

LUXEMBOURG

GDP per capita is the highest in the OECD area, thanks in part to a large proportion of cross-border workers, but labour force participation of some groups is low and productivity growth has been weak.

Reduce disincentives to take-up work in the income support system for the unemployed

Replacement rates – in particular for long-term unemployed and those on social assistance – are high by international standards, lowering search incentives and creating easy exit routes from the labour market.

Actions taken: No actions have been taken in recent years.

Recommendations: Tighten access conditions to unemployment benefits and gradually reduce unemployment benefit replacement rates after a certain period of benefit receipt. De-link social assistance and complementary benefits from minimum wage increases.

Improve achievement in primary and secondary education

Education outcomes have been weak as witnessed by low PISA scores and overall attainment below OECD average, depressing employment chances for young people, in particular those with a migrant background.

Actions taken: The government has extended pre-school to 3-year-olds to help them cope with the trilingual education system and is considering allowing for grade repetition only in specific grades.

Recommendations: Compel secondary schools to offer all education tracks to facilitate track switching; offer supplementary German-language classes and increase the proportion of courses in the vocational track of secondary education taught in French.

Reduce implicit tax on continued work at older ages

Replacement rates for old-age pensions are among the highest in the OECD area, exceeding 100% of net income for lower and average income earners. This strongly discourages work at older ages. Moreover, retirement from the age of 60 is possible after 40 years of work experience, including time spent on education and child-rearing as well as periods of unemployment for younger workers without access to unemployment benefits.

Actions taken: No recent action.

Recommendations: Raise the degree of actuarial fairness of the pension system by linking pensions to lifetime contributions. Scale back possibilities for acquiring imputed years spent on non-work activities. Index the official retirement age to life expectancy.

Other key priorities

- Boost competition in professional services by easing conduct regulation, and licensing and education requirements. Improve enforcement by the competition authorities by increasing resources. Enhance deterrence by increasing sanctions.
- Strict employment protection should be eased by simplifying rules for individual dismissals and the scope for using temporary contracts should be enlarged by allowing more renewals.