

LUXEMBOURG

Priorities supported by indicators

Improve job-search incentives (2005, 2007, 2009)

Recommendations: Job-search incentives should be strengthened and exit routes from the labour market closed by tightening eligibility conditions for unemployment benefits and reducing replacement rates.

Actions taken: No action taken on reforming the unemployment benefit system. Indexation of birth allowances, parental leave allowances and education allowances was suspended until end-2009.

Improve achievements in primary and secondary education (2005, 2007, 2009)

Recommendations: Improve educational outcomes by facilitating track switching. Increase school autonomy to allow headmasters and teachers to adjust programmes to student needs. Rebalance language education and make school education better reflect labour market requirements.

Actions taken: In 2005, a language action plan was put in place that aims at reinforcing language capacity in Luxembourgian for younger children. Public education is phasing in at pre-school age (three-years old) and making pre-school mandatory from age four onwards. In 2007, a series of reforms aiming at improving language education and reducing class repetition was enacted and is now being implemented.

Reduce the implicit taxes on continued work at older ages (2005, 2007, 2009)

Recommendations: Make pension benefit adjustments more actuarially neutral for early and late retirement and reduce the high replacement rates for old-age pensions through a better realignment of pensions and lifetime contributions.

Actions taken: No action taken on actuarial adjustment of pension benefits. Indexation of old-age pensions to inflation is now applied with a lag, implying a modest one-off reduction in replacement rates.

Other key priorities

► **Reduce barriers to competition in professional services (2007, 2009)**

Recommendations: Boost competition in professional services by easing conduct regulation and lowering licensing and education requirements.

Actions taken: No action taken.

► **Ease employment protection (2007, 2009)**

Recommendations: Ease the strict employment protection, notably by simplifying rules for individual dismissals.

Actions taken: No action taken.

Raise public-sector efficiency (2005)

Recommendations: Enhance public-sector efficiency through greater use of cost-benefit and cost effectiveness analyses, further expand the role of e-government, increase managerial independence and accountability, and simplify administrative procedures.

Actions taken: No action taken.

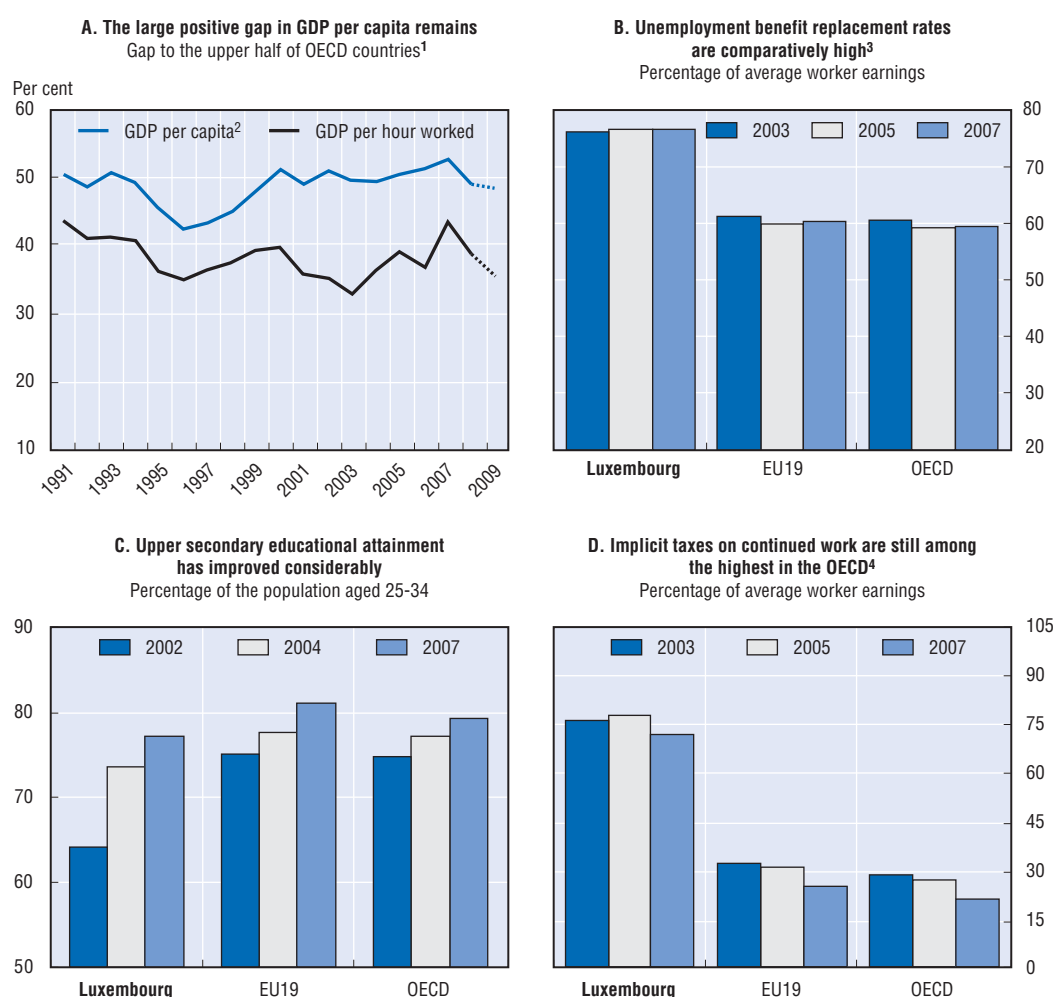
Reduce barriers to competition in broadband services (2005)

Recommendations: Reduce barriers to competition in broadband services by imposing lower access charges to the local loop and restrict the scope for the incumbent telecommunications company to cross-subsidise other activities.

Actions taken: No action taken.


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- The positive GDP-per-capita gap relative to the upper half of OECD countries has remained wide. However, labour force participation of some groups remains low and human capital formation does not appear well suited to the present highly knowledge-based growth trajectory.
- In key priority areas, measures have been taken to improve language education and reduce class repetition, although more needs to be done to address the serious problems in the education sector. Marginal labour market reforms have been implemented. Overall, progress has been well below the OECD average.
- Outside key priority areas, Luxembourg now has 12 bilateral tax agreements and thus has substantially implemented the internationally agreed tax standard.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the *OECD Economic Outlook*, No. 86.
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. Implicit tax on continued work embedded in the regular old-age pension scheme for 60-year-olds.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Benefits and Wages Database*; Chart C: OECD (2008), *Education at a Glance* and OECD, *PISA 2006 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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