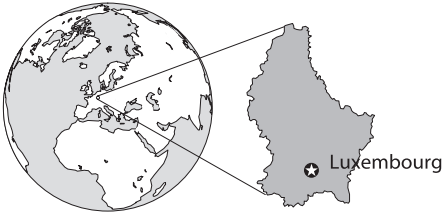


# LUXEMBOURG



World Rank: **14**

Regional Rank: **5**

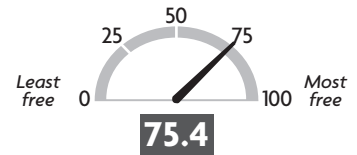
**L**uxembourg's economic freedom score is 75.4, making its economy the 14th freest in the 2010 *Index*. Its overall score is slightly better than last year. Luxembourg is ranked 5th out of 43 countries in the Europe region.

Luxembourg, one of the leading global financial centers and a sophisticated service-dominated economy, has long benefited from a favorable climate for entrepreneurial activity and high levels of openness and flexibility. The judiciary, independent of politics and free of corruption, has demonstrated an exemplary ability to protect property rights. Institutional support for investment freedom, trade freedom, financial freedom, and business freedom is similarly strong.

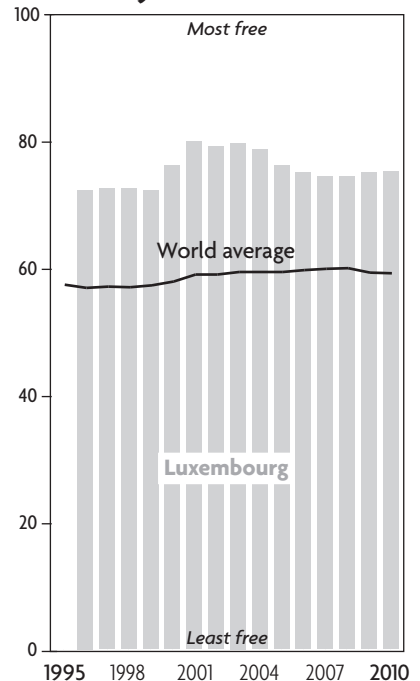
Economic freedom is less well tended in other areas as measured in Luxembourg's fiscal freedom, government spending, and labor freedom scores. Personal tax rates remain high, although the corporate rate is relatively low. Government expenditures, while lower than in some other European Union countries, account for close to 40 percent of GDP. The government is undertaking gradual reforms to improve the management of public finance. A more flexible labor market is needed to promote employment growth. The minimum wage is one of the highest in the Organisation for Economic Co-operation and Development, and labor union membership stands at over 50 percent of all wage earners.

**BACKGROUND:** The Grand Duchy of Luxembourg is a small, stable, and wealthy country. A founding member of the European Union in 1957, it was also one of the founding members of the single European currency in 1999 and continues to play a primary role in promoting further European integration. Luxembourgers enjoy a high standard of living with one of the world's highest income levels. During the 20th century, Luxembourg evolved from an industrial economy into a mixed manufacturing and services economy that includes a very strong financial services industry. It has a skilled workforce and well-developed infrastructure.

## Economic Freedom Score



## Country's Score Over Time



## Quick Facts

**Population:** 0.5 million

**GDP (PPP):** \$38.3 billion

-0.9% growth in 2007

4.4% 5-year compound annual growth

\$78,599 per capita

**Unemployment:** 4.9%

**Inflation (CPI):** 3.4%

**FDI Inflow:** \$3 billion

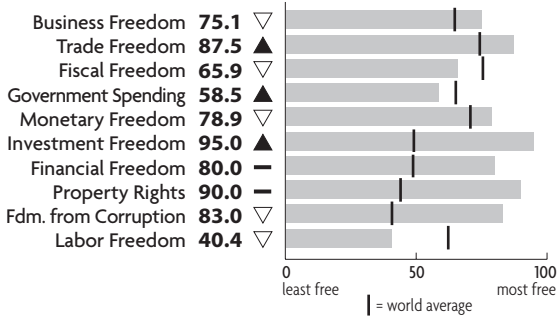
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## LUXEMBOURG'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 75.1

The overall freedom to start, operate, and close a business is relatively well protected under Luxembourg's regulatory environment. Starting a business takes 24 days, compared to the world average of 35 days. Obtaining a business license requires slightly less than the world average of 18 procedures and 218 days.

### TRADE FREEDOM — 87.5

Luxembourg's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Luxembourg policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Some biotechnology bans and services market barriers exceed the EU norm. Ten points were deducted from Luxembourg's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 65.9

Luxembourg has a relatively high income tax rate but a relatively low corporate tax rate. The top income tax rate is 39 percent (38 percent plus a 2.5 percent surcharge). The top corporate tax rate is 21.84 percent (21 percent plus a 4 percent employment fund contribution), but municipal business taxes ranging from 6 percent to 12 percent can raise the effective rate even higher. Other taxes include a value-added tax (VAT) and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 37.6 percent.

### GOVERNMENT SPENDING — 58.5

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 37.2 percent of GDP. Public debt is low because of past fiscal surpluses, but a new fiscal stimulus package included both subsidies and tax exemptions.

### MONETARY FREEDOM — 78.9

Luxembourg is a member of the euro zone. Inflation has been relatively low, averaging 3.1 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. The government also regulates electricity rates and some fuel prices and influences prices through state-owned enterprises. Ten points were deducted from Luxembourg's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 95

Foreign and domestic businesses receive equal treatment. Investments in utilities or activities that directly affect national security are restricted. Bureaucratic procedures, including those for licenses and permits, are streamlined and transparent, and there is far less red tape than in larger European countries. Both residents and non-residents may hold foreign exchange accounts. There are no restrictions or barriers with respect to capital transactions, current transfers, repatriation of profits, purchase of real estate, or access to foreign exchange.

### FINANCIAL FREEDOM — 80

Luxembourg is a global financial hub, and its sophisticated banking sector is well capitalized and competitive. Regulations are transparent and effective. Many of the world's leading banks have subsidiaries in Luxembourg. The one state-owned bank offers medium-term and long-term financing of investments by Luxembourg-based companies. The investment fund industry has been expanding rapidly. Capital markets are well developed, and trading on the Luxembourg Stock Exchange is very active. The financial system has been under stress because of the global financial crisis, and the government of Luxembourg joined several other European governments in bailing out two prominent banks.

### PROPERTY RIGHTS — 90

Private property is well protected, and contracts are secure. Luxembourg adheres to key international agreements on intellectual property rights and protects patents, copyrights, trademarks, and trade secrets.

### FREEDOM FROM CORRUPTION — 83

Corruption is perceived as minimal. Luxembourg ranks 11th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Anti-corruption laws, regulations, and penalties are enforced impartially, and efforts to combat money laundering and the financing of terrorism are a priority.

### LABOR FREEDOM — 40.4

Luxembourg's labor regulations are burdensome. Unemployment benefits are almost twice as high as those in neighboring countries. Restrictions on work hours remain rigid.