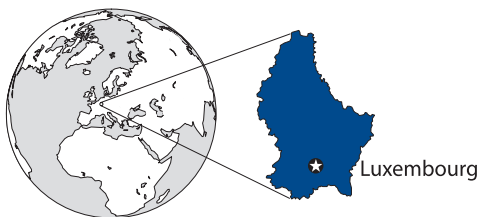


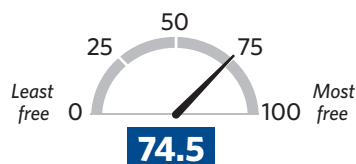
# LUXEMBOURG



World Rank: **13**

Regional Rank: **4**

## Economic Freedom Score



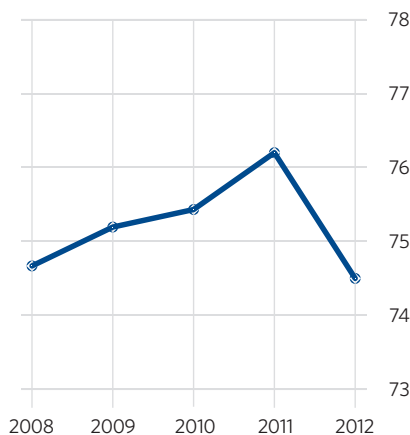
**L**uxembourg's economic freedom score is 74.5, making its economy the 13th freest in the 2012 *Index*. Its overall score is 1.7 points worse than last year, reflecting declines in regulatory efficiency and control of government spending. Luxembourg is ranked 4th out of 43 countries in the Europe region.

Luxembourg has long benefited from a favorable climate for entrepreneurial activity and high levels of openness and flexibility. Prudent financial regulations have supported the country's position as a global financial hub. The judiciary, independent of politics and free of corruption, has provided strong protection for property rights. Institutional support for open markets is similarly strong.

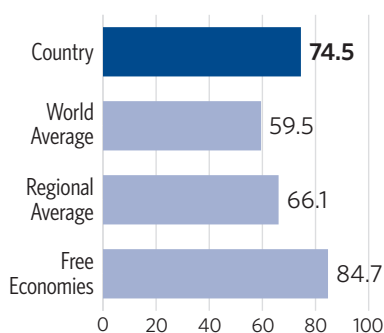
Although the government has undertaken gradual reforms to improve the management of public finance, public spending has risen. Recent stimulus measures and support for the banking sector have resulted in an increased budget deficit. In a move to rebalance to budget over the coming years, Luxembourg has adopted several new tax measures including an increased top marginal income tax rate and a higher unemployment fund surcharge. The efficiency of the regulatory structure, though still high, has declined relative to some other countries.

**BACKGROUND:** A founding member of the European Union in 1957, the Grand Duchy of Luxembourg was also one of the founding members of the single European currency in 1999 and continues to play a primary role in promoting European integration. Luxembourgers enjoy a good standard of living with one of the world's highest income levels, although they have experienced a deep recession as a result of the recent global economic crisis. 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. Over the past decade, the government has sought to diversify the economy and promote Luxembourg as an information technology and e-commerce hub. The country benefits from a skilled workforce and well-developed infrastructure.

## Freedom Trend



## Country Comparisons



## Quick Facts

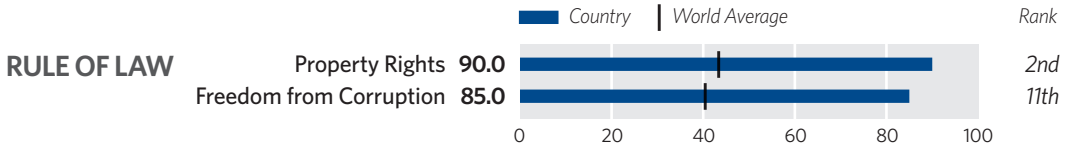
**Population:** 0.5 million  
**GDP (PPP):** \$41.1 billion  
 3.4% growth in 2010  
 5-year compound annual growth 2.5%  
 \$81,383 per capita  
**Unemployment:** 6.0%  
**Inflation (CPI):** 2.3%  
**FDI Inflow:** \$20.3 billion  
**Public Debt:** 18.4% of GDP

### How Do We Measure Economic Freedom?

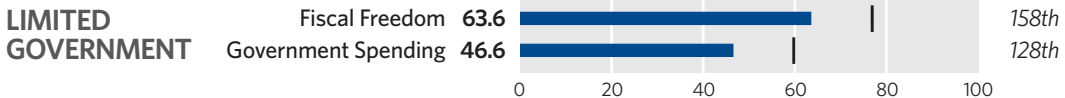
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

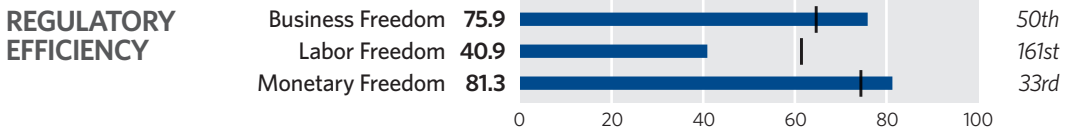
**THE TEN ECONOMIC FREEDOMS**



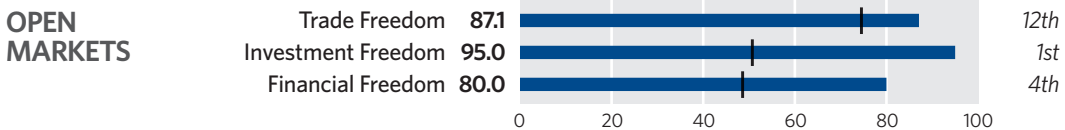
A well-functioning legal framework strongly supports respect for the rule of law. Private property rights are well protected, and contracts are secure. Luxembourg adheres to key international agreements on intellectual property rights and protects patents, copyrights, trademarks, and trade secrets. Anti-corruption laws are enforced effectively, and the society’s minimum tolerance for corruption encourages transparency and clean government.



The top income tax rate is 42 percent, and the top corporate tax rate is 22 percent (21 percent plus a 5 percent unemployment fund surcharge). Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden amounts to 37.5 percent of total domestic income. Government spending is equivalent to 42.2 percent of total domestic output. The budget balance has become negative, but public debt is below 20 percent of GDP.



The regulatory environment is transparent and efficient. Business formation and operation take place without bureaucratic interference, and licensing requirements are not burdensome. The labor market lacks flexibility. Unemployment benefits are almost twice as high as those in neighboring countries, and the minimum wage is one of the region’s highest. Monetary stability has been well maintained, and inflation has been low.



The trade weighted average tariff rate is low as in other members of the European Union, but non-tariff barriers increase the cost of trade. Under the efficient investment regime, foreign investment is welcomed without heavy bureaucratic interference. The sophisticated banking sector is well capitalized and competitive. The financial system was stressed by the recent financial turmoil, and the government joined others in the region in bailing out banks.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-3.1	Business Freedom	-0.5	Trade Freedom	-0.5
Freedom from Corruption	+3.0	Government Spending	-11.9	Labor Freedom	-3.2	Investment Freedom	0
				Monetary Freedom	-0.8	Financial Freedom	0