

LUXEMBOURG

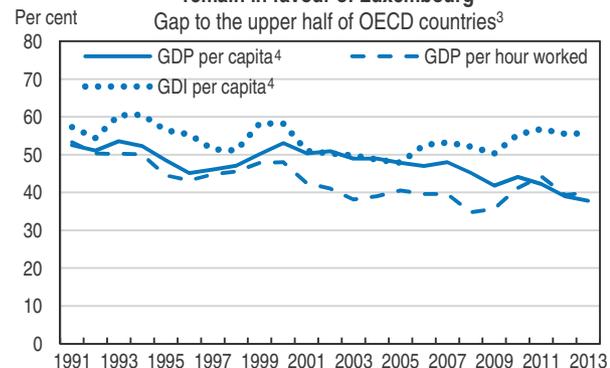
- Income per capita remains significantly above the level of other OECD countries but is diminishing, owing to declining labour productivity. Employment is also comparatively high. Labour force participation is weaker, although it has recently increased.
- Progress has been achieved in the area of active labour market and training policies, with the implementation of the “Youth guarantee” programme, and, though to a lesser extent, in the area of product market regulation, with the abolishment of reference prices for some professional services.
- To address rising unemployment of residents, reforming the welfare system would strengthen work incentives while job protection reforms could make the labour market more adaptable. Reducing early retirement incentives is needed to raise activity among older workers. Easing product market regulation would help maintain competitiveness and better designed housing policies would reduce commuting costs and facilitate resource allocation.
- In addition to improving work incentives, more targeted social benefits would help to better focus support towards low-income families and therefore reduce inequality. Reducing planning restrictions would support housing supply in urban areas and alleviate transport-related emissions.

Growth performance indicators

A. Average annual trend growth rates
Per cent

	2003-08	2008-13
Potential GDP per capita	1.5	0.6
Potential labour utilisation	1.6	0.9
of which: Labour force participation rate	0.5	0.7
Employment rate ¹	-0.3	-0.3
Trend employment coefficient ²	1.4	0.5
Potential labour productivity	-0.1	-0.3
of which: Capital deepening	-0.1	-0.1
Labour efficiency	-0.3	-0.5
Human capital	0.2	0.3

B. The income and productivity gaps diminished but remain in favour of Luxembourg



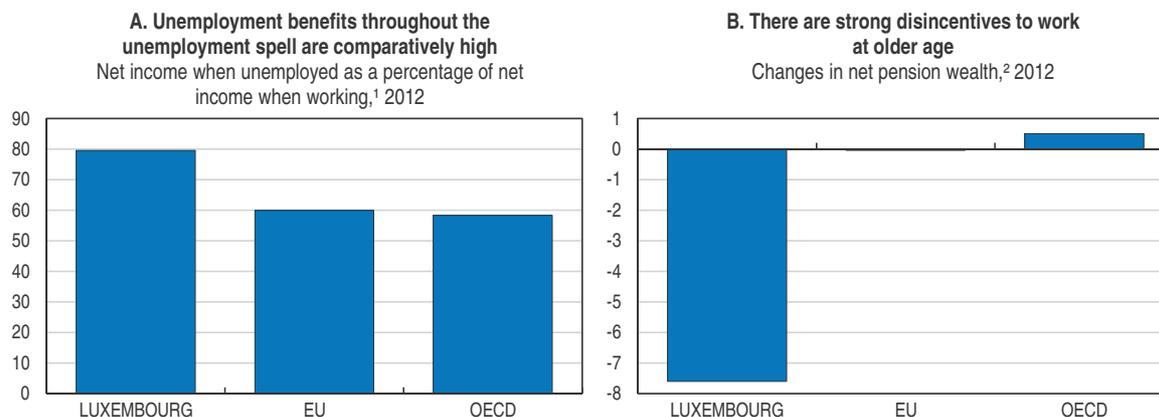
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
4. The population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. Average of net replacement rates for one-earner married couples and single with 2 children and without children, short and long-term unemployed persons who earned 67% and 100% of average worker earnings at the time of losing job.
2. The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 60 to 64. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2013-en.

Source: Panel A: OECD, *Tax-Benefit Models*. Panel B: OECD *Pension Models*.

StatLink  <http://dx.doi.org/10.1787/888933178304>

Going for Growth 2015 priorities

Priorities supported by indicators

Reform the social benefit system. High marginal effective tax rates associated with the design of social benefits, especially for the low-skilled, discourage work.

Actions taken: The government adopted the “Youth guarantee” programme for jobs, education or training for those below 25 years of age in 2014, which is managed by the public employment service (ADEM) together with other authorities.

Recommendations: Lower unemployment benefit replacement rates and make them decline progressively throughout the entitlement period. Tighten eligibility conditions for young people without work histories. Reform the minimum income scheme (RMG) to reduce marginal effective tax rates. Make parts of the social benefit system that rely on universal payments means-tested or otherwise targeted.

Reduce disincentives to continued work at older ages. Labour force participation among older workers is low as a result of early retirement schemes and low incentives for continued work embedded in the old age pension system.

Actions taken: No action taken.

Recommendations: Abolish early retirement schemes so as to raise the effective retirement age. A new pension reform should include a progressive reduction of the replacement rate, limited credits for time spent outside work, actuarial neutrality around the statutory retirement age and indexation of the latter to longevity.

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Increase competition in the non-financial services sector. Strict regulations hinder entry and competition, especially in retail trade and professional services.

Actions taken: Procedures initiated by the Competition Council abolished reference prices in several professional services (i.e. architects, health and safety co-ordinators, chamber of experts) and reduced price discrimination in mobile telephony.

Recommendations: Remove restrictions on advertising for professional services and facilitate co-operation between professions, and scrap minimum or reference prices. Make shop opening hours more flexible.

Other key priorities

Improve the functioning of the housing market. Limited supply of housing is compounded by transport systems strained by cross-border workers as well as policy distortions associated with planning regulations and property taxation

Actions taken: No action taken.

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

Ease job protection legislation. Strict job 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.

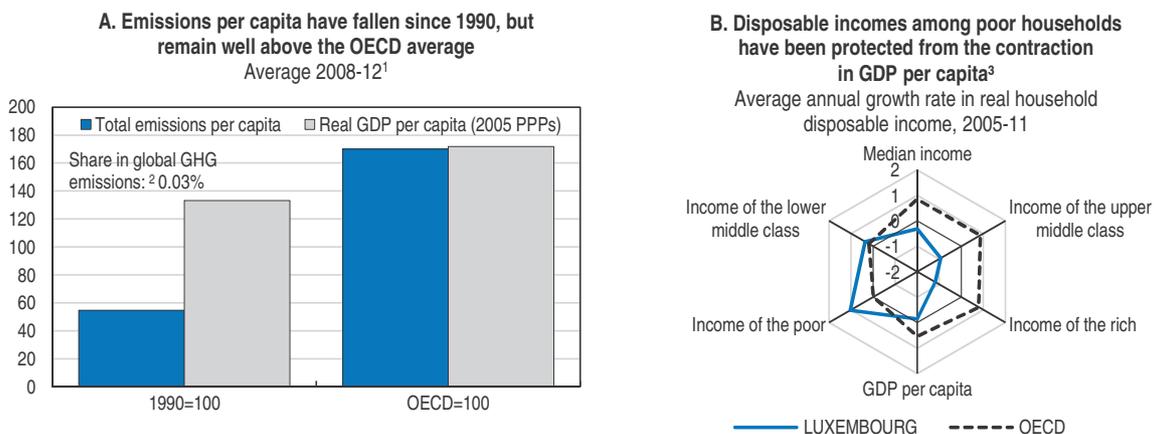
Recommendations: Ease conditions on collective dismissal and social plans. Lengthen trial periods under regular contracts for the low-skilled.

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

For Luxembourg, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

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

StatLink  <http://dx.doi.org/10.1787/888933178730>