

# National Recovery and Resilience Plan: Luxembourg

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### Abstract

Luxembourg's national Recovery and Resilience Plan (RRP) unfolds in three directions: social, green and digital. They largely correspond to the idea of sustainable growth endorsed by the UN SDGs. The EU Commission acknowledged that the investments and reforms set out in Luxembourg's RRP may effectively support the green and digital transitions; help to address challenges identified in the European Semester; and strengthen Luxembourg's growth potential, job creation and economic and social resilience. Nevertheless, the country needs to cope with a number of unresolved issues, including the financial sustainability of its public pensions scheme and skills shortages in some key sectors, such as health care. Luxembourg's RRP seems particularly promising because of the possibility it offers of building on the implementation of the European Pillar of Social Rights, thereby providing it with a solid social basis.

**Keywords:** Luxembourg, NextGenerationEU, National Recovery and Resilience Plan, Labour Law Reform, Social Europe.

## 1. Introduction

Although it is one of the Member States least affected by the economic consequences of the Covid-19 crisis, Luxembourg nevertheless faces a number of challenges that revolve around maintaining protection of the national productive apparatus, as well as safeguarding employment and household purchasing power.

Always in full accordance with the objectives of the European Union (EU), since the beginning of the pandemic Luxembourg has put in place measures to fight against its economic effects by diligently implementing the EU strategy. To this end, the Stabilisation Programme and the Neistart Lëtzebuerg aid schemes have been in place since May 2020.

Although not on the main list of beneficiaries of the funds allocated by the European Recovery Fund 'NextGenerationEU', Luxembourg has directly shown its support and from

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the beginning fully shared the objectives pursued by the European Council and the European Commission.

It was one of the first Member States to submit (30 April 2021) its project and was part of the first wave of countries to receive part of the funding. Its Recovery and Resilience Plan (RRP) builds on the main axes of the dual green and digital transition, including social cohesion and resilience.

There is no information on the position that Luxembourg adopted in the aftermath of the Covid-19 crisis and during the political negotiations, but one can infer that, because the Grand Duchy's domestic policy tends always to be in line with the European trajectory, it did not oppose but rather contributed to and encouraged the EU's initiative.

## **2. Luxembourg's RRP: an overview**

### **2.1 Amount requested**

The RRP that Luxembourg submitted to the European Commission on 30 April 2021 focuses on three main pillars: social cohesion and resilience; green transition; and digitalization, innovation and governance. These three pillars, comprising a total of 20 measures, are estimated to need a total budget of 183.1 million euros. However, Luxembourg has decided that this sum will also be financed by national funds up to 46 per cent of total estimated cost, thus requiring a non-refundable support from the European Commission up to 93.4 million euros, which corresponds to 0.15 per cent of Luxembourg's GDP in 2019. The government of the Grand Duchy of Luxembourg has also chosen not to make a loan and to ask only for grants. With the endorsement of the President of the European Commission on 18 June 2021, and the approval of the EU Council on 13 July 2021, Luxembourg has been able to benefit from a payment of 12.1 million euros (13 per cent EU participation) of pre-financing from the Commission since 3 August 2021.

### **2.2 Majority of reforms and investments**

Luxembourg devotes 61 per cent of its plan overall to reforms and investments concerning climate objectives (electric vehicles, biodiversity and renewable energy) and 32 per cent to reforms of digital objectives (secure communications, digital services for the public and digital health care).

### 2.3 Key measures in reinforcing economic and social resilience

‘The main macroeconomic challenges for the Luxembourg economy include a relatively low participation rate for older workers and a shortage of skilled workers. In addition, the sharp rise in housing prices is having an impact on housing affordability.’<sup>1</sup>

To strengthen its economic and social resilience, Luxembourg has developed key measures articulated around pillar number 1: social cohesion and resilience. This pillar is subdivided into three components, the first called ‘Skilling, Reskilling and Upskilling’, the second ‘Strengthening the resilience of the health system’ and the third ‘Increasing the supply of affordable and sustainable public housing’. Each of these three categories includes one or more reforms combined with one or more investments. The total cost of these measures amounts to €151.9 million.

The objective of the ‘Skilling, Reskilling and Upskilling’ component is to ‘strengthen and diversify the professional skills of job seekers, by providing training courses that are organized around the development of digital skills’.<sup>2</sup> Indeed, and although Luxembourg was one of the Member States least affected by the economic consequences of the Covid-19 pandemic (and before that, by the 2008 financial crisis), unemployment increased by 1.53 per cent between June 2019 and June 2020, while real GDP decreased by 1.3 per cent in 2020. The Luxembourg government’s proposal in its RRP is to develop job seekers’ digital and managerial skills as much as possible.

The government has launched the ‘Future Skills’ initiative, which is closely linked to the ‘*Skillsdësch*’ approach to skills management and development adopted in July 2020. This initiative is focused on companies and jobseekers who receive benefits and are registered with the Employment Development Agency (ADEM) and offers them training in digital skills and general transversal abilities, with a focus on social skills, followed by a practical internship in a public sector institution. In addition to this first measure there is another called ‘Digital Skills’. This second key measure aims to allow all employees who were placed on short-time working between 1 January 2021, and 31 March 2021, to have access to training and support them in the digital transition. The government has therefore proposed that they take courses in e-learning format and receive a voucher for digital training worth up to €500.

The objective of the component ‘Strengthening the resilience of the health system’ is to enhance the health care sector through digital solutions (digitalization). To this end, the ‘*Gesondheitsdësch*’ and reform of the remit of health professionals are intended to establish a structural framework for adapting policy discussions to the health system that aim to improve complementarity between the inpatient and outpatient sectors and to improve relations between protected persons and service providers, while redefining ‘the missions and remits of doctors, nurses, care assistants and other health personnel’.<sup>3</sup> In addition, Luxembourg is investing in telemedicine for remote medical monitoring of patients and establishing a single

<sup>1</sup> [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/luxembourgs-recovery-and-resilience-plan\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/luxembourgs-recovery-and-resilience-plan_en)

<sup>2</sup> [https://mfn.gouvernement.lu/dam-assets/publications/ProjetPRR-final.pdf\\_24](https://mfn.gouvernement.lu/dam-assets/publications/ProjetPRR-final.pdf_24).

<sup>3</sup> [https://mfn.gouvernement.lu/dam-assets/publications/ProjetPRR-final.pdf\\_31](https://mfn.gouvernement.lu/dam-assets/publications/ProjetPRR-final.pdf_31)

digital register of health professions, in order to collect both administrative and professional information and thus better respond to policy issues, such as access to care in all regions, access to health data, and management of health professionals.

Finally, the objective of ‘Increasing the supply of affordable and sustainable public housing’ is supposed to ‘remedy the shortage of affordable and sustainable housing on the real estate market to improve the quality of life of the Luxembourg population’.<sup>4</sup> To this end, Luxembourg plans a reform called Pact Logement 2.0, as well as investment in the ‘Neischmelz’ project in the south of the country (Dudelange). The Luxembourg real estate market has increased exponentially over the past two years (an increase in the value of real estate of around 16.7 per cent between the fourth quarter of 2019 and the fourth quarter of 2020), while demand has increased only slightly. To remedy this marked imbalance, the government has put in place the Pact Logement 2.0, which builds on the first Pact Logement introduced in 2008. The objective of Pact 2.0 is to increase the supply of affordable and sustainable housing, to mobilize the existing land and residential potential, and to improve residential quality, thus granting access to housing for many citizens. Finally, the ‘Neschmelz’ project is focused on the three pillars of sustainable development, namely ecological, economic and social, and is the first project that would create new neighbourhoods that meet both the demand for affordability and the objectives of sustainable development promoted by the EU.

### 3. Social and labour dimensions of the RRP

#### 3.1 Assessment of Luxembourg’s Recovery Plan by the European Commission and the Council of the European Union

Both the European Commission and the Council are unanimous consider that the Luxembourg RRP constitutes ‘to a large extent a comprehensive and adequately balanced response to the economic and social situation, and thus contributes appropriately to the six pillars referred to in Article 3 of Regulation 2021/241’.<sup>5</sup> Luxembourg thus merits a grade A ‘for evaluation criterion 2.1 of Annex V of Regulation 2021/241’.<sup>6</sup>

The Commission, which had to examine Luxembourg’s plan within the framework of 11 criteria, considered that although the small financial contribution would not be sufficient to respond to all the challenges identified in the country-specific recommendations, ‘all the measures presented within each of the eight components of the plan seem to be globally coherent’.<sup>7</sup> The key percentages of this plan, which are well above the target values set out in Regulation 2021/241, are those related to investments in climate (60.9 per cent) and digital (31.6 per cent). In addition, the Commission considers that the plan has ‘a relatively strong

<sup>4</sup> <https://mfin.gouvernement.lu/dam-assets/publications/ProjetPRR-final.pdf>, 36

<sup>5</sup> <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:52021SC0159&from=EN>

<sup>6</sup> <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:52021SC0159&from=EN>

<sup>7</sup> *Ibid.*

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social dimension and is characterized overall by a good balance between reforms and investments'.<sup>8</sup>

With regard to the social and employment policy aspects, the European Commission considers that the plan adequately addresses the shortage of health professionals and skills, as well as the emerging needs of the health care system, 'in particular through the redefinition of the competences of the health professions and the digitization of the health sector, including through the implementation of a telemedicine solution'.<sup>9</sup> Finally, the Commission appreciates the initiatives 'FutureSkills' and 'DigitalSkills' as measures intended to promote professional development and retraining in Luxembourg.

For its part, the Council also estimates that Luxembourg's RRP provides a balanced and appropriate response to the six pillars referred to in Article 3 of Regulation 2021/241.

### 3.2 Integration of the European Pillar of Social Rights (EPSR)

In its analysis published on 18 June 2021, the Commission considered that in view of the reforms and investments envisaged by Luxembourg's RRP, the plan could be assessed as contributing greatly to the implementation of the EPSR.

The EPSR comprises 20 principles articulated in three chapters: equal opportunities, fair working conditions, and social protection and inclusion. All such principles are monitored by the so-called 'social scoreboard', which, based on indicators provided by the Member States, makes it possible to monitor societal progress and should enable the detection in good time of the main social and employment challenges and the progress made over time.

An analysis of the components of Pillar 1 of the RRP in terms of the types of social rights concerned and the aspects of the Social Scoreboard addressed will be presented here.

#### *Component 1A: Skilling, Reskilling and Upskilling*

Overall, the Commission considers this strand to be important for social cohesion and places particular emphasis on the 'FutureSkills' investment. Indeed, the latter provides for jobseeker training only if they are on benefits and registered with the Employment Development Agency (ADEM). Age is not a strict criterion. This component is part of one of the three major objectives to be achieved by 2030 presented by the European Commission on 4 March 2021 and related to participation in training for at least 60 per cent of adults each year.

Beyond this 'FutureSkills' investment, the RRP includes 'improving access to the labour market, mitigating the repercussions of the crisis on employment and stimulating the reinforcement of skills'.<sup>10</sup> This is thanks to the 'DigitalSkills' investment, which provides for requalification and professional development.

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<sup>8</sup> *Ibid.*

<sup>9</sup> <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:52021SC0159&from=EN>.

<sup>10</sup> <https://mfin.gouvernement.lu/dam-assets/publications/01-PRR-juin-Luxembourg.pdf>.

Finally, the Luxembourg government regards skills development to be in line with the first chapter of the EPSR on equal opportunities and labour market access.

The assessments of the European Commission and the Luxembourg government are in keeping with the indicators of the Social Scoreboard. As regards the first pillar, Luxembourg is consistently rated satisfactory compared with the EU average for the main indicators. For example, 65 per cent of the Luxembourg population have basic or better general digital skills compared with 56 per cent for the EU. Furthermore, 8.8 per cent of young Luxembourgers aged 15–29 are not in employment, education or training (NEET) compared with 13.1 per cent at EU level. Indeed, in 2019 in Luxembourg, this rate was close to zero. The Covid-19 pandemic has evidently had a strong effect on this, which is surely one of the reasons why Luxembourg has introduced measures for mass training of jobseekers.

#### *Component 1B: Strengthening Health System Resilience*

The Commission considers that for this component, the strengthening of the health care system should benefit the most vulnerable people and contribute to the implementation of EPSR Principle 16,<sup>11</sup> as well as to social cohesion by addressing the gaps in access to health care in underserved areas.<sup>12</sup>

The government considers that this component is part of ‘the fight against the economic and social repercussions of the crisis by aiming at an appropriate management and organization of the sector's resources through capacity building and structural adaptation of the sector’.

#### *Component 1C: Increasing the Supply of Affordable and Sustainable Public Housing*

Finally, concerning strand 1C, the Commission considers that it is in line with principle 19.a of the EPSR, which provides that ‘access to social housing or housing assistance of good quality shall be provided for those in need’.

Although Luxembourg's indicators are below the European average, the pre- and post-crisis Covid-19 reports highlighted the housing problem as one of the most pressing for Luxembourg's citizens.

### **3.3 Recommendations made in the 2019 and 2020 European Semester cycles**

This section concerns the potential linkages between the country-specific recommendations (CSR) made during the 2019 and 2020 European Semester cycles and the three components of pillar 1, namely ‘Skilling, Reskilling and Upskilling’, ‘Strengthening

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<sup>11</sup> Principle 16 of the EPSR is dedicated to health care and states: ‘Everyone has the right to timely access to affordable, preventive and curative health care of good quality.’

<sup>12</sup> <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:52021SC0159&from=EN>.



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Health System Resilience’, and ‘Increasing the Supply of Affordable and Sustainable Public Housing’.

*Component 1A: Skilling, Reskilling and Upskilling*

The Commission considers that this strand addresses, in a first step, CSRs 1 and 3 of 2019 related, respectively, to raising the employment rate of older workers by strengthening their employment opportunities and employability, as well as encouraging investment policy so as to stimulate skills development. In a second step, CSRs 2 and 3 of 2020 are aimed at mitigating the impact of the crisis on employment by paying particular attention to people in difficult labour market situations, as well as the contribution of digitalization and innovation, including in the business sector.

This component provides ‘initiatives that allow the development of digital skills needed by jobseekers to meet the expectations of the private and public sectors’,<sup>13</sup> such as the ‘FutureSkills’ and ‘DigitalSkills’ initiatives, aimed at ‘improving the skills of the Luxembourg workforce and increasing the employability of jobseekers and facilitating their reintegration in the short term’. Another aim is to offer training to adapt to digital changes.

According to the summary table of the 2019, 2020, and 2021 country-specific recommendations, however, published in the spring 2022 semester, CSR 2019 items 1 and 3, assessed in May 2022, are currently rated as exhibiting ‘limited progress’, with relevant actions expected in 2022 through 2025. Recommendations 2 and 3 from 2020 are assessed as substantial and as having made some progress, with relevant actions also expected in the coming months.

*Component 1B: Strengthening Health System Resilience*

The Commission believes that the 1B strand on improving the resilience of the healthcare sector through digital solutions echoes Recommendation 1 of 2020. The Council considers that ‘the reform consisting of a legislative overhaul of the competences of a number of health professionals should enhance the attractiveness of the professions in this sector and address the shortage of practitioners in a context of increasing demand for care’. Furthermore, ‘the development of teleconsultation would also be a way to alleviate the pressure on health professionals, while reducing physical travel in the context of the Covid-19 pandemic’.<sup>14</sup>

In addition, according to the aforementioned summary table, the 2020 recommendation is the one considered to have made the most significant relevant progress.

*Component 1C: Increasing the Supply of Affordable and Sustainable Public Housing*

Finally, and concerning the last part of Pillar 1, the Commission makes a direct link to the 2019 and 2020 Recommendations on ‘directing investments towards the green transition, in particular towards sustainable buildings, clean and efficient energy production and use’, as

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<sup>13</sup> <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:52021SC0159&from=EN>.

<sup>14</sup> *Ibid.*

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well as ‘directing investment- related policy in a way that increases the supply of housing, including by increasing incentives and removing barriers to construction’<sup>15</sup> through the Housing Pact 2.0 and the ‘Neischmelz’ project.

According to the summary table, however, the 2019 and 2020 Recommendations 3 are considered to have made only some progress.

#### 4. Lessons from the previous crisis

Luxembourg has not been subject to an in-depth examination by the Commission since the Covid-19 pandemic. It has therefore not received any fiscal/macroeconomic recommendations in this context, including within the framework of the European Semester 2022.

But although it has not received any specific fiscal recommendations, Luxembourg has received four country-specific recommendations from the Council. With regard to social and employment protection, the Council recommends that for the years 2022 and 2023 Luxembourg seeks to improve ‘the long-term sustainability of the pension system, in particular by limiting early retirement and increasing the employment rate of older workers’,<sup>16</sup> ‘take steps to effectively combat aggressive tax planning’,<sup>17</sup> ‘proceed with the implementation of its recovery and resiliency plan’,<sup>18</sup> and ‘reduce the impact of inequities on student performance and promote equal opportunity for all students in the education system’.<sup>19</sup>

Overall, probably the most critical CSR to be implemented is the one focused on improving the sustainability of the public pension system, which is seen as too generous, in particular with regard to early retirement schemes. The remaining Council recommendations are focused mainly on social and employment protection. This is also explained by the fact that the measures in the Recovery and Resilience Plan have not been implemented to a great extent.

The Luxembourg government considers the adoption of the NextGenerationEU recovery plan as a ‘real budgetary impulse’.<sup>20</sup> In line with EU objectives, Luxembourg's policymakers have been influenced mostly positively, namely in their constant efforts to develop plans and implement measures to revive the country's economy optimally, while complying with climate and digital requirements.

There is no formal national debate in Luxembourg on the possibility of reintroducing austerity measures. Reform of the public pension system, although featuring in some public

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<sup>15</sup> *Ibid.*

<sup>16</sup> [https://ec.europa.eu/info/sites/default/files/2022-european-semester-csr-luxembourg\\_fr.pdf](https://ec.europa.eu/info/sites/default/files/2022-european-semester-csr-luxembourg_fr.pdf), 11.

<sup>17</sup> *Ibid.*

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

<sup>20</sup> [https://gouvernement.lu/fr/actualites/toutes\\_actualites/communiqués/2020/12-decembre/16-gramegna-budget-2](https://gouvernement.lu/fr/actualites/toutes_actualites/communiqués/2020/12-decembre/16-gramegna-budget-2).



debates and in the media,<sup>21</sup> so far does not appear to have been the object of substantial political reflection.

Social partners in Luxembourg have played a very active role in developing the Recovery and Resilience Plan. It is beholden on the government of the Grand Duchy to consult civil society, notably within the framework of the annual social dialogue on the European Semester. Luxembourg has therefore obviously also consulted the social partners, and more particularly their representative associations, on this important project.

The RRP was presented by the Minister of Finance and the social partners were able to discuss it and defend their ideas. In particular, they expressed their agreement with the main goals of the RRP, highlighting that it should ‘promote a European model based on social inclusion, the creation and support of quality jobs and the acceleration of the green transition, emphasizing the need to help workers who must adapt to the transition to a green and digital economy’.<sup>22</sup>

On a second occasion, this time with the Finance and Budget Committee of the Chamber of Deputies and before the final transmission to the EU Commission, the social partners were consulted once again. Finally, within the framework of the ‘Skillsdësch’ project, the social partners are regularly invited by the Tripartite Coordination Committee to discuss the competences and missions of the latter.

## 5. Final considerations

Although Luxembourg has not been significantly impacted by the Covid-19 pandemic from an economic perspective, it still faces many challenges. The Luxembourg government formulated its RRP with a view to achieving economic recovery.

With climate and digital issues at the heart of the plan, Luxembourg has also incorporated the notion of social cohesion and resilience, albeit to a lesser extent. Although most of the reforms and investments envisaged by the government have been approved by the European Commission and the Council and are assessed as ‘largely’ meeting the requirement of strengthening Luxembourg's growth potential, job creation and economic, social and institutional resilience, certain indicators in particular need to be monitored, such as early school leavers, long-term unemployment, in-work poverty, and the impact of social transfers on poverty reduction.

Moreover, despite the considerable effort made by Luxembourg's government in terms of access to employment, it remains to be seen whether the measures taken will achieve the goals established by the Action Plan implementing the EPSR.<sup>23</sup> Indeed, to take the example given above, the rate (8.8 per cent) of young Luxembourgers who are not in employment,

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<sup>21</sup> <https://www.wort.lu/fr/luxembourg/le-systeme-de-retraite-a-besoin-d-une-reforme-62dfb13bde135b923681d242>.

<sup>22</sup> [https://ec.europa.eu/info/sites/default/files/2022-european-semester-csr-luxembourg\\_fr.pdf](https://ec.europa.eu/info/sites/default/files/2022-european-semester-csr-luxembourg_fr.pdf).

<sup>23</sup> In particular, the targets of having at least 78 per cent of the population aged 20 to 64 in employment, at least 60 per cent of all adults participating in training every year by 2030 and reducing the number of people at risk of poverty or social exclusion by at least 15 million.

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education or training is certainly lower than the European average of 13.1 per cent, but they will probably not benefit from the training offered under the DigitalSkills programme, given that only workers who were in short-term work schemes in January, February and March 2021 are admitted to it. The same Commission's evaluation noted that Luxembourg's Cohesion and Social Resilience pillar, addressing the challenges of long-term sustainability of public finances, skills shortages, investment in enterprises and stimulating innovation in the business sector, respond only partially to the challenge.

However, and thanks to the recommendations made by the Commission in the context of the last European Semester, by the end of 2022 and during 2023 Luxembourg should consider the issues raised and implement them to the best of its ability.

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