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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Luxembourg and delivering a Council opinion on the 2022 Stability Programme of Luxembourg

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 618 final.

COUNCIL RECOMMENDATION

of ...

on the 2022 National Reform Programme of Luxembourg and delivering a Council opinion on the 2022 Stability Programme of Luxembourg

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 policies¹, and in particular Article 5(2) 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 OJ L 209, 2.8.1997, p. 1.

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council², which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

² 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).

- (2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council³, the Commission also adopted the 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. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a the proposal for the 2022 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social RightsThe Council adopted the Recommendation on the economic policy of the euro area⁴ ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

³ Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances OJ L 306, 23.11.2011, p. 25.

⁴ Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

- (3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC⁵ was triggered for the first time by Council Implementing Decision (EU) 2022/382⁶, granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

⁵ Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

⁶ Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

- (4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.
- (5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response', the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

- (6) Following the approach in the Council Recommendation of 18 June 2021⁷ delivering a Council opinion on the 2021 Stability Programme of Luxembourg, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth⁸. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed⁹ primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

⁷ Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Luxembourg (OJ C 304, 29.7.2021, p. 73).

⁸ The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

⁹ Not financed by grants under the Recovery and Resilience Facility or other Union funds.

- (7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.
- (8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.

- (9) 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 Regulation (EU) 2021/241, 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 to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Luxembourg¹⁰. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Luxembourg has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.
- (10) On 29 April 2022, Luxembourg submitted its 2022 National Reform Programme and its 2022 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Luxembourg's biannual reporting on the progress made in implementing its recovery and resilience plan.

¹⁰ ST 10155/2021.

- (11) The Commission published the 2022 country report for Luxembourg on 23 May 2022. It assessed Luxembourg's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Luxembourg's implementation of the recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Luxembourg's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.
- (12) In its Recommendation of 20 July 2020¹¹, the Council recommended Luxembourg to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Luxembourg to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Luxembourg's general government balance improved from a deficit of 3,4 % of GDP in 2020 to a surplus of 0,9 % in 2021. The fiscal policy response by Luxembourg supported the economic recovery in 2021, while temporary emergency measures declined from 2,4 % of GDP in 2020 to 0,7 %. The measures taken by Luxembourg in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were temporary or matched by offsetting measures. According to data validated by Eurostat, general government debt fell from 24,8 % of GDP in 2020 to 24,4 % of GDP in 2021.

¹¹ Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Luxembourg and delivering a Council opinion on the 2020 Stability Programme of Luxembourg (OJ C 282, 26.8.2020, p. 101).

(13) The macroeconomic scenario underpinning the budgetary projections is cautious in 2022 and realistic thereafter. The 2022 Stability Programme projects real GDP to grow by 1,4 % in 2022 and 2,9 % in 2023. By comparison, the Commission's 2022 spring forecast projects a real GDP growth of 2,2 % in 2022 and of 2,7 % in 2023. The difference of 0,8 percentage point in 2022 is mainly due to higher expectations for investments and a positive contribution of net exports to real GDP growth in the Commission's 2022 spring forecast. In its 2022 Stability Programme, the government expects that the headline balance will decrease to a deficit of 0,7 % of GDP in 2022 and to 0,4 % in 2023. The decrease in 2022 mainly reflects higher expenditure on compensation of employees, investments and social benefits, while on the revenue side current taxes on income and wealth are projected to decline. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to increase to 25,4 % in 2022, and to rise to 25,8 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 of 0,1 % of GDP and a surplus for 2023 of 0,1 %. The Commission's 2022 spring forecast projects a lower general government debt-to-GDP ratio, of 24,7 % in 2022 and 25,1 % in 2023. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 2,6 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can raise Luxembourg's potential growth.

(14) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 0,7 % of GDP in 2021 to 0,1 % in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 0,8 % of GDP in 2022 and 0,2 % of GDP in 2023¹². Those measures mainly consist of an energy tax credit, social transfers to low-income households, cuts in indirect taxes on energy consumption, and subsidies on production. At the same time, an agreement was reached with social partners to defer an expected trigger of the inflation indexation mechanism from Summer 2022 to April 2023 and any subsequent tranche to April 2024 at the earliest. Those measures have been announced as mostly temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. Some of those measures are not targeted, in particular the across-the-board cut in excise duties for fuel in 2022. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,1 % and 0,2 % of GDP in 2022 and 2023¹³.

¹² The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

¹³ It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

- (15) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Luxembourg pursues a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally financed investment. The Council also recommended Luxembourg to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.
- (16) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Luxembourg's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1,3 % of GDP as recommended by the Council¹⁴. Luxembourg plans to provide continued support to the recovery, including by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to remain stable compared to 2021. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point to the fiscal stance in 2022¹⁵. Therefore, Luxembourg plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1,2 percentage points to the overall fiscal stance. That significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,5 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP), while higher compensation of employees and social transfers are also projected to contribute (0,3 % of GDP) to the growth in net current expenditure.

¹⁴ A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

¹⁵ Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

- (17) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at +0,5 % of GDP on a no-policy change assumption¹⁶. Luxembourg is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. Nationally financed investment is projected to provide an expansionary contribution of 0,1 % of GDP to the fiscal stance in 2023¹⁷. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 0,5 percentage point to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,3 % of GDP).
- (18) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 0,3 % of GDP in 2024 and to 0,2 % by 2025. The general government balance is thus planned to remain below 3 % of GDP over the 2022 Stability Programme horizon. These projections assume slightly higher revenues and stable expenditure as a percentage of GDP. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to increase by 2025, specifically with an increase to 26,2 % in 2024, and a stabilisation at 26,2 % in 2025. According to the Commission's analysis, debt sustainability risks appear low over the medium term.

¹⁶ A positive sign of the indicator corresponds to a shortfall of primary expenditure growth compared with medium-term economic growth, indicating a contractionary fiscal policy.

¹⁷ Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage point of GDP.

(19) The COVID-19 crisis had a smaller impact on government finances than in other Member States, and relevant indicators are expected to improve in 2022. However, the impact of demographic trends on government spending will intensify over the next decades. In particular, this is because the number of pensioners per worker is expected to rise steadily due to the ageing population and the slowdown of net migration flows. Under a ‘no policy change’ scenario, Luxembourg will face one of the Union’s sharpest increases in pension spending, as a share of GDP by 2070. This would lead to a pension spending of around 18 % of GDP (compared to 9 % in 2019), among the highest in the Union. This will cause a significant increase in government debt, putting the sustainability of government finances at risk in the long term. Raising the effective retirement age would have the most beneficial macroeconomic impact, since this factor has the largest potential to reduce pension spending. In turn, a higher rate of older workers in employment would also support economic growth. The recovery and resilience plan does not address the long-term sustainability of the pension system, nor the negative effects of early-retirement schemes and the financial incentives to exit the labour market early, which explains the low employment rate of older workers. An early start with reforms aiming to limit early-retirement schemes and shifting older workers’ preferences to staying in employment for longer would enable a gradual implementation, increasing intergenerational fairness.

(20) The fight against aggressive tax planning in the Union is essential to: i) prevent distortion of competition between firms; ii) ensure fair treatment of taxpayers; and iii) safeguard government finances. Luxembourg is a small, open economy, with a large integrated financial sector, which in large part explains the existence of large financial flows. However, these large financial flows also reflect the large presence in the country of foreign-controlled companies, which are involved in intra-group financing and treasury activities. A particular point of concern is the absence of withholding taxes or equivalent measures on interest and royalty payments to low- or zero-tax jurisdictions beyond those countries included in the Union list of non-cooperative jurisdictions¹⁸. Outbound payments of interests and royalties from Luxembourg-based companies to non-EU jurisdictions could be subject to little or no taxation if these payments are not taxed or taxed at a low level in the recipient jurisdiction. Luxembourg has taken some steps to fight aggressive tax planning. So far, however, measures have been limited and insufficient to address the outbound payment issue in the tax system, which could be used by multinationals to engage in aggressive tax planning.

¹⁸ Council Conclusions of 24 February 2022 on the revised EU list of non-cooperative jurisdictions for tax purposes (OJ C 103, 3.2.2022, p. 1).

(21) 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 with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Luxembourg by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, these challenges relate to the health system's resilience, labour market inclusion and investment in the green and digital transitions, as well as the shortage of affordable housing and the institutional resilience of the anti-money laundering framework. The recovery and resilience plan includes measures to increase the public supply of affordable housing. The recovery and resilience plan also includes investments in renewable energy generation and sustainable transport, helping to progressively decarbonise the economy. Digital public services and a large public research and innovation project in quantum communication technologies would encourage business investment and boost productivity growth in the medium term. On anti-money laundering and counter-terrorist financing, the recovery and resilience plan includes a combination of measures to improve transparency and strengthen the framework for the oversight of financial service providers. The skills strategy and training programmes set out in the recovery and resilience plan, including a dedicated target for older workers, should help improve labour market inclusion.

- (22) The implementation of the recovery and resilience plan of Luxembourg is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Luxembourg account for 61 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 32 % of the recovery and resilience plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Luxembourg swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.
- (23) Luxembourg has not yet submitted the Partnership Agreement or the other cohesion policy programmes provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council¹⁹. In line with Regulation (EU) 2021/1060, Luxembourg is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

¹⁹ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

- (24) Beyond the economic and social challenges addressed by the recovery and resilience plan, Luxembourg faces a number of additional challenges, in particular related to growing inequality in the education system. Luxembourg's education system is characterised by the use of three languages of schooling (Luxembourgish, German and French), as well as by a high number of pupils from diverse socioeconomic and linguistic backgrounds. International test results suggest that pupils' basic skills are lower than the Union average and are strongly linked to pupils' socioeconomic and linguistic backgrounds. In the 2018 survey of the Programme for International Student Assessment (PISA) carried out by the Organisation for Economic Co-operation and Development, Luxembourg recorded one of the Union's largest score gaps in reading between advantaged and disadvantaged students. Inequalities are amplified by the multilingual schooling and the way pupils are separated into different school tracks at an early stage. The education system does not provide all pupils with sufficient multilingual and basic skills to meet the country's labour market needs. Individualised support for pupils would help achieve full development potential and overall inclusion of all students. In line with the conclusions of the national observatory of school quality of 2020, there is room to improve the education system's governance, further developing evaluation tools and measurable objectives promoting quality and equality of opportunity on both the formal and non-formal sides of the education system.
- (25) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

(26) Luxembourg's energy system is characterised by high import dependence and reliance on fossil fuels. According to 2020 data²⁰, Luxembourg is the Union's largest net importer of energy relative to population size. It is almost entirely dependent on primary energy imports, with a dependency rate of 92,5 %. By far the dominant primary energy sources are oil and gas; oil represents 68,5 % of the energy consumption, and gas 17,8 %. Luxembourg imports no oil from Russia, while the Union average is 26 % of crude oil imports. However, Russia is still a relatively important source of gas imports as it provides 27 % of Luxembourg's natural gas imports though this is below the Union average of 44 %. Luxembourg integrated its gas market with that of Belgium. As regards electricity, while there are no major bottlenecks in the short term, further investment will be needed to accompany the transition to renewable energy, in particular in terms of grid reinforcement and upgrades. Industrial gas demand has been flat in recent years and commercial sector gas demand grew moderately. The main growth in gas consumption came from an increase in residential sector consumption. Luxembourg has to address the challenge of insufficient housing supply while achieving its energy and climate targets. There is also a need to renovate the existing building stock. With 20,8 % of the total energy saving potential (in terms of GWh), the residential building and renovation sector represents the second-largest source of cumulative energy saving potential by 2030. Luxembourg increased its renewable energy share from 5 % in 2015 to 12 % in 2020. Nevertheless, it is still one of the Member States with the lowest share. Luxembourg needs strong action to reach its 2030 energy targets of obtaining 25 % of energy from renewables and reducing final energy consumption by 40 % to 44 % compared to 2007. Municipalities will have a key role in this respect. Road traffic congestion weighs on the economy and on environmental sustainability, while transport accounts for a significant share of oil consumption and for 59 % of total greenhouse gas emissions, which compares to a Union average of 24 % in 2019.

²⁰ Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil respectively. For the EU-27 average, the total imports are based on extra-EU-27 imports. For Luxembourg, total imports include intra-EU trade.

Measures targeting more efficient and sustainable transport can thus substantially help to reduce oil dependence. This is reflected in the National Energy and Climate Plan of Luxembourg, which targets 40 % of electric and plug-in vehicles for 2030. Luxembourg has set itself the target of becoming climate neutral by 2050. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewable energy and energy efficiency will be needed in order for Luxembourg to be in line with the ‘Fit for 55’ objectives.

- (27) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Luxembourg can make use of the Just Transition Mechanism in the context of the cohesion policy to alleviate the socioeconomic impact of the transition. In addition, Luxembourg can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council²¹, to improve employment opportunities and strengthen social cohesion.
- (28) In the light of the Commission’s assessment, the Council has examined the 2022 Stability Programme and its opinion²² is reflected in recommendation (1).
- (29) 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, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the recommendations set out in the 2022 Recommendation on the euro area. For Luxembourg this is reflected in particular in recommendations 1, 2 and 3,

²¹ Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

²² Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Luxembourg take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Improve the long-term sustainability of the pension system, in particular by limiting early retirement and by increasing the employment rate of older workers. Take action to effectively tackle aggressive tax planning, including by ensuring sufficient taxation of outbound payments of interests and royalties to zero and low-tax jurisdictions.
2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.
3. Reduce the impact of inequalities on pupils' performance and promote equal opportunities for all students in the educational system.
4. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, electricity transmission capacity, and investment in energy efficiency in both the residential and non-residential sectors. Support municipalities in developing detailed local plans for the deployment of renewable energy, including wind power and photovoltaics, and for district heating and cooling systems. Further promote electrification of transport and invest in public transport networks and infrastructures.

Done at Brussels,

For the Council

The President