

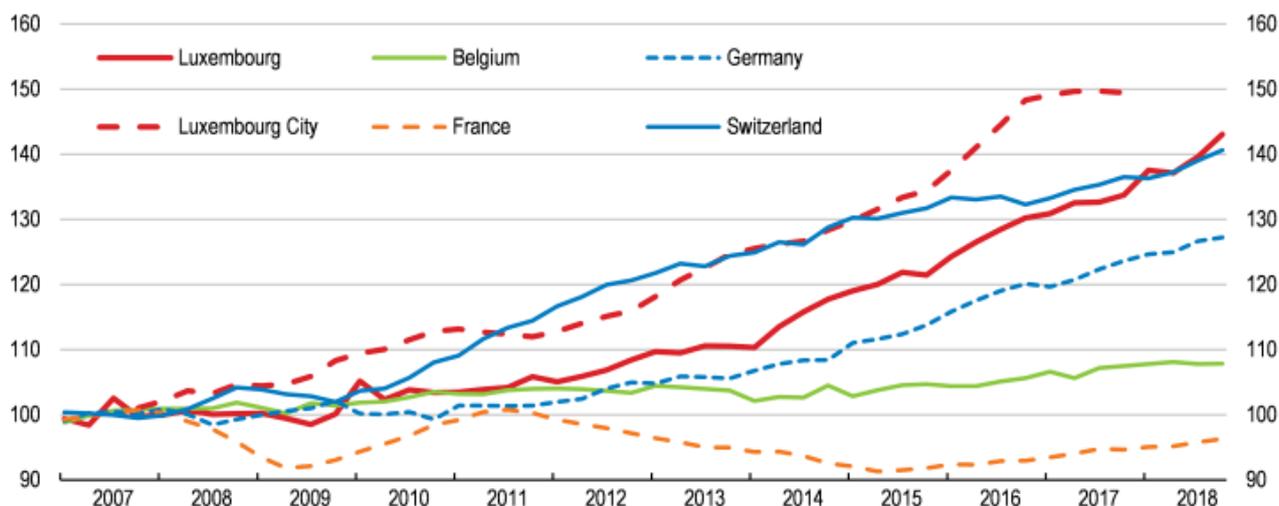
Making access to housing more affordable to all in Luxembourg

by Jan Strasky, Luxembourg Desk, OECD Economics Department

Luxembourg's economy has been buoyant – robust growth has strongly outpaced the euro area average over most of the past decade. However, this success creates new problems, in particular in the housing market, which the 2019 Economic Survey of Luxembourg [\[link\]](#) analyses in detail. Strong population growth, mainly reflecting the number of foreign workers attracted by a buoyant economy, has kept housing demand growing for many years. When coupled with supply-side restrictions, such as limited use of land available for construction and cumbersome zoning restrictions, the imbalance between demand and supply stokes rising house prices (Figure 1). Increasing mortgage debt also raises the debt service burden for a larger share of households than in other countries and a tight rental market impedes housing affordability for poorer parts of the population.

Figure 1. Real house prices are growing strongly

Index 2007 = 100, s.a.



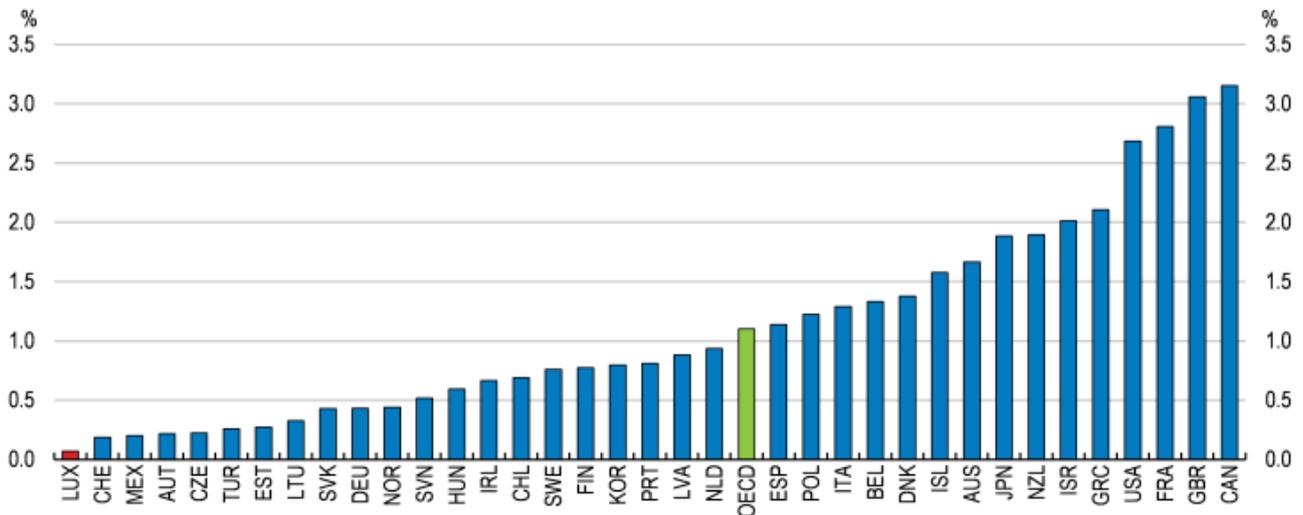
Note: For Luxembourg City, nominal annual values were linearly interpolated and deflated using a house price deflator calculated from the OECD Analytical House Price Indicators database.

Source: OECD (2019), *Analytical house prices indicators* (database); and Observatoire de l'Habitat.

As the housing stock has not expanded in line with growing demand for many years, the essential part of the solution is an increase in construction of new housing. Although the land available for housing construction seems sufficient, it is mainly in private ownership and many landowners do not have a strong incentive to sell or develop their land. In order to reduce the practice of land hoarding, where constructible land is kept undeveloped to capitalise on continuing land price increases, the opportunity cost of holding land for construction should be increased. Possible ways of doing so include introducing land value taxes on land zoned for housing construction or imposing sanctions on landowners and developers for non-use of building permits. Higher recurrent taxes on immovable property, based on up-to-date valuations reflecting the market price of the

property, could also help to incentivise the owners to sell vacant dwellings (Figure 2).

Figure 2. Recurrent immovable property taxes are low
Share of recurrent immovable property tax revenue in GDP, 2016

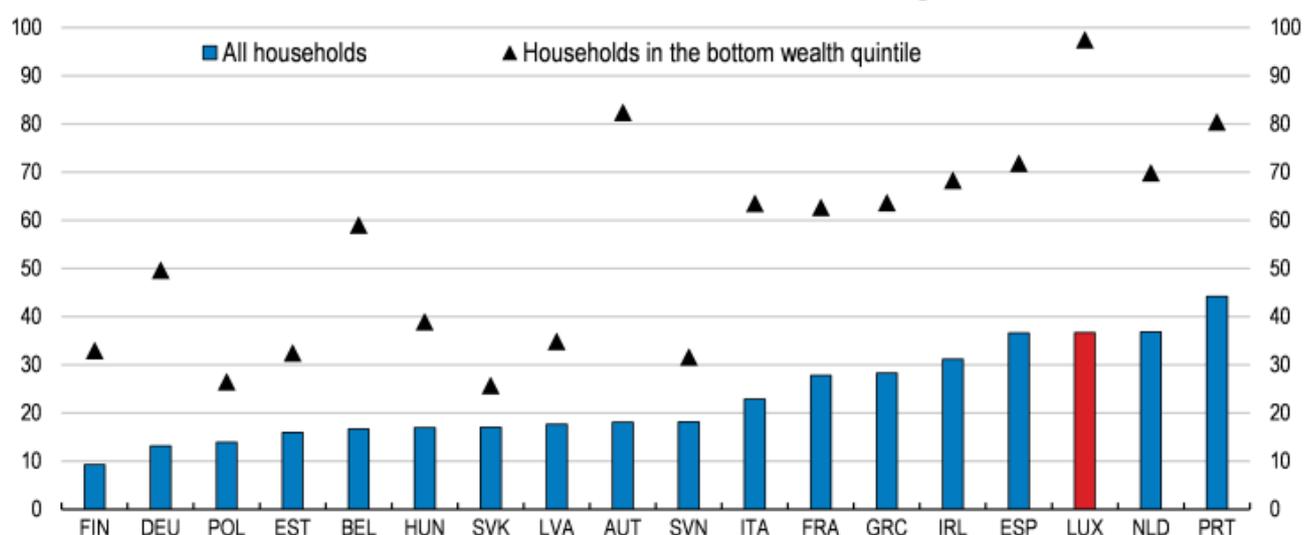


Source: OECD (2019), *OECD Global Revenue Statistics* (database).

Both municipalities and the central government could improve the situation in this area. Municipal autonomy in spatial planning decisions is high and the current framework has not delivered sufficient supply of housing. Some instruments exist in the law, but are simply not used. This is the case of an annual tax on constructible land not developed for more than three years, and also of a tax on unoccupied housing. Other instruments, such as a special property tax on building land for residential purposes, were introduced more broadly, but they are based on obsolete cadastral valuations and provide negligible revenues.

Given the high level of urban sprawl, which has important environmental costs, new housing construction should aim at increasing residential density, namely by constructing higher buildings, in particular around transport hubs. To soften municipal resistance to densification, the targets on new housing construction agreed between the municipalities and the central government in the Housing Pact could be extended to include numerical targets for densification measures or social housing construction. It is clear that a lot remains to be done by the central government, too. For example, a reduction of mortgage interest deductibility could help reduce demand for owner-occupied housing, while financing for new land acquisition by public providers of social housing would help expand the stock of social rental housing. Measures reducing demand for owner-occupied housing would also help reduce the build-up of already high household indebtedness, which creates risks for poorer households (Figure 3).

Figure 3. The share of over-indebted households is high, in particular for those with low wealth
Share of households with debt-to-income ratio exceeding 300%, 2014



Note: Computations of these shares only include households with mortgage on their main residence. The debt-to-income ratio calculates total outstanding debt on main residence divided by annual household gross income.

Source: HFCS database, LWS database, OECD (2019), OECD Affordable Housing Database.

The stock of social rental housing is small in international comparison, despite recent efforts by social rental management companies, and often allocated to tenants who are not those most in need. The low stock reflects many factors, including the historical policy of building affordable housing for sale, which could later be re-sold on the private market. This practice has now been phased out and the public housing providers focus on building social housing for rental, rather than for sale. The allocation of social housing also needs to be improved. The admission criteria for social housing are often flexible and with low transparency. Recurrent means-testing should be combined with tailored plans for re-entering the private rental sector, similar to those used by social rental agencies. Housing allowances and rents in the social housing sector could also become more geographically differentiated, reflecting the differences in market rents across municipalities: for example, Luxembourg City has clearly higher market rents than the north of the country.

Reference:

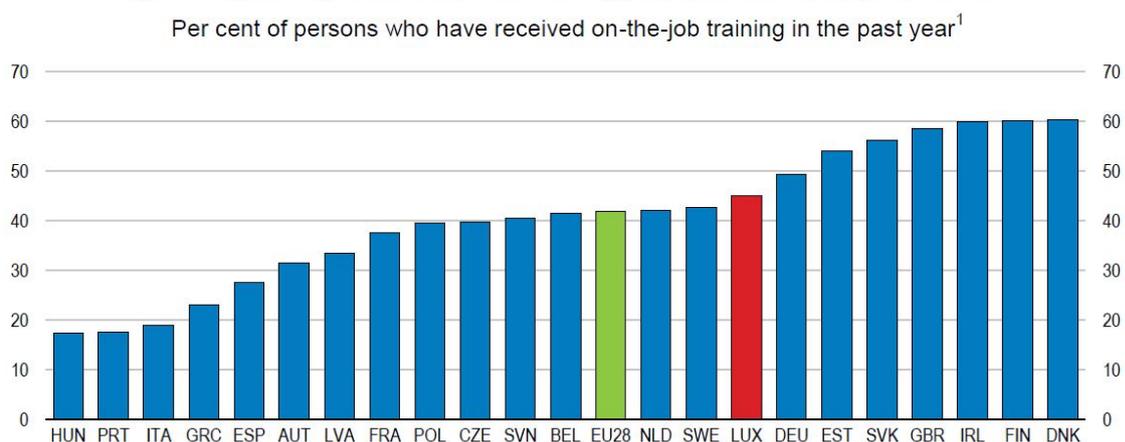
Harnessing skills for more inclusive growth

by Jan Strasky, Luxembourg Desk, OECD Economics Department.

Strong economic performance, comfortable fiscal situation and well-run institutions make life good for most residents of Luxembourg. Average earnings are the highest in the OECD, while labour market insecurity and income inequality are low. Yet, the development of the digital economy is constantly expanding the domain of tasks that can be automatized and affecting both jobs and the skill sets need to perform them. The recent long-term strategy of the government develops an ambitious vision for a smart green digital society, but in order to equip workers with adequate skills, this modernisation strategy will also require improvements in education outcomes and better upskilling of workers over their lifetime (Figure 1).

Figure 1. Upskilling of the labour force is lagging behind the best performers

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1. Share of persons responding positively to the question "Have you had on-the-job training in the past year?".

Source: Eurofound (2015), "Sixth European Working Conditions Survey: 2015", European Foundation for the Improvement of Living and Working Conditions.

The recently released [OECD Economic Survey of Luxembourg 2017](#) argues that improvements in the education and training system should focus on lowering the high rate of grade repetition and improving the mobility between various education programmes. Grade repetition is internationally high and concentrated in vocational secondary education, often reflecting language handicaps. Although it is sometimes still regarded as an assurance of quality, the empirical evidence shows that grade repetition is costly and ineffective in raising educational outcomes. More productive strategies focus on providing early, regular and timely support during the school year and limiting repetition to subjects and modules failed.

Vocational education and training should equip young people with technical and professional skills that meet labour needs, but also open opportunities for further learning. Programmes imparting similar generic skills as in more academic upper secondary programmes, better linked to the other parts of the education system, would help closing the skills gap between graduates of academic and vocational tracks.

The world of work is changing fast and in ways that are difficult to anticipate. Flexibility in re-skilling and lifelong learning is likely to become key for successful careers in the future. In Luxembourg, like in many countries,

those in employment and with better skills tend to profit most from lifelong learning. To improve participation in lifelong learning, providers should make more use of online and distance learning, along with part-time and modular courses. Individual learning accounts and expanded individual study leave could also enhance access to lifelong learning for low-skilled adults and employees from small firms.

Finally, to make better use of existing skills and to reduce the number of long-term unemployed, the disincentives to work should be reduced further. Inactivity traps are high, especially for part-time workers and low income earners, complicating increases in work effort and transitions from unemployment to employment. Furthermore, the system of joint taxation of spouses and registered partners discourages work of second earners, who are often women. Recent changes in policy, such as the introduction of optional individual taxation and the reform of the minimum income scheme, go in the right direction and should be complemented by further adjustments to the tax and benefit system, and pension system to reduce disincentives to work for low-skilled youth and older workers.

References

OECD (2017), [OECD Economic Surveys: Luxembourg 2017](#), OECD Publishing, Paris.