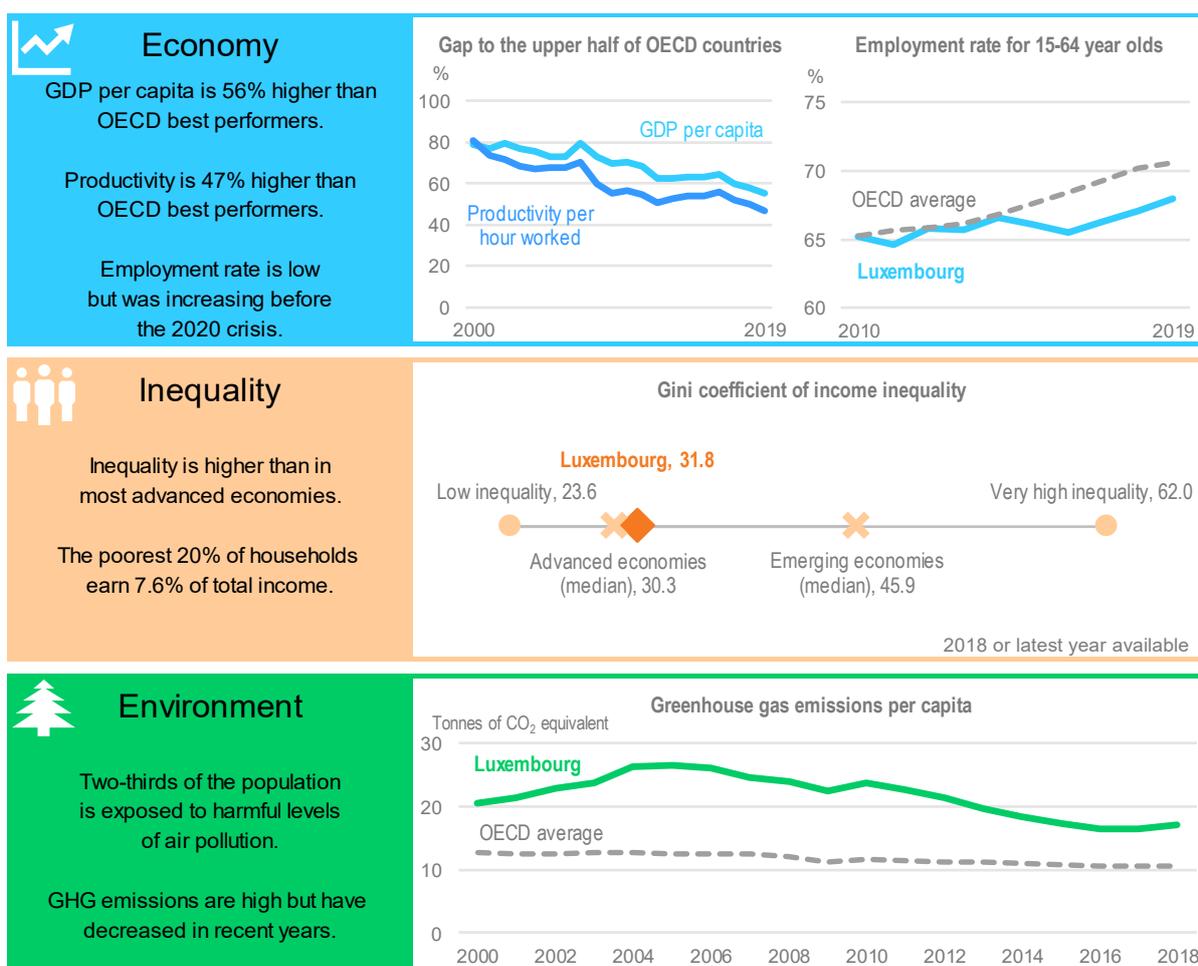


Luxembourg

The recovery after the COVID-19 crisis requires a prompt labour market rebound and addressing skill shortages that weighed on firm growth and innovation prior to the crisis. Sustainable public infrastructure investment can improve environmental outcomes. Improving housing affordability and labour market participation of women will render the recovery more inclusive.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). In the case of Luxembourg, the population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.

Inequality: The Gini coefficient for disposable income 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.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

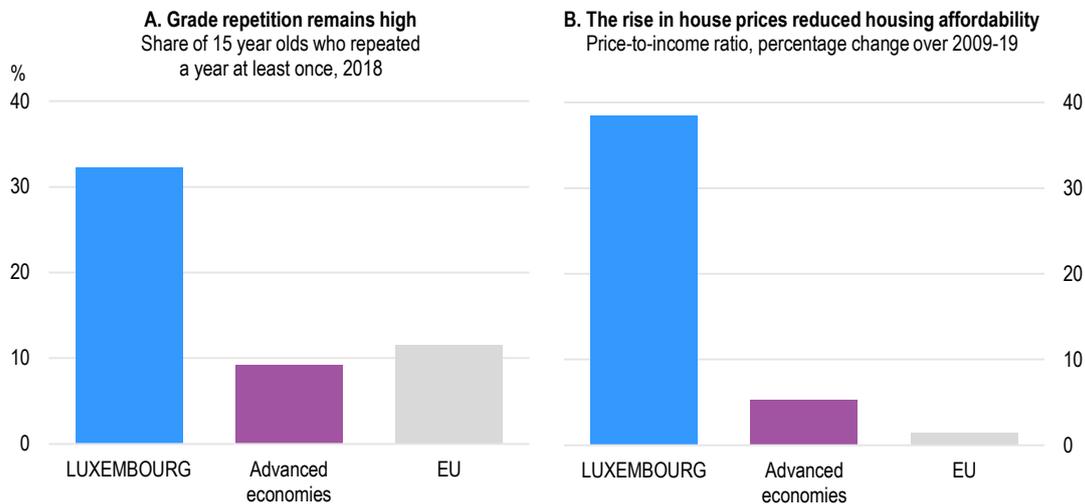
Easing skills constraints and improving equity outcomes

Despite healthy job creation prior to the COVID-19 crisis, structural unemployment remained high and firms often faced skill shortages. To favour a stronger recovery, both of these issues need to be addressed by **improving the education system and enhancing educational outcomes**. Grade repetition in both primary and secondary schooling should be reduced, as it contributes to a high age-grade discrepancy in the educational system (Panel A). Quality and accessibility of vocational training should be improved by, for instance, better linking students with the corporate sector, strengthening co-operation between enterprises and research institutions in Luxembourg and abroad, as well as the establishing of circular study programmes, that would allow students to return to Luxembourg after studying abroad.

Luxembourg has the lowest effective retirement age and the second highest replacement rate in the EU, providing older workers with weak incentives to continue in the labour market. Moreover, the participation rate of women lags behind that of men. There is scope to **facilitate labour market participation of older workers and women**. A pension reform should entail abolishing early retirement schemes, allow a gradual rise of the effective retirement age, limit pension credits for time spent outside work, and insure more actuarial neutrality around the statutory retirement age and indexation of the latter to longevity. To boost female labour force participation it is important to charge health care contributions for each spouse individually, while introducing a fully separate income tax assessment of spouses should also be considered.

Housing prices have grown strongly over the past decade (Panel B), weighing on housing affordability, in particular for low-income households who do not profit from highly subsidised social housing. To **improve housing affordability** and make the housing market more inclusive, a mix of policies is needed: supply side restrictions should be eased, to tackle land hoarding and resistance to densification; the mortgage interest deductibility phased out or reduced; and fiscal support to social housing should be better targeted.

Vulnerabilities and areas for reform



Source: Panel A: OECD, PISA Database; Panel B: OECD, Analytical House Price Indicators Database.

StatLink  <https://stat.link/dlgh1u>

Cross-border workers already fill a large part of the skill gap in the economy, but commuting poses a burden on the environment and climate. To facilitate connectivity while improving environmental outcomes **infrastructure investment should increase**. This requires a boost in public investment in cross-border railway connections, more sustainable transport infrastructure and construction. A reduction in traffic congestion and air pollution could be achieved by exploring a system of congestion charges. Investment in smart electricity grids and better interconnectivity in electricity and gas markets can increase efficiency in energy production.

Restrictive regulations in professional services hamper productivity in those sectors but also in downstream production. Moreover, in services, less productive firms have tended to fall further behind, which weighs on aggregate productivity. **Lifting anti-competitive product market regulations would contribute to stronger market selection and post-entry growth of efficient firms in the professional services sector** and may aid in the recovery from the pandemic. Regulation of professions, especially for civil engineers, should be relaxed, while restrictions on advertising and marketing for architects and engineers should be eliminated. Reforms to bankruptcy law, easing early restructuring and second chance opportunities can facilitate the post-COVID reallocation of resources.

Luxembourg: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Education and skills: Improve the education system to enhance skill matching in labour markets	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In 2019 the government began to develop a new national strategy for attracting, developing and retaining talent. Various measures have been taken concerning the regulatory framework governing immigration procedures, communication campaigns and participation in specialised recruitment fairs. <input checked="" type="checkbox"/> The personalised process for job seekers has been rolled out. <input checked="" type="checkbox"/> In early 2020, the Ministry of Education presented an initiative to step up digital education from primary school to secondary technical and general education. <input checked="" type="checkbox"/> A revision of the law on the organisation of higher education aims at optimising the governance of the programmes leading to the professionally oriented higher education qualification “Brevet de technicien supérieur” (BTS) and at reviewing the accreditation and monitoring procedures for BTS programmes as well as for foreign higher education institutions and programmes in Luxembourg. At the beginning of the 2019-2020 academic year, eight courses offered by three private higher education institutions were accredited. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce grade repetition in secondary education, provide more school autonomy and better monitor education quality. <input type="checkbox"/> Improve the quality and accessibility of vocational training. Enhance the apprenticeship system to reduce structural unemployment and address skill mismatches. <input type="checkbox"/> Strengthen the co-operation between enterprises and research institutions in Luxembourg and abroad.
Labour market: Facilitate labour market participation of women and older workers	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The voluntary supplementary pension has been extended to self-employed workers in 2019. <input checked="" type="checkbox"/> The fiscal and social frameworks have been amended to ensure an equal treatment for both wage earners and self-employed workers. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve the long-run sustainability of the pension system by increasing contributions, reducing replacement rates, and increasing the retirement age. <input type="checkbox"/> Charge health care contributions for each spouse individually.

2019-2020 Reforms	Recommendations
Housing: Improve the functioning of the housing market	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government started to acquire land slated for housing in 2019. Consequently, the Ministry of Housing has set up a unit responsible for evaluating land with a view to a possible acquisition made up of representatives of the Ministry of Housing and the Ministry of Finance. <input checked="" type="checkbox"/> The adoption of the <i>Pacte Logement 2.0</i> aimed at enhancing the supply of affordable housing. <input checked="" type="checkbox"/> A proposal for another draft law (No. 7495), voted on 21 March 2020 in parliament, foresees the creation of a special fund to help finance the construction of dwellings, as well as the buying of land by the state. <p>Another major planned change concerns the general law regulating housing subsidies that will be completely revised.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Increase housing supply by improving development of land available for new construction and speed up procedures for granting construction permits. Increase residential density, in particular around transport network hubs, for example by building higher buildings. <input type="checkbox"/> Increase the supply of social housing at affordable prices. <input type="checkbox"/> Phase out or at least reduce mortgage interest deductibility.
Environmental policy: Increase infrastructure investment to improve environmental outcomes	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The government and network managers monitored the installation of 800 public charging stations for electric cars as well as for chargeable hybrid electric cars. <input checked="" type="checkbox"/> Tax deductions for electric vehicles were replaced on 1 January 2019 by direct and higher financial assistance. <input checked="" type="checkbox"/> Luxembourg will implement a levy of €20 per tonne of carbon from 2021, as part of its efforts to slash greenhouse gas emissions by 55% by the end of the next decade. 	<ul style="list-style-type: none"> <input type="checkbox"/> Consider the gradual introduction of carbon pricing instruments. <input type="checkbox"/> Revise the adequacy of approval procedures for electricity infrastructure, establish rules to evaluate alternatives to grid extension, and consider whether it would be necessary to establish rules for congestion management and curtailment compensation in relation to Variable renewable energy (VRE). <input type="checkbox"/> Finalise a legal framework allowing smart meters and their energy data to support the active participation of consumers in the electricity and natural gas markets, facilitate new service providers, and enhance security of supply.
Competition and regulation: Increase competition in the non-financial services sector	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Reforms facilitating the recognition of professional qualifications and eliminating fixed prices in public contracts for architects and engineers have been implemented. <input checked="" type="checkbox"/> A bill reforming the right of establishment has been presented with the aim of de-regulating professions to promote and facilitate access to professions. 	<ul style="list-style-type: none"> <input type="checkbox"/> Eliminate restrictions on advertising and marketing in professional services. <input type="checkbox"/> Modernise the bankruptcy law to ease early restructuring and second chance opportunities, as well as the exit of non-viable firms.

Recent progress on structural reforms

Reform progress has been good in some areas, such as the ones concerning the improvement of environmental outcomes and the green transition. Efforts have also been made to improve access to housing and in reforming the education system to improve students' employment outcomes.