Foundations for Growth and Competitiveness 2026

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Table of contents

Acknowledgements 3

Editorial 8

ISO Codes 10

Executive Summary 12

1 Overview 17

1. Introduction 18
2. Priorities for foundational growth conditions: enabling factors 33
3. Shaping incentives for businesses and individuals 48
4. Guiding and supporting activities through targeted and sectoral policies 77
5. Structural reforms amid fiscal and political constraints 85

References 91
Annex 1.A. The F4GC policy prioritisation model 111
Annex 1.B. Estimating the short-term impact of structural reforms using local projections and differences-in-differences 115
Annex 1.C. List of indicators in the F4GC database 117

2 Country Notes 129

Argentina 130
Australia 134
Austria 138
Belgium 142
Brazil 146
Bulgaria 150
Canada 154
Chile 158
China 162
Colombia 166
Costa Rica 170
Croatia 174
Czechia 178
Denmark 182
Estonia 186
Finland 190
France 194

Germany 198
Greece 203
Hungary 207
Iceland 211
India 215
Indonesia 219
Ireland 223
Israel 227
Italy 231
Japan 235
Korea 239
Latvia 243
Lithuania 247
Luxembourg 251
Mexico 255
Netherlands 259
New Zealand 263
Norway 267
Peru 271
Poland 275
Portugal 279
Romania 283
Slovak Republic 287
Slovenia 291
South Africa 295
Spain 299
Sweden 303
Switzerland 307
Türkiye 311
United Kingdom 315
United States 319

FIGURES

Figure 1. Weak labour productivity and declining business dynamism underpinned the decline in potential output in the OECD 19
Figure 2. Mathematics, reading and science performances declined significantly since PISA began 20
Figure 3. Adoption pace and sectoral specialisation drive the predicted differences in AI-productivity gains across countries 22
Figure 4. Aggregate measures of welfare are tightly correlated with consumption and GDP per capita 24
Figure 5. The Foundations for Growth and Competitiveness Framework 28
Figure 6. The F4GC policy prioritisation model 29
Figure 7. Shares of F4GC priorities across main policy areas 31
Figure 8. Distribution of policy recommendations on enabling factors 33
Figure 9. OECD 2023 PIAAC scores 35
Figure 10. Country-level labour productivity gains resulting from closing the skills gap 36
Figure 11. Country-level labour productivity gains implied by closing sector-level labour market mismatches 37
Figure 12. Policies to improve human capital accumulation across the life cycle are needed to boost economic growth 38
Figure 13. Policies to improve governance and public institutions can foster investment and growth 41
Figure 14. The impact of an increase in rail infrastructure investment on labour productivity and employment rates 42
Figure 15. Increasing rail infrastructure investment could lead to economic gains 43

Figure 16. Investment in physical infrastructure and strengthened planning policies are needed to boost growth 44
Figure 17. Policies to raise investment in digital infrastructure and foster the adoption of digital technologies 46
Figure 18. Broadening access to finance for firms, ensuring fiscal sustainability and strengthening prudential oversight are key policies to ensure macroeconomic and financial stability 47
Figure 19. Distribution of policy recommendations to foster market incentives and allocative efficiency 49
Figure 20. Policy recommendations to encourage market efficiency and business dynamism 50
Figure 21. Policy recommendations to remove obstacles to labour utilisation and mobility 53
Figure 22. The impact of a reduction in the marginal tax wedge on employment 54
Figure 23. Lowering the marginal tax wedge could lead to employment gains 55
Figure 24. The impact of an increase in ALMP spending on employment 58
Figure 25. Higher Active Labour Market Policies spending could boost employment 59
Figure 26. The impact of a reduction in the stringency of employment protection legislation on employment 61
Figure 27. Tax structures vary across countries 62
Figure 28. Key policy recommendations to establish a pro-growth tax framework 64
Figure 29. The impact of a reduction in the effective corporate tax rate on capital deepening 65
Figure 30. Easing corporate taxation could lead to economic gains 66
Figure 31. The impact of a reduction in statutory corporate tax rate and an increase in capital allowances on capital deepening 67
Figure 32. Easing corporate taxation could support capital deepening 68
Figure 33. Policy recommendations to promote rules-based open markets and FDI 70
Figure 34. Supply constraints have contributed to the decline in housing affordability 72
Figure 35. Policy recommendations to reform housing policies 73
Figure 36. The impact of loosening rental market regulations on growth 75
Figure 37. Easing of rental market regulations could boost labour utilisation 75
Figure 38. Targeted policies are warranted in various areas 77
Figure 39. The impact of an increase in basic research expenditure on labour productivity 79
Figure 40. Raising basic research expenditure to the OECD median could boost labour productivity 80
Figure 41. Increasing and improving R&D support while encouraging research collaborations will be important to boost growth 81
Figure 42. A mix of higher carbon pricing, additional green investment, and smart regulations can support a growth-friendly green transition 84
Figure 43. Public debt levels are elevated 85
Figure 44. Short-term impacts of reforms covered in local projections analysis 87

Annex Figure 1.A.1. The F4GC policy prioritization model 111
Annex Figure 1.A.2. Policy-performance benchmarking 112
Annex Figure 1.A.3. An illustration of policy interactions 113

TABLES

Table 1. Summary of the short-term impacts of structural reforms not covered in local projections analysis 88

Annex Table 1.C.1. Enabling factors 118
Annex Table 1.C.2. Market incentives and allocative efficiency 123
Annex Table 1.C.3. Targeted and sectoral policies 127

BOXES

Box 1. The growth potential of AI 21
Box 2. GDP per capita does not equate welfare but is a helpful benchmark 23
Box 3. Adult skills and productivity: evidence from PIAAC 35
Box 4. The short-term impact of investment in rail infrastructure on economic growth 42
Box 5. Lowering tax wedges can help boost employment in the short term 54

Box 6. The short-term employment impact of scaling up active labour market policies 58
Box 7. The short-term impact of easing employment protection legislation (EPL) 60
Box 8. The short-term impact of effective corporate tax rates 65
Box 9. Strategies to invest in trade resilience 69
Box 10. Loosening rental market regulations can gradually improve productivity and employment 74
Box 11. Basic research can boost labour productivity in the short term 79
Box 12. Regulatory barriers to solar, wind, and pumped hydro storage in the OECD 83
Box 13. Flexibility for structural reforms in fiscal frameworks 89

Editorial

Across the OECD and beyond, the foundations of economic growth are under strain. Over the past two decades, labour productivity growth has slowed markedly in most countries. This slowdown reflects a combination of structural bottlenecks: subdued business investment, declining firm dynamism, slowing technology diffusion and a weakening pace of human capital accumulation. While employment growth has been resilient, many countries are facing significant population ageing, which will affect the potential for labour to sustain growth.

At the same time, rapid advances in artificial intelligence and digital technologies offer the potential of a new wave of sustained productivity gains. Whether new technologies translate into sustained productivity gains will depend crucially on structural policy settings.

This first edition of *Foundations for Growth and Competitiveness* arrives at a pivotal moment. Structural reform momentum has slowed across many OECD countries but there is heightened need for countries to remain competitive and resilient in a global landscape characterised by unprecedented structural transformations and geopolitical and trade shocks. To help countries meet these challenges, the report offers practical tools for policy makers, including a comprehensive online data platform to identify structural policy bottlenecks and tailored reform priorities for 48 countries developed through an iterative dialogue with national authorities.

Sustainable prosperity rests on strong enabling conditions: high-quality human capital, sound institutions, effective governance, reliable infrastructure, affordable and secure energy supply and macroeconomic stability.

Across countries, strengthening skills systems and lifelong learning emerges as one of the most frequent reform priorities in this report also to promote an effective adoption of digital and in particular AI tools. As artificial intelligence and digitalisation reshape production and the way businesses work, workforce adaptability becomes a decisive competitive advantage. Countries that strengthen vocational education, expand access to lifelong learning and deepen links between universities and labour markets will be better placed to adapt to evolving business needs.

Institutional quality and efficient regulatory processes are equally critical. Predictable, transparent and well-designed regulatory frameworks foster trust and reduce uncertainty. Strong institutions improve the allocation of resources and underpin market incentives. In an era of heightened geopolitical and economic uncertainty, macroeconomic stability and sound fiscal frameworks remain essential anchors.

Yet enabling conditions alone are not sufficient. Markets must also function efficiently to promote economic dynamism, technological diffusion and business investment. But when these forces are weakening, policies that strengthen competition and reduce regulatory barriers become more important. Accordingly, improving product market regulation and insolvency regimes is another central reform priority identified across countries. Recommendations also emerge in the tax space, given that poorly designed tax systems can distort incentives and discourage investment.

Labour mobility and participation also remain central to competitiveness and for enhancing access to quality jobs for workers. Reducing barriers to participation – particularly for women, older workers and underrepresented groups – while strengthening work incentives, employability and expanding access to affordable childcare can raise both equity and efficiency. Housing policies that facilitate mobility and tax systems that broaden the base while limiting distortions can further enhance allocative efficiency.

With strong foundations and effective market incentives in place, governments can more successfully guide economic activity toward strategic priorities. Innovation policy, energy security and the clean energy transition are areas where well-designed, targeted interventions can address market failures and support long-term growth. Public support for research and development, when combined with strong human capital and competitive markets, can unlock private investment. Energy market reforms that reduce entry barriers and encourage investment in renewables can strengthen both resilience and competitiveness.

A central message of this edition is that structural reforms are most powerful when they are coherent and complementary. Product market reforms enhance the impact of human capital-augmenting policies. Sound fiscal frameworks reinforce confidence and enable reform to endure. Policy complementarities are particularly important in the context of major technological and demographic transformations.

While the long-term benefits of reform are well documented, the political feasibility of reforms often hinges on near-term effects on policies. By providing examples of how some reforms affect economic performance in the short run, this edition provides food for thought in designing and implementing reform packages that are both economically effective and have strong and broad support. Understanding transitional effects, anticipating distributional impacts and deploying complementary measures can help sustain reform momentum.

Structural reforms also play a crucial role in strengthening fiscal sustainability. At a time of elevated public debt and rising spending pressures, growth-enhancing reforms offer a path to improving debt dynamics without relying exclusively on fiscal consolidation. By broadening tax bases, improving government efficiency and boosting economic dynamism, reforms can reinforce both resilience and long-term prosperity.

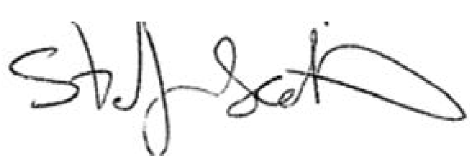
Ultimately, competitiveness is not a zero-sum concept. Economies that strengthen their domestic foundations contribute to a more dynamic and resilient global economy. The objective is not simply faster growth, but growth that is durable, innovation-driven and aligned with environmental sustainability and social cohesion.

The OECD economies are facing new growth opportunities but also challenges. Take the most out of these opportunities while addressing the challenges will be key to revitalise productivity and secure higher living standards for future generations.

The foundations of growth must now be rebuilt deliberately and decisively.

Stefano Scarpetta

OECD Chief Economist and G20/G7 Finance Deputy



ISO Codes

ARG	ARGENTINA
AUS	AUSTRALIA
AUT	AUSTRIA
BEL	BELGIUM
BRA	BRAZIL
BGR	BULGARIA
CAN	CANADA
CHL	CHILE
CHN	CHINA
COL	COLOMBIA
CRI	COSTA RICA
HRV	CROATIA
CZE	CZECHIA
DNK	DENMARK
EST	ESTONIA
FIN	FINLAND
FRA	FRANCE
DEU	GERMANY
GRC	GREECE
HUN	HUNGARY
ISL	ICELAND
IND	INDIA
IDN	INDONESIA
IRL	IRELAND
ISR	ISRAEL
ITA	ITALY
JPN	JAPAN
KOR	KOREA
LVA	LATVIA
LTU	LITHUANIA
LUX	LUXEMBOURG
MEX	MEXICO
NLD	NETHERLANDS
NZL	NEW ZEALAND
NOR	NORWAY
PER	PERU
POL	POLAND
PRT	PORTUGAL
ROU	ROMANIA
SVK	SLOVAK REPUBLIC
SVN	SLOVENIA

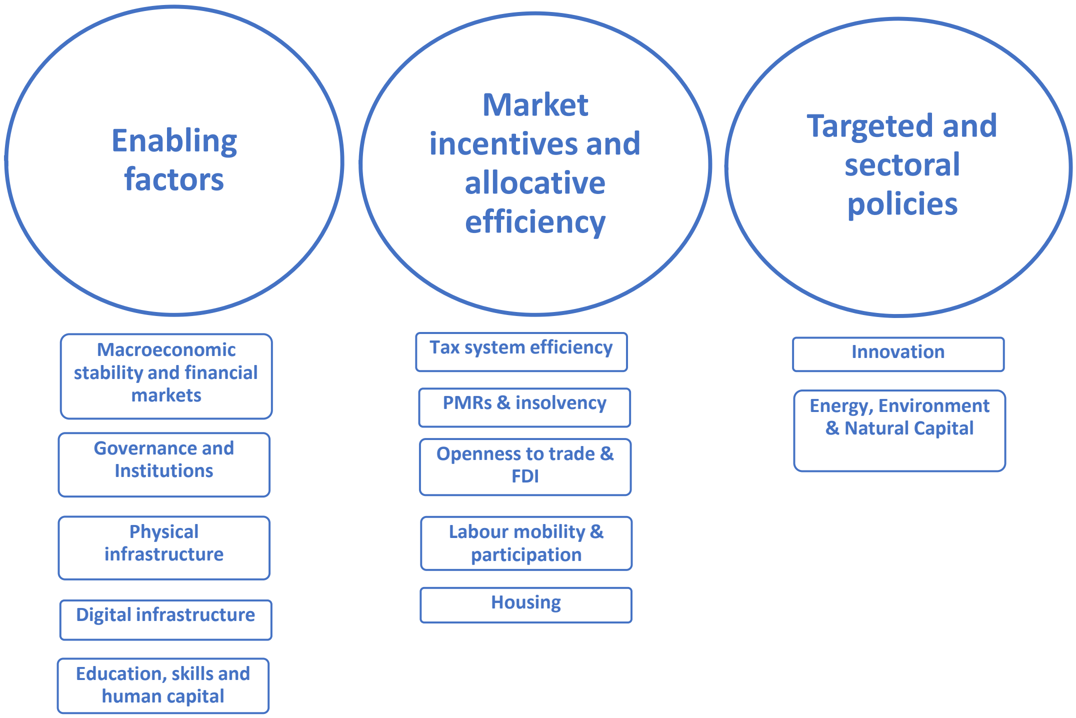
ZAF	SOUTH AFRICA
ESP	SPAIN
SWE	SWEDEN
CHE	SWITZERLAND
TUR	TÜRKIYE
GBR	UNITED KINGDOM
USA	UNITED STATES

Executive Summary

Revisiting the foundations for growth is now central given the decline in medium term economic prospects that have beset OECD countries, underpinned by a marked slowdown in labour productivity growth. The latter reflects persistently weak business investment in the aftermath of the global financial crisis as well as longer term slowdown in business dynamism and human capital accumulation. While stronger employment outcomes over the last 15 years have provided some offset, this growth could fade due to population ageing and persistent labour and skill shortages. In this context, there is an urgent need for countries to implement productivity-enhancing structural reforms, noting that reform momentum has been in retreat across the OECD for more than a decade. Doing so can help countries to revitalise their economies by confronting the above headwinds to growth and more fully capitalising on the opportunities offered by new technologies, such as Artificial Intelligence.

The *Foundations for Growth and Competitiveness (F4GC)* initiative aims to provide policymakers with tools to tackle these challenges. This 2026 edition identifies structural reform priorities that can be organised into three key policy areas (see below): *enabling factors*, including human capital, governance, infrastructure and macroeconomic policy; *market incentives and allocative efficiency*, spanning taxation, product and labour market regulation, trade and FDI; and *targeted and sectoral measures* including innovation and energy security support.

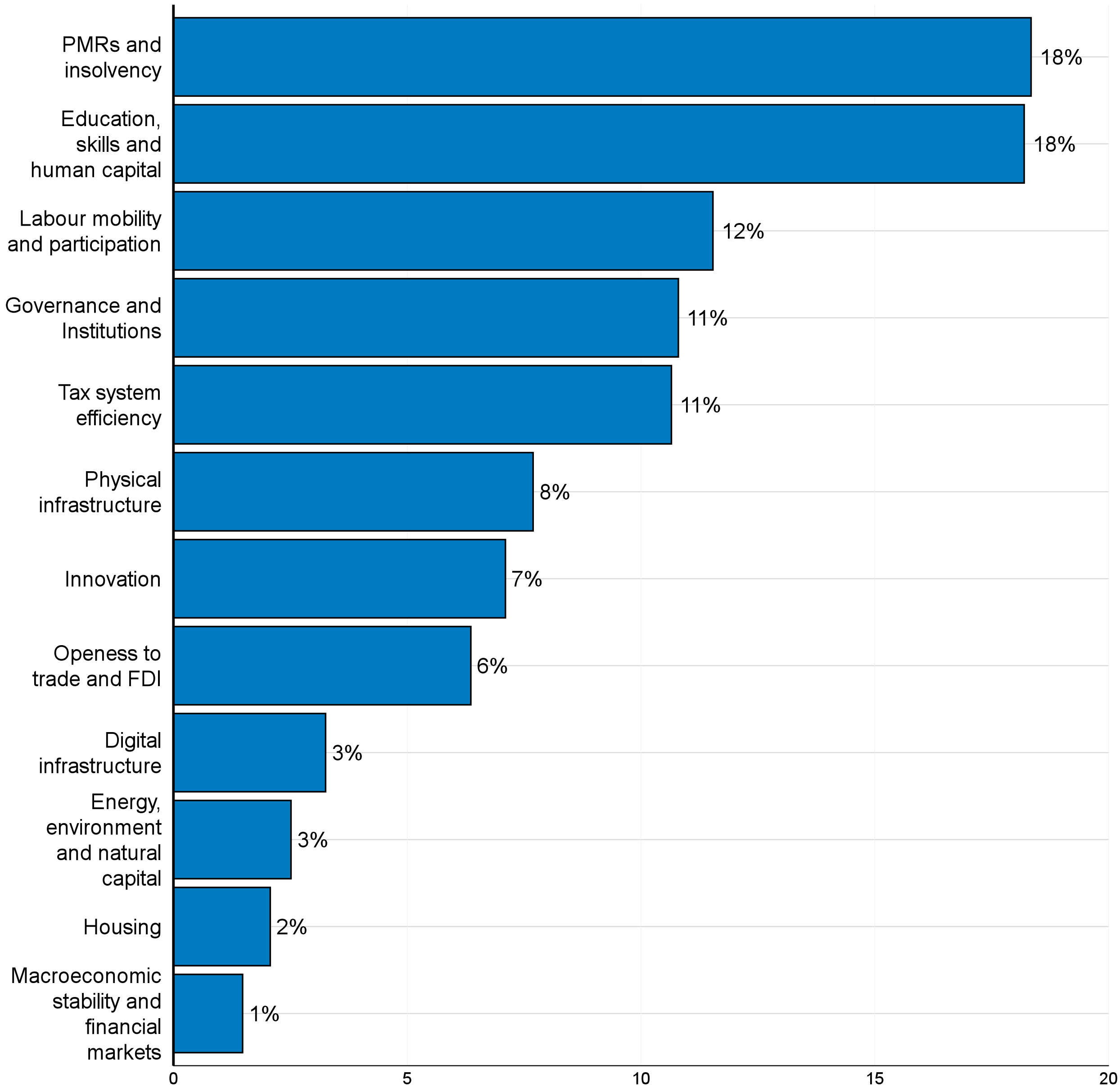
The Foundations for Growth and Competitiveness Framework



Reform priorities are identified through a newly developed policy prioritisation model, built upon a new database aggregating most of the OECD statistical production on structural policy settings. Each of the indicators in this database is subsequently paired with relevant performance outcomes, informed by the current state of knowledge on how improved policy settings can lift the structural drivers of growth. For any given country, a reform priority candidate emerges when both the performance outcome and the associated policy measure fall below the OECD average, with larger gaps receiving higher priority. This quantitative(cross-country) potential priority selection is then complemented by the qualitative expertise of the relevant country desk, to identify the top five structural priorities for the 48 countries covered, including all 38 OECD member countries.

While each country's situation is unique, more than one-third of structural challenges identified concern product market regulations (PMR) and insolvency and education, skills and human capital (see below), which is significant given the slowdown in business and human capital accumulation. Another one-third of the recommendations encompass labour mobility and participation, governance and institutional quality and tax system efficiency. Structural challenges with physical infrastructure, innovation and openness to trade and FDI follow, jointly making up for more than one-fifth of the total. Finally, challenges related to digital infrastructure, energy and environmental policies, housing and macroeconomic policy and financial markets make up under one-tenth of the total.

Reviving growth requires addressing a wide range of structural challenges



Source: OECD calculations based on F4GC country notes.

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Strengthening the underlying enablers of growth

To revive growth and build a strong economy, strengthening the foundations is the first step. For this, countries need to address the structural challenges involving their growth enablers. Investing in human capital by improving the quality and responsiveness of education, especially vocational training, expanding access at all levels of instruction, and strengthening links between universities and labour markets can increase labour productivity and improve the adaptability of the labour force to structural transformations.

Furthermore, strengthening the quality of regulations and institutions through measures such as expanded regulatory impact assessments and more active stakeholder engagement lays the foundation for efficient regulatory frameworks, which in turn are key to providing appropriate market incentives and improving the allocation of resources across the economy. At the same time, increasing investment in infrastructure, especially in transport and broadband, can strengthen connectivity and knowledge and technology diffusion, in turn, raising productivity growth. Ensuring cost-effectiveness, environmental sustainability and better project appraisal are key to maximising the returns. Additionally, enhancing macroeconomic stability, including through sound fiscal management, and improving firms' access to finance, are essential to creating a favourable environment for business activity.

Enhancing market incentives and allocative efficiency

Once these key enablers are in place, the second natural step is to provide firms and households with market incentives that encourage economic activity and channel resources to their most productive uses.

The regulatory environment can foster firm creation, investment and innovation, provided that key enabling factors such as adequate skills and infrastructure are in place. Strengthening competition in product markets, including by reducing government ownership in business, and maintaining international rules-based open trade and FDI, provides incentives for firms to invest and innovate. Reducing administrative burdens, easing barriers to entry – especially in sectors with large spillovers to the rest of the economy (e.g. network industries, professional services and retail trade) – and simplifying insolvency regimes can promote the entry and exit of firms, boosting business dynamism and allocative efficiency.

Furthermore, reducing barriers to labour mobility and participation can promote a more efficient use of the workforce. Strengthening work incentives – through well-designed tax-benefit systems and activation policies – alongside expanded access to affordable childcare and housing policies that promote mobility, can support a better labour utilisation and allocation of skills. Finally, tax reforms that streamline tax expenditures and broaden the tax base, shift the burden from labour and corporate income towards immovable property and consumption and digitalise tax collection, can further boost growth by reducing distortions.

Guiding and supporting economic activity

With the enabling conditions for growth established and policies providing adequate market incentives set, governments can then strategically steer economic activity toward priority areas. Targeted reforms that promote innovation, green investments and energy security help address market failures, accelerate technological transitions, and align growth with long-term societal objectives, while strengthening competitiveness and economic resilience.

Public support for R&D remains essential to overcome underinvestment, and stronger business–university collaboration and better coordination across innovation policies can amplify impact, particularly when combined with education reforms.

Energy market reforms are increasingly central to the security of energy supply and to advancing the clean energy transition. To this end, countries can benefit from removing barriers to entry, strengthening regulation, and incentivising investment in renewables and energy efficiency.

Gathering support for structural reforms requires deepening their coherency and the understanding of their impact

A successful structural reform agenda hinges on its coherence and mastering any potential political economy barriers to reform. With this in mind, F4GC places a strong emphasis on understanding the scope for exploiting policy complementarities as well as generating new evidence on the timeframe over which the growth gains of structural reforms materialise, given that reforms can entail political costs.

While the most prevalent policy priorities relate to PMRs and insolvency regimes and human capital and skills, reforms in these areas have the potential to unleash policy complementarities by enhancing the effectiveness of policies in other domains (especially targeted policies). For instance, the returns to innovation subsidies will be amplified by the availability of high-quality human capital as well as PMRs and insolvency regimes that enhance economic dynamism, which is central to the innovation process.

Furthermore, leveraging the newly constructed database, this first edition also provides new empirical evidence on the short-term economic impact of structural reforms, which can be uncertain and uneven. The short-term effects shape the reactions of voters and interest groups, influencing whether reforms are politically feasible, sustained, or reversed. Knowing these effects allows policymakers to anticipate resistance, design compensatory measures, build coalitions, and overall construct a better reform strategy that can increase the chances of reforms being successfully adopted and implemented.

This new empirical evidence aims at complementing previous OECD work, which documented primarily long-term effects. But building on these long-term insights, this edition also highlights how structural reforms can also support fiscal sustainability amid high public debt and rising spending pressures. By broadening the tax base, boosting economic dynamism or improving government efficiency, structural reforms can lower debt-to-GDP ratios without relying solely on austerity, thereby reinforcing debt sustainability and strengthening both resilience and growth. Recognising these effects more prominently can also enhance the political acceptability of reforms, by demonstrating tangible fiscal and economic gains to stakeholders.

1 Overview

This Chapter identifies and discusses new policy priority areas where structural reforms are needed to lift growth fundamentals across OECD and partner countries. It distinguishes between three distinct sets of policies: Enabling Factors, Market Incentives, and Targeted Policies, for which priorities are identified based on a new policy prioritisation model. New OECD research on the short-term effects of structural reforms is also presented. Country specific information supporting this chapter is available in the country notes (Chapter 2).

1. Introduction

The need for a comprehensive review of growth and competitiveness policies

The question of why some countries succeed and others do not is one of the most enduring and fundamental questions in economics (Barro, 1996[1]). Indeed, a vast literature identifies a range of prominent drivers of prosperity and growth, including a stable macroeconomic environment (Barro, 1991[2]), (Bloom, 2009[3]), efficient tax systems (Porter, 1990[4]), good governance and solid institutions (Acemoglu, Johnson and Robinson, 2005[5]; de Soto, 2000[6]), high-quality infrastructure (Aschauer, 1989[7]), productivity-enhancing human capital and labour, as well as open and competitive markets (OECD, 2015[8]). While some of these foundations for growth have been studied jointly, there has been no single attempt to bring them together in a comprehensive measurement framework, despite the potential for broad-based reform packages to yield greater economic benefits than isolated reforms. *Foundations for Growth and Competitiveness (F4GC)* aims to equip policy makers with the tools to identify policy priorities, harness policy complementarities and improve policy coherence.

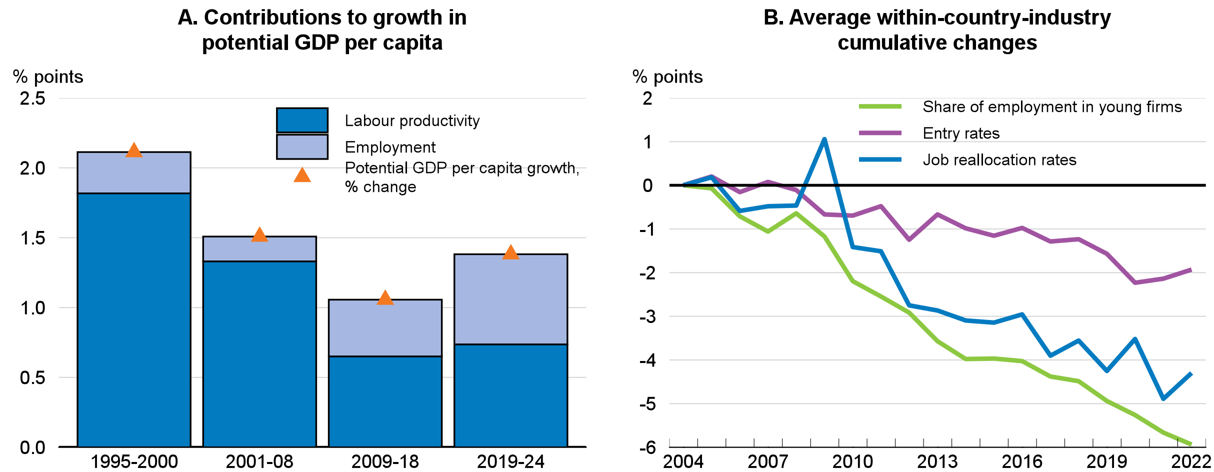
Revisiting the foundations of growth has become increasingly relevant over the past two decades, as potential growth has declined significantly in many countries (and across the OECD), driven by a sharp slowdown in labour productivity growth. This trend has coincided with a decline in structural reform momentum, prompting repeated calls for productivity-enhancing reforms to revive growth, as well as boost living standards and wellbeing (OECD, 2015[9]; OECD, 2017[10]; OECD, 2023[11]). Most recently, these issues have been brought into closer focus by the Draghi report, which highlights the entrenched challenges that the EU faces to raise competitiveness (European Commission, 2024[12]).

The challenge: structural headwinds to growth

Given the scale of the COVID-19 and inflation shocks, it is easy to lose sight of the headwinds to growth and competitiveness that were gathering before the pandemic. Annual potential output growth slowed by about one percentage point across the OECD since the late 1990s (Figure 1, Panel A). This was driven by a marked slowdown in trend labour productivity growth, reflecting two headwinds to growth and the business environment. First, the emergence of persistently weak business investment in the aftermath of the financial crisis meant that firms were devoting fewer resources to upgrading their technologies, their modes of production and their business practices. Second, a longer-term slowdown in multi-factor productivity (MFP) growth, raising questions about whether the forces of innovation and economic dynamism were in retreat (Figure 1, Panel B).

The contribution to potential growth from employment, on the other hand, has risen since the pandemic, reflecting low unemployment and an increase in labour force participation across the OECD, in particular that of older and female workers (OECD, 2025[13]). Other structural trends such as ageing populations and labour shortages, however, will likely weigh on the contributions from employment in the future.

Figure 1. Weak labour productivity and declining business dynamism underpinned the decline in potential output in the OECD



Note: In panel B, estimates are derived from year coefficients of within-country–industry regressions covering 12 countries (AUT, BEL, DEU, ESP, FIN, FRA, GBR, HUN, ITA, PRT, SVN, TUR) over 2004–22 (unbalanced panel). Each point represents the cumulative change in percentage points relative to 2004. Regressions are weighted by each industry's annual share of employment or number of units, within countries. The figure covers manufacturing and non-financial market services (ISIC Rev. 4, sections C and G–N, excluding K).
Source: Panel A: OECD, Economic Outlook Database 118; Panel B: OECD DynEmp Database (October 2025), updated from Calvino, F., C. Criscuolo and R. Verlhac (2020), "Declining business dynamism: Structural and policy determinants", OECD Science, Technology and Industry Policy Papers, No. 94, OECD Publishing, Paris, https://doi.org/10.1787/77b92072-en and Cho, W. et al. (2024), "Diagnosis and policy action for sustainable and inclusive productivity growth", OECD Science, Technology and Industry Working Papers, No. 2024/07, OECD Publishing, Paris, https://doi.org/10.1787/1668f250-en.

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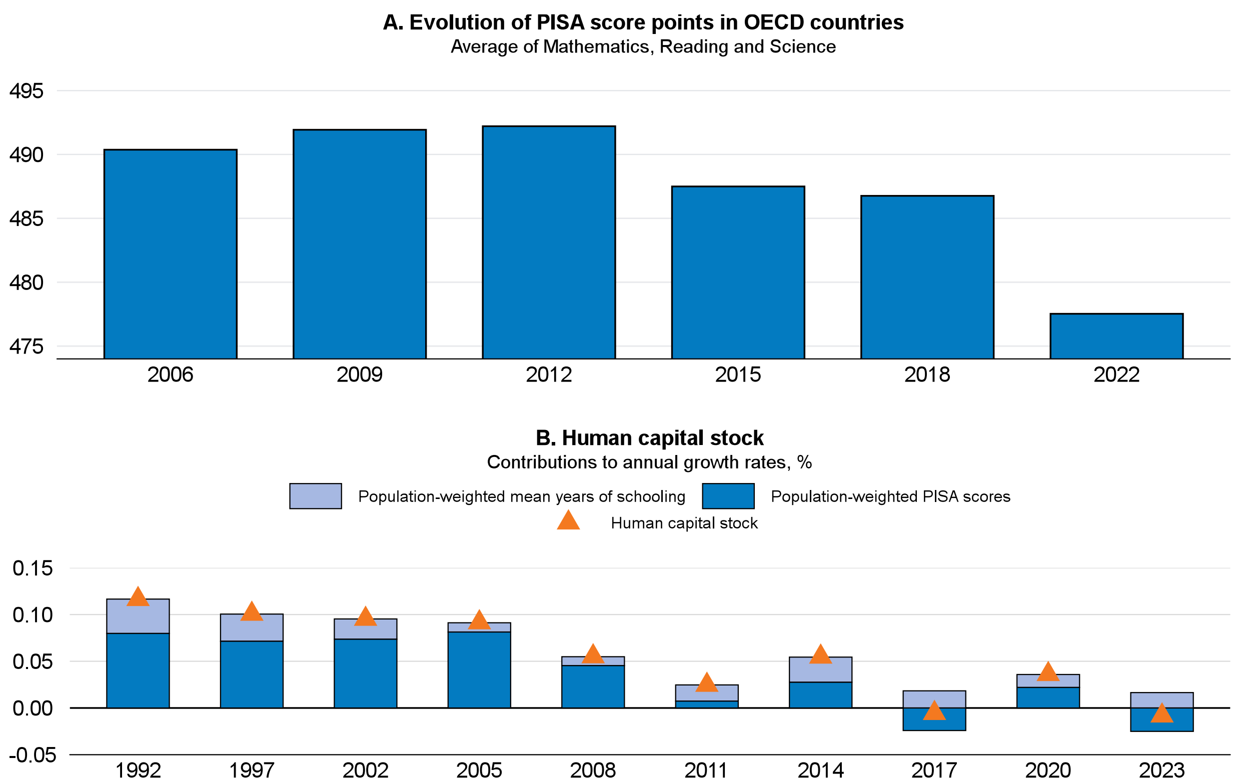
An emerging body of micro evidence has deepened concerns about productivity and competitiveness across OECD countries (Andrews, Criscuolo and Gal, 2016[14]). The starting premise is that productivity growth is sustained by experimentation with new ideas, the broad diffusion of advanced technologies and business practices and the efficient reallocation of resources to their most productive uses. It then showed that the aggregate productivity slowdown was underpinned by a growing divergence in the productivity performance of global frontier and laggard firms. While these patterns were suggestive of winner-take-all dynamics, it was also a symptom of barriers to knowledge diffusion and a decline in creative destruction whereby new firms enter and replace less productive incumbents (Andrews, Criscuolo and Gal, 2016[14]). These trends coincided with the increasing survival of zombie firms, rising market concentration and mark-ups and declining job mobility and labour reallocation towards more productive firms.

One interpretation of these trends is that market competition and economic flexibility were in decline, partly due to rising adjustment frictions that have reined in the process of creative destruction. This hypothesis is consistent with evidence highlighting the importance of structural reforms that improve the functioning of product, labour, housing, and risk capital markets, as well as bankruptcy regimes that do not excessively penalise failure (OECD, 2015[8]). Crucially, these framework policies determine the speed at which knowledge spreads throughout the economy, how efficiently resources are reallocated to more productive firms, and how strong the incentives are for firms to innovate.

Deteriorating educational outcomes across OECD countries emerged as another headwind to productivity and competitiveness (Figure 2, Panel A). Results from the PISA 2022 assessment show an unprecedented drop in performance across the OECD since 2018, with mean performance falling by ten score points in reading and by almost 15 score points in mathematics, which is equivalent to three-quarters of a year's worth of learning (OECD, 2023[15]). These declines can only be partially attributed to the COVID-19 pandemic, as negative trends in scores were apparent well before 2018. Indeed, recent evidence suggests that the medium-term decline in PISA scores has placed considerable downward pressure on the rate of human capital accumulation and can potentially explain one-sixth of the productivity slowdown in OECD countries ((Andrews, Égert and de la Maisonneuve, 2024[16]) and Figure 2, Panel B). Results from the 2023 Programme for the International Assessment of Adult Competencies (PIAAC) also reveal significant cross-country disparities in skill levels, with average literacy proficiency either declining or remaining stable in most participating countries and economies (OECD, 2024[17]).

Figure 2. Mathematics, reading and science performances declined significantly since PISA began



Note: Panel A: Data are missing for Austria in 2009, Costa Rica in 2006 and Spain in 2018; Panel B: PISA scores and mean years of schooling are cohort weighted averages such as they enter the measure of human capital stock.
Source: OECD, PISA Database and Andrews, D., Égert, B. and de la Maisonneuve, C. (2024), “From decline to revival: Policies to unlock human capital and productivity”, *OECD Economics Department Working Papers*, No. 1827, OECD Publishing, Paris, https://doi.org/10.1787/8d0d232c-en.

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The opportunity: an AI-fuelled productivity revival?

While these structural headwinds stymied aggregate growth prospects in many OECD countries over the past two decades, the rapid emergence of Artificial Intelligence (AI) has the potential to catalyse productivity growth over coming decades. To be sure, there remains much uncertainty over the economic consequences of AI. However, it seems plausible that AI could boost productivity growth in the United States by at least as much as the mid-1990s information and communication technology (ICT) boom (see (Filippucci et al., 2025[18]) and Box 1), which contributed an estimated 1-1.5 percentage points to annual US TFP growth during the 1995-2004 period (Byrne, Oliner and Sichel, 2013[19]). The extent of productivity gains will depend not only on the speed and scale of AI adoption, but also on policy choices, societal attitudes toward innovation, the level of frictions in product and labour markets, and the level and adaptability of human capabilities (see Box 1).

Box 1. The growth potential of AI

Artificial Intelligence (AI), increasingly viewed as a new General-Purpose Technology, holds significant potential to boost long-run labour productivity and economic growth. The adoption of AI could drive capital deepening by prompting investments in complementary assets such as cloud infrastructure, data systems, specialised hardware (e.g. GPUs) and advanced software, thereby expanding the productive capital stock. In addition, AI is expected to directly increase multi factor productivity by serving as a method of invention, with the potential of boosting research and innovation (Filippucci et al., 2024[20]; Cockburn, Henderson and Stern, 2018[21]) and increasing the efficiency of the use of capital and labour.

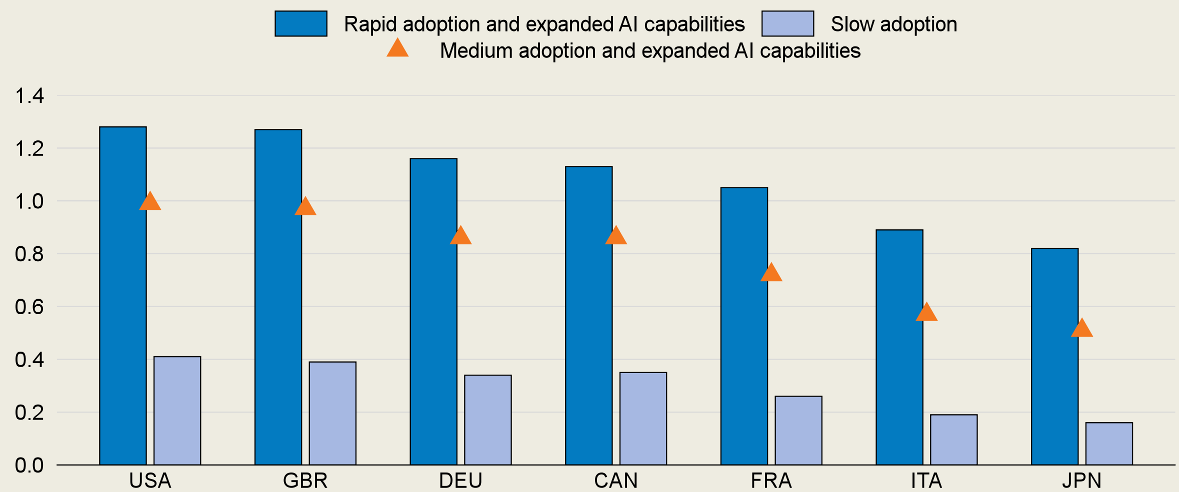
However, AI is also expected to accelerate labour reallocation towards tasks and occupations complementary to the technology, while reducing employment in roles that become more easily automated, with uncertain effects on aggregate productivity. If a large share of occupations proves substitutable, the widespread deployment of AI, and particularly generative AI, could extend automation risks beyond routine tasks to include knowledge-intensive occupations, especially at entry levels. This could accelerate labour reallocation towards lower-productivity activities that are less amenable to automation. This would slow aggregate TFP growth via the so-called Baumol effects whereby technologically stagnant sectors experience above-average cost and price increases, take a rising share of national output (Baumol and Bowen, 1965[22]; Baumol, 1967[23]; Baumol, Wolff and Batey Blackman, 1985[24]; Nordhaus, 2008[25]).

Widespread productivity gains are expected…

OECD estimates suggest that the overall impact of AI on annual labour productivity growth ranges between 0.5 and 1 percentage point across G7 economies over the next 10 years, for a central scenario (medium adoption speed, like e.g. internet and computers, and expanded AI capabilities to a broad range of tasks; see Figure 3). For reference, the annual labour productivity growth, on average, has been 0.6% across G7 economies over the last ten years (2014-23), implying a growth-dividend from AI that is close to double the rate of recent productivity growth. In the most optimistic scenario, with fast adoption (as in mobile phones) and expanded AI capabilities, labour productivity gains are estimated at up to 1.3 percentage points, while in the most conservative scenario of slow adoption, they remain significant but at 0.2 to 0.4 points.

Figure 3. Adoption pace and sectoral specialisation drive the predicted differences in AI-productivity gains across countries

AI's predicted contribution to annual labour productivity growth over the next 10-years, in percentage points



Note: The "Slow adoption" scenario assumes an adoption rate equivalent to the historical diffusion pattern of electricity and that the share of tasks exposed to AI remains constant. The "Medium adoption and expanded AI capabilities" and "Rapid adoption and expanded AI capabilities" scenarios assume adoption rates equivalent to those of the internet/computers and mobile phones, respectively, and an expanding share of tasks exposed to AI as AI becomes increasingly integrated in other digital technologies.
Source: Filippucci, F., Gal, P., Laengle, K. and Schief, M. (2025), "Macroeconomic productivity gains from Artificial Intelligence in G7 economies", *OECD Artificial Intelligence Papers*, No. 41, OECD Publishing, Paris, https://doi.org/10.1787/a5319ab5-en.

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…but they will depend on policy action to materialise

To avoid the benefits of AI being confined to the largest firms (Babina et al., 2024[26]), further investments in physical and digital infrastructure and ICT/digital skills will be necessary to promote the broad diffusion of AI, particularly among SMEs. In addition, countries will need to foster healthy competition in AI platforms and prevent excessive concentration both domestically and internationally, including by lowering services trade restrictions. This is particularly important as industry concentration has increased in the United States between 2007 and 2018. In addition, reducing reallocation frictions is critical to avoid having productivity gains confined to a few sectors while others lag behind. This requires investment in education and reskilling programmes to support workers as they adapt to changing job demands.

The importance of a dynamic and mobile economy

While AI holds promise for boosting productivity, countries must not lose sight of the deeper structural reforms needed to sustain long-term growth and competitiveness. Against this backdrop, F4GC initiative aims to equip policy makers with the tools to identify policy packages conducive to growth and competitiveness and improve overall policy coherence, by drawing on the wealth of economic expertise and statistical production that the OECD has developed across many areas. While this analysis focuses on GDP per capita, recognising it as a helpful benchmark for economic performance and living standards, this is not the only measure of societal welfare (see Box 2). Nevertheless, most indicators of well-being, such as income levels, health outcomes, and living standards, are highly correlated with GDP per capita, making it a valuable proxy in the absence of equally comprehensive cross-country data.

Achieving robust, job-rich, and productivity-driven growth is never guaranteed. Economies can be knocked off course by unexpected shocks, such as recessions, natural disasters, or pandemics. Over the longer term, governments must also navigate major structural shifts, including demographic change, the green transition, digitalisation, and evolving patterns of globalisation, all while delivering real income gains for their citizens. If the goal is to maximise growth prospects in the face of such uncertainty and promote resilience to shocks, then the focus must be on building economies that are adaptable, dynamic, and able to reallocate resources effectively.

Box 2. GDP per capita does not equate welfare but is a helpful benchmark

GDP per capita is an imperfect but useful measure of societal well-being

GDP per capita is measured frequently and consistently across countries and over time, making it a useful benchmark for comparing economic performance. However, because it focuses on production (leaving aside non-market activities such as unpaid work), it can be less suited than other indicators to capture the multidimensional nature of well-being.

To circumvent those limitations, various attempts aim at providing broader measures of economic performance and societal well-being. Some rely on providing a range of indicators to assess multiple dimensions separately, i.e. a dashboard approach, which allows more granularity but prevents simple comparisons between countries at a given point in time, or for a country over time. Notably, this has been the approach retained in the OECD How's Life reports (OECD, 2024[27]). This multidimensionality is also at the heart of the Sustainable Development Goals.

Others aggregate those dimensions into a single metric, requiring strong assumptions about how those dimensions are weighed against each other. This has been the approach taken by the OECD in the past, for example when computing Multi-Dimensional Living Standards (MDLS) to combine health, employment, inequality, and income into a single welfare measure, by estimating willingness to pay to reduce unemployment and increase longevity (Boarini et al., 2016[28]). Similarly, Jones and Klenow (2016[29]) propose a measure to compare the change in consumption necessary to render countries equivalent in terms of the well-being of a person born at random in a country, combining the role of life expectancy, inequalities, and the social cost of carbon emissions (Jones and Klenow, 2016[29]; Bannister and Mourmouras, 2017[30]).

In practice GDP per capita provides a simple and comparable measure of economic performance tightly linked to other measures of well-being

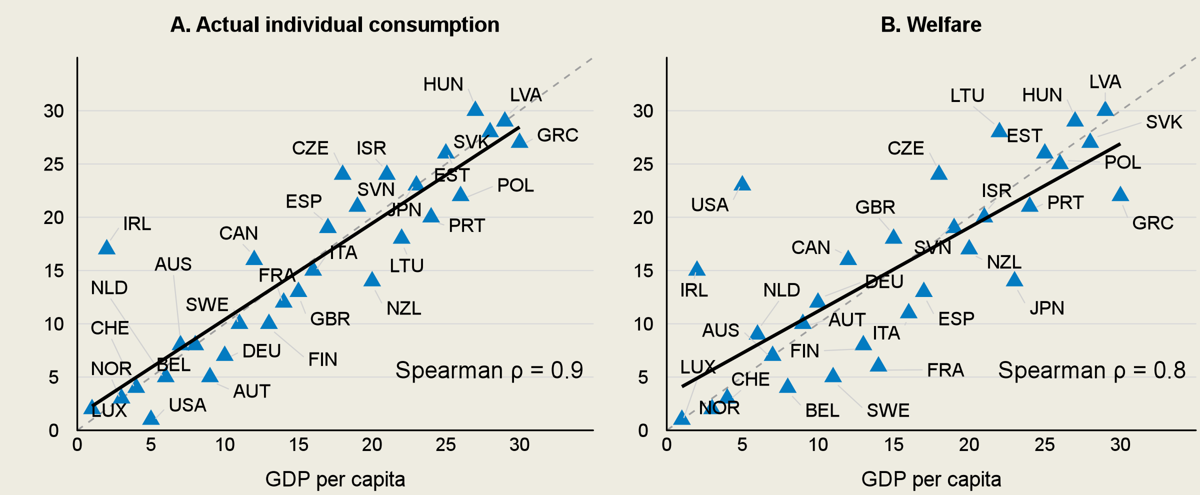
Importantly, all these measures suggest that GDP per capita is a major driver of well-being, as those indicators typically include GDP per capita, or close indicators with a stronger focus on income and consumption, like Gross National Income or final consumption per capita. Sacks, Wolfers and Stevenson (2010[31]) find a correlation of more than 70% between real GDP per capita and life satisfaction according to the World Values Survey across 70 countries. GDP per capita is indeed highly correlated with measures typically used in multidimensional indices like educational attainment, life expectancy, poverty, or environmental progress (although admittedly less with other measures of inequality). This eventually leads to a high correlation with single-valued well-being metrics. In 2023, the correlation between the Human Development Index (a composite indicator combining health, education, and standards of living) and GDP per capita was 80% across all countries in the world and 67% in the OECD. The correlation of the Jones and Klenow measure of welfare with GDP per capita was 95% in 2014 (Bannister and Mourmouras, 2017[30]), while the correlation between MDLS and GDP growth between 1995 and 2013 was 88% (Boarini et al., 2016[28]).

GDP per capita, actual individual consumption, and multi-dimensional measures of welfare, are all highly correlated

To illustrate this tight correlation, this box conducts a simple update of the summary measure of well-being by Jones and Klenow (2016[29]) and Bannister and Mourmouras (2017[30]). Given data on Actual Individual Consumption (AIC) per capita, inequalities, life expectancy at birth, hours worked per worker, and emissions per unit of consumption combined with a social cost of carbon (taken here at USD 60 in 2023 PPP), one can compute estimates of welfare across countries in relative terms. The rank correlation between this welfare measure and GDP per capita is 79% (90% with AIC) across the 29 countries with available data in 2022-2023 (Figure 4). Similarly, the OECD's How's Life? 2020 report (OECD, 2020[32]) also showed that GDP growth was positively correlated with changes in most measures of well-being between 2012 and 2018, in particular with life satisfaction.

Figure 4. Aggregate measures of welfare are tightly correlated with consumption and GDP per capita

Ranks on alternative welfare measure (1 = highest)



Note: Ranks among the 29 OECD countries with available data. Actual individual consumption (AIC) and GDP per capita are measured in PPPs.
Source: OECD computations based on OECD National Accounts, Productivity, Income Distribution, Health, Environment and Labour Force Statistics Databases.

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A key tenet of the F4GC initiative is that policy frameworks must be designed to facilitate and harness change, ensuring that firms, workers and institutions can swiftly pivot to seize emerging opportunities and to manage downside risks. Lifting policy barriers to mobility and economic dynamism is at the core of F4GC, noting longer run declines in business dynamism and job mobility in many OECD countries (OECD, 2021[33]). These trends are problematic given the many channels through which economic dynamism supports an opportunity-rich growth:

- Firm entry plays a vital role in boosting productivity and labour utilisation, as young firms disproportionately drive net job creation (Haltiwanger, Jarmin and Miranda, 2013[34]; Criscuolo, Gal and Menon, 2014[35]). New firms also enhance worker bargaining power by providing outside job options (Shambaugh, Nunn and Liu, 2018[36]). Moreover, because of their comparative advantage in commercialising radical innovations (Henderson, 1993[37]), start-ups are likely to be central to driving the digital and green transitions. Ensuring a level playing field is therefore essential, so that younger firms can compete on merit rather than be held back by barriers created by incumbents.

- Higher rates of voluntary job-to-job transitions supports productivity by facilitating the reallocation of labour toward more innovative and dynamic firms. They also lower the risk of long-term unemployment and improve the quality of worker-job matches, especially for young workers who are more likely to face skill mismatches (Davis and Haltiwanger, 2014[38]). Finally, more flexible labour markets raise worker bargaining power by increasing their outside options (Karahan, 2017[39]), and can help lower wage inequality (Criscuolo, 2021[40]). Ultimately, greater mobility allows individuals to fulfil their potential and exploit new opportunities.

Likewise, growth is stronger in merit-based environments where individuals have both the incentive and the means to develop their talents and make the most of economic opportunities. In contrast, less mobile societies – for example, where talented individuals from disadvantaged backgrounds are unable to fulfil their potential – face adverse consequences for growth and competitiveness through at least two channels (Causa and Johansson, 2009[41]). First, less mobile societies are more likely to waste or misallocate human skills and talents, which is especially problematic given the headwinds to human capital accumulation that have been building over the past two decades. Second unequal opportunities can undermine individuals' motivation and effort, ultimately reducing labour utilisation and productivity.

Beyond these growth implications, there is a strong rationale for identifying and removing policy barriers to mobility on equity grounds. Promoting social mobility means providing individuals with the same opportunities *ex ante*, even if this does not imply equal outcomes *ex post*. This raises a range of important questions, including the extent to which parental background influences individuals' wages, employment and skills development, and how public policy (from education and labour markets to tax and transfer systems) can help raise intergenerational social mobility.

New OECD evidence on this issue points to a high degree of complementarity between pro-growth policies and efforts to improve intergenerational social mobility (Causa, Tanaka and Nguyen, forthcoming[42]). For instance, measures of intergenerational mobility appear to be positively correlated with various metrics of business dynamism. Similarly, removing barriers to geographical mobility can help individuals access better opportunities while strengthening overall economic performance. Thus, placing the promotion of opportunity at the centre of policymaking is not only compatible with growth objectives, it is essential to unlock the potential of talent from all socio-economic backgrounds.

Based on these considerations, the focus of F4GC is on policies that set the pre-conditions for economic growth in a broad sense, notably by considering equal opportunities and environmental depletion, as far as they can have an influence on growth outcomes. However, it must be noted that policy priorities and outcomes beyond economic growth, such as the ones just mentioned, are extensively covered in a range of other OECD publications. It is also likely that if countries have not made sufficient progress on these core framework conditions – including, but not limited to macroeconomic policy frameworks, competition, skills, labour mobility and infrastructure – then the effectiveness of policies that target other objectives will be hampered. Moreover, having in place the right settings across a wide range of growth-related policies is likely to result in a bigger pay-off for each of those policies. As such, many of the policy priorities set out in this report can be legitimately viewed as complementary to each other, but also as part of a broader policy view to tackle objectives beyond growth.

Framework and database

To conceptually link policies to performance, the framework is built on a high-level typology that distinguishes between three distinct sets of policies: Enabling Factors, Market Incentives, and Targeted

Policies. The first two sets of policies are horizontal in nature, in that they typically focus on creating the framework conditions that are necessary for firms and workers to thrive from an economy-wide perspective. Targeted policies, in contrast, are designed to target and respond to specific market failures and externalities that cannot be addressed with more horizontal policies, including in the areas of innovation, energy and the environment. These different sets of policies can interact with each other, and the effectiveness of targeted policies will be heavily influenced by the horizontal policies in place.

Enabling factors provide the foundational conditions necessary for economic growth, by improving the overall business environment and human capital. These include:

- Macroeconomic Stability: sound fiscal and monetary policies create a stable environment for investment and long-term growth.
- Institutions and Governance: strong legal frameworks, property rights, and effective public administration ensure stability and trust in the economy.
- Infrastructure: investments in transportation, energy, digital connectivity, and utilities to enable, facilitate, and improve economic activity.
- Education and Skills Development: a well-educated workforce enhances innovation, adaptability, and economic competitiveness.

Market incentives influence economic activity by shaping the incentives of firms to invest and individuals to supply labour, with important implications for economy-wide resource allocation (i.e. allocative efficiency). These policies include:

- Tax systems: well-designed tax systems influence investment decisions, labour supply, and consumption patterns.
- Competition policies: regulations that prevent dominant market players from exploiting their position, prohibit cartels, assess mergers to avoid excessive market concentration, and encourage market efficiency and business dynamism to enhance innovation and productivity.
- Product market regulations: regulations that ensure product markets work effectively without creating unnecessary barriers to the entry and growth of firms.
- Trade and investment policies: open markets and foreign direct investment (FDI) regulations shape international competitiveness.
- Labour market regulation: policies governing employment contracts, wages, and worker protections to balance job creation and worker mobility with adequate social protection. These policies also include activation policies and safety nets, such as unemployment benefits and income support, to mitigate economic shocks while maintaining incentives to participate in the labour market.
- Housing-related policies: measures directly affecting the supply of affordable housing, including land use and spatial planning, rental regulation and the provision of social housing.

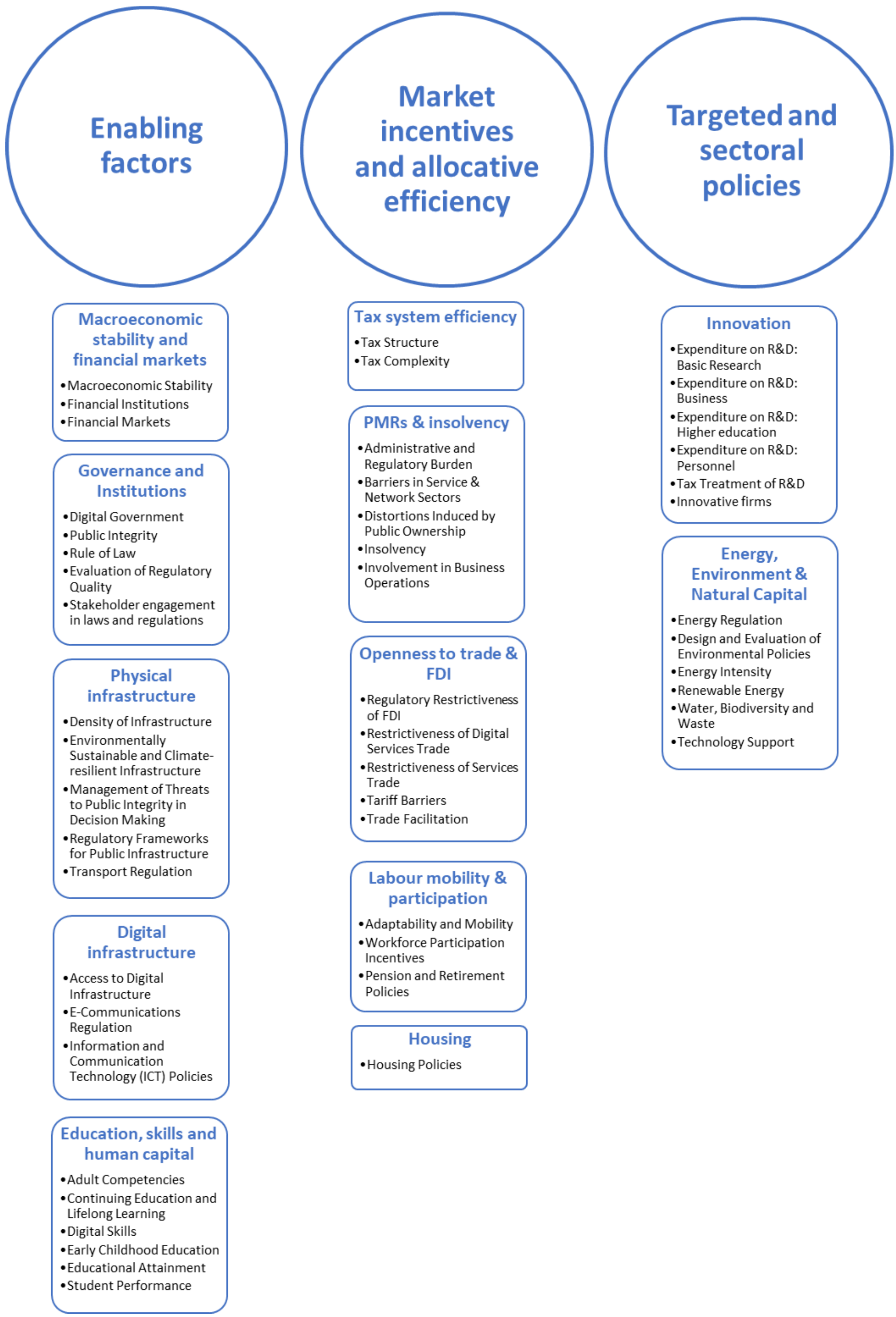
Targeted policies are policies that can actively guide economic activities by providing targeted support to specific industries, firms, or individuals. Examples include:

- Subsidies and incentives: financial support for key sectors (e.g. renewable energy, R&D), to foster innovation and address market failures.
- Industrial policy: strategic government involvement to develop high-potential industries and enhance technological capabilities.

Taking these drivers of growth and competitiveness into account, the F4GC framework consists of policy areas structured around the three-groups typology, and where each of the area are broken down into subareas (Figure 5). Each indicator included in the framework has been curated based on several criteria, including: i) consistency with the literature on the drivers of growth and competitiveness; ii) the existence of measurable policy levers; iii) comparability across countries; iv) data availability and timeliness; and iv) measurement consistency. Moreover, the inclusion of indicators that relate to concrete policy levers – i.e. that are leverageable by policy makers – is prioritised (e.g. PMR indicators that directly measure regulations). In those instances where such data are unavailable or country coverage is too narrow, careful consideration is given to including an indicator more related to policy outcomes instead (e.g. indicators on the proportion of population with access to broadband). Annex 1.C details the list of indicators included in the database.

These indicators are compiled in a comprehensive database, comprising close to 250 indicators and providing a single-entry point for policy analysts and researchers to existing OECD data on the drivers of long-term growth. The complete list of indicators is detailed in Annex 1.C. The current version of the database covers 48 countries – all 38 OECD countries in addition to Argentina, Brazil, Bulgaria, China, Croatia, India, Indonesia, Peru, Romania, and South Africa. This data base is accessible through a new datahub, that provides a single-entry point to all the OECD existing data on growth competitiveness. It allows users to visualise data in a user-friendly way, grasp the various analytical dimension of growth and competitiveness, compare the various countries’ policy settings, and download the data to support empirical work in those areas. The datahub can be accessed through the QR-code and the embedded links in each individual country note (Chapter 2).

Figure 5. The Foundations for Growth and Competitiveness Framework



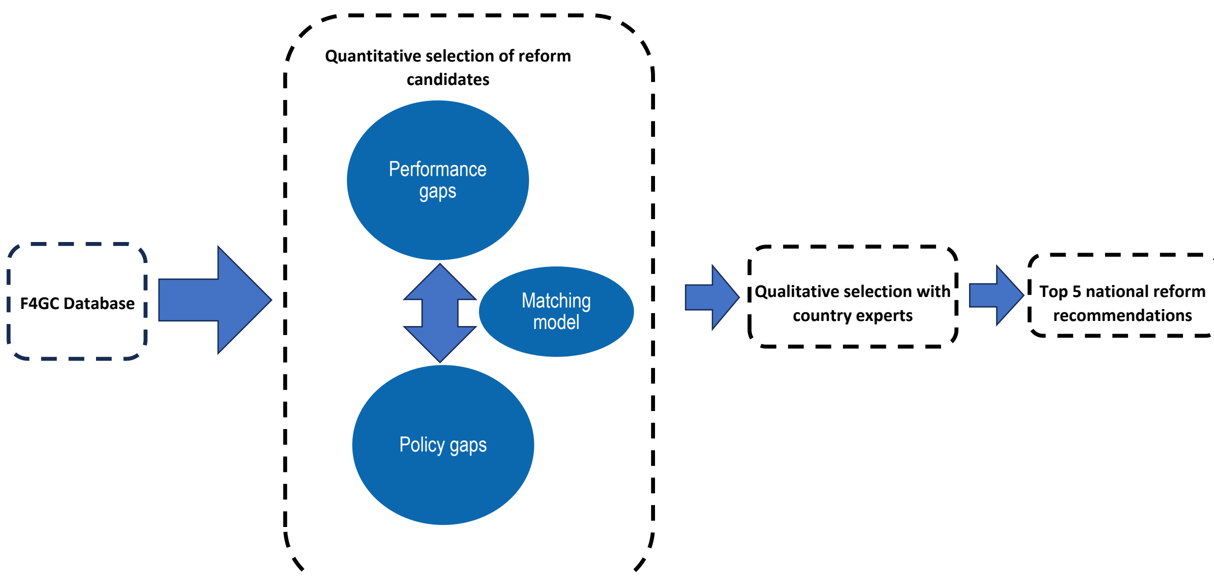
Source: OECD Secretariat.

Policy prioritisation model

The F4GC framework provides a reasonable depiction of the current state of thinking on the forces shaping growth and competitiveness at the country level, as well as the architecture for organising the database. It is also making the most of the OECD statistical production in the policy areas covered. But policy indicators alone are insufficient to guide the identification of coherent country-specific policy priorities. Indeed, it is crucial to assess a given policy indicator in conjunction with their relevant growth performance indicator, especially given the *de jure* nature of many of the extant policy indicators.

Accordingly, the F4GC framework is complemented by a policy prioritisation model, where each indicator is matched with one or more relevant indicators of performance relating to the three building blocks of economic growth: MFP (and related indicators including measures of human capital, creative destruction, business investment in R&D, seed funding), capital deepening (e.g. business investment in ICT, foreign direct investment) and labour utilisation (e.g. unemployment and employment rates by age and gender, long term unemployment, NEET). Given that each policy indicator can be matched to more than one performance indicator, this model includes more than 800 of these matching relationships. For a given country, a potential policy priority emerges when both the outcome and the associated policy measures are below the OECD average, with a higher priority assigned to (policy-outcome) pairs exhibiting larger gaps. This quantitative baseline is then complemented by the qualitative expertise of OECD country desk economists to identify the top five structural reform recommendations to boost economic growth (Figure 6). This mixed approach is applied to 48 economies, including all 38 OECD countries.

Figure 6. The F4GC policy prioritisation model



Source: OECD Secretariat.

Growth-enhancing policies often exhibit complementarities, where implementing multiple reforms concurrently can lead to mutually reinforcing benefits and superior outcomes. The corollary is that policies rarely function in isolation and the economic gains of policy strength in one area can be diluted by policy weakness elsewhere. Accordingly, this model incorporates the concept of policy complementarities into country-specific policy prioritisation, by giving a higher weight to pairs of policies that are known to be complementary based on robust empirical evidence, delivering for the quantitative stage a final ranking of potential policy recommendations. For example, the policy prioritisation algorithm will give a higher weight to both innovation and education policy recommendations when a country exhibits large gaps with best practices and outcomes in both these areas, so that the policy reform packages recommended in F4GC can have a larger bang-for-the-buck by exploiting the complementarities between these two policies. Similarly, the pass-through of human capital to productivity is amplified by policies that support adaptability and reallocation in labour markets, including well-designed product market regulations, insolvency regimes and labour market policies. More details on the functioning of the model can be found in Annex 1.A.

Empirical research conducted using the new database

This new publication is strongly rooted in a range of OECD and academic empirical research on public policies and growth. Additionally, the rich F4GC database also provides a platform to generate new empirical evidence on growth-enhancing structural reforms. While the long-term benefits of structural reforms are well-documented – for example, see Égert and Gal (2017[43]) –, the evidence base on the short-term impacts of reforms is less developed, despite this being a crucial issue from a political economy perspective. Indeed, while structural reforms create long-term gains for the economy, their short-run economic impact is more uncertain and uneven. Structural reforms might even be contractionary in the short term, for instance if they increase perceived income insecurity and precautionary savings. Yet short-run expansionary effects from structural reforms may emerge via improved confidence and expectations of future income gains, or if forward-looking financial markets price longer-term economic prospects – and therefore the effects of reforms – into asset prices, thus boosting near-term activity. Thus, short-term effects can shape the reactions of voters and interest groups, influencing whether reforms are politically feasible, sustained, or reversed.

By knowing and analysing these short-term effects, policymakers can anticipate resistance, design compensatory measures, build coalitions, and overall build a better reform strategy that can increase the chances of reforms being successfully adopted and implemented. Accordingly, this first edition of F4GC features new OECD research that applies Local Projection Method (LPM) combined with Differences-in-Differences to estimate the short-run effects of structural reforms on key growth metrics such as employment rates, capital deepening and labour productivity. These new results are presented in boxes throughout this report, while the details on the econometric approach can be found in Annex 1.B.

Key policy recommendations

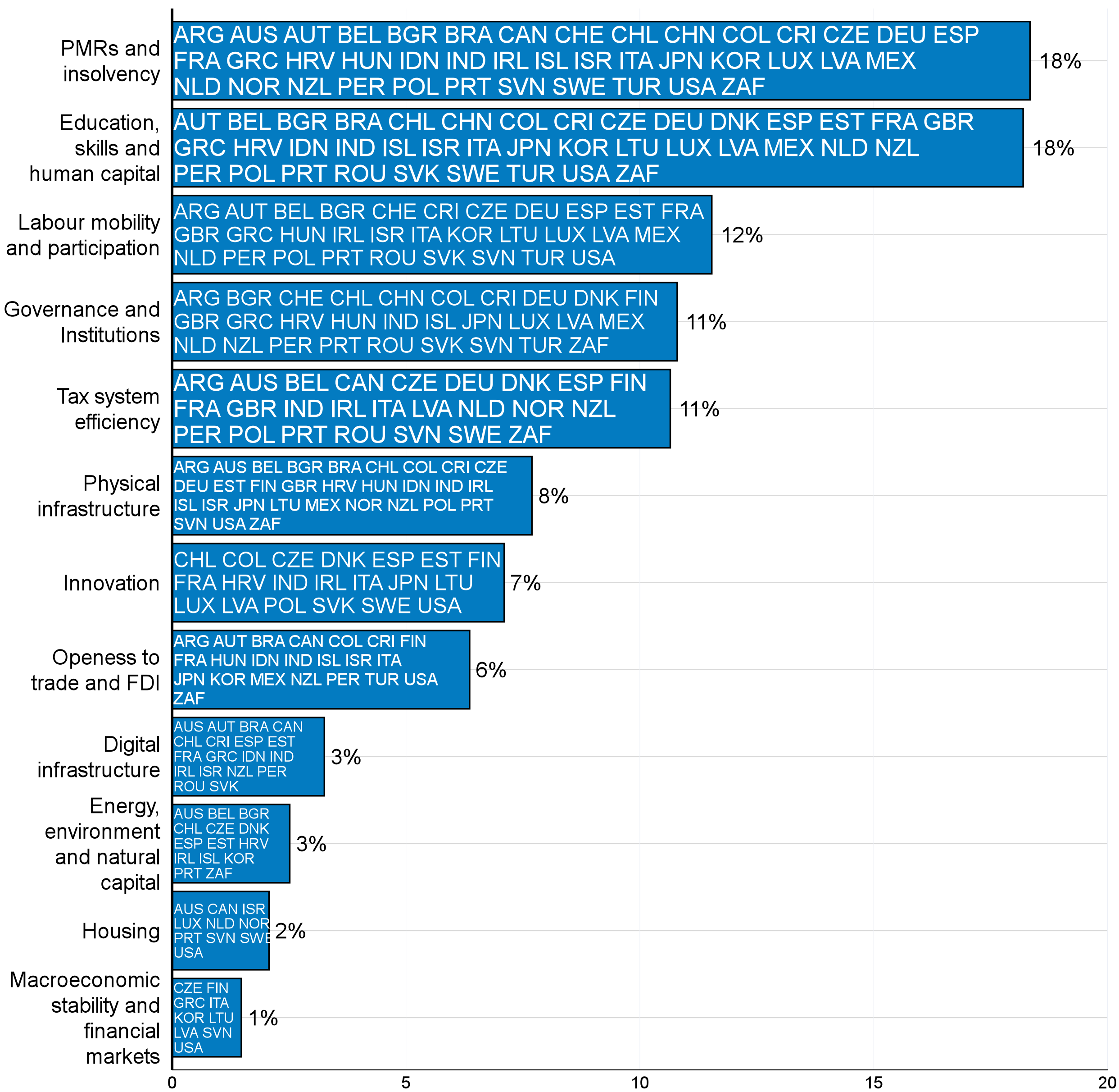
Based on this novel framework, further details on the priorities to be addressed across countries covered can be found in the subsequent sections of this chapter and in the individual country notes (Chapter 2). Overall, more than one-third of the recommendations formulated are in two areas (Figure 7): product market regulation and insolvency, and human capital.

In the areas of product market regulation and insolvency, key recommendations to ensure a more level playing field for firms include reducing economy-wide administrative burdens and the strengthening of competition laws and authorities and regulators. Reducing barriers to entry and competition in network sectors (energy, telecommunications, and transport), professional services (particularly in advanced economies) and retail trade are also high on the agenda.

Recommendations in the education and human capital domain typically includes measures to improve the quality of education and its responsiveness to current and future skills demand, notably in vocational training. Access to primary and higher education is also prevalent among priorities to improve the stock of human capital, which reflects a common challenge of improving university responsiveness to labour market needs. In some cases, recommendations to improve human capital will have a bigger impact on productivity if combined with those identified to boost innovation, including public R&D support, stronger collaboration between business and universities and better co-ordination of public policies.

Figure 7. Shares of F4GC priorities across main policy areas

Share of policy recommendations (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area. The area “Macroeconomic stability and financial markets” includes recommendations for CZE, FIN, GRC, ITA, KOR, LTU, LVA, SVN and USA.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Similarly, to further ensure that human capital is put to efficient use, workers need to have the incentives and the opportunity to find quality employment in a dynamic labour market. This underscores the need for reforms to the tax and benefit systems to sharpen work incentives as well as providing well-targeted activation policies to improve employability. Moreover, several policy barriers should be lifted to make labour markets more inclusive, particularly for women. Fiscal disincentives to work for second earners, such as tax allowances for non-working spouses and joint income taxation of spouses, should be removed, while high costs and poor accessibility of childcare preclude women from participating in the labour market or from moving away from involuntary part-time jobs.

The need for more growth-friendly tax systems and well-designed governance and institutional settings is also a recurring theme. Shifting the tax burden away from incomes towards revenue sources such as property and consumption can raise economic growth. A shift to taxation of property and consumption can also have the advantage of exploiting less mobile tax bases, thus generating fewer distortions, in the context of globally integrated economies. Recommendations to improve the efficiency of the tax system also include phasing out inefficient tax expenditures and improving revenue collection, including through the use of digital technologies. At the same time, several countries have recommendations to reduce government ownership in the business sector, and to improve the overall quality of regulations, governance, and institutions, notably by expanding regulatory impact assessment and stepping-up stakeholder engagement.

Finally, to address market failures, governments must intervene to catalyse private investment, as the private sector is naturally prone to under-investment in certain activities essential to the growth fabric, such as infrastructure and innovation, relative to the socially optimal level. Thus, public support for business R&D is typically warranted as a means of overcoming these market failures, and a range of policy recommendations emerge in this area. Similarly, improving the quantity and quality of infrastructure in a cost-effective way is a key challenge, to boost growth and broaden access to markets, education, and government services. Significant gaps in transport and digital infrastructure emerge as key concern and expanding public investment to support broadband internet access is especially recommended to promote digital diffusion, notably for businesses to accelerate the adoption of AI. Simultaneously, ensuring the high quality of infrastructure projects is a key consideration in the efficient use of public resources, effective delivery of social services and the minimisation of negative environmental outcomes. Expanding and improving the use of cost benefit analysis in infrastructure project selection, making greater use of public-private partnerships (PPPs), involving the private sector, and using innovative financing models for infrastructure investment, is frequently recommended in countries with infrastructure gaps.

The following sections of this Chapter provide a detailed overview of the priorities identified across the 48 countries covered and according to the policy typology outlined above. This first edition of F4GC aims at providing a complete panorama of which reforms should be at the top of the structural policy agenda to durably boost growth. However, in the current economic context, where public debt levels are already elevated in many advanced and emerging market economies, debt service costs are rising, and spending pressures are mounting in areas such as defence, structural reforms can also be a tool of choice for policy makers to alleviate those pressures. By boosting growth, these reforms can increase the tax base and reduce the debt-to-GDP ratio, requiring less discretionary fiscal tightening. By making economies more dynamic and governments more efficient, these reforms support fiscal consolidation efforts without relying solely on austerity, ultimately strengthening debt sustainability and long-term resilience. These issues are tackled in the last section of this Chapter, in light of the new empirical evidence on the short-run effects of structural reforms produced for this first edition.

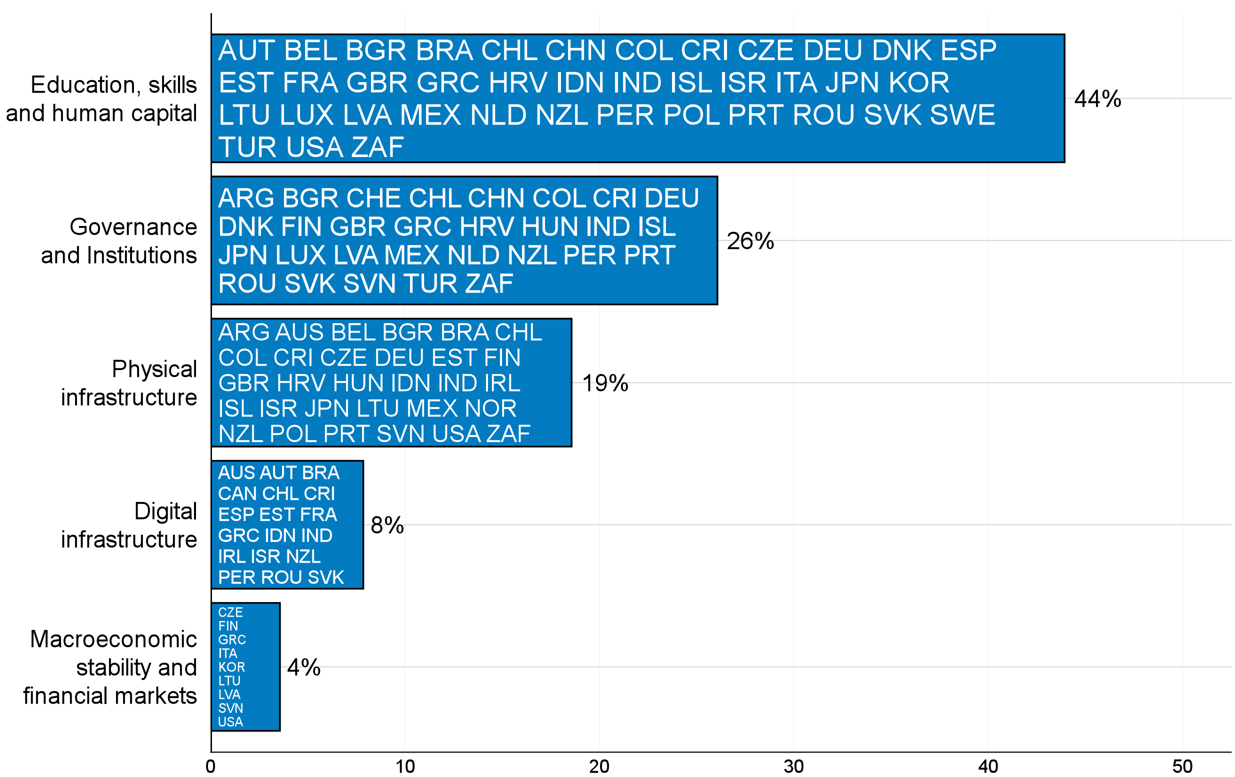
2. Priorities for foundational growth conditions: enabling factors

Sustained growth requires solid enabling conditions to allow businesses, individuals, and institutions to thrive. These conditions, encompassing macroeconomic stability, strong governance and institutions, high-quality physical and digital infrastructure, and a high level of human capital, shape the environment in which all economic activity takes place. Without progress in these foundational areas, the returns from other reforms, such as those aimed at shaping the right market incentives or supporting specific sectors, are likely to be limited.

This section sets out the key policy priorities identified in F4GC to strengthen these foundational conditions for growth. While the precise challenges differ across countries, several common themes emerge (Figure 8). Reforms to boost human capital, through improving access to, and the quality of, education and training, are among the most frequently recommended actions. Delivering more effective and transparent governance, as well as strengthening institutional capacity and public service delivery, is another prevalent area. Investment in physical infrastructure, particularly in sustainable transport and energy systems, also remains essential. Finally, countries also need to accelerate digital adoption and ensure universal access to high-quality digital infrastructure and skills.

Figure 8. Distribution of policy recommendations on enabling factors

Share of policy recommendations on enabling factors by area (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Boosting human capital

The significance of human capital in driving economic performance is well-established, highlighting education's role not only in equipping people with necessary skills and knowledge but also in nurturing innovation and creativity (Becker, 1993[44]). A robust education system enhances workforce participation, adaptability, and flexibility, which are essential for staying competitive in a fast-changing economic environment (OECD, 2023[45]). Importantly, education also plays a key role in reducing poverty, with a recent study estimating that it accounted for about 45% of global economic growth among the world's poorest 20% from 1980 to 2019 (Gethin, 2025[46]). However, as outlined in Box 3, there remain important differences in the level and allocation of adult skills across OECD countries, which carries important implications for productivity and growth (Andrews, Egert and de la Maisonneuve, 2025[47]).

Participation in early childhood education and care is a critical foundation for developing a country's productive capacity through its human capital stock. Children who benefit from high-quality early education programmes are more likely to perform well in school, attain higher levels of education, and develop innovative thinking and problem-solving abilities that are highly valued in the global economy (Égert, de la Maisonneuve and Turner, 2023[48]; Heckman, 2008[49]; Elango et al., 2015[50]; OECD, 2018[51]). Access to affordable and high-quality childcare also facilitates labour market participation, particularly for women, as discussed in the section on "Removing obstacles to labour utilisation."

Building on the foundation of early education, primary and secondary education are essential stages for equipping students with core skills such as literacy, numeracy, and digital competencies. Strong school systems help reduce social inequalities, improve life chances, and provide a base for lifelong learning and employment success (OECD, 2023[45]). Investments in school quality and teacher effectiveness have large long-term returns for both individuals and economies.

Tertiary education further strengthens human capital formation by equipping individuals with specialised knowledge and skills needed for a rapidly evolving labour market. Policies that promote participation in higher education and improve attainment levels help individuals prepare for the workforce and boost national competitiveness. Moreover, promoting digital skills at the tertiary level is increasingly important for a more adaptable and productive economy, providing strong complementarities with the policies to promote innovation discussed in the section "Accelerating innovation" (Sorbe et al., 2019[52]).

It is also essential to provide opportunities for skill development across the adult life cycle, particularly in ageing societies. Access to adult learning helps preserve or enhance a nation's human capital stock in a changing economic environment by allowing individuals to refresh their skills, adopt new technologies, and maintain their competitiveness in the workforce. While there are typically significant lags between education reform and observed economic outcomes, strengthening adult learning systems can help improve the skill levels of working-age adults in the meantime (Égert, de la Maisonneuve and Turner, 2022[53]; OECD, 2021[54]).

Finally, policies can also target low-income or low-educated households to ensure their access to educational and training opportunities. Children from low-income families are on average 18 percentage points less likely to be enrolled in early childhood education and care (OECD, 2024[55]). On average in the OECD, 15% of the variation in mathematics performance in PISA can be attributed to students' socio-economic background. Students whose parents have not attained upper secondary education are also 17 percentage points less likely to successfully complete their studies than peers whose parents have a tertiary qualification (OECD, 2024[55]; OECD, 2023[56]).

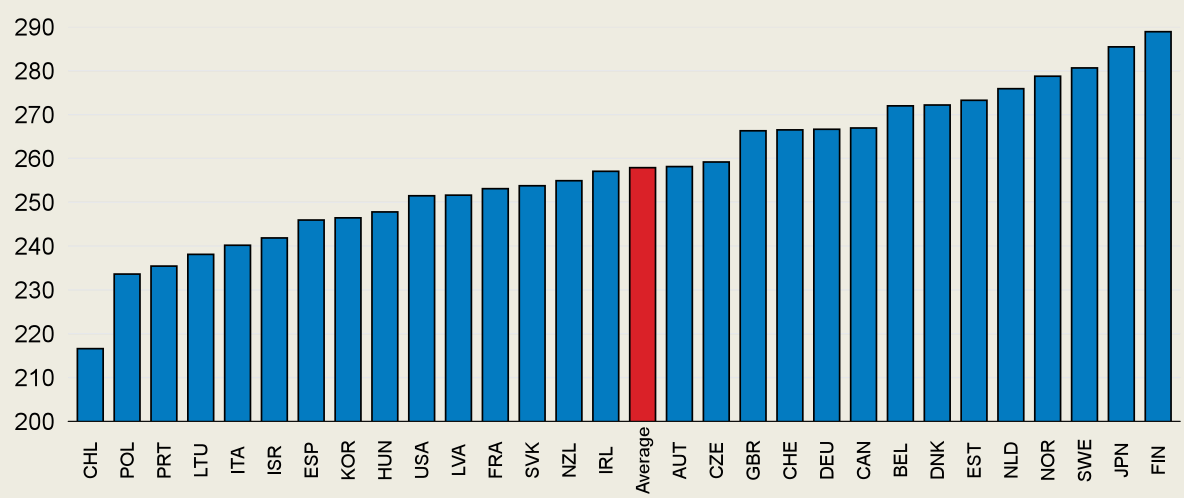
Governments can intervene in a targeted way to foster equal opportunities and boost economic growth without excessively burdening public finances. This is the case, for example, with initiatives to broaden access to childcare, where the marginal value of public funds is particularly high (Hendren and Sprung-Keyser, 2020[57]). In primary and secondary education, in turn, countries can consider "need-based financing" measures which provide additional resources to low-achieving schools with greater needs according to socio-economic characteristics, measures to attract the best teachers to disadvantaged schools, and reductions in early tracking for example.

Box 3. Adult skills and productivity: evidence from PIAAC

A recent OECD study highlights the relationship between productivity and the level and allocation of skills across industries in OECD countries, leveraging data from the 2023 Programme for the International Assessment of Adult Competencies (PIAAC) survey (OECD, 2024[58]). The 2023 survey adds a unique perspective on the skills of working-age adults across member countries. The survey assesses the literacy, numeracy, and problem-solving competencies of adults aged 16–65 across 29 OECD and 2 non-OECD countries, using adaptive tablet-based tests and realistic, culturally relevant tasks. The 2023 results reveal significant cross-country disparities in skill levels: countries such as Finland, Japan, and Sweden perform approximately 10% above the OECD average and 25% above the lowest-performing countries (see Figure 9).

Figure 9. OECD 2023 PIAAC scores

Average PIAAC scores at the country level, in score points



Note: Average PIAAC scores are the simple averages of the PIAAC scores on literacy, numeracy and problem solving. Belgium (BEL) refers to the Flemish Region and the United Kingdom (GBR) refers to England.
Source: Andrews, D., Égert, B. and de la Maisonneuve, C. (2025), "Adult skills and productivity: New evidence from PIAAC 2023", *OECD Economics Department Working Papers*, No. 1834, OECD Publishing, Paris, https://doi.org/10.1787/12ac6e8c-en.

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PIAAC also reveals important differences in the level of adult skills across industries: skills are the highest in intangible-intensive sectors such as ICT, financial, and professional services, while they tend to be lower in the construction and hospitality sectors.

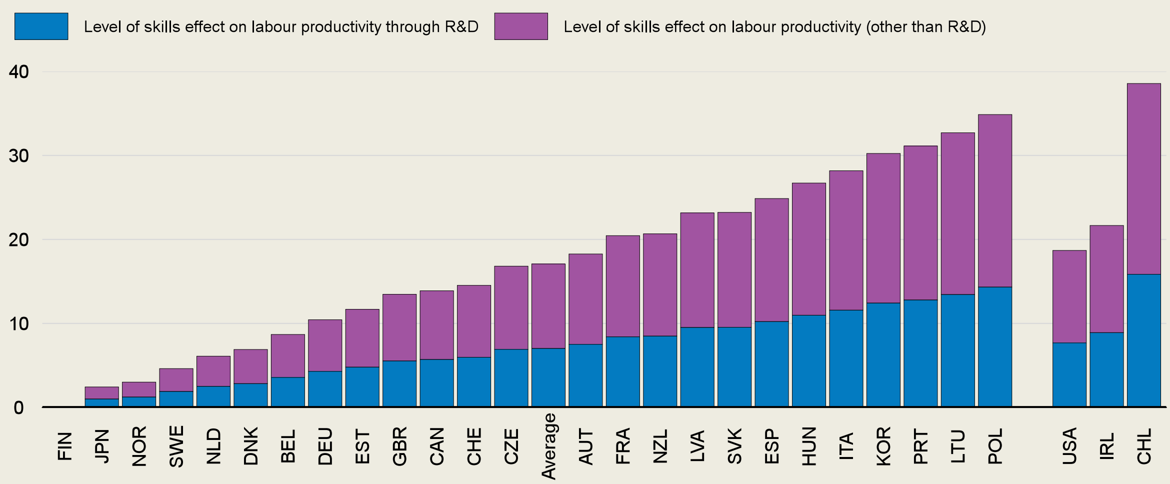
Why skills matter more than ever

These differences in skill levels have direct implications for productivity. Within any given sector, a larger share of highly skilled workers, relative to those with lower skills, not only supports the broader diffusion of existing technologies but also fosters the creation of new ideas through increased investment in R&D.

Indeed, there is a robust positive correlation between the level of labour productivity and the average level of adult skills in the non-farm business sector. This partly reflects a positive association between R&D intensity and adult skills, and this innovation channel can account for over one-third of the impact of adult skills on labour productivity. The economic magnitude is also material: if the average OECD country were to reach the skill levels of the top three performers, aggregate average OECD productivity could increase by 17% (see Figure 10). Moreover, this level of skills effect can potentially account for at least one-quarter of cross-country sector-level labour productivity gaps.

Figure 10. Country-level labour productivity gains resulting from closing the skills gap

Percentage



Note: The United States, Ireland and Chile lack sectoral productivity data. For these countries, sector-level productivity gains are estimated by multiplying the sector-level PIAAC gap by the coefficient linking sector-level labour productivity to PIAAC in in-sample countries.
Source: Andrews, D., Égert, B. and de la Maisonneuve, C. (2025), "Adult skills and productivity: New evidence from PIAAC 2023", *OECD Economics Department Working Papers*, No. 1834, OECD Publishing, Paris, https://doi.org/10.1787/12ac6e8c-en.

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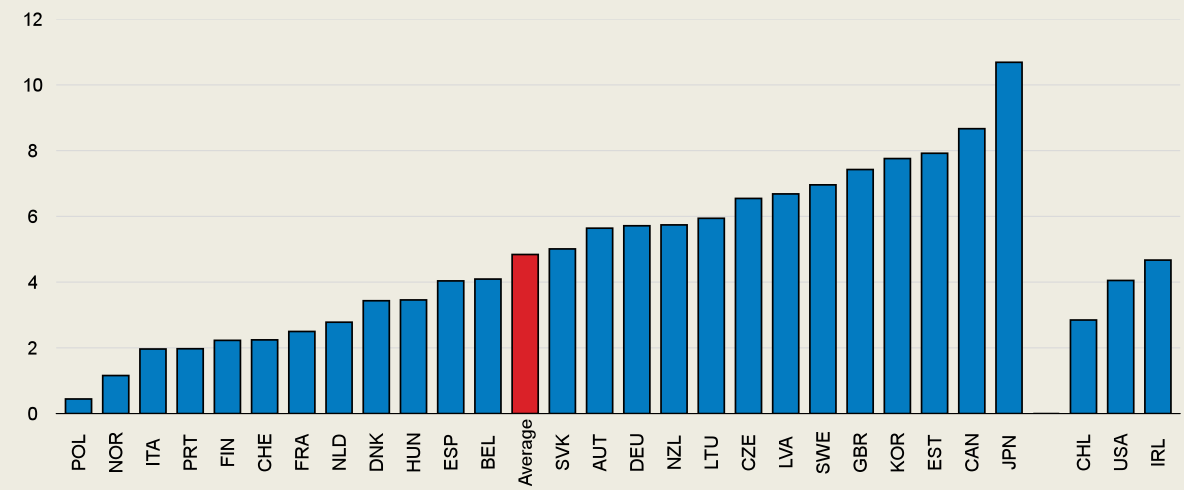
Beyond skill levels: smarter allocation unlocks productivity

But skills alone are not enough. The ways in which scarce skills are deployed to different jobs and firms also shape productivity. Labour market mismatch arises when a worker's qualification does not match the required qualification or because the worker's field of study is misaligned with the type of job he/she is employed in. The 2023 PIAAC data suggest that more than 10% of workers on average experience mismatch, according to this metric, across the OECD. The incidence of mismatch tends to be higher in industries such as transport, hospitality, and administrative services and lower than average in ICT, finance, and professional services.

Productivity is higher in sectors where labour market mismatch is lower. Firms also play a role: for instance, productivity is higher when high-skilled workers are deployed to growing firms, while it tends to be lower when they are trapped in declining firms. Overall, the results of the study suggest that improving match quality can materially boost productivity. For example, closing the mismatch gap would be associated with a productivity boost of almost 5% on average across OECD countries, but this figure exceeds 8% in Canada and Japan, where mismatch is high (Figure 11).

Figure 11. Country-level labour productivity gains implied by closing sector-level labour market mismatches

Percentage



Note: Labour market mismatch is calculated based on both qualification mismatch and field of study mismatch. See Andrews et al. (2025) for further details.
Source: Andrews, D., Égert, B. and de la Maisonneuve, C. (2025), "Adult skills and productivity: New evidence from PIAAC 2023", *OECD Economics Department Working Papers*, No. 1834, OECD Publishing, Paris, https://doi.org/10.1787/12ac6e8c-en.

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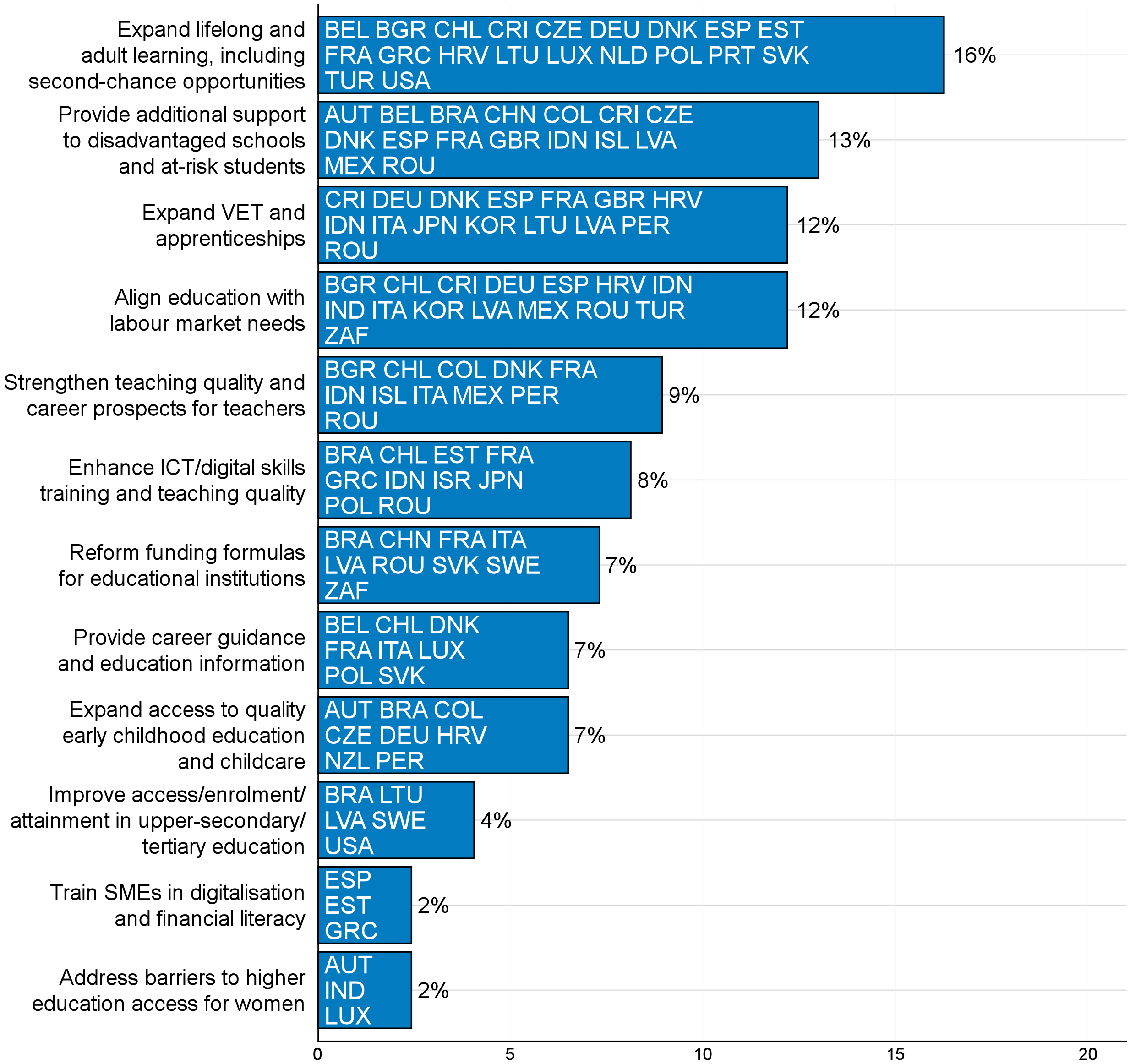
Moreover, closing the labour market mismatch gap of the average OECD country to the best-performing countries can potentially account for more than one-tenth of the cross-country sector-level productivity gaps to the best-performing countries.

Figure 12 shows the distribution of policy priorities in the areas of education, skills and human capital, which span the lifecycle from early childhood education to adult learning. A large share of recommendations focuses on expanding opportunities for lifelong learning and providing additional support to disadvantaged schools and at-risk students, while priorities on vocational education and training (VET) and better aligning skills provision with labour market needs also feature prominently. These policy initiatives are particularly important considering the high rates of labour market mismatch that prevail in some OECD countries, which represent a key barrier to high productivity performance (see Box 3)

Figure 12. Policies to improve human capital accumulation across the life cycle are needed to boost economic growth

Share of policy recommendations to boost human capital (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Strengthening lifelong learning policies and increasing the take-up of high-quality adult training is a common recommendation across countries. For example, the Slovak Republic could benefit from establishing a one-stop shop portal providing information on skills needed in the labour market and training opportunities. In Luxembourg, improving the effectiveness and take-up of the individual training leave programme ("congé individuel de formation"), especially among women and lower-qualified workers remains a priority. In Belgium, expanding the availability of online training and supporting on-the-job learning, by assisting small firms in developing training strategies and facilitating temporary employee replacement during training, could also be beneficial. Meanwhile, strengthening quality standards for training providers and introducing a national accreditation system to build trust and outcomes are reform priorities in Germany, Greece and the Netherlands. In addition, improving access to second-chance opportunities to re-engage young adults who have recently dropped out of higher education would be beneficial in Denmark and the United States.

A number of policy priorities focus on improving outcomes in disadvantaged schools and providing additional support to at-risk students. Policies supporting the integration of vulnerable groups in educational services include targeted support programs, reforms in resource allocations, support towards integration in higher education programmes, and changes in teacher incentives and training. Targeted support to disadvantaged students in general could be provided or increased in Colombia, France, and Mexico, while Iceland could support immigrant students particularly via language training; Denmark could also provide additional targeted support to schools with a high share of disadvantaged students. The allocation of resources across schools could also consider specific needs in some countries: Austria could consider need-based financing, France should develop a more progressive allocation of resources across schools, and Romania could allocate more public resources to schools located in disadvantaged areas. Access to higher education is a particular concern in Brazil, Czechia, and South Africa, where measures such as grants or income-contingent loans to disadvantaged students, or changes in the structure of university funding, could improve access. Incentives for teachers to work in underserved areas and disadvantaged schools could be provided or enhanced in Belgium, Brazil, Peru, and the United Kingdom.

Reforming and expanding VET systems and apprenticeships is another key area of focus. Costa Rica would benefit from providing VET programmes in areas with high labour demand, such as advanced manufacturing, ICT and the semiconductor sector. In Germany, expanding opportunities for the unemployed to complete formal VET degrees and strengthening coordination between public employment services and local employers could help improve employability and address skills shortages. In Latvia, streamlining accreditation procedures for VET providers could help expand the course offer and giving more autonomy to VET institutes to tailor course content to local economic conditions would be beneficial. In turn, Denmark and France would benefit from strengthening their apprenticeship programmes.

Aligning education systems more closely with labour market needs and fostering stronger collaboration with the private sector are common reform priorities. Latvia could benefit from strengthened cooperation between firms and training providers in the design and delivery of programmes, while China could link vocational curricula more directly to industry needs through co-funded upskilling vouchers for employees of SMEs. Additional measures include aligning both vocational and university curricula with emerging skill demands in ICT and green-transition sectors, like in Costa Rica, and expanding work-based learning opportunities. Similar recommendations have been made for other countries, highlighting the importance of structured engagement with employers, strategic use of public-private partnerships, and more flexible, demand-driven education and training systems.

Finally, additional reform priorities involve improving teaching quality, for example in Bulgaria, and addressing teachers' training needs in Mexico or Romania. Revising the education funding formula, particularly by strengthening the link between funding and performance for public universities, could help raise education quality and efficiency in Italy. Austria could benefit from expanding access to childcare and early childhood education, while raising enrolment in post-secondary education could improve educational and labour market outcomes in the United States and Brazil.

Delivering on governance and institutions

An effective functioning public sector and independent judicial system can foster growth by supporting sound policy implementation, ensuring fair competition and safeguarding property rights (Barro, 1996[1]; Acemoglu and Robinson, 2010[59]). Maintaining the rule of law is particularly important in attracting investment and fostering innovation. It ensures contract enforcement, the protection of property rights, and the efficient resolution of legal disputes, all of which are essential for creating a favourable business environment (Gupta and Abed, 2002[60]; Wei, 2000[61]; Tanzi and Davoodi, 1997[62]). Similarly, upholding integrity in the public sector helps curb corruption and ensures that the government serves the public good rather than private interests. Building public trust through integrity measures can enhance cost-efficiency and support better institutional performance. High levels of trust in government can also increase voluntary compliance with regulations, reducing enforcement costs and contributing to a healthier economic system (North, 1990[63]; Putnam, Leonardi and Nonetti, 1994[64]).

Digital government initiatives are an increasingly important driver of public sector efficiency and innovation. By adopting digital tools and processes, governments can streamline service delivery, improve public sector productivity, and improve access to services for citizens and businesses. Digital government strategies help reduce administrative burdens and operational costs by automating processes, enhancing communication and coordination across government agencies. Moreover, digitalisation enhances transparency and accountability, as digital platforms are less prone to human error and corruption, further strengthening public trust in government institutions. It also promotes innovation in the broader economy by creating a more business-friendly environment, reducing regulatory delays, and fostering greater interaction between the public and private sectors (OECD, 2019[65]).

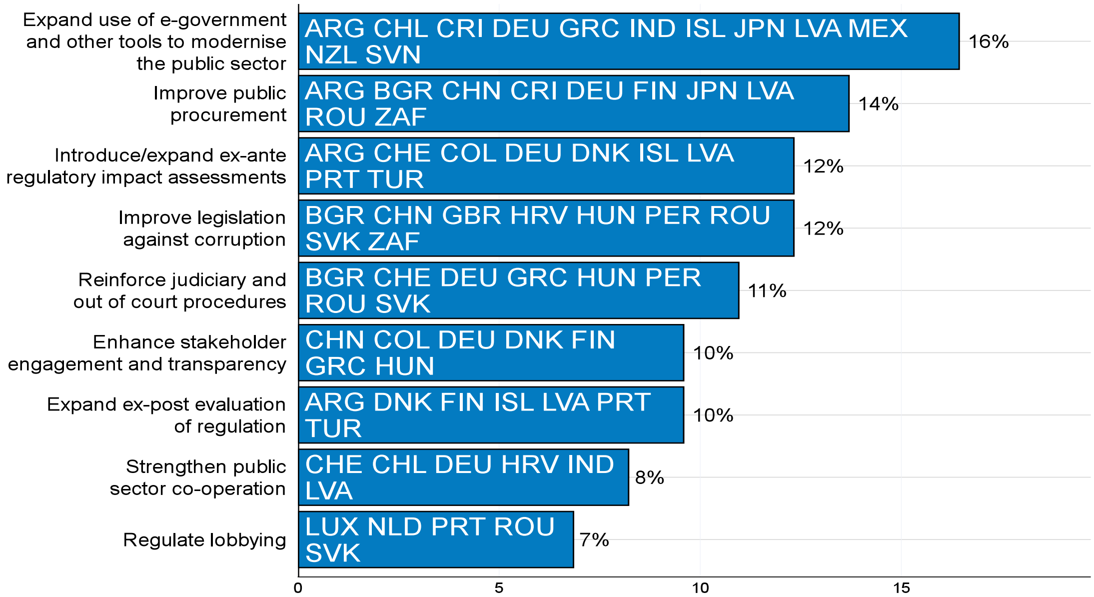
Finally, regulations can both facilitate and impede economic growth, depending on their design and implementation. Therefore, regulatory frameworks should be developed carefully. Ex-ante evaluations, commonly carried out through Regulatory Impact Assessments (RIAs), are key for assessing the potential effects of *laws and regulations* before they are implemented. These assessments ensure that regulations are not only necessary but also aligned with their intended objectives and designed to minimise any unintended consequences (Sunstein, 2018[66]; OECD, 2020[67]). By systematically evaluating the potential impacts of regulations on productivity and competitiveness, RIAs can play a vital role in fostering a regulatory environment that encourages economic growth and innovation (Davidson, Kauffmann and de Liedekerke, 2021[68]). Conducting RIAs for both *primary laws* and *subordinate regulations* allows governments to create regulatory frameworks that are better tailored to specific challenges and less likely to require costly revisions later.

In contrast, e*x-post evaluations* focus on assessing the effectiveness of regulations after their implementation. This includes the systematic review of laws and regulations to determine whether they have achieved their intended outcomes. By providing feedback on the actual performance of regulations, ex-post evaluations help to refine, amend, or repeal ineffective regulations. This ensures that regulatory frameworks remain adaptable to evolving economic conditions. The ongoing review process supports continuous improvement, helping to maintain a regulatory environment that fosters long-term economic stability and enhances overall economic performance. Finally, stakeholder engagement, through transparent and structured consultation mechanisms, is essential to regulatory quality, helping prevent unregulated lobbying that could otherwise distort policymaking and stifle innovation (Comin and Hobijn, 2005[69]).

Policy priorities in the area of governance and institutions span reforms aimed at strengthening public sector efficiency, improving transparency and accountability, and ensuring the efficient functioning of regulatory and judicial systems (Figure 13). A particular focus has been placed on modernising the public sector through digitalisation, improving public procurement systems, and reinforcing regulatory oversight and stakeholder engagement mechanisms. One of the most common recommendations is to step up digital government and modernise public administration, with the aim of improving service delivery and reducing burdens for citizens and businesses. In Japan, for example, streamlining regulations through the digitalisation of public services has been identified as a key step to reduce administrative barriers, particularly for start-ups and entrepreneurs.

Figure 13. Policies to improve governance and public institutions can foster investment and growth

Share of policy recommendations to strengthen governance and institutions (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Improving the efficiency and integrity of public procurement systems is another frequent area for reforms. In Germany, recommendations include streamlining planning procedures, harmonising procurement processes, and better using digital tools. Strengthening local capacity is also important, with a focus on increasing staffing and technical expertise through inter-municipal cooperation and targeted training. The independence and capacity of judicial systems are also central to improving institutional quality and upholding the rule of law. In Romania, for instance, reinforcing the fight against corruption includes reviewing the system of preliminary hearings in corruption cases and addressing the shortage of magistrates, alongside implementing reforms to prevent conflicts of interest in public employment. In the Slovak Republic, judicial efficiency could be enhanced by promoting alternative dispute resolution mechanisms.

Ensuring that regulatory frameworks are evidence-based and accountable is another recurring priority. In Finland, the establishment of a comprehensive ex-post evaluation system has been recommended to improve the effectiveness of regulation. This includes introducing oversight mechanisms, regularly updating evaluation practices, and fostering a culture of continuous improvement through stakeholder feedback. In Greece, recommendations include enhancing the quality and timeliness of consultations on draft legislation and reducing the use of emergency legislative procedures. Formal mechanisms for reviewing existing business regulations in collaboration with employers and trade unions have also been encouraged.

Finally, a smaller but important set of recommendations aim to improve the regulation of lobbying and the integrity of policymaking. In the Netherlands, for example, authorities are encouraged to introduce a detailed and publicly accessible lobbying register across all levels of government, and to adopt OECD standards on post-public employment conduct.

Strengthening physical infrastructure

Physical infrastructure, including reliable and well-maintained roads, ports, airports, water and sewer systems, and a well-functioning electricity network, is the backbone of a productive economy. Indeed, research has highlighted the importance of the public stock of physical capital for productivity and economic growth (Aschauer, 1989[7]; Égert, Koźluk and Sutherland, 2009[70]). For instance, efficient transport networks reduce the time and cost associated with transportation, promoting competition and more efficient resource allocation in the longer term. In the short term, new research conducted using the F4GC database suggests that increasing investment in rail infrastructure – by the observed historical average change – can boost labour productivity by 0.6% and employment by 0.3 percentage points as soon as five years after the policy change (Box 4).

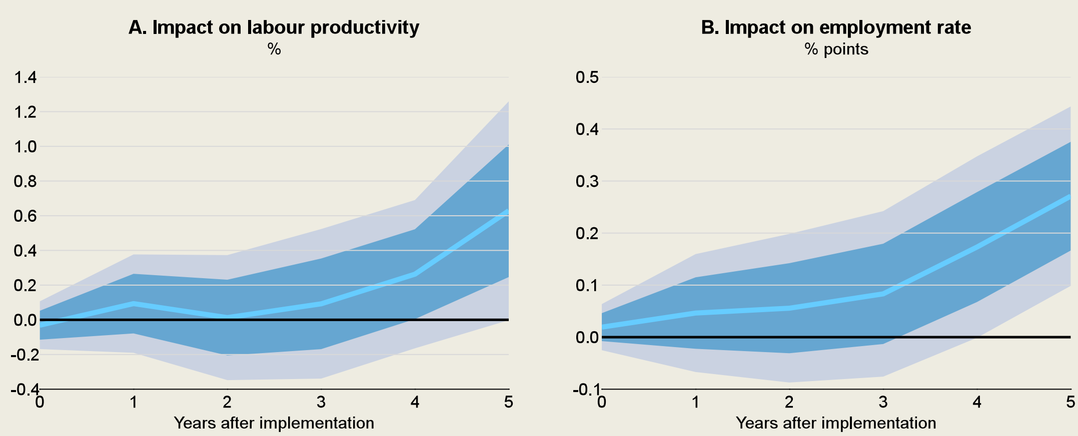
Box 4. The short-term impact of investment in rail infrastructure on economic growth

Transport infrastructure investment can boost labour productivity even in the short term

While infrastructure investment is generally thought to have a long-run effect on growth, its short-run effect can also be estimated. For this purpose, rail investment data are taken from the "Investment Spending in Transport Infrastructure" survey ran by the International Transport Forum (ITF, 2025[71]). Investment spending in rail infrastructure is measured as a fraction of GDP. The impact on GDP per worker and the employment rate is estimated by local projection methods (See Annex 1.B). The results suggest that an increase in rail investment, of an average size observed over the sample, has a positive and gradual impact on labour productivity and employment rates (Figure 14).

Figure 14. The impact of an increase in rail infrastructure investment on labour productivity and employment rates

Impact of average historical increase in the ratio of rail infrastructure investment to GDP, average shock of 0.06 % points



Note: Labour productivity is measured as GDP per worker. The employment rate refers to people aged 15-64. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. The estimation is run on the period 1995-2019 for OECD countries. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD International Transport Forum and OECD calculations.

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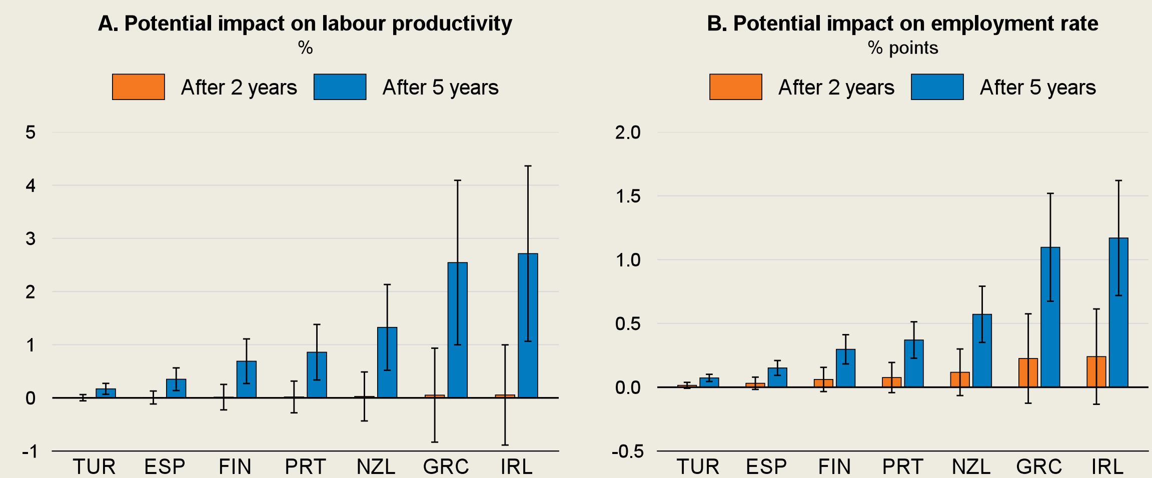
Some countries could see significant labour productivity and employment boosts after 5 years by investing in rail

The above results allow the estimation of the potential impact of increases in rail infrastructure investment on productivity and employment, for countries where both investment levels are lower than the OECD median and the density of the rail network is relatively low. Gains in labour productivity and increases in the employment rate would arise after 5 years. Depending on the gap, the level of GDP per worker could be up to 2.5% higher at that horizon, while the employment rate would increase by up to 1 percentage point (Figure 15). Some of the strong effects displayed are due to large differences in the ratio of investment to GDP in OECD countries, while the density of transport network will also depend strongly on countries' characteristics such as size and topology.

Figure 15. Increasing rail infrastructure investment could lead to economic gains

Potential impact of increasing rail investment to the OECD median



Note: 23 countries have available data for rail investment in 2023. Simulated effects at the two- and five-year horizons are based on a scenario in which countries below the OECD median in both investment-to-GDP ratio and rail density in 2023 converge to the OECD median in investment-to-GDP. For illustration, in the case of Greece, this would imply an increase in rail investment to GDP of 0.24 pp. The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature.
Source: OECD calculations.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", *OECD Economics Department Working Papers*, forthcoming.

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Physical infrastructure projects often involve large financial commitments, long time horizons, requiring high levels of coordination and careful planning. For these reasons, governments play a central role in planning, delivering, and financing such projects. They are also responsible for robust project appraisal, ensuring that infrastructure investments are cost-effective and aligned with long-term strategic priorities. Better regulatory frameworks for public infrastructure can encourage investment, enhance quality, and maximise economic returns (OECD, 2023[72]). Permitting procedures should be transparent, efficient, and predictable. The governance of regulators is also crucial: they must be accountable, transparent, and independent, and the participation of stakeholders needs to be ensured.

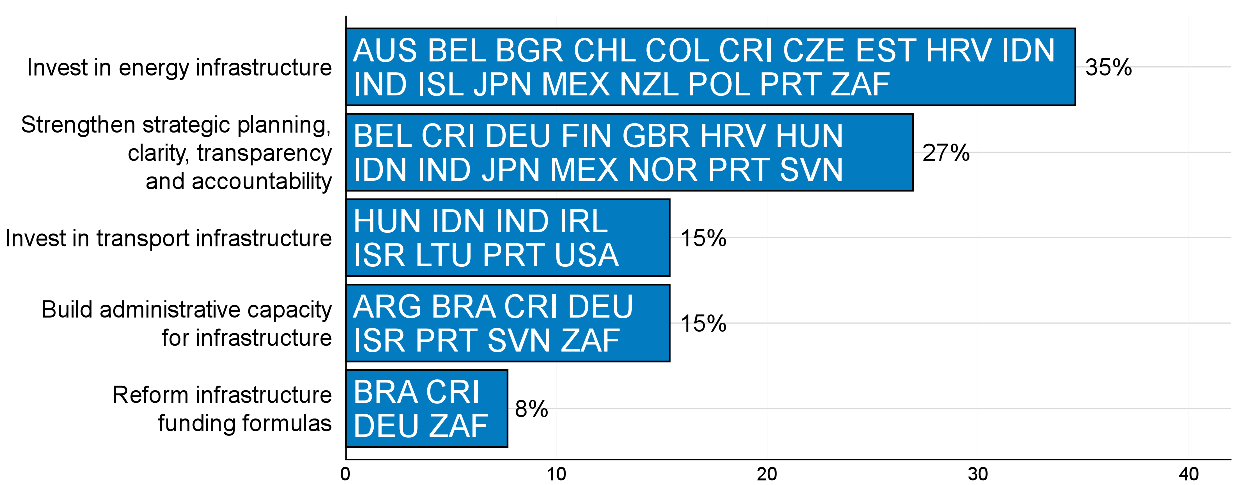
There must also be mechanisms to review infrastructure-related regulations and to ensure effective coordination between regulatory bodies and across levels of government, to minimise duplication and misaligned incentives. Additionally, public-private partnerships are one way to leverage complementarities between public and private investment, with government commitments helping to reduce risk and mobilise additional private capital. In this way, public investment can act as a catalyst for large-scale projects, enabling broader private sector participation and ensuring more efficient resource allocation.

Finally, managing threats to public integrity is essential to promote trust in government, with broader benefits for the economy. Large infrastructure projects carry a high risk of integrity failures due to the scale and complexity of transactions and the number of stakeholders involved, especially in public-private partnerships, concessions, or complex procurement processes. Integrity risks can arise at every stage of the infrastructure lifecycle, leading to inefficiencies or inappropriate conduct. Mechanisms that ensure strong external oversight, internal control and audit processes, and the management of conflicts of interest are essential to realise the productivity-enhancing effects of public infrastructure. Tools such as open contracting, e-procurement platforms, and public disclosure of project performance can further strengthen transparency and accountability.

Figure 16 shows the distribution of priorities in the area of physical infrastructure. Recommendations span a broad range of issues, with a particular emphasis on energy infrastructure, strengthening regulatory frameworks and strategic planning, and improving connectivity and access in the transport sector. Many countries are also encouraged to revise funding formulas and reinforce administrative and institutional capacity, to ensure that infrastructure projects are efficiently designed, executed, and evaluated.

Figure 16. Investment in physical infrastructure and strengthened planning policies are needed to boost growth

Share of policy recommendations to strengthen physical infrastructure (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Boosting infrastructure investment is particularly important in countries with an ageing capital stock or rapid urbanisation, particularly in the energy and transport sectors. In the energy sector, many countries are advised to accelerate infrastructure investment to support energy security and enable the clean energy transition, such as in Australia, Japan or Mexico. In Colombia, this includes streamlining environmental licensing processes and engaging early with affected communities to facilitate the expansion of the electricity grid. In the transport sector, ensuring efficient use and sustainable financing of infrastructure is a shared challenge. As discussed in Box 4, Portugal and Ireland could experience short-term gains in labour productivity and employment by investing in rail along high-demand corridors and fully delivering the planned improvements to the public transport system, respectively. In addition, countries like Israel could benefit from demand-side measures such as the introduction congestion charges and user fees to improve road utilisation that complement supply-side investments and help address externalities linked to congestion and emissions.

Ensuring that planning and regulatory systems are well-designed and coordinated is essential to translate investment efforts into timely, efficient and sustainable outcomes. Strengthening infrastructure planning and regulatory frameworks – to improve transparency and reduce implementation delays, cost overruns, and integrity risks – is a common priority across countries. In Belgium, for example, authorities are encouraged to improve the governance of infrastructure projects by developing a single, publicly accessible digital platform providing comprehensive information on projects, and by integrating integrity risk assessments into infrastructure management frameworks. These measures are instrumental in scaling up investment in critical areas.

In addition, strengthening administrative capacity at the different levels of the administration can play an important role in a few countries to ensure that infrastructure policies translate into well-executed projects. For example, in Brazil the national development bank (BNDES) can play a catalytic role, by expanding its technical assistance to sub-national governments for infrastructure projects. In Costa Rica, recommendations include transferring project assessment and management responsibilities to an independent public agency, improving budget execution, and reinforcing the National Concessions Council to better oversee complex infrastructure projects and coordinate across stakeholders. These reforms are aimed at enhancing technical capacity, improving project selection and execution, and fostering greater public-private cooperation.

Finally, reforming the infrastructure funding formulas can be beneficial for a few countries, including Germany, Costa Rica, Brazil and South Africa. For example, in Brazil, public infrastructure investment should be prioritised while private investment should be mobilised by expanding the use of structured financial instruments, project finance mechanisms and targeted guarantees.

Accelerating digital adoption

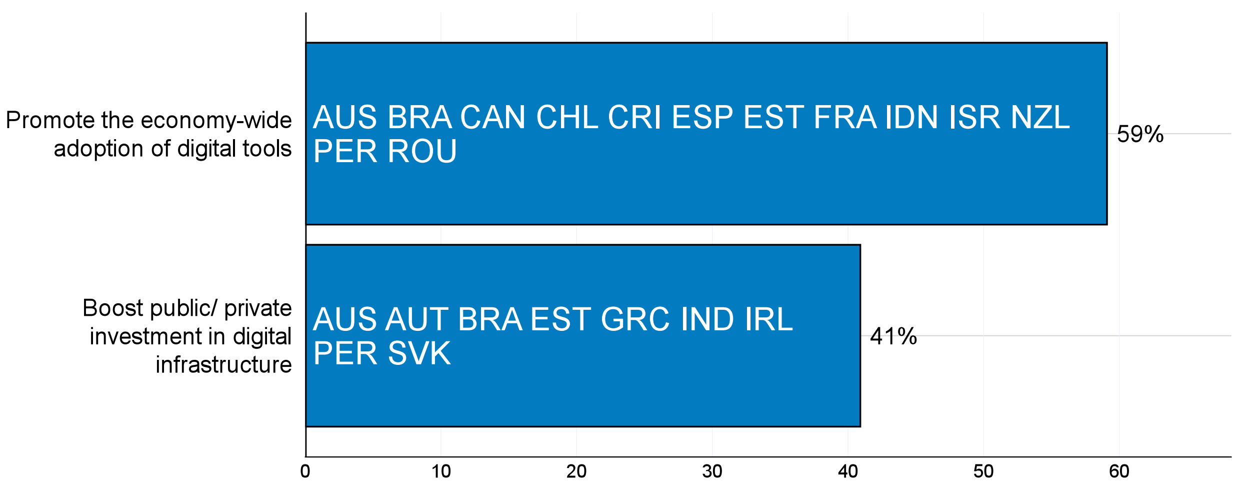
Access to high-quality digital infrastructure, such as high-speed fixed and mobile broadband networks, supports the diffusion of digital technologies and productivity growth (Nicoletti, von Rueden and Andrews, 2020[73]; Gal et al., 2019[74]). Digital infrastructure also facilitates firms' participation in global markets by supporting trade in services, reinforcing integration in global value chains, and promoting the cross-border diffusion of innovation (André and Gal, 2024[75]). Broader access can also generate positive spillovers through network effects, competition, and economies of scale (Égert, Koźluk and Sutherland, 2009[70]). While internet access is nearly universal across OECD countries, many still lack widespread coverage of high-speed broadband, particularly in rural and remote areas. In countries with limited fixed-line infrastructure, mobile broadband networks have become increasingly important to bridge the digital divide. Moreover, robust and reliable digital infrastructure is essential to harness the benefits of artificial intelligence, as the development, deployment, and use of AI depend on access to large datasets, cloud computing, and low-latency connectivity.

Beyond infrastructure access, digital government initiatives can strengthen population-wide digital skills and encourage firms to digitalise their interactions with public authorities (Sorbe et al., 2019[52]). Cybersecurity policies also play a role: by helping manage risk, they reduce barriers to digital adoption. Governments can support this process by developing voluntary frameworks and practical guidance to help firms manage digital security risks in communications infrastructure (OECD, 2023[76]). Finally, recent advances in artificial intelligence highlight its transformative potential for productivity and economic organisation, though policy best practices in this area remain at an early stage (Box 1).

Policy recommendations in the digital infrastructure space largely fall into two broad categories: fostering the adoption of digital tools across the economy and increasing public or private investment in digital infrastructure (Figure 17). A key priority is encouraging the uptake of digital tools by firms, households and public institutions. In Australia, for example, authorities are advised to expand the Consumer Data Right system to additional sectors, enabling consumers to safely share data held by businesses and facilitating innovation in digital services. In New Zealand, ensuring legislation is fit for digital markets, including by adapting copyright rules to avoid unduly hampering the use of AI, is seen as critical to enabling the next wave of digital transformation.

Figure 17. Policies to raise investment in digital infrastructure and foster the adoption of digital technologies

Share of policy recommendations to accelerate digital adoption (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Alongside these efforts, expanding access to high-quality digital infrastructure remains a key goal. In Ireland, recommendations focus on completing the rollout of high-speed broadband by 2026 under the National Broadband Plan. Estonia is advised to increase public investment to extend ultra-fast broadband coverage, including through subsidies for last-mile connectivity in underserved areas and for small firms.

Setting the macroeconomic foundations for growth

Macroeconomic and financial stability is a pre-requisite for economic growth. Macroeconomic instability heightens economic uncertainty, prompting businesses to defer crucial investment and hiring decisions, potentially triggering capital flight (Loayza and Hnatkovska, 2003[77]; Ramey and Ramey, 1995[78]; Fischer, 1993[79]; Bloom, 2009[3]) and distorting the efficiency of the price mechanism and resource allocation (Lucas, 1973[80]). High inflation or large public deficits pose significant challenges to a stable macroeconomic environment, undermining confidence. Addressing an unsustainable fiscal situation may require significant cuts in spending and increases in taxation, financial repression, or even default or the restructuring of public debt in some cases, which can have important long-term consequences for growth

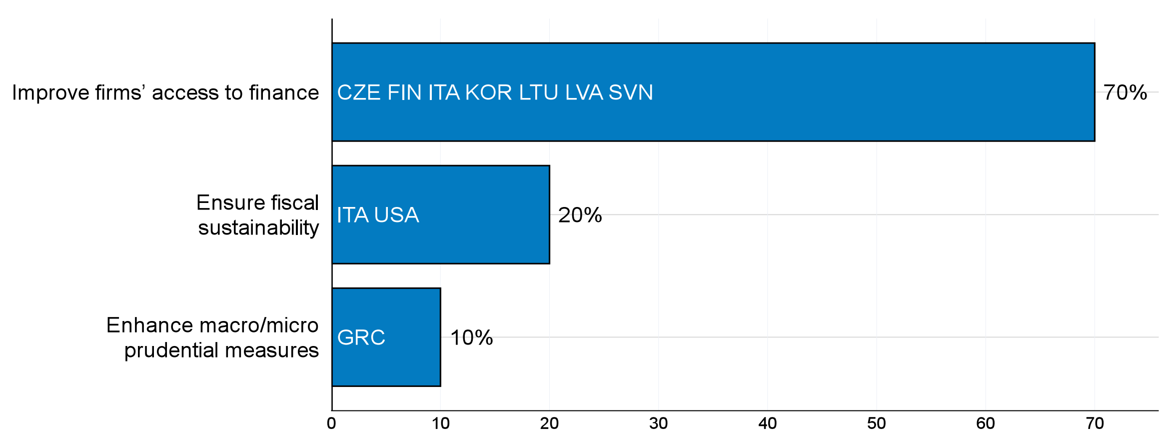
(Reinhart and Sbrancia, 2015[81]; Reinhart, Rogoff and Savastano, 2003[82]). Taming high inflation may also require significant tightening of fiscal and monetary policy, with similar consequences for economic growth.

Financial systems prone to excessive credit expansions can trigger financial crises, which can result in deep recessions and prolonged recoveries (Minsky, 1975[83]; Reinhart and Rogoff, 2009[84]; Claessens and Kose, 2014[85]). This underscores the importance of policies that promote financial stability, including banking regulations and prudential tools aimed at limiting systemic risk, including regulatory limits on loan-to-value, capital requirements for banks, limits on bank leverage, and loan loss provision requirements. These policies tend to be associated with more sustainable credit growth, particularly household credit (Cerutti, Claessens and Laeven, 2015[86]; Alam et al., 2024[87]). More broadly, an efficient financial sector supports growth by allocating capital to productive uses, managing risk, facilitating transactions, and encouraging innovation (King and Levine, 1993[88]), while well-developed risk capital markets can help finance entrepreneurial start-ups, spurring innovation.

Relevant policy priorities in this space span measures to broaden access to finance for firms, strengthen prudential oversight, improve competition in the financial sector, and enhancing fiscal sustainability (Figure 18). A key policy recommendation is to relieve financing constraints on innovative and high growth firms through the development of the venture capital (VC) ecosystem, particularly in sectors like ICT, green technologies, and digital services. In Finland, for example, greater venture capital and private equity investment could be fostered by using public-private co-financing models and expanding government guarantees, measures that can crowd in private investors in sectors with high potential but higher perceived risks. Similarly, Italy is encouraged to develop its VC market to support the scaling up of medium-sized firms.

Figure 18. Broadening access to finance for firms, ensuring fiscal sustainability and strengthening prudential oversight are key policies to ensure macroeconomic and financial stability

Share of policy recommendations on macroeconomic and financial stability (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Some countries are also advised to strengthen the role of institutional investors to mobilise long-term savings toward productive investments. In Czechia, policies could promote a shift from capital-guaranteed pension funds to life-cycle-based investment strategies, while also improving conditions for institutional investors to invest in venture capital. Similarly, Lithuania has scope to further develop pension funds and soften investment rules to allow more capital to flow into unlisted firms. Fostering fintech through proper regulation, digital payments infrastructure, and financial literacy, could also help expand financing options for SMEs and startups. Improving competition in the financial sector is also a key objective. In Slovenia, evaluating the regulatory burden and aligning fintech regulations more closely with those of other European countries could help promote digitalisation in the financial sector.

3. Shaping incentives for businesses and individuals

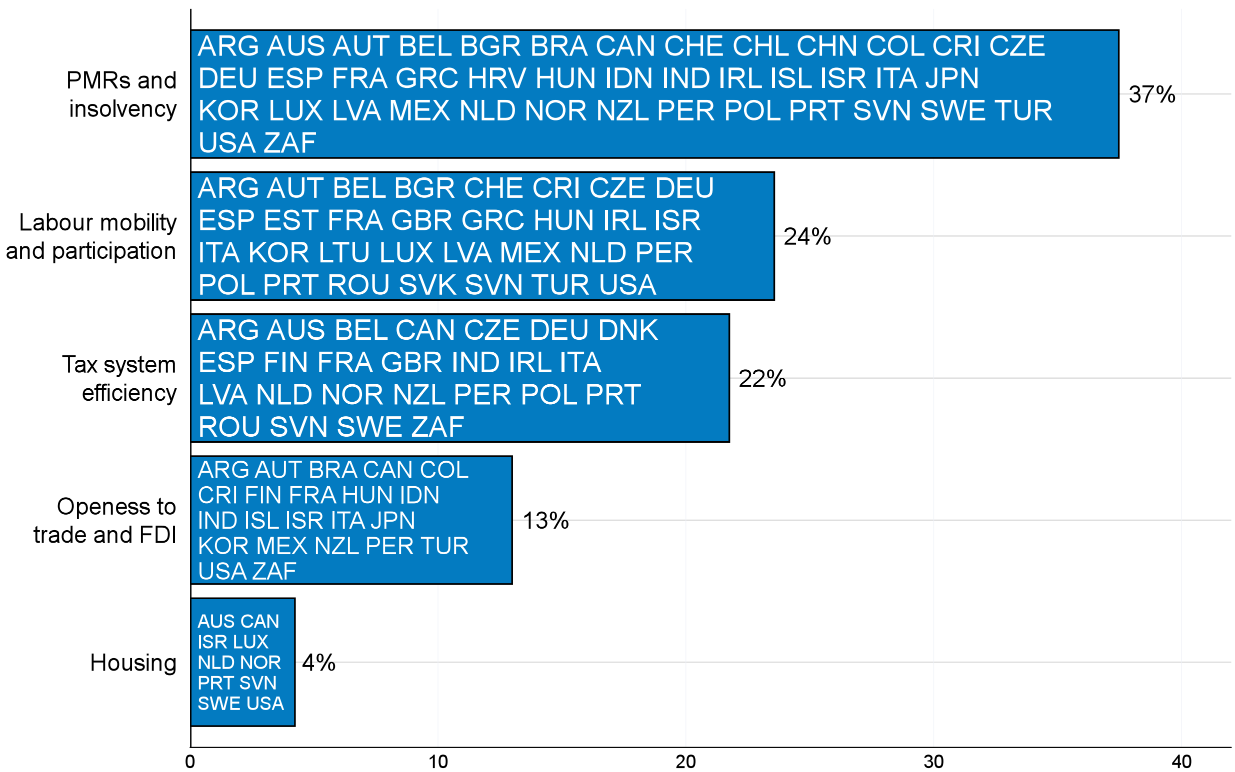
Providing the right market incentives for firms and households is essential to foster sustained economic growth. A regulatory framework encouraging firm competition and business dynamism with limited barriers to firm entry and exit, and to the use and mobility of capital and labour, allows firms and households to respond flexibly to opportunities and manage downside risks. Existing evidence suggests that economies that more readily accommodate reallocation carry fewer scarring effects from recessionary episodes (Ollivaud and Turner, 2014[89]; Andrews et al., 2020[90]). Conversely, barriers preventing reallocation can also undermine the effectiveness of other policies, for example, those targeting human capital and innovation, as discussed in Sections 2 and 4.

This Section outlines the policy priorities to strengthen the foundations for economic growth by enhancing markets' functioning and incentives. Given longer run declines in business dynamism and job mobility and persistent barriers to firm scale-up in many OECD countries, a more dynamic economy is needed. This requires a shift away from pandemic-era policies that prioritise economic preservation over reallocation (OECD, 2021[33]). Furthermore, megatrends like demographic change, shifting globalisation patterns and the digital and green transitions will demand a more adaptable and mobile economy to strengthen resilience in the face of future shocks and uncertainty. While the precise challenges differ across countries, several common structural policy needs emerge (Figure 19).

Pro-competitive regulatory reforms in domestic markets and reforms to streamline insolvency regimes are the most frequently identified priorities. These are followed by measures to boost labour force participation and mobility, to enhance the efficiency of the tax system, to strengthen openness to trade and foreign direct investment, and to reform housing sector regulations.

Figure 19. Distribution of policy recommendations to foster market incentives and allocative efficiency

Share of policy recommendations on market incentives by area (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Encouraging market efficiency and business dynamism

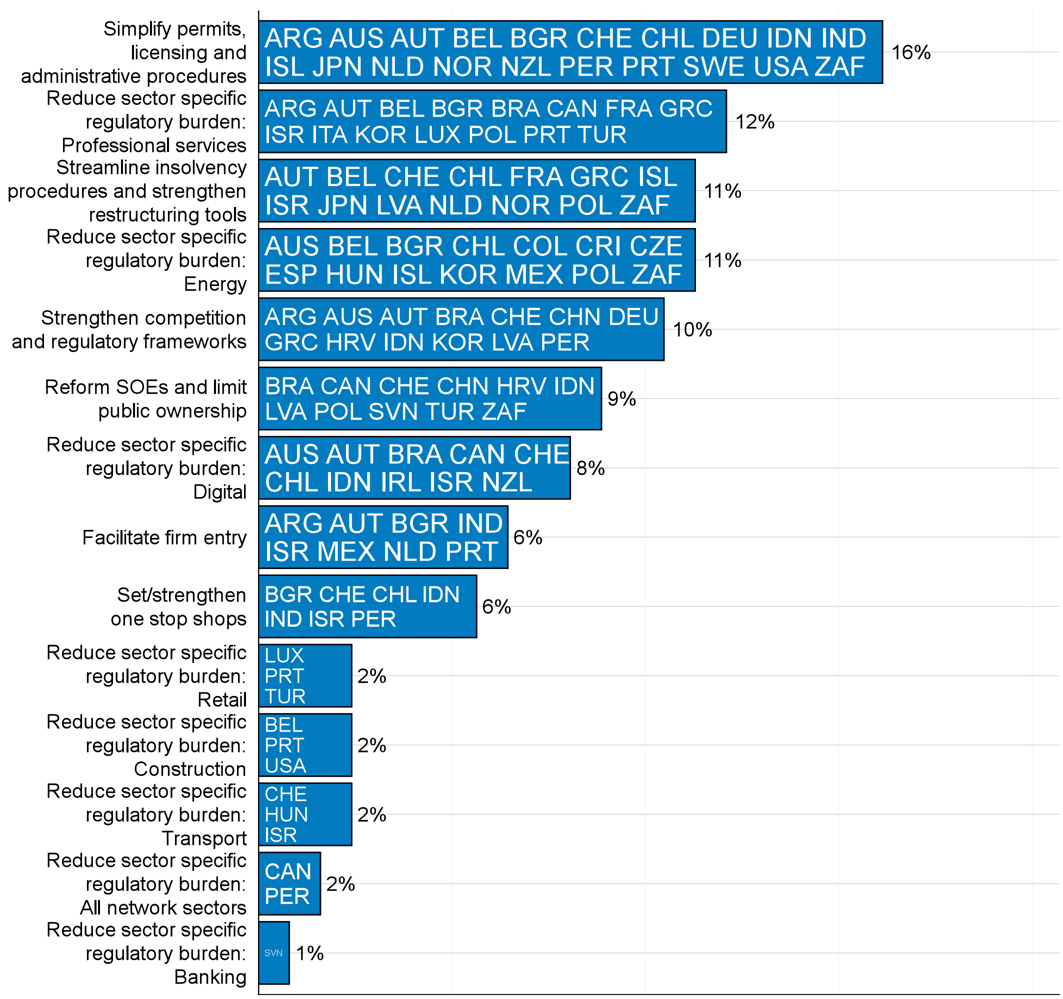
A business environment that encourages market efficiency and business dynamism is a key driver of long-term economic growth (Porter, 1990[4]). By influencing firm entry and exit and the level of competition in domestic markets, less stringent product market regulations and efficient insolvency regimes promote capital deepening and greater labour utilisation. Evidence suggests pro-competitive product market reforms increase investment (Gal and Hijzen, 2016[91]; Nicoletti and Scarpetta, 2005[92]; Andrews et al., 2025[93]), although the strength of the effect depends on the degree of credit constraints firms face and the existence of policies supporting firms' access to finance (Gal and Hijzen, 2016[91]). These product market reforms also boost aggregate employment (Gal and Hijzen, 2016[91]; Gal and Theising, 2015[94]), in part by facilitating the expansion of young firms, which contribute disproportionately to net job creation (Criscuolo, Gal and Menon, 2014[35]; Haltiwanger, Jarmin and Miranda, 2013[34]). Efficient insolvency regimes that resolve firms' financial distress quickly, predictably, by minimising losses and preserving viable activity, further underpin investment and labour utilisation by reducing the personal costs of business failure and thereby encouraging entrepreneurial risk-taking (Fossen, 2013[95]; Melcarne and Ramello, 2018[96]).

Pro-competitive product market regulations and efficient insolvency regimes can raise multi-factor productivity (Cette, Lopez and Mairesse, 2016[97]; Nicoletti and Scarpetta, 2005[92]) via several channels. First, by facilitating firm entry and an orderly firm exit, they provide outside options for workers to switch jobs (Shambaugh, Nunn and Liu, 2018[36]) and pave the way for the redirection of resources towards more dynamic and productive industries (Messina, 2006[98]) and enterprises (Adalet McGowan and Andrews, 2016[99]). This enhances the efficiency of labour allocation, particularly in innovative industries (Andrews and Cingano, 2014[100]). Second, they incentivise innovation (Futia, 1980[101]) both among frontier firms (Aghion et al., 2005[102]) and new entrants, which often hold a comparative advantage in developing and commercialising radical innovations (Henderson, 1993[103]). Third, due to competitive pressures, they promote the use of better managerial practices among firms (Bloom and Van Reenen, 2010[104]).

There remains scope to strengthen market efficiency and business dynamism, with key policy priorities including streamlining permits, licensing and reducing red tape, facilitating firm entry and exit, easing regulatory barriers in professional services and network sectors, strengthening competition frameworks and reducing the scope of SOEs and improving their governance (Figure 20).

Figure 20. Policy recommendations to encourage market efficiency and business dynamism

Share of policy recommendations to encourage market efficiency and business dynamism (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area. The area "Reduce sector specific regulatory burden: Banking" includes recommendations for SVN.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Reducing administrative and regulatory burdens is essential to boost competition and business dynamism. High regulatory burdens can deter the entry of productive firms, dampening innovation and the incentive for incumbents to improve efficiency (OECD, 2015[8]). Thus, reducing red tape would be beneficial for many countries. For example, streamlining business requirements through greater digitalisation could support start-up creation in Japan, while reducing the overlap and inconsistency across state regulations could lower administrative costs in Australia. Introducing “silence is consent” rules, where appropriate, would reduce administrative delays and costs in countries such as Chile and South Africa. One-stop shops, especially digital platforms, can further reduce administrative burdens in countries such as Israel, Switzerland or Peru.

While broad regulatory simplification is pivotal, reducing sector-specific regulatory burdens is also important, especially in industries supplying intermediate goods and services to the rest of the economy. Product market deregulation in these industries can generate positive spillovers for downstream firms that rely heavily on their inputs, both domestically and abroad (Gal and Hijzen, 2016[91]). In the long run, network sector deregulation between 1980 and 2023 in electricity, gas, telecom, post and air, rail and road transports boosted economy-wide labour productivity, on average across the OECD, by around 5% in cumulative terms, following material gains to value added (6%), employment (2%) and capital stock (4%) (Andrews et al., 2025[93]), with larger gains in industries heavily relying on inputs from deregulated upstream sectors like manufacturing (Andrews et al., 2025[93]; Benz et al., 2023[105]).

Reducing regulatory barriers in network sectors would be beneficial for several countries. In Canada, easing foreign entry restrictions could increase competition, while in Peru, lowering entry barriers and promoting business formalisation, including phasing out undue advantages for incumbents and opening access to essential infrastructure (e.g. energy grids, telecom networks), would support market dynamism. In the energy sector, regulatory reforms can help mobilise investment in infrastructure and strengthen energy security. For example, streamlining permitting processes would support electricity grid upgrades, storage systems and interconnections in Spain, while fast-tracking approvals would facilitate resilient infrastructure projects in Chile. Additional reforms to ease regulatory burdens in the energy sector would be beneficial in Australia, Belgium, Colombia, Costa Rica, Czechia, Hungary, Iceland, Korea, Mexico, Poland, Bulgaria and South Africa.

Easing the strict entry requirements and other regulatory restrictions in professional occupations like accountants, lawyers and real estate agents, and tailoring regulation to risks in these activities to safeguard quality, would strengthen competition and service quality, and are prevalent recommendations for Austria, Belgium, Canada, France, Greece, Israel, Italy, Korea, Luxembourg, Poland, Portugal, Türkiye, Argentina, Brazil and Bulgaria. Türkiye could particularly benefit from reducing restrictions on advertising and marketing of professional services to promote effective competition among service providers.

Ensuring contestability and fair competition in digital markets is increasingly important for growth, as digital platforms and services play a growing role in modern economies (Nicoletti, Vitale and Abate, 2023[106]). Promoting access to digital markets, particularly for SMEs, can support innovation and, through enhanced competition, improve digital service quality at a competitive price. This requires pro-competitive regulatory frameworks for the ICT sector, efficient infrastructure deployment, the effective allocation of public funds to close connectivity gaps and the availability of technical enablers (e.g. spectrum, internet protocol and exchange points) (OECD, 2021[107]; Sorbe et al., 2019[52]). For example, Australia would benefit from assessing barriers to digital competition and improving rules on data access and use; Canada from facilitating access by smaller firms to large telecom networks; and Israel from continuing to promote competition in fibre-optic broadband provision. Similar reforms would benefit Austria, Chile, Ireland, New Zealand, Switzerland, Brazil and Indonesia.

In addition, efficient insolvency regimes, early warning systems and effective restructuring tools enable the fast recovery of assets in the context of firm exit, supporting economic reallocation and fostering a dynamic and competitive market environment. For example, Belgium would benefit from speeding up the initiation of procedures and promoting the use of available out-of-court options and Greece from monitoring the evolution of non-performing loans and distressed debt. Similar measures to streamline insolvency procedures, strengthen early warning systems and improve restructuring tools would be beneficial in Austria, Chile, France, Iceland, Israel, Japan, Latvia, the Netherlands, Norway, Poland, Switzerland and South Africa.

Overall, ensuring a level playing field for all firms so that younger and smaller firms can compete on merit, rather than being locked out by incumbents, is essential to support economic growth. Strengthening competition frameworks and authorities remains a priority in many countries. For example, Germany could strengthen the mandate of its competition agency to challenge decisions by public regulators that hinder competition, while Peru could reinforce its competition framework to promote firm formalisation.

Strengthening competition frameworks also requires limiting and regulating direct government intervention, as state ownership and price controls can distort market dynamics, restrict competition and weaken productivity (OECD, 2015[108]). High public ownership is associated with lower employment and productivity, due to limited entry and inefficient resource allocation (Nicoletti and Scarpetta, 2005[92]). Reducing state ownership in inherently competitive industries, such as tourism in Slovenia, or network sectors in Switzerland, Brazil and South Africa would enhance efficiency. Aligning the regulatory treatment of state-owned enterprises (SOEs) with that of private firms to foster a level playing field would be beneficial in Canada and Switzerland.

Similarly, strengthening SOE governance, by enhancing transparency, clarifying mandates, and separating commercial and policy objectives, can improve performance and reduce inefficiencies in countries like Poland, Türkiye or China. For example, Türkiye would benefit from requiring independent SOE board members, setting formal rate-of-return targets for its SOEs, and limiting preferential access to state-backed financing. Furthermore, reducing the use of price controls would support a more dynamic and competitive business environment in Türkiye, as price controls, although intended to protect consumers, can undermine market incentives and productivity.

Removing obstacles to labour utilisation and encouraging an efficient allocation of labour

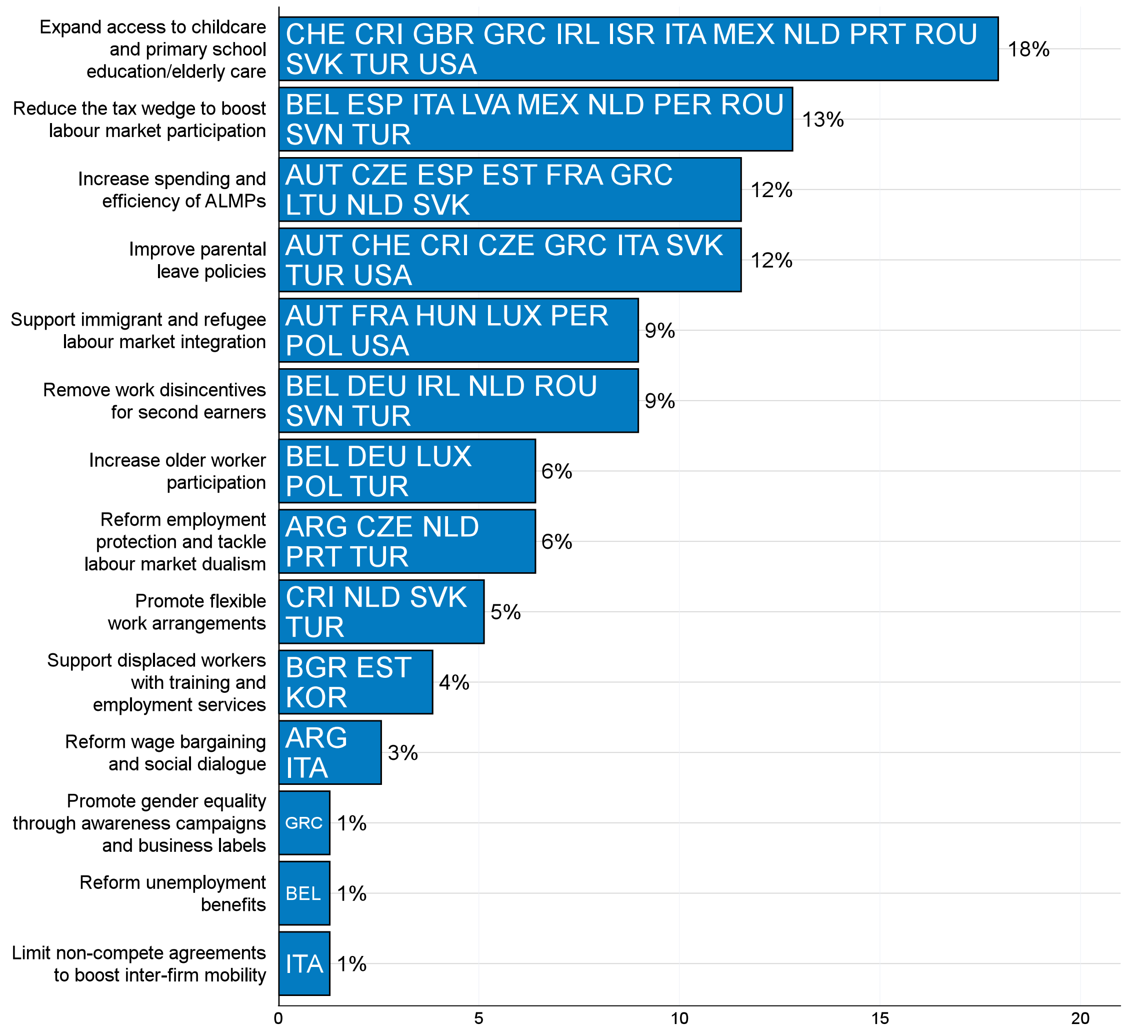
Boosting labour participation and ensuring an efficient allocation of skills to jobs remain crucial to support long-run economic growth. A well-functioning labour market serves as the backbone of the economy by ensuring that a large proportion of the population is engaged in productive activities and human capital is allocated efficiently. When individuals can easily enter and change occupations, it fosters a dynamic environment where skills and talents are matched with the needs of employers (Davis and Haltiwanger, 2014[38]). Furthermore, strong competition in labour markets can stimulate wage growth, as it raises workers' bargaining power by increasing their outside options (Karahan, 2017[39]).

Ensuring a well-functioning labour market becomes particularly crucial in the context of population ageing (André, Gal and Schief, 2024[109]). With demographic change, the working-age population is projected to decline by 8% by 2060 in the OECD, with more than a quarter of OECD countries experiencing reductions of over 30%. Falling labour supply is projected to reduce GDP per capita growth l by about 40% from 1.0% per year in the 2010s to 0.6% per year on average over the period 2024-60 (OECD, 2025[110]).

Figure 21 shows the distribution of priorities to promote high labour participation and ensure the effective use of skills across the workforce. Policy recommendations to promote labour force participation include reducing the tax wedge and removing disincentives to work, expanding access to care support, reforming parental leave or promoting flexible work arrangements, extending working lives, and supporting the labour market integration of displaced workers including via a more efficient use of Active Labour Market Policies (ALMPs). Policy recommendations to promote labour mobility include reforms to employment protection legislation (EPL) and the wage bargaining system, and policy action to reduce the coverage of non-compete clauses.

Figure 21. Policy recommendations to remove obstacles to labour utilisation and mobility

Share of policy recommendations to remove obstacles to labour utilisation (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Lowering the labour tax wedge

Tax and benefit systems have first-order impacts on work incentives. Passive labour market policies, including safety nets such as unemployment benefits and income support, cushion households against the impact of economic shocks and help prevent poverty. At the same time, they affect incentives to work: benefits that are too generous or long-lasting may reduce the urgency to return to employment, whereas steeper benefit reductions can encourage a faster return to work (OECD, 2023[111]; Kolsrud et al., 2018[112]). Similarly, a high tax wedge can discourage both hiring and the willingness to work, with particularly strong effects for low-income groups (L'Horty, Martin and Mayer, 2019[113]). These effects are often amplified when combined with benefit withdrawals, which can make additional work less financially rewarding. For these groups, the main adjustment is often whether to work at all rather than how many hours to work, as illustrated, for example, by the case of single mothers (Eissa, Kleven and Kreiner, 2008[114]).

New OECD evidence shows that lowering the tax wedge can have a positive effect on employment, including in the short term (Box 5). Reducing the tax wedge by around 1.7 percentage points could increase employment rates by close to 0.3 percentage points after two years, and by more than half a percentage point after five years.

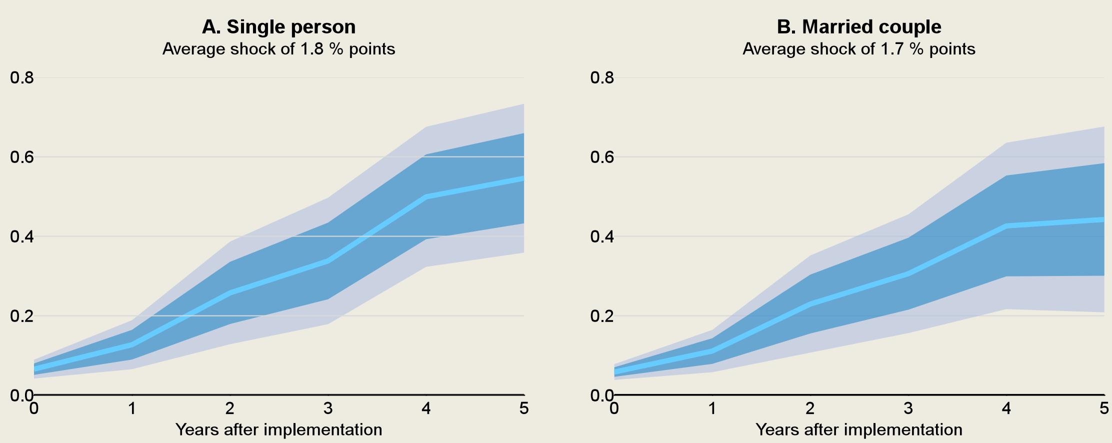
Box 5. Lowering tax wedges can help boost employment in the short term

High tax wedges can weaken work incentives by reducing the financial gain from employment and deter firms from hiring by raising labour costs. This box presents estimates of the short-term effect of reducing marginal tax wedges on employment rates for different household types that earn average income. The estimation uses local projection methods and explores separately the effects for (i) single individuals without children earning the average wage and (ii) dual-earner married couples with two children, where both earn average income. For both groups, the marginal tax wedge is defined as the share of an increase in gross labour costs (at the average income) which is paid in personal income tax and social security contributions net of cash benefits. For example, for a single-earner household, the marginal tax wedge at average income was 35.8% in 2024 across OECD countries on average (OECD, 2025[115]).

The estimated impulse response functions suggest that lowering marginal tax wedges has a positive and statistically significant effect on the employment rate over the medium term, underscoring the importance of well-designed labour taxation systems that minimise disincentives to work and hiring. A 1.8-point reduction in the marginal tax wedge for single individuals (a typical change in this variable) raises the employment rate by about 0.6 percentage points after five years (Figure 22, left panel). A comparable effect is found for dual-earner households with children (Figure 22, right panel).

Figure 22. The impact of a reduction in the marginal tax wedge on employment

Impact (in % points) of average historical reduction in the marginal tax wedge on the employment rate



Note: The employment rate refers to people aged 15-64. Panel A shows the impact of a reduction in the marginal tax wedge faced by a single person without children with average earnings, while Panel B shows the impact of a reduction in the marginal tax wedge faced by a married couple (both at average earnings) with two children. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. The estimation is run on the period 2000-2018 for OECD countries. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations.

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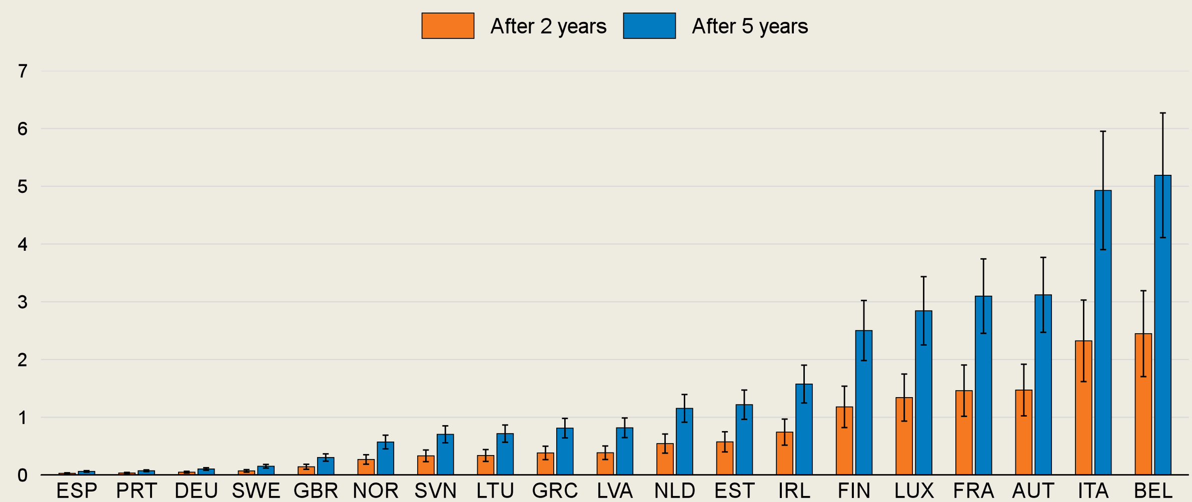
Using these estimated effects, policy simulations illustrate the potential employment gains from reducing marginal tax wedges in countries where they are currently above the OECD median. As shown in Figure 23, countries such as Italy and Belgium could achieve employment increases of between 4 and 6 percentage points over five years by aligning their marginal tax wedges for single individuals with the OECD median. However, these would be the result from reductions of more than 10 percentage points in the marginal tax wedge, an order of magnitude above the average policy change between 2000-2018 across the OECD.

Figure 23. Lowering the marginal tax wedge could lead to employment gains

Potential impact (in % points) on the employment rate of reducing marginal tax wedge for single households to the OECD median



Note: Simulated effects at the two- and five-year horizons are based on a scenario in which countries above the OECD median in marginal tax wedge in 2024 converge to the OECD median. For illustration, in the case of Austria, this represents a cut in the marginal tax wedge of 10.2 pp (OECD, 2025[115]). The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature.
Source: OECD calculations.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", *OECD Economics Department Working Papers*, forthcoming.

StatLink https://stat.link/gpm3uo

Several country-specific policy recommendations focus on adjusting taxes to promote labour market participation. In Spain, for example, work incentives could be improved by lowering the tax wedge by reducing social security contributions for low-income earners. A more gradual withdrawal of benefits as earnings increase, thereby smoothing labour tax wedge thresholds, could also strengthen labour market participation incentives in Belgium, Italy and Spain. More specifically, adding to the recent reform of unemployment insurance benefits, Belgium could benefit from reducing benefits over the unemployment spell in fewer and larger steps. Estimates suggest that Belgium and Italy could experience the largest potential employment gains from aligning their tax wedge to the OECD median (Box 5), although this would require large reductions in the tax wedge. In Spain, the employment impact would also be positive, albeit more modest.

Boosting second earners' participation through fiscal incentives and family-friendly policies

Reducing the tax wedge, in turn, can also contribute to reducing disincentives to work for second earners, who are often women (OECD, 2024[116]). Raising female employment rates has the potential to raise overall labour force participation and support future growth. OECD estimates show that rising female employment rates contributed nearly 0.4 percentage points to annual GDP per capita growth across the OECD between 2000-22, compared to just 0.1 percentage points from increases in male employment. In turn, closing the remaining gaps in female labour force participation and hours could still raise GDP per capita by around 4% in the average OECD country (Fluchtmann, Keese and Adema, 2024[117]).

Family-friendly policies and flexible work options supporting work-family life balance can also help raise female employment rates without imposing excessive costs on firms (Fernández-Kranz and Rodríguez-Planas, 2025[118]; Bover et al., 2025[119]; Asai, 2019[120]). Investments in early childhood education and care, for example, are associated with strong productivity and labour supply gains. Childcare offers a double dividend for productivity and competitiveness by both facilitating women's return to work after childbirth and fostering early childhood development, laying a foundation for future workforce competencies as discussed in Section 2 (Égert, de la Maisonneuve and Turner, 2023[48]; Card, Kluve and Weber, 2010[121]).

Expanding access to affordable childcare therefore remains a key policy lever and is the most widely identified priority within F4GC to increase labour participation, with countries like Greece, Israel or Italy standing to benefit from it. In addition, extending access to full-day primary schooling could support participation in countries like Costa Rica, where schools typically operate only four hours per day, and Mexico, where full-day schedules are not yet universal. Mexico could also benefit from expanding access to formal elderly care, as informal elderly care continues to disproportionately fall on women due to persistent social norms.

Jointly considering taxes, benefits, and childcare costs is crucial to understanding and shaping work incentives, especially for second earners. Decisions on whether to return to work after having a child, for example, can be greatly affected by the concurrent effect on income tax rates, the potential loss of benefits, and the additional cost of childcare. To this point, lowering the marginal tax rate for second earners by reforming the current joint taxation of couples would be beneficial for Germany, while the Slovak Republic or Türkiye would benefit from introducing more flexible work options. In turn, smoothing disincentives arising from the combined effect of childcare costs, taxation and the withdrawal of benefits would be beneficial in Ireland.

Parental leave policies are also an important policy lever to promote long-term growth through their effects on participation. According to the literature, paid parental leave duration has a non-linear effect on female labour market participation, following an inverted U-shape with a threshold between 30 weeks and a year, above which female labour force participation falls (Del Rey, Kyriacou and Silva, 2020[122]; Olivetti and Petrongolo, 2017[123]). The United States would benefit from introducing a federal paid parental leave entitlement, while Czechia and the Slovak Republic would benefit from reducing excessively long parental leave durations that weigh on female employment. Several countries such as Sweden, France, Japan and Korea have already introduced earmarked leave for fathers or bonus schemes to encourage more equal sharing of parental leave (Gonne and Trincão, 2024[124]). But measures to promote a more balanced distribution of leave between parents and to strengthen incentives for the father to take paternity leave could also be beneficial in Austria, Czechia, Greece, Italy, the Slovak Republic, Switzerland and Türkiye, where gender disparities in caregiving responsibilities remain pronounced.

Easing the labour market integration of migrants

Migration can also help mitigate the challenge demographic change poses to economic growth. Supporting immigrant and refugee labour market integration can help boost aggregate labour market participation, reduce skills shortages, and promote a more efficient allocation of skills to jobs. Yet, language barriers remain the most significant obstacle to labour market access for migrants (European Migration Network, 2023[125]). Consequently, around one-third of highly-educated immigrants across the OECD and EU are employed in jobs for which they are overqualified, a rate 12 percentage points higher than among EU natives (OECD/European Commission, 2023[126]).

Establishing one-stop shops targeted at employers and local authorities to facilitate the recognition of foreign qualifications, expanding bridging programmes for migrants (OECD, 2017[127]) and broadening access to language training that supports labour market integration while addressing the unique challenges of adult language learning (OECD, 2021[128]) can help to make better use of migrant skills. Specifically, France could benefit from streamlining the recognition of foreign qualifications, while in Canada this recognition should be standardised across provinces along with domestic qualifications. Poland would benefit from implementing the recently adopted migration strategy to address skills shortages. Furthermore, administrative and regulatory measures for the employment of high-skilled foreigners could be eased in France, for key personnel in Israel, and for residency requirements in Hungary and Peru. Similarly, the processing of visa and work permits could be made smoother in Luxembourg via digitalisation, while employment-based visas in the United States could be redesigned to align them with the skills that are needed in the local labour market.

Encouraging employment at older ages

Another crucial element of the reform agenda in ageing societies is to remove barriers to the labour supply of older workers and encourage longer working lives. OECD simulations suggest that raising the effective retirement age by two-thirds of the projected increase in life expectancy for both men and women would raise real GDP per capita in the median OECD country by 3% in 2060 (Guillemette and Turner, 2021[129]).

Pension reforms to link statutory retirement ages to life expectancy or to phase out early retirement emerge as priorities in countries like Belgium, Germany, Luxembourg, Poland and Türkiye. At the same time, complementary measures to pension reforms are needed to support longer working lives in countries like Belgium, which would benefit from addressing barriers to older workers' labour market retention. Health-related issues are a major driver of early retirement, with older workers more likely to experience sickness leave. Promoting healthy ageing, for example through incentives for employer investments in workplace health and well-being, can yield significant growth gains (OECD, 2023[130]), potentially exceeding those from increasing the effective retirement age in many countries (IMF, 2025[131]). Continuous education and training are also essential, particularly given recent declines in average proficiency among older adults (OECD, 2024[17]). Addressing age-related discrimination, including through training for line managers on the advantages of age-diverse teams, can further support work retention and participation among older workers (OECD, 2023[130]).

Improving matches between workers and employers in a rapidly changing economy

Active labour market policies, including training programmes, job placement services and wage subsidies, can also help reduce unemployment and improve job matches by promoting the mobility and adaptability of workers (Card, Kluve and Weber, 2017[132]). New OECD research suggests that active labour market policies can significantly support growth in GDP per capita even in the short term, with average reforms potentially boosting employment rates by close to 0.6 percentage points after five years (Box 6).

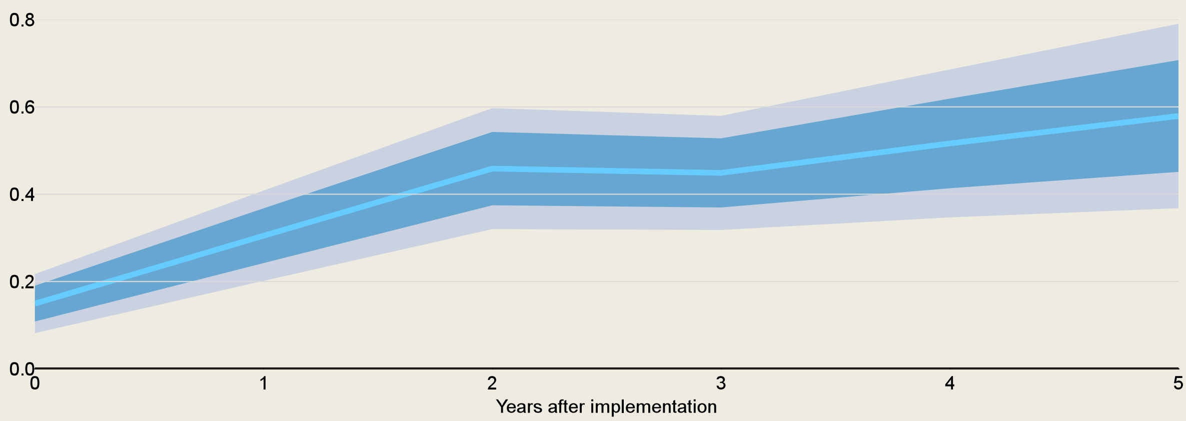
Box 6. The short-term employment impact of scaling up active labour market policies

Higher ALMP spending can significantly raise employment

Active labour market policies (ALMPs) play a key role in supporting labour market performance by facilitating job search, enhancing skills, and improving matching between workers and firms. While their long-term benefits are well documented, Figure 24 shows that the positive effects of higher ALMP spending on employment can also materialise within a relatively short time frame. The chart presents the results of local projection analysis estimating the impact of a 1.9 percentage point increase in ALMP spending per unemployed (as a fraction of GDP per capita), a change equivalent to the average reform observed across OECD countries during the period between 1999 and 2018. The results suggest a gradually increasing impact on the employment rate, reaching around 0.6 percentage points after five years.

Figure 24. The impact of an increase in ALMP spending on employment

Impact (in % points) of average historical increase in ALMP spending per unemployed in % of GDP per capita on the employment rate, average shock of 1.94 units



Note: The employment rate refers to people aged 15-64. The estimation is run on the period 1999-2018 for OECD countries. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations.

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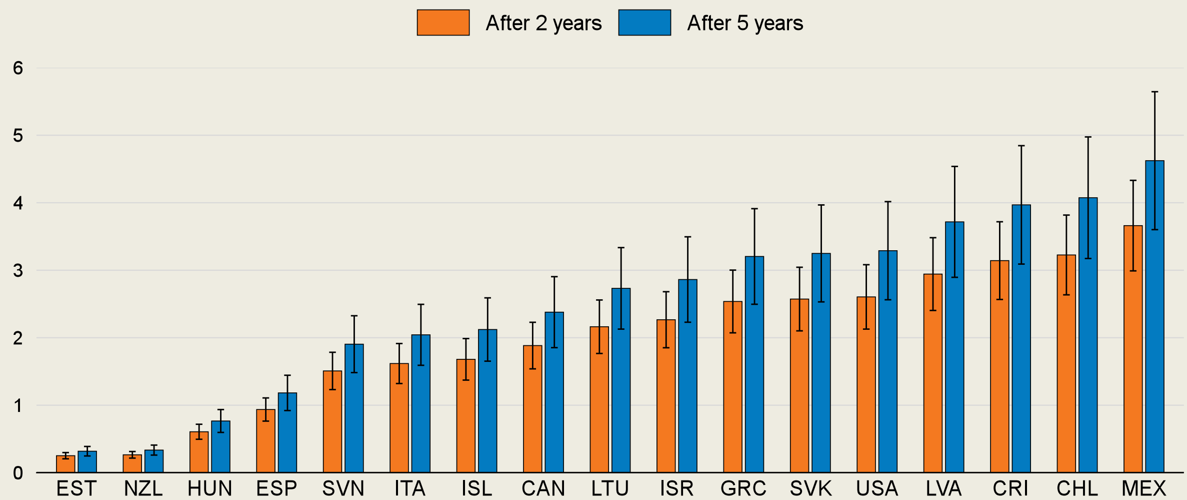
These estimates allow for country-specific simulations. Figure 25 illustrates the potential employment gains for countries where ALMP spending is currently below the OECD median, highlighting the value of more ambitious investments in activation policies, particularly in countries where underinvestment may be contributing to persistent labour market slack. In countries such as Greece, the Slovak Republic, the United States, Latvia, Costa Rica, Chile, and Mexico, increasing ALMP spending to the OECD median could lift the employment rate by over 3 percentage points within five years. However, this would require large policy changes of more than 10 percentage points in the ALMP spending per unemployed relative to the GDP per capita, an order of magnitude above the 1999-2018 historical average change across the OECD.

Figure 25. Higher Active Labour Market Policies spending could boost employment

Potential impact (in % points) on the employment rate of increasing spending on Active Labour Market Policies to the OECD median



Note: Simulated effects at the two- and five-year horizons are based on a scenario in which countries below the OECD median in ALMP spending in 2022 converge to the OECD median. For illustration, in the case of Costa Rica, this represents a rise in ALMP spending of 13.3 pp. The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature.
Source: OECD calculations.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., “The short-term effects of structural reforms: a reassessment”, *OECD Economics Department Working Papers*, forthcoming.

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Several countries could benefit from redirecting public resources towards ALMPs, including Czechia, Estonia, Greece, Japan, the Slovak Republic, and Spain, with a particular emphasis on supporting training programmes. Simulations suggest that the largest potential employment gains from aligning ALMP expenditure levels to the OECD median would be observed in the Slovak Republic and Greece (Box 6). For some countries, the improvement in ALMPs can be achieved by improving the Public Employment Service (PES): this is the case in Germany and Spain, where better coordination with the private sector would be beneficial, and in Czechia by providing more resources to profile jobseekers.

ALMPs can be particularly beneficial for vulnerable groups, including displaced workers due to structural economic transformations and the long-term unemployed (Card, Kluve and Weber, 2017[132]), who are much less likely to receive callbacks from employers (Kroft, Lange and Notowidigdo, 2013[133]) and tend to have specific needs (e.g. as a consequence of caring responsibilities or health conditions) (Dromundo, Lüske and Tuccio, 2023[134]). Targeting ALMPs towards these groups can increase the efficiency of these programmes. For example, ALMPs can facilitate the reallocation of displaced workers from the phase out of coal in Bulgaria and of oil shale production in Estonia, as well as for the workers affected by the creative destruction generated by the growth of innovative firms in Korea. More generally, the targeting of ALMPs towards more vulnerable groups could also be improved in Lithuania and Austria, towards low-skilled workers in Japan and towards young people who are the furthest away from finding employment in France.

ALMPs can be made more efficient through quality assessments, a rebalancing between programmes, and better targeting to labour market needs. For example, in Czechia and Greece, ALMPs can shift towards more training, reskilling, and counselling programmes. The quality of training programmes also needs to be carefully monitored – a priority for the Netherlands and Greece, for example, through regular quality assessments. Boosting digital and green skills is a priority in Estonia, France, and the Netherlands to match labour market needs.

Ensuring labour regulation balances protection and flexibility adequately

Employment protection legislation (EPL), a core component of labour market regulation that defines hiring and dismissal laws, has important implications for growth. For example, well-designed employment protection can support productivity by fostering long-term work relationships and encouraging firm-specific human capital accumulation, as it protects workers from undue or unfair dismissals and provides employment stability (Belot, Boone and Van Ours, 2007[135]; Nickell and Layard, 1999[136]). Overly strict EPL, however, can weigh on productivity by hampering labour reallocation (Andrews and Cingano, 2014[100]; Gamberoni, Giordano and Lopez-Garcia, 2016[137]; Petrin and Sivadasan, 2013[138]; Bassanini and Garnero, 2013[139]) and by raising the cost of internal workforce restructuring, it can reduce the incentive to experiment with disruptive innovation and adopt leading technologies (André and Gal, 2024[75]; Coste and Coatanlem, 2025[140]).

Consequently, carefully designed EPL reforms that balance worker protection and flexibility can support economic growth, including in the short run. New research conducted for this edition of F4GC suggests that a reduction in the stringency of regular workers' EPL equivalent to the average historical change over the period 2008-19 was associated with an increase in the employment rate of up to 1.5 percentage points over the following five years (Box 7). Similarly, a reform in Sweden in 2001 that gave small firms discretion to retain more productive workers instead of strictly following seniority rules boosted productivity by fostering labour mobility and increased capital accumulation (Bjuggren, 2018[141]). Building on these lessons, Portugal could benefit from promoting proportionate compensation in case of unfair dismissals and reducing reliance on reinstatement, while Türkiye could increase the flexibility of permanent contracts and expand the use of fixed-term contracts.

Introducing flexibility mainly through the excessive use of temporary contracts, however, can weigh on growth (OECD, 2025[110]). While a moderate use of temporary contracts may support job creation by facilitating matches between workers and firms, overreliance – particularly in dual labour markets where regular workers benefit from strong protection and temporary workers from little – can lead to inefficiently high turnover with adverse consequences on productivity (Hijzen, Mondauto and Scarpetta, 2017[142]; Bentolila, Dolado and Jimeno, 2019[143]; Bassanini and Garnero, 2013[139]). Overreliance on temporary contracts also lowers conversion rates from temporary to permanent jobs (Bentolila, Dolado and Jimeno, 2019[143]), which is associated with weaker worker effort, further dampening productivity (Dolado, Ortigueira and Stucchi, 2016[144]). Tackling dualism to diminish the gap between temporary and permanent workers, alongside reforms aimed at easing overall EPL is therefore recommended in Czechia and the Netherlands.

Box 7. The short-term impact of easing employment protection legislation (EPL)

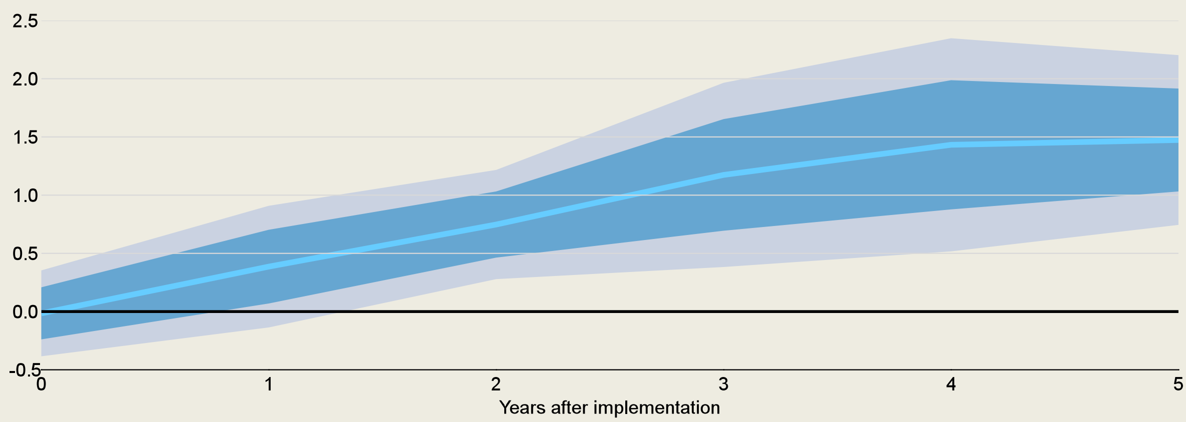
More flexible labour markets can significantly increase employment in the short run

While structural reforms are typically thought to yield long-term benefits, their short-run effects can also be estimated. Figure 26 presents the results of local projection analysis estimating the average impact of a change in employment protection legislation on the employment rate (15–64 years). The shock considered, of 0.15 points, is equivalent to the average reform episode over the historical sample period. The results indicate a statistically and economically significant increase in the employment rate following an easing of

EPL. The effect grows over time, with the employment rate increasing by approximately 1.5 percentage points after five years.

Figure 26. The impact of a reduction in the stringency of employment protection legislation on employment

Impact (in % points) of average historical reduction in EPL stringency on the employment rate, average shock of 0.15 units



Note: The EPL data used are from the OECD Employment Protection Legislation (EPRC) indicator, version 3, included in the 2020 edition of the OECD EPL Database. The indicator ranges from 0 to 6, with higher values indicating more restrictive regulations on individual and collective dismissals of regular workers. The employment rate refers to people aged 15-64. The estimation is run on the period 2008-2019 for OECD countries. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", *OECD Economics Department Working Papers*, forthcoming.

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Furthermore, wage-setting institutions such as collective bargaining can promote growth when well-designed, notably through effective coordination across bargaining levels and when involving representative social partners. An effective coordination across bargaining levels aligns wage negotiations at firm, sectoral and national levels, ensuring consistent wage outcomes and reducing conflicts. In addition, representative social partners, such as unions and employer associations with broad membership and legitimacy allow for agreements that cover a large share of workers and firms and strengthen the effectiveness of collective bargaining (Bhuller et al., 2022[145]). In France, for example, where bargaining occurs at multiple levels and industry-wide agreements cover most workers, collective bargaining appears to support growth by helping counterbalance employer market power (Azkarate-Askasua and Zerecero, 2025[146]). In addition, collective bargaining systems should balance inclusiveness and flexibility (OECD, 2019[147]), noting that it is particularly important in systems characterized by sector-level bargaining to provide sufficient flexibility to adjust wages and working conditions to accommodate firm-level shocks (OECD, 2018[148]). In Argentina, for example, introducing flexibility in the wage bargaining system, such as temporary opt-out clauses that allow firms in economic difficulties to suspend sectoral agreements, could improve labour outcomes.

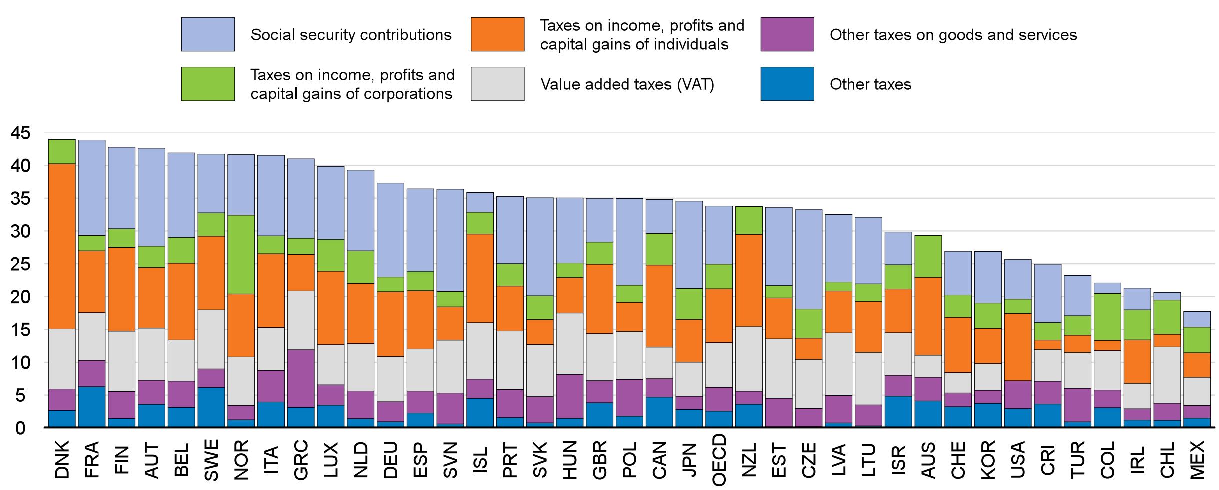
Finally, non-compete clauses, which prevent workers from joining or establishing a competing firm, disclosing confidential information or soliciting former clients or colleagues, have been traditionally used to protect legitimate business interests such as trade secrets, client relationships and investments in training. However, growing concerns point to the potential misuse of such clauses to restrict job mobility and suppress competition. Preliminary evidence for OECD countries suggests that non-compete clauses reduce job mobility, firm entry, innovation and productivity, and are more widespread than often assumed, affecting up to 25 % of employees in some countries, including many low-wage workers (Andrews and Garnero, 2025[149]). For example, narrowing the scope of non-compete clauses to promote inter-firm mobility could support long-term productivity and economic growth in Italy.

Establishing a pro-growth tax framework

While tax systems are primarily aimed at financing public expenditures, they are also used to promote economic and social objectives (Johansson et al., 2008[150]). This variety in objectives has led countries to adopt different tax structures, with their tax systems differing in the design and combination of tax instruments, such as personal and corporate income taxes (Figure 27), and consumption and property taxes.

Figure 27. Tax structures vary across countries

Revenues from different tax sources as a percentage of GDP, 2023



Source: OECD, Global Revenue Statistics Database.

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A country’s tax structure can have large and heterogeneous effects on its growth potential, given that different tax instruments can alter firms’ and households’ incentives to work, save, invest and innovate. The growth response to tax changes also depends on other economic fundamentals, like the importance of capital and labour for production and the rate at which capital depreciates or the responsiveness of households’ labour supply, consumption and savings decisions (Ortigueira, 1998[151]; Stokey and Rebelo, 1995[152]). For example, in economies where capital accounts for a relatively large share of production, an increase in the corporate income tax may result in a more pronounced decline in growth. Higher personal income tax may also have stronger effects on employment and hours worked in countries with larger social safety nets.

High personal and corporate income taxes distort labour utilisation, capital accumulation and TFP, with adverse consequences for growth (Romer and Romer, 2010[153]; Cloyne, Dimsdale and Postel-Vinay, 2023[154]; Johansson et al., 2008[150]; Akgun, Cournède and Fournier, 2017[155]; Hagemann, 2018[156]). Specifically, personal income and payroll taxes reduce after-tax wages and impact leisure-work trade-offs, shifting labour supply decisions of both men and women (Keane, 2011[157]) as well as their human capital investments (Heckman, 1976[158]). Corporate income taxes raise the user cost of capital, reducing investment and the capital stock and are often considered a key lever through which governments may influence long-run growth (Rebelo, 1991[159]). But recent studies highlight the positive role of capital allowances and of defining the tax base appropriately in the design of the corporate income tax (Hanappi, Millot and Turban, 2023[160]). In addition, personal and corporate income taxes have been found to influence the location of innovative individuals and companies (Moretti and Wilson, 2017[161]) and FDI decisions (Devereux and Griffith, 2003[162]).

Indirect taxation, including consumption and property taxes, is less distortionary than taxing personal or capital income. Consumption taxes, while potentially regressive relative to yearly income, are considered to have a less adverse influence on the decisions of households and firms than income taxes (Akgun, Cournède and Fournier, 2017[155]; Hagemann, 2018[156]; Johansson et al., 2008[150]), with even more limited behavioural responses to changes in sales taxes when they are not salient (Chetty, Looney and Kroft, 2009[163]). In addition, recurrent property taxes are usually considered the least harmful to economic growth (Brys et al., 2016[164]; Johansson et al., 2008[150]) since the tax base is highly immobile, and consequently, there is limited behavioural response to the tax. Property taxation is discussed in greater detail in Section 3 in the context of targeted housing policies.

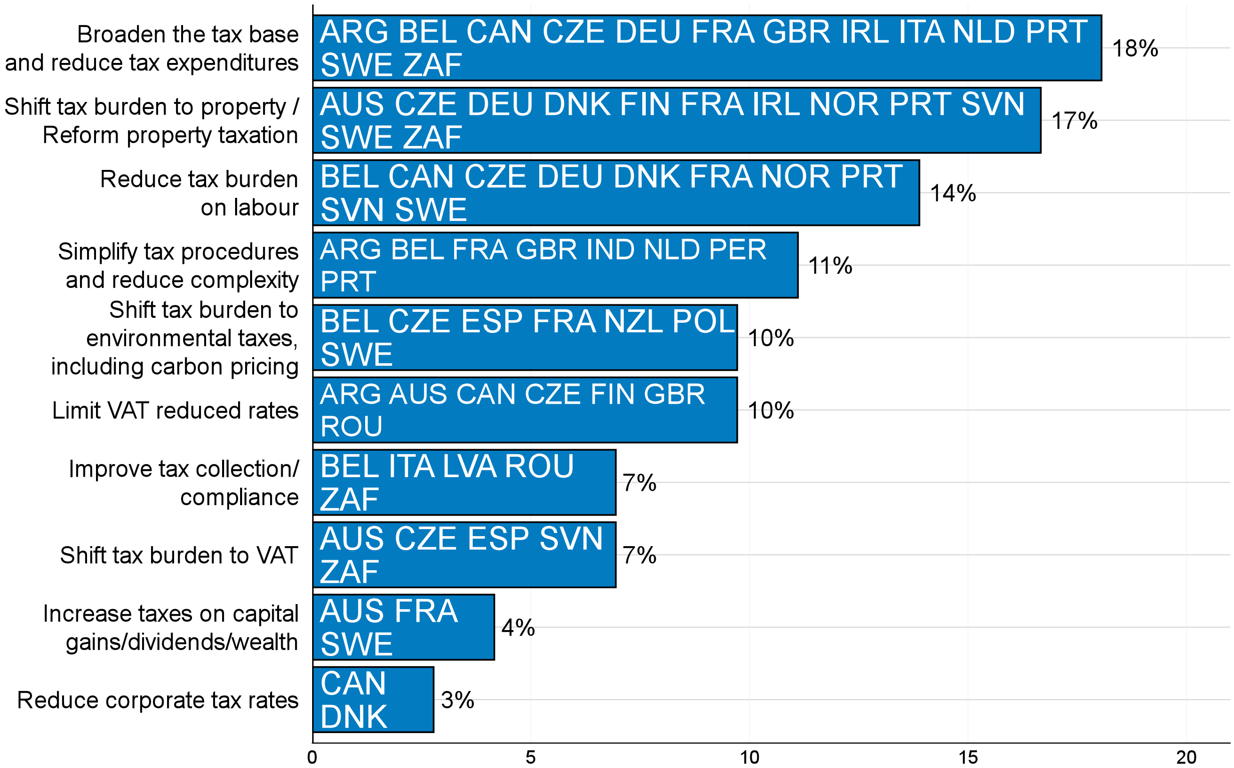
Other forms of indirect taxation, such as those addressing negative externalities like environmental or carbon taxes, can improve overall tax efficiency, even more so when their revenues are used to reduce more distortionary taxes. Simulations for OECD countries suggest that, on average, recycling a carbon tax yielding a one-percentage point of GDP increase in additional tax revenue to reduce the labour tax wedge could raise employment rates by around 1.5 pp by 2035, fully offsetting the output costs associated with the energy transition and resulting in higher living standards by 2035 compared to a scenario without the tax shift (Guillemette and Château, 2023[165]). This potential for efficiency gains in the tax system strengthens the economic case for environmental taxation, in addition to its environmental benefits.

Countries not only differ in the structure of their tax systems, but also in the effectiveness and efficiency of their tax administrations. Changes in the tax structure can interact with compliance behaviours in persistent ways (Londoño-Vélez and Ávila-Mahecha, 2024[166]). For instance, reducing complexity, broadening tax bases, or shifting towards less evasion-prone tax instruments, such as property or consumption taxes, can help strengthen compliance incentives. Supporting positive attitudes toward tax compliance, by making it as easy and as seamless as possible to meet tax obligations, is central to a tax administration's task of raising vital public funds (OECD, 2023[167]). Digital solutions can help prevent non-compliance and increase the effectiveness of tax collection. The development of pre-filled tax returns over the last two decades has led to reduced errors and burdens for taxpayers, while encouraging more timely tax filings.

Policy recommendations in the tax space include broadening the tax base, reducing the tax burden from highly distortionary taxes while shifting the tax burden to indirect taxation, reducing tax complexity and improving tax compliance (Figure 28). The latter can be achieved by facilitating tax authorities' access to bank information or promoting the use of digital payments.

Figure 28. Key policy recommendations to establish a pro-growth tax framework

Share of policy recommendations to establish a pro-growth tax framework (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Recommendations to change the tax structure are widespread. First, Belgium, Canada, Czechia, France, Germany, Ireland, Italy, the Netherlands, Portugal, Sweden, the United Kingdom, Argentina and South Africa would benefit from broadening the tax base, including by reducing tax expenditures. For example, widening the consumption tax base and discontinuing the preferential corporate tax rate for SMEs would be beneficial in Canada, while Ireland could be better off by broadening the personal income and consumption tax bases.

Second, several countries would benefit from shifting the focus of the tax system towards indirect forms of taxation, such as on immovable property (Australia, Czechia, Denmark, Finland, France, Germany, Ireland, Norway, Portugal, Slovenia, Sweden and South Africa), on consumption by raising VAT or reducing the scope of VAT reduced rates and exemptions (Australia, Canada, Czechia, Finland, Slovenia, Spain, the United Kingdom, Argentina, Romania and South Africa) or on the environment, including by raising carbon taxes or expanding their scope (Belgium, Czechia, France, New Zealand, Poland, Portugal, Spain and Sweden).

Third, Belgium, Canada, Czechia, Denmark, France, Germany, Norway, Portugal, Slovenia and Sweden would benefit from reducing the tax burden on labour income, while Canada and Denmark could also benefit from changes in corporate income taxation. In addition to its well-documented long-term economic benefits (Cournède, Fournier and Hoeller, 2018[168]), new OECD evidence shows that effective corporate income tax reductions can also boost capital deepening (Box 8) and economic growth in the short-run, albeit without short-term effects on employment (Mertens and Ravn, 2013[169]). Specifically, the simulations conducted for this edition of F4GC show that increasing capital tax allowances, that would de facto decrease the corporate tax rate, could increase the stock of capital in the Netherlands and New Zealand two years after the raise (Box 8).Similarly, cuts to average personal income tax rates have been associated with higher investment and employment in the short term (Mertens and Ravn, 2013[169]).

Box 8. The short-term impact of effective corporate tax rates

Reducing effective corporate tax rate would support capital deepening

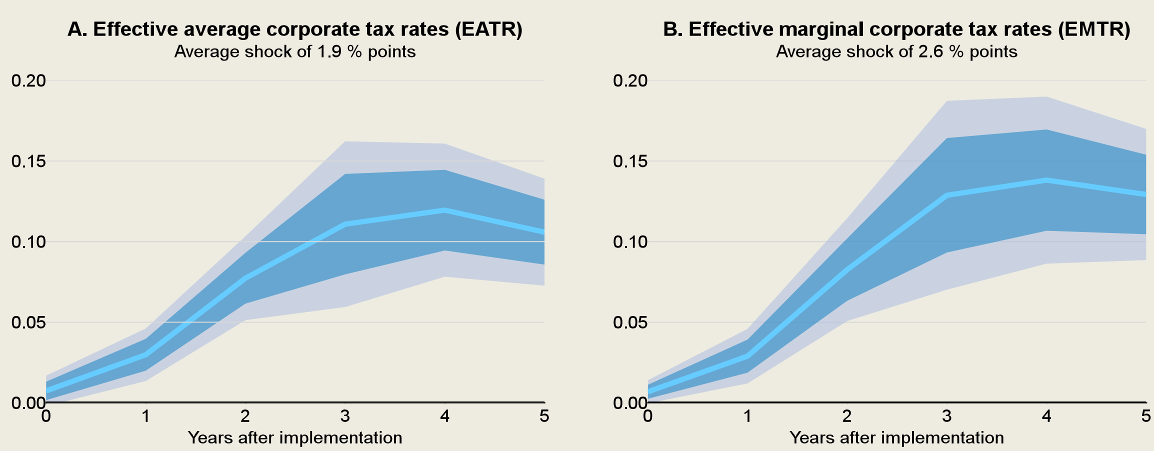
This box assesses the short-term impact of changes in corporate tax on economic growth. For this purpose, forward looking effective corporate tax rates (ETR) computed by the Centre for Tax Policy and Administration (CTPA), and included in the F4GC data base, are used. For the purpose of the estimation, this box uses ETRs computed for a longer horizon as in (Hanappi, Millot and Turban, 2023[160])based on the methodology developed by CTPA (Hanappi, 2018[170]).

Two ETR measures are used. The effective average tax rate is an estimate of the effect of taxation on the average investment in a country and is often used to analyse location decisions such as the location of a subsidiary for a multinational. The effective marginal tax rate is the impact of taxation on the rate of return to break even on an investment and, as such, reflects the impact of taxation on the marginal investment, which in turn determines decisions of firms to expand or not.

The impact on the contribution of capital deepening to labour productivity growth is estimated by local projection methods (See Annex 1.B). The results suggest that a reduction in the effective average corporate tax rates (EATR) of -1.9 pp, the average change observed over the 1998-2019 period, has had a significantly positive and gradual impact on capital deepening (Figure 29).

Figure 29. The impact of a reduction in the effective corporate tax rate on capital deepening

Impact (in % points) of average historical reduction in the effective corporate tax rate on the contribution of capital deepening to labour productivity growth



Note: Panel A shows the impact of a reduction in the effective average corporate tax rate (EATR), while Panel B shows the impact of a reduction in the effective marginal corporate tax rate (EMTR). The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. The estimation is run on the period 1998-2019 for OECD countries. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations.

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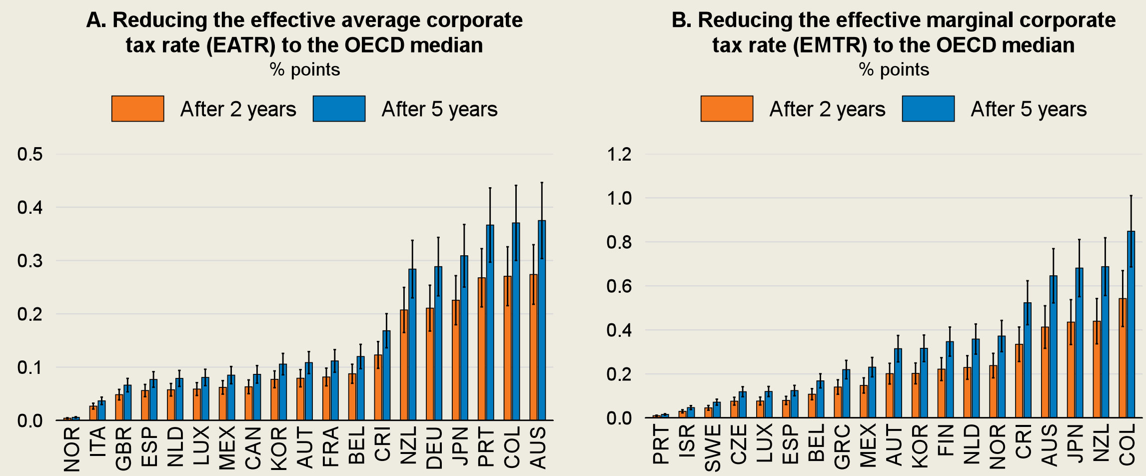
Some countries could see significant labour productivity boosts from cuts in corporate taxation

Using the results above allows to estimate the potential impact of cuts in effective corporate tax rates in OECD countries, where those rates are above the OECD median today. Gains in investment and thus in labour productivity would arise gradually. Depending on the current gap, the increase in capital deepening from a cut in the EATR could support productivity growth by 0.05 to 0.3 percentage points (pp) after 2 years, and up to 0.4 pp after 5 years (Figure 30). Because of the larger variations in effective marginal corporate tax rates (EMTR), cuts in EMTR could bring benefits of more than 0.5 pp in some countries.

Figure 30. Easing corporate taxation could lead to economic gains

Potential impact on the contribution of capital deepening to labour productivity growth



Note: Simulated effects at the two- and five-year horizons are based on a scenario in which countries above the OECD median in EATR and EMTR in 2023 converge to the OECD median. The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature. For illustration, in the case of Australia, this represents a cut in the EATR and EMTR of 6.8 and 12.9 pp, respectively.
Source: OECD calculations.

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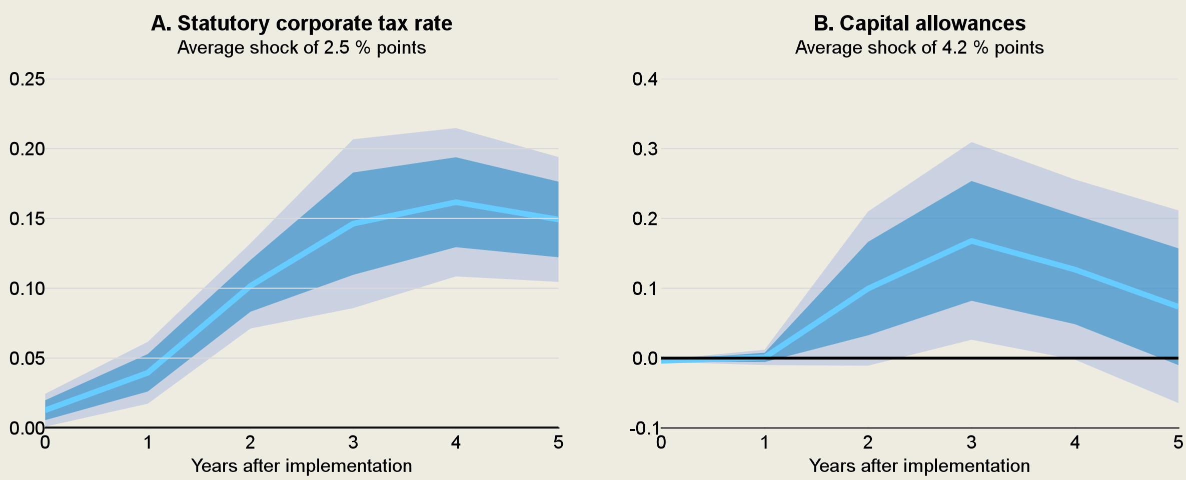
Countries could reduce statutory tax rates or increase capital allowances to raise their capital stocks

The data constructed in Hanappi, Millot and Turban (2023[160]) also allows to distinguish the impact of changes in statutory corporate tax rates (STRs) and the present value of capital allowances (as a share of the initial investment).[1] In theory, those two dimensions of the corporate tax code target different investments (Adam, Delestre and Nair, 2022[171]). STRs should have a small impact on firms' marginal investments since, by definition, those investments have low profitability. However, they will affect the tax revenue from economic rents, which also matter for investment decisions. As STRs affect the return on all investments, they play a particularly important role in shaping firms' location decisions (Barro and Furman, 2018[172]). Consequently, the STR matters for the overall level and location of business investment. On the other hand, capital allowances are better targeted at reducing the cost of capital and the effective marginal tax rates, increasing the potential scale of investments, particularly when accompanied by scaling back of interest expensing. In practice, a recent analysis of the United States' Tax Cuts and Jobs Act has suggested that the capital allowances provisions in the Act have had a higher return than the STR cut relative to their respective fiscal costs (Chodorow-Reich, Zidar and Zwick, 2024[173]).

Local projection results suggest that both statutory tax cuts and increases in capital allowances have a significant impact on productive capital investment, and that the impact of the average historical reform is of a similar order of magnitude (Figure 31). Gains in investment and thus in labour productivity would arise gradually from STR cuts and faster from increases in capital allowances. STR cuts to the median OECD country could have a potentially strong impact on productivity growth by up to 0.4 pp after 2 years, and up to 0.7 pp after 5 years for the highest-taxed countries, although this would require large tax cuts of more than 10 pp in France and Colombia (Figure 32). Increases in capital allowances to the median OECD country could boost capital deepening by between 0.2 and 0.3 pp after 2 years in the Netherlands and New Zealand.

Figure 31. The impact of a reduction in statutory corporate tax rate and an increase in capital allowances on capital deepening

Impact (in % points) of average historical reduction in the statutory corporate tax rate and an increase in capital allowances on the contribution of capital deepening to labour productivity growth



Note: Panel A shows the impact of a reduction in the statutory tax rate, while Panel B shows the impact of a reduction in capital allowances. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. The estimation is run on the period 1998-2019 for OECD countries. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations.

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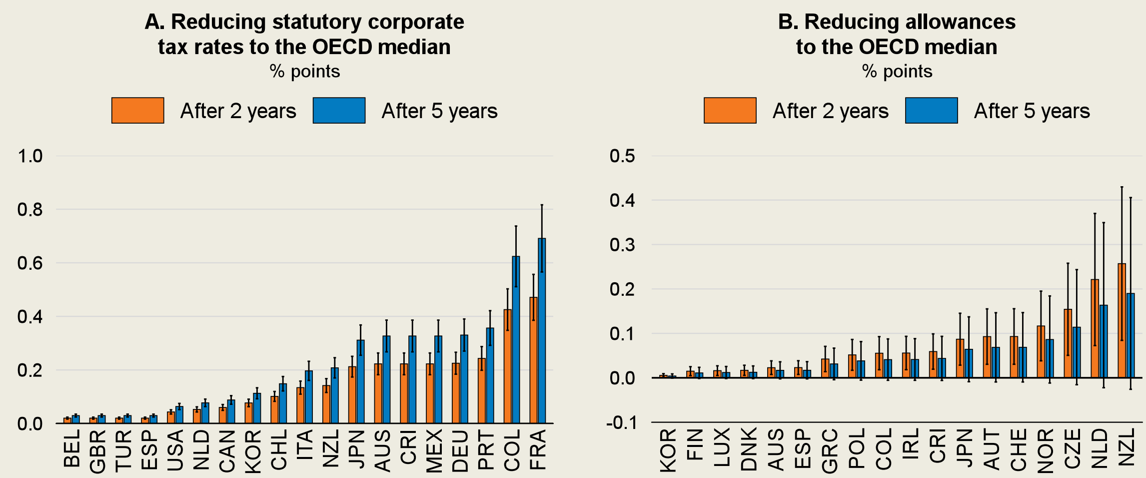
Figure 32. Easing corporate taxation could support capital deepening

Potential impact on the contribution of capital deepening to labour productivity growth



Note: For this exercise, the level of capital allowances is taken as the average net present value of the capital allowances for buildings, acquired software, and tangible assets. Simulated effects at the two- and five-year horizons are based on a scenario in which countries above the OECD median in statutory tax rates in 2025 and below the OECD median in capital allowances in 2023 converge to the OECD median. For illustration, this would imply a reduction in the statutory tax rate of 10.5 pp in the case of Colombia and an increase in capital allowances of 10.8 pp for New Zealand. The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature. Latvia and Estonia are excluded on the right-hand side chart as their level of allowances is zero given that their system only taxes distributed profits while retained earnings are not taxed.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", *OECD Economics Department Working Papers*, forthcoming.

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Fourth, a few countries would benefit from reforming their capital gains, dividends and wealth taxes. Australia would benefit from reducing tax concessions on private pensions and capital gains on housing and France from further reducing the preferential treatment of capital gains and wealth. In Sweden, aligning the taxation of investment savings accounts with other forms of capital income and increasing dividend taxation could help reduce the scope for income shifting and increase the efficiency of the tax structure.

Despite playing a limited role in revenue collection, implementing those reforms offer scope to improve the tax system efficiency and can have positive effects on growth under specific circumstances. For example, applying moderate and broad-based levies that minimise distortions can complement labour taxation and finance productivity-enhancing public investment (Hagemann, 2018[156]).

Maintaining international rules-based open markets and FDI

Lower barriers to trade and FDI result in unambiguous gains in economic performance (André and Gal, 2024[75]). Openness to trade and FDI boosts capital deepening by encouraging domestic firms to invest in productive capacity to access export markets, and by improving access to a wider variety of capital goods and services (Goldberg and Pavcnik, 2016[174]). It can also incentivise innovation among domestic firms due to increased competition pressure (Akcigit, Ates and Impullitti, 2018[175]; Bloom, Draca and Van Reenen, 2015[176]; Kang, 2025[177]), and expose domestic firms to technology spill-overs, resulting in productivity gains and convergence towards international best practices (Melitz and Redding, 2014[178]).

While the long-run impact of trade on overall employment appears limited even in the case of large trade shocks (Autor, Dorn and Hanson, 2025[179]; Bloom et al., 2024[180]), the reallocation of economic activity can entail substantial adjustment costs that are unevenly distributed (Dorn and Levell, 2024[181]). Trade integration may lead to job losses and weaker economic prospects in local labour markets with a high concentration of import-competing industries. Ensuring that the benefits of trade are widely shared requires complementary policy responses that include social safety nets to protect displaced workers, active labour market policies (ALMPs) to support mobility by re-skilling and up-skilling, and potentially place-based policies to promote economic diversification and resilience in affected areas.

Openness to trade and FDI can also support long-term growth by fostering more diversified trade and investment relationships, thereby increasing resilience to shocks. Recent crises have exposed vulnerabilities in global value chains, at a time when trade concentration has been rising globally (OECD, 2025[182]), underscoring the importance of policies that promote more diversified and resilient trade (Box 9) and FDI linkages.

Box 9. Strategies to invest in trade resilience

While highly integrated supply chains support efficiency gains, they can also heighten trade vulnerabilities by increasing the exposure to external shocks, raising concerns around economic security. Limited slack or diversification means that disruptions at a single point (e.g. supplier delays or factory closures) can propagate rapidly across the global trade network, amplifying the risks to output and stability.

OECD research shows that trade-related vulnerabilities – particularly those arising from deep integration in global value chains (GVCs) – rise with both the size of foreign inputs used and the length of foreign value chains (Schwellnus et al., 2023[183]). Vulnerabilities become strategically concerning when large levels of trade concentration arise in products of strategic importance for national defence, public health and key industrial sectors. A bilateral import is considered highly concentrated when a country sources a significant share (10% or more) of a product from a specific partner, and overall national imports of that product are sourced from relatively few suppliers, as indicated by a Herfindahl-Hirschman Index (HHI) of 0.2 or higher. The risks are particularly pronounced in the automotive and ICT industries, where high GVC integration often coincides with strong geographic concentration of critical suppliers or buyers, compounding the risk of disruption (Arriola et al., 2024[184]).

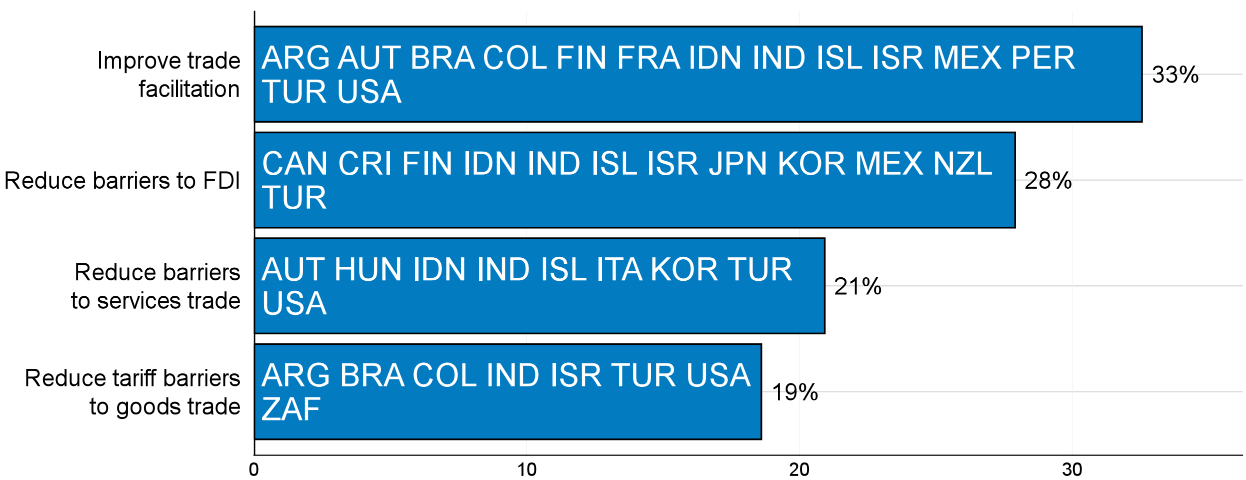
Diversifying, bringing production home or to closer/friendlier locations (the so-called re-shoring and near-/friend-shoring), and optimising stockpiling are the three most common strategies to reducing GVC risks without eroding efficiency gains (Crowe and Rawdanowicz, 2023[185]). Diversification is generally the most effective strategy for reducing exposure to shocks and maintaining production continuity, especially when it involves goods that are standardised, rely on simple technologies, and are not subject to large economies of scale. Near-shoring and friend-shoring strategies can also mitigate risks by shortening supply chains and fostering regulatory alignment, respectively, but they face limitations such as higher relocation costs and geopolitical ambiguity in defining trusted partners. While re-shoring offers the promise of greater domestic control, it is often economically unviable, for example in sectors with high fixed costs or dependence on natural resources. Increasing inventory levels can serve as a buffer against shocks and contribute to robustness, but it is not a universal solution, given the high costs and limited applicability across products and firms.

Most recent policy action has focused on re-/near-/friend-shoring with fewer measures aimed at diversification and inventory management, despite mixed evidence on the effectiveness of such government measures to improve resilience (Crowe and Rawdanowicz, 2023[185]). For example, OECD simulations suggest that re-shoring policies – i.e. a combination of across-the-board 25% import tariffs, value-added subsidies equivalent to 1% of GDP directed to labour and capital in domestic non-services sectors, and additional restrictions on international sourcing through reduced trade elasticities – could lower global GDP by more than 5% by foregoing the benefits of international specialisation. Moreover, such measures do not significantly improve resilience and could instead increase economic volatility, with estimated GDP losses for individual countries ranging between 1% and 12%, depending on GVC integration (OECD, 2025[182]; Arriola et al., 2020[186]).

In the current context of rising trade tensions and trade policy uncertainty, one general recommendation for countries is to find ways of engaging co-operatively within the global trading system while addressing economic security concerns. Some specific policy recommendations include reducing barriers to goods trade, i.e. both tariff and non-tariff barriers, reducing barriers to FDI and reducing barriers to services trade (Figure 33).

Figure 33. Policy recommendations to promote rules-based open markets and FDI

Share of policy recommendations to maintain openness to trade and FDI (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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By acting as taxes that effectively increase the price of affected goods, tariff barriers reduce trade flows and hamper the positive impact of openness on economic growth described above, resulting in a loss both domestically and internationally. Tariffs reduce the number of traded varieties (Amiti, Redding and Weinstein, 2019[187]) and shield domestic producers from foreign competition, increasing their market shares and market power (Amiti, Redding and Weinstein, 2019[187]), with negative consequences for domestic innovation (Coelli, Moxnes and Ulltveit-Moe, 2022[188]). When tariffs are met with retaliatory tariff measures, the foreign demand for domestic exporters decreases, wiping out the positive effects on the market share of protected domestic industries (Handley, Kamal and Monarch, 2025[189]).

The overall impact of tariffs on long-run growth depends on the type of goods targeted and how they ripple through supply chains. While tariffs on consumer goods tend to have more limited effects on long-term economic growth, tariffs on intermediate inputs and capital goods are more detrimental as they distort domestic production processes and undermine investment in downstream industries (Baqaee and Malmberg, 2025[190]; Meleshchuk and Timmer, 2020[191]; Goldberg and Pavcnik, 2016[174]).

Moreover, further evidence from two separate tariff episodes suggests that tariffs on intermediate goods lead to a persistent reduction in aggregate productivity and employment in downstream industries (Cox, 2025[192]) and limited employment effects in the tariff-protected industries (Lake and Liu, forthcoming[193]; Flaaen and Pierce, 2024[194]). Some countries could benefit from reducing tariff barriers, including Colombia, the United States, Argentina, Brazil and India, for intermediate and capital goods.

Non-tariff barriers (i.e. trade policies other than tariffs and tariff-rate quotas) can also impact trade flows through a similar effect on trade costs and flows as tariffs. Non-tariff measures can be motivated by sanitary and phytosanitary restrictions and other technical regulations or standards with legitimate goals reflecting country preferences, e.g. to protect public health or ensure a certain quality standard. However, other measures can be excessively burdensome on foreign firms, including public procurement restrictions and administrative burdens to trade (Disdier and Fugazza, 2019[195]).

The OECD estimates the costs associated with non-tariff barriers at between two and ten times the costs of tariffs and suggest scope to lower unnecessary costs (OECD, 2019[196]). Trade Facilitation measures ensuring transparent, predictable and straightforward border procedures can significantly lower trade costs and allow firms to be more responsive to changing consumer preferences and participate in time-sensitive global value chains, and reduce distortions in consumption and production choices (OECD, 2018[197]). Such measures include simplifying the procedures, paperwork, and administrative formalities that add layers of additional costs to goods as they cross borders. Recent OECD evidence suggests that continuing to improve the efficiency of border processes towards best practices could reduce trade costs by around 8% in OECD countries (OECD, 2025[198]). Austria, Finland, France, Iceland, Israel, Mexico, Türkiye, the United States, Argentina, Brazil, Colombia, India, Indonesia and Peru would benefit from reducing non-tariff measures and improving trade facilitation.

Reducing the restrictiveness of services trade can also have large benefits on economic growth (OECD, 2025[13]). For example, services represent a growing share of the total value of manufactured goods (IMF, 2018[199]) and, on average, more than 30% of the value added of exported manufactured goods comes from services (both domestic and foreign) (OECD, 2021[200]; Miroudot and Cadestin, 2017[201]). As a consequence, reducing barriers to services trade – such as easing restrictions on the movement of people – including visa permit quotas, nationality requirements or limitations on the stay duration – improving regulatory transparency to eliminate opaque licensing procedures, and easing administrative requirements, can support manufacturing export performance (Liu et al., 2020[202]).

Trade that entirely takes place through digital means (e.g. digitally delivered cloud-computing services), can also be expected to bring productivity benefits by enhancing specialisation and competition, and also providing cheaper and better quality inputs for firms (Sorbe et al., 2019[52]). Easing the restrictiveness of digital services trade, for example, by establishing best practice regulations on interconnections among network operators or removing impediments to online payments, can support digital adoption and firm productivity.

Austria, Hungary, Iceland, Italy, Türkiye, the United States, India and Indonesia could all benefit from easing restrictiveness to services trade. However, restrictions on cross-border services trade, including digital services, are rising. Restrictions on services trade have historically been higher than tariffs on goods (Benz and Jaax, 2022[203]) and grew over 2024 in all service sectors as the global efforts to ease regulatory hurdles faded (OECD, 2025[204]). Similarly, the restrictiveness of the global regulatory environment in digitally enabled services has increased worldwide in more than 100 countries (OECD, 2025[204]).

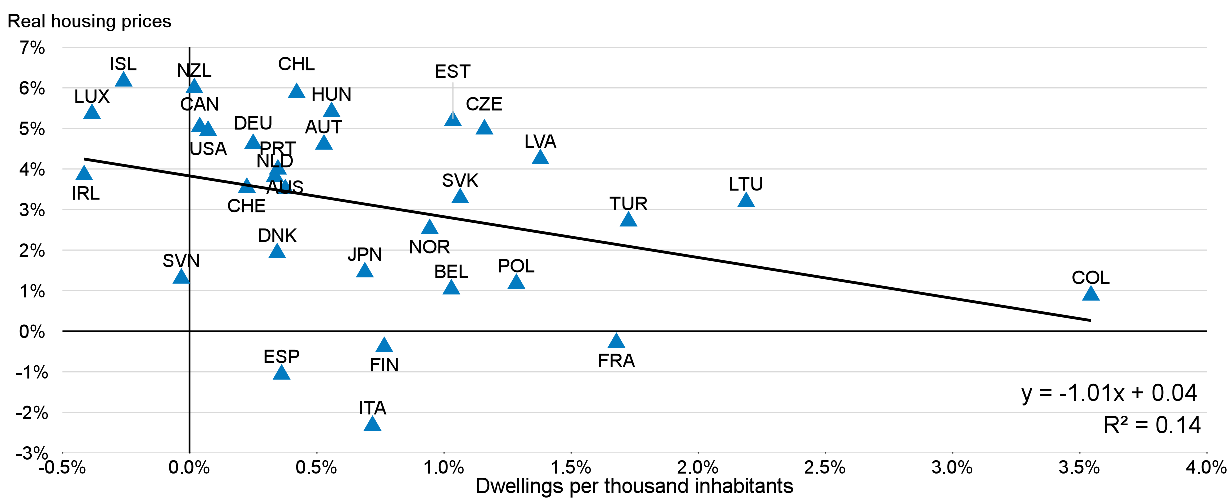
Finally, further liberalising FDI would benefit several countries. Lowering regulatory restrictiveness has been shown to increase FDI inflows (Mistura and Roulet, 2019[205]), expanding the scale and diversity of capital available for productive investment in recipient countries and improving allocative efficiency (Andrews and Cingano, 2014[100]). Streamlining screening and approval procedures would support FDI in New Zealand, Korea and Iceland, while easing FDI restrictions would be beneficial in India and Indonesia. Reducing barriers to the appointment of foreign key personnel in Israel, and in network sectors in Canada, could enhance competition and productivity, provided national security concerns are appropriately managed. Similar gains could be achieved by easing FDI restrictions in services sectors in Finland, Japan and Mexico.

Implementing growth-friendly housing policies

Access to affordable housing has become an increasingly prominent issue in OECD countries, with supply constraints driving up costs and limiting access. Housing-related expenditures account for over one-fifth of household spending on average, according to the OECD Housing Affordability Database. A negative correlation between increases in housing prices and changes in the housing supply since 2011 suggests that affordability pressures are most acute in areas where housing construction has lagged, consistent with the presence of supply constraints (Figure 34) – a phenomenon also observed across US states (Glaeser and Gyourko, 2025[206]).

Figure 34. Supply constraints have contributed to the decline in housing affordability

Annualised change



Note: 2021 or latest year available. The annualised growth is calculated based on the latest available year.
Source: Housing Affordability database, OECD calculations.

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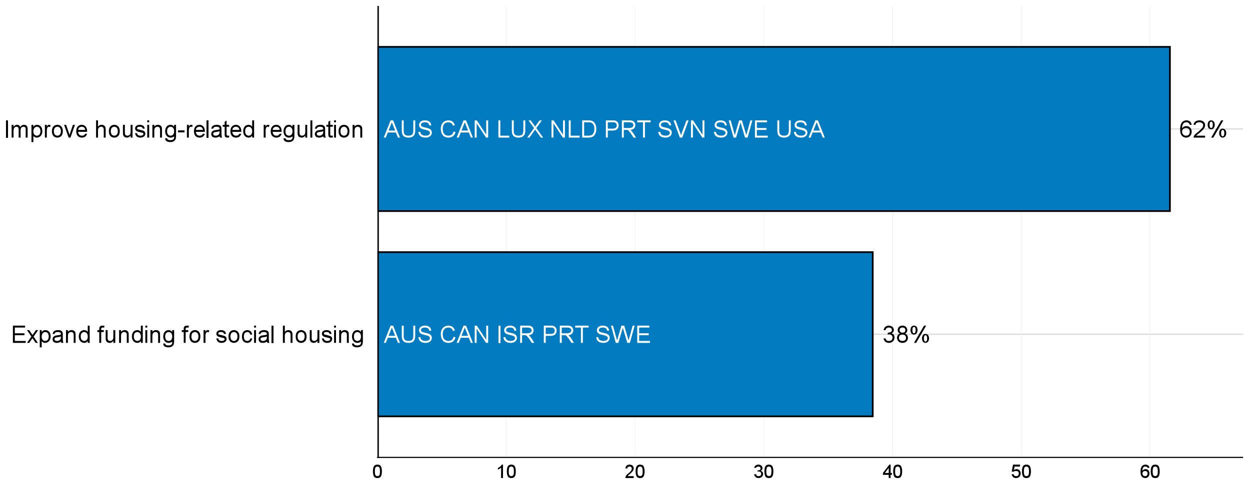
A housing supply that can respond flexibly to shifts in demand enables workers to move to areas with better job opportunities and strengthens agglomeration economies – the productivity gains from firms and people locating near one another (Glaeser, 2010[207]). In contrast, housing supply constraints exacerbate affordability issues and carry large economic costs (Caldera Sánchez and Andrews, 2011[208]; Causa and Pichelmann, 2020[209]; Schleicher, 2017[210]). A key concern is that when regulations restrict the responsiveness of housing supply, they distort incentives and hinder geographic mobility, preventing workers from accessing jobs that best match their skills (Causa and Pichelmann, 2020[209]; Oswald, 2009[211]). The economic consequences can be substantial (Gyourko and Molloy, 2015[212]; Kane and Lopez, 2023[213]), with evidence from major US cities suggesting that labour misallocation due to restrictive housing policies reduced aggregate US growth by roughly one-third between 1964 and 2009 (Hsieh and Moretti, 2019[214]). Recommendations within F4GC focus on expanding the supply of affordable housing, improving access through smarter regulations and increasing the funding for social housing (Figure 35).

Figure 35. Policy recommendations to reform housing policies

Share of policy recommendations to reform housing policies (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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More streamlined and flexible land-use and spatial planning policies could reduce housing supply constraints and support growth in countries such as Australia, Canada, Luxembourg, the Netherlands, Portugal, Slovenia and the United States. For example, in Australia, restrictive zoning and planning regulations, combined with rising construction costs, have constrained housing supply against a backdrop of rapid population growth. In this context, the federal government would benefit from incentivising local authorities to streamline zoning regulations. In the United States, housing development has also been limited by excessive zoning regulations, which could be reformed to allow for higher-density development in urban areas, particularly near transit corridors.

Improving the co-ordination and reducing overlapping responsibilities between levels of government, as well as addressing excessive decentralisation could also reduce the rigidity of housing supply (Cavalleri, Cournède and Özsöğüt, 2019[215]; Bétin and Ziemann, 2019[216]; Andrews, Caldera Sánchez and Johansson, 2011[217]). To this end, Portugal would benefit from harmonising regulation across municipalities. The example of Israel's Housing Headquarters committee that oversees all relevant housing authorities and facilitates horizontal co-operation among them could be helpful (OECD, 2017[218]).

In addition, increasing the availability of social housing can increase the supply of affordable housing, especially among lower income households (Favilukis, Mabille and Van Nieuwerburgh, 2022[219]). Social housing can yield benefits with limited distortions on mobility and private development when paired with measures that support residential mobility and ease broader supply constraints. For example, eligibility rules – such as the 2015 United Kingdom's Right to Move, which removed local residency requirements for social housing applicants moving for employment or apprenticeships – can facilitate mobility (OECD, 2021[220]; OECD, 2020[221]). Additionally, a larger social housing stock can further reduce mobility costs for eligible households relocating to seize economic opportunities (OECD, 2020[221]; Causa and Pichelmann, 2020[209]; OECD, 2020[222]).

Building more social housing is a priority for several OECD countries, including Australia, Canada, Israel, Portugal and Sweden. In Sweden, a social housing system could, if implemented, support the transition away from rent controls discussed below by providing affordable housing for low-income households. Such a system could also contribute to reducing socio-economic spatial segregation, which is more pronounced in Sweden than in other Nordic countries (Tunström and Wang, 2019[223]). In Australia, Canada and Portugal, a relatively small stock of social housing compared to other countries with available data (OECD, 2020[224]) calls for greater investment to expand the supply of affordable units. In Israel, increasing the housing supply via social housing development in economically dynamic areas would also address the rapid increase in house prices, which have recently hampered the labour market participation for new entrants.

Easing overly stringent rental regulations could also help alleviate housing constraints and support labour market dynamism. Rental regulations aim at addressing market imperfections such as asymmetric information and unequal bargaining power between landlords and tenants. However, overly strict rent controls and tenant-landlord regulations can reduce the quality of housing and the housing supply, by reducing the responsiveness of residential construction to demand pressures (Cavalleri, Cournède and Özsöğüt, 2019[215]; Diamond, McQuade and Qian, 2019[225]). Ultimately, these regulations can thus raise rents and home prices, hindering labour mobility (Kholodilin, 2024[226]; Mineshima et al., 2021[227]; Diamond, 2018[228]; Sims, 2007[229]). These associated longer-term costs tend to offset the short-term benefits of protecting tenants from large rent variations (López-Rodríguez and de los Llanos Matea, 2020[230]; Favilukis, Mabille and Van Nieuwerburgh, 2022[219]). Evidence for OECD countries suggests that relaxing strict rent controls could increase residential mobility rates by one third (Andrews, Caldera Sánchez and Johansson, 2011[217]; OECD, 2021[220]). Easing strict rental regulations restrictions could yield economic gains even in the short term, with gains increasing gradually over time, as suggested by new OECD evidence (Box 10).

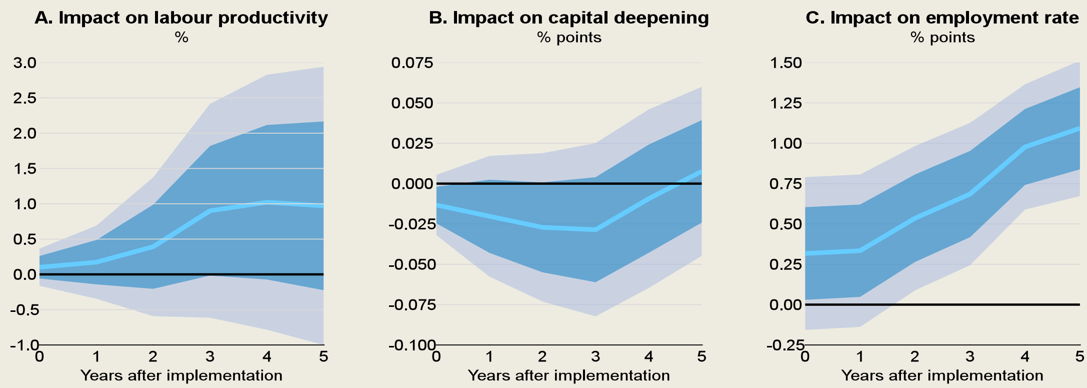
Box 10. Loosening rental market regulations can gradually improve productivity and employment

This box assesses the short-term impact of changes in rental market regulations on economic growth. Estimates below exploit data on rental market regulations developed by Kholodilin (2020[231]) which provides information on three types of policies (rent control, tenant protection, and housing rationing) for 150 countries since 1910. Several binary variables are averaged for each of the three types and then aggregated into a Rental Market Regulation Index (RMRI).

The impact on labour productivity, capital deepening and the employment rate is estimated by local projection methods (See Annex 1.B). The results suggest that a decrease in rental market regulation, for a shock calibrated as the average change observed over the sample, has a significantly positive impact on employment and a small positive impact on labour productivity (Figure 36). Thus, by easing rental market regulations, countries with tight rental market regulations could raise growth (Figure 37): employment rates could increase by up to 2 points at horizon 2 years, and 4 points at horizon 5 years, if countries with the tightest regulations were to set them at the OECD median. However, this would imply sizeable changes: in 2024, the OECD median was 0.33 against 0.66 in France and the Netherlands, while the average historical yearly shock was around 0.09 over the estimation window.

Figure 36. The impact of loosening rental market regulations on growth

Impact of average historical reduction in aggregate Rental Market Regulation Index, average shock of 0.09 units



Note: Aggregate Rental Market Regulation Index ranges from 0-1. Labour productivity is measured as GDP per worker. Capital deepening is measured as the contribution of capital per worker to growth in GDP per capita. The employment rate refers to people aged 15-64. The shock corresponds to a yearly change in the Rental Market Regulation Index (RMRI) from (Kholodilin, 2020[232]). The estimation is run on the period 1995-2019 for OECD countries. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations based on Kholodilin, K. (2025), *Longitudinal database of rental housing market regulations: 100+ countries over 100+ years*, https://rpubs.com/Konstantin_Xo/RHMR.

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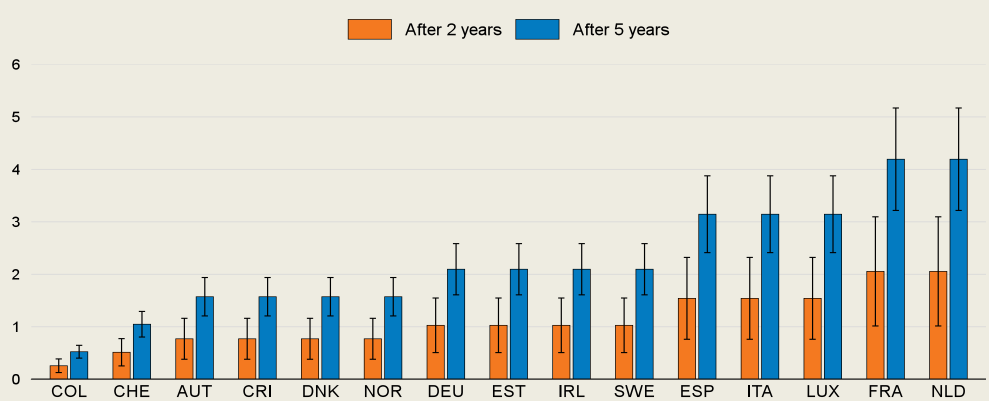
Figure 37. Easing of rental market regulations could boost labour utilisation

Potential impact (in % points) on the employment rate of reducing the Rental Market Regulation Index to the OECD median



Note: Simulated effects at the two- and five-year horizons are based on a scenario in which countries above the OECD median in rental market regulations in 2023 converge to the OECD median. For illustration, in the case of France, this represents a cut in the RMRI of 0.34 units that would correspond to a regulatory setting similar to that in Korea. The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature.
Source: OECD calculations.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., “The short-term effects of structural reforms: a reassessment”, *OECD Economics Department Working Papers*, forthcoming.

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Easing rental market regulations is a priority in Sweden and Slovenia. Evidence from the OECD suggests that such easing would support inclusive growth by supporting housing supply. For example, in Finland, the liberalisation of the rental market expanded supply –the private rental stock grew from 12% in 1990 to 17% in 2012– while preserving affordability with the simultaneous implementation of complementary measures to improve the responsiveness of housing supply (de Boer and Bitetti, 2014[233]). Sweden, which maintains some of the strictest rent controls in the OECD, could also benefit from abolishing rent controls for both newly built and existing housing units. Simulations conducted for this edition of F4GC suggest that these reforms could generate some of the largest potential gains in labour productivity and employment across OECD countries (Box 10), consistent with estimates that housing market misallocation in central Stockholm alone imposes an annual welfare loss of around 0.5% of GDP (Andersson and Söderberg, 2012[234]). In Slovenia, strict rental regulations are often bypassed, and the country would benefit from introducing standard rental contracts ensuring compliance with national law and protection for both tenants and landlords.

Finally, housing taxation can also play a role in reducing housing supply constraints. For example, taxing vacant land or property can increase the housing supply (Segú, 2020[235]). To boost the housing supply, Slovenia could apply higher property tax rates on secondary homes and short-term rentals and in Luxembourg, raising taxes on unused land could further incentivise housing supply beyond the easing of construction regulations also recommended.

Shifting from transaction-based property taxes to recurring property taxes would reduce barriers to mobility, support labour market adjustment, and foster economic growth (OECD, 2021[220]; OECD, 2022[236]). As noted in the discussion of pro-growth tax framework recommendations, transaction taxes are highly distortive, discouraging property trades and thereby limiting labour mobility (Causa and Pichelmann, 2020[209]; O'Sullivan, Sexton and Sheffrin, 1995[237]), whereas recurrent property taxes have a small adverse impact on mobility and growth relative to the other major sources of revenues (Arnold et al., 2011[238]; Akgun, Cournède and Fournier, 2017[155]). Among the countries that could benefit from a gradual shift from transaction-based taxes to recurrent taxation is Portugal. In addition, regular updates of property values – such as through computer-assisted mass appraisal tools, which are still absent in many OECD countries (OECD, 2022[236]) – would provide further benefits to the country.

Capping the capital gains tax exemption or phasing out mortgage interest relief can also support growth. They can increase housing supply and support labour mobility by reducing incentives that lock households into oversized owner-occupied homes. This makes it easier for households to move for work or other needs, and can reduce upward pressure on house prices, particularly where supply is constrained. Most OECD countries exempt owner-occupied housing from capital gains taxation, supporting homeownership and savings in an indirect, inefficient and regressive way. Likewise, tax relief for mortgage interest on owner-occupied housing is common in the OECD but tends to be capitalised into prices given low housing supply elasticity. It is also regressive and encourages indebtedness and overconsumption of housing services (e.g. via larger houses). In Australia, the capital gains tax concessions on main residences are particularly high and could be reduced, which would also limit the risks to financial stability. Reducing generous mortgage interest deductibility would also improve the efficiency of the tax system in the Netherlands and in Sweden in a progressive way.

4. Guiding and supporting activities through targeted and sectoral policies

Targeted policies serve to guide and support economic activity and correct for market failures, including the internalisation of externalities, which involves compensating those firms who generate positive externalities and taxing those who cause negative ones. For example, firms tend to innovate less than what is socially optimal, while many firms do not internalise the environmental costs that carbon emissions have on society. In turn, the decarbonisation of buildings is constrained by high fixed costs (e.g. heat pump adoptions) and coordination failures (e.g. between landlords and renters); the decarbonisation of the transport sector requires a parallel development of the electric vehicle fleet and a network of charging stations; and greening industrial processes require innovation, which has significant positive externalities beyond pollution reduction. Targeted policies covered by F4GC include:

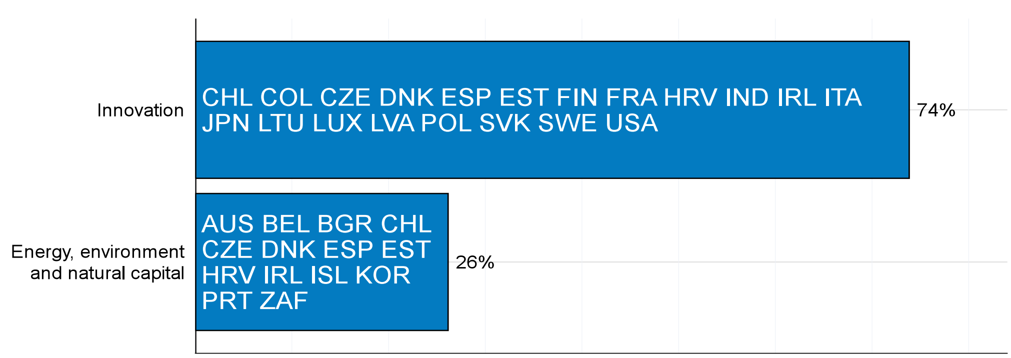
- Subsidies and incentives, such as financial support for R&D or industrial policies, including the strategic government involvement to develop high-potential industries and enhance technological capabilities to boost innovative activities and, in turn, increase multi-factor productivity.
- Policies reducing price distortions on energy, deploying good design and evaluation of environmental policies, and reducing barriers to energy diversification and natural capital investments to enhance productivity by ensuring a reliable and affordable energy supply.

Targeted policies complement enabling policies and policies shaping market incentives described above, and key policy interactions emerge between them. For example, there is clear evidence that the effectiveness of targeted innovation policies will be enhanced by structural policies which promote competition, business dynamism and the reallocation of scarce resources to innovative firms (Acemoglu et al., 2018[239]). Moreover, human capital-augmenting policies may also be more growth-enhancing when accompanied by targeted innovation policies that address market failures and promote the diffusion of innovation.

Targeted policy recommendations identified in F4GC are prevalent, representing 10% of the total recommendations. Three in four recommended targeted policies focus on innovation support, and one in four on energy and the environment (Figure 38).

Figure 38. Targeted policies are warranted in various areas

Share of recommendations in targeted policies by area (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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Accelerating innovation

Technological progress and innovation are the primary catalysts of long-term economic growth (Swan, 1956[240]; Solow, 1956[241]; Romer, 1990[242]). As economies move closer to the technological frontier, productivity growth becomes increasingly dependent on the development of new ideas, technologies and methods in production and service delivery. However, due to the unique nature of knowledge – being non-rival and only partially excludable – private sector investment in innovation may fall short of societal optimal levels, justifying government intervention to correct imperfections in the market for ideas (Andrews and Criscuolo, 2013[243]). Accordingly, innovation policies captured in the F4GC framework are based on quantitative indicators that capture various ways in which governments subsidise the innovation process (see Annex 1.C).

The preferential tax treatment of R&D – in the form of R&D tax credits and deductions – can generate additionality: that is, it can encourage firms to undertake more R&D than they otherwise would have absent the policy intervention. A range of factors determine the effectiveness of R&D tax incentives. First, additionality tends to be larger for policy measures targeted at smaller firms: OECD research shows that one extra unit of R&D tax support translates into 1.4 extra units of R&D, but with a larger effect for small and medium-sized firms compared to larger firms (OECD, 2023[244]). Second, policy stability may be just as critical as the scale of policy support in stimulating innovation: large fluctuations in R&D tax policies (whether towards higher or lower support for R&D) may be detrimental given that cost certainty is particularly important for intangible investment projects that have much longer time horizons and where the investment decision is difficult to reverse once the project has commenced (Westmore, 2013[245]).

While R&D tax incentives can potentially raise productivity by expanding the technological frontier and encouraging knowledge spillovers, design is crucial to ensure additionality and that it does not favour incumbents at the expense of young firms that typically possess a comparative advantage in radical innovations (OECD, 2023[246]). This can be done by making R&D incentives refundable for loss-making entities or redeemable against payroll taxes. In fact, OECD research indicates that firms respond more vigorously to tax incentives when refunds are available for loss-making entities, with an even stronger response when tax incentives are redeemable against payroll taxes (OECD, 2023[244]).

Preferential tax treatment can effectively promote R&D, but there are certain limitations that call for complementary expenditure on R&D. One concern is that the exclusive use of tax instruments to foster R&D may direct effort towards projects that are closer to the market, thus inducing a misallocation between basic and applied research. This is crucial because basic research is more non-rival in nature, thus resulting in larger knowledge spillovers than applied research, and tends to make applied R&D more productive (Akcigit, Hanley and Serrano-Velarde, 2020[247]), but its sizeable benefits come with long lags (Clancy, 2021[248]).

However, new research conducted for this edition of F4GC suggests that productivity gains from increased basic research spending materialise within four years (Box 11). Specifically, raising basic research expenditure by the average historical change over the 1995-2019 period could boost labour productivity by, on average, 0.3% within four years. Basic research is underfunded but additional direct government expenditure and indirect incentives for basic research could boost productivity and pay for itself over a decade (Barrett et al., 2021[249]). More generally, public expenditure directed towards R&D can crowd in private investment and innovation and boost productivity and living standards in the long run (Antolin-Diaz and Surico, forthcoming[250]; Moretti, Steinwender and Van Reenen, 2025[251]).

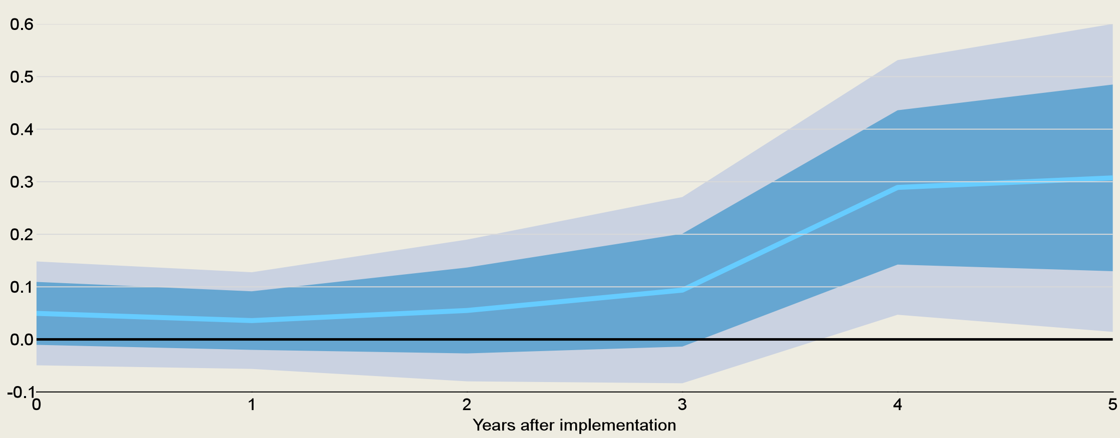
Box 11. Basic research can boost labour productivity in the short term

This box assesses the short-term impact of basic research expenditure on labour productivity, using data from the F4GC database on basic research expenditure as a share of GDP and economic performance indicators across OECD countries. Estimation is conducted by local projection methods (see Annex 1.B).

The results suggest that increasing by 0.02 percentage points the fraction of GDP devoted to basic research can lead to a 0.3% gain in labour productivity, starting four years after the expenditure rises (Figure 39). The labour productivity gains tend to materialise more slowly than those of other structural reforms. This reflects the inherently high uncertainty surrounding basic research, as well as its often indirect and unpredictable outcomes. While these outcomes may not yield immediate benefits, they frequently serve as the foundation for future innovations and advances in fundamental knowledge. In addition, greater investment in basic research can foster conditions that enable non-frontier firms to adopt technologies and know-how developed by frontier firms through applied research. This may help mitigate the decline in knowledge diffusion between frontier and laggard firms, which has been identified as a key factor behind the weakening of business dynamism in recent years (Akcigit and Ates, 2021[252]).

Figure 39. The impact of an increase in basic research expenditure on labour productivity

Impact (in %) of average historical increase in the ratio of basic research expenditure to GDP on labour productivity, average shock of 0.02 % points



Note: Labour productivity is measured as GDP per worker. The estimation is run on the period 1995-2019 for OECD countries. The darker-shaded area represents the 68% confidence interval, while the light-shaded area corresponds to the 90% confidence interval. Refer to Annex 1.B for the methodology used in the estimation.
Source: OECD calculations.

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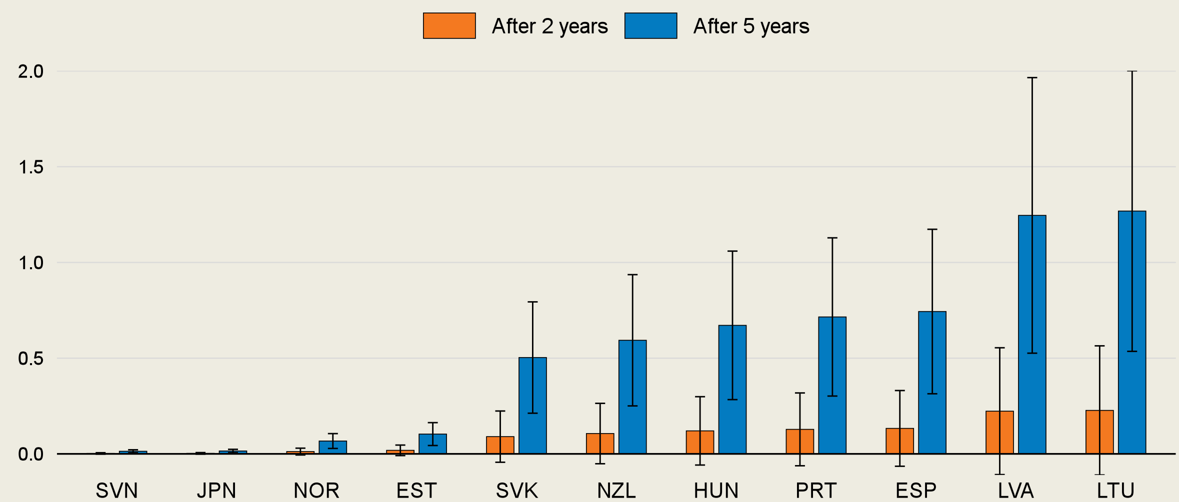
Some countries could see significant labour productivity boosts from increasing basic research spending

Closing the gap in basic research expenditure with the OECD median could yield labour productivity gains across countries over a five-year horizon, ranging from 0.01% in Slovenia, where basic research spending is close to the OECD median, to 1.3% in Lithuania, where spending is further below the OECD median (Figure 40). In this context, using part of the increase in defence budgets toward defence-related basic research could help support the necessary investment. Indeed, defence agencies such as DARPA often support high-risk, high-reward projects rooted in fundamental science, with spillovers that extend well beyond military applications, such as the early internet protocols (ARPANET).

Figure 40. Raising basic research expenditure to the OECD median could boost labour productivity

Potential impact (in %) on labour productivity of increasing basic research expenditure to the OECD median



Note: Simulated effects at the two- and five-year horizons are based on a scenario in which countries below the OECD median in basic research expenditure in 2019 converge to the OECD median. For illustration, in the case of Spain, this represents an increase in basic research spending over GDP of 0.13 pp. The 68% confidence interval is reported for each simulated effect following conventions in the local projection methods literature.
Source: OECD calculations.

Source: Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", *OECD Economics Department Working Papers*, forthcoming.

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For these reasons, tax measures should be complemented with additional support policies to further R&D efforts. Governments can directly fund private R&D by providing grants, loans, or loan guarantees. In fact, improvements in the design of schemes that provide direct government support to R&D may explain why, in contrast with earlier empirical research, there is clearer evidence of a positive association with innovation (Westmore, 2013[245]). For example, the structure of public support has become more focused on subsidies for commercial R&D activities, and matching grants (for private investments) have become more common (Andrews and Criscuolo, 2013[243]). Recent OECD analysis also highlights a similar degree of additionality for direct funding compared to tax support and as well as complementarities between both policy instruments (OECD, 2023[244]).

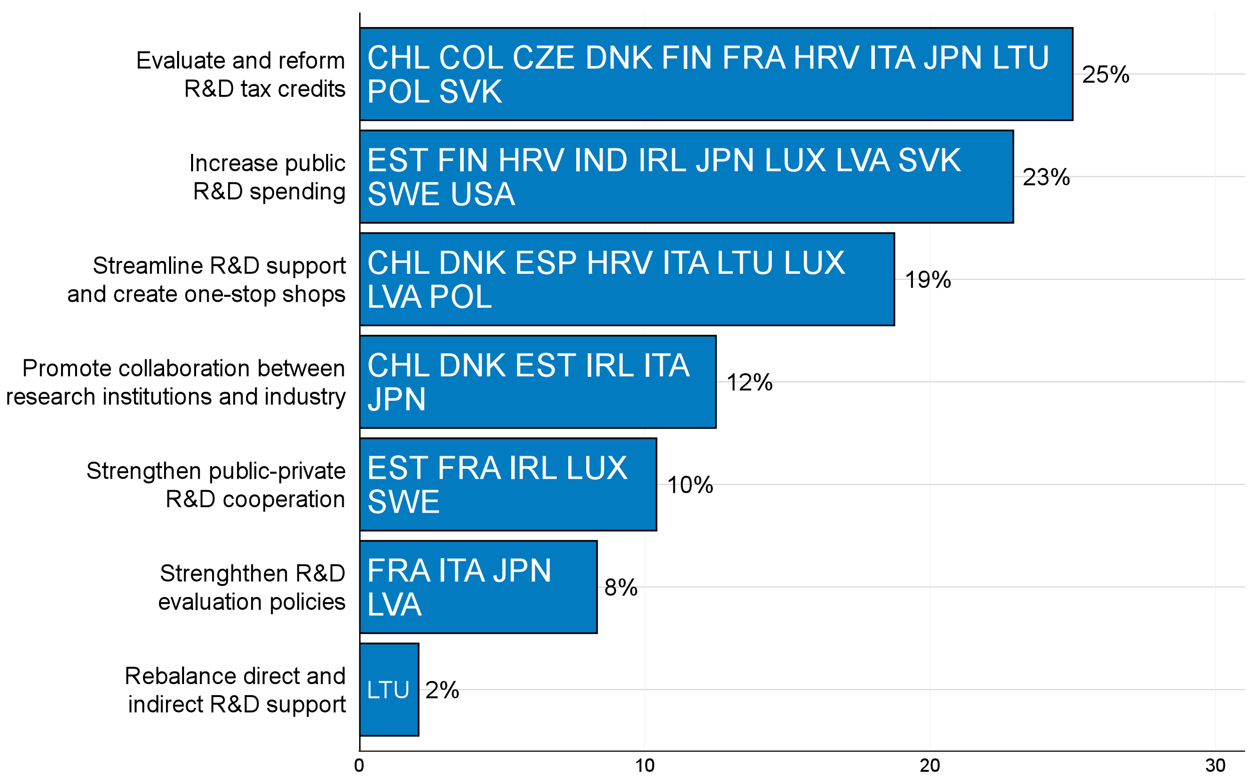
Governments may also support research through universities or public laboratories, noting that more than half of basic research is performed in higher-education institutions (in the median OECD country) which is mainly funded by government (OECD, 2025[253]; OECD, 2025[254]). Beyond that, university-industry collaboration is also key: recent OECD evidence suggests that most of the industry inventive activity occurs close to universities and that academic start-ups account for an important share of overall start-up activity (OECD, 2019[255]). Accordingly, governments can promote knowledge transfers from academia to industry to support the commercialisation of inventions and the broader diffusion of foreign advanced technologies.

In fact, the productivity gap between national and global frontier firms tends to be narrower in countries with more intensive R&D collaboration (Andrews, Criscuolo and Gal, 2015[256]), demonstrating the scope for R&D collaboration to aid the diffusion of new ideas.

Reforms to support innovation account for almost two fifths of recommendations related to targeted policies. In general, countries have room to increase expenditure on R&D – particularly on basic research – while ensuring that the support is delivered efficiently (Figure 41). For instance, expanding the scale of public support is a priority for countries such as Croatia, India or the Slovak Republic, while public investment in business R&D should increase in Ireland. Chile and Colombia could also raise the level of their R&D tax credits. Regarding basic research, boosting it would be beneficial for Japan (particularly by enhancing the role of the University Endowment Fund) or Sweden.

Figure 41. Increasing and improving R&D support while encouraging research collaborations will be important to boost growth

Share of policy recommendations to accelerate innovation (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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R&D support could also be made more efficient. For example, Denmark, France, Finland, Latvia and Italy could evaluate and monitor their tax credits (and other incentives) and redesign their policies accordingly. The targeting of R&D support policies could also be improved. For example, the refundable tax credit in Chile could provide priority access to digital SMEs, while the existing tax credits for small and young firms could be made refundable in Czechia, Croatia, Japan, and the Slovak Republic. Loss carry-forward provisions, particularly for those small and young firms which are less likely to be profitable initially, could be provided or enhanced in Czechia, Croatia, Japan and Poland.

More generally, those firms would be likely to benefit more from reduced barriers to accessing support. Luxembourg, Poland, and Spain could simplify application procedures to innovation programmes, while Italia, Lithuania, and Spain could provide better information to improve access to those programmes. Better information in those countries could contribute to close the gap in basic research spending with the OECD median and grasp the large potential labour productivity gains suggested by simulations (Box 11). Some R&D programmes may also be redundant: for instance, Chile, Croatia and Denmark could potentially better coordinate current schemes to ensure that they do not overlap.

Furthermore, the link between Higher-Education or Public Research Institutions and smaller businesses could be improved in Ireland and Italy. And to improve the diffusion of new ideas, the links between businesses and universities (and public research institutions more generally) could be strengthened in Chile, Denmark, Estonia, France, Ireland, Italy, Japan, Luxembourg, and Sweden. This could be done by encouraging staff mobility through cross-appointments, ensuring co-governance of research centres, and careful design of the intellectual property right system, for example. Co-financing public-private mechanisms could also be developed in Luxembourg and Finland, to fund research in high-potential but risky sectors.

Reducing barriers to energy and natural capital investments

Long-term shifts in weather and temperatures present significant risks to economies. Rising global temperatures and the increasing frequency of natural disasters threaten to reduce overall economic growth, by damaging productive assets and reducing labour productivity, including through heat stress (Costa et al., 2024[257]). Such shifts are also likely to exacerbate capital misallocation, as adaptation expenditures crowd out investment in productive assets. Adjustment costs affecting capital, labour, and material inputs can impose additional large economic costs (Caggese et al., 2025[258]; Parker, 2023[259]). Recent estimates, largely based on historical data, suggest that an unmitigated climate scenario (i.e. an increase of more than 4°C) could reduce global GDP per capita by 10-20% over the long term (IMF, 2017[260]; Kahn et al., 2021[261]; Burke, Hsiang and Miguel, 2015[262]; Burke, Davis and Diffenbaugh, 2018[263]; Neal, Newell and Pitman, 2025[264]; Swiss Re Institute, 2021[265]).

But an effective transition can also unlock large opportunities. The cost of renewable power generation has been falling significantly and is expected to do so in the future (BloombergNEF, 2025[266]), and the levelised cost of energy (LCOE) is already typically lower for renewables than for fossil fuels. The average LCOE has fallen by 90% since 2010 for utility-scale solar PV and by more than 50% for onshore wind projects (IRENA, 2024[267]). During the transition, improvements in energy efficiency could boost investment and innovation, and thus productivity (André et al., 2023[268]). The induced positive impact on air pollution is expected to boost labour (and agricultural) productivity.

Thus, well-designed environmental policies (OECD, 2024[269]) can boost economic growth particularly via green investment and energy efficiency gains (OECD/UNDP, 2025[270]; IEA, 2025[271]), as well as innovation spillovers. Securing affordable and diversified energy supply can also promote growth and economic resilience by cutting exposure to fuel price volatility, and temporary or localised disruptions in energy supply. The F4GC framework incorporates indicators which aim to assess countries' policy mix in that area with the view to also boost growth, including the importance of renewables in energy supply, the support to innovation, and the country's progress towards reducing energy intensity and enhancing energy security.

The mitigation of carbon emissions requires a comprehensive policy mix including emission pricing, and regulation and standards (D'Arcangelo et al., 2022[272]; Blanchard, Gollier and Tirole, 2023[273]), with their design and implementation key factors to ensure that they do not hinder productivity by imposing unnecessary burdens on firms (e.g. by increasing barriers to entry, distorting competition, or imposing transaction costs related to permitting and licensing (Berestycki and Dechezleprêtre, 2020[274]; Koźluk, 2014[275]). The ability of environmental regulation to boost economic growth is included in the F4GC framework by considering product market regulations in the electricity and gas sectors, and the indicator of design and evaluation of environmental policies (DEEP), which assess the market burdens generated by environmental policies. More recently, the OECD has developed a diagnostic tool for policymakers to reduce regulatory barriers for the deployment of renewables infrastructure (Box 12).

Box 12. Regulatory barriers to solar, wind, and pumped hydro storage in the OECD

Electricity demand is expected to rise significantly globally across the OECD by 2040, driven by increased electrification in sectors such as transport, heating, and industry. A growing share of this electricity is projected to come from renewable sources. However, unlike centralised thermal generation, renewable-based electricity systems require greater system flexibility—including storage, demand-side response, supply-side balancing, and enhanced interconnection across regions and countries.

Legacy regulatory frameworks, designed for conventional, centralised systems, are often ill-suited to the decentralised, variable, and diverse nature of modern renewable energy systems. They frequently lag behind in accommodating the grid investments, flexibility measures, and business models essential for efficient system operation, thereby creating regulatory barriers to entry and deployment.

Recent OECD analysis identified five key common barriers to renewable energy in the EU countries.

Typology of key regulatory barriers in the EU for renewable energy

First, unclear or limited legal definitions, rights and obligations create uncertainty and discourage market entry, especially of new solutions. Examples include restrictions on dual land use for agricultural land in most EU countries, which constrain the development of agrivoltaics (the integration of solar energy generation on agricultural land). In France and Italy, where such dual land use was made explicit in recent legislative changes, there has been significant increase in agrivoltaics projects.

Second, uncertain remuneration and cost treatment can also weaken incentives for market entry. For example, regulatory frameworks in most EU countries neither provide for, nor allow remuneration of new services (such as inertia services), which severely limits their deployment on a stand-alone basis. In response, countries like Ireland have recently introduced new market rules to create price signals for emerging inertia technologies and services.

Third, spatial planning and permitting processes, often governed at sub-national or even local levels, are often outdated, complex and involve multiple authorities acting sequentially. This results in wide discretion, which is resource intensive, and results in excessive permitting timelines (commonly more than five years in the EU, and in some cases up to nine). Such delays significantly affect investment and efficient siting decisions. By contrast, streamlining rules has proven highly effective: during the energy crisis, emergency regulations drove double-digit increases in permit issuance across several EU Member States. In Flanders (Belgium), for example, 300 MW of wind power was approved within eight months of the reforms—exceeding the total from the entire previous year. Likewise, Germany's 2023 Grid Expansion Acceleration Act produced a fourfold increase in approved power lines between 2024 and 2025.

Fourth, grid connection rules, which in many countries still operate on a first-come, first-served basis, creates bottlenecks, allowing speculative projects to hold capacity while delaying or discouraging viable investments. Sweden has taken a different approach, adopting a project-maturity model., underpinned by an industry standard developed with the national Transmission System Operator. This approach allocates connections based on readiness, ensuring capacity is prioritised for projects with the highest likelihood of completion.

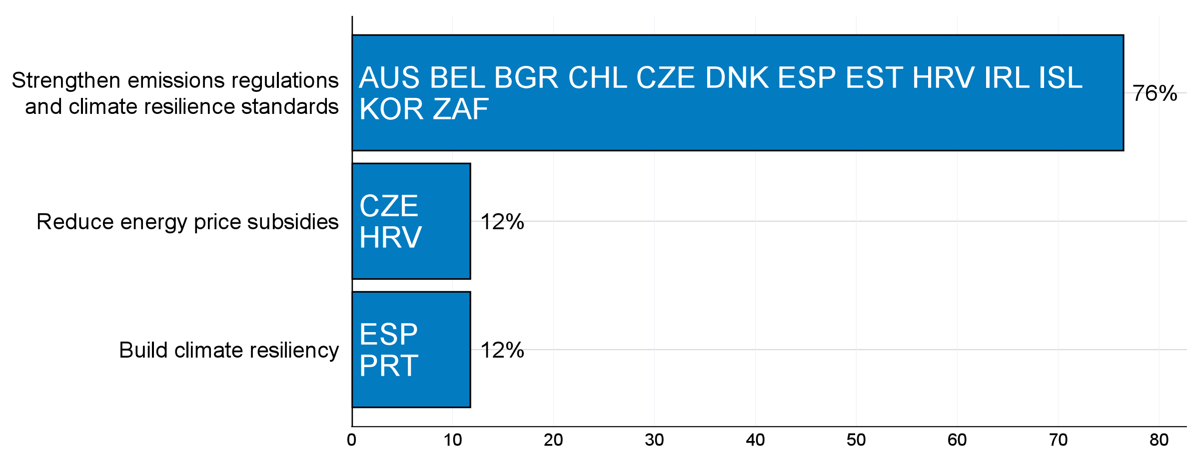
Fifth, structural disincentives in grid development persist. Current regulatory frameworks generally favour traditional capital-intensive expenditure, offering limited incentives for anticipatory investment or adoption of innovative grid-enhancing technologies or digital solutions. For instance, in many Member States, grid system operators lack regulatory scope to procure flexibility services or recover costs for non-wire alternatives, such as digitalisation investments, even when these are more efficient than conventional grid expansion.

Source: OECD Diagnostic Toolkit for reducing regulatory barriers to solar, wind and pumped hydro storage in EU – Empowering Policymakers at National, Regional and Local Levels (2025, forthcoming).

Based on these considerations, most recommendations for energy and natural capital emphasise the importance of an articulated policy agenda for the green transition, combining increases in the taxation of carbon with the support for investments in green energy, transport and buildings infrastructure, and climate resiliency. While raising carbon taxation can support growth as part of a package of market incentives to improve public finances efficiency (see Section 3) and network infrastructures can provide better foundational growth conditions (see Section 2), targeted policies – including well-designed regulation and standards, as well as the removal of price distortions supporting brown energy – are also recommended to support long-term growth (Figure 42).

Figure 42. A mix of higher carbon pricing, additional green investment, and smart regulations can support a growth-friendly green transition

Share of policy recommendations to raise investment in energy and natural capital (%)



Note: Each bar displays the ISO3 country codes corresponding to the countries with a recommendation in that area.
Source: OECD calculations based on Foundations for Growth and Competitiveness (F4GC) Country Notes.

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The main targeted policy area to promote energy investment and natural capital is a review of the permitting and regulatory framework. In Belgium, Bulgaria, Chile, Croatia, Czechia, Iceland, and Korea, and renewable energy and electricity projects could be fast-tracked by streamlining permitting procedures. Recommendations to accompany this streamlining include increasing administrative capacity (Croatia), launching a one-stop shop (Croatia, Czechia, Bulgaria), identifying suitable land for “acceleration zones”, making provisions to override public interest in project approval (Belgium, Czechia), and sharing the benefits with local communities (Korea, Iceland). Moreover, price distortions due to subsidies to energy prices are sizeable and should be phased out in Croatia (particularly for natural gas), Czechia, and France, which would carry the added benefit of raising the effective price of carbon while boosting growth and raising revenues. Finally, countries like Portugal and Spain could benefit from investing in tools to build climate resilience, such as public-private risk-sharing mechanisms.

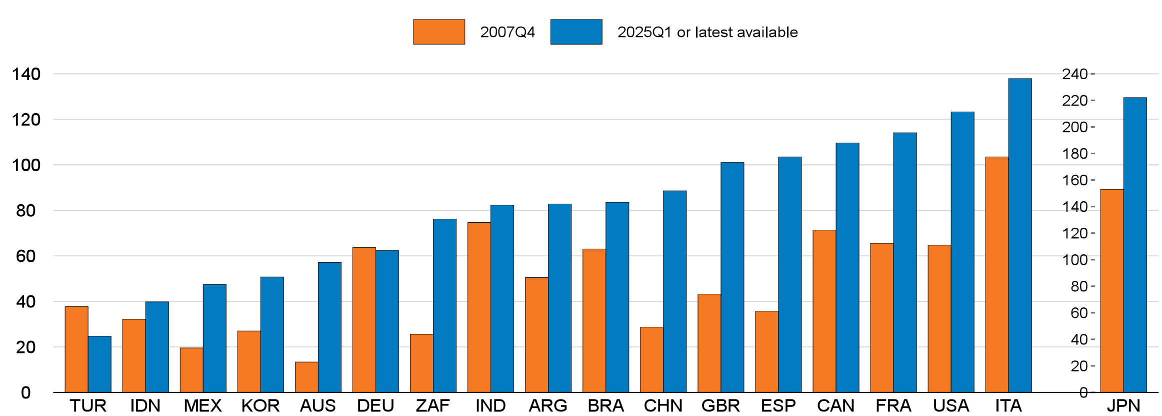
5. Structural reforms amid fiscal and political constraints

Having reviewed the key policy priorities to lift long-run growth, this final section turns to the practical realities of making reform happen. Ambitious reform agendas can only succeed if they are implemented in ways that acknowledge short-term trade-offs and real-world constraints. Governments often face limited fiscal space due to high debt burdens and rising spending pressures, while also navigating political economy challenges in building support for reforms whose benefits materialise only gradually. In addition, different reforms have different near-term effects on growth and employment: some stimulate activity quickly, while others create transitional costs before gains emerge. Recognising these fiscal, political, and short-term growth dimensions is essential to design and sequence reforms that are not only well-targeted, but also credible, feasible, and politically sustainable.

Public debt levels are elevated in many advanced and emerging market economies, and spending pressures are rising in areas such as defence, the green transition and ageing-related social costs (see Figure 43). Debt service costs are also rising alongside higher interest rates, further increasing pressures on public finances (OECD, 2025[13]). High debt levels and tighter financial conditions pose particular risks for developing countries, many of which have large debt refinancing needs in the near future. Implementing structural reforms in such a fiscally constrained environment is therefore both urgent and challenging, as it requires careful attention to design, sequencing, and financing.

Figure 43. Public debt levels are elevated

Percentage of GDP



Note: The chart shows general government financial liabilities in percent of GDP for AUS, CAN, JPN, KOR and USA; general government gross debt in percent of GDP (Maastricht definition) for euro area countries and GBR; and general government gross debt in percent of GDP for the other countries. Latest data point for ARG, AUS, BRA, CHN, IDN, IND, KOR, JPN, MEX, TUR and ZAF is 2024Q4. For euro area countries, the 2025Q1 number is provisional. For KOR, the earliest available data refers to 2008Q4.
Source: Eurostat; IMF Sovereign Debt Investor Base database; OECD Economic Outlook 117 database; Office for National Statistics (UK); and OECD calculations.

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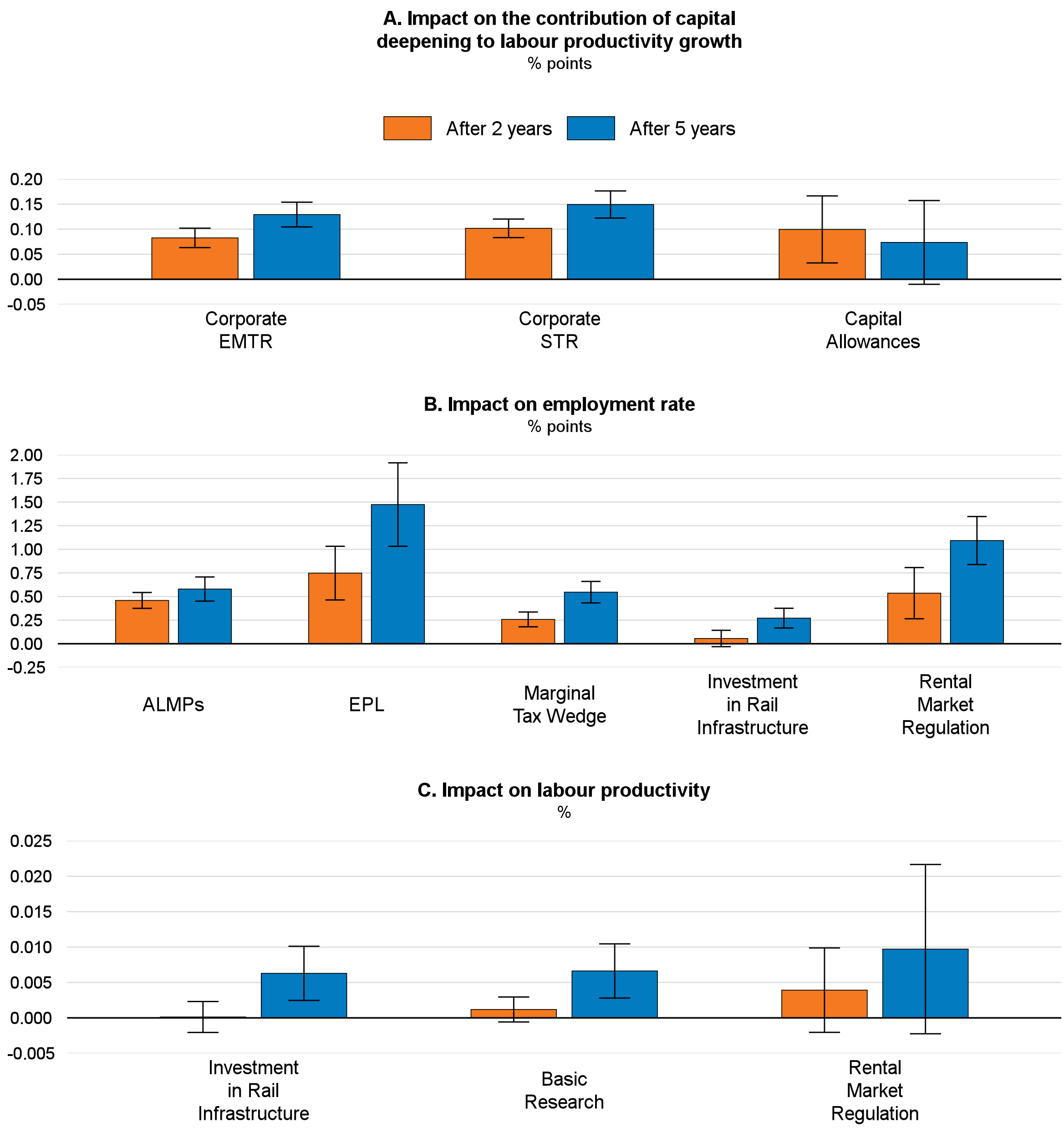
Structural reforms remain a powerful tool to support productivity, employment, and long-term fiscal sustainability (Bettarelli et al., 2025[276]). Yet, reforms often entail short-term economic and fiscal costs, implying trade-offs for governments facing weak economic growth and tight budgets (Bouis et al., 2012[277]). First, some reforms may temporarily reduce demand and employment, resulting in lower revenue from taxes and social contributions. Governments facing fiscal constraints may be less able to respond to these adverse short-run effects. Additionally, while central bank policy rates are currently well above the effective lower bound in most countries, the ability of monetary policy to cushion short-term demand effects induced by structural reforms may be constrained by the perceived risk of unanchored inflation expectations, the unwinding of recent unconventional monetary policies, or the potential return to an environment of lower interest rates as pre-pandemic structural trends (e.g. demography or high global savings rates) re-emerge (Cho, Mertens and Williams, 2025[278]; Benigno et al., 2024[279]). Second, some reforms, including investment in skills and the digital transition, while supporting activity in the short run, imply front-loaded fiscal costs with benefits spread over a longer horizon. Third, some reforms may imply up-front costs to gather enough political support, including providing adjustment support to adversely affected groups.

Despite these challenges, reform strategies can be designed to minimise short-term costs and increase political acceptability. To help policymakers navigate these trade-offs, Figure 44 and Table 1 bring together evidence on the short-term growth effects and immediate fiscal implications of structural reforms. Figure 44 summarises the results of the local projection estimations presented throughout this report, which provide empirical evidence of the near-term impacts of reforms on employment and productivity across a wide set of policy areas, including labour market measures (EPL, ALMPs), public investment (rail infrastructure, basic research), and tax reforms. Some reforms are shown to already support economic growth in the short term. For example, an easing of corporate taxation can significantly boost investment. Similarly, labour market reforms, including an expansion of active labour market policies, an easing of employment protection legislation, and a reduction in marginal tax wedges, can raise the employment rate after two years. The effect of those reforms on economic growth typically increases gradually over the medium term.

Table 1 provides a stylised overview of the expected fiscal and growth implications of reforms not covered by the empirical analysis in this report. It highlights that many market-enhancing measures, such as product market liberalisation or reforms to enhance trade and FDI openness, can deliver meaningful productivity gains with limited fiscal cost in the short term (OECD, 2025[280]). In contrast, some reforms, including those related to education, lifelong learning, or infrastructure, often require upfront fiscal resources and in some cases generate benefits only over time. These contrasts underscore the importance of careful reform sequencing: prioritising reforms with low fiscal cost and early payoffs can create political and economic space for more demanding measures, while pairing costly reforms with credible financing strategies can preserve fiscal sustainability and public trust. Bundling reforms with targeted compensation, transitional support for affected workers, or visible complementary investments can also increase their political sustainability.

Figure 44. Short-term impacts of reforms covered in local projections analysis



Note: These charts provide a summary of the results of the local projections analysis presented in this report. They show the 2-year and 5-year impacts of selected policies on three outcome variables. The sizes of the shocks are calibrated to be equal to an average reform episode, see Boxes throughout this report for more details. The 68% confidence intervals are reported in brackets. The Marginal Tax Wedge refers to that faced by a single person earning 100% of average earnings. See Annex 1.B for further details on these estimations.
Source: OECD calculations based on Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", *OECD Economics Department Working Papers*, forthcoming.

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Table 1. Summary of the short-term impacts of structural reforms not covered in local projections analysis

Policy	Immediate growth impact	Immediate fiscal impact
Productivity-enhancing structural reforms		
Improving product market regulation and competition	+	+
Facilitating trade and FDI openness	+	+
Increasing R&D spending and support for innovation	+	-
Facilitating the digital transition (e.g. digital government, less regulation, increase adoption)	+	-
Supporting AI adoption, skills, and innovation (e.g. pro-competitive policies, focus on labour-enhancing AI, address bias and redistribution)	+	-
Structural reforms to labour markets		
Reforming pensions and extending working lives	-/+	-/+
Promoting healthy and economically-active ageing	+	-/+
Removing barriers to women's labour market participation	+	-/+
Strengthening support for vulnerable groups (e.g. expand coverage of social protection, improve targeting, increase work incentives)	+	-
Structural reforms to education		
Improving basic education (e.g. support disadvantaged students, improve teacher quality, improve vocational training, foster collaboration between universities and industry)	+	-
Strengthen lifelong learning (e.g. increase investment in training, supporting firms and managers)	+	-

Source : André et al. (2025).

When faced with fiscal constraints, identifying sustainable financing mechanisms is crucial to advancing structural reforms without undermining fiscal credibility. This often requires “paying for reforms”, by reallocating existing resources, phasing out inefficient subsidies, or introducing new revenue measures designed to minimise growth distortions. The country recommendations set out in this report therefore include, where appropriate, tailored financing strategies to support reform implementation while safeguarding fiscal sustainability. In Denmark and Slovenia, for example, reforms to reduce labour and capital income taxation could be offset through increases in immovable property or environmental taxes. In Spain and the United Kingdom, broadening the VAT base by phasing out exemptions could raise revenues to finance targeted transfers to low-income households. In Israel, introducing congestion charges and user fees could help fund transport infrastructure while improving efficiency.

Finally, institutional frameworks also play a key role in supporting the credibility and effectiveness of structural reform strategies. Fiscal rules and medium-term frameworks help discipline spending and anchor fiscal expectations (Rawdanowicz et al., 2021[281]). Such frameworks are particularly important when reforms have upfront costs, and yield returns only over time. Strong fiscal institutions, including independent fiscal councils, can assess the long-term fiscal impact of reforms and support transparency in public communication, thus enhancing reform acceptance and fiscal sustainability. Embedding structural reform considerations in fiscal planning can thus strengthen both fiscal resilience and long-term growth prospects (see Box 13).

In sum, advancing structural reforms today requires bridging the gap between long-run priorities and short-run constraints. Sound fiscal planning must be combined with strategies to address political economy constraints and manage transitional impacts. Well-sequenced, credibly financed, and socially balanced reforms can raise productivity, support employment, and strengthen fiscal resilience. The insights from the empirical results and the stylised fiscal and growth trade-offs summarised in Table 1 provide policymakers with practical tools to anticipate short-run impacts, design reform strategies that are both economically effective and politically durable, and ultimately deliver on the long-term growth objectives set out in this report.

Box 13. Flexibility for structural reforms in fiscal frameworks

Some fiscal frameworks allow additional fiscal space when governments implement structural reforms. This was the case in the European Union (EU) under the Stability and Growth Pact (SGP), which included a “structural reform clause” allowing temporary deviations from fiscal adjustment paths under strict conditions - namely, if reforms were major, fully implemented, and had a verifiable positive impact on long-term fiscal sustainability or potential growth (Sajedi and Steinbach, 2019[282]). Pension reforms introducing fully funded pillars benefited from a specific provision under this clause.

Following the 2024 reform of the EU’s fiscal rules, this clause has been phased out and replaced by a new system based on national medium-term fiscal-structural plans. These plans integrate fiscal targets with reform and investment commitments. Member States can now obtain more gradual fiscal adjustment paths (i.e., longer adjustment periods) if they commit to credible, time-bound reforms and investments that enhance growth, support fiscal sustainability, and address EU priorities. This shift embeds structural reform incentives into the core fiscal framework, while reinforcing monitoring and accountability through the European Semester.

Similar settings have been discussed or implemented in other countries. In the United Kingdom, the Office for Budget Responsibility, an independent fiscal institution, provides costings and long-term fiscal assessments of policy packages, helping to inform debates around trade-offs between short-term deficits and long-term sustainability. In Japan, fiscal policy guidelines such as the *Basic Policy on Economic and Fiscal Management and Reform* regularly embed reform expectations into medium-term fiscal projections, particularly in areas like social security, labour markets, and productivity.

Overall, there may be a rationale for embedding structural reform considerations in fiscal frameworks. First, it would align short-term flexibility with long-term discipline: temporary deviations are allowed only when reforms plausibly improve sustainability. Second, it would introduce a growth-oriented dimension into fiscal planning, enabling governments to invest in reforms that raise potential output. However, the approach carries risks. Assessing the fiscal and growth impacts of reforms is inherently uncertain, and ex ante flexibility may be misused without strong governance and independent verification.

Therefore, such mechanisms would work best when three conditions are met: (1) reforms are clearly specified, credible, and monitorable; (2) fiscal institutions have the capacity to evaluate reform impacts; and (3) flexibility is strictly temporary and conditional on actual implementation. In this sense, fiscal rules that allow for reform-linked flexibility could enhance both credibility and efficiency, provided they are grounded in sound economic analysis and robust institutional safeguards.

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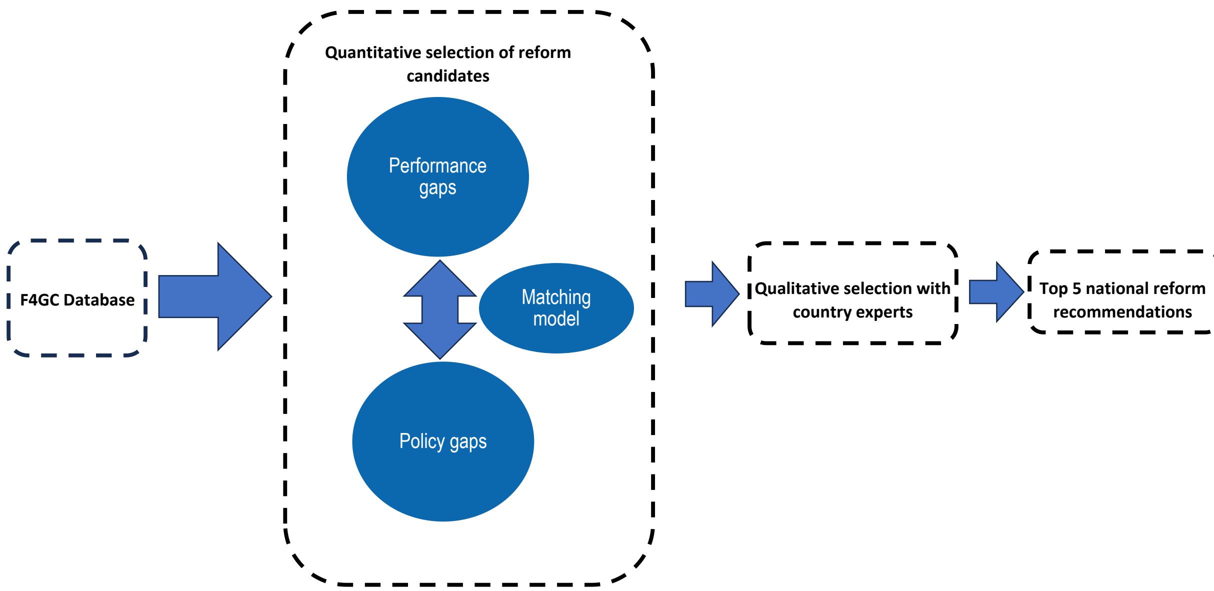
Annex 1.A. The F4GC policy prioritisation model

The F4GC policy prioritisation model uses a mixed approach combining quantitative and qualitative assessments by OECD country desk expertise to identify structural reform recommendations to boost economic growth (Annex Figure 1.A.1). This model includes 48 economies, including all 38 OECD countries.

Annex Figure 1.A.1. The F4GC policy prioritization model



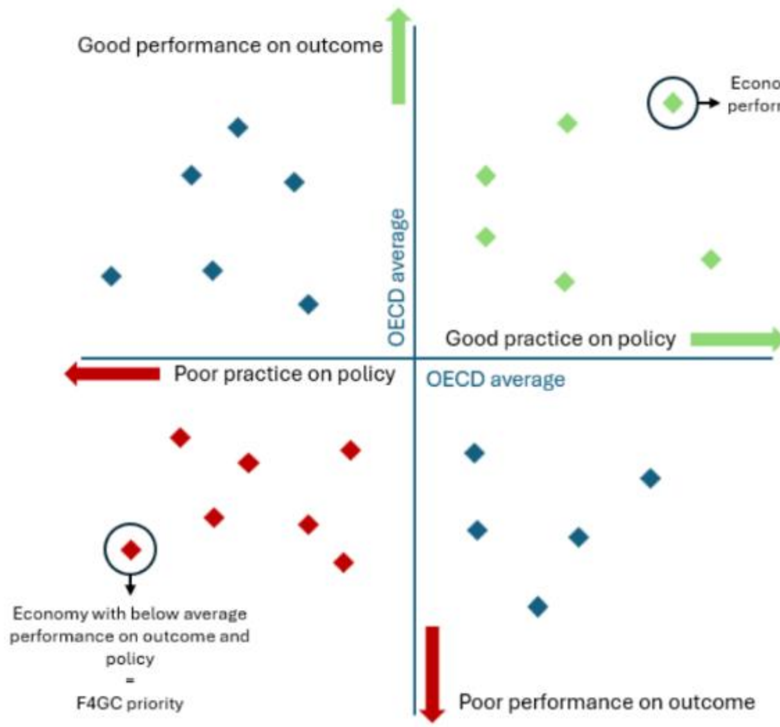
Source: OECD Secretariat.

Quantitative stage

The quantitative approach centre on a joint policy-performance benchmarking algorithm, linking structural drivers of growth and competitiveness to policies indicators contained in the F4GC database. In practice, each of the F4GC policy indicators is matched with one or more relevant indicators of performance, and these linkages are informed by the academic literature and applied research by the OECD and other institutions. The performance indicators relate to the three building blocks of economic growth: MFP (and related indicators including measures of human capital, creative destruction, business investment in R&D, seed funding), capital deepening (e.g. business investment in ICT, foreign direct investment) and labour utilisation (e.g. unemployment and employment rates by age and gender, long term unemployment, NEET). For example, the indicator of effective corporate tax rate is matched with the performance indicators measuring labour productivity and capital deepening, while the labour tax wedge is matched with the employment rate. Given that each policy indicator can be matched with more than one performance indicator, the policy-performance benchmarking algorithm includes more than 800 of these matching relationships.

For each of these outcome-policy pairs, countries are benchmarked against the OECD average. Both the outcome and the policy indicators are standardised to have the average across economies equal to zero and with a standard deviation of one. In this setting, an outcome-policy pair becomes a candidate for recommendation for a country when both the outcome and the associated policy score are below the OECD average, i.e. if falling into the lower-left quadrant of Annex Figure 1.A.2.

Annex Figure 1.A.2. Policy-performance benchmarking



Source: OECD Secretariat.

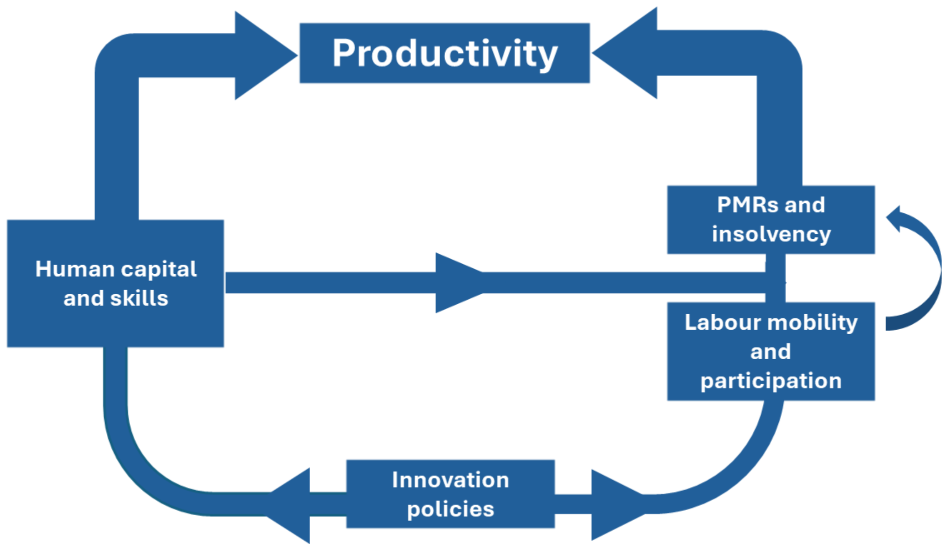
Additionally, growth-enhancing policies often exhibit complementarities, where implementing multiple reforms concurrently can lead to mutually reinforcing benefits and superior outcomes. The corollary is that policies rarely function in isolation and the economic gains of policy strength in one area can be diluted by policy weakness elsewhere. Accordingly, the policy prioritisation framework makes a first attempt by the OECD to incorporate the concept of policy complementarities into country-specific policy prioritisation. In practice, to incorporate this concept into the F4GC policy prioritisation algorithm in a tractable way, the focus is put on a limited set of policy combinations for which there is robust empirical evidence.

Annex Figure 1.A.3 illustrates in a stylised fashion the broad intuition of how these policy complementarities operate to shape growth, setting aside the direct effect for simplicity. The following key ideas emerge:

- The impact of innovation subsidies on productivity is amplified by:
    - Higher quality human capital: the development and effective implementation of new ideas required high skilled labour and management
    - Less stringent PMRs and insolvency regimes: more competitive environments pressure incumbents to innovation, lower entry barriers allow innovative new firms to emerge and lower barriers to exit spur the reallocation of skilled labour to innovative firms.

  - Higher labour mobility and participation: to accommodate the higher demand for skilled labour (triggered by innovation policies) via effective labour reallocation
- The pass-through of human capital to productivity is amplified by policies that support adaptability and reallocation in labour markets, including well-designed PMRs, insolvency regimes, employment protection legislation (EPL) and Active Labour Market Policies (ALMPs; see (André and Gal, 2024[75])).
- PMRs and Labour market policies have mutually reinforcing impacts on growth (as denoted by the circular arrows). For example:
  - Less stringent PMRs may be conducive to the entry of new firms but flexible labour markets are required to accommodate the upscaling of such firms.
  - ALMPs are more effective in re-integrating displaced workers in environments where entry barriers are low given that new firms disproportionately drive net job creation.

Annex Figure 1.A.3. An illustration of policy interactions



Note: This figure illustrates the interaction between different policies and their effect on productivity, setting aside the direct effect of each policy on growth for simplicity. The width of the arrows represents the strength of the effects. For example, the impact of innovation policies on productivity is amplified by the quality of the stock of human capital, as illustrated by the arrows from innovation policies to productivity becoming larger as they pass though human capital.

To take these policy complementarities into account, the priority selection criteria deriving from the policy-performance benchmarking algorithm outlined above is updated according to a *policy complementarities module* to identify reform packages. Concretely, a higher weight is given to pairs of policies that are known to be complementary based on robust empirical evidence, delivering a final quantitative ranking of potential policy recommendations. For example, the policy prioritisation algorithm will give a higher weight to both innovation and education policy recommendations when a country exhibits large gaps with best practices and outcomes in both these areas, so that the policy reform packages recommended in F4GC can have a larger bang-for-the-buck by exploiting the complementarities between these two policies. Similarly, in a country exhibiting large gaps in the policy areas of labour and product market regulations, a higher probability will be assigned to policy recommendations addressing both these issues.

Qualitative stage

In the following step, OECD expert judgement is used on the identified outcome-policy pairs to select the top recommendations for each country. Those are grouped in five policy packages in the country notes, as chosen by OECD country desks. This step also considers potential recommendations 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 ensures the framework's comprehensiveness. For example, the F4GC database puts an emphasis on broader country coverage, which can overlook specific policies relevant for a subset of countries. In addition, expertise from OECD desks drives the formulation of detailed reform recommendations, for each of the selected priorities, and supports reporting on actions taken. A final step is the peer-review, consisting of dialogue and a consultation process with country officials before the final publication.

Annex 1.B. Estimating the short-term impact of structural reforms using local projections and differences-in-differences

This annex introduces the common methodology applied to assess the short-term impact of various structural reforms on the components of growth in GDP per capita. A structural reform is defined as a change in a policy variable from the F4GC database, or for an equivalent policy variable with a narrower country coverage but longer time coverage. The short-term impact of reforms is assessed using estimations by local projections (LP). Local projections are an econometric technique that traces the dynamic response of a variable y to a reform $\Delta Policy_{\square}$, by estimating a sequence of horizon-specific regressions. In the context of panel data, such an estimation takes the following form:

$$y_{c,t+h} = \alpha_h + \beta_h \cdot \Delta Policy_{c,t} + \gamma_h \cdot X_{c,t} + \eta_c + \delta_t + \epsilon_{c,t+h}$$

Where $h \geq 0$ is the horizon, $X_{c,t}$ are control variables (potentially including lags of the outcome and the shock), η_c, δ_t are country and time fixed effects, and $\epsilon_{c,t+h}$ is an error term (Jordà and Taylor, 2025[283]). This equation is estimated at different time horizons to obtain an impulse response function. $\beta_h$is then the coefficient of interest that summarises how the shock at time t changes the outcome h periods later.

Several adjustments are made to this basic LP equation, to combine differences-in-differences estimation with LP (Dube et al., 2025[284]). The retained specification in this chapter, based on long differences, is the following:

$$y_{c,t+h} - y_{c,t-1} = \beta_h \Delta Policy_{c,t} + \sum_{j=-h,j\neq 0}^{3} \theta_{j,h} \cdot \Delta Policy_{c,t-\mathrm{j}} + \chi_h\left(y_{c,t-1} - y_{c,t-2}\right) + \pi_h \cdot \Delta OutputGap_{c,t-1} + \delta_t + \epsilon'_{c,t,h} \qquad (1)$$

where $\theta_{j,h}$ accounts for the effect of past but also future shocks, χ_h accounts for the effect of past trends in the outcome, π_h accounts for the economic cycle, δ_t are time fixed effects and $\epsilon'_{c,t,h}$ is an error term. When estimating the equation, the variance is computed via the implementation of the Driscoll-Kraay covariance matrix estimator, which aims to yield standard errors robust to cross-sectional and serial correlations.

The motivation behind this specification is as follows. First, an estimation in long differences is likely to be significantly less prone to bias when the outcome process is autocorrelated. Jorda and Taylor (2025[283]) also argue in favour of estimating the model in long-difference, regressing $y_{t+h} - y_{t-1}$ on $y_{t-1} - y_{t-2}$. Indeed, they show that the long-difference specification is more robust to small-sample bias when the outcome is auto-correlated. The estimation in long differences implies that the country-specific fixed effects disappear (Dube et al., 2025[284]).

However, the use of local projections for difference-in-differences estimation in panel data can lead to misleading results in the case of so-called “staggered treatments”, which happens when treatments are rolled out at different times across various units. In the F4GC database, this is typically the case as reforms are not taking place at the same time across countries. In that case, The recent literature on differences-in-differences has shown that the estimation of the treatment effect via two-way fixed effect regressions can lead to important biases (including inverting the sign of the estimate), when the treatment is staggered and the treatment effect is dynamic (Roth et al., 2023[285]). This can be addressed with a long lead and lag structure of the shock.

Indeed, in theory adding a sufficiently long lead and lag structure reduces this concern when the impact of the shock is homogeneous – i.e. when it does not differ depending on the time that it is implemented (Dube et al., 2025[284]). In particular, Equation (1) would provide an unbiased estimate of the dynamic impact of the shock if it included an infinite number of lags and *h* leads in that context, under the traditional differences-in differences estimation assumptions of no anticipation and parallel trends. The intuition behind this result is that including the lags of the shock allows to control for countries which have already experienced shocks in the past - which would bias the estimates in the case that the effect is dynamic (as those countries would not be appropriate controls). Similarly, the leads of the shock account for countries that experience a shock between *t* and *t+h* (as those countries would be inappropriate controls to estimate the impact of a shock experienced by a specific country at *t-1* on an outcome at *t+h*), In addition, and in the case where treatments might be anticipated, the leads of the treatment allow to control for anticipatory effects (capturing cases where the shock is expected and already reflected in outcomes, such as in the case of tax reforms).

In practice, a potential drawback is that the inclusion of leads and lags quickly reduces the number of observations available in the estimation. The estimations conducted in this chapter have been tested with higher lag depth and the qualitative results (including significance) are similar. This is consistent with the finding that the choice regarding lag structure is relatively arbitrary in theory, but in practice varying the numbers of lags has few consequences in LPs (Montiel Olea et al., 2025[286]).

The retained specification also controls for the cycle via the output gap to ensure that the shocks and the outcome are not both driven by business cycle considerations. This would be the case, for example, if the propensity of governments to implement structural reforms depend on the cycle. Indeed, recent evidence suggest that structural reforms were more likely during deep troughs in activity and when the country was further away from best practices (Dias da Silva, Givone and Sondermann, 2018[287]).

As standard in the LP literature, the impulse response functions are shown with confidence bands based on the confidence intervals at 68% and 90% for each horizon-specific estimate. Various papers have suggested that reporting a 68% confidence interval for impulse response functions is actually more useful than a 90 or 95% interval. The motivation is derived from Sims and Zha (1999[288]), where it is highlighted that the goal of estimating impulse response functions is to provide an idea of the posterior distribution for the function. Thus, this is not a classical confidence region, whose coverage probability typically mixes information about parameter location with information about overall model fit. Indeed, there is a rather intuitive difference between representing the confidence region for a curve and the confidence region of a single parameter. For the former, intervals that capture the high-density core of the posterior distribution, defined in Bayesian analysis as ±1 standard error, i.e. about 68 % of the posterior probability distribution, can be more informative than wide 90 % or 95 % bands. This approach is retained in this chapter.

Finally, the sample includes all OECD member countries for which data are available before 2019 (included), to exclude variations from the COVID-19 period. When countries leave and re-enter the sample, only the longest (and if tied, latest) period available is kept.

Annex 1.C. List of indicators in the F4GC database

This annex presents the complete list of indicators of the F4GC database. Those have been curated based on the following criteria:

- Consistency with the literature on the drivers of growth and competitiveness: what the indicator aims to measure must be consistent with what is known on policies relevant to growth and competitiveness
- Policy amenability: the indicator must be a clearly defined policy lever
- Comparability and consistency: the indicator must be comparable across countries. As such, most of the indicators retained are OECD sources, meaning that they have already been vetted by OECD committees to ensure their consistency
- Data availability and timeliness: the indicator must be available for a sufficiently large set of countries and produced at regular interval

These five criteria define the "ideal" set of indicators for monitoring competitiveness across countries and over time. The inclusion of indicators that relate to concrete policy levers – i.e., that are leverageable by policy makers – is especially critical (e.g., PMR indicators that directly measure regulations). However, in those instances where such data are unavailable or country coverage is too narrow, careful consideration is given to including an indicator more related to policy outcomes (e.g., indicators on the proportion of population with access to broadband or PISA scores) instead. Finally, adhering to these criteria the F4GC database will be regularly updated as new data become available in certain areas.

Annex Table 1.C.1. Enabling factors

Sub-policy area	Name	Countries available	Latest year available	Source
Macroeconomic stability	Yearly inflation, 10-year average	48	2024	OECD Analytical Database
	Composite sovereign ratings index	48	2024	Moody's and S&P Long-term Issuer Ratings from Refinitiv with OECD calculations
	Volatility in real GDP growth rate (last 5 years)	48	2023	OECD Analytical Database
Financial Institutions	Debt to equity ratio of financial corporations	38	2024	OECD STD Financial Statistics
	Bank non-performing loans to total gross loans	46	2024	IMF Financial Soundness Indicators
	Bank Capital to Assets Ratio	46	2024	IMF Financial Soundness Indicators
	Capital Adequacy Ratio	46	2024	IMF Financial Soundness Indicators
	Loan-to-Deposit Ratio	36	2024	OECD STD Financial Statistics
	Interest rate spreads between loans to SMEs and to large firms	32	2022	Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard
	Financial institutions access index	48	2021	IMF Financial Development Indicators
	Financial institutions depth index	48	2021	IMF Financial Development Indicators
	Financial institutions efficiency index	48	2021	IMF Financial Development Indicators
Financial Markets	Financial markets access index	48	2021	IMF Financial Development Indicators
	Financial markets depth index	48	2021	IMF Financial Development Indicators
	Financial markets efficiency index	48	2021	IMF Financial Development Indicators
Rule of Law	Rule of Law index	45	2024	The World Justice Project Rule of Law Index
	Political Stability and Absence of Violence/Terrorism	48	2023	The Worldwide Governance Indicators: Methodology and Analytical Issues. World Bank Policy Research Working Paper No. 5430
	Corruption Perceptions Index	48	2023	Corruption Perceptions Index, Transparency International
Public integrity	Share of population who indicate different levels of trust in their national government	30	2023	OECD Trust Survey
	Distribution of responses to whether it is likely that the national parliament holds the national government accountable	30	2023	OECD Trust Survey
	Public Integrity Indicator - Legislative procedural scrutiny	34	2024	OECD Public Integrity Indicators
	Public Integrity Indicator - Trust in parliament	18	2022	OECD Public Integrity Indicators
	Public Integrity Indicator - Use of oversight and prevention mechanisms for financing of political parties and election campaigns	38	2024	OECD Public Integrity Indicators
	Public Integrity Indicator - Evidence-based problem analysis	37	2023	OECD Public Integrity Indicators

	and use of diagnostic tools			
	Public Integrity Indicator - Financial sustainability	37	2023	OECD Public Integrity Indicators
	Public Integrity Indicator - Legislative stability	32	2024	OECD Public Integrity Indicators
	Public Integrity Indicator - Openness of government decision-making process	39	2024	OECD Public Integrity Indicators
	Public Integrity Indicator - Use of conflict-of-interest prevention mechanisms for senior officials	38	2024	OECD Public Integrity Indicators
	Public Integrity Indicator - Transparency of evaluation practices and use in decision making	37	2023	OECD Public Integrity Indicators
	Public Integrity Indicator - Post-employment integrity in practice (top officials)	11	2024	OECD Public Integrity Indicators
	Public Integrity Indicator - Trust in government	18	2022	OECD Public Integrity Indicators
	Public Integrity Indicator - Proactive disclosure of datasets	39	2024	OECD Public Integrity Indicators
Digital Government	Digital Government Index (DGI) - Digital by design	36	2023	OECD Government at a Glance
	Digital Government Index (DGI) - Data-driven public sector	36	2023	OECD Government at a Glance
	Digital Government Index (DGI) - Government as a platform	36	2023	OECD Government at a Glance
	Digital Government Index (DGI) - Proactiveness	36	2023	OECD Government at a Glance
Evaluation of regulatory quality	Regulatory Quality	48	2023	The Worldwide Governance Indicators: Methodology and Analytical Issues. World Bank Policy Research Working Paper No. 5430
	Regulatory impact assessment of primary laws	40	2021	OECD Government at a Glance
	Regulatory impact assessment of subordinate regulations	41	2021	OECD Government at a Glance
	Ex post evaluation of primary laws	41	2021	OECD Government at a Glance
	Ex post evaluation of subordinate regulations	41	2021	OECD Government at a Glance
Stakeholder engagement in laws and regulations	Stakeholder engagement in primary laws	40	2021	OECD Government at a Glance
	Stakeholder engagement in subordinate regulations	41	2021	OECD Government at a Glance
Regulatory Frameworks for Public Infrastructure	Regulatory Frameworks for public Infrastructure (RFI) - regulatory framework	31	2022	OECD Government at a Glance
	Regulatory Frameworks for public Infrastructure (RFI) - permitting and licensing	31	2022	OECD Government at a Glance
	Regulatory Frameworks for public Infrastructure (RFI) - governance of economic regulators	34	2022	OECD Government at a Glance
	Long-term planning for infrastructure	30	2021	OECD Infrastructure Toolkit
	Infrastructure: fiscal sustainability, affordability and value for money	31	2020	OECD Infrastructure Toolkit

	Public procurement of infrastructure	30	2020	OECD Infrastructure Toolkit
Management of Threats to Public Integrity in Decision Making	Management of threats to public integrity in infrastructure decision making (MTPII) - Risk-based approach	27	2022	OECD Government at a Glance
	Management of threats to public integrity in infrastructure decision making (MTPII) - conflict of interest management	27	2022	OECD Government at a Glance
	Management of threats to public integrity in infrastructure decision making (MTPII) - external control and oversight	28	2022	OECD Government at a Glance
	Management of threats to public integrity in infrastructure decision making (MTPII) - effective enforcement mechanisms	28	2022	OECD Government at a Glance
	Management of threats to public integrity in infrastructure decision making (MTPII) - Internal control and audit	25	2022	OECD Government at a Glance
Density of Infrastructure	Share of urban population with convenient access to public transport (%)	48	2023	UN-HABITAT, Urban Indicators database
	Airports per one hundred thousand sq. km	42	2016	OECD International Transport Forum
	Share of electrified rail lines in total rail network	34	2023	OECD International Transport Forum
	Share of high-speed rail lines in total rail network	10	2023	OECD International Transport Forum
	Density of rail lines (km per one hundred sq. km)	37	2023	OECD International Transport Forum
	Density of road (km per one hundred sq. km)	38	2023	OECD International Transport Forum
	Pipeline transport in tonne-km per one thousand units of current USD GDP	25	2023	OECD International Transport Forum
	Rail freight transport in tonne-km per one thousand units of current USD GDP	41	2023	OECD International Transport Forum
	Rail passenger transport in passenger-km per one thousand units of current USD GDP	40	2023	OECD International Transport Forum
	Proportion of population with access to electricity	48	2021	World Bank, World Development Indicators
Transport Regulation	Product Market Regulation (PMR) - Air Transport	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Rail Transport	44	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Road Transport	45	2023	OECD Product Market Regulation Indicators
Environmentally sustainable and climate-resilient infrastructure	Total public sewerage (% of resident population connected to a wastewater collecting system)	46	2022	OECD (2024), Wastewater treatment (indicator)
	Environmentally sustainable and climate-resilient infrastructure	26	2022	OECD Infrastructure Toolkit
Access to Digital infrastructure	Fixed broadband basket price as a % of GNI	48	2023	Policy brief - The affordability of ICT services 2023, International Telecommunication Union
	Fixed broadband subscriptions per 100 inhabitants, greater than or equal to 30Mbps	34	2023	OECD, Broadband Portal

	Fixed broadband subscriptions per 100 inhabitants, greater than or equal to 100Mbps	34	2023	OECD, Broadband Portal
	Fixed broadband subscriptions per 100 inhabitants, greater than or equal to 1Gbps	34	2023	OECD, Broadband Portal
	Total fixed broadband subscriptions per 100 inhabitants	38	2023	OECD, Broadband Portal
	Percentage of fibre in total broadband	38	2023	OECD, Broadband Portal
	Proportion of population covered by at least 4G	43	2021	OECD, Broadband Portal
	Businesses with a broadband connection -includes both fixed and mobile (% of all businesses)	38	2024	OECD ICT Access and Usage by Businesses
	Businesses with a broadband download speed at least 1 Gbit/s (% of all businesses)	28	2024	OECD ICT Access and Usage by Businesses
Information and Communication Technology (ICT) Policies	Businesses using Artificial Intelligence (% of all businesses)	38	2024	OECD ICT Access and Usage by Businesses
	Share of businesses purchasing cloud services	37	2022	OECD Going Digital Toolkit
E-Communications Regulation	Product Market Regulation (PMR) - Fixed communications	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Mobile communications	45	2023	OECD Product Market Regulation Indicators
Educational Attainment	Government expenditure on education, constant PPP$ per capita	44	2021	OECD calculations based on the OECD's Education database. Population data come from the World Bank's World Development Indicators.
	Government expenditure on education, constant PPP$ per person below the age of 18	43	2021	OECD calculations based on Education and Population databases
	Educational attainment in upper secondary education	48	2023	OECD Education at a Glance
	Educational attainment in tertiary education	48	2023	OECD Education at a Glance
	Educational attainment in upper secondary education for women	48	2023	OECD Education at a Glance
	Educational attainment in tertiary education for women	48	2023	OECD Education at a Glance
	Share of students in vocational education and at upper secondary education level	39	2022	OECD Education at a Glance
	Gap in educational attainment between men and women for lower secondary education	47	2023	OECD Education at a Glance
	Gap in educational attainment between men and women for upper secondary education	48	2023	OECD Education at a Glance
	Gap in educational attainment between men and women for tertiary education	48	2023	OECD Education at a Glance
Student Performance	Student to teacher ratio, primary education	43	2022	OECD Ratio of students to teaching staff by type of institution database

	Programme for International Student Assessment (PISA) - performance in Mathematics	44	2022	OECD's Programme for International Student Assessment
	Programme for International Student Assessment (PISA) - performance in Reading	44	2022	OECD's Programme for International Student Assessment
	Programme for International Student Assessment (PISA) - performance in Science	44	2022	OECD's Programme for International Student Assessment
	Impact of socioeconomic background on PISA reading score	46	2022	OECD's Programme for International Student Assessment
Adult Competencies	Programme for the International Assessment of Adult Competencies (PIAAC) - score in Literacy	36	2023	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Programme for the International Assessment of Adult Competencies (PIAAC) - score in Numeracy	36	2023	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Programme for the International Assessment of Adult Competencies (PIAAC) - score in Problem solving	30	2023	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Share of adults proficient at problem solving in technology rich environment	24	2015	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
Digital Skills	Index of use of Information and communication technology (ICT) skills at home	29	2022	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Index of use of Information and communication technology (ICT) skills at work	29	2022	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Share of adults with low Information and communication technology (ICT) skills	32	2018	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
Continuing Education and Lifelong Learning	Index of learning at work	29	2022	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Index of use of numeracy skills at work	29	2022	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Index of use of reading skills at home	29	2022	OECD Programme for the International Assessment of Adult Competencies (PIAAC)
	Share of tertiary educated adults (25-64 years old) participating in non-formal job-related education and training	30	2022	OECD Education at a Glance
Early childhood education	Enrolment rates in Early childhood and pre-primary education	40	2021	OECD Education at a Glance
	Net childcare costs (couple)	37	2022	OECD tax-benefit indicators
	Child-to-staff ratios in early childhood education	39	2022	OECD Education at a Glance

Annex Table 1.C.2. Market incentives and allocative efficiency

Sub-policy area	Name	Countries available	Latest year available	Source
Tax Structure	Indirect taxes % of total revenue (recurrent taxes on immovable property + taxes on goods and services)	47	2022	OECD Global Revenue Statistics Database
	Composite Effective Marginal Tax Rate (EMTR) - Country-specific interest and inflation rates	48	2023	OECD Tax Database
	Composite Effective Marginal Tax Rate (EMTR) - Low interest and inflation rates	48	2023	OECD Tax Database
	VAT-revenue-ratio	37	2022	OECD Consumption Tax Trends
	Overall Tax Complexity Index	47	2022	The Global MNC Tax Complexity Project
	Composite Average Effective Tax Rate (AETR)	48	2023	OECD Tax Database
Administrative and Regulatory Burden	Product Market Regulation (PMR) - Communication and Simplification of Administrative and Regulatory Burden	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Administrative requirements for limited liability companies and personally owned enterprises	45	2023	OECD Product Market Regulation Indicators
Barriers in Service & Network Sectors	Product Market Regulation (PMR) - Barriers to entry in services sectors	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Digital markets	45	2023	OECD Product Market Regulation Indicators
Distortions Induced by Public Ownership	Product Market Regulation (PMR) - Quality and scope of public ownership	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Governance of commercial state-owned enterprises	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Public procurement	45	2023	OECD Product Market Regulation Indicators
Involvement in Business Operations	Product Market Regulation (PMR) - Retail price controls and regulation	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Involvement in business operations in network sectors	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Involvement in business operations in services sectors	45	2023	OECD Product Market Regulation Indicators
Insolvency	OECD insolvency indicator - Treatment of failed entrepreneurs (revised version)	43	2022	OECD Insolvency indicator
	OECD insolvency indicator - Prevention and streamlining	44	2022	OECD Insolvency indicator
	OECD insolvency indicator - Restructuring tools	44	2022	OECD Insolvency indicator
Tariff Barriers	Product Market Regulation (PMR) - Tariff Barriers	45	2023	OECD Product Market Regulation Indicators

Trade Facilitation	Trade Facilitation Indicators (TFI) - Information availability	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Involvement of the Trade Community (Consultations)	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Advance rulings	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Appeal procedures	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Fees and charges	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Formalities: Documents	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Formalities: Automation	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Formalities: Procedures	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Internal co-operation	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - External co-operation	48	2022	OECD Trade Facilitation Indicators
	Trade Facilitation Indicators (TFI) - Governance and impartiality	48	2022	OECD Trade Facilitation Indicators
Restrictiveness of Services Trade	Services Trade Restrictiveness Index (STRI) - Restrictions on the movement of people	44	2022	OECD, Services Trade Restrictions Database
	Services Trade Restrictiveness Index (STRI) - Restrictions on foreign ownership and other market entry conditions	44	2022	OECD, Services Trade Restrictions Database
	Services Trade Restrictiveness Index (STRI) - Other discriminatory measures and international standards	44	2022	OECD, Services Trade Restrictions Database
	Services Trade Restrictiveness Index (STRI) - Barriers to competition and public ownership	44	2022	OECD, Services Trade Restrictions Database
	Services Trade Restrictiveness Index (STRI) - Regulatory transparency and administrative requirements	44	2022	OECD, Services Trade Restrictions Database
Restrictiveness of Digital Services Trade	Digital Services Trade Restrictiveness Index (DSTRI) - Infrastructure and connectivity	45	2024	OECD Digital Services Trade Restrictiveness Index
	Digital Services Trade Restrictiveness Index (DSTRI) - Electronic transactions	45	2024	OECD Digital Services Trade Restrictiveness Index
	Digital Services Trade Restrictiveness Index (DSTRI) - Payment systems	45	2024	OECD Digital Services Trade Restrictiveness Index
	Digital Services Trade Restrictiveness Index (DSTRI) - Intellectual property rights	45	2024	OECD Digital Services Trade Restrictiveness Index
	Digital Services Trade Restrictiveness Index (DSTRI) - Other barriers affecting trade in digitally enabled services	45	2024	OECD Digital Services Trade Restrictiveness Index
Regulatory Restrictiveness of FDI	FDI Regulatory Restrictiveness Index - Foreign equity limitations	47	2020	OECD Foreign Direct Investment Regulatory Restrictiveness Index
	FDI Regulatory Restrictiveness Index - Screening or approval mechanisms	47	2020	OECD Foreign Direct Investment Regulatory Restrictiveness Index

	FDI Regulatory Restrictiveness Index - Restrictions on the employment of foreigners as key personnel	47	2020	OECD Foreign Direct Investment Regulatory Restrictiveness Index
	FDI Regulatory Restrictiveness Index - Operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership	47	2020	OECD Foreign Direct Investment Regulatory Restrictiveness Index
Workforce Participation Incentives	Average tax wedge (% labour costs): average over different family situations	38	2023	Labour taxation - OECD comparative indicators
	Difference in net transfers to government between single-earner and equal dual-earner couple	38	2024	OECD Tax-Benefit models
	Length of paid maternity, parental and home care leave available to mothers in weeks	38	2024	OECD Family Database
	Length of paid paternity and parental leave reserved for fathers in weeks	38	2024	OECD Family Database
	Women as a share of all 16-24-year-olds who can program	33	2023	OECD Going Digital Toolkit
	Degressivity of unemployment benefits	38	2024	OECD Tax-Benefit Indicators
	Implicit tax on returning to work for second earners, % of gross earnings in the new job	37	2022	OECD Tax-Benefit Indicators
	Implicit tax on returning to work for lone parents, % of gross earnings in the new job	37	2022	OECD Tax-Benefit Indicators
Adaptability and Mobility	Index of extension of collective wage bargaining	38	2020	OECD/AIAS ICTWSS Database
	Share of social housing in total number of dwellings	32	2023	OECD Affordable Housing database
	Active Labour Market Policies (ALMPs) per unemployed, % of GDP per capita	39	2022	OECD Employment database
	Employment Protection Legislation (EPL) - Individual and collective dismissals of regular workers	46	2019	OECD Employment Protection Legislation Database
	Duality of Employment Protection Legislation (EPL) - Difference between Individual and collective dismissals of regular workers and temporary workers	37	2019	OECD Employment Protection Legislation Database
	Rent control Indicator	37	2021	OECD calculations carried out by the Economics Department using a questionnaire administered by the Employment, Labour and Social Affairs Department
	Tenant-Landlord Relation Indicator	34	2021	OECD calculations carried out by the Economics Department using a questionnaire administered by the Employment, Labour and Social Affairs Department
Pension and retirement policies	Change in net pension wealth for men, age 55, 100 % of individual gross earnings	44	2022	OECD Pensions at a Glance

	Change in net pension wealth for men, age 55, 200 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for men, age 55, 50 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for men, age 60, 100 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for men, age 60, 200 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for men, age 60, 50 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for women, age 55, 100 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for women, age 55, 200 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for women, age 55, 50 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for women, age 60, 100 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for women, age 60, 200 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Change in net pension wealth for women, age 60, 50 % of individual gross earnings	44	2022	OECD Pensions at a Glance
	Current retirement age	47	2022	OECD Pensions at a Glance

Annex Table 1.C.3. Targeted and sectoral policies

Sub-policy area	Name	Countries available	Latest year available	Source
Innovative Firms	R&D active product and/or business process innovative firms, % of innovative firms	31	2021	OECD Science and Technology Indicators
	Business process innovative firms, % of total firms	39	2021	OECD Innovation Indicators database
	Business process innovative firms with innovations in the production of goods or services, % of total firms	39	2021	OECD Innovation Indicators database
	Business process innovative firms with innovations in distribution and logistics, % of total firms	38	2021	OECD Innovation Indicators database
	Business process innovative firms with innovations in marketing and sales, % of total firms	39	2021	OECD Innovation Indicators database
	Business process innovative firms with innovations in information & communication systems, % of total firms	37	2021	OECD Innovation Indicators database
	Business process innovative firms with innovations in administration & management, % of total firms	31	2021	OECD Innovation Indicators database
	Firms that applied for patents, as a percentage of total firms	29	2021	OECD Innovation Indicators database
	Innovative firms (product/process), % of total firms	32	2021	OECD Innovation Indicators database
	Share of persons employed in innovative firms in total employment	31	2021	OECD Innovation Indicators database
	Firms co-operating on innovation activities with public R&D institutes, % of innovation active firms	36	2021	OECD Innovation Indicators database
	Firms co-operating on innovation activities with universities or other higher education institutions, % of innovation active firms	37	2021	OECD Innovation Indicators database
Tax Treatment of R&D	Implied tax subsidy rates on R&D tax incentives: loss-making large firms	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: loss-making large firms, 5-year change	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: loss-making SMEs	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: loss-making SMEs, 5-year change	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: profitable large firms	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: profitable large firms, 5-year change	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: profitable SMEs	45	2023	OECD R&D Tax Incentives database
	Implied tax subsidy rates on R&D tax incentives: profitable SMEs, 5-year change	45	2023	OECD R&D Tax Incentives database

Expenditure on R&D: Business	Business enterprise Expenditure on R&D (BERD) financed by government, % of GDP	44	2023	OECD Research and Development Statistics
	Venture capital investment in the ICT sector as a share of GDP	27	2023	OECD Going Digital Toolkit
Expenditure on R&D: Higher education	Percentage of Higher Education Expenditure on R&D (HERD) financed by the business sector	44	2023	OECD Main Science and Technology Indicators
	Higher Education Expenditure on R&D (HERD) as a % of GDP	44	2023	OECD Main Science and Technology Indicators
	GERD financed by the Higher Education and PNP sectors, % of GDP	43	2023	OECD Main Science and Technology Indicators
Expenditure on R&D: Personnel	Total R&D personnel per thousand total employment	41	2022	OECD Science and Technology Indicators
Expenditure on R&D: Basic Research	Basic Research expenditure as a percentage of GDP	39	2022	OECD Science and Technology Indicators
Technology Support	Environmental stringency index - Low carbon R&D expenditure	39	2020	OECD, Environmental Policy Stringency index
Energy Regulation	Product Market Regulation (PMR) - Electricity sector	45	2023	OECD Product Market Regulation Indicators
	Product Market Regulation (PMR) - Gas sector	43	2023	OECD Product Market Regulation Indicators
Renewable energy	Share of renewables, % of energy supply	48	2021	OECD Green Growth database
	Share of renewables in the electricity production	48	2023	OECD Green Growth database
	Share of renewables in the energy mix, change over the last 20 years	48	2021	OECD Green Growth database
Energy Intensity	Energy productivity, GDP per unit of total energy supply	48	2023	OECD Green Growth database
	Energy intensity per capita, in tonnes of oil equivalent per person	48	2023	OECD Green Growth database
Water, Biodiversity, and Waste	Land cover changes, % of natural and semi-natural land	48	2022	OECD Land cover and land cover change database
	Percentage of terrestrial protected areas in total land area	48	2022	OECD Protected areas database
	Waste generation per capita: Total waste (Kg per person)	44	2022	OECD Waste - Municipal waste: generation and treatment database
	Recycling rates (% of recycling in total treatment of Municipal waste)	42	2022	OECD Waste - Municipal waste: generation and treatment database
Design and Evaluation of Environmental Policies	Design and Evaluation of Environmental Policies Indicator	29	2018	OECD Design and Evaluation of Environmental Policies Indicator

2 Country Notes

This Chapter contains the detailed Foundations for Growth and Competitiveness 2026 country notes for OECD and selected non-member economies. The country notes identify country-specific structural policy priorities to lift growth across OECD and partner countries. The key structural challenges to be addressed are identified within the Foundations for Growth and Competitiveness policy prioritisation model (Chapter 1, Annex 1.A) by OECD Country Desk experts.

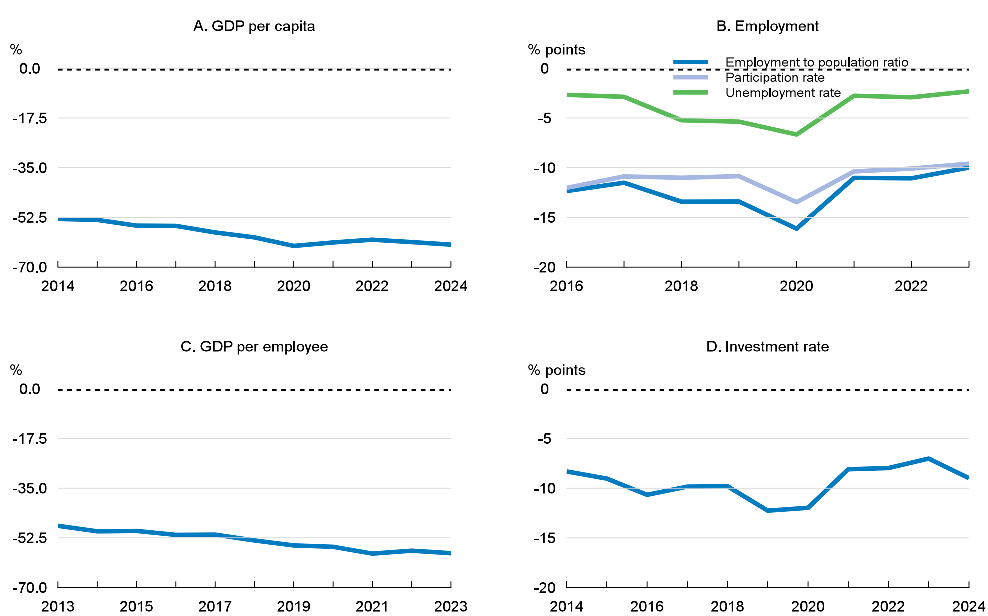
Argentina

Despite its natural resource abundance and a well-educated workforce, Argentina's economic performance has lagged that of comparable economies. A volatile macroeconomic environment, characterised by a series of boom-and-bust cycles, has undermined confidence, resulting in one of the lowest investment rates in Latin America. Informal employment remains high in international comparison, hindering the optimal allocation of resources across the economy. Labour productivity has been falling over the last decade, leaving Argentina even further away from the OECD average.

Against this difficult background, Argentina has recently embarked on an ambitious reform process, which has started to pay off. Continuous efforts will be necessary to phase out distortionary taxes that hinder investment and to improve the efficiency of public works. Enhancing the flexibility of labour market regulations and lowering non-wage labour costs would help tackle labour market informality. Continuing to reduce barriers to domestic and international competition would foster productivity growth.

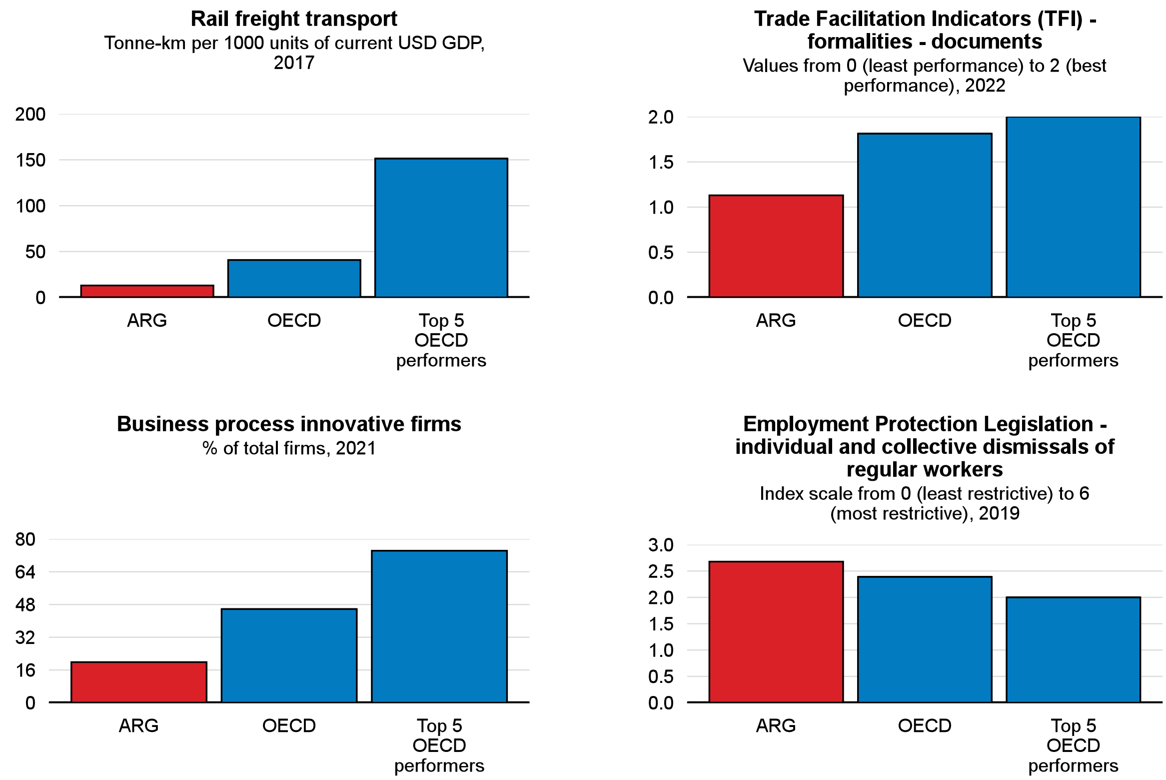
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Taxation: Make the tax system more growth-friendly

Increases in public spending and urgent financing needs over the years have often been financed with new distortionary taxes. These taxes have left their mark on investment and consumption decisions and the allocation of resources across the economy. One of the most distortionary taxes is a financial transaction tax creating incentives to settle payments in cash. Another highly distortionary tax is a provincial business turnover tax creating artificial incentives for vertical integration. In contrast, income taxes and the VAT have narrow tax bases and account for a smaller share of tax revenues than in OECD countries.

Recommendations

- ✓ Let the financial transaction tax expire in 2027 and eliminate other distortive transaction taxes such as stamp duties.
- ✓ Consolidate the provincial business turnover taxes with the VAT into a dual value-added tax with harmonised rules.
- ✓ Reduce the basic allowance of the personal income tax and limit VAT exemptions and reduced rates.

Physical infrastructure: Strengthen the integrity of public procurement processes

The quality of infrastructure is low in international comparison. In the transportation sector, only 32% of road infrastructure is in good condition. Train derailments are frequent given the poor state of freight railways. The port of Buenos Aires has an average turnaround time close to two days and ships often face waiting times before entering the port. Increasing private participation in the construction and operation of infrastructure could help to develop high-quality infrastructure, while increasing the efficiency of public spending. Yet, this requires significant institutional capacities.

Recommendations

- ✓ Develop a general public procurement law, based on the Recommendations from the OECD Council on the Governance of Infrastructure, and promote the use of e-procurement.
- ✓ Make sure that procurement offices have adequate human resources to conduct their activities.
- ✓ Improve coordination between competent bodies and across municipalities to grant permits, authorisations and rights of way.

Labour market: Enhance the flexibility of labour market regulations

A sizeable share of Argentina's jobs and economic activity has traditionally been outside the formal economy. Informal workers have lower income stability and lower earnings, even though they have access to social protection through the social security system. Informality also represents unfair competition for formal firms, limiting growth opportunities and distorting the allocation of resources across the economy. Labour market regulations are more stringent than in the average of the OECD and Latin America, increasing the cost of formal employment and limiting opportunities for less productive workers.

Recommendations

- ✓ Simplify administrative procedures for collective dismissals and reduce the amount of severance payments mandated by law.
- ✓ Develop objective and predictable criteria for minimum wage adjustments, based on productivity developments.
- ✓ Introduce temporary opt-out clauses allowing the suspension of sectoral level agreements for firms facing economic difficulties.

Competition: Promote more competitive domestic markets

Despite notable recent reforms, regulation of product markets in Argentina remains very restrictive according to the OECD Product Market Regulation indicators. Entrepreneurs are still subject to some onerous and time-consuming procedures when starting their businesses. Barriers to entry persist in a range of professional services. The independent National Competition Authority and its subordinated bodies mandated by the competition law still have not been created, and the resources of the current competition authority are limited. Moreover, the adoption of a pre-merger review regime mandated by the competition law has not taken place yet. Regulations are not systematically assessed.

Recommendations

- ✓ Continue streamlining business regulations to reduce entry barriers in services sectors and lower administrative burdens for new firms.
- ✓ Create an independent, appropriately funded National Competition Authority.
- ✓ Establish the systematic use of regulatory impact assessments.

International trade: Increase openness to international trade

Argentina's economy is less integrated into world markets than comparable emerging economies, in terms of imports, exports, and participation in global value chains. Despite recent improvements, import barriers and export taxes remain high in international comparison. Export growth has not matched the expansion of export markets, and there are fewer firms exporting and products exported. Argentina has much to gain from opening to international trade. Domestic firms would be able to obtain higher-quality intermediate goods and more advanced equipment. Stronger exports, on the other hand, would help reducing macroeconomic vulnerabilities, boosting investors' confidence.

Recommendations

- ✓ Continue reducing tariffs, especially on intermediate inputs and capital goods.
- ✓ Continue streamlining non-tariff trade barriers, including cumbersome technical regulations or technical regulations not aligned with international standards.
- ✓ Phase out export taxes.

Recent progress on structural reforms

Argentina has recently made significant progress towards stabilising the macroeconomy and improving the business environment. Primary fiscal surpluses have been recorded for most of 2024, something Argentina had not seen since 2010, helping to gradually restore investors' confidence. Most currency and capital controls were lifted in April 2025 and a new incentive regime for large investments has been introduced. Product market regulations are being simplified and modernised, while import processes have been streamlined and waiting times for approvals reduced. Keeping up the reform momentum will play a crucial role to sustain high growth levels in the coming years.

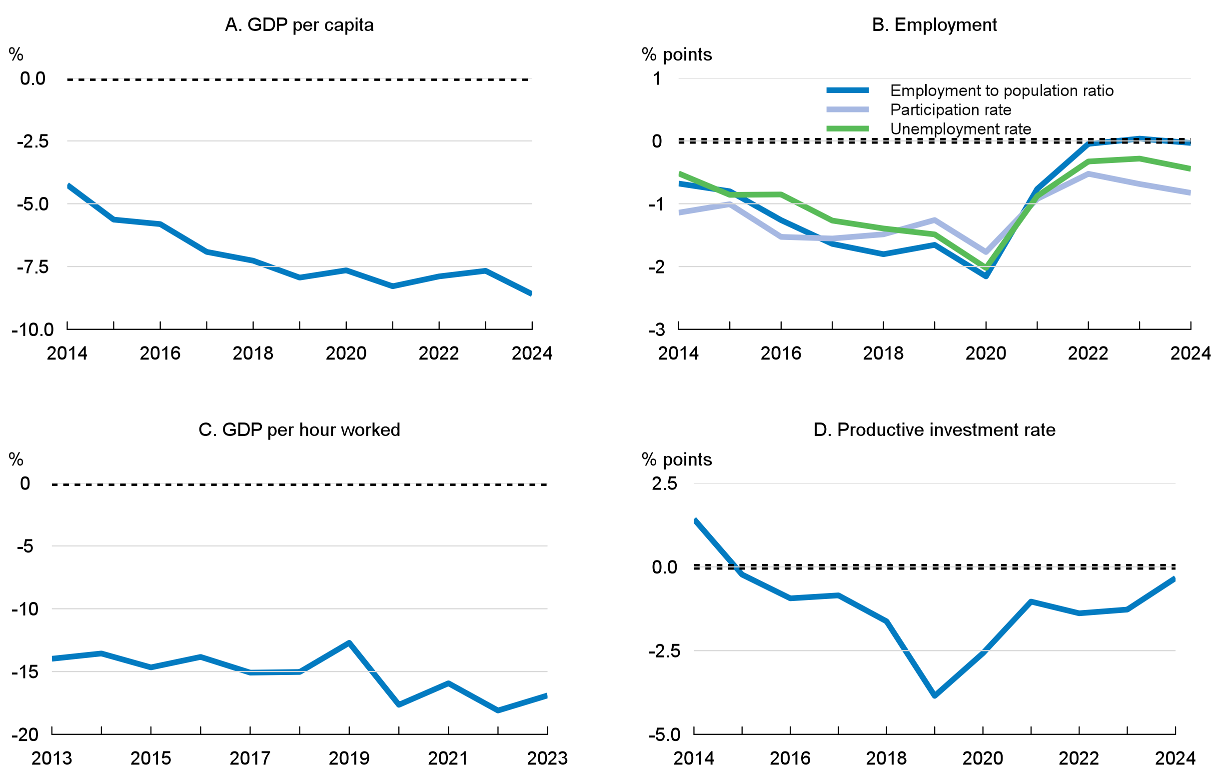
Australia

Australia's economic performance has been mixed compared to OECD peers. The labour market has proved resilient to a surge in immigration-driven population growth, with strong employment growth keeping unemployment rates low. On the other hand, the level of labour productivity has fallen in recent years, deepening somewhat the gap in output per hour worked vis-à-vis the upper half of OECD countries.

A decline in the relative importance of fossil-fuel extraction, an ageing population and the net zero transition require an adaptable economy and a dynamic business sector, a challenge aggravated by Australia's remoteness. Reducing regulatory barriers to competition and improving access to fast broadband connection would facilitate the entry and growth of innovative start-ups.

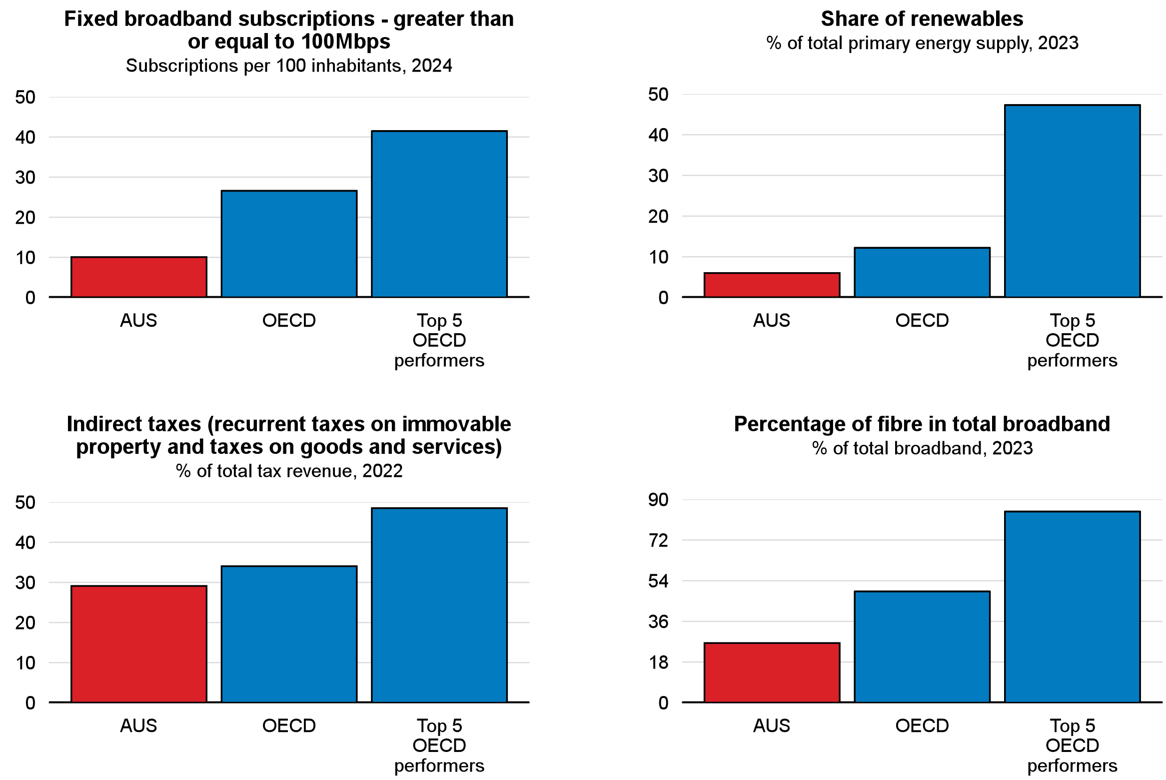
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Review licensing regimes and reduce regulatory barriers

Competition policy has been strengthened, including by introducing a mandatory, suspensory merger notification regime that will come into effect in 2026, but in a relatively small and remote economy prone to concentrated markets, further action is needed to foster competition and ensure that monopolies are well regulated. Business dynamism is impeded by overlapping regulations across levels of government. The economy-wide Product Market Regulation indicator shows that Australia was among the least restrictive OECD countries in the late 1990s and early 2000s but is now around average. Australia's licensing regime is relatively burdensome, with around one fifth of workers requiring an occupational license or registration.

Recommendations

- ✓ Strengthen laws relating to abuse of dominance, exclusive dealing and access regimes.
- ✓ Reduce overlapping and inconsistent regulations across states and territories and promote best practice regulation-making and review across the states.
- ✓ Streamline the process of recognising trusted overseas regulatory standards.

Digital transformation: Expand access to fast broadband and develop digital markets

Access to fast broadband in Australia is low compared with other developed countries, with rural and remote regions still facing serious connectivity issues. This urban-rural digital divide can entrench economic and educational disparities and limit the development of Australia's digital economy. The Product Market Regulation indicator on Digital Markets points to high regulatory barriers to competition in the sector in Australia compared to other OECD countries.

Recommendations

- ✓ Continue expanding access to fast broadband, including through further investment in the National Broadband Network.
- ✓ Expand the Consumer Data Right system, which allows consumers in designated sectors (so far banking and energy) to safely share the data that businesses hold concerning them, to more sectors, and ensure that it does not unduly constrain how the data shared can be used.
- ✓ Assess barriers to competition in digital markets, in particular regarding regulations to ensure fair trading on large platforms for business users, to foster market contestability and rules on use and access to data.

Taxation: Improve the structure of the tax system

Australia relies more on personal and corporate income taxes and less on goods and services taxes and environmental taxes than most other OECD countries. The rate on Australia's Goods and Services Tax is 10%, just over half the OECD average, and the VAT revenue ratio (the ratio of revenue collected to theoretical revenue if the GST was uniformly applied to the entire potential tax base and all revenue was collected) is about 50%, also below the OECD average. Stronger reliance on goods and services taxes, a more growth-friendly and resilient tax base, can help rebalance the sharing of the tax burden between people in employment and the retired population in the context of an ageing population. Such taxes are also more difficult to evade and have weaker disincentives to work than income taxes.

Recommendations

- ✓ Broaden the base of the goods and services tax through reducing exemptions and consider increasing the tax rate.
- ✓ Reduce tax concessions on private pensions and capital gains on housing.
- ✓ Replace transaction taxes on real estate (levied at the state level) with recurrent state-level land taxes.

Housing: Improve affordability and foster mobility, especially in urban centres

Housing, particularly in the largest cities, has become increasingly costly in relation to household incomes, owing to a range of factors including rising construction costs, high mortgage rates (together with a high share of adjustable-rate mortgages) and restrictive zoning and planning regulations in a context of rapid population growth. Expensive housing impedes labour mobility and results in long commuting times and foregone productivity gains from agglomeration, including via reduced access to infrastructure.

Recommendations

- ✓ Increase financial incentives to the states to meet federal house-building targets.
- ✓ Provide incentives to local governments to amend land-use and streamline regulations including automatic approval of building codes, e.g. for manufactured housing.
- ✓ Increase funding for social housing.

Environment: Exploit Australia’s renewable energy potential

Australia has committed to achieving net zero greenhouse gas emissions by 2050 and is shifting from high use of coal to greater reliance on renewables and other low-emission sources. However, achieving these targets in an efficient way while maintaining energy security will be challenging. Australia has high emissions per capita and a relatively low share of renewables in electricity generation, while it makes very limited use of carbon pricing and spends comparatively little on energy research and development. Australia is also highly exposed to rising temperatures, including on agricultural output.

Recommendations

- ✓ Ensure an orderly retirement of coal power generation capacity by promoting more coordination between states, the Australian Energy Market Operator and power plant operators.
- ✓ Scale up and refocus public funding towards the development of clean energy and energy efficiency technologies.
- ✓ Ease regulatory and financial constraints to grid connections, which currently result in frequent negative wholesale electricity prices while threatening energy security in some parts of the country.

Recent progress on structural reforms

A review of competition policies in Australia was launched in 2023 and in November 2024 federal and state governments reached agreement on a 10-year reform of the National Competition Policy (NCP). The first tranche of the NCP reforms focuses on streamlining regulation of modern methods of construction, faster adoption of international standards and improving commercial zoning and planning.

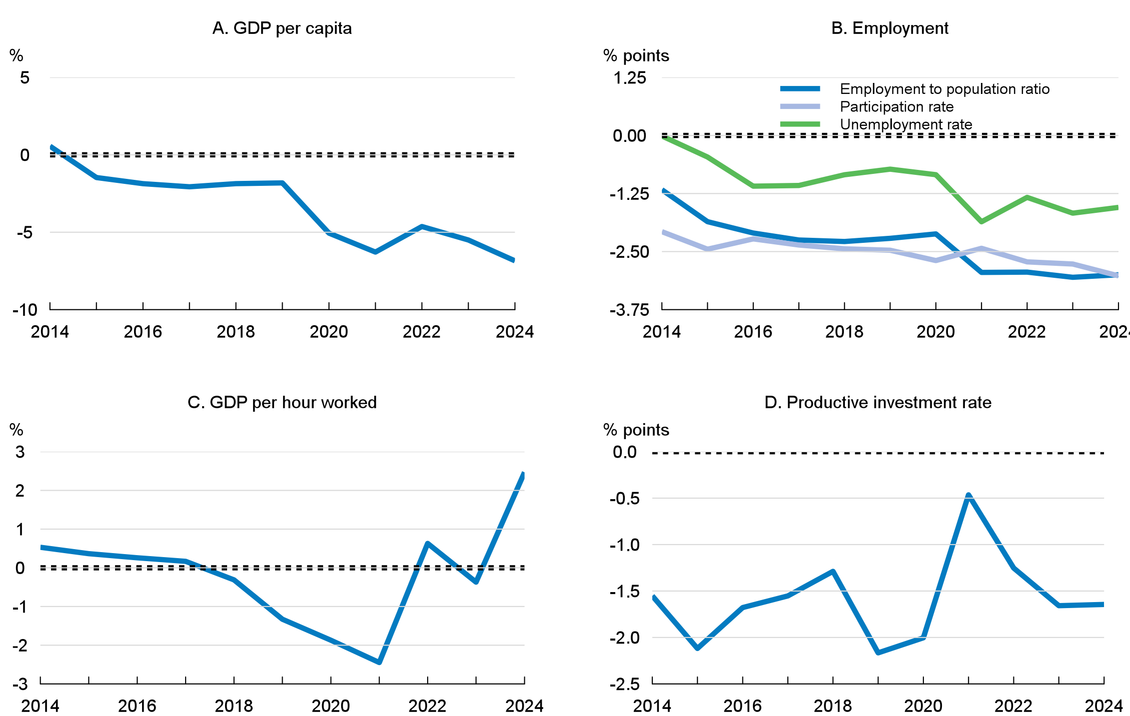
Austria

The slowdown in economic growth has been driven by weak investment, a shrinking working-age population, and sluggish multifactor productivity growth. Trend labour productivity growth has been declining despite some recent recovery. Capital intensity has stayed low, contributing little to productivity gains. Meanwhile, employment has risen, reflecting notably an increase in part-time work among women.

Reducing regulatory barriers to competition and easing restrictions on services trade would boost investment and enhance productivity by enabling a more efficient allocation of resources and by boosting investment. Accelerating the rollout of digital infrastructure would further support productivity growth. Improving the inclusiveness of the education system and labour market—by directing resources to those with greater needs and expanding early childhood education and childcare facilities—would promote better labour market participation and higher incomes, particularly for women and migrants.

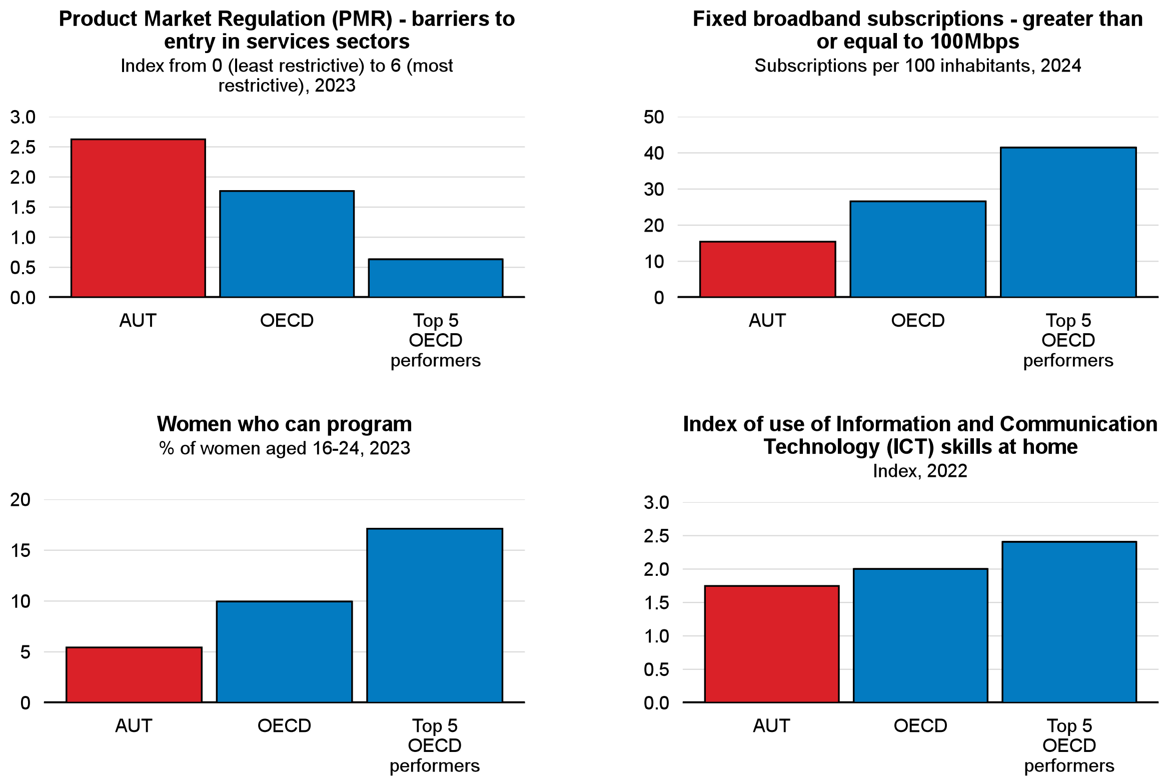
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Reduce barriers to entry and exit, and the administrative burden

Weak competition hinders efficient resource reallocation, business dynamism and innovation. Product market regulations in Austria are somewhat stricter compared to other OECD countries, indicating room for pro-competitive reforms. Barriers to domestic and foreign entry remain relatively high compared with many OECD countries, with barriers in service and network sectors especially above the OECD average. Less competition risks affecting price formation and business dynamism in Austria.

Recommendations

- ✓ Ease regulation of services, particularly the strict entry requirements into certain professional services.
- ✓ Further simplify the insolvency framework with a view to speed up bankruptcy procedures.
- ✓ Simplify administrative and regulatory requirements for firms by reviewing and eliminating unnecessary reporting obligations.

Services trade regulations: Reduce services trade restrictions

Restrictions of services trade in Austria are higher on average than in the OECD. Economy-wide and sector-specific rules hold back services trade. Also, Austria requires labour market tests for temporary service providers, such as intra-corporate transferees and independent professionals. For instance, some labour market measures and regulations of engineering services are restricting entry of temporary service providers and competition.

Recommendations

- ✓ Lift labour market restrictions on workers seeking to provide services in Austria on a temporary basis such as intra-corporate transferees, contractual services suppliers, or independent services suppliers.
- ✓ Further reduce barriers towards suppliers from within the European Economic Area or on a Most Favoured Nation basis.
- ✓ Limit nationality or territorial restrictions for access to markets and grants in some services (broadcasting, engineering or air transport).

Digital transformation: Stimulate access to and deployment of digital technologies

Austria is still behind top performing countries in digitalisation. There is considerable potential for improvement in fast broadband coverage. Less than 40% of Austrian households have a contracted internet speed of at least 100 Megabytes per second, which is one of the lowest shares in the OECD. According to the Services Trade Restrictiveness Index, the restrictions on infrastructure and connectivity in Austria are high compared to other OECD countries.

Recommendations

- ✓ Reduce barriers and facilitate permits to broadband deployment to make investments easier and cheaper for private communication operators.
- ✓ Consider public-private partnerships to finance the deployment of high-quality internet in rural and low-density areas.
- ✓ Eliminate barriers still affecting cross-border electronic transactions.

Education: Mobilise human capital by reducing inequalities in the education system

The outcomes of the Austrian school system are generally good, but there is room to strengthen inclusiveness. The difference between advantaged and disadvantaged students corresponds to more than five years of schooling. Gaps between schools on the basis of pupils' socio-economic status and migrant background are wide. Educational attainment in tertiary education for women is lower than the OECD average. Improving educational outcomes can improve economic opportunities, build human capital and support economic growth.

Recommendations

- ✓ Further expand high-quality early childhood education and care services, prioritising disadvantaged families.
- ✓ Provide more resources to low-achieving schools with greater needs and a large share of disadvantaged students, for instance through "need-based financing".
- ✓ Identify and reduce barriers to access higher education for women including by providing information and guidance.

Labour market: Increase the participation of women and migrants

Population ageing is reducing the working-age population. Increasing the labour market participation of certain groups would help to mitigate the downside impact of ageing on overall growth. Working-age women, migrants and low-skilled individuals have a low labour market participation affecting their income level. Also, part-time work is common among women. Language is a substantial barrier to labour market access of migrants.

Recommendations

- ✓ Further strengthen existing processes of recognition and validation of qualifications acquired abroad and develop access to language training.
- ✓ Further strengthen incentives for more balanced use of parental leave between mothers and fathers.
- ✓ Roll out across Federal States the new counselling process, with more targeted activation and assistance for the unemployed.

Recent progress on structural reforms

The government has launched a series of structural reforms under Austria's Recovery and Resilience Plan (RRP) to address key long-standing challenges. An eco-social tax reform was introduced, combining expanded carbon pricing with tax cuts and benefits for households and businesses. More recently, fiscal consolidation measures have included higher taxes on immovable properties, tobacco and gambling. Regulatory barriers were reduced through the "Once-Only" initiative, which streamlines data reporting by allowing businesses to submit certain information just once rather than repeatedly to different authorities. In 2022, the "Springboard" programme for the long-term unemployed was extended to include recruitment incentives, in-work benefits for older workers and people with disabilities ('Kombilohn'), and support for employment in social enterprises.

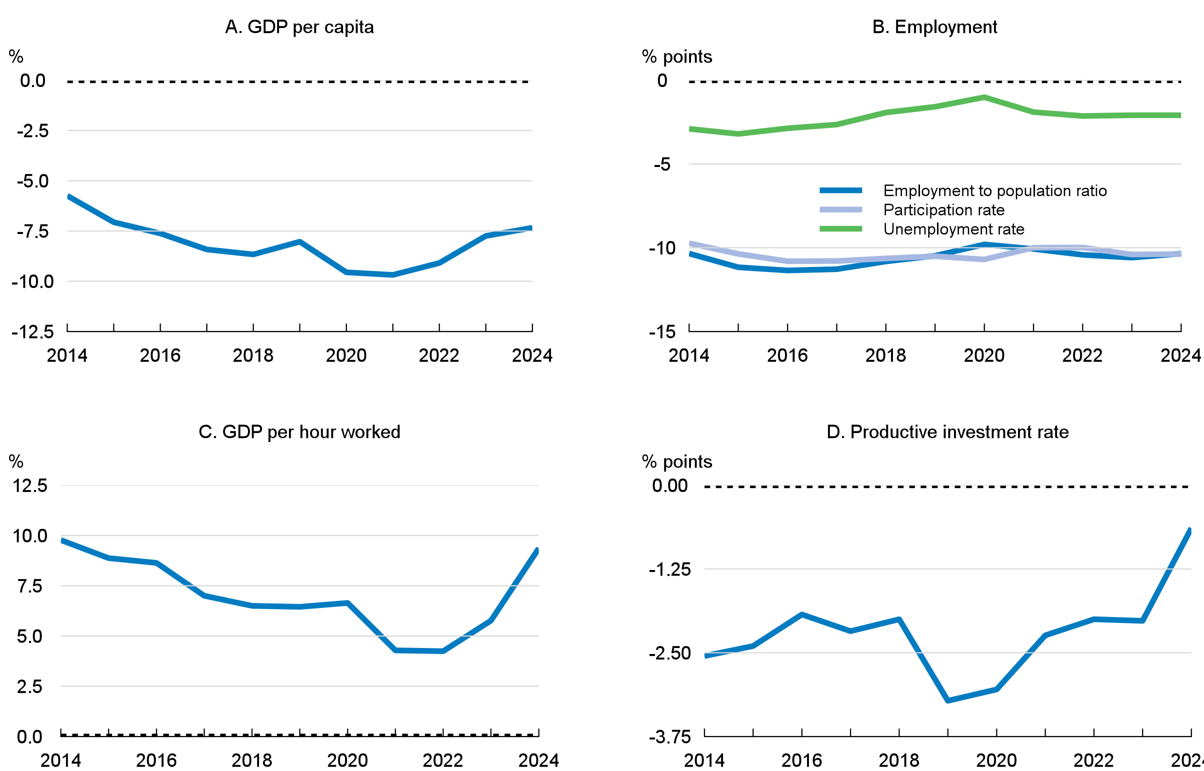
Belgium

GDP per capita continues to lag that of the upper half of OECD countries, owing to the substantial gap in employment rates. While labour productivity remains among the highest in the OECD, it has slowed significantly over the past decade. However, this negative trend has reversed since 2021, sustained by stronger investment.

Higher employment rates would contribute to improving living standards, wellbeing, and social inclusion, while helping to address challenges posed by demographic changes. This requires reducing the tax burden on labour, particularly for the low skilled, and strengthening adult education. Reducing skills shortages as well as regulatory and administrative overheads can foster business dynamism and help Belgium's firms achieve their full potential.

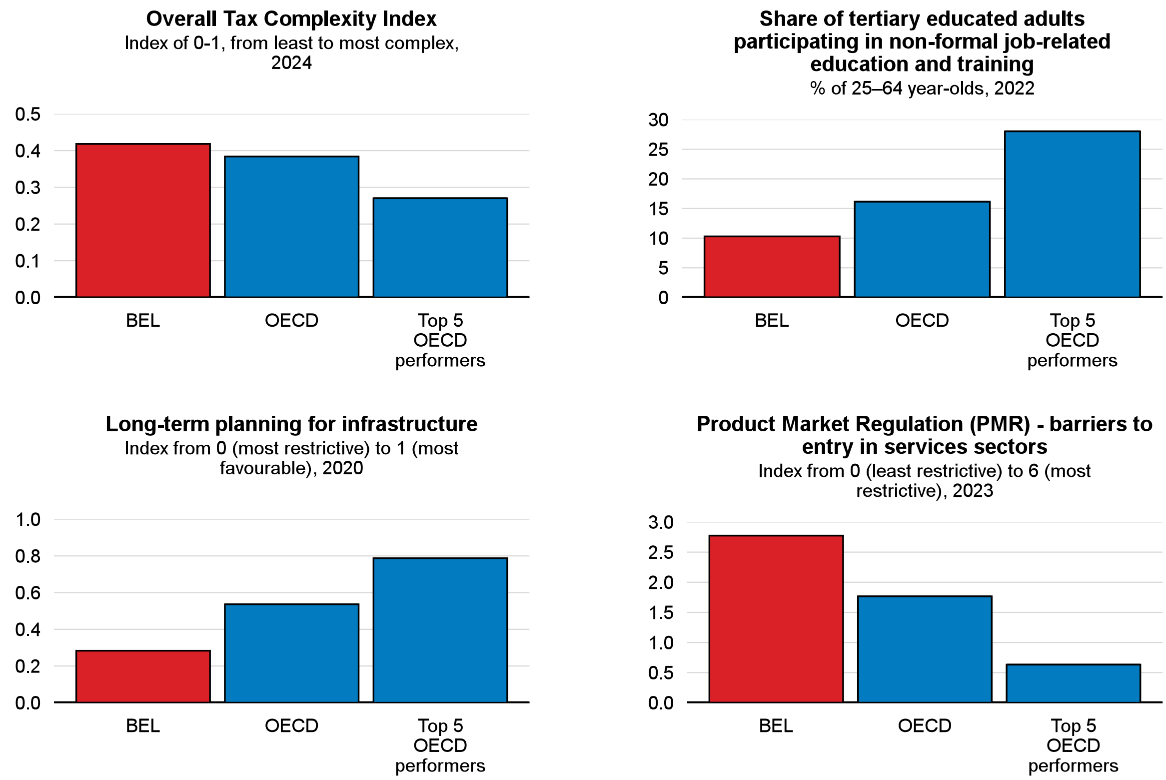
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Reduce complex regulatory, license and permit procedures

Weak business dynamism, reflected in comparatively few firms' entry and exit and low growth among entrants, has held back productivity growth. Excessive regulatory burden, exacerbated by interregional regulatory differences, imposes significant costs on businesses. Overly restrictive entry requirements, particularly in professional services, impede international integration and competition. Complex and costly insolvency procedures are major obstacles for firms' restructuring, effective reallocation of resources in the economy and entrepreneurship.

Recommendations

- ✓ Adopt a whole-of-government strategy to reduce administrative costs for businesses, including a regular review of licences and permits.
- ✓ Relax and streamline overly restrictive entry requirements in professional services, tailoring regulation to risks in these activities.
- ✓ Further facilitate insolvency, fasten initiation of procedures, and promote the use of available out of court options and early warning tools.

Employment: Raise financial incentives to work

The tax wedge on labour remains among the highest in the OECD and weighs on employment. Financial disincentives to work are large, particularly for low-income workers and second earners, reducing labour supply. Accepting a higher-paying job can lead to little or no net financial improvement for low-paid workers, due to the withdrawal of means-tested benefits and tax advantages. Relatively slow decline of the unemployment benefits with duration, in small steps and long duration of unemployment benefits can prolong unemployment spells, while relatively low gain in prolonging working lives can hinder older workers employment.

Recommendations

- ✓ Strengthen in-work benefits for low-paid workers with children, remove the partial splitting system for couples, and withdraw benefits targeted at low-income earners more gradually as earned income rises.
- ✓ Strenghen financial incentives to prolong working lives while addressing barriers to older workers' retention in the labour market.
- ✓ Reduce unemployment benefits over the unemployment spell in fewer and larger steps.

Taxes: Improve efficiency of the tax system

The tax system is complex, with extensive use of special tax provisions. Reduced rates and tax base narrowing measures imply higher standard tax rates and compliance costs. They can be regressive and undermine environmental policy objectives. Indicators of tax compliance point to relatively large tax revenue losses. The tax system is also skewed toward labour taxation, weighing on employment. Simplifying the tax system, broadening the tax base and improving tax compliance could free up resources for more productive uses, including reducing taxes weighing on growth.

Recommendations

- ✓ Resume efforts for a comprehensive and revenue neutral tax reform that reduces the tax system complexity and the tax burden on labour income.
- ✓ Broaden the tax base by eliminating ineffective tax expenditures, including fossil fuel support.
- ✓ Reduce regulatory barriers to tax fraud investigations, notably by facilitating access to bank information.

Education: Raise outcomes and equity in education

Relatively low educational attainment in upper secondary education negatively affects labour market outcomes. Early school leaving is comparatively high and educational outcomes are strongly linked to socio-economic background. Participation in adult education remains relatively low, especially for people with low education and with a foreign background, further reducing their chances to thrive in the labour market.

Recommendations

- ✓ Increase incentives for experienced teachers to work in disadvantaged schools, and for schools to improve outcomes of disadvantaged students.
- ✓ Provide targeted guidance on lifelong learning programmes, develop short modular training programmes, including occupational language programmes, and facilitate access, for instance via mobile training units or online courses.

- ✓ Support on-the-job occupational training, notably by helping small firms develop a training strategy and replace employees in training.

Infrastructure: Reduce planning and regulatory obstacles to infrastructure projects

Infrastructure investment remains low, notably in renewable energy facilities that need to be scaled up faster to meet increasing demand. Highly regulated construction permits, and environmental procedures, are a barrier to implementation. Low public acceptance and delays in spatial planning are also slowing down investment. OECD indicators on infrastructure governance suggest large room for improvement in long term planning, regulatory framework, and public integrity safeguards.

Recommendations

- ✓ Accelerate the implementation of the construction and environmental permitting reforms outlined in the Recovery and Resilience Plan and ensure their effectiveness is subject to regular evaluation.
- ✓ Refine the regulatory framework to better support the expansion of renewable energy capacity, including by making provisions to override public interest in project approval.
- ✓ Strengthen transparency and accountability in infrastructure projects, including by creating a single accessible online platform providing comprehensive information on projects and integrating integrity risks in infrastructure management frameworks.

Recent progress on structural reforms

Work incentives have been strengthened with the increase in the minimum wage, the introduction of a wage premium for low-paid workers in Flanders (“Jobbonus”), a premium for unemployed training in shortage occupations in Wallonia, and a pension bonus for longer working lives. Entitlement to unemployment benefits has been capped at a maximum duration of 24 months. Further measures are planned to guarantee a minimum financial gain from working and reduce early retirement. The creation of individual learning accounts and an individual right of five training days per year aim at fostering adult education.

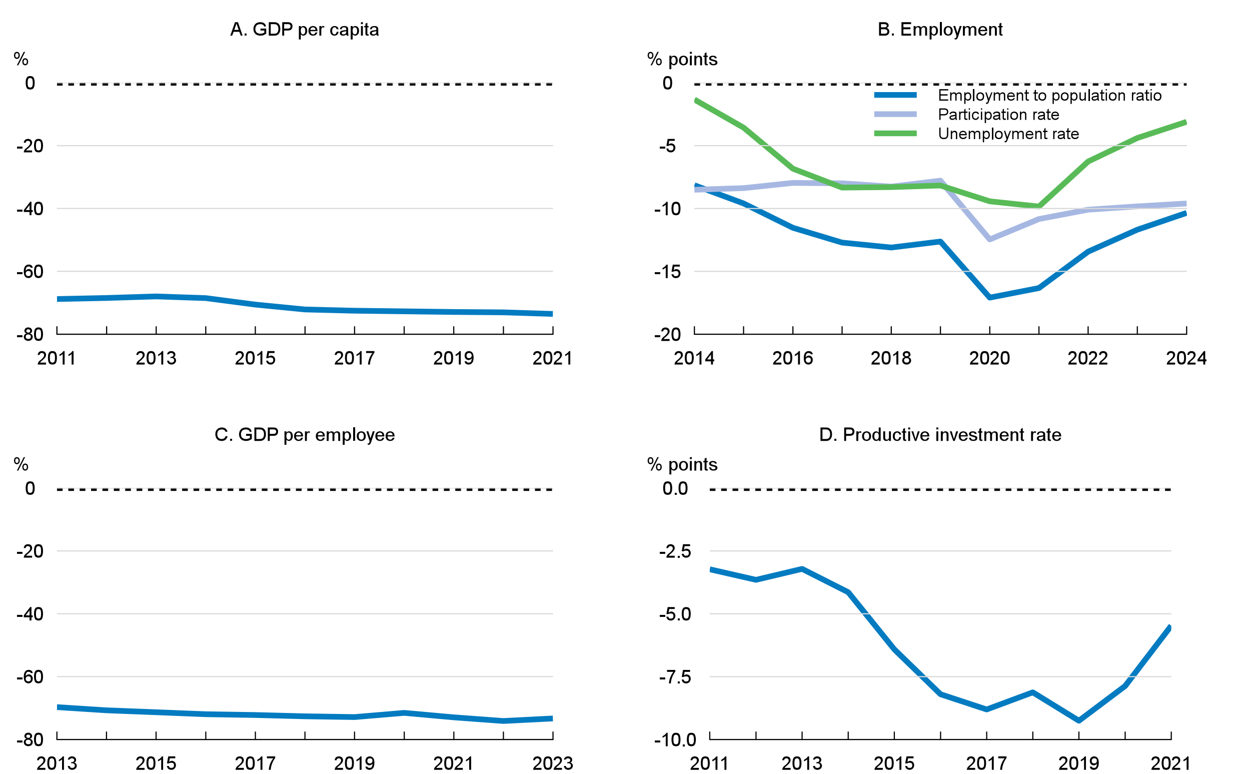
Brazil

Brazil has recorded strong GDP growth following the COVID-19 pandemic, yet the GDP per capita gap vis-à-vis OECD countries remains significant. The employment rate has also caught up with the OECD average in the past few years, but informality and the gender gap remain high. However, investment has been weak and productivity growth stagnated, reflecting structural policy challenges.

Reducing regulatory barriers would facilitate the entry of new firms and strengthen competition. In combination with better infrastructure, this would help to revive productivity growth. Removing trade restrictions could improve Brazil's integration in global value chains and provide new growth opportunities. Providing a more equitable access to quality education would help to address knowledge and skills gaps across different socio-economic groups and improve overall education outcomes.

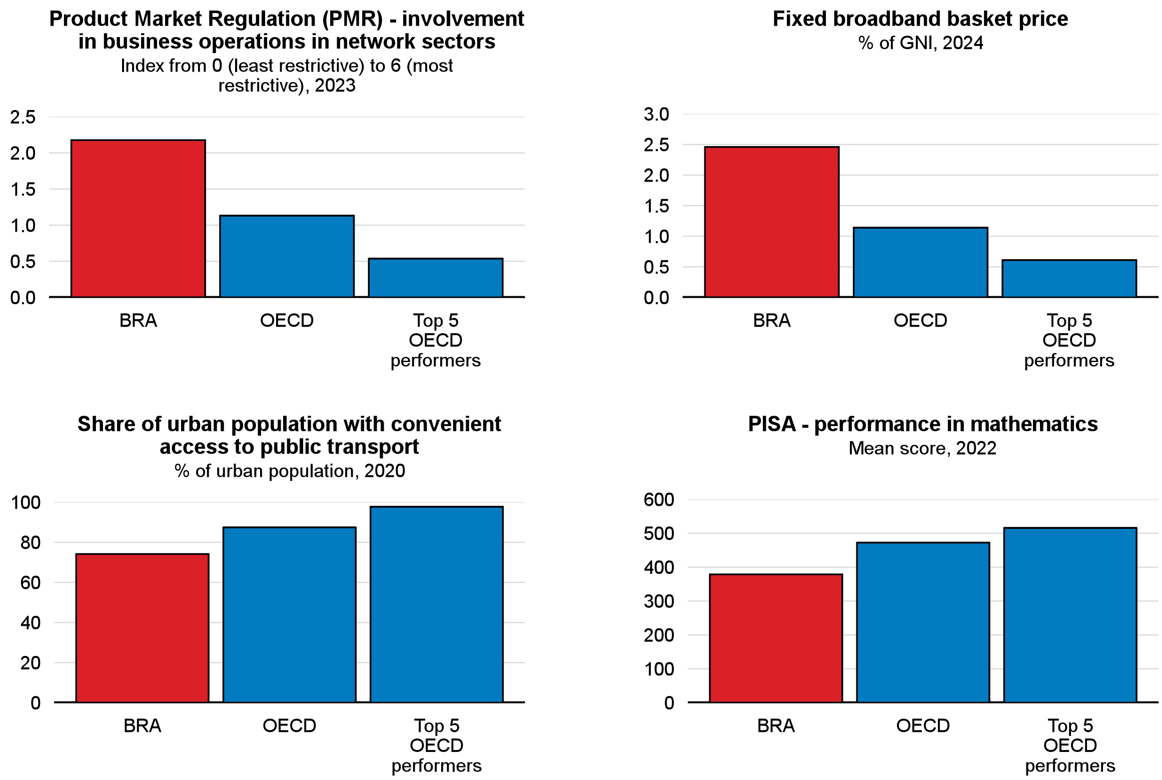
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Reduce regulatory barriers and reinforce competition oversight

Regulatory burdens are high in Brazil, curbing business dynamism, investment and productivity. Brazil has one of the highest scores on the economy-wide OECD Product Market Regulation (PMR) indicator, indicating significant distortions to competition. There is ample scope to reduce regulatory barriers in professional service, network sectors, and digital markets. Additionally, barriers to involvement in business operations in some sectors further hinder market competition and efficiency.

Recommendations

- ✓ Reduce market entry barriers in professional services, particularly for lawyers, accountants, and real estate agents.
- ✓ Implement targeted reforms in network sectors to address high prices and to enhance competition.
- ✓ Reinforce competition advocacy and expand the systematic incorporation of competition assessments in the review of existing and proposed public policies.

Trade openness: Reduce trade barriers and improve facilitation

Brazil has achieved progress in reducing trade barriers and has been pushing forward recently concluded free trade agreement negotiations, including with the European Union. However, openness to trade is still lower than in other emerging economies. Tariff barriers are high in international comparison and barriers to foreign direct investment and digital services remain elevated. Non-tariffs barriers to trade are particularly prevalent in agriculture, textiles, and the automotive sector. Integration into global value chains remains concentrated in commodities.

Recommendations

- ✓ Pursue further reductions of tariffs and non-tariff barriers, in cooperation with Mercosur partners.
- ✓ Simplify and align non-tariff measures with international standards to reduce compliance costs and improve the predictability of costs for businesses.
- ✓ Enhance trade facilitation by implementing automation and streamlining procedures at customs, to expedite clearance processes.

Infrastructure: Increase investment and improve maintenance

Infrastructure investment has been low in Brazil over the last decades, leading to significant gaps across infrastructure sectors. Limited fiscal space has constrained necessary investment and private resource mobilisation has been insufficient. Most public infrastructure investment is carried out by subnational governments or SOEs, with often limited project-management capacity. A lack of sufficient road maintenance is reflected in high logistics costs and curbs export competitiveness. Adequate public transport options are often lacking in lower-income regions and suburban areas.

Recommendations

- ✓ Prioritise infrastructure in public budget in order to increase investment in transport, energy, telecommunications, water, sanitation and urban mobility.
- ✓ Expand technical assistance by the Brazilian Development Bank (BNDES) to sub-national governments for infrastructure projects.
- ✓ Expand the use of structured financial instruments, project financing and carefully designed guarantees to attract a wider range of institutional investors into infrastructure financing, with the help of BNDES.

Education: Expand access to education and improve its funding formula

Brazil still scores largely below the OECD average in reading, mathematics, and science, highlighting remaining challenges in the education system. Educational attainments are strongly linked to socio-economic background, with large gaps in education quality and access between wealthy urban areas and poorer rural or marginalized communities. Access to early education is limited for low-income households and its quality also varies.

Recommendations

- ✓ Increase funding to schools serving disadvantaged communities and improve teaching quality by strengthening incentives for teachers to work in underserved areas.
- ✓ Expand access to early childhood education, prioritising children from disadvantaged socio-economic backgrounds and single-parent families.

- ✓ Consider introducing means-tested tuition fees in public universities combined with targeted grants for disadvantaged students and other strategies to improve access to higher education.

Digitalisation: Reduce barriers to access digital markets and strengthen training

Brazil has made significant progress in rolling out digital infrastructure, yet access to high-speed internet is unequal across regions. Despite recent regulatory simplifications, competition in the telecommunication sector is hampered by regulatory barriers, resulting in broadband prices being above the OECD average. Many adults still lack basic digital skills, increasing the digital divide in the population.

Recommendations

- ✓ Continue to expand high-speed broadband coverage, especially in underserved and rural areas, to ensure equitable access.
- ✓ Simplify and harmonize licensing procedures, including by creating a one-stop shop for telecom permits, to foster a more competitive digital market.
- ✓ Implement training programs to improve digital literacy and skills across the population.

Recent progress on structural reforms

Brazil has recently implemented significant structural reforms in several important areas. After years of discussions, a major consumption tax reform was approved at the beginning of 2025, consolidating multiple state and federal consumption taxes into a VAT tax and broadening the tax base, which will significantly reduce compliance costs for businesses. Following the approval of the ambitious Ecological Transformation Plan in 2024, a Brazilian Emissions Trading System is being established and expected to be operational in five to six years, which is expected to foster the transition towards lower-cost energy sources. In addition, a new fiscal framework was established in 2023, with spending caps linked to revenues and inflation, and strict targets on primary budget deficit.

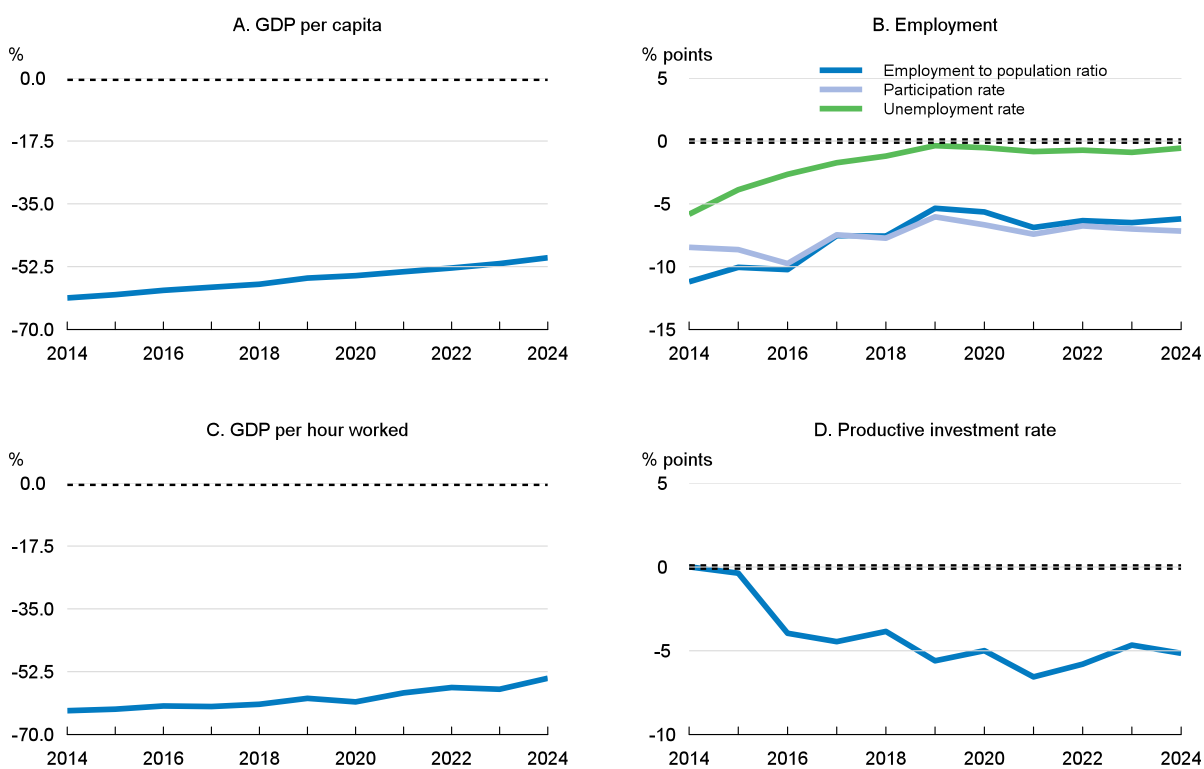
Bulgaria

Bulgaria's economic convergence towards more advanced economies picked up in recent years, largely driven by an increase in hours worked. However, an ageing workforce and emigration are a drag on growth. The capital stock is very low compared to OECD countries, both relative to GDP and the population, contributing to low productivity.

Improving the quality of education and increasing participation in adult learning could promote upskilling and help matching skills required by employers. Reducing regulatory barriers to competition and fighting corruption, while improving judicial efficiency, would boost investment and raise productivity through a more efficient allocation of resources. Transitioning away from coal-based power generation without compromising energy security will spur investment in renewable energy and underlying infrastructure.

Economic performance

Gaps to the average of the upper half of the OECD countries



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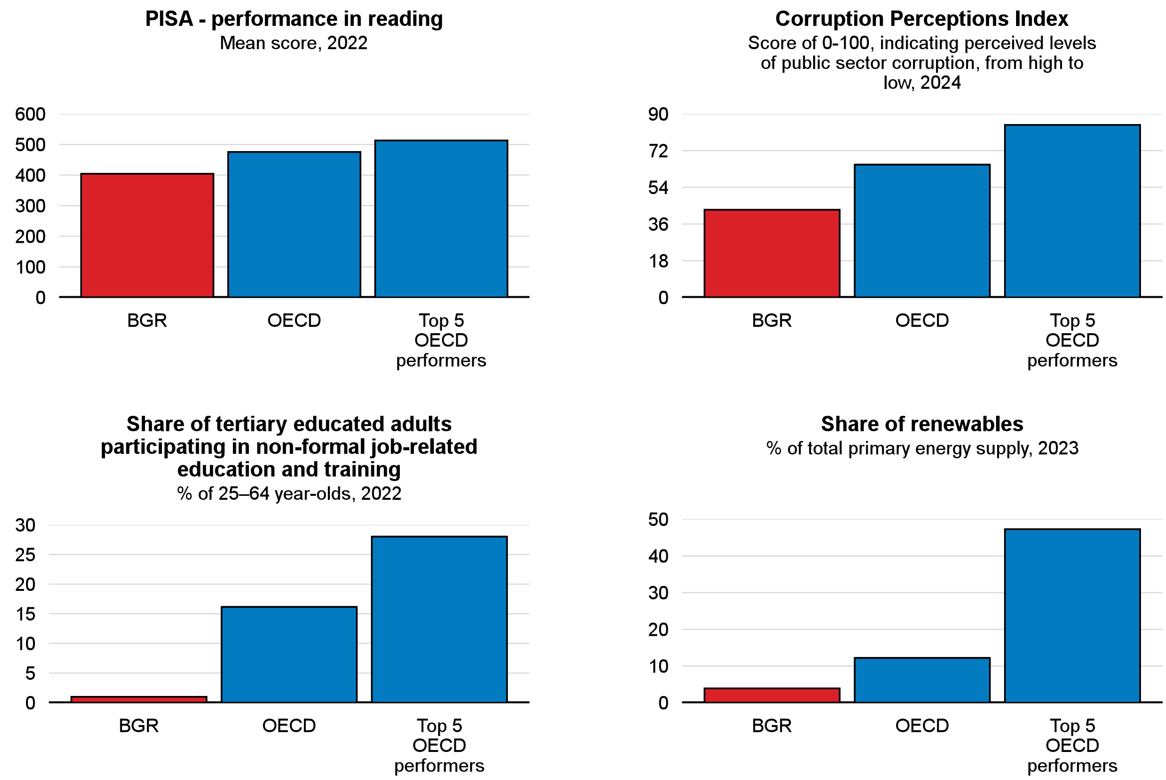
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Education: Improve education quality

With the workforce declining, raising the educational level of the workforce would help to maintain growth. The formal education system in Bulgaria has undergone major changes in the past decades, with increasing enrolment rates and rising educational attainment, although quality did not improve in parallel. Bulgaria ranked among the lowest in the PISA 2022 assessment relative to OECD countries, with the share of students performing below the baseline proficiency (Level 2) in mathematics, reading, and science rising significantly between 2012 and 2022.

Recommendations

- ✓ Re-evaluate the curriculum and the assessment framework for students with a focus on reading, math, and science.
- ✓ Expand workplace-based training to all vocational students.
- ✓ Raise the quality of teachers by continuous training and career development opportunities.

Skills: Promote upskilling over the lifecycle

Given the low level of skills of many adults, upskilling the population is crucial to raise productivity and further improve living standards. However, participation in adult learning is very low in Bulgaria, as less than 2% of 25–64-year-olds took part in adult learning programmes in 2022. Both the supply and demand side of adult learning remains weak as only 43% of firms plan to provide on-the-job training, while broader participation is hampered by weak motivation among adults as they perceive such learning neither necessary nor useful.

Recommendations

- ✓ Increase the involvement of employers in the design of adult education and training programmes.
- ✓ Expand individual training vouchers and high-quality adult training programmes, including distance learning and modular and/or credit-based formats.
- ✓ Strengthen support to employers to assess their skills and training needs.

Competition: Reduce barriers to entry and retail price controls

A business-friendly environment is essential to unlock higher investment and productivity. Bulgaria's regulatory framework has improved, but some areas of the economy would benefit from lowering regulatory barriers further. Bulgaria continues to have more burdensome administrative requirements necessary to set up new firms than most OECD countries. Retail price controls and regulation in the energy sector are high, while restrictions in some professional services are tighter than in the average OECD economy.

Recommendations

- ✓ Reduce paperwork and move transactions for setting up new firms to a digital one-stop shop.
- ✓ Continue with orderly liberalisation of retail electricity and gas markets while targeting support to energy-poor households.
- ✓ Reduce barriers to the conduct of activity in professional services by easing the regulation of fees and occupational licensing.

Corruption: Strengthen the institutional framework and effective enforcement of sanctions

Bulgaria is relatively fast in transposing EU legislation to its national system, but enforcement is weak, and perceptions of corruption are high. Corruption in public procurement and judicial inefficiency erode business confidence and distort efficient allocation of resources. These governance challenges limit the country's attractiveness as a destination for foreign investment and prevent higher economic growth.

Recommendations

- ✓ Strengthen the institutional framework through the representation of all relevant stakeholders in the National Council for Anti-Corruption Policies and clarify monitoring, evaluation and reporting arrangements.
- ✓ Regulate third-party spending in electoral campaigns in line with practices in other OECD countries, and establish a formal public procurement performance measurement framework, focusing on the level of competition.
- ✓ Consider introducing standardised guidance and specialised training on pre-trial investigations of corruption-related offences for prosecutors to improve judicial efficiency in high-level corruption cases.

Energy: Facilitate the development of renewable energy to achieve a growth-friendly phase-out of coal

Bulgaria needs to reduce emissions to align with EU emission reduction goals and achieve net zero by 2050. A significant share of emissions is generated by the energy industries and replacing coal will require a major overhaul in the energy mix. A phase-out of coal without compromising energy security. for businesses and households will spur growth-enhancing investments in renewable energy, domestic transmission and cross-border interconnection network, as well as energy storage.

Recommendations

- ✓ Develop and implement a coal phase-out strategy, including economic and social transformation in affected regions in anticipation of retirement of coal plants.
- ✓ Continue to support new renewable energy generation facilities, while streamlining permit procedures in a digital one-stop shop.
- ✓ Incorporate committed new generation capacity into grid development plans and accelerate investments.

Recent progress on structural reforms

Bulgaria is revamping its education system that better meets the skills needs of the labour market, provides equal chances to all, and makes the teaching career attractive. However, several deficiencies are not adequately addressed, and further reforms are needed such as raising the performance of teachers, training vocational skills and sufficiently funding of schools. Bulgaria has introduced key reforms to amend the Criminal Code and the Judicial System Act, to allow judicial review of prosecutorial decisions, and to establish clearer accountability for the Prosecutor General and their deputies to increase judicial efficiency and address corruption more effectively.

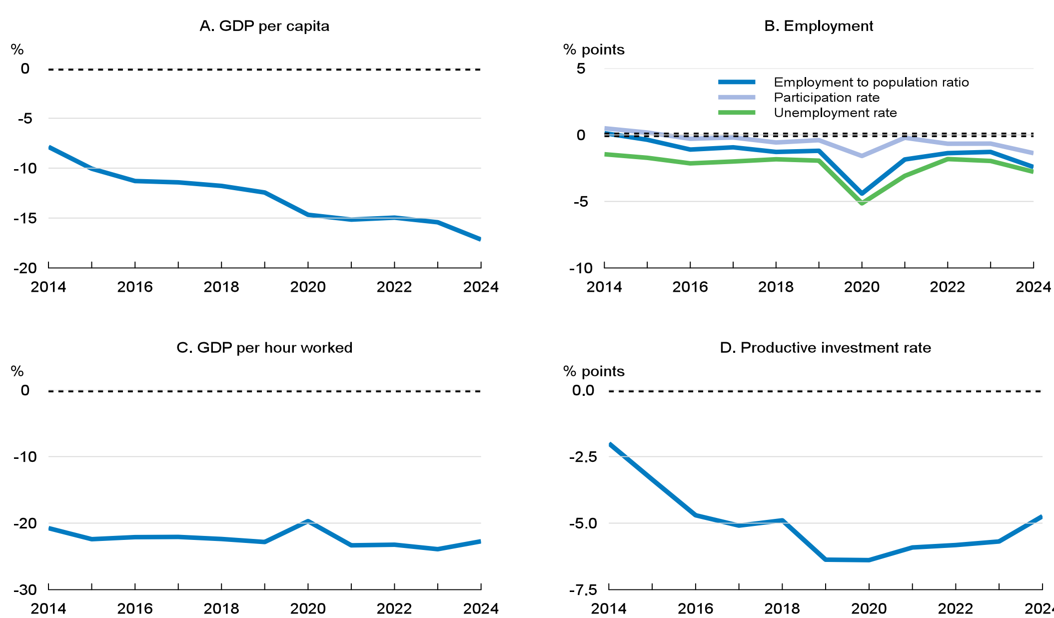
Canada

Canada's GDP per capita (in PPP) is slightly above the OECD average but remains below that of top-performing countries, despite significant potential for higher levels thanks to strong institutions, a highly skilled workforce, and abundant natural resources. This gap is largely due to a below-average productivity level, which has declined further relative to top-performing economies in recent years. The capital stock per worker also remains below average. While overall labour utilisation is high, female labour force participation continues to lag slightly that of men.

Policy priorities should focus on boosting sluggish productivity growth by enhancing investment in physical and digital infrastructure and fostering a more competitive and dynamic business environment. Further key actions include reducing interprovincial barriers to trade and labour mobility, and lowering entry barriers in regulated sectors, including restrictions on foreign investment in these sectors. Labour utilisation among women and other underrepresented groups, such as immigrants, also has room for improvement.

Economic performance

Gaps to the average of the upper half of the OECD countries



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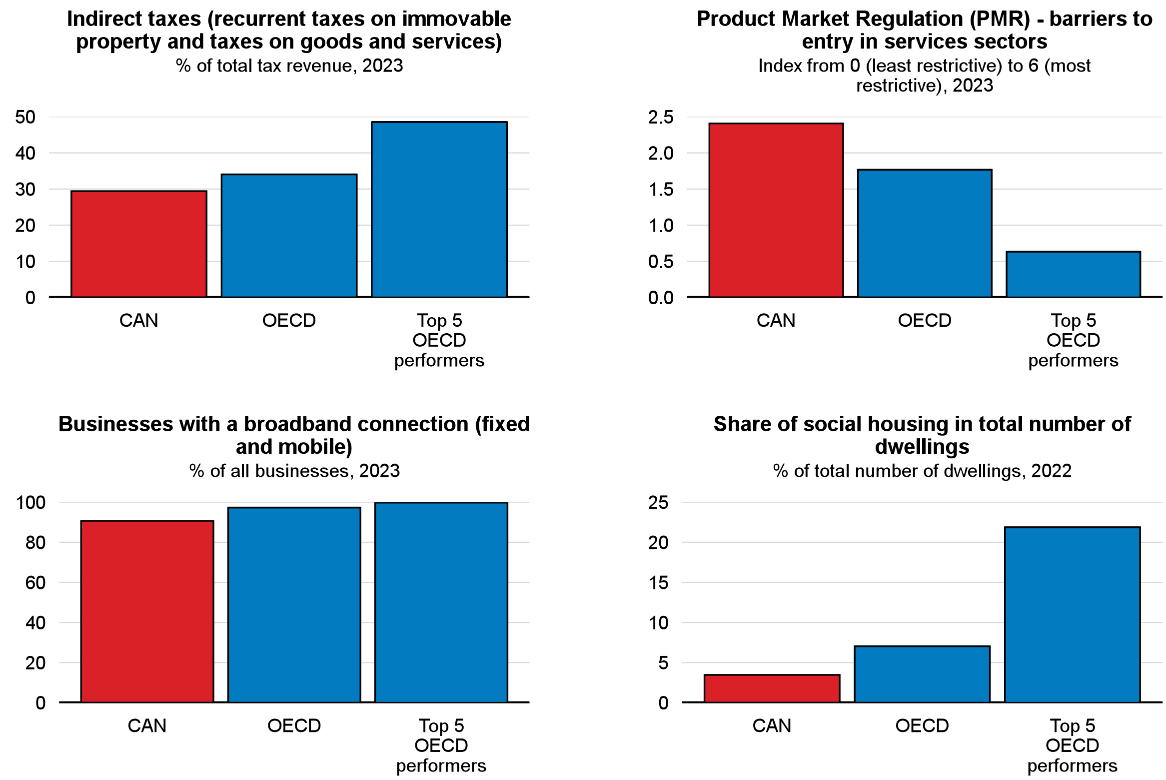
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Taxation: Shift away from a high reliance on personal and corporate income taxes

Canada's tax structure places a relatively greater emphasis on personal and corporate income taxes, while the contribution from goods and services taxes remains comparatively low. Shifting a larger share of the tax burden from income to consumption could enhance the growth-friendliness of the tax system. For instance, reducing income taxes for individuals with weaker labour market attachment could help incentivise greater labour force participation. Also, SMEs benefit from a preferential corporate tax rate, which may discourage firm growth and weigh on productivity.

Recommendations

- ✓ Gradually shift towards more indirect taxation, such as by increasing the Goods and Services Tax/Harmonised Sales Tax (GST/HST) rates and phasing out zero-rates for items like basic groceries, agricultural products and prescription drugs, to finance a decrease in income taxes.
- ✓ Discontinue the preferential corporate tax rate for SMEs.

Product market regulations: Reduce interprovincial barriers to trade and labour mobility

Canada's regulatory environment, as measured by the economy-wide Product Market Regulation (PMR) indicator, is more restrictive than the OECD average. This is largely due to elevated entry barriers in services and network sectors (see next section), as well as comparatively high administrative burden on businesses in relation to licensing and permitting processes. Entry into professional services also remains comparatively tightly regulated and varies across provinces. The PMR indicator also signals some distortions stemming from public ownership. Business surveys highlight persistent barriers to interprovincial trade.

Recommendations

- ✓ Further reduce interprovincial barriers to trade, including through widening the scope and powers of the Canadian Free Trade Agreement.
- ✓ Standardise the recognition of professional qualifications across provinces, including for foreign qualifications, and ease provincial restrictions on the free movement of professional services.
- ✓ Reduce preferential treatment of state-owned enterprises (SOEs), such as lighter regulatory requirements or tax advantages, compared to private companies.

Digital infrastructure: Enhance competition in the telecommunications sector and expand the provision of fast broadband

Canada performs below the OECD average in terms of broadband network coverage, including fibre-optic infrastructure, and broadband affordability. While part of this can be attributed to the high infrastructure development costs associated with Canada's vast geography, market entry in the telecommunications sector remains restricted, especially regarding foreign companies, limiting competition.

Recommendations

- ✓ Lower foreign-ownership restrictions in the telecommunication sector.
- ✓ Facilitate the use of telecommunication networks of larger telecommunication firms by smaller competitors.
- ✓ Continue expanding access to broadband networks to rural and remote communities.

Openness to foreign direct investment: Decrease barriers to foreign investment in network sectors

Canada generally offers a welcoming foreign investment environment, as reflected in its relatively high inward foreign direct investment (FDI) relative to GDP. However, it maintains strict foreign ownership restrictions in some key network sectors, such as telecommunications, airlines, banking, residential real estate, and broadcasting. For instance, telecom operators with over 10% market share may not exceed 46.7% foreign voting equity. That said, greenfield entry, acquisition below the 10% threshold, and organic growth is possible. Similarly, broadcasting licenses are restricted to Canadian-controlled entities.

Recommendation

- ✓ Review foreign entry restrictions in key network sectors, balancing national security considerations with the potential negative impacts on competition and productivity, with a view to gradually easing these restrictions.

Housing: Expand the supply of housing, including of affordable rental housing

Significant increases in house prices and rents have significantly deteriorated housing affordability. This is largely driven by an insufficient overall supply of housing and a mismatch between available housing and demand, particularly a shortage of affordable rental units and housing in urban centres. The share of social housing in number of dwellings is very low. These factors are hampering economic growth by constraining labour mobility.

Recommendations

- ✓ Continue to promote and implement zoning reforms in urban centres to encourage the development of more medium-density housing.
- ✓ Expedite the permitting process for housing development by putting in place electronic and one-stop systems, and improving the tracking of approvals.
- ✓ Provide additional funds for the development and protection of social and affordable rental housing.

Recent progress on structural reforms

In terms of the regulatory environment, especially in what regards interprovincial trade barriers, there has been progress. Since 2024, all 53 federal exceptions under the Canadian Free Trade Agreement (CFTA) have been removed. The total number of party-specific CFTA exceptions by the federal government and the four largest provinces is down by roughly half since 2024. Several provinces and the federal government have introduced bills to enable the free flow of goods, services, and labour by recognising each other's rules, either mutually or unilaterally. A pilot project was launched in September 2024 among several provinces to enhance mutual recognition of regulatory requirements in the trucking sector. The launch of the Canadian Internal Trade Data and Information Hub in 2024 marks a step forward in improving transparency around internal trade barriers. Expanding access to affordable childcare is a major achievement in supporting women's labour market participation and the roll-out should be pursued.

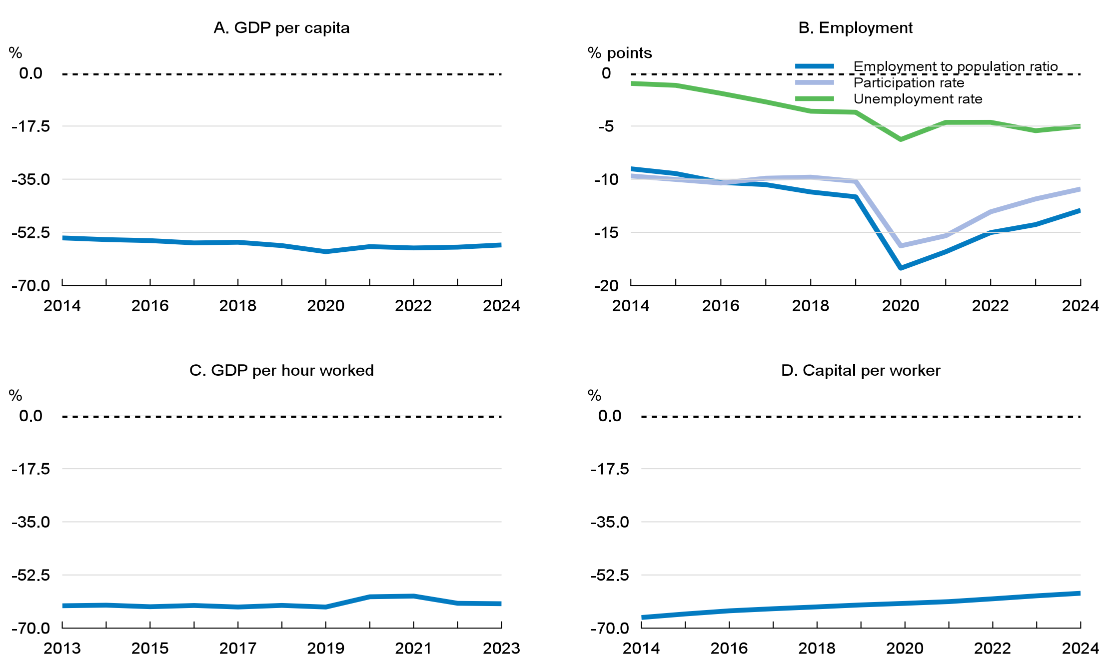
Chile

Chile's GDP per capita convergence with the top half of OECD countries has stalled in the last decade. Labour utilisation remains subdued, with the employment and participation rates about 10 percentage points below the average of top-performing OECD countries, and the unemployment rate around 5 points higher. Productivity and capital per worker remain well below the OECD averages but have followed a gradual upward trend. Addressing these gaps in productivity, capital intensity and labour utilisation will be important to support income convergence.

Key policy challenges include strengthening digital infrastructure and innovation capacity, improving education outcomes and adult skills, and effectively implementing the recent reform on regulations and permits to reduce administrative barriers. Facilitating the expansion of electricity transmission lines and fast-tracking permitting for climate-resilient infrastructure projects will also be important to raise economic growth in a sustainable way.

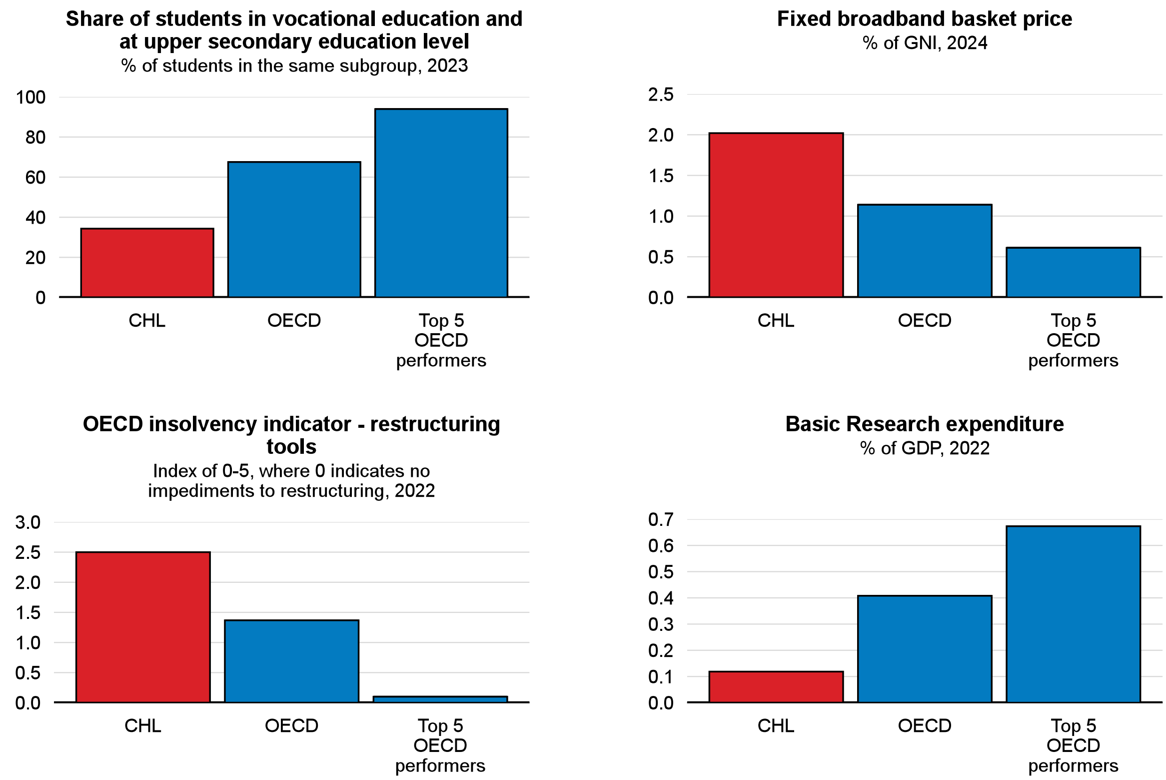
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panels A and D: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Digital infrastructure: Accelerate network rollout and boost digital adoption

Despite some progress in expanding digital infrastructure and modernising the telecom licensing regime, Chile continues to lag OECD peers in digital development, particularly broadband penetration, and digital uptake among small firms. Gaps in digital skills constrain the adoption and diffusion of technologies across firms.

Recommendations

- ✓ Fully implement a single, technology-neutral licensing regime, and fast-track municipal permits using the new one-stop system to accelerate 5G and nationwide fibre rollout and lower prices.
- ✓ Expand the online training catalogue to include higher-level ICT courses and link vocational curricula to industry needs through co-funded upskilling vouchers for SME employees.

Innovation: Foster investment in R&D

Innovation remains limited, particularly among small and medium-sized enterprises. Business R&D spending is low, at just 0.3% of GDP, and only 17% of firms reported introducing technological innovations – less than half the OECD average. R&D public support programmes are fragmented, with overlapping objectives and limited accountability across agencies, with limited evidence of their effectiveness in promoting business innovation. Technology diffusion is also weak, partly due to limited collaboration between firms and research institutions.

Recommendations

- ✓ Simplify public R&D support, building on coordination efforts between ANID and Corfo, merge overlapping grant schemes into one streamlined programme, and raise the refundable R&D tax credit for business research.
- ✓ Strengthen impact evaluation of government R&D grants.
- ✓ Strengthen business–university links, foster university-affiliated technology incubators and joint R&D projects to boost knowledge transfer and scale SME innovation.

Education: Build stronger skills for the digital and green transition

Student learning outcomes and skill formation remain below OECD standards. Measures of student performance lag OECD average. Problem-solving proficiency among adults in technology-rich environments is low compared to the OECD average (11.7% vs 32%), and access to structured training remains especially limited for low-income workers. Upper-secondary vocational tracks and tertiary attainment both lag OECD peers and offer weak links to labour-market needs.

Recommendations

- ✓ Strengthen foundational skills in schools. Fund nationwide teacher-training to raise foundational and digital competences from an early age.
- ✓ Modernise vocational and tertiary pathways. Align vocational and university curricula with industry needs in ICT and green-transition skills, expand work-based learning, and intensify career guidance so qualifications translate into better labour-market outcomes.
- ✓ Scale up flexible lifelong learning and reskilling by integrating programmes such as Talento Digital and Reinvéntate into a national adult-learning platform offering modular online courses and individual training vouchers aligned with labour-market demand.

Governance and regulations: Implement the business permit reform and strengthen insolvency procedures

Chile has historically faced regulatory and institutional hurdles affecting investment and productivity. The recently approved reform to the business permit system simplifies sectoral authorisations, introducing a digital one-stop shop with real-time tracking and silence-is-consent mechanisms to expedite approvals. Given the extent of the reform, full implementation can take time as agencies will need to adapt quickly to new fixed deadlines, digital platforms, silence-is-consent practices, and coordinated inter-agency processes. Chile’s insolvency framework provides fewer restructuring tools than OECD peers, potentially slowing reallocation and hindering investment.

Recommendations

- ✓ Ensure an effective and timely implementation of the business permit reform while strengthening public communication about the new rules, particularly the implications of the “silence is consent” provision.
- ✓ Fully operationalise the one-stop shop, ensure inter-agency coordination, publish performance metrics, and run periodic reviews to drive continuous modernisation.

- ✓ Upgrade the insolvency framework by allowing creditor-initiated restructuring and introduce simplified, out-of-courts low-cost procedures for viable SMEs to speed reorganisation and exit.

Energy and natural capital: Expand climate-resilient infrastructure

Chile aims to reach 80% of electricity from renewable sources by 2030. However, a lack of transmission lines from renewable generation zones to demand zones curtails energy and creates nodal pricing disparities in the electricity market, weakening competitiveness and reducing the efficiency of the system's operations. Planning for climate-resilient infrastructure is fragmented and under-funded, leaving transport and water networks vulnerable to extreme hydrometeorological events. These gaps constrain productivity and deter investment. Clearer project pipelines and streamlined regulation would crowd in private capital, enhance infrastructure quality and strengthen the foundation for sustained economic growth.

Recommendations

- ✓ Facilitate the expansion of electricity transmission lines to integrate renewables into the electric grid.
- ✓ Ensure the development of resilient-infrastructure projects, fast-track their permitting and appraisal, and publish a unified pipeline of priority investments to attract long-term private capital.
- ✓ Embed mandatory climate-risk screening and minimum resilience standards in all public-investment and PPP guidelines to safeguard critical transport and water networks.

Recent progress on structural reforms

Chile has implemented a range of growth-oriented structural reforms over the past few years. Recent initiatives include the FinTech law in 2022, aimed at improving financial inclusion and innovation. In telecommunications, licensing has been modernised towards a single, technology-neutral regime. In July 2025, a comprehensive reform to the business permit system was enacted to simplify and accelerate sectoral authorisations, including a digital one-stop shop and stronger inter-agency coordination. A major pension reform was approved in early 2025 combining individual savings with a solidarity pillar and a phased increase in employer contributions, with the goal of improving replacement rates and equity while deepening domestic capital markets. Rules on public procurement and integrity have also been strengthened.

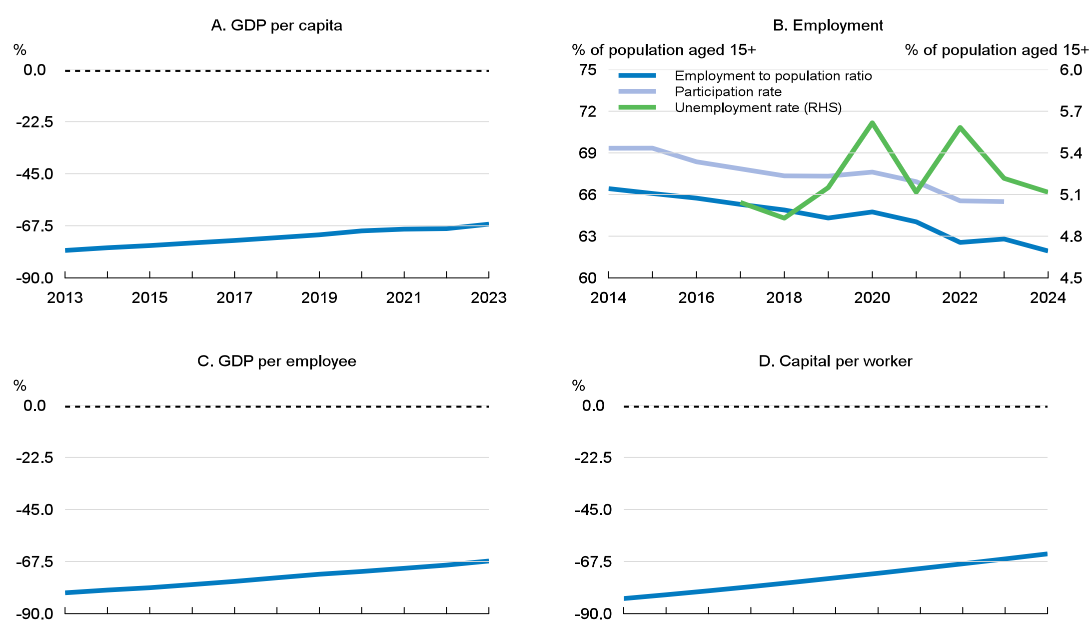
China

Chinese GDP per capita has been rapidly catching up, but there is still some way to reach the level of the most advanced countries. China's population is ageing. With the working-age population falling for more than a decade, growth has been driven by capital accumulation and increasingly by total factor productivity. However, despite very high investment rates, the capital stock is still modest in per capita terms. The unemployment rate is low, but only refers to urban areas, while in the countryside there remains significant underemployment.

Structural reforms could lift the growth potential and ensure a gradual slowing of growth as China is converging to the most advanced countries over the medium- to long term, mitigating the impact of unfavourable demographics. Abolishing administrative monopolies, providing equal chances for private enterprises and further tackling corruption would help to improve the allocation of resources and boost productivity. Reforms to strengthen the social safety net would help reduce the savings rate and achieve a more balanced growth model.

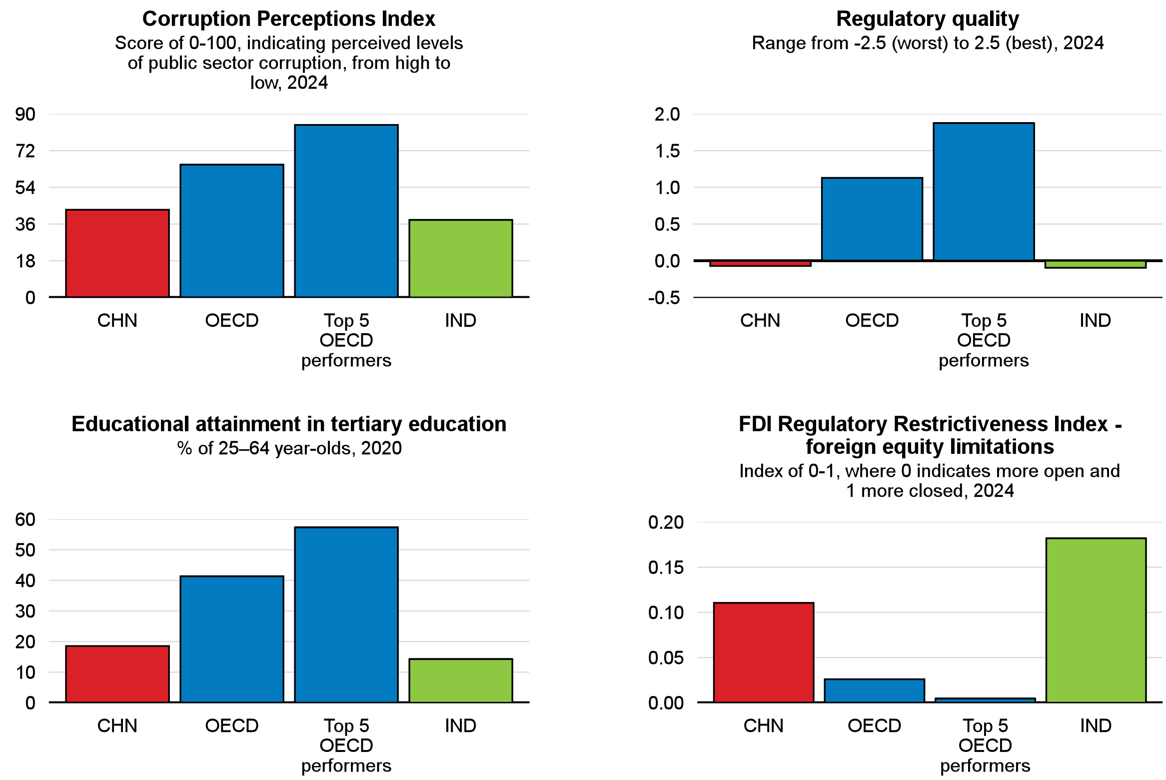
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panels A and D: OECD, Economic Outlook database; Panel B: National Bureau of Statistics China and OECD calculations; Panel C: OECD, Economic Outlook and Productivity databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Abolish administrative monopolies

Administrative monopolies, i.e. exclusive rights granted by a government document for businesses to deliver certain goods or services, limit competition in product markets, in particular in services industries. It is a common form of local protectionism, whereby producers or service providers from outside the local area are excluded from local markets, thereby inhibiting the creation of a single market.

Recommendations

- ✓ Abolish administrative monopolies to facilitate the creation of a single domestic market.
- ✓ Apply the Fair Competition Review Mechanism effectively and strengthen the training of personnel countrywide to prevent the formation of new administrative monopolies.
- ✓ Recognise firm registration countrywide and enforce the prohibition of the requirement to register locally in order to have access to local markets.

Business Environment: Provide equal chances for private enterprises

Having emerged over the past four decades, private enterprises now account for 60% of China’s GDP, two-thirds of investment, 70% of technological innovation, and 80% of employment. However, due to their smaller scale and legacy issues, the potential of private enterprises is not fully developed. They often face arbitrary rules and are subject to illicit fees. To survive, they engage in cut-throat competition with each other, often cutting corners in adherence to environmental and labour standards.

Recommendations

- ✓ Provide a level playing field in regulatory treatment of private enterprises in line with the OECD Recommendation on Competitive Neutrality and strengthen the governance of state-owned enterprises by aligning with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.
- ✓ Abolish illicit fees and charges and streamline the administrative burden on enterprises.
- ✓ Take measures to support market access of private firms, for instance, in public procurement, by a compulsory splitting up of contracts into smaller chunks so that the private sector has a chance to tender.

Social security: Strengthen the social safety net

Precautionary savings remain high due to relatively weak social protection, thus reducing the consumption potential and economic growth. The whole population is effectively covered by health insurance and the reimbursement rate is comparable to other countries, but only a limited list of treatments and medicines is reimbursed. Pension coverage is also high, but the system is segmented, with rural pensions not sufficient for survival, necessitating savings for old age. Many doctors prefer leaving the profession instead of taking up a job in the countryside.

Recommendations

- ✓ Expand the list of treatments and medicines to provide coverage for all illnesses.
- ✓ Reform the pension system so that a minimum monthly pension is guaranteed to all by raising contributions to make it sustainable.
- ✓ Rotate doctors on a temporary basis to curb the exodus from the profession.

Corruption: Enhance transparency for better detection

Corruption imposes hefty transaction costs economy wide. Despite harsh sanctions, including the possibility of capital punishment, corruption is widespread. This is supported by a lack of accountability of managers in government agencies and public enterprises and transparency of transactions. Whistleblowers are not sufficiently protected, and investigation is not done by independent investigators.

Recommendations

- ✓ Fortify whistle-blower protection to encourage insiders to report unlawful conduct.
- ✓ Strengthen the governance of public agencies and enterprises with strong checks and balances, and oversight.
- ✓ Enhance transparency and accountability and reduce the concentration of power in managers' hands.

Education: Achieve a minimum standard of quality country-wide

The quality of public services such as education varies widely across the country and so do funds available for education. The highest-quality resources are concentrated in the largest cities. The best teachers seek jobs in the best schools in large cities and, while there is a rotation system requiring them to teach in nearby villages, it is limited to the immediate vicinity of the cities.

Recommendations

- ✓ Shift the financing of locally-delivered compulsory education services to the central level.
- ✓ Guarantee a minimum standard of services countrywide including by ensuring that teachers' salaries are paid from the central budget.
- ✓ Rotate teachers to more remote areas as part of their career and as a condition for progression.

Recent progress on structural reforms

China has undertaken reforms in many areas, but key challenges remain to be fully addressed. The extension of the pensionable age from this year is only by three months a year and, even after the 15-year implementation, people will retire much earlier than in other countries. Many administrative monopolies are being abolished, though new ones are emerging. Illicit fees and regulations burdening the private sector are being reduced. Childcare has been made free and some localities provide child subsidies.

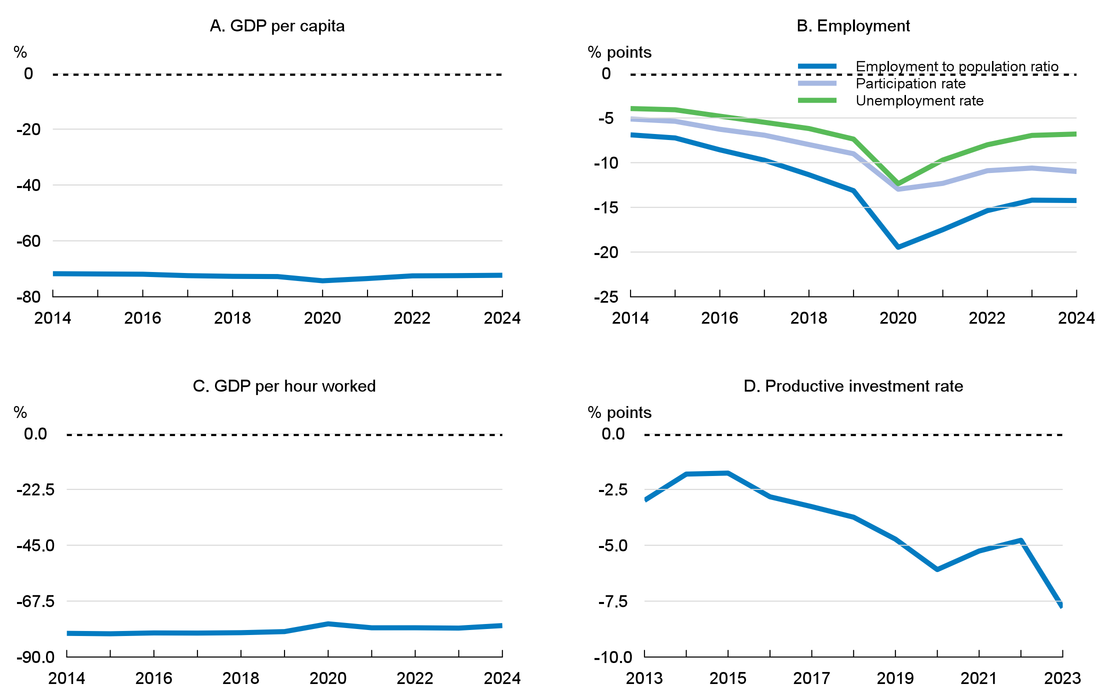
Colombia

Colombia's growth potential has declined from above 4% before 2010 to around 2.5% currently, a pace that does not allow for substantial closing of the gap in GDP per capita vis-à-vis the most advanced economies. The growth slowdown reflects a prolonged productivity stagnation and a sharp drop of the investment rate. Labour utilisation remains subdued, with the labour force participation of women particularly low. Reviving investment, boosting innovation and skills, and bringing more women into the labour force are needed to restore income convergence with more advanced economies.

Strengthening access to quality education especially at the foundational stage would improve skills and raise female labour force participation. Enhancing regulatory quality and promoting competition, especially in upstream sectors such as electricity, would improve the business environment. A better designed R&D policy framework would incentivise firm-level innovation and productivity growth. High tariffs and burdensome customs procedures restrict trade integration and productivity.

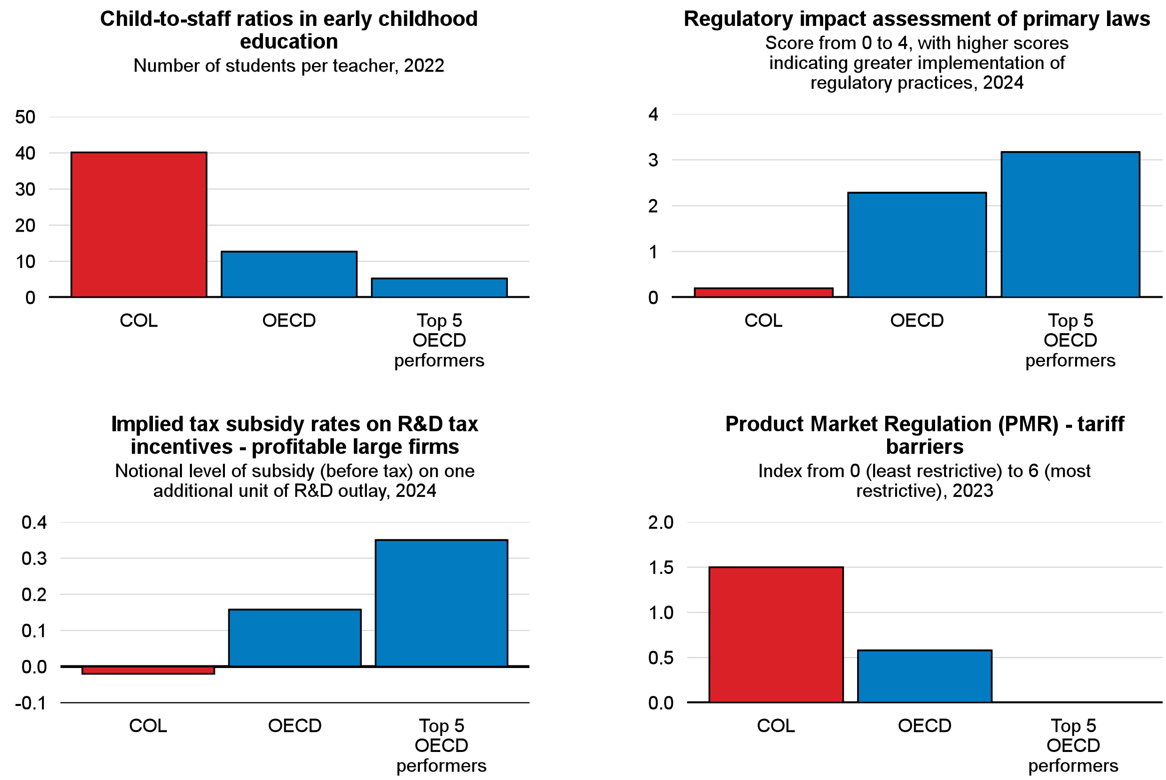
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Human capital: Enhance access to high quality education from early years

Access to education in Colombia has improved over the last decade, but education outcomes remain poor and are strongly influenced by socio-economic backgrounds, holding back productivity growth and access to formal jobs. Enrolment, equitable access, and quality of early childhood education are relatively low, leading to poor skill development and low female participation rates.

Recommendations

- ✓ Invest into raising staff-to-child ratios in early childhood education to improve quality.
- ✓ Improve education quality at all levels of education through continuous teacher training.
- ✓ Provide targeted cash transfers and tutoring to students from at-risk and underrepresented groups.

Regulatory quality: Increase the use of regulatory impact assessments

The three tools to improve regulatory quality – stakeholder engagement, ex-ante regulatory impact assessments, and ex-post evaluations – are used sporadically for primary laws and then only for those initiated by the executive, dampening regulatory quality. Secondary regulations, especially those of a technical nature such as sector regulators, are more likely to undergo regulatory quality checks.

Recommendations

- ✓ Increase the use of regulatory impact assessments for primary legislation.
- ✓ Improve communication and information about upcoming and published assessments.

Innovation: Improve the design of R&D tax incentives

R&D spending is among the lowest in the OECD, at about 0.3% of GDP, resulting in poor innovation performance and stagnating productivity. R&D spending is especially low among businesses and highly dispersed, with more than 80% of firms never investing into any R&D. This leads to high concentration and large regional differences in innovation and exporting. R&D tax subsidy rates are low in international comparison and, since a reform in 2022, R&D expenses for which tax credits are claimed are no longer tax deductible as business costs, resulting in negative overall implied R&D tax subsidy rates.

Recommendations

- ✓ Improve incentives for R&D investments by firms by increasing R&D tax subsidy rates and reinstalling provisions to combine R&D tax credits with the baseline tax deduction.

Openness to trade: Lower tariff and non-tariff barriers

Despite strong performance in foreign direct investment, overall trade openness remains limited. Tariffs and non-tariff barriers are high and particularly restrictive in certain tariff lines. Trade faciliation faces challenges, with customs clearing times signicantly higher than in other OECD countries, in part due to onerous documentary requirements.

Recommendations

- ✓ Reduce tariffs, starting with the tariff lines with the highest tariffs.
- ✓ Improve trade facilitation by expanding the acceptance of copies instead of originals of customs documents, certifying more Authorised Economic Operators, making greater use of advance rulings, and taking a more risk-based approach to customs controls.

Energy: Improve competition in the electricity sector

Despite essentially universal access to electricity, prices for electricity in Colombia are high, with large differences across regions. Development of renewable energy sources is hampered by the capacity of the electricity grid and its limited expansion to remote regions with large renewables potential. Barriers to entry are high due to lack of separation of generation, distribution and transmission activities.

Recommendations

- ✓ Accelerate electricity grid investments with streamlined environmental licensing processes and early engagement and consultation with communities.
- ✓ Introduce vertical separation of electricity transmission from retail supply and strengthen separation between generation and transmission activities.

Recent progress on structural reforms

Colombia has implemented several structural reforms in the recent past. Tax reforms in 2021 and 2022 have increased fiscal revenues, but spending pressures call for additional revenue-raising measures. The 2024 pension reform has reduced regressive cross-subsidies and harmonised previously competing schemes. The introduction of an ambitious multipurpose land registry has been significantly accelerated since 2023. The introduction of one-stop shops and lowering of recurring business registration fees across the country has reduced barriers to entrepreneurship and market entry. However, broader reform momentum remains constrained by political fragmentation.

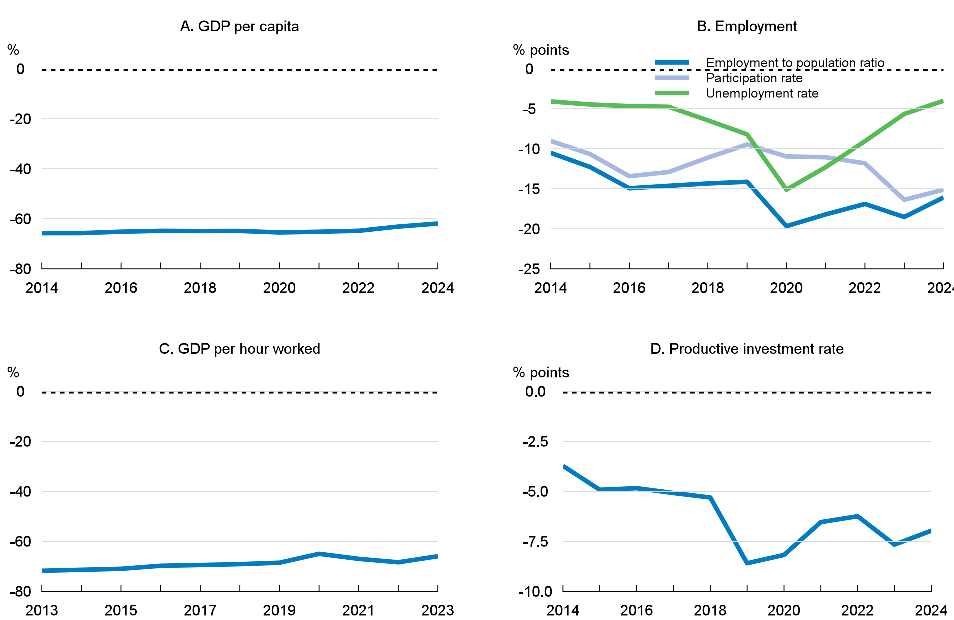
Costa Rica

Costa Rica is making gradual progress in closing the large economic gap in GDP per capita with the upper half of the OECD economies. However, productivity levels remain relatively low. The post-COVID recovery saw a boost in investment – driven largely by foreign direct investment (FDI) – which contributed to the creation of high-productivity formal jobs. Despite this, the positive impact on aggregate productivity was offset by a decline in the labour force participation rate and stagnation in overall employment levels. Both labour force participation and employment rate remain well below those of the upper half of OECD economies.

Reducing the mismatch between the skills demanded by the private sector and those available in the labour market would boost productivity. Improving access to early childhood education and care would enable more women to participate in the labour market, boosting overall employment. Investing in transport and digital infrastructure is essential to support economic development, improve connectivity, and reduce regional disparities. Accelerating current efforts to advance the digital transformation of public services would enhance the efficiency, transparency, and quality of service delivery. Expanding and diversifying the renewable electricity generation capacity will be crucial to meet Costa Rica's decarbonisation goals.

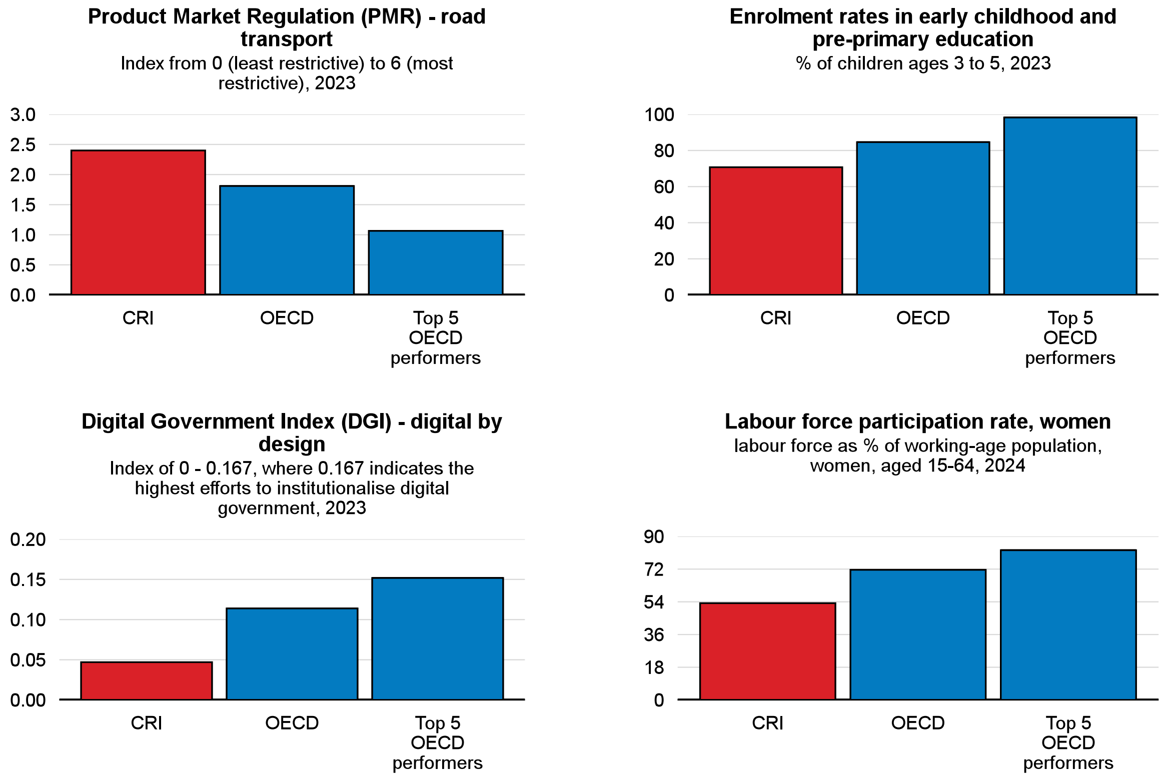
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Physical infrastructure: Improve transport infrastructure

Costa Rica faces significant infrastructure gaps across nearly all modes of transport. Chronic underinvestment, weak governance and lack of institutional capacity have led to severe infrastructure gaps, which constrain economic activity and pose a barrier to sustainable growth. Substantial investment and improved project execution are essential to enhance transport infrastructure and better connect regions and firms to global markets, but international tenders for infrastructure projects and Private-Public Partnerships (PPPs) are rarely used.

Recommendations

- ✓ Enhance institutional capacity to strengthen the assessment of infrastructure projects, also transferring the assessment and management of infrastructure projects to an independent public agency. Improve the budget management to ensure more effective allocation and execution of public funds.
- ✓ Explore opportunities for private investment, including through Public-Private Partnerships (PPPs), to leverage additional financing and implement strategic projects.

- ✓ Promote greater participation of international firms in public procurement processes to increase competition and bring in global expertise by increasing the value of procurement projects and by eliminating regulatory provisions that unduly favour local firms.

Human capital: Strengthen the quality and relevance of education and training

The mismatch between the skills demanded by the private sector and those available in the labour market remains a significant obstacle to Costa Rica's economic development. Firms frequently report difficulties in finding qualified workers, particularly technicians and graduates in STEM (Science, Technology, Engineering, and Mathematics) fields. At the same time, many people leave the education system before completing secondary school, further limiting the pool of skilled labour.

Recommendations

- ✓ Enhance and expand VET and upskilling training programmes in areas in high demand, such as advanced manufacturing, ICT and the semiconductor sector, also by strengthening the work practice component and approving the reform of the National Vocational Training Institute.
- ✓ Expand digital and English proficiency to build a skilled workforce capable of driving the country's integration into global value chains and attract investment.
- ✓ Identify underperforming primary and secondary students and provide them with targeted and early tutoring support provided by well-trained teachers, prioritising those from vulnerable groups.

Labour market: Boost female labour participation

Despite Costa Rica's 2017 National Policy for Gender Equality in Training, Employment, and the Enjoyment of the Benefits of Science, Technology and Innovation, and a strong performance in several gender equality dimensions, such as a relatively low gender pay gap and high levels of political representation, female labour force participation remains significantly lower than that of men. Domestic and caregiving responsibilities disproportionately fall on women and limit their ability to participate in the workforce or work full-time particularly for low-income households. A key contributing factor is the limited access to affordable early childhood education and care. Enrolment rates for children aged 3 to 5, as well as for younger children, are among the lowest in the OECD. Coverage reaches only about 40% of households living in poverty, further constraining women's opportunities to engage in paid work.

Recommendations

- ✓ Expand the coverage of early education for children below four years, giving priority to low-income families.
- ✓ Strengthen the National Care System, including by extending Costa Rica's four-hour primary school day, and ensuring safe transportation to workplaces and care centres.
- ✓ Promote shared responsibility in dependent care through parental leave policies and provide incentives for companies to offer telework and flexible arrangements.

Digitalisation: Enhance e-government and close connectivity gaps

Costa Rica lags other OECD countries and regional peers in digital government. Accelerating the digitalisation of the public administration would enhance the efficiency and quality of public service delivery. Progress in e-government also depends on addressing existing digital infrastructure gaps. Connectivity expansion is currently hindered by burdensome regulations, particularly at the municipal level, which slow down deployment and limit access.

Recommendations

- ✓ Coordinate and harmonise IT standards and administrative procedures across government agencies and improve the adoption by citizens of the digital signature.
- ✓ Streamline and harmonise regulations to facilitate digital infrastructure deployment, also by creating a one-stop digital shop for infrastructure deployment processes as proposed by the Telecommunication Infrastructure Action Plan 2024-2025, strengthening regulations on duct infrastructure sharing and expediting the resolution of infrastructure sharing disputes.

Energy and Environment: Open the electricity market to greater competition

Costa Rica generates nearly all of its electricity from renewable sources, with hydropower accounting for up to 70% of total production. However, this heavy reliance on hydropower is becoming increasingly problematic due to the impacts of climate change. Electricity prices remain high, in part due to strict regulatory barriers that limit competition in a sector dominated by a state-owned utility. Opening the electricity market to greater competition could help diversify renewable energy sources, enhance energy security, reduce energy prices and maintain Costa Rica's appeal for foreign direct investment, particularly in electricity-intensive industries such as semiconductors.

Recommendations

- ✓ Expand and diversify renewable electricity generation capacity.
- ✓ Increase competition in the electricity sector by lightening regulatory barriers such as the restrictions on private sector participation and foreign ownership to encourage investment and innovation in the electricity sector.

Recent progress on structural reforms

A legislative proposal aimed at reforming the electricity market in line with OECD recommendations has been presented to the Legislative Assembly but is yet to be approved. The Employability and Human Talent Strategy, which started in 2024 and that includes the participation of several public institutions, aims to increase students' employability skills by aligning school curricula with industry needs and strengthening training in STEM areas. An open tendering in January 2025 assigned 5G spectrum frequencies to telecommunication operators and is expected to help the deployment of 5G networks. In May 2025, Costa Rica issued its National Talent Training Framework in Cybersecurity aimed at developing a skilled workforce to meet growing cybersecurity demands. The National Digital Technology Code, launched in June 2025, seeks to harmonise and standardise IT systems across public administration.

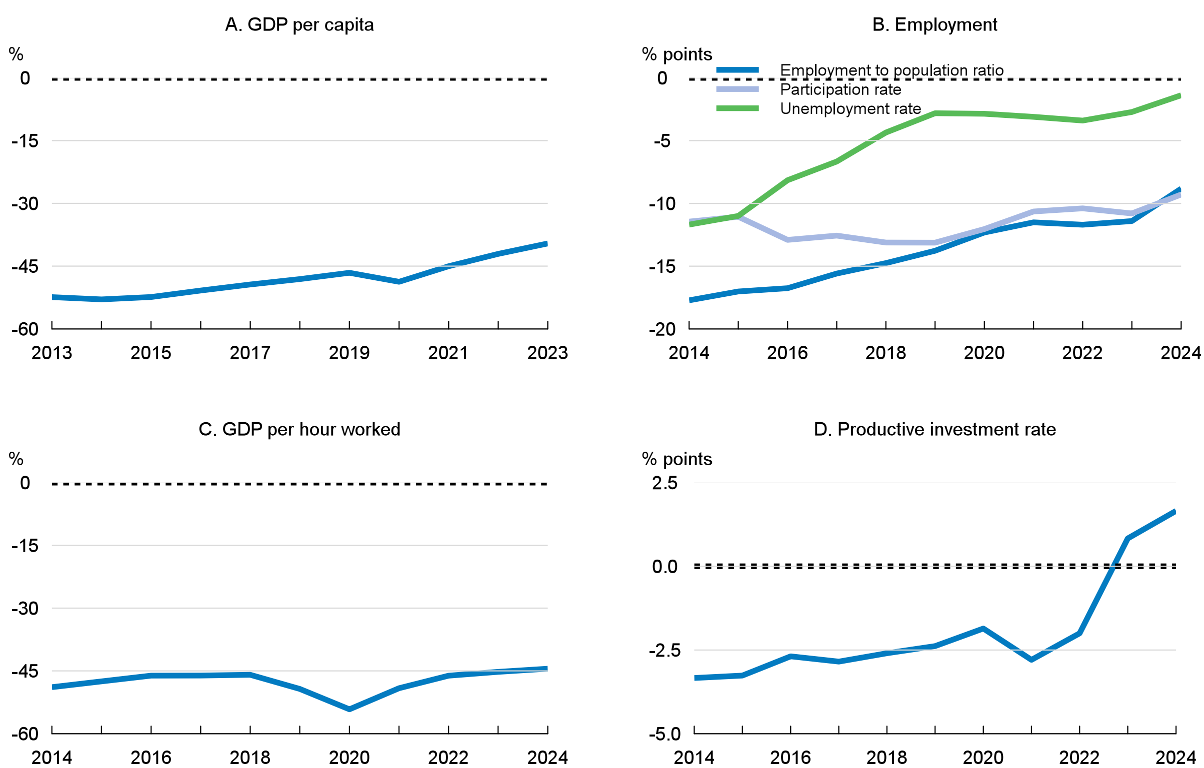
Croatia

While GDP per capita is steadily converging to OECD levels, gaps remain. The employment rate remains below the OECD average, particularly among youth and older adults. Labour productivity growth is subdued, reflecting a slow catch-up in total factor productivity.

Accelerating economic convergence requires reforms to enhance skills, boost innovation capacity, and improve the business environment. Promoting healthier and longer working lives is crucial for raising employment. Strengthening carbon pricing and expanding renewables deployment will enhance energy security and support sustainable growth.

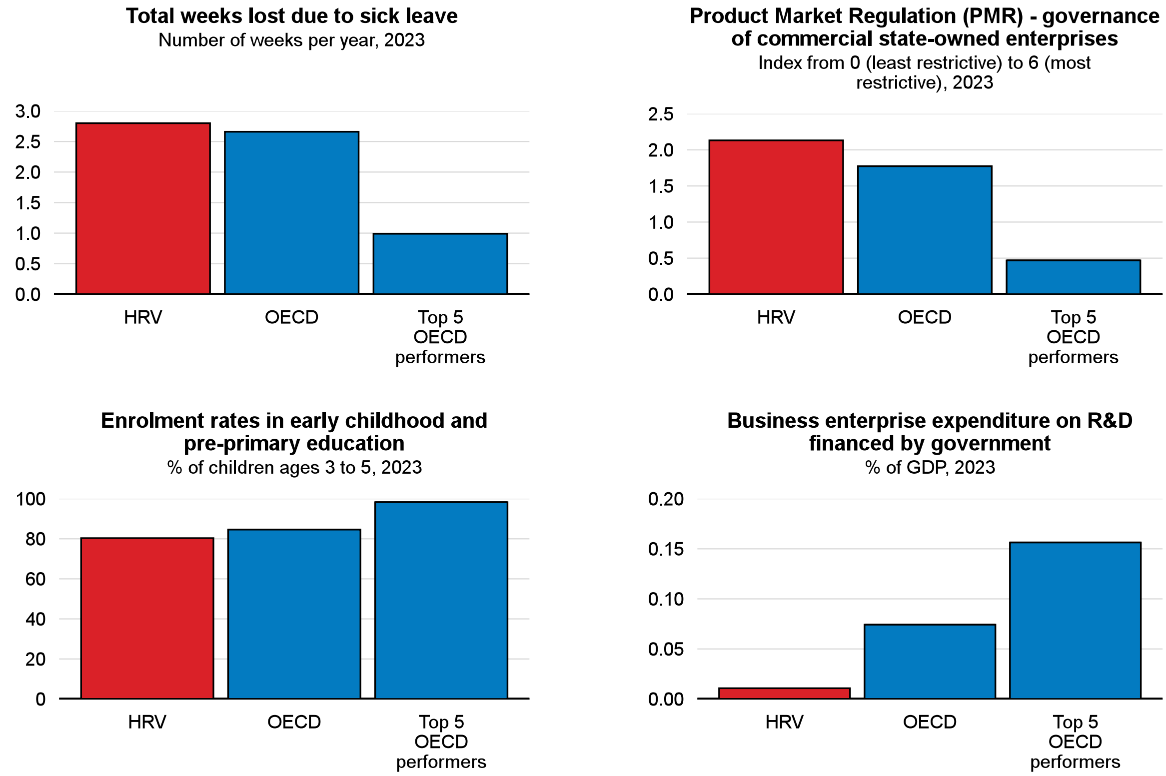
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Skills: Improve the quality of vocational education and training and raise participation in adult learning

Access to skills is a growing constraint for employers. Croatians lag behind OECD peers in core skills. Around 70% of young adults enroll in vocational education and training (VET), but many VET graduates are not in employment nor in education and training (NEET), reflecting poor alignment of skills with the labour market. Tertiary education attainment is low, and adult participation in lifelong learning is limited, especially among the older and the low-skilled.

Recommendations

- ✓ Implement ongoing reforms to modernise the VET schools' curricula to better align with employers' current and future needs and students' interests and incorporate greater work-based learning.
- ✓ Link financial support for adult learning to workers' skills and adapt training content to the specific needs of older adults.
- ✓ Increase high-quality and affordable early education and care capacity.

Health: Enhance prevention and the quality and efficiency of care

Health outcomes are relatively low, and self-perceived health among older adults is poor. The generally poor state of health spills over into the labour market with a high number of sick days and shorter working lives. There is space to enhance prevention, improving primary care and the quality and efficiency of hospitals, still characterised by significant overcapacity.

Recommendations

- ✓ Increase taxes on unhealthy products, such as alcohol and tobacco, and enhance cancer screening uptake, including by expanding targeted public awareness campaigns.
- ✓ Introduce minimum volume requirements for specific hospital procedures and centralise complex care in high-performing specialised facilities.

Innovation: Better target R&D support

Productivity gaps with OECD countries remain large, calling for enhanced innovation and technology adoption. The share of firms applying for patents is low and public support for business R&D is limited. The uptake of R&D support schemes is hindered by high application costs for R&D grants, limited awareness, and lack of continuity between different schemes.

Recommendations

- ✓ Better coordinate R&D support schemes, ensure they have ongoing funding, and expand the scale of public support.
- ✓ Evaluate the R&D tax allowance scheme and consider making part of the R&D tax allowance refundable or extending the duration of the carry-forward option for small and young firms.

Competition: Improve regulations and strenghten public sector integrity

A business environment that weakens competitive pressures and makes investments more costly and risky contributes to low productivity. Reducing the burdens of lengthy and unpredictable regulatory procedures, for example in land use planning, and improving public sector integrity, will be key for boosting productivity growth. Improving the governance of state-owned enterprises (SOEs), is also critical to unlock growth potential.

Recommendations

- ✓ Clarify responsibilities for each body involved in land use planning and strengthen intermunicipal cooperation over land use policy and administration to facilitate construction projects, including by mandating cooperation among small municipalities.
- ✓ Continue divesting SOEs and clearly define the rationale for the state-ownership of companies, limit undue political influence, and ensure that the government's role as an owner and regulator of markets SOEs operate in is clearly separated.
- ✓ Monitor post-public employment activities of public officials in at-risk positions to strengthen enforcement of post-public employment rules.

Energy security: Leverage more wind and solar energy

Renewables (hydro and nuclear) dominate the energy mix, but fossil fuels still account for 22% of power generation and Croatia remains heavily dependent on fossil fuel imports. In view of rising electricity demand due to electrification of end-uses, accelerating the deployment of wind and solar is essential to strengthen energy security and ensure sustainable growth.

Recommendations

- ✓ Accelerate permitting procedures for renewable energy by increasing the administrative capacity, streamlining the permitting process or launching a one-stop shop.
- ✓ Continue to invest in grid capacity to integrate renewables and connect resource-rich areas with demand centres.
- ✓ Phase out fossil fuel subsidies.

Recent progress on structural reforms

A reform to modernise the VET curriculum to strengthen work-based learning and improve its alignment with labour market needs is ongoing. In 2022, the authorities introduced training vouchers for adult learning—initially targeting digital and green skills—which were significantly expanded in both size and scope in 2024. During the same year, the government scaled up its national preventive health examination programme for individuals aged 40 and above. The government also increased R&D tax allowances and redirected EU ETS revenue toward building renovations and renewables, although energy price caps continue into 2026. In 2024 four mediation centres at commercial courts were set up. New Framework Benchmarks for the work of judges were adopted and an active judicial case management tool introduced. The use of electronic communication tools continues to expand. A new law to strengthen SOE governance and align it with the OECD Guidelines on Corporate Governance of SOEs was approved by Parliament in July 2025.

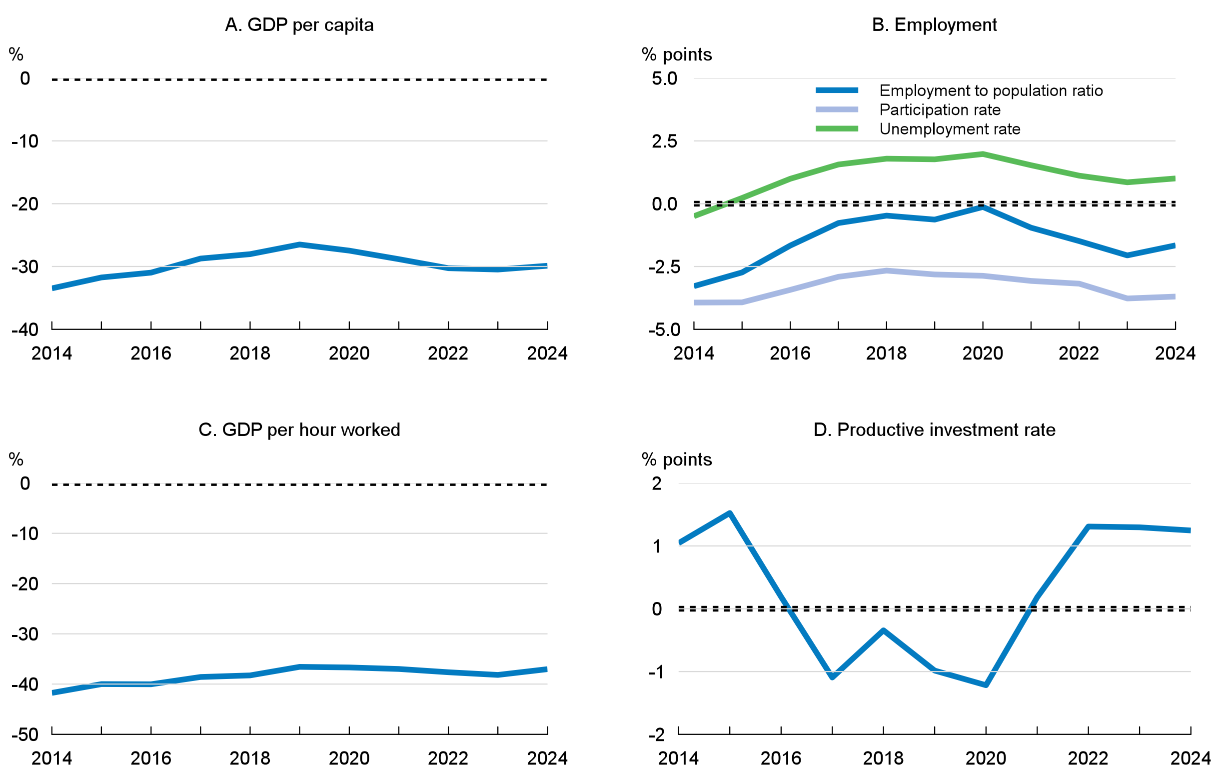
Czechia

Economic convergence vis-à-vis most advanced economies has slowed since the pandemic. Czechia has one of the lowest unemployment rates of the OECD, but employment rates of women with young children are very low. Moreover, productivity growth has slowed significantly since the global financial crisis and has stalled since the pandemic, leaving a sizeable productivity gap with the upper half of OECD countries.

Revitalising productivity growth will require boosting educational outcomes for all students, reducing skill shortages and mismatches, improving the innovation capacity through developing capital markets and better targeting business support for R&D, and fostering labour mobility. The tax system can also be made more growth-friendly.

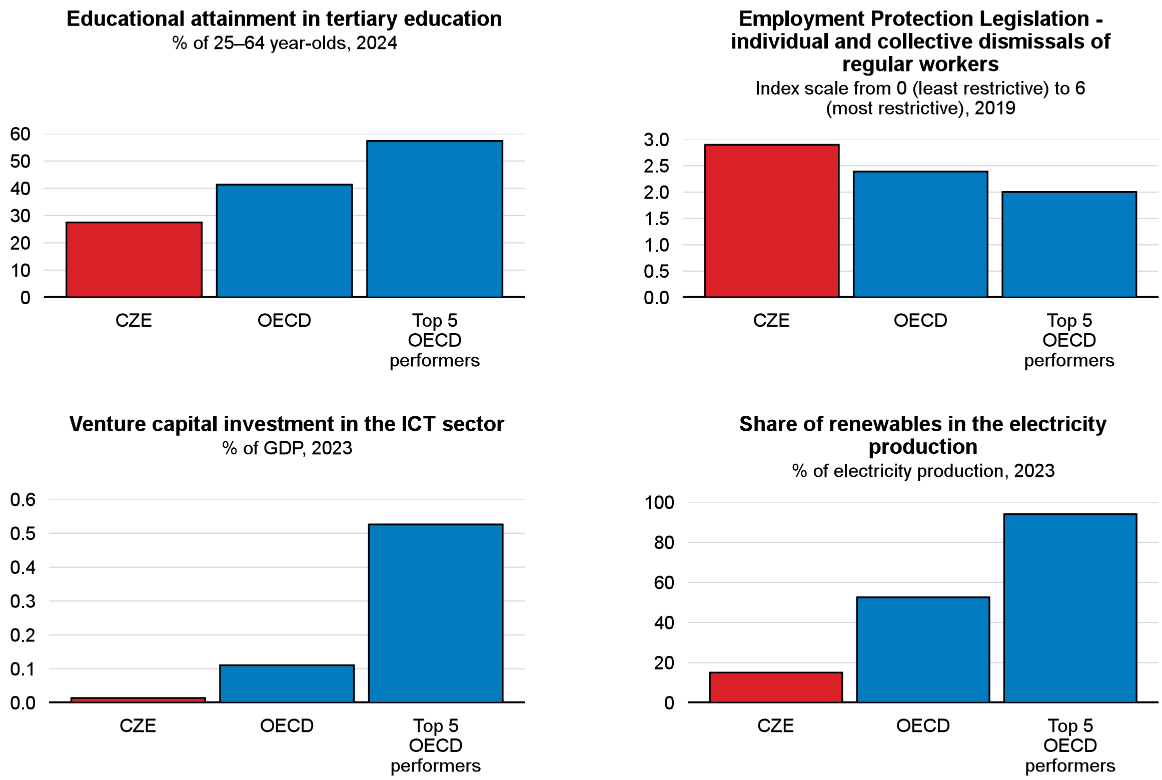
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Skills: Boost tertiary attainment and reduce inequalities in education

High skills shortages and mismatches pose a threat to productivity growth. Tertiary education attainment is low, especially among vulnerable students, who face significant financial challenges despite the absence of tuition fees in public universities and often struggle to balance work and study leading to high dropout rates. Expanding tertiary education attainment and boosting participation in adult learning for the low-skilled would improve the alignment of skills with labour market needs. School outcomes are strong, but student performance has been declining among the most vulnerable. Expanding capacity and participation in high-quality affordable early childhood education and care, especially for disadvantaged children, can improve educational outcomes for all students.

Recommendations

- ✓ Introduce grants for vulnerable students and income-contingent loans to increase tertiary attainment, especially of vulnerable groups
- ✓ Expand the supply of modular learning and introduce high-quality micro-credentials in the national register of qualifications to boost participation in adult learning.
- ✓ Increase high-quality and affordable early education and care capacity.

Financial markets: Reduce financing constraints to boost innovation

Despite significant progress, access to risk capital remains a challenge for start-ups and young firms. Bank credit is available for SMEs but capital markets are underdeveloped. Risk capital funding is critical for young SMEs without collateral, as well as corporate and credit history. Pension funds, which play an important role in capital market development and venture capital funding in some OECD countries could be better mobilised in Czechia. R&D cash refunds may be more beneficial for young firms, which may not have sufficient tax liability for several years and need financial support early in the innovation process.

Recommendations

- ✓ Mandate pension providers to offer default life-cycle-based investment strategies.
- ✓ Consider introducing tax incentives to stimulate the provision of private risk capital, including by experienced foreign venture capital investors and support the creation of a formal and structured business angel network.
- ✓ Make the R&D tax allowance refundable or extend the duration of the carry-forward option for small and young firms

Labour market: Foster labour mobility and employment of mothers with young children

Labour mobility in terms of job-to-job transitions is among the lowest in the OECD. The employment protection legislation for regular workers is the highest in the OECD and the difference between protection of regular and temporary workers is wide. Employment of mothers with young children is very low, which partly reflects long parental leave eligibility.

Recommendations

- ✓ Increase flexibility in permanent employment contracts and reduce the difference in employment protection between regular and temporary contracts.
- ✓ Expand active labour market policies, especially targeted to training and reskilling programmes, and strengthen the capacity of the public employment service to effectively profile jobseekers.
- ✓ Further reduce the maximum duration of parental leave and make part of it conditional on the second parent's participation.

Environment: Accelerate the deployment of renewables to ensure energy security

Accelerating the deployment of renewables is crucial to ensure energy security and sustainable growth as electricity demand is increasing and Czechia plans to phase out coal from the energy mix by 2033 new nuclear capacity will only come online in the mid-2030s. The large differences in carbon prices across sectors and activities mean that marginal abatement costs are not equalised, potentially increasing the cost of emission reductions

Recommendations

- ✓ Further simplify permitting procedures for renewable energy, including by establishing administrative one-stop-shops and assigning suitable land for acceleration zones.
- ✓ Accelerate investment in electricity grid capacity, system flexibility and electricity storage.
- ✓ Phase out fossil fuel subsidies and increase effective carbon prices in sectors outside the EU Emission Trading System. Mitigate the impact on vulnerable households via targeted transfers.

Taxation: Make the tax system more growth friendly

Czechia relies significantly more on social security contributions and less on environmental and property taxes than other OECD countries. A lower reliance on social security contributions and higher revenues from property taxes and indirect taxes, including environmental taxes, would make the tax system more growth-friendly and reduce the exposure of government revenue to ageing.

Recommendations

- ✓ Shift towards recurrent taxes on immovable property, consumption and environmental taxes, and reduce social security contributions.
- ✓ Change the base for recurrent taxes on immovable property from area to regularly updated market values. Introduce options to protect the most vulnerable property owners, such as tax deferrals or payments in instalments.
- ✓ Further broaden the VAT base, including by reducing the number of items under the reduced VAT rate.

Recent progress on structural reforms

In 2023, a system of individual learning accounts with training vouchers was introduced with a special focus on digital skills. Efforts are ongoing to boost risk capital markets, for example by launching funds focused on equity financing for early-stage start-ups and allowing pension funds to invest in a wider set of assets. Since 2023, starting a company has been facilitated by decoupling the process of obtaining licences and permits, and allowing to start a limited liability company fully electronically. In 2024, the maximum length of time the parental allowance can be drawn was reduced until the child reaches the age of three, from four previously, which is still significantly longer than in other OECD countries.

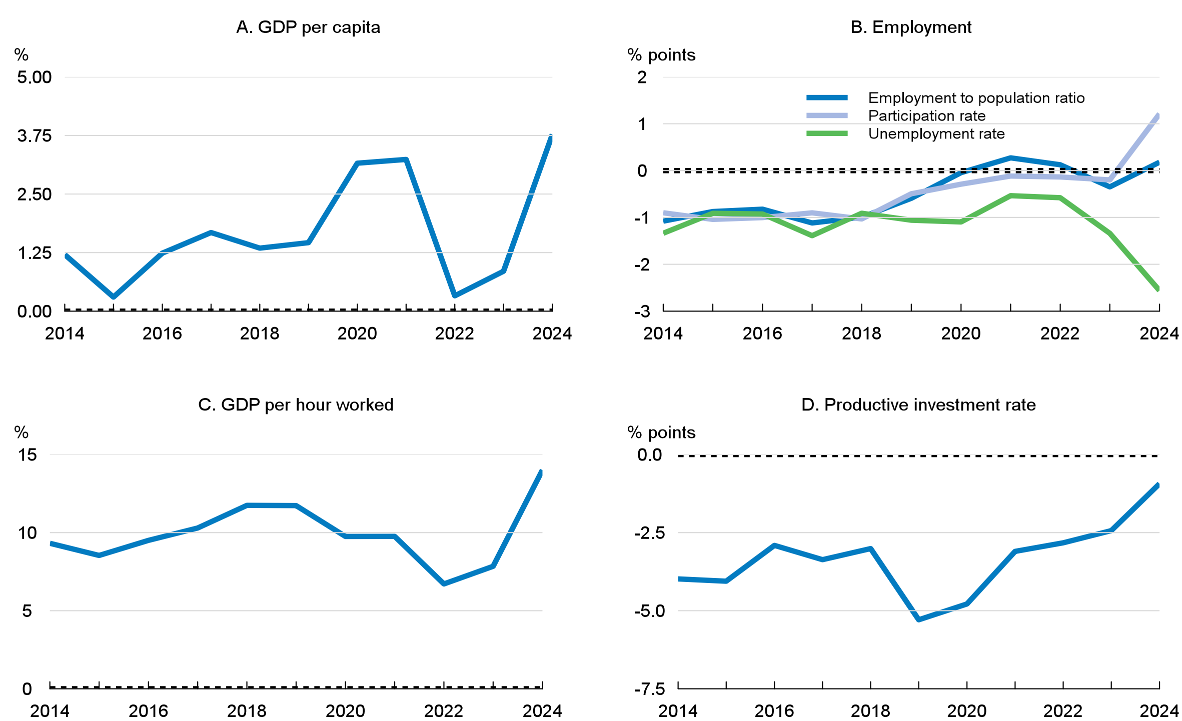
Denmark

Denmark's GDP per capita is one of the highest in the OECD, reflecting relatively high productivity levels. Productivity growth remained broadly in line with the highest rates in the OECD and investment has recovered since the pandemic. However, productivity growth in the domestic economy has been modest in recent years, the strong overall growth being mainly driven by large firms operating abroad. While labour participation converged to the upper OECD average, there is room for employment rates to rise further.

Youth employment could be raised by better educational support reducing school dropout rates, segregation and performance gaps. Improving prevention and efficiency in healthcare and long-term care sectors could help tackle demographic challenges and further raise productivity. Innovation capacity, investment and hence productivity growth would benefit from better coordination of research and development initiatives and improved regulatory frameworks.

Economic performance

Gaps to the average of the upper half of the OECD countries



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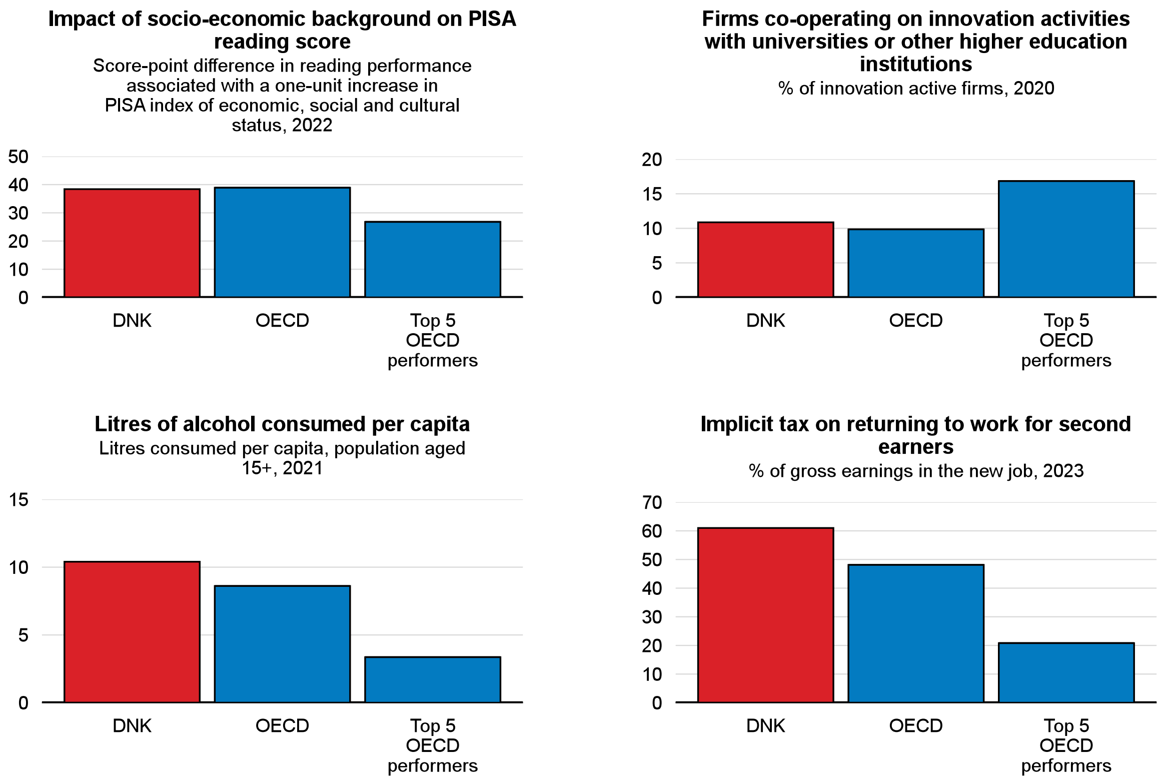


Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Education: Reduce dropout rates in vocational schools

Denmark scores among the best performing countries on education, skills and human capital. However, relatively high secondary education dropout rates, especially in the vocational path, reduce educational attainment and weaken youth employment prospects. Causes of early school dropouts include the lack of suitable training placements in enterprises, shortage of qualified teachers, modernisation needs in vocational schools and rising prevalence of mental health issues among students. A new vocational training programme will be implemented from 2030, to address some of these issues. In addition, the impact of socioeconomic background on student performance is relatively pronounced, especially for students with immigrant background.

Recommendations

- ✓ Develop more effective second chance programmes, with close collaboration with regional employers, mentors and improved access to integrated mental health services.
- ✓ Strengthen incentives for firms to hire apprentices if current measures prove insufficient and step up efforts to recruit qualified teachers in vocational schools, including by easing entry of practitioners.
- ✓ Provide additional targeted support to schools with high share of disadvantaged students and address school segregation, including via outreach campaigns on school enrolment options to both immigrant and native-born parents.

Health: Strengthen prevention and expand the health workforce

Danish healthcare fares relatively well, with low avoidable mortality and good financial protection. Nevertheless, behavioural health risk factors, such as alcohol consumption, obesity, and smoking, remain relatively prevalent, affecting life quality and productivity. In addition, while recent reforms aim to address recruitment and retention problems, including by higher pay, labour shortages persist and coordination issues across care services have reduced efficiency of healthcare and long-term care.

Recommendations

- ✓ Strengthen existing prevention measures to tackle behavioural health risk factors, especially among younger people.
- ✓ Further improve pay and working conditions for care workers within the collective bargaining framework, including by providing standard employment contracts.
- ✓ Refine incentives for improved coordination across care segments while implementing the new healthcare reform.

Innovation: Improve the coordination of research and development initiatives

Innovation in Denmark is high but concentrated in a limited number of large firms. Broadening innovation capacity would support future productivity growth. Tax subsidies for research and development (R&D) have been increased recently. However, the share of innovation-active firms that co-operate with universities on innovation, is just above OECD average, and lags behind Nordic peers and OECD top performers. Weak links between universities and businesses hinder the commercialisation of research. Recent evidence suggests room for improvement in coordination of R&D public policies and in raising their effectiveness.

Recommendations

- ✓ Monitor the effectiveness of the R&D tax subsidy, including its role in diversifying innovation sources.
- ✓ Facilitate cooperation between universities and businesses by reforming the intellectual property right system and the operation of offices of technology transfer.
- ✓ Strengthen coordination of R&D public policies to eliminate overlaps, reduce administrative costs and improve the allocation of resources.

Governance: Improve regulatory impact assessments

Raising the quality of regulation would improve the business environment and foster investment. Denmark systematically reviews all existing regulations with significant impacts and recently introduced institutional reforms to improve regulatory policy and governance. Nevertheless, there is room to increase transparency and oversight of regulatory impact assessments.

Recommendations

- ✓ Systematically inform the public in advance that a public consultation or a regulatory impact assessment is due to take place and include consultation views in regulatory assessments, to strengthen transparency and stakeholder involvement.
- ✓ Introduce a mechanism that would allow for returning proposed regulations for which impact assessments are considered inadequate.

- ✓ Use data-driven approaches to assess impact of rules and include focus on environmental sustainability when reviewing regulations.

Tax system: Reduce labour tax burden

Labour and capital income taxation account for a relatively large share of tax revenues in Denmark. This can discourage longer working hours and productive investment. Recent cuts to personal income taxes will modestly reduce marginal tax rates for most taxpayers. At the same time, the tax reform introduced an extra tax bracket at the very top of the income distribution. There is room to reduce adverse effects of taxes on economic potential, including by further shifting the tax burden away from personal income to property and indirect taxes.

Recommendations

- ✓ Further decrease the tax burden on labour and capital incomes.
- ✓ Offset revenue and distributional consequences by increasing immovable property taxes.
- ✓ Carefully assess the impact of introducing the new top tax rate on tax arbitrage and retained earnings strategies.

Recent progress on structural reforms

A range of measures has been implemented to increase labour supply and strengthen work incentives, notably the abolition of a public holiday, cuts in personal income taxation, and reduced means testing in the public pension system. Other policy actions include the reform of immovable property taxation, linking tax levels to regularly updated property values, and the green tax reform, expanding the coverage of carbon taxation, including to agriculture production. A healthcare reform aims to streamline delivery, improving integration of services and strengthening primary care. A new type of vocational upper secondary schools will be introduced to improve the attractiveness of vocational tracks.

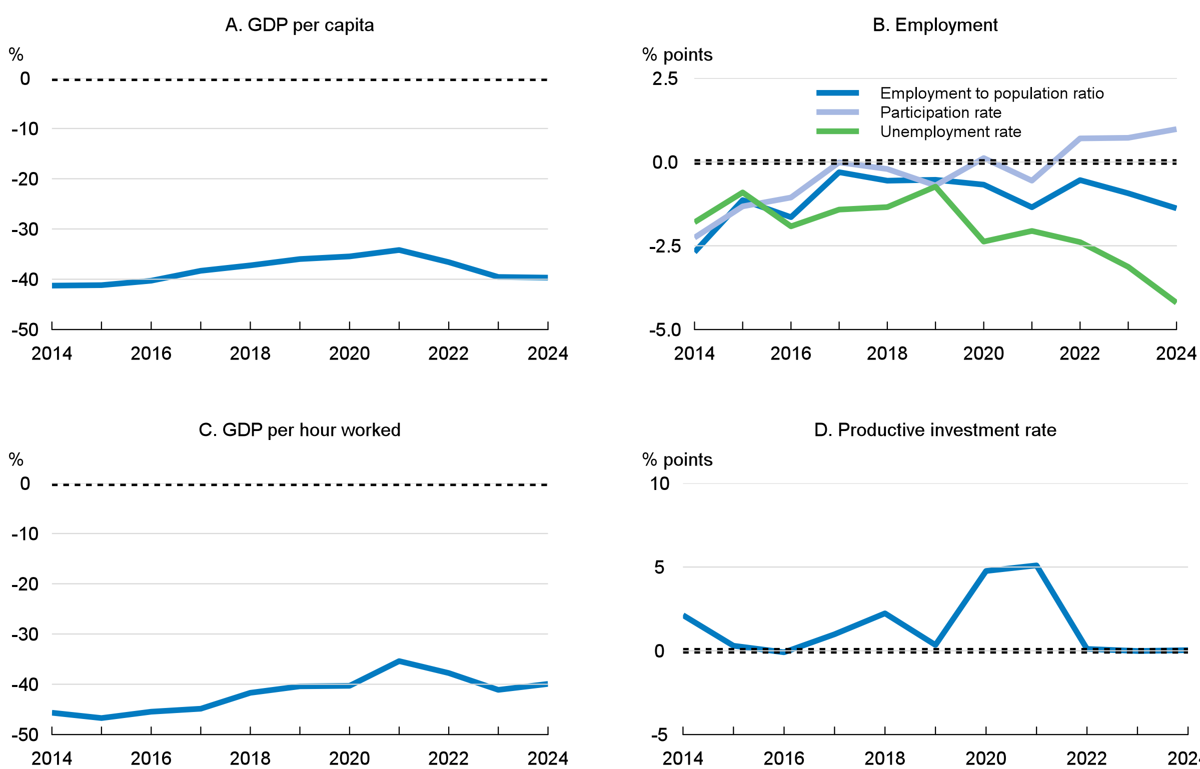
Estonia

Estonia's economic performance continues to lag most advanced OECD economies, with the gap in GDP per capita widening since 2021. Labour supply has expanded due to increased immigration, largely driven by the war in Ukraine and labour force participation is high. ICT activities are well developed, but traditional sectors perform less well, and productivity continues to underperform owing to earlier erosion in cost competitiveness. Aging of the population is expected to further constrain growth.

Digitalisation and AI applications offer a key opportunity to reinvigorate convergence, but this will require enhanced infrastructure and broader adoption across traditional sectors of the economy. To unlock labour market capacity, targeted reskilling and upskilling is needed, alongside improved health outcomes supported by sustainable financing and the promotion of healthier lifestyles.

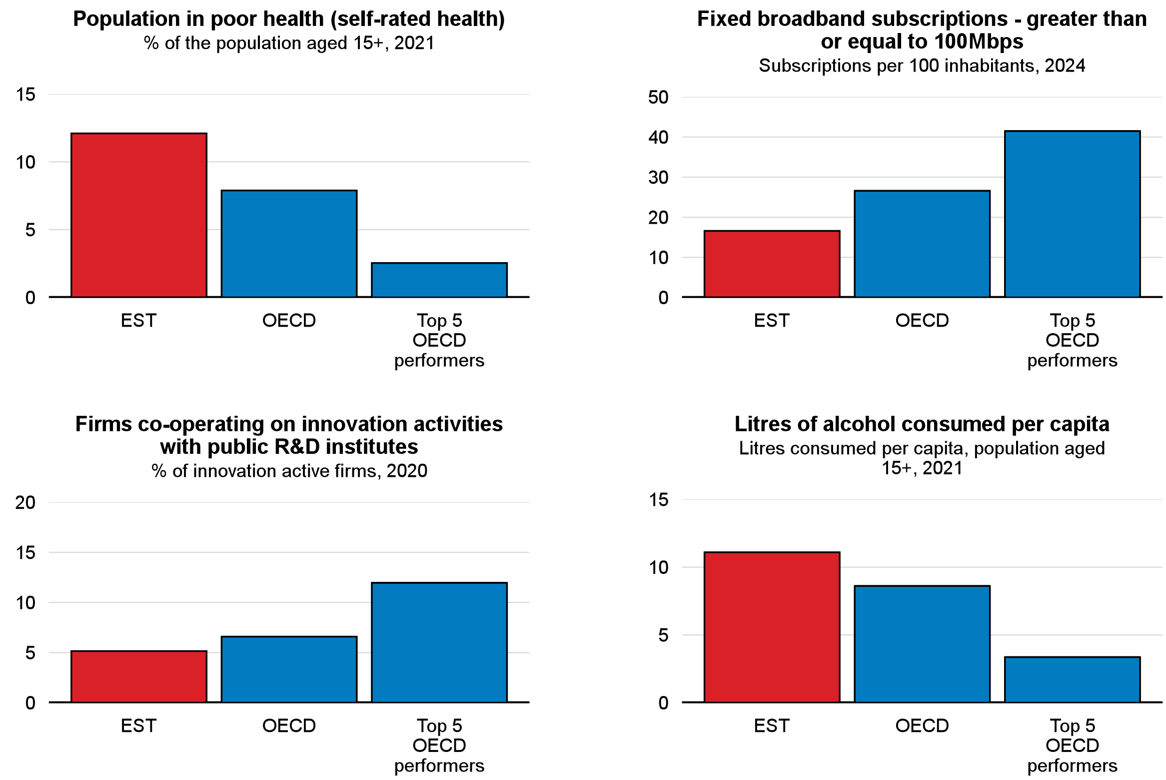
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Human capital: Promote upskilling and reskilling for a changing economy

A shrinking labour force will create skills shortages in innovative sectors. The transition to green technologies will hit jobs in some sectors of the economy, and digitalisation and the growth of the ICT requires reskilling and upskilling to address the skill mismatch. Improving digital skills would help address skills mismatches and support the broader adoption of digital technologies across the economy.

Recommendations

- ✓ Increase spending on training and active labour market policies.
- ✓ Expand access to upskilling programmes focused on digital and managerial competencies
- ✓ Broaden the scope and accessibility of programmes to encourage digital skills development in traditional sectors.

Health: Improve prevention and sustainable financing

Estonia's healthcare outcomes are relatively weak, and expenditure remains among the lowest in the OECD. Population ageing will increase demand for healthcare services, exacerbating the shortage of medical personnel. Health outcomes are hampered by limited preventive care and delayed treatment. The country also faces high rates of obesity, alcohol consumption and mental health issues.

Recommendations

- ✓ Over time, raise revenues of the health insurance fund through higher contribution rates or general taxation, ensuring spending efficiency.
- ✓ Implement the proposed sugar tax and introduce taxes on unhealthy foods more generally.
- ✓ Restrict availability of alcohol through reduced opening hours, fewer sales outlets, and limits on alcohol advertising, particularly in sports.

Digitalisation: Expand digital infrastructure and uptake

While Estonia benefits from secure digital infrastructure, a world-class e-government, and high levels of trust in digital services, private sector digital adoption—particularly among SMEs—lags behind. Realising productivity gains from digitalisation and AI will require expanding digital adoption beyond the ICT sector and further improvements in infrastructure.

Recommendations

- ✓ Increase public investment to expand ultra-fast broadband coverage, including subsidising last-mile rollout for smaller enterprises.
- ✓ Reduce red tape in the application process for digital diagnostics - an exercise to determine digital needs of companies - to increase uptake. Publish success stories to make the initiative more attractive.

Energy: Secure supply and ease transition impacts

The share of renewables in electricity generation has been increasing significantly, contributing to a more variable energy supply, while rising demand is expected to test the efficiency and resilience of the energy network. Estonia is transitioning from a carbon-intensive economy, where oil shale traditionally played a dominant role in energy supply. The phase-out of the oil shale industry, concentrated in the north-eastern region of Estonia, will have significant economic and social impacts in the region.

Recommendations

- ✓ Proceed with a gradual reduction in oil shale production, supported by a comprehensive and well-funded long-term strategy to diversify the regional economy and retrain affected workers.
- ✓ Develop a diversified renewable energy portfolio and a cost-effective network capable of handling a more variable energy supply and increased demand to ensure stable and adequate energy supply.

Innovation: Enhance public-private collaboration

Estonia’s innovation gap is largely attributable to a low number of patent applications. While total R&D spending of around at 1.8 % of GDP is similar to comparators, business R&D investment remains more significantly below the OECD average.

Recommendations

- ✓ Strengthen public-private collaboration in R&D, including ensuring private sector participation in the governance of the new centre for applied research.

- ✓ Encourage partnerships between universities, industry and government to help provide start-ups with the know-how, equipment and well targeted financial support for initial funding to test and scale new technologies.

Recent progress on structural reforms

Recent structural reforms have included an increase in healthcare spending. Higher user charges for specialised care are expected to boost revenues and promote more efficient use of services. Estonia made significant progress on energy security by synchronising its electricity grid with the European network. The share of renewables—particularly wind and solar—has also increased.

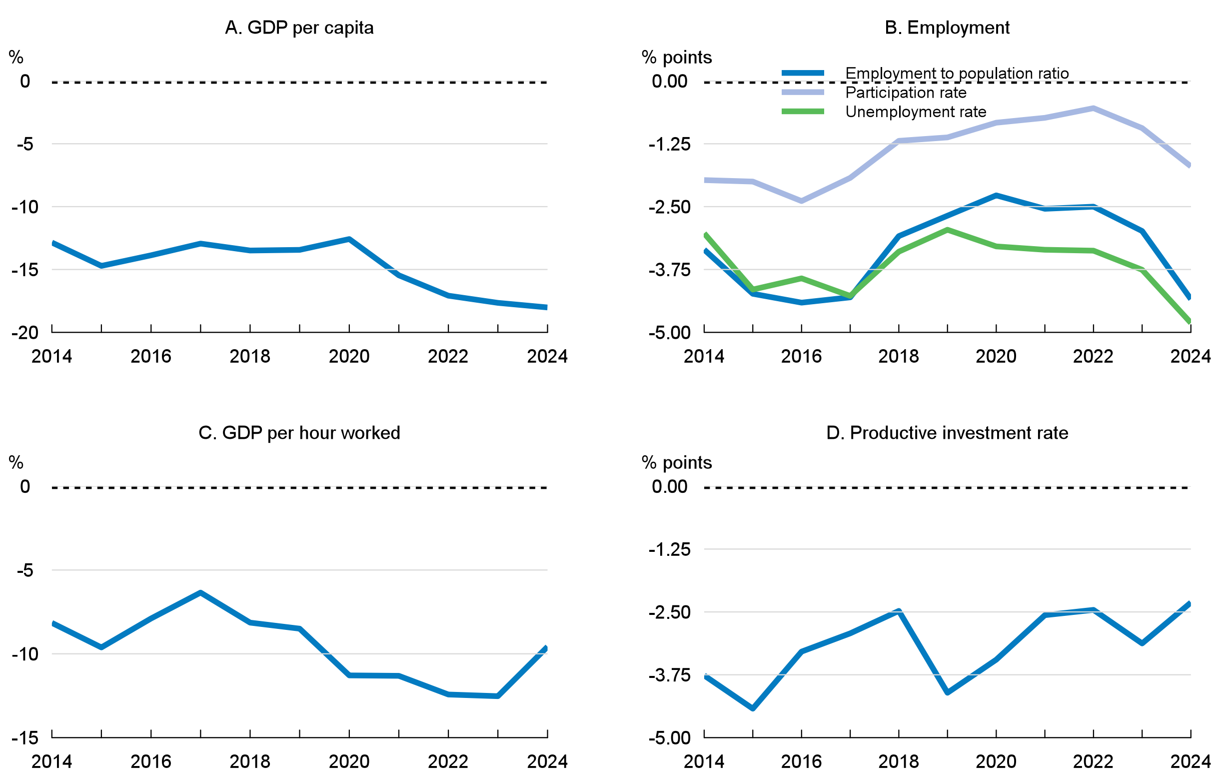
Finland

Finland's economic performance has lagged behind the OECD average over the past decade. Productivity growth has weakened, widening the gap in output per hour worked. While employment rates remain below the OECD average, the participation rate has improved, although convergence has slowed in recent years.

Addressing the slowdown in productivity while ensuring long-term fiscal sustainability requires broad structural reforms. Improving value for money in infrastructure investments and reducing remaining barriers to trade and FDI would strengthen competitiveness and support sustainable growth. Broadening the indirect tax base, together with boosting R&D and venture capital investment, would foster innovation and economic resilience.

Economic performance

Gaps to the average of the upper half of the OECD countries



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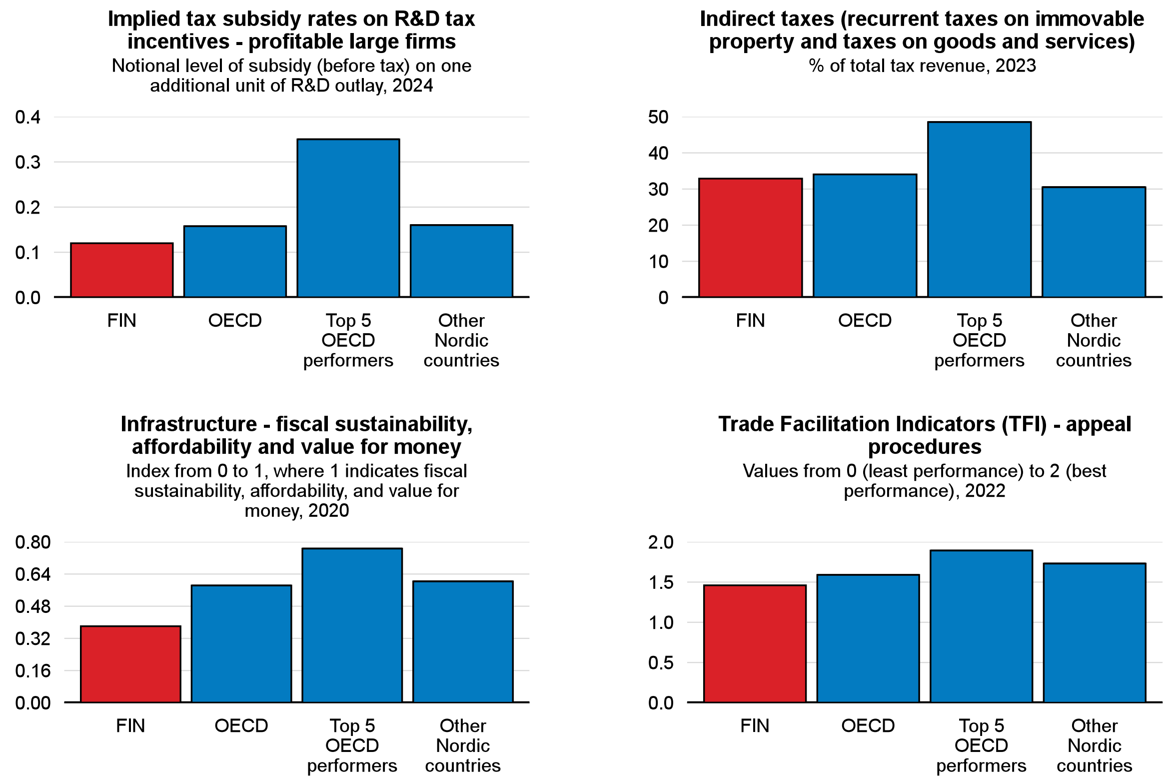
Selected policy gaps



Note: Other Nordic countries refers to the unweighted average of Denmark, Iceland, Norway and Sweden.
Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Physical infrastructure: Improve value for money in infrastructure investments

Although infrastructure decision-making in Finland is generally effectively controlled and transparent, the value for money from public investments remains relatively low. Limited competition in public procurement processes has contributed to cost inefficiencies. Addressing these issues is essential to maximise the growth potential of infrastructure spending and ensure fiscal sustainability.

Recommendations

- ✓ Implement an independent ex-ante review mechanism for planned public investment projects to assess their economic viability and long-term impact.
- ✓ Increase competition in public procurement processes to lower costs of infrastructure investments.

Trade and FDI: Streamline border processes and reduce the number of fees

Finland's openness to trade and foreign investment is above the OECD median, but it remains behind the top performers in key areas. Trade facilitation processes have too many layers of fees and charges and appeal procedures could be more efficient and transparent. Moderate restrictions on foreign ownership and market entry also constrain the full potential of foreign direct investment. Addressing these issues will strengthen Finland's competitiveness and support long-term economic growth.

Recommendations

- ✓ Reduce the number of fees and charges collected in border processes to simplify trade and lower transaction costs.
- ✓ Further strengthen appeal procedures by enhancing fairness and transparency.
- ✓ Review and further reduce restrictions on foreign ownership, establishment of branches, and residency requirements for managers to enhance competition and dynamism, especially in distribution services.

Taxation: Enhance tax efficiency by relying more on indirect taxes

The Finnish tax administration system is effective, with high rates of on-time and electronic filing. While recent measures have strengthened the indirect tax system, including an increase in the standard VAT rate from 24% to 25.5% in September 2024, there remains scope to improve tax efficiency by broadening the base of indirect taxes and reducing distortions from transaction-based taxes. Property tax revenues in Finland, at 1.4% of GDP, are below the OECD average of 1.8% in 2022. Ensuring that future tax policy decisions build on these recent reforms can support fiscal sustainability and enhance overall tax system efficiency.

Recommendations

- ✓ Broaden the VAT base by gradually phasing out reduced rates where feasible, once a robust economic recovery is underway, to further improve tax efficiency and support fiscal consolidation.
- ✓ Transition from direct property transfer and transaction taxes to annual real estate taxes to reduce negative effects on labour mobility, leveraging the country's well-developed land information system, which features full coverage, digitisation and daily updates.

Innovation: Strengthen R&D support and foster investment in emerging technologies

Despite progress over recent years, R&D expenditures as a share of GDP remain below those of the top-performing OECD countries, particularly in the business sector. Tax incentives for R&D also remain relatively low. Additionally, venture capital investment in tech sectors such as ICT and green industries is modest, requiring further measures to foster more innovative start-ups.

Recommendations

- ✓ Evaluate and strengthen R&D tax incentives to ensure they are well-targeted, effective across firm sizes and types, and complementary to direct supports.
- ✓ Foster greater venture capital and private equity investment in ICT, green, and other high-potential sectors by leveraging public-private co-financing models and expanding government guarantees to reduce risks.
- ✓ Support firms to maximise EU funding opportunities and collaborate with other countries to attract EU financial support for the green and digital transition.

Governance: Improve regulatory effectiveness by enhancing ex-post evaluations

Finland’s overall public governance and rule of law is well established and above the average for OECD countries. However, Finland makes limited use of ex-post evaluation of laws and subordinate regulations. Regulations are not systematically evaluated against their intended outcomes, and mechanisms for oversight and quality control could be further strengthened to ensure that regulations deliver intended benefits and support an efficient and dynamic business environment.

Recommendations

- ✓ Establish comprehensive ex-post evaluation systems, including rigorous oversight mechanisms, to ensure regulations deliver intended benefits and minimise unintended consequences.
- ✓ Foster a culture of continuous improvement in regulatory policy by systematically incorporating feedback from stakeholders and regularly updating evaluation practices.

Recent progress on structural reforms

The government recently reconfirmed the target set in 2023 to raise overall R&D spending to 4% of GDP by 2030 and expanded R&D tax incentives to better support private sector innovation. In 2024, Finland introduced a EUR 400 million direct grant scheme to support investments to decarbonise industry. It also streamlined public venture capital activities by merging state-owned entities. However, these initiatives take place against a backdrop of fiscal pressures. In April 2025, Finland announced the General Government Fiscal Plan for 2026–29, which is expected to slow consolidation through planned tax cuts and higher defence spending. Improving spending efficiency in health and social welfare while normalising reduced VAT rates is essential to strengthen long-term fiscal sustainability.

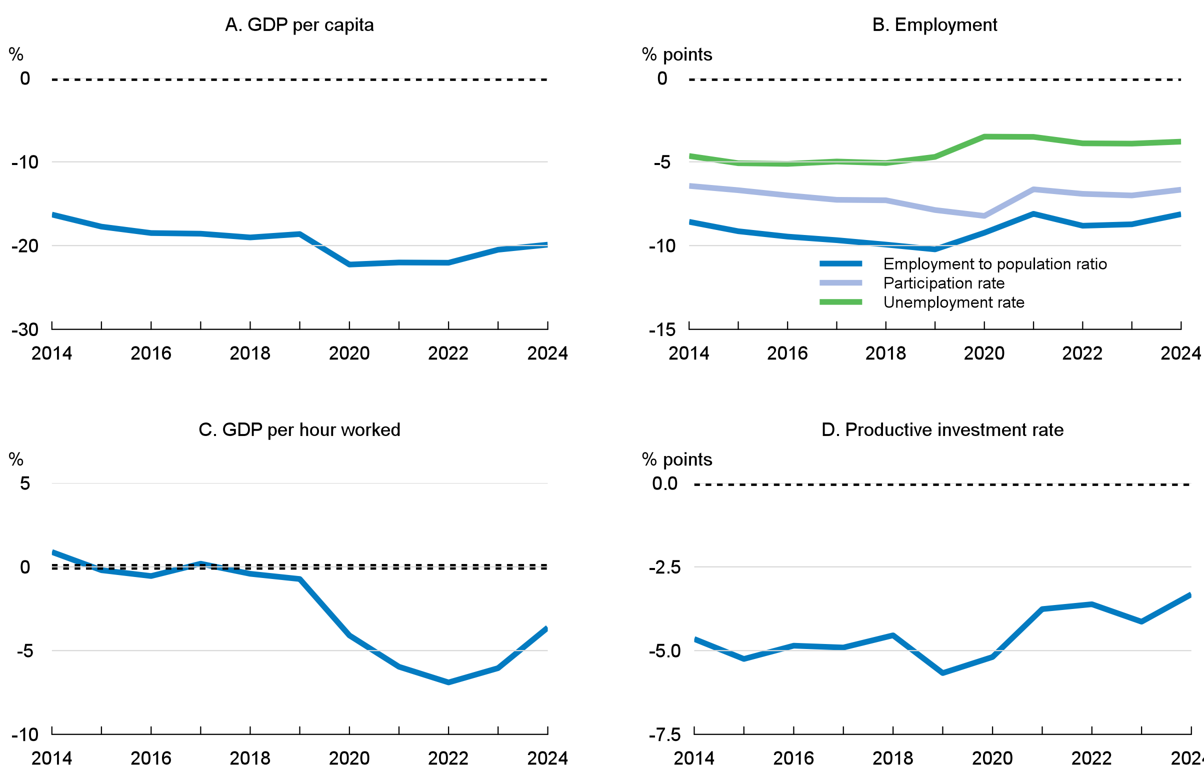
France

France's GDP per capita falls short of top OECD performers, mainly due to lower labour productivity and weaker employment and participation rates. A persistent investment gap, driven by underinvestment in intangible assets despite higher tangible asset investment, also contributes to sluggish performance. The labour productivity gap widened during the pandemic, largely due to widespread labour hoarding.

Boosting productivity and growth requires better use of talent by improving foundational competencies learned in school, reducing educational inequality, enhancing digital skills, and strengthening vocational outcomes. More effective innovation support, lower barriers in services, and reduced taxes on labour would further boost competitiveness and job creation.

Economic performance

Gaps to the average of the upper half of the OECD countries



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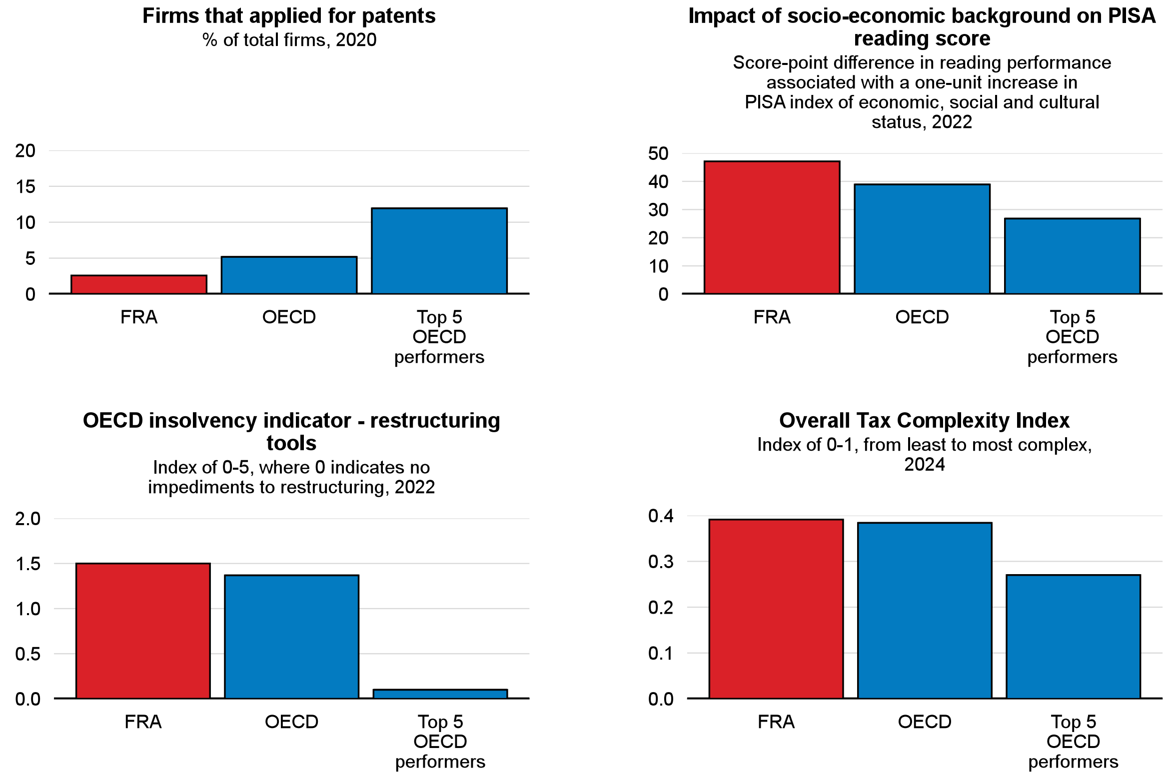
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Education: Improve the quality and equity of education

France's education system faces key challenges that limit employment and productivity by underutilising talent and insufficiently teaching critical thinking and decision making. Student performance is around the OECD average, but reading has declined to below average, with strong socio-economic disparities. Teacher shortages persist, which can impact the quality of teaching. Vocational graduates have poorer job outcomes than general education peers, unlike the OECD average.

Recommendations

- ✓ Further support disadvantaged students, including by continuing to develop a more progressive allocation of resources across schools and boosting diversity in private schools.
- ✓ Enhance the attractiveness of the teaching profession by reviewing remuneration, especially for primary and mid-career teachers and supporting training. Supporting teachers' geographic mobility, career perspectives and training would improve working conditions.
- ✓ Enhance the employment performance of young people in vocational pathways by strengthening the role for professional counsellors and increasing efforts targeting disadvantaged students.

Employment: Improve youth employment and skills alignment across careers

Young people face significantly higher unemployment rates than adults, particularly those who have low skill levels, and a disproportionate number work under temporary contracts. The low participation of tertiary-educated adults in non-formal job-related training, combined with below-average ICT skills among all adults, worsens skill mismatches and undermines employment prospects over time, particularly for older workers struggling in the labour market.

Recommendations

- ✓ Better target support, including for apprenticeships, to young people who are the furthest away from finding employment.
- ✓ Increase close support and better monitor young people's career paths, including by reducing the administrative burden and increasing resources for public employment services.
- ✓ Monitor and adapt measures supporting lifelong digital skills by boosting SME participation and optimizing the Individual Learning Account (CPF) to focus more on certified digital training programs.

Innovation: Enhance the impact of innovation and digital policies

Despite robust innovation support, results are mixed. Fewer firms patent or innovate compared to peer countries. Private firms' collaboration with public R&D is limited, and higher education R&D investment remains low. Strict foreign hiring rules exacerbate skill shortages. Digital adoption is lagging due to low adult ICT proficiency, limited cloud service use and high broadband costs.

Recommendations

- ✓ Evaluate the effectiveness of innovation support and redesign policies accordingly, giving particular attention to reforming the R&D tax credit, and enhance incentives to private-public cooperation in R&D.
- ✓ Ease administrative burdens associated with the hiring of high-skilled foreign workers and improve their labour market integration though a smoother recognition of foreign qualifications.
- ✓ Support firms' uptake of high-speed broadband by improving the clarity of offers, in terms of fees and services and better controlling the indirect costs of switching.

Competition: Ease barriers to entry and restructuring

France has overall competition-friendly product market regulations; however, barriers to entry in professional services persist, potentially weighing on competeveness and business dynamism. France's insolvency regime is efficient, although restructuring barriers persist, delaying the exit of non-viable firms and the recovery of those that are viable but struggling. Administrative formalities and barriers to trade in services remain comparatively high, contributing to hamper integration in global value chains and productivity growth.

Recommendations

- ✓ Streamline entry requirements and relax practice restrictions for architects, accountants, lawyers, and real estate agents to improve competition while safeguarding quality.
- ✓ Cap the length of stay on assets during restructuring and remove the priority of new financing over secured creditors.
- ✓ Ease barriers to trade by promoting further automation of administrative formalities and ease electronic transactions.

Taxation: Reduce the complexity of the system and the reliance on labour taxes

Indirect taxes (property and VAT) represent a relatively small share of revenues, as the system is heavily reliant on labour taxes, which can discourage employment and limit productivity. The average tax wedge is comparatively high, reducing incentives for labour market participation. Significant tax expenditures reduce overall collection and could be streamlined based on their effectiveness for growth and equity. The complexity of the tax system further undermines France's attractiveness to foreign investment.

Recommendations

- ✓ Consider a shift in the tax base towards broad-based taxes and environmental taxes.
- ✓ Simplify and improve tax efficiency by further cutting tax expenditures, including fossil fuel subsidies, preferential tax treatment on capital gains and wealth, and exemptions on property taxes.
- ✓ Once public finances have improved and are balanced, continue to lower taxes on labour and eliminate distortive business taxes.

Recent progress on structural reforms

Apprenticeship support has expanded, though it has been costly and may have substituted for other jobs. The 2025 reform, which narrows apprenticeship eligibility to less-educated students, is a welcome improvement. Since 2018, France has reduced administrative barriers with a one-stop business registration and easier digital market entry. Primary education funding rose 41% from 2012 to 2020. Teacher pay improvements and stronger links between schools and employers continue, driven by the 2023 vocational reform.

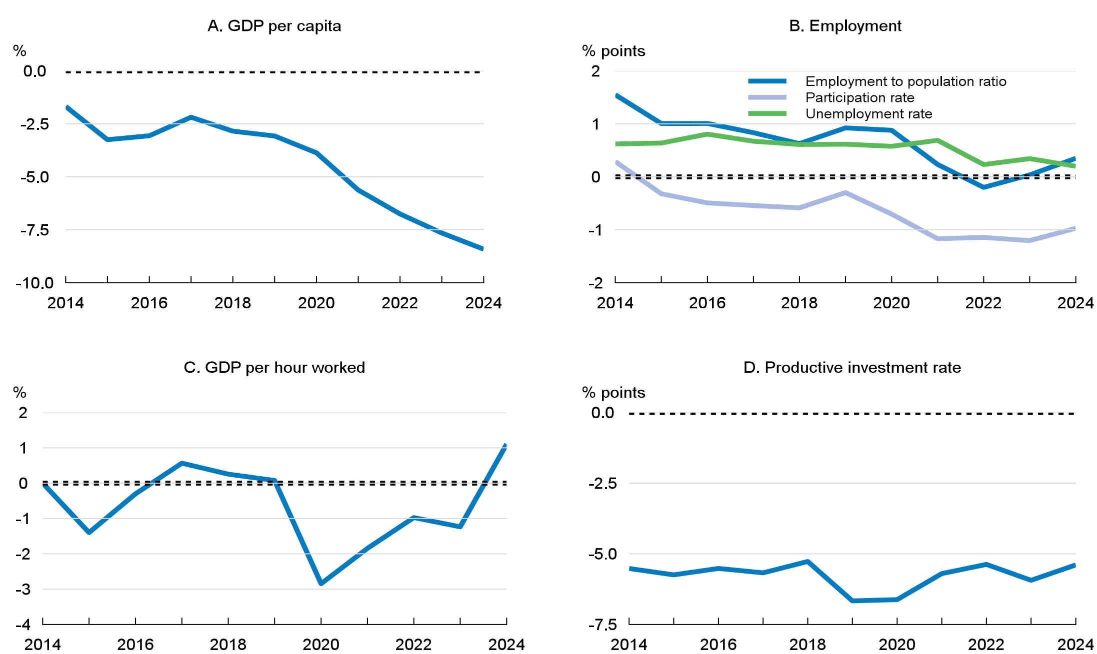
Germany

After a decade of strong export-led growth, the COVID-19 pandemic, Russia's war of aggression against Ukraine and rising trade tensions have hit the German economy and emphasised the need to accelerate structural reforms. Productivity growth had slowed down even before the pandemic due to weak public and private investment, declining business dynamism and rising skilled labour shortages exacerbated by rapid population ageing.

The recent reform of fiscal rules should be complemented with structural reforms to revive economic growth. Simplifying infrastructure planning and approval procedures, and improving the financial and administrative capacity of municipalities, is key to ensure the quick and efficient implementation of investment plans. Reducing high administrative burdens and regulatory barriers to competition is needed to revive business dynamism, investment and productivity growth. Improving labour supply incentives in the tax and transfer system for women, older and low-income workers and strengthening education and training policies would help address skilled labour shortages.

Economic performance

Gaps to the average of the upper half of the OECD countries



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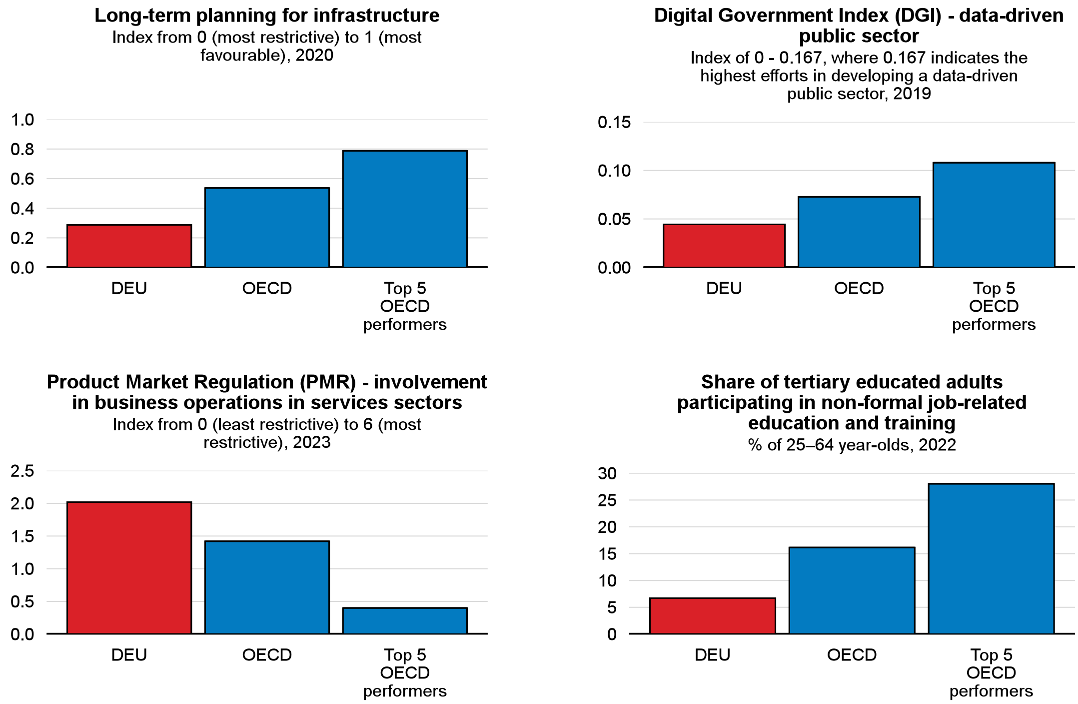
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Infrastructure: Simplify planning and approval procedures and strengthen administrative capacities of municipalities

Complex and lengthy infrastructure planning and approval procedures are a major factor for a large investment backlog in energy, digital, transport, and education infrastructures. Municipalities are responsible for a large share of public infrastructure investments, but financial difficulties and weak infrastructure planning capacities have led to negative net investment at the municipal level since the early 2000s. Non-discretionary expenditures legislated by other government levels, such as social benefits, have limited funds for municipal infrastructure investments. Moreover, the large number of small municipalities implies high unit costs of public service delivery, while labour shortages are high and the digitalisation of public services has been slow, leading to limited administrative capacities in many municipalities. The 2025 reform of fiscal rules should be combined with improving infrastructure planning and implementation.

Recommendations

- ✓ Streamline planning processes and improve public procurement through harmonisation and better use of digital tools, while bolstering local planning capacity through inter-municipal cooperation, training and expanding staffing in key technical roles.
- ✓ Compensate municipalities for future federal legislative changes affecting municipal budgets by increasing the share of joint taxes allocated to municipalities, while ensuring that grants from Laender through the municipal equalisation systems are not reduced in exchange.

- ✓ Encourage more cooperation across municipalities in public service delivery, including through financial incentives and capacity building initiatives, and consider transferring some tasks to other levels of government to free staff resources.

Governance: Lower the administrative burden and accelerate the digitalisation of the public administration

Complex regulations and administrative procedures that differ across sub-national governments and municipalities lead to high administrative burden, hampering firm entry and growth in many markets, for example in construction. While regulatory impact assessment is mandatory for any proposed legislation and a one-in-one-out rule exists to limit the increase of administrative burden for firms, enforcement and capacities for policy impact evaluation remain weak. Moreover, a one-stop shop for starting a firm does not exist because many decentralised registries and administrative procedures are still not digitalised or inter-linked, which is related to existing legal hurdles as well as a lack of common IT standards across levels of government.

Recommendations

- ✓ Expand efforts to harmonise existing regulations and administrative procedures across levels of government.
- ✓ Strengthen the power of the Normenkontrollrat to scrutinise the regulatory impact assessment of ministries, improve capacities for cost-benefit analysis in ministries and strengthen stakeholder engagement.
- ✓ Set mandatory common standards on design and inter-linkage of data and IT tools, while addressing legal hurdles to the inter-linkage of decentralised registries.

Competition: Reduce regulatory barriers to competition to revive business dynamism and innovation

Occupational entry regulations and licensing requirements to open a business are high, hampering market entry and competition, for example in the construction sector. The scope of state-owned enterprises (SOEs) is larger and their governance weaker than on average in the OECD, and the enforcement of competitive neutrality has room for improvement. Continuing to fight corruption and money laundering is key to level the playing field between firms. Capacity constraints, duplications and weak cooperation between federal and Laender law and tax authorities hinder the fight against money laundering and tax evasion.

Recommendations

- ✓ Reduce occupational entry restrictions, particularly in crafts and trade-related occupations.
- ✓ Strengthen the power of the competition agency to challenge decisions by public bodies and regulators that hamper competition.
- ✓ Implement plans to establish the Federal Financial Police, strengthen its investigative capacities, data access and cooperation with enforcement agencies of the Laender.

Labour market: Improve labour supply incentives in the tax and transfer system

Labour taxes are among the highest across the OECD, reducing labour supply incentives, while the share of revenue from property, capital gains and indirect taxes is lower than in the average OECD country. More than one sixth of the workforce works in part-time jobs exempted from employees' social security contributions (Mini-Jobs), the large majority being women. This is also related to the joint income taxation of married couples, which leads to particularly high effective marginal tax rates for second earners. The effective age of labour market exit is significantly below the legal retirement age due to generous early-retirement schemes, which are mainly used by workers with higher education and incomes and above-average health status.

Recommendations

- ✓ Lower personal income taxes, while raising revenue from property taxes and excise duties on alcohol and tobacco, and reducing tax expenditures in capital income, inheritance, VAT and environmental taxation.
- ✓ Restrict Mini-Jobs to school and university students while lowering the marginal tax rate for second earners by reforming the current joint taxation of couples.
- ✓ Phase-out fiscal incentives for early-retirement so that pension benefit reductions when retiring early are at least actuarially neutral and link the statutory retirement age to life expectancy.

Human capital: Strengthen education, training and adult learning policies to address skilled labour shortages

About 3 million young adults have no professional degree due to weak foundational skills, and many VET positions remain vacant. According to the OECD PISA study, educational inequality remains high and average performance outcomes have deteriorated since 2018. Structural change due to the green and digital transition will require more up- and re-skilling of workers, but participation in adult learning courses is low. This is related to the lack of harmonised quality standards and certification in the fragmented adult learning system, which creates information asymmetries and weighs on training quality.

Recommendations

- ✓ Introduce a mandatory high-quality pre-school year and lengthen the school day in primary school while raising hours for teaching of foundational skills.
- ✓ Create standardised quality certifications that set clear benchmarks for content, teaching quality, and learning outcomes of adult learning courses.
- ✓ Expand opportunities for the unemployed to complete formal VET degrees and further improve coordination between public employment services and local employers.

Recent progress on structural reforms

A 2025 reform of fiscal rules will allow raising spending on defence and public investment. Planning and approval procedures have been simplified and accelerated for renewable energy and grid extension projects. To address labour shortages, skilled migration has been facilitated by introducing a job search visa as well as simplified administrative procedures to receive work permits and visas for migrants with a job offer. A 2023 reform of the basic income support has abolished the prioritisation of job-uptake over training to allow for more fundamental re- and up-skilling of the unemployed. A reform of the federal lobbying register has raised transparency on lobbying to influence regulation. Competition enforcement has been strengthened by introducing a market investigation tool.

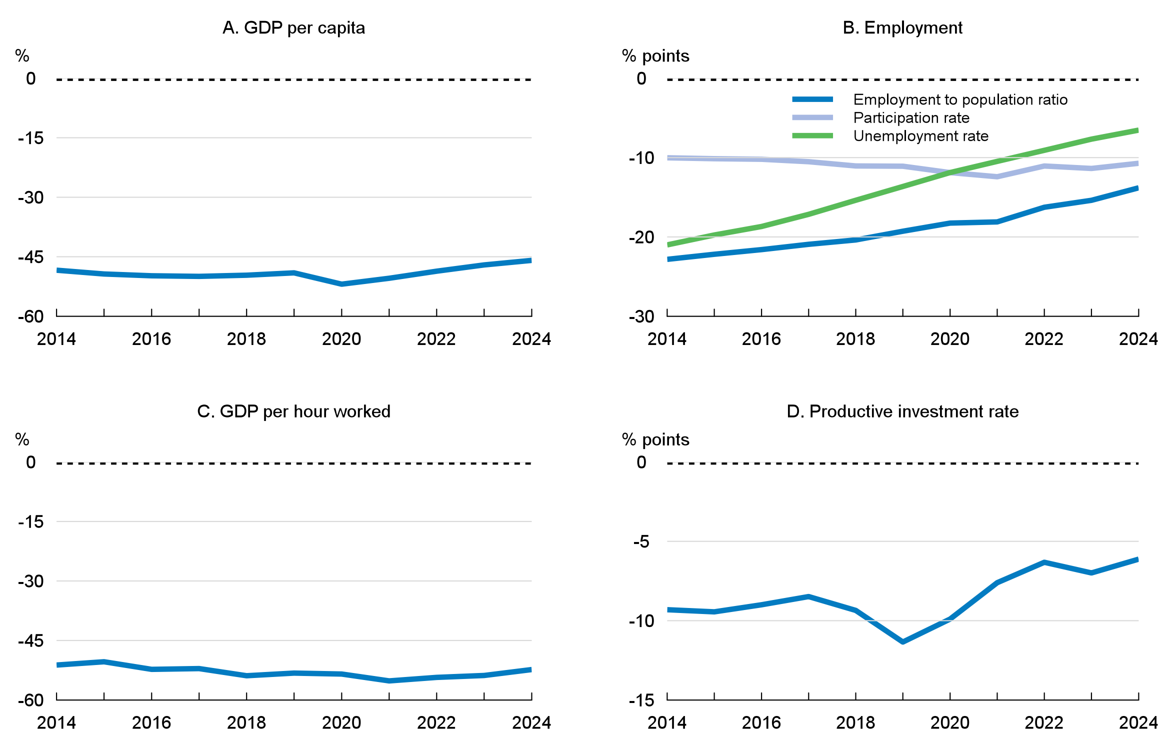
Greece

Greece's economy held up well during recent crises and outpaced the euro area over recent years. Gaps in GDP per capita to the most advanced OECD economies started to narrow as capital deepening, job creation, and structural reforms supported a steady recovery from the prolonged crisis. Progress has, however, been limited by weak productivity gains as the investment gap, albeit narrowing, remains large and many, mostly smaller firms still struggle to adopt digital technologies and innovate.

Achieving higher incomes, safeguarding competitiveness, and meeting high spending needs while maintaining public debt on a declining path will require bolstering productivity and sustaining employment gains. Better access to finance would empower more SMEs to innovate and invest in advanced technologies. Improving training and increasing labour force participation of women would ease skill shortages. Removing remaining regulatory burdens would strengthen competition and business dynamism.

Economic performance

Gaps to the average of the upper half of the OECD countries



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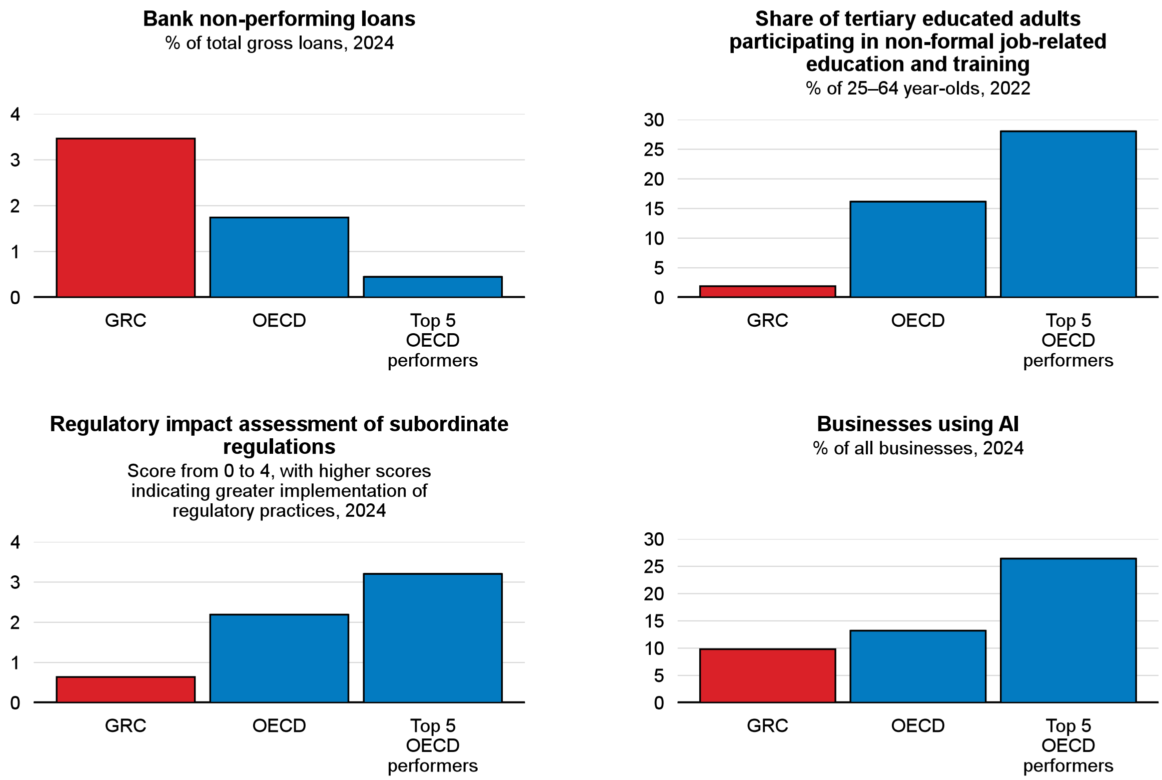


Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Finance: Continue to reduce and restructure non-performing loans

Banking is the main source of external financing. While banking sector health has greatly improved, the decade-long economic crisis left scars on the financial system. The share of non-performing loans (NPLs) on bank balance-sheets remains comparatively high, despite having decreased significantly, helped by "Hercules" schemes. Credit servicers, to whom risks have migrated, face obstacles in working out NPLs from cumbersome collateral liquidations and delays in court procedures, while debtors of unresolved NPLs remain effectively non-bankable. A 2024 reform of the judicial system aims to accelerate insolvency cases.

Recommendations

- ✓ Reduce the length of court procedures, building on the recent bankruptcy law and the 2024 reform of the judicial system.
- ✓ Continue progress with completing and digitalising the cadastre and land registry to ease procedures for e-auctions of foreclosed properties.
- ✓ Carefully monitor the evolution of non-performing loans and distressed debt.

Digital diffusion: Improve access to digital technologies and digital and management training for SMEs

Persistent productivity gaps are accompanied by slow diffusion of digital technologies. Use of digital technologies, from having a business website to using cloud computing and AI, is lagging other OECD countries, especially among smaller firms. Swiftly improving but still limited roll-out of high-speed broadband infrastructure, lack of managerial capacities and limited access to innovative finance are the main obstacles to reaping the benefits of digitalisation.

Recommendations

- ✓ Expand and subsidise access to quality management training for small and medium-sized business management, including to digitalise their business operations.
- ✓ Roll out financial literacy programmes for owners of micro and small businesses.
- ✓ Swiftly implement plans to expand coverage for very high-capacity networks (gigabit and 5G) to all households by 2030, including by ensuring sufficient funding and monitoring progress.

Skills: Strengthen access to high-quality training

Skill shortages are high and rising, hindering firm growth as well as innovation. While unemployment has been falling, it remains high compared to other OECD countries. Unemployment and skill shortages co-exist as skill mismatch is high. Adult skills as measured by PIAAC are lagging other OECD countries and uptake of training is low. Targeted training for unemployed workers through the Public Employment Service (DYPA) has improved but scarce funding for Active Labour Market Policies (ALMPs) holds back further progress.

Recommendations

- ✓ Ensure the quality of training providers through regular quality assessments and improved certifications of adult learning courses.
- ✓ Expand targeted training vouchers to enable adults to undertake longer training programmes and provide statutory education and training leave.
- ✓ Rebalance the high share of support for direct job creation towards more training and counselling for unemployed workers.

Female employment: Raise funding for quality daycare

The gap in employment rates between men and women remains large and the female labour force participation rate, while improving, remains among the lowest in the OECD. Enabling a better balance between work and family life would facilitate the labour market access for women, thereby increasing skill supply. Daycare capacities are however low as spending is geared towards birth grants rather than in-kind support.

Recommendations

- ✓ Improve access to affordable quality childcare by shifting public spending from birth grants towards childcare facilities.
- ✓ Further strengthen gender stereotype awareness campaigns and equality labels for businesses.
- ✓ Introduce incentives to ensure the new paid paternal leave is taken up, such as longer combined leave duration or higher benefits if fathers take parental leave.

Competition: Ensure regulatory quality and easing restrictions for services

Weak business dynamism is accompanied by high perceived regulatory burdens. Firm entry and exit rates are low as the economy is dominated by small firms with often low productivity and failing to grow. While the regulatory framework has overall become more competition-friendly, there remains room for improvement, notably for regulatory quality and professional services that provide important intermediate services for businesses.

Recommendations

- ✓ Ensure the effective and timely consultation of stakeholders on new draft legislation and regulations, including by avoiding emergency legislations.
- ✓ Formalise and accelerate the review of existing business regulations in cooperation with businesses and union representatives.
- ✓ Ease regulatory restrictions in professional services such as lawyers and notaries, including with respect to market entry, pricing of legal services and professional cooperation between lawyers and notaries.

Recent progress on structural reforms

Greece has undergone many structural reforms in recent years. Major reforms include a new insolvency regime aims to facilitate the enforcement of property rights. The reform of the judicial system aims to improve efficiency through balancing the distribution of cases and digitalising procedures. Measures incentivising and improving information on electronic payments combat tax evasion. Digitalisation and simplification of many public services are progressing well to improve public sector efficiency, while codification and several measures improving legislative quality aim to reduce regulatory burdens.

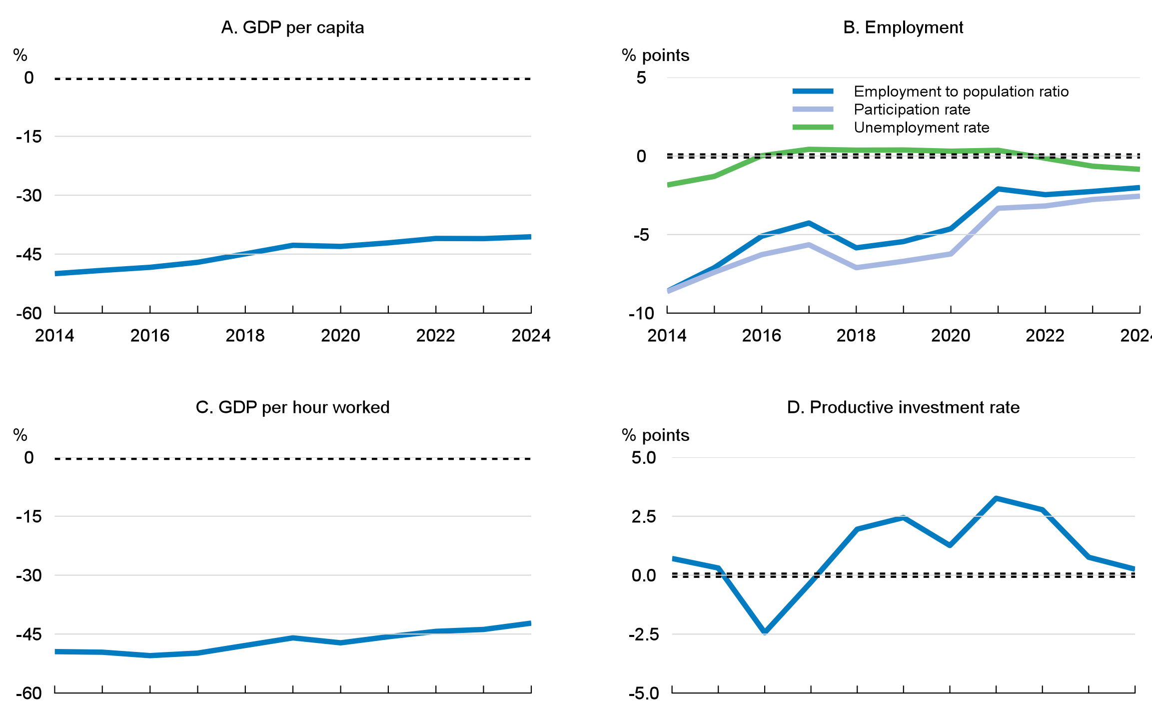
Hungary

Despite a high but declining investment rate, a significant labour productivity gap keeps Hungary's GDP per capita well below the OECD average. Structural reforms have significantly bolstered the employment rate in the last decade. However, the shrinking working-age population will increasingly undermine long-term growth in the future, which calls for adequate policies to boost productivity.

Fully implementing recent public integrity and anti-corruption reforms, softening services trade restrictions, and lowering entry barriers in the transport sector would improve the business environment and support productivity growth. Developing interconnections between road and rail and systematically using cost-benefit analysis for public investment are priorities for infrastructure improvement. Improving health conditions and accelerating the development of low-carbon energy sources to reduce reliance on energy imports would also contribute to more sustainable growth.

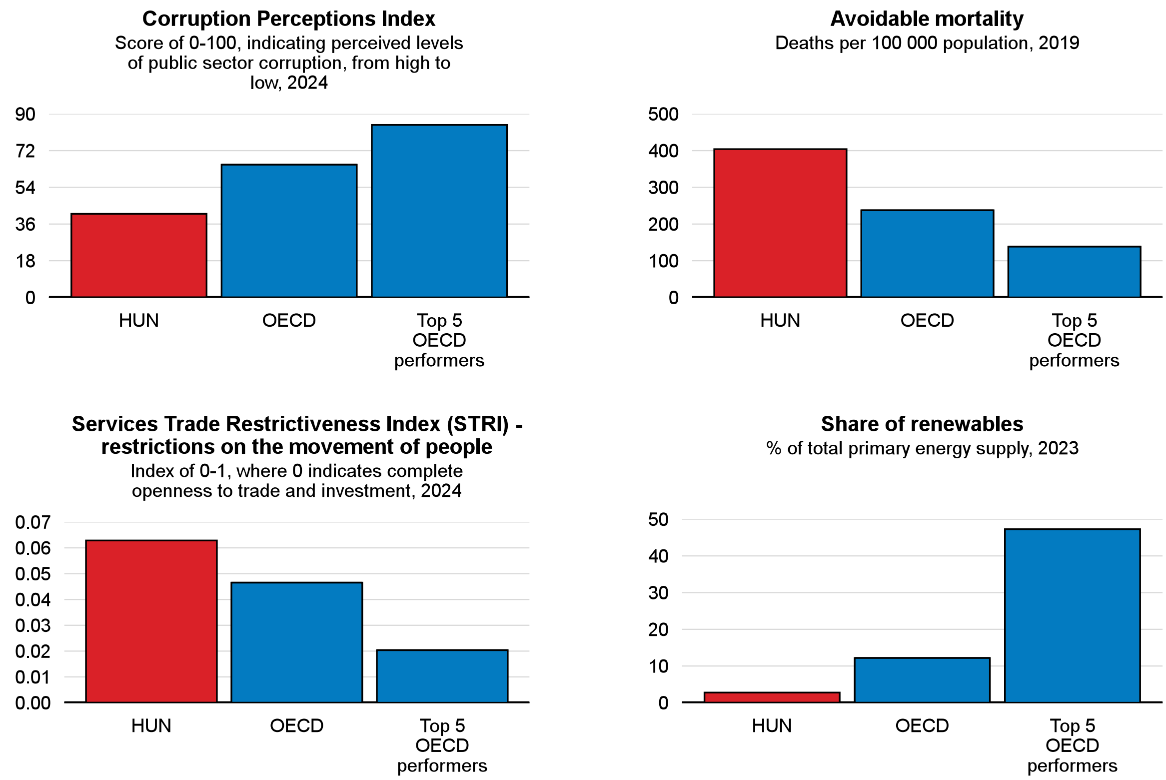
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Governance: Fully implement the new anti-corruption framework and improve transparency throughout the policy cycle

Corruption in Hungary is perceived to be higher than in most other OECD countries. Recent reforms have the potential to improve the situation, but the verification powers of the newly created Integrity Authority remain limited and the way it should interact with the new strategy against fraud and corruption for EU funds is unclear. While draft legislation is required to be made accessible to the public with the possibility to provide comments, consultation is not required in the early phases of the legislative process and there is no oversight body in charge of quality improvements for regulatory impact assessments (RIAs) or ex-post evaluations.

Recommendations

- ✓ Fully implement the new anti-corruption and public integrity framework, and enhance coherence between the two anti-corruption strategies.
- ✓ Enhance the powers of the newly created Integrity Authority to remove any constraints which may undermine its capacity to fulfil its purpose and conduct independent investigations.
- ✓ Improve transparency throughout the policy cycle by consulting stakeholders as early as possible and at different stages of the policy cycle, and by making relevant supporting legislative documents and RIAs available online to the public.

Health: Promote healthier lifestyles, ensure sufficient staffing, and increase the efficiency of health spending

Hungary's life expectancy lags behind the OECD average, due to high mortality from preventable causes, as well as insufficient and inefficient spending on health. The number of nurses and personal care workers is low compared to the OECD average, and staffing varies across regions. Preventive care spending is well below the OECD average, while tobacco and alcohol consumption are high. Poor health conditions may hinder productivity and reinforce demographic challenges posed by an ageing population.

Recommendations

- ✓ Promote healthier lifestyles with a comprehensive package of reforms, including by raising resources allocated to preventive care and building up on recent reforms that increased taxation on harmful products such as alcohol, tobacco and unhealthy food and beverages.
- ✓ Facilitate the recruitment and retention of health workers in all regions by ensuring that wages are sufficiently attractive, also compared with neighbouring countries.
- ✓ Increase the efficiency of health spending by reinforcing the role of primary care, fully exploiting the potential of generic medicines and streamlining the hospital network.

Physical infrastructure: Develop road and rail interconnections, and soften regulations that limit competition in the transport sector

Despite a dense rail network in Hungary, less than half is electrified and train usage only represents a limited share of passenger transport. Increased train usage would limit accute congestion issues around the largest cities. License requirements and the existence of regional monopolies for long-distance passenger transport also hinders the entry of new firms in the road transport sector. Moreover, formal cost-benefit analysis is insufficiently used for public investments in infrastructure projects.

Recommendations

- ✓ Develop road and rail interconnections, including “Park and Ride” facilities, to ease the use of the public transportation network around Budapest and other main cities where population is growing.
- ✓ Facilitate business entry in the road transport sector by easing barriers to entry and license requirements.
- ✓ Systematically rely on cost-benefit analysis for public investments in infrastructure projects.

Trade: Remove unnecessary services trade restrictions

The regulatory environment for services trade has tightened over the past years, notably through restrictions on the entry of non-EU workers, including quota and labour market testing for work permits. Specific hurdles exist in the construction sector, such as residency requirements for non-EU construction engineers and permits for real estate acquisition by foreigners. In the distribution and legal services sectors, significant requirements for firms entering the market may undermine the creation of new businesses and employment.

Recommendations

- ✓ Ensure that restrictions on the entry of non-EU workers account for labour market tensions, especially as the working-age population is expected to decline significantly due to ageing.
- ✓ Soften requirements for firms providing distribution services in Hungary without a physical presence in the country.
- ✓ Reconsider the residency requirement for non-EU construction engineers.

Energy: Ensure sufficient financing for electricity grid investments and facilitate the deployment of renewable energy sources

Despite the rapid increase in the production of solar energy in recent years, the overall share of renewables in the energy mix is low compared to the OECD average. The geothermal potential is largely untapped while wind capacity expansion has come to a standstill in the last decade. Hungary remains highly dependent on energy imports, which creates a risk for energy security and exposes the economy to fluctuations in global energy prices. Massive investments in the electricity grid will be needed to accommodate additional renewable energy sources and deliver gains in energy security and access to affordable, stable energy for businesses and households.

Recommendations

- ✓ Allow the electricity grid operator to raise fees to cover operating costs and investment needs in the electricity grid if EU and government financing proves insufficient.
- ✓ Ensure that the recent easing of regulations to install windmills translates into accelerated installation. Consider further adjustments if needed.

Recent progress on structural reforms

The significant reduction in employer social contributions between 2017 and 2022, coupled with a reduction in the duration of unemployment benefits from 9 to 3 months since 2011, have contributed to an increase in the employment rate by more than 10 percentage points over the last decade. Hungary's employment rate, at 75% in 2024, is now well above the OECD average of 70%.

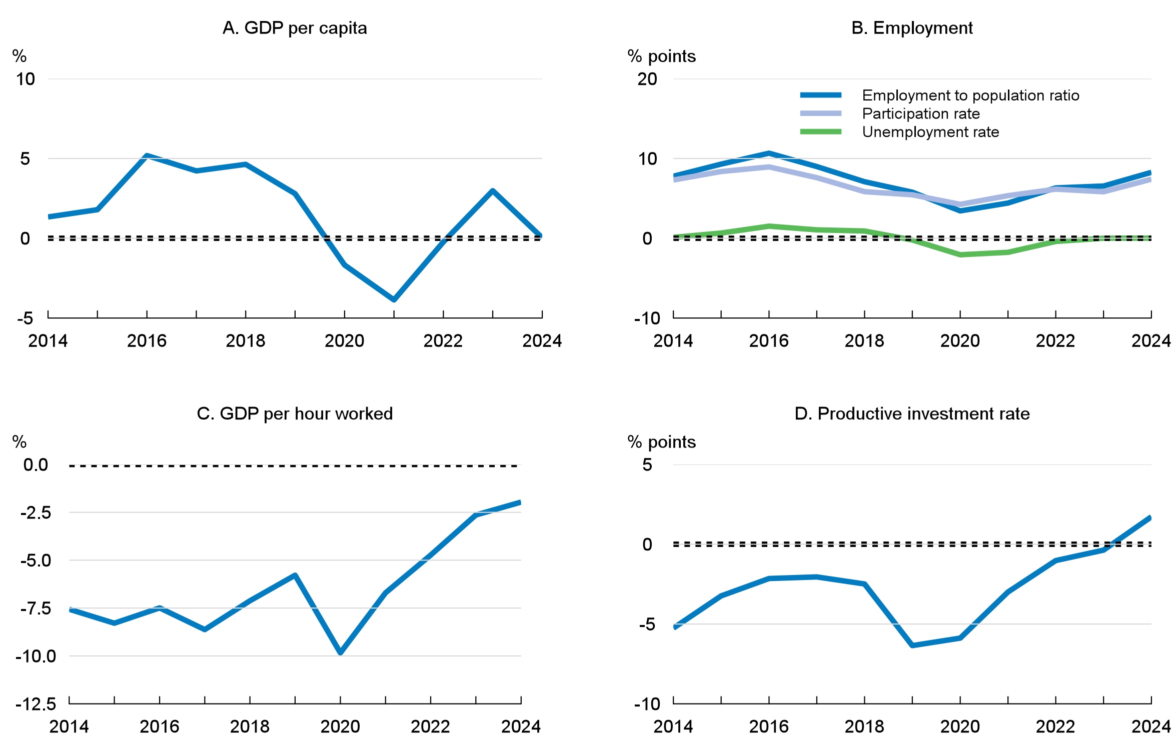
Iceland

Iceland ranks among the wealthiest countries in the OECD, driven by high participation and employment and above-average productivity per worker. Productivity per hour is on an upward trajectory, supported by increasing investment. However, hourly productivity in the domestic goods and services sector continues to lag. Moreover, Iceland's heavy reliance on natural resources highlights the importance of opening and diversifying the economy to secure sustainable long-term growth.

A key policy challenge is to improve the business climate. To encourage entrepreneurship, Iceland should reduce entry barriers for both domestic and foreign firms and strengthen international trade facilitation. Streamlining administrative procedures would boost electricity production. Enhancing public effectiveness frameworks would foster both productivity and public trust. A broad-based education reform could help lift foundational skills.

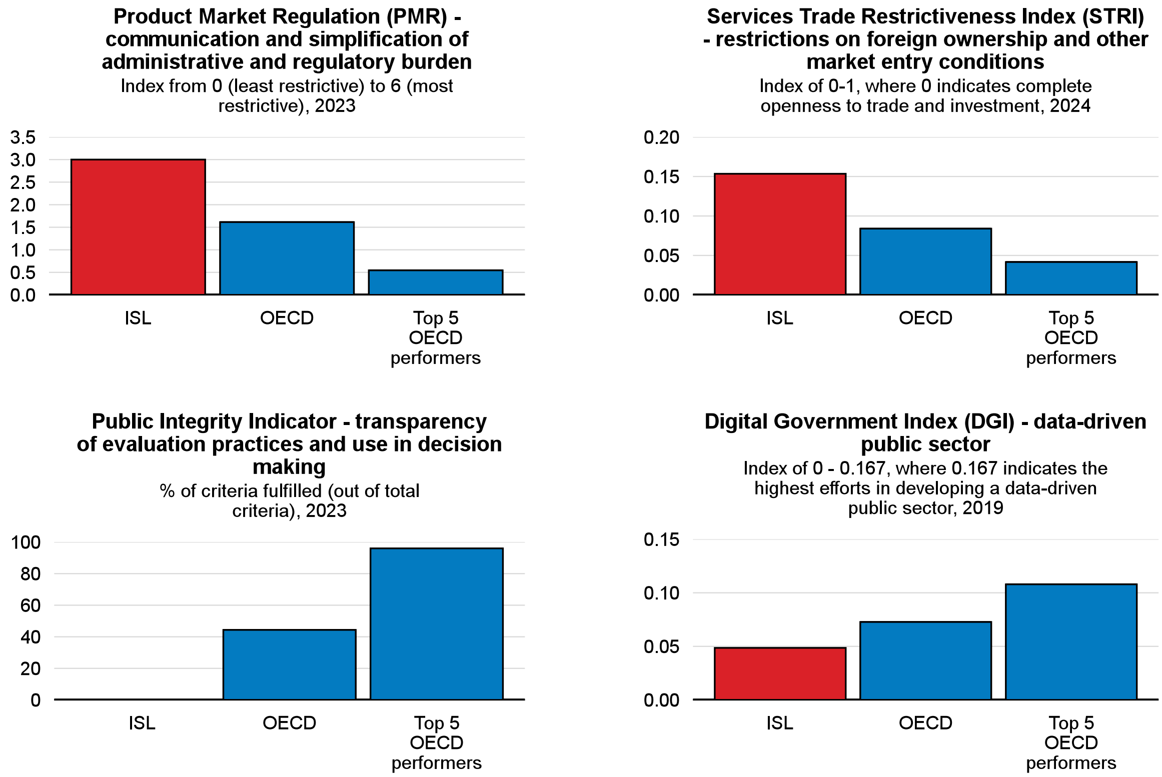
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Openness: Foster foreign direct investment and facilitate trade

Regulations on foreign direct investment (FDI) and services trade are stringent, limiting market entry for foreign firms and slowing access to the global technological frontier. Certain sectors are subject to strict foreign equity restrictions. The authorities can also screen FDI on economic interest grounds in a discretionary manner. Trade is hampered by relatively complex and untransparent administrative procedures.

Recommendations

- ✓ Review and remove restrictions on foreign direct investment and services trade where appropriate.
- ✓ Specify the criteria against which FDI undertakings are evaluated and limit the discretionary power to screen FDI.
- ✓ Facilitate international trade by setting up a one-stop shop for customs proceedings, while strengthening coordination among the agencies involved.

Competition: Reduce regulatory barriers to firm entry

Despite some improvements in the tourism and construction sectors, barriers to firm entry remain high. High administrative and regulatory hurdles to start a business undermine entrepreneurship and slow productivity growth. Access conditions to occupations and professions are stringent. Business licencing can be cumbersome, involving multiple authorities with sometimes inconsistent decisions. Insolvency procedures can be long and expensive for small firms.

Recommendations

- ✓ Review the policy objectives for business and occupational licences and retain only those that are necessary for service integrity and consumer protection.
- ✓ Simplify administrative procedures for business licensing, such as establishing a one-stop-shop for entrepreneurs.
- ✓ Set up pre-insolvency procedures for firms in difficulties and introduce a simplified insolvency regime for small firms.

Energy: Increase electricity supply

Abundant domestic electricity has long been a mainstay of economic development in Iceland. Yet growing demand driven by decarbonisation efforts and the digital transition is straining the power system. Supply constraints are biting more frequently, affecting export revenues, and prices are rising. The ageing transmission grid is reaching its capacity limits. Tedious permit and licensing procedures, and weak financial incentives for municipalities, are holding back new generation and transmission projects.

Recommendations

- ✓ Invest in additional transmission capacity based on comprehensive cost-benefit analysis and well-coordinated with generation projects.
- ✓ Establish a 'fast track' administrative procedure for electricity projects that have been prioritised by parliament.
- ✓ Strengthen the municipal share in revenues from power generation, for instance by sharing royalties, fees, and dividends.

Governance: Foster public sector effectiveness

Iceland’s institutions are of high quality yet strengthening public sector effectiveness could further enhance productivity. Evaluation practices could be made more transparent, and the use of evidence-based problem analysis and diagnostic tools become more widespread. Action plans should include financial considerations, such as cost estimates. Although a digital platform has been introduced (Island.is), there remains potential to further develop digital government services.

Recommendations

- ✓ Strengthen the strategic framework to increase public sector effectiveness, especially by enhancing evaluation practices and evidence-based problem analysis.
- ✓ Accelerate progress towards digital government and a data-driven public sector and simplify access to public data.

Education: improve foundational skills

Over the past two decades, the quality of compulsory education has declined markedly, potentially reducing productivity in the long term. While the decentralised school system offers many advantages, the absence of standardised testing limits the central government's ability to effectively monitor school and student performance. The PISA score gap between native and immigrant students is among the widest in the OECD. Teaching quality is relatively low.

Recommendations

- ✓ Set up a framework for standardised testing to inform student outcomes and teaching practices, and strengthen central monitoring of school performance.
- ✓ Support immigrant students, notably by expanding systematic and targeted language training.
- ✓ Improve and adapt the teacher competency framework.

Recent progress on structural reforms

While progress has been relatively limited in recent years, some reforms were nonetheless implemented. Regulations were eased in the transport and construction sectors. The electricity sector has undergone significant modernisation, with the full separation of generation, transmission, and distribution, and the establishment of two wholesale markets. Additionally, efforts to strengthen public integrity have been undertaken, including the introduction of legislation to protect whistleblowers.

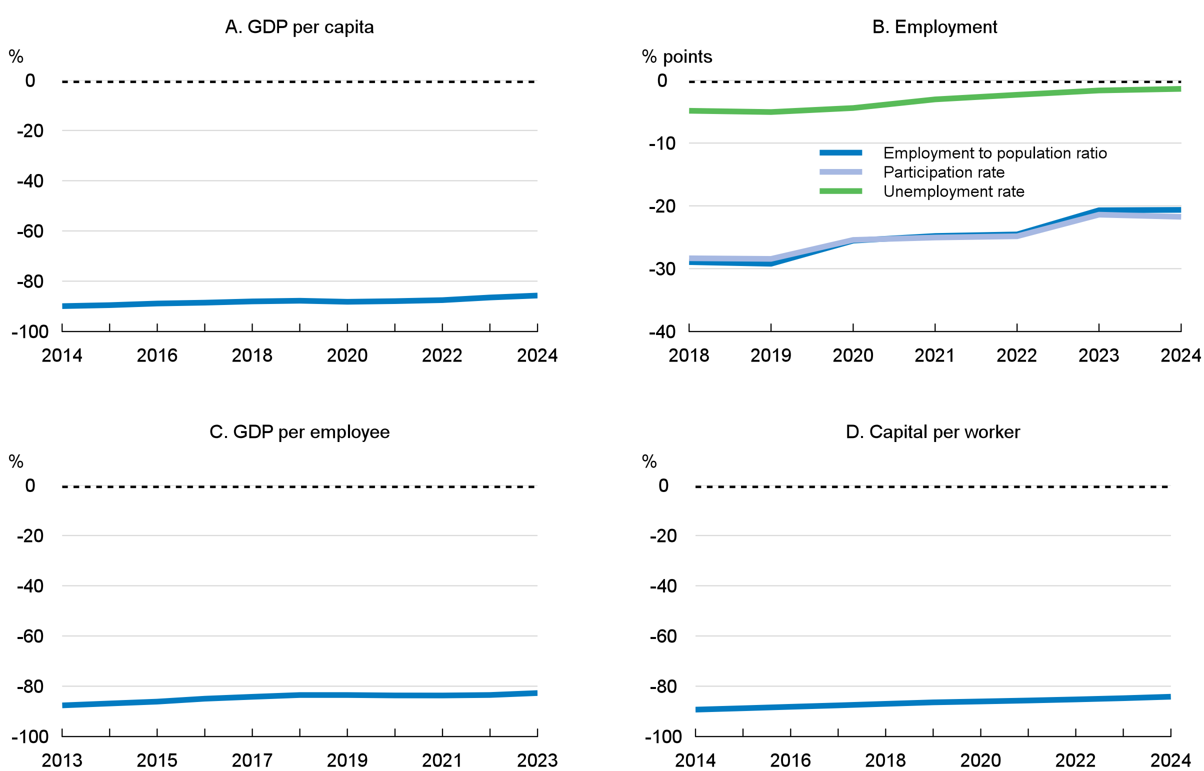
India

Over the last two decades, India has been among the world's fastest-growing large economies. Its robust GDP per capita growth has mostly been driven by total factor productivity and capital accumulation. Labour utilisation contributed to a lesser extent due to persistently low labour force participation rates, particularly among women. At the same time, skill shortages limit firms' ability to expand, adopt new technologies, and generate employment.

Structural constraints continue to hinder faster growth in India's labour productivity. Inadequate infrastructure disrupts business operations and limits access to broader markets and technologies. High informality and underrepresentation of women in skilled employment represent a missed opportunity to fully harness the country's human capital. Trade and investment barriers hold back India's integration into global value chains.

Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panels A and D: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases.

Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Infrastructure: Strengthen infrastructure through public investment and private partnerships

Inadequate and uneven infrastructure quality hinders India's economic potential. Persistent bottlenecks in electricity, with frequent power outages, continue to disrupt operations. Roads, ports, and railways often suffer from poor maintenance, raising transport costs and delays. In rural and semi-urban areas, limited broadband penetration and poor connectivity further restrict business access to online services and markets.

Recommendations

- ✓ Maintain robust public investment in infrastructure, especially electricity, transport and telecommunications.
- ✓ Support private financing, including through better risk-sharing and regulatory clarity in public-private partnerships.

Education: Invest in skills and innovation to boost job quality and retain talent

Skill gaps remain a pressing issue in India. Despite the country's large and youthful workforce, a significant share of workers lacks the technical and vocational training required to meet the demands of sectors with high growth potential such as advanced manufacturing, financial services, and information technology. The persistent brain drain aggravates the situation, as many highly educated people choose to pursue opportunities abroad.

Recommendations

- ✓ Expand polytechnic and advanced technical institutes focused on high-value-added manufacturing, advanced services, and IT.
- ✓ Enhance public and private R&D to provide better-quality jobs and retain skilled workers.
- ✓ Strengthen partnerships between industry and educational institutions to ensure curricula reflect labour market needs.

Business environment: Streamline regulatory system

Regulatory burdens constrain investment, discourage technology adoption, innovation, and the formalisation of enterprises. While digitalisation has advanced, businesses still face complex procedures to register, obtain licences, and meet tax obligations. The tax system's complexity and unpredictability particularly deter smaller firms and foreign investors. In the services sector, restrictive licensing, professional accreditation hurdles, and foreign equity caps further hinder market entry.

Recommendations

- ✓ Streamline and digitalise business registration and licensing through one-stop platforms.
- ✓ Harmonise taxation across government levels to reduce regulatory fragmentation and enhance the predictability of tax administration, particularly for SMEs.
- ✓ Accelerate the implementation of the labour codes and the rollout of a unified digital compliance system to reduce compliance burdens.

Trade openness: Enhance global value chain integration via trade facilitation and trade agreements

India's participation in global value chains remains weak, limiting its ability to benefit fully from evolving global trade dynamics, including access to advanced technologies, knowledge spillovers, and diversified export markets. High tariffs and complex customs procedures continue to act as barriers to international trade, while restrictions on foreign service providers, such as equity caps and nationality requirements, constrain competition and limit India's access to high-quality international services and expertise.

Recommendations

- ✓ Reduce import tariffs and simplify customs procedures.
- ✓ Expand and deepen bilateral and regional trade agreements, with a particular focus on services.
- ✓ Relax or remove foreign equity caps and nationality requirements when not justified by public interest concerns.

Education: Promote gender equality through targeted support for education, skills, and transition into the workforce

Women remain underrepresented in higher education and skilled employment, limiting their economic empowerment and the country's growth potential. Structural barriers—such as caregiving responsibilities, safety concerns, and financial constraints to limited access to quality education and training—hinder their full participation. To address the problem a life-cycle approach from school to work is needed.

Recommendations

- ✓ Expand access to inclusive secondary and tertiary education through targeted scholarships, conditional cash transfers, and subsidised transport for girls from disadvantaged backgrounds.
- ✓ Scale up vocational and digital skills training for young women, particularly in high-growth sectors like IT, healthcare, and advanced services.
- ✓ Improve the learning environment, including through support for hostels, separate sanitation facilities, and anti-harassment protocols.

Recent progress on structural reforms

In recent years, India has signed key trade agreements with the UAE (2022), EFTA (2024), and the UK (2025). It has expanded education and skilling schemes with a particular focus on girls and women and enhanced digital and vocational training through the 2023 expansion of the Skill India Mission. Labour regulations were simplified under the Labour Code Consolidation (2020) to reduce regulatory ambiguity. These efforts aim to address productivity barriers, though effective implementation remains crucial.

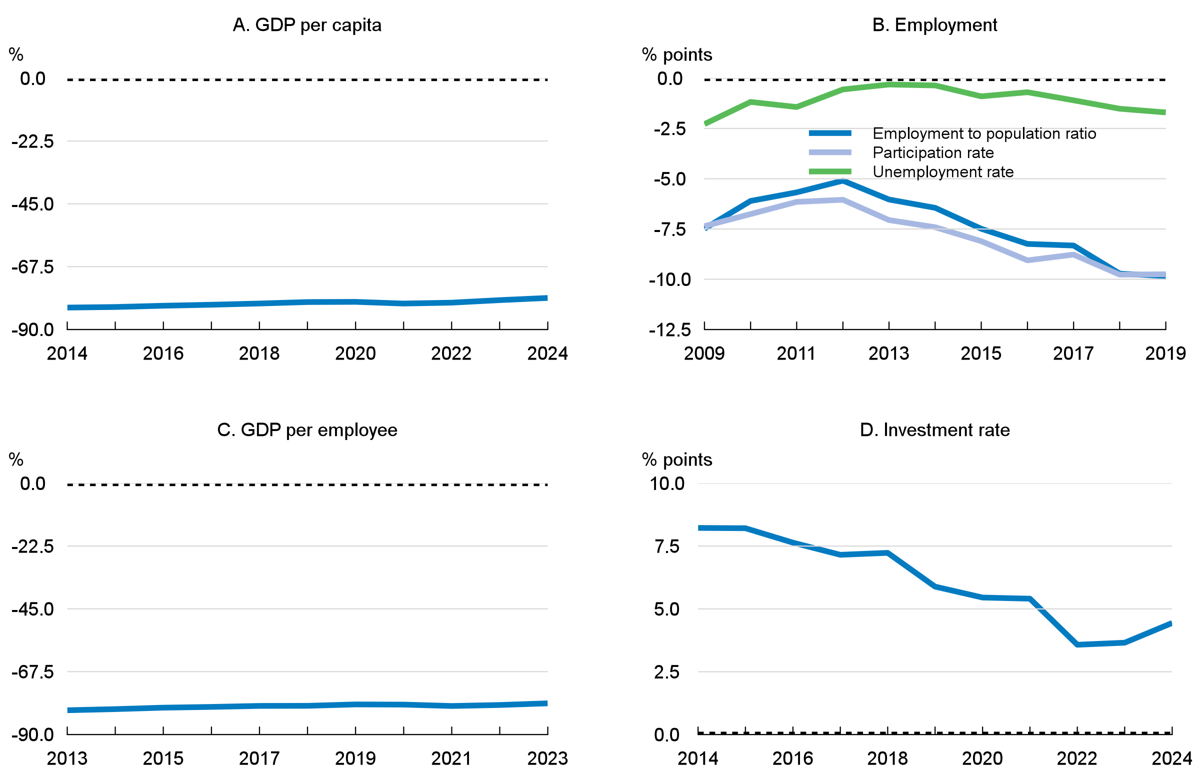
Indonesia

Indonesia's economic convergence has stalled in recent years, largely reflecting slowing labour productivity growth. While robust investment has sustained rapid growth in the capital stock, growth in total factor productivity has been significantly lower than in emerging market peers. Unemployment has receded to pre-pandemic levels, but low female participation weighs on aggregate employment.

Reducing barriers to trade and foreign investment while expanding and deepening the network of bilateral and regional trade agreements would help boost global value chain integration and economic growth. Educational attainment and quality need to be enhanced while student skills need to become more closely aligned with labour market needs. Reducing regulatory red tape and levelling the playing field between state-owned enterprises and private businesses would boost investment and productivity.

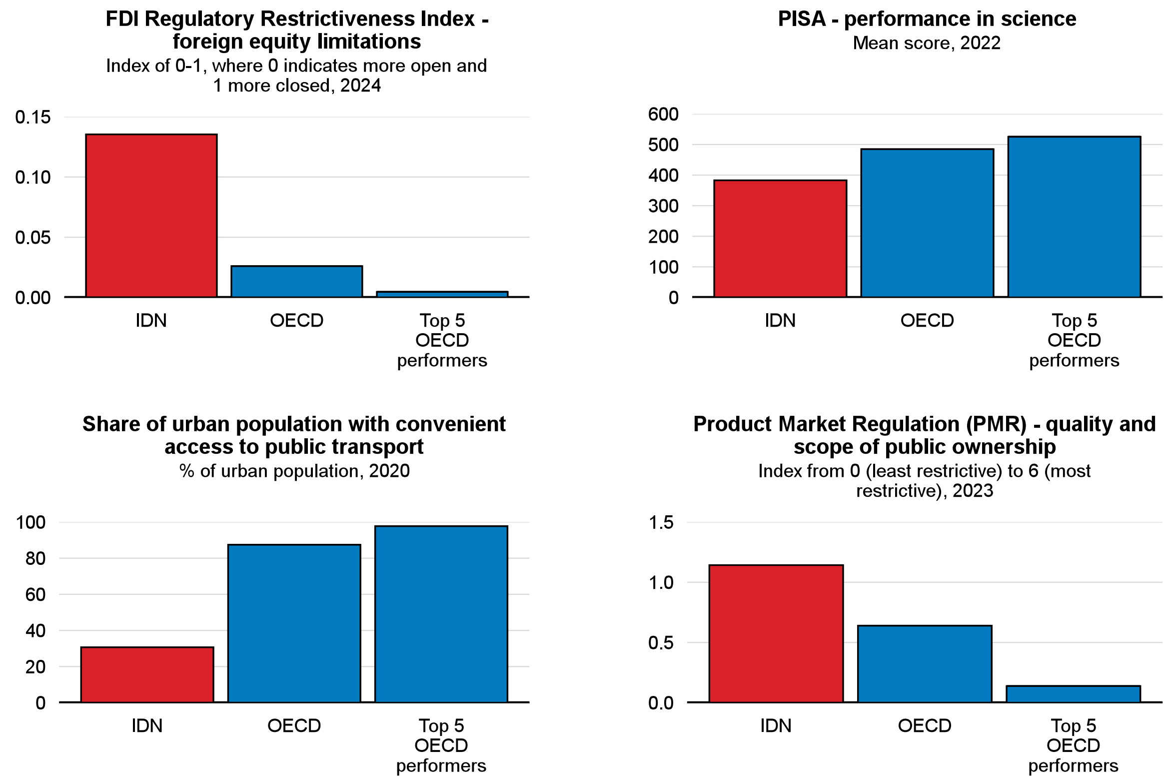
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Trade and investment: Deepen global value chain integration

Indonesia faces significant bottlenecks for trade and investment due to widespread regulatory barriers, including high restrictions on services trade and foreign direct investment. This is compounded by persistent non-tariff barriers, including numerous local-content requirements and indirect discriminatory impediments that favour domestic firms, hindering foreign firms and trade integration.

Recommendations

- ✓ Eliminate or reduce non-tariff barriers and licensing requirements on imports and exports.
- ✓ Accelerate negotiations and implementation of regional and bilateral trade agreements, explicitly including services chapters.
- ✓ Level the playing field for foreign firms by reducing discriminatory provisions in public procurement and product market regulation.

Education: Improve quality and alignment with market needs

Indonesia's education system faces significant gaps in quality, reflected by persistently low PISA scores, which is compounded by considerable disparities in educational attainment across regions and high out-of-pocket costs for secondary schooling. Mismatches between educational outputs and labour market demand hamper productivity and economic growth.

Recommendations

- ✓ Invest in teacher training and evaluation to enhance instructional quality.
- ✓ Reduce out-of-pocket costs for secondary education for low-income families through increased state funding.
- ✓ Expand and improve vocational training by involving local governments and businesses in defining needs.

Infrastructure: Expand and modernise transport and energy networks

Indonesia faces persistent infrastructure bottlenecks that constrain economic growth, especially outside Java. Gaps in electricity reliability, road connectivity, port capacity, and urban transport reduce logistics efficiency, inflate costs, and limit access to markets and services.

Recommendations

- ✓ Modernise the electricity grid and expand access by accelerating investment in transmission and renewable generation.
- ✓ Prioritise infrastructure investment outside Java, especially in transport corridors and secondary cities.
- ✓ Strengthen public-private partnerships (PPPs) by improving project selection, risk-sharing frameworks, and regulatory clarity.

Business environment: Reduce the administrative burden and reform SOEs

Bureaucratic complexity, inconsistent regulation, and SOE dominance in key sectors constrain private investment and productivity. The prevalence of state-owned enterprises (SOEs) creates significant market distortions and an unlevel playing field for private sector growth. SOEs often act as instruments of government policy, benefiting from subsidised interest rates, implicit state guarantees, and enjoying exemptions from certain antitrust laws.

Recommendations

- ✓ Expand and enforce the use of the one-stop-shop for business licencing (OSS-RBA).
- ✓ Develop a clear SOE ownership policy, distinguishing between commercial vs. strategic roles.
- ✓ Apply competitive neutrality principles and limit SOE privileges.

Digitalisation: Expand access and foster diffusion

Despite progress in digitalisation, Indonesia faces challenges related to low fixed broadband penetration and slow 5G rollout, particularly in rural areas. Adoption of digital tools by the broader business sector has been modest, while digital firms with intangible assets have difficulties accessing finance. Shortfalls in digital skills are widespread across the population, including among students, teachers, and government employees, which limits the effective use of digital technologies.

Recommendations

- ✓ Streamline permitting for broadband and 5G deployment, establish an independent telecommunications regulator, and reform spectrum allocation.
- ✓ Expand digital adoption programmes and strengthen venture capital and alternative financing for digital firms.
- ✓ Give digital competencies more prominence in school curricula and upgrade the digital skills of teachers.

Recent progress on structural reforms

Key structural reforms in recent years include the streamlining of business licensing and labour market frameworks as well as the gradual liberalisation of foreign direct investment across key sectors, including energy, telecommunications, and e-commerce. A recent tax reform has reduced corporate tax rates, expanded VAT coverage, and included provisions for carbon taxation to enhance fiscal sustainability and support climate objectives. However, reform implementation has encountered significant legal challenges and public opposition that has somewhat constrained the reform momentum.

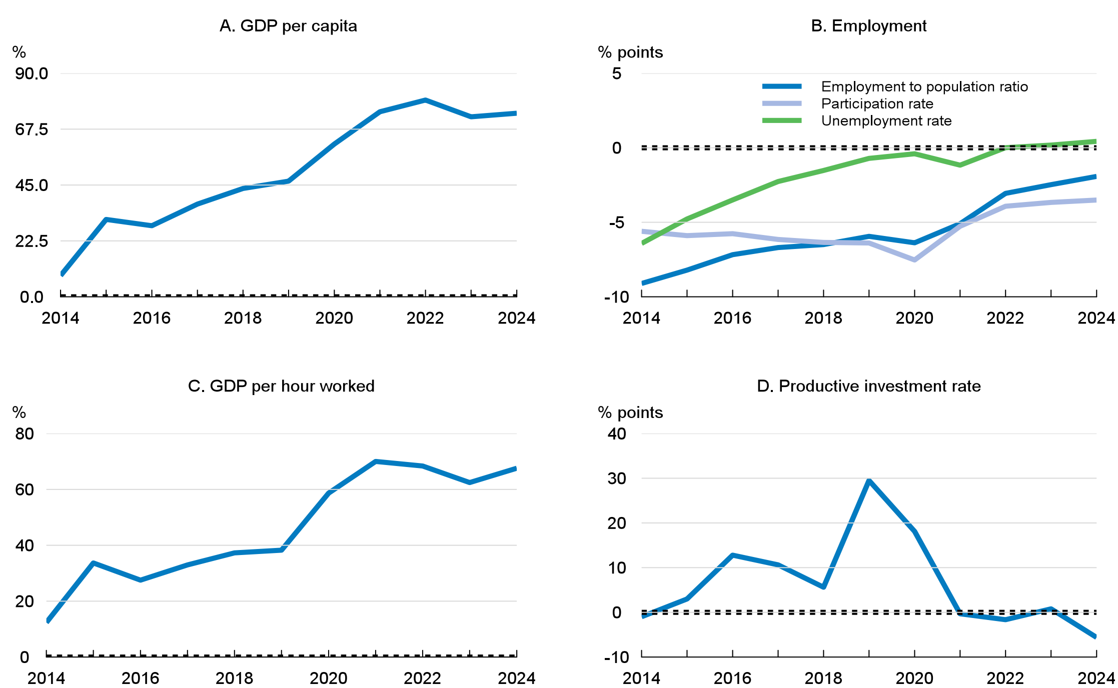
Ireland

Ireland's living standards have improved considerably over the past decade. Driven largely by multinational enterprises, per capita income and labour productivity have surged to among the highest in the OECD, although domestic firms have remained far less productive. Robust population growth, supported by net migration inflows, plus rising participation rates among women and seniors, have pushed up employment rates. Private domestic investment has been volatile in the multinational sector and subdued overall lately.

Improving access to childcare and reducing tax disincentives for second earners are key to further increasing participation rates and lowering the high share of women on part-time contracts. A more diversified revenue structure would increase resilience to shocks while providing more stable funding for productivity-enhancing long-term investments. Ensuring that physical and digital infrastructure networks meet the quality standards required by an innovation-oriented economy is paramount to preserving Ireland's attractiveness to foreign investors.

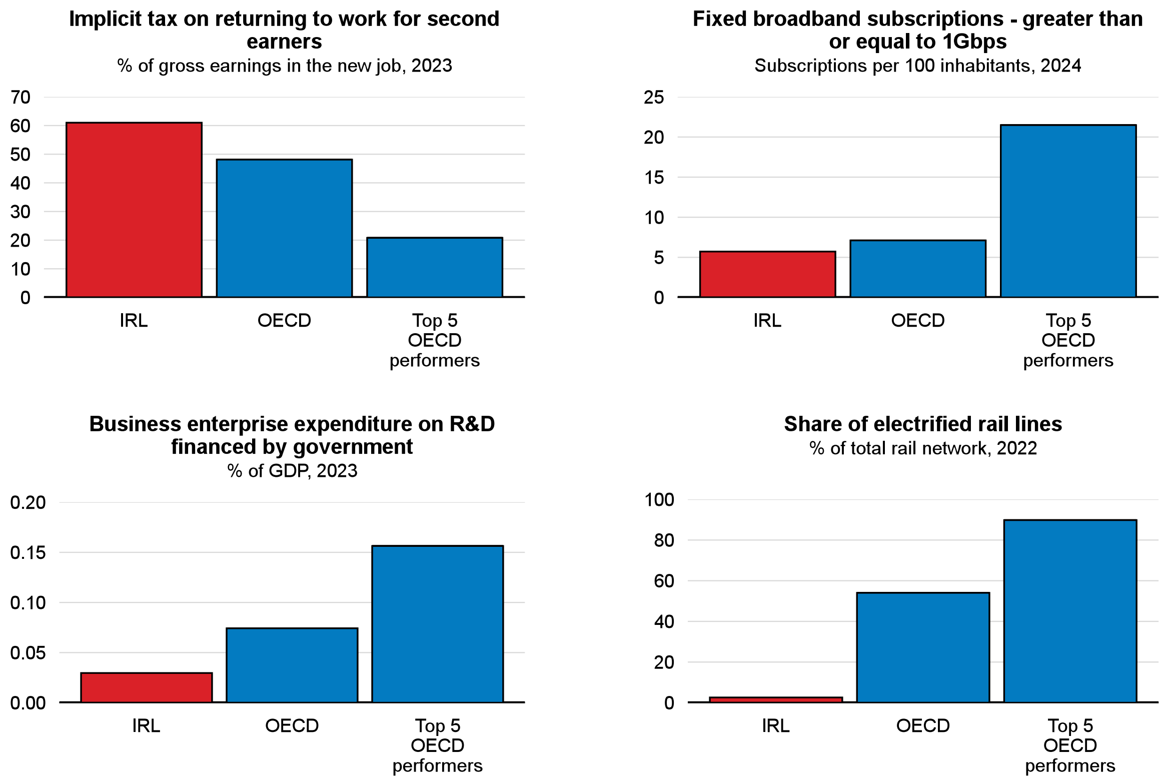
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Labour market: make childcare more affordable to support full-time employment for women

The employment rate of women aged 15-64 has risen to around 70%, but close to one third of those employed are on part-time contracts. Enrolment in childcare, which is largely privately run, is low compared to other OECD countries, particularly for low-income households. This is partly due to elevated childcare costs, which have accelerated on the backdrop of capacity and skills shortages, despite generous public subsidies and enhanced funding. The tax and benefit system also increases net childcare costs, creating disincentives for women to work or work more hours.

Recommendations

- ✓ Continue measures to expand childcare capacity.
- ✓ Make public financial support for childcare more means-tested.
- ✓ Smooth disincentives for second earner employment arising from the combined effect of childcare costs, taxation and withdrawal of benefits.

Digitalisation: Expand access to fast broadband and boost competition in telecommunications

Despite the uneven territorial distribution of its population, Ireland has been making considerable progress in rolling out the national ultra-fast broadband network. Even so, there is room to improve digital service uptake, as the shares of households and businesses subscribing to fast and ultra-fast fixed broadband connections are somewhat lower than the OECD average. This may limit potential productivity gains, particularly in more peripheral areas. According to OECD's Product Market Regulations indicators, regulation in fixed and mobile e-communications is comparatively slightly more stringent.

Recommendations

- ✓ Complete the rollout of the high-speed broadband network by 2026, in line with the National Broadband Plan.
- ✓ Undertake an assessment of barriers to competition in digital markets to support innovation, fair access to market and consumer choice.
- ✓ Set clearer rules requiring fixed and mobile operators to grant access to their infrastructure for new service providers through the adoption of infrastructure-sharing agreements to limit anti-competitive behaviour.

Innovation: Foster R&D and innovation diffusion among domestic firms

Business R&D is largely driven by foreign-owned multinationals, while direct public funding accounts for a small share of its total. This reflects the scope to boost cooperation between businesses, universities, and public research institutions and venture capital funding, to facilitate broader innovation diffusion and productivity gains. Tax support to R&D investment is substantial, although only 8% benefits firms with less than 50 employees. These account for about 65% of claimants, suggesting limited traction among smaller startups.

Recommendations

- ✓ Continue enhancing cooperation between the public and the private sector in R&D, with a focus on strengthening the involvement of domestic firms in multinationals' innovation networks.
- ✓ Step up public investment in business R&D, prioritising applied and experimental research projects that could help provide solutions to key socio-economic challenges.
- ✓ Ease SMEs' access to applied R&D by developing intermediary structures to facilitate networking and the exchange of information between universities and smaller businesses.

Infrastructure: Rebalance urban mobility towards more efficient and sustainable modes of transport

The government has launched a roadmap to overhaul the rail network, which is among the least electrified in the OECD, lacks competition, and plays a marginal role in both passenger and freight transport. Reducing the dominance of private cars in the mobility system would help lower high transport-related emissions. Car-centred transport exacerbates urban sprawl, undermining efficient land use and complicating housing and public service delivery in major urban areas. On the back of strong population growth, enhanced coordination of housing, urban and transport policies is thus essential.

Recommendations

- ✓ Implement the planned improvements to the public transport system in full and on time to support a behavioural shift away from cars.
- ✓ Improve the consistency of transport, urban and housing policies to promote compact settlements with easy access to transport links.

Taxation: broaden the tax base to reduce vulnerabilities to shocks

A more resilient revenue structure is needed to finance spending priorities in the medium term. Tax revenues are exposed to sector- and firm-specific risks, due to a heavy reliance on corporate and personal income tax revenues from multinationals. Placing greater emphasis on taxation of goods and services could result in a stabler and less distortive tax structure. Despite the high standard value-added tax rate, reduced rates decrease its yield, while the revenues from recurrent taxes on immovable property are below the OECD average.

Recommendations

- ✓ Develop a roadmap to diversify tax revenues in the medium term, for example by broadening the personal income and the value-added tax bases.
- ✓ Increase local property taxes and rates of the residential zoned land tax.

Recent progress on structural reforms

In November 2025, the government published its new housing plan (target of 300 000 new homes by the end of 2030) to accelerate housing delivery and improve affordability. The 2024 Planning and Development Bill aims to streamline housing and infrastructure planning processes. Six new health regions are being established to decentralise healthcare management and provide better integrated care services. The government introduced additional paid parental leave and expanded childcare provision and benefits to help counter high costs for households. Automatic enrolment in workplace pension schemes was introduced in January 2026. The R&D tax credit rate was increased to 30% in 2024, while first-year refund thresholds have been made progressively more generous – particularly for smaller R&D projects to enhance SMEs' incentives to invest in innovation. The newly created Future Ireland Fund and Infrastructure, Climate and Nature Fund, financed through part of excess corporate tax revenues, will support long-term investment and transition costs. In September 2025, the government launched an Action Plan detailing 85 actions, with defined delivery periods to boost Ireland's competitiveness and productivity performance.

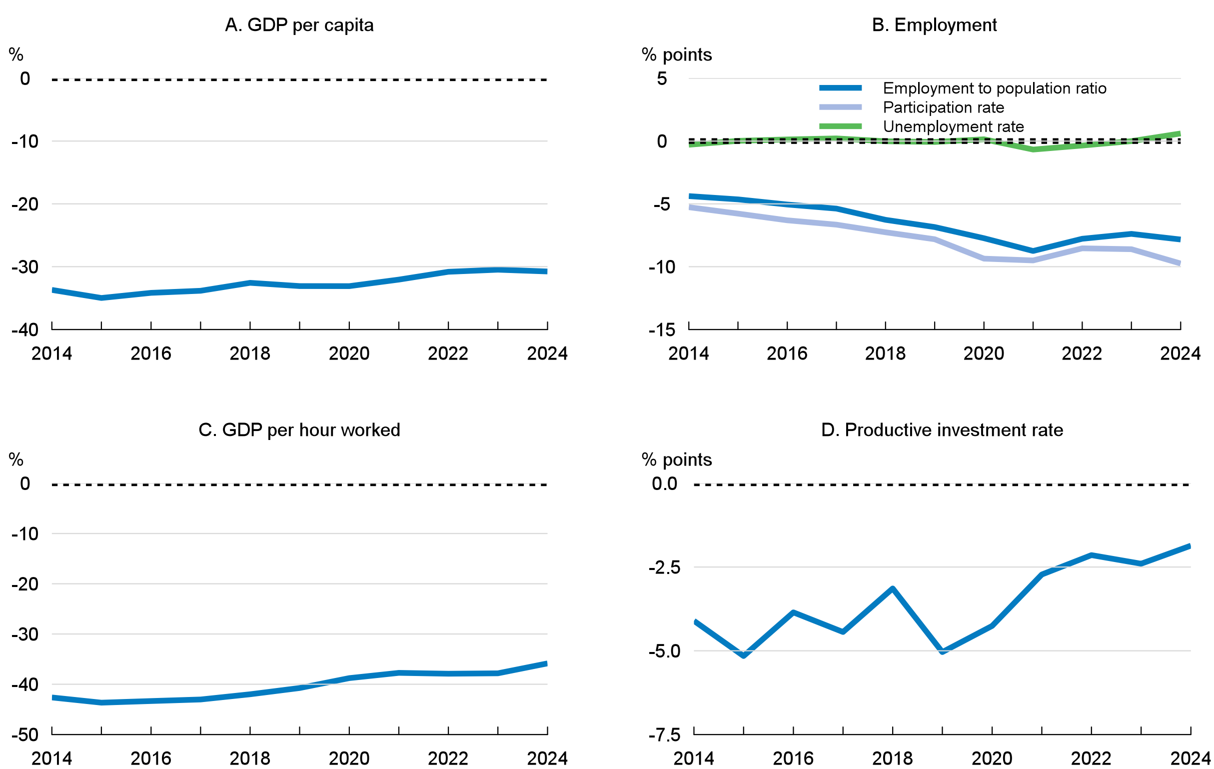
Israel

Economic growth has been strong in Israel over the past decade. Robust population growth has been a key contributing factor to this increase. Another key factor has been an improvement in labour productivity, driven by a buoyant high-tech sector. The share of the working-age population in employment has also risen thanks to a fall in the structural unemployment rate and greater participation of women in the labour force.

Continued robust economic performance requires reinforcing the existing pillars of growth. Investing in infrastructure is important to underpin future productivity growth. It is essential for long-term growth to bring into employment many more members of population groups that have high demographic growth and currently low labour-market attachment. Ongoing trade liberalisation needs to continue while there is scope to simplify business regulation.

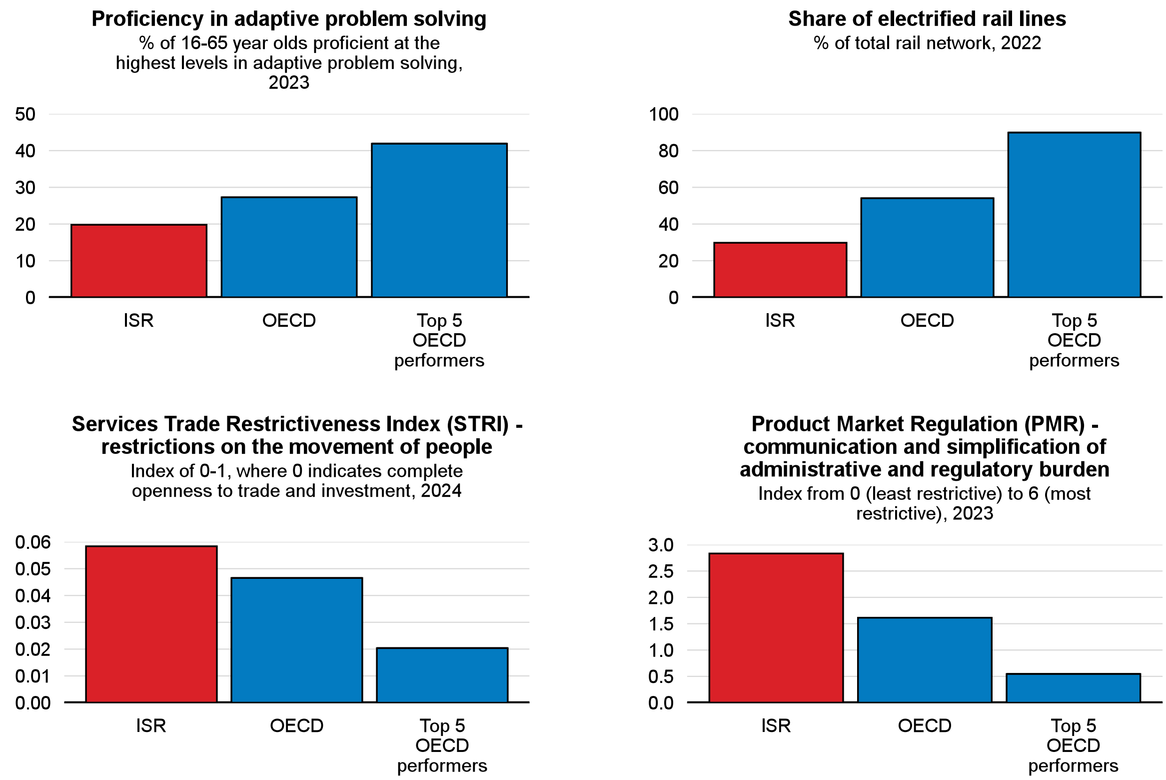
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Digital economy: Invest in digital infrastructure and skills

Israel has a world-class high-tech sector with strong digital companies, including in artificial intelligence (AI). However, there is still considerable scope to deepen competition in broadband delivery and to expand the uptake of digital technologies beyond the high-tech sector.

Recommendations

- ✓ Continue efforts to foster competition in the provision of fibre-optic broadband services.
- ✓ Ensure a central coverage of digital skills in the National Qualifications Framework currently in preparation.

Transport infrastructure: Deploy user and congestion charging and further modernise rail transport

Israel’s transportation infrastructure is lagging. Road networks are underdeveloped, and congestion, especially in the Tel Aviv metropolitan area, is among the worst in the OECD. Public transport, especially by rail, is comparatively undersized, and much of the rail network remains to be electrified.

Recommendations

- ✓ Implement congestion charges and user fees to encourage an efficient utilisation of the road network.
- ✓ Streamline administrative and legal procedures to make it easier and faster to build transport infrastructure and expand the supply of mass transit.
- ✓ Establish metropolitan transport authorities to enhance the governance and use of public transport resources.
- ✓ Swiftly complete plans to electrify railways.

Labour mobility and participation: Better integrate ultra-orthodox men and Arab women in the labour market

Substantial employment gaps remain. Low employment among Haredi (ultra-orthodox) men and Arab women drags down overall labour market performance. As demographic trends imply a strongly rising share of Haredim in the population, improving their participation in the labour force is paramount for long-term growth. Specific subsidies and exemptions for Haredi men discourage and delay their labour force participation. Lack of available and affordable childcare hinders the labour force participation of Arab-Israeli women. Rapid increases in house prices have made it difficult for entrants into the labour market to find homes in the most economically dynamic areas.

Recommendations

- ✓ Remove disincentives for yeshiva students to acquire labour market skills and seek employment, including by lowering transfers and conditioning childcare support on employment of both parents.
- ✓ Increase the provision of childcare in Arab municipalities.
- ✓ Build more social housing, especially in economically dynamic areas, while targeting eligibility on low-income workers.

Openness to trade and FDI: Expand trade agreements, facilitate agricultural imports and remove obstacles to foreign investment

Relative to GDP, trade is lower than most other advanced countries of comparable size. Some of this underperformance results from challenging relations with some regional neighbours. However, policy also plays a role: despite strong progress in recent years, trade barriers remain, with relatively high tariffs on farm produce and technical barriers to trade (TBTs) by comparison with OECD averages. Restrictions on the employment of foreigners as key personnel can work as an obstacle to foreign investment.

Recommendations

- ✓ Negotiate new trade agreements while deepening existing ones, reduce cumbersome TBTs and ensure remaining TBTs are aligned with international standards. In addition, simplify and extend import licensing.
- ✓ Facilitate imports of farm produce including by cutting tariffs on vegetables.
- ✓ Relax restrictions on employment of foreigners as key personnel.

Business environment: Reduce regulatory burdens and simplify bankruptcy procedures

Administrative and regulatory demands are among the most stringent in the OECD, which obstructs firm entry and growth. Price and quantity controls apply to a wide range of staple foods, distorting consumer choices and resulting in shortages. Would-be entrants into professional services face higher barriers than what is typical in OECD countries. Personal costs to failed entrepreneurs are higher than the OECD average because of less efficient liquidation processes.

Recommendations

- ✓ Minimise the time, cost, and number of steps needed to launch a new company while implementing an online one-stop platform.
- ✓ Facilitate business licensing including by encouraging the use of “silence is consent” mechanisms.
- ✓ Reduce entry barriers for firms providing professional services, such as the requirement that legal firms be owned by attorneys.
- ✓ Streamline bankruptcy prevention and liquidation regimes by simplifying procedures applicable to micro and small enterprises while completing on-going legislative efforts to reward early-stage debt negotiations between lenders and at-risk borrowers.

Recent progress on structural reforms

The terrorist attacks of 7 October 2023 and war, together with the resulting large government deficits, have complicated structural reform initiatives, which have slowed yet continued. Action to facilitate trade has remained determined, with two free trade agreements entering into force in 2024 (with Guatemala and Viet Nam). The “No Stopping at the Port” reform entered into force in July 2024, allowing goods to enter the country using market monitoring based on risk assessment, like in other developed markets, without systematically stopping merchandise for inspection or certification. The “What’s good for Europe is good for Israel” regulatory reform came into force in 2025, aligning Israeli regulatory requirements with the European Union’s for 90% of consumer products, foods and cosmetics.

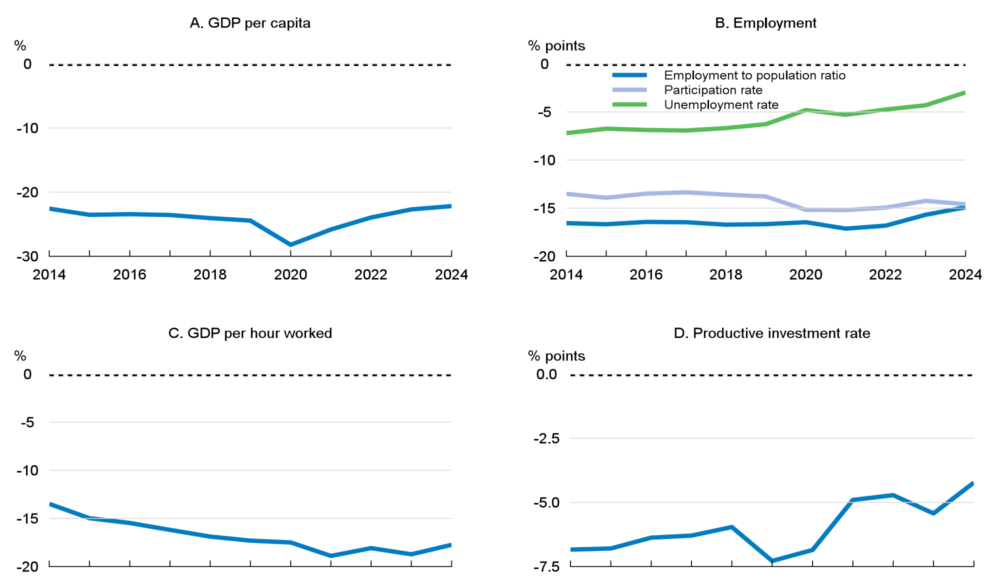
Italy

Italy's economic performance has improved over the past decade following the crises of the early 2010s, and output per capita has been expanding. Rising employment has led this improvement. Unemployment has fallen to historic lows and more women and older adults have been drawn into work. Investment has risen. While labour productivity improved in the late 2010s, it has since weakened, as strong employment growth generated by expanding employment-intensive service sectors has outpaced the overall growth in output. The ongoing National Recovery and Resilience Plan is propelling an ambitious programme of structural reforms and public investment in support of higher productivity.

Raising economic growth rates will require navigating the headwinds of the rapidly ageing population, amplified by lower labour force participation by women and the young than in most peer countries, despite recent improvements, as well as significant skills gaps. Bolstering private sector investment, especially in research and innovation, would lift productivity growth. Ensuring that fiscal policy makes sustained, credible inroads into the high public debt, consistent with the medium-term structural-fiscal plan, would support reform and growth more broadly into the long term, as ongoing fiscal consolidation and the weight of pension and other spending needs limit fiscal space for investment or to lighten tax burdens.

Economic performance

Gaps to the average of the upper half of the OECD countries



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Selected policy gaps

Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Macroeconomic stability: Pursue the consolidation of public finances to support low and stable financing costs

Italy's public debt ratio, approaching 150% of GDP (137% of GDP under Maastricht criteria), is among the highest across OECD countries. It has raised interest rate spreads and borrowing costs for investors, pressured the financial system and limited fiscal space to maintain and invest in human capital and physical infrastructure. In recent years, generous tax credits worsened public finances, although the public debt ratio is expected to start to recede as their effects unwind and the medium-term fiscal-structural plan is providing a path to reduce the budget deficit, contributing to lower interest rate spreads and improved credit ratings. In coming years, spending pressures from defence, pensions and climate change will rise, while public investment needs will remain significant, challenging this fiscal consolidation.

Recommendations

- ✓ Consistent with the medium-term fiscal framework, reduce spending relative to GDP and use any windfall revenues to reduce the budget deficit and meet the medium-term targets.
- ✓ Further develop the role of spending reviews, making their scope and savings targets more ambitious.
- ✓ Bolster the revenue base by continuing to tackle tax evasion, by reducing tax expenditures, and by improving the effectiveness of the tax administration, including by furthering the use of digital payments and by updating the property tax base calculations.

Labour market: Raise participation, especially of women and youth

Despite recent growth in employment and falls in unemployment rates, even amidst slowing economic growth, employment rates remain lower than in most OECD countries, mainly reflecting low participation among women and young people. This is partly explained by weaknesses in family policies and, despite recent progress, in access to training elements of active labour market policies, notwithstanding ongoing reforms to encourage gender parity, and weak financial incentives due to the high tax and social contribution rates for social benefit recipients to take up employment. One-sixth of the workforce is subject to non-compete clauses, reducing the workforce's dynamism, notably in professions where access to trade secrets or firms' tacit knowledge is highly unlikely.

Recommendations

- ✓ Expand the coverage of early childhood education and improve the take-up of paternity leave under the "father quota" bonus within the shared parental leave entitlement through more effective incentives, including higher salary replacement rates and better informing all workers of the bonuses.
- ✓ Review and reform various tax allowances and benefits to ensure that they do not create high effective marginal tax rates at certain wage rates or for some household structures.
- ✓ Improve the labour market functioning, especially of workers new to the labour force, by maintaining investments in training quality, continuing to reduce the labour tax and contribution wedge, encouraging social partners to reform collective bargains towards improving work incentives for younger workers and reducing the coverage of non-compete agreements to reduce impediments to inter-firm mobility.

Human capital: Strengthen the quality and pertinence of education

The share of young people who are neither in education, employment or training (NEET) is among the highest in the OECD, and the share of university graduates in the population aged 25-34 years is among the lowest. Weak educational attainment and the quality of that education detract from workforce skills, especially digital skills, amplifying the effects of population ageing.

Recommendations

- ✓ Continue to expand and improve the technical tertiary schools' (ITS Academy) quality and access, especially in the South, and strengthen the link between funding and research and knowledge exchange performance for public universities.
- ✓ Improve quality control for training providers by strengthening the national-level certification scheme.
- ✓ Continue improving student orientation and aligning curricula with labour market needs.

Innovation: Strengthen financing and collaboration between industry and research centres

Research and development expenditure as a share of GDP is well below the OECD average, constraining Italy's ability to unlock its innovation potential. Many medium-sized firms are productive in international comparison, but their size limits their resources for research and development, while there are fewer large firms than in comparable economies. The private financing for innovative activities that is common in other OECD countries, such as venture capital firms, is less developed in Italy.

Recommendations

- ✓ Strengthen links between public research institutions and the private sector, especially small- and medium-sized enterprises that often lack the scale for efficient research and development, making greater use of public development funds.
- ✓ Support the further development of the venture capital market to finance the merger and growth of medium-sized firms.
- ✓ Improve the certainty around tax and other incentives to encourage firms' growth and investment in research and development, based on ongoing reviews of incentives' effectiveness.

Trade openness: Reduce barriers to services trade

Barriers to services trade are high relative to other OECD countries. While services' activity has outperformed the broader economy in recent years, productivity growth is particularly weak, partly reflecting regulations that stifle competition, especially in professional services.

Recommendations

- ✓ Implement competition reforms aiming to reduce entry barriers into services sectors, including by simplifying authorisation procedures and submitting concessions to public tenders at expiry.
- ✓ Reduce the scope of "fair compensation" rules in professional services.

Recent progress on structural reforms

Reforms across a diverse range of structural issues have accelerated in recent years. Substantial fiscal consolidation and the adoption of the medium-term structural-fiscal plan are improving fiscal health and contributing to declining interest rate spreads and reduced borrowing costs for Italian borrowers compared with other euro-area economies. Reformed labour income tax rates, various tax allowances and support for social security costs are reducing the labour income tax wedge, while early childhood education and care capacity and parental leave allowances are being expanded. The annual competition law is supporting the contestability of markets. Vocational and technical education is being reformed towards engaging more closely with employers' needs. Incentives and support structures for firms' research and development and links with research institutions have been reviewed and reformed, alongside the larger review and rationalisation of incentives for firms. Much of the reform effort has been driven by National Recovery and Reform Programme (NRRP) targets and milestones required to access NextGenerationEU funds, and Italy's authorities have gone beyond those requirements to develop processes to monitor and report on the outcomes of reforms and investments.

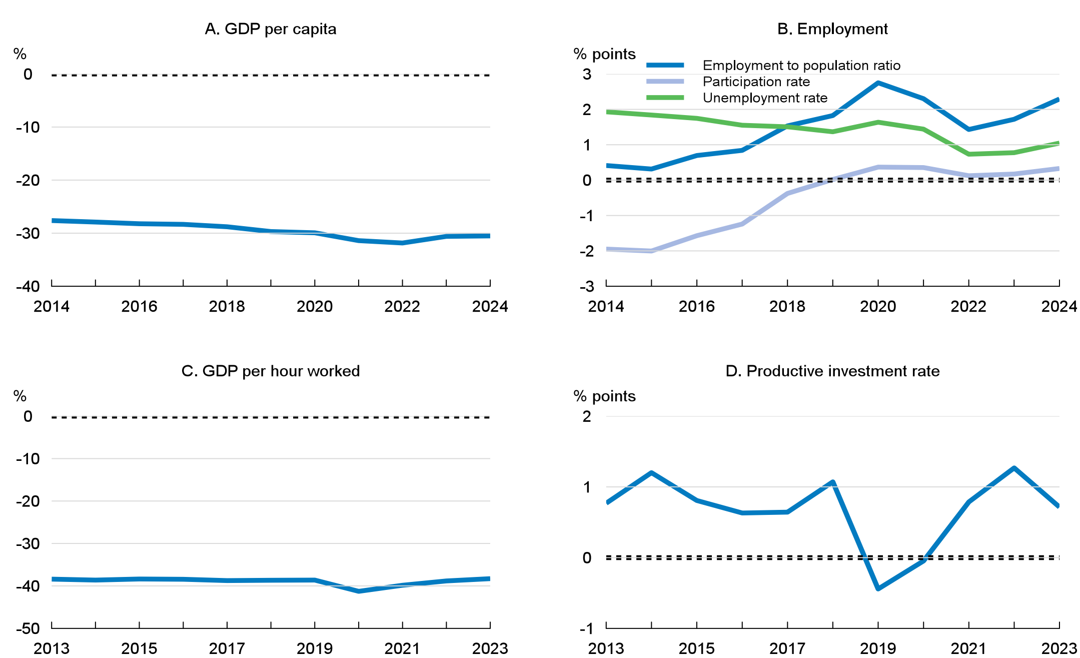
Japan

Per capita income has remained around 30% below the upper half of OECD countries, with labour productivity among the lowest in the OECD, and sluggish growth over the past decades. Private investment as a share of GDP is relatively high in international perspective but real fixed assets per worker have been roughly flat for the past two decades, despite the need to compensate for a shrinking working-age population. The rising participation rates of women and older persons have supported employment, and the unemployment rate is the lowest in the OECD.

Boosting business dynamism, by facilitating firm entry and exit, and further attracting foreign capital are key to higher productivity growth. More intensive collaboration between firms and universities can facilitate the diffusion of technologies to a larger number of firms and sectors. Changing skill needs, including those to complement new technologies and extended working lives, highlight the importance of re-skilling and upskilling. Enhancing the use of renewable electricity supply would help Japan boost energy security and affordability, whilst achieving its ambitious climate targets.

Economic performance

Gaps to the average of the upper half of the OECD countries



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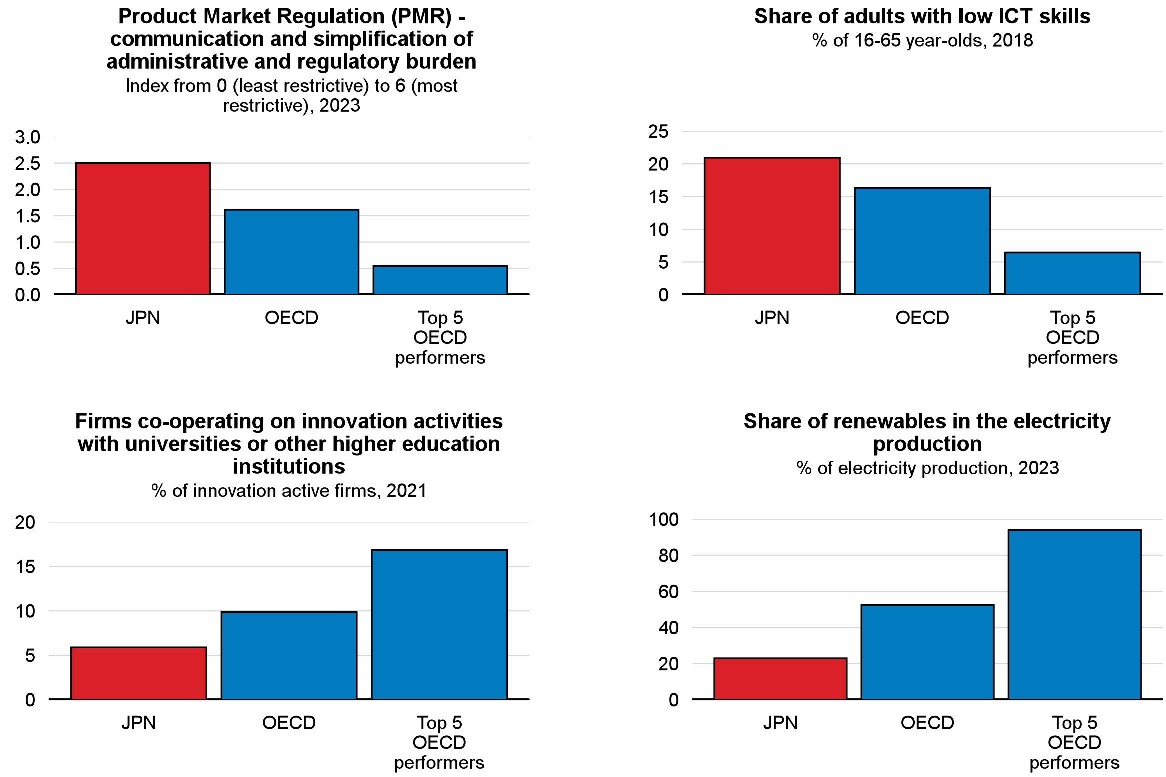


Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Streamline regulations to reduce entry and exit barriers and address gaps in public procurement

A more competition-friendly regulatory framework would boost business dynamism and productivity growth. According to the OECD Product Market Regulation indicators, licensing requirements are relatively low, but the complexity of regulations, including the high number of procedures involved in the registration of start-ups, could be reduced. Public procurement does not guarantee a level playing field for all potential bidders. Complexity and lack of preventive measures lower the effectiveness of the insolvency regime and can be a barrier to firm exit.

Recommendations

- ✓ Reduce the complexity of regulations by streamlining requirements for businesses through enhanced digitalisation of public services, particularly to ease the administrative burdens on start-ups.
- ✓ Ensure that fees and entry requirements of the tender processes do not create a barrier to smaller firms.

- ✓ Enhance early warning tools for firms in distress and continue to streamline insolvency procedures for SMEs.

Foreign direct investment: Lower remaining constraints to inward investment

Japan has the lowest inward foreign direct investment (FDI) stock as a share of GDP in the OECD. While overall regulatory barriers to FDI are close to the OECD average, further easing access by and integration of foreign firms into the local ecosystems, including public procurement at local levels, could help raise inward FDI. Japan has one of the most open regulatory environments for trade in services and digital services, but services imports as a share of GDP are relatively low, reflecting some remaining barriers, such as those regarding electronic transactions.

Recommendations

- ✓ Continue to support inward FDI with eased business entry procedures, enhanced cooperation with domestic firms and multi-lingual support for foreign firms, especially at the local level.
- ✓ Promote inflows of FDI by reducing explicit restrictions, focusing on those affecting the service sector.

Innovation: Enhance business-academia links and redesign R&D tax credits

While business R&D investment is among the highest in the OECD, it is mostly concentrated in large firms in the manufacturing sector. Better diffusion of innovation would boost productivity growth. The share of innovative firms with process or product innovation, including in information communication technologies, is relatively low. The limited interaction between business, public R&D institutes and universities restricts the scope for basic research, which can create large knowledge spillovers. R&D tax credits are generous, but their design could be improved to enhance incentives for innovative start-ups and SMEs.

Recommendations

- ✓ Ensure that the University Endowment Fund (JPY 10 trillion) effectively enhances basic research capacity by monitoring and assessing selected universities' research projects.
- ✓ Foster links between businesses, universities and public research institutions by encouraging staff mobility through cross-appointments.
- ✓ Promote business R&D, particularly in small companies, by making R&D tax credits refundable and allowing them to be carried forward.

Education: Enhance skill development opportunities, especially for ICT-related skills

While numeracy and literacy skills of students and adults are among the highest in the OECD, according to OECD PISA and PIAAC surveys, a well-functioning system of reskilling and upskilling is needed to help workers adjust to changes in labour market needs, such as the digital and green transformations. Off-the-job and on-the-job training offered by firms are trending up, but the index of learning at work remains weak. The use of information and communication technology (ICT) skills at work and at home is low, reflecting the high share of adults with low ICT skills.

Recommendations

- ✓ Support skill-building and usage at the workplace, especially for ICT and artificial intelligence.
- ✓ Expand job-training schemes, especially for the low-skilled and those with limited access to firm-based training, using the new professional and vocational universities and junior colleges to provide practical vocational education.
- ✓ Provide training and support for teachers to integrate ICT into their lessons, and boost students' use of and skills in digital technologies.

Environment: Reduce dependence on imported fossil fuels by stepping up the development of green technologies and the use of renewables

Given Japan's high dependence on imported fossil fuels, a faster expansion of the use of renewables, which remains below the OECD average, can enhance energy security and improve affordability. The fragmentation of the electricity system hinders the cost-effective integration of larger shares of renewable electricity sources. Research and development to reduce emissions using hydrogen and ammonia, and of carbon capture, utilisation and storage, can have spillover effects on growth-friendly innovation in other fields.

Recommendations

- ✓ Step up the promotion of research, development and deployment of green technologies and encourage greater energy efficiency.
- ✓ Continue investments in transmission and distribution infrastructure, based on cost-benefit analysis, and enhance the electricity grid.

Recent progress on structural reforms

Japan launched the Start-up Development Five-year Plan in 2022, and extended the maximum period of stay for foreign entrepreneurs under the Startup Visa programme to two years. The "Programme for Promotion of Foreign Direct Investment in Japan 2025" has ambitious targets, including a JPY 120 trillion FDI stock by 2030. The Integrated 2023 Three-Pronged Labour Market Reform agenda will provide additional incentives for reskilling and upskilling. ICT is being promoted in schools by the provision of one device per student and high-speed networks under the GIGA School Programme, and new programming courses in the national curriculum. The pilot schools designated to disseminate effective practices and support for ICT training will help boost teachers' use of ICT. Moreover, the government set up a University Endowment Fund in 2022, which disbursed its first funds in 2025, to help universities raise their research capabilities and opportunities.

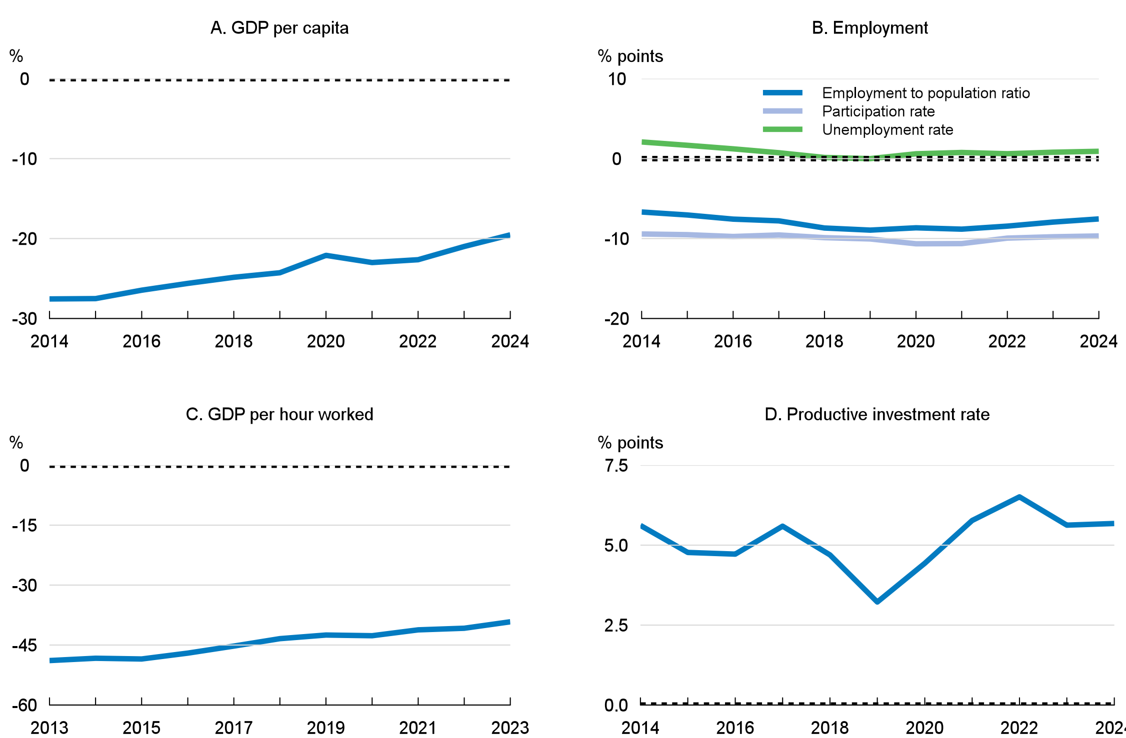
Korea

Korea’s GDP per capita has converged toward the OECD average over the past decades, and the gap with the most advanced OECD economies has continued to narrow until recently. Growth has mainly been driven by capital accumulation, heavy investments in education and increasing labour supply. However, due to low birth rates and population ageing, the labour force is shrinking. The low participation rate, compared to the top performing OECD economies, also points to untapped potential.

To enhance Korea’s growth potential, it is essential to promote competition and technological innovation while at the same time reducing carbon emissions. Continued efforts to reduce barriers to foreign direct investment can increase the inflow of know-how, capital and technology. Improving the education system would more efficiently provide skilled workers that meet businesses’ needs.

Economic performance

Gaps to the average of the upper half of the OECD countries



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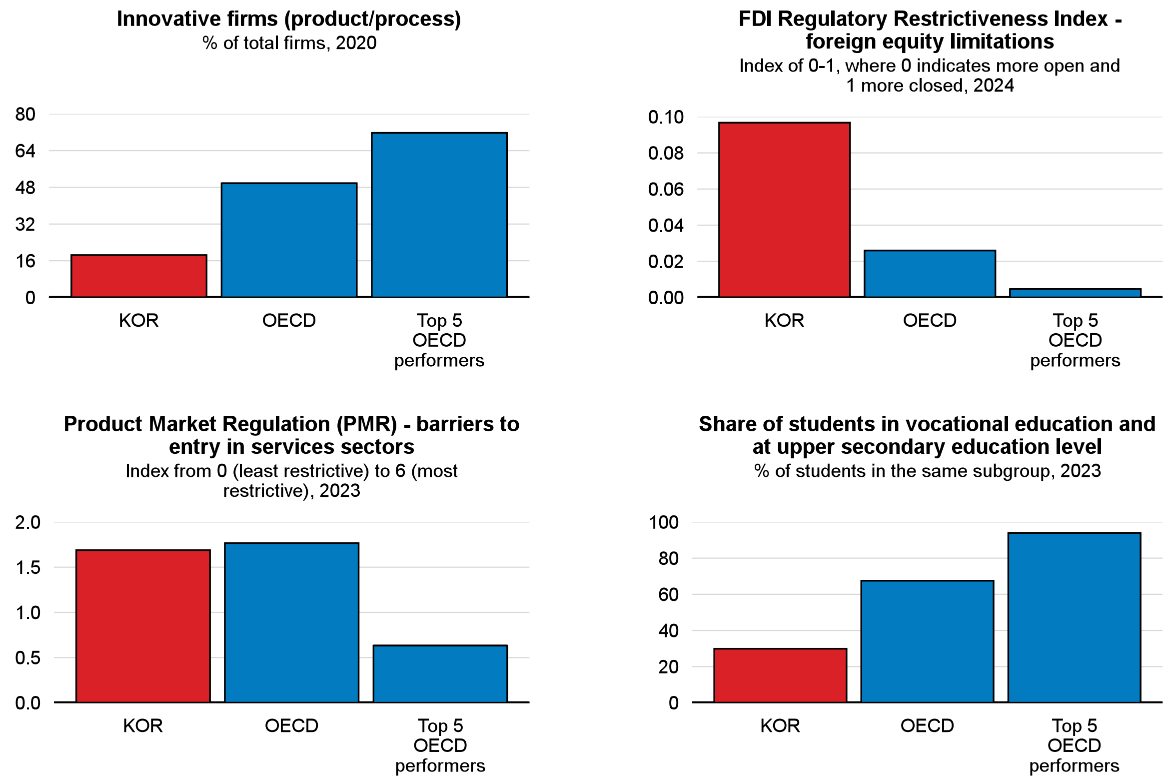
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Openness: Create a more foreign investment-friendly environment

Korea has made considerable progress to reduce barriers to services trade and foreign direct investment (FDI) over the past few decades. However, barriers to FDI remain high compared to OECD peers. Restrictions on foreign ownership in key industries, such as telecommunications and broadcasting, and restrictions on market access for security reasons discourage foreign investment, leading to lower FDI inflows compared to other OECD countries.

Recommendations

- ✓ Re-evaluate regulations that hinder FDI, such as foreign equity limitations, in terms of their effectiveness and economic impact, with a view to easing or removing them.
- ✓ Streamline screening and approval procedures related to foreign investment.
- ✓ Streamline recognition of foreign qualifications and facilitate the exchange of professionals in service sectors such as accounting and law.

Competition: Reduce barriers to firm entry and growth

The overall stringency of product market regulations is around the OECD average, but there is ample room to reduce barriers to trade and state involvement in business operations in services and network sectors. Increased competition would promote entry and expansion both among small and medium-sized enterprises, and in markets dominated by domestic incumbents. A well-developed system of regulatory sandboxes and "regulation-free zones" allow trialling new technologies and business models.

Recommendations

- ✓ Shift to a comprehensive negative-list regulatory system.
- ✓ Generalise reforms successfully trialled in regulatory sandboxes and “regulation-free zones” in a systematic and timely manner.
- ✓ Limit by law the scope for broadly defined public support to companies to a list of permitted causes linked to market imperfections, regardless of company size.

Innovation: Increase the effectiveness of public R&D support

The decline in the labour force caused by low birth rates could be partly mitigated by innovative technologies boosting productivity. However, compared to the OECD average Korea has a relatively low number of innovative firms and a lower share of employees working in such firms. Support for companies is based more on characteristics such as the number of employees and revenue rather than the level of technological innovation, resulting in relatively weak incentives for innovation.

Recommendations

- ✓ Systematically withdraw public support for SMEs after pre-defined time limits to encourage the growth of innovative firms rather than the survival of non-viable ones, while supporting affected workers and providing training and employment services.
- ✓ Promote a guarantee system that enables startups and SMEs to receive business loans from financial institutions based on an evaluation of their proprietary technologies.

Education: Reform vocational education to equip workers with skills in demand

Korea's high university enrolment rate and strong investment in education have contributed to economic growth, but the proportion of students receiving vocational education at the upper secondary level remains low. In addition, participation in workplace-based vocational training is also relatively low compared to top-performing OECD countries.

Recommendations

- ✓ Increase the quality and availability of vocational education to reduce labour market mismatch and labour shortages in SMEs.
- ✓ Expand the designation of Meister high schools and the Work-Learning Dual System and revitalise school-industry links by expanding industry-contracted programmes to foster talent meeting demand from employers.

Environment: Scale up investment to boost energy efficiency and renewables

Korea’s greenhouse gas emissions per unit of GDP are higher than in OECD peers and its energy mix remains heavily reliant on imported fossil fuels. Renewables accounted for less than 3% of the total energy supply in 2023. Expansion of renewables would bolster energy security but is held back by lengthy permitting processes, delayed grid connections, limited electricity market competition and opposition from local communities.

Recommendations

- ✓ Streamline permit and grid-connection procedures for renewable electricity generation projects, while assigning a share of their benefits to local communities.
- ✓ Build on planned electricity market reforms to move towards a market-based system where the true cost of energy and emissions is fully reflected in electricity supply and use.

Recent progress on structural reforms

Korea introduced the regulatory sandbox in 2019 and has continuously expanded its scope to enable companies with innovative technologies and business models to enter the market. Vocational education is also being enhanced, with the establishment of specialised high schools for advanced technologies such as artificial intelligence and software, as well as companies setting up industry-academia collaborative programmes in universities for semiconductors, displays and automobiles.

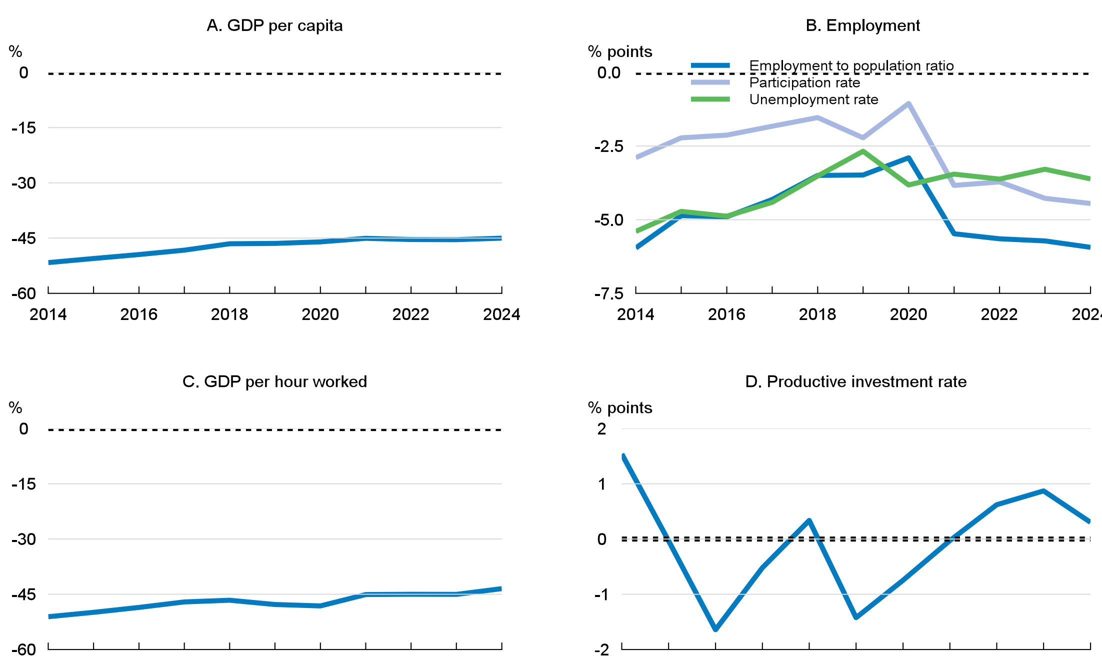
Latvia

Access to the EU market, less restrictive regulation and corporate tax incentives have supported FDI inflows. However, weak domestic investment, a shrinking working age population and slow digital adoption have slowed convergence towards higher living standards. Weak competition in the financial sector and shallow capital markets limit access to finance for firms. At the same time, informality and barriers to competition as well as skills shortages hamper business dynamism, innovation and productivity growth.

Listing minority stakes in large state-owned enterprises and strengthening competition in the financial sector would help deepen capital markets and improve access to finance. Reducing the labour tax wedge for low-income earners, strengthening tax enforcement and lowering costs of insolvency would help lower informality and improve the allocation of resources towards more productive firms. Strengthening competition enforcement and addressing skills shortages by improving access to and quality of training, and reducing dropout rates in tertiary education, would support business dynamism and innovation.

Economic performance

Gaps to the average of the upper half of the OECD countries



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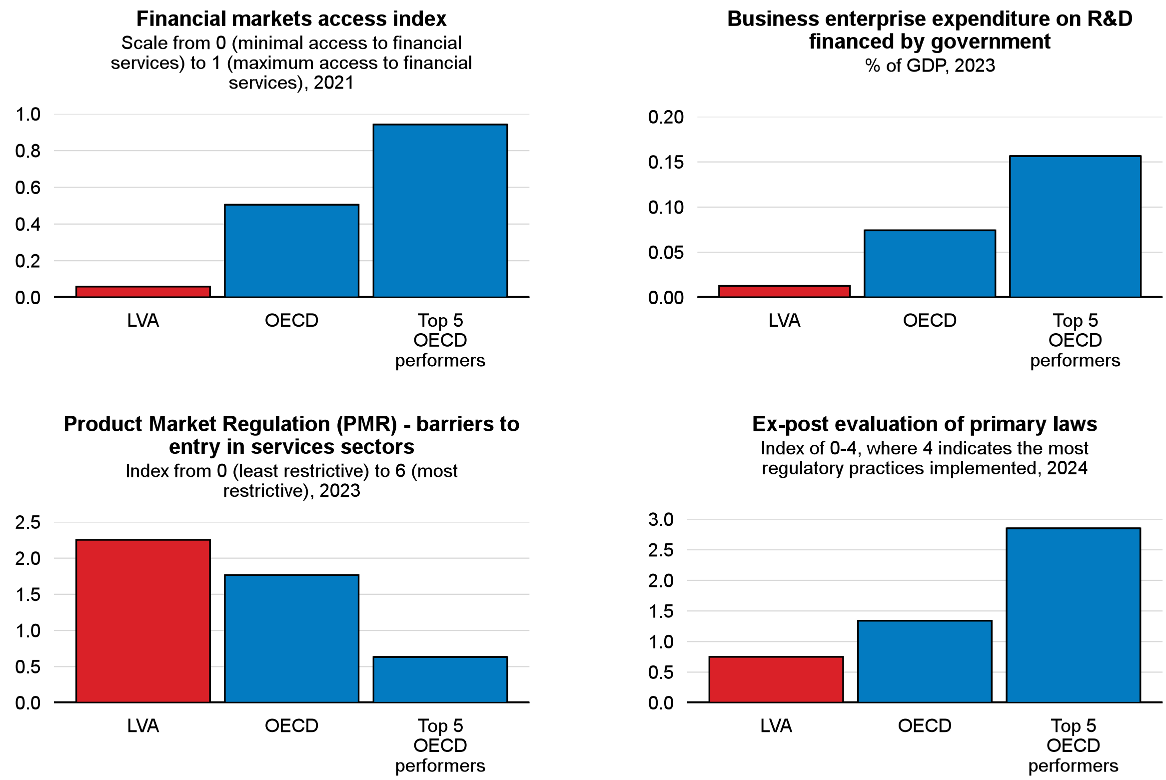


Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Financial markets: Strengthen competition and deepen capital markets

Limited access to finance has been a serious barrier to business investment, weighing on productivity growth. Despite rising deposits and high profitability, banks have been reluctant to lend. Low customer mobility and weak competition in the banking sector have led to high borrowing costs and collateral requirements, reducing corporate borrowing, especially for smaller firms. Moreover, shallow corporate equity and bond markets, as well as the lack of institutional investors, limit non-bank sources of corporate finance.

Recommendations

- ✓ Strengthen the legal and investigative powers and tools of the Competition Council to monitor anti-competitive behaviour in financial markets.
- ✓ List minority stakes in large SOEs to attract institutional investors into the stock market, and continue to improve the financial literacy of smaller firms to raise corporate bond issuance.
- ✓ Raise investment and concentration limits of second-pillar pension funds for single issuer assets, real estate and private investment funds, while ensuring appropriate risk management and governance processes.

Business dynamism: Facilitating the reallocation of resources towards more innovative and productive firms

Many firms in Latvia stay small, partly operate in the informal economy and have little access to funding for investment and innovation, including the adoption of digital technologies. At the same time, widespread informality distorts the level playing field between firms and hampers the reallocation of resources to more productive firms. Insolvency procedures are costly and burdensome, discouraging low-income small business owners from filing for insolvency. In addition, public funding for innovation remains low. Innovation support programmes are fragmented, administratively burdensome, and often lack comprehensive impact evaluation.

Recommendations

- ✓ To tackle informality, reduce the labour tax wedge for low-income earners and strengthen tax enforcement by improving data infrastructure and analysis as well as staffing.
- ✓ Reduce the cost of filing insolvency to eliminate upfront barriers faced by debtors, while compensating insolvency administrators.
- ✓ Further centralise innovation support in a single agency, evaluate existing programmes and scale up the most effective ones.

Competition: Create a more level playing field between firms

According to the OECD Product Market Regulation Index, entry barriers in services sectors with strong SOE presence are higher than in the average OECD country, reducing competitive pressures on incumbents to innovate and raise productivity. However, assessment of the impact of regulation and SOE presence on competition remains weak. Some SOEs have been excluded from the regular assessment of the rationale for state-ownership. Moreover, monitoring abuse of dominance in markets where SOEs and private companies compete is hampered by weak data transparency, particularly at the municipal level. Introducing a market investigation tool, as for example done in the United Kingdom, and further improving the staff and IT resources of the Competition Council would help levelling the playing field between firms.

Recommendations

- ✓ Increase the power of the Competition Council to conduct market investigations and initiate evaluations of regulations and state ownership rationales of SOEs to ensure competitive neutrality.
- ✓ Include all SOEs in the regular evaluations of the rationale for state-ownership, better define assets, goods and services of strategic interest, and conduct in-depth analysis on the presence of market failures.
- ✓ Require and dedicate the necessary resources to monitor the implementation of accounting separation between activities pursuing public policy objectives and commercial activities by all SOEs.

Education and skills: Improve access and the quality of vocational training, and reduce drop-out rates in tertiary education

The low level of digital and management skills hinders the adoption of digital technologies by Latvian firms and reduces their productivity and competitiveness. Nevertheless, Latvian firms invest little in training. This is related to the large number of small firms, which lack resources to provide training, and weak coordination among firms. The administrative burdens related to updating professional qualification requirements are high, hindering the timely adaptation of training content to skill needs in local labour markets. Moreover, high STEM dropout rates in tertiary education exacerbate skilled labour shortages.

Recommendations

- ✓ Establish a tri-partite training fund and improve cooperation in training design and implementation among firms and training providers.
- ✓ Facilitate the update of professional qualification requirements and accreditation procedures and give VET institutes more power to coordinate the content of VET courses with local employers.
- ✓ Incentivise increased graduation rates through university funding allocation, while controlling for quality standards and increase the means-tested financial support scheme to cover living costs for students.

Public governance: Modernise the public administration for greater efficiency and effectiveness of public policies

Digitalisation of public services has significantly improved, strongly reducing the administrative burden. However, the exchange and use of data for ex-ante and ex-post impact evaluation of policies remains weak. This reduces the effectiveness and cost-efficiency of public spending, for example in infrastructure planning and implementation or in the health system, weighing on the quality of infrastructure and public services. Procurement of standardised goods, for example IT equipment and software or medical supplies and equipment, is often decentralised, despite large possible efficiency gains of centralised procurement.

Recommendations

- ✓ Improve the data infrastructure and knowledge about methodologies for cost-benefit and impact analysis of policies and raise cooperation across the public sector.
- ✓ Incentivise municipalities to harmonise and digitalise administrative procedures and introduce mandatory IT standards and data formats.
- ✓ Consolidate existing purchasing bodies, improve their IT and staff capacity and reduce legal exemptions that allow to opt out of mandatory centralised procurement.

Recent progress on structural reforms

Recent reforms, including the establishment of a specialised Economic Court, have significantly improved insolvency procedures and strengthened the fight against money laundering and corruption. Newly introduced regulation has reduced the costs and time required for mortgage loan refinancing, with the aim to strengthen financial market competition. The establishment of an IPO fund will support initial public offerings and help deepen capital markets. The health budget rose by 16% in 2024 (0.4% of GDP), including additional funds to reduce out-of-pocket medical drug costs, strengthen the hospital network and improve its human resources.

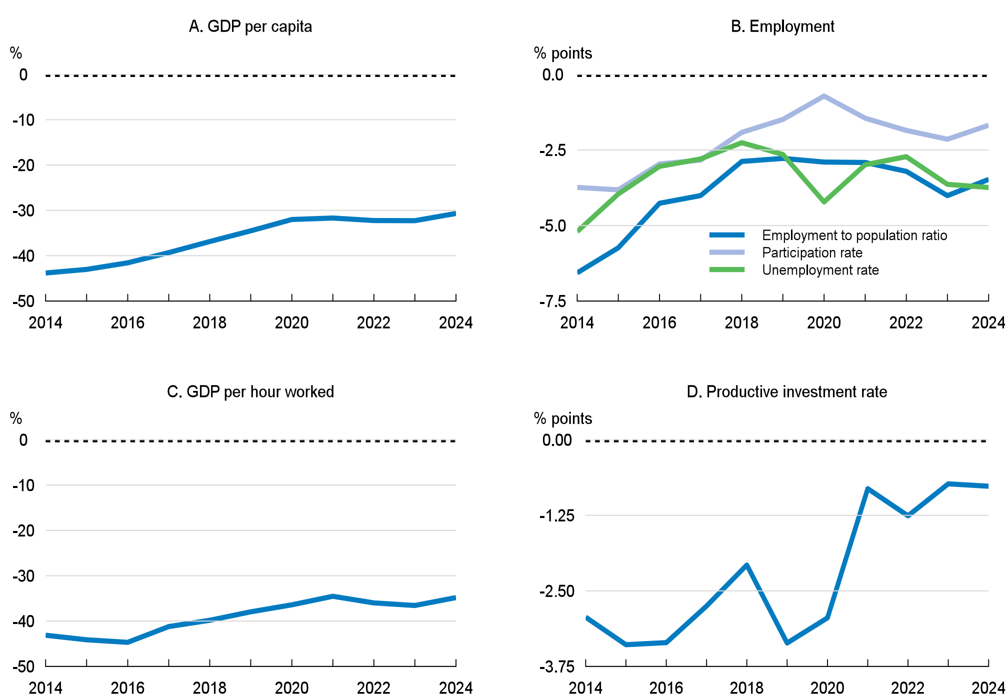
Lithuania

Labour productivity in Lithuania's market sectors rose from around 25% of the level of Germany in 2000 to 50% in 2022, outpacing several regional peers. Lithuania is thus progressively catching up with Western European productivity levels, but a gap remains. While labour participation has increased significantly over the last decade, unemployment remains high in international comparison, especially for older-age workers. The working-age population is expected to decline significantly over the next years due to ageing. Therefore, boosting productivity growth and mobilising all available labour resources will be key to further improving living standards.

While product market regulations are the least restrictive in the OECD, the productivity benefits could be further enhanced by developing capital markets to alleviate firms' financial constraints, improving health conditions, encouraging R&D investment by businesses, ensuring that adult learning is efficient, strengthening secondary VET education, and expanding the rail network.

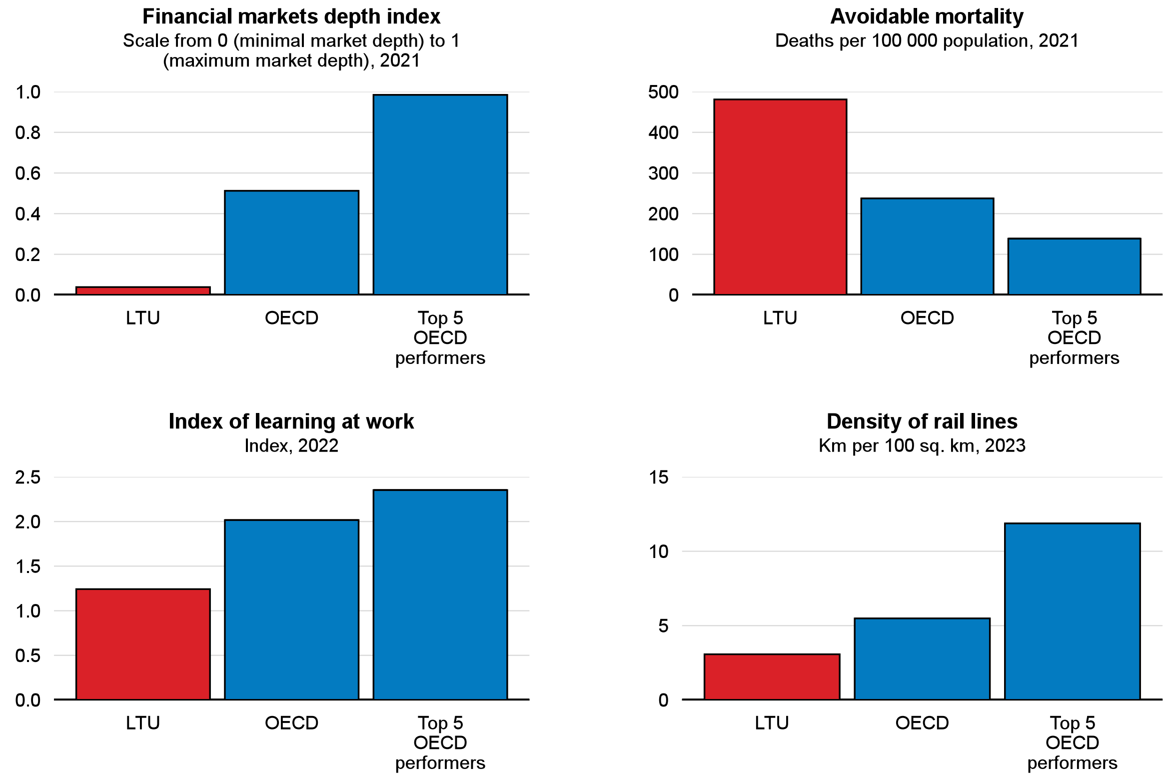
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Financial markets: Develop capital markets to alleviate firms' financial constraints

Banks play a dominant role in the financing of Lithuanian firms, but around 15% of them report that they are financially constrained, which is twice as high as the EU average. Stock market capitalisation is limited, even accounting for the small size of the Lithuanian economy. Developing capital markets would support productivity growth by facilitating investment in intangibles, R&D and technological innovation.

Recommendations

- ✓ Continue developing pension funds and consider allowing them to invest in a wider set of assets, including unlisted Lithuanian firms.
- ✓ Foster financing through Fintech firms by providing adequate regulations, encouraging the development of digital payments, and improving digital financial literacy.
- ✓ Consider extending the stock market listing of State-Owned Enterprises (SOEs).

Health: Promote healthier lifestyles and strengthen prevention

Relatively poor health conditions in Lithuania lead to low life expectancy, especially for men, and also have a direct impact on productivity. One example is the number of days of absence from work due to illness, which is higher in Lithuania than in neighbouring countries. Poor health conditions are partly related to preventable diseases and behavioural factors such as poor diets, high alcohol consumption and low physical activity.

Recommendations

- ✓ Reduce the affordability of harmful substances such as alcohol and tobacco by raising taxes on these products.
- ✓ Use the additional fiscal revenues to finance prevention campaigns and preventive medicine.

Innovation: Strengthen public support for R&D and encourage studies in STEM fields

Business and overall expenditure on research and development (R&D) in Lithuania is well below the EU and OECD averages. Tax incentives for business R&D are generous, but their take-up is modest and mostly benefits large firms. Some key research-business collaborations exist, but they are largely confined to high-tech sectors. The numbers of researchers and doctoral graduates are limited, hindering innovation and digital adoption.

Recommendations

- ✓ Enhance the effectiveness of R&D tax incentives by clarifying the definition of R&D and improving awareness of the tax scheme.
- ✓ Provide R&D support through a more balanced combination of tax incentives and direct support to smaller innovative firms.
- ✓ Use financial incentives to encourage the completion of doctoral studies in Lithuanian universities, particularly in science, technology, engineering and mathematics (STEM).

Education and skills: Strengthen secondary VET education and adult learning

Participation in adult learning is low, especially among the less educated and elderly workers. Individual learning accounts and a dedicated online platform have been introduced in 2023-24 to support adult learning and career guidance. The share of people who attain upper secondary education in Lithuania is one of the highest in the OECD, but this education level only provides limited additional competencies, as measured by the OECD PIAAC Survey, especially for Vocational Education and Training (VET) graduates.

Recommendations

- ✓ Ensure adequate funding of the individual learning accounts system and consider increased targeting towards the groups that are most in need of training if current funding proves insufficient.
- ✓ Monitor course quality and evaluate their impact on the skills and employability of participants.
- ✓ Split VET education into one work-based programme with minimum requirements in general subjects preparing for the labour market, and another more technically-oriented pathway into technically focused employment or tertiary education.

Physical infrastructure: Densify the rail network and accelerate its electrification

The Lithuanian rail network is one of the most emission-intensive in Europe due to a low electrification rate. Electrification is under way, with the objective to electrify 40% of the rail network by 2030. This includes the new *Rail Baltica* track that is expected to connect Lithuania with Poland and Latvia by 2030 but is currently subject to delays and cost overruns. There is room to further densify the network, which is one of the least developed in Europe, as this would support growth and rail transport in Lithuania.

Recommendations

- ✓ Expand and electrify the rail network and facilitate interconnections between road and rail.
- ✓ Ensure that national co-financing expenditures related to *Rail Baltica* are adequately reflected in the national budget and that excessive delays do not lead to cuts in EU funding.

Recent progress on structural reforms

Product market regulations in Lithuania are the least restrictive in the OECD. The most significant reforms in recent years include the regulation of interactions with stakeholders, the governance of State-Owned Enterprises (SOEs), and the administrative requirements for creating businesses. The now more centralised model for co-ordinating SOE ownership is an effective way to separate the exercise of ownership rights from regulation activities and to exert a consistent governance across SOEs. All administrative requirements for creating businesses can now be found on a single website, which lowers barriers to entry for small firms. All these reforms support a more competitive business environment, which is ultimately beneficial to productivity.

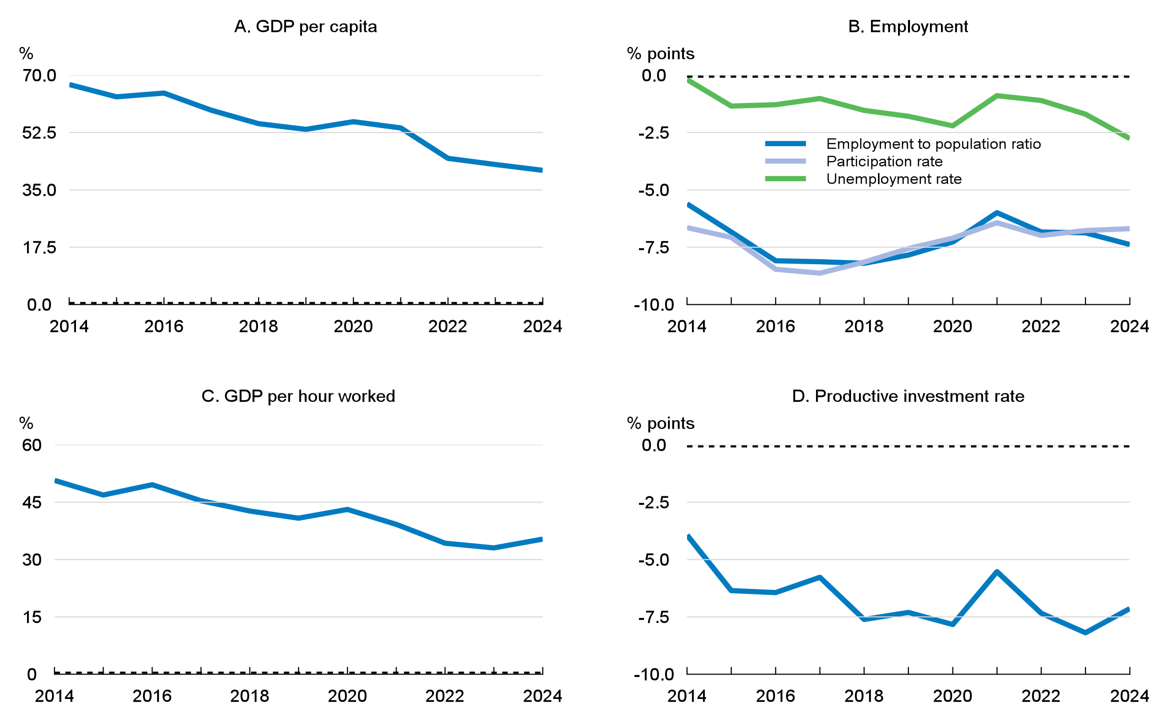
Luxembourg

GDP per capita is among the highest in the OECD, and the level of productivity is high. However, Luxembourg is one of the very few OECD economies recording a decline in multi-factor productivity over the period 2010-2022, largely due to weak productivity growth outside of the financial sector. Residents' engagement in the labour force is slightly below the equivalent in most OECD countries.

Increasing investment, including in research and development to support innovation in firms, and hastening the adoption of digital technologies would boost productivity growth. Raising the number of skilled workers, including by expanding access to adult training, increasing housing supply, and improving the integration of cross-border workers, would support incomes and growth as well as the sustainability of the social protection system. Reducing product market regulations, especially in professional services, would bolster economy-wide productivity.

Economic performance

Gaps to the average of the upper half of the OECD countries



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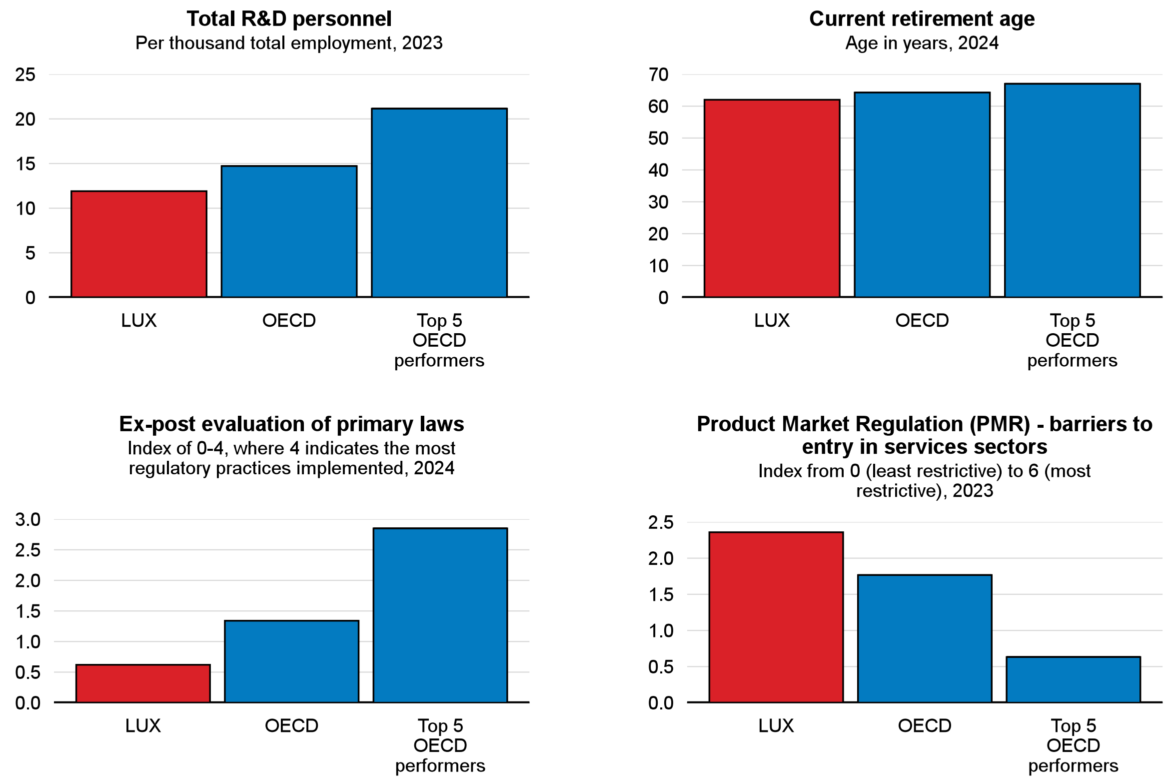
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Innovation: Streamline public support to R&D

R&D expenditures in the private sector are very low by OECD standards, even after accounting for the specialisation in financial services. While direct public support to R&D is relatively generous, the fragmented structure of the grants and subsidies hinders coordination and efficiency, while also discouraging applications from smaller firms.

Recommendations

- ✓ Streamline public support to R&D and innovation by improving coordination among the many institutions providing direct support and harmonising the application procedures, to improve the effectiveness and mobilise investment in R&D.
- ✓ Develop greater co-funding and support by the public sector of research and innovation activities from private businesses.

Labour supply: Encourage longer working lives and facilitate immigration

The effective retirement age in Luxembourg is the lowest of all OECD countries. In the context of slow population increase and rapid growth in the number of pensioners in the coming years, this challenges the sustainability of the pension system and limits labour utilisation and amplifies skill shortages. The employment rates for workers older than 55 is well below the OECD median. As foreign workers constitute nearly half of the workforce, continuing to attract and retain their talents is key to avoid further labour shortages, but non-EU nationals face lengthy visa application procedures. High housing costs are a barrier to immigration, leaving many workers making long commutes from neighbouring countries.

Recommendations

- ✓ Increase the effective retirement age, including by raising early and statutory retirement ages to match gains in life expectancy, and by excluding years of education from the calculation of contributory years.
- ✓ Fully digitalise the different steps of visa and work permit processing, increase the number of hours of work authorised alongside studies for student visas, and introduce an ad-hoc visa to attract high-potential immigrant entrepreneurs.
- ✓ Address structural bottlenecks in supply and construction to improve housing affordability, including by raising surtaxes on unused land and streamlining construction permits.

Education and skills: Improve adult training programmes

Stagnant labour productivity, the ongoing digital and green transformations, and practical challenges with congested transport and expensive housing call for a switch to a growth model based on innovation, supported by the upskilling and reskilling of the existing labour force.

Recommendations

- ✓ Improve the effectiveness and the take up, especially among women and lower-qualified workers, of the individual training leave program (*congé individuel de formation*), including by strengthening the quality standards for training providers and introducing a national accreditation system.
- ✓ Invest in career guidance and increase higher education expenditures in R&D to boost enrolment of young students, and especially girls, in STEM disciplines.

Public governance: Strengthen public sector internal audits

Despite an overall good performance in terms of public sector integrity, there is scope to strengthen the framework of internal control and auditing of the public sector. The lobbying activities of members of government, but not of other members of parliament, are appropriately regulated.

Recommendations

- ✓ Establish a central body to coordinate and supervise the internal audit activities of all public offices.
- ✓ Introduce regulations on lobbying activities (and possibly on cooling-off requirements) for parliament members who are not part of the government.
- ✓ Require full disclosure of the identity of lobbyists and public officials for each interaction.

Competition: Reduce entry barriers in services sectors

Luxembourg has relatively high barriers to entry and competition in professional occupations, especially architects, notaries and engineers, compared to other OECD economies. The assessment of the effect of new laws on competition and entrepreneurial activity is not required and, when taking place, such assessments lack systematic and clear procedures. In the retail sector, market entry and competition are limited by strict regulations requiring, for example, an authorisation to open new shops or pharmacies.

Recommendations

- ✓ Review the requirement to be a member of a professional association and to pass a professional examination in addition to a formal education degree before practising in professions, including civil engineers and architects.
- ✓ Introduce ex-ante and ex-post evaluation of the impact of regulation on competition and entrepreneurial activity.
- ✓ Reduce regulatory restrictions on the opening of new retail activities and pharmacies, to encourage market entry.

Recent progress on structural reforms

To strengthen labour force skills, the compulsory schooling age was increased from 16 to 18 in 2023, and a new training program was introduced in 2024 to improve adults' skills in artificial intelligence, data analysis, cloud computing, renewable energies and sustainability, and other highly demanded fields.

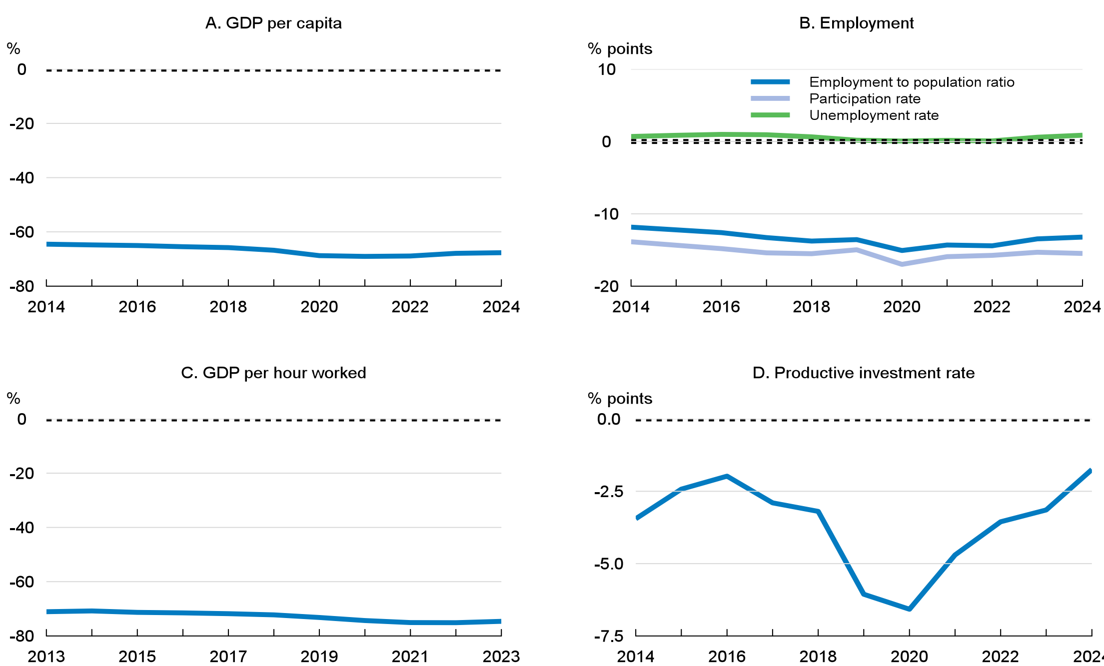
Mexico

Mexico has made no progress in closing the large gap in GDP per capita with the most advanced OECD economies. Productivity has remained stagnant, with significant disparities between highly productive northern states and less productive southern regions. The unemployment rate is at a historically low level. Labour force participation remains below that of advanced OECD economies, particularly for women. Investment picked up from 2021 to 2024, supported by public infrastructure projects in the south.

Improving human capital is essential to reignite productivity. Expanding access to early childhood education and care would enable more women to take up paid jobs and improve education outcomes, thereby supporting both employment and productivity. Reducing informality would raise productivity, lower inequalities and strengthen public finances through higher tax revenues. Addressing infrastructure and logistics gaps would facilitate investment and help reduce regional disparities. Expanding renewable energy generation would support the decarbonisation of the economy while also enhancing the country's attractiveness to foreign direct investment.

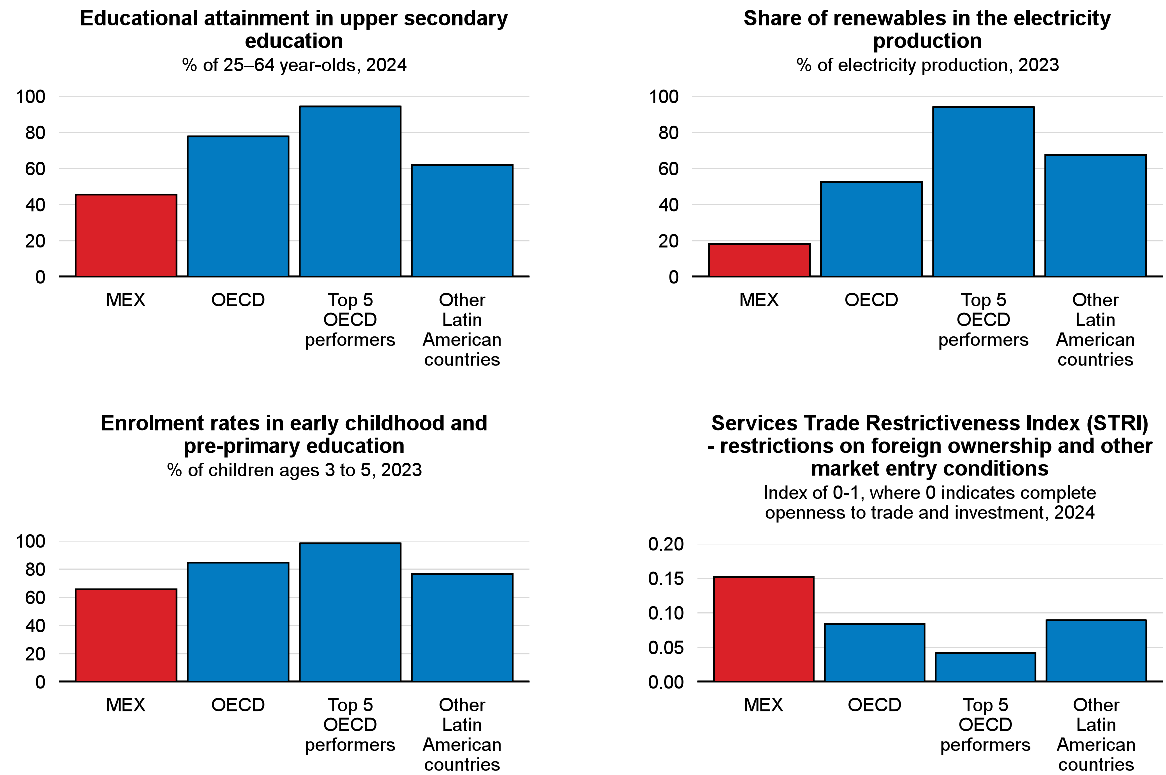
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Note: Other Latin American countries refers to the unweighted average of Argentina, Brazil, Chile, Colombia, Costa Rica and Peru.
Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Education: Boost investment in human capital

Access to education is nearly universal but a large share of students leaves the education system without completing secondary education. Education quality has remained stagnant, well below OECD averages and with significant regional disparities. Some 75% of employers report difficulties filling jobs due to lack of the appropriate skills, a proportion that is increasing.

Recommendations

- ✓ Identify students in need of support, provide them with targeted tutoring and assess and resolve teachers training needs.
- ✓ Use skill anticipation assessments and consult systematically businesses at state level to align university and vocational education and training with labour market demand.
- ✓ Identify which training programmes are most effective in equipping workers with relevant skills and strengthen them.

Labour participation: Facilitate women's take-up of paid jobs

Female labour force participation, at 50%, remains well below other OECD and Latin American countries. Domestic and care responsibilities fall disproportionally on women, relative to other OECD countries, hampering women's prospects to complete education or participate in the labour market. Short school schedules also limit women ability to work full-time.

Recommendations

- ✓ Establish a federal network of affordable, good-quality early childhood education and care facilities, covering informal households and giving priority to low-income ones.
- ✓ Increase the number of primary schools providing full-day schedules.
- ✓ Expand elderly formal care services, including home-and community-based care.

Labour market: Reduce informality

About 55% of workers are informal, one of the highest rates among OECD countries. This hampers productivity, weakens the tax base, and contributes to Mexico having the lowest tax-to-GDP ratio in the OECD. The regulatory environment is complex and burdensome, particularly in areas related to the establishment of formal companies.

Recommendations

- ✓ Pursue a comprehensive strategy to reduce informality, including by providing income support to low-income households through the personal income tax or simplifying and digitalising firms' registration and licensing procedures at the state and municipal levels.
- ✓ Deploy e-government platforms at federal, state and municipal levels, to allow firms to submit and track all regulatory requirements online.

Infrastructure: Improve the quality of infrastructure and logistics

Infrastructure gaps increase the cost of exporting and importing, limiting the participation of firms, particularly SMEs from remote regions, in international trade. Major infrastructure projects launched in recent years have often lacked transparent cost-benefit analysis. There is also significant scope to improve the quality of logistics services, including trucking, freight forwarding, and customs brokerage.

Recommendations

- ✓ Run more rigorous and transparent cost-benefit analysis of infrastructure projects.
- ✓ Remove foreign direct investment restrictions in logistics-related services, such as customs brokerage, road transportation, cargo handling or storage.
- ✓ Improve trade facilitation by making a greater use of advanced rulings and improving the availability of information, including by digital means, and appeal procedures.

Energy: Unlock private investment in renewable energy

Mexico has a substantial and well-distributed renewable energy potential, much of which remains untapped. Scaling up renewables generation would enhance energy security and affordability, bolstering the country's competitiveness and its ability to attract foreign investment, particularly in the manufacturing sector. Regulatory uncertainty has hindered private investment in renewables, contributing to a decline in the share of electricity generated from clean sources. The electricity transmission and distribution networks suffer from chronic underinvestment, with saturation and congestion worsening in several key corridors.

Recommendations

- ✓ Adopt regulations that promote private sector participation in renewables generation.
- ✓ Prioritise public investment in electricity transmission and distribution infrastructure.

Recent progress on structural reforms

Mexico has been advancing labour and pension reforms over the past two years, building on earlier legislative changes. Labour reforms have progressively enhanced conflict resolution mechanisms, workers' representation and collective bargaining. New independent and specialized courts, known as centres for labour conciliation and registration, have been gradually rolled out across the country to expedite the resolution of disputes between workers and employers. Mexico has also reformed its contributory pension system to increase coverage and raise replacement rates. To mitigate a detrimental impact on formal job creation for low-wage workers, the reform will be funded with a gradual increase in employers' contributions, to be gradually phased in by 2030, following a progressive scale.

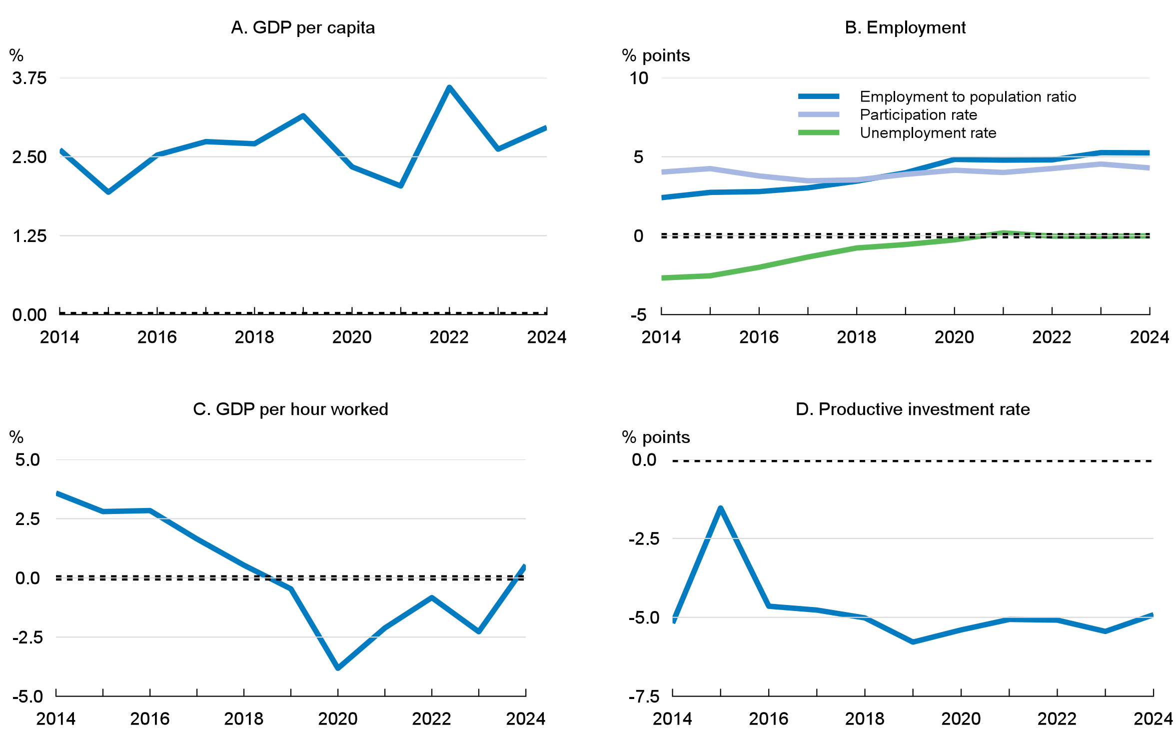
Netherlands

Modest GDP per capita growth over the past decade has been largely driven by increasing labour participation, but productivity per hour worked has lagged peer countries. Business investment has been subdued, slowing capital deepening, while total factor productivity growth has remained low. The Netherlands' long-term prosperity is held back by labour shortages, weak investment, and sluggish productivity growth.

Increasing labour supply while also strengthening productivity growth is essential. Labour participation is high, but average hours worked are low compared to peer OECD countries, especially for second earners. Addressing persistent skill shortages through a stronger culture of lifelong learning could help boost human capital. Streamlining the complex tax system and reducing its distortive incentives could support productivity growth.

Economic performance

Gaps to the average of the upper half of the OECD countries



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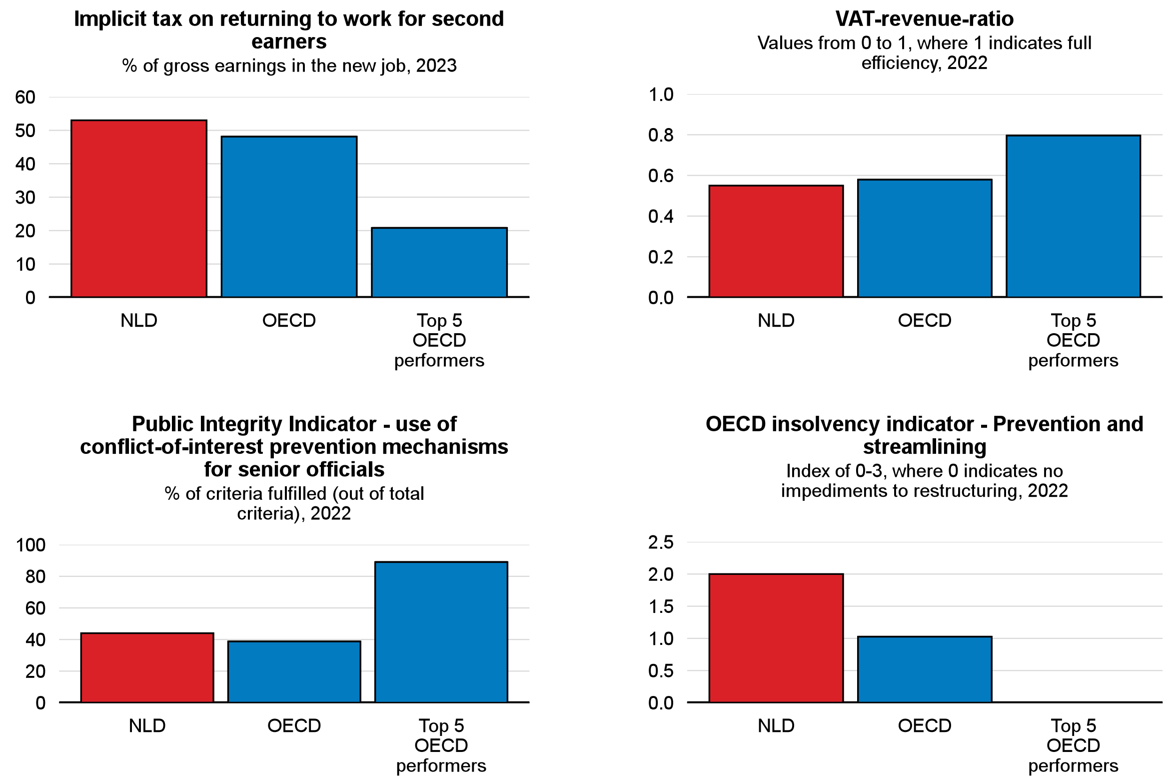
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Employment: Increase incentives to work more hours

Labour force participation is high, but the average number of hours worked remains relatively low. Differences in taxation and regulation across employment types contribute to a dual labour market and distort work incentives. The complexity of means-tested benefit schemes discourages working more, for fear of losing benefits. In particular, high effective taxation on increasing hours worked reduces work incentives for middle-income mothers, compounding cultural norms regarding childcare responsibilities. Housing supply has been held back by a complex regulatory framework governing housing development not only weighing on housing affordability, but also reducing labour mobility.

Recommendations

- ✓ Streamline existing income-dependent benefits into a system of fewer allowances and tax credits based on a limited number of household characteristics.
- ✓ Keep lowering the effective tax rate on moving from part-time to full-time employment while delivering on the childcare overhaul.
- ✓ Continue harmonising taxation and regulation across forms of employment, including by increasing the flexibility of regular employment.
- ✓ Streamline the planning process by expanding the use of parallel planning, allowing infrastructure and housing development to run simultaneously.

Human capital: Strengthen adult learning

Persistent labour shortages are constraining economic growth and are aggravated by growing demand for technical skills due to the digital and green transitions. Spending on lifelong learning falls short of estimated needs given massive skill demand related to these transitions. The individualised training scheme has been cancelled after two years in 2023 after concerns of misuse and of quality standards.

Recommendations

- ✓ Shift the composition of active labour market policies towards training, especially to meet the growing demand for workers in jobs with a high content of green and digital tasks.
- ✓ Ensure quality control of lifelong learning programmes and provide stronger incentives for co-financing by employers.

Taxation: Reduce complexities in the tax system

The complex tax system creates loopholes for tax planning, distorting investment and labour supply decisions. Owner-occupied housing enjoys favourable tax treatment compared to alternative investments including housing for the rental market. The tax system also features many tax exemptions, reductions and reduced rate, which in some cases have been found to be ineffective, unjustified, or excessively complex.

Recommendations

- ✓ Align the tax treatment of owner-occupied housing with other types of investment.
- ✓ Streamline tax expenditure prioritising inefficient exemptions, reductions and reduced rates.
- ✓ Remove disparities between different types of capital income to prevent tax arbitrage and reduce economic distortions.
- ✓ Increase the minimum share of business income that must be paid as salary to reduce tax arbitrage and abolish the reduced CIT rate while considering a moderate reduction in the statutory rate.

Public governance: Increase the transparency of lobbying activities

The Netherlands lacks a mandatory lobbyist register covering all branches of government. The only existing register, for MPs in the Lower Chamber, lacks essential information, and the lobbying register for MPs does not contain detailed information. There are also no mechanisms to track post-office movements of officials into industries they used to regulate, even though the 2022 code of conduct for cabinet members requires that meetings schedules have to be published. These weaknesses in transparency risk undermining institutional trust and may discourage investment, limiting the Netherlands' long-term competitiveness.

Recommendation

- ✓ Establish a publicly accessible and detailed lobbying register for all branches of government and implement the OECD-aligned rules to regulate the movement of officials into private sector roles.

Business dynamism: Further streamline the insolvency framework

Despite lean product market regulation, business dynamism has declined since the COVID-19 pandemic. Business creation rates are lower than for international peers. In parallel, while the Netherlands' regulatory framework is generally conducive to competition, the administrative requirements for setting up new businesses remain relatively high. Despite recent improvements to the insolvency framework, exit rates are still low hindering the efficient reallocation of resources.

Recommendations

- ✓ Strengthen the early warning system for struggling businesses to enable timely intervention and restructuring.
- ✓ Reduce administrative burdens for business creation by factoring in regulatory costs assessments for new policies.
- ✓ Implement simpler business registration processes to encourage entrepreneurship.

Recent progress on structural reforms

The Netherlands has taken steps to reduce differences between workers with secure permanent contracts and those in temporary or self-employed work. Following the 2020 report by the Independent Commission on the Regulation of Work, reforms have included phasing out tax benefits for the self-employed (from 2021), introducing mandatory disability insurance (planned for 2025), replacing zero-hour contracts with basic contracts guaranteeing hours (proposed in 2023), and extending paid parental leave (in 2022). Since 2024, the government has also been working on simplifying the benefit system and evaluating inefficiencies in the tax system.

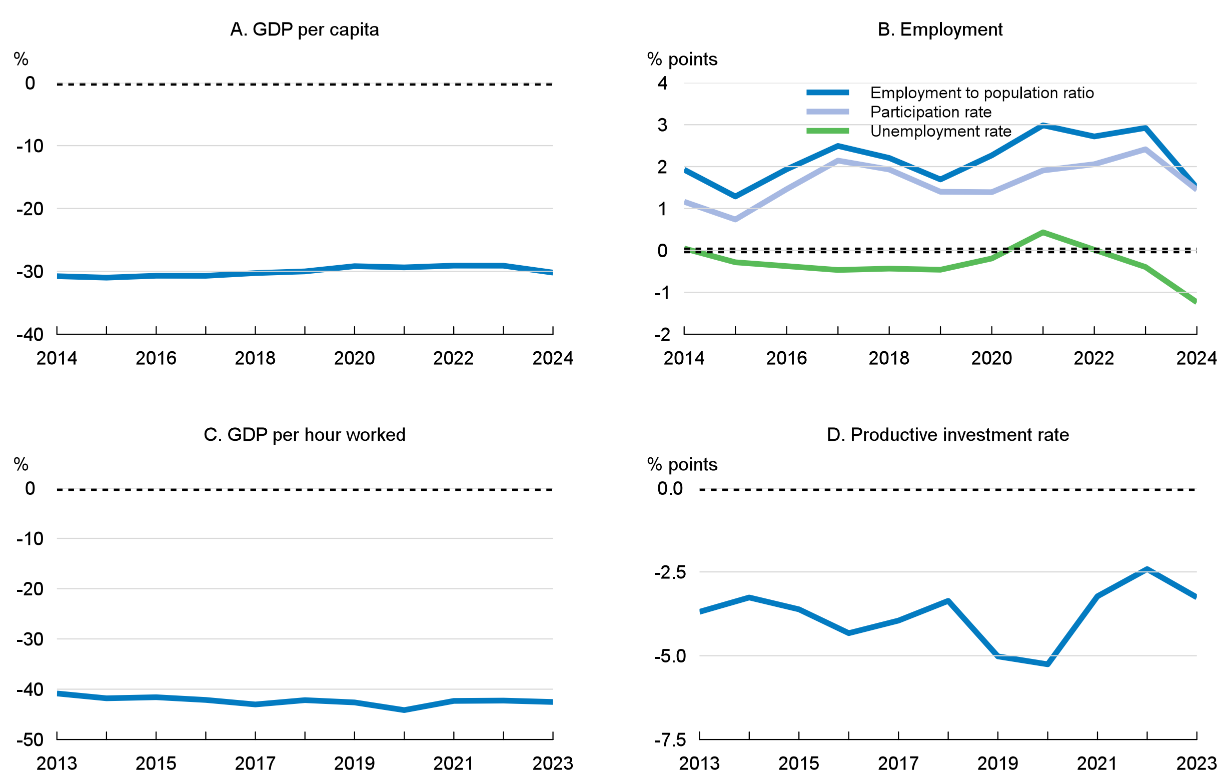
New Zealand

New Zealand's output per capita remains persistently below the most advanced OECD countries and convergence towards the living standards of the OECD top half has stalled. While labour utilisation is strong, with increasingly high participation and employment rates, the investment rate, and especially labour productivity, are low.

Increasing investment and productivity growth demands continuing broad structural reforms, including encouraging greater foreign direct investment by reducing screening restrictions as well as faster adoption by businesses of digital technologies. Simplifying licensing and permitting processes would also help speed up infrastructure investment. Putting the economy on a sustainable growth path requires more research and investment to reduce agricultural and industrial emissions through technological solutions.

Economic performance

Gaps to the average of the upper half of the OECD countries



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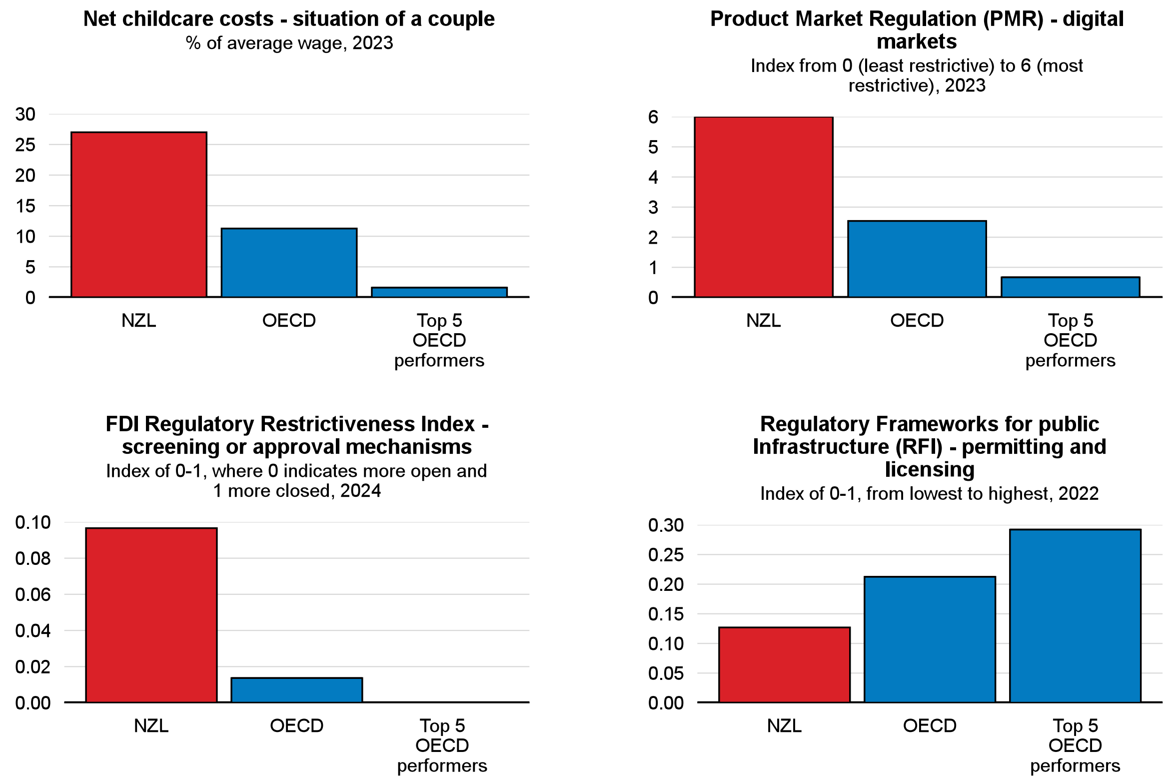
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Digitalisation: Improve regulation to encourage digital diffusion and spur competition

The share of New Zealand's businesses connected to broadband and using AI is below the OECD average. Investment in R&D in digital technologies and intangible assets (designs, software and data) is low. Slow adaptation of regulation to digital innovation may hold back investment and hinder market entry and competition, especially in areas dominated by large platforms and/or incumbents such as banking.

Recommendations

- ✓ Strengthen digital competition tools, including ex-ante regulation for dominant platforms.
- ✓ Promote data portability and interoperability to reduce switching costs, including fully implementing the open banking reforms.
- ✓ Encourage digitalisation by ensuring legislation is suitable for digital markets, including ensuring that copyright law does not unduly hamper AI use.

Early childhood education and care: Provide better value for money

Early childhood education and care (ECEC) costs are amongst the highest in the OECD relative to income. Participation of children from lower socio-economic backgrounds in ECEC is low. Unnecessarily high compliance costs may be raising prices directly, and indirectly by creating barriers to entry, reducing competition. High childcare costs contribute to a high disincentive to work for second earners and especially women. There is also insufficient system-level data and information about the quality and outcomes from ECEC.

Recommendations

- ✓ Reduce regulatory compliance costs by streamlining reporting processes through switching from paper to digital reporting; and making building, space and service delivery requirements more flexible and adapted to age group, cultural and service model (e.g. centre or home-based) demands, while maintaining high quality.
- ✓ Carry out a review of the ECEC sector from an educational quality perspective, beginning by establishing the collection of accurate and consistent information on ECEC quality.

Physical infrastructure: Improve permitting processes

Permitting and licensing procedures are complex and slow relative to the OECD average, vary across local government jurisdictions, and are subject to more legal appeals than in many other OECD countries, including for construction, land-use and environmental approvals. This is reducing business entry and competition and slowing infrastructure investment, potentially contributing to lower-than-average environmental sustainability and climate-resilience of infrastructure.

Recommendations

- ✓ Digitalise licensing and permitting systems to improve efficiency and transparency and harmonise them across local government jurisdictions.
- ✓ Provide more data and modelling support to local government to increase consistency and quality of decision making, including better taking account of environmental effects.

Foreign direct investment: Streamline restrictions on FDI

New Zealand's FDI restrictions have long been among the highest in the OECD, with particularly strong restrictions in air transport, broadcasting, fisheries and land acquisitions. An important barrier was onerous screening practices. This has contributed to an FDI ratio to GDP far below the OECD average, reducing access to foreign technology, know-how and high-quality management, likely contributing to low productivity growth.

Recommendations

- ✓ Streamline the screening regime including by giving greater clarity on the criteria potential investments must meet for approval, and speeding up processing times.
- ✓ Establish a one-stop-shop for foreign investors.

Agriculture: Support low-carbon technologies to boost exports

Low-carbon food products command a significant price premium providing an important opportunity for New Zealand to increase the value added of its commodity exports and notably dairy and meat products. Indeed, the large agricultural sector accounts for around half of total greenhouse gas emissions, of which around 80% is biogenic methane. However, R&D on low-carbon technologies is lower than average and the overall effective carbon tax rate is also low in part as a large share of agricultural emissions are not taxed at all.

Recommendations

- ✓ Provide strong support for research and joint ventures to develop emissions reduction technologies.
- ✓ Improve on-farm measurement of emissions in preparation for introducing agricultural emissions pricing.

Recent progress on structural reforms

The government is implementing 15 recommendations to reduce regulatory compliance costs in ECEC, including a single, simplified licensing system. A new one-stop-shop FDI promotion agency, Invest New Zealand, is in operation, and a reform streamlining the FDI screening regime is underway. Major planning reforms are in progress, including introducing nationally standardised land-use zones and a new planning tribunal. Support to boost business R&D capability, including in digitalisation, has been increased using targeted New to R&D grants and targeted grants for firms to hire graduate students. Digital markets regulatory reform is in an exploratory phase. Public funding for technical solutions to reduce agricultural and industrial emissions doubled between Budget 2023 and 2025 to NZD 1 billion (0.2% of GDP).

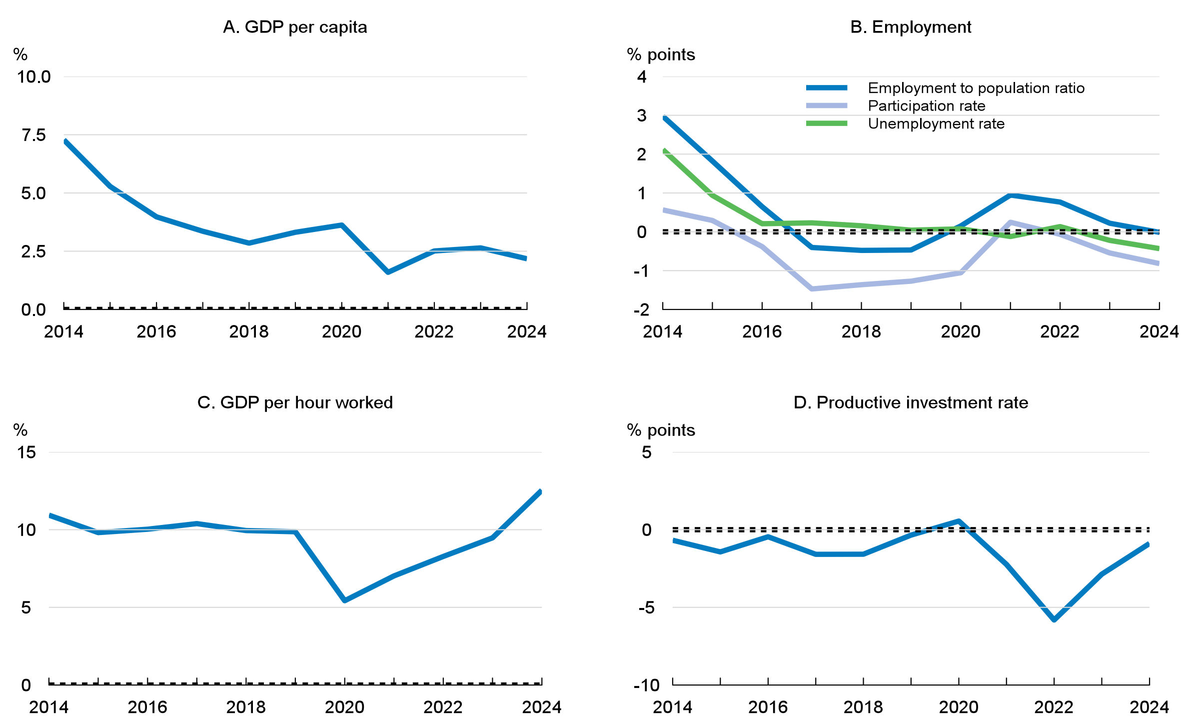
Norway

While Norway's per capita GDP is among the highest across OECD countries, this partly reflects petroleum activity. Over the past decades, trend growth in mainland activity has weakened notably, largely due to a marked decline in multifactor productivity growth, which has been constrained by stringent regulations in some areas. Although the employment rate is slightly higher than the OECD average, trend employment growth has been somewhat lower than in other Nordic countries.

Compared to other OECD countries, Norway has prioritised reforms in areas such as regulatory frameworks for physical infrastructure, product market regulations and insolvency regimes. Continuing reforms in these areas is essential to restoring productivity growth, promoting investment, including from abroad, and further integrating into global value chains. Reducing labour taxation and reforming the disability scheme would stimulate labour force participation.

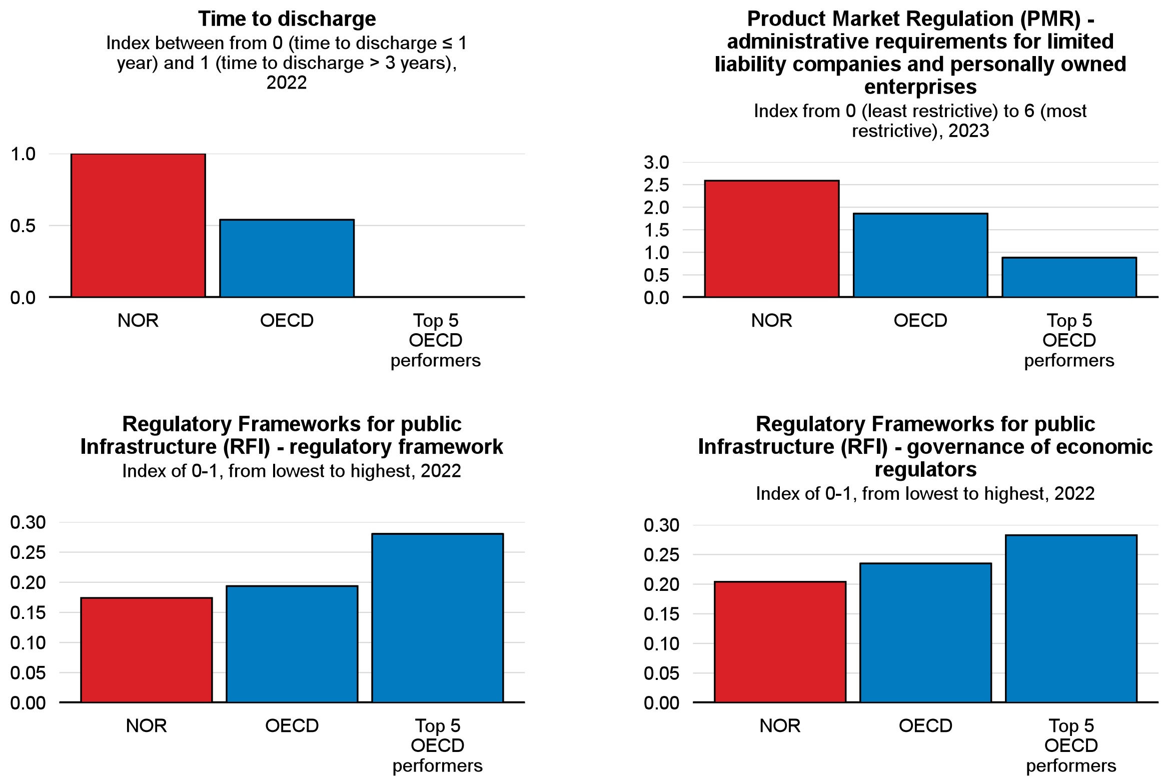
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Regulation: Improve product market regulation to facilitate firm entry

Product market regulation in Norway is generally moderate, but the administrative and regulatory burden for startups is higher than in many other OECD countries. Norway also has greater scope to improve the rules for engaging stakeholders in the design of new regulations than many other OECD countries. Since new firms have a comparative advantage in adopting new technologies, easing market entry would strengthen market discipline and boost productivity growth.

Recommendations

- ✓ Streamline administrative procedures for business startups by strengthening the coordination among licence issuers.
- ✓ Require new licences issued by public bodies to be risk-proportionate and review existing licences periodically.

Regulation: Strengthen insolvency regimes to support credit and startups

Insolvency regimes play a critical role in increasing the possibility of successfully restructuring viable firms and maximising the liquidation value of failing ones. While Norway's insolvency regimes are overall solid, there is room for improvement in restructuring proceedings. Moreover, reducing excessive penalties for bankrupt entrepreneurs could foster a more dynamic startup environment.

Recommendations

- ✓ Strengthen the restructuring-plan voting system to facilitate decision-making, while introducing safeguards for dissenting creditors.
- ✓ Shorten the time to discharge, allowing bankrupt individuals to exempt future earnings from obligations to repay pre-bankruptcy debts more quickly.

Infrastructure: Reform institutional frameworks on public infrastructure

Norway's public investment is substantial, particularly in transport infrastructure. While the stock of public infrastructure capital is already very high, the risk of selecting cost-inefficient projects is comparatively high. Strong regulatory frameworks for public infrastructure and governance of regulators can help identify projects with a high net marginal return of public investment.

Recommendations

- ✓ Prioritise the benefit-cost ratio in the selection of infrastructure projects, for example, by introducing a binding minimum benefit-cost ratio to filter out projects with apparently very weak benefits.
- ✓ Conduct ex-post evaluations more frequently to assess the performance and outcomes of infrastructure planning, thereby helping decision-making.

Tax efficiency: Reduce personal income taxation to boost labour supply

Personal income taxation in Norway is high, particularly for low-income individuals, which could reduce work incentives. The statutory income tax rates adjusted for deductions and benefits are among the highest across OECD countries – excluding countries with some very low social security contribution rates. This contrasts with the taxation of owner-occupied housing, which remains among the lightest in the OECD and could distort demand between homeownership and rental housing.

Recommendations

- ✓ Step up efforts to significantly reduce personal income taxation.
- ✓ Gradually phase out the favourable tax treatment of homeownership by making mortgage interest payments no longer tax deductible or by taxing imputed rent.

Labour force participation: Reform the sickness and disability schemes

Sickness absence and disability benefit recipiency levels in Norway are among the highest across OECD countries. Sick-leave compensation and disability benefits are very generous, with light eligibility conditions, allowing many individuals who could potentially return to work to remain beneficiaries. Over time, this dependency further reduces the chance of re-entering the workforce. Not only does this lower employment, but it also leads to disengagement from working life and high fiscal costs.

Recommendations

- ✓ Reduce the sick leave compensation rate towards the levels in other Nordic countries.

- ✓ Strengthen early intervention through preventive measures or rehabilitation, ensuring that sick-leave compensation beneficiaries do not remain in the benefit schemes permanently.
- ✓ Strengthen the eligibility criteria for disability benefits by introducing an independent medical assessment.

Recent progress on structural reforms

Starting in 2023, Norway no longer requires EEA residency or a local office to become a registered accountant. A recent initiative, the Norwegian Inclusive Workplace Agreement, introduced several measures aiming at preventing transitions from employment to disability benefits, including enhanced training opportunities. The 2024 pension reform will gradually increase the statutory pension age, partly linking it to rising life expectancy.

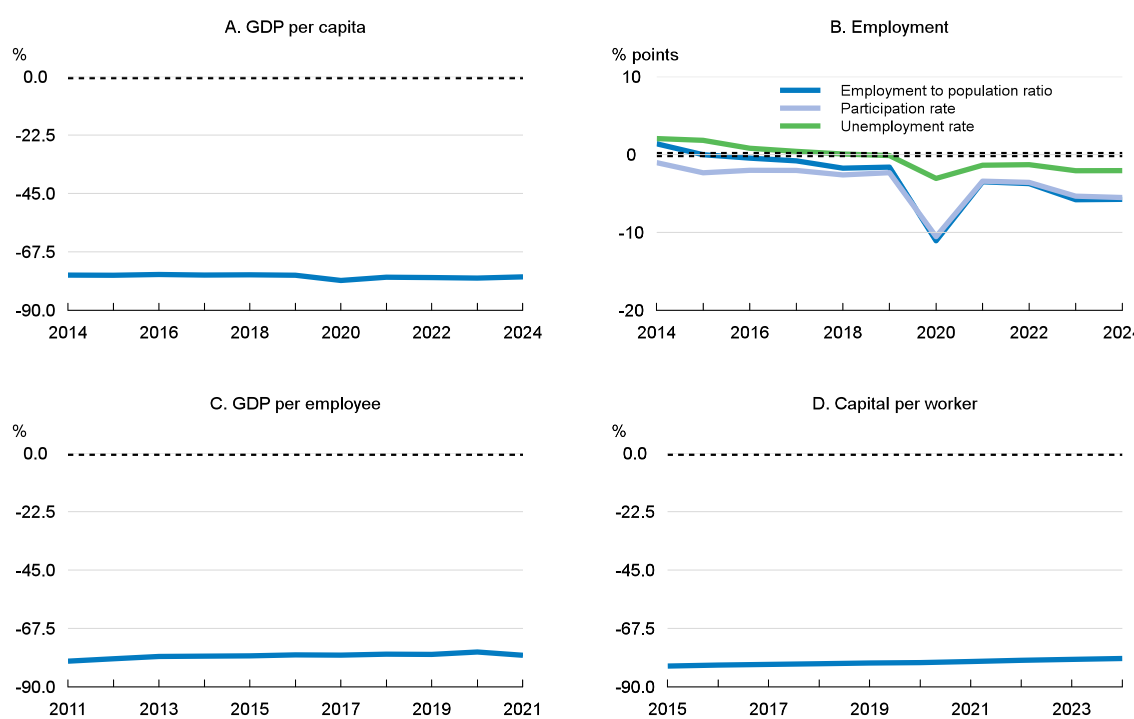
Peru

Peru's GDP per capita growth has slowed significantly since the end of the commodity boom in 2014. GDP per capita convergence with the OECD average has been slow, driven by employment growth as investment gains have been modest and productivity remains stagnant. This reflects deeper structural weaknesses, including limited human capital accumulation, weak institutions, and underdeveloped infrastructure.

Pervasive labour and business informality penalise productivity and equality and require a comprehensive agenda to reduce non-wage labour costs for low-income workers, foster skills development, strengthen labour inspection and enforcement, simplify employment and business regulations, and improve governance. Education quality remains low at all levels despite expanded access. Weak rule of law and corruption undermine trust and deter private investment, while heavy regulatory burdens restrict competition and business formalisation.

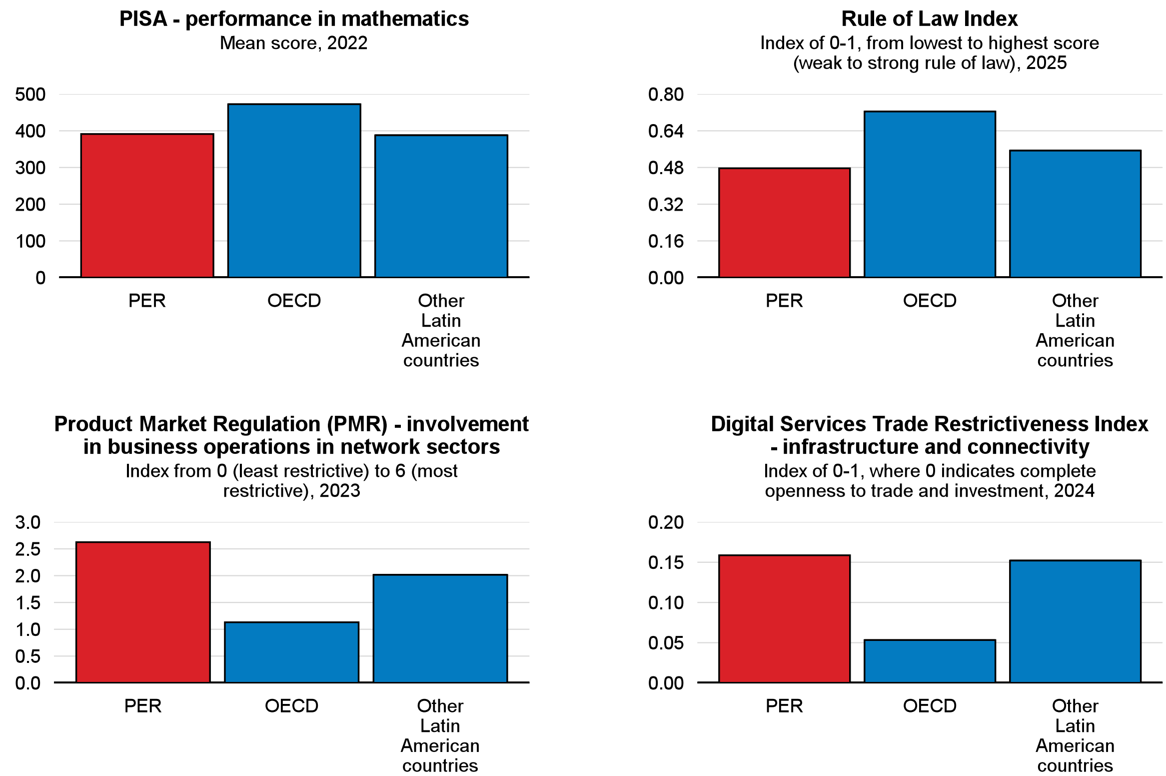
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panels A and D: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases.

Selected policy gaps



Note: Other Latin American countries refers to the unweighted average of Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.
Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Human capital: Improve access to high-quality education and training

Expanding access to high-quality education is needed to raise productivity and promote formalisation. Learning outcomes for 15 years-old remain well below the OECD average, with disadvantaged students performing significantly worse than their more affluent peers. Access to high-quality early childhood education remains limited, particularly in rural and vulnerable areas, hindering later learning outcomes and reducing formal employment among women. Many public-school teachers continue teaching without meeting professional standards, undermining efforts to improve education quality and student outcomes. VET remains underutilized in Peru, with only 2% of youth enrolled, due to a fragmented system with unclear pathways and uneven quality, limiting its role in skills development and upward mobility.

Recommendations

- ✓ Roll out accessible, affordable, and high-quality early childhood education, prioritising vulnerable populations, disadvantaged areas, and children under age three.
- ✓ Improve teachers' initial training, recruitment and selection, and promote merit-based promotions and rewards, including incentives for teacher's reallocation to disadvantaged schools.
- ✓ Establish a coordinated, coherent, and systematic governance framework for VET, enforcing consistent quality standards, regulatory oversight and define clear pathways to higher education.

Labour market: Tackle labour informality and better integrate migrants

Peru's labour market remains highly informal, with 71% of workers employed informally in 2024—well above the LAC average of 45%. Informality limits productivity and access to social protection, especially among self-employed workers, women, youth, and migrants. The current firm-sized based contribution schemes of social protection and other firm-size-based policies, such as tax schemes for micro and small firms, disproportionately burden low-wage workers and create incentives to stay informal. Migrants, accounting for more than 5% of the population, the vast majority Venezuelans, face specific barriers related to the lack of residence permits tied to requirements on employment contract duration, or hiring quotas imposed to firms discouraging formal hiring.

Recommendations

- ✓ Shift to progressive social security contributions based on labour earnings and review other firm-size-based policies, such as tax schemes, to remove incentives for hiring informally and strengthen labour inspection and enforcement.
- ✓ Facilitate migrant formalisation by aligning residence permit requirements with national hiring norms—reducing the minimum contract duration from 12 to 3 months—and eliminating restrictive quotas such as the 20% cap on foreign workers and the 30% payroll ceiling for SMEs.

Rule of law: Reduce and prevent corruption

Weak rule of law and corruption deter investment and trade, weaken government effectiveness, and erode trust in institutions and public services. Enforcement of anti-corruption measures remains weak, with limited coordination among oversight bodies and gaps in civil service and judicial systems. Judicial independence is compromised by the widespread use of provisional appointments and non-transparent selection processes, reducing the credibility and predictability of legal decisions.

Recommendations

- ✓ Establish a National Integrity and Transparency System and advance complementary reforms in justice, civil service, and public sector oversight to strengthen anticorruption enforcement across all levels of government.
- ✓ Strengthen judicial independence by implementing merit-based selection processes for judges and reducing reliance on provisional appointments.

Competition: Reduce regulatory barriers to boost business formalisation

High regulatory burdens and fragmented municipal licensing procedures deter business formalisation, competition and investment. The absence of a unified one-stop shop for business registration increases costs, especially for smaller firms, which make up the bulk of firms. Regulatory barriers in sectors like energy, e-communications, and transport constrain competition and productivity.

Recommendations

- ✓ Simplify business registration and tax compliance procedures, particularly for micro, small and mid-size firms, through digital platforms and one-stop shops to lower the cost of formalisation.

- ✓ Review regulations in network sectors to reduce entry barriers and promote competition, including phasing out undue advantages for incumbents, opening access to essential infrastructure (e.g. energy grids, telecom networks), and ensuring independent, well-resourced regulators with a clear mandate.

Openness to trade: Enhance digital trade and connectivity

Peru's trade facilitation is constrained by low automation, limited cross-border cooperation, and regulatory barriers to digital trade. Gaps in digital infrastructure and connectivity and weak digital skills further limit access to digital services, especially for smaller firms. These challenges reduce productivity, discourage business creation, and limit the integration of domestic firms into global value chains.

Recommendations

- ✓ Accelerate the adoption of electronic single windows and interoperable digital systems across border agencies to simplify formalities and reduce clearance times.
- ✓ Invest in broadband expansion and digital skills development to improve access and adoption, particularly among micro, small and medium-sized firms and in underserved regions.

Recent progress on structural reforms

In recent years, Peru has undertaken key structural reforms, including a merger control regime in 2021 to strengthen competition, a pension reform in 2024 to improve coverage and adequacy, and deregulatory measures in 2025 to reduce administrative burdens on firms. The country also launched its OECD accession process in 2022. However, broader reform momentum has been limited by political instability with frequent leadership changes shifting focus away from long-term structural priorities.

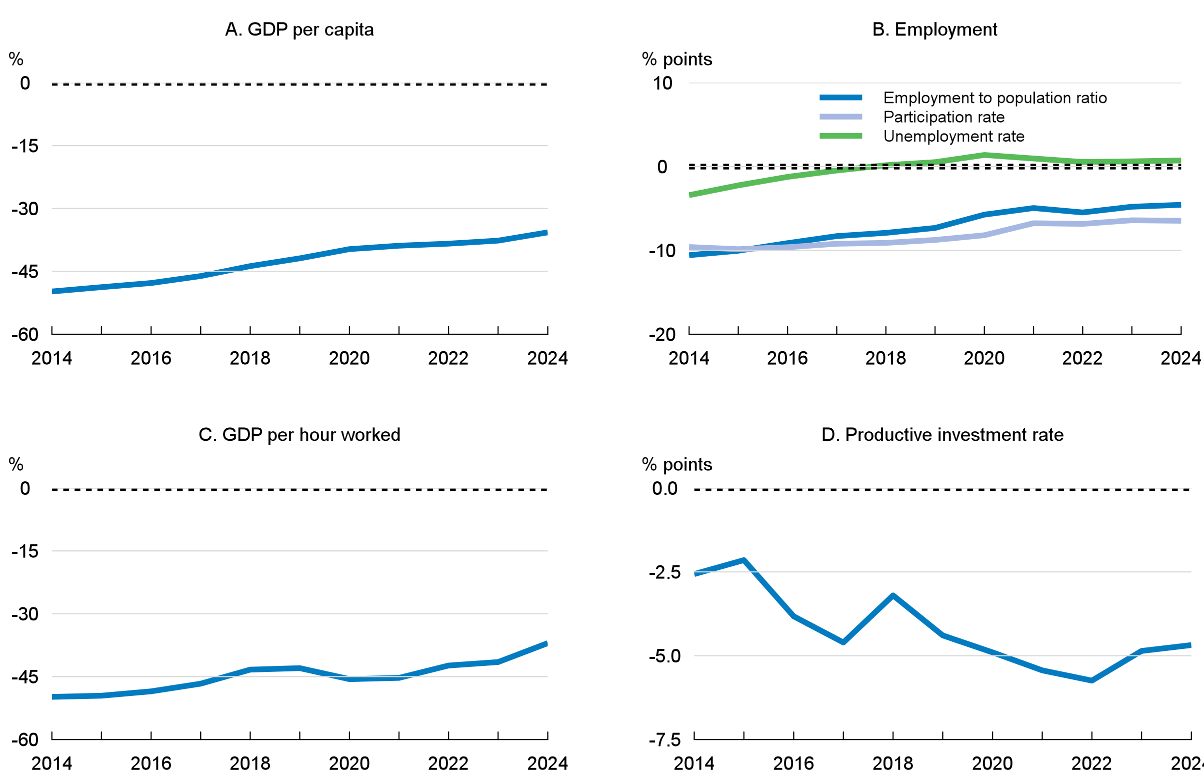
Poland

Economic performance has continued to improve over recent decades and picked up again after the pandemic, with Polish GDP per capita now 30% below the average of upper half of OECD countries. Although productivity still lags OECD levels, the country has seen considerable investment and productivity convergence. Both employment and participation rates have increased in recent years, while the unemployment rate has fallen to record lows.

To sustain growth, Poland will need to counter the headwinds of population ageing, by improving health outcomes, enhancing the skills of the working-age population and increasing further female employment. Strengthening competition in services, management of state-owned enterprises and insolvency regime can add a boost to business growth.

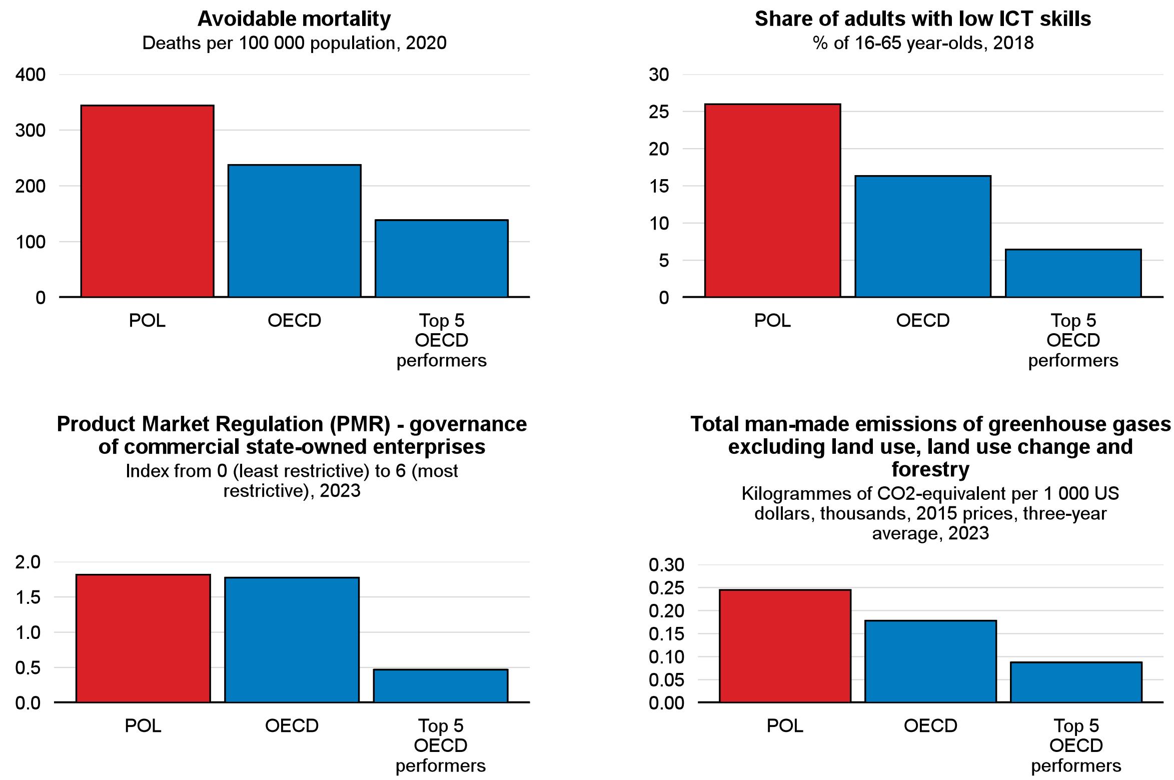
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Health: Improve the efficiency and quality of health care services

Despite significant improvements over the past two decades, life expectancy remains among the lowest in the OECD. The health status of the population is relatively weak, staff shortages contribute to long waiting times and preventable mortality is high. Long-term care is by and large provided informally by households. Poland should continue pursuing a comprehensive approach to reforming the healthcare system to support healthier lifestyles of the population.

Recommendations

- ✓ Increase the use of incentives in primary care, encouraging key activities, such as prevention and coordinated care, as well as cost-effectiveness.
- ✓ Rationalise further the hospital network, while ensuring adequate regional health needs.
- ✓ Continue expanding training places for nurses and set personnel standards in the sector to improve working conditions.

Human capital: Ensure continued upskilling

Educational attainment has increased, both in terms of the share of young adults with tertiary education and a falling share of low educated. Poland ranks among the top OECD performers in the international PISA tests but does less well in terms of skills of the working-age population. The share of adults with high level of digital and language skills lags regional peers. Participation of low-skilled workers in training is modest, and a large share of low-educated employees are on temporary contracts. The lower retirement age for women and caring responsibilities limits their employment and participation rates.

Recommendations

- ✓ Conduct regular and targeted awareness campaigns providing information on the benefits of adult learning of digital and language skills.
- ✓ Implement the recently adopted migration strategy to address skills shortages.
- ✓ Gradually align statutory retirement age for men and women, and increase it in line with life expectancy gains.

Energy: Accelerate energy transition to support cost competitiveness and growth

Decarbonisation of the electricity production is ongoing, but in the context of rising CO_2 allowance costs, faster development of infrastructure capacity and shortening of permitting times for renewables would allow for a more ambitious coal phase out. Current car and fuel taxation lags OECD best practices, while energy intensity of the residential sector has decreased only modestly over the past two decades and residential heating is the main source of particulate air pollution. Progress on all these fronts would increase energy cost competitiveness, reduce negative externalities, improve energy efficiency and thereby support growth. Carbon-related tax revenue could be used to mitigate negative impacts on low-income households.

Recommendations

- ✓ Increase energy infrastructure capacity and streamline regulations for the development of renewables.
- ✓ Introduce a comprehensive vehicle taxation, based on the ‘polluter-pays’ principle, and increase excise taxes on motor fuel.
- ✓ Introduce revenue-recycling of carbon-related tax revenues targeted at low-income households.

Innovation: Strengthen public support for R&D investment

With ongoing convergence, Polish companies face a challenge of moving up the value chains on the backdrop of an ageing and shrinking workforce, shortage of skills, and the transition to less polluting production. Business investment has been below the EU average and some of its regional peers, with relatively low investment in intangibles and ICT equipment, while the innovation capacity remains limited. Nonetheless, a range of support programmes is in place.

Recommendations

- ✓ Streamline R&D tax incentives for small and medium-sized enterprises and access to technical support for innovation subsidies from existing programmes. Increase awareness of various innovation programmes to help facilitate access for small and medium-sized businesses.
- ✓ Allow startups and companies that initially do not make a profit to benefit, by turning the tax incentives into a carry-over.

Business environment: Improve competition in services, management of state-owned enterprises and insolvency regime

While the overall regulation, as measured by the OECD's Product Market Regulation indicator, is broadly favourable to competition, Poland lags OECD best practices in the regulation of certain services, such as notaries, lawyers and architects. The insolvency framework could be streamlined to shorten the procedures, and the oversight and management of state-owned enterprises can be improved.

Recommendations

- ✓ Review the necessity of price regulations for notaries, lawyers, and architects, as well as geographical restrictions for notaries.
- ✓ In the insolvency regime, lower the time to discharge and lower the length of the stay on assets. Allow courts to specialise in complex business insolvency cases.
- ✓ Introduce an aggregate annual report on state-owned enterprises and a minimum requirement for a number of independent members on their boards. Strengthen the selection process for board nominations and mandate the disclosure of board and key executive remuneration.

Recent progress on structural reforms

The healthcare system is undergoing several reforms that include the introduction of coordinated care, the reorganisation of the hospital network, the introduction of indicators on healthcare quality and patient safety, and the expansion of training places in nursing. Doctors' and nurses' pay has been increased in recent years. Individual training accounts for workers are being piloted in one of the regions. Legislation streamlining the licensing and construction limits for onshore windfarms is currently in the Parliament. A new voluntary "Code of Good Practices" for state-owned enterprises has been published. The government has launched a 'deregulation' initiative that reviews the existing legislation with a view to streamlining it.

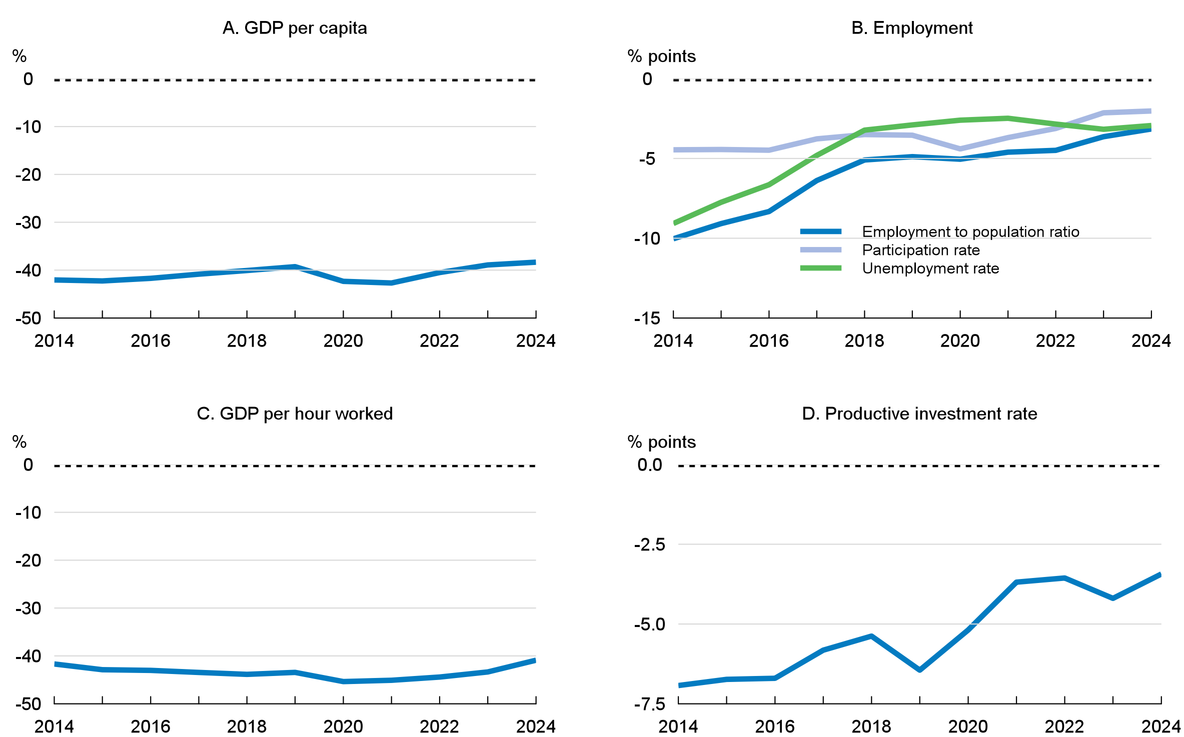
Portugal

Portugal's economic performance continues to lag most advanced OECD economies. While the gap in the investment rate has decreased, weak long-term productivity growth has led to a persistent gap in output per hour worked. The sizeable shortfall in GDP per capita also reflects Portugal's relative labour market underperformance. Despite an historically low unemployment rate, employment rates remain relatively weak for the youth and still have room for improvement for women and older workers.

Ongoing structural changes, slow productivity growth and an ageing population require an adaptable economy, safeguarding competitiveness and fiscal sustainability by promoting sustained productivity and employment gains. Reducing regulatory barriers to competition would facilitate the entry and growth of innovative start-ups. Improving training and childcare services and strengthening work incentives for older workers and the long-term unemployed, would allow for longer working lives and ease skill shortages.

Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps

Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Enhance the quality of regulations

Competitive pressures are weak in some sectors. According to the OECD Product Market Regulation (PMR) indicators, regulations in retail trade and some professional services remain restrictive, despite the welcome reform of regulated professional services in 2023. The use of ex-ante Regulatory Impact Assessments could be improved further and ex-post evaluation of existing rules is not mandatory. Lobbying activities and potential conflicts of interest are not systematically monitored.

Recommendations

- ✓ Lower entry barriers and streamline regulations in professional services and the retail sector.
- ✓ Further expand the use of Regulatory Impact Assessments for new regulations and undertake sectoral reviews of existing policies and their competition impact.
- ✓ Approve legislation introducing a permanent lobbying registry and codes of conduct on how to engage with lobbyists and ensure effective enforcement.

Taxation: Improve the efficiency of the tax system

The tax system relies heavily on labour taxes, which raise labour costs for low-wage workers, while property taxes are comparatively low. Numerous tax expenditures create sizeable revenue losses and increase compliance costs. In particular, the Corporate Income Tax has many exemptions, as well as a state surtax and municipal surcharges and reduced rates for small and medium-sized enterprises.

Recommendations

- ✓ Simplify the tax system and broaden the tax base by reducing inefficient tax expenditures and consider using this fiscal space to lower tax rates. Consider phasing out the state surtax by eliminating ineffective and distortionary tax exemptions.
- ✓ Reduce labour costs for low-wage workers by shifting the labour tax burden toward recurrent property taxes.

Labour market: Activate and upskill the current workforce

With an ageing population and high labour shortages, activating and upskilling will be key to continue to boost workers' skills and productivity. Youth employment is low, and employment rates for women and older workers still have some room for improvement. Difficulties in accessing childcare for children below two and the associated costs can be a challenge for low-income households and may hold back female labour participation. The use of temporary labour contracts remains high, while costly legal processes add to the cost of hiring on permanent contracts.

Recommendations

- ✓ Develop national quality certification standards for lifelong learning programmes that set clear benchmarks for content, teaching quality, and learning outcomes.
- ✓ Expand access to affordable quality childcare, prioritising low-income households and underserved areas.
- ✓ Enhance the balance of protection across contract types by continuing efforts to promote the use of permanent contracts and reducing the cost of dismissals.

Housing: Strengthen affordability and mobility

Long-standing challenges in Portugal's housing market, compounded by a resurgence in demand, have led to a surge in house prices and rents. Many households, particularly younger people, struggle to buy, rent, pay off their mortgage, or move to find suitable housing or better jobs. Housing supply has stagnated, and residential mobility is low. The social rental housing stock remains small and waiting times for people in need are long and can exceed several years, particularly in urban areas.

Recommendations

- ✓ Simplify and harmonise building permitting procedures across municipalities as planned by expanding digital platforms and simplifying approval rules with clear maximum timeframes.
- ✓ Gradually shift the tax burden from transactions to recurrent taxes on immovable property, including through regular updates of taxable property values to reflect market prices.
- ✓ Expand the social rented housing stock by increasing investment, ensuring adequate funding for construction and operation, and setting targets aligned with local housing needs.

Energy: Raise investment to adapt to a warming climate

Portugal has cut its total GHG emissions over the past two decades, notably by shifting energy production to natural gas and renewable sources. However, public investment has lagged the OECD average, and further progress is needed. The transport system relies heavily on cars and the building stock is in poor condition, while energy production from renewables is set to expand further. Adaptation will also be critical, as Portugal faces growing risks from wildfires, droughts and sea level rise.

Recommendations

- ✓ Increase investment in expanding and maintaining public transport infrastructure based on cost-benefit analysis, prioritising rail investments in high-demand corridors.
- ✓ Continue expanding and diversifying renewable energy production by improving investor certainty through clear auction timelines. Enhance balancing capacity through coordinated planning with Spain to strengthen the electricity grid and storage, align reserve capacities, and ensure overall system resilience.
- ✓ Establish a formal public-private risk-sharing mechanism, for example by making insurance for natural catastrophes compulsory for all buildings and aligning premiums with risk exposure.

Recent progress on structural reforms

Portugal has undergone significant structural reforms in recent years. Major reforms include a new framework for regulated professions in 2023, the restriction on the use of fixed-term contracts in 2023, as well as reform of the national health service (NHS) to promote better primary care and foster more integrated care. The fiscal framework has also been strengthened through the progressive integration of spending reviews into the annual budgetary process and the planned evaluation of all tax expenditures by a dedicated tax unit (U-TAX), established in 2024.

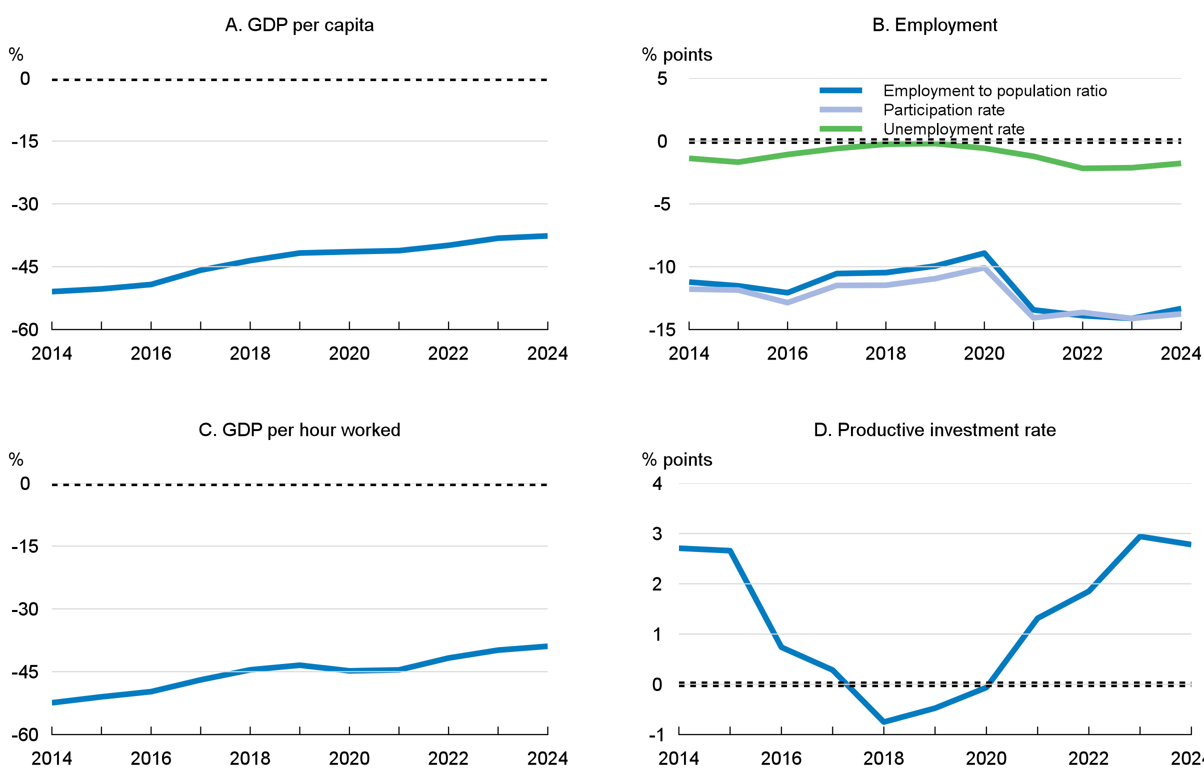
Romania

Romania's income convergence with OECD countries has continued, driven largely by gains in labour productivity. However, labour force participation remains low by OECD standards. A shrinking working-age population is expected to increasingly weigh on long-term growth. Capital deepening has significantly contributed to productivity growth, supported in part by EU funds.

Enhancing labour force participation among women, youth, and older individuals in the formal labour market would strengthen overall labour utilisation. Further improvements in educational attainment and performance, along with efforts to reduce the urban-rural divide, would support productivity growth. Other key priorities include sustaining efforts to combat corruption and improving the overall business environment, notably by addressing tax distortions and boosting the development of digital skills.

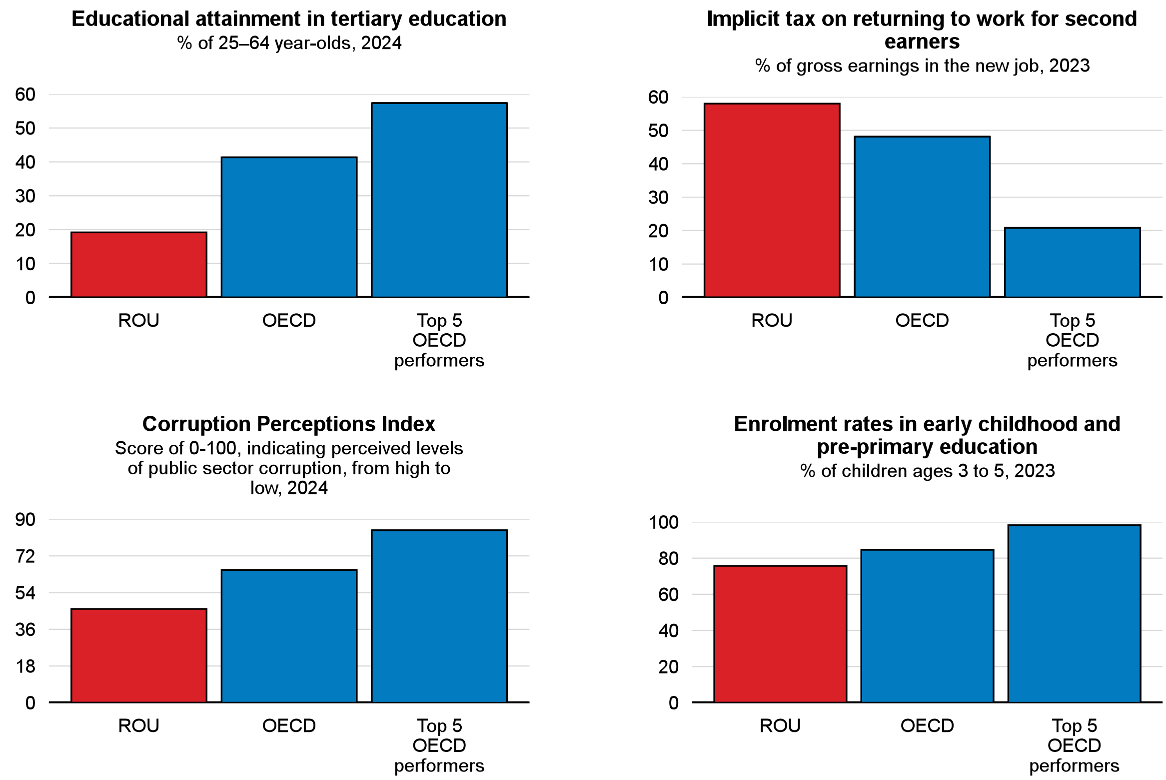
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Labour market: Enhance the integration of women, youth, and vulnerable groups

Labour force participation in Romania remains among the lowest in the OECD, despite some improvement over recent years. This is particularly due to low participation rates in the formal labour market among youth, women, older individuals, and Roma communities. Also, the share of young people not in employment, education, or training (NEET) remains high.

Recommendations

- ✓ Reduce the relatively high tax and social security burden on low-income/low-skilled workers and for the second earner, to strengthen their attachment to the labour market.
- ✓ Expand access to quality formal early childhood education and care.
- ✓ Enhance the quality and relevance of VET programmes, by ensuring that they are aligned with labour market needs and accelerate policies to support students at risk of dropping out of school.

Education: Address gaps in attainment and equity

Despite a significant increase, Romania has the lowest tertiary attainment rate compared to OECD countries. Educational performance, as measured by PISA scores, falls below the OECD average. Moreover, there is a high degree of inequality in educational achievement, with significant disparities between urban and rural areas. Access to quality education is uneven across the country, contributing to large regional gaps in both attainment and student performance.

Recommendations

- ✓ Allocate more public resources to schools located in rural and disadvantaged areas, by revising the overall funding mechanisms.
- ✓ Continue efforts to strengthen teacher education, including a stronger emphasis on job-embedded learning programmes.
- ✓ Review and enhance the curriculum and student assessment framework, with a particular focus on strengthening competencies in reading, mathematics, and science.

Governance: Continue the fight against corruption

While Romania has made notable and sustained progress in tackling corruption over recent years, challenges remain. Weak implementation and limited enforcement of anti-corruption measures have allowed corruption risks to remain relatively elevated compared to the OECD average. Issues such as corruption in public procurement and delays in judicial proceedings continue to weigh on business confidence.

Recommendations

- ✓ Enhance transparency and oversight in public procurement by strengthening internal managerial control and civil society scrutiny and reinforce conflict-of-interest management.
- ✓ Ensure that the reformed pre- and post-public employment and lobbying framework are effectively implemented.
- ✓ Review the system of preliminary hearings in corruption cases and address shortages of magistrates.

Taxation: Raise revenue while reducing tax distortions

A high tax wedge for low-income earners discourages formal employment and limits redistribution. At the same time, taxes on capital, including property, remain relatively low while reduced VAT rates reduce the consumption tax base. Weak tax compliance and informality contribute to the EU's largest VAT compliance gap. The low-rate microenterprise tax allows small firms to avoid regular corporate taxes. Also, government revenue as a share of GDP remains well below the OECD average.

Recommendations

- ✓ Reduce the high tax wedge for low-income earners by increasing the progressivity of income taxation.
- ✓ Broaden the value added tax base through more uniform application of the standard rate.
- ✓ Strengthen tax enforcement to increase VAT compliance.

Digitalisation: Improve digital skills

Poor digital skills constrain Romania's ability to fully benefit from digital technologies. While broadband services are well developed, a large share of people does not have basic digital skills nor use digital tools. Despite recent progress, many businesses lag in the adoption of digital technologies, including artificial intelligence.

Recommendations

- ✓ Foster digital skills in formal education curricula by continuing efforts to train teachers and to channel resources to investments in IT equipment for classrooms.
- ✓ Improve adults' access to digital skills training by increasing the availability of flexible programmes and by offering incentives to boost participation of vulnerable groups.
- ✓ Facilitate wider uptake of digital services among businesses by improving awareness and access to digital support programmes.

Recent progress on structural reforms

Several welcome reforms were enacted in 2024 and 2025, including the removal of personal income tax exemptions and preferential tax regimes and a reduction of the scope of the special tax scheme for microenterprises. Additionally, Romania enacted an important reform of its pension system, reformed its minimum wage framework, and raised the amount of support provided under the minimum inclusion income scheme. Reforms to streamline public procurement procedures and to strengthen institutional capacity are underway, along with the implementation of a major reform of the education system.

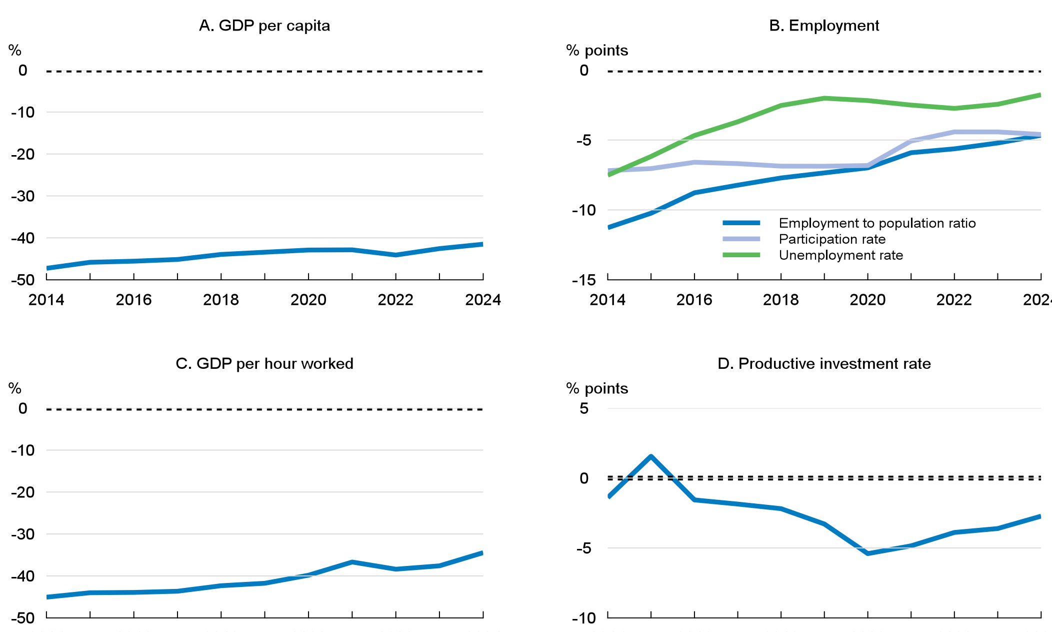
Slovak Republic

Economic convergence has lost momentum. Productivity growth has weakened, with the slowdown reflecting declining foreign direct investment, waning benefits from integration into global value chains, and persistently low innovation. Fixed investment remains subdued, limiting capital deepening relative to more advanced economies. Labour utilisation is also lagging. Employment and participation rates remain below those of peer countries, particularly among mothers with young children, contributing to a persistent gap in GDP per capita.

To reinvigorate growth, policy should focus on enhancing the innovation ecosystem, fostering a business environment more conducive to investment in new technologies and knowledge-based capital, and improving health outcomes. Improving the quality and relevance of education and training systems, bringing young mothers into the workforce alongside better activation policies targeted at re-skilling low-skilled individuals and people at risk of displacement, will also be key to alleviating skills shortages and increasing labour participation.

Economic performance

Gaps to the average of the upper half of the OECD countries



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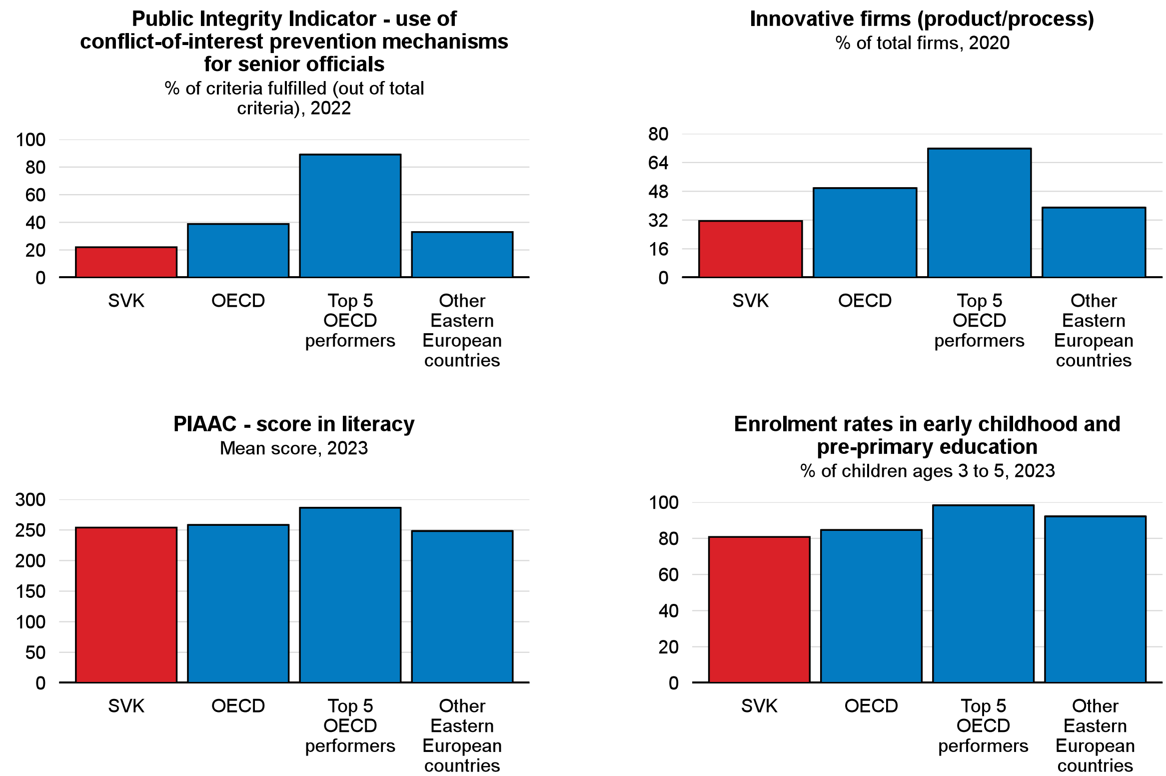
Selected policy gaps



Note: Other Eastern European countries refers to the unweighted average of Czechia, Hungary and Poland.
Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Public governance: Strengthen anti-corruption and lobbying regulations

High levels of perceived corruption and low trust in the independence of the judiciary remain key barriers to growth. In 2022, 84% of businesses in Slovakia considered corruption widespread, well above the EU average of 63%. Although progress has been made towards a strategic approach to public integrity, important gaps persist, most notably the absence of a dedicated lobbying framework. There are no legal definitions of lobbying or lobbyists, and no enforceable sanctions for undue lobbying practices. Legislation is often changed, undermining stability and raising uncertainty.

Recommendations

- ✓ Implement the Anti-Corruption Strategy for the years 2024-2028.
- ✓ Introduce a legal framework to regulate lobbying activities and strengthen legislation on conflicts of interest and asset declarations.
- ✓ Promote alternative dispute resolution mechanisms to enhance judicial efficiency.

Skills: Improve the adaptability of education and talent provision

Slovakia faces persistent skill mismatches that weigh on productivity and employment outcomes. Higher education institutions rank poorly internationally, with low research performance and limited labour market relevance. A significant share of secondary graduates studies abroad, pointing to low confidence in domestic tertiary institutions. Adult participation in formal and informal learning is low, while work-based vocational training could be improved.

Recommendations

- ✓ Expand performance-based funding in higher education to reward excellence in teaching and research.
- ✓ Establish a one-stop-shop portal providing information access on labour market and skill needs as well as study opportunities and systematically provide VET-students with information on graduate's wages.
- ✓ Scale up active labour market policies, with a focus on re-skilling low-skilled individuals and those at risk of displacement with the green and digital transitions.

Health: Strengthen the health system and promote preventive care

Health outcomes in the Slovak Republic remain poorer than on average in OECD countries, with life expectancy among the lowest across the OECD. Deep disparities persist across socio-economic groups, and Slovakia records one of the widest gaps in life expectancy by education level in the European Union. Chronic shortages of health professionals continue to limit access to quality care. Strengthening the healthcare system and investing in prevention would improve population health, reduce demand for curative and long-term care services, and support longer and healthier working lives.

Recommendations

- ✓ Ensure full implementation of the 2024 hospital network reform, establishing well-defined areas of hospital expertise and specialisation.
- ✓ Introduce more targeted health promotion programmes and consider allocating a larger share of health spending to preventive care.
- ✓ Implement pay-for-performance schemes for general practitioners to improve the quality and efficiency of care.

Labour market: Raise employment of mothers with young children

Employment rates among mothers with young children are low, and the gender wage gap remains substantial. Limited access to childcare, particularly for children under age three, and particularly long parental leave, four times the OECD average, constrains female labour force participation and discourages earlier returns to work.

Recommendations

- ✓ Expand the availability of affordable, high-quality childcare, particularly in underserved regions.
- ✓ Shorten the duration of parental leave and make a portion conditional on the second parent's use.
- ✓ Promote flexible working arrangements for parents.

Innovation: Boost R&D spending and digital adoption

Slovakia lags in innovation performance, with low patenting activity and R&D expenditure. Investment in ICT and the adoption of advanced digital technologies such as cloud computing, artificial intelligence or big data, especially by SMEs, remains limited. While digital infrastructure has improved, further efforts are needed to meet national coverage goals. Marginal tax subsidies for R&D are quite generous, yet take-up by businesses is low by international comparison and skewed towards large multinational companies.

Recommendations

- ✓ Make the R&D tax allowance refundable for small and young companies to improve accessibility.
- ✓ Expand direct public support for innovation, including competitive R&D grants.
- ✓ Fully implement the National Broadband Plan to ensure ultra-fast internet access for all households by 2030.

Recent progress on structural reforms

Progress in strengthening the anti-corruption framework has continued, with the Whistleblower Protection Office becoming operational in 2021. The update of the 2019 National Anti-Corruption Programme remains pending, although a draft includes provisions aimed at enhancing integrity and managing conflicts of interest among senior executives in central government. The new National Strategy for Research, Development and Innovation sets a target to increase public and private R&D spending from the national budget by 2030. In parallel, Slovakia's Recovery and Resilience Plan allocates approximately 20% of total grants to digital transformation. A new support scheme has been launched to foster the development and application of advanced digital technologies by businesses, including SMEs, as well as research institutions and other stakeholders.

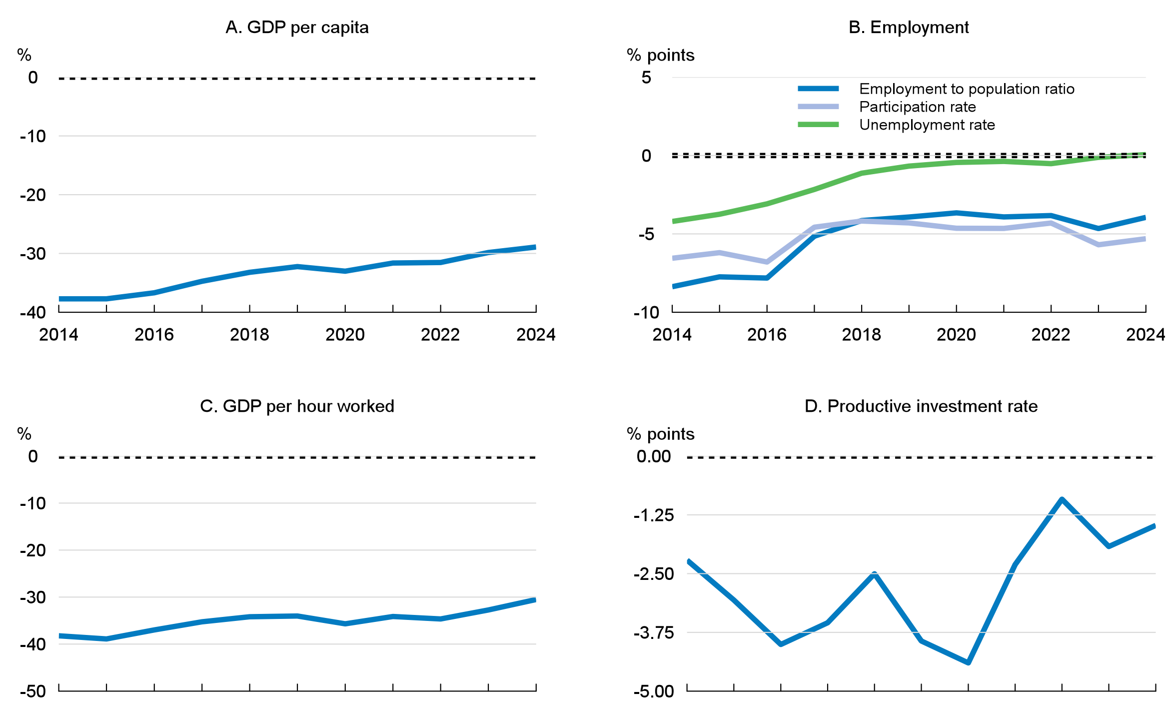
Slovenia

Economic convergence with the OECD's most advanced economies has continued in recent years. However, growth has relied on employment gains, while weak productivity growth since the global financial crisis has maintained a sizeable productivity gap with the upper half of OECD countries. Gross fixed investment has improved, but mostly in housing. As the population ages and the working-age population shrinks, sustaining growth will require stronger productivity improvements and further increases in labour force participation.

Productivity and investment would benefit from structural reforms, such as deepening capital markets and streamlining permitting processes. Removing tax disincentives for second earners and single parents to work full-time is needed to boost labour supply. Growth-friendly tax reforms should reduce the labour tax burden, funded by higher consumption, environmental, and recurrent immovable property taxation.

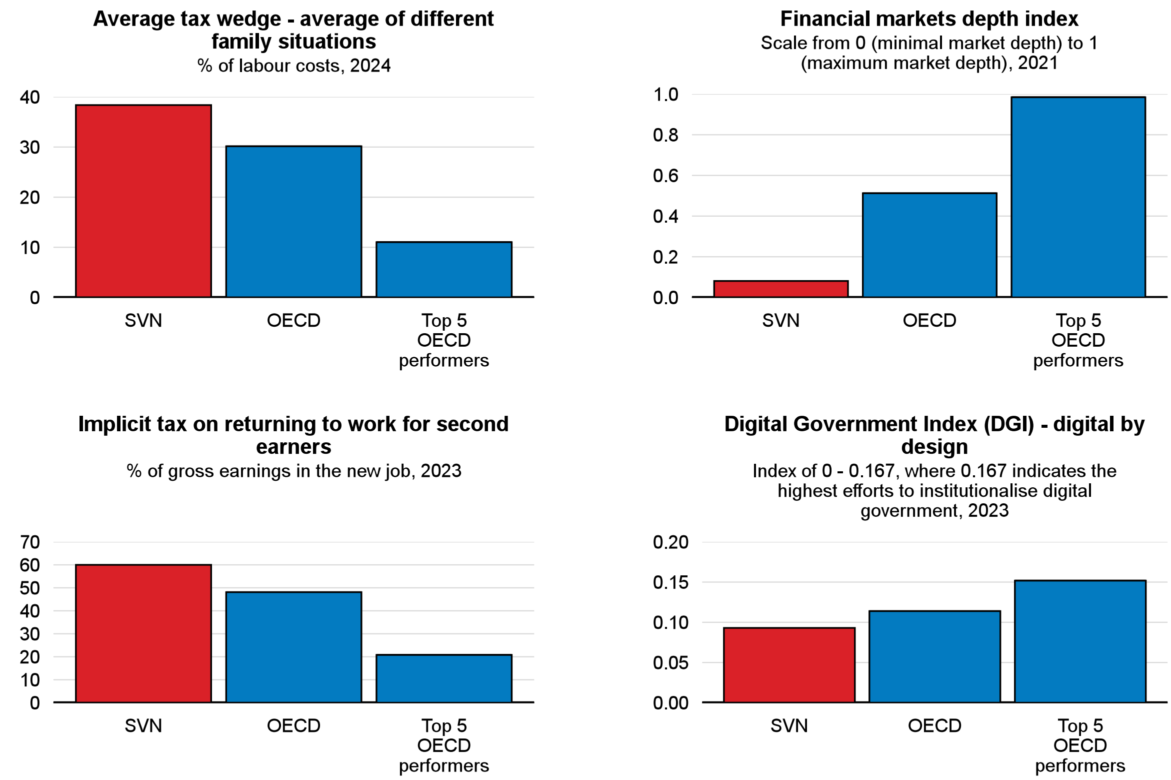
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Labour market: Reduce disincentives to work full-time

The labour tax burden is high, especially for lower earners, discouraging labour market participation. High effective marginal tax rates deter single parents and second earners, often women, from entering the labour market or working full-time. High social security contributions and reduced household-based tax credits and allowances increase work disincentives. Additionally, high childcare costs further deter second earners from entering or increasing participation in the labour market.

Recommendations

- ✓ Reduce marginal effective tax rates for low-income earners and second earners through a more gradual and targeted withdrawal of social benefits and transfers, while broadly reducing labour taxation for all earners.
- ✓ Make the tax system more growth-friendly by further reducing labour taxes and increasing consumption taxes and recurrent taxes on immovable property, where possible by broadening the tax base.

Financial markets: Deepen capital markets

Productivity growth is limited by low investment in both tangible and intangible capital and shallow capital markets. Few new Fintech providers exist, with limited venture capital and institutional investor involvement. The stock exchange suffers from low liquidity, limiting access to equity finance for innovative firms for which bank lending is less suitable. Unlike most OECD countries, the insurance sector is dominated by state-owned firms, which are less active as institutional investors compared to their privately-owned peers.

Recommendations

- ✓ Improve access of small and medium-sized firms to equity finance and increase the supply of financial products.
- ✓ Consider partial listings of state-owned enterprises to boost capital markets and continue privatisation efforts, particularly in inherently competitive sectors such as tourism.
- ✓ Promote digitalisation in the financial sector by evaluating the regulatory burden, and through closer alignment of FinTech regulations with other European countries.

Housing: Enhance supply and affordability

The housing market faces tensions as strong demand meets slow supply growth, hampering geographical labour mobility. Inefficient planning and lengthy permitting processes limit residential construction. Homeownership is high and the private rental sector is underdeveloped. Strict rental regulations are often bypassed. Underreporting and informality create tenant vulnerabilities and uncertainty for landlords. Additionally, the tax system favours short-term over long-term rentals, exacerbating housing affordability challenges.

Recommendations

- ✓ Establish a centralised one-stop shop for submitting and tracking building permit applications.
- ✓ Introduce standardised rental contracts. Specify mandatory clauses to ensure that contracts comply with national law and protect both landlords and tenants.
- ✓ Level the playing field between short-term and long-term rentals by harmonising the taxation of rental revenues. Apply higher property tax rates on secondary homes and short-term rentals than on primary residences.

Physical infrastructure: Improve public investment and streamline permitting

Spending efficiency in energy and transport infrastructure investment is hindered by the absence of a unified cost-benefit framework, limiting effective project selection. Inefficient spatial planning and slow permitting further constrain construction. Though the issuance of permits has accelerated recently, progress is too slow to meet growing demand for investment projects.

Recommendations

- ✓ Accelerate the implementation of regional spatial plans and incentivise inter-municipal cooperation in the design of local plans.
- ✓ Establish a centralised one-stop shop for submitting and tracking building permit applications.
- ✓ Introduce a unified cost-benefit framework to identify the most cost-efficient investments.

Governance: Move towards digital public services

Digitising administrative procedures can create greater efficiency, reduce compliance costs and ease firm entry. The government can promote digitalisation, but e-government use is low, especially among older people and people with lower education. Most digital services are opt-in, which limits incentives to adopt digital solutions and raises service provision costs. Switching from an opt-in to an opt-out system for e-government services would boost usage, supported by training for less digitally skilled individuals. Additional incentives, such as automatic tax form filling and extended submission deadlines, would further encourage use of e-government services.

Recommendations

- ✓ Move from opt-in (voluntary-based) to opt-out (compulsory-based) systems in e-government services to increase the use of digital public services among households.
- ✓ Ensure an inclusive transition to digital services by strengthening accessibility throughout the country.
- ✓ Use incentives for individuals, such as longer deadlines or prefilled forms, to adopt digital solutions for services.

Recent progress on structural reforms

Recent structural reforms include a public sector wage reform and a long-term care reform in 2025, increasing government spending on elderly care, financed through a 2% social security contribution rise. In 2025, the social partners agreed on pension reforms that include gradually raising the retirement age from 65 to 67 from 2028, extending the period for pension calculations from the most favourable 24 contribution years to 40 years minus the five best, and a greater weight of inflation in pension indexation rather than wage growth.

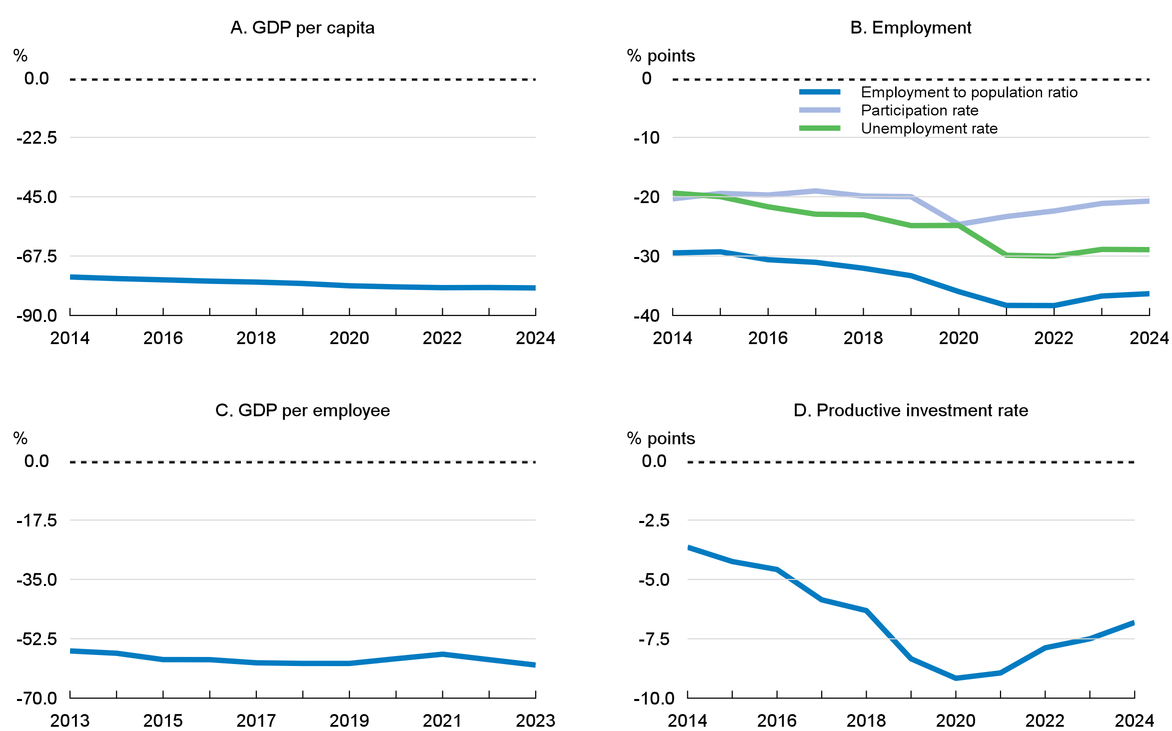
South Africa

South Africa has significant scope to boost economic performance, after a decline in GDP per capita over the past decade. Educational outcomes are low, and labour productivity is limited. The large gaps in employment rates vis-à-vis the OECD average have further widened since the pandemic. Investment as a share of GDP has fallen from around 29% over the 2000s to 9.5% in recent years, leading to supply bottlenecks and limited potential growth.

Easing regulatory barriers for businesses, ensuring a level-playing field and boosting the efficiency of state-owned enterprises would support job creation, investment and productivity, improve resource allocation and reduce risks to fiscal consolidation. Improving access to, and the quality of, education and training would help reduce skills shortages and boost labour productivity. Ensuring the swift implementation of electricity and climate policies would support energy security and climate goals while reducing air pollution.

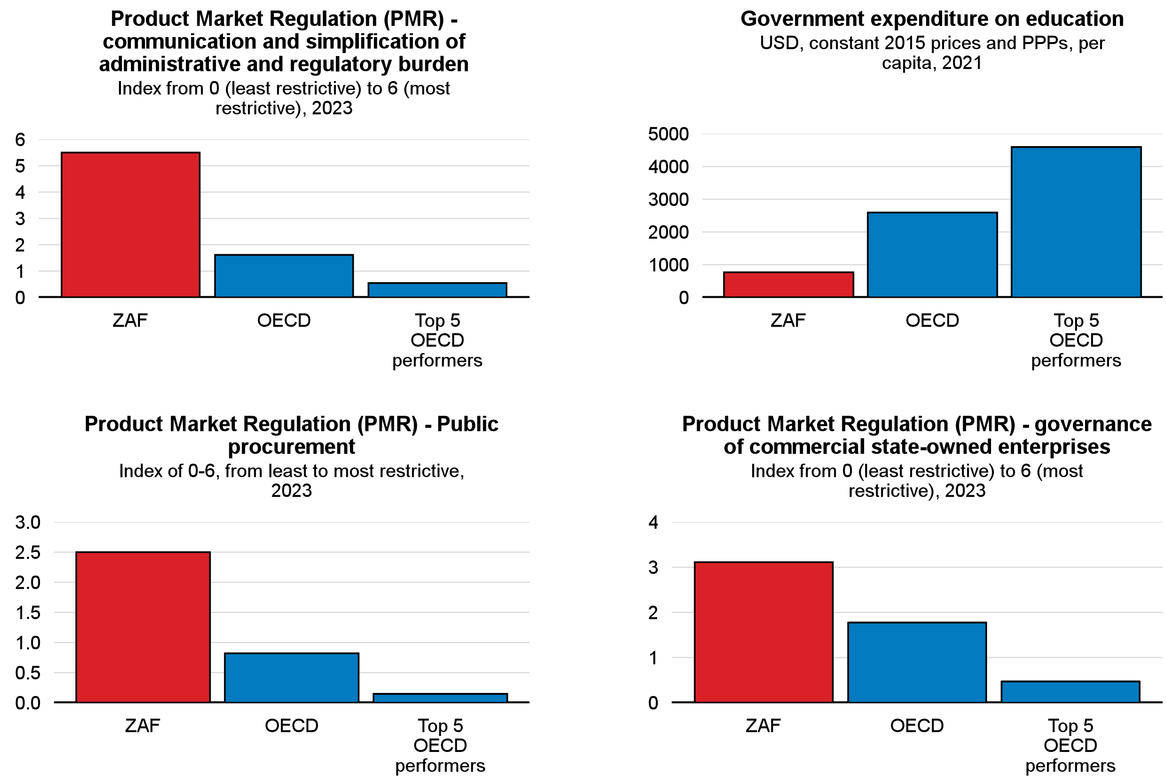
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Infrastructure: Transform the electricity, rail and water sectors

Investment shortfalls weigh on potential growth. Declining electricity generation has led to recurrent outages, notably over 2019-2023, and electricity access is not yet universal. Degraded rail infrastructure has reduced train services, adding pressures to lengthy commutes, the cost of doing business and emissions. The water supply system is under strain. Municipality’s unsustainable financial model, which relies on electricity revenues, has resulted in them underinvesting, notably in the electricity and water sectors.

Recommendations

- ✓ Strengthen fiscal space for public investment by increasing the VAT rate and recurrent property tax collection, reducing tax expenditures and enhancing the efficiency of the tax administration.
- ✓ Increase local government investment by revising the municipal funding and managerial model, including by earmarking electricity revenues for investment, considering concessions and building technical capacity.
- ✓ Attract private investment by continuing reforms to network industries, including through increasing competition, establishing a level playing field and improving the management of state-owned enterprises.

Regulation: Encourage dynamic firm entry, growth and exit and job creation

The economy-wide Product Market Regulation indicator suggests that South Africa's regulation is the most restrictive amongst OECD and five other G20 emerging-market economies. Firms face significant barriers to expand and create jobs, particularly SMEs, which have relatively less capacity to deal with complexity. Public procurement rules create unnecessary burdens, limiting the ability of smaller firms to participate. The insolvency regime is relatively inefficient, limiting the reallocation of capital and labour.

Recommendations

- ✓ Use plain language in drafting laws and regulations, create an inventory of all permits and licences businesses need and introduce a "silence is consent" rule where appropriate.
- ✓ Require contracting authorities to consider dividing public procurement contracts into lots and make the time allotted to bidders and entry requirements proportional to the value or complexity of the tender.
- ✓ Ease barriers to firm restructuring, including by removing the requirement for management to be dismissed during restructuring and the priority of new financing over secured creditors.

Governance: Improve the efficiency of state-owned enterprises

South Africa has a higher scope of public ownership than most OECD and emerging economies, with many state-owned enterprises (SOEs) operating in heavily regulated network industries. Significant inefficiencies have reduced electricity and freight services and weighed on emission reductions. SOEs weak governance has led to frequent fiscal transfers, yet these have been insufficient to maintain infrastructure. The State Capture Commission revealed widespread corruption in public entities, but prosecution has been slow.

Recommendations

- ✓ Restructure SOEs to ensure their financial sustainability, enhance SOE management and establish a holding company with international governance standards.
- ✓ Accelerate the unbundling and restructuring of certain SOEs, notably the electricity utility Eskom and railway utility Transnet.
- ✓ Strengthen the prosecution process and better enforce sanctions for corruption offences.

Education and training: Enhance infrastructure, vocational training, and tertiary funding

Despite significant progress in recent decades, educational outcomes are low and unequal. Some schools suffer from overcrowded classrooms and lack basic infrastructure, learning materials and access to ICT equipment. Enrolment in higher education and graduation rates are low, severely constrained by insufficient university infrastructure and high costs per student. Technical and vocational education and training fail to align with the skills demanded.

Recommendations

- ✓ Continue to address basic infrastructure needs in schools and ensure access to sufficient learning materials.

- ✓ Modify the funding of tertiary education to better account for the number of students, their socio-economic backgrounds and performances.
- ✓ Enhance collaboration between vocational education providers, industry stakeholders and regional development agencies.

Energy security: Expand electricity supply

Electricity shortages have weighed on economic growth in recent years. While shortages have eased, supply remains well below historical averages, constraining potential growth and incentives to invest. The share of renewable electricity generation has increased, helping to ease tensions, but remains low, partly due to barriers to entry in generation and distribution segments. Insufficient transmission capacity risks limiting progress towards energy security.

Recommendations

- ✓ Reduce the gap between renewable electricity auction rounds, streamline selection criteria of bidders, and consider phasing out recent tariff increases on solar technologies.
- ✓ Expand the transmission grid through focusing most public investment in the sector towards this objective and leveraging private finance through Independent Power Transmission projects.
- ✓ Establish a competitive wholesale electricity market to ease the entry of renewable producers by concluding the reform of trading rules to ensure market integrity and a level playing field.

Recent progress on structural reforms

Under Operation Vulindlela, the government has accelerated the implementation of selected high-impact reforms to drive economic growth and job creation. The first phase focused on supporting electricity supply, a competitive and efficient freight logistics system, a stable quality water supply, a lower-cost and higher-quality of digital communication and a visa regime that facilitates skilled immigration and tourism. The second phase is currently focusing on local government, spatial inequality and digital transformation.

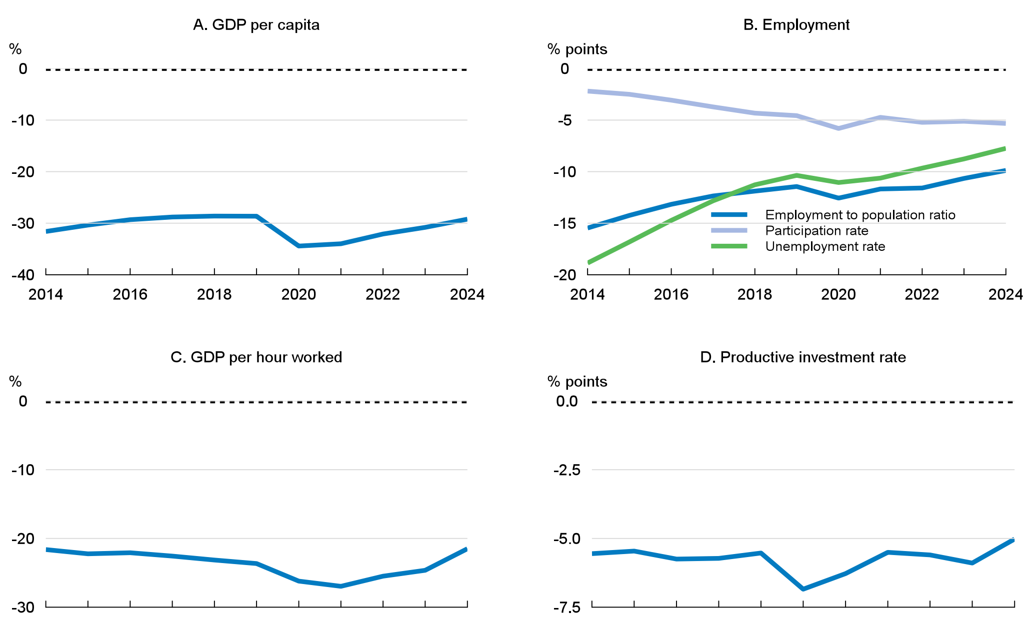
Spain

Spain's income gap with the most advanced OECD economies has recently narrowed, supported by resilient and steady GDP growth in the last years. Productivity growth, while still moderate, has improved and overall investment strengthened in recent years after a decade of weakness. Labour market performance has also advanced significantly, with declining yet still high unemployment rates. Significant reforms in recent years had led to strong job creation, even though employment rates remain well below those of peer countries.

Spain has shown a positive performance in hourly labour productivity since 2022, along with strong job creation, yet it still maintains a significant gap with the Euro Area and top OECD countries. Higher productivity growth and addressing population ageing require a flexible labour market and a dynamic business sector. Higher investment in research and development could accelerate innovation and productivity gains. Promoting a flexible and targeted adult learning system would help early school leavers and adults improve their skills and expand their employment options. Broadening the VAT tax base and reducing high marginal effective tax rates for low-income earners can make the system more efficient and improve incentives to work.

Economic performance

Gaps to the average of the upper half of the OECD countries



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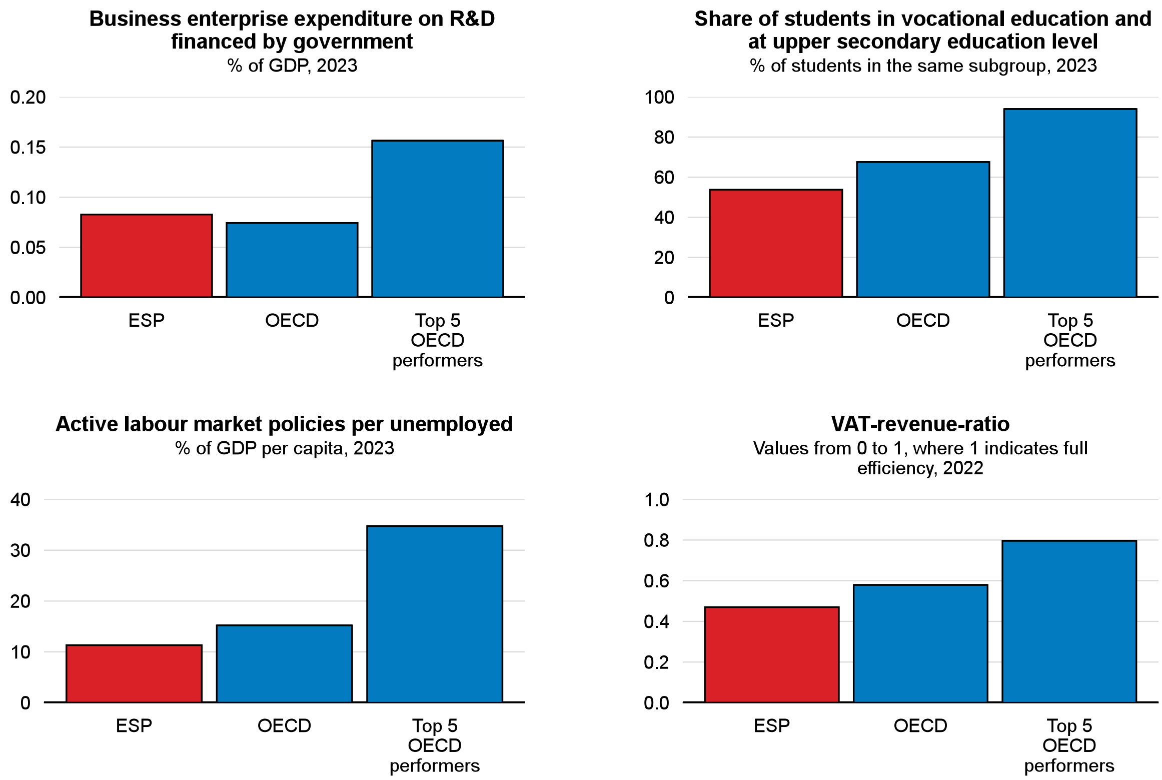
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Taxation: Improve the efficiency of the tax system and overall revenues

Spain's tax system faces several deficiencies that hinder productivity and revenue performance. It places a high burden on labour discouraging employment and job creation. Despite recent reforms, marginal effective tax rates remain high, driven by the interaction between high labour taxes and rapid benefit withdrawal, dampening work incentives, particularly for low-income workers with children and second earners. The system also exhibits a bias towards debt over equity, disincentivising investment and innovation. Several tax expenditures, such as VAT exemptions and reduced rates taper neutrality and lower the tax base.

Recommendations

- ✓ Rebalance the tax mix towards less distortionary taxes like VAT and environmental taxes.
- ✓ Gradually phase out benefits to strengthen work incentives without penalising earning gains.

Innovation: Strengthen public R&D support and foster digital adoption

Spain is among the OECD countries with the lowest share of innovative firms and exhibits low business spending on R&D compared to best performing countries. Generous R&D tax credits are a central element of Spain's innovation support system but take up remains limited. SMEs have limited access to skilled labour and external finance. Spain has made important strides in digitalisation, but adoption of advanced digital technologies, such as data analytics, cloud computing and process automation remains low among SMEs, inhibiting efficiency gains and innovation across sectors.

Recommendations

- ✓ Simplify application and refund procedures to access R&D public support through a "one-stop-shop" digital platform.
- ✓ Promote the use of market-based financing among SMEs by encouraging public-private cooperation and connecting SMEs with capital market participants, to facilitate investment in innovation.
- ✓ Scale up SME's focused digital advisory services and training, including in the use of AI, cloud infrastructure and services and data analytics.

Energy and natural capital: Expand investment in grid infrastructure

Spain faces growing economic and fiscal costs from climate-related disasters. Spain's adaptation policy is well aligned with best practices, but its implementation remains uneven at the regional and local level, while underinvestment in preventive measures exacerbates vulnerabilities. Spain has significantly increased renewable electricity generation, accounting for more than half of the mix in 2023, while lowering wholesale electricity prices. Some measures are being implemented to face curtailment, grid congestion and delays in permitting.

Recommendations

- ✓ Enhance national-regional coordination to harmonise prevention policies and reinforce municipal capacities.
- ✓ Scale up investments in resilience infrastructure and disaster preparedness.
- ✓ Continue streamlining permitting processes and accelerating investment in grid infrastructure, including interconnections, to address congestion and curtailment.

Human capital: Support early leavers and promote adult learning and upskilling

Grade repetition rates and early school leaving remain significantly above OECD average, even after recent improvements. Enrolment in vocational education and training (VET) has significantly increased, but the share of students in VET and at upper secondary education level remains below the OECD average, while the educational system could be better connected with the labour market. Adults perform poorly in reading, numeracy and problem-solving skills compared to other European OECD members, despite similar participation rates in education and training.

Recommendations

- ✓ Provide flexible vocational education plans with a special focus on dual vocational education options to make education more relevant and appealing and give second chances to early leavers from education and to adults who need to upgrade their skills.
- ✓ Improve early identification of at-risk students.
- ✓ Promote a flexible and targeted adult learning system by establishing procedures to validate professional competences acquired in the workplace, allowing adults to have their competencies recognised and build individualised learning pathways.

Labour mobility and participation: Enhance active labour market policies

Spain's labour market has shown strength in recent years, with declining unemployment and temporary jobs to historically low levels. However, Spain's employment rate remains below the EU and OECD averages, while unemployment rates remain high, especially among youth. Despite recent efforts to improve unemployment assistance and public employment services, several factors continue to weigh on employment, including mismatches between skills and job needs, and low participation in job searching, training, and employment programs.

Recommendations

- ✓ Further strengthen the role of regional public employment offices through digitalisation, more staff, and enhanced collaboration with the private sector.
- ✓ Expand flexible and distance-learning options to accommodate varied schedules and needs to make training and upskilling more accessible to a wider range of individuals.

Recent progress on structural reforms

The government has introduced several structural reforms backed by EU funds and lined up with the Recovery, Transformation and Resilience Plan. In 2021 and 2022, key reforms were enacted to strengthen the labour market, modernise the VET system, improve the business environment – notably to support SMEs – and boost digitalisation. Additional reforms aimed at making the immigration system more flexible, facilitating the expansion of housing supply and supporting social housing investment accelerated in 2024 and 2025.

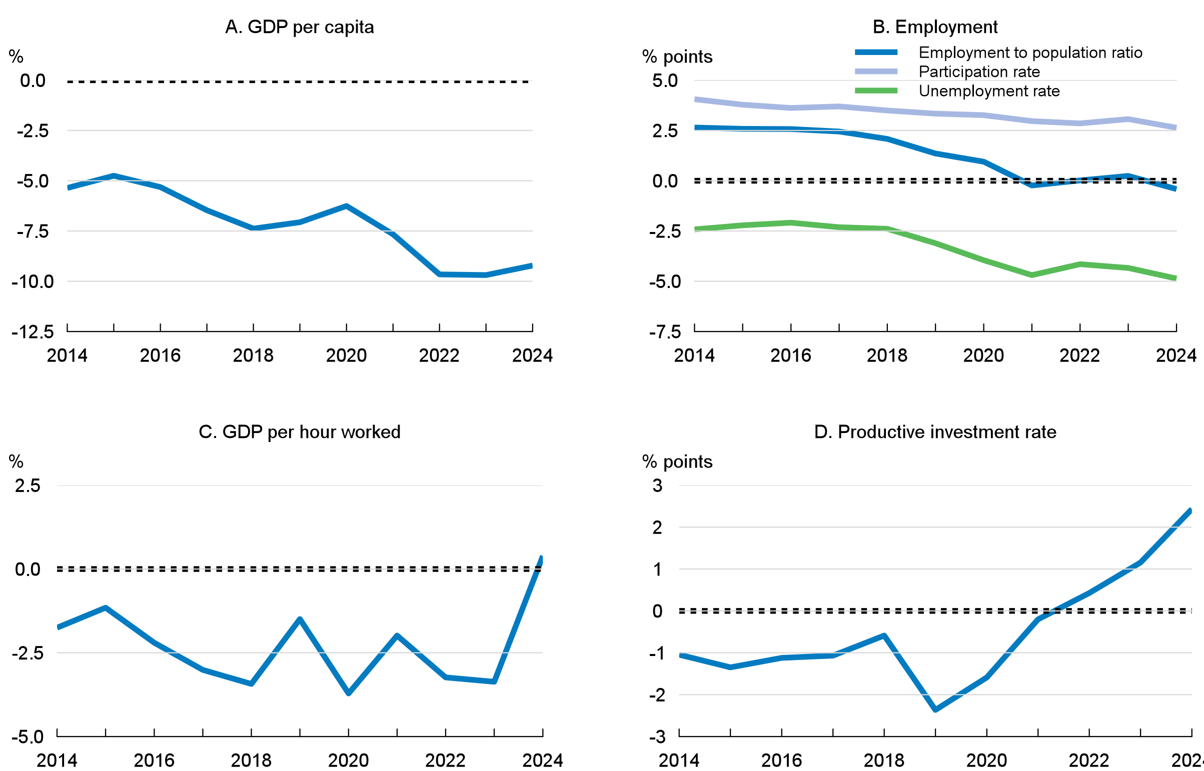
Sweden

Despite rapid population growth, largely driven by immigration, Sweden's GDP per capita growth has outpaced most OECD countries over the past decade. The employment rate is the tenth highest in the OECD and has increased considerably among older workers and for vulnerable groups such as immigrant women. The capital stock has increased roughly in line with the OECD average over the same period.

Sweden’s economic fundamentals and institutions are strong, but challenges remain. Rent controls are the strictest in the OECD, limiting construction and labour mobility, contributing to overcrowded living and residential segregation. Necessary infrastructure investments are slowed down by planning processes. There is scope to further reduce the labour tax wedge by shifting the tax mix towards property and environmental taxes. Continued sharpening of skills can boost employment and innovation further.

Economic performance

Gaps to the average of the upper half of the OECD countries



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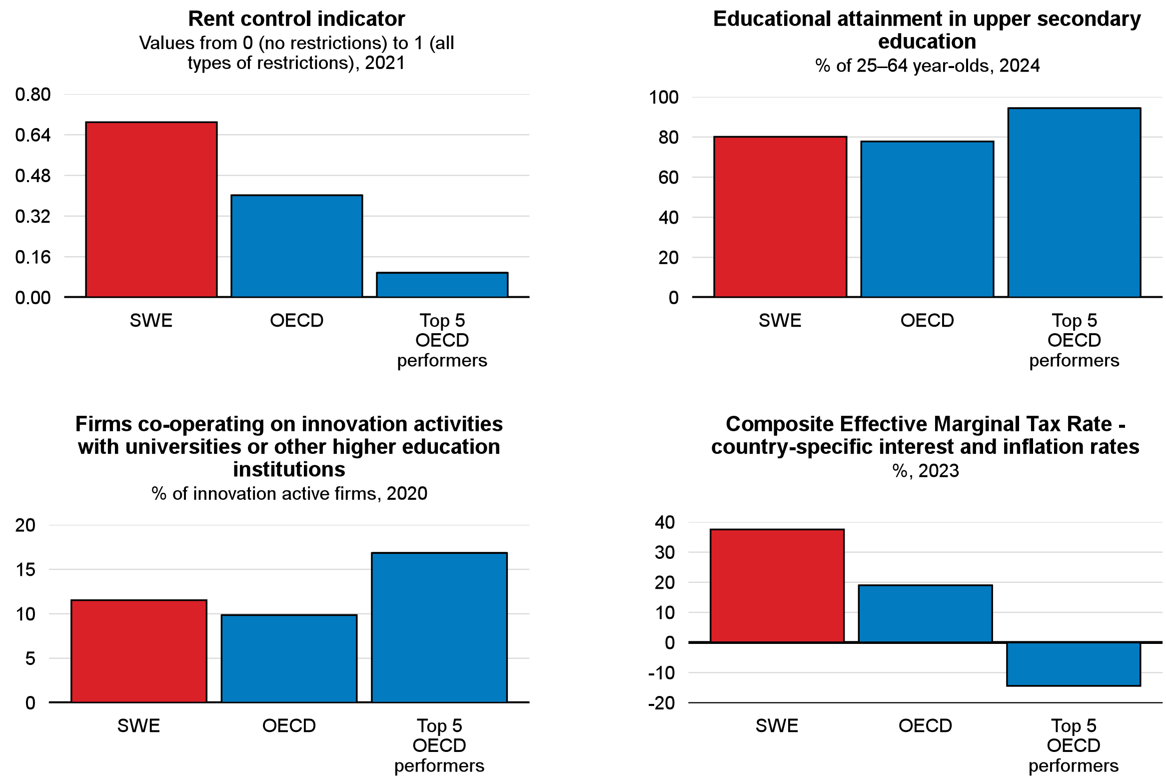
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Housing: Phase out rent controls

Rent controls are the strictest in the OECD, hampering labour mobility by constraining rental supply. Rents are in most cases set in negotiations between landlord and tenant unions. Consequently, older housing with lower rents is not available at all in a reasonable time frame in the big cities, while new units are too expensive for low-income households. There is no system for social housing. Phasing out rent controls would reduce residential segregation and lower homelessness and overcrowded living, which are higher than in the other Nordics.

Recommendations

- ✓ Abolish rent controls for newly built housing units.
- ✓ Phase out rent controls in the existing housing stock over a pre-determined period to give incumbents time to adjust.
- ✓ Aid the transition by implementing a system for needs-tested social housing.

Physical infrastructure: Improve coordination of planning and zoning straddling municipal borders

Municipalities have full zoning and permitting authority within their borders. Weak coordination between municipalities in response to regional and national challenges, resistance from incumbent property owners, and a cumbersome environmental permitting procedure are complicating investments in housing, industry, infrastructure and regional development.

Recommendations

- ✓ Streamline environmental permitting procedures to speed up infrastructure projects.
- ✓ Consider limiting the municipal veto for projects with high societal value straddling municipal borders.

Human capital: Ensure equal opportunity in primary and secondary education

The grading system in primary and secondary education puts excessive weight on fail grades, and struggling students do not always get the help they need and are entitled to. School choice and intake in publicly funded private schools tend to favour socioeconomic advantaged families. A relatively large share of pupils struggle to meet academic requirements for the normal upper secondary education programmes. Many initially fail to graduate from upper secondary education but they do get a second chance in adult education.

Recommendations

- ✓ Grade national tests externally to create an objective benchmark for school performance, as planned. Use this to improve competition along the quality dimension and address weakly performing schools.
- ✓ Weigh high and low grades symmetrically and suppress the requirement to pass in certain subjects so that the grade point average and entry to upper secondary education better reflects the student's full set of skills.
- ✓ Assign pupils to over-subscribed private schools by lottery, or with quotas reserved for pupils with unfavourable socio-economic backgrounds.

Taxation: Make taxation more growth-friendly and reduce tax shifting incentives

High marginal taxes on labour and a substantial gap to capital income taxation weakens work incentives and leads to income shifting. Low taxes on investment savings accounts discourage current consumption and primarily benefit relatively wealthy individuals. Low and regressive recurrent property taxation, generous mortgage interest deductibility, and the tax deduction for repairs, maintenance and home improvement subsidise owner-occupied housing. Fuel taxes have been cut significantly in recent years.

Recommendations

- ✓ Delegate authority to municipalities to collect taxes on the market value of property and set their rates while abolishing the tax deduction for repairs, maintenance and home improvement.
- ✓ Reduce the scope for income shifting by increasing dividend taxation, taxing investment savings accounts in line with other capital and reducing the top marginal tax rate on labour income.
- ✓ Revert to 2022 rates for fuel taxes.

Innovation: Invest in basic research and tertiary education

Universities play a key role in research and to internalise innovations at the global scientific frontier. They also drive regional development by fostering innovation and helping retain local talent. A falling ratio of teaching personnel per student creates a time conflict between research and teaching, which likely diminishes the value added of university degrees and lower research output. Universities are not allowed to charge tuition fees from Swedish and EU/EEA citizens.

Recommendations

- ✓ Invest in basic research and applied research in cooperation with businesses.
- ✓ Consider allowing universities to charge limited tuition fees from Swedish and EU/EEA citizens, offset by increased public student loans and possibly means-tested grants.

Recent progress on structural reforms

Marginal taxes on labour income have been reduced lately by abolishing the tapering of the Earned Income Tax Credit on higher incomes. The use of non-standard work contracts has been limited while it has been made easier to deviate from the first-in-first-out principle in the case of redundancies. Work is underway to reform the grading system in primary and secondary schools, following reforms to improve quality and equity of teaching.

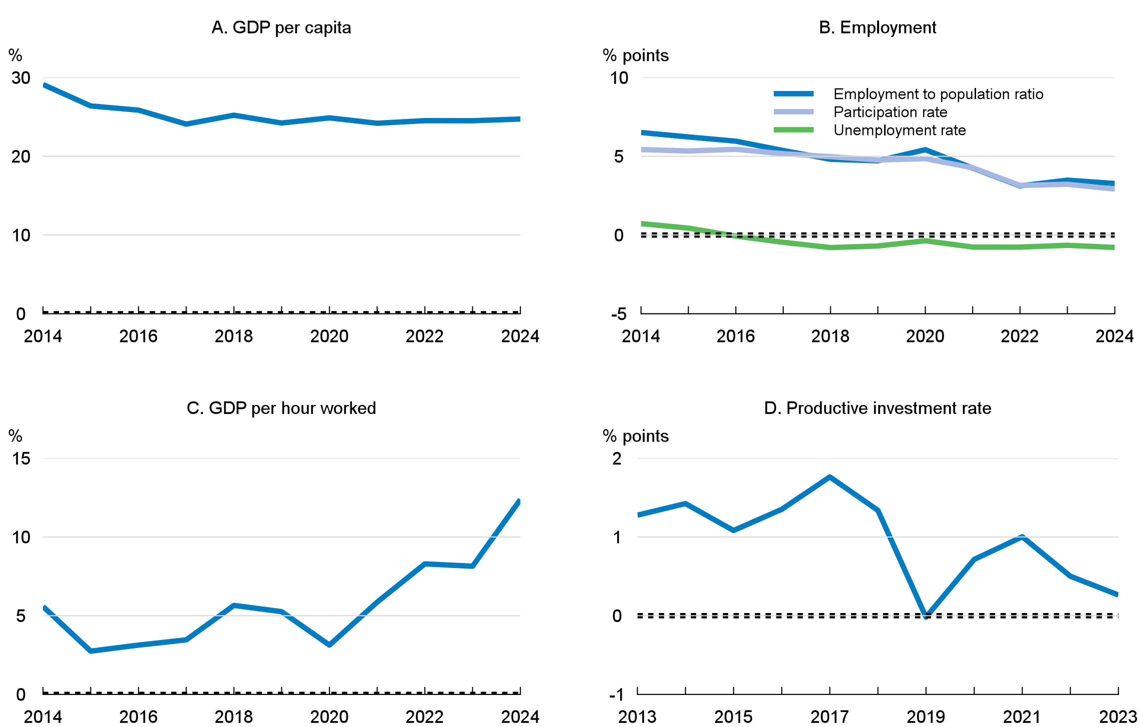
Switzerland

Switzerland is one of the top OECD performers in terms of GDP per capita. This position is underpinned by a highly open economy, a skilled workforce, and prudent macroeconomic policies, which result in high levels of productivity. The employment rate is comparatively high, and unemployment has remained low even during crises. Investment has slowed down in recent years but remains above the best performing OECD countries.

Several factors still hamper business creation and labour participation in Switzerland. Barriers to competition persist in network sectors like transport and energy, as well as in digital markets. New businesses often face more burdensome regulations compared to most OECD countries. Resolving insolvency takes longer than in most OECD countries and the recovery rate for creditors is low, resulting in inefficient capital reallocation. High childcare costs limit women's participation in the labour market.

Economic performance

Gaps to the average of the upper half of the OECD countries



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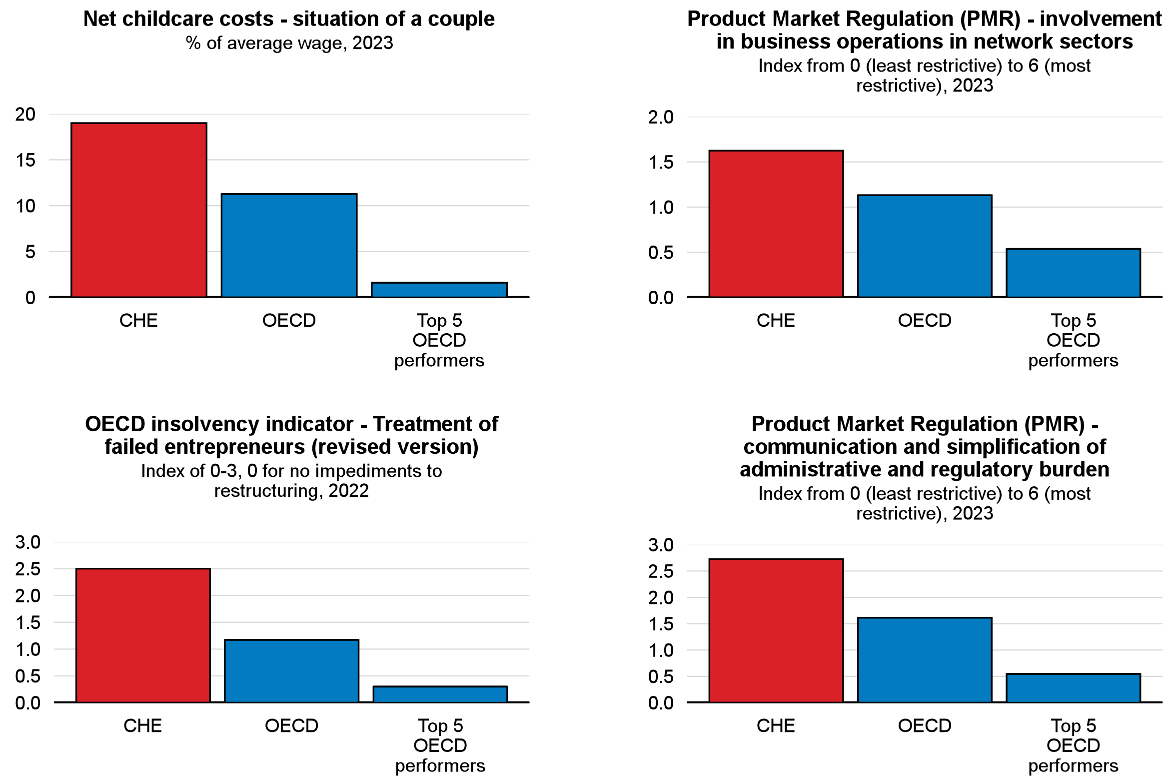


Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Competition: Increase competition in network sectors

Entry barriers and challenges to competition still exist in several network sectors, hampering business creation. Natural gas utilities are often local monopolies owned by municipalities, and only large customers can freely choose their supplier. Licenses for coach transportation are granted only if there are no existing services operating as concessions and publicly financed transport services are shielded from competition. There is also significant state involvement in mobile and fixed communications.

Recommendations

- ✓ Reduce public ownership in network sectors and align the corporate governance standards of cantonal state-owned enterprises (SOEs) with those of federal SOEs to further reduce distortions to competitive neutrality.
- ✓ Remove restrictions to licenses for road transportation.
- ✓ Improve market transparency by increasing the visibility of gas prices and enforcing fair market practices.

Competition: Update regulations to address anti-competitive practices in digital markets

Legislation changes are still needed to limit anticompetitive practices in digital markets. The competition authority has yet to conduct market studies in digital markets, and the cartel law needs to address the assessment of mergers in those markets.

Recommendations

- ✓ Conduct market studies for digital markets, including online marketplaces, online advertising, cloud computing, and smart devices.
- ✓ Ensure that the updated cartel law currently under discussion in parliament addresses mergers in digital markets when passed.

Business regulation: Reduce administrative burdens for new firms

According to the OECD's Product Market Regulation indicators, Switzerland can improve the administrative and regulatory requirements for entrepreneurs starting a business. The costs involved in starting a limited liability company and the mandatory minimum capital requirements are comparatively high, and consistency of regulations at the subnational level is lacking. Obtaining licenses and permits in Switzerland is also subject to hurdles that exceed those in most OECD countries.

Recommendations

- ✓ When designing new regulations take into account additional financial and administrative costs they would impose on firms to avoid creating heavy burdens, especially for SMEs.
- ✓ Continue conducting sectoral studies to streamline existing regulations.
- ✓ Integrate cantonal government services into the government one-stop shop.

Business dynamism: Strengthen the insolvency framework

Effective insolvency regimes can enhance productivity by allowing the reallocation of capital from failed businesses in a fast and cost-efficient way. In Switzerland, resolving insolvency takes longer than in most OECD countries and the recovery rate for creditors is comparatively low. Switzerland lacks early-warning mechanisms for debtors, like on-line self-testing, and there are no fast-track and less costly insolvency procedures for SMEs.

Recommendations

- ✓ Improve early access of debtors and creditors to cost-efficient and speedy insolvency proceedings, including by allowing streamlined procedures for SMES.
- ✓ Ensure adequate resources for the application of insolvency law, including for recruiting and training staff.

Female employment: Improve access to affordable childcare

Gross childcare fees and out-of-pocket costs after deducting benefits are among the highest in the OECD, and parental leave specific to fathers is comparatively short. This creates disincentives for employment, especially for women. The incidence of part-time work is very high among women, leading to one of the widest gender gaps in full-time equivalent employment in OECD countries, and a high gender gap in median earnings.

Recommendations

- ✓ Keep expanding the supply of childcare and improve its affordability through targeted measures, such as mean-tested fee reductions, childcare benefits or tax credits.
- ✓ Increase paternity leave with a statutory parental leave system including entitlement reserved to fathers.

Recent progress on structural reforms

The Corporate Relief Act of 2023 aims at making new regulations more efficient and less burdensome, especially for SMEs. The costs for companies from new regulations must now be considered by lawmakers, and sectoral studies should help to streamline existing regulations. The Act also requires federal and cantonal authorities to offer their services for companies via the one-stop platform EasyGov. The revision of the Cartel Act currently deliberated in Parliament includes adjustments to the merger control regime which would include digital markets. A new childcare allowance for children up to the age of eight was approved in early 2025, and expansion and affordability of childcare is currently being addressed in Parliament.

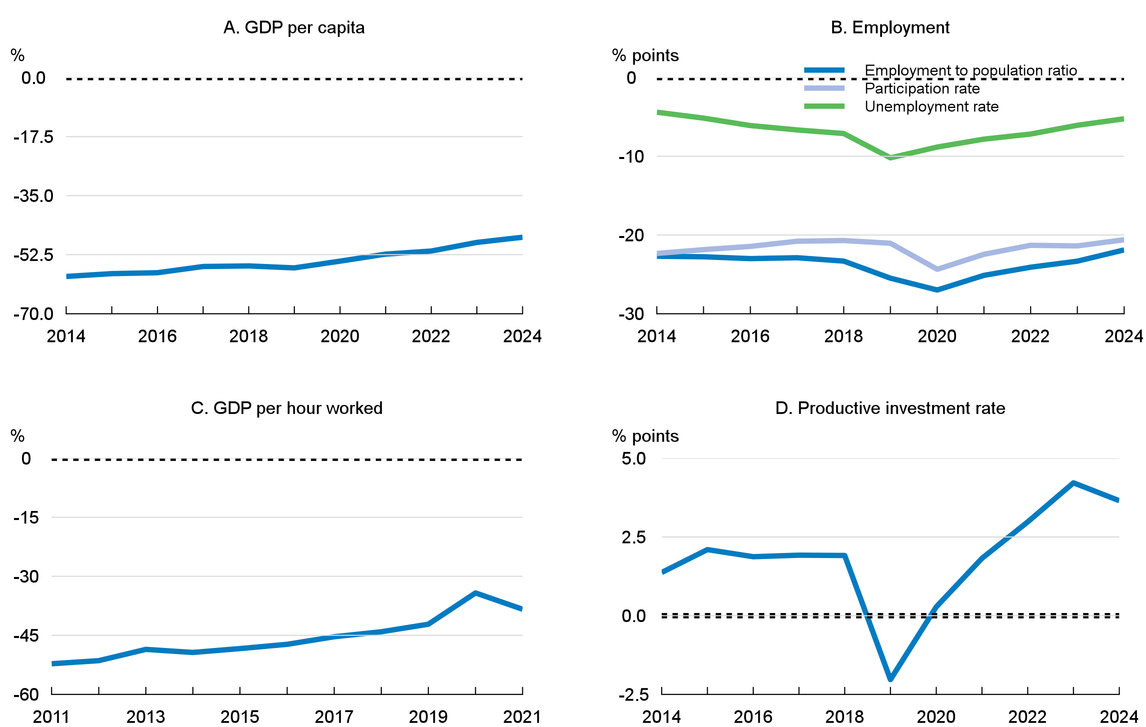
Türkiye

Türkiye has scope for faster economic convergence with most advanced economies. Fixed investment is skewed towards housing, though the contribution of productivity-enhancing assets has grown over recent years. The working-age population continues to increase but the demographic dividend is set to decline, and female labour force participation is low. Productivity has increased relatively quickly in recent years but from low levels.

Reducing barriers to job creation and enhancing incentives to work would facilitate women's participation in the labour market and would help sustain economic growth more generally. Türkiye should also better match the skills of new labour market entrants to employer needs and promote upskilling throughout working lives. Easing regulatory barriers for businesses and ensuring a level-playing field between state-owned and private enterprise would boost productivity and improve resource allocation.

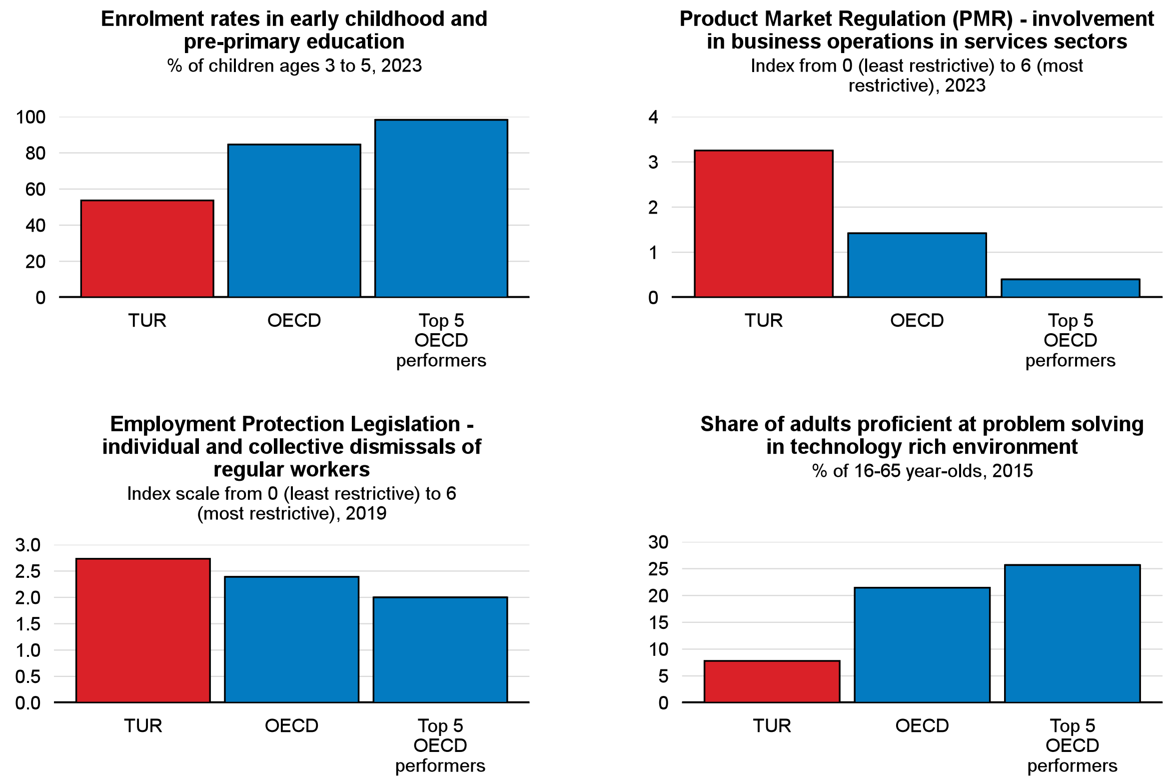
Economic performance

Gaps to the average of the upper half of the OECD countries



Source: Panel A: OECD, Economic Outlook database; Panel B: OECD, Labour Force Statistics database; Panel C: OECD, Economic Outlook and Productivity databases; Panel D: OECD, Economic Outlook and Annual National accounts, GFCF by assets databases.

Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Labour market incentives: Reduce disincentives to work

Türkiye's old-age pensions are relatively generous in terms of retirement age and payouts, but their funding rests on high social contributions, which discourage labour force participation. Job creation is also hampered by tight employment protection legislation. In particular, there are limited avenues for employment under fixed-term and temporary work contracts.

Recommendations

- ✓ Extend working lives further by linking the retirement age to life expectancy and by providing bonuses for late retirement.
- ✓ Lower the tax wedge through reduction in pension contributions as part a general rebalancing of the pension system.
- ✓ Make permanent work contracts more flexible and increase the scope for fixed-term and temporary contracts.

Female labour force participation: Enhance family policies

The labour force participation rate of women is 26 percentage points below the OECD average, implying a substantial untapped pool of human resources and talent. Rigid employment conditions and a high minimum wage affect women disproportionately, coupled with other structural barriers. Women's educational attainments at the upper secondary and tertiary levels lag those of men. A large share of young people are not in employment, education, or training, and most of them are women. High social contributions in combination with limited child benefits induce a high tax wedge for families with children.

Recommendations

- ✓ Continue increasing public spending on early childhood education while monitoring efficiency.
- ✓ Introduce paid parental leave that is shareable and encourage its more equitable sharing among parents.
- ✓ Increase direct cash benefits for children, targeted towards low-income families.

Skills: Continue raising the quality and relevance of education and training

Improving skills and the allocation of talent can help shift Türkiye's competitive edge from industries relying on low-cost labour towards high value-added sectors, thus boosting productivity. The number of upper-secondary- and tertiary-educated graduates is increasing steadily but remains relatively low. Skills could tie up more strongly with those sought by employers. In particular, the share of adults with low ICT skills is sizeable.

Recommendations

- ✓ Further enhance incentives for tertiary education institutions to align course contents with labour market needs.
- ✓ Expand high-quality adult training programmes, including distance learning and modular and/or credit-based formats.
- ✓ Consider establishing personal account schemes, which allow individuals to save a certain amount of time per year worked for training purposes.

Competition: Lower barriers to trade and improve SOE governance

Türkiye applies import tariffs at rates similar to world averages but complements them with additional duties, hampering trade and investment. Furthermore, Non-Tariff Barriers (NTBs) have increased over the past decade. In 2023, Türkiye was the world's heaviest user of safeguards to protect industry from unforeseen import increases. State ownership of companies is relatively widespread and the governance of state-owned enterprises (SOEs) remains an area for further reform to ensure a level playing field.

Recommendations

- ✓ Support expanding the EU-Türkiye Customs Union to agriculture, services, and public procurement.
- ✓ Set up a clear rationale for state ownership of SOEs detailed in a publicly accessible document to encourage scrutiny, particularly around cases where the case for state involvement is not clear cut.
- ✓ Improve the governance of SOEs by requiring the independence of board members, formal agreements on rate-of-return targets, and by limiting preferential access to financing from state-owned financial institutions.

Business environment: Ease and improve regulations on economic activity

Regulations on economic activities are widespread, reducing business dynamism, investment, and productivity. Regulations include retail price controls and tight restrictions on business operations in services sectors. Overall, the administrative and regulatory burden on businesses is heavy. Furthermore, the quality of regulations is often low while there is scope to strengthen assessments of the impact of regulation on businesses.

Recommendations

- ✓ Reduce barriers to entry in professional services by easing the regulation of fees, restrictions on advertising and marketing, limits on firms' legal forms, and occupational licensing.
- ✓ Improve the Regulatory Impact Assessment system for subordinate regulations, for example by instituting formal reviews of existing regulations.
- ✓ Move away from retail price controls as inflation normalises, while addressing welfare concerns through the tax and benefit system.

Recent progress on structural reforms

Türkiye has made notable strides in early childhood education and care (ECEC) services, with enrolment rates rising significantly in recent years. Also, the number of tertiary-educated graduates is increasing steadily, and efforts are currently underway to address skills mismatches with updated programmes and emphasis on vocational training. Türkiye has also relaxed immigration rules for foreign skilled workers and is encouraging the return of skilled Turkish emigrants. As regards business regulation, progress in recent years has included a reduction in the number of bodies to be contacted to establish a Limited Liability Corporation and regular updates to the simplified Investment Procedures Guide to improve communication of procedural requirements.

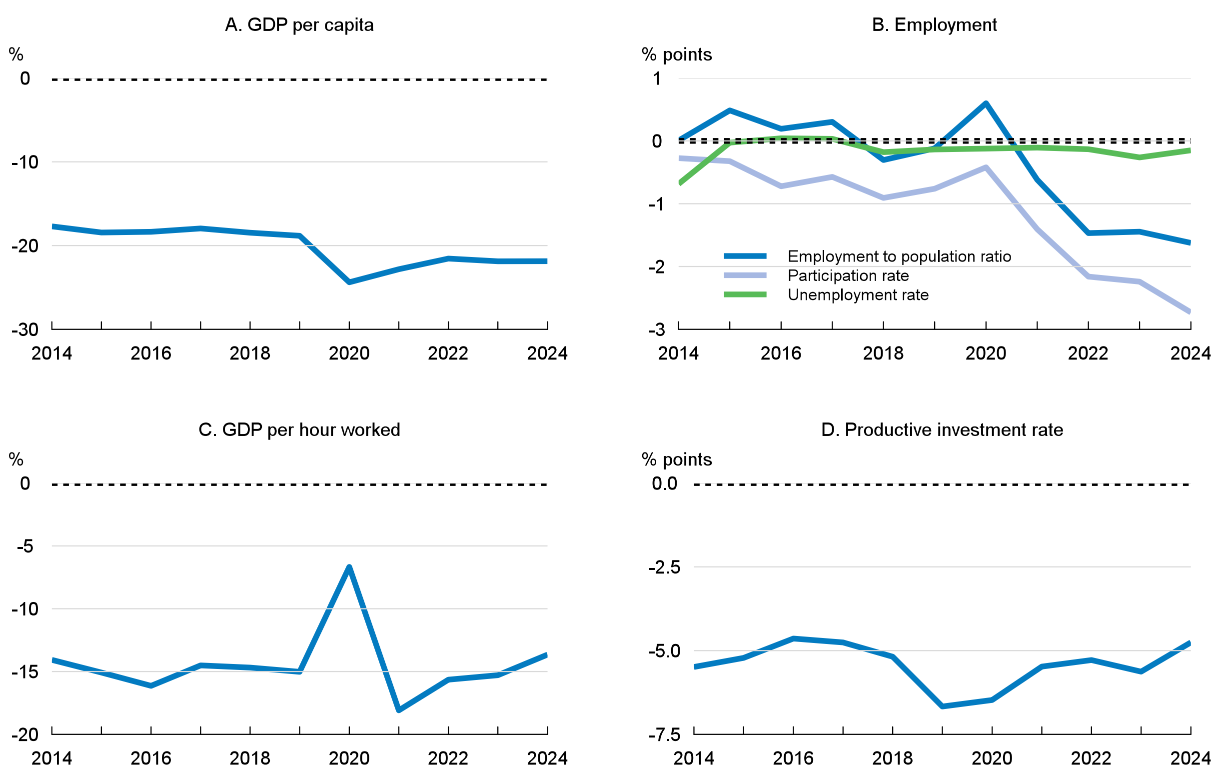
United Kingdom

GDP per capita growth in the United Kingdom has been sluggish in recent years, mainly due to weak productivity gains. Capital deepening has been modest, with business investment remaining below pre-Brexit levels, limiting growth in capital per worker. Total factor productivity (TFP) growth has also been subdued. Labour utilisation, especially hours worked per capita, has stagnated amid rising inactivity rates.

Labour mobility and participation need improvement. Although women's labour participation is above the OECD average, it still lags significantly behind men's, and it frequently concerns part-time employment. Enhancing skills and human capital, especially to support school-to-work transitions, is crucial. Additionally, the tax system could be made more efficient by reducing unnecessary complexities.

Economic performance

Gaps to the average of the upper half of OECD countries



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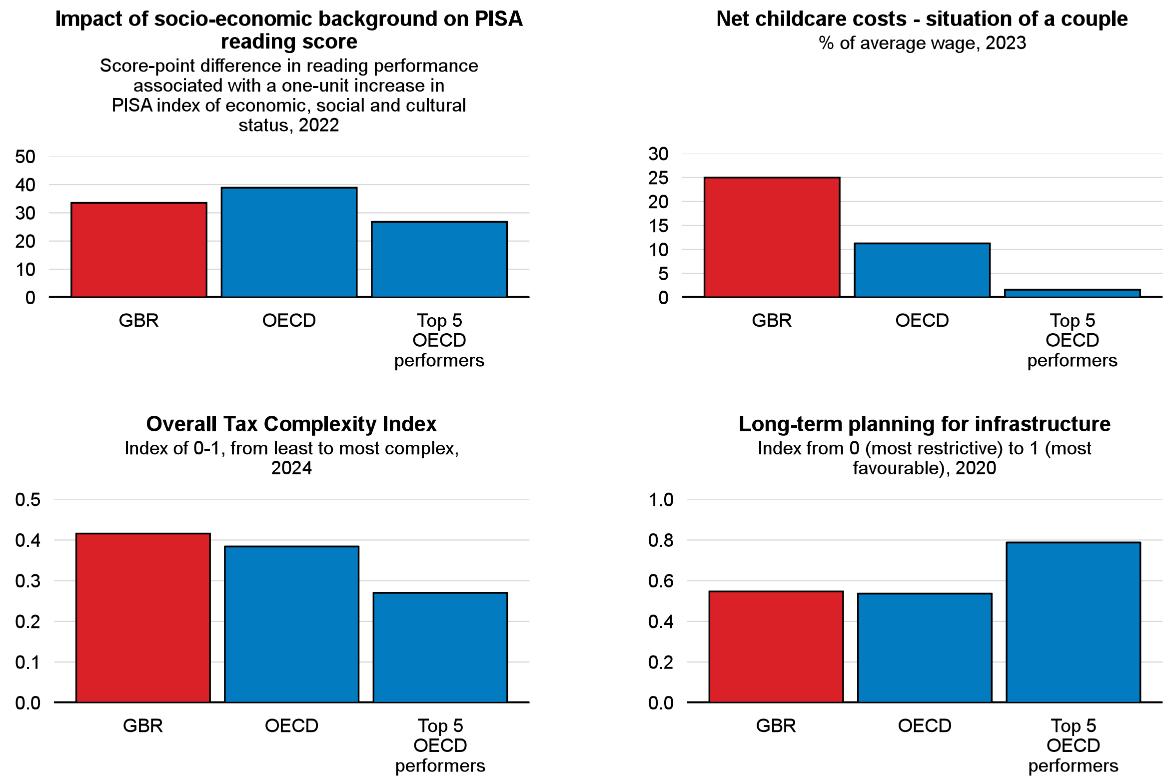
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Human capital: Strengthen the youth upskilling support

Too many young people in the United Kingdom leave education with insufficient basic skills, highlighting the need to strengthen school-to-work transitions. Employers often use subsidised apprenticeships to upskill existing staff rather than train young, low-skilled individuals or early school leavers. Meanwhile, performance among 15-year-olds has been declining, with significant disparities between schools and across socio-economic groups.

Recommendations

- ✓ Reduce subsidy rates for current employees under the Apprenticeship Levy scheme and channel support to young people.
- ✓ Target resources to support the highest quality teaching in schools in the most deprived areas.

Labour market: Improve female labour force participation

Women make up a disproportionate share of the economically inactive, largely due to family and caring responsibilities. Limited access to affordable childcare raises the opportunity cost of employment, restricting women's participation in the labour market. While childcare reform is underway, staff shortages and insufficient contingency planning pose risks to its successful implementation.

Recommendations

- ✓ Set and monitor interim implementation milestones for the ongoing extension of childcare support for working parents, prioritise low-income households if supply falls short of demand, and extend full childcare support to active job seekers.
- ✓ Review childcare funding rates regularly to strike a balance between limiting fiscal costs and ensuring quality access

Taxation: Reduce distortions and close loopholes

There is scope to improve the efficiency and fairness of the UK tax system. Parts of the tax system are complex, leading to large compliance costs. As a result, tax compliance has decreased, especially for smaller businesses with less capacities to navigate the system. VAT reliefs are largely inefficient and regressive and property tax is based on outdated valuations. Furthermore, distortions such as kinks in the income tax schedule weaken work incentives, and the deductibility of net interest payments against corporate income makes unprofitable investments viable.

Recommendations

- ✓ Conduct an in-depth tax review to make the tax system more efficient and growth-friendly by reducing distortions, closing loopholes, and ending reliefs and exemptions that do not serve economic or social objectives.
- ✓ Broaden the VAT base by phasing out exemptions and compensate low-income households through targeted transfers.
- ✓ Regularly conduct tax expenditure reviews.

Physical infrastructure: Improve infrastructure governance

The infrastructure governance system is solid in delivery and operations but would benefit from stronger, longer-term planning, and improved coherence across all governance dimensions. Especially, its external control and oversight within a whole-of-government approach could help to better manage threats to integrity in infrastructure projects.

Recommendation

- ✓ Establish a comprehensive external oversight framework with clear mandates for independent evaluation and parliamentary scrutiny of infrastructure projects.

Public governance: Improve conflict-of-interest legislation

The UK's regulatory safeguards on conflict-of-interest prevention could be strengthened. Ministers are not legally required to adhere to the rules set out in the Ministerial code relating to the Business Appointment Rules that cover the post-public office activities of ministers and senior officials. While the system of transparency is well advanced, with an online lobbying register, digital tools could be used more effectively.

Recommendations

- ✓ Extend the legally binding commitment to introduce liability for conflict-of-interest violations for post-public activities and during the term of appointment.

- ✓ Improve lobbying transparency and searchability of the online lobby register.

Recent progress on structural reforms

Recent reforms of the apprenticeship system aim to better target young people, including through full cost coverage for SMEs when apprentices are under 25, and a 75% government co-investment for levy-paying firms when apprentices are under 22. Further targeted support for young people is also under consideration. Additional structural reform efforts have focused on easing planning regulations to accelerate the delivery of physical infrastructure; on reducing welfare dependency to strengthen labour market participation; and on modernising digital infrastructure to boost technology diffusion and productivity. Specifically, the government is overhauling the National Planning Policy Framework to unlock infrastructure projects and housing development; has outlined reforms to the work capability assessment as part of the ongoing modernisation of disability and sickness support; and accelerated the rollout of full-fibre broadband and 5G networks.

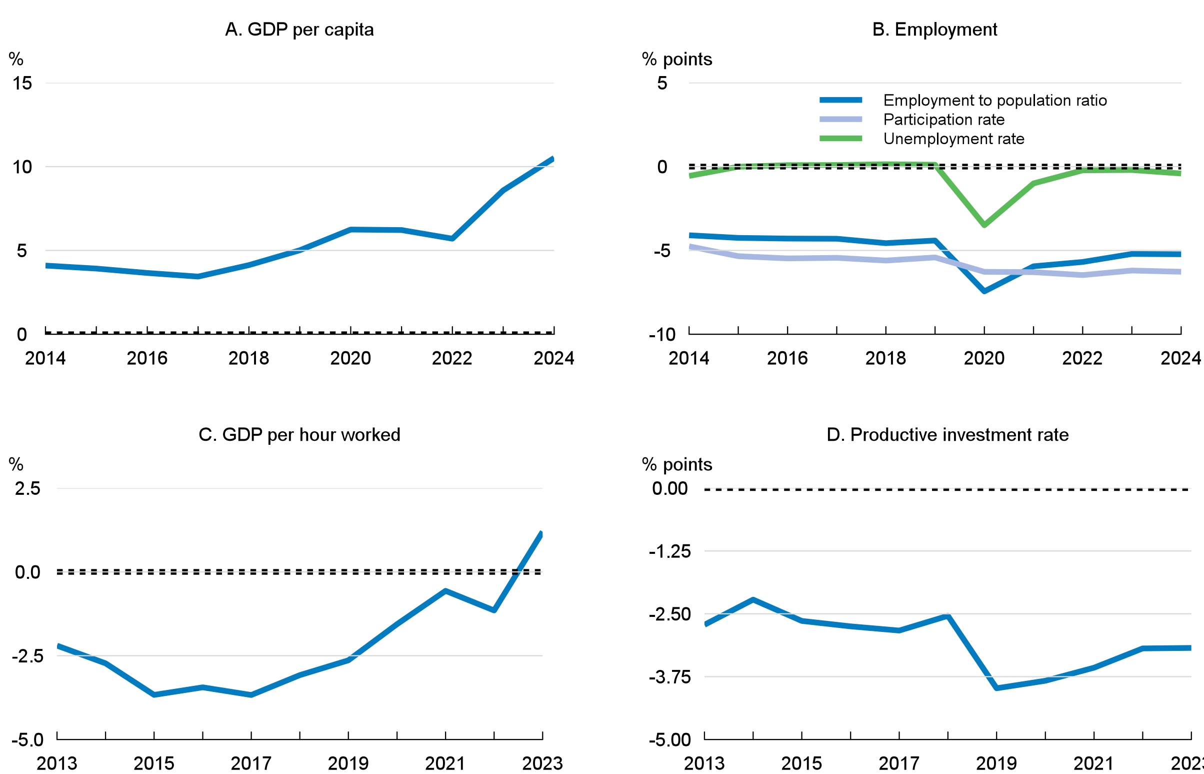
United States

The US economy has significantly outperformed its OECD peers over the last several years, largely on account of an improvement in labour productivity in the services sector. Meanwhile, manufacturing productivity has remained stagnant. Employment and investment rates, while having rebounded somewhat during the post-pandemic period, remain low by OECD standards.

Growth-enhancing reforms include those that encourage parents, especially secondary earners, to remain in the labour force, and reduce red tape to spur investment in housing and infrastructure. Reviving manufacturing productivity growth is also key, particularly by addressing critical labour shortages. The substantial increase in the restrictiveness of US trade policies will lower growth in the absence of a resolution of ongoing trade tensions.

Economic performance

Gaps to the average of the upper half of the OECD countries



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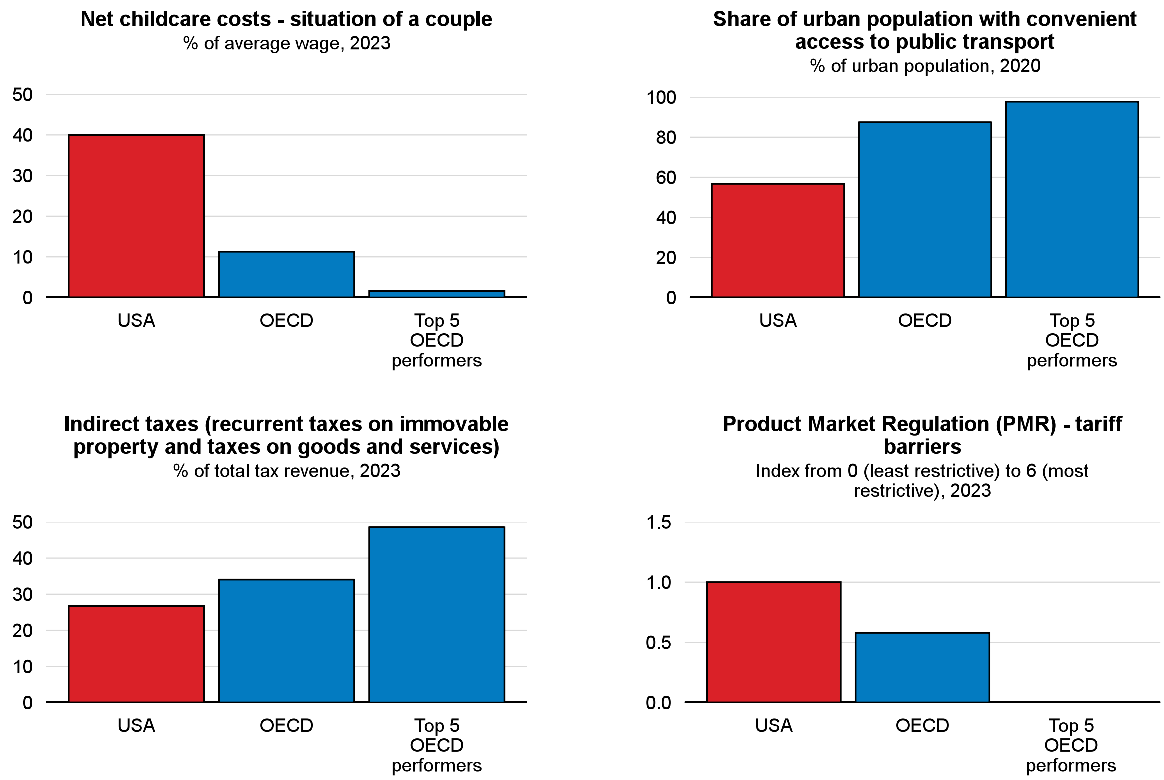
Selected policy gaps



Source: OECD calculations based on the Foundations for Growth and Competitiveness database.

Labour market: Encourage labour force participation through enhanced childcare benefits

Gains in labour force participation rates, particularly those for working-age women, have stagnated in recent decades, with the inadequacy of childcare benefits cited as a major factor. Out-of-pocket childcare costs are high by OECD standards, the availability of childcare is limited for many Americans, and a large proportion of families eligible for childcare subsidies do not receive them. In addition, the United States is the only OECD country without paid maternity leave at the national level, and one of just nine OECD countries that does not have paid leave for fathers.

Recommendations

- ✓ Raise public support for childcare, expand the levels of income eligibility for public programmes, and ensure all families eligible for childcare subsidies can access them.
- ✓ Introduce a national paid parental leave entitlement.

Human capital: Ensure that critical industries can satisfy their skill requirements

Future productivity and the expansion of key industries require high-skilled workers with technical capacities. However, significant labour shortages are anticipated in many of these fields amidst declining college enrolment rates for men and the prevalence of students who stopped higher education without earning a credential. Foreign-born individuals are a potential source to help address these shortages, but the US employment-based visa system is ill-suited to give priority to STEM graduates and recent policy actions could disrupt the pipeline of high-skilled workers that initially come to the US on student visas.

Recommendations

- ✓ Implement measures, such as an expansion of the federal Pell grant programme targeting low-income students, to reduce post-secondary education costs and increase enrolment.
- ✓ Implement policies like Reconnect grants to colleges that re-engage higher education students who recently stopped studying.
- ✓ Redesign temporary and permanent employment-based immigration visas to better align them with demand for professionals in priority fields.

Regulation: Remove impediments to urban development and innovation

The US faces a structural economic problem of constrained supply, driven by regulatory and institutional bottlenecks that hinder growth in key sectors. Excessive zoning laws and environmental review processes have limited housing development, contributing to affordability crises in major urban centres. Similarly, outdated procurement and permitting systems delay public infrastructure projects, increasing costs and eroding public trust. Meanwhile, rigid funding mechanisms and bureaucratic oversight have stifled scientific innovation.

Recommendations

- ✓ Reform local zoning laws to allow for higher-density, multifamily housing development in urban areas, particularly near transit corridors, with a view to improving access to public transport.
- ✓ Streamline environmental and permitting reviews for public infrastructure by setting clear timelines and limiting redundant bureaucratic oversight.
- ✓ Increase flexible, long-term funding for scientific research with fewer administrative constraints to encourage risk-taking and breakthrough innovation.

Fiscal: Achieve fiscal sustainability while improving tax system efficiency

There is a large structural budget deficit, and public debt is high and rising. Higher government borrowing can weigh on the economy by crowding out private investment. In addition, the tax system is overly complex, tax changes in recent decades have narrowed the tax base, and consumption taxes, a relatively efficient source of revenue, account for a much smaller share of taxes in the US than in most other OECD countries. A simpler, more efficient tax system would be growth-positive over the medium term.

Recommendations

- ✓ Adopt a simple medium-term debt ratio proposed by the President and approved by Congress to improve accountability.
- ✓ Undertake a package of tax measures and targeted spending restraint to put the debt ratio on a more prudent path.
- ✓ Introduce a broad package of tax reforms, including actions to reduce tax expenditures, broaden the tax base, increase rates, and develop new revenue sources.

Trade: Resolve tensions and uncertainty with trading partners

The US economy and most workers derive significant benefits from integration into global value chains. However, US trade policies have become more restrictive in recent years, and substantially more so this year, with the average effective tariff rate on imports rising to its highest level since World War II. These restrictions increase consumer and business costs, limit choice, reduce competition, worsen allocative efficiency, and dull the potential for knowledge spillovers from abroad. Moreover, the volatile nature of tariff implementation has led to high economic policy uncertainty, which has negative effects on economic activity, especially investment. The US also imposes higher non-tariff barriers than its OECD peers in services trade.

Recommendations

- ✓ Lower tariffs and other trade barriers, including by concluding trade agreements that ease tensions with trading partners.
- ✓ Conduct economic assessments of the benefits, costs, and international spillovers of any further trade restrictions before implementation.
- ✓ Further improve trade facilitation and reduce regulatory barriers for trade in services.

Recent progress on structural reforms

Paid leave initiatives have stalled at the federal level in the past but have made some headway at the state level in recent years. Similarly, policies to expand grant and scholarship programs that target lower-income students and re-engage higher education students that recently stopped studying have not been enacted at the federal level but have inspired similar state-level models. Efforts to reduce red tape to encourage investment have become a popular target for policymakers, with California recently announcing that it would scale back an environmental law that has been blamed for worsening the state's housing shortage and homelessness crisis.

Foundations for Growth and Competitiveness 2026

This first volume of Foundations for Growth and Competitiveness looks at structural reforms in policy areas that have been identified as priorities to lift growth in OECD and selected non-OECD countries. The selection of priorities is supported by a new database of internationally comparable indicators that enable countries to assess their economic performance and structural policies in a wide range of areas, and a newly developed policy prioritisation model. For this edition, Foundations for Growth and Competitiveness advises on country-specific structural policy priorities around three key policy areas: enabling factors, market incentives, and targeted policies. Details on the priorities to be addressed across countries covered can be found in the individual country notes.

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