

## LUXEMBOURG

### Priorities supported by indicators

#### **Improve work incentives (2007, 2009, 2011)**

**Recommendations:** Lower replacement rates under ongoing social benefits and reduce unemployment benefits progressively throughout the period of entitlement. Tighten unemployment insurance eligibility conditions for young people without work histories. Strengthen activation requirements and improve the cost-effectiveness of labour market programmes.

**Actions taken:** No action taken to reform the unemployment benefit system. Activation is being improved by addressing organisational weaknesses in the public employment service (ADEM), such as high caseloads per case worker in some offices.

#### **Reduce disincentives to continued work at older ages (2007, 2009, 2011)**

**Recommendations:** Abolish early retirement schemes to raise the effective retirement age. A major reform of pensions should include a progressive reduction of the replacement rate, limiting credits for time spent outside work, introducing actuarial neutrality around the standard retirement age and indexing this age to longevity.

**Actions taken:** Proposals aimed at making the system more neutral around the retirement age and removing obstacles to continued work beyond that age have been made by the government.

#### **Increase competition in the domestically-oriented services sector (2007, 2009, 2011)**

**Recommendations:** For professional services, remove restrictions on advertising, facilitate co-operation between professions, and scrap minimum or reference prices. Shop opening hours should be made more flexible. The competition authority should be re-organised into a single body and be given sufficient resources.

**Actions taken:** No action taken, and transposition of the EU Services Directive remains to be legislated.

#### **Strengthen primary and secondary education systems (2007, 2009)**

**Recommendations:** Schools should be granted greater autonomy to allow headmasters and teachers to adjust their school programme in line with student needs. In addition, language education should be rebalanced to make school education better reflect labour market requirements.

**Actions taken:** Reforms aiming at improving language education and reducing class repetition were introduced starting with the 2009/10 school year.

### Other key priorities

#### **Improve the functioning of the labour market by easing employment protection legislation (2007, 2009, 2011)**

**Recommendations:** Ease conditions on collective dismissal and social plans. Lengthen trial periods under regular contracts for the low-skilled. Extend the total duration of temporary contracts and facilitate their renewals.

**Actions taken:** No action taken.

#### **Improve the functioning of the housing market (2011)**

**Recommendations:** Overhaul the planning system to facilitate house building. Reduce implicit tax subsidies to home ownership and incentives to hoard building plots.

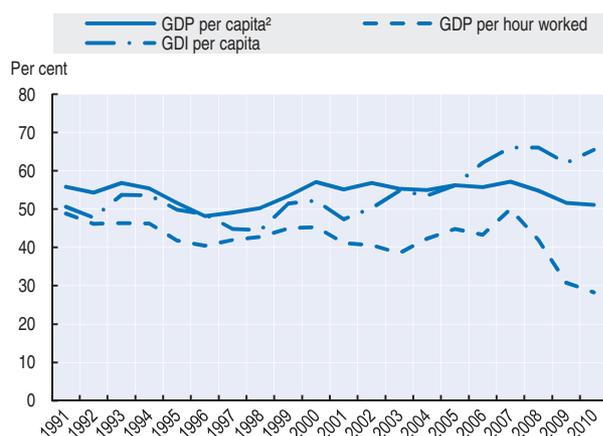
**Actions taken:** No action taken.

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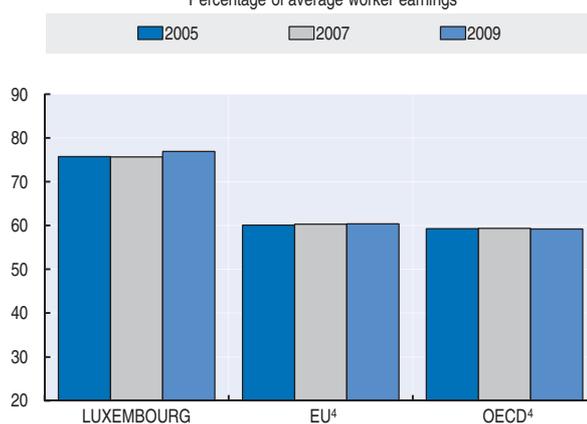
- GDP per capita is the highest in the OECD reflecting in part the importance of cross-border workers. However, labour productivity remains well below its pre-crisis peak.
- In priority areas, major reforms of the school system undertaken in recent years will improve education prospects for residents. The public employment service is being overhauled to improve matching and strengthen conditionality. Reforms have been limited in other priority areas.
- In other areas, action is being taken to curb greenhouse gas emissions and meet energy efficiency goals.

## Performance and policy indicators

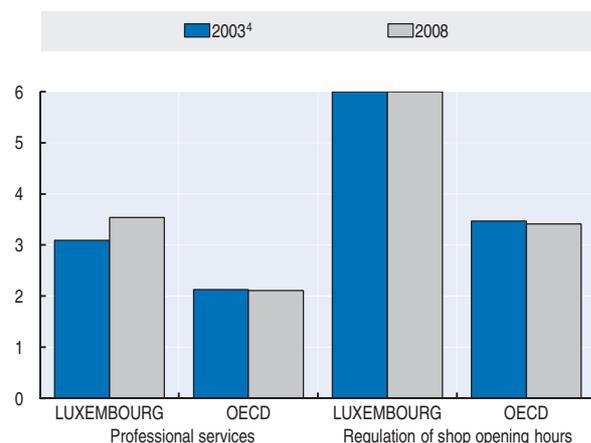
**A. The positive gap in GDP per capita remains large**  
Gap to the upper half of OECD countries<sup>1</sup>



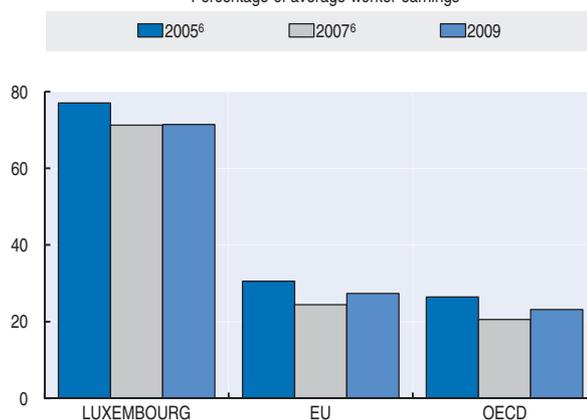
**B. Unemployment benefits throughout the unemployment spell are comparatively high<sup>3</sup>**  
Percentage of average worker earnings



**C. Regulation in professional services and retail is still stringent**  
Index scale of 0-6 from least to most restrictive



**D. Implicit taxes on continued work at older ages remain among one the highest across the OECD<sup>5</sup>**  
Percentage of average worker earnings



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
2. The population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.
3. Average of replacement rates for short and long-term unemployed persons who earned 67% and 100% of average worker earnings at the time of losing job.
4. Average of European countries in the OECD. OECD average excludes Chile, Estonia, Israel and Slovenia.
5. Implicit tax on continued work for five more years embedded in the regular old-age pension scheme for 60 year olds.
6. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, *National Accounts and Economic Outlook No. 90 Databases*; Chart B: OECD, *Benefits and Wages Database*; Chart C: OECD, *Product Market Regulation Database*; Chart D: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", OECD Economics Department Working Papers, No. 370, OECD Publishing and OECD calculations.

StatLink  <http://dx.doi.org/10.1787/888932565547>