

LUXEMBOURG

GDP per capita is the highest in the OECD despite a fall during the recession. Labour productivity has stalled as the result of labour hoarding and going forward the growth path is likely to be weaker than over recent decades. Major reforms of the school system undertaken in recent years will improve education prospects for residents, but reforms are needed in other areas discussed below.

Priorities supported by indicators

Improve work incentives

Weak work incentives generated by high social benefits create inactivity traps and thereby reduce employment among Luxembourg residents.

Actions taken: No action taken to reform the unemployment benefit system. Managerial measures are underway to improve activation by addressing organisational weaknesses in the public employment service (ADEM).

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

Reduce disincentives to continued work at older ages

Labour force participation among older workers is low as the result of early retirement schemes and high implicit taxes on continued work embedded in the old age pension system.

Actions taken: No action taken to modify the pension system, but part of the increase in pensions due in January 2011 has been delayed to 2012.

Recommendations: Abolish early retirement schemes to raise the effective retirement age. A major reform of pensions should include progressively reducing the replacement rate, limiting credits for time spent outside work, introducing actuarial fairness around the standard retirement age and indexing that standard age to longevity.

Increase competition in the domestically-focused services sector

Product market regulation in the domestic economy is restrictive and competition in the professional services and retail sectors is weak.

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

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.

Other key priorities

Improve the functioning of the housing market

The pressures from cross-border workers on the transport system is increased by cumbersome planning regulations and low property taxes that lead to high housing costs in Luxembourg.

Actions taken: The 2008 Housing Pact Law aims to increase incentives for local authorities to boost housing development, and a five-year review of the procedure for construction authorisations is underway.

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

Ease restrictive employment protection legislation

Strict employment protection legislation hinders job opportunities for under-represented groups in the labour market and undermines the overall flexibility of the economy.

Actions taken: No action taken.

Recommendations: Ease conditions on collective dismissal and social plans. Lengthen trial periods under regular contracts for the low-skilled. Reduce restrictions on temporary contracts by extending their total duration and facilitating renewals.

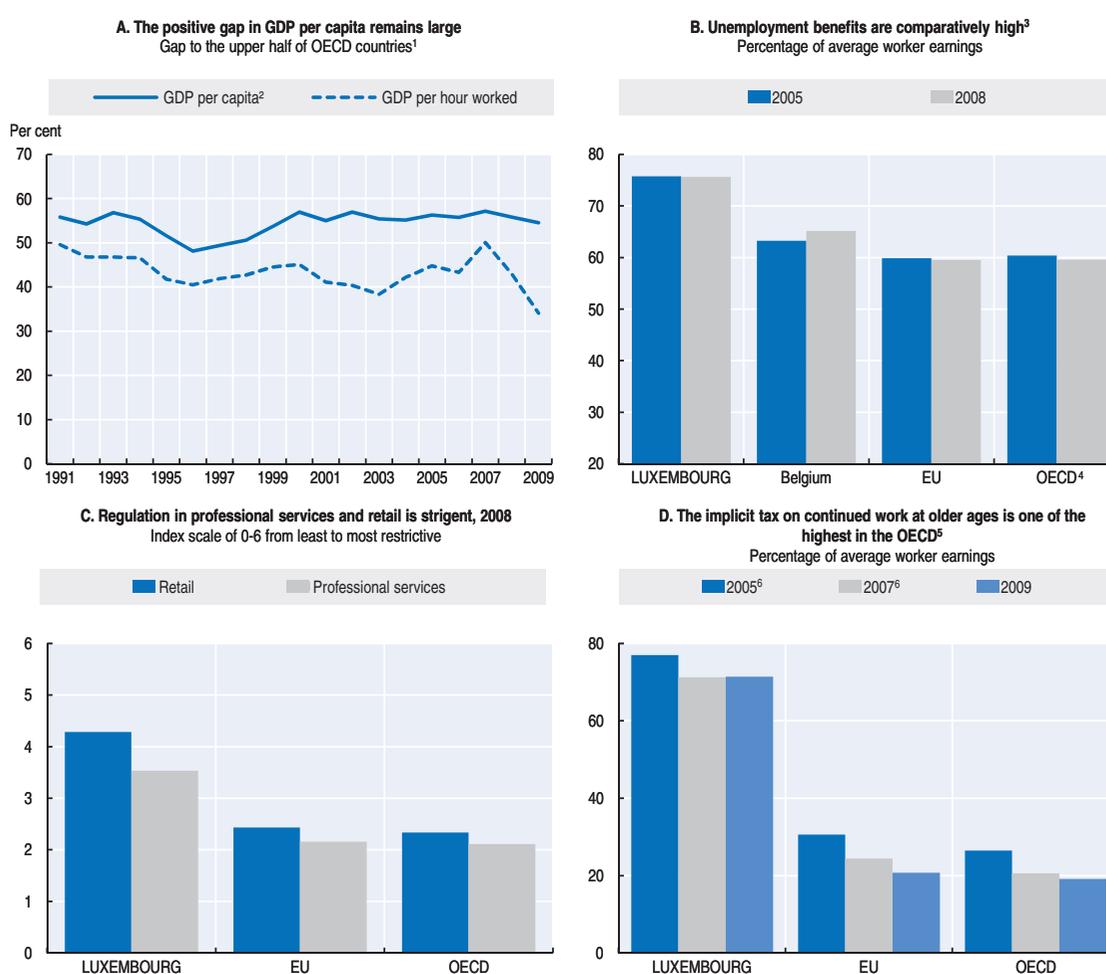
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Structural indicators

Average annual trend growth rates, per cent

| | 1999-2009 | 1999-2004 | 2004-09 |
|-----------------------------|-----------|-----------|---------|
| GDP per capita | 2.7 | 3.2 | 2.2 |
| Labour utilisation | 1.2 | 1.7 | 0.8 |
| of which: Employment rate | 2.1 | 2.5 | 1.6 |
| Average hours | -0.8 | -0.8 | -0.8 |
| Labour productivity | 1.4 | 1.5 | 1.3 |
| of which: Capital intensity | .. | .. | .. |
| Multifactor productivity | .. | .. | .. |

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (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 OECD countries excluding Chile and Israel.
5. Implicit tax on continued work 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 OECD Economic Outlook No. 88 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 and OECD calculations.

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