

## LUXEMBOURG

Despite a deceleration in GDP per capita in recent years, Luxembourg maintains one of the highest income levels in OECD countries. Employment rates remain relatively low.

### Priorities supported by indicators

#### **Reduce implicit tax on continued work at older ages**

Disability pension and pre- and early-retirement pensions provide attractive routes to early retirement, resulting in a low average age of withdrawal from the labour market.

**Actions taken:** Access to general disability pensions has been tightened, and a new redeployment procedure for the partially disabled has been established. However, early retirement and old-age pension replacement rates have been increased.

**Recommendations:** Early retirement pension should be reduced on an actuarially fair basis in relation to a pension taken at the standard retirement age, the imputation of years of service should be more restricted, and subsidies for pre-retirement pensions should be terminated.

#### **Reduce disincentives in the income support system for the unemployed**

High replacement rates of unemployment benefits and social assistance, and the unlimited duration of the latter, increase the probability that adverse shocks result in increases in structural unemployment.

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

**Recommendations:** The government should lower replacement rates and reduce the withdrawal rate for social assistance as recipients' incomes rise in order to avoid unemployment and poverty traps.

#### **Raise achievement in primary and secondary education**

Achievement of Luxembourg students is low, and the gap between nationals and immigrants is large. This performance can partly be attributed to the multi-lingual approach to education. Low achievement and consequently low enrolment in higher education undermines labour-market and productivity performance.

**Actions taken:** Vocational education is being reformed to enable children to do their studies in one language (French or German) without having to achieve a high level of competence in the other language.

**Recommendations:** The government should ensure that programmes are available for learning to read and write in either German or French, focus more on core subjects, provide more help to weaker students in primary education, define performance standards nationally, and increase school autonomy and accountability.

### Other key priorities

- There is scope to raise public-sector efficiency by making more use of cost-benefit and cost-effectiveness analyses, further expanding the role of e-government, increasing managerial independence and accountability, and *via* administrative simplification.

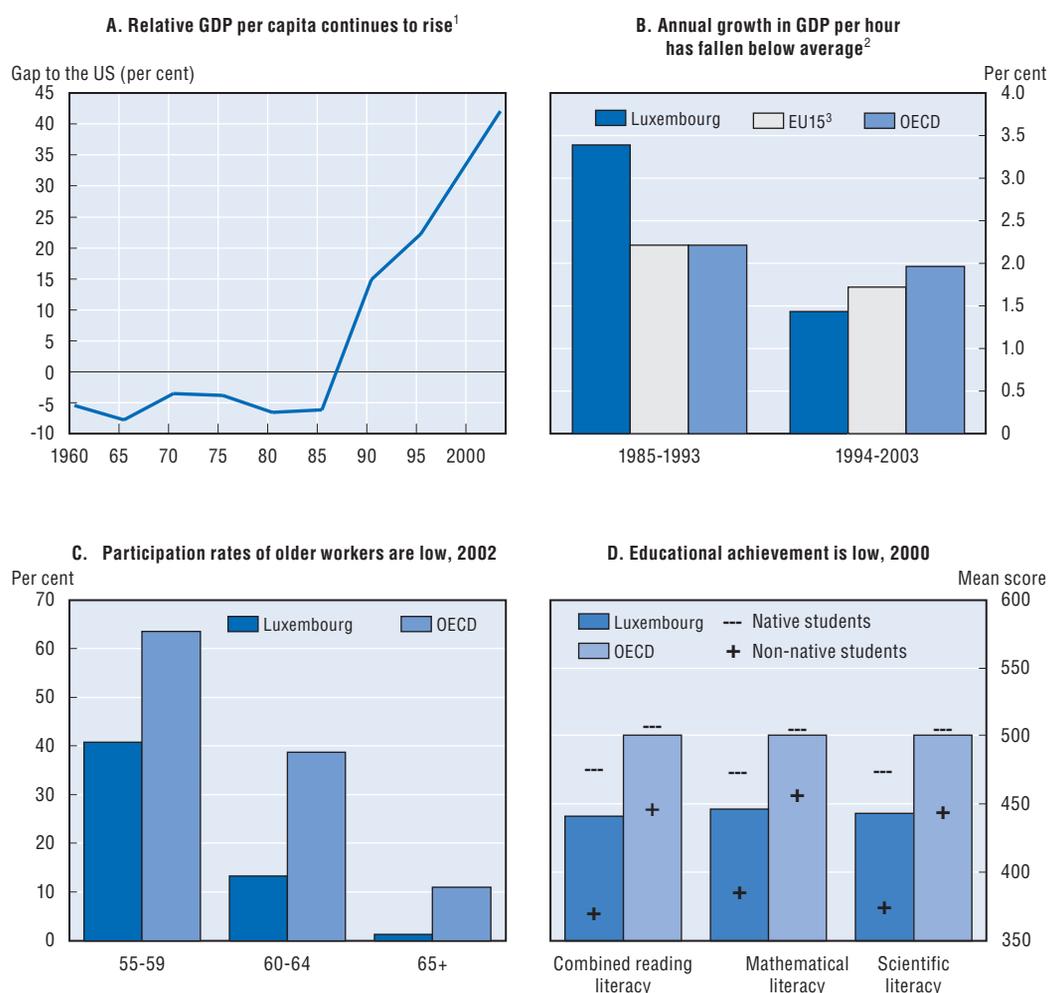
- The government should reduce barriers to competition in broadband services by imposing lower access charges to the local loop and by restricting the scope for the incumbent telecom's company to cross-subsidise other activities.

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## Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	4.3	3.2	3.6	2.4
Trend employment rate	60.0	60.3	60.8	61.7
Trend participation rate	60.9	61.4	62.4	63.6
Structural unemployment rate (NAIRU)	..	..	..	..

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs). The development of GDP is biased upwards by the large share of cross-border workers (33 per cent of domestic employment).
2. GDP per hours worked in the economy (i.e. including that of cross-border workers).
3. Excluding Austria and Luxembourg.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Labour Force Statistics, 2004; Chart D: OECD Knowledge and Skills for Life, PISA 2000.