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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Luxembourg

and delivering a Council opinion on the 2015 Stability Programme of Luxembourg

Recommendation for a

COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020*, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

1 OJ L 209, 2.8.1997, p. 1.
2 COM(2015) 265.
3 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a recommendation on Luxembourg's National Reform Programme for 2014 and delivered its opinion on Luxembourg's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[4], the Commission presented its opinion on Luxembourg's draft budgetary plan for 2015[5].

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[6], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[7], in which it did not identify Luxembourg as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Luxembourg[8]. The country report assessed Luxembourg's progress in addressing the country-specific recommendations adopted on 8 July 2014.

(7) On 30 April 2015, Luxembourg submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Luxembourg is currently in the preventive arm of the Stability and Growth Pact. In its 2015 Stability Programme, the government plans to bring down the headline surplus from 0.6% of GDP in 2014 to 0.1% of GDP in 2015. Thereafter, it plans to raise it again to 0.9% of GDP in 2018. The government plans to remain at the medium-term objective – a structural surplus of 0.5% of GDP – throughout the programme period. According to the Stability Programme, the government plans to keep the government debt-to-GDP ratio well below the 60% reference value of the Treaty. The debt ratio is expected to hover around 24% throughout the programme period, peaking slightly above 24% in 2016 and declining to below 24% of GDP by 2019. The macroeconomic scenario underpinning these budgetary projections is favourable in 2015 and plausible thereafter. However, from 2016 onwards there are risks to the implementation of the budgetary measures. The Commission's 2015 spring forecast expects the structural balance to remain at the medium-term objective in 2015 and 2016. Based on its assessment of the Stability Programme and taking

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4 OJ L 140, 27.5.2013, p. 11.
5 C(2014) 8808 final.
6 COM(2014) 902.
7 COM(2014) 904.
8 SWD(2015) 35 final/2.

into account the Commission's 2015 spring forecast, the Council is of the opinion that Luxembourg is expected to comply with the provisions of the Stability and Growth Pact. The fiscal framework of Luxembourg has been significantly strengthened with the adoption of the medium-term budgetary framework and the setting-up of the fiscal council. Nevertheless, significant weaknesses should be tackled in terms of the regular publication of intra-annual fiscal statistics, which is an essential element for real-time monitoring of budgetary developments.

(9) The expected drop in consumption tax revenues due to the change in regulation related to e-commerce highlights the fragility of at least one part of fiscal revenues. To better ensure their predictability, there is scope for further broadening the tax base and harmonising taxation, in particular by revisiting the currently low taxation on housing property, and making greater use of alternative sources, including environmental taxation. Preparatory work on a comprehensive tax reform (for entry into force in 2017) has been launched.

(10) The long-term sustainability of public finances is threatened by the growth in pension expenditure, despite recent reform of the system, and by the steady increase in long-term care outlays. Long-term care insurance is projected to run a deficit in 2015[9] and its reserves are expected to gradually reduce with the result that already in 2017 they will fall below the legal minimum of 10 % of expenses. Some measures with saving potential were adopted in the 2015 budget[10]. However, the planned reform of long-term care insurance, which aims at providing people in need of long-term care with an adequate level of services and securing the corresponding financing, has not yet been translated into legislation. The 2012 pension system reform was not ambitious enough, as it addressed only partially the large gap between the statutory and the effective retirement age. Several avenues for early retirement persist. The participation of older workers in the labour market remains very low compared to other EU countries. Draft legislation linked to the pension reform and amending the Code of Work (Age Pact) has been prepared. It comprises a package of measures that aims to keep older workers in employment.

(11) The Luxembourg economy is characterised by a sizeable divergence of labour productivity across economic sectors, with productivity in the financial sector twice as high as that in the non-financial sectors. This implies that greater variation in sectoral real wages, in line with sectoral labour productivity, could support the reallocation of labour towards emerging competitive sectors or sectors that are suffering from cost-competitiveness losses. Barriers remain to the necessary sectoral wage adjustments in the long term.

(12) Despite generally well-performing labour markets and high tertiary education attainment rates, employment rates are comparatively low for older workers, women and low-skilled young people. There are institutional obstacles to effective activation policies. Within the public employment service, an important reform is advancing to provide individual guidance to jobseekers, but this is not yet complete. The draft vocational education and training reform and the secondary school reform to improve educational outcomes, notably for those with a disadvantaged socio-economic

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9 CNS, *Budget de l'Assurance Dépendance*, exercise 2015, available at http://cns.lu/files/publications/Budget_AD_2015.pdf.

10 Measures 255 and 256 of the 2015 Budget, available at http://www.budget.public.lu/.

background, have not been adopted. The announced measures on maternity and education allowances and the planned reform of parental leave can be expected to contribute to increasing the labour market participation of women. Disincentives for second-earners to work arise from the 'joint taxation' system and from the design of the social benefit system. Despite high tertiary education attainment rates, education outcomes remain unsatisfactory, and alleviating the situation of people from migrant backgrounds and low-skilled young people remains difficult. Labour market supply challenges related to institutional factors and to the design of the social benefit system persist and are the source of labour market problems.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Luxembourg's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Luxembourg in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Luxembourg but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 3 below.

(14) In the light of this assessment, the Council has examined Luxembourg's Stability Programme, and is of the opinion[11] that Luxembourg complies with the Stability and Growth Pact.

(15) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Luxembourg should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Luxembourg take action in 2015 and 2016 to:

1. Broaden the tax base, in particular on consumption, recurrent property taxation and environmental taxation.

2. Close the gap between the statutory and effective retirement age, by limiting early retirement and by linking statutory retirement age to life expectancy.

3. Reform the wage-setting system, in consultation with the social partners and in accordance with national practices, with a view to ensuring that wages evolve in line with productivity, in particular at sectoral level.

Done at Brussels,

For the Council
The President

[11] Under Article 5(2) of Council Regulation (EC) No 1466/97.