

## LUXEMBOURG

*GDP per capita, adjusted for cross-border workers, has accelerated again from a level that is already one of the highest in OECD countries. However, labour force participation of some groups remains low and productivity growth is weak.*

### Policy priorities

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

**Challenge and recommendations:** To strengthen job-search incentives and close exit routes from the labour market, it was recommended that access conditions to unemployment benefits be tightened and unemployment benefit replacement rates be gradually reduced.

**Actions taken:** No action taken on reforming the unemployment benefit system. Indexation of certain social benefits (birth allowance, parental leave allowance, education allowance) has been suspended until 2009.

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

**Challenge and recommendations:** To improve education outcomes and increase overall attainment, it was recommended that all educational tracks be offered by schools to facilitate track switching (besides supplementary German-language classes) and that the proportion of courses in the vocational track of secondary education taught in French be increased.

**Actions taken:** A language action plan has been prepared that aims at reinforcing language capacity in Luxembourgian for younger children, starting at pre-school age (three years). Pre-school has been made mandatory from age four onwards.

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

**Challenge and recommendations:** To reduce the high replacement rates for old-age pensions, in particular for lower and average income earners, it was recommended that the degree of actuarial fairness of the pension system be raised by linking pensions to lifetime contributions.

**Actions taken:** No action on linking pensions to lifetime contributions. However, indexation of old-age pensions to inflation is now applied with a lag, implying a one-off reduction in replacement rates.

#### **Reduce barriers in professional services**

**Challenge and recommendations:** To boost competition in professional services, it was recommended that conduct regulation be eased, and licensing and education requirements be lowered.

**Actions taken:** No action taken.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To improve labour market flexibility, it was recommended that strict employment protection be eased by simplifying rules for individual dismissals and enlarging the scope for using temporary contracts, for instance by allowing more renewals.

**Actions taken:** No action taken.