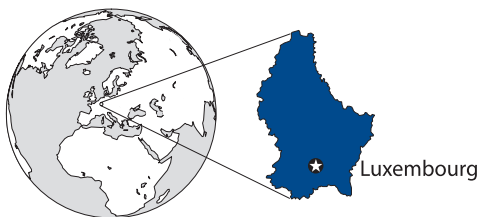


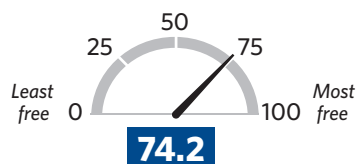
LUXEMBOURG



World Rank: **15**

Regional Rank: **6**

Economic Freedom Score



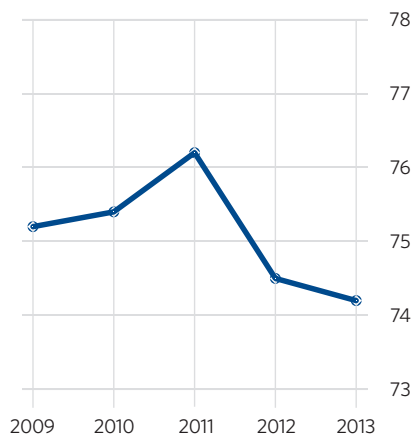
Luxembourg's economic freedom score is 74.2, making its economy the 15th freest in the 2013 *Index*. Its overall score is 0.3 point worse than last year, with modest declines in overall regulatory efficiency outweighing small improvements in fiscal policy and government spending. Luxembourg is ranked 6th out of 43 countries in the Europe region.

Maintaining a high degree of competitiveness, Luxembourg continues to be economically resilient with well-functioning institutions. The quality of the legal framework remains among the world's highest, providing effective protection of property rights. The rule of law is well maintained, and a strong tradition of minimum tolerance for corruption is firmly in place.

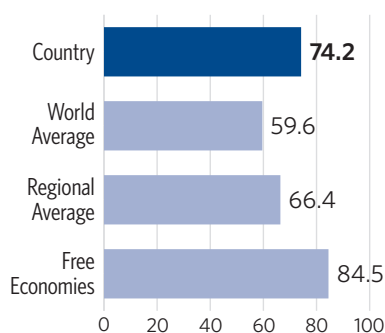
Despite the challenging economic situation, Luxembourg has demonstrated a commitment to restoring the soundness of public finance and the credibility of its policies. Bringing down government spending through deficit-cutting efforts, it has sustained momentum for economic recovery. In an attempt to contain shortsighted government spending increases, the cap on public investment has been extended. The efficiency of the regulatory structure, though still high, has declined relative to other competitive economies.

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 promote European integration. Jean-Claude Juncker of the center-right Christian Social People's Party has been prime minister since 1995. Luxembourgers have one of the world's highest income levels, although the global economic crisis provoked the first recession in 60 years in 2009. During the 20th century, Luxembourg evolved from an industrial economy into a mixed manufacturing and services economy with a very strong financial services industry. The government has been trying to diversify the economy and promote Luxembourg as an information technology and e-commerce hub. The economy benefits from a skilled workforce and well-developed infrastructure.

Freedom Trend



Country Comparisons



Quick Facts

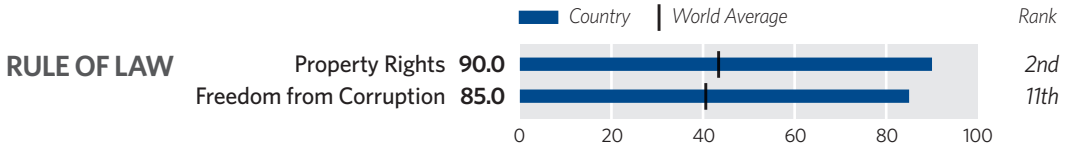
Population: 0.5 million
GDP (PPP): \$41.2 billion
 1.0% growth in 2011
 5-year compound annual growth 1.1%
 \$80,119 per capita
Unemployment: 5.2%
Inflation (CPI): 3.4%
FDI Inflow: \$17.5 billion
Public Debt: 20.8% of GDP

How Do We Measure Economic Freedom?

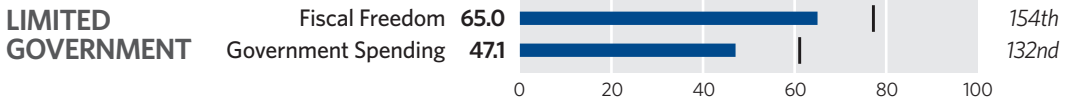
See page 477 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2011 data unless otherwise noted.
 Data compiled as of September 2012.

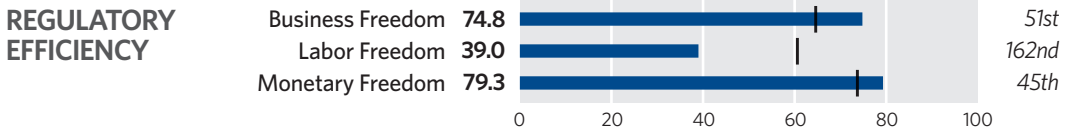
THE TEN ECONOMIC FREEDOMS



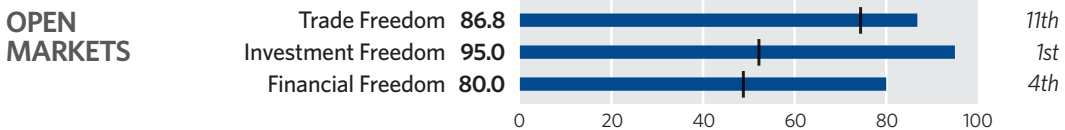
A well-functioning legal framework strongly supports the rule of law. Private property rights are well protected, and contracts are secure. Luxembourg adheres to key international agreements on intellectual property rights and protects patents, copyrights, trademarks, and trade secrets. Anti-corruption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



The top income tax rate is 41 percent, and the top corporate tax rate is 21.84 percent, including a 5 percent unemployment fund surcharge. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 36.7 percent of total domestic income. Government spending is equivalent to 42 percent of total domestic output. The budget balance is slightly negative. Public debt is below 25 percent of GDP.



The efficient regulatory framework supports entrepreneurial activity. Business formation and operation take place without bureaucratic interference. The labor market continues to lack 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 a relatively low 1.6 percent as in other members of the European Union, and non-tariff barriers do not significantly increase the cost of trade. Under the efficient investment regime, foreign investment is welcomed without heavy bureaucratic interference. The financial sector remains relatively stable and well-capitalized, despite the ongoing European sovereign debt crisis.

Score Changes

RULE OF LAW	LIMITED GOVERNMENT	REGULATORY EFFICIENCY	OPEN MARKETS
Property Rights	Fiscal Freedom	Business Freedom	Trade Freedom
Freedom from Corruption	Government Spending	Labor Freedom	Investment Freedom
		Monetary Freedom	Financial Freedom
0	+1.4	-1.1	-0.3
0	+0.5	-1.9	0
		-2.0	0