

LUXEMBOURG

- GDP per capita still exceeds that of advanced OECD countries by almost 50%, but the gap has been narrowing in the wake of the global financial crisis. This has been mainly due to a smaller positive gap in labour productivity. In absolute terms, labour utilisation remained flat and labour productivity weak since 2009, reflecting, in the former case, higher structural unemployment.
- Between 2008 and 2013, overall income inequality, as measured by the Gini coefficient, decreased by 0.2 percentage points per year, but the situation of the poorest segments of the population did not improve.
- Progress in addressing past priorities identified in *Going for Growth* has been achieved, in the area of active labour market policies, with the implementation of the Youth Guarantee and the public employment service reform, and, to a lesser extent, with the reclassification of workers with disabilities and reduction of early retirement. Although additional policy action in this area is warranted, reforming job protection legislation is viewed as less important than taking action to better anticipate and improve the ability to cope with the evolution of future skill needs. Thus, it no longer features among the five *Going for Growth* policy priorities. The affordability of housing for low-income households has improved, but more needs to be done. No action has been taken to reduce the restrictions related to retail establishment and access to regulated professions.
- Improvements in the education system and the quality of vocational training would help spur innovation, and hence productivity growth. Improved competition in the non-financial services sector is essential to the diversification of the economy and to medium-term improvements in productivity and growth. Competition-enhancing product market reforms, especially in professional services and retail, would help maintain competitiveness and create new jobs. In addition to improving work incentives, more targeted social benefits would help to better focus support towards low-income families, thus reducing inequality and poverty. Improved housing supply in urban areas would alleviate the transport-related emissions and congestion caused by cross-border workers.

Going for Growth 2017 priorities

***Improve the ability to respond to future skill needs.*¹** Skill shortages and mismatches limit labour productivity growth and constrain firms' ability to innovate.

Recommendations: Reduce grade repetition in secondary education, provide more school autonomy and better monitor education quality. Improve the quality and accessibility of vocational training. Enhance the apprenticeship system to reduce structural unemployment and address skill mismatches. Give more prominence in school curricula to economics-related education and improve the perception of entrepreneurship as a desirable career choice. Strengthen the co-operation between enterprises and research institutions in Luxembourg and abroad.

Facilitate labour market participation of women and older workers. Reducing disincentives for labour market participation can increase labour supply and therefore economic growth.

Actions taken: Personalised support for job seekers by the public employment service (ADEM) has been up-scaled in 2015. A law on the reclassification of workers with disabilities introduced more stringent medical checks of new and existing cases in 2016, therefore reducing the number of long-term unemployed and people entering early retirement

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.

LUXEMBOURG

Growth performance and inequality indicators

A. Growth

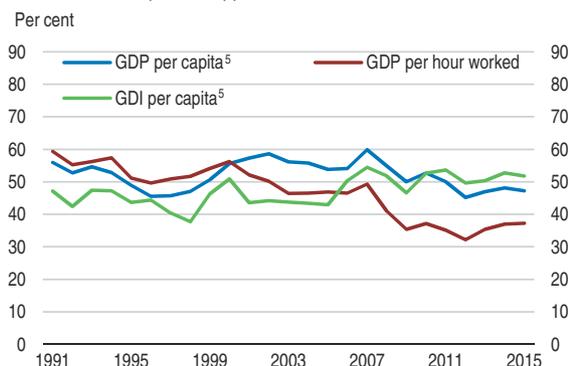
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.7	1.1
Labour utilisation	1.5	0.0
of which: Labour force participation rate	0.3	0.0
Employment rate ¹	-0.4	-0.2
Employment coefficient ²	1.5	0.2
Labour productivity	-0.8	1.0
of which: Capital deepening	0.6	-0.2
Total factor productivity	-1.4	1.2
Dependency ratio	0.0	0.1

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient ³	28.1 (31.7)*	-0.2 (0)*
Share of national disposable income held by the poorest 20%	8.7 (7.7)*	0 (0)*

* OECD average

C. Average income and productivity levels remain well above the average of leading countries

Gap to the upper half of OECD countries⁴

- 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.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).
- The population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.

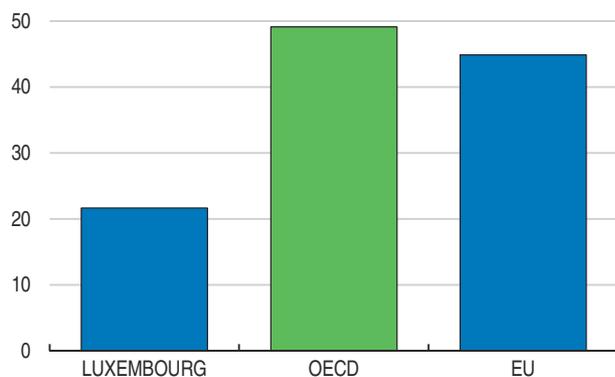
Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

StatLink <http://dx.doi.org/10.1787/888933455191>

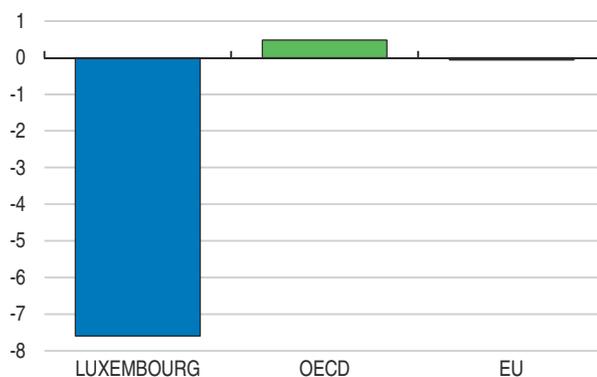
Policy indicators

A. Graduation rate in tertiary education is low

First-time graduation rates, 2014



B. There are strong disincentives to work at older age

Changes in net pension wealth,¹ 2012

- Measured as 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 (old-age pension). 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.

Source: Panel A: OECD, *Education at a Glance 2016: OECD Indicators*; Database; Panel B: OECD, *Pension Models*.

StatLink <http://dx.doi.org/10.1787/888933455659>

LUXEMBOURG

through disability. Provisions for parental leave were modified in 2016 to promote reconciliation between professional and family responsibilities.

Recommendations: Reduce disincentives for labour force participation of women by charging health care contributions for each spouse individually and introducing separate income tax assessment of spouses. Increase enrolment in early childhood education, especially of low-income and foreign-language families. Abolish early retirement schemes so as to raise the effective retirement age. A new pension reform should include limited credits for time spent outside work, actuarial neutrality around the statutory retirement age and indexation of the latter to longevity.

Reform the social benefit system. High marginal effective tax rates associated with the design of social benefits discourage work.

Actions taken: The public employment service is implementing the Youth Guarantee programme while paying special attention to language skills support, in strong co-operation with the vocational education and training system. Employers offer additional positions to apprentices in the Jobelo programme targeting unskilled young people (2015).

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.

Increase competition in the non-financial services sector. Restrictive regulations hinder competition and hence investment and productivity growth.

Actions taken: No action taken.

Recommendations: Remove regulatory restrictions in retail establishment and business services, such as restrictions on advertising for doctors, lawyers and architects, and facilitate co-operation between professions. Review the necessity and proportionality of restrictions on the access and conduct of regulated professions. Make shop opening hours more flexible.

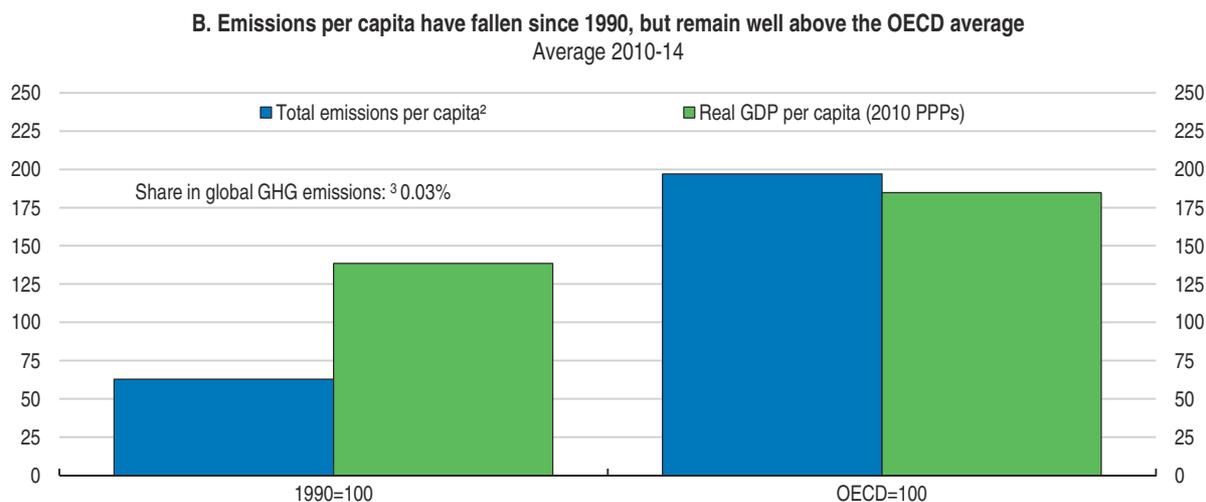
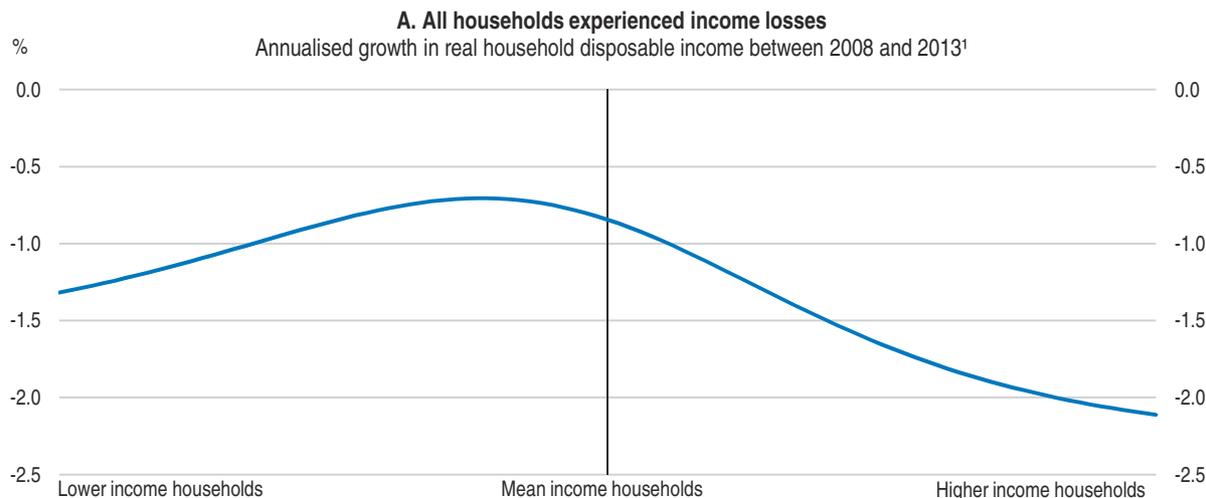
Improve the functioning of the housing market. Better supply of housing is needed to meet the projected increase in population.

Actions taken: The authorities have introduced a new subsidy for low-income households renting on the private market in 2016, and also re-started a social housing construction programme involving municipalities, public promoters and private associations and foundations.

Recommendations: Increase housing supply by improving availability of land for new construction and speeding up procedures for granting construction permits. Increase the supply of social housing at affordable prices. Raise property taxes by updating property values used as a tax base. Reduce implicit tax subsidies to home ownership and incentives to hoard building plots.

LUXEMBOURG

Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

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

StatLink  <http://dx.doi.org/10.1787/888933456110>