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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Luxembourg

{SWD(2026) 216 final}

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Luxembourg

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 ([1]), and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

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) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 16 July 2025, the Commission adopted its proposal for a regulation establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 ([2]). The proposal

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[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30 4 2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Proposal for a Regulation of the European Parliament and of the Council establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and

aims to increase the effectiveness of Union funding by reducing the fragmentation of the financial architecture and to support Member States in the coordination of their economic policy in line with Article 175 of TFEU.

(3) On 25 November 2025 the Commission adopted an opinion on the 2026 draft budgetary plan of Luxembourg. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Luxembourg as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area ([3]) on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(4) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. The European Semester is aligned with the Competitiveness Compass, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(5) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation ([4]). Recovery and resilience plans (RRPs), alongside with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles. and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(6) On 3 June 2026, the Commission published the 2026 country report for Luxembourg. It assessed Luxembourg's progress in addressing the relevant country-specific recommendations and took stock of Luxembourg's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Luxembourg is facing. It also assessed Luxembourg's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on

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Regulation (EU, Euratom) 2024/2509 - COM(2025) 565 final. The proposed Regulation is currently the subject of negotiations with the co-legislators.

[3] OJ C, C/2026/2434, 28 4 2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18 2 2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(7) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Luxembourg ([5]). The plan covers the period from 2025 until 2029 and sets a budgetary constraint in the form of a maximum net expenditure growth rate over five years. The Council recommended the following maximum growth rates of net expenditure: 5.8% in 2025, 4.7% in 2026, 3.8% in 2027, 5.4% in 2028 and 4.7% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 14.2% in 2025, 19.6% in 2026, 24.1% in 2027, 30.8% in 2028 and 36.9% in 2029.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending ([6]) and this proposal was welcomed by the European Council of 6 March 2025. Member States may still request the activation of the national escape clause at any time until 2028, if they fulfil the criteria set in Article 26 of Regulation (EU) 2024/1263.

(9) On 29 April 2026, Luxembourg submitted its 2026 Annual Progress Report ([7]) on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Luxembourg's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(10) Real GDP growth in 2025 was 0.6% and HICP inflation stood at 2.5%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.6% in 2026 and 2.0% in 2027, and HICP inflation to stand at 2.7% in 2026 and 1.8% in 2027.

(11) Based on data provided by Eurostat ([8]), Luxembourg's general government balance moved from a surplus of 0.9% of GDP in 2024 to a deficit of 2.0% of GDP in 2025. The deterioration in the general government balance in 2025 mainly reflects moderate growth of revenues, partly explained by the impact of measures to safeguard purchasing power and competitiveness, and dynamic expenditure, partly explained by sustained investment. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 1.2% of GDP in 2026 and 1.5% of GDP in 2027.

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[5] Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Luxembourg (OJ C/2025/[650], 10 02 2025, ELI: http://data.europa.eu/eli/C/2025/650/oj.

[6] Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 3 2025, C(2025) 2000 final.

[7] The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

[8] Eurostat-Euro Indicators, 22 04 2026.

(12) Based on the Commission's estimates, the fiscal stance ([9]), which includes both nationally and EU financed expenditure, was expansionary, by 1.7% of GDP, in 2025. It is projected to be contractionary, by 0.4% of GDP in 2026, and expansionary, by 0.9% of GDP in 2027.

(13) Based on data provided by Eurostat ([10]), Luxembourg's general government debt increased from 26.3% of GDP at the end of 2024 to 26.5% of GDP at the end of 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 29.2% by the end of 2026 and to further increase to 30.2% by the end of 2027.

(14) Based on Eurostat data ([11]), total general government defence expenditure in Luxembourg amounted to 1.0% of GDP in 2025. According to the Commission Spring 2026 Forecast, it is projected at 1.2% of GDP in 2026.

(15) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Luxembourg has not adopted new fiscal policy measures to mitigate the impact of high energy prices on households and firms.

(16) Based on the Commission's calculations, net expenditure in Luxembourg grew by 8.7% in 2025: and 15.7% cumulatively in 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 1.3% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of marginally above 0.6% of GDP in cumulative terms.

(17) Based on the Commission's calculations, net expenditure in Luxembourg is projected to grow by 3.5% in 2026, and 19.7% cumulatively in 2024, 2025 and 2026. The projected net expenditure growth in 2026 is below the recommended maximum growth rate. When considering 2024, 2025 and 2026 together, the projected cumulative deviation of net expenditure reduces to less than 0.1% of GDP.

(18) Luxembourg's pension system faces medium and long-term challenges as demographic trends are projected to threaten its sustainability. According to the 2024 Ageing report, Luxembourg's pension expenditure is projected to reach 17.5% of GDP in 2070, an increase of 8.3 pps from 2022, the highest increase in the EU. In December 2025, Luxembourg adopted a pension reform. The reform mainly consists of an increase in the contribution rate of 1.5 pps to 25.5%, limited measures to increase prolonging careers by providing tax advantages, introducing the right for a progressive

9 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

10 Eurostat-Euro Indicators, 22 04 2026.

11 Eurostat, government expenditure by classification of functions of government (COFOG).

pension, and increasing the mandatory contribution period of most early retirees ([12]). Overall, the reform appears neither to be sufficient to address the structural issues affecting the sustainability of the pension system nor likely to significantly increase the low participation rate among workers aged 55–64. Population ageing, in combination with a projected slowdown in employment growth to below the annual 2-3% increase needed to keep the system in balance, is projected to lead to a deficit in the Pillar I pension system in 2029 and a depletion of its reserves in 2048. Pension benefits are high, with a gross replacement rate of 75% in 2022 ([13]), while the time spent in retirement is the longest in the EU (25.2 years for Luxembourg compared with 21.3 for the EU average in 2022) ([14]). Luxembourg recorded the lowest participation rate of workers aged 55-64 in the EU in 2025 (51.9% compared with 69.5% in the EU) ([15]). Although the statutory retirement age is 65, early retirement is possible from age 57, resulting in one of the lowest effective retirement ages in the EU. Measures to encourage longer careers and higher participation rates among workers aged 55-64 would help support pension sustainability and economic growth.

(19) Luxembourg is confronted with a severe housing challenge, as affordability has markedly declined over the past decade due to soaring property prices. After doubling over a decade, house prices started to correct after their peak in 2022, falling over 15% in two years. The decrease was triggered by the sharp rise in interest rates that impacted negatively the borrowing capacity. But despite this, prices have since started to rise again and, in 2025, house prices in Luxembourg were 60% higher than a decade ago in nominal terms while the average wage increased by only 40% in the same period. Luxembourg is the EU's most expensive housing market. High house prices are due to a supply-demand imbalance, driven by population growth and reinforced by a tax framework that supports demand and favours land hoarding, and by a concentration of land ownership. The land mobilisation and tax reform remains unimplemented and the amended bills offer more possibilities for tax exemptions. Ambitious reforms such as measures to unlock more land for development and implement large district projects on public land would help increase housing supply, including through the supply of affordable housing. Furthermore, on the demand side, phasing out mortgage interest deductibility would help to curb house prices. Priorities also include strengthening the macroprudential framework to reduce systemic risks linked to the high level of households' indebtedness and the significant share of mortgages with variable interest rates.

(20) Luxembourg faces significant transportation challenges due to high cross-border commuter traffic and high dependency on cars, including company cars, which is exacerbated by insufficient housing supply that results in workers residing further away from their workplace ([16]). This situation has resulted in traffic congestion, impacting environmental sustainability. While Luxembourg has made progress in improving public transport, a coordinated cross-border strategy would be needed to address the needs of its commuting workforce. This includes improving connectivity, integrating rail transport infrastructure with neighbouring countries, integrating ticketing systems and improving last-mile connections.

[12] Loi de 19 Decembre 2025 (Pension reform) and loi de 19 Decembre 2025 (Tax incentives).
[13] OECD: OECD Economic Surveys: Luxembourg 2025.
[14] 2024 Ageing report: Arithmetic mean of female and male life expectancy at 65 plus 65 minus the average labour market exit age.
[15] Eurostat: lfsa_argan
[16] Statec, 2025, *P2021 N°18 - La dépendance automobile persiste pour les déplacements domicile-travail.*

(21) Luxembourg remains exposed to aggressive tax planning risks linked to its role as a major financial hub hosting numerous multinational groups and large cross-border investment stocks. Luxembourg has transposed relevant European Union legislation, including the Council Directive (EU) 2022/2523 ([17]) (the 'Pillar 2 Directive'), as well as additional measures at national level, while the scope of Pillar 2 is limited to large entities with an annual revenue of at least EUR 750 million. Specifically, Luxembourg introduced a non-deductibility rule for interest and royalty payments. However the scope of this measure, which applies to jurisdictions on the European Union list of third country jurisdictions for tax purposes, is limited.

(22) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(23) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+) in Luxembourg, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground, Luxembourg is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further strengthening in implementation, including those relating to digitalisation and energy infrastructures under the JTF.

(24) Luxembourg faces several challenges related to innovation and competitiveness the energy transition and the environment, equality in schools, upward social convergence and human capital development.

(25) Despite its strong scientific base and internationally well-connected research system, business innovation and the scale-up opportunities of local innovative start-ups and small to medium-sized enterprises (SMEs) remain limited. Luxembourg's potential for adoption of new technologies and digitalisation remains under-exploited, with Luxembourg performing below the EU average in terms of basic digital intensity of SMEs ([18]), while a large share of innovative technology investment is made within multinational groups, weighing on the diversification and competitiveness of the economy. Additionally, the country's business R&D intensity has been on a downward trend over the last two decades, falling to 0.45% of GDP in 2024, far below the EU average of 1.49%. While partly explained by Luxembourg's services-based economy, business R&D spending is substantially lower than in top-performing countries across a broad range of sectors ([19]). Moreover, the quality of research outputs is not fully leveraged, with science-business linkages remaining weak.

(26) Luxembourg's economy remains highly competitive, notably through its large international financial sector. Yet it remains exposed to structural pressures linked to declining productivity. Between 2015-2025 total factor productivity decreased by

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17 Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union [2022] OJ L 328, 22.12.2022, p. 1.

18 Eurostat, (isoc_e_dii) and Luxembourg Startup Ecosystem Assessment and Benchmarking, Ministère de l'Economie, 2023.

19 OECD Economic Surveys: Luxembourg 2025.

around 4%, while the EU aggregate recorded an increase of around 6%. The main driver of this decline was the financial sector, where gross value added per hour worked fell by around 11.6% over the same period. Rising international competition, evolving European Union regulatory requirements, labour market constraints, and the still limited diversification to higher-value activities, weigh on the resilience and long-term competitiveness of the economy. In that context, Luxembourg should step up efforts to further diversify the financial sector by improving conditions for innovation and adoption of new technologies, including those domestically produced. Strengthening competition and market access in relevant business and professional services, facilitating innovation diffusion, and further improving the business environment framework conditions would allow productivity gains.

(27) Luxembourg combines high household savings and a highly developed investment-fund ecosystem. However, it has a modest domestic transmission of long-term risk capital towards innovation activities which continues to weigh on the diversification of the economy and on the diffusion of productivity gains. While Luxembourg has strengthened parts of its innovation-finance architecture, including public support instruments and tax incentives for start-up investment, available evidence suggests that financing constraints remain particularly relevant for later-seed, growth and scaling stages, and that existing instruments do not sufficiently channel households' savings toward innovative domestic firms. In that context, facilitating greater household participation in diversified equity and long-term investment funds, under appropriate consumer-protection safeguards and with incentives linked to long holding periods, can help channel household savings into the financing of innovation.

(28) Supplementary pension coverage in Luxembourg remains limited. Access to occupational supplementary schemes largely depends on employer initiative, which may reduce access, particularly for employees of smaller firms. Furthermore, legal and fiscal uncertainty may also deter participation by parts of the cross-border workforce. At the same time, Luxembourg has a highly developed financial sector to support a wider access to supplementary pension arrangements and an adequate legal and regulatory framework. Improving the availability of simple, portable and cost-transparent supplementary pension schemes, such as through the introduction of auto-enrolment, could help broaden participation in long-term savings and support retirement adequacy, particularly for workers who do not have access to a scheme through their employer.

(29) While Luxembourg is committed to improving the regulatory environment for the business services sector, significant regulatory barriers remain. According to the OECD ([20]) and the European Commission ([21]), regulatory restrictions are still particularly high for lawyers, notaries, architects, civil engineers, and accountants. Barriers to competition can be due to limited pathways to access some professions, various administrative obligations, the existence of binding tariffs, or the prohibition of any form of advertising and marketing ([22]). Reducing the requirements or increasing flexibility would boost competition in the sector of regulated professions. In the retail sector, regulatory restrictions are still slightly higher than in peer countries, although they have significantly decreased since 2018. Additionally, Luxembourg's barriers to

[20] OECD, Product Market Regulation indicators, 2024.

[21] European Commission, Communication on updating the reform recommendations for regulation in professional services, COM(2021)385, 9 7 2021.

[22] OECD, OECD Economic Surveys: Luxembourg OECD, p. 106, April 2025.

intra-European Economic Area (EEA) services trade are among the highest in the EU ([23]), impacting key sectors such as construction and accounting.

(30) Despite recent notable reductions in greenhouse gas emissions from road transport, through policies such as the National Mobility Plan 2035 ([24]) and free public transport, the sector remains the primary source of greenhouse gas emissions, accounting for 59% of total emissions in Luxembourg's effort-sharing sectors in 2024 ([25]). It also contributes significantly to emissions of other air pollutants, accounting notably for 62% of NO_x, and 32% of PM_{10} emissions in 2023 ([26]). While Luxembourg has made progress in promoting electric vehicles, further decarbonising transport and investing in public transport infrastructure would help reduce emissions in line with the national 2030 emission reduction target and Luxembourg's EU 2030 target as determined in the Effort Sharing Regulation ([27]).

(31) Efforts to decrease fossil fuel dependency through energy efficiency measures in residential and non-residential buildings have seen little progress. Between 2019 and 2024, Luxembourg's final energy consumption in the residential sector plateaued, despite energy savings of households. Savings were mainly offset by the increased number of dwellings and larger homes. Last year, Luxembourg extended the 'Klimabonus Wunnen' scheme beyond 2025, with the intention to increase the energy savings in the existing building sector. Luxembourg plans to align with the EU's minimum energy performance standards, based on nationally determined thresholds, to improve energy savings in non-residential buildings. While industry accounts for a relatively small share of total GHG emissions in Luxembourg and has significantly reduced its emission intensity, industrial GHG emissions remain closely linked to energy use. While a range of voluntary schemes, support frameworks and emerging technologies are in place for industry decarbonisation, they do not yet fully address the scale and speed of transformation required.

(32) The transmission system operator sees a need to modernise the high-voltage grid to handle the renewable energy transmission needs, and to increase its capacity to deal with the expected demand in the near future, including cross-border interconnections. In 2025, Luxembourg started to advance its renewable energy transition through the adoption of 51 concrete measures, which included i.a. the acceleration and simplification of renewable deployment via measures such as digitalised permitting procedures, optimised land use or citizen involvement. The full and timely implementation of those measures is key for Luxembourg to reach its target of 37% of renewable energy in its energy mix by 2030.

(33) Luxembourg faces environmental challenges related to water quality, ecosystem degradation and land use, with implications for environmental sustainability and economic activity. Water resources are under pressure from a combination of factors, including nutrient and pesticide pollution, industrial emissions and physical alterations of water bodies, affecting both surface water and groundwater and creating risks for water availability and quality. Ecosystems are under increasing strain from pollution,

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23 European Commission staff calculation based on the OECD, intra-EEA STRI database.
24 PNM 2035 - Plan national de mobilité - Le gouvernement luxembourgeois.
25 The effort-sharing emissions for 2023 are based on approximated inventory data. The final data will be confirmed in 2027 after a comprehensive review.
26 EEA, Air pollutant emissions data viewer (Gothenburg Protocol, Air Convention) 1990-2023, 2026.
27 Commission Implementing Decision (EU) 2020/2126.

land-take and climate change, while a substantial share of economic activity depends on ecosystem services. Forest health has deteriorated over recent decades, in particular as a result of climate-related damage caused by multiple droughts since 2018. This has reduced the capacity of forests to provide key services such as carbon storage, water regulation and biodiversity protection. These challenges highlight the importance of improving water quality, further promoting sustainable agriculture and strengthening climate-adapted forest management. While Luxembourg has taken steps to improve water management, promote more sustainable land and agricultural practices and strengthen the policy framework for forests, gaps remain and pressures on ecosystems persist. Strengthening governance and coordination across environmental, climate and agricultural policy areas, and addressing investment gaps, would support the effective implementation of measures focusing on water, land use and climate adaptation. In addition, investing in circularity measures, in particular upstream, would contribute to reducing environmental pressures and supporting a more sustainable and resilient economy.

(34) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills and education, which hamper competitiveness. The 2026 country-specific recommendations addressed to Luxembourg can contribute to the implementation of the Council Recommendation on human capital in the Union.

(35) In Luxembourg's education system, disparities in educational performance, particularly among students from diverse linguistic backgrounds, persist. The multilingual nature of instruction, particularly challenging for nearly 70% of students not exposed to Luxembourgish at home, contributes to enduring achievement gaps ([28]) that are further reinforced by socio-economic background and early streaming into different educational tracks. A newly adopted reform, with implementation beginning in September 2027, introduces a choice between German and French as the language of literacy and aims to address these challenges, and its effectiveness will ultimately depend on schools' capacity to adapt teaching methods to meet the specific needs of these students. Meanwhile, higher early school leaving and NEET levels among disadvantaged and non-native students, combined with the overrepresentation of higher socio-economic groups in better-performing European public schools, point to systemic inequalities. As Luxembourg records one of the EU's largest performance gaps linked to parental education ([29]), targeted support for linguistically diverse and disadvantages students is essential to ensure equitable opportunities and reduce disparities.

(36) Luxembourg continues to face significant labour market challenges related to skills mismatches and labour market participation. Despite Luxembourg's generally high level of economic development, unemployment has increased in recent years and exceeded the Union average. Skills mismatches have also increased, with macroeconomic mismatches reaching 26.8% in 2024, significantly above the European Union average, reflecting significant disparities in employment outcomes across skill levels. The labour market is characterised by strong demand for high-skilled workers, while employment prospects remain more limited for low-qualified

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[28] ÉpStan Dashboard: Results from the Luxembourg school monitoring programme 'Épreuves Standardisées' http://dashboard.epstan.lu.

[29] ICILS, 2023.

individuals, contributing to inequalities and in-work poverty. However, recorded levels of poverty were lower in 2025, likely due to improvements in data collection on income and living conditions, although previous data showed levels were already decreasing. The at-risk-of-poverty or social exclusion rate now stands at 18.2% (EU: 20.8%). At the same time, the employment and activity rates of older workers remain the lowest in the European Union, with long-term unemployment concentrated among workers aged 45 and above, and participation in adult learning remains limited, constraining the capacity of workers to adapt to evolving skill needs. While Luxembourg has taken measures to improve employment prospects and support upskilling and reskilling, their impact remains fragmented; a more coordinated approach to skills development and active labour market policies, including promoting vocational education and training and enhancing lifelong learning, would support employability, address skills mismatches and improve labour market performance. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis of the Social Convergence Framework ([30]).

(37) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Luxembourg, the recommendation (1) helps implement the first, the second, the third, the fifth and the fourteenth recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the seventh, the eighth, the ninth and the eleventh recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area and the recommendation (5) helps implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Luxembourg take action in 2026 and 2027 to:

1. In view of the material deviation recorded in 2025 and deviation projected for 2026 by the Commission vis-à-vis the recommended net expenditure ceiling, take action to control net expenditure so that it respects the maximum growth rates recommended by the Council on 21 January 2025. Reinforce defence spending and readiness while ensuring spending efficiency and gradually adapting the budget to sustain structurally higher defence spending. Ensure that any measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings while ensuring that their fiscal cost is compatible with the commitments under the EU fiscal framework. Address the long-term sustainability of the pension system, in particular by limiting early-retirement options and increasing the participation and employment rate of older workers. Increase housing supply, in particular by adopting a comprehensive land-use policy and a property tax reform, developing large-scale district projects on public land, and strengthening coordination with urban planning and cross-border public transport. Mitigate risks related to the housing market by phasing out fiscal incentives to borrow and by strengthening the macroprudential framework. Take further action to effectively

[30] SWD(2026)122 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2026.

tackle aggressive tax planning, in particular by ensuring sufficient taxation of outbound payments of interest and royalties to zero-/low-tax jurisdictions.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes building, where appropriate, on the reallocation to strategic priorities and flexibilities in the mid-term review of the cohesion policy framework.

3. Foster investment in innovation and support high R&D intensive activities. Boost competitiveness by promoting diversification in the financial sector, accelerating the uptake of advanced digital technologies by SMEs, and enabling business scale-up and productivity growth. Address the innovation financing gap, including through greater households' investment in equity and investment funds, alongside improved availability of supplementary pension schemes. Remove barriers to competition, such as to the provision of services and in regulated professions.

4. Continue efforts in sustainable and efficient transport by further promoting the decarbonisation of transport and investing in public transport infrastructure and connectivity in rural areas. Reduce overall reliance on fossil fuels by investing in energy efficiency in buildings. Modernise the high-voltage grid and increase its capacity, improve cross-border interconnections, and ease permitting procedures for renewable energy deployment. Support municipalities in deploying renewable energy. Improve climate and water resilience including through sustainable management of natural resources, stronger cross-sectoral governance, and circularity measures.

5. Improve the performance of the school system and ensure equal opportunities in schools by adapting teaching to the needs of disadvantaged students and those from various linguistic backgrounds. Address skills mismatches by enhancing lifelong learning and improving active labour market policies.

Done at Brussels,

For the Council
The President