



LE GOUVERNEMENT  
DU GRAND-DUCHÉ DE LUXEMBOURG  
*Ministère des Finances*

**DRAFT BUDGETARY PLAN  
GRAND DUCHY OF LUXEMBOURG  
2013-2014**

Luxembourg, 15 October 2013



## Introduction: The draft budgetary plan for 2014 in a specific political context.

Pursuant to Article 6 of EU Regulation No. 473/2013, on 15 October 2013 Luxembourg submitted the first draft budgetary for the financial year 2014.

However, as a result of the general elections taking place on 20 October 2013, Luxembourg will only make a partial submission, based on a no-policy-change scenario, prepared in the form of a technical update of the medium-term forecast provided as part of the April 2013 Stability and Growth Programme (*SGP*).

Indeed, due to the general elections being brought forward, the government did not submit a budget plan to parliament for the following financial year at the beginning of October as usual. Thus, the task of preparing the draft budgetary plan for the financial year 2014 and the medium-term budgetary plan will fall to the new government following the general elections on 20 October 2013. Once adopted by the government, a full draft budgetary will be submitted to the European Commission.

### 1. Macroeconomic forecasts.

The macroeconomic forecasts underpinning the updated budget forecasts for the years 2013 and 2014 remain largely unchanged compared to the forecasts provided as part of the 14th update of the 2013-2016 *SGP*.

Luxembourg should therefore experience an up-tick in economic activity with the real GDP growth rate reaching 1% and 2.3% in 2013 and 2014 respectively, despite a persistently uncertain economic climate. The most recent cyclical economic indicators still suggest a possible upward correction of these growth assumptions, particularly in view of the quarterly growth figures recently published by the Luxembourg Institute of Statistics and Economic Studies (STATEC)<sup>1</sup>. Additionally, the GDP for 2012 suffered a downward correction, falling from 44,426 million Euros to 42,918 million Euros, implying that the real GDP growth rate was also revised down from 0.3% to -0.2% for 2012: therefore ex-post, the Luxembourg economy contracted during 2012, for the third year since the beginning of the crisis in 2008.

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<sup>1</sup> <http://www.statistiques.public.lu/fr/actualites/economie-finances/comptes-finances/2013/10/20131008/index.html>

Hence, Luxembourg's economy is still experiencing growth rates far below those recorded prior to the worldwide outbreak of economic and financial crisis, between 1995 and 2007, when real GDP growth stood at an average of 5%.

Likewise, inflation forecasts for the years 2013 and 2014 remain unchanged - namely due to the sustained effect of the modulation of the wage indexation mechanism- at 1.6% per year for the 2 years in question.

Luxembourg's labour market continues to show some momentum, albeit less pronounced, the overall employment rate standing at over 1% per year in 2013 and 2014. Yet despite the steady pace of job creation, the unemployment rate will continue to climb in 2013 and 2014 to 5.9% and 6.1% respectively. The sustained creation of jobs and persistent growth in the unemployment rate is due to the mismatch between the supply and demand for labour, as previously mentioned in the SGP published in April 2013.

Finally, the macroeconomic forecasts, provided as part of the draft budgetary plan and used to update the budgetary projections for the years 2013 and 2014 were made by STATEC, which possesses scientific and professional independence by virtue of its organic law, thus guaranteeing the compliance of the preparation of the draft budgetary plan with the provisions of Article 4.4 of Regulation 743/2013.

## 2. Budgetary targets.

In 2013, Luxembourg's general budgetary target was to achieve its medium-term objective of a structural balance of +0.5% of the GDP. According to the forecasts provided in the draft budgetary plan, Luxembourg is expected to achieve its medium-term budget objective in 2013. This forecast is based on the following information: i) the intra-annual update of 1 October 2013 of the government financial position provided to Eurostat for data collection purposes pursuant to regulation 479/2009; ii) the unchanged spring macroeconomic scenario prepared by STATEC; and iii) STATEC's methodology for calculating the "output gap" required in order to take the government's financial position from a "nominal balance" to a "structural balance"<sup>2</sup>.

Potential budgetary targets for the main categories of expenditure and revenue, such as those appearing in table 4a of the appendix, have not been set for 2013, the performance of these categories is the result of a budget policy whose general aim is to achieve the medium-term budget target.

The draft budgetary plan does not contain any budgetary targets for 2014 for the reasons mentioned in the introduction. At this stage, the forecast for public finances is counting on a nominal general government balance of -0.5% GDP in 2014, as described in the section on no-policy-change (cf. tables 3 and 7 of the appendix). If the assumptions made on a no-policy-change basis turn out to be correct, this result must be interpreted as the technical consequence of the assumptions retained and not as a budgetary policy target.

According to the guidelines for establishing draft budgetary plans<sup>3</sup>, Member States are also asked to provide information on one-off or temporary measures in this section. For 2013, no such measures have been taken. For 2014, the forecast is based on the no-policy-change scenario which includes as one of its assumptions the implementation of a civil service pay agreement<sup>4</sup>, which includes a one-off lump sum payment of 0.9% that will be paid in mid-2014.

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<sup>2</sup> As previously stated 14<sup>th</sup> update of the April 2013 PSC, STATEC's methodology is configured slightly differently to the common methodology used by the European Commission to assess the fiscal policy stance of Member States.

<sup>3</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0490:FIN:FR:PDF>

<sup>4</sup> The corresponding draft bill (Bill 6458, transposing certain provisions of the 15 July 2011 pay agreement for civil service, and amending the Amended Law of 22 June 1963 setting the numerical value of civil servants' pay, as well as the implementing legislation for the Law of 22 June 1963 setting civil servants' pay arrangements) was submitted to the Chamber of Deputies but has not yet been adopted.

### 3. Expenditure and revenue projections under the no-policy change scenario.

Between 2013 and 2014, the general government balance is forecast to rise from -0.9% to -0.5% of the GDP, taking it from -413 million Euros to -249 million Euros. This +0.4% improvement is the result of assumptions made in a no-policy-change scenario. Whereas the total government revenue to GDP ratio is forecast to remain stable at around 44% between 2013 and 2014, the government expenditure as a percentage of GDP should fall from 45.1% in 2013 to 44.6% in 2014. The slow-down in the growth rate of government spending, which will fall from 5% in 2013 to 3.3 % in 2014, is primarily attributable to a number of factors that are related:

- (i) on the one hand, to the assumptions underlying the no-policy-change scenario:
  - (a) following a 4.4% drop in 2013 compared with 2012, the formation of capital is expected to remain stable in 2014, with a growth rate of 0.4%;
  - (b) similarly, following a 3% growth rate in 2013, capital transfers will drop by 7% in 2014;
- (ii) on the other hand, to the terms of refinancing government debt: thanks to more favourable terms being forecast for refinancing a 2008 bond for 2 billion Euros that will expire in 2013, property income is forecast to drop by 10% in 2014, following growth of 27% linked to borrowing requirements in 2013 compared to 2012.

In the context of the financial crisis, Luxembourg issued a retail investor bond of 2 billion Euros in 2008 to lend its support to a systemically relevant bank by entering its capital. This bond will expire on 4 December 2013 and, as planned in the April 2013 SGP, the draft budgetary plan is based on the assumption that this bond will be refinanced in its entirety. In 2014, the change in government debt will be primarily attributable to the central government borrowing requirements forecast. In the draft budgetary plan, net borrowing requirements are estimated at 1,000 million Euros.

Consequently, gross government debt is likely to rise from 24.9% of the GDP in 2013 to 26.2% of the GDP in 2014.

#### 4. Expenditure and revenue targets. Government expenditure by function.

The most recent estimates for 2013 indicate that government spending on education will account for 12.5% of total expenditure, spending on healthcare for 11.6% of total government expenditure and spending linked to active employment policies for 3.5% of total expenditure.

In terms of distribution, spending on social welfare, including pensions, will account for the largest portion of government spending in Luxembourg (19.9% of the GDP). It is followed by education (5.6% of the GDP) and healthcare (5.2% of the GDP). Additionally, government spending linked to active labour market policies will account for 1.6% of the GDP.

In recent years, spending on healthcare, education, and employment policy has continued to increase as a percentage of the GDP.

#### 5. Discretionary measures included in the draft budget.

Given the no-policy-change scenario on which the draft budgetary plan is based, this section is not applicable.

#### 6. Possible links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs and CSRs.

Insofar as the draft budgetary plan contains a no-policy-change scenario for 2014, no specific measure, whether in relation to the recommendations adopted by the Council as part of the European Semester 2013 or in relation to the targets set by the EU strategy for growth and jobs is described in this section.

However, in spite of the absence of a 2014 draft budget, a number of specific policies, action plans and measures implemented by the government in the course of recent years or even recent months, now form part of the no-policy-change scenario that the government is continuing to implement. These are primarily the measures that were already contained in the April 2013 National Reform Programme plus some updates in the fields of energy efficiency, soft mobility, and research and development.

All of these actions bear witness to the significant, continued efforts implemented by the government, in close cooperation with various stakeholders, relating to reforms in the domains of budgetary consolidation, competitiveness policies and active policies to encourage employment and social cohesion.

## 7. Comparison with the latest stability programme.

As previously stated in the 14<sup>th</sup> of the stability and growth programme (SGP), the development of the economic situation remains affected by uncertainties related to the sovereign debt crisis.

The data provided to Eurostat as part of the October collection and the 2014 no-policy-change draft budgetary plan are based on the most recent set of forecasts available.

In relation to the macroeconomic context, the real GDP growth rate of the Luxembourg economy, which stood at -0.2% in 2012, has been revised down in relation to the SGP (0.3%). Likewise, the nominal GDP growth rate has been revised down from 4.2% (SGP) to 2.8% in the draft budget plan. In line with this, the nominal GDP has fallen to 42,918 million Euros against 44,426 million Euros in the SGP for 2012. Consequently, for 2013 and 2014, although the same GDP growth rates are maintained, the base effect of the 2012 level revision is reflected by the same reduction in the 2013 and 2014 GDP, impacting the general government balance expressed as a GDP ratio.

### Year 2012

With regard to the general government balance, the SGP assumed a deficit of -0.8% of GDP, compared to an actual deficit of only -0.6% of GDP according to the most recent estimates. The balance has therefore improved by +0.2%, which is equivalent to +116 million Euros.

Expenditure has fallen by -70 million Euros. This reduction is primarily due to a decrease in capital formation by the central government (-78 million Euros). Under the "subsidies " item, estimates have been revised upwards by +14 million Euros, +12 million Euros of which came from an increase in subsidies in the guise of funding for the film industry and combating unemployment. Social benefits have been revised upwards by +11 million Euros. Current transfers to NPISH have been revised downwards by -18 million Euros and current transfers to EU Member States by -11 million Euros.

Revenue estimates have been revised upwards by +45 million Euros. Whereas current taxes and taxes on production have remained stable, social contributions have been revised upwards by +59 million Euros.

### Year 2013

With regard to the level of general government balance, the SGP assumed a deficit of -0.7% of GDP, compared to a deficit of -0.9% of GDP according to the most recent estimates. Therefore, the balance has deteriorated by +0.2%, equivalent to -72 million Euros.

Estimates for expenditure have been revised upwards by +100 million Euros. Social benefits have been revised upwards by +34 million Euros. "Subsidies " have been revised upwards by +23 million Euros, and are primarily directed at combating unemployment. Estimates for transfers to households have increased by +52 million Euros, this increase is due to the change in the terms applicable to financial aid from the State for higher education.

Estimates for revenues have been revised upwards by +26 million Euros. This revision is due to an increase of +149 million Euros in the level of taxes on production and a decrease of -120 million Euros in current taxes. Whereas the upward revision in taxes on production is primarily the result of the increase in VAT and subscription tax, the downward revision of current taxes originates from corporation tax and municipal business tax.

### Year 2014 with no-policy-change

With regard to the general government balance, the SGP assumed a deficit of -0.55% of GDP, compared to a deficit of only -0.54% of the GDP according to the latest estimates. In nominal terms, the general government balance has improved by +20 million Euros. The minimum deterioration of -0.01% is therefore attributable to the drop in nominal GDP. Ultimately, the estimated level of general government balance for 2014 continues to be almost identical to the estimates made in the last stability programme.

A detailed analysis shows that spending has been re-estimated to fall by -80 million Euros and revenue by -58 million Euros.

In relation to expenditure, transfers of capital have been revised downwards, as have compensation of employees, current transfers to the EU (relating to the fourth resource) and current transfers to households (scholarship grants).

Estimates of the expected revenue from market producers and non-market producers have been revised downwards, as have revenues from property and social security.



## 8. Distributional impact of the main expenditure and revenue measures.

Insofar as the draft budgetary plan contains a no-policy-change scenario for 2014 that contains no new policies or specific measures, an analysis of the redistribution effect of the main revenue and expenditure measures is not applicable. Additionally, any future analysis of this kind will pose challenges in terms of both the methodology and data, which it will only be possible to tackle gradually.

## STATISTICAL APPENDIX

Table 0.i). Basic assumptions

	Year	Year	Year
	2012	2013	2014
Short-term interest rate <sup>1</sup> (annual average)	0.6	0.2	0.1
Long-term interest rate (annual average)	3.6	3	3
USD/EUR exchange rate (annual average)	1.3	1.3	1.3
Nominal effective exchange rate (evolution as a %)	1.2	0.0	0.0
World excluding EU, real GDP growth	NA	NA	NA
Eurozone real GDP growth	-0.4	-0.3	1.4
Growth of relevant foreign markets	1.9	2.7	5.9
World import volumes, excluding EU	NA	NA	NA
Oil prices (Brent, USD/barrel)	111.7	109.5	108.6

<sup>1</sup>If necessary, purely technical assumptions.

Table 0.ii). Main assumptions. Non-exhaustive list. (Similar information may be provided in different formats)

	2012	2013	2014
<i>1. External environment</i>			
a. Price of commodities			
b. Spreads over the German bond			
<i>2. Fiscal policy</i>			
a. General government net lending / net borrowing			
b. General government gross debt			
<i>3. Monetary policy / financial sector / interest rate assumptions</i>			
a. Interest rate:			
i. Euribor			
ii. Interest rates for deposits			
iii. Interest rates for loans			
iv. Yields to maturity of 10-year government bonds			
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
<i>4. Demographic trends</i>			
a. Evolution of working-age population			
b. Dependency ratios			
<i>5. Structural policies</i>			

Table 1.a. Macroeconomic forecasts

	ESA Code	Year	Year	Year	Year
		2012	2012	2013	2014
		Level in millions	rate of change	rate of change	rate of change
<b>1. Real GDP (reference year = 2005)</b>	B1*b	33,942	-0.2	1.0	2.3
<i>of which:</i>					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth <sup>1</sup>		---	---		
<b>2. Potential GDP</b>		34,860	1.6	1.6	1.6
Contributions:					
- labour					
- capital					
- total factor productivity					
<b>3. Nominal GDP</b>	B1*b	42,918	2.8	3.2	4.4
<b>Components of real GDP</b>					
<b>4. Private final consumption expenditure *</b>	P.3	11,888			
<b>5. General government final consumption expenditure *</b>	P.3	6,084			
<b>6. Gross fixed capital formation</b>	P.51	8,271			
<b>7. Changes in inventories and valuables (% of GDP) * **</b>	P.52 + P.53	3.9	3.8	3.7	3.6
<b>8. Exports of goods and services</b>	P.6	59,452	-3.2	0.2	4.8
<b>9. Imports of goods and services</b>	P.7	52,553	-2.6	-0.2	4.3
<b>Contributions to real GDP growth</b>					
<b>10. Final domestic demand</b>		3.0	-	0.5	0.6
<b>11. Changes in inventories and valuables</b>	P.52 + P.53	-1.0	-	-0.1	0.0
<b>12. External balance of goods and services</b>	B.11	-1.6		0.6	1.7

\* Not chained. \*\* Different series to the published official series.

<sup>1</sup> State here the estimated impact on real GDP growth of aggregated budgetary measures contained in the draft budget plans.

Table 1.b. Price developments

	ESA Code	Year	Year	Year	Year
		2012	2012	2013	2014
		Level in millions	rate of change	rate of change	rate of change
<b>1. GDP deflator (2005=1)</b>		1.3	3.9	2.1	2.1
<b>2. Private consumption deflator</b>		1.2	2.2	1.6	1.6
3. HICP					
4. Public consumption deflator					
5. Investment deflator					
<b>6. Export price deflator (goods and services)</b>		1.3	4.3	3.9	3.1
<b>7. Import price deflator (goods and services)</b>		1.2	3.5	3.8	3.8

Table 1.c. Labour market developments

	ESA Code	Year	Year	Year	Year
		2012	2012	2013	2014
		Level in millions	rate of change	rate of change	rate of change
<b>1. Employment, persons<sup>1</sup></b>		377.3	2.1	1.7	1.3
2. Employment, hours worked <sup>2</sup>					
<b>3. Unemployment rate (as a %)<sup>3</sup></b>			5.4	5.9	6.1
<b>4. Labour productivity, persons<sup>4</sup></b>		NA	-2.2	-0.8	0.8
5. Labour productivity, hours worked <sup>5</sup>					
<b>6. Compensation of employees (billion EUR)</b>	D.1	20.5	3.6	3.5	4.3
<b>7. Compensation per employee (1,000 EUR/year)</b>		57.5	1.2	1.5	2.7
			-		
			-		

<sup>1</sup> Active occupied population, in thousands, national accounts definition.

<sup>2</sup> National accounts concept.

<sup>3</sup> Harmonised definition, Eurostat.

<sup>4</sup> Real GDP per person employed.

<sup>5</sup> Real GDP per hour worked.

Table 1.d. Sectoral balances

	ESA Code	Year	Year	Year
		2012	2013	2014
<b>1. Net lending / net borrowing vis-à-vis the rest of the world</b>	B.9	% GDP	% GDP	% GDP
<i>of which:</i>				
- Balance of goods and services				
- Balance of primary incomes and transfers				
- Capital account				
2. Net lending / net borrowing of the private sector	B.9			
3. Net lending / net borrowing of general government	B.9			
4. Statistical discrepancy				

Table 2.a. General government net lending / net borrowing

	ESA Code	Year	Year
		2013	2014
		% GDP	
<b>Net lending / net borrowing (B.9) by sub-sector</b>			
<b>1. General government</b>	S.13	-0.9	
<b>2. Central government</b>	S.1311	-2.3	
<b>3. State government</b>	S.1312	-	
<b>4. Local government</b>	S.1313	-0.1	
<b>5. Social security funds</b>	S.1314	1.5	
<b>6. Interest expenditure</b>	D.41	0.6	
<b>7. Primary balance<sup>2</sup></b>		-0.3	
<b>8. One-off and other temporary measures<sup>3</sup></b>		0.0	
<b>9. Real GDP growth (%)</b>		1.0	
<b>10. Potential GDP growth (%)</b>		1.6	
contributions:			
- labour			
- capital			
- total factor productivity			
<b>11. Output gap</b>		-3.2	
<b>12. Cyclical budgetary component</b>		-1.4	
<b>13. Cyclically-adjusted budget balance (1-12)</b>		0.5	
<b>14. Cyclically-adjusted primary balance (13+6)</b>		1.1	
<b>15. Structural balance (13-8)</b>		0.5	

<sup>1</sup> TR - TE = B.9.

<sup>2</sup> The primary balance is calculated as (B.9, item 8) plus (D.41, item 9).

<sup>3</sup> A plus sign means deficit-reducing one-off measures.

**Table 2.b. Evolution of general government debt**

	ESA Code	Year	
		2013	2014
		% GDP	% GDP
<b>1. Gross debt<sup>1</sup></b>		24.9	26.1
<b>2. Change in gross debt ratio</b>		2.6	1.1
<b>Contributions to changes in gross debt</b>			
<b>3. Primary balance</b>		-0.3	
<b>4. Interest expenditure</b>	D.41	0.6	
<b>5. Stock-flow adjustment</b>		1.7	
<i>of which:</i>			
- differences between cash and accruals <sup>2</sup>			
- net accumulation of financial assets <sup>3</sup>			
<i>of which:</i>			
- privatisation proceeds			
- valuation effects and other <sup>4</sup>			
<b>p.m.: implicit interest rate on debt<sup>5</sup></b>		2.9	1.8
Other relevant variables			
6. Liquid financial assets <sup>6</sup>			
7. Net financial debt (7=1-6)			
8. Debt amortisation (existing bonds) since the end of the previous year			
9. Percentage of debt denominated in foreign currency			
10. Average maturity			

<sup>1</sup> As defined in Regulation 479/2009.

<sup>2</sup> A distinction may be made in relation to the differences between interest expenditure, other expenditure and revenue where relevant or in case the debt-to-GDP ratio is above the reference value.

<sup>3</sup> A distinction may be made between liquid assets (currency), government bonds, assets in third countries, government controlled enterprises and the difference between quoted and non-quoted assets where relevant or in case the debt-to-GDP ratio is above the reference value.

<sup>4</sup> A distinction may be made between changes due to exchange rate movements, and operations on the secondary market where relevant or in case the debt-to-GDP ratio is above the reference value.

<sup>5</sup> Equal to interest expenditure divided by the debt level of the previous year.

<sup>6</sup> Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between general government entities), A.F511, AF.52 (only if quoted on the stock exchange).

**Table 2.c. Contingent liabilities**

	Year	
	2013	2014
	% GDP	% GDP
Public guarantees	8.4	
of which: guarantees linked to the financial sector	4.9	

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

General government (S.13)	ESA Code	Year	
		2013	2014
		% GDP	% GDP
<b>1. Total revenue at unchanged policies</b>	TR	44.2	44.1
<b>Of which:</b>			
1.1. Taxes on production and imports	D.2	13.4	13.5
1.2. Current taxes on income and wealth	D.5	14.7	14.7
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.4	12.4
1.5. Property income	D.4	1.4	1.4
1.6. Other <sup>1</sup>		1.9	1.9
<b>p.m.: Tax burden</b>		40.8	40.8
(D.2+D.5+D.61+D.91-D.995)		0.0	0.0
<b>2. Total expenditure at unchanged policies</b>	TE <sup>3</sup>	45.1	44.6
<b>Of which:</b>			
2.1. Compensation of employees	D.1	8.5	8.5
2.2. Intermediate consumption	P.2	3.8	3.9
2.3. Social payments	D.621	21.5	21.5
<b>Of which: Unemployment benefits</b>		1.0	1.0
2.4. Interest expenditure	D.41	0.6	0.5
2.5. Subsidies	D.3	1.9	1.9
2.6. Gross fixed capital formation	P.51	3.5	3.4
2.7. Capital transfers	D.9	1.3	1.1
2.8. Other		3.9	3.8
<b>Net lending/ net borrowing</b>		-0.9	-0.5

<sup>1</sup> Pursuant to SEC95: D6311\_D63121\_D63131pay; SEC2010: D632pay.

Table 4.a. General government expenditure and revenue targets, broken down by main components

	ESA Code	Year 2013	Year 2014
<b>General government (S.13)</b>			
<b>1. Total revenue target</b>	TR	44.2	% GDP
<b>Of which:</b>			
<b>1.1. Taxes on production and imports</b>	D.2	13.4	
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	14.7	
<b>1.3. Capital taxes</b>	D.91	0.2	
<b>1.4. Social contributions</b>	D.61	12.4	
<b>1.5. Property income</b>	D.4	1.4	
<b>1.6. Other<sup>1</sup></b>		1.9	
<b>p.m.: Tax burden</b> (D.2+D.5+D.61+D.91-D.995) <sup>2</sup>			
<b>2. Total expenditure target</b>	TE <sup>3</sup>	45.1	
<b>Of which:</b>			
<b>2.1. Compensation of employees</b>	D.1	8.5	
<b>2.2. Intermediate consumption</b>	P.2	3.8	
<b>2.3. Social payments</b>	D.62 <sup>6</sup> + D.632	21.5	
<b>Of which: Unemployment benefits<sup>4</sup></b>		1.0	
<b>2.4. Interest expenditure</b>	D.41	0.6	
<b>2.5. Subsidies</b>	D.3	1.9	
<b>2.6. Gross fixed capital formation</b>	P.51	3.5	
<b>2.7. Capital transfers</b>	D.9	1.3	
<b>2.8. Other<sup>5</sup></b>		3.9	

<sup>1</sup> .11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec).

<sup>2</sup> Including those collected by the EU and including an adjustment for uncollected taxes and other contributions D.995), if applicable.

<sup>3</sup> TR-T E= B.9.

<sup>4</sup> Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, SEC2010: D.632) related to unemployment benefits.

<sup>5</sup> DD.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+K.2+D.8.

Table 4.b. Amounts to be excluded from the expenditure benchmark

	ESA Code	Year	Year	Year	Year
		2012	2012	2013	2014
		Level in millions	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds		71	0.2	0.2	0.2
2. Cyclical unemployment benefit expenditure <sup>1</sup>		70	0.2	0.2	0.0
3. Effect of discretionary revenue measures		28	0.1	0.9	0.0
4. Revenue increases mandated by law <sup>2</sup>					

<sup>1</sup> Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should be based on unemployment benefit expenditure as defined in COFOG under the code 10.5.

<sup>2</sup> Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.

4.c.i) General government expenditure on education, healthcare and employment

	2013		2014	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education <sup>1</sup>	5.6	12.5		
Healthcare <sup>1</sup>	5.2	11.6		
Employment <sup>2</sup>	1.6	3.5	1.5	3.4

<sup>1</sup> These expenditure categories should correspond respectively to items 9 and 7 in

<sup>2</sup> This expenditure category should contain, *inter alia*, government spending related to active labour market policies (ALMPs) including public employment services. On the contrary, items such as compensation of civil service employees or vocational training programmes should not be included here.

4.c.ii) Classification of the functions of the general government

Functions of the general government	COFOG Code	2013	2014
		% GDP	% GDP
Functions of the general government			
1. General public services	1	4.4	
2. Defense	2	0.4	
3. Public order and safety	3	1.0	
4. Economic affairs	4	4.6	
4. Environmental protection	5	1.4	
6. Housing and community amenities	6	0.8	
7. Health	7	5.2	
8. Recreation, culture and religion	8	1.8	
9. Education	9	5.6	
10. Social protection	10	19.9	
11. Total expenditure	TE	45.1	



**Table 5.a. Consolidation measures taken by the general government**

List of measures	Detailed description <sup>1</sup>	Target (expenditure/revenue component)	Accounting principle	Adoption Status	Budgetary impact			
		ESA Code			2013	2014	2015	Year t+...
					% GDP	% GDP	% GDP	% GDP
(1)								
(2)								
...								
<b>TOTAL</b>								

<sup>1</sup> Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the eurozone.

**Table 5.b. Consolidation measures taken by the general government**

List of measures	Detailed description <sup>1</sup>	Target (expenditure / revenue component)	Accounting principle	Adoption Status	Budgetary impact			
		ESA Code			2013	2014	2015	Year t+...
					% GDP	% GDP	% GDP	% GDP
(1)								
(2)								
...								
<b>TOTAL</b>								

<sup>1</sup> Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the eurozone.

**Table 5.c. Consolidation measures taken by sub-sectors of the general government<sup>1</sup>.**

List of measures	Detailed description <sup>2</sup>	Target (Expenditure / Revenue component)	Accounting principle	Adoption status	Budgetary impact			
		ESA Code			2013	2014	2015	Year t+...
					% GDP	% GDP	% GDP	% GDP
(1)								
(2)								
...								
<b>TOTAL</b>								

<sup>1</sup> Please specify whether State Government, Local Government and/or Social Security Funds.

<sup>2</sup> Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the eurozone.

### **Table 6.a Country-specific recommendations 2013-2014**

Country-specific recommendations 2013-2014 for Luxembourg (July 2013):

1. *Preserve a sound fiscal position and remain at the medium-term objective so as to ensure the long-term sustainability of public finances, in particular by taking into account implicit liabilities related to ageing. Strengthen fiscal governance by adopting a medium-term budgetary framework covering the general government and including multi-annual expenditure ceilings, and by putting in place the independent monitoring of fiscal rules.*
2. *Take measures to address the debt-bias in corporate taxation and extend the application of the standard VAT rate.*
3. *Curb age-related expenditure by making long-term care more cost effective, in particular through a stronger focus on prevention, rehabilitation and independent living, strengthening the recently adopted pension reform, taking additional measures to curb early retirement and increasing the effective retirement age, including by linking the statutory retirement age to life expectancy.*
4. *Beyond the current freeze, take further structural measures, in consultation with the social partners and in accordance with national practices, to reform the wage setting system, including wage indexation, to improve its responsiveness to productivity and sectoral developments and labour market conditions and foster competitiveness. Step-up efforts to diversify the structure of the economy, fostering private investment in research, notably by developing cooperation between public research and firms.*
5. *Step up efforts to reduce youth unemployment by improving the design and monitoring of active labour market policies. Strengthen general and vocational education to better match young people's skills with labour demand, in particular for people with migrant background. Take resolute action to increase the participation rate of older workers, including by improving their employability through lifelong learning.*
6. *Step up measures to meet the target for reducing non-ETS greenhouse gas emissions, in particular by increasing taxation on energy products for transport.*

<b>No. of country-specific recommendation</b>	<b>List of measures</b>	<b>Description of direct contribution</b>
<b>1</b>	Bill on the coordination and governance of public finances (Bill No. 6597 submitted in July 2013).	Strengthening of the Luxembourg budgetary framework, as part of the six-pack, two-pack and European Fiscal Compact transposition. The introduction of a medium-term budgetary framework with fiscal regulations on spending and independent monitoring are planned. Entry into force planned for 1 January 2014.
<b>2</b>	/	/
<b>3</b>	Reform of pension insurance (Law applicable with effect from 1 January 2013).	Guarantee the long-term viability of the pensions system.
	Bill for the reform of the occupational reclassification system.	Increase the effectiveness of guidance measures and advice for insured parties affected by incapacity for employment: legal adjustments to implement shall on the one hand aim to improve the placement of employees, while taking care not to prematurely exclude from the labour market employees who are still fit to work.
	Reform of pre-retirement solidarity.	Increase the rate of participation of older workers in the labour market, through the elimination of pre-retirement solidarity by taking measures subject to take into account the difficulties that could arise from this abolition.
<b>4</b>	Adjustment of the automatic wage indexation system 2012-2014 (Law of 31 January 2012).	Ensure that wage increases are better aligned with developments in productivity through an adjustment of the automatic wage indexation system in 2012, 2013 and 2014, through which only one index-linked pay increase will be made per year.

		Furthermore, a 12-month interval shall be respected between each index-linked pay increase.
	Automatic price indexation analyses.	Legal and economic analyses have been conducted, or are underway to better understand the impact of automatic indexing clauses in Luxembourg.
	The development of six priority sectors as part of multisectoral specialisation (environmental technology, biotechnology, logistics, materials and information and communications technologies).	Diversify the structure of the economic fabric.
<b>5</b>	Action plan to promote the employment of young people.	Measures and activities to be implemented to promote the employment of young people, including the introduction of a "youth guarantee", the improvement of guidance or learning development.
	Guidance Centre.	Provide better interdepartmental coordination for the guidance of young people.
	Reform the Initial Employment Contract and the Employment Support Contract.	Target more youth support contracts, improve follow-up, training, effectiveness and efficiency.
	Specific training for young jobseekers with very little training.	Provide basic training to poorly qualified young jobseekers, to include on-the-job training with follow-up from training centres.
	Strengthen staff resources in the ADEM youth employment department and guidance during 2013-2014.	Provide the ADEM youth employment department with better resources and tools to ensure the follow-up of young jobseekers.
<b>6</b>	Second Action Plan for the Reduction of CO <sub>2</sub> Emissions.	Define a strategy and a set of measures that should enable Luxembourg to meet its commitments on the reduction of CO <sub>2</sub> emissions.
	Action plans for energy efficiency.	Definition of measures to help achieve the global energy efficiency target set in all sectors, including transport.
	Creation of new financial assistance arrangements for energy saving and the use of renewable energy in the housing sector.	Gradually strengthen energy performance requirements for new residential buildings (the new financial assistance arrangements will remain in effect until 2016).

	Increase in the market share of low fuel consumption cars and, in particular, promotion of the development of electric mobility.	Prolong and restructure financial assistance for fuel-efficient cars introduced in 2007 for one more year for externally chargeable pure and hybrid electric cars.
	Creation of a Climate Pact with the <i>communes</i> .	Strengthen the role of the <i>communes</i> in climate policy to reduce GHG emissions and the energy bill for the <i>communes</i> and to stimulate local and regional investment by providing the <i>communes</i> that sign up to this pact with financial and technical support during the period 2013-2020 inclusive.
	Implement the MoDu ("Sustainable Mobility") strategy.	Promote improved articulation between territorial development and mobility, promote the use of public transport and soft mobility (pedestrians/cyclists) and promote alternative use of cars.
	Installation of a high-capacity, high-frequency transport system in the capital.	Implement a priority route public transport system - the tram - in the capital, which will contribute to demographic and economic development.
	Implementation of the Sectoral Transport Plan.	Reserve corridors for rail and road infrastructure projects, promote soft mobility, establish parking management in urban areas.

Note: For further information, consult the Luxembourg National Reform Programme (April 2013).  
[http://www.odc.public.lu/publications/pnr/2013\\_PNR\\_Luxembourg\\_2020\\_avril\\_2013.pdf](http://www.odc.public.lu/publications/pnr/2013_PNR_Luxembourg_2020_avril_2013.pdf)

**Table 6.b Targets set by the EU strategy for growth and employment**

National targets of the 2020 Europe Strategy	List of measures	Description of the direct contribution for achieving the target
<p><b>National target of the 2020 Europe Strategy on employment</b>  <b>71.5% for 2015</b>  <b>73% for 2020</b></p>	<ol style="list-style-type: none"> <li>1. Reform of the Agency for the development of employment (ADEM): modernisation of the IT system, regional branches.</li> <li>2. Implementation of the Labour Market Observatory: creation of an employment roadmap and a database.</li> <li>3. Bill on age policy, currently being prepared.</li> <li>4. Bill to reform social dialogue within companies.</li> <li>5. <i>Fit4job</i> Measures (four projects – <i>fit4financial markets</i>, <i>fit4génie civil</i>, <i>fit4job seniors</i>, <i>fit4commerce</i>).</li> <li>6. Measures implemented as part of country-specific recommendation No. 4, July 2012 for Luxembourg: action plan for young people, creation of the Guidance Centre, amendments relating to the Work-Support Contract and the Initial Employment Contract, specific training tailored to young people with very little training, "<i>Coup de Pouce</i>" (Helping Hand) Project, Training for Young People Hired on a Work-Support Contract Project, ADEM awareness raising workshops, creation of "Second Chance School".</li> <li>7. Bill to transpose directive 2010/18/EU.</li> <li>8. Implementation of the National Action Plan for the</li> </ol>	<p>Make management of job applications/offers more effective and provide more personalised follow-up of jobseekers.</p> <p>Optimise knowledge of how the labour market works.</p> <p>Increase lifelong learning.</p> <p>Qualitative strengthening of social dialogue.</p> <p>Proactive, personal guidance of people who lost their job in the sector in question.</p> <p>Strengthen the employability of young people, in particular through training and advice.</p> <p>Make parental leave more appealing to men.</p> <p>Boost the equality of Men and Women.</p>

	<p>Equality of Men and Women.</p> <p>9. Law reforming the retirement system.</p> <p>10. The government has decided to eliminate pre-retirement solidarity.</p> <p>11. The preparation of a draft bill introducing a package of age policy measures (private sector).</p> <p>12. Management of the age pyramid in the Civil Service through an action plan (four specific measures).</p> <p>13. Bill changing the external reclassification system.</p>	<p>Increase the participation rate of older workers.</p> <p>Increase the participation rate of older workers.</p> <p>Increase the participation rate of older workers.</p> <p>Increase the activity rate of older public officials and a reduction in the budget for pensions.</p> <p>Ensure better follow-up so that the jobseekers in question can be properly re-integrated.</p>
<p><b>National target of the 2020 Europe Strategy for R&amp;D</b>  <b>2.0% for 2015</b>  <b>2.3-2.6% for 2020</b>  (of which: 0.7-0.8% for the public sector and 1.5-1.9% for the private sector)</p>	<p>1. Bill amending the National Research Fund (<i>Fonds national de la recherche</i> - FNR).</p> <p>2. Bill intended to organise Public Research Centres (<i>centres de recherche publics</i> - CRPs), in addition to creating the Luxembourg Institute for Science and Technology (LIST), Healthcare, and the Centre for Population, Poverty and Socio-Economic Policy Studies (CEPS) public research centres.</p>	<p>Update of the FNR missions, redefinition of the framework of bodies that are eligible for FNR intervention, improvement of governance, introduction of so-called "collective" training-research support.</p> <p>Definition of the status of CRPs, definition of the missions of CRPs, definition of the governing bodies of CRPs, definition of the status of the personnel of CRPs.</p>

	<p>3. Second 2010-2013 on-premises contract with University of Luxembourg / 2011-2013 performance contracts with CRPs, CEPS, FNR and Luxinnovation.</p> <p>4. FNR 2008-2013 CORE AND INTER Programme</p> <p>5. FNR 2008-2013 Training-Research Support Programme.</p> <p>6. FNR 2008-2013 ATTRACT Programme. 7. Implementation of a pilot scheme known as OPEN.</p> <p>8. Awareness raising campaigns (territorial seminars, awareness raising among small and medium-sized companies, intellectual property, etc.).</p> <p>9. Business Meets Research Forum.</p> <p>10. Research promotion (FOCUS magazine).</p> <p>11. Luxembourg Cluster Initiative.</p>	<p>Grouping together of the Henri Tudor and Gabriel Lippmann CRPs and the integration of IBBL in the Healthcare CRP.</p> <p>Performance monitoring.</p> <p>Concentration of national R&amp;D efforts on a limited number of priority fields.</p> <p>Support of PhD and post-doctoral researchers.</p> <p>Funding. Support of research projects of excellent scientific quality falling outside CORE priorities.</p> <p>Raise awareness among economic actors about research and innovation.</p> <p>Promote exchanges between researchers and business (<i>networking</i>).</p> <p>Promote research in Luxembourg.</p> <p>Gather resources and means to achieve a critical mass and speed up the transfer of knowledge.</p>
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	<p>12. Law of 5 June 2009 on the promotion of RDI and Law of 18 February 2010 relating to the protection of the environment and the rational use of natural resources.</p> <p>13. Encouragement and management of the involvement of Luxembourg companies in international programmes and initiatives (7th PCRD, CIP, ESA, etc.).</p>	<p>Encourage RDI efforts across the entire innovation chain.</p> <p>Increase the participation success rate.</p>
<p><b>Target for the reduction of greenhouse gas emissions</b>  <b>-20% in 2020 (compared with 2005)</b></p>	<p>1. First Action Plan for the reduction of CO<sub>2</sub> emissions.</p> <p>2. Second Action Plan for the reduction of CO<sub>2</sub> emissions.</p> <p>3. Financial assistance provisions for energy savings and the use of renewable energy in the housing sector (PRIME House).</p> <p>4. Prolongation and restructuring of financial assistance for fuel-efficient cars for one more year for externally chargeable pure and hybrid electric cars.</p> <p>5. Climate Pact with the <i>communes</i>.</p> <p>6. Promotion of the use of public transport and soft mobility (MoDu strategy).</p>	<p>Reduce GHG emissions.</p> <p>Reduce GHG emissions.</p> <p>Increase requirements relating to the energy performance of new residential buildings and reduce CO<sub>2</sub> emissions.</p> <p>Develop electric mobility and reduce CO<sub>2</sub> emissions.</p> <p>Reduce GHG emissions and the energy bill in the <i>communes</i> and boost local and regional investment.</p> <p>Develop an efficient public transport structure and an effective network for soft mobility in order to reduce CO<sub>2</sub> emissions by reducing individual motorised transport.</p>

	<p>7. Development of a tram in the capital (Luxembourg City).</p> <p>8. Implementation of the Sectoral Transport Plan.</p>	<p>Develop efficient public transport that takes into account economic development and demography in the country's capital.</p> <p>Provide a regulatory framework for the MoDu strategy measures in order to reserve corridors for rail and road infrastructure, promote soft mobility and manage parking places in urban areas.</p>
<p><b>Renewable energy target of 5.45% on average for 2015/2016 11% for 2020</b></p>	<p>1. Grand-Ducal Regulation introducing a support mechanism for biogas production facilities injecting biogas into natural gas networks in Luxembourg (December 2011).</p> <p>2. Grand-Ducal Regulation on the energy performance of residential buildings (May 2012)</p> <p>3. Draft Grand-Ducal Regulation on the energy performance of office buildings (2013)</p> <p>4. Grand-Ducal first draft Regulation on the extent and the structure of feed-in tariffs relating to the production of electricity based on renewable energy resources.</p> <p>5. Grand-Ducal Regulation setting the sustainability criteria for biofuels and bioliquids (February 2011)</p> <p>6. Law on the organisation of the electricity market (August 2012) relating to electromobility in Luxembourg.</p>	<p>Increase the number of biogas facilities.</p> <p>Strengthen the energy performance requirements for new residential buildings and extensions of existing buildings.</p> <p>Strengthen the energy performance requirements for office buildings.</p> <p>Increase electricity production based on renewable energy resources.</p> <p>Regulate the mix of biofuels in the fuels placed on the domestic market.</p> <p>Help to develop electromobility in Luxembourg.</p>

	7. Use of cooperation mechanisms.	Increase renewable energy in the EU.
<p><b>National target for energy efficiency</b>  <b>14.06% for 2016</b>  The <b>2020</b> targets are laid down in the EU Directive 2012/27 of 25 October 2012 on energy efficiency.</p>	<p>1. Grand-Ducal Regulation on the energy performance of residential buildings (May 2012) - obligation to publish information on energy performance when letting/selling buildings.</p> <p>2. Set up a national plan intended to increase the number of buildings with practically nil energy consumption.</p> <p>3. Grand-Ducal Regulations relating to the production of electricity based on high-yield cogeneration (December 2012).</p> <p>4. Voluntary agreement with the industrial sector 2011–2016.</p> <p>5. Law introducing smart metering systems (August 2012).</p> <p>6. Preparation of the third Energy Efficiency Action Plan (underway 2013).</p> <p>7. Strengthening of campaigns led by EIG, MyEnergy, to improve energy efficiency through the <i>MyEnergy Certified</i> Programme and involvement in the <i>LuxBuild 2020</i></p>	<p>Strengthen the energy performance requirements for new residential buildings and extensions of existing buildings.</p> <p>Increase the energy performance of buildings.</p> <p>Further promote the development of cogeneration using renewable energy as a priority over cogeneration using fossil fuel energy.</p> <p>Improvement in energy efficiency and implementation of new or renewable energy sources in companies belonging to the industrial sector.</p> <p>Define a framework and a timeline for the deployment of communal and interoperable national smart metering infrastructure.</p> <p>Increase energy efficiency in all sectors in order to attain the target set for 2016.</p> <p>Voluntary certification of energy advisors, attesting to their skills in the field of energy consultation and the energy performance of</p>

	Programme.	buildings, and preparation of the construction sector and, more specifically, the crafts industry for the 20/20/20 targets.
<p><b>National target for the school drop-out rate</b>  <b>Sustainably less than 10% in 2020</b>  The target will be revised in 2015 if the dropout rate stabilises at below 10%.</p>	<ol style="list-style-type: none"> <li>1. Bill on the reform of secondary education.</li> <li>2. New guidance procedures for students moving from primary education to junior secondary education.</li> <li>3. Reform of vocational training.</li> <li>4. Creation of a Guidance Centre (September 2012).</li> <li>5. Increase in the capacities of Second Chance School (law passed in April 2009).</li> </ol>	<p>Ensure better management, more appropriate guidance in junior classes, broad general knowledge, gradual specialisation with greater choice for senior students, better-defined responsibilities and defined procedures for the organisation of <i>lycées</i>.</p> <p>Strengthen the active involvement of parents and improve the transparency of decision-making.</p> <p>Ensure that qualifications correspond to labour market demand.</p> <p>Provide support in the transition phase between school and employment and automatically follow-up on young school dropouts.</p> <p>Allow more school dropouts to gain a higher level of education and to consolidate their knowledge and skills certified in previous reports.</p>
<p><b>National target for higher education</b>  Ensure that, <b>at the beginning of 2020, 66%</b> of the active population aged between 30 and 34 years has benefited from higher education and holds a higher education diploma</p>	<ol style="list-style-type: none"> <li>1. Reform of financial assistance for higher education - Law of 19 July 2013 amending the Amended Law of 22 June 2000 on financial assistance from the State for higher education.</li> <li>2. Expand the range of shorter course vocational training on</li> </ol>	<p>Increase the number of people who hold a higher education diploma.</p> <p>Increase the range of short vocational courses</p>

	offer: <i>Brevet de Technicien Supérieur</i> (Advanced Technician's Certificate).	on offer and the number of students on them.
	3. Investments in the operation and infrastructure of University of Luxembourg.	Develop the University of Luxembourg.
<b>National poverty target</b> Reduce the number of people threatened with poverty or social exclusion by <b>6,000</b> by 2020.	<p>1. Continuation of the policy to offer socio-educational recreational facilities for children.</p> <p>2. Awareness raising among parents, who receive a guaranteed minimum income (RMG), about child-care service vouchers.</p> <p>3. Increase in the activation rate as part of the RMG scheme.</p> <p>4. Promotion of measures intended to encourage the transition of young people from school into employment and motivate them to go back to school.</p> <p>5. The Law on social support.</p> <p>6. National Strategy against homelessness and exclusion related to housing.</p>	<p>Increase the employment rate of women and single parent families; break the cycle of poverty being passed on from generation to generation; encourage social inclusion and social cohesion in the multicultural society.</p> <p>Increase the availability of parents for the labour market; promote social inclusion and social cohesion in the multicultural society.</p> <p>Promote access to employment and social inclusion.</p> <p>Promote the social inclusion of young people.</p> <p>Reduce circumstances of material deprivation, promote social inclusion.</p> <p>Reduce homelessness and exclusion related to housing.</p>

	7. National Roma Integration Strategy.	Study on the situation of the Roma to find out whether they are treated equally in relation to other nationals.
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Note: For further information, consult the Luxembourg National Reform Programme (April 2013).  
[http://www.odc.public.lu/publications/pnr/2013\\_PNR\\_Luxembourg\\_2020\\_avril\\_2013.pdf](http://www.odc.public.lu/publications/pnr/2013_PNR_Luxembourg_2020_avril_2013.pdf)

**Table 7. Divergence from latest Stability Programme**

	ESA Code	Year	Year	Year
		2012	2013	2014
		% GDP	% GDP	% GDP
<b>Target general government net lending / net borrowing</b>	B.9			
<b>Stability Programme</b>		-0.8	-0.7	-0.6
<b>Draft Budget Plan</b>		-0.6	-0.9	-
<b>Difference</b>		0.2	-0.2	-
<b>General government net lending projection based on unchanged policies</b>	B.9			
<b>Stability Programme</b>		-0.8	-0.7	-0.6
<b>Draft Budget Plan</b>		-0.6	-0.9	-0.5
<b>Difference <sup>1</sup></b>		0.2	-0.2	0.0

<sup>1</sup> This difference may refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the SP and the submission of the DRP.

**Table 8. Methodological aspects.**

Estimation technique	Step of the budgetary process for which it was used <sup>1</sup>	Relevant features of the model/ technique used	Assumptions
Tool No. 1			
Tool No. 2			
...			

<sup>1</sup> Modelling tools may have been used:

- when preparing macro forecasts
- when estimating expenditure and revenue under the no-policy-change scenario
- when estimating the redistribution impact of the main expenditure and revenue measures
- when quantifying the expenditure and revenue measures to be included in the draft budget
- when estimating data indicating how reforms included in the DBP address the country-specific recommendations and help to achieve the targets set by the EU Strategy for growth and jobs.