommendations refer to increasing the minimum wage in the United States and to avoiding too high levels of it (including through regional differentiation) in the case of Colombia, Costa Rica, Indonesia and Turkey.

Figure 1.A.4. Key recommendations in the area of provision of infrastructure and housing

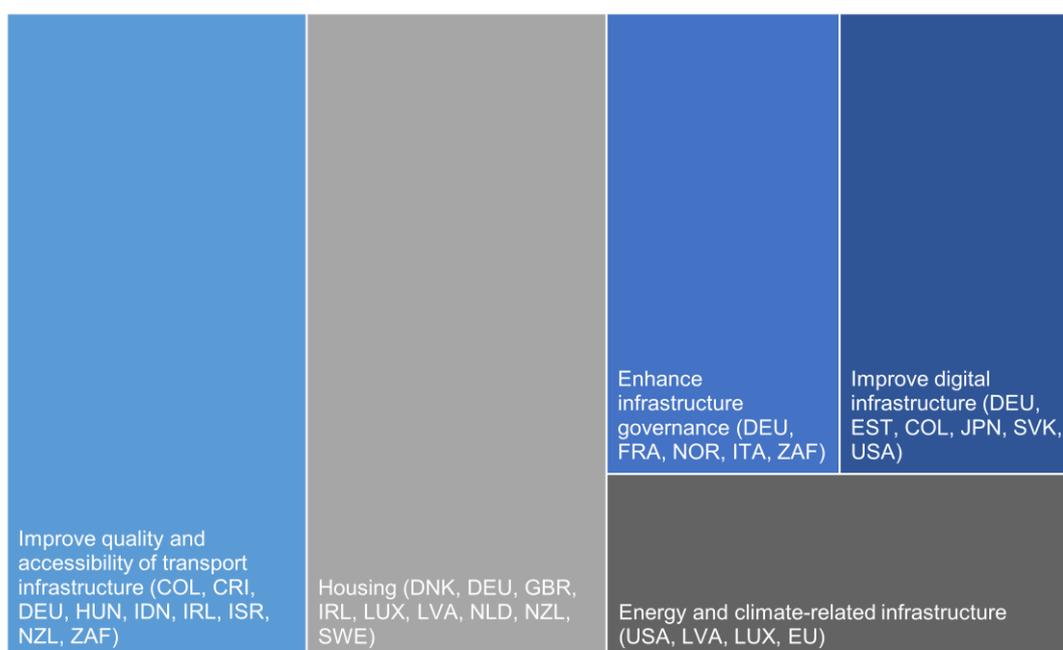


Figure 1.A.5. Key recommendations on green growth



Figure 1.A.6. Key recommendations on public governance and rule of law

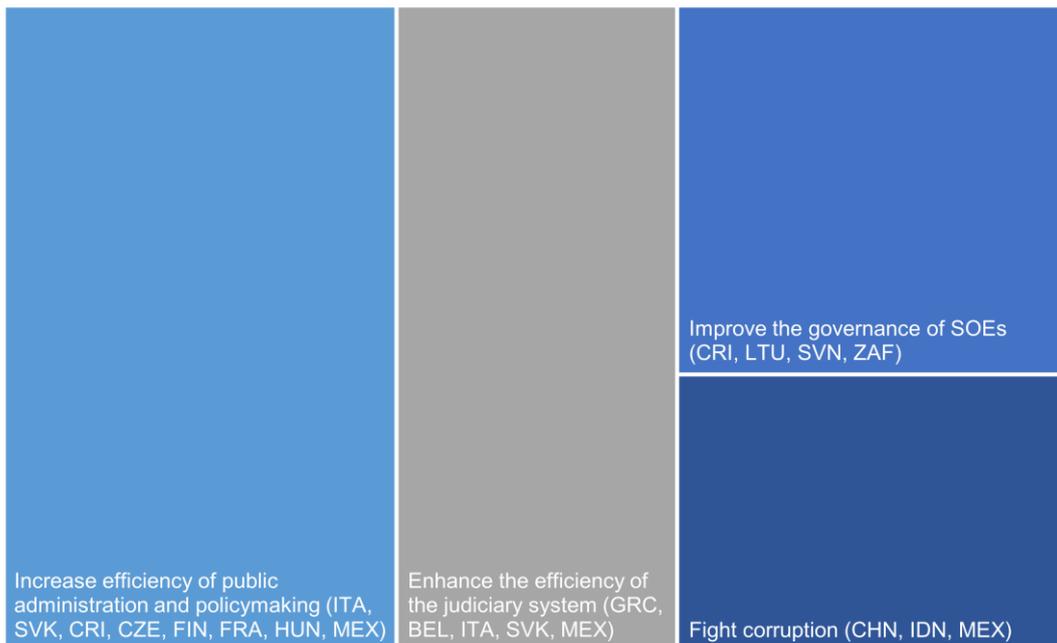


Figure 1.A.7. Key recommendations in the area of product markets regulation, trade and competition

Red tape, permits and licensing, barriers to internal trade (ARG, AUS, AUT, BEL, CAN, CHE, CHL, CHN, CRI, CZE, DEU, ESP, EU, HUN, IDN, IND, IRL, ISL, ISR, ITA, JPN, KOR, NOR, POL, PRT, SVK, SVN, TUR, USA, ZAF)	Competition and regulatory policy (AUT, AUS, BRA, CHL, COL, CRI, DNK, ESP, FRA, HUN, IDN, IRL, ITA, KOR, LUX, MEX, NOR, PRT, SVN, TUR, ZAF)	Insolvency regimes (PRT, BEL, EST, EU, GRC, HUN, IND, ITA, LVA, POL, SVK)
	Remove barriers to trade and FDI (ARG, BRA, COL, CRI, ISL, ISR, NZL, TUR)	

Figure 1.A.8. Key recommendations on human capital

Pre-school - Expand quality childcare (ARG, CHE, COL, CRI, CZE, DEU, GRC, HUN, ISR, ITA, MEX, NZL, SVK, USA)	Improve teaching quality, teacher incentives and career options at primary and secondary level (ARG, AUT, BRA, CHL, CRI, ESP, GRC, IDN, ISL, ISR, MEX, SWE)	Improve alignment with labour market needs, increase employer involvement of VET (ARG, BRA, CHL, COL, ESP, HUN, IDN, ITA, TUR)	Focus on disadvantaged students and schools (AUS, AUT, BRA, COL, ESP, HUN, NZL, SVK, SWE)	
		Other priority area at primary and secondary level (HUN, IDN, LUX, MEX, NOR, NZL, SVN, SWE)	Expand apprenticeships and increase the workplace component of training (ESP, ISL, ISR, LTU, MEX, POL, IRL)	
Lifelong learning and digital skills (ARG, AUT, CHE, DEU, GBR, GRC, HUN, ITA, POL, SWE, BEL, EST, FRA)	Tertiary education priority area (CHE, CRI, GRC, HUN, ISL, JPN, LVA, NOR, SVK, SVN, TUR)	Other VET priority area (DEU, LTU, LUX, NOR, SVK, SWE, PRT, ZAF)	Vocational education (BRA, CHL, CHN, COL)	Limit grade repetition (BRA, COL, ESP, LUX)
			Other (AUT, CHN, MEX)	

Figure 1.A.9. Key recommendations on taxation

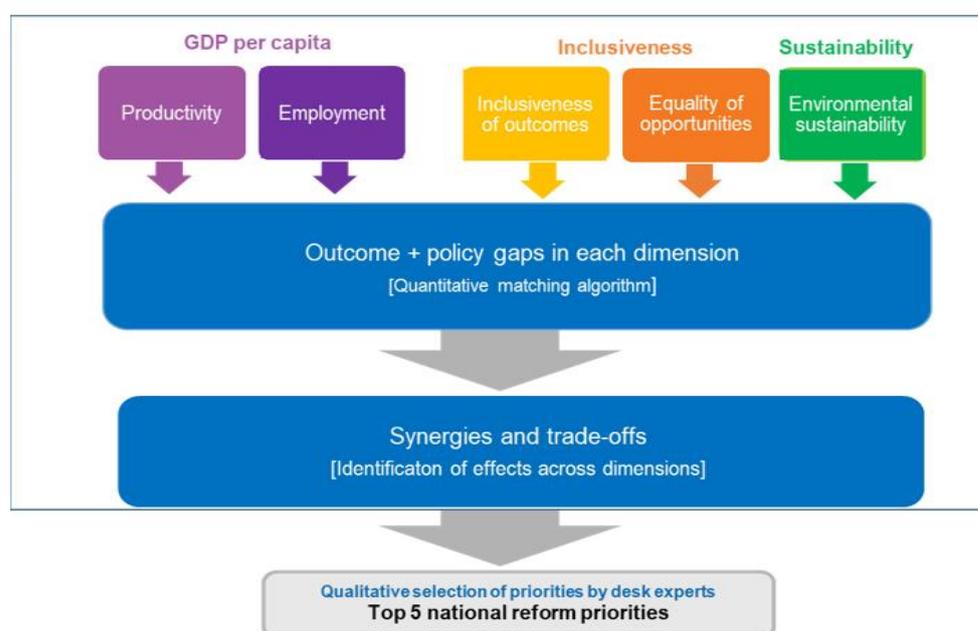
<p>Improve efficiency of tax system, including corporate taxes (ARG, AUS, BRA, CAN, CHE, DEU, DNK, ESP, FIN, HUN, ITA, JPN, NOR, SWE)</p>	<p>Improve housing taxation (DNK, EST, FIN, HUN, ITA, LVA, NLD, NOR, PRT, SVN, SWE)</p>	<p>Increase environmental taxes (BEL, CAN, CHE, DEU, ESP, EST, FIN, KOR, LVA, SWE)</p>
	<p>Broaden VAT tax base and streamline exemptions (ARG, BRA, CHE, DEU, ESP, FIN, ITA, JPN, KOR, PRT)</p>	<p>Introduce more progressivity in PIT/lower tax wedge for low incomes (ARG, BEL, CHL, DEU, EST, HUN, LVA, SVN)</p>

Annex 1.B. The OECD Going for Growth framework for prioritisation of structural reforms

Going for Growth uses quantitative and qualitative insights to identify the five top structural reform priorities to boost medium-term economic growth in an inclusive and sustainable way. In addition, it formulates recommendations on how to address these priorities and tracks actions taken. Limited to 31 OECD members in its 2005 edition, *Going for Growth*'s coverage has grown over time to include 49 economies by 2019, including many non-OECD economies. Over the last years, the *Going for Growth* framework was also voluntarily applied to identify reform priorities in some economies not included in the standard publication (Bulgaria, Kazakhstan, Romania, Saudi Arabia and Tunisia).

Building on a production-function decomposition of GDP per capita, *Going for Growth* has for long focused on reforms to improve labour productivity and labour utilisation. In its 2017 edition, however, its framework to identify reform priorities was extended to include an **inclusiveness** dimension. Reducing inequalities of income and opportunities, as well as poverty, is indeed necessary to safeguard social cohesion and the well-being of citizens, which are key to sustain growth in the longer run. On the other hand, growth and well-being are increasingly threatened by environmental pressures like – among others – air pollution and climate change. This acknowledgement led, in the 2019 edition, to the explicit inclusion of **environmental sustainability** as an additional dimension in the framework to identify economy-specific policy priorities (Figure 1.B.1).

Figure 1.B.1. Going for Growth framework

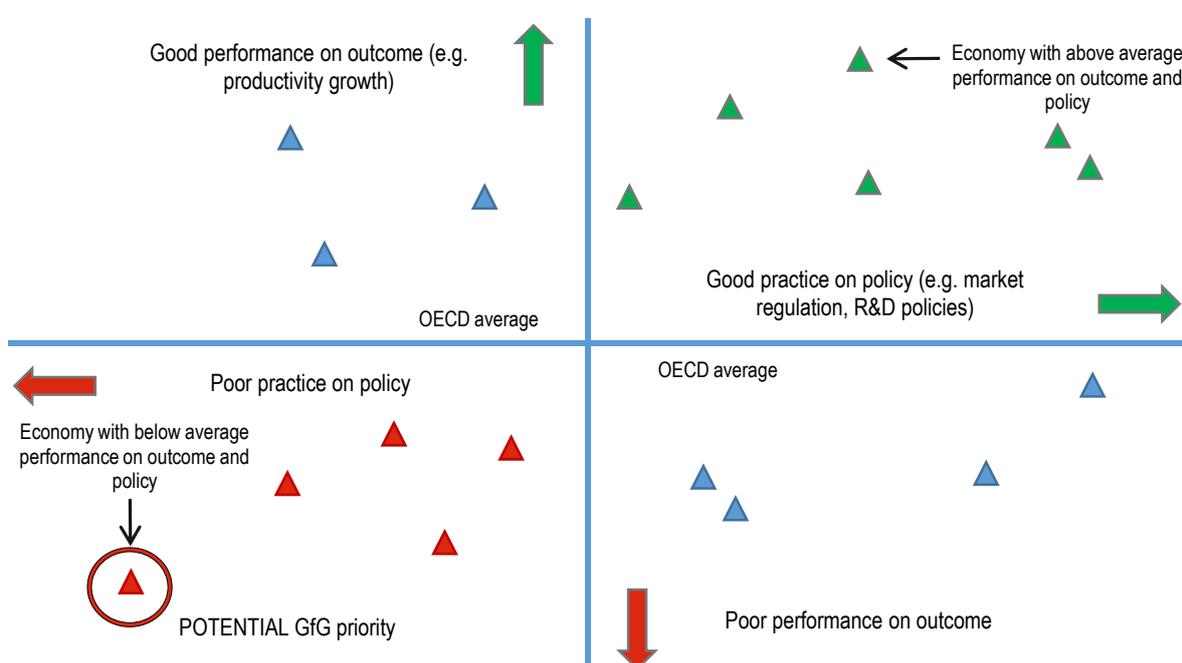


The identification of reform priorities for each individual economy builds on a mixed approach combining a quantitative and a qualitative assessment. The starting point of the process, however, consists in the detailed examination of dashboards of indicators including, for each of the *Going for Growth* dimensions (i.e. growth, inclusiveness and environmental sustainability), the best available outcome and policy

indicators matched into pairs based on the surveillance of economic evidence. Put differently, along each dimension, every single indicator of economic outcomes is matched with the indicators of policies empirically proven to address them. The pairings, hence, occur based on the links between outcome and policy indicators established in the academic literature and applied research by the OECD and other institutions. The current *Going for Growth* framework includes more than 450 of these links.

For each of these outcome-policy pairs, economies are then benchmarked against the OECD average by standardising both outcome and policy indicators to have the mean across economies equal to zero and standard deviation of one. In this context, an outcome-policy pair becomes a priority candidate in a given economy if falling into the lower-left quadrant of Figure 1.B.2. I.e. when both the outcome and the associated policy score below the OECD average.

Figure 1.B.2. Identification of the candidates for priorities



In the following step, OECD expert judgement is used to actually select the five top priority challenges faced by each economy. This step also considers areas relevant for growth, which have not been included in the matching process due to improper measurement or limited comparability. Reliance on expert judgement allows overcoming limitations of data quality and coverage and ensure the framework's comprehensiveness. Expertise from OECD desks on individual economies, in addition, drives the formulation of detailed reform recommendations, for each of the selected priorities, and supports reporting on actions taken. A final step is peer-review and dialogue and consultation process with the governments before the final publication.

Towards a more integrated and flexible framework

In the 2021 edition of *Going for Growth*, the priority-selection process explicitly focusses on accounting for interactions (potential trade-offs and synergies) across the three dimensions of growth, inclusiveness and environmental sustainability. For example, among the employment-enhancing policies, the unemployment benefit replacement rate for long-term unemployed can be linked to higher unemployment levels, through lower job search incentives. In an economy where this would appear as a priority candidate, the new framework will also identify impacts on inequality through the inclusiveness dimension. Similarly, if

switching to more reliance on indirect taxes is identified as a priority candidate in the productivity dimension, the potential for increasing environmentally-related taxes would be identified in the environmental sustainability dimension. At the same time, increasing environmental taxes would be flagged as having potentially negative effects on inclusiveness (e.g. because of energy poverty risks or the higher share of energy products in consumption baskets of lower-income households). This helps better identification of the need for compensatory measures associated with policy priorities across the different dimensions and, thereby, facilitate presenting the priorities in the form of a more comprehensive strategy.

Periodic comprehensive reviews of policy and outcome indicators ensure the selection framework remains up-to-date with the frontier of academic and applied research, as new data and evidence become available on key policy issues (i.e. on gender, regional disparities or the inequality of opportunities to access housing, health and education).

The flexibility of the *Going for Growth* framework has been particularly important when setting priorities for the COVID-19 recovery, in which the reliance on Desk expertise needed to compensate for the high uncertainty and the limited timeliness of data and indicators used in the framework.

2 Priorities for international co-operation: Reform areas with cross-border effects

Based on 2021 Country Notes, this chapter highlights four key areas of structural reforms that necessitate international co-operation: health, climate change, trade and the taxation challenge of the digital economy. While many issues in these areas can and should be addressed through domestic policies in concerned countries, cross-border spill-overs motivate the need for international co-operation. Close co-operation and policy co-ordination can address the significant international public good element more efficiently, delivering on the objective of stronger, more resilient, sustainable and equitable growth.

Health: Improving international collaboration

The COVID-19 pandemic highlighted the need for international co-operation on preparedness and resilience of health care systems to similar events around the world and on global health priorities. While countries need to act to improve their domestic health systems, international co-operation can help contain the spread of future pandemics and co-ordinate responses, including through the roll-out of vaccinations – boosting overall economic resilience and curbing potential trade-offs with economic growth. COVID-19 weaknesses in the international supply of essential health goods, including medicines, personal protective equipment and other medical devices were exposed. Currently, manufacturing and distribution capacities are limiting effective global pandemic response.

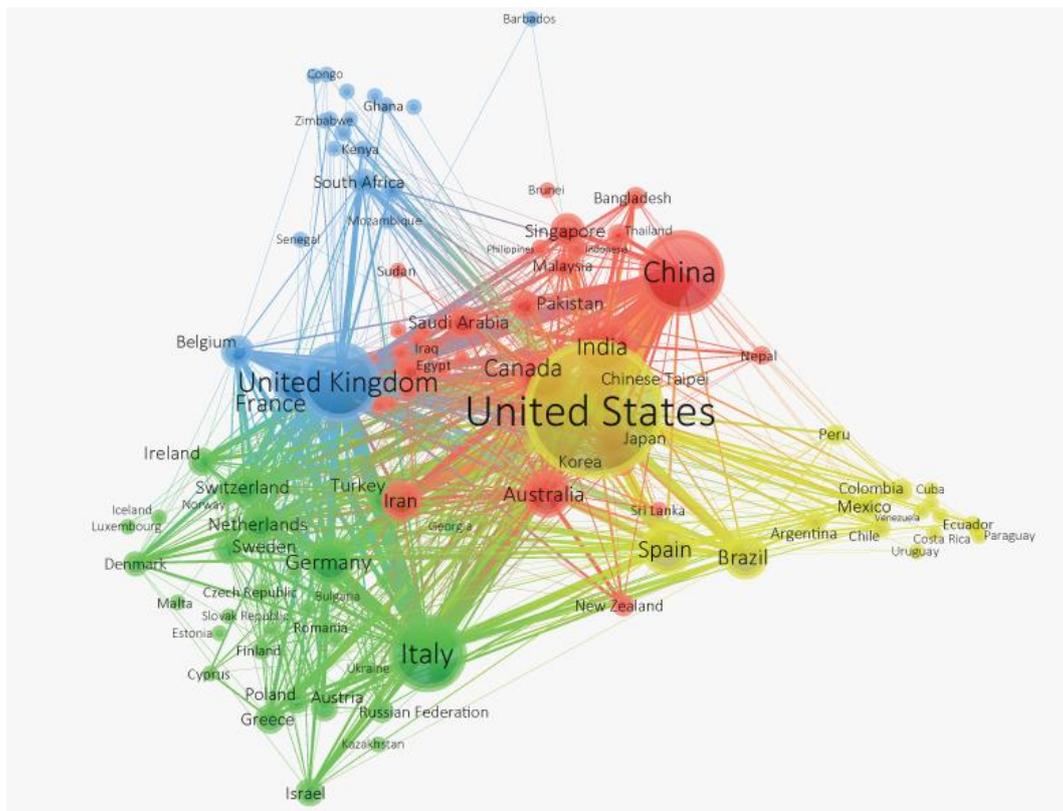
No single country produces all the goods it needs to fight a pandemic – including vaccines - and there is a high degree of interdependence in trade for these products. Underlying and compounding weaknesses in international supply chains was a lack of coherent, comparable and timely data that could be linked and shared across sectors, regions and countries. The crisis confirmed that health systems lag in terms of a harmonised approach to data governance and global standards for health data terminology and exchange. A unified response informed by data was thus impossible.

Another exposed weakness was the global shortage of health workers. As countries seek to strengthen their own health workforce, many will see international recruitment as the quickest way to increase capacity, but such recruitment should respect the WHO Global Code of Practice on the International Recruitment of Health Personnel (WHO, 2010).

Efforts to develop and make accessible COVID-19 vaccines benefit already from considerable international co-operation in research and development (Figure 2.1), information exchange and harmonisation of clinical trial design. Importantly, closer co-operation on issues concerning manufacturing and distribution capacity, allocating supplies and planning vaccination campaigns can help secure equitable and affordable access for all. Ensuring that intellectual property protection and insufficient know-how and technology transfer do not become a barrier are also important. Many of these mechanisms can present valuable lessons in preparing for future crises.

As flagged already prior to the pandemic, there is a risk of global antimicrobial resistance (AMR) (OECD, 2018). Millions of people are infected each year by microbes susceptible to the development of resistance. Resistant microbes double the probability of developing a complication and triple the risk of death compared to non-resistant forms. The development of resistance by microbes causing, among others, tuberculosis, HIV and hospital infections imposes the main brunt of this problem on low- and middle-income countries. Every country, regardless of its economic situation, the strength of its health system or the level of antibiotic consumption, will face disastrous consequences if the spread of AMR is not contained. The issue is already partly addressed by the G20 but with limited success so far.

Figure 2.1. International scientific collaboration on COVID-19 biomedical research



Note: Economies are assigned to clusters based on their interconnection. The colour of an item is determined by the cluster to which it belongs. The higher the weight of an item, the larger its label and circle. Lines between items represent co-authorship links. In general, the closer two economies are located to each other, the stronger their relatedness. The strongest co-authorship links between economies are also represented by lines. Note that the territory attribution for these indicators is entirely based on country affiliation information reported by the authors and publishers as registered on PubMed. Please refer to <https://doi.org/10.1787/888934223099> for more methodological information. Source: OECD and OCTS-OEI calculations, based on U.S. National Institutes of Health PubMed data, <https://pubmed.ncbi.nlm.nih.gov/> (accessed 30 November 2020).

Table 2.1. Policy recommendations on international collaboration on health

Recent measures	Recommendations
<p><input checked="" type="checkbox"/> There has been extensive international collaboration in vaccine R&D. In particular the 'Access to COVID-19 Tools Accelerator' (ACT) launched by the G20 brings together governments, health organisations, scientists, businesses, civil society and philanthropists to accelerate the development, production, and equitable access to COVID-19 tests, treatments, and vaccines. In this framework, over 50 diagnostic tests have been evaluated and 120 million affordable quality rapid tests are pledged for low and middle-income countries.</p> <p><input checked="" type="checkbox"/> Over 1,700 clinical trials are being analysed for promising treatments and dexamethasone sufficient for up to 2.9 million patients in low-income countries has been secured.</p> <p><input checked="" type="checkbox"/> The vaccines pillar of ACT, COVAX is a global facility for speeding up vaccines development, securing manufacturing capacity and procurement, in which over 180 countries are engaged.</p>	<p><input type="checkbox"/> Enhance international co-operation in securing and maintaining supply chains for essential medical products (including medicines and medical devices) as well as the capacity and utilisation of medical supplies and infrastructure. Security of supply could be enhanced, for example by: avoiding export restrictions, establishing new reporting and monitoring mechanisms that improve information on supply chain structures and capacities, reporting of product shortages consistently across countries, and exploring policies to address barriers to supplier diversification; formulating flexibilities and requirements for suppliers to mitigate supply chain risks; defining emergency procedures for procurement during public health crises; broadening, deepening existing joint procurement mechanisms and/or establishing new schemes.</p> <p><input type="checkbox"/> Improve the use of granular and timely data across borders (e.g. from electronic health records) for pandemic alert systems, identifying populations at risk and managing affected patients. To achieve this, enhance international coordination on harmonized approaches to data governance and global standards to ensure data privacy and security are protected while not impeding monitoring and research, as detailed in the OECD Council Recommendation on Health Data Governance.</p> <p><input type="checkbox"/> Use so-called pull mechanisms, such as genuine and large international Advance Market Commitments (AMC), to complement push mechanisms to fund R&D. One of the appeals of these mechanisms, that reward successful completion of R&D and reduce uncertainty around returns to investment, is that they can specify upfront conditions for procurement, licensing of intellectual property rights (IPRs) and affordability or access.</p> <p><input type="checkbox"/> Define upfront procurement schemes for vaccines and medical equipment based on international co-operation, identifying criteria for allocating product volumes to countries that are not based on ability to pay.</p> <p><input type="checkbox"/> Support international efforts to ensure that IPRs do not become barriers to transfer of know-how and building of production capacity for medicines and medical devices. This can be done through commitments to use existing mechanisms to make IP available at low or no cost, and to pool IP and encourage sharing of know-how.</p> <p><input type="checkbox"/> Increase international co-ordination to ensure that clinical trials are well-designed, adhere to rigorous methodological standards and are sufficiently powered to yield conclusive results.</p>

Climate change: Towards net-zero greenhouse gas emissions

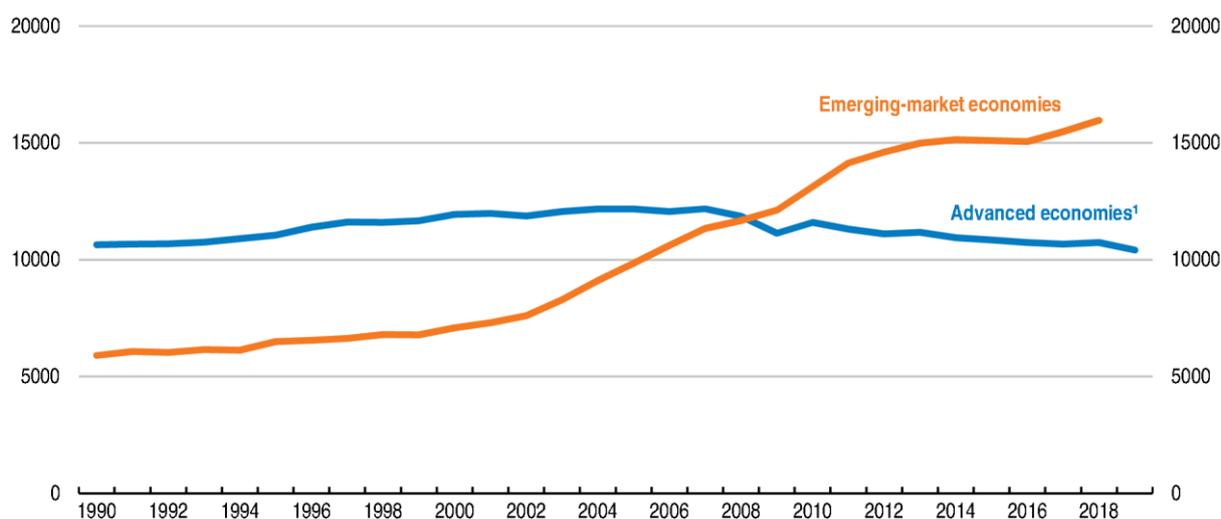
COVID-19 has put a dent in greenhouse gas emission trajectories, but past experience shows that economic recoveries have been associated with recoveries in emissions. Prior to the crisis, production-based emissions have continued increasing in emerging-market economies while falling only very slowly in advanced economies (Figure 2.2). Significant actions are required as part of stimulus and recovery packages to achieve a fall in emissions as economies recover.

Achieving the Paris climate change targets is estimated to require reaching zero net emissions globally in the second half of the 21st century, and even by 2050 to achieve the more ambitious interpretation of those targets. An increasing number of countries have pledged to meet such targets individually, but in most cases concrete actions on policies are yet to follow.

Currently, most emissions are priced too low or not priced at all (OECD, 2021). Moreover, fossil-fuel subsidies persist, further incentivising emission-intensive consumption, production and investment. This increases the risk of stranding assets and hence increasing the costs of the future transition. Progress in individual countries is welcome, but a cost-efficient approach to climate change requires closer global co-operation. For example, more cross-border co-operation on climate policies, including carbon pricing, would help mitigate leakage, allow emission reductions at a lower cost and improve access to and development of low-emission technologies. Such cooperation has the potential to boost economic growth and make the transition less costly. International policies to build resilience to the inevitable impacts of climate change are also important, alongside emissions reduction.

Figure 2.2. Globally, emissions continued to rise prior to the COVID-19 crisis

CO₂ emissions from fuel combustion, Mt of CO₂



1. Provisional estimates for 2019.

Source: International Energy Agency, Energy Database.

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Table 2.2. Policy recommendations on mitigating climate change

Recent measures	Recommendations
<ul style="list-style-type: none"> ☑ More than half of OECD and several key non-member countries have adopted or announced long-term carbon neutrality objectives, with various interim targets, levels of detail and coverage. Details of the commitments differ and plans on how to achieve the targets have yet to be developed. ☑ In 2018 and 2019, the UN Conference of Parties (COP) made some progress towards the implementation of the 2015 Paris Agreement to mitigate and adapt to climate change, in particular by agreeing on rules on how to measure and report on emission-cutting efforts. ☑ An increasing number of OECD and non-member countries have introduced some kind of carbon pricing mechanism or strengthened existing mechanisms. ☑ Since 2016, as part of a G20 process China, the United States, Mexico, Germany, Indonesia, Italy, Argentina, Canada, France and India have undergone or signalled their intent to pursue peer reviewing of their fossil fuel subsidies. 	<ul style="list-style-type: none"> ☐ Prior to COP26 in 2021, adopt and update both near-term commitments (NDCs) and long-term national low carbon strategies in line with the international COP 21 goals. The strategies need to cover all emitting sectors and make broad use of available policy tools, in particular carbon pricing. ☐ Lay out credible action plans on how national decarbonisation strategies will be implemented, taking into account international spillovers (e.g. carbon leakage) and identifying areas for potential co-operation. Use transparent cost and benefit evaluation mechanisms in the selection and timing of different policy tools and identification of possible interactions, bottlenecks and effects on business performance and household wellbeing. Identify opportunities for high-return government support to facilitate and incentivise low-carbon investment (including in infrastructure) and innovation. ☐ To the extent possible, co-ordinate the decarbonisation strategies and implementation with other countries to achieve global targets at minimum cost and minimise leakage and competitiveness concerns. Commit to introducing and progressively ramping up carbon pricing once the recovery is underway. In particular, prioritise the phase-out of fossil-fuel subsidies and incentives for carbon-intensive investment and consumption to reallocate resources to low-carbon investment and innovation, including R&D.

International trade: International rules-based trading system fit to restore confidence and support global trade

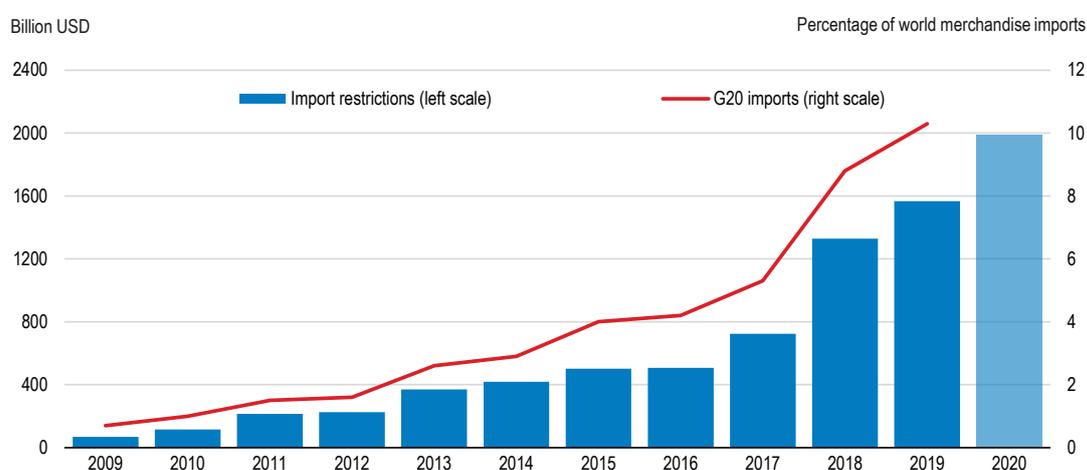
During the COVID-19 crisis trade and global value chains (GVCs) have shown remarkable resilience and proven essential to reacting to the enormous increases and shifts in demand for certain goods, in particular medical goods. Countries have recognised this important role. Despite an initial surge in mostly temporary export restrictions countries have implemented numerous measures to facilitate trade and streamline border and customs procedures to ensure the flow of goods despite stringent health measures. Moreover¹, several large trade agreements were signed between 2019 and 2021.

Over time, trade has helped lift more than a billion people out of poverty and trade openness gives firms access to larger markets, world class inputs and new technologies, encouraging competition, productivity and innovation. It gives consumers greater access to goods and services at a lower price. Yet, trade policy was facing significant headwinds prior to the pandemic already, with countries increasingly concerned about an uneven international playing field; about finding a foothold in digital markets characterised by first mover advantage and winner-takes-most dynamics; and about being cut out of input and output markets by rising trade tensions and unilateral trade measures. Concerns over temporary shortages in certain goods at the height of the pandemic have given rise to increasing calls for governments to do more to ensure the resilience of GVCs for essential goods. Some governments are also calling for greater regionalisation of GVCs or for a reshoring of production of certain goods, adding to a trend of businesses shortening their global value chains and trade policies in merchandise as well as services becoming more restrictive (Figure 2.3).

Behind some of these tensions are concerns that the international rulebook has not kept pace with economic and technological changes, and that not everyone is playing by the existing rules. Furthermore, the resolution of trade disputes at the WTO came under threat when the WTO Appellate Body lost quorum in 2019. As policy makers begin to build back better, resilience to future shocks is a key objective. The pandemic has shown the interdependence of our economies and the reliance on global markets and supply chains to absorb and react to shocks and to generate the economies of scale necessary to satisfy the global demand for essential goods. Policy coherence, transparency and information sharing on market conditions and policies are key ingredients in keeping trade flowing and helping firms manage the risks along their value chains in a predictable policy environment. In the short-term, there is a need to facilitate not only the trade in goods but also in services.

Figure 2.3. COVID-19 has exacerbated a trend towards more restrictive trade policies

Cumulative import-restrictive measures in G20 economies¹



1. The cumulative trade coverage estimated is based on information available in the Trade Monitoring Database (TMDB) on import measures recorded since 2009 and considered to have a trade-restrictive effect. The estimates include import measures for which HS codes were available. The figures do not include trade remedy measures. COVID-19 trade and trade-related measures are not included. The import values were sourced from the UNSD Comtrade database. 2020 estimates only cover restrictions up to June 2020.

Source: World Trade Organisation.

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Table 2.3. Policy recommendations on international trade

Recent measures	Recommendations
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Several significant free trade agreements were concluded, including: the Regional Comprehensive Economic Partnership between ASEAN and Australia, China, Japan, Korea and New Zealand; the Comprehensive and Progressive Agreement for Trans-Pacific Partnership-CPTPP, comprising inter alia Australia, Canada, Japan and Mexico; United States Mexico Canada Agreement; the EU-Japan Economic Partnership agreement; the African Continental Free Trade Agreement, the Comprehensive Economic and Trade Agreement between Canada and the EU; and the EU-Japan FTA. <input checked="" type="checkbox"/> The WTO Trade Facilitation Agreement, concluded in Bali in 2013 and aimed at reducing the costs and time needed to export and import goods, entered into force in 2017. <input checked="" type="checkbox"/> Trade facilitation measures proved instrumental in addressing constraints at border crossings due to health measures. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reinforce commitment to rules-based trade, including by ensuring implementation and enforcement of existing trade rules, increasing policy transparency, and working towards effective trade dispute resolution. <input type="checkbox"/> Tackle gaps in the existing rulebook, for instance with respect to government support that distorts markets and harms the environment, and agree new rules to address emerging issues such as state capitalism and the digital transformations of our economies. <input type="checkbox"/> Facilitate trade in goods and services through full implementation of the WTO Trade Facilitation Agreement, trade-conducive domestic reforms, and renewed safe international travel. <input type="checkbox"/> Make progress in international economic co-operation harnessing the full range of international economic co-operation tools, including legally binding rules, voluntary guidelines and codes, and transparency and dialogue.

Taxation: Addressing the tax challenges of the digitalisation of the economy

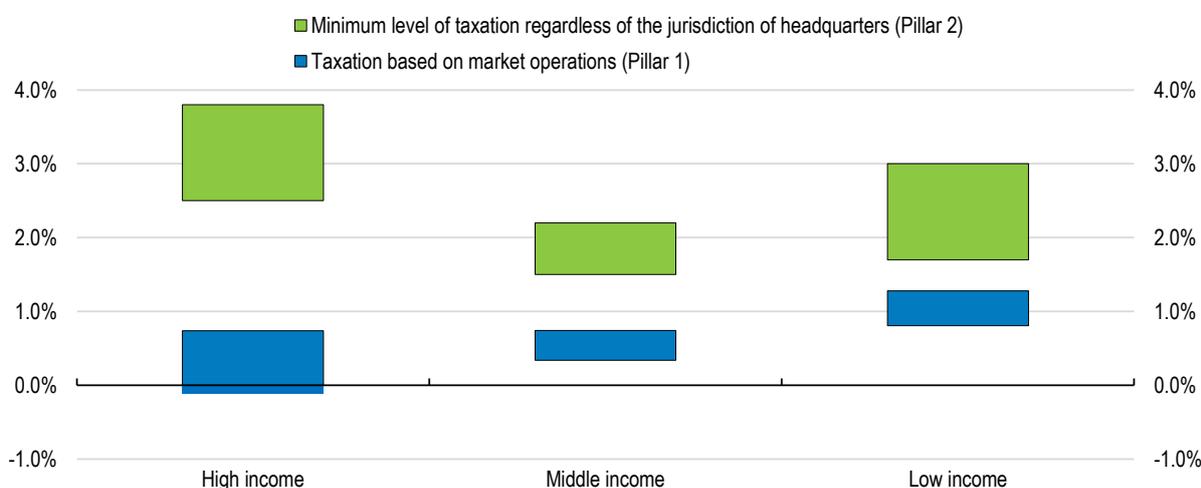
Globalisation and digitalisation have highlighted weaknesses in the international corporate income taxation rules. This has led to growing dissatisfaction with the current rules and has seen a growing number of jurisdictions taking unilateral actions or departing from agreed international standards. There has also been an increase in tax disputes and tax uncertainty.

Such developments threaten the stability of the international tax system and represent a risk to global investment and growth. It is estimated that prior to the COVID-19 crisis base erosion and profit-shifting (BEPS) practices cost countries USD 100-240 billion in lost revenue annually, which is equivalent to 4-10% of the global corporate income tax revenue.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting brings together over 135 jurisdictions on an equal footing to collaborate on the ongoing implementation of the BEPS Package and addressing the tax challenges arising from the digitalisation of the economy. Efficient international co-operation in this area can help secure budgetary revenues and thereby helping to restore fiscal sustainability after the crisis, including through reducing the scope for tax competition and evasion.

Figure 2.4. Potential revenue gains from an international agreement on digital taxation of multinational enterprises

Percentage of CIT revenues, by main proposal and jurisdiction group



1. Estimates based on assumptions in OECD (2020), carried out for the Inclusive Framework on BEPS. Estimates are presented as ranges to reflect uncertainty around the underlying data and modelling. Groups of jurisdictions (high, middle and low income) are based on the World Bank classification. United States is not included in the panel of high income jurisdictions in the case of green bars, but is included in blue bar estimates. Investment hubs (defined as jurisdictions with a total inward FDI position above 150% of GDP) are excluded.

Source: OECD (2020), Tax Challenges Arising from Digitalisation – Economic Impact Assessment: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project.

StatLink  <https://stat.link/nmtw3x>

Table 2.4. Policy recommendations on digital taxation

Recent measures	Recommendations
<input checked="" type="checkbox"/> The automatic exchange of financial account information that started in 2017 and 2018 has delivered the exchange of 47 million offshore bank accounts, with a total value of EUR 4.9 trillion. These results add to the over EUR 95 billion in additional revenue identified through investigations and voluntary compliance programmes and to the large decrease of bank deposits in international financial centres.	<input type="checkbox"/> Continue multilateral discussions to reach an international agreement.
<input checked="" type="checkbox"/> The Inclusive Framework released Blueprint reports in October 2020, which describe detailed proposals to address tax challenges from the digitalisation of the economy. In October 2020, the G20 welcomed these reports and urged the Inclusive Framework to address the remaining issues with a view to reaching a global and consensus-based solution by mid-2021.	

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Notes

¹ As of mid-October 2020, 84 (63%) of all G20 measures taken in response to the pandemic were trade facilitating, while 49 measures (37%) were trade restrictive (mostly export restrictions). A broader measure of OECD Trade Facilitation Indicators showed that by May 2020 new trade facilitating administrative measures outnumbered the new trade restricting border and customs measures.

3

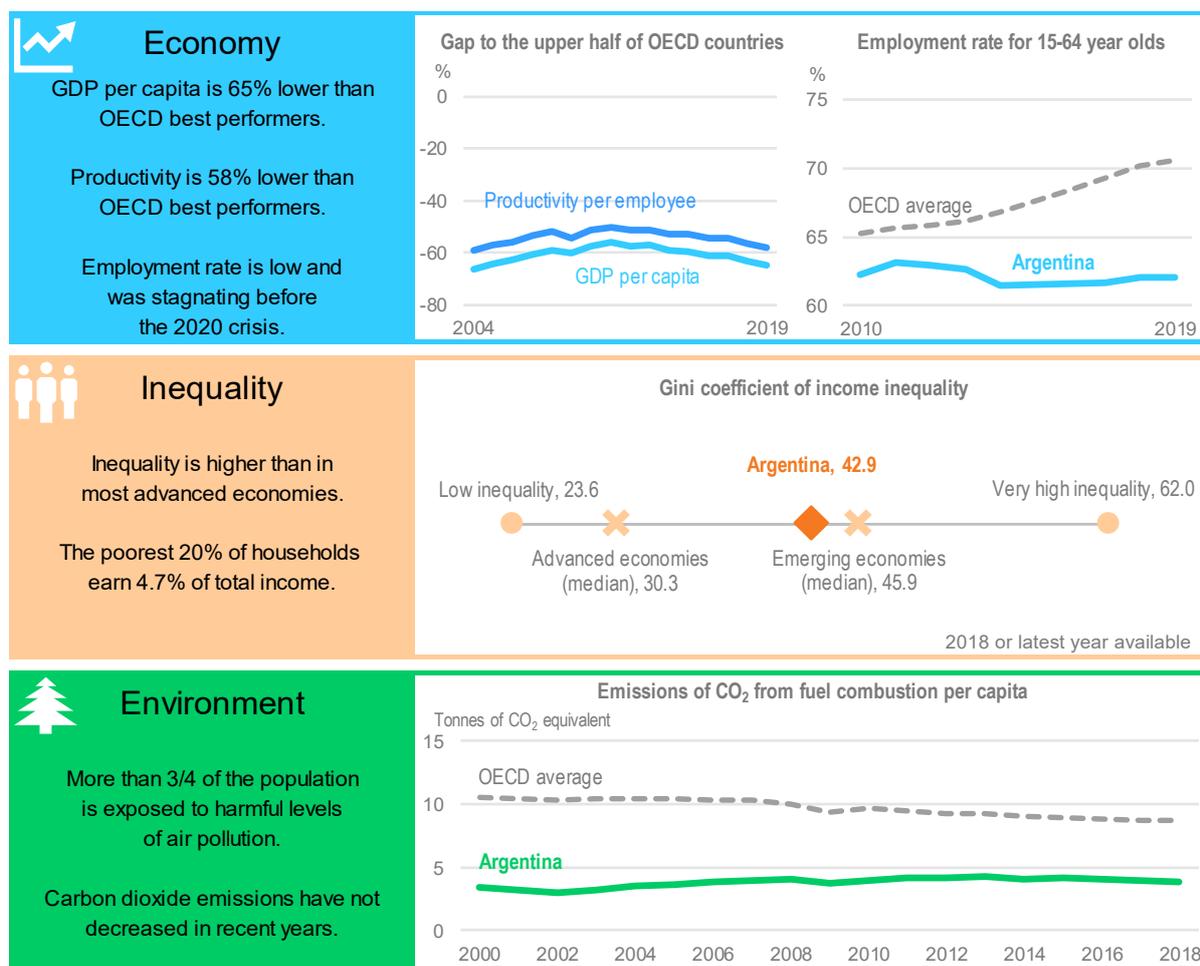
Country notes

This chapter contains the detailed Going for Growth 2021 country notes for OECD and key non-member economies, identifying top structural policy priorities to achieve a stronger, more resilient, equitable and sustainable COVID-10 recovery for each country covered. The key structural challenges to be addressed are identified within the Going for Growth framework (Annex 1) by OECD Country Desk experts. In this chapter, the group of advanced economies refers to all OECD member countries excluding Chile, Colombia, Mexico and Turkey. These four countries, alongside Argentina, Brazil, Costa Rica, Indonesia, India, Russia and South Africa are labelled as emerging-market economies.

Argentina

Improving conditions for businesses to thrive, compete and create quality jobs, while investing in skills of and opportunities for people should be high on the policy agenda. Economic hardship triggered by past macroeconomic crisis and by the pandemic has aggravated economic inequalities and highlighted the need for more effective social protection, including for vulnerable households whose livelihoods are outside the formal labour market.

Argentina: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Argentina is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases. When not available International Labour Organisation for employment rate; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

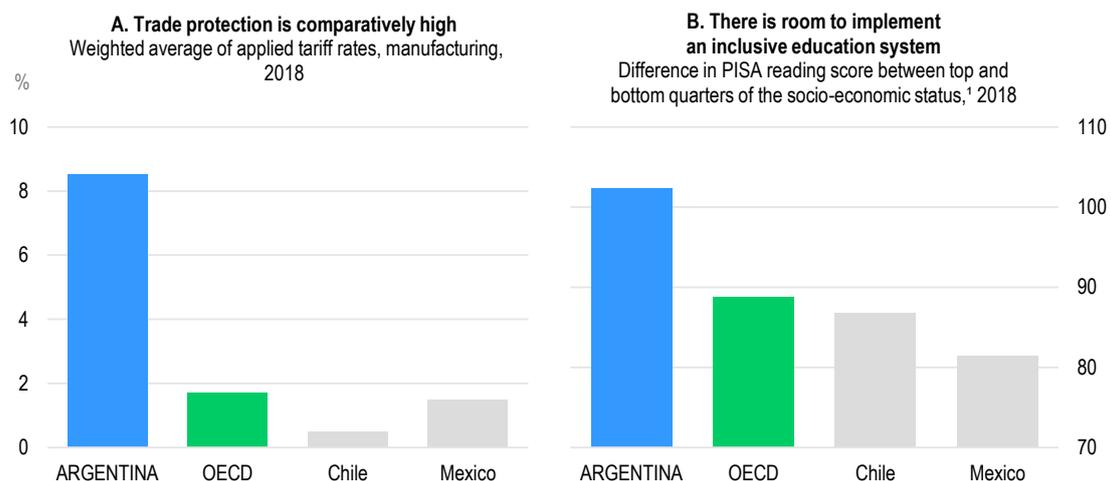
Reviving business dynamism and inclusiveness

Argentina's productivity performance has been weak over the last 20 years and the economy is significantly less integrated into the world economy than other emerging market economies. **Reducing regulatory burdens** would help the recovery by opening new opportunities for both people and businesses. Restrictive regulations curtail competition and raise the costs of many goods and services, while sustaining economic rents concentrated in the hands of few. Regulatory reforms that strengthen competition and foster reallocation could also allow more firms to export, which would create jobs that pay better and are more likely to be formal, while at the same time helping to address balance-of-payment challenges. Trade barriers remain high and lowering them would raise consumer purchasing power, especially for low-income households, and significantly reduce the cost of firms' inputs (Panel A). Argentina has been so far on the side-lines of global value chains, implying significant lost opportunities for growth and well-being.

Providing better opportunities to all children and youths requires **enhancing equity and outcomes in education**. This could help boost productivity and reduce income inequality at the same time. Educational outcomes remain far below OECD standards, and are strongly linked to students' socio-economic status (Panel B). To this end, investing more in early childhood education to reduce the cognitive development gaps attributable to heterogeneous family environments early in life and reducing early drop-out rates is needed. The quality of teaching could also be improved by reshaping teacher training and supporting their professional growth early on. Scaling up vocational and technical training, for instance by **strengthening active labour market policies**, would help workers reap new opportunities that require different skill sets.

To improve the resilience of the economy, these reforms should be complemented by stronger efforts to **reduce high labour informality and strengthen social protection for all workers**. Social protection could be strengthened by building on existing cash transfer schemes, which include informal workers, while simultaneously reducing the cost of creating formal jobs, for example by reducing social security contributions for low-income workers. Once the recovery sets hold, there is significant scope to **improve the efficiency of the tax system**, including by broadening tax bases and moving towards less distortive taxes.

Argentina: Vulnerabilities and areas for reform



1. A student's socio-economic status is estimated by the PISA index of economic, social and cultural status (ESCS), which is derived from several variables related to students' family background: parents' education, parents' occupations, a number of home possessions that can be taken as proxies for material wealth, and the number of books and other educational resources available in the home.

Source: Panel A: World Bank, World Integrated Trade Solution Database; Panel B: OECD, PISA Database.

Argentina: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Reduce barriers to trade and regulatory burdens	
<input checked="" type="checkbox"/> A trade agreement has been signed with the European Union in 2019, but not yet implemented. It can provide a significant boost to competition and productivity.	<input type="checkbox"/> Reduce tariff and non-tariff barriers to international trade, starting with capital goods and intermediate inputs. <input type="checkbox"/> Reduce domestic regulatory barriers to entrepreneurship and market entry, including at the level of provincial and local governments.
Education and skills: Enhance outcomes and equity in education	
No actions taken.	<input type="checkbox"/> Keep expanding early childhood education. <input type="checkbox"/> Merge smaller teacher training institutions to exploit scale economies and strengthen their governance.
Labour market: Strengthen active labour market programmes, with a focus on women and on training	
No actions taken.	<input type="checkbox"/> Bolster adult training programmes and vocational education and training, with a special focus on women.
Social Protection: Reduce labour informality and strengthen social protection for all workers	
*New priority *	<input type="checkbox"/> Strengthen income support for dismissed workers by building on existing cash transfer schemes, which include informal and self-employed workers. <input type="checkbox"/> Extend the unemployment insurance scheme with individual accounts currently used in the construction sector to other sectors of the economy, to allow a medium-term transition towards lower severance costs and stronger formal job creation.
Tax system: Improve the efficiency of the tax system	
No actions taken.	<input type="checkbox"/> Phase out the provincial turnover tax and financial transaction tax. <input type="checkbox"/> Broaden the VAT base by reducing exemptions and special rates. <input type="checkbox"/> Lower the basic deduction in personal income taxes while making rates more progressive. <input type="checkbox"/> Lower social security contributions for low-income workers to strengthen formal job creation. <input type="checkbox"/> Remove the personal income tax exemption of civil servants in the judiciary branch entirely.

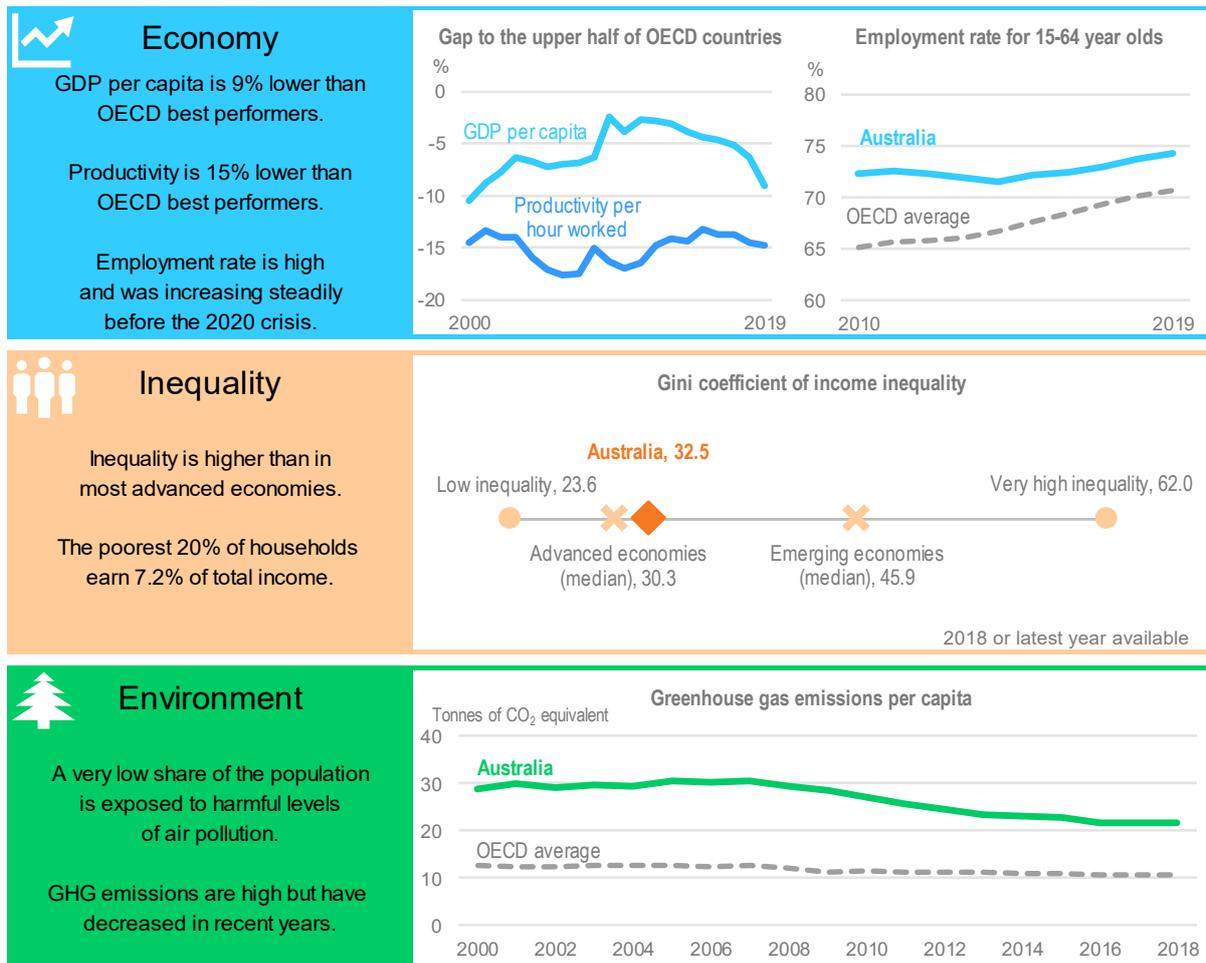
Recent progress on structural reforms

A severe macroeconomic crisis, compounded by the COVID-19 pandemic, has attracted much of the political attention away from solving structural challenges.

Australia

The pandemic took a particularly heavy toll on young businesses and highlighted existing education inequalities. The recovery brings an opportunity to boost innovation and reallocation, necessary to face the challenges of digitalisation and meet climate change targets in a cost-efficient way. It also provides a chance to boost educational opportunities for disadvantaged students and refocus on improving the living standards of Indigenous communities.

Australia: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

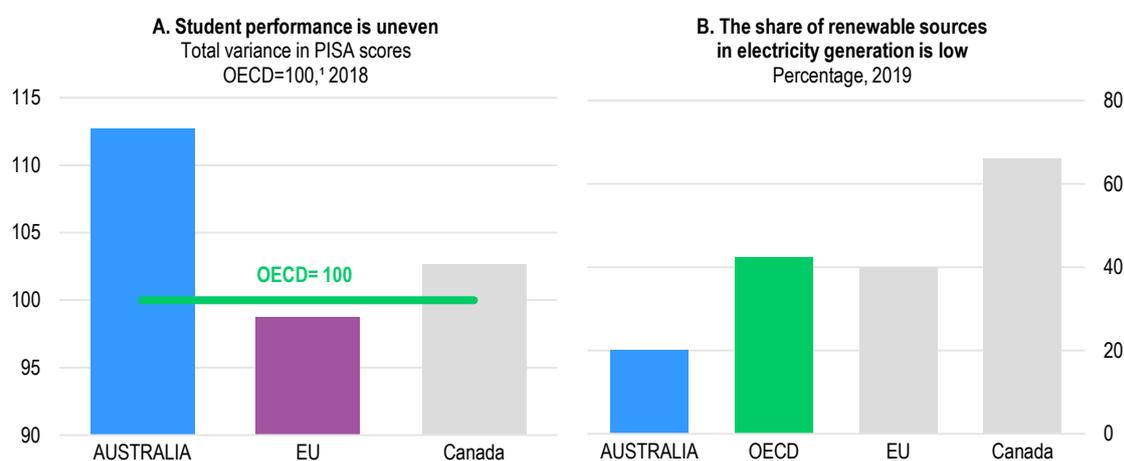
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

The recovery is an opportunity to address long-standing challenges of inclusiveness and sustainability

Business dynamism was on a decline going into the pandemic and, once COVID-19 hit, the employment losses were heaviest in young businesses. **Improving business framework conditions and strengthening competition** would benefit innovation and productivity growth. Legislating automatic mutual recognition of occupational licenses across jurisdictions would boost labour mobility, increasing opportunities for workers and competition by fostering reallocation of resources. Any future reform efforts to reduce the scope of occupational licensing more broadly could have the same effect. Continuing to adopt international product standards would reduce regulatory red tape, better allowing promising businesses to expand and reconfigure operations to seize new opportunities. Total gross domestic R&D spending and direct government funding of business R&D have been lagging behind OECD countries. Boosting direct business R&D funding and ensuring measures are designed to induce additional private R&D investment would elevate long-term potential growth. The environment for innovation can be further improved by strengthening university-business linkages.

Educational attainment and student performance are high, however educational outcomes vary widely (Panel A), weighing on the equality of opportunities in the labour market. The pandemic resulted in remote learning that further exacerbated the existing disparities in student learning outcomes across socioeconomic groups. **Improving the outcomes of disadvantaged students in schools and early childhood education** will raise the future growth capacity of the economy and preserve inclusiveness. To support disadvantaged students, including those that live in remote areas, and prepare for advances in digitalisation, access to high-quality online courses and the use of Open Educational Resources need to be boosted. To help mitigate the adverse impact of educational disparities on employment and income prospects, better information on education choices, including through a single platform with career information, education pathways and employment outcomes, should be provided.

Australia: Vulnerabilities and areas for reform



1. The variance components in mathematics, science and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.

Source: Panel A: OECD, PISA Database; Panel B: International Energy Agency, Renewables Information 2019.

StatLink  <https://stat.link/0uc2lf>

Severe drought and catastrophic bushfires emphasised the need to act on climate mitigation policies. **Adopting and implementing an integrated national energy and climate policy framework for 2030**

based on a low-emission development strategy for 2050 would help achieve the goals of the Paris Climate Agreement. There is ample room to boost the electrification of transport by improving the charging infrastructure and further increasing the share of renewable sources in electricity generation, partly through the use of market-based mechanisms (Panel B). Improving the monitoring of water resources, abstraction and quality across river basins and addressing water pollution from agriculture will help achieve the right balance between environmental and consumptive uses of water.

Shifting the tax mix away from heavy taxation of incomes to consumption and land taxes would further enable the necessary labour mobility amid the pandemic and boost growth. Moving away from taxes on property transactions, such as stamp duty, and replacing them gradually with a recurrent land tax would reduce pro-cyclicality of state budgets. The high corporate tax rates for large businesses should be aligned with those on SMEs since a two-rate system risks distorting how firms are structured and how they behave around the threshold between the two rates. Once the recovery is firmly in place, there is scope to increase the Goods and Services Tax, while offsetting the regressive impacts for low-income households.

Well-being gaps between Indigenous communities and the rest of the population remain large, notably in educational attainment, life expectancy and employment rates. **Giving Indigenous communities a greater role in policy design and implementation and introducing a whole-of-government evaluation strategy for policies affecting these communities** would make growth more inclusive. Ensuring a greater role and autonomy in policy design by Indigenous communities could particularly spur growth potential in rural areas that are populated with younger Indigenous populations. Policy evaluation would be enhanced by increased capacity to collect statistics on Indigenous business and economic development issues.

Australia: Summary of *Going for Growth* and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Boosting productivity growth requires attention to the framework conditions in which businesses operate	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government proposed to automatically recognise occupational licenses across regions in 2020, subject to legislation by individual jurisdictions. <input checked="" type="checkbox"/> The government introduced reforms in 2020 that will streamline and digitise a range of regulatory procedures to reduce red tape and make liquidation for small businesses less costly and more debtor-friendly. <input checked="" type="checkbox"/> The government has increased the refundable R&D tax offset in 2020. <input checked="" type="checkbox"/> The government reserved medium-term funding in 2020 to create a Strategic University Reform Fund which will help universities align their innovative reform projects with priority areas as defined by their local communities. 	<ul style="list-style-type: none"> <input type="checkbox"/> Legislate automatic mutual recognition of occupational licenses across jurisdictions. <input type="checkbox"/> Continue to adopt international product standards more widely to reduce red tape. <input type="checkbox"/> Boost direct business R&D funding and design measures to induce additional private R&D investment. <input type="checkbox"/> Strengthen university-business linkages to improve the environment for innovation.
Education and skills: Inequality in education and the level of skills limit the growth capacity of the economy	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The recovery from COVID-19 measures ramped up spending in 2020 to boost programmes that improve the educational outcomes of disadvantaged students and school leavers. <input checked="" type="checkbox"/> The government has supported the delivery of 50 000 higher education short courses in 2020 to reskill and upskill workers for enhanced labour reallocation. 	<ul style="list-style-type: none"> <input type="checkbox"/> Implement education programmes that are targeted at making up for the pandemic-induced losses in learning hours of disadvantaged students in schools and early childhood education. <input type="checkbox"/> Boost disadvantaged students' access to high-quality online courses and Open Educational Resources, including those that live in remote areas. <input type="checkbox"/> Provide better information for education choices. This should include a single platform with career information, education pathways and employment outcomes.

2019-2020 Reforms	Recommendations
Environmental policy: Limited co-ordination of greenhouse-gas reduction measures across states and territories make it difficult to achieve the Paris Climate Agreement goals	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Western Australian Government issued the environmental approval for the first stage of The Asian Renewable Energy Hub project, which will be the world's largest solar and wind farm. <input checked="" type="checkbox"/> The government released the Technology Investment Roadmap in 2020, which includes co-investment to help develop a range of low emission technologies. <input checked="" type="checkbox"/> Electric vehicle charging infrastructure has been highlighted as a priority in the Future Fuels Strategy currently being developed by the government. <input checked="" type="checkbox"/> The government has increased investment in 2020 to improve the Murray-Darling Basin's river health. The allocated funds will also be used in the creation of a new Inspector-General of Water Compliance. 	<ul style="list-style-type: none"> <input type="checkbox"/> Adopt and implement an integrated national energy and climate policy framework for 2030 based on a low-emission development strategy for 2050, in line with the Paris Agreement objective. <input type="checkbox"/> Continue to increase the share of renewable sources in electricity generation, partly through the use of market based mechanisms. <input type="checkbox"/> Boost the electrification of transport by improving the charging infrastructure. <input type="checkbox"/> Improve the monitoring of water resources, abstraction and quality across river basins and address water pollution from agriculture.
Tax system: Comparatively heavy taxation on incomes relative to consumption makes the tax mix less growth-friendly	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government reduced household and business income taxes in 2020 as part of the COVID-19 response package. <input checked="" type="checkbox"/> The government of New South Wales has proposed to replace stamp duty with annual property taxes. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce corporate tax rates for large businesses to align them with those on SMEs. <input type="checkbox"/> Once the recovery is underway, gradually increase the Goods and Services Tax rate. <input type="checkbox"/> Replace stamp duty with a recurrent land tax.
Inclusiveness: Well-being gaps between Indigenous communities and the rest of the population remain large, notably in educational attainment, life expectancy and employment rates.	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Australian Productivity Commission appointed an Indigenous Policy Evaluation Commissioner in 2020. <input checked="" type="checkbox"/> The Australian Productivity Commission published a draft report in 2020 detailing a whole-of-government evaluation strategy for policies related to reducing well-being gaps of Indigenous communities. <input checked="" type="checkbox"/> The government has committed to embedding formal partnerships and shared decision making with Aboriginal and Torres Strait Islander people as a priority reform as part of the National Agreement on Closing the Gap. 	<ul style="list-style-type: none"> <input type="checkbox"/> Give Indigenous communities a greater role in policy design and implementation. <input type="checkbox"/> Introduce a whole-of-government evaluation strategy for policies affecting Indigenous communities. <input type="checkbox"/> Increase statistical capacity to collect evidence on Indigenous business and economic development issues.

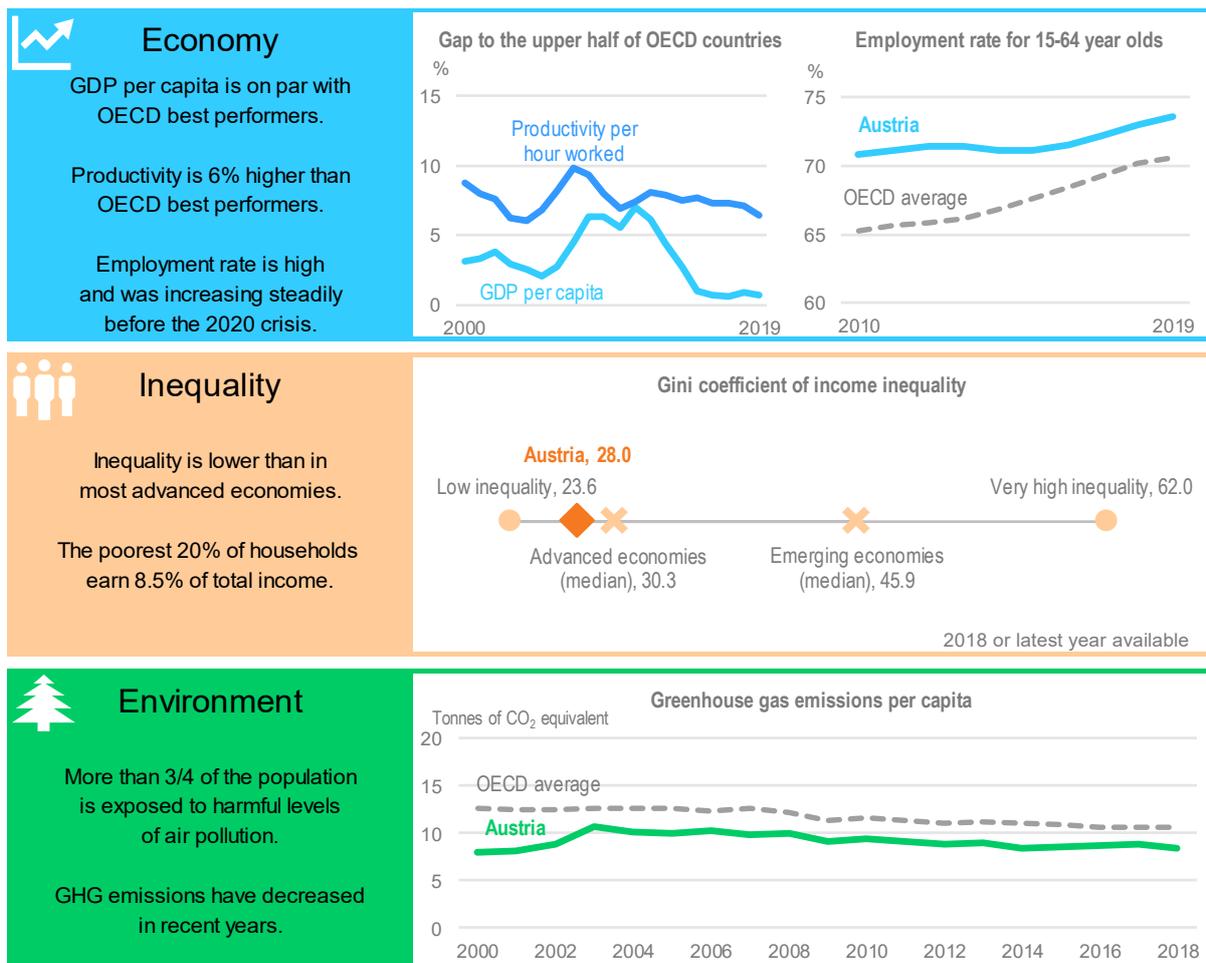
Recent progress on structural reforms

Recent progress has been particularly visible in reforms favouring conditions for doing business and aiming at boosting productivity growth. The government has reformed the insolvency framework, introducing a debtor-friendly, lower cost and faster liquidation model for small businesses in January 2021. There has been some progress in reducing red tape. The government's post-pandemic recovery plan in October 2020 included welcome elements to streamline and digitise a range of regulatory procedures and improve framework conditions for businesses. The recovery plan also proposes to automatically recognise occupational licenses across jurisdictions to enhance labour mobility. Partly to promote environmental priorities, the federal government recently granted the Asian Renewable Energy Hub a "major project" status and the local government of Western Australia granted environmental clearance to it. The project will constitute the largest solar and wind farm in the world aiming to produce green hydrogen. On Indigenous issues, the Australian Productivity Commission appointed an Indigenous Policy Evaluation Commissioner and published a draft report in May 2020 detailing a whole-of-government evaluation strategy for policies related to reducing well-being gaps of Indigenous communities.

Austria

COVID-19 risks reinforcing long-standing vulnerabilities in the labour market such as digital skill gaps, diverging career trajectories between men and women, an elevated rate of long-term unemployed and subpar integration of migrants. Addressing these issues is crucial for a more inclusive recovery, facing demographic change and the sustainability of social security systems.

Austria: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

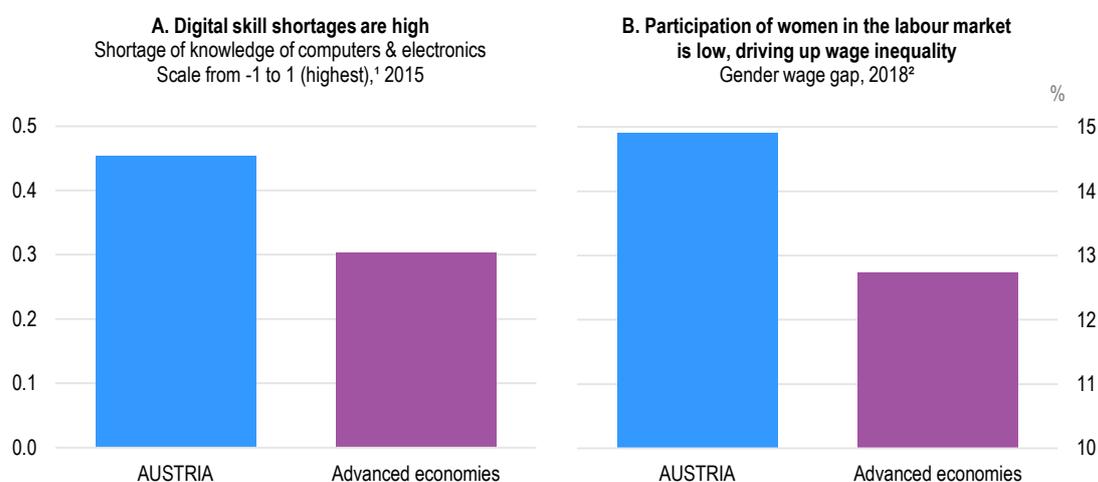
Growth needs to better rely on skills across the population

Austria is adapting to the global digitalisation frontier at a slower pace than in comparable countries (Panel A). **Upskilling the population across all ages in digital technologies and a better provision of ultra-high speed internet should be key priorities to boost adoption rates.** This requires raising the quantity and quality of life-long learning programmes, for example by involving employer organisations more directly in the design and administration. Targeted government support for the low-skilled and elderly workers would help to address their relatively low participation in further education and training. In addition, reducing remaining barriers to digital trade and investment while fostering the provision of private venture and equity capital would accelerate the diffusion of ICT technologies.

With a projected decline in the working-age population, Austria needs to make most of the existing talent pool. **Facilitating full-time labour force participation of both parents,** for example by granting a legal entitlement for high-quality child care and full-day schooling in the entire country, would help to address gender inequalities in the labour market (Panel B). It would also contribute to counteracting the shrinking of the working-age population. Reducing the implicit taxation of shifting from part-time to full-time employment would further boost female full-time employment.

The integration of migrants, including their families and children, lags behind countries with similar migrant inflows and has likely been further set-back by the pandemic. **Educational outcomes need improving and delinking from socio-economic backgrounds.** To this end, German language learning needs much stronger emphasis, and integration policies need better coordination between the federal, Länder and municipal governments.

Austria: Vulnerabilities and areas for reform



1. Positive values indicate skill shortage (while negative values point to skill surplus).

2. 2018 or latest year available. The gender wage gap is unadjusted and is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed.

Source: Panel A: OECD, Skills for Jobs Database; Panel B: OECD, Gender Database.

StatLink  <https://stat.link/nba758>

High share of long-term unemployed and low average effective retirement age risk being amplified as a result of COVID-19. Pension benefits remain generous in international comparison. **Reducing incentives to leaving early from the labour force** is crucial, and should be done by prompt adjustments of relevant parameters for the calculation of pension benefits and contributions, in line with demographic and other structural developments.

To enhance competition, productivity growth and job creation in the recovery **barriers to competition in professional services and retail trade should be reduced.**

Austria: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education: Improve digital skills across all layers of education and boost access to digital infrastructure	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Ministry for Digital and Economic Affairs launched new apprenticeships targeted to improve digital skills. <input checked="" type="checkbox"/> The “Digital Pro Bootcamps” supports the up-skilling of specialists in SMEs in cooperation with universities. <input checked="" type="checkbox"/> The Ministry of Education, Science and Research launched a major digitalisation initiative in school education. 	<ul style="list-style-type: none"> <input type="checkbox"/> Involve employer and employee organisations more closely in the design and management of lifelong learning programmes to improve quantity and quality of life-long learning programmes. <input type="checkbox"/> Target government support at the low-skilled and elderly workers would help to address their relatively low participation in further education and training. <input type="checkbox"/> Reduce the remaining barriers to digital trade and investment. <input type="checkbox"/> Foster the provision of private venture and equity capital to accelerate the adoption of key ICT technology.
Labour market: Facilitate full-time labour force participation of both parents throughout the country	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The existing childcare allowance is being evaluated. Results are expected in early 2021. The implementation of the EU Directive on work-life balance is underway. <input checked="" type="checkbox"/> Following the 15a agreement with the Lander, the availability of all-day-child-care and the enrolment rate of children aged 0-6 will be further increased. 	<ul style="list-style-type: none"> <input type="checkbox"/> Make high quality child care and full-day schooling a legal entitlement in the entire country. <input type="checkbox"/> Reduce the progressivity of the personal income tax system.
Labour market: Reduce incentives to exit early from the labour force	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Parametric reforms adjusted the benefit accrual rate and increased women’s retirement age – albeit gradually – with convergence to men’s retirement age scheduled for 2024-2033. <input checked="" type="checkbox"/> The 2020 Pension Adjustment Act has raised pensions for low-income earners, but has also increased risks to the long-term sustainability of the pension system. 	<ul style="list-style-type: none"> <input type="checkbox"/> Closely monitor demographic and other structural developments and, accordingly, increase the effective retirement age or adopt equivalent measures and support the participation in the labour market.
Education: Make educational outcomes less dependent on socio-economic background	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Intermediary apprenticeships qualifications have been created to facilitate integration of children from disadvantaged backgrounds. <input checked="" type="checkbox"/> The 15a agreement with the Lander provides more support for children in need of improving their language skills. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen the German language learning opportunities of migrants. <input type="checkbox"/> Improve coordination of integration policies between the federal, Länder and municipal governments.

2019-2020 Reforms	Recommendations
Competition and regulation: Streamline regulations in professional and business services to boost productivity growth	
<p>The National Competition Authority's power of inspection on electronic files were increased in 2019.</p> <p><input checked="" type="checkbox"/> Over the last two years, Austrian authorities implemented the 4th railway package to open up the market for domestic passenger transport services by rail.</p>	<p><input type="checkbox"/> Make the licensing system more open to competition without undermining the quality of services and the training and skill standard of workers.</p> <p><input type="checkbox"/> Liberalise market entry in rail transportation and, road freight and the distribution of pharmaceuticals.</p>

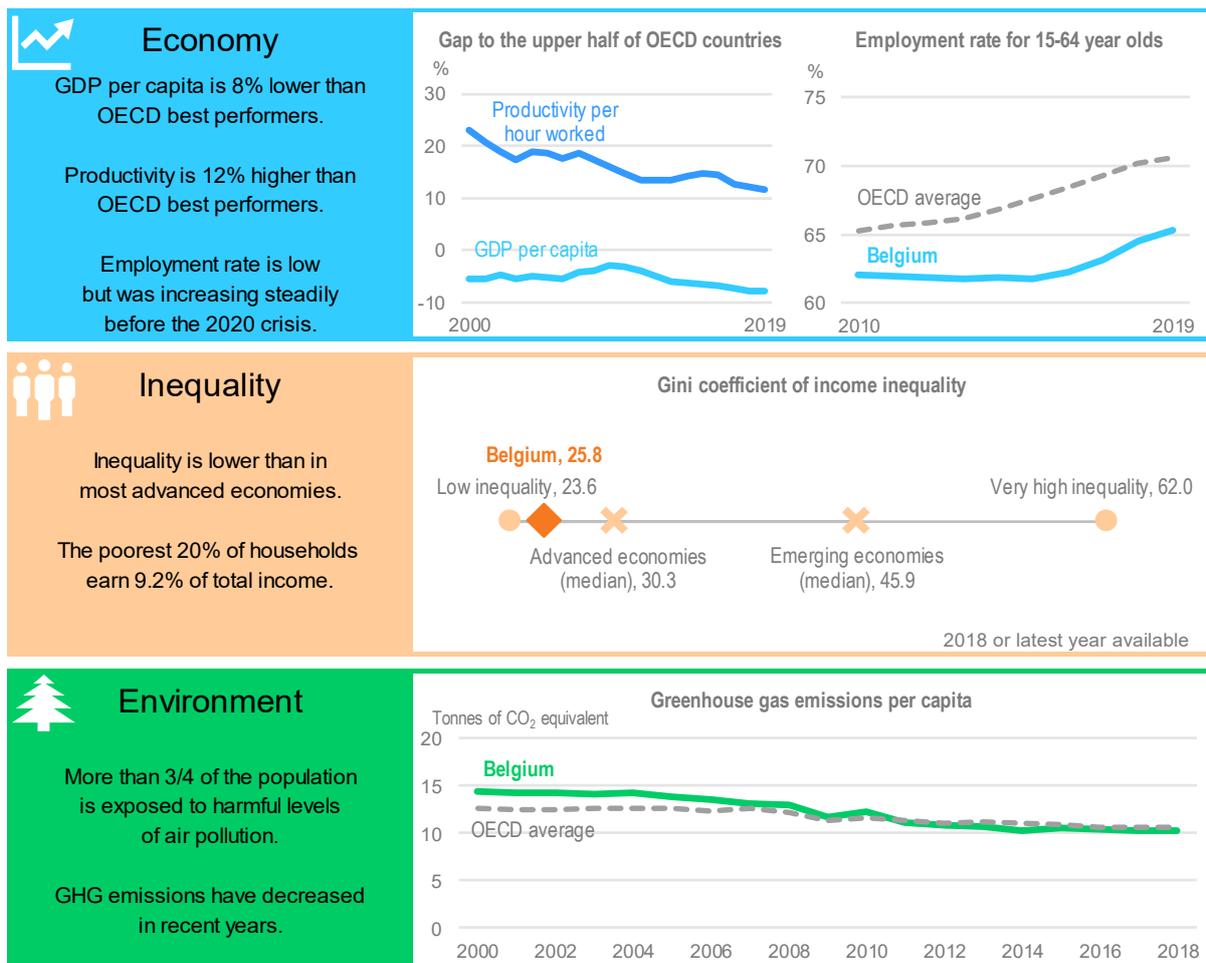
Recent progress on structural reforms

There has been some progress in personal income taxes and digitalisation. In terms of equality of opportunities and the pension system, progress has been weak. The government streamlined digital skills across all layers of education and advanced a number of other reforms pertaining to digitalisation. A reform of the income tax system addressing high labour tax wedges is scheduled to continue in 2021 and 2022. The COVID-19 pandemic may give the necessary momentum to tackle low development of financial markets for risk capital and regulatory barriers in the services sector.

Belgium

Improving business dynamism will be key to revive productivity growth and job creation in recovery. Reforms are hence needed to lower barriers to entry but also smooth the restructuring of firms and exit of non-viable ones. A more flexible labour market and activation policies will ensure the conditions for productive firms to grow and increase inclusiveness.

Belgium: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

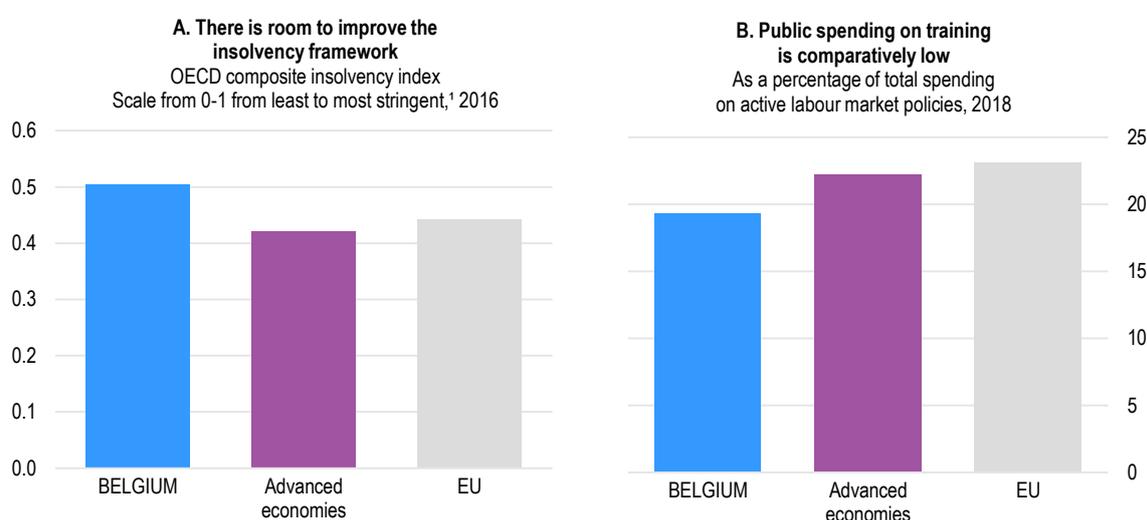
Business dynamism is key for a stronger and more inclusive recovery

Firm entry is going to be crucial for job creation in the recovery. However, despite a number of recent reforms, the complex permit and licence system continues to create administrative burdens on start-ups, while stringent regulations remain in several professions, such as accountancy, legal and architecture services, in particular those relating to barriers to entry and licencing requirements. **The stringency of product market regulation should be reduced further**, notably by further simplifying administrative procedures and licence requirements to start a business or enter certain professional services, and lifting restrictions in retail, such as those on large outlets and shop opening hours.

To deal with the legacy of the pandemic, the insolvency regime needs to ensure rapid, successful restructuring of viable firms while allowing for smooth exit of non-viable ones. While the insolvency moratorium introduced during the pandemic has saved distressed firms temporarily, **the insolvency regime should be reformed further** (Panel A) to allow for smoother reallocation of resources. In particular, creditors should be allowed to begin restructuring proceedings. As planned, simplified and pre-packaged special schemes should be adopted, which would help small businesses in particular as they usually lack necessary resources to deal with complex proceedings.

Impact of the pandemic on firms in hospitality and retail, in particular SMEs, risks compounding the low overall employment rates and particularly weak employment outcomes of those from disadvantaged socio-economic backgrounds. Up-skilling and re-skilling of workers will be increasingly relevant after the crisis. To this end, **functioning of public employment services and training programmes should be enhanced**, for instance by extending the use of tools for profiling of individualised risks across the country to identify jobseekers at a higher risk of becoming long-term unemployed. Funding allocated to training in activation policy should be increased, focusing on skills in high demand such as digital skills (Panel B). Such training programmes can be promoted by providing tax exemptions for jobseekers on their replacement income, as has been done in the recent “Jobs Deal” programme.

Belgium: Vulnerabilities and areas for reform



1. The 2018 update for Belgium is not an official update of the OECD indicator and has been calculated by the OECD Secretariat, based on the 2018 reform. This composite indicator aggregates 13 insolvency indicators across 4 dimensions: treatment of failed entrepreneurs, prevention and streamlining, restructuring tools and other factors. Calculations are based on the OECD questionnaire on insolvency regimes which collected specific information about personal and corporate insolvency regimes.

Source: Panel A: Adalet-McGowan, A. and D. Andrews (2018), "Design of Insolvency Regimes across Countries", OECD Economics Department Working Papers and OECD Economic Surveys: Belgium 2019; Panel B: OECD, Public expenditure and participant stocks on LMP.

A high degree of both wage centralisation across firms and wage coordination across sectors coupled with the rigidity of the indexation system makes it difficult to contain wages in line with productivity developments. **Making the wage bargaining system more flexible**, should enable firms to better align wages with their productivity growth, which can be achieved by, for instance, allowing firms to opt-out from collective agreements more easily. It would be particularly welcome in an uneven COVID-19 recovery across firms. Also, **labour taxation should be decreased further**. In particular, in the aftermath of COVID-19, social security contributions for low wages workers should be further lowered to increase their employability. These tax wedge reductions should gradually decrease with increases in salaries to avoid a risk of low-wage trap.

Belgium: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Streamline regulations that hamper business dynamism and productivity growth	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Business code was revised and entered into force in 2019, substantially reducing the number of legal forms for companies and removing the minimal capital requirements for setting up private limited liability companies and cooperatives. <input checked="" type="checkbox"/> Two professional bodies regulating and supervising accounting and tax advice services were merged in 2019, which can improve guidance for SMEs and reduce administrative formalities. <input checked="" type="checkbox"/> In Flanders, the requirements for professional qualification were removed in some professions (such as professions in the construction sector). In Wallonia, the process to obtain building permits has been simplified and digitalised. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce barriers to entry and licencing requirements in various professions, such as in accountancy, legal and architecture services. <input type="checkbox"/> Ease regulation of retail services, in particular the restrictions on large outlets, shop opening hours and the protection of incumbents. <input type="checkbox"/> Further simplify administrative procedures and licence requirements to start a business.
Competition and regulation: Make the insolvency regime more conducive to reallocation of resources and productivity growth	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Reform the insolvency regime further, by including a timely initiation of restructuring by allowing creditors to begin insolvency proceedings. <input type="checkbox"/> Introduce special insolvency procedures, as currently planned. <input type="checkbox"/> Continue to digitise the judicial system to improve data collection and evaluation.
Labour market: Strengthen active labour market policies and training to reduce job-skill mismatch	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Extend the use of profiling tools to all public employment services across the country to develop tailor-made active labour market programmes for jobseekers. <input type="checkbox"/> Increase spending on active labour market policies allocated to training. <input type="checkbox"/> Following the adoption of a profiling tool in 2018 in Flanders and the ongoing development of a similar tool by the Walloon public employment services, extend the use of statistical profiling across the country to develop tailor-made ALMPs for jobseekers

2019-2020 Reforms	Recommendations
Labour market: Make wage setting more flexible	
No action taken.	<input type="checkbox"/> Allow for more decentralisation of wage bargaining, within the framework of sector-level agreements, to better align wages with productivity at the level of the individual firm. <input type="checkbox"/> Consider allowing firms to opt-out from collective agreements more easily.
Tax system: Reduce labour taxes to support employment	
<input checked="" type="checkbox"/> The 2015 reform to lower taxes on labour continued to be phased in over the past two years.	<input type="checkbox"/> Further lower social security contributions for low wages, financed by increases in less distortive taxes such as environmental taxes. <input type="checkbox"/> Gradually phase-out the reduction in the tax wedge as earned income rises to reduce the risk of a low-wage trap.

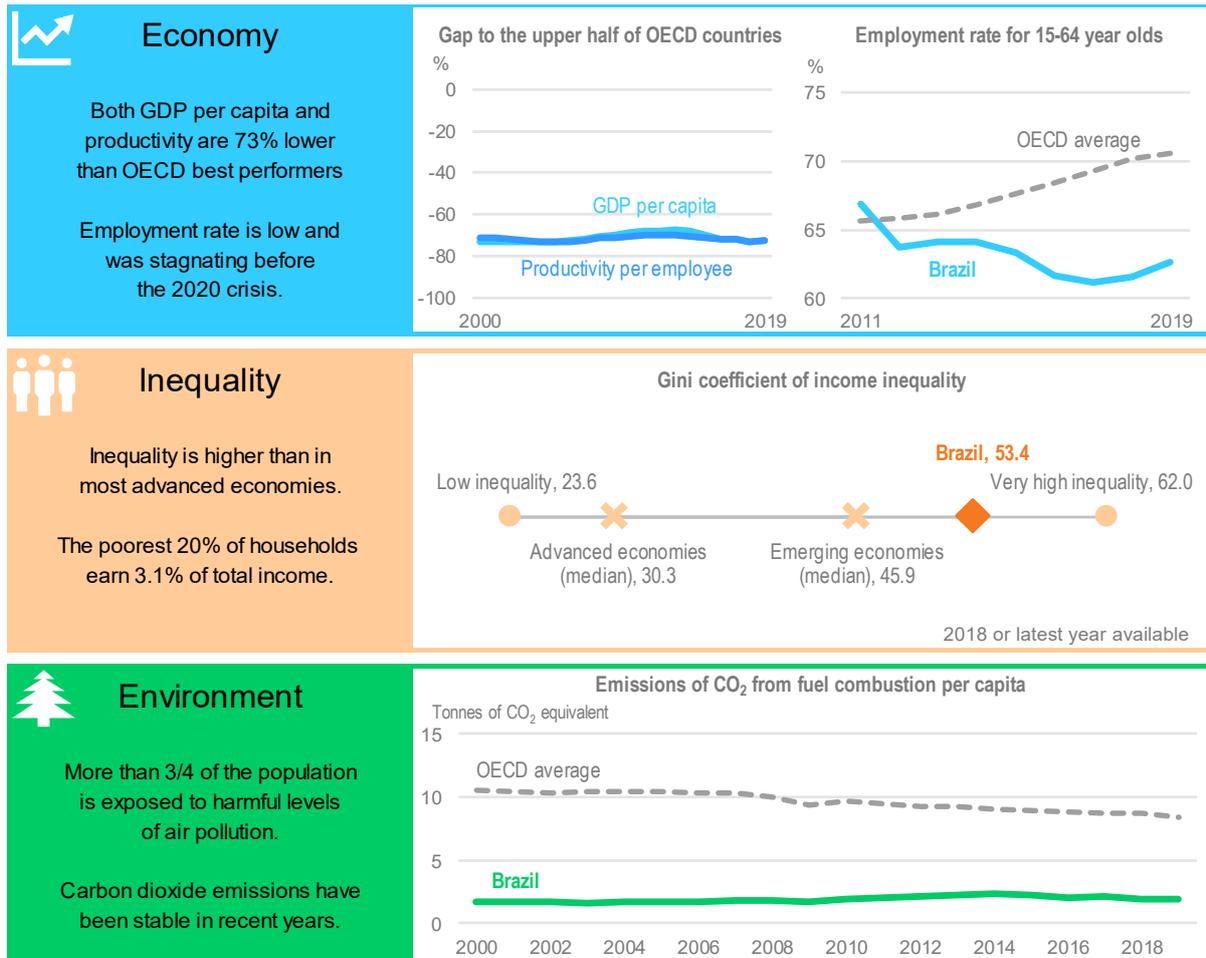
Recent progress on structural reforms

There has been limited progress, as the May 2019 election resulted in a caretaker government. A minority government was formed in March 2020 but lasted only until October last year, when the current government took office.

Brazil

The need to rekindle economic activity after the pandemic only intensifies the urgency of tackling long-standing structural policy challenges. To sustain strong growth productivity needs to increase, as well as protection of those in need and economic opportunities for all.

Brazil: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Brazil is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

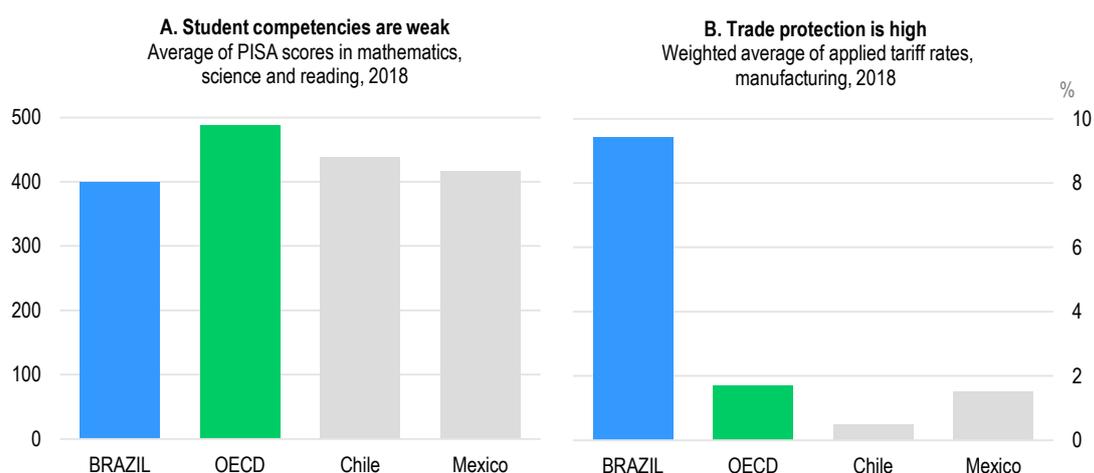
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Growth needs to bring opportunities for all

The pandemic exposed weaknesses of social protection policies, notably their poor targeting. To **increase the effectiveness of social benefits**, current indexation arrangements and some of the benefits should be reviewed, while strengthening others. Well-targeted conditional cash transfers could be expanded and converted into a true social safety net by accelerating benefit provision in the case of dismissal and more gradual withdrawal to strengthen job search incentives. Such a reform should build on the experiences made with temporary pandemic-related emergency benefits for informal workers, which account for one third of employment and are not covered by unemployment insurance schemes.

In the longer term, **enhancing outcomes and equity in education and professional training** holds the key to lower inequality and poverty (Panel A). Access to education has improved in recent decades, but the quality of education is highly unequal across schools and regions and early drop-out rates are high. Expansion of early-childhood education would benefit particularly children from more challenging socio-economic backgrounds while at the same allowing more women to take up gainful employment. Better selection and training of teachers would help improve the quality of education, as would a wider adoption of vocational content in secondary education. Professional training – if well-aligned with local skill demand – can help adults to adapt to changing job requirements resulting from either the pandemic and/or stronger domestic and external competition. Opportunities for skill upgrading facilitate worker mobility into new and better-paying jobs and strengthen productivity at the same time.

Brazil: Vulnerabilities and areas for reform



Source: Panel A: OECD, PISA Database; Panel B: World Bank, World Integrated Trade Solution Database.

StatLink  <https://stat.link/isd2mg>

Brazilian firms currently face limited incentives to become more productive, emphasising the need to **reduce barriers to trade, entrepreneurship and competition** (Panel B). At the same time, a complex tax system distorts incentives for productivity enhancements and results in high compliance costs. Consolidating all six consumption taxes into one simple value-added tax with a broad base, full refund for input VAT paid and zero-rating for exports would **reduce distortions in the tax system**.

Deforestation, a major source of greenhouse gas emissions, has recently rebounded. This emphasises the need to **strengthen effective protection of natural resources, including of the Amazon rain forest**. Current laws and protections, capable of reducing deforestation in the past, should be preserved and coupled with stronger enforcement efforts to combat illegal deforestation, which will require additional resources.

Brazil: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Increase the effectiveness of social benefits	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A major pension reform was passed in 2019, which will make the pension system more sustainable and strengthens its redistributive character. <input checked="" type="checkbox"/> A temporary emergency benefit programme was put in place during the pandemic and has supported over 67 million households. Relatively rapid roll-out based on digital technologies could provide lessons for improving social protection beyond the crisis. 	<ul style="list-style-type: none"> <input type="checkbox"/> Shift the focus of social spending on benefits that reach those most in need could lead to faster reductions in income inequality and poverty. <input type="checkbox"/> Build a stronger and more universal social safety net by increasing benefits and accelerating their provision, including for informal workers who are currently not covered by any unemployment protection scheme.
Education and skills: Enhance equity and outcomes in education and professional training	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The federal government contribution to basic education FUNDEB, which has been instrumental for the increase in school enrolment over the years, was made permanent and more than doubled in volume in 2020, and it has incorporated monetary incentives for local governments to raise the quality of education. <input checked="" type="checkbox"/> Vocational training programmes are currently being expanded and improved, with a focus on aligning their content with labour-market needs. Private-sector training institutions with a known track-record of delivering high-quality courses are being involved in this process. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve education outcomes and equality of educational opportunities by expanding of early-childhood education, particularly for children from more challenging socio-economic backgrounds, and a better selection and training of teachers. <input type="checkbox"/> Expand vocational and professional training and align them with local labour market needs, to allow more workers to seize opportunities related to a reallocation of resources across the economy.
Competition and regulation: Reduce barriers to competition and trade	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Brazil has signed major trade agreements with the European Union and EFTA countries in 2019, but an implementation is still pending. Its implementation would boost competition in many sectors and strengthen reallocation and productivity. <input checked="" type="checkbox"/> A 2020 law reduces the bureaucracy and eases regulations for opening a business and obtaining licenses. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce tariff and non-tariff barriers, starting with capital goods and intermediate inputs. <input type="checkbox"/> Further simplify license requirements for starting a company and apply silence-is-consent rules and one-stop shops wherever possible.
Tax system: Reduce distortions in the tax system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A proposal for a partial reform of consumption taxes, covering only the contributions imposed by the federal government, was submitted to Congress in 2020. <input checked="" type="checkbox"/> Congress is discussing several additional proposals for a broader reform of the fragmented system of consumption taxes. 	<ul style="list-style-type: none"> <input type="checkbox"/> Consolidate consumption taxes into one value added tax.

2019-2020 Reforms	Recommendations
Environmental policy: Preserve natural assets and halt deforestation	
*New priority *	<input type="checkbox"/> Build on past success in fighting illegal deforestation by strengthening enforcement efforts to combat illegal deforestation and ensuring adequate staffing and budget of environmental enforcement agencies. <input type="checkbox"/> Avoid a weakening of the current legal protection framework, including protected areas, the forest code, and focus on the sustainable use of the Amazon's economic potential.

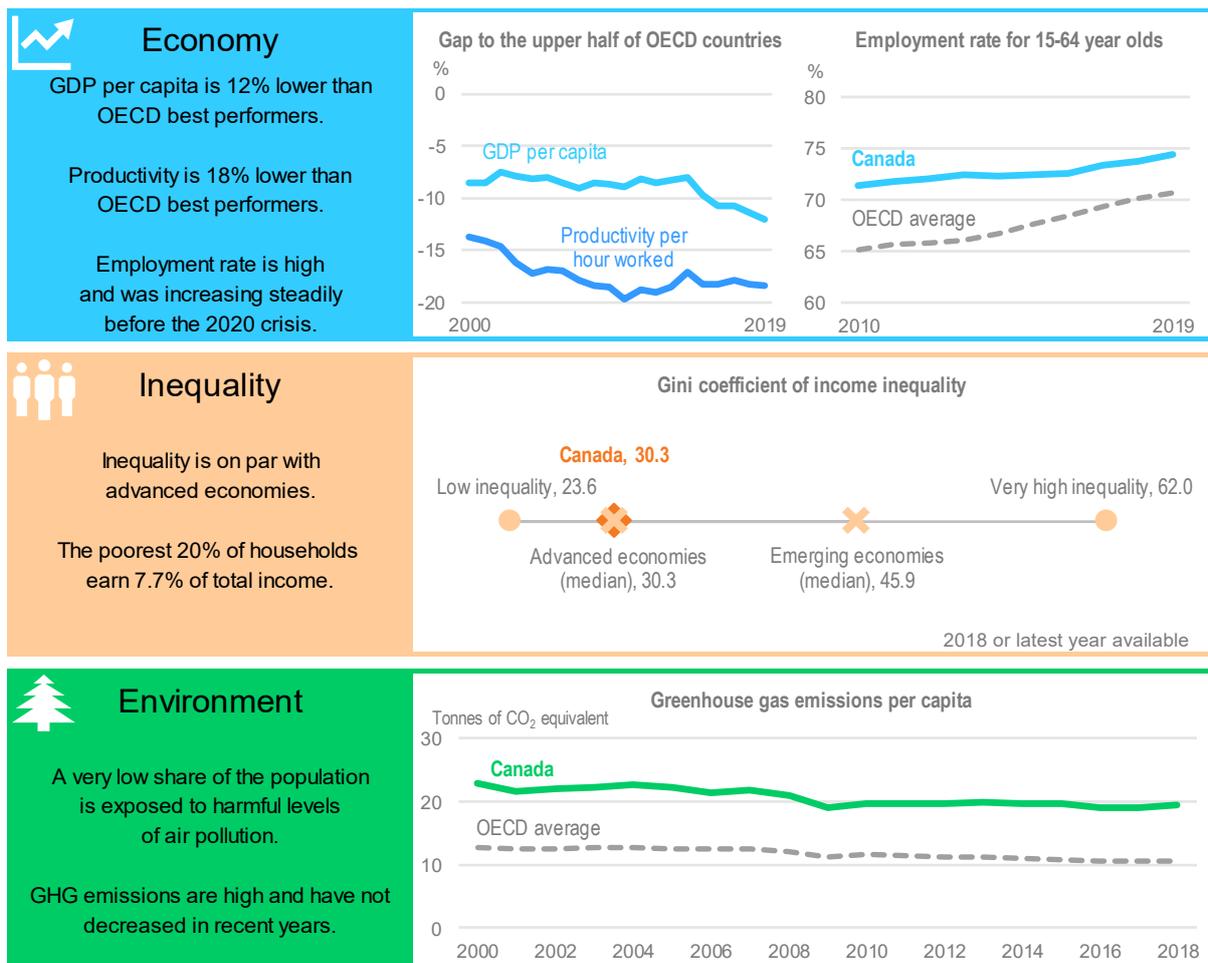
Recent progress on structural reforms

The passing of the pension reform in 2019 was a major milestone that has been on the agenda for many years. It will be the basis for further reforms to enhance the targeting of social protection benefits towards those most in need. The 2020 reform of financing of basic education (“FUNDEB”) will also be a crucial pillar for further improvements in the area. In the wake of COVID-19, there is a growing consensus for the need to bolster social protection, especially for informal workers. However, given the limited fiscal space, this would require spending cuts in other areas. The government is very committed to additional structural reforms and has submitted several reform proposals to Congress, where they are currently being discussed.

Canada

Building a more resilient and inclusive economy requires strengthening welfare policy. The pandemic highlighted a general problem of weak backing for those unemployed or experiencing poverty, the gender-wage gap remains large and Indigenous peoples remain under-privileged in most socio-economic dimensions.

Canada: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

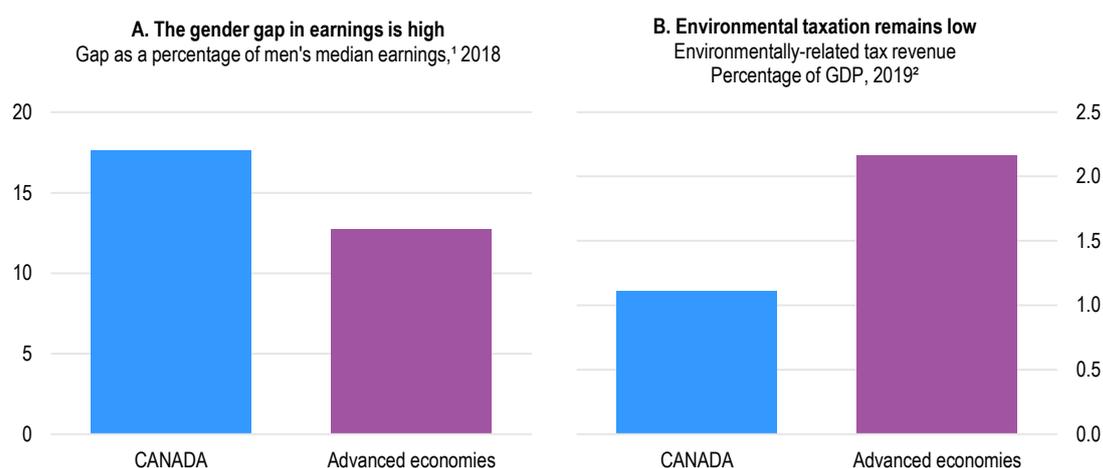
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Bolstering safety nets and competition

The concentration of layoffs in low-wage jobs has underscored that this downturn has widened economic inequalities. **Shortfalls in support for those losing jobs and income need addressing.** Policy should continue to include special measures that help workers find or retain jobs in the wake of the crisis. In addition, a permanent change to income support may be required to make social safety nets more reliable and effective for the longer term. One route would be for provinces and territories to upgrade safety net welfare provisions, possibly with financial assistance from federal government. Greater self-determination needs to be part of the solution to reducing under-privilege among Indigenous peoples. In addition, **enabling more women to work full time** with fewer child-care breaks would also reduce inequalities while making the most of skills, talent and experience. Canada's gender gap in earnings is large (Panel A). Increasing subsidies to childcare provision as well as tougher quality control could help more mothers to return to work, as would more support for fathers taking up paternal leave. In healthcare, the pandemic has shone a light on shortfalls in the quality of long-term residential care homes, prompting welcome policy attention on how to improve services for the future. Where possible, social and health policy improvements should be financed through efficiency savings elsewhere in public expenditure, so as to avoid increasing fiscal deficit and debt or need for tax hikes.

Non-tariff barriers arising from interprovincial differences in product, service and labour regulation continue to hamper the efficiency and productivity of Canada's business sector. For instance, differences in regulation and standards in the legal profession and accounting limit inter-provincial trade. In an increasingly digitalised economic environment, the pandemic highlights the importance of good access to high-speed and competitively priced broadband for both households and businesses. There is **scope to make key sectors, including the telecoms, more competitive.** Improving broadband access in remote areas will require continued government support, such as that being provided by the Universal Broadband Fund. Reducing restrictions on foreign ownership in telecoms can help increase the competition. Similar opportunities to strengthen competition exist in retail, professional services, electricity and air transport.

Canada: Vulnerabilities and areas for reform



1. 2019 or latest year available. The gender wage gap is unadjusted and is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed.

2. Data refer to 2014 for Canada.

Source: Panel A: OECD, Gender and Labour Force Statistics Databases; Panel B: OECD, Environment Database.

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Canada's per capita greenhouse gas emissions are substantial and have decreased only marginally since 2000. Environmental tax revenues relative to GDP are smaller compared with many countries (Figure 1B). **The carbon price floor needs to steepen if Canada is to meet its official commitments.** This will raise the bar on the provinces and territories' greenhouse gas reduction mechanisms. Recent federal government proposals for carbon-price increases, announced as part of a strengthened climate plan, are encouraging.

Canada: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Strengthen support for vulnerable households	
*New priority *	<input type="checkbox"/> Strengthen policies that help vulnerable households. This should include special measures that help workers find or retain jobs. Consideration should also be given to a permanent change to income support to make social safety nets more reliable and effective for the longer term. Such policy could include an upgrade in provinces and territories' safety net welfare provisions.
Labour market: Increase the labour-market inclusion of women	
No action taken.	<input type="checkbox"/> Improve childcare provision through increased subsidies and tougher quality control. <input type="checkbox"/> Support take up of paid parental leave by fathers (introduced in 2018) through information provision and, if necessary, increasing payment rates. <input type="checkbox"/> Encourage female entrepreneurship, including through a national strategy for women's enterprises.
Competition and regulation: Reduce barriers to internal trade	
<input checked="" type="checkbox"/> No substantive development since the replacement of the Agreement on Internal Trade with the Canadian Free Trade Agreement (CFTA) in 2017.	<input type="checkbox"/> Take the (CFTA) further by prohibiting agricultural supply management regimes, reconciling remaining regulatory differences and expediting dispute resolution while raising penalties for non-compliance.
Competition and regulation: Reduce barriers to entry for both domestic and foreign suppliers and enhance competition in network and service sectors	
No action taken.	<input type="checkbox"/> Reduce foreign ownership restrictions in telecoms and broadcasting and on a reciprocal basis in air transportation. <input type="checkbox"/> Ease entry regulations and reduce discrimination against foreign suppliers in professional services and air and road transport. <input type="checkbox"/> Make electricity markets more integrated and competitive, privatise Canada Post and eliminate its legal monopoly. <input type="checkbox"/> Reduce retail-trade licencing requirements.
Tax system: Eliminate inefficient tax expenditures and increasing carbon prices	
<input checked="" type="checkbox"/> The Pan-Canadian Framework's (PCF) carbon pricing came into force in 2019 and annual price increases are underway (due to end in 2022).	<input type="checkbox"/> Schedule further increases in the PCFs carbon price. <input type="checkbox"/> Eliminate tax expenditures not warranted by clear market failures or clear equity objectives, such as lower tax rates for small businesses.

Recent progress on structural reforms

Structural reforms across federal, provincial and territorial governments are generally moving in the directions recommended in *Going for Growth*. However, progress in reform has been slowed in 2020 because governments have been busy dealing with the COVID-19 crisis. More generally, Canada's highly decentralised system of government means that progress on structural reform often requires co-ordinated action across governments. Consequently, building consensus and reaching agreement on actions can be slow.

Chile

The COVID-19 pandemic exposed long-standing vulnerabilities of the Chilean economy: high inequality and a high share of small and mid-size companies with weak productivity performance. Solid COVID-19 related government interventions are cushioning some of the negative effects, but structural policy action is needed to prevent the crisis effects undoing some of the progress in reducing poverty and inequality achieved through the past decades and to strengthen economic resilience and growth in the future.

Chile: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Chile is 2017.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

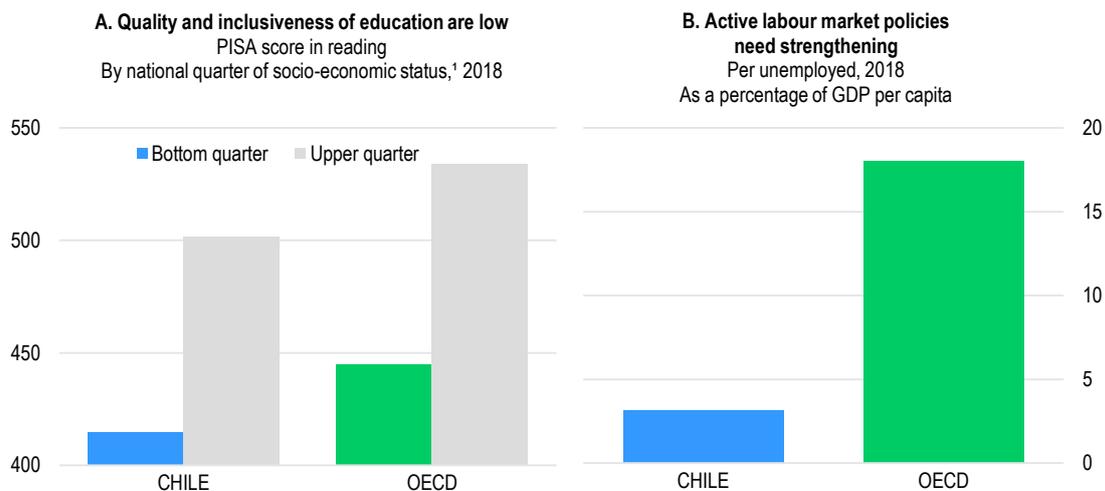
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A strong and inclusive recovery

A more effective tax and transfer system can be a strong catalyst for reducing inequality and inclusive recovery. The redistributive impact of the current personal income tax is weak. To improve income distribution, higher conditional cash transfers towards vulnerable populations and more spending on family, health or education-related transfers should be considered. Transforming the temporary measures that strengthen protection for unemployed workers into permanent ones, or automatically triggered once unemployment reaches certain thresholds, would also constitute progress in this direction. In the medium term, lowering the thresholds at which the bottom and top bracket apply would lead both to a significant increase in revenue as well as a reduction in income inequality.

The crisis highlighted disparities in digital skills and technology access and use. One of the biggest connectivity challenges is access to high-speed internet. Improvements in legal, regulatory and governance frameworks in the communication sector could accelerate both fixed and mobile network deployment and improve access to high-speed broadband services at competitive prices. Firms' adoption of digital tools is still lagging behind other OECD countries, mainly for SMEs. More targeted programmes for SMEs, designed in close collaboration with the private sector, would allow them to adopt digital tools. Despite significant progress on the competition framework over the recent years, in some key sectors, such as digital services and maritime transport, complex regulatory procedures remain an impediment to an efficient reallocation of resources. Such regulations should be reviewed to reduce their complexity, thereby supporting a swift recovery from the COVID-19 recession, overall firm growth (notably among SMEs), and boosting productivity.

Chile: Vulnerabilities and areas for reform



1. A student's socio-economic status is estimated by the PISA index of economic, social and cultural status (ESCS), which is derived from several variables related to students' family background: parents' education, parents' occupations, a number of home possessions that can be taken as proxies for material wealth, and the number of books and other educational resources available in the home.

Source: Panel A: PISA Database; Panel B: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases.

StatLink  <https://stat.link/wcvue2>

To boost growth and to make it inclusive the quality and equity of the education system across all levels needs to improve (Panel A). The actions taken by the government to enhance digital means and online resources for education in the first months of the pandemic are welcome. Expanding the provision of high-quality childcare including public early childhood education would give children from disadvantaged backgrounds a more equal start in education. Looking ahead, boosting skills across the population requires

enhancing workplace training, as part of vocational education and training programmes, and ensuring its relevance by updating the curricula, in collaboration with employers.

To reduce unemployment and help workers find jobs in the formal sector, strong activation, job search and training policies should be put in place. **Strengthening active labour market policies and embarking on a full revision of training policies** would help face the challenges of the digital transformation and ensure that all workers, particularly the most vulnerable, have adequate opportunities for retraining and finding good-quality jobs. Financing childcare through general revenues would raise female employment and wages, helping to reverse the stark increase of the gender labour participation gap during the pandemic.

Chile: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Make the tax and transfer system more friendly to redistribution	
*New priority *	<input type="checkbox"/> Strengthen the redistributive impact of the personal income tax by lowering the thresholds at which the bottom and top brackets apply. <input type="checkbox"/> Expand cash benefits, including conditional cash transfers, employment subsidies and unemployment- and health-insurance support. <input type="checkbox"/> Make the temporary measures to increase protection for unemployed workers permanent or automatically triggered when unemployment reaches certain thresholds.
Competition and regulation: Enhance competition and ease regulatory procedures	
<input checked="" type="checkbox"/> In December 2019, measures to facilitate the installation of telecommunications infrastructure in public spaces, deployment of 5G technology, and competition in the cabotage freight transport were announced. <input checked="" type="checkbox"/> Authorities have put in place a portal where SMEs can denounce bureaucratic obstacles to entrepreneurship. A digital platform now acts as a single digital window for all sectorial permits that a project requires for its approval, allowing the coordination and monitoring of all agencies.	<input type="checkbox"/> Systematically review competitive pressures in key sectors, such as telecommunications and maritime services, by conducting market studies and applying the guidelines of the OECD's Competition Assessment Toolkit. <input type="checkbox"/> Implement zero-licensing procedures for permits.
R&D and digitalisation: Boost the digital transformation	
*New priority *	<input type="checkbox"/> Create a simplified licensing procedure through which operators are authorised to provide all types of telecommunication services. <input type="checkbox"/> Boost public support to SMEs, in cooperation with the private sector, through targeted programmes to facilitate the adoption of digital tools.
Labour market: Enhance lifelong learning and active labour market policies, while boosting female labour participation	
<input checked="" type="checkbox"/> In March 2019, a bill to modernise the training and public employment system was submitted to Congress. <input checked="" type="checkbox"/> A new law passed during the pandemic defines rules for teleworking and working from a distance by bringing working conditions in line with those of the on-site workers.	<input type="checkbox"/> Embark on a full revision of the tax-credit programme financing firm-provided training to improve relevance, quality and targeting to vulnerable workers. <input type="checkbox"/> Eliminate the requirement for firms to finance childcare once they employ 20 female workers or more to boost female labour force participation.

2019-2020 Reforms	Recommendations
Education and skills: Improve quality and equity of the education system	
<p><input checked="" type="checkbox"/> In March 2019, the government announced the extension of ‘a full-day programme’ in some public kindergartens and nurseries to achieve high coverage with 35 800 young children during 2019 (5% of the public system coverage).</p> <p><input checked="" type="checkbox"/> The government implemented an agenda to modernise professional technical education, including new schools of excellence, the abolition of fees for low-income families, more scholarships and the establishment of state technical training centres in five regions.</p>	<p><input type="checkbox"/> Expand the provision of high-quality childcare including public early childhood education.</p> <p><input type="checkbox"/> Enhance work-based learning through apprenticeships.</p> <p><input type="checkbox"/> Strengthen vocational education by Update the curricula of vocational training in line with changing job market needs.</p>

Recent progress on structural reforms

The social protests at the end of 2019 triggered an agenda of structural reforms. This included higher pensions for the most vulnerable, a minimum guaranteed income, a new health plan, and the creation of a new tax bracket in the personal income tax for high income taxpayers, addressing in part some of the inequality issues. In October 2020, a referendum approved a new elected constitutional assembly to rewrite the constitution, which could lead to more structural reforms. The COVID-19 crisis could add to this renewed appetite for discussing further structural reforms.

China

The COVID-19 pandemic highlighted weaknesses in the health and social security systems and pushed many households and firms to the brink of bankruptcy. It further widened inequalities between: (i) central provinces that have been hardest hit and the coast; (ii) poorer households that had already been indebted and wealthier households and (iii) the private sector, which has limited access to infrastructure contracts and is hard hit by slackened demand and the state-owned sector. Such divides will need to be addressed to make growth inclusive and sustainable.

China: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). For China employment rate refers to 15 and over.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for China is 2016.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases. When not available, International Labour Organisation for employment rate; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

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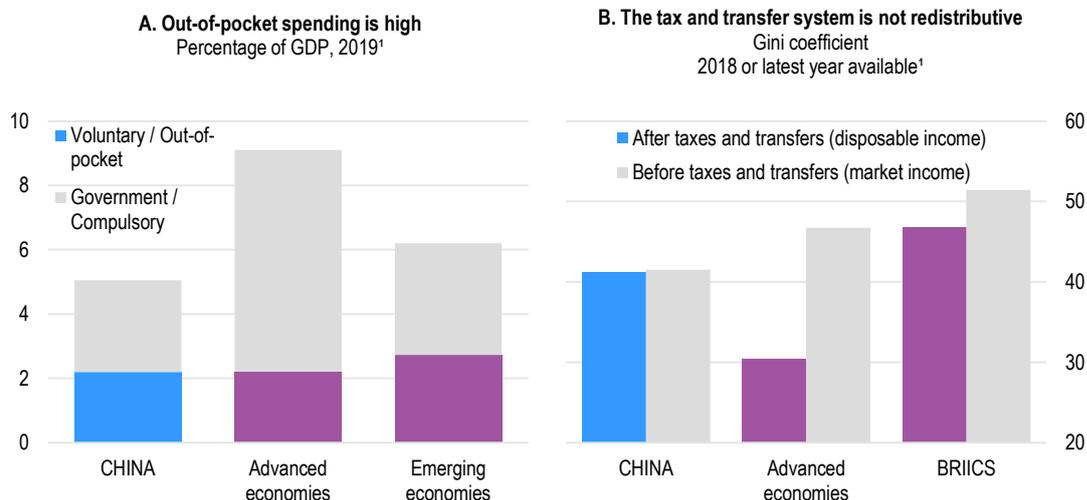
Bridging divides to better prepare for future challenges

A stronger social safety net is needed to reignite consumption and thus make growth more sustainable. Serious illnesses have been recognised as a major factor pushing people into debt and ultimately also poverty. To narrow health outcome inequalities and poverty in general out-of-pocket payments for healthcare costs should be reduced (Panel A). Moreover, lower reimbursement of medical costs outside of the area of residence imposes a heavy burden on migrant workers. Reimbursement rates should be the same, irrespective of the place of treatment. High-quality public health resources, concentrated in the big hospitals of the largest cities should be better distributed, including by requiring longer-term rotation of urban medical staff to remote rural areas.

The divide between rural and urban workers needs to be reduced. Income inequalities are high and the tax and transfer system does little to reduce them (Panel B). As they lost their jobs during the pandemic, migrant workers left cities for their hometowns and villages as social security benefits are meagre even for long-time social security contributors. Inequalities are greatest between urban and rural areas. To facilitate reallocation after the pandemic and in light of future challenges related to ageing or digitalisation, matching skills to labour market needs is ever more important. To this end, the coverage of unemployment insurance should be extended to all workers, portability of pension benefits across regions should be made smoother and pension funds should be unified at the national level. In the medium term, pension schemes for private sector and rural workers should be unified to disincentivise savings for old age.

Exploiting the full growth opportunities of a large Chinese market is hampered by many entry barriers, unequal treatment of different players, for instance in the financial sector and restrictions on the business conduct of foreign firms. **Reforms to level the playing field would improve reallocation and boost efficiency in the recovery and beyond.** These should include dismantling administrative monopolies, removing entry barriers, abolishing implicit guarantees for SOEs and public entities as well as requirement for foreign firms to establish joint ventures.

China: Vulnerabilities and areas for reform



1. The last available year is 2017 for China.

Source: Panel A: OECD, Health Database; Panel B: OECD, Income Distribution Database and Solt, Frederick, 2019, "The Standardized World Income Inequality Database, Versions 8-9", <https://doi.org/10.7910/DVN/LM4OWF>, Harvard Dataverse, V5.

StatLink  <https://stat.link/moxm8>

The turmoil brought by the pandemic, including the emergence of scarcity and public distribution of certain goods as well as the moving of business transactions online, created opportunities for profiteering and other unlawful behaviour. This makes **safeguarding the rule of law** even more important. Whistle-blowers should be better protected to make officials less willing or less able to indulge in corruption.

COVID-19 has interrupted a shift of the economy to a more sustainable path, including the energy transition to low-emissions. Recent commitments to mitigate climate change are encouraging, but **environmental targets should be made more ambitious and enforcement strengthened**. Fines for violators should be raised to deterring levels and environmental taxation should be used to provide incentives for decarbonisation and pollution reduction. In particular, environmental taxes on fossil fuels should be raised.

China: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Health care: Reduce the share of out-of-pocket payments of healthcare costs to limit the burden on the poor	
*New priority *	<input type="checkbox"/> Reduce out-of-pocket payments for healthcare costs. <input type="checkbox"/> Apply the same reimbursement rate regardless of the place of treatment. <input type="checkbox"/> Distribute high-quality public health resources more evenly.
Labour market: Facilitate labour mobility and improve skills provision to foster reallocation	
<input checked="" type="checkbox"/> Since 2020, as a result of the COVID-19 outbreak, the settlement of outpatient care costs can now also be done online. <input checked="" type="checkbox"/> Social protection has temporarily been extended starting in 2020. <input checked="" type="checkbox"/> An increasing number of colleges are introducing artificial intelligence (AI), big data and other highly-sought skills as undergraduate majors.	<input type="checkbox"/> Make pension benefits portable across regions and unify pension funds at the national level. <input type="checkbox"/> In the medium term, unify pension schemes across employees in public and private firms. <input type="checkbox"/> Ensure a better match between skills available and those demanded in the market by increasing places in sought-after majors and establishing new majors in newly emerging areas.
Competition and regulation: Strike a better balance between liberalisation and regulation in financial markets and level the playing field.	
<input checked="" type="checkbox"/> In August 2020 the ceiling on private lending interest rate was lowered, making the pricing of risk more difficult and depriving high-risk borrowers from legal sources of funding.	<input type="checkbox"/> Create a single Chinese product market by dismantling administrative monopolies of privileged firms, mostly at the local level. <input type="checkbox"/> Dismantle restrictions on the entry and conduct of foreign firms, in particular requirements to form joint ventures or transfer technology. <input type="checkbox"/> Remove implicit state guarantees to public entities. <input type="checkbox"/> Enhance financial literacy through financial education from an early age. <input type="checkbox"/> Increase disclosure and transparency of all company accounts.
Governance and rule of law: Combat non-compliance with laws and regulations	
<input checked="" type="checkbox"/> The anti-graft campaign initiated in 2012 is advancing. <input checked="" type="checkbox"/> In October 2020, 14 government agencies issued a notice aiming at strengthening the supervision of online sales, which have been expanding even more rapidly since the outbreak. <input checked="" type="checkbox"/> A notice in May 2020 by four government agencies spells out the major areas the Fair Competition Review Mechanism should scrutinise, making operationalising easier.	<input type="checkbox"/> Strengthen protection of whistle-blowers to make officials less willing or less able to indulge in corruption.

2019-2020 Reforms	Recommendations
Environmental policy: Increase ambition and enforcement of environmental policies	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In September 2020 China pledged to become carbon neutral by 2060. <input checked="" type="checkbox"/> In May 2019, third party access to pipelines on an equal basis became possible. <input checked="" type="checkbox"/> The gas sector has undergone liberalisation. A March 2020 notice encourages private enterprises to enter several segments of the gas sector. 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase further environmental targets, strengthen enforcement and raise fines for violators to deterring levels. <input type="checkbox"/> Address major sources of pollution: continue switching from coal-fired to gas-fired generation, reduce fertiliser use in agriculture and boost the extent of treatment required before releasing wastewater. <input type="checkbox"/> Raise energy-related taxes to reduce pollution and strengthen climate change mitigation action.

Recent progress on structural reforms

Reform intensity in China remained high across the board, even though the reforms are not equally significant in all areas. The commitment to carbon neutrality by 2060 can be viewed as a strong signal of commitment to mitigating climate change. Opening up the banking sector for foreign entry can bring about a much needed increase in efficiency. Digitalisation of government services has been stepped up as the pandemic created demand for contactless services, and will likely boost productivity.

Colombia

The pandemic is likely to lead to higher informality, inequality and poverty - reversing years of improvement. Low-quality basic and professional education often disconnected from labour market needs, large connectivity gaps and high regional inequalities need to be addressed in order to tackle informality and boost growth and employment in the medium-term.

Colombia: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Colombia is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

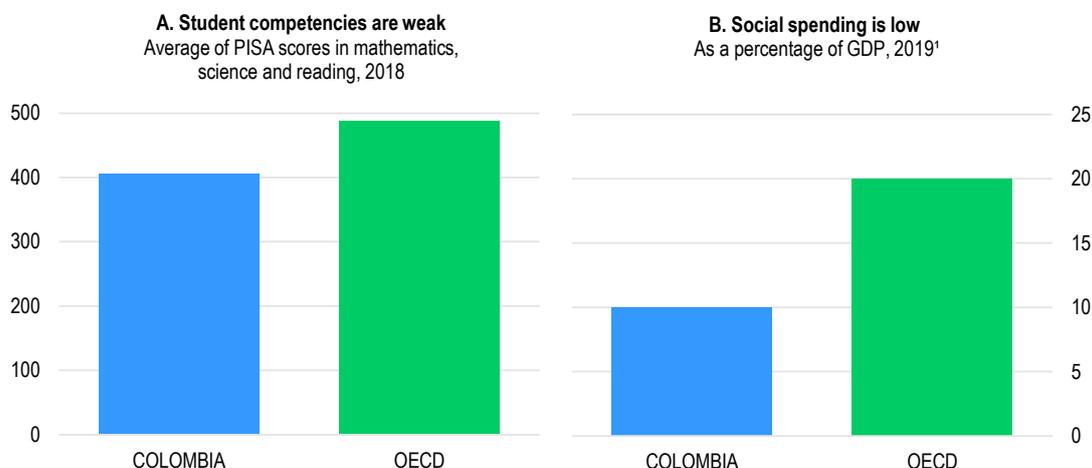
Tackling informality and inequality with skills and job creation

Informality remains high and despite some improvements, exhibits an entrenched regional divide. **A comprehensive strategy to fight informality is required** to make sure that the recovery brings high-quality jobs. High non-wage labour costs and a relatively high minimum wage should be reduced to encourage formal hiring, in particular of low-skilled workers, youth and people located in less developed regions. To encourage entrepreneurship, high registration costs for firms should be reduced, especially for SMEs and start-ups.

Formal job creation requires a stronger business sector. But, tariff and non-tariff barriers remain relatively high and regulatory burdens hamper entry and SME growth. **Lower trade barriers and stronger competition** can support resource reallocation and job creation in the wake of the crisis. Access to markets should be supported through further improvements in transport infrastructure, in particular multi-modal transport connectivity of ports and customs, and reducing barriers to entry and competition in transport. Distortive non-tariff barriers should be eliminated, and the entry and growth of firms facilitated by greater reliance on one-stop shops and online tools for administrative procedures.

Weak skills exclude many from the formal labour market. Although substantial progress has been made in the last decade, education outcomes remain subpar (Panel A), and are highly dependent on socio-economic background and show large regional disparities. **Improving outcomes and equity in education and training** should start from expanding access to early childhood education and full-day schooling, particularly in rural areas. Resources should be reallocated to vulnerable regions to make teaching more attractive there. Curricula and funding in vocational education and training should be adjusted according to labour market needs, and employers' involvement in delivery should be encouraged.

Colombia: Vulnerabilities and areas for reform



1. 2019 or latest year available for the OECD average.

Source: Panel A: OECD, PISA Database; Panel B: Colombia, Departamento Nacional de Planeación (DNP) and OECD, Social Expenditure Database (SOCX).

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The COVID crisis has further highlighted the need to close the gaps in social protection for vulnerable workers (Panel B). Further efforts to **expand social programmes** should include better targeting of social spending towards the vulnerable population, such as those living in rural areas. Cash transfers should be supplemented by a training component to enhance participants' chances of getting high-quality jobs.

The crisis has magnified the importance of digital connectivity for the public sector, households and firms. Despite an improvement, internet penetration rates are low, with low broadband speed and high prices for

both fixed and mobile telecommunications. Further efforts to **enhance connectivity by diminishing barriers to competition in the communications sector assuring the independence of the new ICT regulator**, would boost access to high-quality broadband networks at affordable prices.

Colombia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Reduce barriers to formality	
<input checked="" type="checkbox"/> No actions taken	<input type="checkbox"/> Establish a comprehensive strategy to reduce the cost of formalisation. This should include: reducing non-wage costs, reviewing the minimum wage to achieve a more job-friendly level, reducing firms' registration costs and simplifying the registration of workers.
Competition and regulation: Reduce barriers to trade and strengthen competition	
<input checked="" type="checkbox"/> The 2021 budget provides ambitious funding for PPP infrastructure and transport projects as part of the recovery plan, with the aim of strengthening multi-modal transport and the national road network.	<input type="checkbox"/> Prioritise improving multi-modal transport connectivity of ports and customs, and reduce barriers to entry and competition in transport. <input type="checkbox"/> Phase out import restrictions and review other non-tariff barriers with a view to reducing them.
Education and skills: Improve outcomes and equity in education	
<input checked="" type="checkbox"/> To reduce the drop-outs caused by the pandemic, a strategy of monitoring and actively seeking out students who do not return to their academic activities is being implemented.	<input type="checkbox"/> Expand access to early childhood education and its quality, particularly in rural areas. <input type="checkbox"/> Provide full-day school and increase spending for education-related transfers to vulnerable families. <input type="checkbox"/> Reallocate resources to the most vulnerable territories and make teaching in rural areas more attractive through shaping the working conditions and professional opportunities in these areas.
Social protection: Expand social programmes to reduce poverty and inequality	
* New priority *	<input type="checkbox"/> Focus social spending on low-income households, especially those in rural areas. <input type="checkbox"/> Review the implicit subsidies in the public pension system and target them to the most vulnerable. <input type="checkbox"/> Boost coverage and benefit levels in the non-contributory scheme (Colombia Mayor).
Infrastructure: Boost digital infrastructure to promote connectivity and reduce prices	
<input type="checkbox"/> In 2019, the ICT Modernisation Law was passed. Some measures include creating a new ICT regulator, stating new objectives for access to communication technologies and services, and guaranteeing the efficient use of the spectrum to maximise social welfare and set the right investment conditions.	<input type="checkbox"/> Preserve the independence of the new ICT regulator, by making a clear distinction between the funding of the regulator and the funding of the Ministry, and assuring that the government has not a seat on the Board of Commissioners.

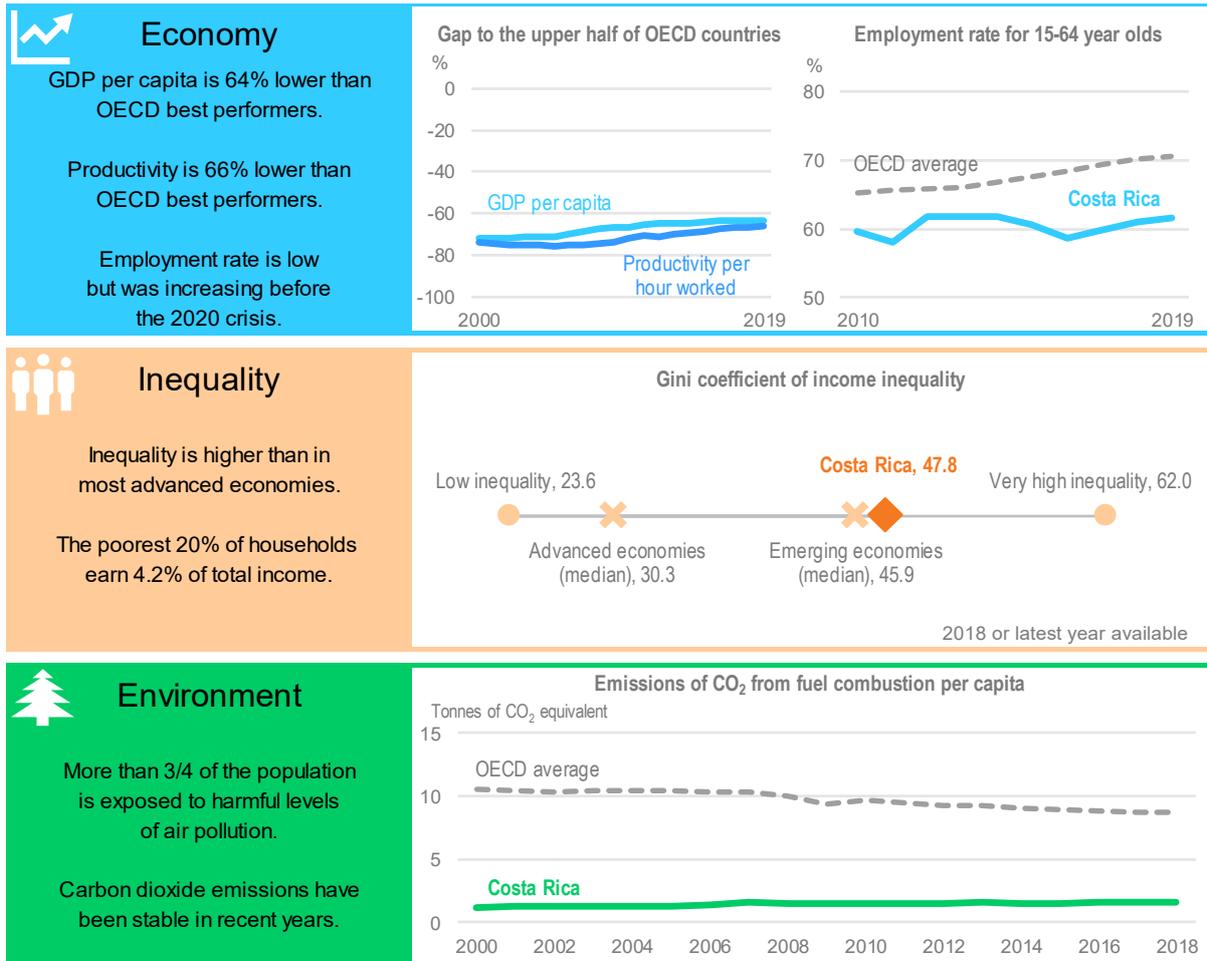
Recent progress on structural reforms

There has been limited progress on structural reforms, partly related to difficulties in building a broad-based consensus in favour of reforms. At the end of 2018, authorities passed a much needed and welcome tax reform, which was however overruled by the constitutional court, forcing the government to pass it again at the end of 2019. This lengthy process consumed significant political capital. The COVID-crisis could rekindle an appetite for discussing further structural reforms, but with elections coming in 2022, the political window for doing so is short.

Costa Rica

To attain a strong and inclusive recovery top policy priority should be on boosting formal jobs creation, with reforms ranging from removing obstacles to firm entry and competition, to improving the quality of education and training.

Costa Rica: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Costa Rica is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

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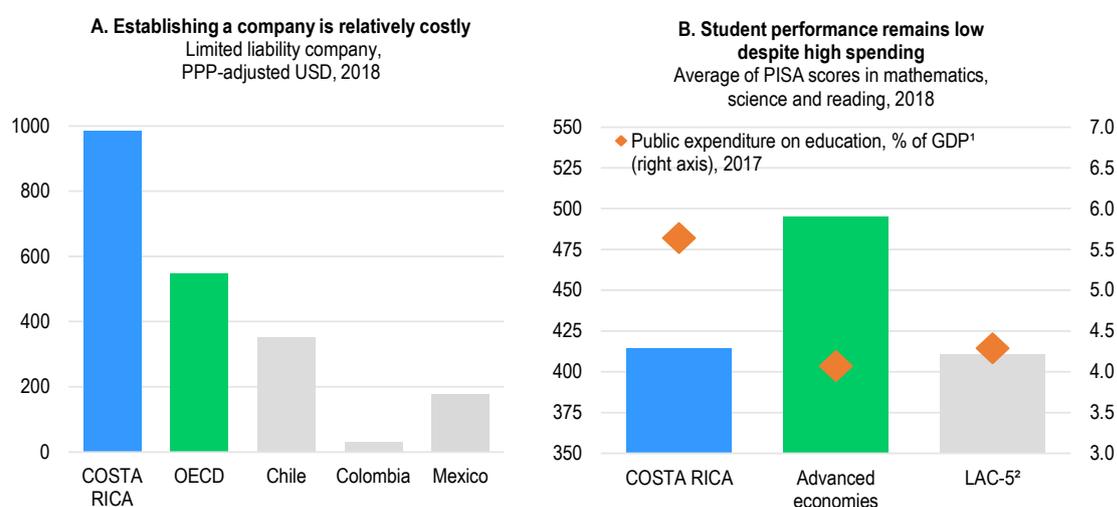
Boosting formal job creation for a strong and inclusive recovery

Informality has already been high before the crisis, especially among women and low-skilled workers, and has now further increased. To make growth more inclusive, a **comprehensive strategy to reduce informality is needed**. This should include simplifying the minimum wage, gradually shifting part of the tax burden from social security contributions to other taxes (such as property taxes), improving the quality of education and training, and simplifying administrative procedures to lower costs for firm entry and formalisation (Panel A). Administrative burden for firm entry can be reduced by introducing online one-stop mechanisms for licenses and permits and widening the scope of silence-is-consent rules.

Formal job creation relies on a dynamic business environment, but domestic firms lag behind those in free-trade zones in terms of innovation and integration into global value chains. Hence, **the business environment needs to improve on several fronts**. More competition in the domestic network and service sectors would lower input prices for firms. Competitive and performance-based funding in public research would strengthen cooperation between universities and domestic businesses and foster innovation among SMEs. Centralising public planning procedures for infrastructure projects using cost-benefit analysis could help to improve infrastructure and reduce transport costs for domestic firms.

Low competition in many key sectors, such as banking, food, electricity or transport, leads to higher prices and lower quality of essential goods and services, harming consumers and hindering business dynamics and employment creation. **Boosting competition can be achieved by ensuring full and timely implementation of the competition law, phasing out remaining exemptions** and ensuring the independence and sufficient resources of the competition authority. Finally, transparent monitoring of the performance of prevalent state-owned enterprises should be established.

Costa Rica: Vulnerabilities and areas for reform



1. 2018 for Costa Rica.

2. LAC-5 refer to Argentina, Brazil, Chile, Colombia and Mexico.

Source: Panel A: OECD, Product Market Regulation Database 2018; Panel B: OECD, PISA and Education at a Glance 2020 Databases.

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The pandemic has exacerbated fiscal vulnerabilities, highlighting the **need for raising public spending efficiency**. This should include simplifying the system of public employment remuneration and introducing performance-based incentives, centralising public procurement, reducing the duplication of public agencies, and better targeting social spending. In particular, although education spending as a share of GDP is significantly higher than in advanced economies, educational outcomes remain low (Panel B). Dropout rates are high, especially among students from disadvantaged households. **Improving the**

quality of education requires updating curricula and improving teacher recruitment, selection and training. Rebalancing education spending towards early childhood and secondary education, further increasing affordable childcare and strengthening targeted support for students with higher drop-out risks would improve job opportunities for all students.

Costa Rica: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Reduce barriers to the formalisation of workers and firms	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Single window mechanisms for business registration and licensing are gradually being deployed, but do not cover all permits. <input checked="" type="checkbox"/> Employer and employee's social security contribution have been lowered for informal companies that become formal (temporary and only for small firms). <input checked="" type="checkbox"/> The number of different minimum wages has been reduced from 26 to 16, with a medium-term objective to reduce it further to 11, reducing administrative burden. <input checked="" type="checkbox"/> Sectoral pilot programmes to reduce informality for domestic workers and some agro activities (coffee) have been deployed and there are plans for including the fishing sector, street vendors and part-time workers. 	<ul style="list-style-type: none"> <input type="checkbox"/> Introduce online one-stop mechanisms and ensure physical ones cover all licences and permits and are present in all major cities. Widen the scope of silent is consent rules and remove the administrative requirement to apply for its application. <input type="checkbox"/> Eliminate the requirement for using a notary to register a company. Make the electronic signature mechanism more user-friendly to support online firm registrations. <input type="checkbox"/> Establish a comprehensive strategy to reduce informality, including shifting part of the tax burden from social security contributions to property taxes and strengthening enforcement mechanisms. <input type="checkbox"/> Further simplify the minimum wage system.
Competition and regulation: Promote domestic firms' participation in global-value chains	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A National Committee on Trade Facilitation was created, comprising public and private stakeholders, to improve conditions at borders, ports and airports and to streamline procedures. Joint custom facilities with Panama are being established, and information exchange and coordination for border control activities with Nicaragua are being improved. <input checked="" type="checkbox"/> The fiscal reform of 2018 has simplified the tax system through the introduction of a VAT which has the potential to reduce costs for domestic firms. 	<ul style="list-style-type: none"> <input type="checkbox"/> Finance public research based on competitive and performance-based criteria and establish independent evaluation mechanisms. Thereby, improve the coordination between universities and the domestic business sector to support innovation outside the free trade zones. <input type="checkbox"/> Improve road, rail and port infrastructure, particularly through centralising public planning procedures using cost-benefit analysis. <input type="checkbox"/> Reform the electricity sector to improve service quality and reduce prices. Increase the share of private-sector electricity generation, allow private participation in distribution and retail supply and remove barriers to foreign participation. Introduce legal or ownership separation between generation, transmission and retail supply. <input type="checkbox"/> Continue to improve trade facilitation, including by simplifying and harmonising documents, automating and streamlining border procedures, and improving co-ordination of the relevant national agencies.

2019-2020 Reforms	Recommendations
Competition and regulation: Strengthen competition	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A bill has been approved, providing the competition authority with more independence, a higher budget and the ability to focus more on investigating anti-competitive conduct. The new competition reform act has reduced exemptions to 5 sectors. <input checked="" type="checkbox"/> The governance of SOEs has improved through the removal of high-level government officials from boards and the strengthening of selection mechanisms for board members. <input checked="" type="checkbox"/> A deposit insurance and a comprehensive resolution mechanism covering all banks have been established. 	<ul style="list-style-type: none"> <input type="checkbox"/> Ensure full and timely implementation of the competition reform road map. <input type="checkbox"/> Gradually phase out remaining exemptions to the competition law in rice, sugar, coffee, maritime services and professional services. <input type="checkbox"/> Establish and monitor performance indicators for SOEs, including their financial health. Ensure full implementation of international accounting standards for SOEs. <input type="checkbox"/> Deploy training on competition issues for judges and court staff. Boost competition in the legal profession by deregulating lawyer's fees. <input type="checkbox"/> Gradually reduce existing regulatory distortions affecting public and private banks that limit competition in the banking sector.
Public sector: Improve spending efficiency and the performance of the public sector	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Simplify public employment remuneration through adopting a single salary scale, streamlining incentives schemes and making them performance-based. <input type="checkbox"/> Centralise purchases by all public entities using the central procurement system and limit the use of exceptions for direct contracting. <input type="checkbox"/> Conduct a public sector reform reducing the duplication of public agencies and SOEs, defining clear responsibilities and improving coordination. <input type="checkbox"/> Target social spending on low-income individuals. <input type="checkbox"/> Eliminate tax exemptions benefiting more affluent taxpayers.
Education and skills: Enhance the quality and efficiency of the education system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Spending related to early education has been classified as part of total mandated spending on education in Budget 2020, which facilitates a future redirection of spending to early childhood education. Enrolment rates for children of age 5 have increased <input checked="" type="checkbox"/> New training programmes for teachers have been introduced. A special unit to provide support to drop-outs has been created. <input checked="" type="checkbox"/> The new dual vocational training bill creates an apprenticeship system that closely involves 	<ul style="list-style-type: none"> <input type="checkbox"/> Rebalance education spending towards early childhood and secondary education. Continue to increase the supply of affordable childcare and to strengthen targeted support for at-risk students. <input type="checkbox"/> Fully implement the newly designed learning standards. <input type="checkbox"/> Continue plans to move to a performance-based education system and establish educational outcomes as the main policy target instead of spending. Improve teacher recruitment, selection and training based on regular teacher and student evaluations. <input type="checkbox"/> Link part of universities funding to responding to current and future labour market needs.

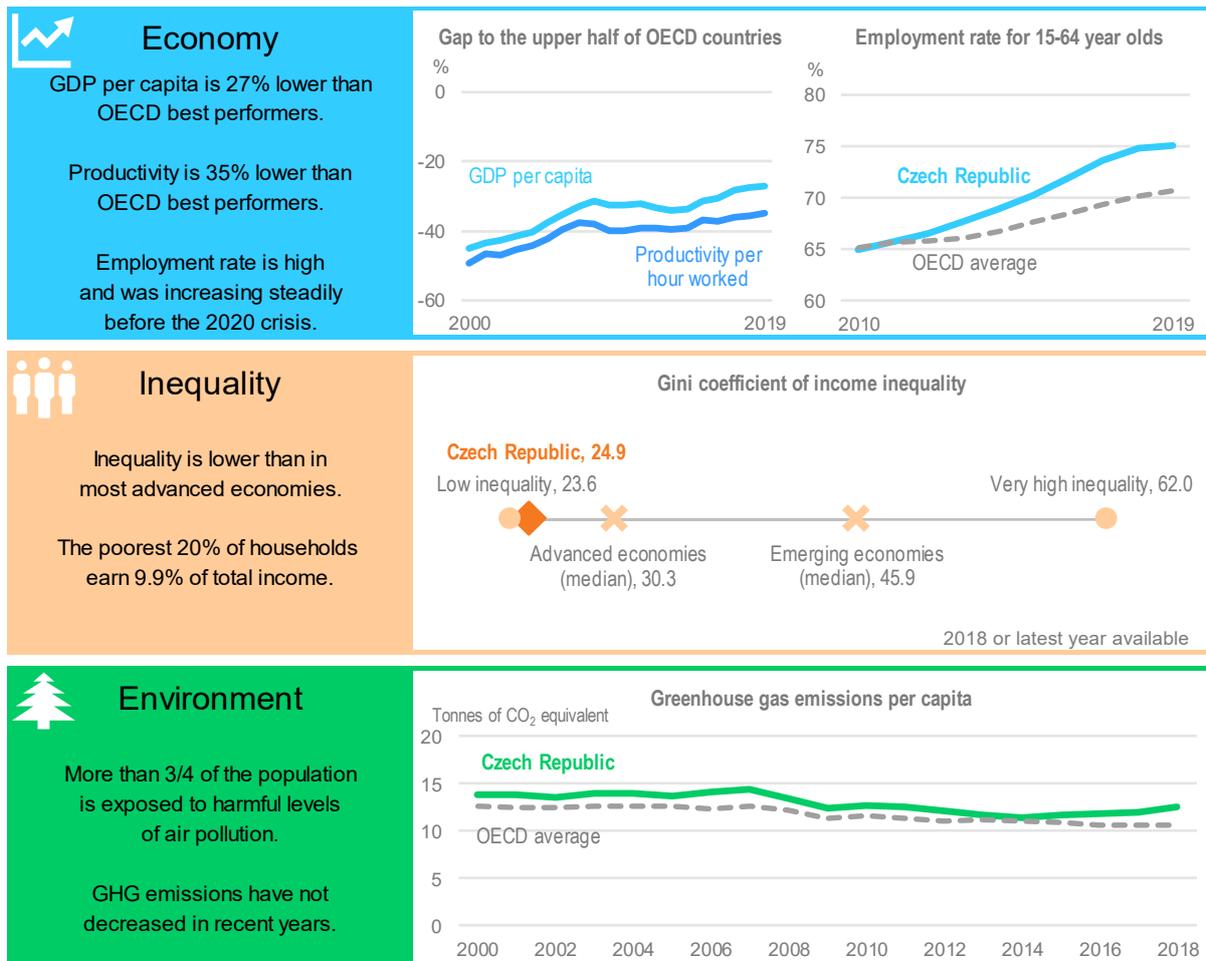
Recent progress on structural reforms

Progress in structural reforms has been very good in recent years, particularly driven by the OECD accession process of Costa Rica. The COVID-19 pandemic has intensified fiscal imbalances leading to heightened political discussions on fiscal policy reforms, including reforms of the public employment scheme, public procurement processes and the organisation of the public sector, which are currently discussed in Congress. In 2020, a range of reform initiatives not included in the reform priorities has been approved. To support household incomes during the crisis, the authorities have introduced a direct cash transfer programme (Bono Proteger), targeted at formal and informal workers who lost their job or faced reduced working hours. In 2019, a fiscal reform was implemented, which introduced a fiscal rule, created a new VAT and two new income brackets in the personal income tax scheme, and reduced revenue earmarking. The independence of the Central Bank and financial market supervision have been strengthened.

Czech Republic

The recovery offers an opportunity to focus on productivity-enhancing investment and upskilling, including better targeting of R&D support and improved business environment.

Czech Republic: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

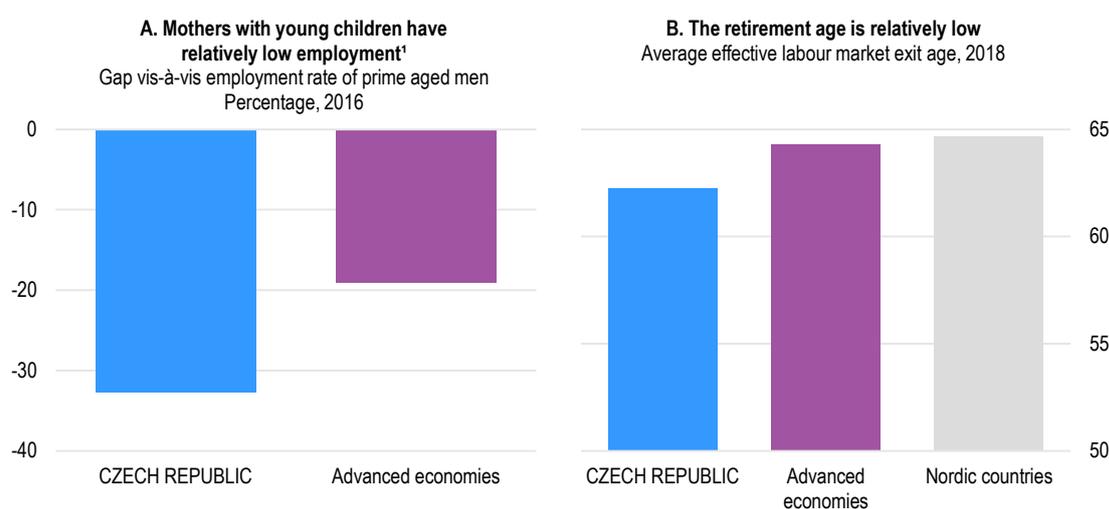
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Facing new challenges requires skills and productivity upgrades

An overall need for digital upskilling, as well as potential scarring impact of the pandemic on youth, call for an **increase in public spending on active labour market policies, notably training**. Shortage of skilled labour, an impediment to growth before the pandemic, can weigh on digitalisation and the greening of the economy where new skills will be in need. There is scope to attach training conditions to the job retention scheme, as well as target counselling and upskilling to those at a risk of losing a job or the self-employed. Providing more childcare facilities, shortening the maximum duration of parental leave and encouraging fathers to take more of the leave would help to draw mothers back to the labour market earlier, addressing partly the skills shortages, enhancing inclusiveness as well as boosting growth (Panel A).

Increasing **public support to business R&D and targeting it to young dynamic firms** can help spur innovative activities in the local SMEs that tend to be slow in adopting more sophisticated technologies, holding back their digital transformation. **Improving further business conditions**, such as obtaining construction permits and opening a company, can help private investment. Meanwhile, public investment should target transport and energy projects that improve energy efficiency and reduce carbon emissions and air pollution.

Czech Republic: Vulnerabilities and areas for reform



1. Mothers with young children refer to working-age mothers with at least one child aged 0 to 14 years. The employment gap is the difference between the employment rate of prime-age men (25-54 year-olds) and that of mothers with young children, expressed as a percentage of the employment rate of prime-age men.

Source: Panel A: OECD (2018), OECD Employment Outlook 2018; Panel B: OECD, Pensions at a Glance Database.

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A **shift to less polluting and more energy-efficient activities** is needed. Once the recovery is under way, environmental taxes should be increased and harmonised to better reflect the environmental and health costs of emissions.

In the medium term, the Czech Republic faces significant challenges from population ageing while the **effective age of retirement** remains significantly below the OECD average (Panel B). **Increasing** it would slow the steep increases in pension-related spending and increase the labour market participation of older workers.

Introducing financial and non-financial incentives for municipal mergers as well as making inter-municipal co-operation mandatory and multi-purpose at the level of micro-regions would help to counter the small size of municipalities and highly fragmented local government that impedes effective **provision of public services and investment**.

Czech Republic: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Make the labour market more fluid and inclusive	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government has kept expanding early childhood education and childcare capacities and has strived to ensure quality. <input checked="" type="checkbox"/> Job sharing was introduced in 2020 to offer greater flexibility to combine work and family life. 	<ul style="list-style-type: none"> <input type="checkbox"/> Keep expanding the supply of affordable and high-quality childcare facilities. <input type="checkbox"/> Reduce the maximum duration of parental leave and incentivise fathers to take more of the parental leave. <input type="checkbox"/> Boost well-targeted active labour market policies to facilitate employment transitions, by increasing spending on activation, training and reskilling programmes.
R&D and digitalisation: Enhance R&D investment and improve business environment	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Government spending on R&D through grants has been rising (by 20% between 2016 and 2019 in terms of PPP). In April 2019, the government simplified claims for the R&D tax allowance. <input checked="" type="checkbox"/> The government has prepared a New Building Act, a comprehensive overhaul of the legislation and regulation around construction permits that is in the final stages of the legislative procedure. 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase government support for business R&D spending and target it better towards small and young dynamic firms. <input type="checkbox"/> Adopt the new Building Act and reduce the time and number of procedures for starting a business.
Environmental policy: Pursue greener growth	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Increase environmental taxation; notably, introduce an explicit carbon tax. <input type="checkbox"/> Make carbon price signals stronger and more consistent across all sectors of the economy. <input type="checkbox"/> Promote investment to facilitate the transition to low-emission technologies and increase energy efficiency.
Labour market: Reform the pension system and promote longer working lives	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Continue to raise the retirement age and link it more tightly to increases in longevity. <input type="checkbox"/> Promote a healthier lifestyle and further develop education, disease prevention and screening programmes.

2019-2020 Reforms	Recommendations
Public sector efficiency: Improve public sector efficiency by consolidating local government services	
<p><input checked="" type="checkbox"/> The government continues implementing the Public Procurement Digitisation Strategy for 2016–2020. In particular, it has expanded further the use of electronic public marketplaces, including by proposing a mandatory use of the National Electronic Instrument for selected contracting authorities.</p> <p><input checked="" type="checkbox"/> The Civil Service Act was amended in 2019, to further professionalise the civil service and to incentivise professional development of civil servants with the aim to increase the quality of the civil service.</p>	<p><input type="checkbox"/> Introduce financial and non-financial incentives for municipal mergers.</p> <p><input type="checkbox"/> Make inter-municipal co-operation mandatory and multi-purpose at the level of micro-regions with clearly specified tasks. Encourage self-funding of inter-municipal co-operation (from own tax sources and by member municipalities).</p> <p><input type="checkbox"/> Gather information on the quality of services provided at the local level to increase understanding of best practices and allow the use of benchmarking.</p>

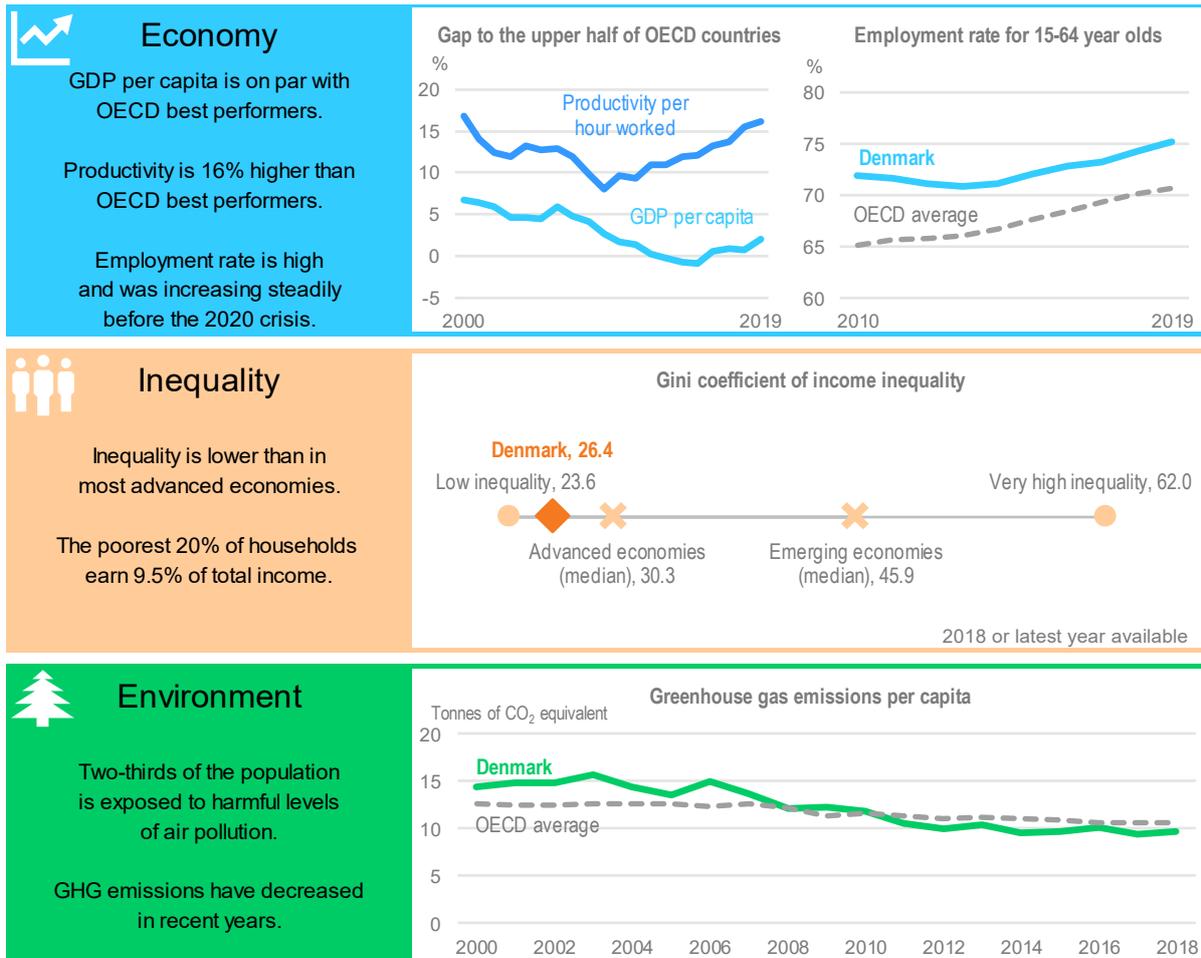
Recent progress on structural reforms

Progress on structural reform has been limited. The government has kept expanding childcare capacities and has raised flexibility to help parents combine work and family life. A new building act is in preparation to reduce the burden of obtaining construction permits, and public support to R&D has been on the rise.

Denmark

Digital and green transitions require reducing barriers to mobility, such as inefficiencies in the housing market and weak competitive pressures in some markets. Improving education and integration of minorities would increase inclusion and the capacity of migrants to make the most of labour market opportunities.

Denmark: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Denmark is 2017.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

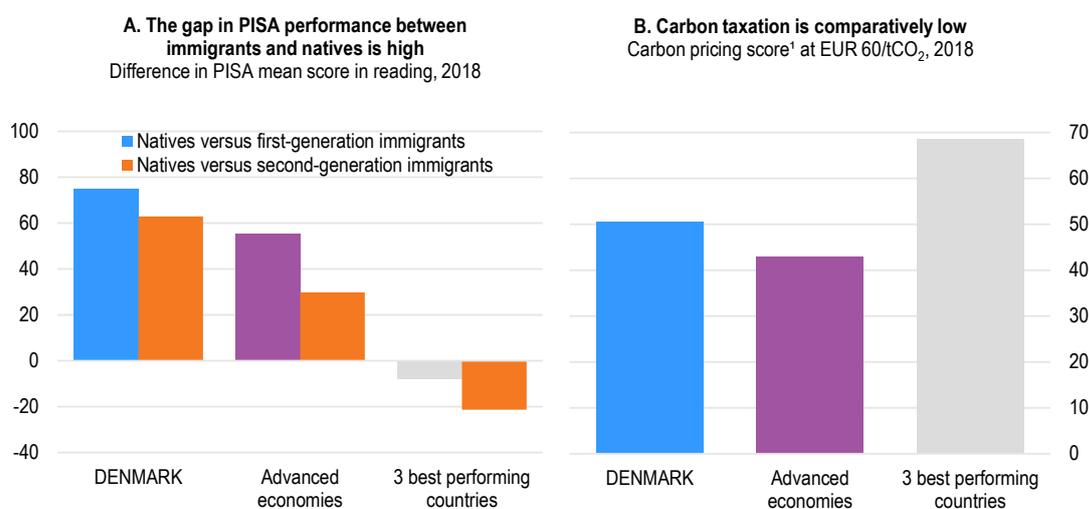
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Enhancing reallocation and integration

Housing market inefficiencies hinder reallocation of resources that may be needed in the recovery. Strict rent regulation and housing subsidies hamper growth of the private rental market and result in inefficient use of the housing stock, constraining labour mobility. While recent analysis is lacking, historical data indicate that, among renters, the biggest beneficiaries from regulated rent have been high-income households. Moreover, the underdeveloped rental market puts upward pressure on house prices in the largest cities. **Reducing distortions in the housing market** would support the recovery and improve well-being through a larger supply of affordable flats. This can be achieved by deregulating, reducing housing subsidies and improving their targeting.

The structure of the competition framework and determination of anticompetitive practices are complex. This hampers enforcement of competition, particularly in some service markets, and could hold back the creation of new firms and jobs in response to changing demands from the COVID-19 pandemic shock. **Strengthening competition** and making consumer markets more efficient would be conducive to a strong economic recovery. To this end, the competition authorities should have a greater power to impose administrative fines and structural remedies. Entrepreneurship, investment and job creation would be supported by **shifting the tax structure towards housing** (e.g. raising property taxation) and lowering high top marginal tax rates on labour and capital incomes. Such a reform should take distributional concerns into account and the implementation of tax increases should be postponed until the recovery is well advanced.

Denmark: Vulnerabilities and areas for reform



1. The carbon pricing score (1- carbon pricing gap) shows how close countries are to pricing carbon in line with carbon costs. EUR 60 is a midpoint estimate for carbon costs in 2020, a low-end estimate for 2030. Pricing all emissions at least at EUR 60 in 2020 shows that a country is on a good track to reach the goals of the Paris Agreement to decarbonise by mid-century economically.

Source: Panel A: OECD, PISA Database; Panel B: OECD, Effective Carbon Rates 2021 Database.

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A large gap in employment rates between foreign-born and natives persists. Differences in achievement start early in life with sizeable PISA performance gaps between foreign-born and natives and the second-highest school segregation of immigrant students across OECD countries (Panel A). A broad integration strategy in the education system to address school segregation and performance gaps should be implemented. Many of the foreign-born, often with low levels of education, work in the hospitality and

service sector, which was badly affected by the impact of the pandemic. Sustaining high inclusion requires **improved integration of refugees and migrants**. Their labour market participation is unequal across municipalities and not linked to differences in local spending on integration policies. Spreading best practices in integration policy could reduce differences and help to mitigate scarring effects from the COVID-19 crisis.

The economic recovery presents an opportunity to accelerate progress towards ambitious policy goals. **Addressing climate change cost-efficiently** requires consistency across policy tools while taking into account risks of carbon leakage. Effective carbon pricing in Denmark is low and unequal across sectors and energy sources, while a high content of imported biomass poses challenges for the sustainability of renewables (Panel B). Carbon taxes should be increased and harmonised, while working towards technology-neutral taxes and subsidies for renewables. Adverse distributional consequences need to be avoided through offsetting transfers or reductions in regressive taxes.

Denmark: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Housing: Reduce distortions in the housing market	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020 favourable tax conditions for parents to buy-to-let flats to their children were removed. <input checked="" type="checkbox"/> In 2019 regulation of social housing was eased to facilitate public-private partnerships in the construction of new social housing. 	<ul style="list-style-type: none"> <input type="checkbox"/> Deregulate the rental market by easing special rent regulation for flats in buildings constructed before 1990. <input type="checkbox"/> Reduce housing subsidies and improve targeting to support a better use of the housing stock.
Competition and regulation: Strengthen competition	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Provide greater power to competition authorities to impose administrative fines and structural remedies within constitutional constraints. <input type="checkbox"/> Develop clearer standards for exemptions from the Competition Act and involve competition authorities in their determination.
Tax system: Shift the tax structure towards immovable capital	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce deductibility of mortgage interest expenses in personal income taxation and raise property and land tax rates. <input type="checkbox"/> Reduce top marginal tax rates on labour and capital income.
Education and skills and labour market: Improve integration of refugees and migrants	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2019 the integration training programme for refugees and newly arrived family reunifications was improved and extended to 2022. 	<ul style="list-style-type: none"> <input type="checkbox"/> Spread best integration practices across municipalities and strengthen co-ordination of services such as language training and subsidised work to ease integration. <input type="checkbox"/> Implement a broad integration strategy in the education system to address school segregation and performance gaps to natives.

2019-2020 Reforms	Recommendations
Environmental policy: Address climate change cost-efficiently	
*New priority *	<input type="checkbox"/> Implement the most cost-efficient emission reductions, taking into account implications for global emissions. <input type="checkbox"/> Harmonise and increase carbon taxation across all sources of greenhouse gas emissions. For sectors covered by the EU-ETS, provide a rebate equal to the permit price to avoid double taxation. Use transfers or tax cuts to avoid adverse distributional consequences. <input type="checkbox"/> Implement planned measures to only credit sustainable biomass as emission neutral. Ensure that taxes and subsidies for renewables are technology-neutral.

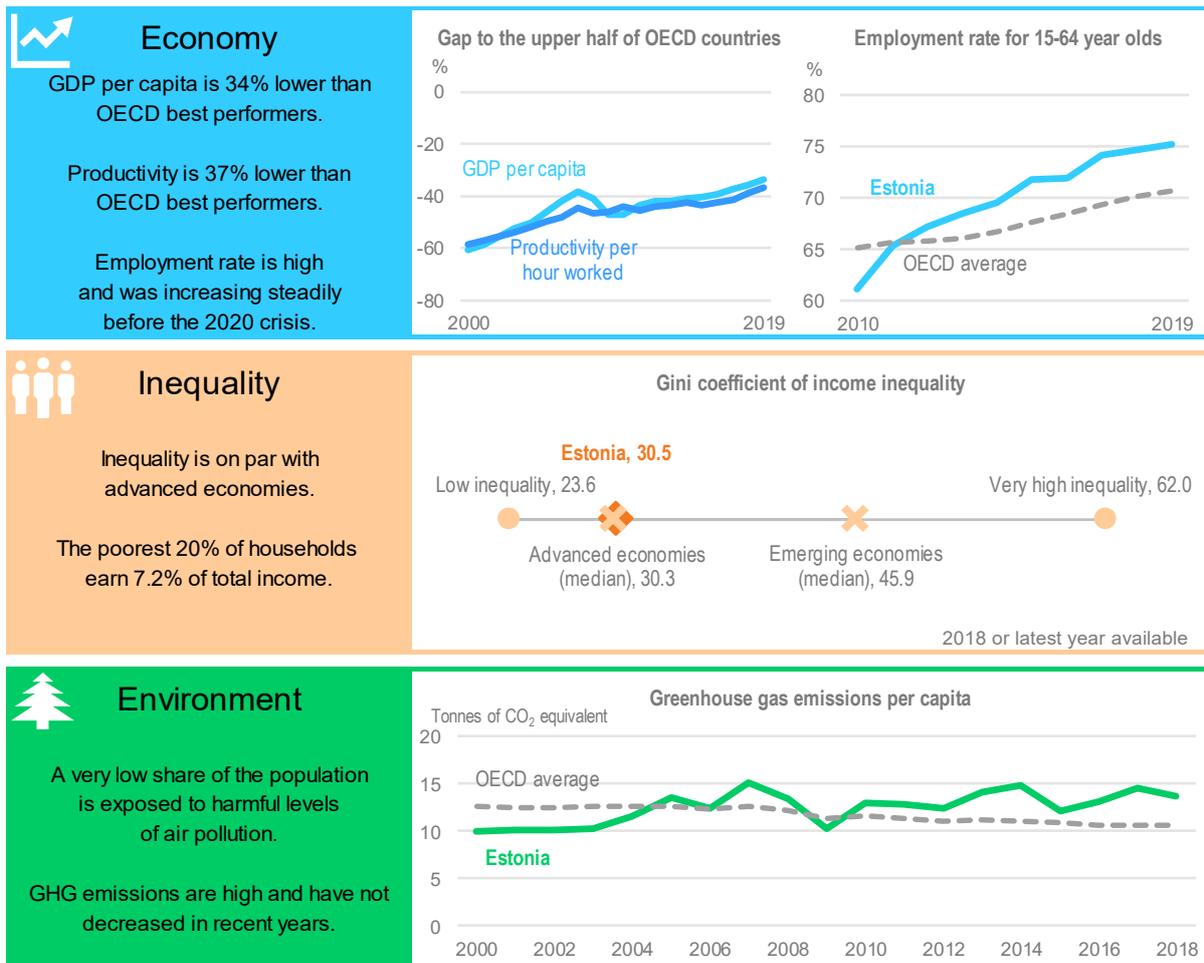
Recent progress on structural reforms

General elections in 2019 paused policy-making and resulted in a change of government, while the COVID-19 pandemic caused disruptions throughout 2020. Nonetheless, the structural reform effort continued with notable action in the following areas: a long-awaited revision of the transfer system to equalise revenues across municipalities, a primary school reform package and an early retirement scheme for people with reduced work capacities. The statutory pension age will increase to 69 years in 2035 and the early retirement age to 66 years in 2032.

Estonia

The top policy priority is to recover strong labour-market performance while preparing the workforce for greater use of digital technologies and low-carbon economic growth. Unemployment is expected to remain higher than before the pandemic and several categories of workers risk losing attachment to the labour market.

Estonia: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

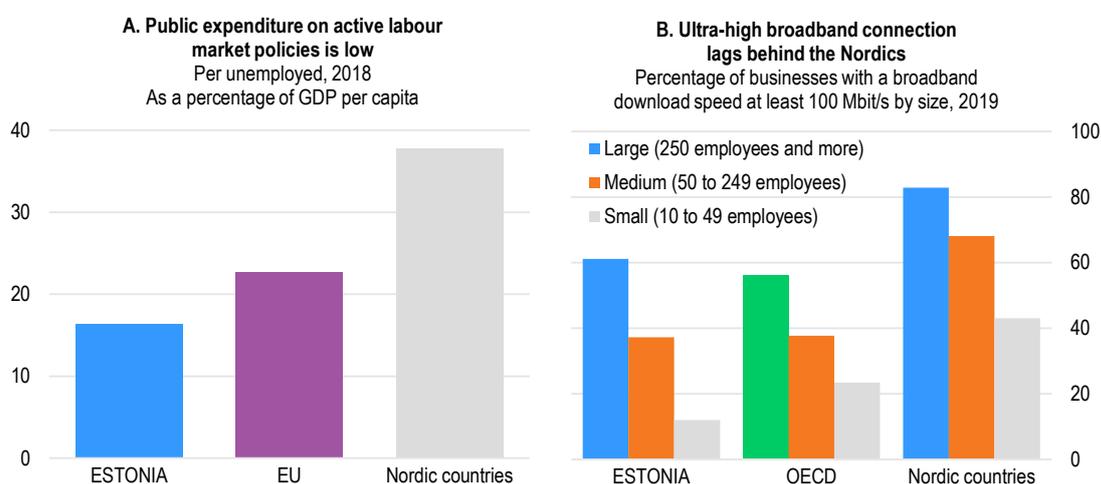
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Recovery policies for a strong and up-skilled labour market

To cope with accelerating digital diffusion and the transition toward a climate-neutral economy, **further ramping up of active labour market policies and training activities** for the unemployed, those at risk of unemployment and also displaced workers, is warranted. Spending on active labour market policies (ALMP) during the past few years increased and training is increasingly available to individuals at risk of unemployment, for example in traditional industries in the north-east region. While these measures are welcome, ALMP spending is still low compared with other OECD countries (Panel A). Job-search assistance and training for the low-skilled should be better aligned according to local labour markets needs, notably where carbon-intensive activities are concentrated. Specific interventions should also be put in place for older workers operating in those activities and for which digital skills and re-employment opportunities are relatively lower. Monitoring of training courses can also be further strengthened, by using *ex post* evaluation of training, including the monitoring of labour market outcomes of participants using Estonia government's strong digital capacities. The accreditation, which is used to evaluate all publicly funded learning programmes, should be extended to private programmes to signal and improve their quality.

The crisis has magnified the importance of business digital connectivity. Despite solid and secure digital infrastructure, world-leading e-government and high levels of trust among users of digital services, Estonian companies, in particular small ones, lag behind companies in other OECD countries on this front, hampering digital diffusion (Panel B). Fixed broadband coverage is lower than the EU average and download speeds of fixed broadband are low. **Digital infrastructure needs to be boosted** to improve access to digitalisation and make it a new driver of business growth. Public investment should better support coverage for ultra-fast broadband or other appropriate technology at an affordable cost, including subsidising last-mile rollout for smaller enterprises. Red tape in the application process for digital diagnostics, an exercise to determine digital needs of companies, should also be reduced, to increase take-up rates of technologies and identify gaps in digital infrastructure.

Estonia: Vulnerabilities and areas for reform



Source: Panel A: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases; Panel B: OECD, ICT Access and Usage by Businesses Database.

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Transition to a low carbon economy requires **improving energy efficiency and reducing the dependency on oil shale** while minimising social impacts. Estonia has the highest CO₂ emissions per unit of GDP and is the third most energy-intensive economy in the OECD, due to its heavy reliance on oil shale. The oil shale industry meets a dominant share of Estonia's energy needs and is a key employer in

the north-east of the country, where unemployment and poverty rates are high. Taxes and charges on oil shale mining should be reviewed and adjusted to reflect costs and externalities, while addressing social welfare and mitigating energy security concerns. Further inter-connection of the electricity grid with the European Union should be pursued. Incentives for increasing efficiency in district heating should be improved, for instance by applying benchmark regulation. Providing more financial support to low-income households for energy-saving investments would also improve energy efficiency of buildings.

Taxation is relatively growth-friendly but could be made more inclusive and environment-friendly. **The tax structure should be shifted** in a revenue-neutral way **towards property taxes or taxes correcting for environmental externalities**. The increased revenues could be used to lower high labour tax wedges by reducing social security contributions on low-pay workers to encourage employment and support an inclusive recovery.

The success of a green transformation will hinge on its ability to redeploy resources to new, cleaner activities. Moreover, despite the large stimulus provided to preserve firms and capital at the height of the pandemic, some business closures will be unavoidable. Once the recovery is underway, **the insolvency regime should be made less stringent** to promote a quicker recovery and an efficient reallocation of capital and skills. Estonia has ample room for improvement in terms of the framework and outcomes of corporate insolvency proceedings.

Estonia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: In the wake of the crisis, activation and training are essential to maintain inclusiveness, particularly for the low skilled	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Since September 2019, support for the creation of regional jobs is provided to employers who created at least five jobs in either Ida-Virumaa county or South-Eastern region of Estonia through the European Social Fund. <input checked="" type="checkbox"/> Since September 2020, employees of the oil shale sector are offered specific in-service training without conditions. 	<ul style="list-style-type: none"> <input type="checkbox"/> Align training programs to local labour markets needs for the low-skilled and where carbon-intensive industries are concentrated. <input type="checkbox"/> Further strengthen the monitoring of training courses, by using ex post evaluation of training including labour market outcomes of participants. <input type="checkbox"/> Extend the accreditation system to all publicly funded learning programmes.
R&D and digitalisation: Boost digital infrastructure to promote business connectivity and dynamism	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In December 2020, the Government decided to increase investments in high-speed broadband network, notably for sparsely populated areas where companies are not willing to invest themselves. <input checked="" type="checkbox"/> In addition, at least 73 mln euros have been allocated to digital transition in private sector, through supporting manufacturing, logistics, construction and tourism industry digitalization. 	<ul style="list-style-type: none"> <input type="checkbox"/> Direct public investment toward ultra-fast broadband coverage or other appropriate technology at an affordable cost. <input type="checkbox"/> Subsidise last-mile rollout for small firms. <input type="checkbox"/> Reduce red tape in the application process for digital diagnostics.
Energy: Improve energy efficiency to reduce high CO2 emissions	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Review taxes and charges on oil shale mining to reflect costs and externalities. <input type="checkbox"/> Pursue further the connection to the European Union grid for electricity. <input type="checkbox"/> Apply benchmark regulation to increase efficiency in district heating. <input type="checkbox"/> Provide more financial support to low-income households for energy-saving investments to improve buildings' heating efficiency.

2019-2020 Reforms	Recommendations
Tax system: Tilt taxation away from labour to spur an inclusive recovery	
No action taken.	<input type="checkbox"/> Extend the tax base to residential property by using market values for the tax base. <input type="checkbox"/> Increase environmental taxes such as extraction and waste disposal taxes. <input type="checkbox"/> Reduce social security contributions on low-pay workers and create specific social programs for displaced workers.
Competition and regulation: Reducing the stringency of the insolvency regime to promote a quicker recovery and efficient reallocation of resources	
*New priority *	<input type="checkbox"/> Grant creditors a right to initiate restructuring. <input type="checkbox"/> Introduce early-warning mechanisms and pre-insolvency regimes. <input type="checkbox"/> Reduce the length of the period in insolvency during which creditors cannot continue debt collection.

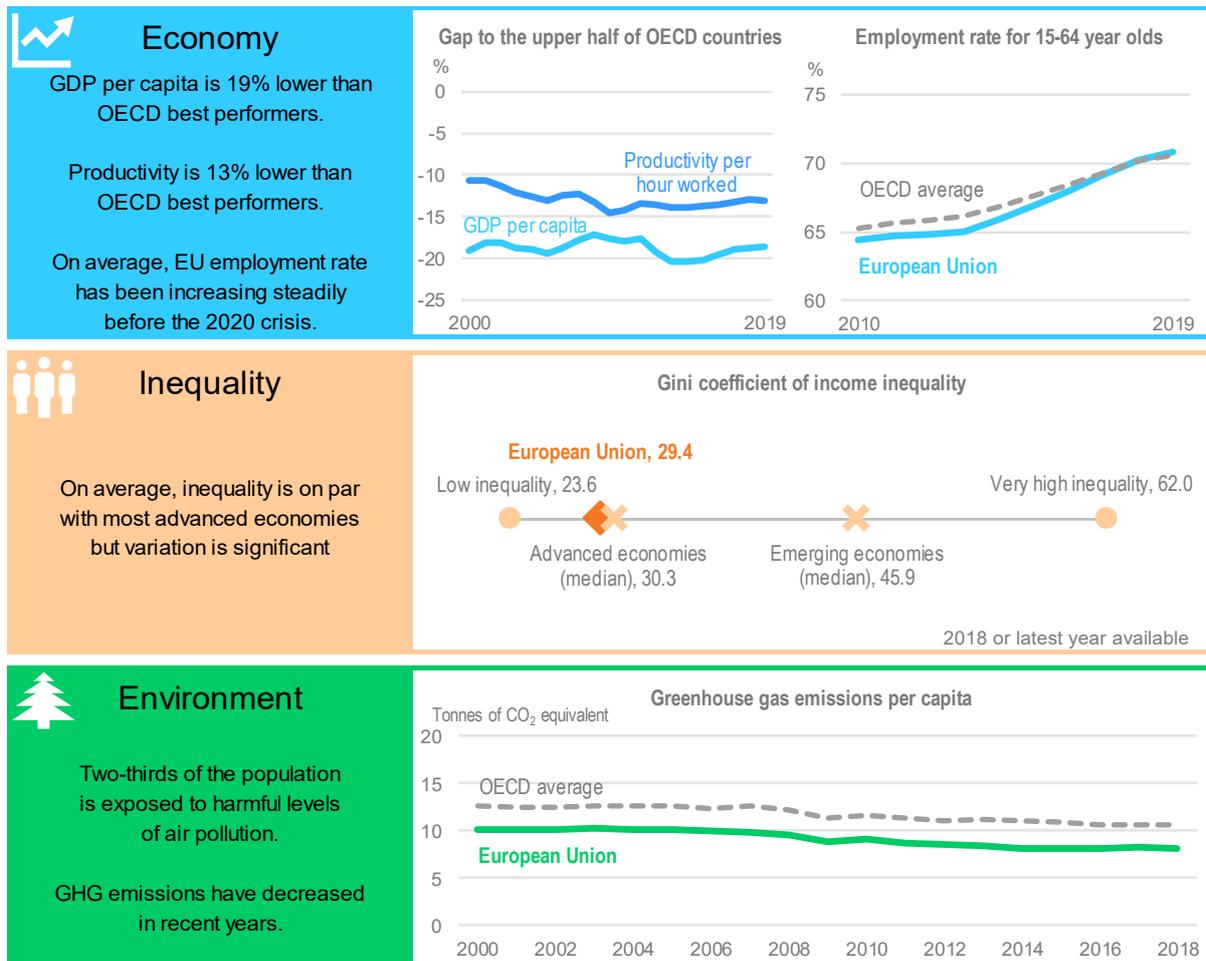
Recent progress on structural reforms

Progress has been limited. Nevertheless, each of the areas identified are on the agenda of the government that took office in January 2021. The Bankruptcy Act has been adopted in December 2020, revising the existing insolvency legislation, for instance by creating an insolvency service, and aiming at speeding up proceedings. Further measures, such as the right of creditors to initiate restructuring, are scheduled for 2021. A two-stage quality assessment of in-service training institutions and a public feed-back system are under development.

European Union

In light of the COVID-19 crisis, the top immediate policy priority is to ensure efficient use of Next Generation EU, a recovery plan combining loans and grants of about 5.5% of EU27 2019 GDP to support member states' recovery policies. Successful roll-out and implementation of this support will be crucial to reinvigorate economic growth across the European Union, boost digitalisation and innovation, bolster resilience to future shocks and achieve climate and inclusiveness objectives.

European Union: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). European Union refers to EU OECD countries.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

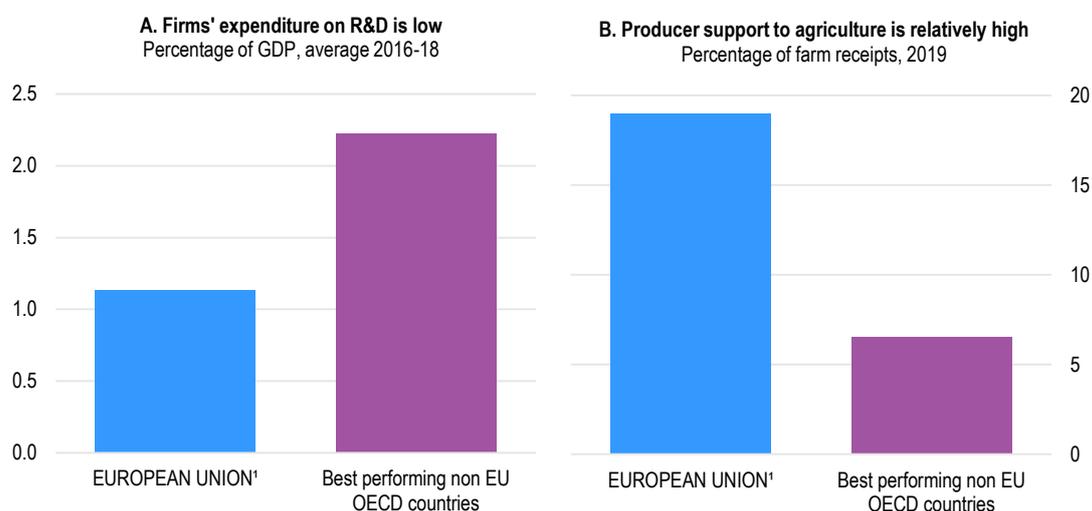
Supporting the recovery across the EU to prepare for future challenges

Productivity growth has been sluggish and falling behind the OECD best performers already prior to the pandemic. Europe needs to **boost innovation and stimulate its widespread diffusion**. Bringing together private and public funding in cross-country innovative projects, such as those under the Important Projects of Common European Interest framework, would help to achieve a critical mass while leveraging complementarities. In addition, it is important to increase EU subsidies to investment in R&D, including through cohesion policy funds in regions that have been lagging in this respect (Panel A). Emphasis on safeguarding competition in the EU, in particular in digital services, is key. At the same time, the pandemic is likely to increase the number of bankruptcies. Policies promoting a swift reallocation of resources to new, productive uses, should include more harmonised insolvency regimes that do not overly penalise failure.

To promote investment and productivity growth, **barriers to the EU Single Market in service sectors and network industries should be eliminated**. Reducing regulatory obstacles and information asymmetries would foster cross-border establishment and provision of services. Streamlining administrative approval procedures would reduce barriers to investment in energy and telecoms, a particular concern for the digital economy. In energy, investment in cross-border interconnections would make electricity markets more efficient and support the integration of growing renewable electricity production. Furthermore, grid digitalisation will make the energy system more flexible and efficient.

EU's **decarbonisation**, a powerful lever for innovation, investment and growth, **should accelerate**. There are large investment needs in the energy sector and residential retrofitting, a labour-intensive activity that can play an important role in the post-pandemic labour reallocation. Areas like batteries or clean hydrogen offer major potential for innovation. More than one-third of the Next Generation EU funds is earmarked to climate change mitigation, while the environmental policy signals that can drive a green transition should be strengthened, for example by including transport and buildings in the EU Emissions Trading System (ETS), increasing the minimum tax rates on fossil fuel use that still falls outside the ETS, and improving the consistency of targets and policies at the EU, national and local levels.

European Union: Vulnerabilities and areas for reform



1. Data for the European Union refer to EU OECD countries in Panel A and to the EU28 in Panel B.

Source: Panel A: OECD, Research & Development Statistics Database; Panel B: OECD, Producer Support Estimate Database.

StatLink  <https://stat.link/6me2dx>

To improve absorption of country-specific shocks and foster a more efficient allocation of workers across borders in the post-pandemic recovery, **barriers to labour mobility should be reduced**. This would

require stepping up the recognition of professional qualifications and better protection of migrant workers' rights, in areas like social security or labour conditions.

During 2021-27, the Common Agricultural Policy (CAP) still accounts for about 30% of the EU budget, a too-large share, though down from around 35% in 2014-20 (Panel B). **An ambitious reform of the CAP is key to attaining environmental objectives and reducing distortions in agricultural markets.**

European Union: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
R&D and digitalisation: Increase investment in R&D and promote the diffusion of new technologies	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Funding for Horizon Europe, the main EU research and innovation programme in 2021-27, will increase, albeit modestly, relative to its predecessor in the 2014-20 period. <input checked="" type="checkbox"/> A new Directive (EU No. 2019/1023) entered into force in July 2019 with the objective of harmonising the laws and procedures of EU member states concerning preventive restructurings, insolvency and the discharge of debt. 	<ul style="list-style-type: none"> <input type="checkbox"/> Promote cross-country collaboration in R&D. <input type="checkbox"/> Further increase spending on research and development in the EU budget. <input type="checkbox"/> Ensure level playing field in the digital services market. <input type="checkbox"/> Progress in harmonising insolvency proceedings through minimum European standards, allowing simpler early restructuring, shortening the effective time to discharge, and more efficient liquidation proceedings.
Competition and regulation: Reduce fragmentation in service and network sectors	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Over 2019-20, the Commission has stepped up enforcement efforts to ensure that the Member States correctly transpose and apply the Professional Qualifications Directive. Furthermore, the Commission has systematically pursued infringement actions with regard to the implementation of the Services Directive and the Treaty provisions on freedom of establishment and freedom to provide services. Areas of concern include disproportionate and excessive document requirements and the lack of electronic channels for recognition procedures. The Single Digital Gateway, operational from end-2020, will help in both these areas. More broadly, a Single Market Enforcement Task Force was set up in April 2020 to improve implementation and enforcement of single market rules. <input checked="" type="checkbox"/> The Electricity Market Regulation (2019/943/EU) stipulates that, as from 1 January 2020, at least 70% of cross-border interconnection capacity should be made available to the market for trade. While a number of options allow for gradual implementation, this target should be fully achieved by end-2025 at the latest. 	<ul style="list-style-type: none"> <input type="checkbox"/> Address barriers in business services through simplified administrative formalities for the establishment and provision of cross-border services and guidance on implementing EU legislation. <input type="checkbox"/> Pursue the planned cross-border co-operation on power system operation and trade in electricity, including interconnection capacity calculations and reserve margins.

2019-2020 Reforms	Recommendations
Environmental policy: Accelerate decarbonisation and green innovation	
<p><input checked="" type="checkbox"/> In 2019 the European Commission launched the European Green Deal, with the target of zero net emissions of greenhouse gases in the EU by 2050. In 2020, it proposed to increase the emission reduction target for 2030 to at least 55% relative to 1990 levels. Legislation to enshrine both targets has been drafted (European Climate Law) and several sectoral strategies have been prepared.</p>	<p>Include transport and buildings in the EU Emissions Trading System (ETS), in tandem with strengthened regulatory standards for energy efficiency.</p> <p><input type="checkbox"/> Increase minimum tax rates on fossil fuel use that still falls outside the ETS, especially where tax rates are currently low or zero.</p> <p><input type="checkbox"/> Ensure that the supply of ETS emission allowances is gradually tightened in a way consistent with emission abatement targets.</p> <p><input type="checkbox"/> Improve consistency of targets and policies at the EU, national and local levels.</p>
Labour market: Ease the recognition of qualifications and protect migrants' rights	
<p><input checked="" type="checkbox"/> Funding for the Erasmus+ programme will increase by about 50% in 2021-27, with expanded learning and training mobility opportunities, including for low-skilled adults.</p> <p><input checked="" type="checkbox"/> The European Labour Authority (ELA) was established in 2019 and is expected to reach full operational capacity in 2024. It aims at facilitating access to information and its cross-border exchange, support cooperation between EU countries and capacity building in the enforcement of relevant Union law, and mediate disputes between national authorities.</p>	<p><input type="checkbox"/> Foster the harmonisation at the EU level of qualification and training requirements for regulated professions.</p> <p><input type="checkbox"/> Make the electronic European professional card available to all sectors.</p> <p><input type="checkbox"/> Step up efforts at the EU level to coordinate the design and organisation of joint labour, social security and tax control activities across national borders.</p>
Agriculture: Make producer support more environment-friendly and less distortive	
<p><input checked="" type="checkbox"/> In 2020, the Farm to Fork Strategy, part of the European Green Deal, set a comprehensive approach to tackle environmental degradation in the food system. Plans for the Common Agricultural Policy (CAP) in 2021-27 envisage a stronger link between direct support to farmers and improved environmental outcomes ("eco-schemes").</p>	<p><input type="checkbox"/> Phase out production-based payments in the Common Agricultural Policy.</p> <p><input type="checkbox"/> Reassess direct support and target it better to environmental and climate change mitigation objectives and to support farming methods that are more resilient to climate change.</p>

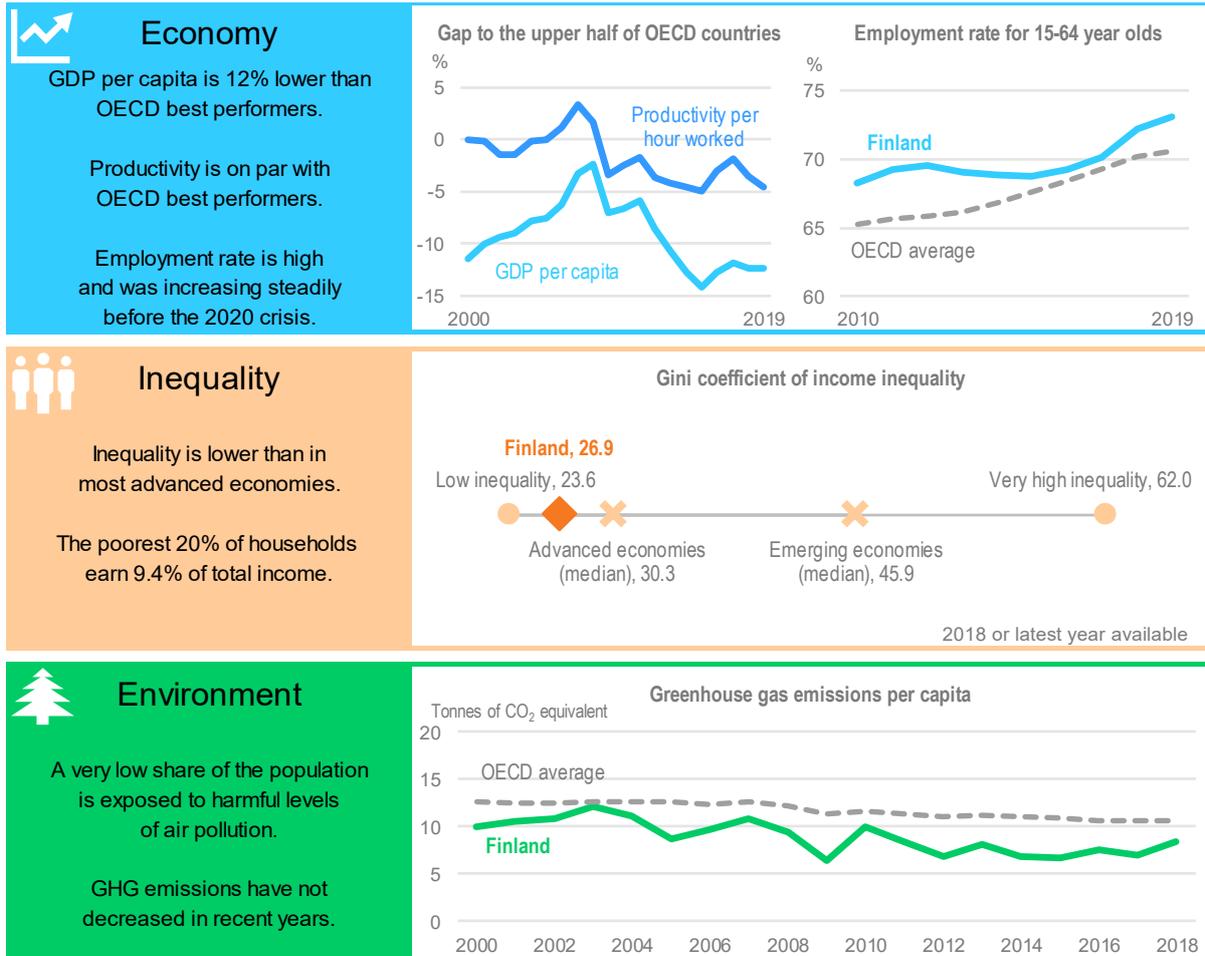
Recent progress on structural reforms

In 2019, a change in the political leadership of the European Commission took place. The European Green Deal, an ambitious strategy for decarbonisation, environmental sustainability and economic growth, has been launched. The ensuing legislative actions and implementation are scheduled mainly from 2021 onwards, and could lead to an acceleration in the pace of structural reform. In 2020, negotiations for the 2021-27 EU budget took place, which will shape multiple policy areas. The EU response to the pandemic crisis gave rise to strong progress in the creation of common fiscal tools, albeit of a one-off nature. The so-called Next Generation EU recovery plan envisages EU-level borrowing to finance loans and grants to member states.

Finland

The pandemic laid bare pre-existing gaps in social safety net coverage. Improving the design and efficiency of unemployment benefits and more generally of public services in health, social care and childcare would boost growth and make it more resilient.

Finland: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

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More efficient public services for a stronger, more resilient and sustainable growth

The economic downturn brought to the fore disparities in the social system's coverage. An estimated 15% of employees are not covered by earnings-related unemployment benefits, which top-up the basic unemployment allowance, because they are not members of the voluntary trade union-run unemployment insurance funds. Many of the laid-off workers in 2020, in particular the young or part-time employees, did not receive the top-ups. To improve resilience and inclusiveness, the government should **extend access to earnings-related unemployment benefits** by creating an unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled. It should also move to a less centralised wage bargaining system in which there is greater scope for enterprise bargaining within sector agreements (i.e., organised decentralisation) both to increase firm resilience and to facilitate the transfer of resources from less- to more productive firms.

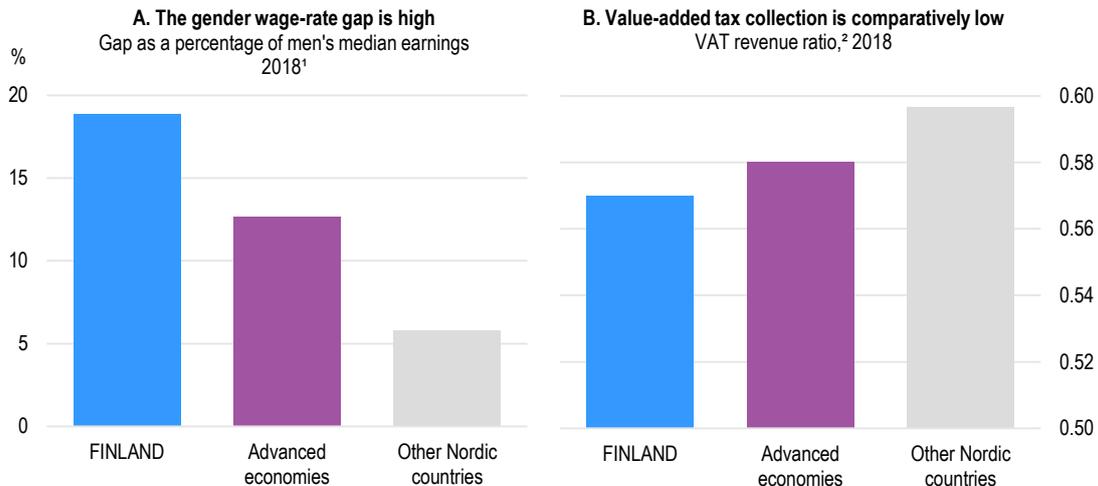
The unemployment benefit system merits a wider review. Compared with other Nordics, employment of older workers is low. To **increase the employment rate for older workers**, the government should phase out the widely popular option of using unemployment benefits as a path to early retirement, as planned. In a similar vein, the conditions for disability benefit for applicants over 60 also should be tightened to limit abuse.

Health and social care are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities. Over the medium-term, to help ensure adequate provision of such services in the face of stretched public finances and an ageing population, **the efficiency of public services in municipalities should be improved**. The Bill introduced to Parliament in December 2020, that transfers responsibility for organising health and social services from municipalities to 18 autonomous counties, should be adopted. This would centralise care at the regional level and reduce fragmentation, as well as increase the focus on prevention and basic services. The reform should be taken further by encouraging provider competition where the population base and nature of services make it viable and by setting numerical targets for fiscal savings to be achieved to help plan reforms that maximise cost efficiency.

Finland has one of the highest gender wage gaps in the OECD (Panel A). The key contributor, task segregation, starts at the beginning of careers, with women, less likely to specialise in technical fields in their education, being placed in less complex jobs; and intensifies over time because women get fewer promotions. **To reduce the gender wage gap**, the government needs to encourage girls to enter technical fields of education. Fathers should be incentivised to take parental leave, as planned in a recent reform proposal. Homecare allowance for taking care of children less than three years of age at home should be reduced, while access to early childhood education and care services in convenient locations and opening hours should be improved.

The efficiency of the tax system should be enhanced to support green and inclusive growth. This can be done by widening the standard-rate VAT base to increase revenues (Figure 1B), relying more on recurrent taxes on real estate and environmental taxation. Income compensation to low-income households should be used to cushion the distributional effects, though will be automatic for those receiving social benefits.

Finland: Vulnerabilities and areas for reform



1. 2018 or latest year available. The gender wage-rate gap is computed as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees.

2. The VAT revenue ratio (VRR) is the ratio of the actual value-added tax (VAT) revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. This ratio gives an indication of the efficiency and the broadness of the tax base of the VAT regime in a country compared to a standard norm. It is calculated by the following formula: $VRR = \frac{\text{VAT revenue}}{[(\text{consumption} - \text{VAT revenue}) \times \text{standard VAT rate}]}$. VAT rates used are standard rates applicable as at 1 January.

Source: Panel A: OECD calculations based on OECD, National Accounts and Earnings Distribution by gender Databases; Panel B: OECD (2020), Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues.

StatLink  <https://stat.link/17shb2>

Finland: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Extend access to earnings-related unemployment benefit	
*New priority *	<input type="checkbox"/> Create a government unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.
Labour market: Increase the employment rate of older workers	
*New priority *	<input type="checkbox"/> Phase out extended unemployment benefit by progressively increasing the eligibility age and abolishing the benefit in 2025 for people born in 1965 or later, as planned. <input type="checkbox"/> Align the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, notably by no longer taking into consideration non-medical factors. <input type="checkbox"/> Increase the public employment service budget from the current low level and enhance efficiency in service delivery to meet the rise in demand for services.

2019-2020 Reforms	Recommendations
Local government: Improve the efficiency of public services in municipalities	
<p><input checked="" type="checkbox"/> The government presented a Bill to Parliament in December 2020 that transfers responsibility for organising health and social services from municipalities to 18 autonomous counties and increases the focus on basic-level services and prevention.</p>	<p><input type="checkbox"/> Ensure that the reform achieves economies of scale and a better balance between primary and specialised health care, while reinforcing equality in access to health care and social services.</p> <p><input type="checkbox"/> Encourage provider competition where the population base and the nature of services make it viable.</p>
Labour market: Reduce the gender wage-rate gap	
<p>*New priority *</p>	<p><input type="checkbox"/> Encourage girls to obtain qualifications in technical fields in demand by highlighting female role models who have succeeded in technical fields and through counselling secondary-school students on the subjects they need to study to keep options in technical fields open at the tertiary level.</p> <p><input type="checkbox"/> Implement the parental leave reform in 2021, as planned.</p> <p><input type="checkbox"/> Improve access to early childhood education and care services by ensuring that those municipalities that do not provide sufficient places in convenient locations with suitable opening hours do so.</p> <p><input type="checkbox"/> Reduce the homecare allowance to increase incentives for mothers of young children to work.</p>
Tax system: Improve the efficiency of the tax system to support green and inclusive growth	
<p><input checked="" type="checkbox"/> The earned income taxation of those on low and middle incomes was eased by approximately EUR 200 million in 2020.</p> <p><input checked="" type="checkbox"/> Mortgage interest deductibility is being phased out from 25% of interest in 2019 to 15% in 2020 and to 0% in 2023.</p> <p><input checked="" type="checkbox"/> Energy taxes were increased on fuels used for heating and off-road purposes in 2019 and on transport fuels in August 2020. In 2020, the government decided to increase taxes on heating fuels in 2021.</p> <p><input checked="" type="checkbox"/> In 2020, the government decided to phase out the energy tax rebate mechanism for energy-intensive industries by 2025 and tax subsidies for paraffinic diesel by 2023. These measures increase tax rates for mining and peat and combined heat and power production.</p> <p><input checked="" type="checkbox"/> The tax rate on peat was increased from 1.9 €/MWh to 3.0 €/MWh in 2019 and will rise to 5.7 €/MWh at the beginning of 2021.</p>	<p><input type="checkbox"/> Further reduce the tax burden on labour.</p> <p><input type="checkbox"/> Increase recurrent taxes on immovable property.</p> <p><input type="checkbox"/> Continue to phase out mortgage interest deductibility for owner occupiers.</p> <p><input type="checkbox"/> Broaden the consumption tax base and phase out reduced VAT rates when recovery from the COVID-19 crisis is firmly established.</p> <p><input type="checkbox"/> Subject heat production using peat to the same tax regime as for other fossil fuels used for heating.</p> <p><input type="checkbox"/> Progressively replace national agricultural subsidies by subsidies for environmental benefits.</p>

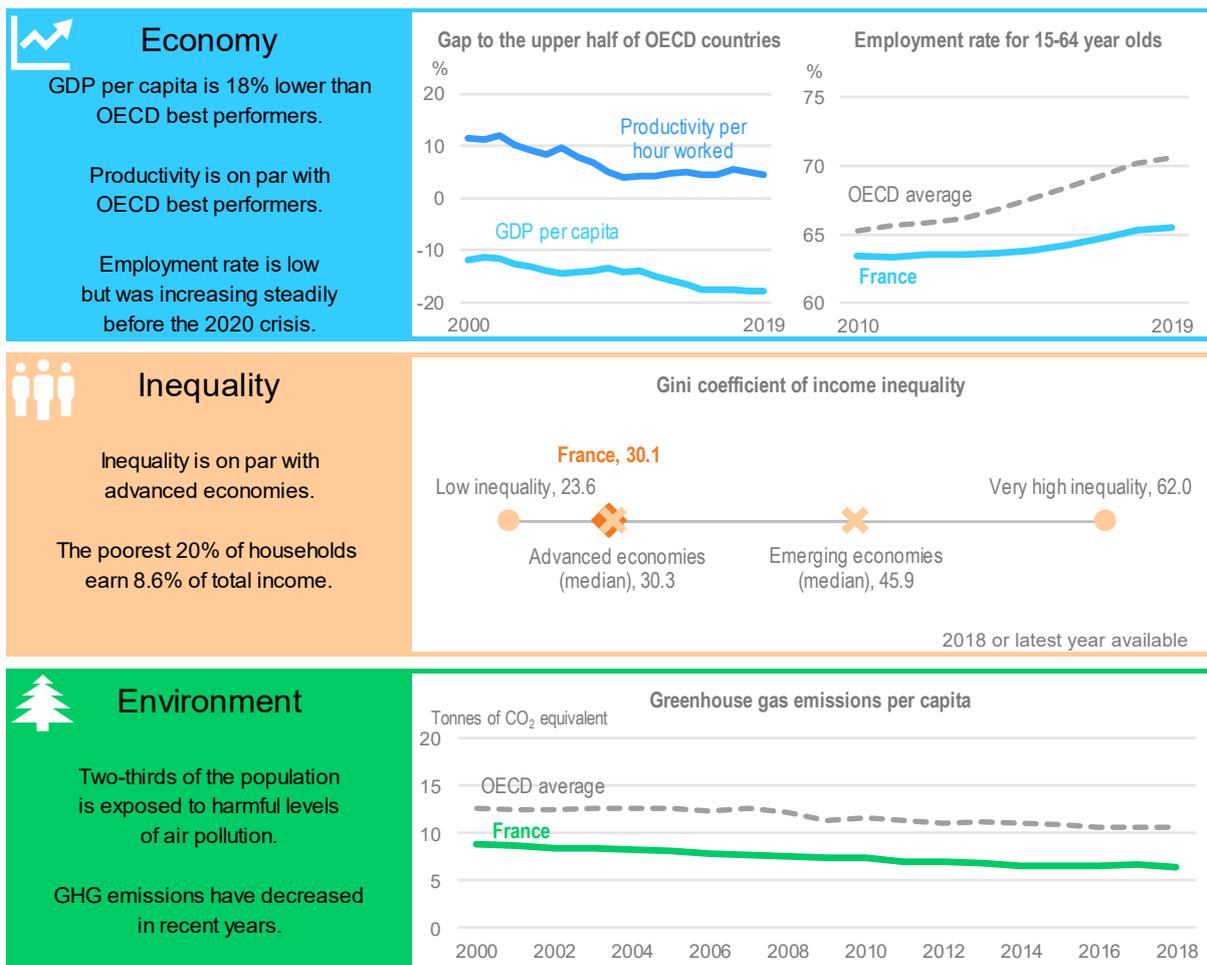
Recent progress on structural reforms

The current government came into office in 2019 and has been fully occupied with the COVID-19 response. Prior to this, several reforms had been adopted, including changes to the unemployment benefit system for older workers, taxation reductions for those on low- and middle incomes and increases in environmental taxes. Good progress has been made on reforms to reduce greenhouse gas (GHG) emissions, although further measures will be needed to achieve Finland's ambitious abatement objectives for 2030 and 2035, when the target is net zero GHG emissions. In December 2020, the government announced its intention to increase the minimum age for receiving extended unemployment benefit by one year in 2023 to 63 for people born in 1963 or after, by another year in 2024 for people born in 1964 or after and to abolish the benefit in 2025 for people born in 1965 or after.

France

A slow and uneven recovery risks entrenching the initial negative distributional consequences of the COVID-19 crisis and widening inequalities of opportunities. The EUR 100 billion recovery plan targeting investment in skills and green technologies provides an opportunity to respond to some of the country's longstanding challenges.

France: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

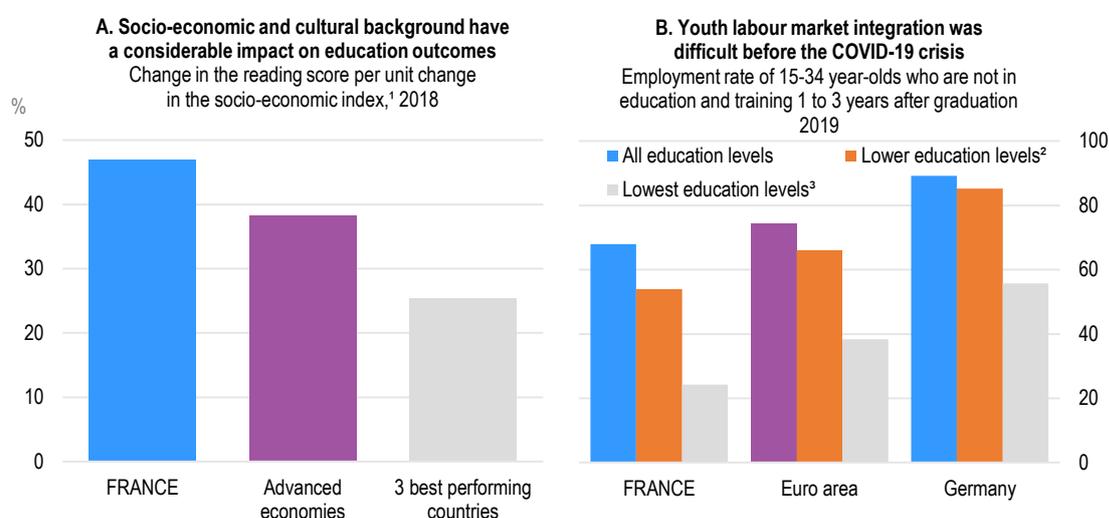
Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Addressing skills and education gaps for a strong and inclusive recovery

Despite comprehensive support measures, the youth and low-skilled workers, the self-employed, those on short-term contracts and the unemployed have borne the brunt of the adjustment costs of the COVID-19 pandemic. **Improving further the equity and quality of education and training** would raise labour-market resilience. Particular focus should be given to low-skilled and long-term unemployed workers that prior to the crisis made much lower use of training. Ensuring wide access to retraining policies, as well as enforcing strong quality standards for lifelong training courses, would boost employment opportunities. As labour-market inequalities are enshrined from an early age and educational conditions remain unequal (Panel A), more funds should go to pre-schools and schools in disadvantaged neighbourhoods, with low-income households having a priority to formal childcare. Streamlining the schemes for helping young people to find jobs, ensuring career guidance takes place at schools from an early age, and involving social partners would also help the youth labour-market integration (Panel B).

France: Vulnerabilities and areas for reform



1. Defined as the estimated coefficient from the country-specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS). The ESCS is a composite score built by the indicators parental education, highest parental occupation and home possessions including books in the home via principal component analysis. The score has been transformed with zero being the score of an average OECD student and one being the standard deviation across equally weighted OECD countries.

2. Less than primary, primary, secondary and post-secondary non-tertiary education (levels 0-4).

3. Less than primary, primary and lower secondary education (levels 0-2).

Source: Panel A: OECD, PISA Database; Panel B: Eurostat (2020), Transition from education to work Database.

StatLink  <https://stat.link/wm8a7x>

With the gradual scaling back of short-time work schemes, temporary employees, younger and low-educated workers can suffer long-term scarring effects, exacerbating inequalities. **Reducing the use of short-term contracts**, widespread among these groups, would make the recovery more inclusive. Adjusting labour costs according to the duration of contracts, as foreseen, would reduce the excessive use of temporary contracts.

To boost business dynamism and help create jobs, **regulatory barriers should be reduced further**. Entry barriers, quotas and exclusive rights in regulated professions should be lowered, collective restructuring procedures reviewed and an independent impact assessment of draft laws and regulations on competition introduced. **Bringing forward green investments will make growth more sustainable**, as planned in the recovery plan. In the longer run, to improve the fiscal position and lower tax rates, particularly on labour, **improving the efficiency of public finances is needed**.

France: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Improve the equity and quality of education and training	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Class size for further grades have been halved in disadvantaged neighbourhoods in 2019-20. <input checked="" type="checkbox"/> Additional bonuses and subsidies are being made available in 2019-20 for pre-school institutions in disadvantaged neighbourhoods. <input checked="" type="checkbox"/> Bonuses for teachers affected to schools in disadvantaged neighbourhoods increased in September 2019. <input checked="" type="checkbox"/> Simplification measures for apprenticeships have been implemented in 2019. <input checked="" type="checkbox"/> Additional funding for training has been made available for low-skilled and unemployed workers through the 2020 recovery plan. 	<ul style="list-style-type: none"> <input type="checkbox"/> Speed up the development of additional childcare services for low-income households and in poor neighbourhoods <input type="checkbox"/> Ensure access to transparent information and effective monitoring of the quality of lifelong learning programmes through additional evaluations and strengthened counselling. <input type="checkbox"/> Streamline the schemes for helping young people to find jobs. <input type="checkbox"/> Ensure career guidance takes place at schools from an early age and involve social partners.
Labour market: Reduce further labour market segmentation	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The ‘in-work benefit’ (Prime d’activité) increased in 2019. A project to reform and simplify social benefits has also been launched. <input checked="" type="checkbox"/> The 2019 reform of a large business tax credit has increased the targeting of social security cuts on low-wages. <input checked="" type="checkbox"/> The 2019 unemployment reform plans to calculate unemployment benefit using monthly wages over a 12-month period, reducing replacement rates for some workers on repeated short-term contracts. <input checked="" type="checkbox"/> The 2020 recovery plan introduced a temporary hiring subsidies for younger workers. 	<ul style="list-style-type: none"> <input type="checkbox"/> Ensure that the structuring of labour costs helps to reduce the excessive use of short-term contracts. <input type="checkbox"/> Once the recovery is firmly under way, restrict the possibility of receiving unemployment benefits during repeated periods of temporary employment and the reloading of rights over short employment spells.
Competition and regulation: Reduce regulatory barriers to competition	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Review collective restructuring procedures and speed up court processes. <input type="checkbox"/> Provide small firms with extended hiring support programmes, notably for management skills and human resources development. <input type="checkbox"/> Ensure an independent impact assessment of draft laws and regulations on competition. <input type="checkbox"/> Reduce entry barriers, quotas and exclusive rights in regulated professions.
Environmental policy: Target more sustainable and greener growth	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Better take into account environmental externalities in transport taxation and develop targeted measures for the most affected populations. <input type="checkbox"/> Strengthen the risk assessment of plant protection products, notably the effects of their interaction.

2019-2020 Reforms	Recommendations
Public governance: Improve the efficiency of public finances	
<input checked="" type="checkbox"/> In 2021, some distortionary business taxes will be permanently reduced.	<input type="checkbox"/> Once the recovery is firmly underway, build on expenditure reviews to reduce public spending. <input type="checkbox"/> Continue to extend the investment selection framework in place in the health sector to other sectors. <input type="checkbox"/> Reduce the use of exemptions and reduced rates that do not benefit the lowest-income households, and reduce tax rates. <input type="checkbox"/> Review pension penalties and bonuses to encourage an increase in the effective retirement age and gradual retirement. <input type="checkbox"/> Move towards a single pension system to improve labour mobility and lower management costs. <input type="checkbox"/> Allocate responsibilities of local infrastructure and urban planning to municipality groups to deal with environmental and other spillovers. <input type="checkbox"/> Streamline local government organisation by merging small municipalities.

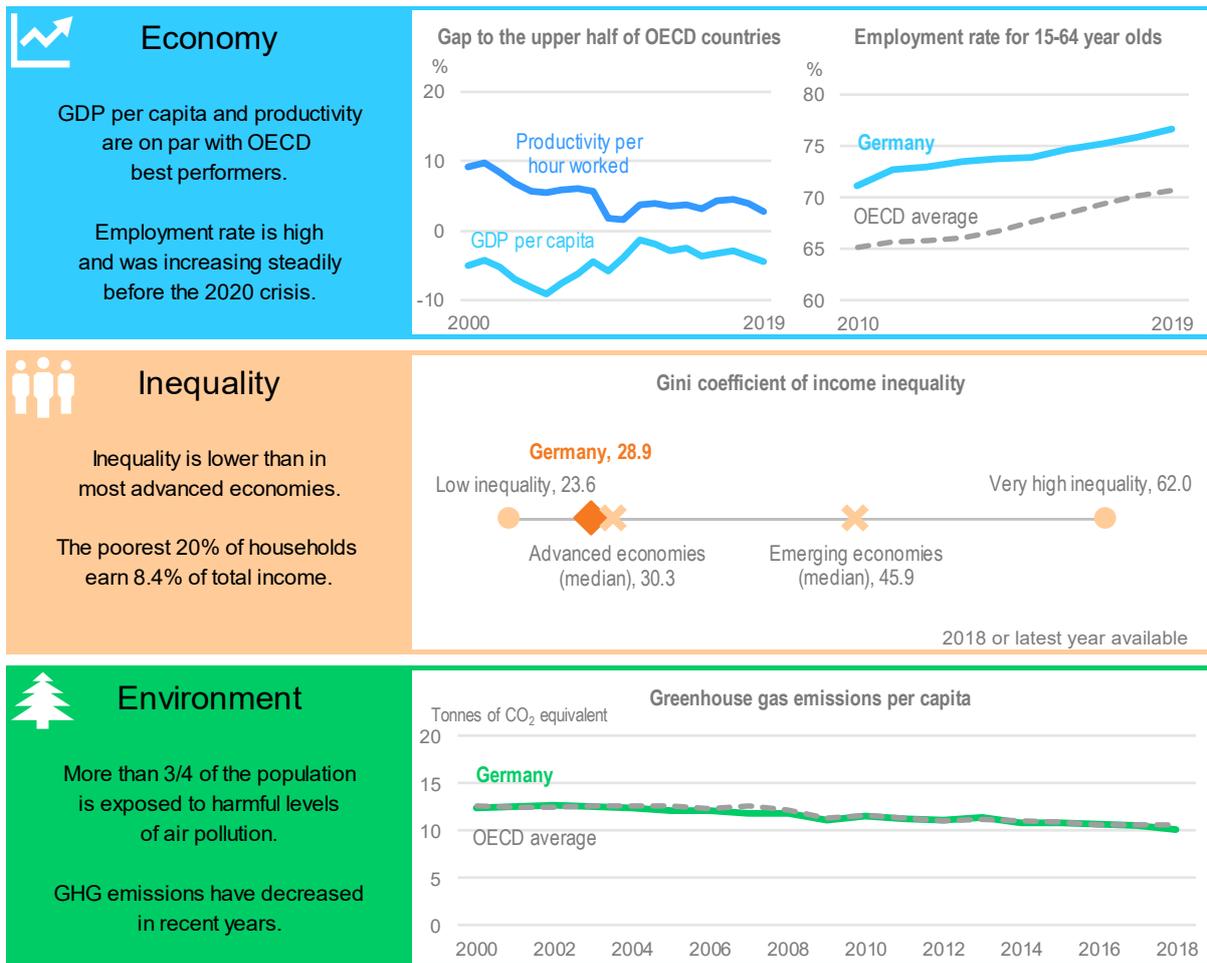
Recent progress on structural reforms

The government pursued a broad reform agenda to improve the labour market, the education system and business taxation, as well as the pension system. The recovery plan rightly increases public spending in the short term to boost aggregate demand and tackle medium-term structural issues. The ongoing reform of unemployment insurance (legislated in July 2019) increased social security contributions and labour costs for short-term and derogatory contracts in some sectors. In 2021, the reform is set to reduce unemployment benefits for workers on repeated short-term contracts. In addition, class sizes for further grades have been halved in disadvantaged neighbourhoods. The recovery plan is set to streamline some distortionary business taxes in 2021. In 2019, the authorities have launched a systemic reform of pension schemes to move towards a single pension system and increase incentives to work longer, but the reform has yet to be legislated.

Germany

Germany faces two major transitions in the medium term. The COVID-19 crisis is likely to accelerate digitalisation with new business models and increases in demand for teleworking, telehealth services and remote learning. The energy transition requires changes in behaviour, consumption and production. In order to face these challenges while supporting the recovery, Germany needs to boost investment in infrastructure and knowledge-based capital, revive business dynamics and address skills bottlenecks.

Germany: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

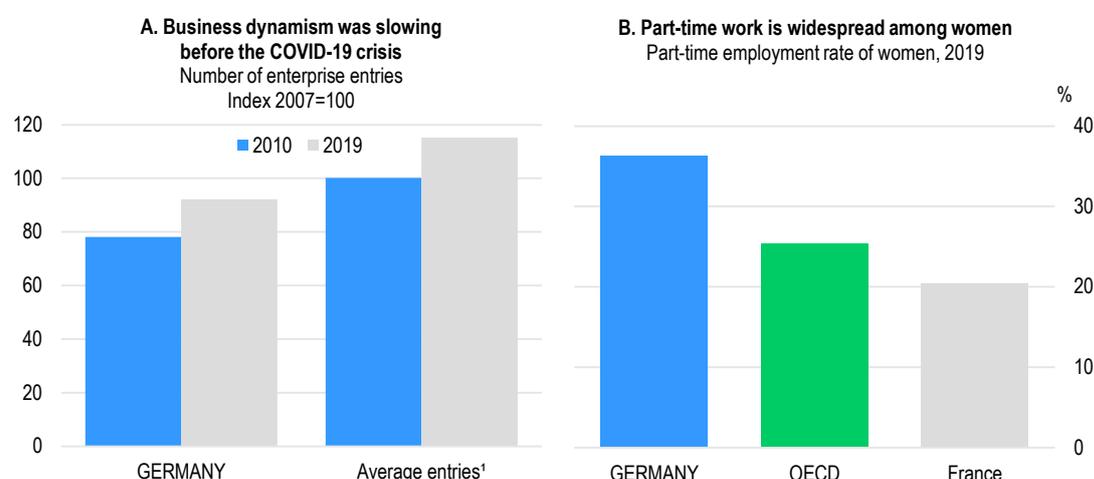
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Recovery policies to foster a digital and green transition

Germany lags in infrastructure investment. Mobile and fixed broadband connection speed, crucial for the digital transformation, trails behind leading countries due to few fibre connections and slow performance in small and rural municipalities. The phase out of fossil-based heating and electricity generation and a more rapid move to low-emission transport also suffers from infrastructure bottlenecks. **Boosting infrastructure investment** would help with these two key structural challenges while supporting short-term demand in the recovery phase. This requires streamlining infrastructure planning processes, shortening approval times and improving public procurement through better data collection and compilation. Increased financial support for good municipal investment projects, accelerated disbursement of public funding for broadband infrastructure and strengthening administrative capacity through inter-municipal cooperation, training and expanding staffing in key technical roles would reduce constraints to infrastructure delivery.

At the same time, low levels and sluggish growth of investment in knowledge-based capital undermine the innovation potential of German firms. Business dynamism has fallen over the past decade, with a decline in new business starts (Panel A). In order to unleash the potential of German firms, **barriers to firm entry and growth in expanding industries need to be removed**. Occupational entry requirements affect a significant share of the workforce and can slow employment transitions, and hence should be reformed, though caution needs to be taken to prioritise reforms where this will not excessively reduce incentives to acquire skills through vocational education in particular. Increasing access to later-stage venture capital, increasing the cap on R&D tax incentives, scaling up programmes to support investment in digital services and promoting strategic digital security risk management can contribute to knowledge-based capital investment and business dynamism, in particular in digital activities.

Germany: Vulnerabilities and areas for reform



1. Average entries of fifteen OECD countries.

Source: Panel A: OECD, Enterprise Statistics Database; Panel B: OECD, Labour Market Statistics Database.

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The use of ICT in schools lags behind most OECD countries and computational thinking and programming skills have much scope to improve. To achieve a successful digital transformation, limit negative job market effects and help people make the most out of new opportunities, it is critical to **strengthen skills to cope with technological change**. Introducing computational thinking earlier in schools can improve problem solving and digital competencies, with particular benefits for girls. Germany also needs to improve the skills of teachers to use digital technologies and invest in the roll out of digital technologies in schools. Further

support for life-long learning and recognition of skills is particularly important to help low-skilled adults adjust to the changing labour market.

The success of the digital and green transformations will hinge on their inclusiveness. **For women, improved work incentives and more flexible working hours** would enable better use of skills and contribute to career development after having children (Panel B). **Reducing tax wedges on labour income and shifting taxation towards less distortive taxes** would improve work incentives and increase the efficiency of the tax system, while increasing environmental taxes can provide incentives for the private sector to accelerate the green transition. Such increases need to be prepared and communicated in advance and the roll out of tax increases beyond those already determined should wait until the recovery is sufficiently strong.

Germany: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Infrastructure: Boost infrastructure investment	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Additional investment in high-speed broadband networks and low-emission transport infrastructure, including as part of the June 2020 recovery package. 	<ul style="list-style-type: none"> <input type="checkbox"/> Streamline infrastructure planning processes (including access to rights of way for communications infrastructure) and improve public procurement through better data collection and compilation <input type="checkbox"/> Provide more financial support for good municipal investment projects. <input type="checkbox"/> Strengthen local administrative capacity through inter-municipal cooperation, training and expanding staffing in key technical roles <input type="checkbox"/> Improve housing supply in dynamic cities by fostering densification in urban areas, reducing stringency of rent control and increasing social housing investment.
Competition and regulation: Promote reallocation by removing barriers to firm growth and incentivising investment in expanding industries	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The debt relief process for personal bankruptcy will be shortened to three years from 2020. <input checked="" type="checkbox"/> R&D tax incentive introduced in 2020, with a cap of EUR 2 million per year expanded to EUR 4 million until 2025. 	<ul style="list-style-type: none"> <input type="checkbox"/> Liberalise occupational entry conditions while preserving the strengths of the vocational education and training system. <input type="checkbox"/> Scale up public support for later-stage venture capital, without increasing complexity. <input type="checkbox"/> Improve conditions for investment in knowledge-based capital, including by reviewing the cap for R&D tax incentives.
Education and skills: Strengthen skills to cope with technological change	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> National Skills Strategy introduced in 2019 aligns programmes with market needs, improves training statistics, quality assurance, recognition of skills and counselling services, and expands training opportunities for individuals whose jobs are affected by structural change. <input checked="" type="checkbox"/> Acceleration of investment program to extend full day primary education from 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen general education within vocational schools while maintaining the strong labour market orientation of vocational education and training. <input type="checkbox"/> Offer more training programmes for the modular acquisition of qualifications in lifelong learning and foster the recognition of skills acquired on-the-job. <input type="checkbox"/> Increase ICT training for teachers to ensure effective use of ICTs. <input type="checkbox"/> Introduce computational thinking earlier and avoid gender stereotypes in education and career guidance. <input type="checkbox"/> Raise quality standards in childcare and early childhood education while further expanding availability and flexibility of care.

2019-2020 Reforms	Recommendations
Labour market: Make it easier for parents to choose flexible working hours	
<input checked="" type="checkbox"/> Additional funding of over EUR 5 billion for 2020 to 2022 for measures to improve childcare quality, reduce fees, and adapt to local needs, as well as capacity expansion in kindergartens, day-care centres and crèches.	<input type="checkbox"/> Further lower the tax burden on the wage income of second earners. <input type="checkbox"/> Increase the minimum amount of time, from the current two months, that the second parent has to take parental leave for the couple to receive the maximum leave entitlement. <input type="checkbox"/> Strengthen legal rights to flexible working hours for all employees, including teleworking where possible.
Tax system: Reduce tax wedges on labour income and shift taxation towards less distortive taxes	
<input checked="" type="checkbox"/> Introduction of carbon pricing in transport and heating from 2021. <input checked="" type="checkbox"/> Real estate tax valuations to be updated by 2025. <input checked="" type="checkbox"/> A ceiling for social security contributions (40% of wage) introduced in 2020 and 2021.	<input type="checkbox"/> Lower social security contributions, especially for low-wage workers. <input type="checkbox"/> Remove inheritance and capital income tax exemptions. <input type="checkbox"/> Raise the tax rates applying to household capital income towards marginal income tax rates applying to other income sources. <input type="checkbox"/> Introduce taxation of NOx emissions. <input type="checkbox"/> Make emissions pricing more consistent across sectors and fuels while ramping up prices.

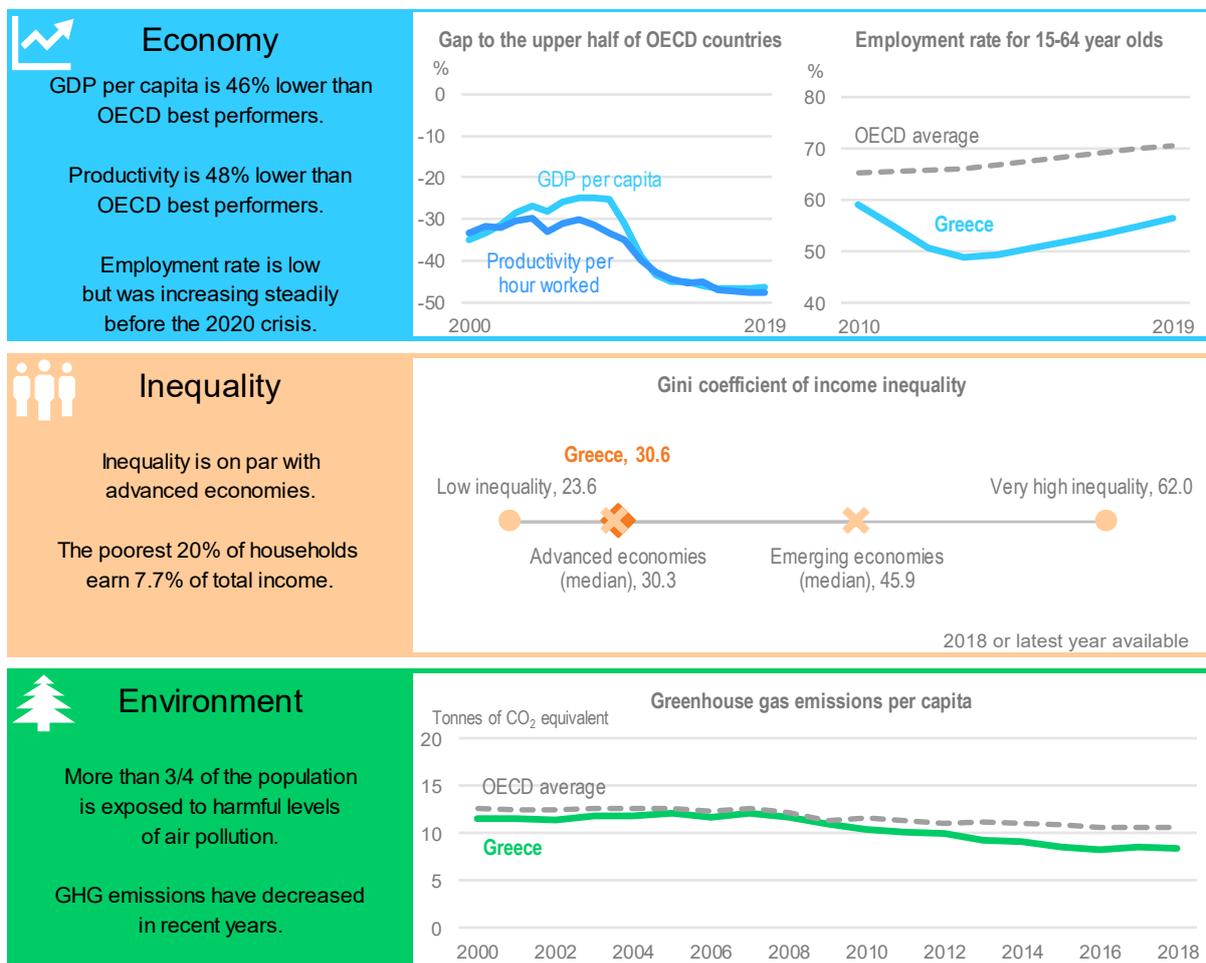
Recent progress on structural reforms

The government's response to the coronavirus pandemic focused first on protecting health, jobs and firms, followed by measures to support consumption and boost public and private investment in digitalisation, education, health, public transport and green energy. The latter included important reforms to improve the debt relief process after bankruptcy and expand support for research and development. There has been progress on reducing labour income taxation and increasing environmental taxation, but labour tax wedges remain high by OECD comparison.

Greece

The COVID-19 crisis adds urgency to addressing Greece's long-standing challenge of boosting investment and productivity to diversify the economy and improve job creation. Despite continued progress in reform efforts, such as digitalising the public administration, red tape, low-quality regulations, and a slow justice system mar the business environment. Coupled with significant gaps in the workforce's skills, these inhibit firm growth and discourage innovation and investment, which will be essential to recover from the pandemic and sustain growth.

Greece: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

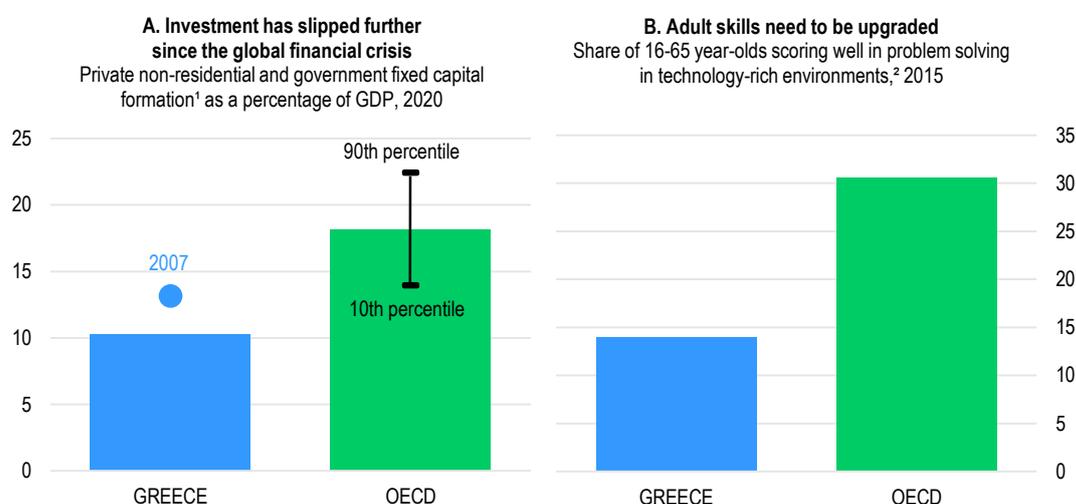
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Improving investment climate for a sustained, job-rich recovery

Inefficiencies in public administration and the heavy regulatory burden slow the government effectiveness, detract from the investment climate and discourage firms from growing, weighing on productivity. **Enhancing public administration efficiency and effectiveness of the justice system** is essential for addressing both the COVID-19 crisis and long-term challenges. The government's efforts to reduce red tape and improve public services' accessibility and responsiveness through digitalisation are showing their benefits and they should continue. Codifying existing laws and regulations, more training of staff and judges, and encouraging the use of alternative dispute resolution would improve access to justice and the business environment, build confidence in public institutions and encourage investment.

Investment had not recovered from the lows of the early 2010s before the COVID-19 crisis hit (Panel A). While progress in reducing banks' non-performing loans (NPLs) has accelerated, they remain high and, with deferred tax credits, constrain banks' capital and profitability and their ability to finance firms' working capital or new investments. The insolvency system is highly fragmented, resulting in a large number of strategic defaulters and slowing the resolution of NPLs. **Reviving investment** will be essential for a sustained recovery from the COVID-19 crisis, to diversify the economy and to boost productivity. The government's new "Hercules" asset protection scheme is helping banks to dispose of much of their existing non-performing loans, and a newly unified insolvency framework is expected to resolve financial distress more efficiently. However, the COVID-19 crisis risks creating new defaults, and urgent efforts are needed to address the large stock of non-performing loans that will remain and to improve the quality of banks' capital. Public investment spending has fallen well short of budget plans in recent years. To make the most of the EU's Next Generation Funds and to double investment spending as planned, the quality and speed of public investment execution need to improve.

Greece: Vulnerabilities and areas for reform



1. The 90th percentile is the value of private non-residential and government gross fixed that is above 90% of OECD countries, and the 10th percentile is the value above 10% of OECD countries. The OECD average refers to 2020 or latest year available.

2. Share of adults scoring at least proficiency level 2 in the Survey of Adult Skills (PIAAC). The Survey of Adult Skills defines problem solving in technology-rich environments as using digital technology, communication tools and networks to acquire and evaluate information, communicate with others and perform practical tasks. It focuses on the abilities to solve problems for personal, work and civic purposes by setting up appropriate goals and plans, and accessing and making use of information through computers and computer networks.

Source: Panel A: OECD, Economic Outlook Database; Panel B: OECD (2016), Skills Matter: Further Results from the Survey of Adult Skills.

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Despite high unemployment prior to the pandemic, shortages of in-demand skills impede firms' ability to add jobs and raise productivity, as employers often cannot find workers with the needed skills (Panel B). **Strengthening active labour market programmes, education and professional training** would help job seekers find opportunities that emerge after the COVID-19 crisis. Boosting the capacity of public employment services would improve job matching and help tailor training courses for job seekers. Employing more specialised counsellors, developing digital tools, and linking public and private job search agencies would boost the capacity of active labour market programmes. Encouraging tertiary institutions to develop courses adapted to mature age students' needs, and better assessing and certifying the quality of adult learning courses would help upgrade skills for the post-COVID-19 economy. Developing adults' digital skills is crucial, given the looming changes from digitalisation and automation.

Students are often poorly prepared for the job market, in particular with weak digital skills. **Improving the quality of education** should aim at improving incentives to upgrade skills through better quality of contracts for a large share of teachers, increasing the autonomy of education institutions, and rewarding their performance. Recent reforms to better link vocational training with labour market needs can be developed further to strengthen the vocational focus across school, tertiary and adult education.

The young and low-income families, who suffered from high poverty rates before the crisis, are particularly hit by the impact of the pandemic. Continuing to **modernise Greece's social protection programmes and administration** to improve accessibility, targeting and effectiveness of administration are key to curbing adverse effects on poverty and inclusiveness.

Greece: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Improve investment climate: Enhance efficiency and effectiveness of public administration and the legal system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A new Labour Law Code and Code of Labour Regulatory Provisions is being prepared. The mandate of the Central Codification Committee has been strengthened (2019 law). <input checked="" type="checkbox"/> The silence-is-consent rule covers most economic activities and is gradually being expanded (2019). <input checked="" type="checkbox"/> A 2018 law set a new general framework for inspections (i.e. ex-post monitoring compliance), which is expected with the help of regional governments to gradually cover all inspection domains. <input checked="" type="checkbox"/> Three Competition Assessment Reviews identified barriers to competition and ways to improve the overall regulatory framework in 14 sectors. Most of the review's 773 recommendations have been legislated. <input checked="" type="checkbox"/> The collection of land rights has been completed for 82% of the country and the cadastral mapping has been completed for the 35% of the rights (October 2020). 	<ul style="list-style-type: none"> <input type="checkbox"/> Accelerate the codification of existing laws and regulations. <input type="checkbox"/> Improve judicial efficiency through more training of staff and judges and using courts' performance indicators. <input type="checkbox"/> Pursue the on-going digitalisation of the public administration. <input type="checkbox"/> Better communicate the availability and benefits of alternative dispute resolution mechanisms.

2019-2020 Reforms	Recommendations
Financial system and investment: Restore banks' health and improve the execution of the public investment budget	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Urgently implement a strategy to address the deferred tax credits and bad loans that will remain on banks' balance sheets after the Hercules non-performing loan disposal scheme is complete. <input type="checkbox"/> Implement the unified insolvency framework, and ensure a better balance between the rights of creditors and debtors and accelerated enforcement of collateral. <input type="checkbox"/> Boost public investment to support growth and environmental sustainability, including in public transport, innovation and waste management, based on cost-benefit analysis. <input type="checkbox"/> To support faster executions, train staff in payment processes including at local level.
Labour market: Strengthen active labour market programmes	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A National Strategy for Lifelong Learning was introduced with measures to ensure course offerings better respond to the skills needs in priority sectors and of local labour markets (2019). <input checked="" type="checkbox"/> A system to coordinate vocational education and training nationally and regionally has been established, however labour market diagnostics are yet to be developed and integrated. 	<ul style="list-style-type: none"> <input type="checkbox"/> Employ more specialised counsellors and profiling tools in public employment services to significantly improve job-search and training support, linking them better with private job-search agencies. <input type="checkbox"/> Develop a voucher system that allows jobseekers to select their preferred intermediary for active labour market policies, including private-sector employment services. <input type="checkbox"/> Encourage tertiary education institutions to develop courses adapted to mature-age students' professional needs and practical circumstances. <input type="checkbox"/> Improve quality assessment and certification of adult learning courses.
Education and skills: Improve the quality of childhood education, schools and tertiary education	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Following the adoption of the Upgrading Public Schools Act, for the first time school units have set objectives against which they will be evaluated over the 2020-21 school year. Curriculum reforms are giving greater emphasis to soft skills, including creative thinking. (June 2020). <input checked="" type="checkbox"/> The government has extended compulsory pre-school education to four year-olds, although inadequate facilities are delaying the roll-out (2019). <input checked="" type="checkbox"/> Technical institutes and universities have been merged, but the new institutions have limited autonomy over their budget, structure and operations, curtailing their ability to improve teaching outcomes (2019). 	<ul style="list-style-type: none"> <input type="checkbox"/> Progressively move the teacher workforce onto longer-term contracts that support and reward performance and avoid the rigidity of the existing permanent contracts. <input type="checkbox"/> Complete the roll-out of compulsory pre-school for 4 year olds and expand access for younger children to early childhood education and care. <input type="checkbox"/> Provide broader management autonomy to tertiary education institutions.

2019-2020 Reforms	Recommendations
Social protection: Modernise programmes, targeting and administration	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The guaranteed minimum income operates nationally and funding has been increased to meet expected demand following the COVID-19 crisis (2020). <input checked="" type="checkbox"/> Family benefits have been redesigned to better target lower income households (2019). <input checked="" type="checkbox"/> Transport subsidies have been reviewed and targeted at low-income groups (2020). 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase Guaranteed Minimum Income transfers, taper them more gradually and introduce in-work benefits for low-wage workers. <input type="checkbox"/> Align equivalence scales across social transfer programmes by raising the Guaranteed Minimum Income equivalence factor applied to children. <input type="checkbox"/> Ensure that Guaranteed Minimum Income programme participants are required to actively engage in active labour market programmes and to accept jobs. <input type="checkbox"/> Boost policies to support families, prioritising expanded access to quality care for children and the elderly. <input type="checkbox"/> Develop in-home support for elderly care.

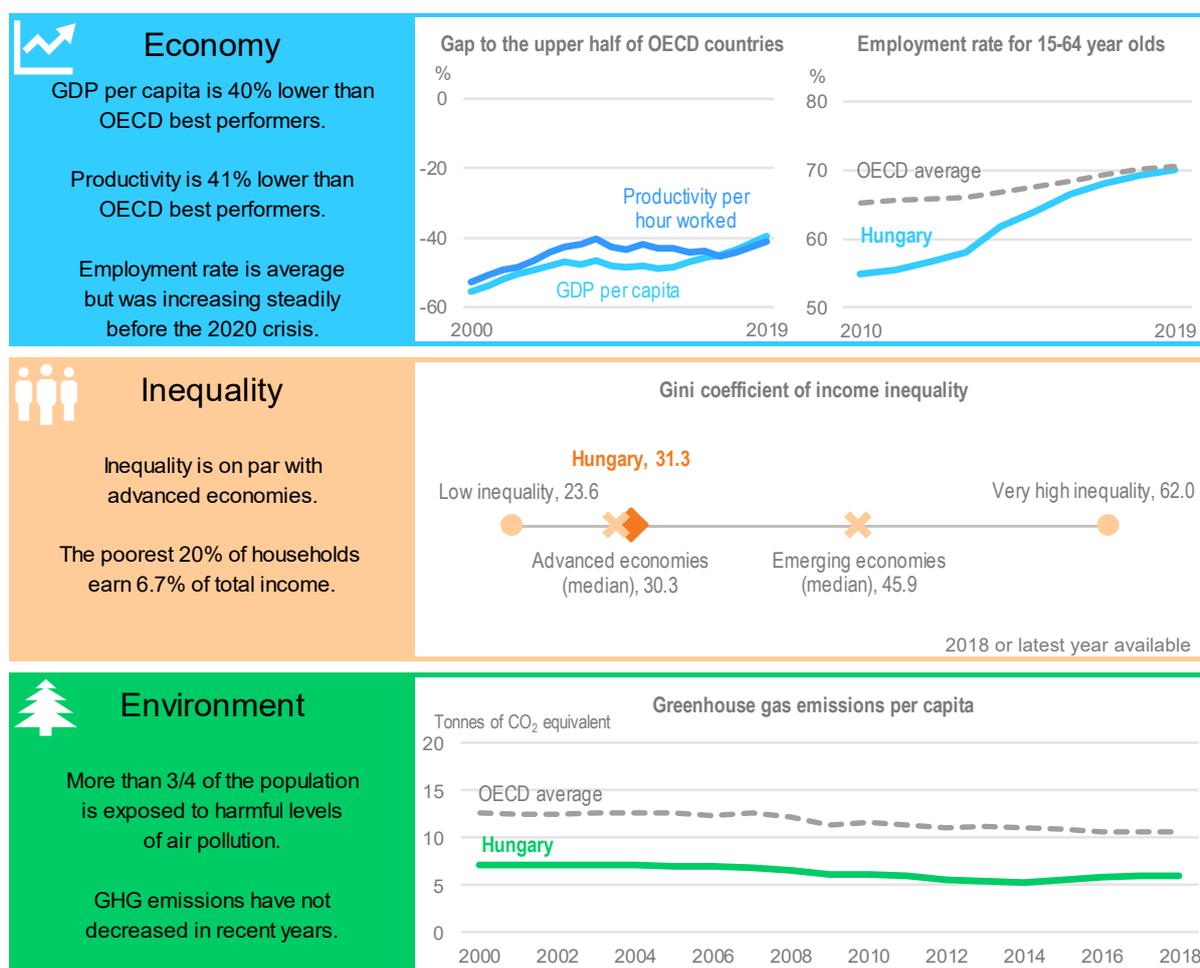
Recent progress on structural reforms

The government has adopted important reforms that address many priority areas. It is reducing tax rates, supported by Greece's improved revenue collection arrangements and public finances. The COVID-19 crisis has prompted Greece to strengthen the capacity of all areas of the health system, which has received little investment over the past decade. The government is reforming the public procurement framework and the design and execution of public investment projects. However in many areas, the complexity of many reforms, capacity constraints among staff, reticence to assess and reward performance, and the restrictions imposed to contain the COVID-19 pandemic have slowed progress.

Hungary

To ensure a speedy recovery that benefits all, the improvement of the business environment and skills should be on top of the policy agenda. State-intervention and regulatory barriers hamper market entry and dampen productivity. Low graduation rates from tertiary education, weak vocational training outcomes and high drop-out rates lower employment prospects of young adults, who are at risk of long-term scarring given the impact of the pandemic on the labour market.

Hungary: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

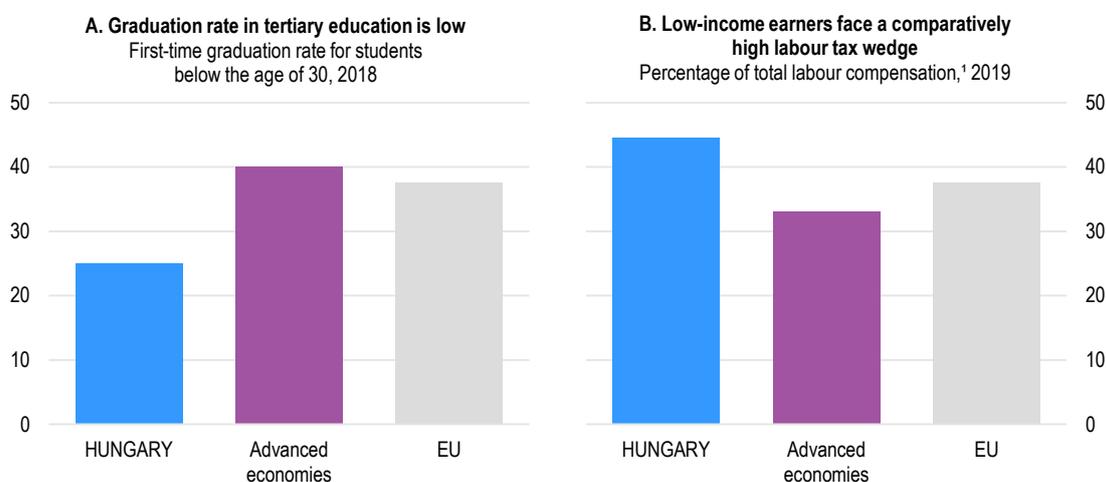
Boosting business dynamics and skills

Reforms to strengthen product market competition should be a priority. State-intervention and regulatory barriers hamper market entry and efficient reallocation of resources in service and network sectors. The competition authority needs more powers to reduce barriers to competition, and room remains to cut red tape further to improve the business environment. Streamlined insolvency procedures would facilitate market exit and support efficient reallocation of resources to the most productive companies during the recovery. Currently, all these barriers risk dampening productivity growth.

Reforms of the education system should continue to improve vocational training outcomes, reduce high drop-out rates and raise low tertiary graduation rates in order to improve employment prospects of the young (Panel A). An increase in the compulsory school-leaving age could enhance general skills and promote equity in outcomes. A continued roll-out of crèches and kindergarten in Roma communities is key to their better integration in early childhood education and care. To modernise the education system, digital skills and ICT use in school curricula should be enhanced. Moreover, training of the unemployed and low skilled workers needs to improve.

Unemployed and low-skilled workers have few incentives to enter employment or increase work efforts, as high income taxes erode their income gains (Panel B). Low-skilled persons from poor regions are particularly hard hit by long-term unemployment. **Reforms of tax and social benefits** can raise labour market participation, in particular of low-skilled workers, and lower inequalities. These measures should entail the adjustment of unemployment benefits to improve labour mobility, especially from poor regions into growing labour markets and a further lowering of the labour tax wedge. In addition, **to improve labour market participation of mothers**, the expansion of childcare facilities for children below the age of three should continue.

Hungary: Vulnerabilities and areas for reform



1. Average tax wedge for a single person without child, at 67% of average earnings. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.

Source: Panel A: OECD, Education at a Glance Database; Panel B: OECD, Taxing Wages Database.

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Further **pension reform is needed** in light of the ageing of the Hungarian population and old-age poverty, where as much as a fifth of pensioners receive pension benefits below the poverty line. An adequate basic state pension could guarantee a minimum income for all pensioners. Linking the statutory retirement age to gains in life expectancy could improve fiscal sustainability.

Hungary: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Reduce barriers to entry and competition and streamline insolvency procedures	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Some measures to simplify administrative procedures have been implemented in 2020, e.g. online tax invoicing. <input checked="" type="checkbox"/> In 2020, the government launched a new online business portal for business. 	<ul style="list-style-type: none"> <input type="checkbox"/> Implement regulatory impact assessments to ensure regulations do not unnecessarily hamper market entry and competition. <input type="checkbox"/> The competition authority should systematically review all new legislation for barriers to competition. <input type="checkbox"/> Increase transparency in public policy formulation. <input type="checkbox"/> Insolvency procedures should be streamlined and effective reorganisation proceedings put in place; the time before formal closure should be reduced and market exit facilitated.
Education and skills: Improve students' educational outcomes and employability	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A Digital Education Strategy for 2017-2020 has been adopted by the government to enhance digital literacy and usage, covering all levels of education from early education to adult learning. <input checked="" type="checkbox"/> In 2020, the government introduced a 0% interest-bearing loan for adult learning and a student loan scheme with a 0% interest rate for university students. 	<ul style="list-style-type: none"> <input type="checkbox"/> Integrate the use of ICT across most subject matters. <input type="checkbox"/> Extend support to disadvantaged students in tertiary education. <input type="checkbox"/> Extend the compulsory education age to enhance general skills and promote equity in outcomes. <input type="checkbox"/> Continue better integrating Roma children in early childhood education and care. <input type="checkbox"/> Allow vocational education and training schools greater freedom to specialise and adjust courses and curriculums to the needs of the local labour market. <input type="checkbox"/> Increase upskilling of the unemployed and low skilled adults.
Tax system: Adjust the tax-benefit system to strengthen work incentives for low-income earners	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Social security contributions were reduced for employers between 2017 and 2020, taking the total reduction to 11.5 percentage points since 2016. <input checked="" type="checkbox"/> Families with two children receive increased benefits from 2019. 	<ul style="list-style-type: none"> <input type="checkbox"/> Continue to lower the tax wedge while increasing the reliance on consumption taxes by moving towards a single VAT rate; improve targeting of social transfers to help low-income households. <input type="checkbox"/> Increase the reliance on road tolls and car taxes that take vehicles' environmental performance into account; introduce congestion charges and strengthen public transport.

2019-2020 Reforms	Recommendations
Labour market: Improve participation of low-skilled workers and women	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Spending on training and education programmes was increased for the period 2020-2022. <input checked="" type="checkbox"/> Since 2018, NGOs cooperating with public employment services provide counselling and mentoring services for disadvantaged jobseekers to foster their re-entering into the labour market. <input checked="" type="checkbox"/> The Family Protection Plan from 2019 expanded the availability of childcare facilities for children below the age of three further. 	<ul style="list-style-type: none"> <input type="checkbox"/> Extend duration of unemployment benefits; provide geographical mobility support and expand activation programmes. <input type="checkbox"/> Continue to reduce public work schemes and to enhance training of participants and other jobseekers in programmes that improve their employability. <input type="checkbox"/> Enhance incentives for mothers to participate in the labour market in order to reduce the effective length of parental leave, while providing incentives for longer paternity leave. <input type="checkbox"/> Continue to expand the availability of childcare facilities for children below the age of three.
Social protection and labour market: Tackle old-age poverty and keep older workers in the labour market	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The statutory retirement age will be gradually increased from 62 to 65 by 2022. <input checked="" type="checkbox"/> From 2019 social contribution taxes are no longer charged for old-age pensioners who remain in the labour market, only the 15% personal income tax. Working retirees and their employers became exempt from social security contributions. 	<ul style="list-style-type: none"> <input type="checkbox"/> Link increases of the statutory retirement age to gains in life expectancy. <input type="checkbox"/> Introduce a basic state pension to guarantee a minimum income for all pensioners.

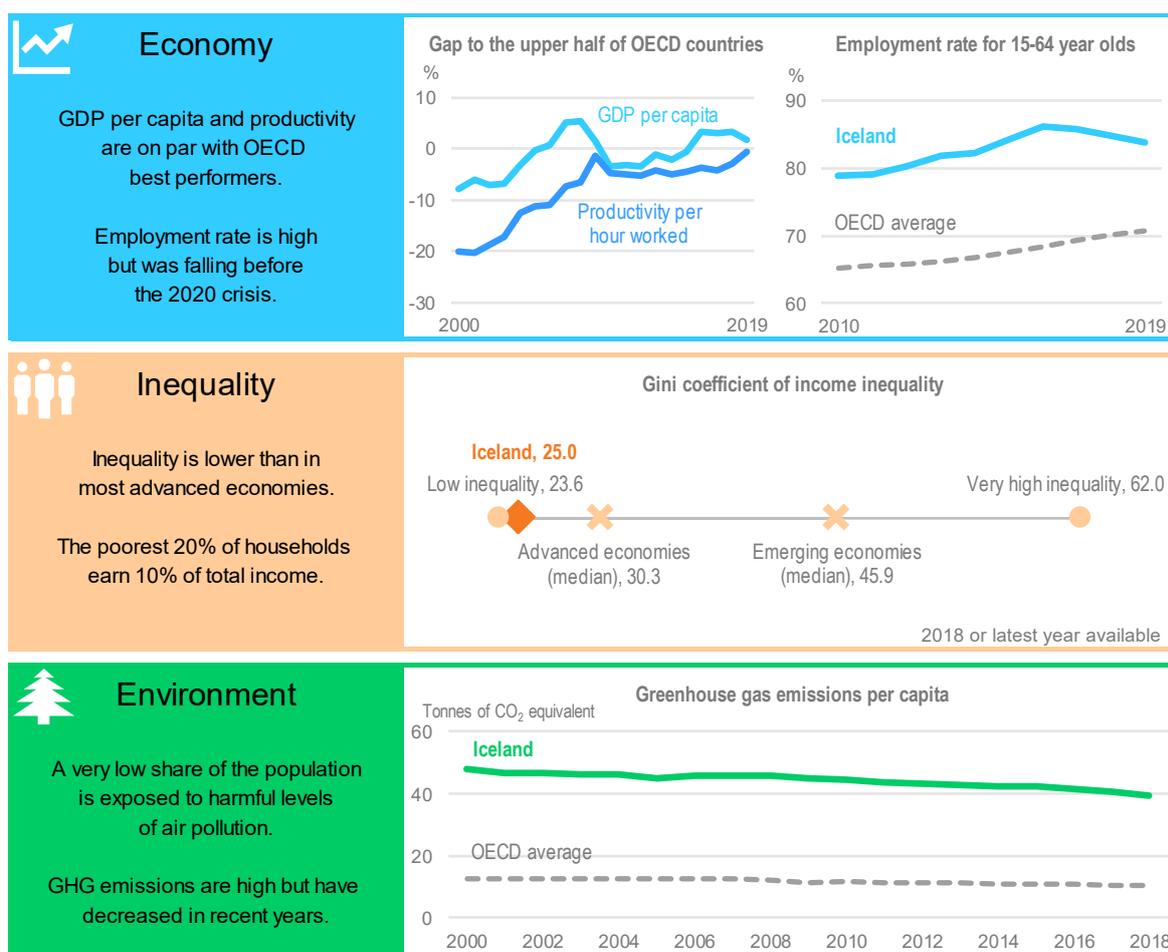
Recent progress on structural reforms

The pace of structural reforms has slowed in 2020 as the COVID-19 crisis has demanded the government's attention, making reforms all the more urgent. Progress in reducing overly burdensome product market regulations has been limited. Progress has been achieved with reforms of employers' social security contributions, which saw a cut from 17.5 to 15.5% in 2020. Reforms to vocational training led to a stronger involvement of the private sector in developing curricula of vocational institutions with the aim to better matching skills with labour market needs. To improve labour market participation of mothers, the government expanded further the availability of childcare facilities for children below the age of three. Moreover, a pension reform is gradually increasing the statutory retirement age from 62 to 65 by 2022. Despite this progress, room remains to link the retirement age with gains in life expectancy and tackle old-age poverty.

Iceland

The pandemic-related collapse of foreign tourism and international travel, which account for almost a fifth of GDP, highlighted the need to diversify the economy. Iceland needs to improve resilience and find new drivers of productivity and employment growth, in particular given the objective of emission reductions. Boosting skills across the population is hence the top priority, along with reforms to strengthen competitive forces.

Iceland: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Iceland is 2017.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

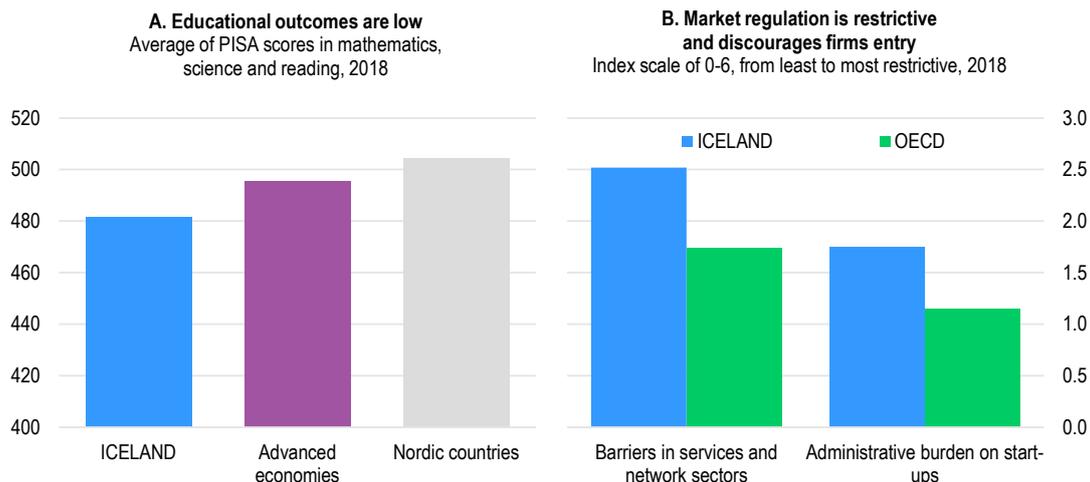
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Boosting skills for a transition to a more innovative and sustainable economy

Iceland's economy needs more knowledge and better innovation inducing skills, to overcome scarring after the COVID-19 pandemic and to boost productivity growth. Boosting skills will also make Iceland more prepared for facing digital and green transition challenges. However, despite high spending on education, outcomes are disappointing (Panel A) and a skills gap remains between immigrant and native students. The qualification of the labour force is not commensurate with the needs of the business sector and the country needs to **foster strong and relevant skills at all education levels**. To improve teaching quality in compulsory education, practical training and more opportunities for teachers' professional development need to be provided. Vocational education would benefit from better integrating work and school-based training. Finally, Iceland also needs to better link university funding to students' labour market outcomes and to broaden collaboration between research institutions and firms.

Iceland is known for its pristine nature and low exposure to air pollution. But the country also produces among the OECD's highest greenhouse gas emissions per capita because of geothermal energy drilling and aluminium smelting. **To reach its own ambitious 2030 climate targets, the government should increase the taxes on carbon and fluorinated gases**, and consider taxing other greenhouse gases and boost green investment, into the fishing fleet, charging grids for electric vehicles and research into carbon capture technologies for polluting industries, which could also help the recovery.

Iceland: Vulnerabilities and areas for reform



Source: Panel A: OECD, PISA Database; Panel B: OECD, Product Market Regulation Database 2018.

StatLink  <https://stat.link/1zgcds>

Iceland's agriculture is one of the most protected and subsidised in the OECD, with the vast majority of subsidies linked to production - the most economically distorting and environmentally damaging form of income support. **De-linking agricultural support from production** will help lower carbon emissions from livestock and reducing damage from soil erosion. Reforms should aim to lower tariffs and excise duties, abolish quotas on agricultural products, and link income support to environmental performance.

Diversifying the economy and embarking on a low-carbon path would benefit from more business dynamism. Iceland has among the highest barriers to entry in goods and service markets in the OECD (Panel B), which can slow down the economic recovery and pose a drag on productivity growth in the medium term. Excessive occupational licensing in the construction sector and a high administrative burden in tourism dent competition and hold back productivity. A broad-based regulatory reform to **remove barriers to domestic and foreign entry** would help the country to reallocate resources. In particular,

Iceland needs to reduce the administrative burden for young and innovative start-ups, and it should remove restrictions holding back foreign direct investment.

Iceland's tax-benefit system is well-targeted, yet high marginal tax rates, in particular for low-income earners, discourage a return to or taking up full-time work. Many young people are not in employment, education or training. The government needs to **lower the tax wedge, especially for low-income earners**. Child benefits should become universal or tapered at much higher income levels.

Iceland: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Foster strong and relevant skills	
<input checked="" type="checkbox"/> Since 2019 a teacher competency framework establishes standards to guide teacher appraisal and professional development.	<input type="checkbox"/> Improve teaching quality in compulsory education by fostering practical training and by providing more opportunities for teachers' professional development. <input type="checkbox"/> Strengthen vocational skills by better integrating work and school based training. <input type="checkbox"/> Link university funding to the success of students on the labour market.
Environmental policy: Move towards a low-carbon economy	
*New priority *	<input type="checkbox"/> Further increase the carbon tax and introduce taxes on other greenhouse gases, and redistribute tax revenue to vulnerable households and firms. <input type="checkbox"/> Invest in a low-carbon land transport infrastructure and fishing fleet, and in carbon capture measures in industry.
Agriculture: Reduce agricultural support	
<input checked="" type="checkbox"/> The government slightly reduced subsidies linked to agricultural production in 2019.	<input type="checkbox"/> Further decouple subsidies from agricultural production and link them to sustainable land management and the production of environmental amenities.
Competition and regulation: Remove barriers to domestic and foreign entry	
*New priority *	<input type="checkbox"/> Reduce the regulatory burden, especially in the service sector and the network industries. <input type="checkbox"/> Reduce barriers to foreign investments. <input type="checkbox"/> Reduce the administrative burden for start-ups.
Tax system: Lower the marginal tax wedge	
<input checked="" type="checkbox"/> The government reduced personal income tax rates for low-income earners in 2020.	<input type="checkbox"/> Reform the disability system by shifting the focus labour market integration of benefit claimants. <input type="checkbox"/> Abandon means-testing for child benefits (i.e. introduce a universal child benefit), or considerably reduce tapering of benefits when incomes rise. <input type="checkbox"/> Reduce the duration of unemployment benefits and increase the period of work needed before a worker becomes eligible to receive benefits.

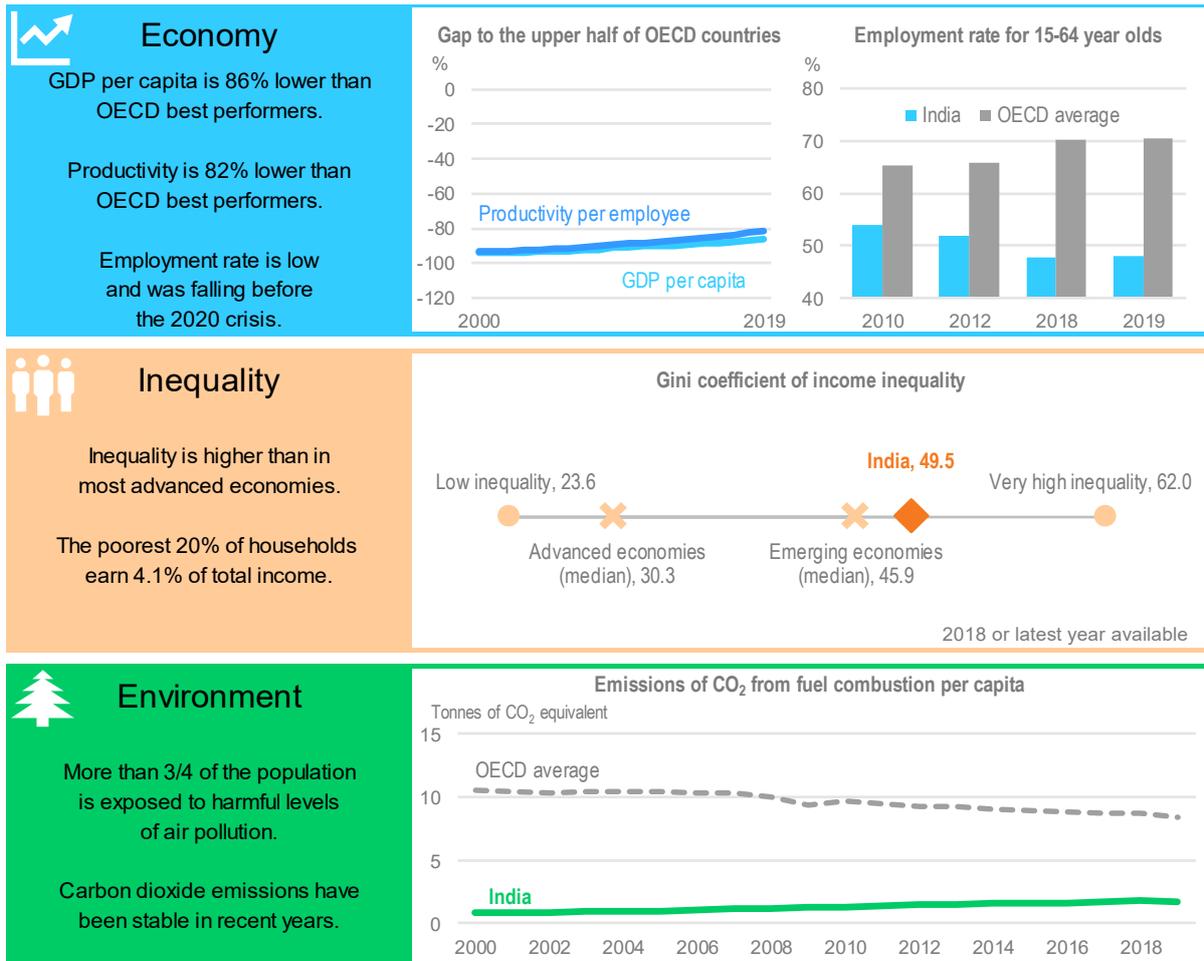
Recent progress on structural reforms

The current government, which came to power in 2017, was elected on a relatively modest reform platform. The government has embarked on climate action, in particular by more than doubling the taxation of GHG emissions within two years. Following the COVID-19 crisis the government also launched a programme to boost public investment and to build up low-carbon infrastructure. By reducing income tax rates for low-income earners the government reduced the tax wedge. Soon after the beginning of the crisis, the government (temporarily) eased the insolvency framework, facilitating reallocation of capital and labour towards new sectors and activities. In the other priority areas reform has been shy.

India

Hitting particularly hard the informal sector, where much of the Indian population works, the pandemic reinforced the need for creation of jobs in the formal sector and reforms of health care, protection of vulnerable individuals, households and groups.

India: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for India is 2011.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases. When not available International Labour Organisation for employment rate; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

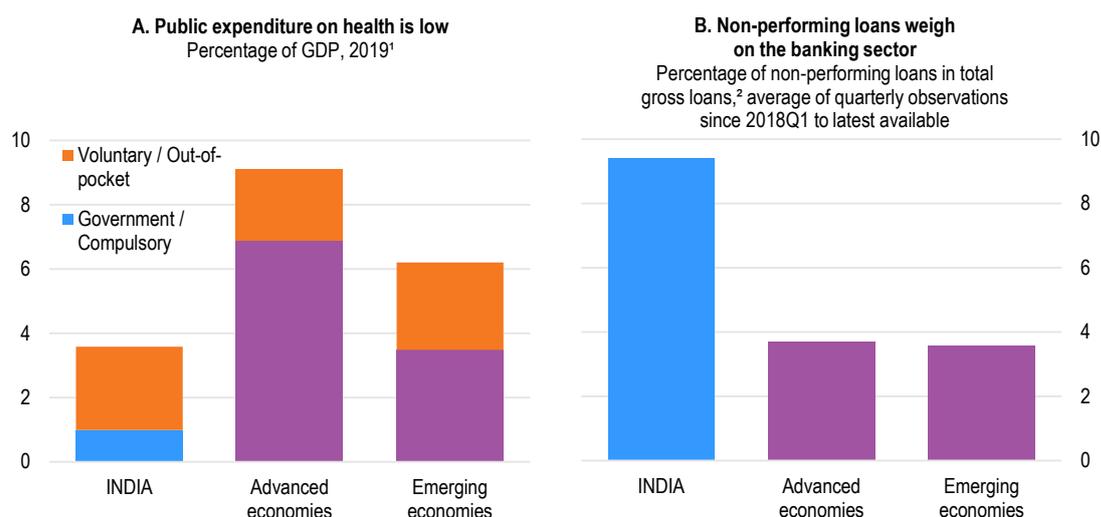
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Reducing informality key to a stronger, more inclusive and resilient growth

Most of Indians, working in the informal sector, could not access social safety nets, bearing the brunt of the economic hardships of the pandemic. To create jobs in the formal sector, first, **reduction of the administrative and regulatory burden on business** is needed. This can be done by simplifying rules to regulatory approval processes such as maximum timelines, applying “silent is consent” principles and experimenting more widely with single-window clearance. Secondly, **employment protection legislation needs easing**. In the formal, mostly public sector, the employment protection is high, discouraging formal hiring. Coupling the reform of employment protection with that of product markets can limit the adjustment costs of labour market reform by lowering prices of goods and services. To ensure that easier hiring and firing norms generate formal, quality jobs in mid-sized and large industries, implementation of a new legislative framework that expands the social security net and regulates strikes will be key.

Currently at about 1% of GDP and scheduled to rise to 2.5% of GDP by 2025, India’s **spending on public health** is the lowest among G20 countries (Panel A). It **should be raised** to deal with “older” diseases like malnourishment and tuberculosis as well as “modern” ones like diabetes, cancer and the pandemic. In the short term, a proper infrastructure to deliver efficient COVID-19 vaccination is urgent. In the medium term, achieving universal health coverage requires actions to tackle inefficiencies in the government’s insurance scheme (AB PMJAY).

India: Vulnerabilities and areas for reform



1. For India, the latest year available is 2017.

2. Non-performing loans (NPLs) are loans which ceased to generate income for the bank. Although classified according to a common definition, cross-country data comparability of non-performing loans can be affected by varying degree of stringency across national supervisory practices. For India, latest data refer to 2020q2.

Source: Panel A: OECD, Health Database; Panel B: International Monetary Fund (IMF), Financial Soundness Indicators Database.

StatLink  <https://stat.link/9l7pz4>

Improved natural resource management, easier access to clean water, sanitation and clean cooking solutions for families using solid fuels would help to address environmental issues, that weigh on the population via high number of deaths due to air pollution, a serious water crisis, and frequent climate-related natural disasters. To improve resource allocation, **a stronger and effective financial system is key**. To this end, non-performing loans - accumulated prior to the pandemic - need addressing (Panel B)

as well as lack of permanent judicial members and trained support staff to deal with bankruptcy procedures. Further, strengthening banks' governance and credit appraisal systems would help speed up the recovery.

India: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Reduce statutory barriers and red tape to increase business dynamism	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Farmers Produce Trade and Commerce (Promotion and Facilitation) Bill 2020, the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Service Bill 2020, and the Essential Commodities (Amendment) Bill 2020 liberalise marketing of agricultural produce, allow contract farming and remove controls on transportation, storage, prices and distribution enacted under Essential Commodities Act (ECA) of 1955. <input checked="" type="checkbox"/> FDI is now allowed in sectors such as defence, civil aviation, railways, coal, mining and e-commerce; the automatic route has been opened. 	<ul style="list-style-type: none"> <input type="checkbox"/> Introduce a 30-day notice and comment period for new regulations. <input type="checkbox"/> Make cost-benefit analysis obligatory for new regulations. <input type="checkbox"/> Loosen equity limits for foreign capital as well as management and control restrictions. <input type="checkbox"/> Reduce administrative burdens for self-employed workers and micro enterprises to encourage formality.
Labour market: Review stringent employment protection in the formal sector to accelerate jobs creation	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> With the Code on Wages 2019, the Industrial Relations Code 2020, the Code on Social Security 2020 and the Occupational Safety Bill, Health and Working Conditions Code 2020, the process of simplifying the complicated labour law regime has taken a leap forward. 	<ul style="list-style-type: none"> <input type="checkbox"/> Employment protection rules and regulations should be kept simple and respect the necessity, legality and proportionality principles. <input type="checkbox"/> Guarantee that the reforms are fair, particularly on issues related to occupational safety and social security. <input type="checkbox"/> Adopt web-based inspections and digitalised registers and returns to ensure full coverage of workers and enterprises, at least in the formal sector.
Healthcare: Increase public spending to improve health outcomes in an equitable way	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The National Digital Health Mission (NDHM) was launched in August 2020 to create a national digital health ecosystem that supports universal health coverage. <input checked="" type="checkbox"/> The National Medical Commission (NMC) has replaced the Medical Council of India. The NMC Act is planned to steer medical education towards a more transparent, efficient, and accountable system. 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase spending on public health. <input type="checkbox"/> Tackle inefficiencies in the government's insurance scheme AB PMJAY. <input type="checkbox"/> Put in place a proper infrastructure for mass COVID-19 vaccination. <input type="checkbox"/> Deal with mental health care and rehabilitation facilities for persons with disability.
Environmental policy: Improve the state of the environment	
<ul style="list-style-type: none"> *New priority * 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve natural resource management, notably through price mechanisms and community involvement. <input type="checkbox"/> Ensure adequate staffing and budget of environmental enforcement agencies. <input type="checkbox"/> Use public funds to improve access to clean cooking solutions for families using solid fuels, and access to clean water and sanitation. <input type="checkbox"/> Increase environmentally related taxes to face severe environmental stress. Use road pricing and parking fees to restrain private car usage and reduce pollution.

2019-2020 Reforms	Recommendations
Financial system: Facilitate further resolution proceedings	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, gives Indian banks the discretion to refer defaulters to the National Company Law Tribunal (NCLT) on a case-by-case basis. <input checked="" type="checkbox"/> The Insolvency and Bankruptcy Code (Amendment) Act, 2019 increased the resolution deadline for NCLT cases to 330 days. <input checked="" type="checkbox"/> The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2020 was issued in the wake of COVID-19. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve the governance of public banks and step up efforts to solve the problem of nonperforming loans. <input type="checkbox"/> Accelerate the filling of judge posts in high and subordinate courts. <input type="checkbox"/> Address some ambiguities in the Ordinance (Insolvency and Bankruptcy Amendment 2020) concerning, inter alia, the determination of suspension period of insolvency and of the direct relevance of the pandemic in causing default.

Recent progress on structural reforms

In 2020, the government has succeeded in passing all major pieces of legislation consolidating and simplifying a complex labour law regime. Similarly, the government passed several bills to liberalise marketing of agricultural produce, allow contract farming and remove controls on transportation, storage, prices and distribution. In addition, the government launched an online system for the application of green clearances for developmental projects, introduced standard guidelines for conducting environmental impact studies of projects and launched standard conditions for environment clearances to speed up the environment clearance processes. The 2021 Union Budget proposes to set up an asset reconstruction company to take over toxic assets (“bad bank”) and to relax FDI cap in the insurance sector.

Indonesia

The COVID-19 crisis has brought to the fore the vulnerability of the population to economic shocks, notably due to extensive informality, lagging skills and low social security coverage. Reforms in areas of skills, labour market regulation and barriers to entrepreneurship are hence top priorities for a more resilient and equitable growth.

Indonesia: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Indonesia is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

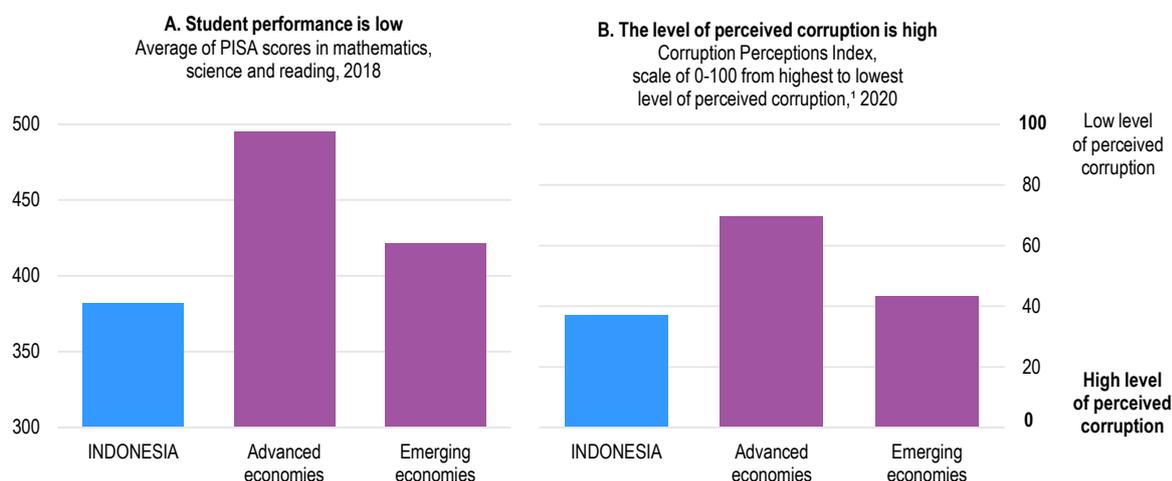
Tackling informality is crucial for the recovery and medium-term growth

Improving outcomes in education is key as the economy becomes more digitalised. Sizeable progress has been achieved in education attainment in the past 20 years. Almost all children attend primary education now and enrolment in secondary and tertiary education is continuously increasing. However, many pupils leave school at 15 without basic skills, pointing to low quality of teaching (Panel A). In this respect reforms need to improve teacher evaluation and increase the availability of and incentives for teachers to take up training. Vocational education should have larger involvement of the private sector to ensure skills relevant for the job market while the enrolment of students from disadvantaged backgrounds could be incentivised through targeted cash transfers.

Education reforms need to go hand in hand with **reforms of labour market regulations to reduce informality**, which is particularly high. Minimum wages are high relative to average incomes and severance pay provisions are generous, even though compliance with these requirements is low. Building on recent reforms, greater flexibility in the labour market coupled with appropriate worker protection would lead to job creation in the formal sector, productivity enhancement and well-being of the population. In particular, pilot lowering of employment protection and minimum wages for youth in special economic zones should be rolled out, and if successful, extended more broadly. In parallel, the statutory minimum wages in each province should be better aligned with local characteristics.

An additional boost to formal job creation would come from continued **easing of barriers to entrepreneurship and investment**. Key barriers to address include those at the sub-national level, for self-employed and small businesses and restrictions on foreign direct investment (FDI), in particular by eliminating discriminatory requirements against foreign investors. The economy would also benefit from **strengthening institutions to fight corruption** (Panel B). The Corruption Eradication Commission (KPK) is well respected and needs to remain independent, which is particularly important in the context of COVID-19, with massive discretionary public spending.

Indonesia: Vulnerabilities and areas for reform



1. The Corruption Perceptions Index aggregates data from different sources that provide perceptions of business people and country experts of the level of corruption in the public sector.

Source: Panel A: OECD, PISA Database; Panel B: Transparency International Database on Corruption Perceptions.

StatLink  <https://stat.link/t0j682>

To free up funds for education and crucial **infrastructure investment**, as well as for targeted and effective social programmes, **reforms of energy subsidies** should aim to reduce their share in government expenditure.

Indonesia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Improve outcomes in education	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A 2020 teacher certification scheme (Pendidikan Profesi Guru) aims to improve the linkages between teacher allowance and student results. It also includes one year of training (six months) for new (current) teachers. 	<ul style="list-style-type: none"> <input type="checkbox"/> Introduce regular teacher assessment and link teacher remuneration more closely to performance and ongoing training. <input type="checkbox"/> Further increase enrolment rates through cash transfers for eligible students. <input type="checkbox"/> Increase employers' engagement in vocational education.
Labour market: Reform labour regulations to reduce informality	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The November 2020 Omnibus Law on Job Creation includes lower severance payments, an unemployment fund and exemptions from the minimum wage. 	<ul style="list-style-type: none"> <input type="checkbox"/> Pilot lower levels of employment protection and discounted minimum wages for youth in special economic zones. This includes lowering severance pay, accompanied by the creation of individual unemployment insurance accounts. If these trials are successful, extend them. <input type="checkbox"/> Reduce administrative burdens for self-employed workers and micro enterprises to encourage formalisation.
Competition and regulation: Ease barriers to entrepreneurship and investment, and strengthen institutions to fight corruption	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> One year after its launch, in 2019, the online single submission (OSS) system was upgraded to include more specifications and be easier to use. <input checked="" type="checkbox"/> The 2020 Omnibus Law on Job Creation simplifies processes to obtain licences and permits. <input checked="" type="checkbox"/> The Omnibus Law replaces the negative investment list with a new and much shorter list of six sectors precluded to foreign investors. <input checked="" type="checkbox"/> In 2019, an external supervisory board was introduced weakening the independence of the Corruption Eradication Commission. 	<ul style="list-style-type: none"> <input type="checkbox"/> Collect user feedback to improve the online single submission (OSS) system. <input type="checkbox"/> Continue to streamline and simplify business regulation, paying special attention to regulations in sub-national jurisdictions. <input type="checkbox"/> Prioritise further liberalisation of FDI in services sectors and eliminate discriminatory requirements against foreign investors in horizontal regulations (such as different minimum capital requirement and preferential treatment to domestic companies in public procurement). <input type="checkbox"/> Sustain the fight against corruption, including by increasing resources to the Corruption Eradication Commission and respecting its independence.
Infrastructure: Improve the regulatory environment for infrastructure	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> From 2019, fiscal transfers to sub-national governments earmarked for infrastructure depend on local government's proposals. 	<ul style="list-style-type: none"> <input type="checkbox"/> To increase private sector involvement, legal and regulatory certainty should be increased, including through clearer property rights and project documentation for public-private partnerships. <input type="checkbox"/> Increasing the transparency of state-owned enterprises could help ensure that they do not crowd out private investment. <input type="checkbox"/> Sub-national governments should be encouraged to allocate more of their budget to infrastructure spending.

2019-2020 Reforms	Recommendations
Energy: Continue to make energy prices more cost-reflective	
No action taken.	<input type="checkbox"/> Continue to shift away from subsidies and towards more targeted social assistance to address distributional concerns. <input type="checkbox"/> Allow fuel prices to move more with prices in international markets. <input type="checkbox"/> Review the 2017 regulations determining tariffs for independent power producers with the aim of making prices more cost-reflective and increasing certainty for investors.

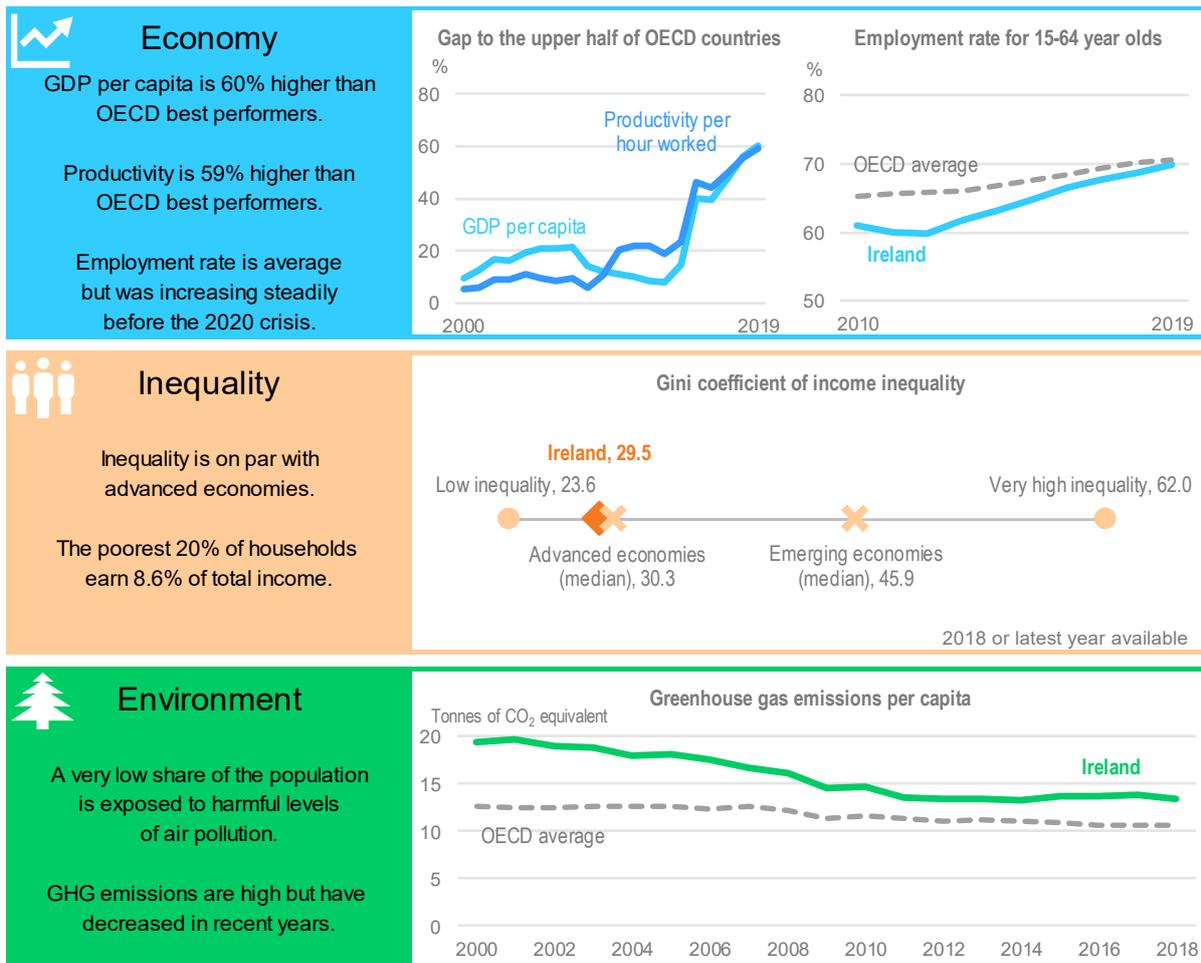
Recent progress on structural reforms

The 2020 Omnibus law aims to simplify the regulatory framework and can be a milestone for boosting growth. Appropriate implementation will therefore be important to this end. Lifting restrictions on business operations can attract investors and create jobs, especially in the context of the Regional Comprehensive Economic Partnership (RCEP) agreement signed in 2020.

Ireland

Improving activation and training policies is a top policy priority, as the pandemic especially affected sectors where many with weaker labour market attachment work. This can also help meet firms' demand for skills. Reforming the tax and welfare system to remove high effective tax rates will boost participation and employment.

Ireland: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). For Ireland GDP numbers are not corrected for net primary income payable to non-resident institutional units.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Ireland is 2017.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

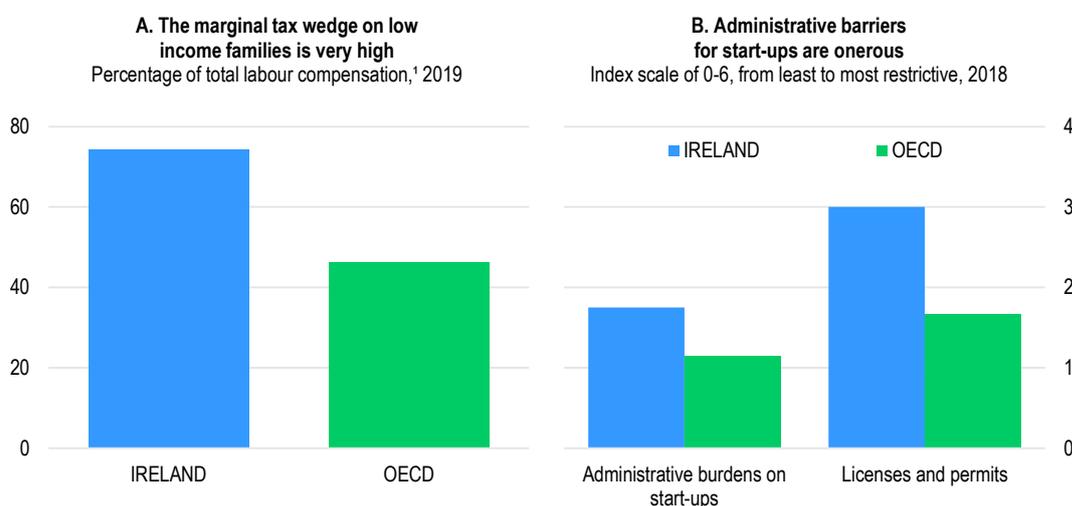
Improving activation and training to boost employment and productivity

The tourism, hospitality and entertainment sectors are particularly affected by confinement measures. These are sectors where many of those with weaker attachment to the labour market are employed. If these workers fail to find jobs relatively quickly, the COVID-19 shock could leave a permanent scar. Ireland was already experiencing difficulties in raising labour force participation and employment of the young and those with lower levels of educational attainment prior to the pandemic. Therefore **improving activation and training policies** should be a top policy priority. This can also help meet firms' demand for skills. Reforming the tax and welfare system to remove high effective tax rates **will boost participation and employment** of low-income households and could reduce the numbers remaining out of the labour force (Panel A).

Reallocation of workers to new high-growth industries and firms requires **improved housing supply**. This can be achieved - by reducing restrictions and relaxing demand support measures that only bid up housing prices. Replacing stamp duty with a broad-based land tax would provide better incentives for labour reallocation and efficient land use. Promoting strong economic poles outside Dublin would allow greater regional specialisation to emerge, supporting productivity.

The crisis exposed the two faces of the Irish economy. The relatively mild shock to GDP reflects the comparative strength of major multinational companies. The domestically-oriented part of the economy, with a history of weaker productivity growth, was less resilient. In comparison with many OECD countries, administrative barriers to start-ups are onerous, particularly with respect to licensing (Panel B). **Reforming product market regulation would enhance competition and boost productivity** of the domestic sector. Introducing one-stop-shops and enforcing "silence is consent" rules could reduce the costs of establishing a new business. There is also a scope to simplify regulation, as Ireland has some of the most complex regulatory procedures. Reducing compliance costs, as done already in e-communication, would again support firm formation and enhance competition.

Ireland: Vulnerabilities and areas for reform



1. Marginal tax wedge for a single person with two children, at 67% of average earnings. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.

Source: Panel A: OECD, Taxing Wages Database; Panel B: OECD, Product Market Regulation Database 2018.

StatLink  <https://stat.link/to582j>

Absence of universal primary healthcare contributes to poor disease management and congestion in hospitals. Moreover, high health spending, despite a relatively youthful population and recent spending increases, has not resulted in better measurable outputs. The Sláintecare Action Plan of 2019 aims to **increase eligibility for universal primary healthcare** on a phased basis. Budgeting in the health sector needs to improve, as access to primary healthcare is expanded, to prevent continued budget overruns.

To **restart progress towards a carbon neutral economy**, a gradual path for raising the carbon tax rate should be established and well communicated to households and businesses. Low-cost emission abatement in agriculture should be pursued. During the transition compensation for those negatively impacted, through retraining and supporting demand in the worst-affected areas, will be needed.

Ireland: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Improve labour force participation and employment	
<input checked="" type="checkbox"/> Springboard training courses, which are higher education free and subsidised courses leading to qualifications in areas where there are employment opportunities, have been adapted to reflect evolving business needs and opened to workers in small businesses.	<input type="checkbox"/> Enhance vocational education and job training for improving mobility and productivity. <input type="checkbox"/> Reduce the high average effective tax rate faced by low-income households. <input type="checkbox"/> Make all social benefits conditional on earnings, not employment status.
Housing: Boost housing supply and reform support	
No action taken.	<input type="checkbox"/> Replace stamp duty with a broad-based land tax. <input type="checkbox"/> Reduce restrictions and relax demand support measures, such as help to buy schemes that push up prices when supply is inelastic. <input type="checkbox"/> Reduce the price of construction permits and registration of property charged by the relevant authorities.
Competition and regulation: Ease barriers to entry and boost competition	
No action taken.	<input type="checkbox"/> Reduce the administrative burden to obtain permits and licensing for start-ups by fully developing the Integrated Licence Application Service, including achieving full take up. <input type="checkbox"/> Establish “silence is consent” rule. <input type="checkbox"/> Establish one-stop-shops for business creation. <input type="checkbox"/> Simplify regulation towards good practices in the e-commerce sector.
Healthcare: Expand coverage and ensure cost containment	
*New priority *	<input type="checkbox"/> Improve outturn compliance in health sector budgeting to prevent chronic budget overruns. <input type="checkbox"/> Push through compensation reforms to health workers in the public sector. <input type="checkbox"/> Continue the phased expansion of primary health care coverage.

2019-2020 Reforms	Recommendations
Environmental policy: Use economic instruments to address climate change and local pollution	
*New priority *	<input type="checkbox"/> Gradually raise the carbon tax rate according to a schedule that is well communicated to households and businesses. <input type="checkbox"/> Continue to invest in public transport and consider further promoting digital-based ride sharing and the introduction of congestion charging. <input type="checkbox"/> Remove subsidies on environmentally harmful goods, such as synthetic fertilisers.

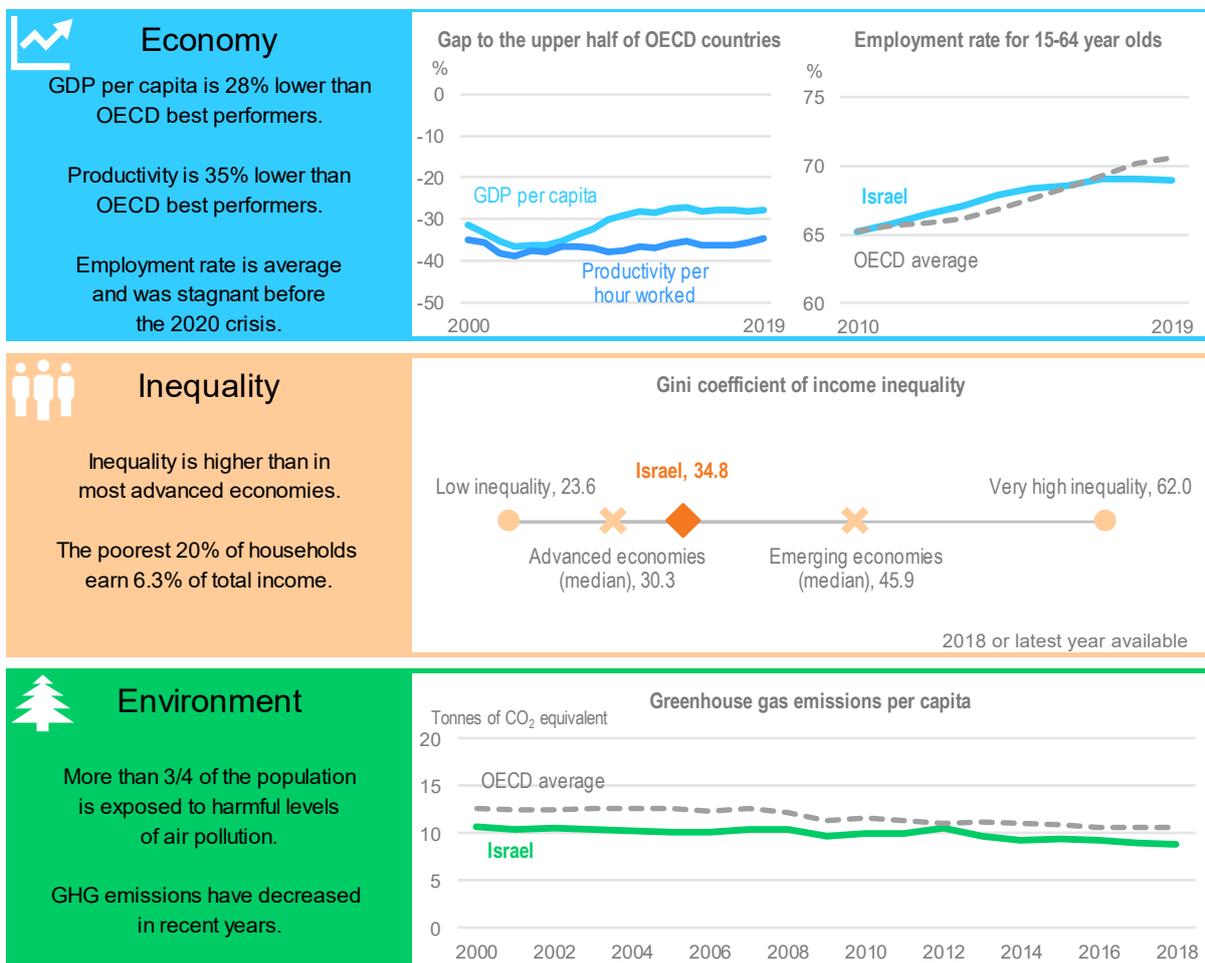
Recent progress on structural reforms

The authorities have faced the challenges of COVID-19 and Brexit, which have created enormous uncertainty including for policy. Nevertheless, needed reforms have been advancing. Work is ongoing to build on the Pathways to Work programme to help raise employment and participation. The Skills to Compete initiative has been designed to help retrain workers unable to re-enter employment due to COVID-19. Investment in social housing has been ramped up.

Israel

To build a resilient and strong recovery, policy should focus on upskilling and education. The pandemic threatens to aggravate Israel's long-standing challenges of high poverty, especially among the Ultra-Orthodox and Arab Israelis, and wide productivity disparity between its vibrant high-tech sector and more traditional and sheltered sectors, which employ most of the workforce and account for most of the productivity shortfall vis-à-vis the best performing OECD countries. High-tech sectors have been less affected and better able to cope with the crisis, partly due to higher ability to telework.

Israel: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

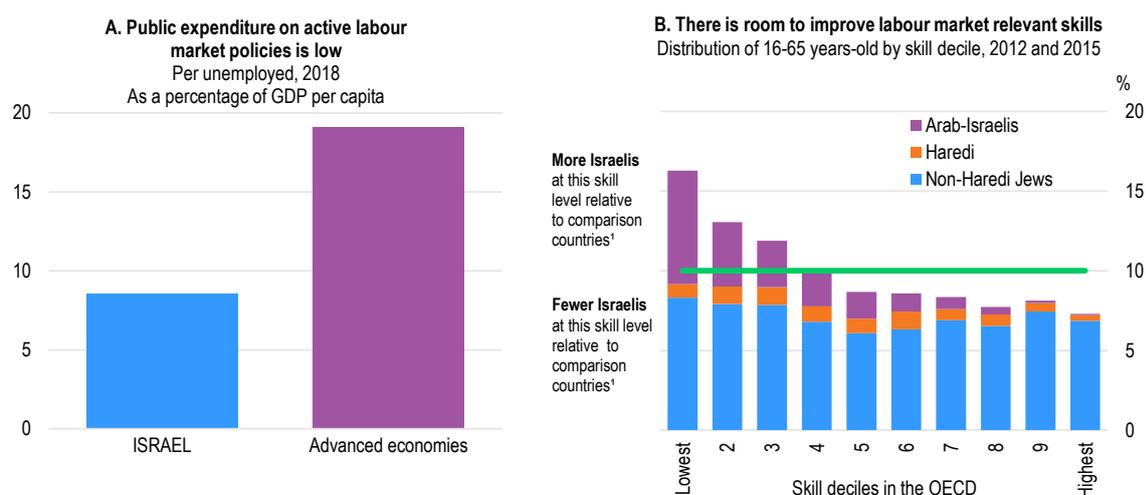
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Upskilling and education key to building a resilient and strong recovery

The COVID-19 crisis is likely to accelerate a restructuring of the economy, from sectors facing extended weak demand to expanding sectors, forcing laid-off workers to find new jobs – possibly in different sectors and requiring different skills. To facilitate optimal workforce reallocation **active labour market policies should be strengthened**. Spending on these policies remains low compared to other OECD countries (Panel A). Stepping up retraining and job-search support is needed to help the unemployed transition to new jobs – in particular for vulnerable groups and in order to contain the scarring effects of COVID-19. In addition, strengthening existing in-work benefits would support the households most in need, reduce poverty and strengthen work incentives for low-skilled workers.

The adult skills are relatively weak and vary widely – contributing to severe labour market duality (Panel B). **Improving the quality and equity of education and training** is fundamental to boosting productivity and enhancing opportunities in the labour market. Reducing differences between educational streams as much as possible is key to raise quality and further integrate the Ultra-Orthodox (Haredis) and Arab-Israelis into the labour market. This will strengthen long-term growth, improve fiscal sustainability and enhance social cohesion. Work-based vocational training targeted at adults, who have left the educational system without labour market relevant skills, especially Ultra-Orthodox men, should also be strengthened further. Additional funding to build new pre-school and childcare capacity and improve its quality, particularly in lagging regions, can help reduce wide socioeconomic gaps.

Israel: Vulnerabilities and areas for reform



1. The 10% bar represents the share of workers out of the OECD-28 countries at the respective skill decile.

Source: Panel A: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases; Panel B: OECD Survey of Adult Skills (PIAAC) Database (2012 and 2015).

StatLink  <https://stat.link/gjny8o>

Israel's **transportation infrastructure** lags significantly behind most other OECD countries, and as a result, road congestion is one of the worst in the OECD. Congestion charges should be introduced to reduce congestion, improve air quality and public health, and finance public transport. The government should also establish metropolitan transit authorities to improve coordination between the central government and local authorities.

The success of education and public infrastructure reforms will depend on their implementation and funding at the local level. **Reducing differences between municipalities by changing the local fiscal**

framework is needed to strengthen inclusive growth. Stronger equalisation through higher compensation from wealthier municipalities should be considered as well as changes to the design of the property tax system. The government could also merge municipalities and promote regional clusters to improve efficiency.

Lowering barriers that protect markets and promoting best-practice regulation will foster investment and innovation, and spur the adoption of digital technologies. Reducing remaining restrictions on foreign suppliers of goods and services can boost competition, in particular in the services and food sector. Further enhancing trade facilitation measures will benefit especially smaller firms, as costs related to border procedures are particularly onerous for them. Tariffs and regulations remain particularly distorting in the agricultural sector and should be lowered. Following up on the electricity market reform of 2018 by avoiding any discrimination in electricity grid access through effective regulation and developing further a wholesale electricity market and high-resolution electricity pricing can boost renewable energy supply.

Israel: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Resources for public employment services and active labour market policies, especially training, should be increased	
No actions taken.	<input type="checkbox"/> Expand the use and strengthen the assessment of training programmes, focusing on low-skilled workers, especially from disadvantaged groups who are less likely to receive training. <input type="checkbox"/> Consider expanding the earned income tax credit further.
Education and skills: Improve the quality and equity of education and training	
<input checked="" type="checkbox"/> Education funding has significantly increased, including for new day care centres, financial aid for tech-related studies, and starting salaries of teachers. <input checked="" type="checkbox"/> As part of the COVID-19 response, additional funding for distant learning was made available.	<input type="checkbox"/> Further strengthen participation in high-quality pre-school education, and expand day care centres, particularly in poor and disadvantaged localities. <input type="checkbox"/> Further increase Hebrew courses in the Arab schools and strengthen the core subjects (“LIBA”) in the curriculum of Ultra-Orthodox schools. Promote teacher exchanges between school streams. <input type="checkbox"/> Expand post-secondary work-based vocational training targeted at groups with weak attachment to the labour market.
Infrastructure: For a well-functioning public transport infrastructure, better coordination and pricing are needed	
<input checked="" type="checkbox"/> As part of the COVID-19 response, several infrastructure projects were accelerated in 2020 such as the further electrification of the rail-line between Jerusalem and Tel-Aviv as well as construction on the Tel Aviv light rail. <input checked="" type="checkbox"/> New major road and tunnel toll projects and 4 light rail train projects were launched in 2019.	<input type="checkbox"/> Establish metropolitan transport authorities to promote integrated transport networks and pricing systems and ensure stable financial support for public transport. <input type="checkbox"/> Introduce congestion charges, accompanied by significant improvements in the quality of public transport services.

2019-2020 Reforms	Recommendations
Local government: Reform financing of local municipalities and introduce incentives for cooperation	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen fiscal equalisation within municipalities mainly through higher compensation from wealthier municipalities. <input type="checkbox"/> Decrease the number of local authorities by merging municipalities. Enhance cooperation and coordination across regions by promoting regional clusters and shared industrial zones. <input type="checkbox"/> Reduce the difference between non-residential and residential property tax rates.
Competition and regulation: Lower barriers that protect markets and promote best-practice regulation	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Cuts of tariffs and purchase taxes on a range of imported products continued in 2019/20 including on entertainment electronics, textiles and household appliances. 	<ul style="list-style-type: none"> <input type="checkbox"/> Further cut tariffs and non-tariff barriers, and streamline trade regulations. Extend the use of EU health rules with ex-post verification to “sensitive” products such as dairy, eggs and meat. <input type="checkbox"/> Continue to replace agricultural quotas, price guarantees and customs tariffs by direct payments to farmers. Improve transparency and efficiency of the implementation of the religious dietary code of kashrut. <input type="checkbox"/> Further develop the wholesale electricity market as planned, with high-resolution electricity pricing across time and space, competitive determination of market prices and effective regulation to prevent discrimination against new entrants.

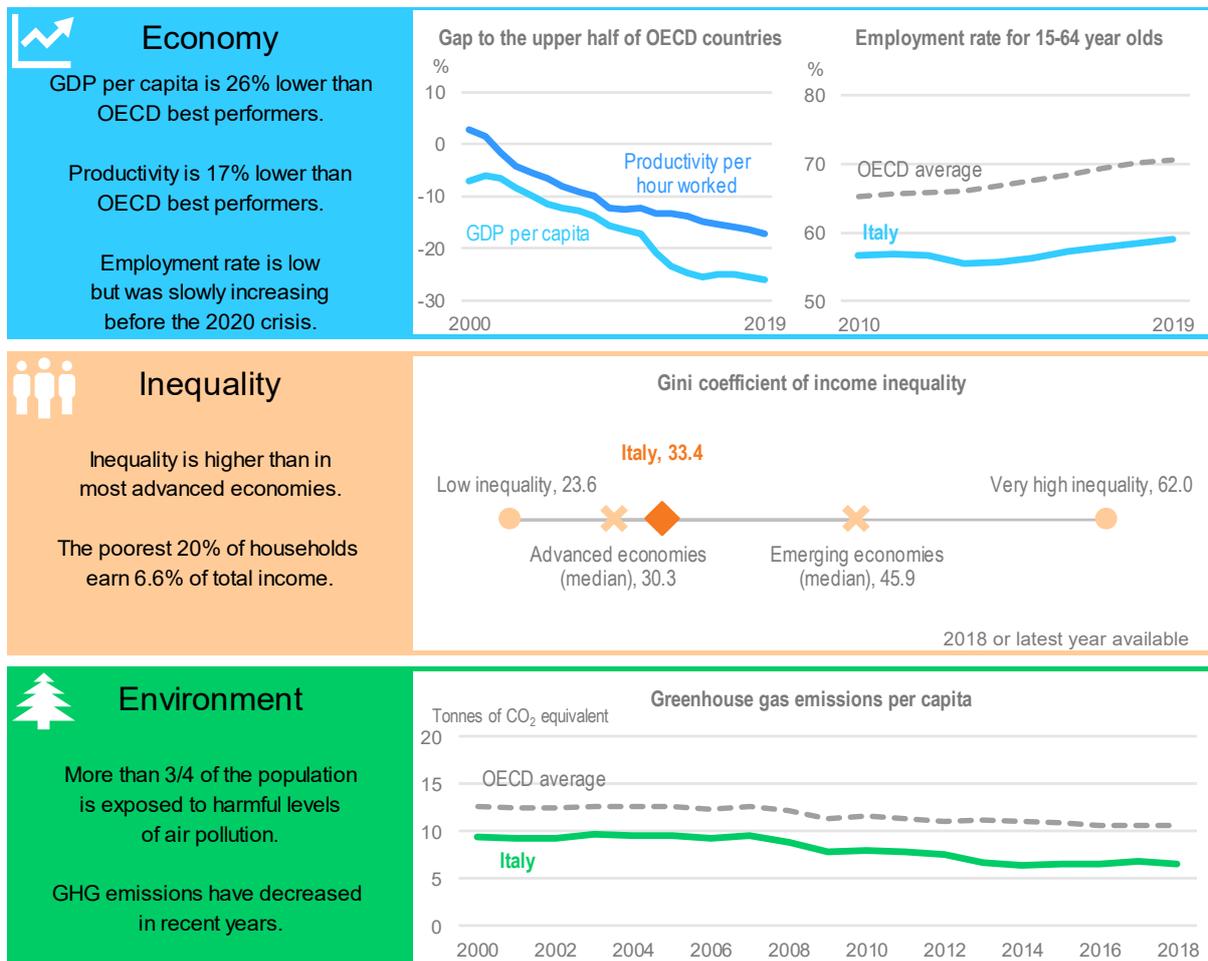
Recent progress on structural reforms

Progress on structural reforms has been limited due to prolonged political uncertainty in 2019 and the focus on dealing with the consequences of the COVID-19 crisis in 2020. Some progress was made in opening the economy to foreign competition, and spending on education has increased markedly over recent years.

Italy

Many of Italy’s structural challenges - the significant divides across regions, age, gender and productivity, as well as high levels of public debt - have been compounded by the COVID-19 crisis. The key priority for the recovery is to enhance the public administration's effectiveness. This should include, in particular, public investment governance and improved co-ordination and implementation across different levels of government. This will be essential to effective utilisation of the funds available from the European Recovery and Resilience Facility (RRF) and realising the benefits of structural reforms.

Italy: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Italy is 2017.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

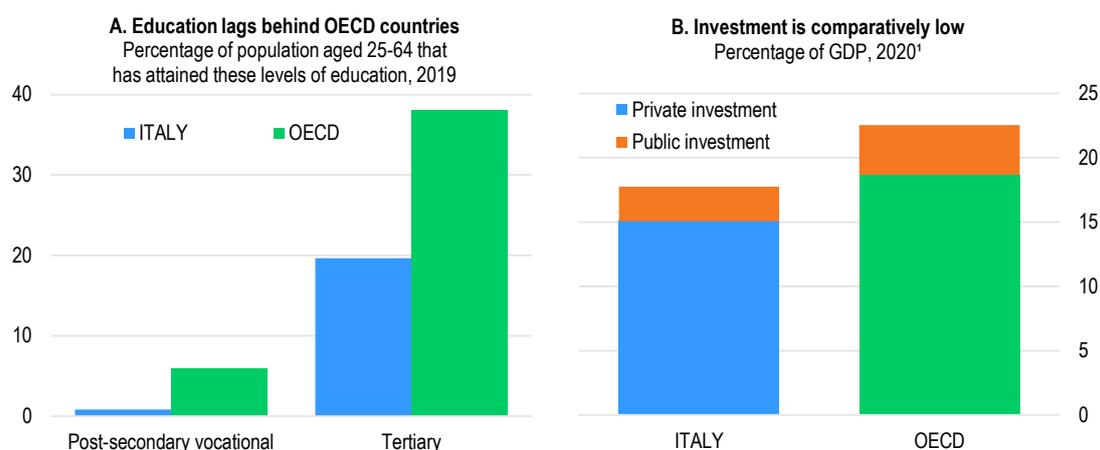
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An efficient public administration key for policy implementation

A central pillar of the recovery strategy is how to maximise the effect of the Next Generation EU Funds, especially for investment, which have the potential to boost long-term growth and employment. Success will depend on the ability to **improve the implementation, management and prioritisation of quality public investment**. An institutionalised framework for managing infrastructure spending – including maintenance budgets and project management – will enhance fiscal sustainability and planning and sustain public investment. Variations in regional implementation and the disincentives for coordination across levels of government must be overcome. Clarity on long-term core infrastructure priorities, based on their ability to raise growth and lower the cost of living and doing business, evaluated using cost-benefit analysis, could help crowd-in private investment (Panel A).

Improving the efficiency of the public administration would strengthen the impact of such reforms, and amplify the response from the private sector to recovery measures. Judicial reforms to improve administrative processes and greater use of alternative dispute resolution mechanisms would lead to a fairer application of the law. Increased digitalisation can reduce informality, broaden the tax base and improve targeting of social benefits. Efforts to introduce user-friendly digital interfaces should be combined with a commitment to simplify administrative procedures across all levels of government. A clear timetable to streamline regulatory processes, prioritised based on their cost to businesses, and a clear delineation of responsibilities would facilitate implementation, lower uncertainty and costs. More uniform regulations across regions would reduce the costs to investing for local and foreign firms.

Italy: Vulnerabilities and areas for reform



1. 2020 or latest year available.

Source: Panel A: OECD, Education at a Glance Database. Panel B: OECD, Economic Outlook Database.

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The crisis risks compounding already low employment rates and further increasing inequality, particularly in the context of low skills and lifelong learning levels. Effective provision of **education, public employment and labour market activation services** can help mitigate skills and job-search mismatches, especially for youth and other vulnerable workers (Panel B). This requires overcoming obstacles to coordination across various levels and agencies of government, and consideration of funding priorities. At the same time, reducing the complexity of the tax system, broadening its base and continuing efforts to enhance tax administration would **improve the efficiency and equity of the tax structure** to better support employment and growth.

Small and medium-sized firms need to raise productivity and innovation to emulate top-performers. In 2020, a new package of generous incentives to support investment in digital technologies and R&D extended past measures of support. Nevertheless, a National Productivity Board could prioritise and drive policy action and accountability, strengthening the impact of innovation incentives and reduction of red tape.

Italy: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Infrastructure: Improve implementation, management and prioritisation of quality public investment	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Public investment increased in 2019 and 2020. <input checked="" type="checkbox"/> So-called simplification decree introduced interventions and simplified processes for certain types of investment in 2020. <input checked="" type="checkbox"/> The simplification decree eased public procurement procedures, including raising thresholds for competitive bids. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen budgeting framework for public investment – including effective prioritisation of infrastructure projects, using cost-benefit analyses of individual projects and their additivity to existing infrastructure plans. <input type="checkbox"/> Incorporate maintenance budgets and improved monitoring into the budgeting framework for public investment. <input type="checkbox"/> Monitor impact of procurement reforms to support investment and make additional changes as necessary. <input type="checkbox"/> Institutionalise improvements in utilities performance, including continuing the rationalisation of local utilities and opening up local public services to competition as planned.
Governance and rule of law: Improve the efficiency and effectiveness of the public administration	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The simplification decree requires public services to be available on smart phones by 28 February 2021. The system, based on a unique digital identity for citizens, allows self-certifications, applications and payments, as well as digital notifications from multiple state agencies. <input checked="" type="checkbox"/> The simplification decree reformed the penalties for abuse of office to ensure fear of prosecution even without wrongdoing does not hamper decision making. <input checked="" type="checkbox"/> Law no. 3 of 2019 introduced additional measures to strengthen the fight against corruption. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve administrative processes in the judicial system, including specialised courts to consider capital markets issues, and promote alternative dispute resolution mechanisms. <input type="checkbox"/> Accelerate use of digital tools and services for firms and citizens, and use the opportunity to streamline administrative processes according to a clear schedule. <input type="checkbox"/> Better align incentives of civil servants with improved outcomes, in line with legislated changes. <input type="checkbox"/> Reduce regulatory complexity, procedures and time to undertake private investment, with announced strategy, responsibilities and timelines.
Labour market: Ready the workforce with improved education, public employment and labour market activation services	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Tax incentives introduced in 2019 to encourage new hiring of youth and women, were bolstered with additional measures in the 2021 Budget law. <input checked="" type="checkbox"/> The 2019 Citizen's income has legislated a link to the outcomes of job search functionality. <input checked="" type="checkbox"/> The post-secondary vocational education and training system (ITS) was expanded in 2019. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve design and take-up of lifelong learning courses. <input type="checkbox"/> Increase the relevance of vocational and other training to businesses, including in STEM and digital training, and set and enforce quality standards. <input type="checkbox"/> Enhance job-search and training programmes and enforce minimum levels of services in the whole country, driven by ANPAL, through increasing staff to jobseeker ratio and specialisation of counsellors. <input type="checkbox"/> Support increased access to early childhood development and child care for 0-3 year olds. <input type="checkbox"/> Ensure social protection supports beneficiaries' entry into the labour market and access to employment income.

2019-2020 Reforms	Recommendations
Tax system: Improve the efficiency and equity of the tax structure	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Compulsory digital invoicing extended and advanced taxpayer profiling to raise compliance introduced in 2019 <input checked="" type="checkbox"/> A tax rebate lowering labour tax wedge raised from 80 to EUR 100 in 2020. <input checked="" type="checkbox"/> Re-introduction of allowance for corporate equity in 2020 Budget, to improve fairness in corporate structures proposed in adjusted budget. <input checked="" type="checkbox"/> Introduction of more generous child allowance from 2022 to replace tax deductions, to improve fairness. <input checked="" type="checkbox"/> Pre-filled tax returns and early communications are being expanded to raise compliance. <input checked="" type="checkbox"/> Introduction of the Cashless Plan in late 2020 to incentivise move away from cash to digital payments. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce exemptions and complexity of tax system - rationalise tax expenditures based on effectiveness; simplify VAT bands. <input type="checkbox"/> Expedite an update of land-registry values and re-establish taxation on primary residence with exemptions for low-income households. <input type="checkbox"/> Improve coordination across tax agencies and other regulatory agencies, to facilitate a holistic risk-based approach to investigations. <input type="checkbox"/> Consolidate all hiring incentives into a permanent cut in social security contributions for the first 3 years to all new permanent contracts.
Competition and regulation: Raise productivity and innovation	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Remove obstacles to allow more rapid telecommunications infrastructure rollout. <input type="checkbox"/> Remove legal obstacles to teleworking. <input type="checkbox"/> Raise awareness and skills of managers to support technological diffusion, innovation and best use of workforce. <input type="checkbox"/> Complete cooperative and mutual banking reforms. <input type="checkbox"/> Complete insolvency regime reforms, including implementation of postponed new insolvency codes.

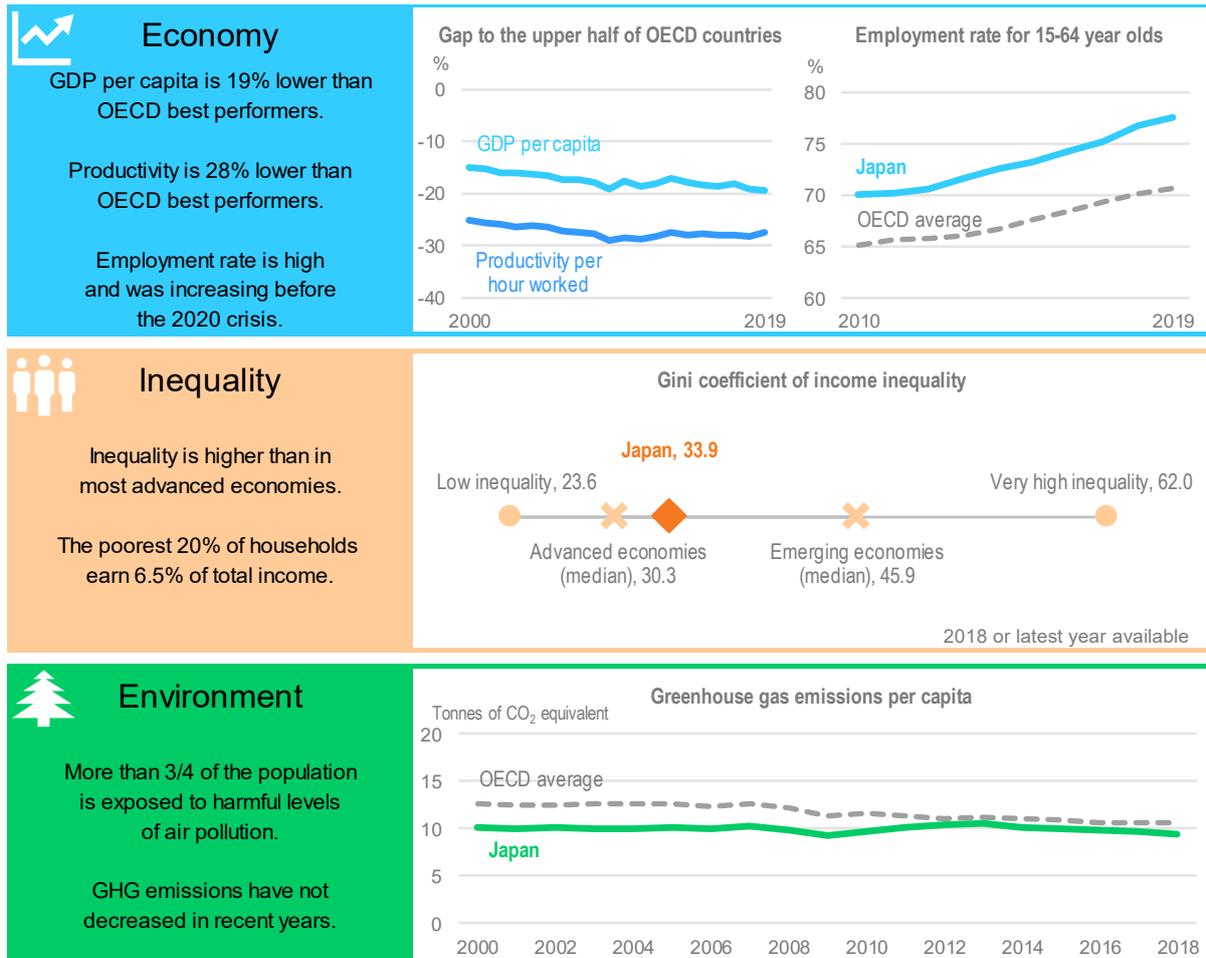
Recent progress on structural reforms

The social safety net has been radically improved with the citizen's income scheme, which introduces higher benefits for households alongside stricter conditionality. The government enacted important reforms to improve tax compliance and in 2020 reduced the labour tax wedge. Support to R&D and digital investment was also extended. Past banking sector reforms and efforts to develop the secondary market for non-performing loans improved the state of the banking sector that is now better prepared to extend liquidity than during the Global Financial Crisis. Administrative and legislative reforms to the judicial process have been passed to reduce inefficiencies and improve the system's resilience to an increase in bankruptcies.

Japan

Mindful of the strong population ageing already underway, the COVID-19 recovery strategy needs to enhance labour force participation and spur business dynamism. Moreover, significant potential to expand use of digital technologies, in both the public and the private sector as well as education, should be seized.

Japan: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Japan is 2015.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

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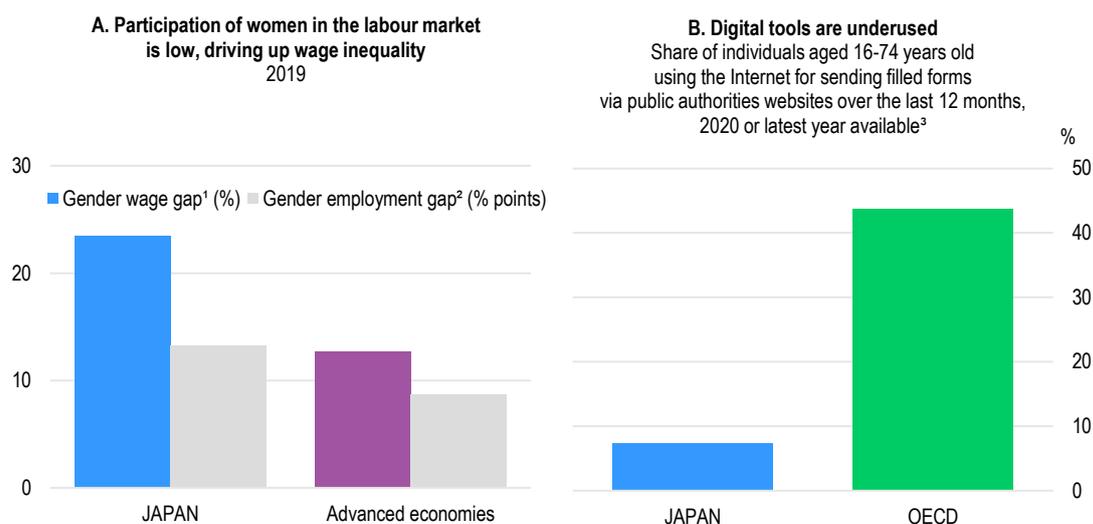
Enhancing labour force participation and business dynamism

Improving resilience and inclusiveness of the labour market requires **policies to support labour force participation** of all available talent. Flexible working styles, including online work with adaptable hours or multiple occupations, should be encouraged. To draw on the large pool of talent among women, social security system rules and childcare provision need to improve (Figure 1A). Enhancing recurrent education and job training will foster labour market mobility, and pursuing digital transformation will make it easier to diversify working arrangements while also enhancing labour productivity.

Boost competition and investment to raise productivity growth that has long been anaemic. Reforming the insolvency framework and expanding access to entrepreneurial training and finance can foster business dynamism, helping a stronger recovery from the pandemic. The reforms tried out in the National Strategic Special Zones should be extended nationwide, and entry barriers on service imports and inward foreign direct investment reduced. In agriculture, greater use of digital technologies would allow shifting away from commodity-specific subsidies to enhancing effectiveness. Easing the regulations on the ownership of farmland by non-agricultural corporations would help optimise land use.

To sustain growth in the face of global competition in an increasingly information rich and digital era, **education needs reform**. Improvements in digital infrastructure should be expedited and the service tailored to the student's needs and abilities. Also, curriculums of science, technology, engineering and mathematics should be enhanced.

Japan: Vulnerabilities and areas for reform



1. 2019 or latest year available. The gender wage gap is unadjusted and is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed.

2. Gender employment gap for working-age population.

3. 2018 for Japan.

Source: Panel A: OECD, Gender and Labour Force Statistics Databases; Panel B: OECD, Information and Communication Technology Database.

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Further **reforms to the tax system** would underpin stronger growth. The effective corporate tax rate could be lowered further, while raising the taxation of capital gains and dividends. Harnessing digital technologies to ease tax procedures and tax collection would improve the efficiency of tax collection (Figure 1B). Once

the recovery is firmly on the way, establishing a pathway of small increases in the consumption tax rate, would make the tax system more growth-friendly and enhance long-term fiscal sustainability.

Implementation of **planned measures to reduce greenhouse gas emissions and dependence on fossil fuels, should be coupled with promotion of research and development** in these areas and deployment of renewable energy. There is also ample scope to raise energy efficiency and for the government to encourage green financing and investment, including as part of government stimulus during the recovery.

Japan: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Support the employment of all available talents, allowing various work styles	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, laws were revised to expand the eligibility for employee insurance for small firms and temporary workers gradually, starting from 2022. <input checked="" type="checkbox"/> In 2020, laws were revised to promote prolonging or abolishing compulsory retirement ages in firms and to expand options for the pensionable age. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve the social security system, rules and child-care provision to support workers with different working arrangements. <input type="checkbox"/> Enhance adult learning and job training to improve mobility and productivity. <input type="checkbox"/> Promote the digital transformation to support different types of working arrangements and to boost productivity, via enhancing subsidies and/or tax incentives to private firms and public investment towards e-government.
Competition and regulation: Ease entry barriers and raise productivity, especially in services, agriculture and SMEs	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Foreign Exchange and Foreign Trade Act was revised in 2020, easing in-advance application for some transactions. <input checked="" type="checkbox"/> The Basic Plan for Food, Agriculture and Rural Areas was revised in 2020, to strengthen the agricultural production base and the sustainability of rural areas. 	<ul style="list-style-type: none"> <input type="checkbox"/> Boost business dynamism by reforming the insolvency framework and expanding access to entrepreneurial training and finance. <input type="checkbox"/> Reduce entry barriers on service imports and inward foreign direct investment. <input type="checkbox"/> Reorient support from commodity-specific agricultural subsidies to enhancing effective agriculture by harnessing digital technologies, while easing the regulations on the ownership of farmland.
Education and skills: Provide equal and improved education opportunities to all students	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Enhance the curriculum for STEM areas and active learning and increase the number of students in STEM areas in universities. <input type="checkbox"/> Expand digital infrastructure and provision of effective software so that every student can enjoy online-communication and education, which can be tailored to the needs and abilities of the student.
Tax system: Improve the efficiency of the tax system for sustainable growth and public finances	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The consumption tax rate was raised from 8% to 10% in October 2019 (this was first to be implemented in 2015 and subsequently postponed twice). 	<ul style="list-style-type: none"> <input type="checkbox"/> Establish a pathway of small increases in the consumption tax rate. <input type="checkbox"/> Lower the corporate tax rate further, while raising taxation of capital gains and dividends. <input type="checkbox"/> Promote the use of internet and digital technologies for tax procedures by improving user interface of systems and providing incentives such as easing deadlines.

2019-2020 Reforms	Recommendations
Environmental policy: Step up research and development and financing for meeting GHG emission goals	
<ul style="list-style-type: none"> ☑ A long-term strategy under the Paris Agreement was elaborated in 2019 to promote green innovations and finance, and an Environment Innovation Strategy in 2020, with action plans for each technology area. ☑ The “Act on special measures concerning procurement of electricity from renewable energy sources by electricity utilities” was revised in 2020, introducing new measures to support renewable energy from 2022. ☑ A net-zero emission target by 2050 was announced in October 2020, and the new Green Growth Strategy was published in December 2020, increasing the ambition of the previous plans. 	<ul style="list-style-type: none"> ☐ Enhance and steadily implement strategies for the Paris Agreement and the Environment Innovation Strategy, including by stepping up the promotion of research, development and deployment of renewable energy and encouraging greater energy efficiency with government supports, such as subsidies and where appropriate additional tax incentives. ☐ Encourage green financing and investment with guidelines and/or rules for disclosure. ☐ Establish price signals, including through environmentally-related taxation, an emission trading scheme, or other market-based mechanisms, to encourage investment across the economy in efficient and low-carbon technologies to achieve environmental goals.

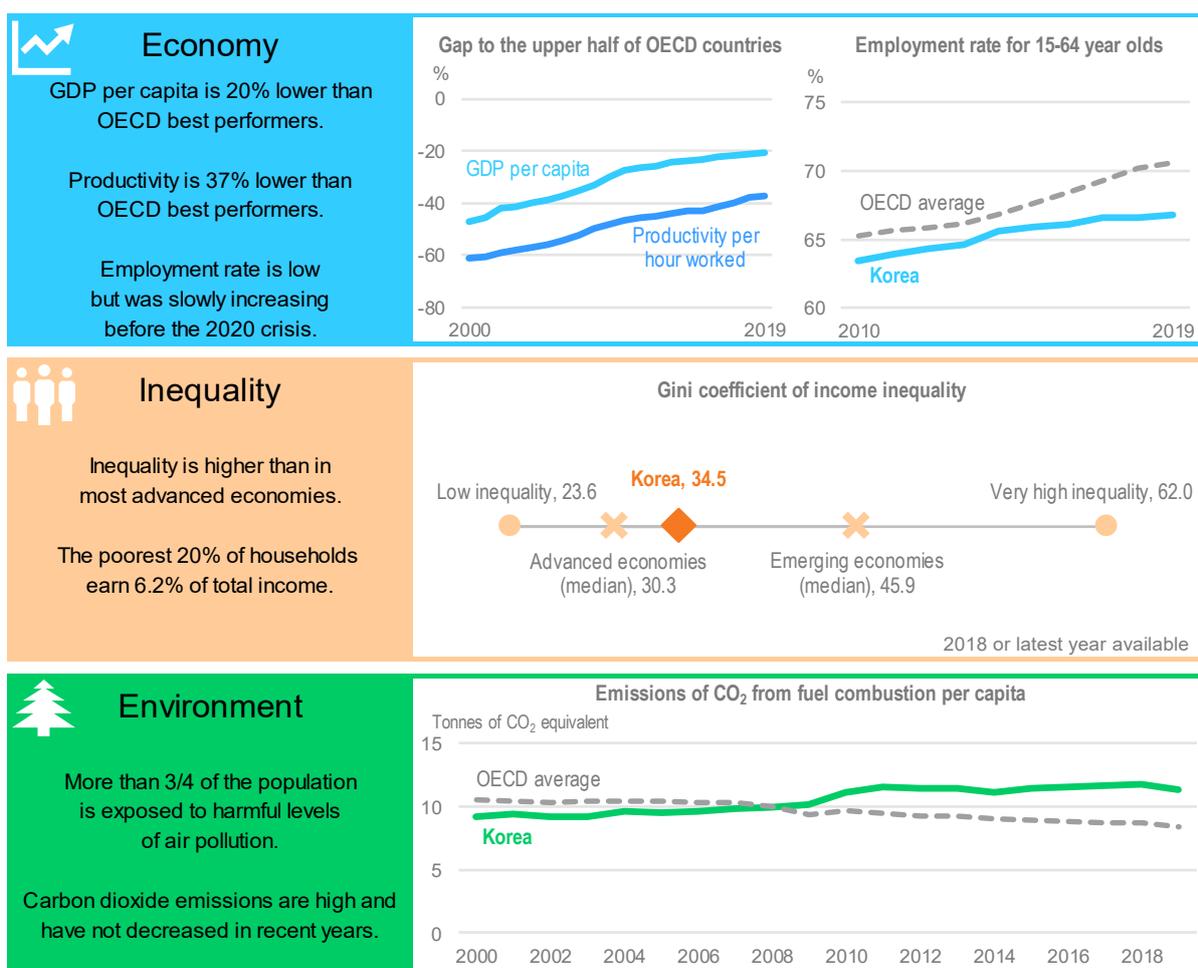
Recent progress on structural reforms

Successive Japanese governments have long recognised a number of the country’s structural weaknesses and have sought to push ahead with some of the needed reforms. However, reform implementation has been modest at times, with overarching high-level ambitions but less practical time schedules and performance indicators. The coronavirus pandemic exposed other weak points and has highlighted the need for new reforms and the urgency to implement them. The government is working on a roadmap for the post-COVID economy to bring about a digital transformation and a greener society.

Korea

The pandemic highlighted vulnerabilities of the dual labour market and a weak social safety net. A welfare reform needs to be coupled with policies aimed at increasing employment and job quality, especially for women and older workers, who are often in non-regular jobs and the most affected by the crisis. A more flexible labour market would allow workers to move more easily from crisis-hit sectors to growing industries.

Korea: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

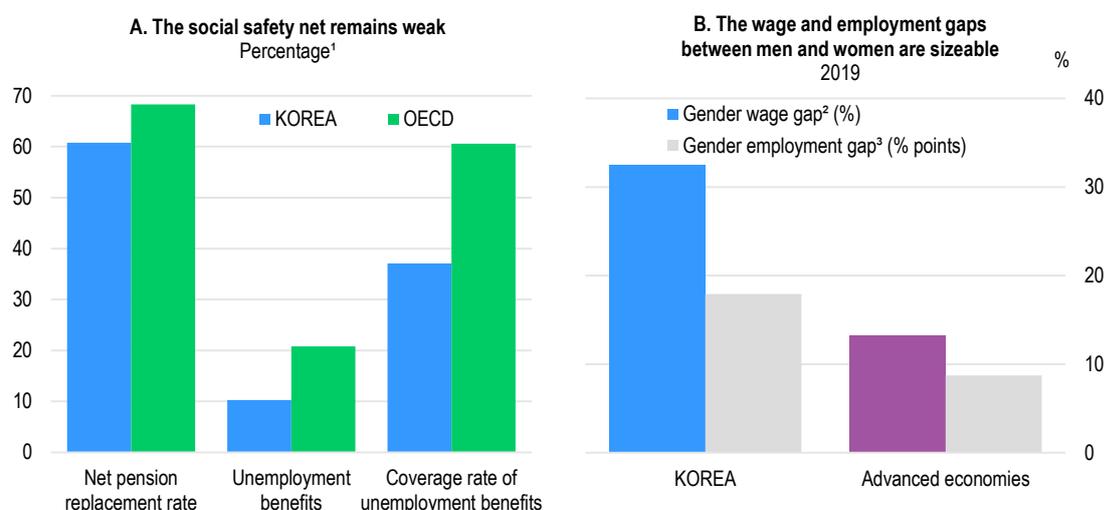
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

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Improving social safety net and labour market regulations to increase resilience

The social safety net needs strengthening, especially for non-regular workers. Unemployment benefits are relatively low and the coverage of non-regular workers remains insufficient, despite recent expansions (Panel A). Inadequate pensions force many older Koreans to work until an advanced age, often with a non-regular job contract. In the pandemic this exposed them to high health and economic risks. Old-age benefits should be better targeted towards the elderly with the lowest incomes to alleviate poverty. Compliance with social insurance should also be reinforced through more effective enforcement. With fast population ageing in the pipeline, financing the welfare system will require more resources. As the recovery takes hold, the structure of taxation should gradually shift towards more growth-friendly instruments, like VAT and environment-related taxes.

Korea: Vulnerabilities and areas for reform



1. The net pension replacement rate (2018) refers to male workers at 50% of the average wage. Unemployment benefits (2019 data or latest year available for the OECD average and 2018 for Korea) are measured as average gross replacement rates across three family types at various previous earnings and unemployment durations. The coverage rate of unemployment benefits (2016, both insurance and assistance) is measured in percent of the unemployed.

2. 2019 or latest year available. The gender wage gap is unadjusted and is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed.

3. Gender employment gap for working-age population.

Source: Panel A: OECD, Pensions at a Glance, Social Expenditure (SOCX) and Tax-Benefit Databases; Panel B: OECD, Gender and Labour Force Statistics Databases.

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Reducing labour market duality would improve resilience of the economy further. This can be done by relaxing **employment protection for regular workers**. In particular, simplifying and accelerating the remedial procedures for unfair dismissal and making them more transparent should be considered. Such reforms entail potential trade-offs, at least in the short term, and should be therefore sequenced in line with improving economic and labour market situation. **Policies to support employment of women and older persons should be further strengthened**, all the more as both of these groups are disproportionately affected by the COVID-19 crisis and women have lower employment and salaries than men (Panel B).

To capitalise on the national development strategy for the recovery, the Korean New Deal, **product market regulations need to adapt to the rapid evolution of technology**. Reducing administrative guidance and phasing out entry barriers for large firms in business lines reserved for SMEs would also boost competition and productivity, particularly in services. A vast array of environmental investments in the New Deal

recovery package should be complemented by **stronger environmental regulations and price signals** (pricing CO₂ emissions evenly across sectors and fuels, and raising prices according to a predictable schedule) **to facilitate the green transition.**

Korea: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Strengthen the social safety net and improve the efficiency of the tax system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Employees working less than 15 hours per week became eligible to Employment Insurance benefits in 2019. <input checked="" type="checkbox"/> The range of non-standard contract employees eligible to the Industrial Accident Compensation Insurance was extended in 2020. <input checked="" type="checkbox"/> The government raised the Employment Retention Subsidy and eased eligibility conditions in 2020. <input checked="" type="checkbox"/> The monthly Basic Pension benefit for the bottom 20% of the elderly was raised to up to KRW 300 000 in 2019. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen protection and coverage for non-regular workers and workers in new forms of employment (e.g. platform workers) and increase compliance with social insurance through more effective enforcement. <input type="checkbox"/> Gradually raise government revenue to finance rising social spending, focusing on taxes with a less negative impact on growth, such as the VAT and environment-related taxes. <input type="checkbox"/> Focus the Basic Pension on the elderly with the lowest incomes and expand the coverage of the National Pension Scheme.
Labour market: Reform employment protection legislation	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Relax employment protection for regular workers, in particular by simplifying and accelerating the remedial procedures for unfair dismissal and making them more transparent.
Labour market: Strengthen policies to support employment of women and older persons	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government has established new public childcare centres and extended the accreditation system with mandatory assessment to all childcare centres since 2019. <input checked="" type="checkbox"/> Family care leave up to 20 days per year was introduced in 2020 to improve work-life balance. <input checked="" type="checkbox"/> A salary comparison website, showing salary brackets of private sector employees based on firm size, gender, business types, etc., was launched in 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Raise resources for the public employment service and training programmes to maintain effective support for jobseekers. <input type="checkbox"/> Regularly publish a national-level analysis of wage difference determinants to promote fairer wages across genders. <input type="checkbox"/> Expand incentives for workers and employers to ensure that workers stay longer in their career jobs, including through more flexibility in wages, with the view to raising the minimum mandatory retirement age further over time.
Competition and regulation: Reduce the regulatory burden on economic activity	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government introduced regulatory sandboxes in January 2019 for businesses in new technologies and industries. 404 projects had been approved by December 2020. <input checked="" type="checkbox"/> Regulation-free special zones were introduced in 2019. 21 zones had been designated by October 2020. <input checked="" type="checkbox"/> A programme to shift the burden of proof from the regulated to the regulator was introduced in 2019, and its scope was extended in 2020. <input checked="" type="checkbox"/> Regulations on remote services, such as telework, online classes, and telemedicine were eased temporarily or permanently. 	<ul style="list-style-type: none"> <input type="checkbox"/> Use regulatory sandboxes to identify excessive regulation and revise or abolish it. <input type="checkbox"/> Facilitate telemedicine while considering patient safety and quality of care. <input type="checkbox"/> Reduce the role of administrative guidance. <input type="checkbox"/> Phase out entry barriers for large firms in business lines reserved for SMEs.

2019-2020 Reforms	Recommendations
Environmental policy: Strengthen environmental regulations and price signals	
*New priority *	<input type="checkbox"/> Tighten caps for air pollutant emissions and strengthen vehicle emission standards. <input type="checkbox"/> Price CO ₂ emissions evenly across sectors and fuels and raise pricing according to a predictable schedule.

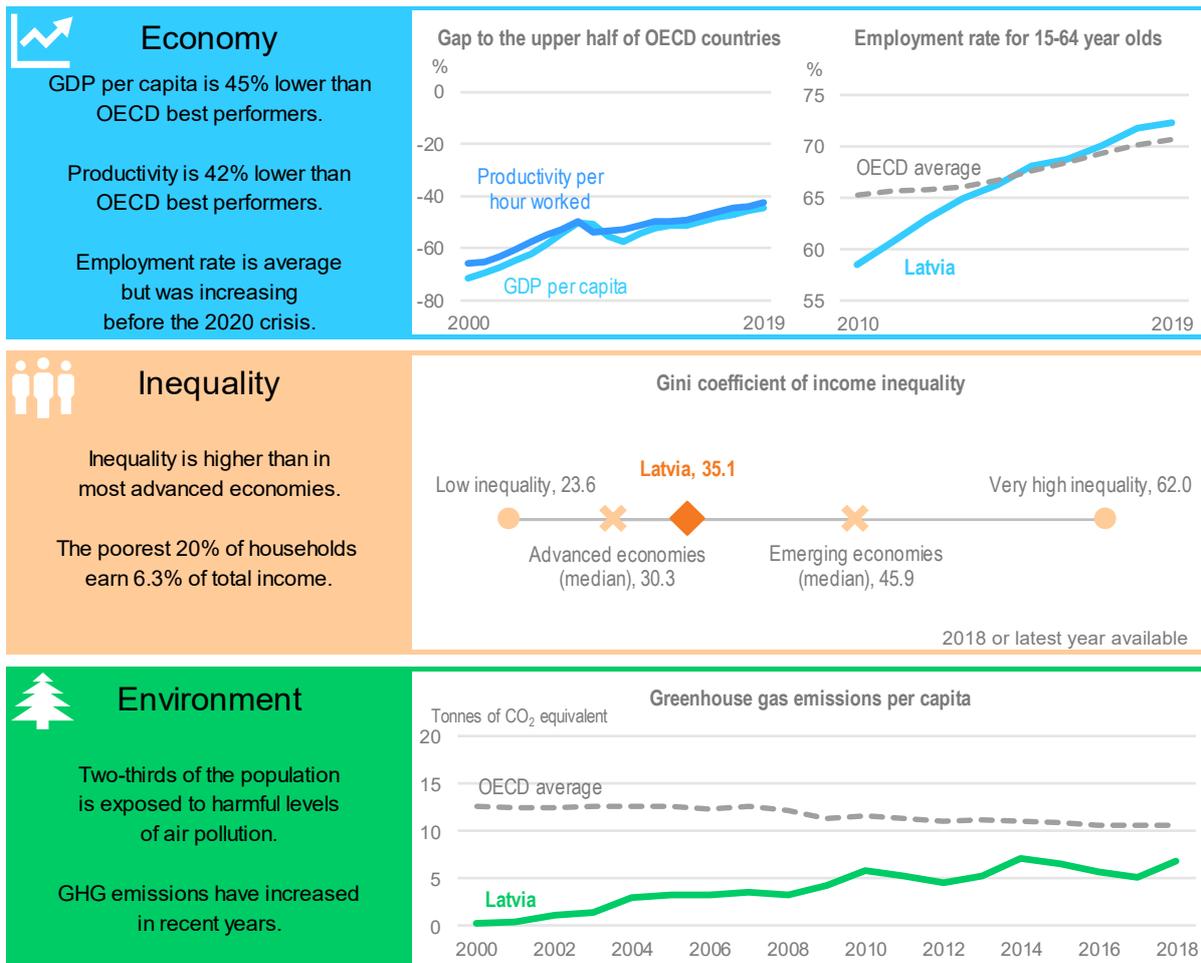
Recent progress on structural reforms

The response to the COVID-19 crisis has added momentum to the strengthening of the social safety net. The conversion of some temporary measures, such as the introduction of sickness benefits, into permanent arrangements is being considered. The acceleration of digitalisation boosted regulatory experiments through sandboxes, which have yet to be converted into permanent regulatory reforms. The Korean New Deal, introduced in response to the crisis and running through 2025, includes digital and green investments, as well as measures to strengthen the social safety net. Successful implementation would foster inclusive and green growth.

Latvia

Bolstering the social safety net should become the top priority. The European Recovery and Resilience Mechanism and low interest rates offer a unique opportunity not only to mitigate the immediate consequences of the pandemic but also to enhance green and digital transition. Such investments should be complemented by measures that improve skills and facilitate the reallocation of labour and capital.

Latvia: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

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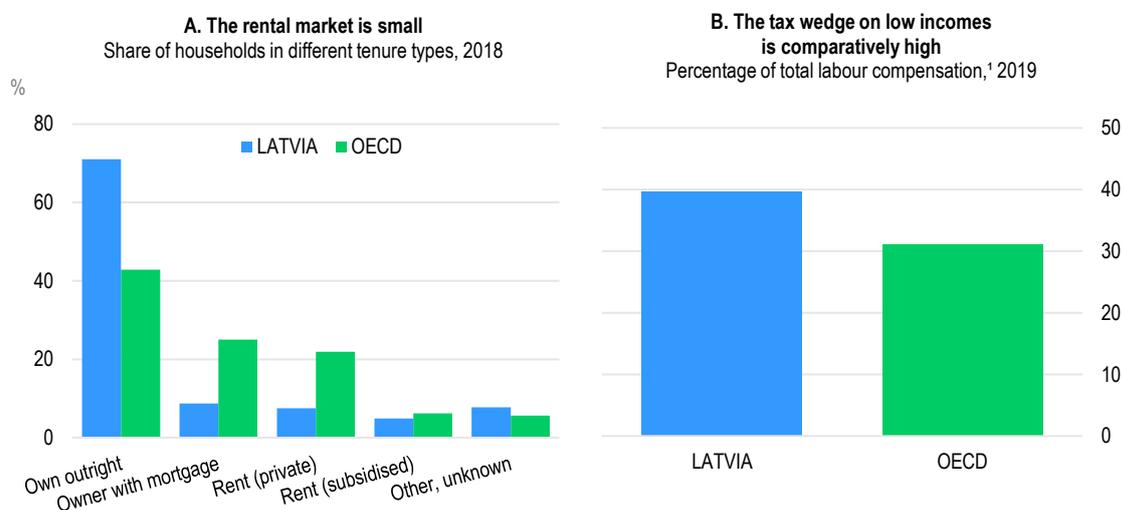
Building resilience by strengthening social protection and skills

Living standards have improved, but disparities are still pronounced while coverage and adequacy of social protection policies are limited. To ensure more inclusive growth and **bolster the social safety net**, spending on healthcare and guaranteed minimum income schemes should further increase. Despite the fast improvement, life expectancy is still among the lowest in OECD countries and highly unequal. Risky behaviour plays a role, and actions to encourage a healthy lifestyle (lower alcohol consumption and use of tobacco products in particular) should continue. For a sizeable proportion of the population access to healthcare remains limited due to high out-of-pocket payments, which should be lowered.

Initial **education and adult learning have to become more responsive to labour market needs**. Prior to the pandemic skills shortages, aggravated by high emigration, were most evident in high-skilled occupations. Population ageing will add to these tensions. Spending on active labour market policies has been justifiably shifted from public-works schemes to more effective training and activation measures, but remains low and should be increased. More spending could help to reduce unemployment faster and offer upskilling, in particular in terms of digital skills, to facilitate the adoption of new productivity-boosting technologies. A sustainable funding mechanism for adult learning would be welcome.

There is scope to **increase infrastructure spending while prioritising green investments and digital technology uptake**. Training to improve digital skills (in the private and public sectors) would help increase the adoption of digital technologies and participation in global value chains. Increasing taxes on pollutants by eliminating exemptions needs to be combined with public transport investments to ensure access to affordable and environmentally-friendly transportation while protecting low-income households from rapid increases in transport costs. Lifting barriers to investment in wind-energy infrastructure would help reduce emissions and complement the substantial share of biomass in energy production.

Latvia: Vulnerabilities and areas for reform



1. Average tax wedge for a single person without child, at 67% of average earnings. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.

Source: Panel A: OECD, Affordable Housing Database; Panel B: OECD, Taxing Wages Database.

StatLink  <https://stat.link/zfo2wm>

Latvia's rental housing market offers few affordable choices, with a small formal rental market and very limited social housing (Panel A). As a result, many remain in poor-quality or unsuitable housing and do not move to areas where jobs are available. To **strengthen access to housing**, the authorities should

rebalance landlord-tenant relations, expand the competencies of municipal housing companies and facilitate the development of non-profit or limited-profit providers. The generosity and coverage of the housing benefit could be also increased.

Increasing the effectiveness of the tax system could ease labour reallocation and help to ensure a more inclusive and greener recovery from the COVID-19 crisis. The personal income tax schedule remains insufficiently progressive, and effective tax rates on labour income for low earners are high (Panel B). This contributes to informality, high unemployment and weak incentives to move to better paying jobs. Meanwhile, there is scope to rely more on property and environmental taxes. Increasing energy taxation by eliminating exemptions and taxing pollutants at the same rate across fuels and sectors would help to reduce emissions and improve health outcomes.

Latvia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Bolster the social safety net	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Increase of the Personal Income Tax non-taxable minimum for pensioners (every year from 2018 to 2021). <input checked="" type="checkbox"/> From 2019, old age pensions with a contribution of at least 45 years were increased. <input checked="" type="checkbox"/> In January 2021, the minimum wage was increased from EUR 430 to EUR 500 per month. <input checked="" type="checkbox"/> A minimum social security contribution has been introduced. From July 2021, It will equal the amount paid by those earning the monthly minimum wage. <input checked="" type="checkbox"/> Higher public financing for healthcare has helped reduce waiting times and out-of-pocket payments. <input checked="" type="checkbox"/> The government approved proposals to raise the minimum income thresholds starting in 2021. 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase the guaranteed minimum income thresholds. <input type="checkbox"/> Further increase funding for healthcare to improve access and reduce out-of-pocket payments. <input type="checkbox"/> Continue actions to encourage a healthy lifestyle through further increases in taxes on alcohol and tobacco, information campaigns and training for pharmacists.
Labour market: Increase the responsiveness of education and training to labour market needs	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen the responsiveness of the tertiary education system to changing skills demand. <input type="checkbox"/> Hire more counsellors in the Public Employment Services and prioritise training to improve digital skills. <input type="checkbox"/> Increase spending on active labour market policies.
Infrastructure: Strengthen infrastructure while prioritising green investments and digital technology uptake	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, the government increased support to green projects such as energy efficiency measures for buildings and construction of combined pedestrian and cycling paths. 	<ul style="list-style-type: none"> <input type="checkbox"/> Promote renewable energy generation, and remove administrative barriers to the development of wind energy. <input type="checkbox"/> Increase taxes on pollutants by eliminating exemptions combined with more investment in public transport. <input type="checkbox"/> Co-operate with employers' associations to develop courses and improve the uptake of the latest digital technologies.

2019-2020 Reforms	Recommendations
Housing: Improve access to good-quality housing	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In the 2021 budget, the government increased funding for housing guarantee support programmes. <input checked="" type="checkbox"/> From 2020, all administrative procedures for new construction activities are performed only through digital means. 	<ul style="list-style-type: none"> <input type="checkbox"/> Expand housing support for lower- and middle- income households. <input type="checkbox"/> Diversify the supply of housing providers. <input type="checkbox"/> Rebalance landlord-tenant relations by setting a finite period of time for tenancy agreements and allowing rent increases only where the tenancy agreement sets out the relevant principles and procedures.
Tax system: Increase the effectiveness of the tax system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Social security contributions have been reduced by one percentage point and the personal income tax threshold increased by 50% (in force from 2021). <input checked="" type="checkbox"/> Tax rates on several natural resources (sand, CO2 emissions, coal) were increased in 2020. <input checked="" type="checkbox"/> Increase of the Personal Income Tax non-taxable minimum (in 2019 and 2020). <input checked="" type="checkbox"/> Increase of the excise duty rates for tobacco products, alcoholic beverages and beers (2020 and 2021). <input checked="" type="checkbox"/> In 2021, the Natural Resource tax rates and the Company car tax rates were raised. <input checked="" type="checkbox"/> In 2021, the excise duty on e-cigarettes was restructured and increased. 	<ul style="list-style-type: none"> <input type="checkbox"/> Further reduce the labour income tax wedge on low earnings. <input type="checkbox"/> Collect more revenues from the taxation of real estate and energy. <input type="checkbox"/> Make better use of ICT technologies for tax law enforcement.

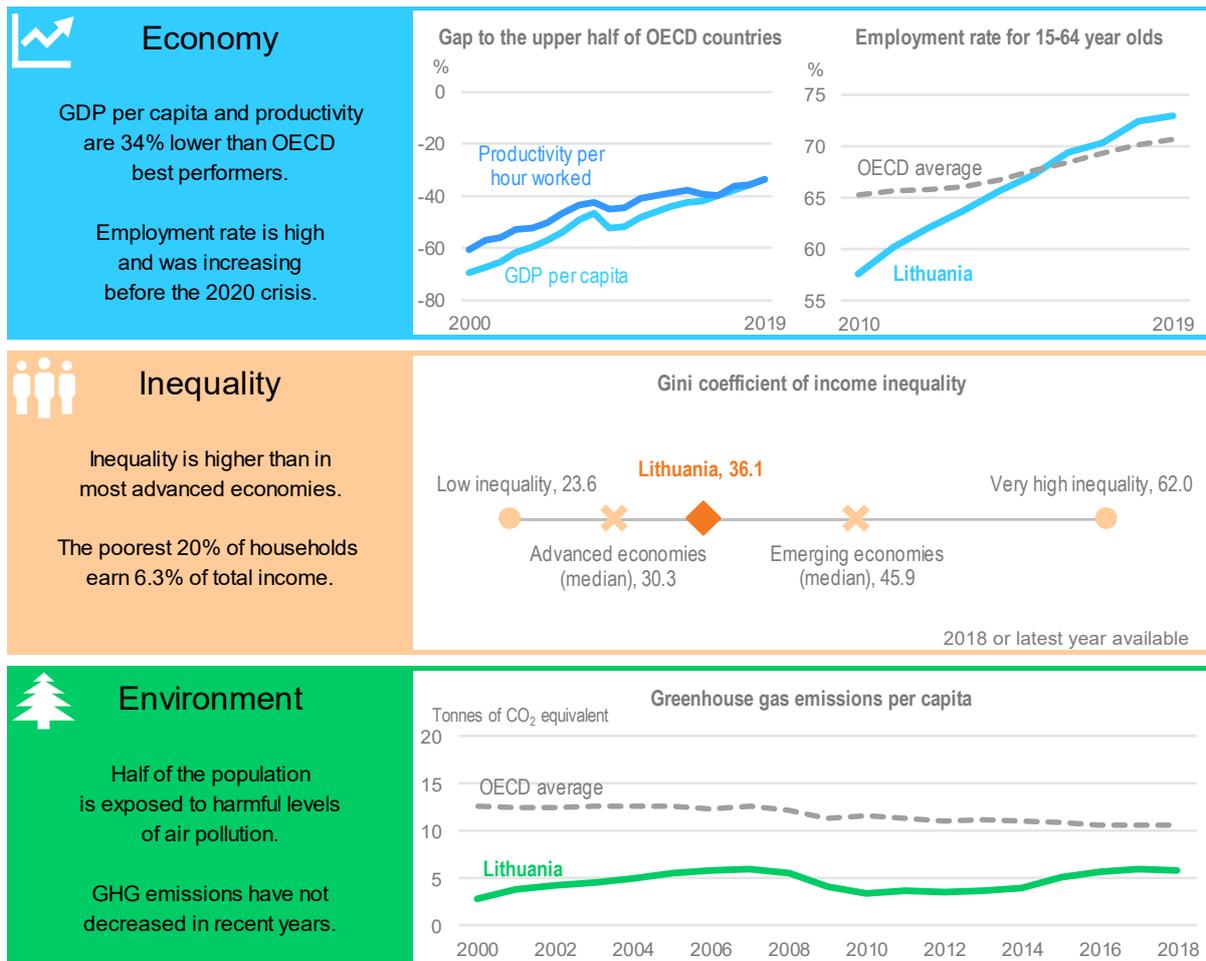
Recent progress on structural reforms

The government has implemented reforms in several key areas. In addition, it plans to further increase spending on healthcare and energy infrastructure, and to reduce taxes on low and medium incomes. A reform to substantially reduce the total number of municipalities is in its final stages. It will also create new administrative units to better channel funding and improve governance. Key objectives of administrative reform include reducing disparities between regions and improving the availability and quality of public services.

Lithuania

The crisis laid bare high poverty rates and a relatively weak labour market integration of less-skilled workers, heightening the need to tackle these long-standing problems to protect vulnerable groups more effectively.

Lithuania: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

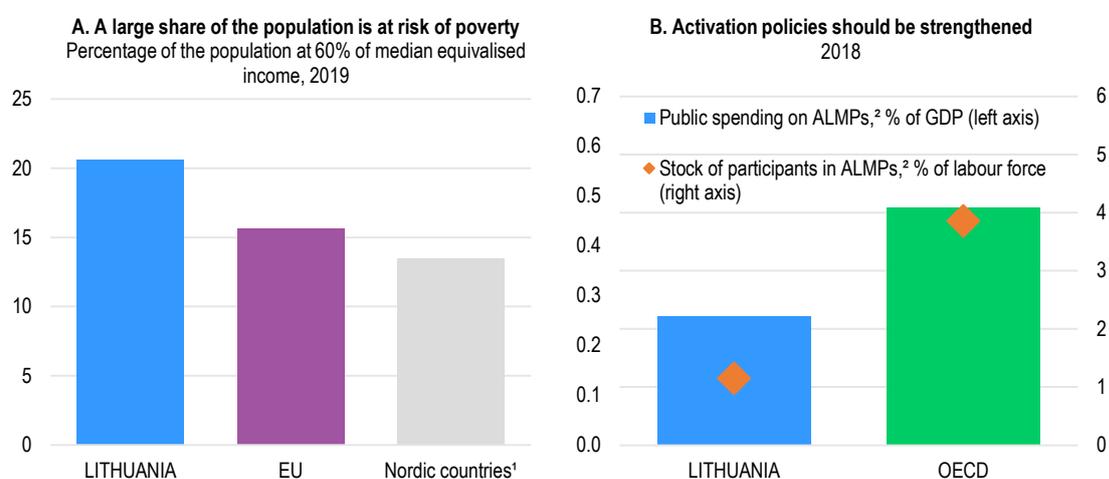
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

StatLink  <https://stat.link/cq67b0>

Bolstering social safety net and skills to address future challenges

Over 20% of the population lives below the poverty threshold and groups such as the elderly, disabled, lone parents, and the unemployed are particularly affected (Panel A). **Further increases and better tailoring of social support** to individuals' needs are necessary. The adequacy of social benefits should be strengthened, while maintaining work incentives, and an individualised approach to the provision of benefits and social services needs to be developed. This is essential to cushion the impact of the pandemic and better address the needs of the vulnerable groups, reducing deficits in important areas such as child care, long-term care and social housing. At the same time, to **improve the labour market integration of less skilled workers**, the tax wedge needs to be lowered further and activation policies strengthened. As spending and participation are low, the effectiveness of active labour market programmes remains limited (Panel B). Activation policies should be increased, upon a close monitoring of programme outcomes, with additional emphasis on funding for training to help labour reallocation and recovery.

Lithuania: Vulnerabilities and areas for reform



1. Average of Denmark, Finland, Norway and Sweden.

2. ALMPs refer to active labour market policies.

Source: Panel A: Eurostat, based on EU-SILC data; Panel B: OECD, Labour Market Programmes Database.

StatLink  <https://stat.link/z3vhrm>

While the pandemic is likely to have temporarily alleviated skills mismatch pressures in the labour market, the challenge of **ensuring job-relevant skills** to raise productivity and adjust to the post-crisis era remains. Recent reforms of higher education funding should be followed by strengthening the competencies of teachers in the vocational education and training (VET), including through improving the quality of cooperation between companies and VET institutions. The length of apprenticeships regulated by the Labour Code should be linked to the level of acquired competences. Firms' participation in training provision can be encouraged by widening the financial support options for companies. Recent reforms to improve the collaboration between the business and research sectors on innovation are welcome and need to continue to enhance knowledge diffusion. To compete in international markets, Lithuanian firms need to **build higher innovation capacity**. Streamlining of the innovation system, by consolidating agencies and programmes where overlaps exist, should continue. Increasing awareness of the tax incentives scheme and reducing its complexity can help to improve its take-up.

The scope of **state-owned enterprises** (SOE) remains comparatively large and **governance should improve further**, as highlighted by the fact that only half of the SOEs met their financial targets in 2018. To this end, the government should press on with implementing the Reorganisation and optimisation plan.

Lithuania: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Reduce high poverty rates and increase social support to individuals according to needs	
*New priority *	<input type="checkbox"/> Increase further the level of minimum-income benefits, while maintaining work incentives. <input type="checkbox"/> Develop an individualised approach to the provision of social benefits and services.
Labour market: Improve the labour market integration of less-skilled workers	
<input checked="" type="checkbox"/> A reform in labour taxation in 2019 lowered the tax wedge for low paid workers. <input checked="" type="checkbox"/> The amount of in-work benefits increased in 2020 and differentiated according to the duration of payments. <input checked="" type="checkbox"/> A job search benefit was introduced in 2020, as part of the crisis-related package, targeted to those not eligible for unemployment insurance benefit. <input checked="" type="checkbox"/> A project underway strengthens the tool developed by the Public Employment Service to evaluate performance of activation programmes by adding job quality to the set of monitoring indicators.	<input type="checkbox"/> Lower further the tax wedge for low paid workers, bringing it closer to the OECD average, while ensuring that benefits are maintained. <input type="checkbox"/> Increase investment in active labour market programmes, upon monitoring outcomes, with a focus on training.
Education and skills: Reduce skills mismatch	
<input checked="" type="checkbox"/> The curricula of vocational education and training continue to be reformed. <input checked="" type="checkbox"/> Since 2020, special grants are provided for students who chose programmes providing skills in demand, such as teacher training programmes.	<input type="checkbox"/> Strengthen vocational education and training by deepening the competencies of teachers, including through improving the quality of cooperation between companies and VET institutions. <input type="checkbox"/> Link the length of apprenticeships regulated by the Labour Code to the level of acquired competences.
R&D and digitalisation: Enhance innovation capacity	
<input checked="" type="checkbox"/> A new funding formula for research institutions was introduced in 2019 taking into account science-business collaboration and the activities related to international R&D programmes. <input checked="" type="checkbox"/> Measures were taken in 2019 to improve co-ordination of the innovation policy. These include the creation of a Science, Technology, and Innovation Council and the gradual consolidation of business and innovation support agencies under a unified agency by end-2021.	<input type="checkbox"/> Make R&D tax incentives more effective by reducing the scheme's complexity and increasing its awareness among firms. <input type="checkbox"/> Continue reforms towards strengthening business-research collaboration on innovation. <input type="checkbox"/> Continue efforts towards improving the co-ordination in the innovation system through consolidating agencies and programmes where overlaps exist.
Competition and regulation: Strengthen the corporate governance of state owned enterprise	
<input checked="" type="checkbox"/> *New priority *	<input type="checkbox"/> Strengthen the corporate governance of state- owned enterprises. <input type="checkbox"/> Proceed with the implementation of "State-Owned Enterprises Reorganisation and Optimisation Plan.

Recent progress on structural reforms

The government is implementing a social agenda aiming to fight poverty and social exclusion. The COVID-19 crisis triggered additional (to a large extent temporary) measures to support the needy, along with initiatives to preserve jobs and incomes, maintain business liquidity and boost investment projects. The

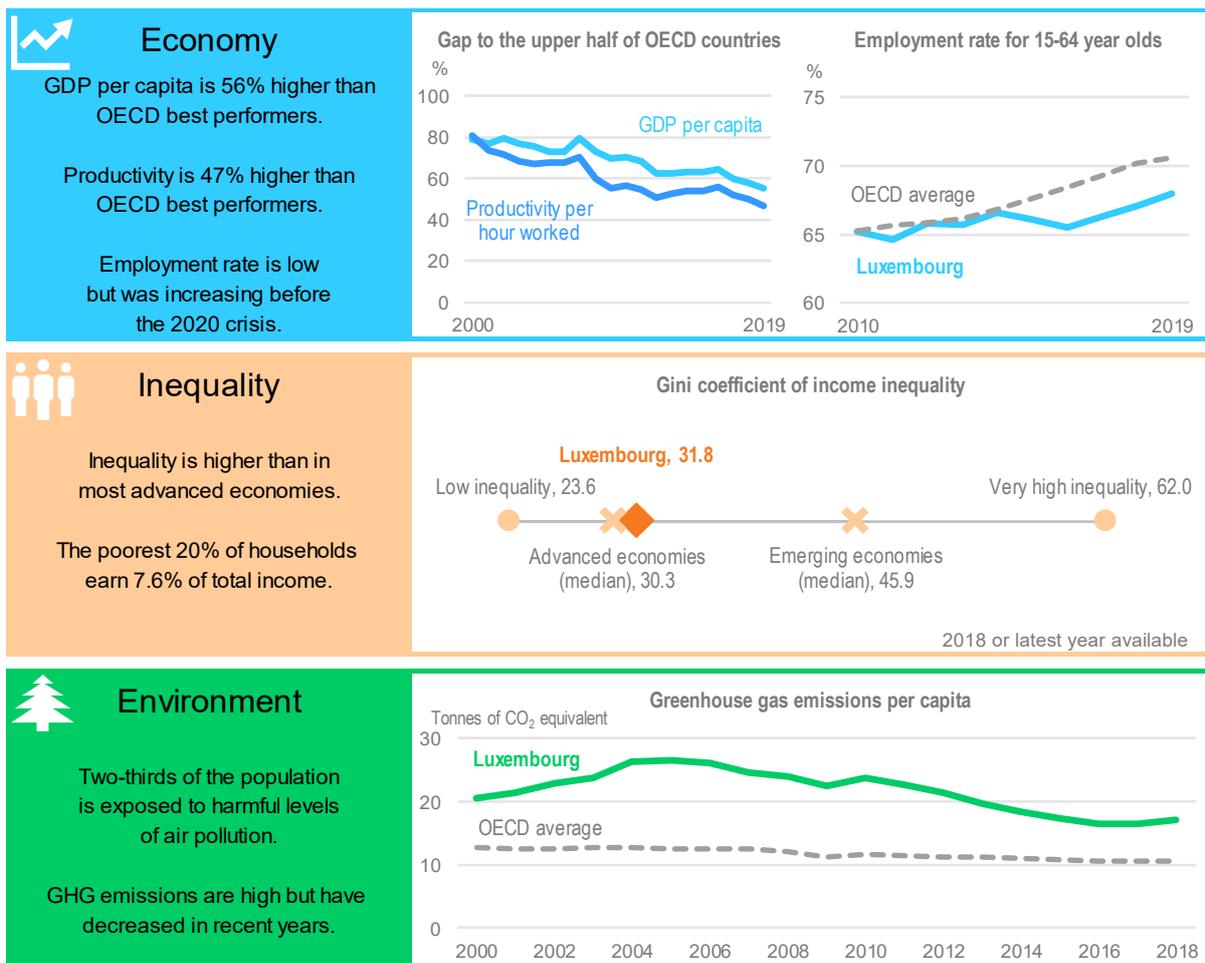
government has also embarked on reforms of innovation, introduced changes in 2019 in competition legislation, especially network industries, and adopted a new insolvency regime in 2020. The labour taxation reform of 2019 lowered the tax wedge for low-paid workers but it remains above the OECD average.

The state-supported income was indexed in 2019 to the amount of minimum consumption needs. A universal child benefit was introduced in 2018. The provision and access to social services were strengthened through the introduction in 2019 of a basic family service package, encompassing 14 types of services, and the exemption since mid-2020 of certain vulnerable social groups from co-payments for pharmaceutical and medical expenses.

Luxembourg

The recovery after the COVID-19 crisis requires a prompt labour market rebound and addressing skill shortages that weighed on firm growth and innovation prior to the crisis. Sustainable public infrastructure investment can improve environmental outcomes. Improving housing affordability and labour market participation of women will render the recovery more inclusive.

Luxembourg: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). In the case of Luxembourg, the population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

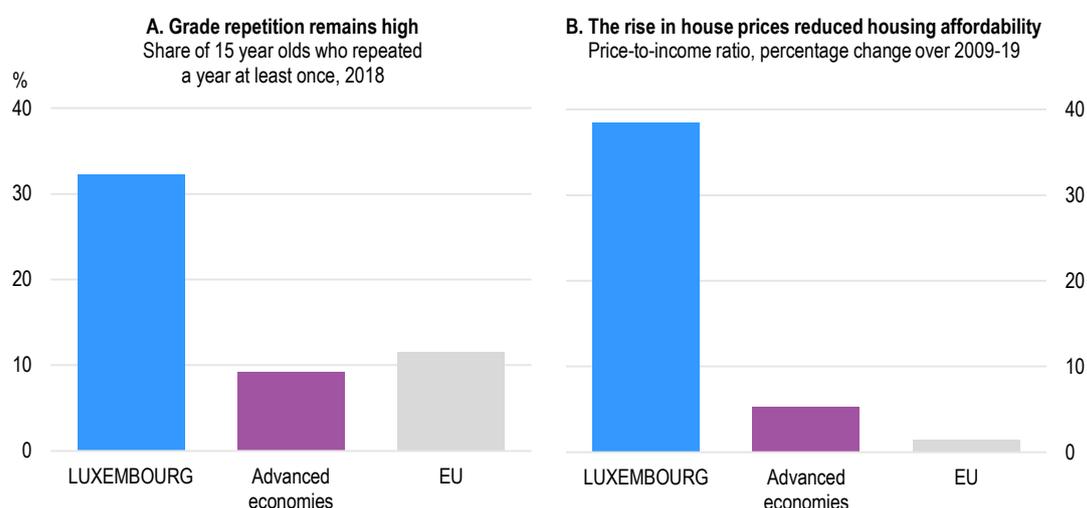
Easing skills constraints and improving equity outcomes

Despite healthy job creation prior to the COVID-19 crisis, structural unemployment remained high and firms often faced skill shortages. To favour a stronger recovery, both of these issues need to be addressed by **improving the education system and enhancing educational outcomes**. Grade repetition in both primary and secondary schooling should be reduced, as it contributes to a high age-grade discrepancy in the educational system (Panel A). Quality and accessibility of vocational training should be improved by, for instance, better linking students with the corporate sector, strengthening co-operation between enterprises and research institutions in Luxembourg and abroad, as well as the establishing of circular study programmes, that would allow students to return to Luxembourg after studying abroad.

Luxembourg has the lowest effective retirement age and the second highest replacement rate in the EU, providing older workers with weak incentives to continue in the labour market. Moreover, the participation rate of women lags behind that of men. There is scope to **facilitate labour market participation of older workers and women**. A pension reform should entail abolishing early retirement schemes, allow a gradual rise of the effective retirement age, limit pension credits for time spent outside work, and insure more actuarial neutrality around the statutory retirement age and indexation of the latter to longevity. To boost female labour force participation it is important to charge health care contributions for each spouse individually, while introducing a fully separate income tax assessment of spouses should also be considered.

Housing prices have grown strongly over the past decade (Panel B), weighing on housing affordability, in particular for low-income households who do not profit from highly subsidised social housing. To **improve housing affordability** and make the housing market more inclusive, a mix of policies is needed: supply side restrictions should be eased, to tackle land hoarding and resistance to densification; the mortgage interest deductibility phased out or reduced; and fiscal support to social housing should be better targeted.

Luxembourg: Vulnerabilities and areas for reform



Source: Panel A: OECD, PISA Database; Panel B: OECD, Analytical House Price Indicators Database.

StatLink  <https://stat.link/dlgh1u>

Cross-border workers already fill a large part of the skill gap in the economy, but commuting poses a burden on the environment and climate. To facilitate connectivity while improving environmental outcomes **infrastructure investment should increase**. This requires a boost in public investment in cross-border railway connections, more sustainable transport infrastructure and construction. A reduction in traffic congestion and air pollution could be achieved by exploring a system of congestion charges. Investment in smart electricity grids and better interconnectivity in electricity and gas markets can increase efficiency in energy production.

Restrictive regulations in professional services hamper productivity in those sectors but also in downstream production. Moreover, in services, less productive firms have tended to fall further behind, which weighs on aggregate productivity. **Lifting anti-competitive product market regulations would contribute to stronger market selection and post-entry growth of efficient firms in the professional services sector** and may aid in the recovery from the pandemic. Regulation of professions, especially for civil engineers, should be relaxed, while restrictions on advertising and marketing for architects and engineers should be eliminated. Reforms to bankruptcy law, easing early restructuring and second chance opportunities can facilitate the post-COVID reallocation of resources.

Luxembourg: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Improve the education system to enhance skill matching in labour markets	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2019 the government began to develop a new national strategy for attracting, developing and retaining talent. Various measures have been taken concerning the regulatory framework governing immigration procedures, communication campaigns and participation in specialised recruitment fairs. <input checked="" type="checkbox"/> The personalised process for job seekers has been rolled out. <input checked="" type="checkbox"/> In early 2020, the Ministry of Education presented an initiative to step up digital education from primary school to secondary technical and general education. <input checked="" type="checkbox"/> A revision of the law on the organisation of higher education aims at optimising the governance of the programmes leading to the professionally oriented higher education qualification “Brevet de technicien supérieur” (BTS) and at reviewing the accreditation and monitoring procedures for BTS programmes as well as for foreign higher education institutions and programmes in Luxembourg. At the beginning of the 2019-2020 academic year, eight courses offered by three private higher education institutions were accredited. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce grade repetition in secondary education, provide more school autonomy and better monitor education quality. <input type="checkbox"/> Improve the quality and accessibility of vocational training. Enhance the apprenticeship system to reduce structural unemployment and address skill mismatches. <input type="checkbox"/> Strengthen the co-operation between enterprises and research institutions in Luxembourg and abroad.
Labour market: Facilitate labour market participation of women and older workers	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The voluntary supplementary pension has been extended to self-employed workers in 2019. <input checked="" type="checkbox"/> The fiscal and social frameworks have been amended to ensure an equal treatment for both wage earners and self-employed workers. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve the long-run sustainability of the pension system by increasing contributions, reducing replacement rates, and increasing the retirement age. <input type="checkbox"/> Charge health care contributions for each spouse individually.

2019-2020 Reforms	Recommendations
Housing: Improve the functioning of the housing market	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government started to acquire land slated for housing in 2019. Consequently, the Ministry of Housing has set up a unit responsible for evaluating land with a view to a possible acquisition made up of representatives of the Ministry of Housing and the Ministry of Finance. <input checked="" type="checkbox"/> The adoption of the <i>Pacte Logement 2.0</i> aimed at enhancing the supply of affordable housing. <input checked="" type="checkbox"/> A proposal for another draft law (No. 7495), voted on 21 March 2020 in parliament, foresees the creation of a special fund to help finance the construction of dwellings, as well as the buying of land by the state. <p>Another major planned change concerns the general law regulating housing subsidies that will be completely revised.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Increase housing supply by improving development of land available for new construction and speed up procedures for granting construction permits. Increase residential density, in particular around transport network hubs, for example by building higher buildings. <input type="checkbox"/> Increase the supply of social housing at affordable prices. <input type="checkbox"/> Phase out or at least reduce mortgage interest deductibility.
Environmental policy: Increase infrastructure investment to improve environmental outcomes	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government and network managers monitored the installation of 800 public charging stations for electric cars as well as for chargeable hybrid electric cars. <input checked="" type="checkbox"/> Tax deductions for electric vehicles were replaced on 1 January 2019 by direct and higher financial assistance. <input checked="" type="checkbox"/> Luxembourg will implement a levy of €20 per tonne of carbon from 2021, as part of its efforts to slash greenhouse gas emissions by 55% by the end of the next decade. 	<ul style="list-style-type: none"> <input type="checkbox"/> Consider the gradual introduction of carbon pricing instruments. <input type="checkbox"/> Revise the adequacy of approval procedures for electricity infrastructure, establish rules to evaluate alternatives to grid extension, and consider whether it would be necessary to establish rules for congestion management and curtailment compensation in relation to Variable renewable energy (VRE). <input type="checkbox"/> Finalise a legal framework allowing smart meters and their energy data to support the active participation of consumers in the electricity and natural gas markets, facilitate new service providers, and enhance security of supply.
Competition and regulation: Increase competition in the non-financial services sector	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Reforms facilitating the recognition of professional qualifications and eliminating fixed prices in public contracts for architects and engineers have been implemented. <input checked="" type="checkbox"/> A bill reforming the right of establishment has been presented with the aim of de-regulating professions to promote and facilitate access to professions. 	<ul style="list-style-type: none"> <input type="checkbox"/> Eliminate restrictions on advertising and marketing in professional services. <input type="checkbox"/> Modernise the bankruptcy law to ease early restructuring and second chance opportunities, as well as the exit of non-viable firms.

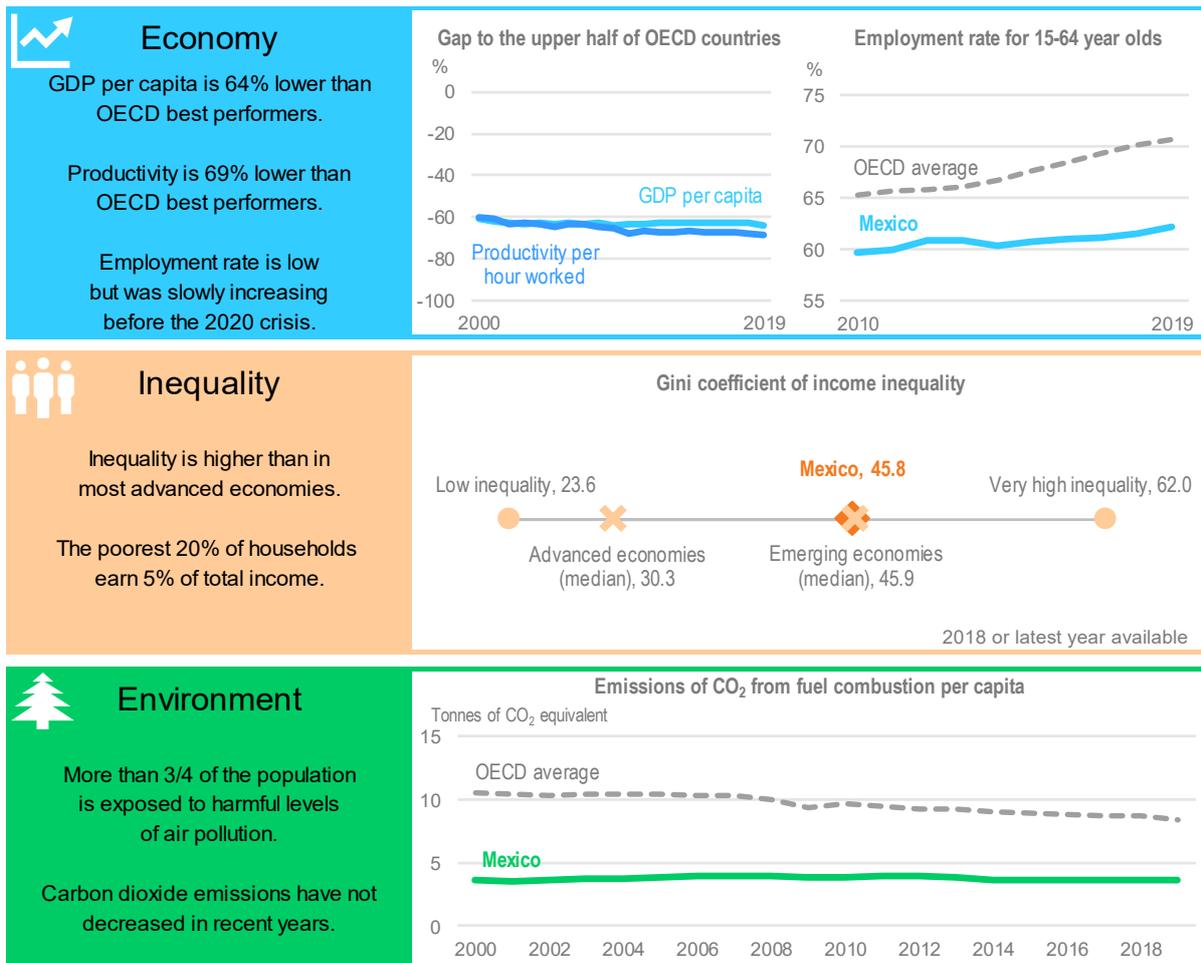
Recent progress on structural reforms

Reform progress has been good in some areas, such as the ones concerning the improvement of environmental outcomes and the green transition. Efforts have also been made to improve access to housing and in reforming the education system to improve students' employment outcomes.

Mexico

The pandemic highlighted how recent increases in poverty, inequalities and gender gaps, exacerbate a long-standing challenge to increase inclusiveness. Raising living standards will require boosting productivity growth by improving the business climate, including through fighting corruption and enhancing the skills across the population.

Mexico: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Mexico is 2016.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

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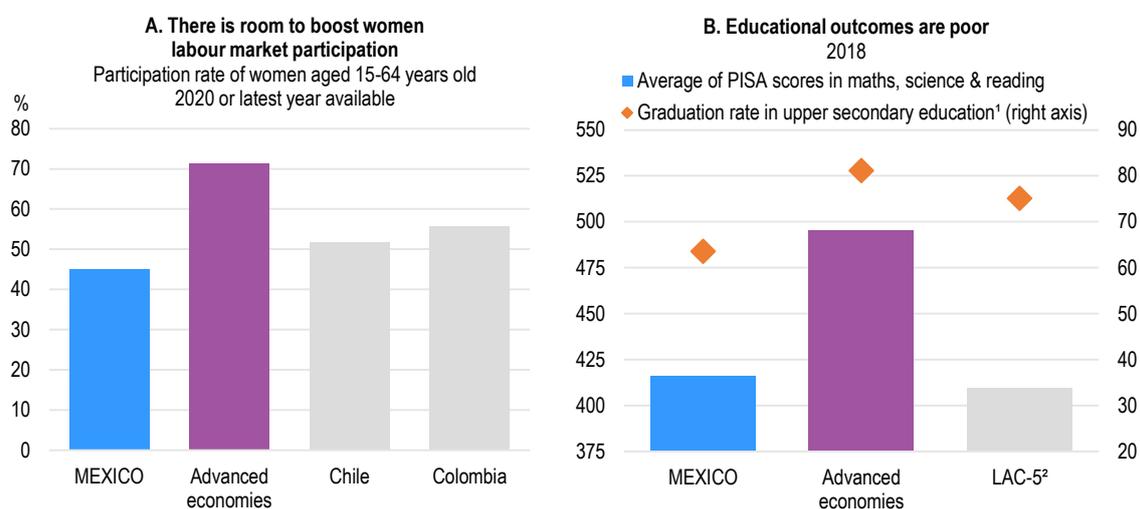
Reinvigorating growth to provide opportunities across the population

The numerous informal workers have been hit hard by the COVID-19 pandemic. **A comprehensive strategy to fight informality** is required to make sure that the recovery brings formal jobs, which would help inclusiveness and to increase government revenues in the medium-term. Recent increases in minimum wages and planned increases in social security contributions may have the unintended effect of hindering formalisation and should be flanked by reductions in the cost and burden of formalising a business and simplifying tax and regulatory procedures. Protecting workers rather than jobs, by establishing an unemployment insurance system at the federal level, would also improve matching, helping workers to find formal jobs, and strengthen the social safety net and the resilience to shocks.

Reducing barriers to entry and fostering competition would help to boost investment. Ensuring the independence and adequate resourcing of competition authorities and specialised courts remains crucial for competition enforcement. Reducing red tape at local level would facilitate investment and job creation. Reducing barriers to foreign direct investment and trade in services, particularly in the areas that provide critical links in global value chains, such as in the banking sector, energy, transportation and logistics, would help to boost the export competitiveness of firms. Additionally, rolling out the centralised system for federal procurement and moving away from direct awards in public tenders would improve competition, efficiency of public spending and help combat corruption.

De facto conditions for doing business suffer from low institutional quality and a high level of impunity, which hinders investment and (formal) employment growth. **Strengthening the efficiency of the justice system and anti-corruption initiatives** is essential. Recent efforts should be followed up by boosting training and capacity-building within the criminal justice system, swift and effective implementation of the National Anticorruption Policy, strengthening the protection of whistle-blowers and broadening the anti-graft initiatives at the state level.

Mexico: Vulnerabilities and areas for reform



1. First-time graduation rate for students below the age of 25.

2. LAC-5 refer to Argentina, Brazil, Chile, Colombia and Peru. Graduation rate data are missing for Peru.

Source: Panel A: International Labour Organisation Database; Panel B: OECD, PISA and Education at a Glance Databases.

Women's participation in the labour market remains low, hampering growth and inclusiveness (Panel A), and the COVID-19 crisis has further deteriorated their labour market prospects. Expanding access to good quality and affordable childcare would offer a double dividend of **boosting the low participation of women in the labour market** and reducing educational inequalities. At the same time, refocusing spending to primary and secondary education and targeting it at poor neighbourhoods and disadvantaged students would help to **improve the weak education outcomes** (Panel B), revitalise productivity and improve equality of opportunities.

Mexico: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Reduce barriers to competition	
<input checked="" type="checkbox"/> A new trade agreement with Canada and the United States was ratified in 2020.	<input type="checkbox"/> Ensure the independence and adequate resourcing of competition authorities and specialised courts. <input type="checkbox"/> Reduce direct awards in public tenders and strengthen the use of the centralised system for federal procurement. <input type="checkbox"/> Continue to ease FDI restrictions in key downstream sectors, such as transport, logistics and banking. <input type="checkbox"/> Reduce red tape at the local level.
Governance and legal system: Strengthen the efficiency of the justice system and anti-corruption initiatives	
<input checked="" type="checkbox"/> An independent specialised anticorruption prosecutor was established in 2019. <input checked="" type="checkbox"/> Transparency requirements for public officials were enhanced in 2019. <input checked="" type="checkbox"/> Legal amendments to introduce comprehensive criminal liability of legal persons were made in 2019.	<input type="checkbox"/> Boost training and capacity building within the criminal justice system. <input type="checkbox"/> Pursue swift and effective implementation of the National Anticorruption Policy. <input type="checkbox"/> Broaden anti-corruption initiatives at state level. <input type="checkbox"/> Strengthen protection for whistle-blowers.
Labour market: Reduce informality and strengthen the social safety net	
<input checked="" type="checkbox"/> Specialised labour courts were created in 2020 to speed resolution of labour disputes.	<input type="checkbox"/> Simplify tax and regulatory systems to ease compliance costs. <input type="checkbox"/> Strengthen enforcement by redirecting more resources to labour inspectorates. <input type="checkbox"/> Establish an unemployment insurance system at the federal level.
Labour market: Boost female participation in the labour market	
*New priority *	<input type="checkbox"/> Expand access to good quality and affordable childcare. <input type="checkbox"/> Increase paid leave entitlements reserved to fathers. <input type="checkbox"/> Strengthen programmes to support more women to complete secondary education.

2019-2020 Reforms	Recommendations
Education and skills: Boost education outcomes and equity	
<input checked="" type="checkbox"/> A new scholarship and training programme for young people was launched in 2019.	<input type="checkbox"/> Continue improving school infrastructure and pedagogical material, particularly in disadvantaged schools. <input type="checkbox"/> Evaluate teachers' performance and guarantee that they receive adequate training. <input type="checkbox"/> Develop incentives to attract good teachers and school directors to disadvantaged schools. <input type="checkbox"/> Focus education spending on pre-primary, primary and secondary education and targeting it more towards poor neighbourhoods and disadvantaged student. <input type="checkbox"/> Continue to expand vocational training.

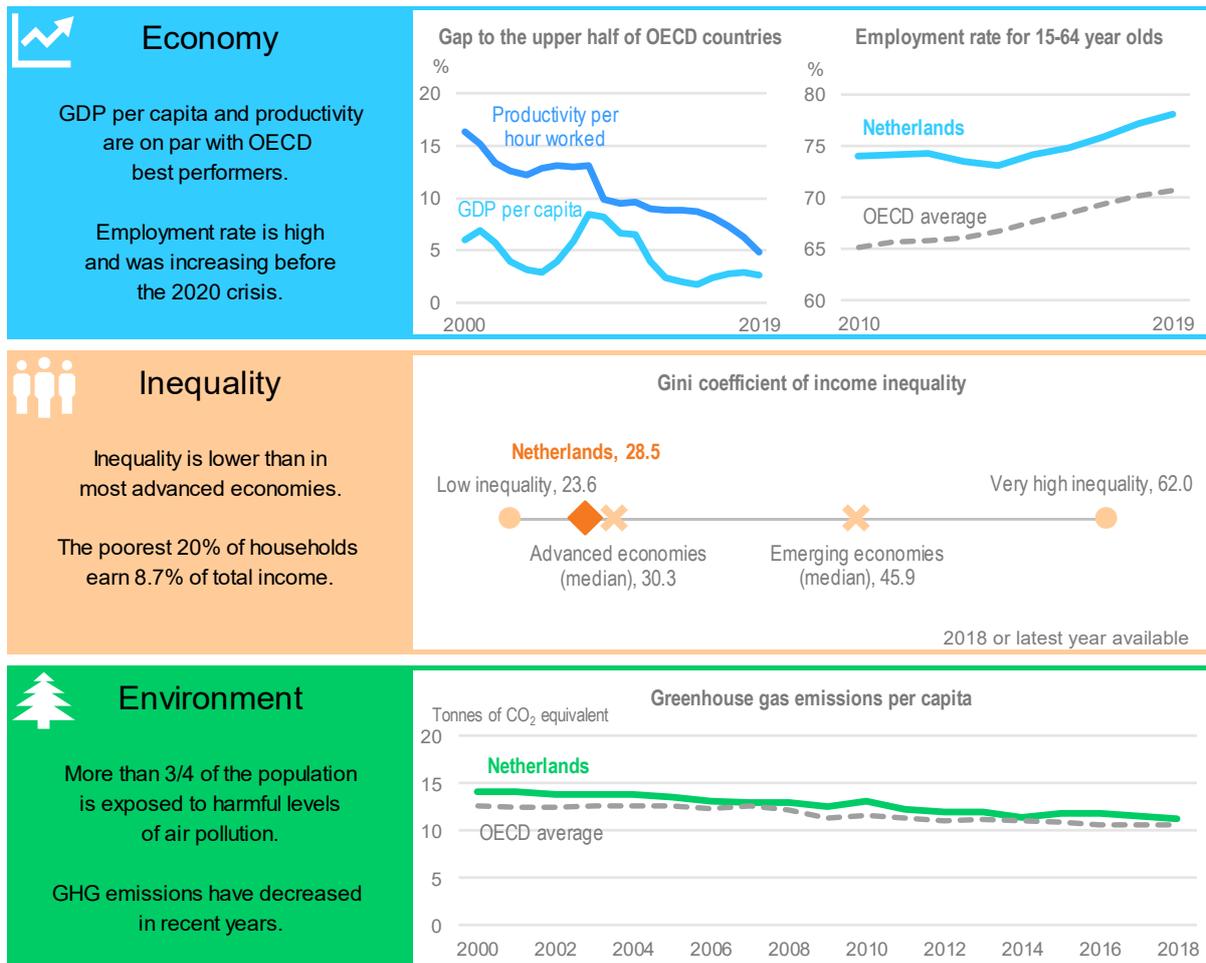
Recent progress on structural reforms

The programme of the new government implied a change in priorities, resulting in ongoing reforms in some areas being modified and several programmes in key areas being replaced. This implied a greater focus during 2019-20 on reviewing existing programmes and designing new ones. The fight against corruption has received greater emphasis.

Netherlands

The pandemic highlighted job insecurity of non-standard work contracts, which represent a considerable share of employment. To prevent a long-lasting impact on workers, the top policy priority should be to improve the targeting of active labour market policies. Increasing resilience and inclusiveness of the labour market will necessitate rebalancing the employment protection on various types of contracts in the longer term.

Netherlands: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for the Netherlands is 2016.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

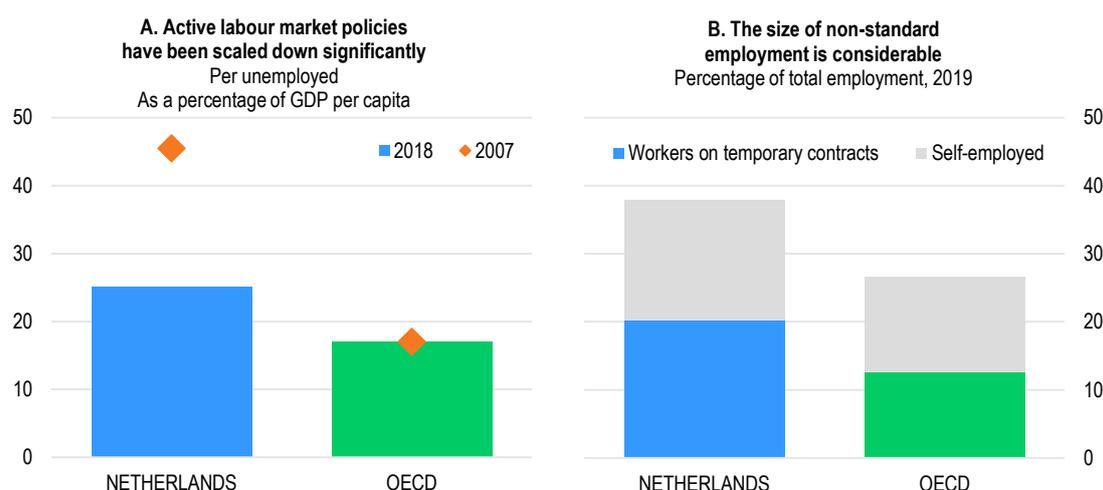
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Improving resilience of the labour market

To facilitate reallocation from sectors hit hard by the pandemic but also to cope with skill-biased technological change, automation and digital advances in the longer term, **targeting of active labour market policies should improve**, focusing on low-skilled and disadvantaged workers, including individuals already in work who are less likely to receive training. Despite still being above OECD average, active labour market policies have been scaled down significantly (Panel A), which at the current juncture could be felt disproportionately by disadvantaged groups, who have greater difficulties finding work and have been hit hard by the pandemic.

Pre-existing structural challenges of the Dutch economy accentuated the impact of the pandemic: workers on temporary work contracts, contingent workers and freelancers have been affected disproportionately, exacerbating income inequalities (Panel B). **Employment protection between different types of contracts should be rebalanced to encourage the use of permanent contracts**. This can make growth and the labour market more inclusive and resilient. Such measures should align tax and social security contributions between contract types, create more flexibility for employers to adapt jobs, workplace and working hours of regular employees, lower further the cap on severance payments for regular workers and ensure that the dismissal system works efficiently. Such measures can lead to increased layoffs as well as hirings, so should be conditional on recovering labour market and coupled with efficient support of people moving in between jobs.

Netherlands: Vulnerabilities and areas for reform



Source: Panel A: OECD, Labour Market Programmes Database; Panel B: OECD, Labour Force Statistics and Economic Outlook Databases.

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The current housing market may hinder labour mobility, in particular that of middle-income households – thereby slowing down the post-COVID-19 recovery, generating congestion and hampering productivity. To support the supply of market rental housing, **the size of the regulated rental social housing sector should be reduced** by abolishing the points system and targeting social housing to those most in need. Further **reduction of tax subsidies on owner-occupied housing** and moving towards tax neutrality between owner-occupied housing, rental housing and other wealth can free capital to more productive uses, curb housing price growth and boost the non-regulated rental sector.

Fiscal stimulus and investment programmes in response to the COVID-19 crisis should also **focus on green transition**. Further, proposed measures in the Climate Act (2019) should be fleshed out in detail and quickly advanced.

Netherlands: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Strengthen ALMPs to provide workers with effective training and support their reallocation	
<input checked="" type="checkbox"/> Funding to municipalities to provide targeted activation and support programs has been bolstered.	<input type="checkbox"/> Target ALMPs, focusing on low-skilled and disadvantaged workers, including individuals already in work, who are less likely to receive training. <input type="checkbox"/> Work towards a more co-ordinated approach in implementing activation policies across regions.
Labour market: Reduce the use of temporary contracts and encourage the transition to permanent contracts	
<input checked="" type="checkbox"/> The Balanced Labour Market Act entered into force in January 2020, phasing out the permanent self-employment tax deduction and introducing a minimum coverage for disability insurance for all workers.	<input type="checkbox"/> Align taxes and social security contributions between contract types for workers doing similar jobs. <input type="checkbox"/> Create more flexibility for employers to adapt jobs, workplace and working hours of regular employees. <input type="checkbox"/> Continue lowering the cap on severance payments for regular workers and ensuring that the dismissal system works efficiently to encourage the use of permanent contracts.
Housing: Support the supply of market rental housing	
<input checked="" type="checkbox"/> Starting 2021, municipalities will have more control over zoning and the planning of the private rental market.	<input type="checkbox"/> Reduce the size of the regulated rental social housing sector substantially by abolishing the points system and targeting social housing to those most in need. <input type="checkbox"/> Separate the part of housing corporations dealing in the non-social housing sector into independent companies operating on market terms.
Tax system and housing: Reduce tax subsidies on owner-occupied housing	
<input checked="" type="checkbox"/> The mortgage deduction rate is being reduced by 3 percentage points a year from 52% (2018) to reach 37% in 2023, but the effectiveness of the policy is dampened by a parallel reduction of imputed rents.	<input type="checkbox"/> Move towards tax neutrality between owner-occupied housing, rental housing and other wealth. <input type="checkbox"/> The gradual reduction of the mortgage rate deductibility should be continued beyond current plans.
Environmental policy: Reduce exposure to air pollution	
<input type="checkbox"/> *New priority *	<input type="checkbox"/> In response to the COVID-19 crisis, focus on green recovery measures in the fiscal stimulus and investment programmes. <input type="checkbox"/> Concretise and accelerate advancing measures proposed in the Climate Act.

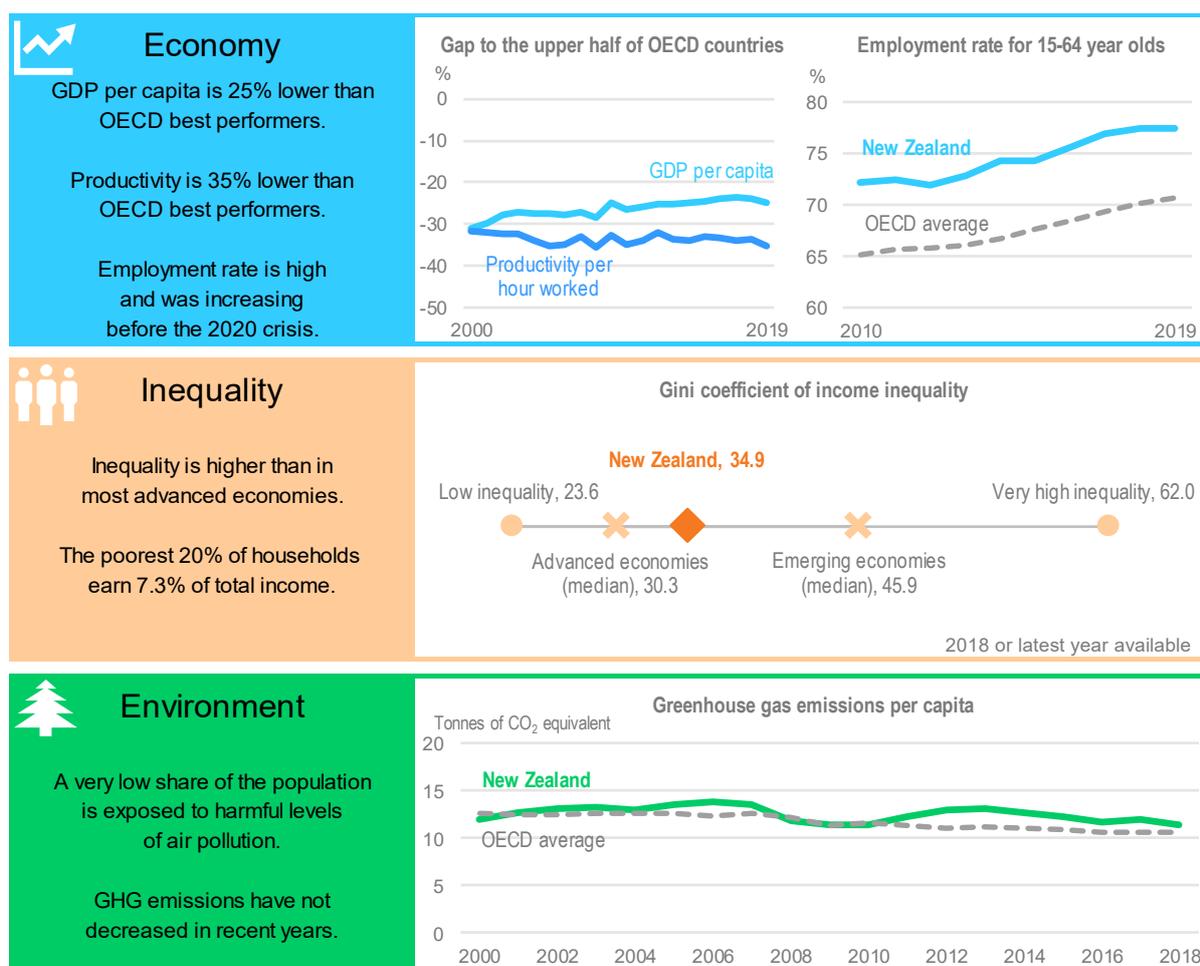
Recent progress on structural reforms

At the end of 2019, the Dutch Supreme Court ruled that the government must reduce emissions immediately in line with its human rights obligations. Subsequently, the government introduced several measures, including a reduction and phasing out of coal-powered electricity production. In addition, the COVID-19 crisis reduced greenhouse gas emissions, mainly through lower mobility and transport, industry, and to a lesser extent also in electricity generation. To address structural challenges in the labour market, the government set up a commission (Borstlap commission), which has provided recommendations to level the playing field for regular and irregular work contracts in its final report in 2020. When and whether the recommendations will translate into law remains to be seen.

New Zealand

The economy recovered strongly, supported by large policy stimulus and an effective response to COVID-19, but some sectors hardest hit by border restrictions, notably tourism, lag behind. The pandemic highlighted a number of structural challenges. A key priority is to address the deteriorating access to affordable housing, which weakens financial resilience, hampers labour mobility and reduces inclusiveness.

New Zealand: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). Labour productivity is likely to be underestimated in New Zealand as there is no correction for over-reporting of hours worked, in contrast to the practice in most other OECD countries.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

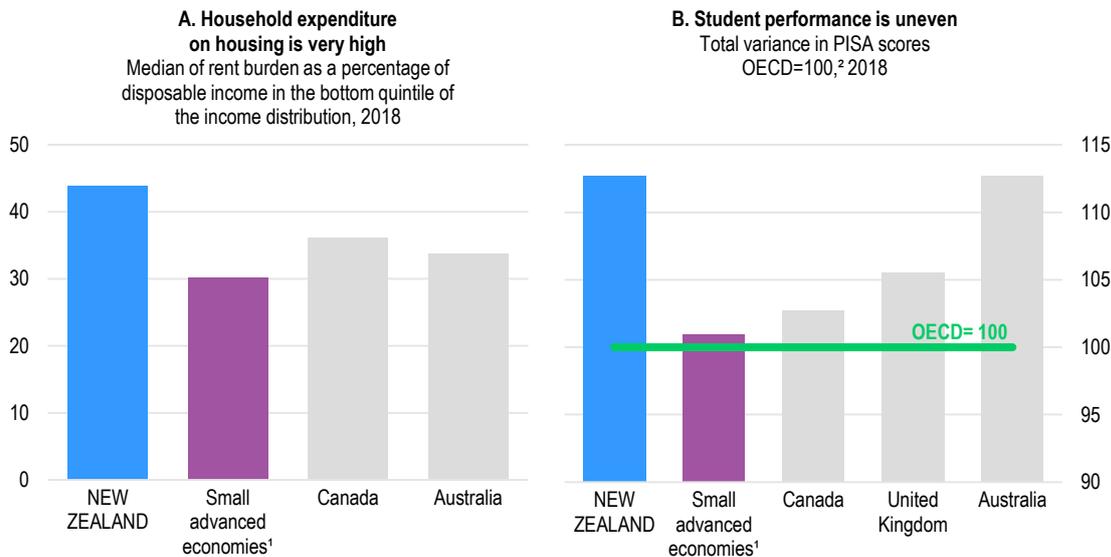
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Improving housing affordability for a more inclusive and resilient recovery

Shortages of affordable housing have resulted in high rent payments for low-income households (Panel A), undermining wellbeing and raising poverty risks. High housing prices also increase financial vulnerabilities and hamper labour mobility, which reduces productivity growth. The authorities are taking measures to reign in speculative housing demand and to increase housing supply, but further reforms are needed to achieve sustained improvements in housing affordability. **Housing supply needs to be increased** by streamlining restrictive and complex land-use regulations, giving local governments greater access to capital for infrastructure investment and aligning their investment incentives with the benefits of well-planned and well-regulated growth. Refocusing the role of KiwiBuild from delivering modestly priced homes to supplying land through aggregating fragmented land holdings and de-risking development sites for developers would increase efficiency in supplying affordable housing. Boosting the supply of social housing, which is low compared with other OECD countries, would reduce poverty by increasing incomes after housing costs.

Productivity performance has been poor, despite generally favourable policy settings. This partly owes to low trade intensity and the small domestic market, which limit returns to innovation and the adoption of new technologies. **Innovation support should be geared toward exports and integration in global value chains** to boost innovation activities aimed at capturing foreign markets. Innovation support should also target firms that seek to integrate into global supply chains by attracting FDI or supplying to local subsidiaries of multinational enterprises. Lengthy FDI screening processes should be streamlined, for instance by introducing a fast track for FDI that facilitates exports or knowledge transfer.

New Zealand: Vulnerabilities and areas for reform



1. The group of small advanced economies includes OECD countries with less than ten million inhabitants (in panel B, data are missing for Israel, Ireland and Lithuania).

2. The variance components in mathematics, science and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.

Source: Panel A: OECD, Affordable Housing Database; Panel B: PISA Database.

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Productivity growth can also be boosted through better allocation of resources. Facilitating the movement of workers toward sectors with larger labour demand and high-paying job opportunities improves both productivity and employment. However, the means-tested income support for unemployed jobseekers (the

Jobseeker Support) offers less generous compensation for lost labour earnings compared to earnings-related unemployment insurance in other OECD countries. **Support for workers during job transitions should be strengthened** through reforms to the existing welfare system (the Jobseeker Support), introduction of unemployment insurance, or some hybrid approach, and wider provision of training measures like the existing COVID-19 related scheme that retrains workers in hospitality and aviation for jobs in construction, agriculture, manufacturing and healthcare.

While educational achievement is high on average, Māori and Pasifika children underperform considerably, and the influence of socio-economic background on educational outcomes remains higher than in many OECD countries (Panel B). **Improving educational achievement among specific groups** by following through the ongoing governance system reform, increasing enrolment in early childhood education and enhancing school-to-work transitions would strengthen inclusiveness by improving educational achievement and reducing the high relative poverty rate among Māori and Pasifika.

Child poverty concerns 15% of children in New Zealand when measured based on the 50% poverty line for income, ranking in the mid-range of OECD countries. Amid the increase in unemployment in the wake of the COVID-19, the government should **ensure that progress towards meeting the long-term target remains on track** by monitoring the impact of the crisis on child poverty and stepping up support if needed.

New Zealand: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Housing: Increase supply and quality of affordable housing	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Buy-Off the Plans operations of KiwiBuild were transferred to another organisation in October 2019. <input checked="" type="checkbox"/> The National Policy Statement on Urban Development 2020 came into effect in August 2020, providing national guidance to local governments on land-use regulations and urban planning that is strongly oriented toward growth. <input checked="" type="checkbox"/> The Urban Development Act 2020 came into effect in August 2020 to facilitate urban development by streamlining processes and providing stronger public powers and duties to the Urban Development Agency. <input checked="" type="checkbox"/> The Infrastructure Funding and Financing Act 2020 came into effect in August 2020 and increases the ways to fund and finance infrastructure for urban growth to support the functioning of urban land markets. <input checked="" type="checkbox"/> Large public infrastructure investment under the New Zealand Upgrade Programme and the Shovel Ready fund is geared toward increasing housing supply and urban development. <input checked="" type="checkbox"/> The Residential Tenancies Amendment Act 2020 strengthened the rights of tenants through Healthy Home Standards and modernising tenancy laws. 	<ul style="list-style-type: none"> <input type="checkbox"/> Ensure that strict regulatory containment policies by local government are replaced with the clear rules on land-use and spatial planning outlined in the National Policy Statement on Urban Development 2020. <input type="checkbox"/> Strengthen the financing of infrastructure investment by local governments through user charges for water and roads and project-specific financing through special purpose vehicles to be repaid by targeted local taxes. <input type="checkbox"/> Re-focus KiwiBuild on enabling the supply of land through aggregating fragmented land holdings and de-risking development sites. Give greater priority to new rental housing. <input type="checkbox"/> Accelerate the provision of social housing in areas with shortages.
Innovation: Promote innovation in tandem with export and foreign direct investment	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> As part of the COVID-19 fiscal response, the government brought forward the change in R&D tax credits initially planned in 2021, which allows firms with a tax loss position or insufficient income tax to pay to use all R&D tax credits to have R&D tax credits refunded in cash. 	<ul style="list-style-type: none"> <input type="checkbox"/> Support innovation activities by firms seeking to expand exports or to participate in global supply chains. <input type="checkbox"/> Streamline the lengthy and non-transparent FDI screening process. Consider introducing a fast-track for FDI with high potential for export opportunities and knowledge transfer. <input type="checkbox"/> Co-ordinate immigration and education policies with business skills needs for innovation.

2019-2020 Reforms	Recommendations
Labour market: Introduce a short-time work scheme and enhance support for unemployed jobseekers	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Consider introducing a short-time work scheme. Make employers bear a part of the costs of hours not worked to reduce support for non-viable jobs. <input type="checkbox"/> Increase training and apprenticeships that help workers move to jobs in fields that are well paid and have low unemployment. <input type="checkbox"/> Strengthen support for unemployed jobseekers through reforms to Jobseeker Support, the introduction of unemployment insurance or some hybrid approach.
Education: Improve outcomes for students from vulnerable socio-economic backgrounds	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In November 2019, the government announced comprehensive reforms of the school governance system under which the Ministry of Education will provide more integrated local support to schools through the newly-established Education Service Agency. Training and guidance will be provided to boards of trustees to improve their capacity and teacher education will be strengthened, with emphasis on meeting the demands of Māori learners. <input checked="" type="checkbox"/> The government provided, as a part of the COVID-19 fiscal response, free vocational education and training as well as apprenticeships between July 2020 and end-2022. A new programme offering paid on-the-job training aimed at acquiring an industry qualification was also introduced. 	<ul style="list-style-type: none"> <input type="checkbox"/> Proceed with the reform of the Tomorrow's Schools governance system. <input type="checkbox"/> Boost the participation to early childhood education by disadvantaged groups by ensuring high quality and conveying the improved educational outcomes from such participation. <input type="checkbox"/> Improve the school-to-work transition by enhancing the quality of teaching and career advice. Facilitate participation of disadvantaged youth in training and apprenticeships.
Child poverty: Monitor the impact of the COVID-19 crisis on income and material hardship and step up support if needed	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Child Poverty Reduction Act 2018 was enacted in December 2018, requiring the government to set long-term (10-year) and intermediate (3-year) targets, report annually on the set of child poverty measures and how government is progressing towards its targets. The targets were set in May 2019, and include reducing the share of children in low-income households from 15% to 10.5% by the 2020/21 financial year and to 5% by the 2027/28 financial year. <input checked="" type="checkbox"/> The Budget 2019 included changes in income support that directly impacts child poverty, such as the indexation of all main benefits to average wage growth. The policy response against the COVID-19 crisis in March 2020 included a permanent NZD 25 per week increase in social benefits and a one-off doubling of the Winter Energy Payment for 2020. Budget 2020 included an extension of eligibility for In Work Tax Credits amounting to 1% of GDP. 	<ul style="list-style-type: none"> <input type="checkbox"/> Monitor the consequence of the COVID-19 crisis on the primary measures of child poverty. Should the intermediate targets not be achieved in the 2020/21 financial year, set a clear plan for achieving them. <input type="checkbox"/> Monitor the development of housing costs faced by low-income households. Step up income support should housing costs, particularly rents, rise rapidly.

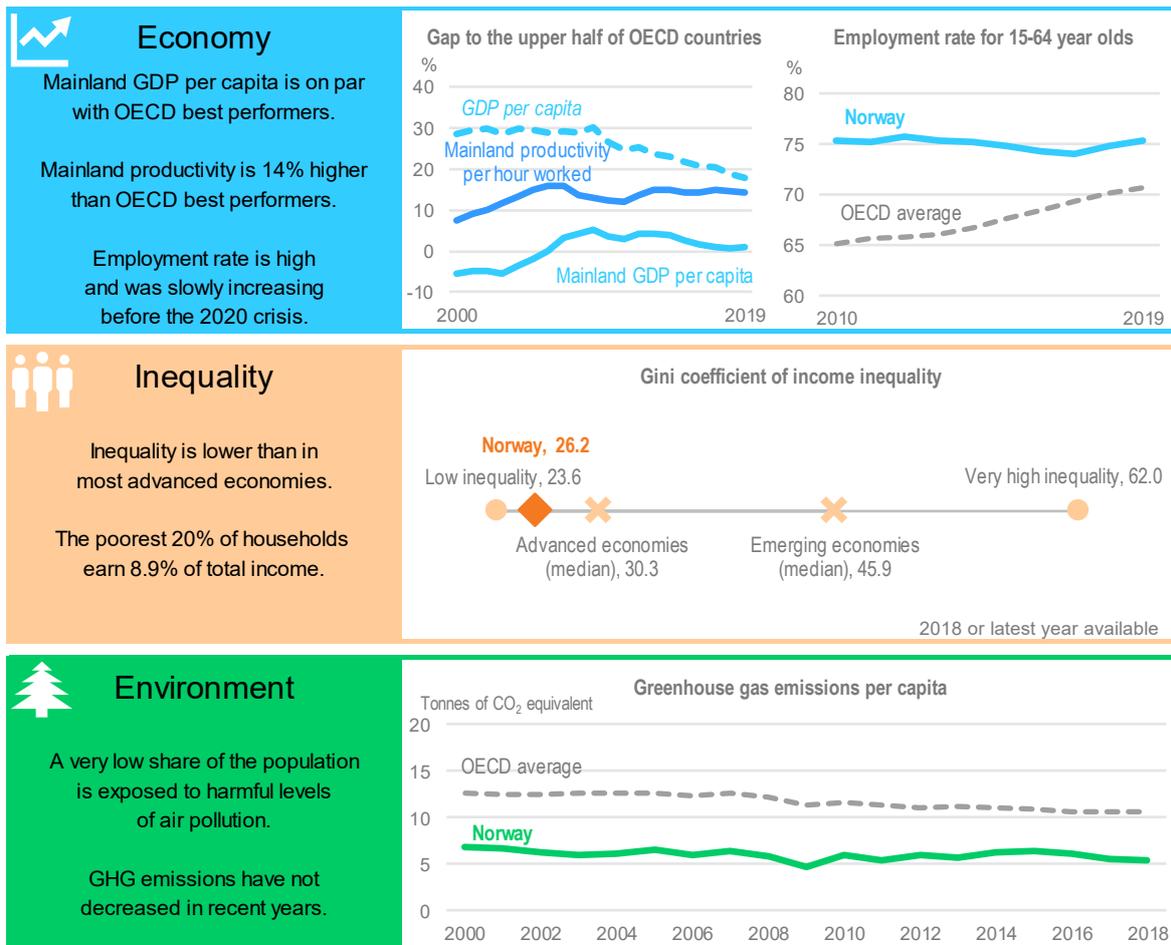
Recent progress on structural reforms

Significant actions were taken in all reform priority areas highlighted in the 2019 edition of Going for Growth, except in reducing barriers to FDI. In other areas, the COVID-19 crisis accelerated reforms as the government included several important measures in the areas of poverty reduction, education and innovation in its fiscal response package. In housing, measures taken this year to quell demand include re-instating and, in some cases, reducing loan-to-value limits on housing loans, phasing out mortgage interest deductions against residential rental income by 2025 and increasing the holding period for the non-taxation of capital gains on residential property other than the primary residence to 10 years. In March, the government also announced measures to increase housing supply, such as creation of a housing acceleration fund (NZD 3.8 billion) to provide contestable grants to municipalities to help fund infrastructure for housing development, the creation of a fund (NZD 2 billion) to purchase land for social housing and increased funding for apprenticeships in the construction sector.

Norway

The pandemic recovery offers an opportunity to reinvigorate business dynamism and ensure that education delivers on skills. This will help maintain good living standards and support comprehensive public services.

Norway: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). Mainland GDP per capita excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets the petroleum fund holds abroad are not included.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

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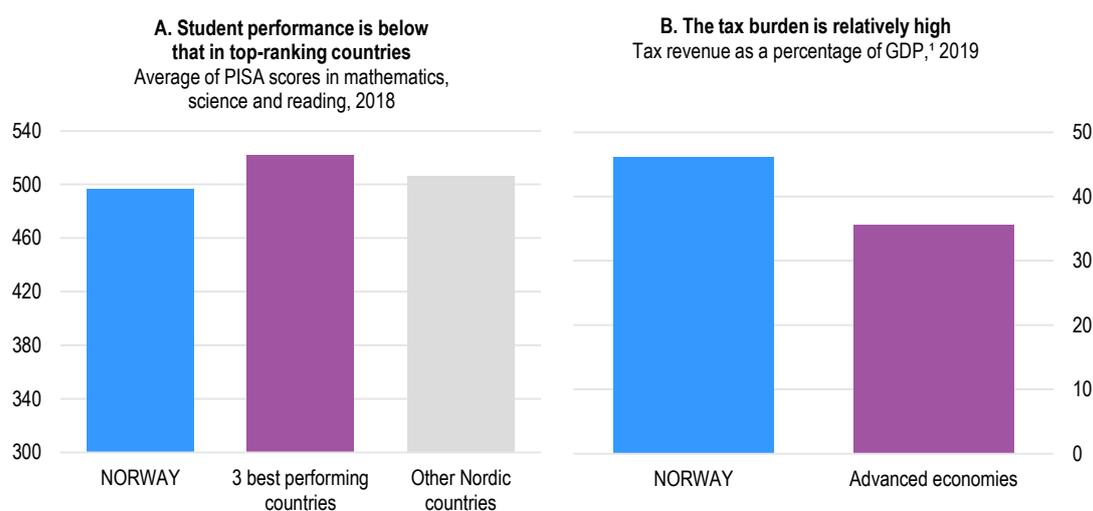
Reviving business dynamism and education to sustain high living standards

The pandemic, as well as digital and green transitions, are likely to make some businesses non-viable. To ensure a smooth reallocation of resources, **insolvency arrangements can be improved**. These currently tend to over-penalise failing businesses. Time to discharge (i.e. the number of years a bankrupt person must wait until they are discharged from pre-bankruptcy indebtedness) should be shortened. Tools for insolvency prevention should be enhanced and restructuring and penalties for failed entrepreneurs could be lighter.

Improvements to education and training can help build capacity for a digital, as well as green, transition, enhancing productivity growth. Norway's education system provides substantial support and encouragement for learning but this is not matched by outcomes (Panel A). As the structure of the economy shifts, additional support for training would help individuals transition into new occupations. Strengthening incentives for timely completion in higher education can make the education more efficient and effective.

As the pandemic situation stabilises, policy needs to return to the longstanding problem of **elevated rates of sickness-related absence among workers and large numbers on disability benefits**. This can be resolved, for instance, by lowering sick-leave compensation and by extending employers' participation in funding it. Furthermore, reform of special retirement schemes for those working in areas such as police and defence is overdue, pension arrangements for those on disability benefits need adjusting and there is scope for more life-expectancy adjustment in the mainstream pension system.

Norway: Vulnerabilities and areas for reform



1. For Norway, data refer to non-oil tax revenue as a percentage of mainland GDP.

Source: Panel A: OECD, PISA Database; Panel B: OECD, Revenue Statistics Database.

StatLink  <https://stat.link/vn3dat>

A broad recovery strategy to attain more sustainable and resilient growth, while retaining good outcomes in equity, would be helped by **ensuring taxation remains efficient** by keeping the tax burden as low as possible (Panel B), while remaining firmly within the “Nordic” model of comprehensive public services and transfers. In addition, **ensuring infrastructure projects are well selected and implemented** is important. Norway has invested heavily, particularly in transport infrastructure, and more so in recent years. However, too many infrastructure projects fall short of best practice in terms of project selection and cost-effective implementation.

Norway: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Improve the system of business insolvency	
*New priority *	<input type="checkbox"/> Strengthen business dynamics through better routes to recovery for businesses in difficulty, including lighter penalties for failed entrepreneurs, better prevention and streaming mechanisms, and more restructuring tools.
Education: Strengthen education	
No actions taken.	<input type="checkbox"/> Press ahead with primary- and secondary-school curriculum reforms. <input type="checkbox"/> Ensure that higher education institutions provide comprehensive study guidance and support services. <input type="checkbox"/> Reduce apprentice remuneration to make it more attractive for employers to offer additional places. <input type="checkbox"/> Link part of the employer subsidy to course completion by apprentices. <input type="checkbox"/> Strengthen higher-education students' incentives for timely course completion.
Labour market: Reduce policy-induced early retirement	
<input checked="" type="checkbox"/> A public-sector pension reform, underway since 2018, is reducing incentives for early-retirement including through phase-in of flexibility in the age of retirement and in corresponding actuarial adjustment of pension pay-outs.	<input type="checkbox"/> Strengthen incentives to contain sick-leave absences, including through lowering sick-leave compensation and by extending employers' participation in funding. <input type="checkbox"/> Intensify management efforts to address sick leave in sectors facing elevated levels of absence due to illness, in particular in the public sector. <input type="checkbox"/> In disability benefits, strengthen treatment and rehabilitation requirements and apply eligibility rules in general more strictly. <input type="checkbox"/> Make early interventions that encourage and facilitate return to work a strong theme of future reforms to sickness leave compensation and disability benefits. <input type="checkbox"/> Tighten medical assessment for both sick leave and disability benefit systems.
Tax system: Make taxation more efficient	
<input checked="" type="checkbox"/> The rate of corporate tax was reduced in 2019 to 22%, the latest of several cuts in recent years reducing the rate from 28% in 2013.	<input type="checkbox"/> Aim to minimise the overall tax burden while remaining in line with the fiscal rule and the revenue demands of comprehensive public services. <input type="checkbox"/> Ensure business taxation is fair and consistent by working further on countering base erosion and profit shifting. <input type="checkbox"/> Work on inconsistencies and distortions, particularly those in the tax treatment of housing.
Infrastructure: Improve the selection of large-scale infrastructure projects	
No actions taken.	<input type="checkbox"/> Strengthen the influence of cost-benefit analysis in project selection and improve checks against cost inflation after projects are selected.

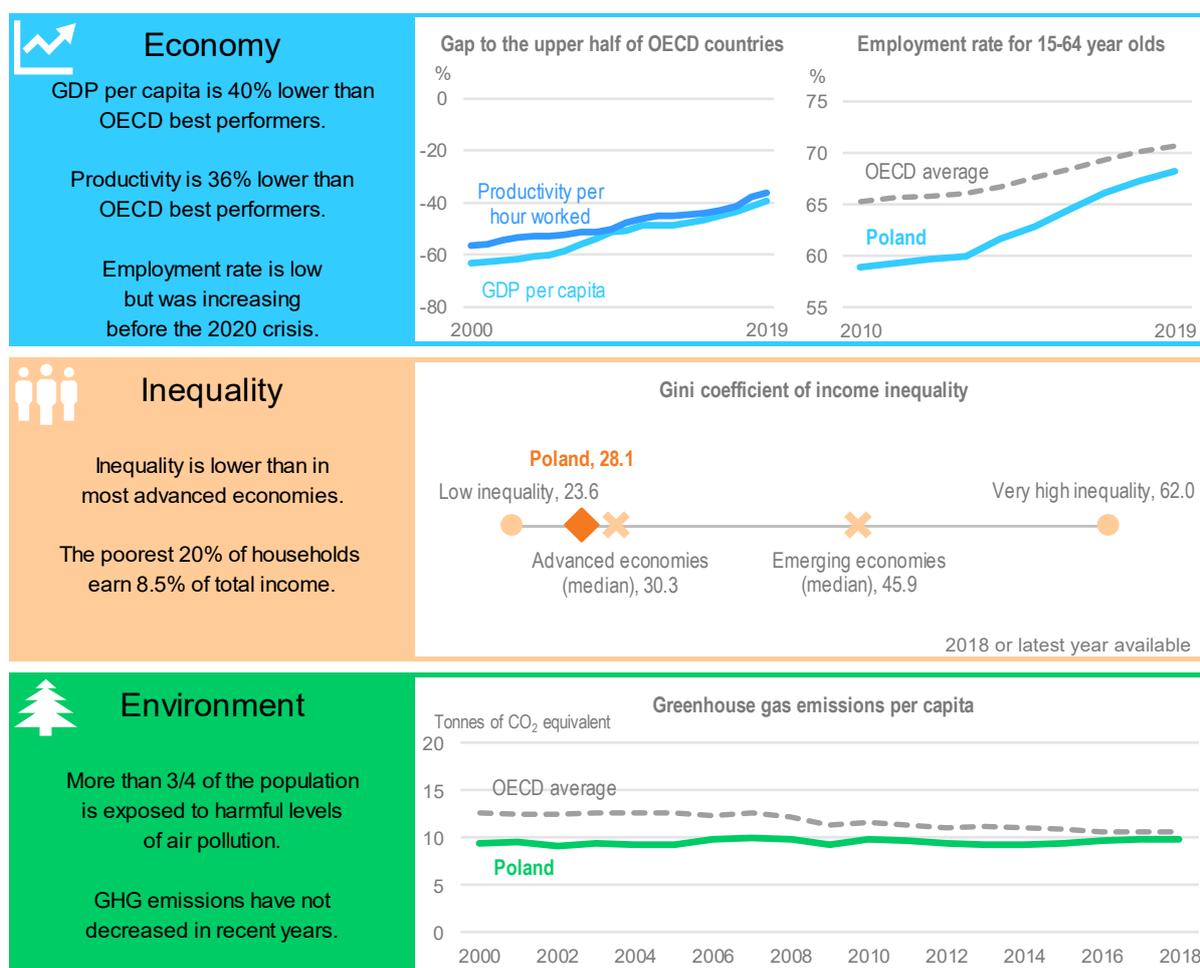
Recent progress on structural reforms

Recent years have seen a welcome strengthening of the economic pillar of Norway's socio-economic model. Much of the policy effort has concentrated on improving conditions for business, for instance the rate of corporate taxation has been reduced and there have been initiatives to address the shortfalls in labour force participation.

Poland

The COVID-19 crisis has exposed long-standing issues in the health care sector, including the vulnerability of the population to respiratory illnesses linked to high air pollution. The main medium-term challenges are linked to the shortages of skilled workers and prevalence of micro and smaller firms with low productivity and weak connections to local, national and international markets. Addressing such challenges is key for digital and green transitions and ensuring their inclusiveness.

Poland: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Skills and productivity growth will be key in facing future challenges

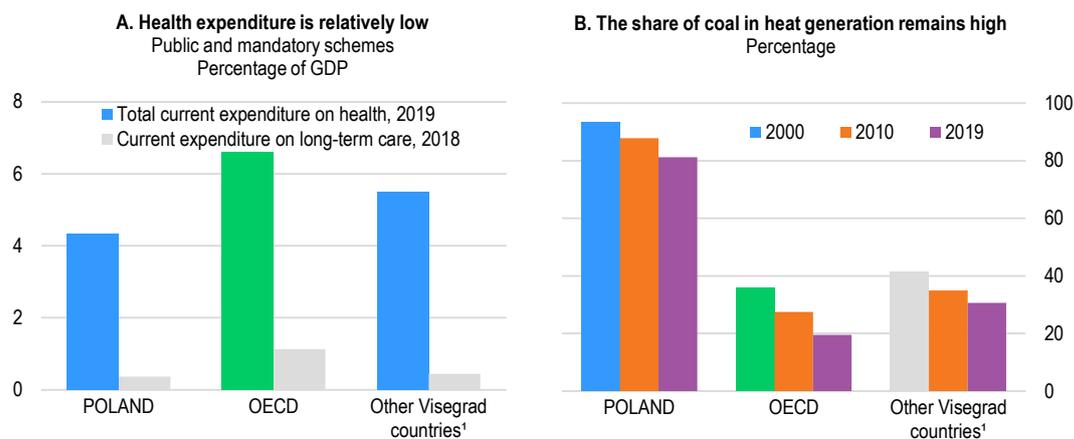
The pandemic has put the healthcare system under heavy strain. Spending on healthcare and long-term care has been relatively low over the past decades (Panel A) and together with the high prevalence of risky behaviours has led to weak health outcomes. **Strengthening primary care, long-term and social care and prevention campaigns** would avoid costly hospitalisations, improve the referral system and reduce waiting lists.

Shortages of skilled labour were already a key impediment to growth before the crisis and are likely to hinder digitalisation and greening of the economy where new skills will be needed. To facilitate labour reallocation toward new technologies while at the same time avoiding the scarring effects of the pandemic, **education and training need to be strengthened**. The adoption of individual training accounts, making training rights portable from job to job, would promote lifelong learning, particularly among the unemployed and workers on temporary contracts who are more likely to be low-skilled and disengaged from learning. This would also help increase the employment rate of older workers by improving their working opportunities, notably those at greater risk of being displaced in carbon-intensive regions and industries. To boost the quality and availability of training programmes, multi-annual co-financing schemes should be dedicated to developing workplace-based vocational training programmes, adapted to local labour market needs. The new system to certify training providers should be evaluated and expanded, along with the publicly-available database providing information about training opportunities.

The general availability of skills needs to be enhanced through **greater labour market participation of women and older workers**. To this end, continuing to improve access to childcare, adapting it to the working hours, and developing long-term capacities would encourage less-qualified parents to return to work and improve the opportunities for children of lower-educated parents to develop skills in the future. In the medium-term, harmonising employment protection for all age groups would avoid disincentives to hiring older workers, who are currently better protected.

Air pollution, largely explained by the use of poor quality coal and biomass in the housing sector (Panel B), contributes to the poor health outcomes. Government support for energy efficiency and renewable energy, as well as investment in modernising electricity grids and district heating networks, would help reduce emissions and could be an effective stimulus for the recovery. Tightening regulations on energy consumption in buildings and deploying tax incentives, subsidies and awareness campaigns would put the economy on a path to **reduce the high level of greenhouse gas emissions**.

Poland: Vulnerabilities and areas for reform



1. Average of Czech Republic, Hungary and Slovak Republic.

Source: Panel A: OECD, Health Database; Panel B: International Energy Agency, Electricity Information 2020 Database.

StatLink  <https://stat.link/pflb4u>

Burdensome and non-transparent administrative and regulatory procedures risk hindering private investment and the reallocation of capital and skills – key requirements for a swift, job-rich recovery but also to face future shocks and adapt to a low-carbon economy, facilitating the reallocation of stranded assets. With the recovery underway, **streamlining court proceedings, and in particular bankruptcy procedures**, would facilitate contract and payment enforcement as well as help to face the potential increase in insolvencies resulting from the pandemic. At the same time, setting up a new firm faces too many regulatory requirements and some services professions, such as lawyers and notaries, still face relatively high barriers to entry.

Poland: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Promote participation in lifelong learning	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The general part of the Integrated Skills Strategy (ZSU) has been adopted in 2019. The detailed part is currently being developed with the support from the OECD. 	<ul style="list-style-type: none"> <input type="checkbox"/> Consider the adoption of individual training accounts to make training rights portable and favour labour reallocation. <input type="checkbox"/> Dedicate multi-annual co-financing schemes to develop workplace-based vocational training programmes adapted to local needs and increase training offer and take-up. <input type="checkbox"/> Evaluate and expand the new system to certify training providers and the public database providing information about training opportunities.
Labour market: Increase the labour force participation rate of older workers and women	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2019, eligibility for the 500+ family benefit was extended, eliminating the potential negative effect of its initial means-testing. <input checked="" type="checkbox"/> The 2020 reform to the <i>Maluch</i> (toddler) programme should create more places in nurseries and increase pre-school enrolment rates. 	<ul style="list-style-type: none"> <input type="checkbox"/> Progressively align male and female statutory retirement ages and increase them in line with healthy life expectancy gains; review survivor pension schemes to increase incentives to work. <input type="checkbox"/> Harmonise employment protection for all age groups to avoid disincentives to hiring older workers who are currently better protected. <input type="checkbox"/> Continue to improve access to affordable childcare and adapt it to the working hours of less skilled workers to encourage less-qualified mothers to return to work. <input type="checkbox"/> Continue to strengthen ties with the large expatriate community to attract returning emigrants by developing an online hub to advertise jobs, training, business and research opportunities abroad.
Environmental policy: Reduce air pollution levels and carbon emissions	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, the cap on electricity prices was removed to incentivise the transition to greener alternatives. 	<ul style="list-style-type: none"> <input type="checkbox"/> Impose minimum requirements for reserve funds in multi-flat building renovation. <input type="checkbox"/> Tighten regulations on energy consumption in buildings. <input type="checkbox"/> Ease eligibility conditions to energy efficiency programmes for low-income households. <input type="checkbox"/> Provide incentives for the use of smart meters <input type="checkbox"/> Invest in renewable energy and grid modernisation.

2019-2020 Reforms	Recommendations
Healthcare: Improve efficiency in health and long-term care	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Use the planned increase in health spending to strengthen primary care and prevention campaigns to avoid costly hospitalisations. <input type="checkbox"/> Strengthen information campaigns on behavioural risks, such as food and drinking habits, and review food and health standards. <input type="checkbox"/> Increase vaccination rates, notably for people over age 65, through well-targeted information campaigns. <input type="checkbox"/> Expand the care coordination programmes and the elements of pay-for-performance to all health and social care areas. Clearly define competencies and responsibilities at all levels. <input type="checkbox"/> Improve working conditions in the health sector to attract and retain workforce.
Competition and regulation: Ease business regulations and improve bankruptcy proceedings	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, a new regulation on late payments was introduced that sets legally binding deadlines for payments to help address arrears. <input checked="" type="checkbox"/> Starting from March 2021, it will be possible to create a simplified joint stock company with lower capital requirements, on-line registration in 24 hours and light procedures for dissolution. 	<ul style="list-style-type: none"> <input type="checkbox"/> Streamline court proceedings and simplify Electronic Invoicing Systems to facilitate the reallocation of resources, contract and payment enforcements. <input type="checkbox"/> Lower barriers to entry for some services professions, such as lawyers and notaries, to increase competition. <input type="checkbox"/> Involve stakeholders in the design of regulations through early consultation procedures and conduct systematic ex-ante evaluations to lower the administrative burden that results from frequent law changes.

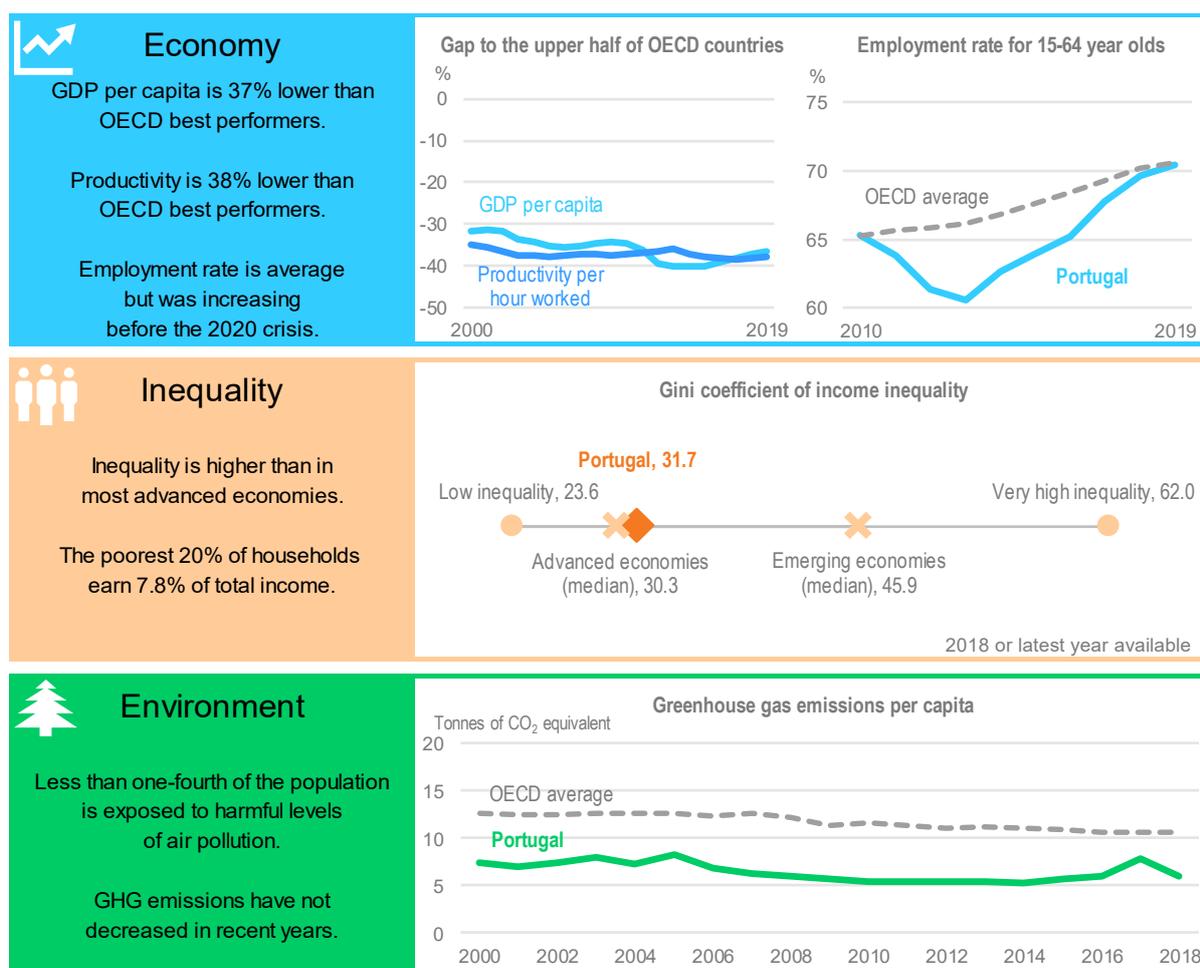
Recent progress on structural reforms

Progress in terms of structural reforms has been uneven with parliamentary and presidential elections in 2019 and 2020, and the COVID-19 recession related temporary and exceptional support measures to protect incomes and jobs.

Portugal

The pandemic highlighted gaps in the social safety net and risks aggravating the situation for disadvantaged students and vulnerable workers. Increasing the coverage of out-of-work benefits should become the top policy priority. Strengthening efforts to provide individualised support to students at risk remains crucial, as does upskilling of large parts of the workforce, especially with digital skills.

Portugal: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

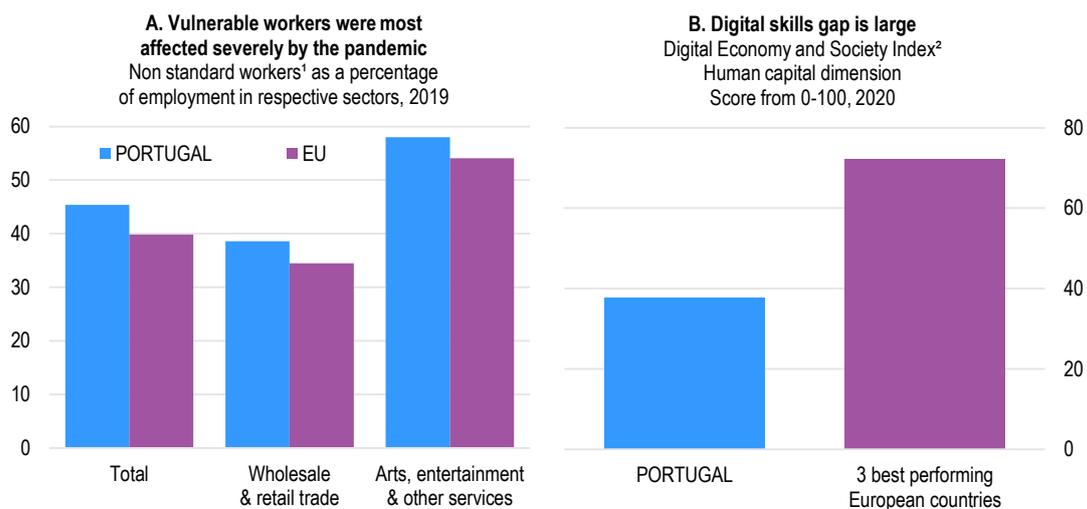
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Upskilling of the workforce for digital transformation and resilience

The crisis is hitting disproportionately those on non-standard work contracts and is likely to increase inequalities by accentuating labour market dualism (Panel A). Improving access to and coverage of unemployment benefits for non-standard workers can help to alleviate poverty risks. As the pandemic continues, **increasing the coverage of minimum-income benefits should become a crucial part of governments' strategy** to support people, as this can stabilise their incomes, tackle inequality, and relieve acute economic needs. Portugal has undertaken important reforms to address labour market segmentation and foster collective bargaining. The emphasis of active labour market policies on targeted training showed positive results. Short-term working schemes helped to sustain incomes and jobs of standard workers during the crisis but non-standard employees often fail to meet the contributory requirements to access unemployment benefits.

The pandemic highlighted the dire need to equip large parts of the workforce with digital skills. **Developing a coherent adult-learning strategy, in particular digital literacy programmes**, and improving its attractiveness through better career guidance will foster the digital transformation and promote inclusion (Panel B). Education will play an important role in facilitating the recovery from the pandemic and fostering resilience. Developing on-the-job training in the vocational education and training system can improve its efficiency. Given the pandemic-induced disruptions of schooling, students at risk of falling behind should receive more support.

Portugal: Vulnerability and areas for reform



1. Non-standard workers refer to self-employed, workers in temporary contracts and in part-time jobs.

2. The Digital Economy and Society Index (DESI) is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU Member States, across five main dimensions: Connectivity, Human Capital, Use of Internet, Integration of Digital Technology, Digital Public Services. DESI Human Capital Dimension is calculated as the weighted average of the two sub-dimensions: Internet User Skills (50%) and Advanced Skills and Development (50%).

Source: Panel A: OECD calculations based on European Union Labour Force Survey Database; Panel B: European Commission, Digital Scoreboard.

StatLink  <https://stat.link/i1lh6n>

Low productivity weighs on Portugal's income convergence to OECD best-performing countries. Strict regulations in some services sectors, in particular legal and transport, create barriers to entry and hinder productivity growth. Setting up an independent supervisory body to ensure that regulations in the legal profession are in the public interest would help pin down reforms to raise efficiency. In transport, current

regulations and practices reduce competition between private operators in ports. **Renegotiating existing port concessions and undertaking new public tenders** could ensure lower port user costs and thereby boost export competitiveness, especially for firms that rely on such infrastructure to reach end markets.

Despite considerable deleveraging since the financial crisis, the pandemic arrived against a backdrop of high corporate indebtedness, which risks curtailing investment and job creation. There is scope to **improve the bankruptcy procedures**, notably via reducing the time to discharge and exempting more of the debtor's assets from bankruptcy proceedings for heavily indebted individuals.

A more effective tax system can free up resources for investment in education, health, and infrastructure. The use of consumption tax exemptions and reduced rates narrows the tax base and should be minimised. Once the recovery is underway, less distortionary forms of taxation, such as property and environmental taxes, should be increased. This will help to strengthen the revenue-raising capacity of the tax system. Increasing the prices of pollution sources can help to direct private innovation spending towards more environmentally friendly outcomes. Spending on, for example, energy efficiency measures to retrofit existing buildings, or green R&D to unlock novel clean technologies, can provide demand stimulus and help curb carbon emissions.

Portugal: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Reinforce social protection for non-standard employment to reduce precariousness and poverty	
<p>*New priority *</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Increase resources on the more effective labour market programmes. <input type="checkbox"/> Extend the coverage of the unemployment benefit for non-standard employment and raise the coverage and the benefit level of the minimum income support scheme. <input type="checkbox"/> Mitigate labour market duality by reducing the gap between employment protection legislation for permanent and temporary contracts to improve job quality and strengthen training incentives.
Education and skills: Raise skills to strengthen productivity, foster the creation of higher quality jobs, and improve equity and well-being	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Following an impact assessment the Specific Tutorial Support programme, providing an individualized support to all students with more than one grade retention, was extended in 2020. <input checked="" type="checkbox"/> The second phase of Indústria 4.0 (a 2017 initiative aimed at increasing digital adaptation of technologies through skill development and investment) was launched in April 2019. 	<ul style="list-style-type: none"> <input type="checkbox"/> Continue efforts to provide more individualised support to students at risk of falling behind to reduce grade repetition and drop-out rates. <input type="checkbox"/> Develop the dual vocational education and training (VET) system. <input type="checkbox"/> Develop adult-learning further, including digital literacy programmes, and improve its alignment with labour market needs.
Competition and regulation: Strengthen competition in non-manufacturing sectors to bolster export competitiveness and productivity	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Portuguese Competition Authority (AdC) has taken steps adopting the OECD recommendations from the Competition Review from 2018. <input checked="" type="checkbox"/> A strategy for increasing the competitiveness of the port network has been developed and published in 2019. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce entry barriers in regulated professions, monitor entry and price regulation by professional bodies to safeguard competition. <input type="checkbox"/> Renegotiate port concessions and undertake new public tender processes to ensure that lower port labour costs translate into lower port user costs.

2019-2020 Reforms	Recommendations
Insolvency: Reduce high corporate leverage to raise investment and promote job creation	
<p><input checked="" type="checkbox"/> The adoption of the EU Directive 2019/1023 on preventive restructuring frameworks and on discharge of debt is currently on-going.</p>	<p><input type="checkbox"/> Promote access to equity capital by modernising the regulatory framework to reduce debt overhang risk.</p> <p><input type="checkbox"/> Make bankruptcy a viable solution for heavily indebted individuals, reducing the time to discharge and exempting more of the debtor's assets from bankruptcy proceedings.</p>
Tax system: Reduce exemptions and special rates to enhance efficiency of the tax system and strengthen public finance sustainability	
<p><input checked="" type="checkbox"/> The Ministry of Finance is currently undertaking a comprehensive review of every tax exemption. Abolishing reviewed exemptions is expected to bring revenues of €90M per year.</p> <p><input checked="" type="checkbox"/> In 2020, the government has split the highest tax bracket of the Real Estate Transfer tax in two, thus increasing the burden on the acquisition of real estate above €1M (7.5% in 2020 from 6% in 2019).</p>	<p><input type="checkbox"/> Reduce tax exemptions and special rates to simplify the tax code, broadening the tax base once the recovery is firmly underway.</p> <p><input type="checkbox"/> Increase the share of less distortionary forms of taxation, such as property taxes, in the tax mix.</p>

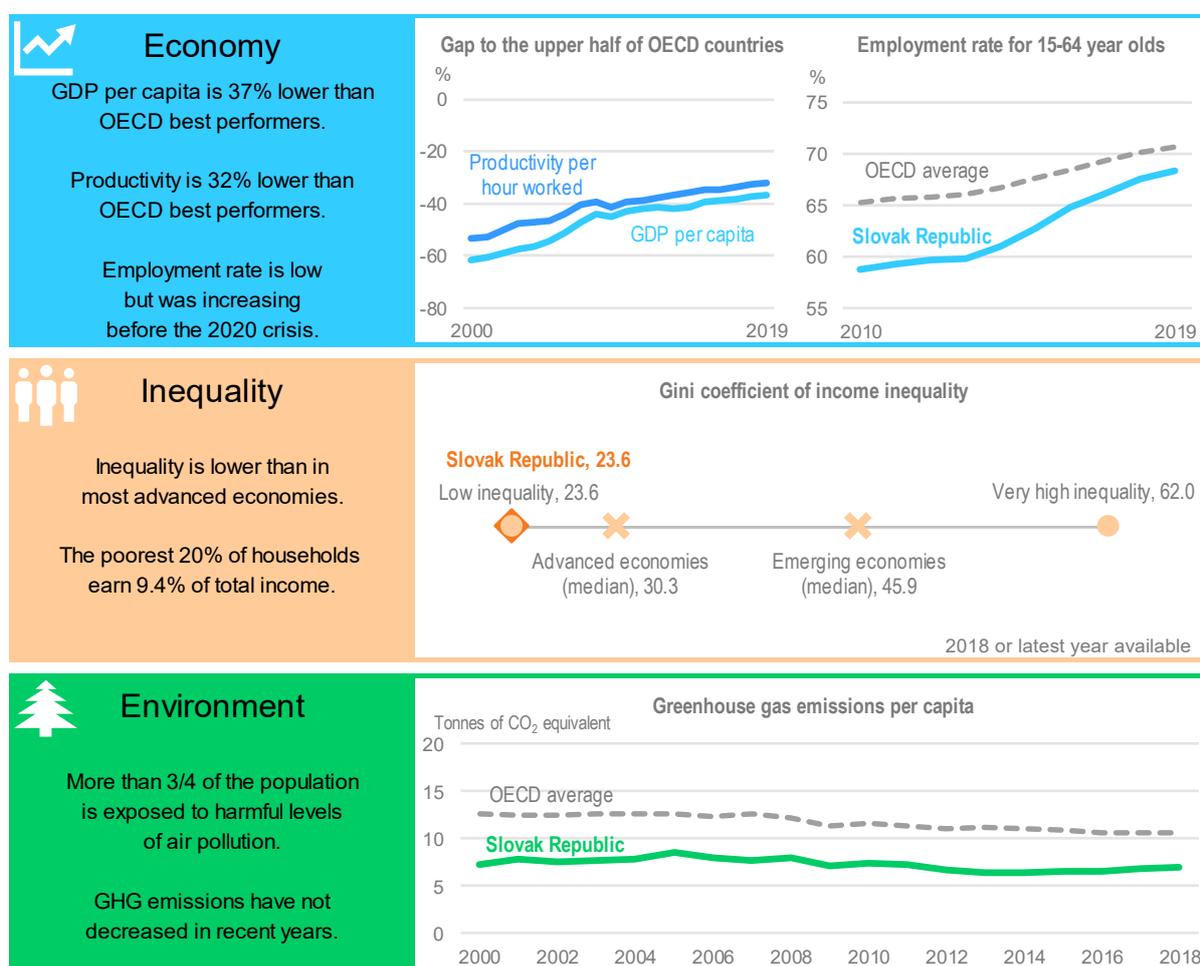
Recent progress on structural reforms

Portugal continues to improve its mechanisms for quality assurance in vocational education and training (VET) and its analysis of skills needs. It made good progress in increasing the number of higher education graduates and reducing grade repetition and drop-out rates bringing it closer to the EU average.

Slovak Republic

The sectors most affected by the pandemic (i.e. tourism, retail, and construction) traditionally provide seasonal or temporary jobs for vulnerable workers, notably low-skilled, women, youth, and marginalised Roma. The pandemic highlights a need to strengthen skills across the population. This will improve employability of vulnerable groups, boost productivity, make the economy more resilient to future shocks and prepare it to make the most out of digitalisation.

Slovak Republic: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

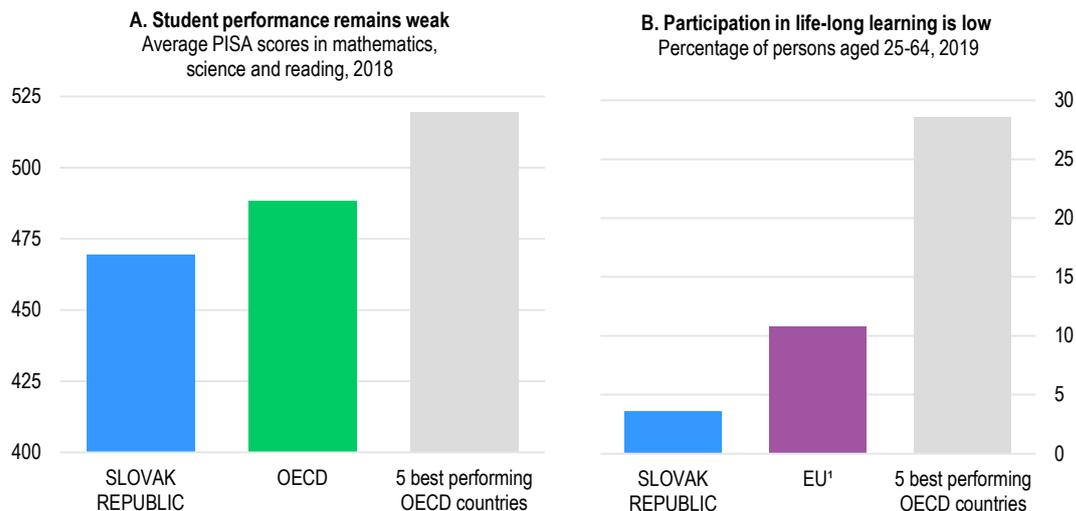
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Upskilling the labour force for the transition to a knowledge-based economy

Student performance in secondary schools remains weak compared with other OECD countries (Panel A) and participation in adult learning is low (Panel B). To supply the skills demanded in the labour market, improve reintegration of unemployed workers, and promote reallocation from sectors facing extended low demand to expanding sectors, **enhancing training and improving the quality and equity of the education system** is crucial. The government is increasing training measures, but more targeted policies are needed for the groups most at risk of unemployment and to increase overall digital skills. This should entail financial incentives to train low-skilled workers and open online courses for parents who are generally more constrained due to family care commitments. The responsiveness of tertiary education to labour market needs should be increased by tracking graduates' labour market outcomes. More funding for disadvantaged schools should increase salaries for teachers in disadvantaged schools and Roma teaching assistants who liaise between schools and the Roma community.

Spending on research is weak, the share of innovative firms low and strong productivity growth in the foreign-owned sector has not spilled over to most domestic firms. **Strengthening the innovation capacity** should aim to reduce the remaining burdensome regulations affecting start-ups and restrictions on foreign business entry in services. Facilitating firm exit by streamlining insolvency procedures is essential to foster resource reallocation during the recovery phase from the pandemic. The fragmented public research programmes should be consolidated to increase efficiency, while public investment in the lagging digital infrastructure would better prepare the country for the ongoing increase in demand for digital services.

Slovak Republic: Vulnerabilities and areas for reform



1. EU27.

Source: Panel A: OECD, PISA Database; Panel B: Eurostat, Education and Training Database.

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The gender employment and pay gaps are among the highest in EU countries. **Reducing barriers to female labour market participation** should target further investment in the accessibility of early childhood education and care for younger children, and realigning incentives in the tax and benefit systems and parental leave to improve position of mothers into the labour market.

The Roma account for almost one-tenth of the population, most of whom live in poverty, have low educational attainment and undergo long unemployment spells. **Improving opportunities and outcomes**

for the Roma population should combine a strong social safety net with extensive activation and targeted conditional budget transfers.

To ensure the effectiveness of spending measures linked to the recovery, in particular the Next Generation EU programmes, **enhancing public sector efficiency** is crucial. This will help the rapid roll out of digital infrastructure and investment in skills, but should make the health care and long-term care systems more cost-effective in particular in light of population ageing.

Slovak Republic: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education: Enhancing professional training and funding of the education system	
<input checked="" type="checkbox"/> The government increased teachers' salaries by 10% in 2019 and 2020 to attract better qualified teachers.	<input type="checkbox"/> Provide employers with financial incentives to train low-skilled workers. <input type="checkbox"/> Provide new forms of training such as open online courses to reduce barriers to participation caused by distance. <input type="checkbox"/> Provide more funding for disadvantaged schools, particularly for Roma teaching assistants and higher salaries for teachers teaching in disadvantaged schools. <input type="checkbox"/> Improve the responsiveness of tertiary education to labour market needs by introducing a graduate tracking system.
R&D and digitalisation: Strengthening the innovation capacity	
*New priority *	<input type="checkbox"/> Reduce regulations affecting start-ups. Ease restrictions on foreign businesses entering the service sector. <input type="checkbox"/> Streamline the insolvency procedures. <input type="checkbox"/> Strengthen investment in the digital infrastructure. <input type="checkbox"/> Include research collaboration with innovative companies in the assessment of universities and public research institutions.
Labour market: Reducing barriers to female labour market participation	
<input checked="" type="checkbox"/> Lowering of the compulsory schooling age to 5 starting in 2021 was approved in June 2019.	<input type="checkbox"/> Enhance access to early childhood education and care for younger children. <input type="checkbox"/> Remove disincentives to work for second earners from the tax and benefit system. <input type="checkbox"/> Make a significant part of the parental allowance conditional on fathers taking a share of the parental leave.

2019-2020 Reforms	Recommendations
Public sector: Enhancing public sector efficiency	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The independence of the judicial system improved as the Constitutional Court is fully operational again with the appointment of the six remaining judges in October 2019. <input checked="" type="checkbox"/> A Code of Conduct for civil servants, including rules for accepting gifts and other benefits, entered into force in January 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Judicial reform should be continued as planned. <input type="checkbox"/> The Value for Money initiative should be strengthened further. <input type="checkbox"/> Further centralise hospital procurement to reduce cost, while undertaking more frequent audits to safeguard against corruption and waste. <input type="checkbox"/> Create one-stop shops with well-trained personnel to coordinate and simplify access to long-term care services.
Inclusiveness: Improving opportunities and outcomes for the Roma population	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The new act on pedagogical and professional staff was approved on 2 April 2019, setting up the center for inclusive education and a new accreditation agency. 	<ul style="list-style-type: none"> <input type="checkbox"/> Provide conditional cash transfers to raise pre-school attendance, and more resources to disadvantaged schools. Increase support for trained Roma mediator programmes to promote Roma access to health care. <input type="checkbox"/> Develop statistics to monitor the support will help improve the effectiveness of these policies.

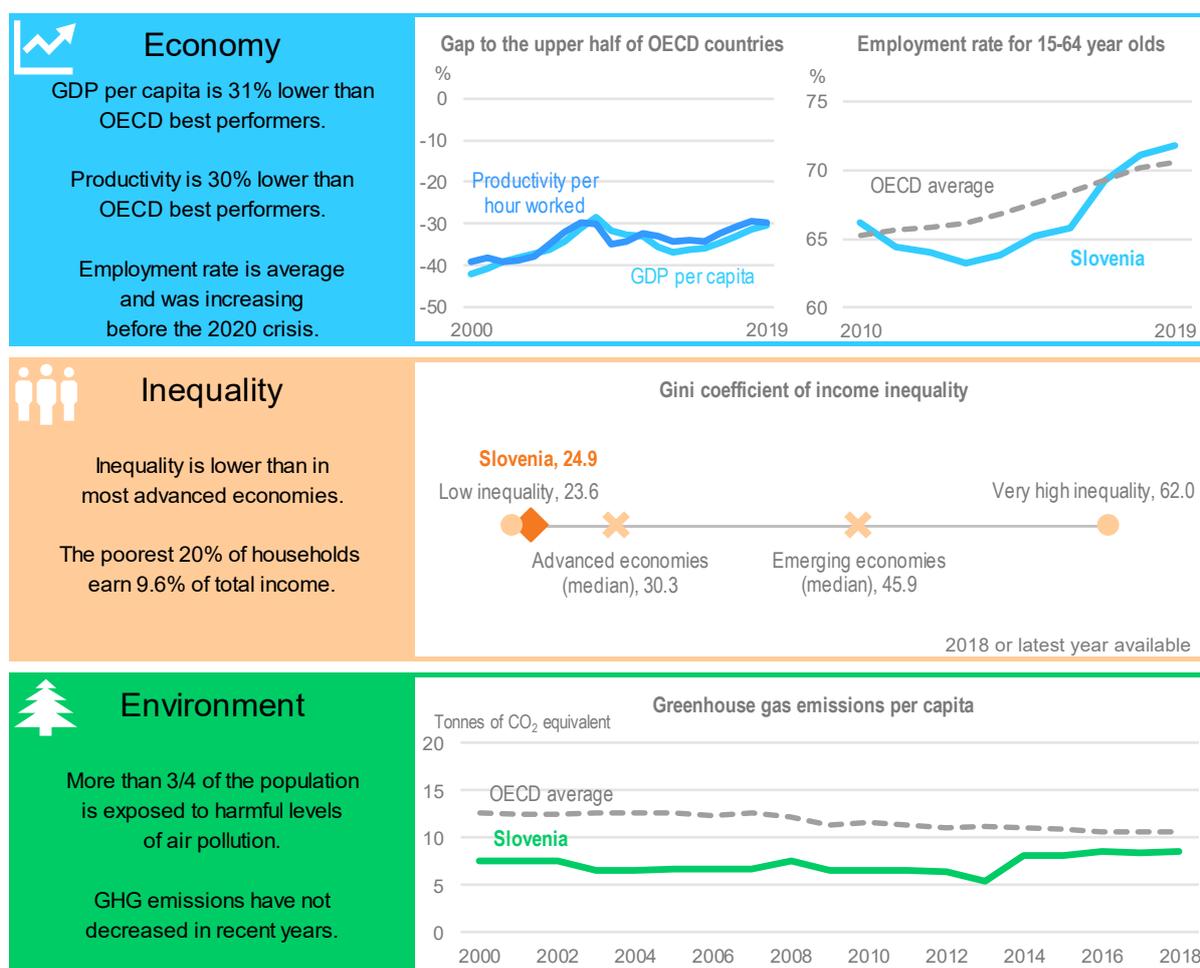
Recent progress on structural reforms

While in 2019 some progress was made in public sector governance, notably the independence of the judiciary, the Slovak Republic has generally made limited progress on structural reforms. Since the outbreak of the COVID-19 pandemic, the government's priority has been dealing with the economic crisis.

Slovenia

Several long-standing vulnerabilities risk slowing down the recovery. Lowering labour taxes should be a priority. Currently, low-skilled workers have few incentives to enter employment or increase work efforts as high-income taxes erode their income gains. Another concern is the relatively high share of state-owned enterprises, present across all sectors, which hinder competition and reallocation of resources to most productive firms during the recovery.

Slovenia: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

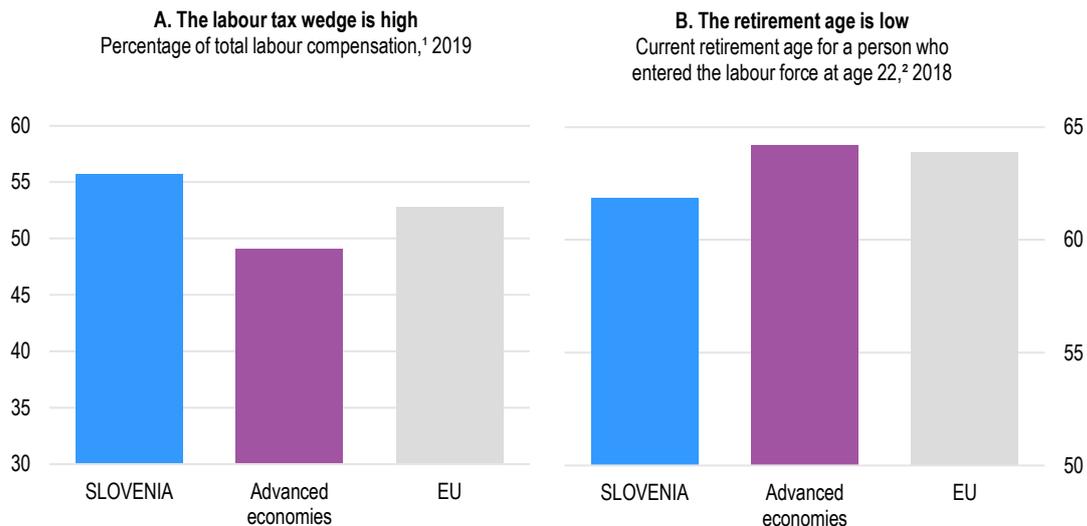
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Lower labour taxes and increase competition to speed up the recovery

Reforms should aim to make the tax system more conducive to growth by reducing tax rates on labour income and bolstering property taxation. This should be combined with in-work benefits or transfers to low-income workers to improve their incentives to work. High marginal tax rates for high earners are likely to have large costs in terms of work incentives and may deter investment in skills (Panel A). Reforms of the wage setting process are also needed to enhance reallocation of labour towards growing sectors, raise labour market participation and labour mobility. Wage setting should be more decentralised at the firm level, where social partners would have greater responsibilities in the process. At the same time, framework conditions such as seniority bonuses and minimum wage levels could be set at the sectoral level. Targeting of employment and training subsidies to jobseekers with high assistance needs would make the labour market more inclusive.

Widespread public ownership combined with weaknesses in corporate governance and significant entry barriers reduce competition. This can impede effective reallocation of resources to the most productive firms during the recovery. Conditional on the market situation, continued privatisation efforts could increase competition and improve resource allocation. In any case, reforms should strengthen the governance of state-owned enterprises, resources as well as expertise of the competition authority. Moreover, reducing the tax bias against R&D and intangibles can encourage productivity-enhancing investment and help enterprises move up the value-added chain.

Slovenia: Vulnerabilities and areas for reform



1. Marginal tax wedge for a single person without children, at 167% of average earnings. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.

2. The normal retirement age is defined as the age of eligibility to all components of the pension system in 2018, assuming labour market entry at age 22.

Source: Panel A: OECD, Taxing Wages Database; Panel B: OECD, Pensions at a Glance Database.

StatLink  <https://stat.link/mhc3a4>

Educational outcomes of the adult population are below OECD average, including adults with tertiary education. High tuition fees for part-time students keep enrolment among older cohorts low. There is scope to improve efficiency and equity in tertiary education. Policy should raise the work-experience content of technical programmes, equalise tuition fees for full- and part-time students on a per course basis, and

offer grants and loans to students from vulnerable backgrounds. A more efficient tertiary education system that equips students with skills demanded in the labour market will also improve labour productivity.

Unless addressed, ageing will significantly raise pension costs and erode long-term fiscal sustainability. The effective retirement age remains among the lowest in the OECD (Panel B) and pension spending is rising due to population ageing. By 2055, pension spending is projected to increase more than in almost any other European country. **Pension reform should lower pressures on public finances** while ensuring income adequacy during retirement. Ensuring a higher effective retirement age will bolster fiscal sustainability. To this end, the statutory retirement age should be increased to 67 for both women and men. In the second pension pillar, a higher ceiling for tax exempt and matching contributions for low-wage workers can provide additional pension income avoiding poverty risks.

Slovenia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Tax system: Adjust the tax-benefit system to strengthen work incentives for low and high income earners	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, additional general (linear) tax relief for incomes up to EUR 13 316.83 was implemented along with a 6% increase of the general tax allowance. <input checked="" type="checkbox"/> A lowering of tax rates in the second bracket (from 27% to 26%) and third tax bracket (from 34% to 33%) came into force in 2020. The top bracket tax rate remains unchanged. 	<ul style="list-style-type: none"> <input type="checkbox"/> Continue to reduce labour tax rates while increasing property taxation. <input type="checkbox"/> Introduce in-work benefits.
Labour market: Reform the wage setting process and improve targeting of employment and training assistance	
No actions taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Redirect employment and training subsidies to jobseekers with high assistance needs. <input type="checkbox"/> Determine more of the framework conditions at the sectoral level, such as seniority bonuses and minimum wage levels; give social partners greater responsibility in the wage bargaining process at the firm level.
Competition and regulation: Eliminate barriers to entry and competition	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Equity stakes in nine out of 15 state-owned companies designated for sale have been sold. <input checked="" type="checkbox"/> Share sale of the largest state-owned bank (Nova Ljubljanska Banka) has left the government a stake of 25% + 1 share. Full privatisation of the second largest bank (ABANKA) has been completed. <input checked="" type="checkbox"/> The new insolvency regulation system has been implemented. 	<ul style="list-style-type: none"> <input type="checkbox"/> Step up privatisation and narrow the group of strategic SOEs. <input type="checkbox"/> Strengthen governance of SOEs by directing them to focus on core activities, allowing more management pay flexibility and strengthening supervisory boards. <input type="checkbox"/> Simplify judicial proceedings and increase the competition authority's resources and staff expertise.
Education and skills: Improve students' performance and employment prospects	
No actions taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Equalise tuition fees for full-time and part-time students on a per course basis, coupled with grants and loans for those from poor families. <input type="checkbox"/> Link part of the university funding to students' labour market outcome. <input type="checkbox"/> Improve collaborative links between innovation stakeholders. Strengthen entrepreneurship education in schools.

2019-2020 Reforms	Recommendations
Labour market and fiscal sustainability: Reform pension regime in light of rapid ageing	
<input checked="" type="checkbox"/> The 2020 Pension Reform makes workers who reached their retirement age but continue to work eligible to draw on part of their pension. They can draw up to 40% of their pension while they continue working in the initial three years, and thereafter 20%.	<input type="checkbox"/> Increase the official retirement age to 67 for both men and women; link further increases, if needed, to gains in life expectancy; index pension benefits to price developments. <input type="checkbox"/> To increase incentives for later retirement, make bonuses and maluses symmetric and applicable at a fixed point, such as the statutory retirement age. <input type="checkbox"/> Reduce favourable treatment of older workers in unemployment benefits, disability and social assistance systems by curtailing age-dependent rules. <input type="checkbox"/> Introduce work assessments for early retirement in all remaining special retirement regimes. <input type="checkbox"/> Make enrolment in the second pillar an opt-out choice; increase the ceiling for tax exempt contributions and reduce the associated tax advantages; introduce matching contributions for low-wage workers.

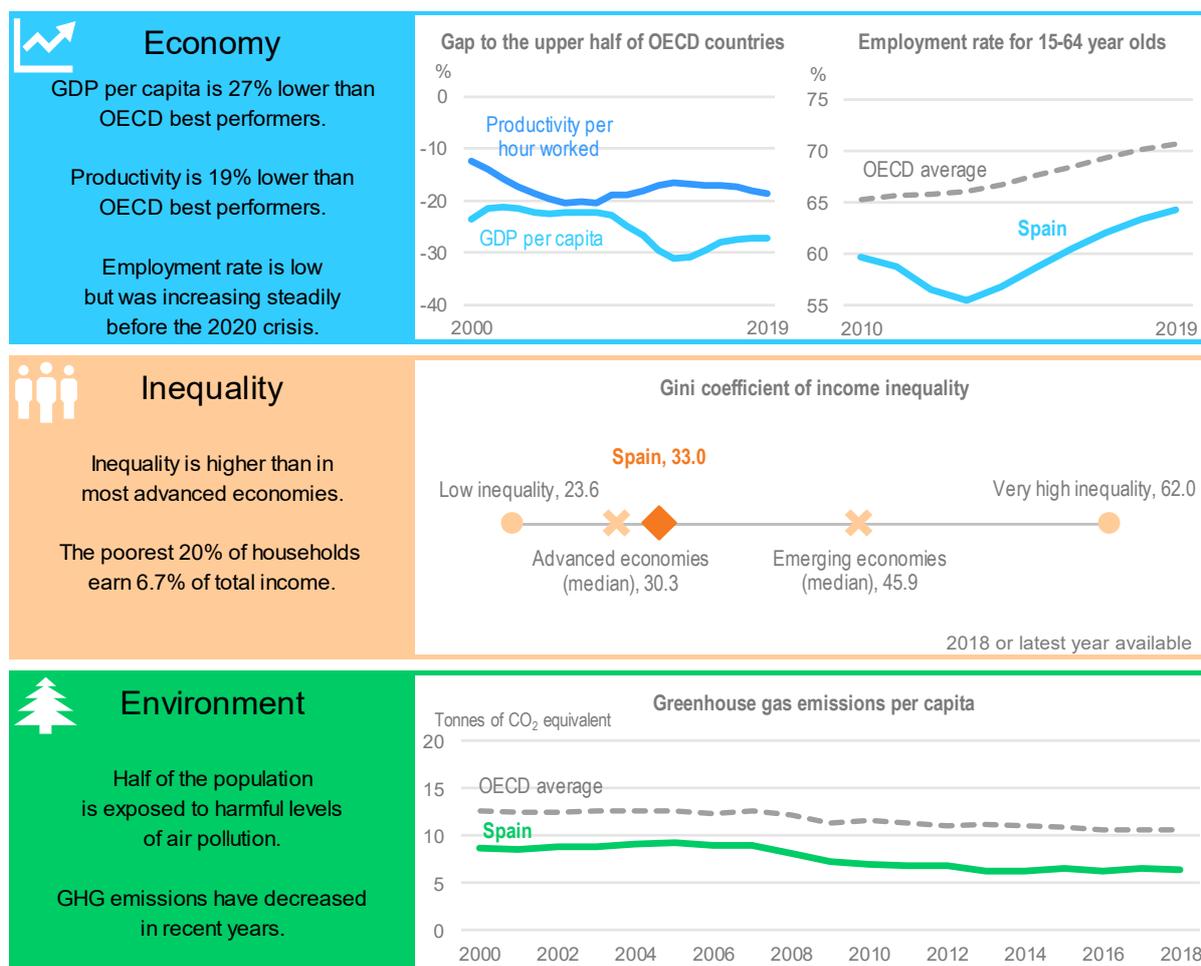
Recent progress on structural reforms

The pace of structural reforms has slowed down in 2020 as the COVID-19 crisis has demanded the government's attention, making reforms all the more urgent. Limited progress has been achieved in pension reforms, despite the projected significant increase in spending related to ageing. Some progress has been achieved with labour market reforms. This includes stronger work incentives for people who are eligible for full pensions, but who continue to work. Moreover, recent tax reforms reduced labour tax rates for lower income earners.

Spain

A strong, resilient and inclusive recovery from the COVID-19 crisis requires improving productivity growth, by boosting digitalisation, innovation, and investment in intangible capital, as well as creating high-quality jobs, by addressing structural problems in labour markets. The pandemic's implications reinforced long-standing vulnerabilities of the Spanish economy: a labour market characterised by high unemployment, insufficient skills, large regional variation and a large share of workers on non-regular contracts.

Spain: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

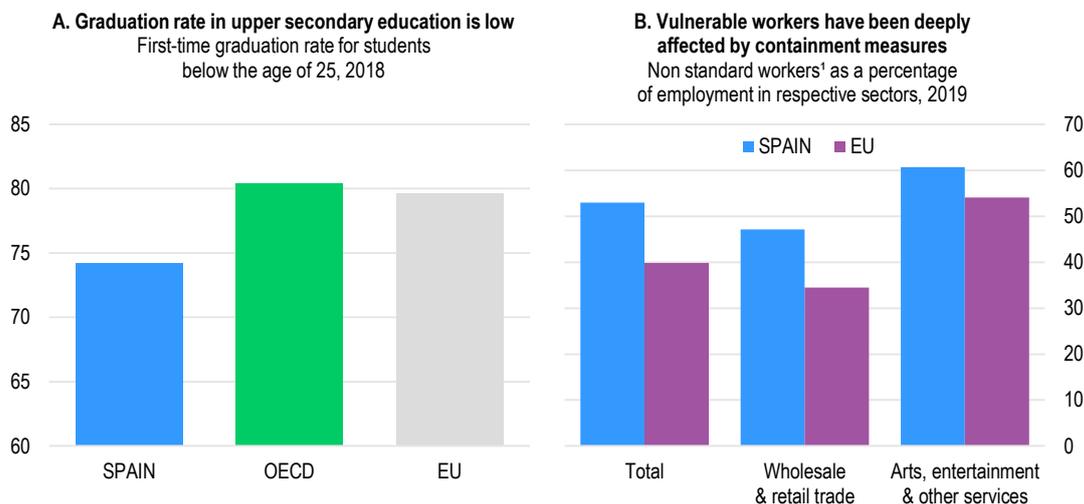
Creating job opportunities and helping workers take advantage of them

Regional regulatory differences pose barriers to achieving a truly single market and slow down firm growth, hindering productivity and job creation. The top policy priority should be **removing such barriers to firm growth**, notably by the implementation of the Market Unity Law, and increasing awareness about the law among firms. To this end, cooperation and coordination across different levels of government have to improve, which will also help with swift absorption of the EU Next Generation Funds to support the recovery. Out-of-court restructuring proceedings, especially for small and medium-sized enterprises, should be introduced to facilitate restructuring.

Spain is lagging on the uptake and use of digital technologies. **Higher innovation capacity can be built** by strengthening the ex-post evaluation of innovation policies and taking them into account for the renewal of grants. Further increasing coordination of regional and national innovation policies, for example by strengthening the role of the R&D Public Policy Network, will avoid duplication of activities. To boost basic research quality, universities' competitive funding based on performance should increase. This can help to align their strategies to labour market needs, in particular ICT skills. Partnerships between firms and research institutes can enhance the innovation capacity of SMEs. Implementing fully the newly developed plans to digitise the public administration will also help in this respect.

The changing nature of work, including due to the COVID-19 crisis, higher-quality jobs and faster productivity growth require a skilled labour force. However, skill proficiency is low and skill mismatch is high in Spain. High rates of early school drop-out and grade repetition need to be reduced to **improve basic skills** (Panel A). A modernisation of vocational education and training can contribute to **aligning education to labour market needs** and reducing existing skill mismatches. Key areas to be addressed are improvements in the university education and on-the-job training of teachers, and effective implementation of the 2020 *Modernisation Plan for Vocational Training*, in particular by promoting cooperation with firms to help identify skill needs as well as place vocational education students in firms.

Spain: Vulnerabilities and areas for reform



1. Non-standard workers refer to self-employed, workers in temporary contracts and in part-time jobs.

Source: Panel A: OECD, Education at a Glance Database; Panel B: OECD calculations based on European Union Labour Force Survey Database.

Non-standard (e.g. temporary) and low-skilled workers have been affected disproportionately by the COVID-19 crisis as they tend to be more concentrated in the worse-hit sectors (tourism, hospitality) and in certain parts of the country (Panel B). Reforms to boost job creation need to be accompanied by **improvements in the efficiency of active labour market policies** and, once the recovery is firmly in place, by measures to **reduce the use of temporary contracts**. Increasing the allocation of active labour market policies spending towards training and raising the quality of training and its connection to the labour market by increasing the coordinating role of public employment services with employers and training providers is key. Lack of integrated support for jobseekers lowers the effectiveness of social and labour market policies, so a single contact point for social and employment services should be introduced. Developing public job training programmes targeted to low-skilled and older workers for specific purposes, such as promoting ICT skills, can enable the upskilling of workers.

In the medium term, a more effective tax system could lower inequalities, curb pollution and emissions and provide financing for reforms in labour markets, education and innovation. However, any tax increases should be implemented only once the recovery is firmly underway, and may need to be accompanied by targeted, time-limited compensatory measures for the most vulnerable households.

Spain: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Eliminate regulatory barriers that depend on the size of firms and barriers to operating across regions	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2019-20, measures were taken to improve the implementation of the Market Unity Law, including training of officials, awareness campaigns and improved cooperation between national, regional and local authorities. 	<ul style="list-style-type: none"> <input type="checkbox"/> Eliminate the existing regulations that depend on the size of firms. <input type="checkbox"/> Continue to implement the Market Unity Law, increase its transparency, and increase cooperation across different levels of government for its effective implementation. <input type="checkbox"/> Improve the functioning and governance of bodies related to professional services.
R&D and digitalisation: Increase R&D spending to boost innovation and productivity growth	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Cervera Program that promotes technology transfer, cooperation between different agents linked to R&D and evaluation criteria was launched. <input checked="" type="checkbox"/> The R&D Public Policy Network published guidance on monitoring and evaluation of smart specialisation of regions. <input checked="" type="checkbox"/> University Sexennium on Knowledge Transfer was created to promote scientific transfer among university teachers. <input checked="" type="checkbox"/> Strategy on Science, Technology and Innovation 2021-2027 were introduced to consolidate and reinforce the science, technology and innovation system in all fields, including digital technologies. <input checked="" type="checkbox"/> National Plan for Digitalisation of Public Administration was introduced in 2021. 	<ul style="list-style-type: none"> <input type="checkbox"/> Promote the ex-post evaluation of R&D grants and loans and take them into account for the renewal of grants. <input type="checkbox"/> Give the R&D Public Policy Network a strong mandate to further increase coordination of regional and national innovation policies to avoid duplication. <input type="checkbox"/> Strengthen Technology Centres capacity to effectively conduct R&D through partnerships between firms, especially SMEs, and research institutes. <input type="checkbox"/> Enhance incentive mechanisms by increasing universities' competitive funding based on performance, which can help align their strategies to labour market needs, in particular, ICT skills. <input type="checkbox"/> Fully roll out the National Plan for Digitalisation of Public Administration.

2019-2020 Reforms	Recommendations
Education and skills: Improve basic skills and align them with labour market needs	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The new education law (LOMLOE) includes measures to reduce school segregation and limit grade repetition. <input checked="" type="checkbox"/> In response to the online teaching needs created by COVID-19, teacher training courses on distance teaching were reinforced in 2020. <input checked="" type="checkbox"/> Individualised support was improved in the context of the Program for Guidance and Reinforcement for the Advancement and Support in Education in 2019 and -the Program for Educational Guidance, Progress and Enrichment in 2020. <input checked="" type="checkbox"/> Modernisation Plan for Vocational Training was adopted in 2020. It includes the introduction of a single vocational training system integrating the existing two systems (educational and vocational training for employment) under single authority. <input checked="" type="checkbox"/> National Plan for Digital Skills, a broad plan to improve digital skills and the digital transformation of education, was adopted in 2021. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen the content and links to career development of further training of teachers. <input type="checkbox"/> Increase individualised support to students at the risk of failing at an early stage. <input type="checkbox"/> Ensure an effective implementation of the plan for the modernisation of vocational education and training (VET). Promote co-operation with firms, by developing such initiatives as Centres of Vocational Excellence, to help identify skill needs and place VET students in firms.
Labour market: Improve activation policies and reduce the use of temporary contracts	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2019, several working groups and pilot projects were created to enhance coordination between social and employment services. The deployment of the “social card”, which includes all non-contributory benefits received regardless of its source (national, regional or local) continued in 2019. In 2021, the resources allocated to active labour market policies was increased by 30%, with a focus to increase training for digital skills. <input checked="" type="checkbox"/> Capacity of labour inspectorates was strengthened under the Master Plan for Decent Work in 2019. 	<ul style="list-style-type: none"> <input type="checkbox"/> Increase spending on training in active labour market policies and improve the quality of training courses. <input type="checkbox"/> Introduce a single point of contact for social and employment services. <input type="checkbox"/> Shift job training subsidies to individuals at least partially, or develop public job training programmes targeted to low-skilled and older workers for specific purposes, such as promoting ICT skills. <input type="checkbox"/> Continue efforts to fight against the abuse of temporary contracts. <input type="checkbox"/> Target existing hiring incentives to specific vulnerable groups and link them to training programmes. Simplify the menu of contracts firms can choose from.
Tax system: Improve the effectiveness of the tax system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2020, a spending review on tax benefits identified areas for tax reform. <input checked="" type="checkbox"/> In 2021, the VAT on sweetened beverages was raised, a financial transaction tax and a tax on digital services were introduced. 	<ul style="list-style-type: none"> <input type="checkbox"/> Broaden the tax base by narrowing exemptions to income taxes. <input type="checkbox"/> Limit the use of reduced VAT rates and exemptions over the medium term. <input type="checkbox"/> Over the medium term, increase taxation of fuels to better reflect emissions of CO₂, together with redistribution towards poorer households.

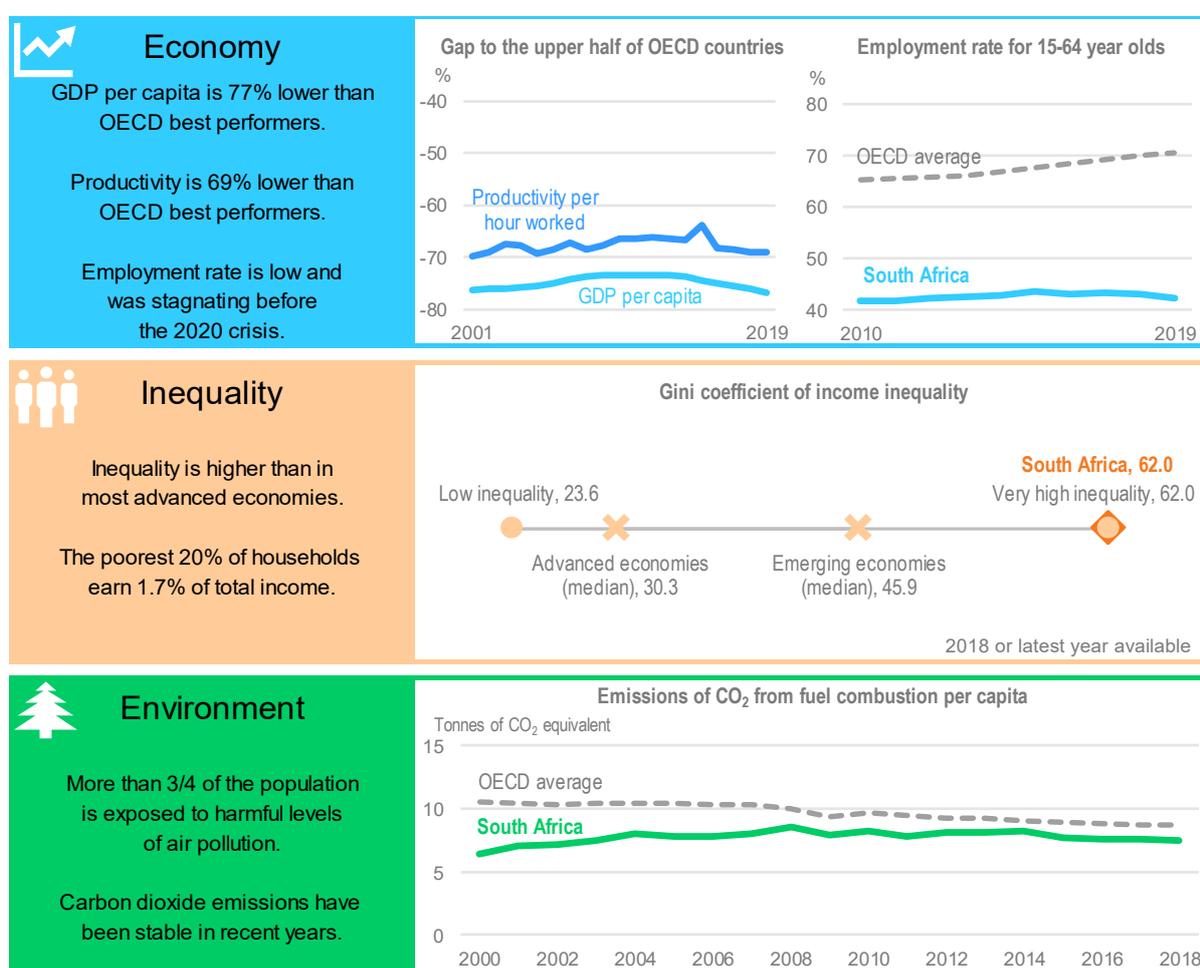
Recent progress on structural reforms

Following a wide-ranging agenda of important structural reforms between 2012 and 2015, successive minority governments have slowed down the pace of reform. However, in response to the COVID-19 crisis, a number of measures have been taken, including those to improve digitalisation in education and the resources of public employment services. In addition, the introduction of the minimum income guarantee scheme was brought forward to May 2020 to address imminent crisis-related challenges. The National Recovery Plan 2021-23, based on the use of the Next Generation EU Funds, outlines an ambitious reform agenda.

South Africa

The COVID-19 pandemic caused millions of workers to lose their jobs, while the number of discouraged workers increased. Investment has been on a downward path already prior to the crisis, marred by policy uncertainty, lack of infrastructure leading for example to electricity shortages and lacklustre government financial prospects. Regulatory restrictions in many areas, including network industries, are a threat to the recovery. Stronger growth is needed to place the government debt trajectory on a sustainable path and to finance large unmet needs in education, health and social spending.

South Africa: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for South Africa is 2015.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

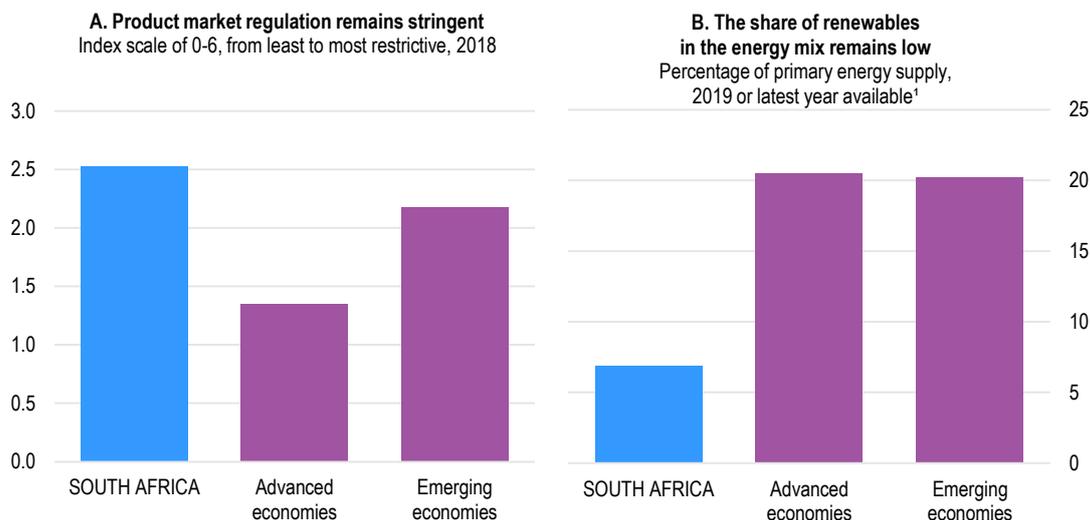
Unleashing investment to boost productivity and job creation

To improve its resilience and growth potential, as well as to recover from the COVID-19 crisis in a more dynamic and sustainable way, South Africa will need to improve the allocation of resources and create job opportunities. **Removing barriers to competition and lifting regulatory restrictions** in many sectors (Panel A), but in particular more competition in network industries would bring down prices, increase the accessibility of services, stimulate downstream firms' competitiveness and raise productivity growth. Competition and good governance should be safeguarded by giving the energy and telecommunication regulators greater independence and encouraging closer and better collaboration between the competition authorities and sector regulators.

Entrepreneurship in South Africa is weak compared to other emerging economies, and the slowing growth and COVID-19 crisis have compounded an already difficult environment for new and small businesses before the pandemic. **Reducing red tape and barriers to entrepreneurship** should aim at further reducing the bureaucratic procedures and licensing, which remain a burden on small firms. Improving access to finance should be prioritised by increasing financial and non-financial government support for entrepreneurs and small businesses.

Public infrastructure investment has dropped in recent years in addition to declining private investment. The speed, quality and efficiency of many public investment projects also have been low. **High quality, accessible infrastructure investment should be increased**, by accelerating the operations of the infrastructure fund with the private sector, development finance institutions and multilateral development banks. The fund should aim to increase the number of blended-finance projects, enhance oversight, improve the speed and quality of spending, and reduce costs in public infrastructure. Developing well-structured public-private partnerships could also boost infrastructure investment, and in particular participation of private capital in ports and rail.

South Africa: Vulnerabilities and areas for reforms



1. 2018 for South Africa.

Source: Panel A: OECD, Product Market Regulation Database 2018; Panel B: OECD, Green Growth Database.

The low quality of the education system, high drop-out rates and the lack of work experience contribute to gaps in entrepreneurial skills. **Improving the quality of education would boost human capital accumulation and reduce the high levels of inequality.**

South Africa is a heavy greenhouse gas emitter. Coal is the major energy source for electricity and industrial processes, contributing to air pollution with impacts on premature mortality rates and child development. **Greener energy policy can bolster growth and limit environmental impact** through investment in renewable energy (Panel B) and other low-carbon technologies. Building on recent progress in carbon pricing, a more ambitious carbon tax over the medium-term should be combined with the regulatory reforms to increase the responsiveness to such price signals and revenue recycling to shield low income households from adverse effects.

South Africa: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Competition and regulation: Remove barriers to competition and lift regulatory restrictions	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Competition Act has been amended in 2018 to give South African competition authorities extended powers to investigate market concentration and impose structural remedies. <input checked="" type="checkbox"/> The STER Bill, which seeks to consolidate economic regulation and policy of the transport sector within a single framework through establishing the Single Transport Economic Regulator (STER) and the Transport Economic Council, has been put before parliament since January 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Enhance competition in network industries. <input type="checkbox"/> Rule out granting state-owned enterprises exemptions from the competition law. <input type="checkbox"/> Secure effective separation of generation, transmission and distribution of electricity. <input type="checkbox"/> Strengthen the independence of network regulators. <input type="checkbox"/> Unbundle the division of the state-owned transport conglomerate Transnet and open access to public infrastructure to private service providers.
Competition and regulation: Reduce barriers to entrepreneurship	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Small Business and Innovation Fund to support entrepreneurs from the idea and pre-start-up phases all the way to the growth stage has been established, with operations to start in 2020. <input checked="" type="checkbox"/> Insolvency laws are being reviewed and updated to reduce limitations to future access to credit for anyone who previously had been declared insolvent. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce red tape and barriers to entrepreneurship. <input type="checkbox"/> Introduce a “silence is consent rule” for licensing procedures that have low associated risks. Systematically review and reduce licensing requirements. <input type="checkbox"/> Reduce the severity of bankruptcy rules, in particular severance payments, to facilitate second chances for entrepreneurs. <input type="checkbox"/> Evaluate and streamline financial and non-financial support for start-ups and small businesses. <input type="checkbox"/> Undertake regulatory impact assessments systematically for all new legislation and review existing legislation with a view to reducing the regulatory burden. <input type="checkbox"/> Increase entrepreneurial education and work placements in the post-school education/training system.

2019-2020 Reforms	Recommendations
Infrastructure: Improve infrastructure to boost growth	
<input checked="" type="checkbox"/> Announced in September 2018, the creation of the Infrastructure Fund has advanced in August 2020 with the mandate given by the government to the Development Bank of Southern Africa (DBSA) to establish, manage and administer the Fund with financing from the National Treasury.	<input type="checkbox"/> Accelerate the operationalisation of the Infrastructure Fund. <input type="checkbox"/> Boost infrastructure spending. <input type="checkbox"/> Strengthen the administrative capacity to plan, manage and conduct infrastructure projects. <input type="checkbox"/> Increase maintenance of transport infrastructure. <input type="checkbox"/> Provide special economic zones with better infrastructure and develop their linkages with local economies. <input type="checkbox"/> Develop public-private partnerships in infrastructure investment. <input type="checkbox"/> Promote competition in infrastructure-related services across the country to deepen regional integration.
Education and skills: Raise quality and equity in education	
<input checked="" type="checkbox"/> Since 2018, free tertiary education is being phased in over the next three years for qualifying first-year students from low-income households.	<input type="checkbox"/> Improve teacher training, enhance accountability and increase monitoring of school leadership. <input type="checkbox"/> Gradually phase out school fees in the public primary school system. <input type="checkbox"/> Teach English as a second language earlier in the curriculum, while maintaining mother-tongue instruction for longer. <input type="checkbox"/> Upgrade school infrastructure. <input type="checkbox"/> Expand vocational education and training.
Environmental policy: Green energy policy to limit environmental impact	
*New priority *	<input type="checkbox"/> Use the ongoing restructuring of Eskom (the electricity monopolist) to diversify power generation and invest in renewable sources of energy. <input type="checkbox"/> Accelerate the increase of carbon tax and use the revenues to compensate low-income households. <input type="checkbox"/> Replace coal-fired power plants with renewables to increase energy security as well as reduce the costs of water stress.

Recent progress on structural reforms

Progress on structural reforms has been slow mainly due to a lack of political consensus. After five years of low growth, declining investment and rising unemployment, the country needs a bold implementation of reforms to face mounting challenges and restore the economy's growth potential.

Sweden

While Sweden is a country with low inequality, the COVID-19 crisis is exacerbating difficulties for some and risks scarring youth working prospects. Inequality in educational outcomes risks widening further, as students from disadvantaged social backgrounds may face greater difficulties to adapt to distance learning. These are top priorities for a more resilient and equitable recovery.

Sweden: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

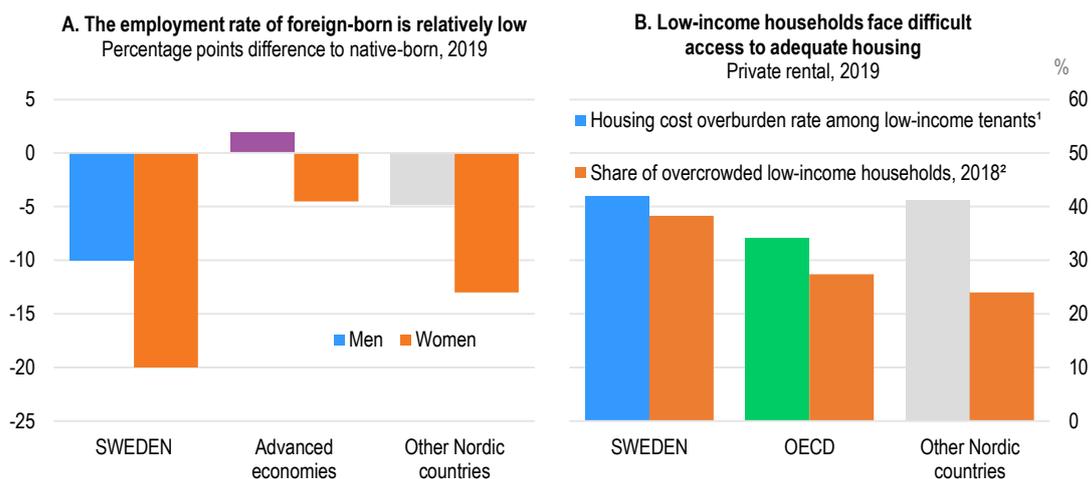
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Recovery policies to boost skills and employability of disadvantaged groups

Integration of low-skilled workers, particularly foreign-born, into the labour market is challenging (Panel A). In the wake of the 2015 refugee crisis, Sweden introduced a range of integration measures, which along with strong economic growth, allowed significant progress in foreign-born employment. Additional resources for integration and extensive support for employment in the context of the COVID-19 crisis have been introduced. Nevertheless, **further investment in vocational education and training, and job counselling**, would help the low-skilled and immigrants move towards growing sectors. The impact of such policies could be reinforced by the introduction of a new type of subsidised jobs, combining employment and education. However, implementation of this measure has been delayed.

Even though average school results have improved in the latest vintage of PISA tests, differences between students from different social-economic backgrounds continue to increase, and gaps are likely to widen further following the COVID-19 crisis. **Strengthening the governance and steering of the school system and better targeting funding to pupils' needs** would help reduce educational inequalities and raise employment and productivity. Reinforcing continuous teacher education and instigating more cooperation, feedback and support between colleagues would raise teacher quality and the status of the profession. Continued monitoring of results at the school level is necessary to ensure that struggling students get appropriate support.

Sweden: Vulnerabilities and areas for reform



1. Share of tenants in the bottom quintile of the income distribution spending more than 40% of disposable income on rent.

2. Households in the bottom income quintile. In Sweden, the whole rental market is considered as private.

Source: Panel A: OECD, Migration Database; Panel B: OECD, Affordable Housing Database.

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A better functioning housing market would facilitate labour mobility, as housing in big cities is often unaffordable or restricted by long rental waiting lists (Panel B). The pandemic highlighted housing shortages, as people living in overcrowded dwellings were disproportionately affected by the disease and experience poorer conditions for working and studying from home. **Loosening planning and rental regulations** would improve access to adequate housing and facilitate labour mobility. Support for housing construction should be revised to improve its efficiency and target it towards rental housing throughout the country. A more stable housing market would also reduce macroeconomic and financial stability risks associated with high household debt. Reducing the bias towards homeownership resulting from low property taxation coupled with generous mortgage interest deductibility, would both enhance stability and reduce inequality. Reforming the dual income tax system, which allows tax shifting from labour to less

taxed capital income, would also reduce income inequality. Any tax increases need to be phased-in gradually over the medium term in order not to hamper the recovery.

Stringent job protection for permanent contracts still hampers labour mobility and reallocation as well as productivity growth. **Reforming job protection for permanent contracts** would enhance the resilience of the labour market and boost productivity growth. The platform economy is also gaining ground, which requires labour legislation to evolve to ensure the right balance between flexibility and protection for all workers. New rules should be designed in close cooperation with the social partners. While recent tax reforms have aimed at enhancing work incentives or reducing inequality, **further improvements to the tax structure would support inclusive and green growth**.

Sweden: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Enhance training and counselling for the low-skilled, especially migrants	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Additional funding has been allocated to Swedish courses for immigrants (2020). <input checked="" type="checkbox"/> Municipalities which received relatively large numbers of immigrants received additional grants in 2020 and will continue to receive similar grants in the coming years. <input checked="" type="checkbox"/> A social contribution deduction has been introduced to facilitate entry into the labour market for young people and newly arrived immigrants (2020). 	<ul style="list-style-type: none"> <input type="checkbox"/> Continue to invest in skills development, including vocational education and training, and step up job counselling for the low-skilled and immigrants. <input type="checkbox"/> Introduce the Entry Agreements negotiated by the social partners.
Education and skills: Increase the efficiency of the education system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Places in higher education and vocational training have been increased in response to the COVID-19 crisis with financing secured until 2023. <input checked="" type="checkbox"/> Distance education opportunities have been expanded in response to the COVID-19 crisis. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen the governance and steering of the school system and better target funding to pupils' needs. <input type="checkbox"/> Improve teacher education, strengthen continuous learning and instigate more cooperation, feedback and support between colleagues to raise teacher quality and the status of the profession. <input type="checkbox"/> Continue to closely monitor results at the school level to ensure that struggling students get appropriate support.
Housing: Reduce housing market distortions	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Support for housing construction has been revised to improve its efficiency and target it towards rental housing throughout the country in 2020. <input checked="" type="checkbox"/> The ceiling for deferred capital gains when selling a home will be raised permanently in 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Support for housing construction should be revised to improve its efficiency and target it towards rental housing throughout the country. <input type="checkbox"/> The ceiling for deferred capital gains when selling a home will be raised permanently. <input type="checkbox"/> Gradually ease rental regulations. <input type="checkbox"/> Simplify land-use planning procedures, balancing economic, environmental and social considerations.

2019-2020 Reforms	Recommendations
Labour market: Promote job mobility	
<p>No action. A loosening of EPL legislation is part of the government's programme and implementation is being negotiated with the social partners.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce stringency in areas that unduly hinder productivity enhancements, including the "first in, last out" rule, obligations related to internal reassignment and the priority for dismissed workers to be re-hired following justified individual or collective dismissal. <input type="checkbox"/> Develop adult education, in cooperation with the social partners, including for people in unconventional forms of work.
Tax system: Improve the efficiency of the tax structure	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The upper bracket for central government income tax has been abolished in 2020 to increase the number of hours worked. <input checked="" type="checkbox"/> A "Green tax shift", to gradually increase environmental taxes and reduce taxes on jobs and entrepreneurship has been initiated in 2019. <input checked="" type="checkbox"/> The gap in taxation between wages and pensions has been closed in 2019, to increase pensioners' income. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reform the recurrent property tax to better align tax charges with property values. Phase out mortgage interest deductibility to help contain the rise in household debt. <input type="checkbox"/> Continue shifting from labour to environmental taxes. <input type="checkbox"/> Review the dual income tax system to prevent tax shifting from labour to capital income.

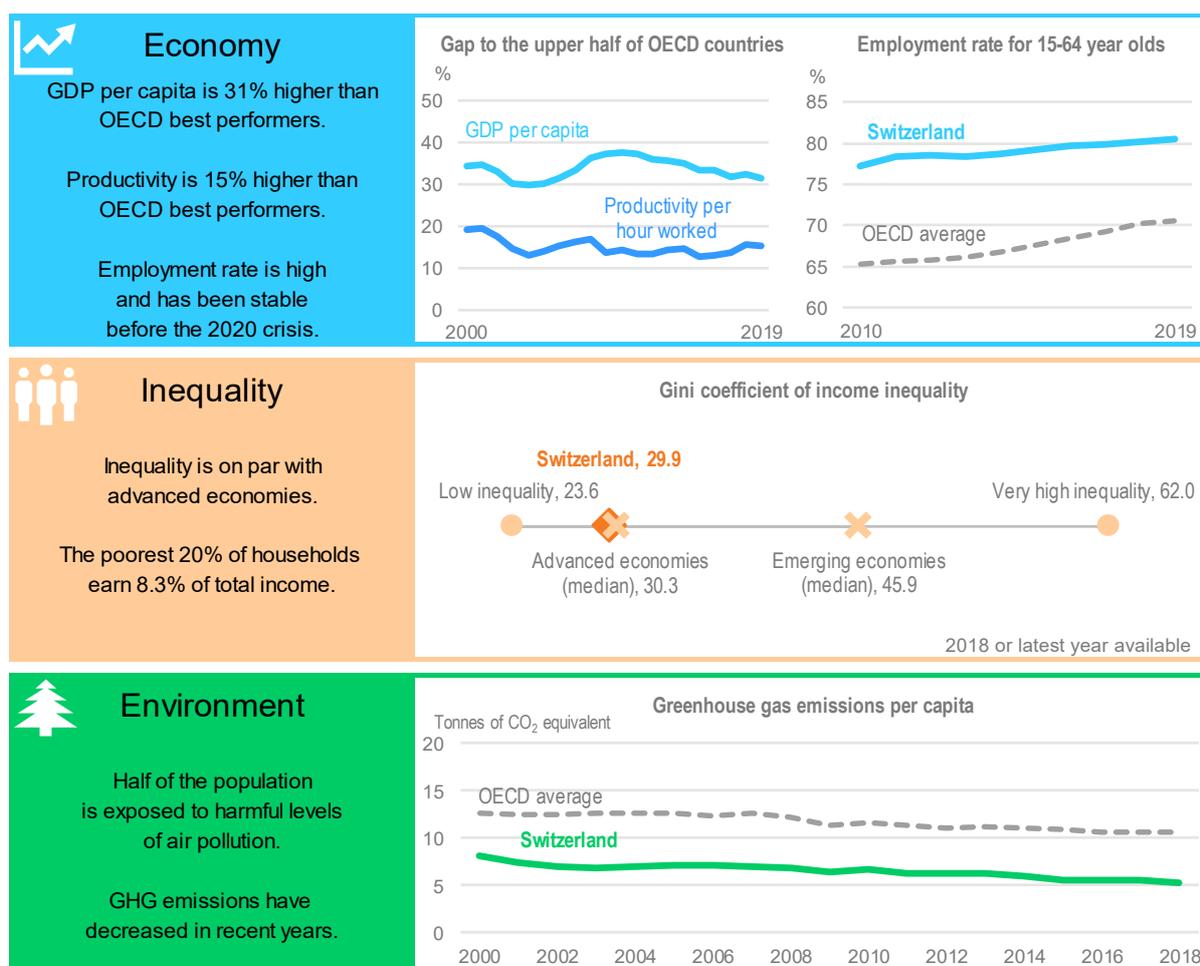
Recent progress on structural reforms

Substantial action has been taken to address the structural weaknesses of the Swedish economy, notably regarding education, migrant integration and taxation, even though the COVID-19 outbreak has delayed some reforms.

Switzerland

The recovery offers an opportunity to improve active labour market policies and reskilling and facilitate resource reallocation to restore productivity growth, notably through lowering internal barriers to competition.

Switzerland: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Switzerland is 2017.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

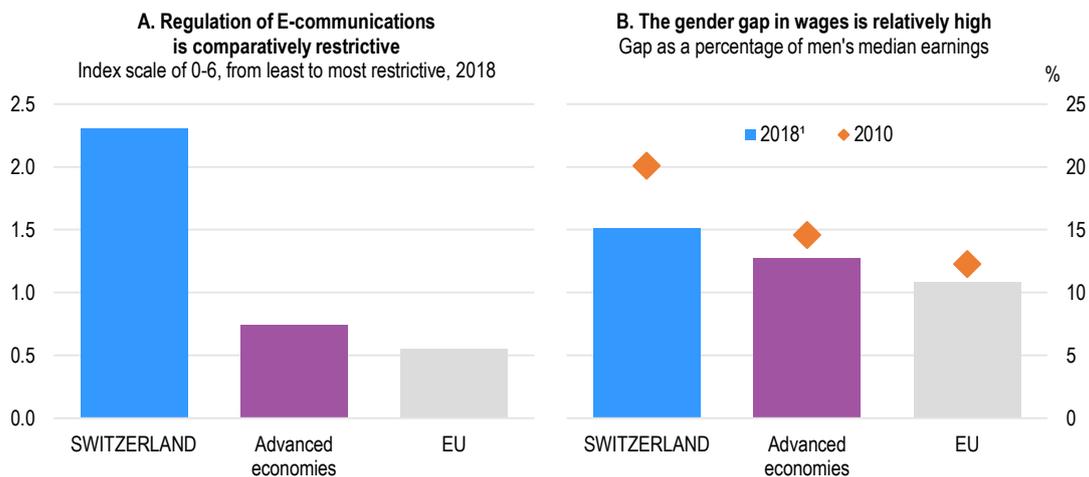
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Reskilling and reinvigorating business dynamism for inclusive recovery

To facilitate resource reallocation during economic recovery **better-targeted adult learning is needed**. **Along with higher equity in education**, upskilling would ensure that everyone benefits from the ongoing increased demand for high-skilled jobs. The low-skilled adults have lower access to adult learning compared to their high-skilled counterparts hampering their professional mobility. Students from disadvantaged socio-economic background (especially from immigrant families) underperform and have significantly lower participation in tertiary education. Participation of children of age four and below in early childhood education is low. Increasing the skills of the disadvantaged, that should start already at the pre-school age and continue throughout the entire education, will boost productivity growth and can improve their labour market prospects making growth more inclusive.

Barriers to entry, including obstacles to inter-cantonal trade, as well as government involvement in network sectors, notably in e-communications, should be lowered (Panel A). The powers of sector regulators could be strengthened to reduce prices for consumers and promote higher take-up of digital technologies. Currently, weak competitive pressures hamper the take up of digital technologies and potentially the COVID-19 recovery.

Switzerland: Vulnerabilities and areas for reform



1. 2018 or latest year available. The gender wage gap is unadjusted and is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed.

Source: Panel A: OECD, Product Market Regulation Database 2018; Panel B: OECD, Gender and Labour Force Statistics Databases.

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To deal with mounting **spending pressures related to old-age pensions and health care**, the statutory retirement age should increase. Also, disincentives to hiring and retaining older workers (such as seniority wages) should be eliminated, introducing targeted training programmes and increasing financial incentives for working beyond the age of 65.

Once the recovery is under way, **shifting taxation from direct towards indirect taxes**, can strengthen growth. Low accessibility and high costs of childcare services as well as second-earner taxation dissuade many spouses from taking full-time jobs. **Reforming tax and benefits to better incentivise labour participation of second-earners**, introducing parental leave that can be shared between fathers and mothers and increasing public spending on childcare would further boost the labour force participation of women.

Switzerland: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Increase skills of the disadvantaged	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Basic Skills in the Workplace programme offers subsidies to companies that provide basic skills training to their staff. <input checked="" type="checkbox"/> Federal pilot programs provide tailor job-search assistance to older workers and people having difficulties to find a job, facilitate apprenticeship access for young migrants and asylum seekers, and subsidy employment of low-skilled immigrants. 	<ul style="list-style-type: none"> <input type="checkbox"/> Enhance subsidy programs to encourage participation in continuing education and training, in particular of low-skilled adults (and immigrants). <input type="checkbox"/> Boost public spending on early childhood education and care, especially for children from disadvantaged socio-economic backgrounds. <input type="checkbox"/> Improve access to tertiary education for students from lower socio-economic and immigrant backgrounds through special financial support (e.g. means-tested grants).
Competition and regulation: Boost economic dynamism by increasing competition	
*New priority *	<ul style="list-style-type: none"> <input type="checkbox"/> Simplify occupational licensing across cantons and reduce the cost of starting a company. <input type="checkbox"/> Increase private ownership and remove barriers to entry, including restrictions on the number of competitors, in energy, telecommunications and transport.
Labour market: Reduce the burden of ageing	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A 2020 pension reform increased funding for the first pillar by 0.3 percent of GDP, annually. The additional financing comes from raising mandatory social security contributions paid by employers and employees, increasing the federal transfer and from earmarking VAT. 	<ul style="list-style-type: none"> <input type="checkbox"/> Set the retirement age at 65 for both genders and thereafter link it to life expectancy. <input type="checkbox"/> Increase financial incentives to work longer before retiring and promote lifelong training, career planning and tailored job-search assistance for older workers. <input type="checkbox"/> Promote healthy working lives, including via preventive health care programmes.
Tax system: Shift taxation from direct towards indirect taxes	
No actions taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Increase the standard value-added tax rate, remove VAT exemptions and lower personal income taxes, taking into account the federal structure of the tax system. <input type="checkbox"/> Remove exemptions to the CO2 levy and other green taxes. Redesign the federal vehicle tax to strengthen price incentives to purchase low-emission vehicles.
Labour market: Facilitate full-time labour force participation of women	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Federal programme providing additional childcare places is on-going. <input checked="" type="checkbox"/> Paternity leave of 10 days was introduced in 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve accessibility and quality of childcare services. <input type="checkbox"/> Reform the tax benefit system to incentivise second-earners to participate more in the labour market. <input type="checkbox"/> Introduce parental leave that can be shared between fathers and mothers.

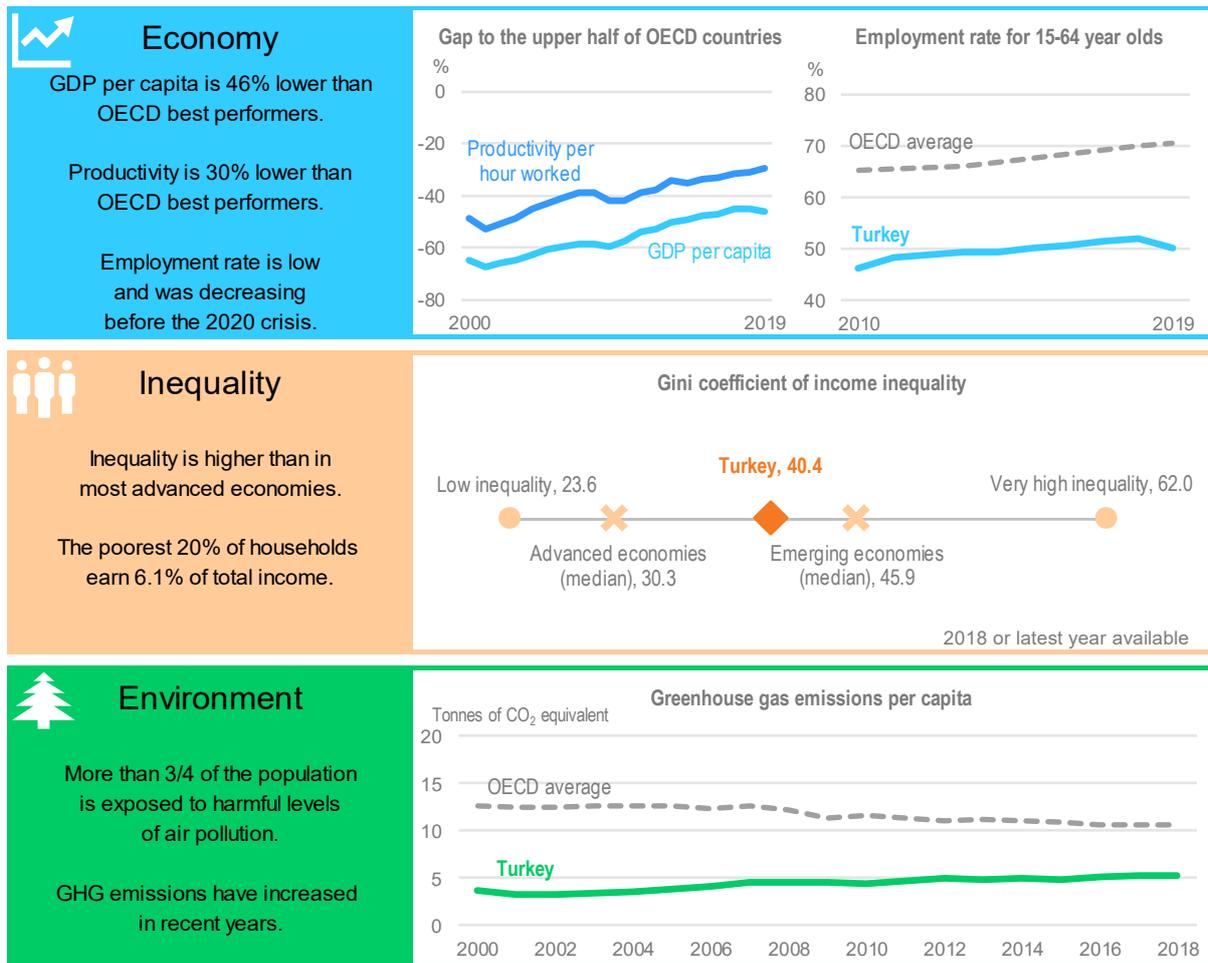
Recent progress on structural reforms

Paternity leave of two weeks has been introduced and the federal government continues supporting new childcare facilities. Subsidies to companies that provide basic skills training to their staff introduced.

Turkey

For a more inclusive and sustained recovery structural challenges such as low labour force participation of women, widespread informality, weak skills, rigid employment rules hampering reallocation and large share of low-quality employment have to be addressed. The COVID-19 related contraction in economic activity affected informal workers the hardest, as many work in contact-intensive services such as tourism, catering and retail trade.

Turkey: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Turkey is 2015.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD (2019), OECD Environmental Performance Reviews: Turkey 2019, OECD Environmental Performance Reviews.

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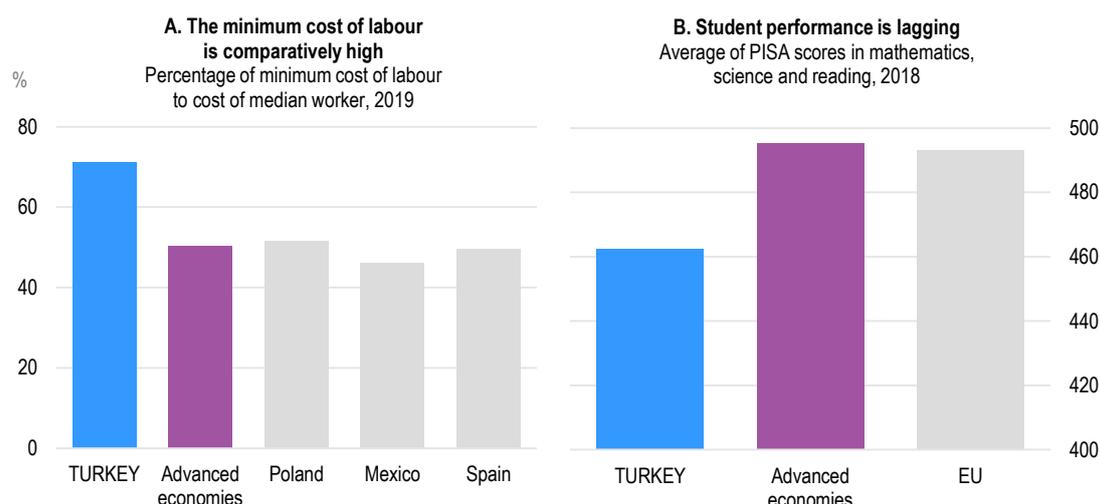
Skills and labour market policies to improve formal employment opportunities

A large proportion of workers are employed informally or semi-formally, as a result of elevated employment costs and rigid employment regulations. These are inflated by high social security contributions and labour taxes, and one of the OECD's highest minimum wage/median wage ratios (Panel A). The government should **reduce the cost of employment, particularly of the low skilled**, to support job creation in the formal sector. This could be done, for example, by keeping the real official minimum wage below average productivity gains for a while; allowing regional differentiation of the minimum wage through local consultations between government, employer and employee representatives and enterprise-level collective agreements. In addition, reducing social security contributions for young and low-skilled workers would help to cushion the pandemic-induced unemployment shock on the more vulnerable, and in the medium term can be financed through an increase in the tax base.

Informality is to a significant extent related to weak skills. Recent large refugee inflows have added to the challenge. Turkey has significantly improved enrolment in secondary and tertiary education, but the general quality of education – at all levels - is still disappointing and very heterogeneous (Panel B). To combat informality and face future challenges such as digitalisation, **improving educational quality is needed at all levels** by granting more autonomy and more resources per student to all education institutions against greater performance accountability. Strengthening vocational education in co-operation with the business sector would improve the employability of young cohorts in higher productivity activities and higher quality jobs – helping to mitigate scarring effects due to the COVID-19 crisis.

A key barrier to formality in Turkey is related to some of the OECD's most rigid employment rules for both permanent and temporary workers. Informal and semi-formal businesses do not comply with these regulations and as a result 'gain' comparative advantage over law-abiding competitors. **Employment protection rules for both permanent and temporary workers should be made more flexible**, for instance, by reforming the severance compensation regime and making fixed-term contracts more widely available for all workers, but without compromising health insurance and pension entitlements. Such increased flexibility calls however for more effective social protection for those out-of-work and more reliable public funding for retraining and job search.

Turkey: Vulnerabilities and areas for reform



Source: Panel A: OECD calculations based on Taxing Wages and Earnings Databases; Panel B: OECD, PISA Database.

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Quality job creation ultimately relies on business dynamism. Anti-competitive regulations, among the most stringent in the OECD, hamper business entry and growth of more productive firms. **Improving competition in product markets**, by reducing administrative barriers to starting a business, restrictive price regulations in professional and network services and barriers to foreign investment and to cross-border service supply (in trade facilitation, in the treatment of foreign suppliers and in legal and accounting services) can be done with the help of an OECD Competition Assessment Review, to identify and address the most binding constraints.

Population growth, urbanisation, rapid expansion of road transportation and coal power generation are raising considerable environmental pressures, such as carbon emissions and air pollution. **Environmental performance should be improved** by committing to a gradual transition to carbon pricing in all sectors once the COVID recovery is firmly in place, and by implementing a holistic strategy to enhance air quality, backed by a regular publication of local air quality indicators according to international standards.

Turkey: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Reduce the cost of employment of the low skilled	
<p><input checked="" type="checkbox"/> On the basis of the Law 5510 adopted in 2013, and with provisions adjusted in subsequent years, including in 2019, the government takes over the employer's share of social security contributions up to level of the official minimum wage in certain eligible regions, and under certain restrictive conditions in the entire territory, effectively lowering their labour cost.</p>	<p><input type="checkbox"/> Keep the real official minimum wage below average productivity gains for a while.</p> <p><input type="checkbox"/> Allow the regional differentiation of minimum wages through local consultations between government, employer and employee representatives and enterprise-level collective agreements.</p> <p><input type="checkbox"/> Reduce permanently social security contribution rates for all workers and finance these cuts by widening the tax base.</p>
Education and skills: Improve quality and equity of educational achievement at all levels	
<p><input checked="" type="checkbox"/> An update of early childhood education curricula is ongoing in 2020 under the project "Increasing the Quality of and Access to Early Childhood Education". This should also facilitate access with the help of flexible participation models.</p> <p><input checked="" type="checkbox"/> The Ministry of Education's "Vision 2023" strategic plan, adopted in 2019, sets the upgrading of vocational education as its highest priority.</p>	<p><input type="checkbox"/> Grant more autonomy and more resources per student to all education institutions while at the same time introducing greater performance accountability.</p> <p><input type="checkbox"/> Continue to strengthen vocational education in co-operation with the business sector.</p>
Labour market: Reform employment protection legislation and strengthen active labour market policies, addressing the informal sector	
<p>No action taken.</p>	<p><input type="checkbox"/> Reform the severance compensation regime, for example by replacing it with portable individual saving accounts available to all workers.</p> <p><input type="checkbox"/> Make fixed-term contracts more widely available for all workers.</p> <p><input type="checkbox"/> Support increased flexibility in labour markets with more effective social protections for those out-of-work and more reliable public funding for retraining and job search.</p>

2019-2020 Reforms	Recommendations
Competition and regulation: Ease administrative burdens, price regulations and barriers to foreign investment and cross-border service trade	
*New priority	<input type="checkbox"/> Reduce the administrative burdens for start-ups, the price regulations in professional and network services and the barriers to foreign investment and to cross-border service supply. Identify and address the most binding constraints with the help of an OECD Competition Assessment Review.
Environmental policy: Address environmental pressures caused by population growth, urbanisation, road transportation and expansion of coal power production	
<input checked="" type="checkbox"/> The Ministry of Environment and Urbanisation started technical evaluations for the introduction of a carbon pricing system (compatible with the EU one). <input checked="" type="checkbox"/> The government is sponsoring a national electrical car project and reduced, in 2016, the motor vehicles tax for electrical cars by 75%. <input checked="" type="checkbox"/> The Ministry of Environment and Urbanisation announced in 2019 that it will build 3000 km of bicycle paths and 3000 km of green walking paths by 2023.	<input type="checkbox"/> Gradually shift to carbon pricing in all sectors once the post-COVID recovery is firmly in place. <input type="checkbox"/> Implement a holistic strategy to enhance air quality, backed by the regular publication of local air quality indicators according to international standards.

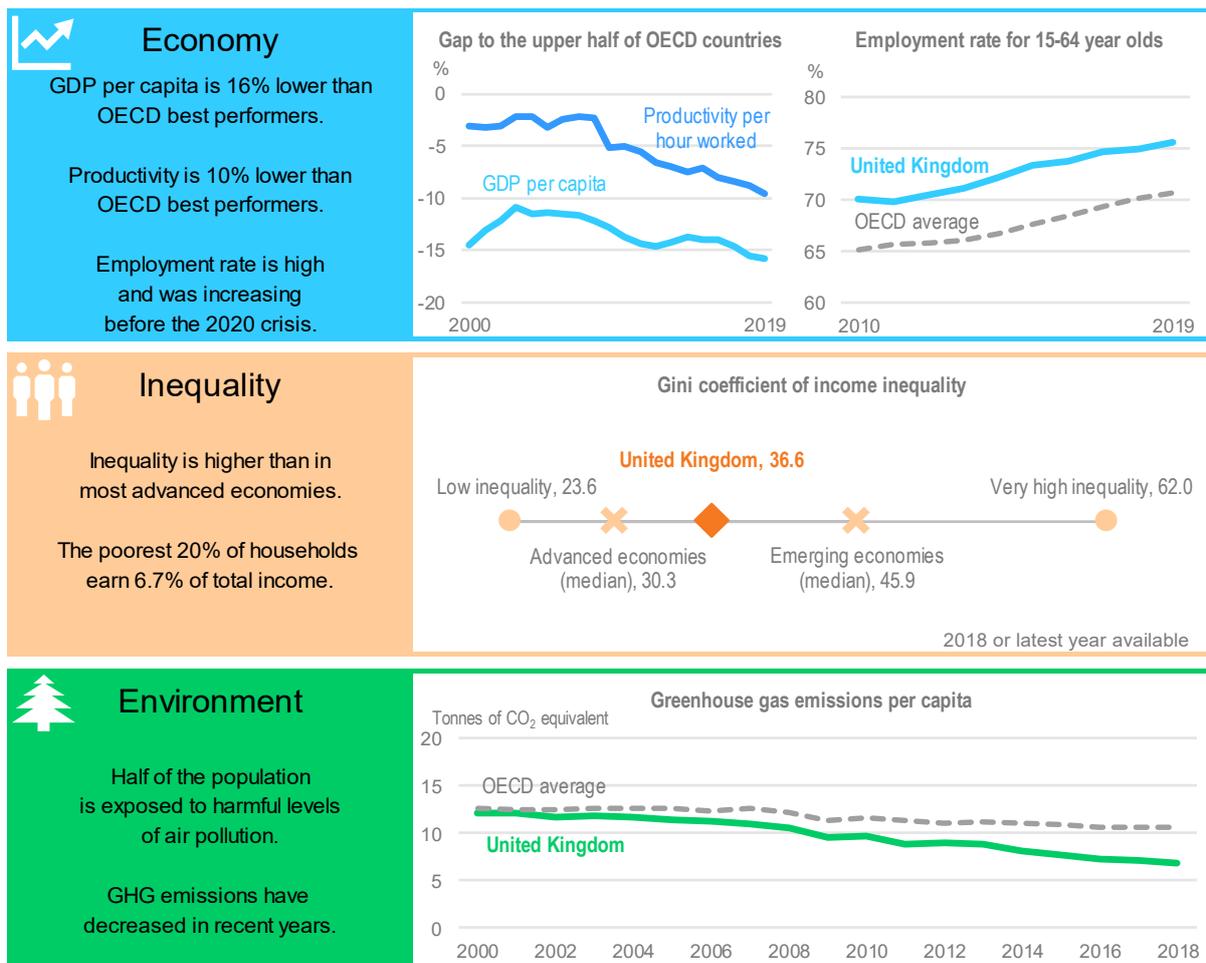
Recent progress on structural reforms

The severe financial turmoil of August 2018, the ensuing economic and employment contraction in 2019 and the COVID-19 shock in 2020 have crowded out the structural reform agenda. The government opted for hands-on investment support measures to stimulate economic activity during this period, side-lining structural and competition reforms. Unions remained very hostile to labour market reforms. The submission of a draft law to the Parliament in October 2020 to make formal fixed-term employment contracts more widely available for workers below 24 and above 50 was a step forward but the proposal was subsequently withdrawn on account of union opposition and opposition in Parliament.

United Kingdom

Vulnerable social groups have been particularly affected by the pandemic and poverty is set to increase as jobs are lost and self-employed see incomes dwindle, accentuating regional differences. The COVID-19 crisis has emphasized the need to re-train and up-skill the population, secure access to affordable housing by reducing bottlenecks to supply and to revive investment.

United Kingdom: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

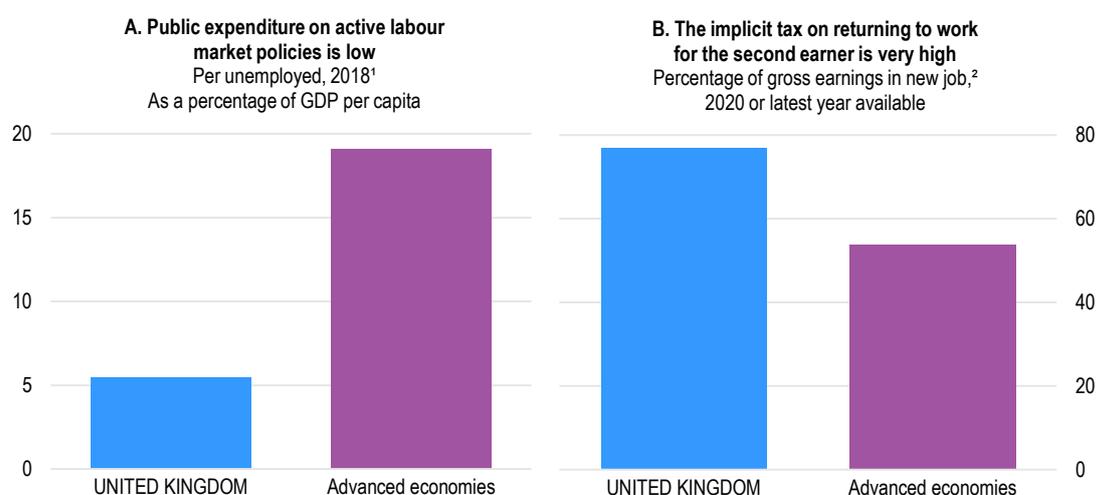
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Life-long learning and investment to ensure broad growth benefits

Given the pre-pandemic large skills gaps of the population and inequality concerns, **funding for lifelong learning** should be increased further. The United Kingdom has one of the highest shares of under-qualified workers among OECD countries while public and corporate spending on adult learning has declined, alongside participation in lifelong training. Support for job search, skills and apprenticeships, set out in July 2020, should be increased further, giving priority access to low-wage-low-skilled workers and good quality ICT trainings. Enhancing the overall access to Jobcentre Plus, the public employment service, and raising the quality and effectiveness of training programmes, would ease the impact of structural changes triggered by COVID and digitalisation (Panel A).

After decades of public under-investment, there is a considerable need to **invest in infrastructure, including digital**. Large investment is also needed to move toward a low-carbon economy and to tackle the long-standing challenge of narrowing regional differences, likely exacerbated by the COVID-19 crisis. The pandemic slowed private investment further, which has been weak since the 2016 referendum to leave the European Union (EU). Investment can be revived by maintaining low barriers to trade and investment with the EU and other trading partners. Easing land use regulations while balancing resource allocation, environmental and social concerns can also spur more investment in housing, **improving housing affordability and competition in construction**. The Government's 2020 White paper on the issue is welcome and policy measures should follow. These should be complemented by making the temporary cut in the stamp duty permanent and reforming the regressive Council tax.

United Kingdom: Vulnerabilities and areas for reform



1. For the United Kingdom, the latest year available is 2011.

2. Second earner taking up employment at 67% of average wage with the first earner at the average wage.

Source: Panel A: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases; Panel B: OECD, Tax-Benefit Models.

StatLink  <https://stat.link/gj4f8k>

High childcare costs continue to pose a hurdle to working mothers, who also took more responsibility for childcare during the lockdown (Panel B). **Increasing support for full-time good-quality childcare** would allow them to return to work. To leverage private sector innovation in emerging sectors and potentially “disruptive” technologies, **ensure a balance between direct R&D support and tax incentives**. Furthermore, channel the support also to smaller companies.

United Kingdom: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Boost funding for lifelong learning	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> From August 2020, the Government has been extending the statutory entitlements of the Adult Education Budget to fully fund all adults to take basic digital skills courses. <input checked="" type="checkbox"/> The Youth Obligation Support Programme helps young people develop the skills and experience they need to get into sustainable employment. <input checked="" type="checkbox"/> Funding to skills and apprenticeships was increased by GBP 1.6 billion in the 2020 Plan for Jobs. 	<ul style="list-style-type: none"> <input type="checkbox"/> Continue to boost funding for lifelong learning, prioritising improved access for low wage, low-skilled workers. <input type="checkbox"/> Improve access to, quality and effectiveness of training programmes offered by Jobcentre Plus, the public employment service. <input type="checkbox"/> Provide good quality ICT training to low-skilled workers.
Infrastructure: Increase public investment, prioritising digital infrastructure and deprived regions	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The Government allocated GBP 88 billion for roads, railways, communications, schools, hospitals and power networks across the country in the 2020 Budget and accelerated some public investment plans in response to the COVID-19 crisis. 	<ul style="list-style-type: none"> <input type="checkbox"/> A planned sustained increase in public investment, prioritising digital infrastructure and deprived regions, could bring sizeable long-term output gains, and would help to reduce inequalities. <input type="checkbox"/> Sound governance will be key to reap the full gains from increased public investments. <input type="checkbox"/> Keeping low barriers to trade and investment with the European Union and others, particularly securing market access for service sectors, would be beneficial for private investments going forward.
Housing: Improve housing supply and competition in construction	
No actions taken	<ul style="list-style-type: none"> <input type="checkbox"/> Ease land use regulations to improve housing supply and competition in construction, balancing resource allocation, environmental and social concerns. <input type="checkbox"/> Move to a flat-rate Council tax, while permanently reducing the stamp duty.
Labour market: Increase support for full-time good-quality childcare	
No actions taken	<ul style="list-style-type: none"> <input type="checkbox"/> Increase support for full-time good-quality childcare, notably by limiting costs relative to disposable income to facilitate full-time work and schooling for second earners.
R&D and digitalisation: Ensure a balance between direct R&D support and tax incentives	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Public spending on R&D subsidies has increased fast since the mid-2000s and is high in OECD comparison. 	<ul style="list-style-type: none"> <input type="checkbox"/> Ensure a balance between direct R&D support and tax incentives to leverage private sector innovation in emerging sectors and potentially “disruptive” technologies. <input type="checkbox"/> Put an emphasis on channeling support to smaller companies, for example with support facilities targeted directly at SMEs.

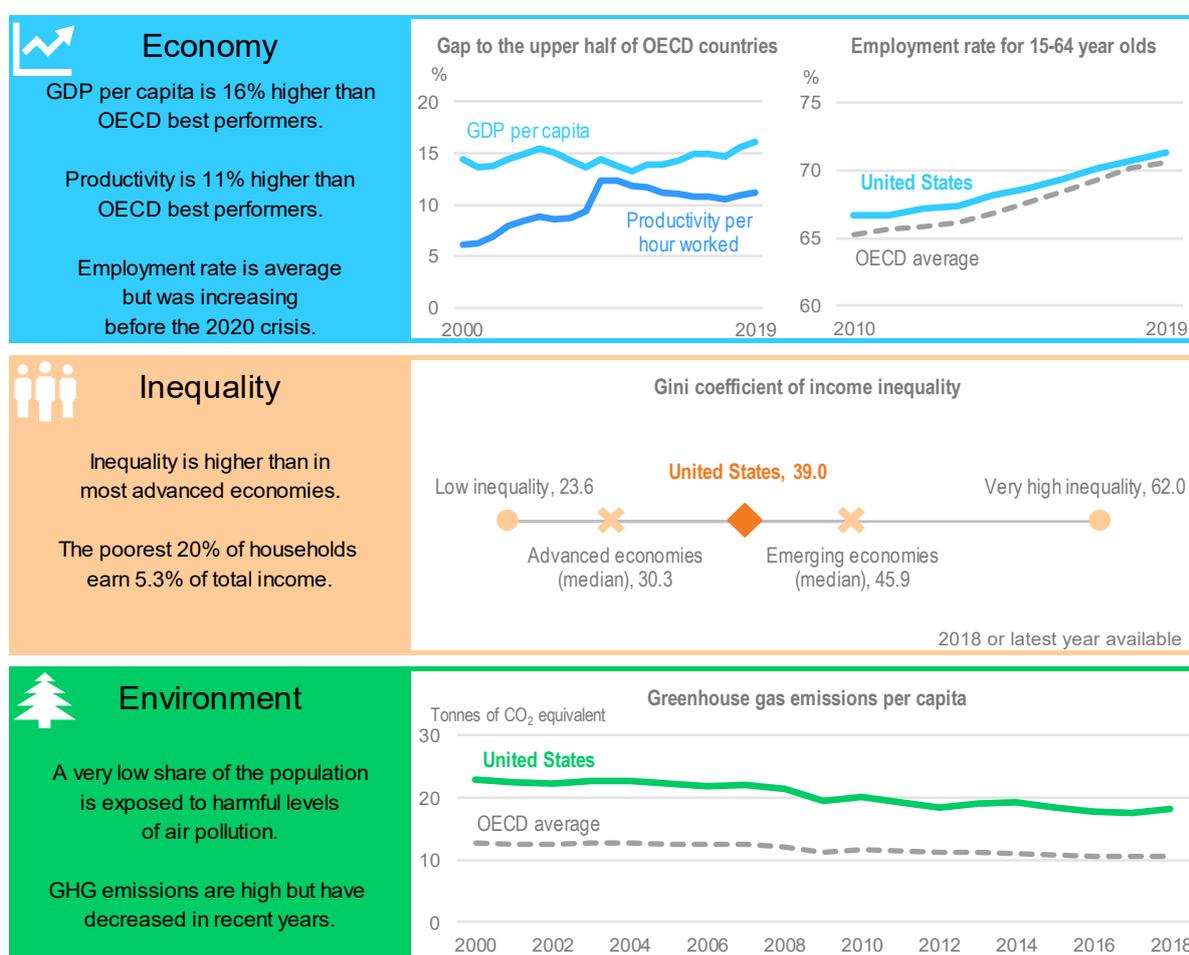
Recent progress on structural reforms

The United Kingdom left the European Union 31 January 2020 and left the single market 31 December 2020, preparations for the exit have held up political and administrative capacity and reforms since the 2016 referendum. Lately, initiatives linked to the COVID-19 response and the Government’s plans to level up regions outside of the prosperous South-East England started addressing some long-term challenges, notably by boosting funding to public investment and skills and by outlining an overhaul of land-use regulations. However promising, these efforts need sustained attention and financing to address the underlying challenges.

United States

The pandemic risks exacerbating the existing inequalities prevailing between social, ethnic and racial groups. Specific cohorts were especially negatively affected: the young, the less educated, Black or African Americans, Hispanic and Latinos, American Indians and Alaska Natives. The government cushioned the impact on vulnerable households, especially by providing cash transfers and expanding unemployment benefits. Nonetheless, a key policy priority should be to further improve the opportunities for the most vulnerable. Going beyond the immediate support, enhancing education, training and green infrastructure investment would contribute to more sustainable, resilient and equitable growth.

United States: Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for the United States is 2017.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

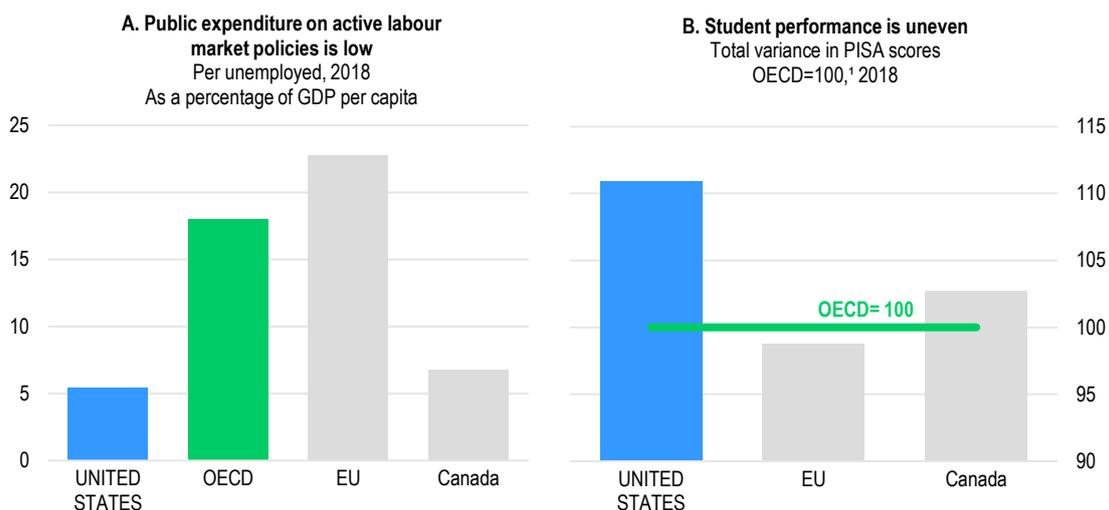
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Enhancing social protection and access to education for an inclusive recovery

To minimise the scarring effects of the pandemic on workers, graduates and vulnerable groups, **continued support is needed for those struggling to re-enter employment** and those at risk of dropping out of the labour force (Panel A). Public expenditure on active labour market policies should be increased, prioritising improvements to job placement and cost-effective retraining services. To support transitions from school into a weak labour market, more apprenticeships and training to young workers just entering the labour force are needed, while expanding earned income tax credits, paid parental leave and investment into quality childcare should help increase participation in the labour market. Furthermore, raising the federal minimum wage would both incentivise participation and help to ameliorate earnings inequalities.

The fact that many low-income workers are being disproportionately impacted by the economic slump is adding to pre-existing divides such as wide disparities in education outcomes and health status (Panel B). **Policies promoting equal opportunity in education are needed.** Tutoring and mentoring support programmes should be offered to those K-12 students that are furthest behind and risk dropping out of school. Federal subsidies could be provided to schools to encourage these programmes, with strong systems of accountability for learning outcomes.

United States: Vulnerabilities and areas for reform



1. The variance components in mathematics, science and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.

Source: Panel A: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases; Panel B: PISA Database.

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Removing obstacles to reallocation across the country, **including scaling down occupational licensing and non-compete agreements in work contracts**, can also help displaced workers to find new jobs. Boosting housing supply in desirable locations, by easing restrictions on land use, should be promoted through federal fiscal incentives for states and local authorities to relax such regulations and promote multi-use zoning.

The pandemic also underscored the importance of a well-functioning health system and digital infrastructure for wellbeing and economic resilience. Although the United States devotes a much larger share of resources to health care than other OECD countries, life expectancy at birth is comparatively low and has been declining. There are also important disparities in healthcare access, with differences in health

service utilisation across income groups larger than in many OECD countries. Despite numerous options to obtain health insurance, coverage remains incomplete and some population groups lack access to medical care. Access to health care was improved to address the COVID-19 outbreak (e.g. with free tests and vaccines) and with temporary measures that promote health insurance coverage in the government's American Rescue Plan. Similar **efforts to close gaps in health insurance coverage should continue**, while remaining cognisant of the need to improve health spending efficiency so as to reduce fiscal pressures in an ageing society.

The recovery should be harnessed to boost infrastructure investment, improving the equality of opportunities as well as environmental performance. **Access to high speed internet**, in particular in many rural locations, needs to be expanded. In road transport, user fees should **encourage internalisation of the broader costs of congestion and environmental damage**, while removing government subsidies for fossil fuels would further promote decarbonisation in energy. More broadly, the transition away from fossil fuels could be achieved most cost efficiently by introducing a uniform carbon price across the country.

United States: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Improve quality of retraining programmes to facilitate labour market transitions	
<p>No new action taken. The Department of Labor continues to expand the use of apprenticeships, job placement services and other services for displaced workers. Measures include: providing grants to states to expand apprenticeship opportunities; funding industry intermediaries to support apprenticeships; partnering with community colleges to promote vocational training and establishing youth and pre-apprenticeship programmes.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Increase spending on cost-effective active labour market policies, such as job placement services and support to geographic mobility. <input type="checkbox"/> Improve and broaden training programmes for displaced workers. <input type="checkbox"/> Expand earned income tax credits, particularly in locations where the participation rate is very low. <input type="checkbox"/> Raise federal minimum wage. <input type="checkbox"/> Expand the use of apprenticeships and on-the-job training to ease the school-to-work transition. <input type="checkbox"/> Continue reducing unnecessary legal restrictions to people with criminal records obtaining occupational licenses.
Education and skills: Improve equality of opportunities across social, racial and ethnic groups	
<p>No new action taken.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Use targeted federal funding to help states in undertaking ambitious school reforms to reduce educational disparities. <input type="checkbox"/> Provide support to parents with young children by expanding access to paid family leave nationally. <input type="checkbox"/> Require paid parental leave and improve access to quality childcare to help reduce wage gaps and improve career prospects.
Labour market: Restrictive zoning, occupational licensing and non-compete agreements are constraining labour reallocation	
<p><input checked="" type="checkbox"/> The Workforce Mobility Act was tabled in Congress in January 2020 and is currently being debated. This bill prohibits employers from entering into, enforcing, or threatening to enforce non-compete agreements with employees, subject to exceptions.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Encourage states to de-license occupations with very limited concerns for public health and safety. <input type="checkbox"/> Use federal law to impose recognition of out-of-State licensures, allowing states to set stricter requirements only if they can prove it necessary to protect the public. <input type="checkbox"/> Outlaw the use of non-competes except where employers can prove benefit to workers. <input type="checkbox"/> Use Federal funding to encourage states and localities to remove zoning restrictions or move to multi-use zoning.

2019-2020 Reforms	Recommendations
Healthcare: Reduce disparities in access while improving spending efficiency	
<input checked="" type="checkbox"/> Access to health care was improved to combat the COVID-19 outbreak, but otherwise no new action taken.	<input type="checkbox"/> To improve spending efficiency, act on the research by the Patient-Centered Outcome Research Institute and others that compares the effectiveness of different prescription drugs and treatments. Ensure that the identified cost-saving measures are rolled out, and monitor their impact. <input type="checkbox"/> Continue to close gaps in health insurance coverage.
Infrastructure: Combat congestion and environmental degradation with infrastructure investment	
<input checked="" type="checkbox"/> Numerous states have enacted targets since 2019 to achieve net zero greenhouse gas emissions by 2050. These include Nevada, Montana, Michigan, New York, Maine, Louisiana and Washington.	<input type="checkbox"/> Roll out initiatives to invest more in infrastructure, making use of greater private-sector financing, user fees and flexible risk-sharing arrangements. <input type="checkbox"/> Ensure that harmful emissions, such as carbon and particulate matter, are priced appropriately and eliminate fossil fuel subsidies. <input type="checkbox"/> Invest in extreme weather and climate-resilient infrastructure. <input type="checkbox"/> Improve the maintenance of the road network and invest more in mass transit where it is cost effective. <input type="checkbox"/> Continue to invest in expanding the coverage of broadband networks based on careful cost-benefit analysis of projects.

Recent progress on structural reforms

Prior to the pandemic, a variety of infrastructure spending plans had been proposed, but did not secure bipartisan support. Important reforms of recent years reduce red tape, with regulatory agencies required to evaluate the overall costs of their actions on the economy and to reduce at least two regulations for the introduction of any new regulatory burden. Anti-trust cases against digital companies with substantial market power have also been initiated by the Federal Trade Commission and Department of Justice. Recent initiatives follow significant reforms in the years immediately prior, such as reductions in corporate and personal income tax rates, a scaling back of regulatory burdens on small and mid-sized banks and competition-enhancing initiatives in the pharmaceuticals market.