European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Luxembourg's 2012 national reform programme and delivering a Council opinion on Luxembourg's stability programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's Annual Growth Survey on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 27 April 2012, **Luxembourg** submitted its 2012 stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of

their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 Stability Programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible**. In particular, the programme scenario for 2012 and 2013 is very close to the Commission's 2012 spring forecast. Medium-term deficit projections are made under a slightly optimistic growth scenario, above potential growth although still well below average historic rates.

The objective of the budgetary strategy outlined in the programme is to bring the deficit from 1.5% in 2012 to 0.9% in 2014 with a package of consolidation measures of around 1.2% of GDP and provide a wider room for manoeuvre in case of negative shocks.

The programme confirms the previous medium term objective (MTO) of a structural surplus of 0.5%. However, this MTO cannot be regarded as appropriate under the provisions of the Stability and Growth Pact because, based on current policies and projections, this MTO does not appear to take sufficiently into account the implicit liabilities related to ageing, despite the debt being below the Treaty reference value.

The growth rate of government expenditure, net of discretionary revenue measures, is expected to significantly exceed the expenditure benchmark as defined in the Stability and Growth Pact. At 20 % of GDP, gross government debt is below the reference value of the Treaty.

According to the Commission, the **main policy challenges** for the country are as follows:

- On 20 January 2012, the Luxembourg government adopted a draft law to reform the pension system for both the private and the public sector. Overall, Luxembourg is taking steps into the right direction, but the proposed reform does not seem to constitute a sufficient guarantee of long-term sustainability of public finances.
- In January 2012, the national Parliament adopted a law to limit the application of the automatic indexation of wages between 2012 and 2015. However, besides a possible modification of the reference index, the government has not announced any further plans for a permanent revision of the wage-setting system.
- Luxembourg has taken some relevant and credible steps to tackle its relatively high youth unemployment. However, in order to ease young people's integration into the labour market, a coherent strategy is needed to, inter alia, strengthen collaboration between municipalities and improve the effectiveness of employment services.
- Luxembourg is expected to face difficulties in reaching its 2020 target for greenhouse gas (GHG) emission reduction. According to the latest 2020-projections based on
- existing measures, Luxembourg is expected to increase its emissions in non-ETS sectors by 9% between 2005 and 2020, compared to a reduction target of 20%.

Recommendations proposed for Belgium for the period 2012-2013:

Budgetary measures:

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

Pension system:

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

Wages:

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

Employment:

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

Environment:

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

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.