EUROPEAN COMMISSION

Brussels, 30.5.2012
COM(2012) 315 final

Recommendation for a

COUNCIL RECOMMENDATION

on Luxembourg's 2012 national reform programme

and delivering a Council opinion on Luxembourg's stability programme for 2012-2015

{SWD(2012) 315 final}

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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,

After consulting the Economic and Financial Committee,

Whereas:

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

(2) On 13 July 2010, the Council 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, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

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1 OJ L 209, 02.08.1997, p. 1
2 COM(2012)315 final
3 P7_TA(2012)0048 and P7_TA(2012)0047
4 Council Decision 2012/238/EU of 26 April 2012

(3) On 12 July 2011, the Council adopted a recommendation on Luxembourg's national reform programme for 2011 and delivered its opinion on Luxembourg's updated stability programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[5], 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 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 27 April 2012, Luxembourg submitted its 2012 stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2012 Stability Programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. In particular, the programme scenario for 2012 and 2013 is very close to the Commission's 2012 spring forecast. Medium-term deficit projections are made under a slightly optimistic growth scenario, above potential growth although still well below average historic rates. The objective of the budgetary strategy outlined in the programme is to bring the deficit from 1.5% in 2012 to 0.9% in 2014 with a package of consolidation measures of around 1.2% of GDP and provide a wider room for manoeuvre in case of negative shocks. The programme confirms the previous medium term objective (MTO) of a structural surplus of 0.5%. However, this MTO cannot be regarded as appropriate under the provisions of the Stability and Growth Pact because, based on current policies and projections, this MTO does not appear to take sufficiently into account the implicit liabilities related to ageing, despite the debt being below the Treaty reference value. Moreover, based on both the Commission's 2012 spring forecast as well as on the (recalculated) structural budget balance in the programme, Luxembourg would significantly depart from its own MTO starting from 2012. The growth rate of government expenditure, net of discretionary revenue measures, is expected to significantly exceed the expenditure benchmark as defined in the Stability and Growth Pact. At 20 % of GDP, gross government debt is below the reference value of the Treaty.

5 COM(2012) 68 final

(9) On 20 January 2012, the Luxembourg government adopted a draft law to reform the pension system for both the private and the public sector. The reform would build in some corrective mechanisms in case of an adverse evolution of the financial situation of the scheme and contains adaptations to the very generous calculations method of benefits. However, the new calculation method will be phased in over a very long time horizon of 40 years. Moreover the possibilities for early retirement remain broadly unchanged and no measures have been proposed to link the statutory retirement age to life expectancy. Overall, Luxembourg is taking steps into the right direction, but the proposed reform does not seem to constitute a sufficient guarantee of long-term sustainability of public finances.

(10) In January 2012, the national Parliament adopted a law to limit the application of the automatic indexation of wages between 2012 and 2015 in order to increase the competitiveness of the Luxembourg economy. However, besides a possible modification of the reference index, the government has not announced any further plans for a permanent revision of the wage-setting system. While Luxembourg's productivity is currently very high, the room for manoeuvre in terms of productivity gains is getting smaller. A permanent revision of the wage-setting system, in consultation with social partners and in accordance with national practices, is necessary to preserve the competitiveness of the Luxembourg economy in the longer term.

(11) Luxembourg has taken some relevant and credible steps to tackle its relatively high youth unemployment. However, in order to ease young people's integration into the labour market, a coherent strategy is needed to, inter alia, strengthen collaboration between municipalities and improve the effectiveness of employment services. Young jobseekers, and particularly those with lower education level, would also benefit from more investment in training and education.

(12) Luxembourg is expected to face difficulties in reaching its 2020 target for greenhouse gas (GHG) emission reduction. According to the latest 2020-projections based on existing measures, Luxembourg is expected to increase its emissions in non-ETS sectors by 9% between 2005 and 2020, compared to a reduction target of 20%. The road sector represents the most significant source of emissions and possesses a large emission reduction potential. The price of transport fuels remains one of the lowest in the EU, encouraging 'fuel tourism' and inducing negative externalities in terms of pollution and congestion. Additional policies are necessary to reduce GHG emissions, or costly flexibility mechanisms will have to be used.

(13) Luxembourg has made a number of commitments under the Euro Plus Pact. The commitments, and the implementation of the commitments presented in 2011, relate to improving competitiveness, enhancing employment and strengthening financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Luxembourg's economic policy. It has assessed the stability programme and national reform programme. 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 reinforce the

overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(15) In the light of this assessment, the Council has examined Luxembourg's stability programme, and its opinion[6] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Luxembourg should take action within the period 2012-2013 to:

1. Preserve a sound fiscal position correcting any departure from a medium-term budgetary objective (MTO) that ensures the long-term sustainability of public finances, in particular taking into account implicit liabilities related to ageing. To this end, reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond, including meeting the expenditure benchmark.

2. Increase the impact of the proposed pension reform by accelerating the implementation of measures that curb age-related expenditure, take additional measures to increase the participation rate of older workers, in particular by reducing early retirement, and take steps to link the statutory retirement age to life expectancy, in order to ensure the long-term sustainability of the pension system

3. Take further steps to reform, in consultation with the social partners and in accordance with national practice, the wage bargaining and wage indexation system, with a view to preserve the competitiveness of the Luxembourg economy in the longer term, as a first step by maintaining the current one-year indexation interval beyond 2014 and by reducing the impact of energy and other volatile items on the reference index.

4. Continue efforts to reduce youth unemployment by reinforcing stakeholders' involvement, and by strengthening training and education measures, in particular for those with low education levels, with the aim of better matching young people's skills and qualifications to labour demand

5. Ensure that the targets for reducing greenhouse gas emissions from non-ETS (Emissions Trading System) activities will be met, in particular by greening the taxation system.

Done at Brussels,

For the Council
The President

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