

## LUXEMBOURG

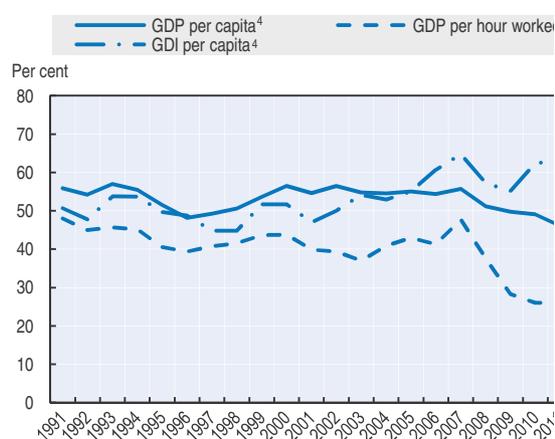
- Income per capita has remained significantly above the level of other OECD countries. Measured productivity has fallen, mainly reflecting lower equity prices. Employment and productivity remain high, but participation is weaker.
- The competition authority has been reorganised and strengthened, while implementation of the EU Services Directive has led to changes in business regulation.
- To address rising unemployment of residents, reforming the welfare system would strengthen work incentives while job protection reforms could also 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, changes to non-targeted social benefits would help to better focus support towards low-income families and therefore reduce inequality. Reducing planning restrictions in housing supply in urban areas would help to reduce transport-related emissions.

### Growth performance indicators

A. Average annual trend growth rates

		Per cent	
		2001-06	2006-11
Potential GDP per capita		2.6	-0.1
Potential labour utilisation		1.9	1.1
of which:	Labour force participation rate	0.6	0.6
	Employment rate <sup>1</sup>	-0.3	-0.2
	Trend employment coefficient <sup>2</sup>	1.6	0.8
Potential labour productivity		0.6	-1.2
of which:	Capital intensity	0.7	0.2
	Labour efficiency	-0.2	-1.6
	Human capital	0.2	0.2

B. The positive gap in GDP per capita remains large  
Gap to the upper half of OECD countries<sup>3</sup>



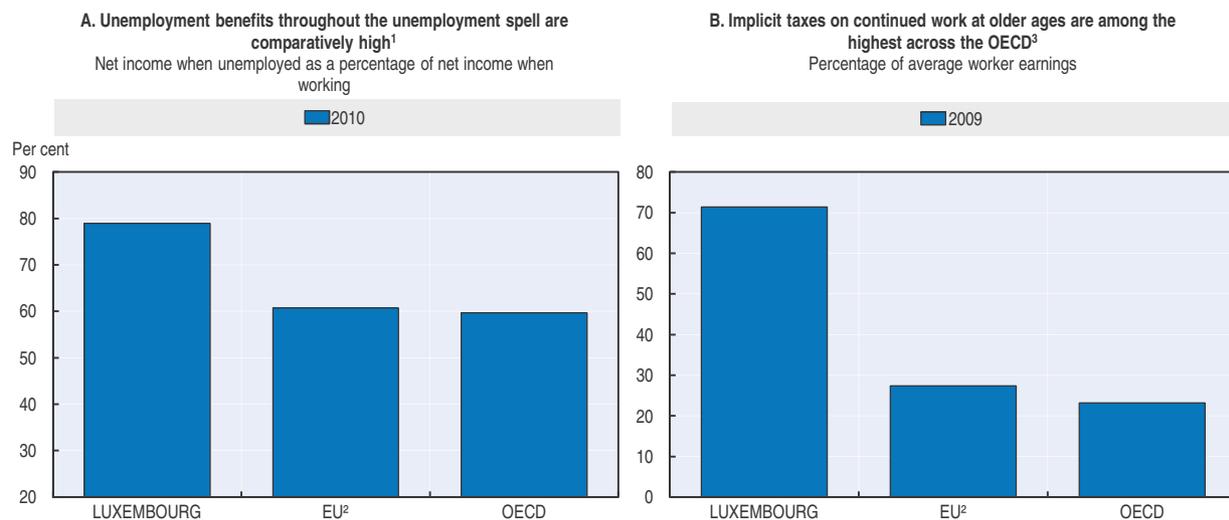
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. In the case of Luxembourg, an adjustment variable is added to the decomposition to capture the substantial impact of cross-border workers.
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: OECD, National Accounts and OECD Economic Outlook 92 Databases.

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## LUXEMBOURG

## Policy indicators



1. Average of net replacement rates for one-earner married couples and single with two 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. Average of 21 EU countries members of the OECD.
3. Implicit tax on continued work for five more years embedded in the regular old-age pension scheme for 60 year-olds.

Source: OECD, *Tax-Benefits Models*; Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", OECD Economics Department Working Papers, No. 370, OECD Publishing, OECD calculations and OECD pension models.

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## Identifying Going for Growth 2013 priorities

## Priorities supported by indicators

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

**Actions taken:** A major reform of the public employment service (ADEM) was put in place in 2012, increasing the number of case workers and local offices, effectively stepping-up job search assistance.

**Recommendations:** Lower unemployment benefit replacement rates and make them progressively decline throughout the entitlement period. Tighten eligibility conditions for young people without work histories. Reform the minimum income scheme (RMG) to reduce effective marginal tax rates. 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 a result of early retirement schemes and high implicit taxes on continued work embedded in the old age pension system.

**Actions taken:** No action taken.

**Recommendations:** Abolish early retirement schemes to raise the effective retirement age. A major 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.

**LUXEMBOURG**

**Increase competition in the domestically-oriented services sector.** Strict regulations hinder entry and competition, especially in retail trade and professional services.

**Actions taken:** In 2012, a new Competition Council with greater resources was created to replace the existing two competition authorities. In 2011, the EU Services Directive was transposed and a large number of existing regulations were reviewed and modified.

**Recommendations:** Remove restrictions on advertising for professional services, 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.** The pressures from cross-border workers on the transport system are increased by cumbersome planning regulations and property tax features that contribute to high housing prices in Luxembourg.

**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.

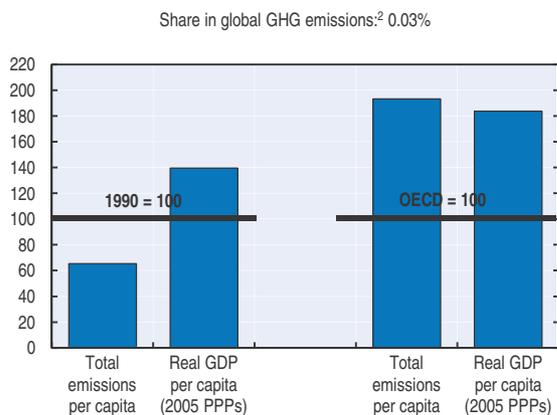
**Previous Going for Growth recommendations no longer considered a priority**

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

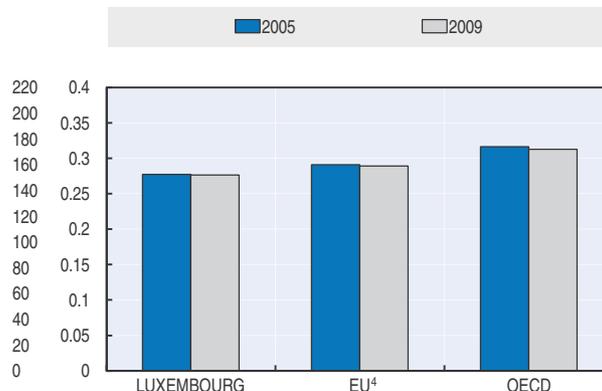
## LUXEMBOURG

## Other dimensions of well being: Performance indicators

A. Emissions per capita have fallen since 1990 but remain above OECD average  
 OECD average  
 Average 2006-10<sup>1</sup>



B. Income inequality<sup>3</sup> is below the OECD average  
 Gini coefficient



1. Total GHG emissions including LULUCF in CO<sub>2</sub> 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 and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, Energy (IEA) Database and OECD Income Distribution Database, provisional data ([www.oecd.org/social/inequality.htm](http://www.oecd.org/social/inequality.htm)).

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