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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	9881/25
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Luxembourg

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by the Employment Committee and the Social Protection Committee, based on the Commission Proposal COM(2025) 216 final.

ANNEX

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,

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and 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 TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union 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.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Luxembourg added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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[3] 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).

[4] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(4) On 30 April 2021, Luxembourg submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 6 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Luxembourg[5], which was amended under Article 18(2) on 13 September 2024 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Luxembourg has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025, the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Luxembourg[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2029 and sets a budgetary constraint in the form of a maximum net expenditure growth rate over four years.

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[5] Council Implementing Decision of 6 July 2021 on the approval of the assessment of the recovery and resilience plan for Luxembourg (10155/2021).

[6] Council Implementing Decision of 13 September 2024 amending the Implementing Decision of 6 July 2021 on the approval of the assessment of the recovery and resilience plan for Luxembourg (10155/2021).

[7] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Luxembourg, OJ C/2025/650, 10.2.2025.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Luxembourg. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 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 and a proposal for the 2025 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[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

[8] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http:// data.europa.eu/eli/C/2025/2782/oj).

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, 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.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 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 recovery and resilience plan. Based on this 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's 2030 headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

Assessment of the Annual Progress Report

(11) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Luxembourg: 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 2023 of 14.2% in 2025, 19.6% in 2026, 24.1% in 2027, 30.8% in 2028 and 36.9% in 2029. On 25 April 2025 Luxembourg submitted its Annual Progress Report[9], 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 achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause (NEC) 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 and this proposal was welcomed by the European Council of 6 March 2025.

[9] The 2025 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

(13) Based on data validated by Eurostat[10], Luxembourg's general government balance turned from a deficit of 0.8% of GDP in 2023 to a surplus of 1.0% in 2024, while the general government debt rose from 25.0% of GDP at the end of 2023 to 26.3% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 6.2% in 2024. In the Annual Progress Report, Luxembourg estimates the net expenditure growth in 2024 at 6.7%. The Commission estimates that the net expenditure growth was lower than in the Annual Progress Report. The difference between the Commission's calculations of the net expenditure growth and the estimates of national authorities is due to assumptions of lower expenditure funded by transfers from the EU in the national projections. Based on the Commission's estimates, the fiscal stance[11], which includes both nationally and EU financed expenditure, was broadly neutral in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Luxembourg expects real GDP growth at 2.5% in 2025, while HICP inflation is projected at 2.0% in 2025. The Commission Spring 2025 Forecast projects real GDP to grow by 1.7% in 2025 and 2.0% in 2026, and HICP inflation to stand at 2.1% in 2025 and 1.8% in 2026.

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[10] Eurostat-Euro Indicators, 22.4.2025.

[11] 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.

(15) In the Annual Progress Report, the general government surplus is expected to turn to a deficit of 0.6% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 26.4% by the end of 2025. These developments correspond to net expenditure growth of 7.1% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 0.4% of GDP in 2025. The return to a deficit in 2025 mainly reflects lower windfall revenues from corporate income tax and the impact of the expansionary fiscal stance. According to the Commission’s calculations, these developments correspond to net expenditure growth of 6.8% in 2025. Based on the Commission’s estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 1.2% of GDP, in 2025. The general government debt-to-GDP ratio is set to decrease to 25.7% by the end of 2025. The decrease of the debt-to-GDP ratio in 2025 is mainly due to the snow-ball effect as GDP growth has been higher than interest payment.

(16) General government expenditure amounting to 0.1% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2025, compared to 0.1% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Luxembourg.

(17) General government defence expenditure in Luxembourg remained stable at 0.5% of GDP between 2021 and 2023[12]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 0.6% of GDP in 2024 and 0.7% of GDP in 2025. This corresponds to an increase of 0.3 percentage points of GDP compared to 2021.

(18) According to the Commission Spring 2025 Forecast, net expenditure in Luxembourg is projected to grow by 6.8% in 2025 and 13.5% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Luxembourg in 2025 is projected to be above the recommended maximum growth rate, corresponding to a deviation[13] of 0.5% of GDP in annual terms. The projected deviation exceeds the 0.3% of GDP threshold for the annual deviation. Considering 2024 and 2025 together, the cumulative growth rate of net expenditure is projected to be below the recommended maximum growth rate. Overall, this means there is a risk of deviation from the recommended maximum net expenditure growth, when outturn data for 2025 will be available next spring.

(19) Moreover, the Council recommended that Luxembourg wind down the emergency energy support measures before the 2024/2025 heating season. According to the Commission Spring 2025 Forecast, while the net budgetary cost[14] of emergency energy support measures is estimated at 0.4% of GDP in 2024, it is projected to decrease to 0.1% in 2025. The emergency energy support measures were only partly wound down before the 2024/2025 heating season. This is not fully in line with what was recommended by the Council.

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[12] Eurostat, government expenditure by classification of functions of government (COFOG).

[13] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

[14] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

(20) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 0.5% of GDP in 2026. These developments correspond to net expenditure growth of 5.3% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 0.4% of GDP, in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 26.2% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects a debt-increasing stock flow adjustment.

Key policy challenges

(21) Luxembourg's pension system is facing growing medium- and long-term sustainability risks, as expenditures are projected to outpace contributions in the coming years. According to the 2024 Ageing Report[15], pension-related spending is expected to rise steadily, reaching 17.5% of GDP by 2070 – an increase of 8.1 percentage points compared to 2024. This is related to an increasing number of pensioners per worker, a consequence of an ageing population, coupled with a decline in net migration, which leads to a higher old-age dependency ratio. While the system currently holds the EU's largest pension reserve, without policy adjustments, this reserve is projected to fall below the threshold envisaged by national legislation by the early 2040s[16]. Projections suggest that once this threshold is reached, the reserve will be depleted within five or six years. Furthermore, Luxembourg has the lowest employment rate for older workers in the EU (51% for ages 55-64), despite a statutory retirement age of 65. Early retirement is allowed from age 57, and generous entitlements provide strong financial incentives to exit the workforce early and not to participate in adult learning. In 2024, the government launched a public consultation on the perspectives of the pension system. In a first phase, it gathered input from a broad range of stakeholders and the general public reflecting the main concerns: adaptability, sustainability and equity of the system. A second phase of the consultation is ongoing. Active labour market policy measures to encourage longer working lives and higher participation rates among older workers would help address this issue and support economic growth.

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[15] European Commission, 2024, *2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070)*.

[16] Cahier statistique no 18 – IGSS, 2024.

(22) Luxembourg is confronted with a severe housing challenge, as affordability has markedly declined over the past decade due to soaring property prices. Housing prices, which had been increasing steadily by above 5% annually, surged by nearly 60% from 2018 to 2022, making Luxembourg one of the EU's most expensive housing markets[17]. The persistent supply-demand imbalance, fuelled by tax structures favouring land and property hoarding, was further exacerbated by institutional investors entering the presales housing sector[18]. Reforms, such as a comprehensive land-use policy and tax measures to increase the supply of buildable land, could help increase housing supply, including through the supply of affordable housing. Priorities also include implementing the Housing Pact and adopting the housing tax reform as well as strengthening the macroprudential framework and phasing out fiscal incentives to borrow, which support high house prices[19].

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17 Eurostat, prc_hpi_q, and Estimations du taux de rendement d'un investissement locatif au Luxembourg, Rapport d'analyse 13, *Observatoire de l'habitat* (2025).

18 Coût du logement: Une comparaison du Luxembourg avec la France, la Belgique et l'Allemagne, Note 40, Observatoire de l'habitat (2024).

19 European Commission, 2023, *In-Depth Review 2023 - Luxembourg*.

(23) Luxembourg faces significant transportation challenges due to high cross-border commuter traffic and high dependency on cars, including company cars, exacerbated by housing costs that push workers to reside further away from their workplace[20]. This situation has resulted in traffic congestion, impacting productivity and environmental sustainability. Moreover, despite recent notable reductions in greenhouse gas emissions from road transport, through policies like the National Mobility Plan 2035[21] and free public transport, the sector remains the primary greenhouse gas emissions source, accounting for 60% of total emissions in Luxembourg's effort-sharing sectors in 2023[22]. While Luxembourg has made progress in promoting electric vehicles and 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. Further decarbonising transport and investing in public transport infrastructure would help reduce emissions in line with the national 2030 emission reduction target.

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20 Statec, 2025, *P2021 N°18 - La dépendance automobile persiste pour les déplacements domicile-travail*.

21 Plan national de mobilité, Ministère de la Mobilité et des Travaux publics.

22 The effort-sharing emissions for 2023 are based on approximated inventory data. The final data will be confirmed in 2027 after a comprehensive review.

(24) Luxembourg's financial hub hosts a number of multinational groups, where a significant share of international financial flows takes place between these entities within multinational groups. They may be in a position to exploit loopholes in Luxembourg's tax system that reduce taxable income. While the entry into force of Council Directive (EU) 2022/2523[23] (the 'Pillar 2 Directive') on 1 January 2024 aims to address the issue of low taxation of large multinational corporations, its scope is limited to those with an annual revenue of at least EUR 750 million, leaving many companies outside its scope. Furthermore, the conditional measure of non-deductibility of interest and royalty payments, initially introduced in 2021, is narrowly focused on those in the agreed EU list of non-cooperative jurisdictions and does not effectively address the issue of low- or zero-tax jurisdictions.

(25) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan including the REPowerEU chapter, is essential to boost Luxembourg's long-term competitiveness through the green and digital transitions, while ensuring social fairness. The systematic 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 recovery and resilience plan.

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[23] 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 (OJ L 328, 22.12.2022, p. 1, ELI: http://data.europa. eu/eli/dir/2022/2523/oj).

(26) 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+), has accelerated in Luxembourg. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Luxembourg is already taking action under its cohesion policy programmes to boost competitiveness and growth while enhancing social cohesion. At the same time, Luxembourg continues to face challenges, including those relating to the supply and affordability of housing, skills mismatches in the context of the green and digital transitions, the labour market integration of older workers and vulnerable groups, and decarbonisation. In accordance with Article 18 of Regulation (EU) 2021/1060, Luxembourg is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[24] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. They also provide flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition, and to investments in skills in priority sectors while maintaining the focus on persons in most vulnerable situations in ESF+ programmes.

[24] Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review (EUR-Lex - 52025PC0123 - EN - EUR-Lex).

(27) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Luxembourg could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(28) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Luxembourg faces several additional challenges related to weak regional coordination and inefficient deployment of cross-border transport networks; under-exploited potential for the adoption of new technologies and digitalisation of SMEs; significant regulatory barriers remaining; high economic reliance on foreign investment stocks which are declining from 2017 (in percentage of GDP); current energy mix still dominated by fossil fuels and gas for transport and buildings; worsened performance and increased disparities leading to unequal opportunities in schools; persistent skills mismatches and shortages of high skilled workers in key sectors linked to the green and digital transitions.

(29) Despite its strong scientific base and internationally well-connected research system, business innovation and the scale-up opportunities of innovative start-ups and small to medium-sized enterprises (SMEs) remain limited, hampering the diversification and competitiveness of the economy. 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[25]. Additionally, the country's business R&D intensity has been on a downward trend over the last two decades, falling to 0.47% of GDP in 2023, far below the EU average of 1.49%[26]. Moreover, the quality of research outputs is not fully leveraged, with science-business linkages remaining weak. 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, suggesting that low business R&D spending does not solely reflect the large size of the financial sector[27].

25 Eurostat (isoc_e_dii, 2024) and Luxembourg Startup Ecosystem Assessment and Benchmarking, Ministère de l'Economie, 2023.

26 Conseil national de la productivité, 2023.

27 OECD Economic Surveys: Luxembourg 2025.

(30) To address the challenge of boosting competitiveness in Luxembourg, it is essential to consider promoting inclusive and innovative diversification in the financial sector[28][29], which could help address the sector's structural weaknesses, provide support for innovative and high R&D intensive activities, and create a more robust and competitive economy aligned with EU policies. Strategic promotion and integration of innovative and high-growth sectors – such as sustainable finance, fintech, digital and emerging technologies – could lead to a more robust and competitive economy. The strong relationship between real GDP growth and the growth of Luxembourg's international investment position relative to its GDP (IIP/GDP)[30] suggests that the country's economic performance is closely tied to its ability to attract and retain foreign investment. Promoting innovative and high-growth sectors could help reverse the decline in the IIP/GDP ratio and support economic growth. To achieve this, Luxembourg could leverage the potential of its financial centre to finance productive and innovative activities, such as those supporting the green and digital transitions, by promoting collaborative ventures and innovative financing models, and supporting the development of new financial instruments and products. In particular, further supporting innovative structuring of blended finance and cooperative ventures could help enable greenfield investment in sustainable and high R&D intensive activities. Ensuring transparency and accountability in the financial sector is also crucial, as it could help build trust and confidence among investors, consumers and other stakeholders.

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28 OPC LUX: Climate Policy Observatory, Luxembourg, Annual Report 2023.
29 Z/Yen Group 2024, *Smart Centres Index 10*.
30 Eurostat, (bop_iip6_q), (namq_10_gdp).

(31) While Luxembourg is committed to improving the regulatory environment for the business services sector, significant regulatory barriers remain. According to the OECD[31] and the European Commission[32], regulatory restrictions are still particularly high for lawyers, notaries, architects, civil engineers, and accountants. For notaries, the restrictions are among the strictest in the EU. The regulation imposing the legal form of their business, and the regulation of entry into the profession were highlighted as very strict. Entry regulations for lawyers are also particularly restrictive[33]. 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[34]. Reducing the requirements or increasing flexibility would boost competition in the sector of regulated professions, which would benefit the businesses that buy these services. In the retail sector, regulatory restrictions are still slightly higher than in peer countries, although they have significantly decreased since 2018[35] [36]. Examples of such restrictions are the requirement to obtain specific authorisations for opening clothing, food and beverage outlets and the permission to do sales promotions only during specific periods of the year[37].

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31 OECD, Product Market Regulation indicators, 2024.
32 European Commission, Communication on updating the reform recommendations for regulation in professional services, COM(2021) 385, 9.7.2021.
33 OECD, Product Market Regulation indicators, 2024.
34 OECD, OECD Economic Surveys: Luxembourg | OECD, p. 106, April 2025.
35 OECD, Product Market Regulation indicators, 2024.
36 European Commission, 2022 update of the Retail Restrictiveness Indicator.
37 OECD, OECD Economic Surveys: Luxembourg | OECD, p.107, April 2025.

(32) Luxembourg's current energy mix is still dominated by fossil fuels, with fossil fuels making up 61.1% of gross domestic consumption in 2023. While the country has made efforts to increase the share of renewable energy sources, they accounted for only 11.9% of the energy mix in 2023[38], highlighting the need for further action to diversify the energy mix and reduce reliance on fossil fuels. In addition, Luxembourg largely depends on its neighbours to meet its energy needs. While electricity grids are sufficient for its current needs, the transmission system operator sees a need to both increase and modernise the high-voltage grid and improve interconnections, in particular with Germany, between now and 2040. Municipalities will also play a key role in developing detailed local plans for deploying renewable energy, including wind power and photovoltaics, and for district heating and cooling systems. Decarbonising buildings is crucial, as they accounted for 20% of total emissions in Luxembourg's effort-sharing sectors in 2023[39]. The recent slight increase in energy consumption in the residential sector highlights the need for further progress in building renovations and energy efficiency to meet the 2030 reduction target of 50% emissions compared to 2005 levels. Improving energy efficiency in both residential and non-residential buildings is essential to reduce energy consumption by 34% by 2030, as outlined in the national renovation strategy.

[38] Gross inland consumption 2023 (Eurostat).

[39] The effort-sharing emissions for 2023 are based on approximated inventory data. The final data will be confirmed in 2027 after a comprehensive review.

(33) Low basic skills levels pose a threat to labour productivity and competitiveness in Luxembourg. The proportion of low achievers in the country is higher than the EU average, with a significant score gap between advantaged and disadvantaged students, making it the widest in the EU[40]. This performance deficit develops early, particularly among pupils from disadvantaged backgrounds and those who do not speak German or Luxembourgish at home, highlighting the need for targeted support. The absence of a unified school quality framework at national level[41] prevents effective monitoring and may accentuate segmentation and inequalities. Current policies fail to address disparities across school system, underscoring the need for a more comprehensive approach[42]. Adopting a national school quality framework and an external school evaluation system, as well as adapting teaching to the needs of disadvantaged students and those from various linguistic backgrounds, could help reduce the performance gap and improve overall skills levels. Ultimately, this would also support the country's long-term economic growth and social cohesion. 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[43].

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40 https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/12/pisa-2018-results-volume-i_947e3529/5f07c754-en.pdf.

41 See Observatoire national de l'enfance, de la jeunesse et de la qualité scolaire (OEJQS), 2024, Topical report: Evidenzorientierte Qualitätsentwicklung im Gesamtsystem Schule (German).

42 Épreuves Standardisées (ÉpStan).

43 SWD(2025)95 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2025.

(34) Despite its strong economic performance, Luxembourg is facing persistent skills mismatches and significant shortages of skilled workers[44][45] in key sectors linked to the green and digital transitions. Some 80% of SMEs encounter difficulties in recruiting workers with the right skills in certain professions[46], which may hinder competitiveness. Meanwhile, shortages are reported in several occupations requiring specific skills related to the digital and green sectors. Several challenges persist in promoting skills development in Luxembourg. Participation of older workers in learning programmes remains low. Moreover, there is still a significant gap between the current adult training rate and Luxembourg's national 2030 skills target of 62.5% (17.3 percentage points)[47], highlighting the need for targeted initiatives to promote reskilling and upskilling. In this context, the Skillsbridges Initiative has been launched in 2024/2025.

(35) Luxembourg's health system faces challenges with shortages of health workers, high reliance on foreign health professionals, unequal distribution of staff and a significant proportion of doctors expected to retire by 2034. Ageing of the population will exacerbate challenges. More efficient use of limited resources and accelerating the reforms are preconditions to strengthen the resilience of the health system. Addressing the fragmentation of health services through more prevention and community-driven models of care, provided in teams rather than in solo practices, is a key factor of efficiency gains in the future. Better use of data and information in governance and planning and stepping up digitalisation are key to supporting the transformation of the health system.

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44 Eurostat, (lfsq_urgan).
45 Eurostat, (jvs_q_nace2).
46 Education and Training Monitor 2024.
47 2022 Adult Education Survey.

(36) 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 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Luxembourg, recommendations (2), (3), (4) and (5) help implement the first euro-area recommendation on competitiveness, while recommendations (1), (4) and (5) help implement the second euro-area recommendation on resilience, and recommendation (1) helps implement the third euro-area recommendation on macro-economic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that Luxembourg take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Ensure that net expenditure respects the path recommended by the Council on 21 January 2025. 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 by enhancing their employment opportunities and employability. 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 tackle aggressive tax planning, in particular by ensuring sufficient taxation of outbound payments of interest and royalties to zero-/low-tax jurisdictions, other than those included in the agreed EU list of non-cooperative jurisdictions for tax purposes.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, ensure the effective implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Focus economic policy related to investment on fostering innovation and supporting high R&D intensive activities. Boost competitiveness, including by promoting diversification, in particular in the financial sector, accelerating digitalisation, in particular in the uptake of advanced digital technologies by SMEs, and enabling business scale-up and productivity growth. Reduce barriers to competition in regulated professional business services.

4. Improve sustainable and efficient transport by further promoting the decarbonisation of transport and investing in public transport infrastructure and cross-border networks. Reduce overall reliance on fossil fuels by investing in energy efficiency in both the residential and non-residential sectors. 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.

5. Improve performance and ensure equal opportunities in schools, including by adopting a national school quality framework and an external school evaluation system, and by adapting teaching to the needs of disadvantaged students and those from various linguistic backgrounds. Address skills mismatches, in particular for the green and digital transitions, by stimulating skills development. Improve the resilience of the health system by accelerating the reforms and ensuring appropriate availability of health workers.

Done at Brussels,

For the Council
The President