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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Luxembourg

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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 Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure,[2] and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure[4]

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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/ojttp://data.europa.eu/eli/dir/2024/1265/oj).

2 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

3 Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

4 Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, viz. government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes

path, which effectively establishes a budgetary constraint for duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF LUXEMBOURG

(5) On 15 October 2024, Luxembourg submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Luxembourg.

Process prior to the submission of the plan

(6) Luxembourg was eligible for receiving technical information in line with Art. 9(3) of Regulation (EU) 2024/1263 but did not request it. The Commission provided to Luxembourg on 21 June 2024 the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework[5], as referred to in Recital (25) of Regulation (EU) 2024/1263, and published them on 15 October 2024[6].

(7) In line with Article 12 of Regulation (EU) 2024/1263, Luxembourg and the Commission engaged in a technical dialogue in September 2024. The dialogue centred on the underlying assumptions (in particular potential growth and GDP deflator), as well as on the envisaged delivery of reforms and investments responding to the main

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fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

[5] The main initial conditions and underlying assumptions are in line with the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). They are based on the Commission 2024 spring forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

[6] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#luxembourg

challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) In line with Article 11(3) and 36(1), point (c) of Regulation (EU) 2024/1263, according to the information provided by Luxembourg in its plan, Luxembourg has regularly engaged in a consultation process with social partners in the context of the European Semester. According to the information provided by Luxembourg in its plan, in July 2024, in the most recent meeting with social partners, exchanges were about the 2024 Country report for Luxembourg, the 2024 country specific recommendations and the modifications related to the new economic governance framework.

(9) The plan was presented to the national parliament on 15 October.

Other related processes

(10) On 15 October, Luxembourg submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on [26 November 2024][7].

(11) On 21 October 2024, the Council addressed to Luxembourg a series of country-specific recommendations (CSRs) in the context of the European Semester[8].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

(13) Economic activity in Luxembourg declined by 1.1% in 2023, driven by a negative contribution to growth of net exports and a contraction in investment. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 1.2% in 2024, on the back of an increase in domestic demand and a positive contribution from net exports. In 2025, real GDP is set to increase by 2.3%, supported by an expansionary fiscal stance, falling interest rates -which underpin investment-, and the improvement of the external environment. In 2026, real GDP is expected to increase by 2.2%, as momentum is expected to weaken on the back of lower domestic demand. Over the forecast horizon (i.e., 2024-2026), potential GDP growth in Luxembourg is expected to peak at 2.0% yearly growth, due to a deceleration in the population of working age and in average working hours. The unemployment rate stood at 5.2% in 2023, and is projected by the Commission to amount to 6.0% in 2024, 6.0% in 2025 and 5.8% in 2026. Inflation (GDP deflator) is projected to increase from 3.4% in 2023 to 3.9% in 2024, and to reach 3.0% in 2025 and 2.9% in 2026.

(14) Regarding fiscal developments, in 2023 Luxembourg's general government deficit amounted to 0.7% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to decrease to a deficit of 0.6% of GDP in 2024 and to increase to 0.8% of GDP in 2025 and, on a no-policy change basis, to reduce to 0.6% in 2026. The European Commission Autumn 2024 Forecast includes Luxembourg's draft budget for 2025 that the government proposed to the national parliament in October.

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7 Commission Opinion on the Draft Budgetary Plan of Luxembourg, 26.11.2024, C(2024)9059 final.

8 Council Recommendation on economic, budgetary, employment and structural policies of Luxembourg, not yet published.

General government debt was 25.5% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to increase to 27.5% of GDP at end-2024. It is projected to broadly stabilise 27.6% of GDP at end-2025 and at 27.5 % of GDP until end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(15) Luxembourg's national medium-term fiscal-structural plan covers the period 2025-2029 and presents a fiscal adjustment over four years.

(16) The plan contains the information required by Article 13 of Regulation (EU) 2024/1263, except Table 7c and 7d, which however are not strictly essential for the assessment of the plan of Luxembourg.

(17) The plan commits to the net expenditure path indicated in Table 1, corresponding to average net expenditure growth of 4.9% over the years 2025-2029. The net expenditure path committed to in the plan is reported to lead to a structural primary balance of 0.4% of GDP at the end of the adjustment period (2028). The plan assumes potential GDP growth to steadily increase from 1.5% in 2024 to 2.1% in 2029. In addition, the plan expects the growth rate of the GDP deflator to increase from 1.7% in 2024 to 3.1% in 2025 and 2026, to then bottom out at 1.9% in 2027 before returning to around 2.5% in 2028 and 2029.

Table 1: Net expenditure path and main assumptions in Luxembourg's plan

	2024	2025	2026	2027	2028	2029	Average over the period of validity of the plan 2025-2029	Average over the adjustment period 2025-2028
Net expenditure growth (annual, %)	8.0	5.8	4.7	3.8	5.4	4.7	4.9	4.9
Net expenditure growth (cumulative, from base year 2023, %)	8.0	14.2	19.6	24.1	30.8	36.9	n.a.	n.a.
Potential GDP growth (%)	1.5	1.7	1.8	1.9	2.0	2.1.	1.9	1.9
Inflation (GDP deflator growth) (%)	1.7	3.1	3.1	1.9	2.6	2.5	2.6	2.7

Source: Medium-term fiscal-structural plan of Luxembourg and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually decrease from 27.5% in 2024 to 26.0% of GDP at the end of the adjustment period (2028), as per the following table. After the adjustment, over the medium term (i.e. until 2038), the debt ratio is projected to gradually decline according to the plan and to bottom out

in 2032, at 25.4% of GDP, before starting to gradually increase and peaking at 26% of GDP by 2038.

Table 2: General government debt and balance developments in Luxembourg's plan

	2023	2024	2025	2026	2027	2028	2029	2038
Government debt (% of GDP)	25.5	27.5	27.5	27.2	26.7	26.0	25.6	26.0
Government balance (% of GDP)	-0.7	-0.6	-0.6	-0.5	-0.3	-0.4	-0.2	-2.1

Source: Medium-term fiscal-structural plan of Luxembourg

Thus, according to the plan, general government debt would stay below the Treaty reference value of 60% of GDP over the medium term. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for the general government balance

(19) Based on the plan's net expenditure path and assumptions, the general government deficit would decrease from 0.6% in 2025 to 0.4% of GDP in 2028.Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Article 16(2).

Macroeconomic assumptions of the plan

(20) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Luxembourg on 21 June 2024. In particular, the plan uses different assumptions for seven variables, namely the starting point (structural primary balance in 2024), potential GDP growth, GDP deflator growth, stock-flow adjustment, real GDP, nominal implicit interest rate, and output gap closure. A careful assessment of these differences in assumptions is necessary especially as the average net expenditure growth in the plan is less demanding than what would be necessary to comply with the applicable fiscal rules based on the Commission's assumptions. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan assumes that the structural primary balance would stand at a surplus of +1.1% of GDP in 2024 compared to surplus of +0.1% of GDP in 2024 based on the Commission's assumptions transmitted to Luxembourg on 21 June 2024. The better-than-assumed initial position in 2024 is underpinned by more recent fiscal data, whereby the plan assumes that the general government balance would stand at a deficit of -0.6% of GDP in 2024 compared to the assumption of a deficit of -1.7% of

GDP in 2024 transmitted to Luxembourg on 21 June. This is in line with the European Commission 2024 Autumn forecast. Consequently, this assumption is deemed to be duly justified.

- The plan assumes growth in the GDP deflator to average 2.7% over the adjustment period compared to the assumption of an average growth of 2.5% transmitted to Luxembourg on 21 June. The projections for GDP deflator growth used in the plan have been produced by the Luxembourg national statistical office (STATEC) and are based on more recent macroeconomic data. The projections for both 2025 and 2026 appear to be plausible. Consequently, this assumption is deemed to be duly justified.

The remaining differences do not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, all the differences taken together lead to an average net expenditure growth in the plan that is lower than the average net expenditure growth ceiling that would be necessary to comply with the applicable fiscal rules based on the Commission's assumptions. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

(21) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through containing expenditure growth and ensuring that revenue growth will remain above growth of expenditure. The precise specification of the relevant policy measures is to be confirmed or adjusted and quantified in the annual budgets. At the same time, there are risks to the implementation of the indicative fiscal strategy in the plan, which stem from the information on the specific measures underpinning the fiscal strategy not being fully detailed in the plan. In addition, the Draft Budgetary Plan for 2025 specifies that net expenditure growth is expected to decelerate in relation to the decrease in price pressure, which is an important factor in determining expenditure growth in Luxembourg, given the mechanism of automatic indexation to inflation which applies to a large share of public expenditure[9].

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(22) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, and to address the common priorities of the EU. The plan includes close to 90 reforms and investments, of which over 10 are financially supported by the Recovery and Resilience Facility and some are complemented by cohesion policy funds.

(23) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes various measures such as investing in renewable energy (recommended in 2022, 2023 and 2024), promoting the deployment of photovoltaic panels, and the government's support for circular economy principles. The plan confirms the authorities' support for the updated National Energy and Climate Plan. Additionally, recognising that transport is Luxembourg's largest contributor to greenhouse gas emissions, the plan emphasises decarbonising transport (recommended in 2019, 2020, 2022, 2023 and 2024), through electrification, renewable energy use, and enhanced public transport infrastructure,

[9] See Commission Opinion on the Draft Budgetary Plan of Luxembourg, 26.11.2024, C(2024)9059 final.

including investments in the railway, tramway, and bus networks. These initiatives directly address the climate transition and energy security objectives. The measures aim to increase investments in green technologies and sustainable energy infrastructure crucial for Luxembourg to meet its national and EU-defined targets.

(24) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes measures to address housing affordability and availability issues exacerbated by rapid population growth driven by strong labour market dynamics. Specific actions include increasing housing supply (recommended in 2019, 2020, 2023 and 2024) through simplified planning procedures and ongoing work on the reform of property taxes, moving away from transactions-based toward recurrent property taxation and introducing a new tax on unused constructible land. Additionally, the measures promote equality in the education system with an emphasis on multilingual and inclusive education that ensures equal opportunities for all students, addressing recommendations in 2022, 2023 and 2024 to reduce the impact of inequalities on pupils' performance. Measures include continuous investments in educational research, innovative learning environments, and a reinforced support system for inclusive education. For example, through the new Law for newly arrived students, which aims to provide new pupils and their families a smooth transition, and by introducing a new approach to mathematics education in a multilingual context. However, the plan does not address remaining barriers to competition in regulated professional business services (recommended in 2019). It neither adequately addresses features of the tax system that facilitate aggressive tax planning, beyond the consensus on minima thresholds internationally agreed, as recommended in 2019, 2020, 2022, 2023 and 2024. It includes one measure to increase the employment rate of older workers through enhanced employment opportunities (recommended in 2019). Initiatives such as the continuous upskilling and reskilling of the workforce, and extending the vocational training offer (recommended in 2019, 2023 and 2024), have the potential to contribute positively. However, the plan does not adequately address the negative effects of early retirement schemes and the financial incentives to leave the labour market early (recommended in 2019, 2022, 2023 and 2024), which remain a challenge to the long-term sustainability of the pension system.

(25) Concerning the common priority of energy security, the plan includes significant investments in energy infrastructure, including the development of new electricity grid capabilities such as a new 380 kV interconnection line between Germany and Luxembourg and the promotion of hydrogen infrastructure. For instance, through the European economic interest group "Grande Région Hydrogen", with a project involving the construction of a 100 km hydrogen pipeline network based on a 70 km natural gas transport infrastructure. This distribution network is expected to be operational by 2027. These measures are aligned with the recommendations in 2022, 2023 and 2024 on ensuring energy supply resilience, while also contributing to reducing reliance on fossil fuels. The investments are essential to support Luxembourg's economic and demographic changes and the broad electrification of various sectors.

(26) Concerning the common priority of defence capabilities, the plan emphasizes the transformation of the Luxembourg Army to better respond to current geopolitical challenges, including developing military capabilities in aviation, cyber, and space domains. Moreover, the formation of a Belgo-Luxembourg binational battalion for combat recognition and projects focused on societal resilience are prioritised.

(27) In addition, the plan includes other policy measures going beyond the common priorities of the EU, including measures to support advanced research, development, and innovation policies (recommended in 2019, 2020 and 2024) through the establishment of a science and technology park, renewing aid schemes for R&D and innovation, and fostering public-private collaborations. These initiatives aim to enhance Luxembourg's competitiveness and productivity by focusing on emerging technologies and digitalization initiatives for SMEs, contributing to both fair green and digital transitions. Nonetheless, the plan does not include measures to address CSRs on enforcing the anti-money laundering framework (recommended in 2020).

(28) The plan provides information on the consistency and, where appropriate, complementarity with the Cohesion policy funds and Luxembourg's recovery and resilience plan (RRP). The government has ensured that the initiatives listed support ongoing efforts under the RRP, especially in the areas of green and digital transitions, as well as social cohesion.

(29) The plan aims to contribute to meet the public investment needs of Luxembourg related to the common priorities of the EU. For the green transition, it identifies investments in renewable energy infrastructure and energy efficiency measures. Regarding social and economic resilience, it highlights the need for continuous investment in education, social cohesion measures, and increased housing supply. Energy security needs focus on upgrading the energy grid and hydrogen infrastructure. In defence capabilities, it underscores the necessity of enhanced military spending and foresees an increase of defence budget towards achieving a 2% of GNI defence effort by 2030, in alignment with NATO commitments.

Conclusion of the Commission's assessment

(30) Overall, the Commission is of the view that Luxembourg's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(31) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Luxembourg.

HEREBY RECOMMENDS that Luxembourg

(1) Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Luxembourg to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)

LUXEMBOURG

Years		2025	2026	2027	2028	2029
Growth rates (%)	Yearly	5.8	4.7	3.8	5.4	4.7
	Cumulative	14.2	19.6	24.1	30.8	36.9

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

Done at Strasbourg,

For the Council
The President