



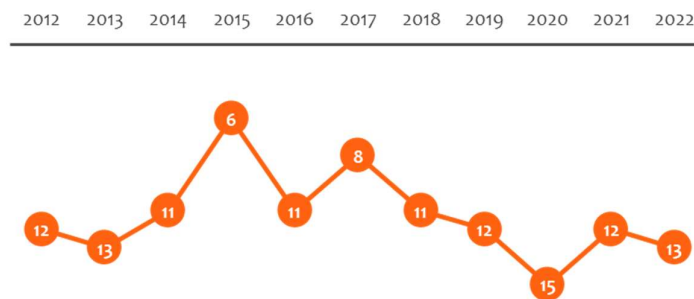
IMD World Competitiveness Yearbook 2022

Navigating inflation

2020, 2021 and now 2022 are years of great turmoil for the economy and competitiveness. The fact that Luxembourg has dropped one place in the World Competitiveness Yearbook (WCY) from the Swiss institute IMD¹ to 13th position in this new edition is an important learning about the capacity of the Luxembourg economy to strengthen its competitiveness during this period. The indicator that all economists are observing at the moment is the rate of inflation. The increase in prices to levels not seen for decades will not be without consequences for the attractiveness, progress and even innovation of the various economies. Luxembourg, with its automatic mechanisms for adjusting salaries and social benefits to prices and the high demographic pressure on its territory and infrastructure, faces an even greater challenge than most of its competitors. Are business leaders, who are more severe than last year on the competitive performance of the Grand Duchy, sending a message?

The IMD report shows, however, that Luxembourg has a solid foundation for competitiveness. Luxembourg's economy remains among the most stable in terms of public finances, despite the large expenditures undertaken during the Covid crisis. The rebound in activity was evident in 2021, despite a much smaller decline than in most other economies in 2020. This good performance can also be seen in foreign trade and international investments. However, today's good results do not predict tomorrow's and, in particular, do not indicate whether the seeds sown are the right ones. Thus, education and talent, innovation, ecological and digital transitions, and business management practices are all areas in which the Grand Duchy must make progress in order to face the coming crises better than others.

The evolution of the WCY general ranking at a glance



¹ Since 1989, the Swiss institute IMD (International Institute for Management Development) has been analysing the competitiveness of more than 60 countries. The ranking is based on statistical indicators (hard data) and on the opinion of economic decision-makers and business leaders. The Luxembourg part of the survey is coordinated by the Chamber of Commerce. The IMD survey is based on approximately 240 indicators grouped into four pillars: economic performance, government efficiency, business efficiency, and quality of infrastructure.

Inflation and the headwinds of 2022

In its report, the IMD reflects on the particular context for the year 2022 and the headwinds that must be faced for the competitiveness of countries. The proliferation of vaccines has led to a very dynamic economic recovery worldwide (which totals a GDP growth of +5.6%, on average), a growth which has also given rise to significant inflationary pressure, caused in particular by the persistence of bottlenecks in supply chains. The war in Ukraine more than helped to maintain and reinforce this inflation.

The survey, conducted among business leaders around the world, looks at the most important trends for 2022 related to competitiveness. Inflationary pressures (50%), geopolitical conflicts (49%), and supply chain bottlenecks (48%) stand out and are challenges that did not exist a year ago. Remote work and new forms of work are also frequently cited.

Costs, the focal point of Luxembourg's competitiveness

As a result of this new context, cost competitiveness will gain in importance in the years to come, as noted by the Luxembourg executives interviewed. Luxembourg is today among the economies with the highest hourly costs in industry (55th), while unit labour costs for the economy as a whole have risen by 1.27% in one year (27th). The Luxembourg economy is currently ranked 57th for remuneration of services professions and 54th for management remuneration, which shows the high level of salaries (and therefore of labour costs). The evolution of prices is a weak point in Luxembourg's competitiveness which is worsening every year, with notably a 51st place for the 'price' pillar in 2022 and a 39th position for the inflation rate. Containing the inflationary spiral and its effects is a priority in order to maintain cost competitiveness, particularly for wage costs.

Doubts about the capacity of companies to perform in a multi-crisis context

While Luxembourg's GDP rebounded strongly in 2021 and 2022 began with renewed confidence, companies are once again facing uncertainty as a result of the Russian invasion of Ukraine and its deleterious effects on raw material prices (including energy) and already strained supply chains. The survey of business leaders, initiated on 17 February 2022 (i.e. a few days before the invasion of Ukraine), indicates the emergence of new concerns. Following an upturn last year, the results of the survey on managerial practices, in particular, point downwards. The business leaders questioned on business agility have moved Luxembourg from 21st position (2020), to 11th (2021), then to 30th (2022). This up and down trend, with a sharp drop in the ranking this year, is also visible in the indicator for 'changing market conditions', with companies finding it more difficult to be informed on the subject (22nd in 2020, 16th in 2021, 38th in 2022), as well as in their ability to react quickly to opportunities and threats (+6 places from 2020 to 2021; -37 places between 2021 and 2022).

The 4 challenges for Luxembourg's competitiveness in 2022

1. Mitigate the effects of rising inflation rates (including the booming prices of raw materials and energy prices) on business profitability and household purchasing power.
2. Accelerate the green transition towards a sustainable and decarbonised economy via the development of ecotechnologies.
3. Move from an extensive economy to an economy characterised by more qualitative growth, based on a circular development cycle.
4. Address difficulties faced by companies to find and retain talent in the short and longer terms.

**These challenges were proposed by the Chamber of Commerce as the institutional partner to the IMD institute in the ranking for Luxembourg.*

Education and talent in 2022: State of play and avenues for reflection

Luxembourg is a highly competitive country in terms of education/talent attraction in some respects, but struggles to overcome its weaknesses, which are reflected in the IMD rankings from year to year. In view of the growing difficulties of companies to attract and retain talent, while new skills needs are emerging to carry out the dual digital and environmental transition and while teleworking is leading to a rethinking of the very organisation of work and the places where it is carried out, the subject takes on a new resonance.

The Grand Duchy benefits from strong economic attractiveness (7th in 2022 on the attractiveness of the country for highly qualified foreigners) and boasts a very high (76.7% in 2021) employment rate (as a percentage of the population) with its some 208,000 cross-border workers. Despite the Covid crisis, employment is growing significantly (+2% in 2020; +3% in 2021) and the unemployment rate has remained below the 7% mark since 2015. The demographic dynamic (population increase of 23% in 10 years, from 2012 to 2022) constitutes an additional asset, given that the stock of foreign labour represented 57.6% of the population in 2020. In terms of education, Luxembourg's school system is distinguished by pupil/teacher ratios in primary and secondary education that are among the lowest in the world (respectively 1st and 7th out of the 63 economies included in the IMD ranking). Public expenditures per pupil/student are very high and increase from one year to the next, corresponding to more than four times the average of the 63 countries in 2019. In addition, there is a high level of language skills (Luxembourg is 6th for this indicator), very good performance in terms of the share of female graduates aged 25-34 (52.5% of graduates in 2020, 11th) and high international student mobility (19.7 students per 1,000 inhabitants study abroad).

While it is a good thing that the Luxembourg education system is open to the international scene and that it has a number of advantages in terms of teaching and mastery of foreign languages, it is important to bear in mind an essential problem for the competitiveness of the Grand Duchy: the link between training/competence on the one hand and the needs of companies on the other. In a tight labour market, business leaders are more concerned than in the past that the 'brain drain' (departure of highly educated and qualified people) will affect the country's competitiveness, with the country falling from 12th place in 2021 to 23rd in 2022. Furthermore, they say they are finding it increasingly difficult to recruit qualified

engineers and people with digital and technical skills. Luxembourg ranks 51st in terms of the percentage of science graduates (19% in 2019, below the 24.7% average of the 63 economies). Their difficulty in finding experienced senior managers (-8 places in one year) and the relatively low activity rate of women (39.5% of the active population in 2019; 51st) are aggravating factors. The challenge is therefore twofold: firstly, to mobilise the resources present in the country and promote science programmes; and secondly, to make Luxembourg more attractive in order to attract and retain the profiles that are essential for maintaining Luxembourg's competitiveness. Pioneering countries such as Iceland, Switzerland, Denmark or Singapore could usefully serve as sources of inspiration.

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