



THE GOVERNMENT  
OF THE GRAND-DUCHY OF LUXEMBOURG  
*Ministry of Finance*

# **DRAFT BUDGETARY PLAN 2015 GRAND DUCHY OF LUXEMBOURG**

15 October 2014



## **1. Introduction**

In accordance with article 6 of Regulation 473/2013, Luxembourg hereby submits its draft budgetary plan for the fiscal year 2015.

In accordance with article 3, paragraph 4, of Regulation 473/2013, the draft budgetary plan is based on independent macroeconomic forecasts, insofar as they are produced by STATEC (*Institut national de la statistique et des études économiques*). Moreover, pursuant to the same Article 3, paragraph 4, it should be noted that the budgetary forecasts included in this draft budgetary plan were neither produced nor approved by an independent body.

Also, and under the Two-Pack Code of conduct, the draft budgetary plan takes into account the requirements of the European System of Accounts classification system, known as ESA 2010.

The present draft budgetary plan is based on the 2015 draft budget submitted to Parliament on 15<sup>th</sup> October.

## **2. Macroeconomic forecasts**

The macroeconomic forecasts for Luxembourg for 2015 are to be viewed within the context of a European recovery that is more fragile than expected, further increasing economic uncertainties in the short and medium term. In effect, real growth rates for both 2014 and 2015 had to be slightly revised downwards from the figures initially used for the 2014 draft budgetary plan as well as the Stability and Growth Programme (SGP)<sup>1</sup>.

At the same time, the forecasted economic growth for Luxembourg in 2015 is expected to exceed average growth in the euro area. Indeed, real GDP growth at the national level is forecasted at 2.7%<sup>2</sup> compared to 1.4% in the eurozone.

The national unemployment rate is expected to be at 6.1% in 2014 and is likely to continue to rise to 6.4% in 2015 according to the harmonized ILO definition.

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<sup>1</sup> Real GDP growth for Luxembourg was revised downwards for 2014 from 3.2% to 2.8% and for 2015 from 3.2% to 2.7%.

<sup>2</sup> With nominal GDP growth of 4.0%.

The inflation rate remained very low in 2013: 1.5% for the national consumer price index (IPCN) and 1.2% for the harmonised consumer price index (IPCH). Given the low inflation environment, no indexation adjustment is anticipated to take place in 2014. The next adjustment is expected for the first quarter of 2015 on the basis of current inflation expectations.

### **3. Budgetary targets and budgetary policy**

The government's budgetary policy for 2015 is characterised by the following items:

- in terms of process: national implementation of the new European economic governance context, such as the introduction of a medium-term budgetary framework<sup>3</sup>. This entails that a draft bill on multi-year budgetary programming for 2015-2018 will simultaneously be submitted to parliament;
- in terms of budgetary policy: 2015 is characterised, as outlined in the 2014 SGP, by a permanent deterioration of revenues linked to the change in the e-commerce VAT regime as of 1<sup>st</sup> January 2015<sup>4</sup>. The central assumption remains the same as the one used in the Stability Programme, i.e. that the revenue shortfall in 2015 is estimated at EUR 700 million<sup>5</sup> or 1.4% of GDP.

In terms of budgetary targets, the government's budgetary policy is characterised by the following items:

- the 2015 budgetary policy is part of the medium-term fiscal strategy of the Government as set out its programme in December 2013. First laid out in the April 2014 SGP, the strategy has been now been further detailed in the multi-year programming law presented to parliament. More specifically, the medium-term fiscal strategy is characterised by the following two budgetary targets:
  - restoring public finances in structural terms, i.e. achieve a medium-term budgetary objective (MTO) of +0.5% GDP by the end of the current legislative period;
  - maintaining public debt at a level well below a threshold of 30% of GDP by the end of the same period;

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<sup>3</sup> The law of 12 July 2014 on the coordination and governance of public finances:  
<http://www.legilux.public.lu/leg/a/archives/2014/0122/a122.pdf>

<sup>4</sup> For more details, see the Stability and Growth programme:  
[http://www.mf.public.lu/publications/programme/15e\\_progr\\_stabilite\\_croissance.pdf](http://www.mf.public.lu/publications/programme/15e_progr_stabilite_croissance.pdf)

<sup>5</sup> This represents EUR 600 million in budgetary terms.

- in addition, the 2015 budgetary policy contains a package of consolidation measures to counter a potential deterioration of public finances in an unchanged-policy scenario, in which<sup>6</sup>:
  - the general government balance would drop from +0.2% of GDP in 2014 to -1.3% of GDP in 2015;
  - the central government balance would move drop -1.3% of GDP in 2014 to -2.7% of GDP in 2015;
  - the structural balance would drop from +1% of GDP in 2014 to -0.6% of GDP in 2015<sup>7</sup>.
  
- both the fact that macroeconomic conditions at the national level remain benign in 2015 with GDP growth in Luxembourg expected to remain above the euro area/EU average (see point 1) as well as the fact that a package of consolidation measures has been put together (estimated at 1.1% of GDP or EUR 560 million in 2015) – imply that public finances are likely to deteriorate slower than a unchanged-policy scenario would suggest: the general government balance in 2015 is expected to reach -0.2% of GDP or EUR -100 million in nominal terms, while the central government balance is set to reach -1.6% of GDP or EUR -800 million.

Regarding the fiscal rules under the preventive arm of the Stability and Growth Pact, the following observations can be made:

- given the forecasts presented in the 2015 budget, in particular regarding the consolidation measures and in light of the STATEC methodology used to estimate the output gap<sup>8</sup>, the structural balance is expected to move from 1% of GDP in 2014 to 0.5% of GDP in 2015. This means that Luxembourg would reach its MTO, in accordance with the rules of the Pact. Moreover, Luxembourg would also comply with Council recommendation issued in July in the context of the European semester (see Appendix Table 6a)<sup>9</sup>;

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<sup>6</sup> Update of the forecasts assuming no policy changes contained in the unchanged policy note of the *Comité de prévision* from April 2014 ([http://www.mf.public.lu/publications/fin\\_pub/note\\_comite\\_prev\\_090414.pdf](http://www.mf.public.lu/publications/fin_pub/note_comite_prev_090414.pdf)).

<sup>7</sup> According to the STATEC methodology.

<sup>8</sup> The output gap is the ratio between GDP in volume terms and "potential" GDP, the latter reflecting theoretical growth when factors of production (capital and labour, combined with technical progress) are used at full capacity.

<sup>9</sup> It should be noted that when assessing the draft budgetary plan, the Commission will use the common methodology in order to determine the "structural balance" indicator, which may be different in comparison to the presented indicator. Whereas in the March DBP, an explicit reference to this methodology was made, the draft budgetary plan does not contain any such reference since no recent estimations are available from the Commission. Such an update will only be available once the Autumn Forecast is published in early November 2014.

- similarly, as regards the second criterion of the preventive arm of the Pact, the growth rate for adjusted expenditure in 2015 is set to satisfy the expenditure benchmark.<sup>10</sup>

The package of consolidation measures can be summarised as follows:

- the overall expected impact in 2015 stands at 1.1% of GDP or EUR 560 million;
- the distribution between revenues and expenditure is roughly at 70%-30%;
- With regard to impacted ESA categories, the following should be noted:
  - in terms of revenues: taxes on production (VAT package, see Tables 5 and 6), as well as social contributions (introduction of a new contribution, see Tables 5 and 6);
  - in terms of expenditure: the reduction of expenditure is spread over a broader base of expenditure categories: intermediate consumption, subsidies, social benefits other than social transfers in kind or other usual transfers (see Table 5). The fact that more categories are affected on the expenditure side is also a result of the comprehensive spending review initiated by the Government, in preparation for the 2015 budget and the multi-year programming law.
- in terms of process, two points should be mentioned:
  - as regards the legislative acts used, most of the specifications are incorporated in the budget law itself. The consolidation measures resulting from spending review will be implemented via a separate bill, named “Zukunftspak” (“Future-Package”). The intention is to have this accompanying bill passed simultaneously with the budget law;
  - as regards transparency and communication, the budget law and the consolidation measures along with their quantification can be found on the following website: <http://budget.public.lu> .

Finally, pursuant to the budget policy planned for 2015, gross public debt is likely to rise from 23.0% of GDP in 2014 to 24.1% of GDP in 2015.

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<sup>10</sup> This conclusion does evidently not prejudice the forthcoming assessment made by the Commission which will take into account a number of assumptions that are currently not available.

#### **4. Update relating to recommendations concerning growth and jobs (Tables 6a and 6b):**

As regards recommendations adopted by the Council in connection with the 2014 European semester and the targets set by the EU 2020 strategy, specific policies and action plans have been set out over the recent years. An update of these measures was provided in the latest version of the National Reform Programme<sup>11</sup>.

As regards the first recommendation under the 2014 European semester, it should be noted that:

- in terms of governance, a medium-term budgetary framework was established, and independent monitoring was set up through the creation of a fiscal council (“Comité National des Finances Publiques”);
- in terms of indirect taxation, the VAT package specifically includes measures to broaden the tax base.

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<sup>11</sup> <http://www.odc.public.lu/publications/pnr/>

## STATISTICAL APPENDIX

### 1. Macroeconomic forecasts

Table 0. Basic assumptions

	Year 2013	Year 2014	Year 2015
Short-term interest rate (annual average)	0.2	0.1	0.1
Long-term interest rate (annual average)	2.9	3.2	3.2
USD/EUR exchange rate (annual average)	1.3	1.4	1.3
Nominal effective exchange rate (evolution as a %)	-0.8	-0.1	0.1
Eurozone real GDP growth	-0.4	0.8	1.4
Growth of relevant foreign markets	1.5	3.8	5.4
Oil prices (Brent, USD/barrel)	108.6	105.7	101.5

Table 1.a. Macroeconomic forecasts

	ESA Code	Year 2013	Year 2013	Year 2014	Year 2015
		Level in millions	rate of change	rate of change	rate of change
1. Real GDP (reference year = 2005)	B1*b	34,740	2.0	2.8	2.7
<i>of which:</i>					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth		---	---	---	---
2. Potential GDP		35,300	2.0	2.1	2.1
3. Nominal GDP	B1*b	45,288	3.4	5.4	4.0
<u>Components of real GDP</u>					
4. Private final consumption expenditure	P3	12,124	1.8	2.1	1.1
5. General government final consumption expenditure	P3	6,327	4.3	1.9	3.0
6. Gross fixed capital formation	P.51	7,164	-4.4	6.4	0.2
7. Changes in inventories and valuables (% of GDP)	P.52 + P.53	-	2.8	2.8	2.7
8. Exports of goods and services	P.6	60,522	2.7	3.4	3.9
9. Imports of goods and services	P.7	53,101	1.2	3.7	3.3
<u>Contributions to real GDP growth</u>					
10. Final domestic demand		-	0.4	2.4	1.0
11. Changes in inventories and valuables	P.52 + P.53	-	-1.2	0.0	0.0
12. External balance of goods and services	B.11	-	2.9	0.3	1.7

Table 1.b. Price developments

	ESA Code	Year 2013	Year 2013	Year 2014	Year 2015
		Level in millions	rate of change	rate of change	rate of change
1. GDP deflator (2005=1)		1.34	3.7	2.5	1.2
2. Private consumption deflator		1.16	1.5	1.0	2.1
3. HICP		1.23	1.7	0.9	2.0
4. Export price deflator (goods and services)		1.23	2.3	3.0	1.0
5. Import price deflator (goods and services)		1.07	1.1	1.9	1.7

Table 1.c. Labour market developments

	ESA Code	Year 2013	Year 2013	Year 2014	Year 2015
		Level in millions	rate of change	rate of change	rate of change
1. Employment, persons <sup>1</sup> (in 1000 pers.) <sup>1</sup>		385.4	1.7	2.2	2.1
2. Employment, hours worked <sup>2</sup>		370	1.1	2	1.9
3. Unemployment rate (as a %) <sup>3</sup>		-	5.7	6.1	6.4
4. Labour productivity, persons <sup>4</sup>		78	0.2	0.5	0.4
5. Compensation of employees (billion EUR)	D.1	21.7	4.7	4.7	5.1
6. Compensation per employee (1,000 EUR/year)		59.6	3.0	2.3	2.8

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

<sup>2</sup> concept of national accounts

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

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

## 2. Budget targets

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

	ESA Code	Year 2014	Year 2015
		% of GDP	% of GDP
<b>Net lending / net borrowing (B.9) by sub-sector</b>			
1. General government	S.13	0.2	-0.2
2. Central government	S.1311	-1.3	-1.6
3. State government	S.1312	----	----
4. Local government	S.1313	0.1	-0.1
5. Social security funds	S.1314	1.4	1.6
6. Interest expenditures	D.41	0.4	0.4
7. Primary balance <sup>1</sup>		0.6	0.2
8. One-off and other temporary measures		0.0	0.0
9. Output gap <sup>2</sup>		-1.9	-1.5
10. Cyclical budgetary component		-0.8	-0.7
11. Structural balance (1-10-8)		1.0	0.5

<sup>1</sup>The primary balance is calculated as (B.9, item 8) plus (D.41, item 9)

<sup>2</sup>European Economic Forecast, Winter 2014, European Commission

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

	ESA Code	Year 2014	Year 2015
		% of GDP	% of GDP
1. Gross debt		23.0	24.1
2. Change in gross debt ratio		-0.6	1.1
<b>Contributions to changes in gross debt</b>			
3. Primary balance		0.6	0.2
4. Interest expenditures	D.41	0.4	0.4
5. Stock-flow adjustment		-0.4	0.9
p.m.: implicit interest rate on debt <sup>1</sup>		1.7	1.7

<sup>1</sup>Equal to interest expenditure divided by the debt level of the previous year.

**Table 2.c. Contingent liabilities**

		Year 2014	Year 2015
		% of GDP	% of GDP
Public guarantees		9.3	----
of which: guarantees linked to the financial sector		5.7	----



### 3. Expenditure and revenue projections at unchanged policies

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

General government (S.13)	ESA Code	Year	Year
		2014	2015*
		% of GDP	% of GDP
<b>1. Total revenue at unchanged policies</b>	TR	43.9	43.3
<b>Of which</b>			
1.1. Taxes on production and imports	D.2	13.2	11.7
1.2. Current taxes on income and wealth	D.5	14.4	14.9
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.2	12.5
1.5. Property income	D.4	1.4	1.5
1.6. Other <sup>1</sup>		0.2	0.2
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		40.0	39.3
<b>2. Total expenditure at unchanged policies</b>	TE	43.7	44.6
<b>Of which</b>			
2.1. Compensation of employees	D.1	8.4	8.5
2.2. Intermediate consumption	P.2	3.8	3.9
2.3. Social payments	D.621	21.0	21.6
Of which: Unemployment benefits		1.0	1.0
2.4. Interest expenditure	D.41	0.4	0.4
2.5. Subsidies	D.3	2.0	1.9
2.6. Gross fixed capital formation	P.51	3.6	3.9
2.7. Capital transfers	D.9	1.1	1.1
2.8. Others		3.7	3.3
<b>3. Net lending/borrowing</b>		0.2	-1.3

<sup>1</sup>) Update of the forecasts assuming no policy changes contained in the unchanged policy memo of the forecast committee from the beginning of April 2014

#### 4. Expenditure and revenue targets.

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

	ESA Code	Year 2014	Year 2015
<b>General government (S.13)</b>			
<b>1. Total revenue target</b>	TR	43.9	44.1
<b>Of which</b>			
1.1. Taxes on production and imports	D.2	13.2	12.2
1.2. Current taxes on income and wealth	D.5	14.4	14.9
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	12.2	12.7
1.5. Property income	D.4	1.4	1.5
1.6. Other <sup>1</sup>		0.2	0.2
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		<b>40.0</b>	<b>40.0</b>
<b>2. Total expenditure target</b>	TE <sub>2</sub>	<b>43.7</b>	<b>44.3</b>
<b>Of which</b>			
2.1. Compensation of employees	D.1	8.4	8.5
2.2. Intermediate consumption	P.2	3.8	3.9
2.3. Social payments	D.62 + D.632	21.0	21.4
Of which unemployment benefits <sup>3</sup>		1.0	1.0
2.4. Interest expenditure	D.41	0.4	0.4
2.5. Subsidies	D.3	2.0	1.9
2.6. Gross fixed capital formation	P.51	3.6	3.8
2.7. Capital transfers	D.9	1.1	1.1
2.8. Other <sup>4</sup>		3.7	3.2
<b>3. Net lending/borrowing</b>		<b>0.2</b>	<b>-0.2</b>

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

<sup>2</sup> TR-TE= B.9

<sup>3</sup> Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, SEC2010: D.632) related to unemployment benefits.

<sup>4</sup> D.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 2013	Year 2013	Year 2014	Year 2015
		Level in millions	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds		58	0.1	0.1	0.1
2. Cyclical unemployment benefit expenditure		470	1.0	1.05	1.03
3. Effect of discretionary revenue measures		414	0.9	0.0	0.8
4. Revenue increases mandated by law		----	----	----	----

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

Functions of the general government	COFOG Code	2014	2015
		% GDP	% GDP
Functions of the general government			
1. General public services	1	4.7	4.7
2. Defence	2	0.4	0.4
3. Public order and safety	3	1.0	1.0
4. Economic affairs	4	4.2	4.3
4. Environmental protection	5	1.3	1.3
6. Housing and community amenities	6	0.8	0.8
7. Health	7	5.1	5.1
8. Recreation, culture and religion	8	1.1	1.1
9. Education	9	5.7	5.8
10. Social protection	10	19.4	19.6
<b>11. Total expenditure</b>	<b>TE</b>	<b>43.7</b>	<b>44.3</b>

5. Description of consolidation measures in the draft budget 2015 and in the Bill relating to the implementation of the future package - first part

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

List of measures	Detailed description	Target (expenditure/revenue component)	Accounting principle	Adoption status	Budgetary impact				
		ESA Code			2014	2015	2016	Year t+...	
					% of GDP	% of GDP	% of GDP	% of GDP	
<b>Revenue</b>									
1) a package of VAT measures	increase in the standard rate from 15% to 17%; increase in intermediate rates from 6% to 8%, from 12% to 14%; increase of reduced rate of 3% to the standard rate of 17% for the purchase of second homes (new); increase in rates for certain products	increase in D2 revenue	Cash	Draft budget		0.48			
2) some additional measures related to the tax administrations	strengthening of tax inspections and the introduction of new taxes	increase in D5 revenue	Cash	"Future Package"		0.05			
<b>Expenditure</b>									
1) a package of measures covering a wide field of intervention	reduction in terms of the acquisition of specialist equipment, reduction in subsidies for private transport (buses), allotments to the national solidarity fund for national guaranteed minimum income	reduction in expenditure covering categories P5, D3, D62, D9	Cash	"Future Package"		0.25			
					<b>TOTAL</b>	0.78			

**Table 5.b. Consolidation measures taken by social security**

List of measures	Detailed description	Target (expenditure / revenue component)	Accounting principle	Adoption status	Budgetary impact				
		ESA Code			2014	2015	2016	Year t+...	
					% of GDP	% of GDP	% of GDP	% of GDP	
<b>Revenue</b>									
1) Introduction of a new contribution	Introduction of a new contribution of 0.5%	increase of D61	Cash	Draft budget		0.23			
<b>Expenditure</b>									
(1) package of measures concerning the social security sector	Measures in the health and maternity insurance field: Price freeze and key-letters in the health professions; Reduction of rates and key-letters in laboratories; introduction of an allowance for podiatrists and others; Renegotiation of the Belgian supplement; alignment with the common law system Proactively-reduced fall in the overall budget for the hospital sector; Pooling of certain hospital activities; Modernization of national health centres and review of administrative costs; Activity-based pricing in hospitals to replace budgeting. Measures in the care insurance sector: Freezing of monetary value; More effective application of criteria for granting benefits.	decrease in expenditure on D62	Cash	"Future Package"		0.1			
					<b>TOTAL</b>	0.33			

**6. Items indicating how the measures featured in the draft budget plans meet country-specific recommendations and contribute to meeting the targets set by the EU strategy for growth and jobs.**

**Table 6.a Country-specific recommendations 2014-2015**

*Country-specific recommendations 2014-2015 for Luxembourg (July 2014):*

1. *Preserve a sound fiscal position in 2014; significantly strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved and remain at the medium-term objective thereafter, in order to protect the long-term sustainability of public finances, in particular by taking into account implicit liabilities related to ageing. Strengthen fiscal governance by speeding up the adoption of a medium-term budgetary framework covering the general government and including multi-annual expenditure ceilings, and by putting into place the independent monitoring of fiscal rules. Further broaden the tax base, notably on consumption.*
2. *In view of ensuring fiscal sustainability, curb age-related expenditure by making long-term care more cost-effective, pursue the pension reform so as to increase the effective retirement age, including by limiting early retirement and linking the statutory retirement age to life expectancy. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.*
3. *Speed up the adoption of structural measures, in consultation with the social partners and in accordance with national practices, to reform the wage indexation system with a view to improving the responsiveness of wages to productivity developments, notably at sectoral level. Pursue the diversification of the structure of the economy, including by fostering private investment in research and further developing cooperation between public research and firms.*
4. *Pursue efforts to reduce youth unemployment for low-skilled jobs seekers with a migrant background, through a coherent strategy, including by further improving the design and monitoring of active labour market policies, addressing skills mismatches, and reducing financial disincentives to work. To that effect, accelerate the implementation of the reform of general and vocational education and training to better match young people's skills with labour demand*
5. *Develop a comprehensive framework and take concrete measures to meet the 2020 target for reducing greenhouse gas emissions from non-ETS activities, especially through the taxation of energy products for transports.*

No. of country-specific recommendations	List of measures	Description of direct contribution
1.	Draft budgetary plan 2014 b) (March 2014) Bill on the State's revenue and expenditure budget 2014	Ensure that the general government budgetary balance, in structural terms, continues to meet the medium-term budgetary objective of a structural balance of +0.5% of GDP
	Draft budgetary plan 2015 Draft bill on the State's revenue and expenditure budget 2015	Budgetary consolidation including new measures that will specifically allow Luxembourg to reach the medium-term objective and then keep pace with it
	Revision of the schemes of the social model so as to better manage ongoing costs and ensure optimal use of available resources, accompanied by systematic consultation with all partners concerned  Reformulate the missions of the social security service (IGSS) - development of an internal audit approach	Consolidate the financial position of the State, to sustainably ensure its participation in the financing of social security institutions  Adapt IGSS missions to changes in social policy and the resulting activities
	Comprehensive review of public expenditures (screening)	Make substantial gains by 2018 in terms of all public expenditures (state, municipalities and social security) and improve the quality and effectiveness of public policies from 2015 onward
	Law of 12 July 2014 on the coordination and governance of public finances	Strengthening of the Luxembourg budgetary framework, as part of the "six-pack, two-pack" and the Treaty on Stability, Coordination and Governance. The introduction of a medium-term budgetary framework with budget regulations on expenditure and independent monitoring are planned.
	Institutionalise and strengthen the current Forecast Committee creating a "National Economic and Financial Committee" under the supervision of the	Optimize the creation, preparation and coordination of work on the drafting of

	Economy and the Finance Minister	The National Reform Program (PNR), the Stability and Growth Programme (PSC) and the draft budget plan and oversee the draft state budget
	Draft bill on the 2015 budget: in terms of revenue, increase in VAT rates from 1 January 2015: the rates will generally rise by 2 percentage points. The standard VAT rate will increase from 15% to 17%, and intermediate rates will respectively rise from 12% to 14% and from 6% to 8%. However, the super-reduced rate will remain unchanged at 3%. Additionally, the new standard rate of 17% will extend to all real estate investments, except those made in respect of a main residence for which the super-reduced rate of 3% is maintained.	Consolidate the financial position of the State
	Introduction of a new contribution	Finance new policies taking into account the need to consolidate the financial situation of the State
	Launch of preparatory work on a comprehensive tax reform that will meet the criteria of predictability and fiscal stability, competitiveness, sustainable employment and social equity (2017)	Rebalance the tax base
2.	Reform on pension insurance	<p>Perform a mid-term assessment of the Law of 21 December 2012 on pension insurance reform, together with social partners, with specific regard to the phenomenon of ageing or individualised insurance.</p> <p>Review the investment strategy of the financial reserve for pension insurance, in order to optimise its yield, to diversify risk and to achieve a socially responsible investment policy</p> <p>Undertake a revision of the Law on supplementary pensions, a scheme introduced by the Law of June 8, 1999, by studying the extension of supplementary pension schemes to the liberal professions and the self-employed, and to certain categories of employees who are not part of a company scheme.</p>
	Bill for the reform of the occupational reclassification system.	Introduce the reform on

		occupational reclassification by speeding up procedures and opening up new access for internal reclassification
	Modernisation of the Social Security Medical Examination	Modernise the provisions relating to the social security Medical Examination to take account of changes occurring in legislation and in practice since the start of this administration
	Investment in the prevention of accidents	Encourage employers to invest more in the prevention of accidents , and in occupational health and safety, by introducing a bonus/penalty system based on the risk categories in which a company's occupational health and safety are located in comparison to other companies facing the same risks that are part of similar business sectors.
	Reform of long-term care	Ensure the long-term feasibility of care insurance through reform, a priority target of which should be to slow the increase in benefit costs while maintaining quality of care
	Dialogue with social partners regarding the reform of various early retirement schemes (solidarity, adjustment and gradual)	Increase the employment rate of older workers
	Reform of the "Fit4job - Restart my career" project	Meet specific requirements of older job seekers and businesses
	Organise targeted training measures	Secure the jobs of older workers and retrain those who have lost their job
	Reform the public joint funding system for lifelong education and training targeting employees aged over 45 or low-skilled workers (2012)	Maintain older workers in employment and reintegrate them quickly
	Development of mentoring in business and volunteer work for senior citizens.	Transfer skills across the generations.
3.	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, and an interval of



		twelve months must elapse between each increase.
	Reintroduce the “unmodulated” application of the automatic wage indexation system, as provided by the Law of 22 June 1963, as amended, for the period following that scheduled by the temporary provisions of the Law of 31 January 2012, while taking the economic situation and price changes into account. Between two successive wage or salary adjustments to the consumer price index, an average period of twelve months must elapse over the period from July 2014 to July 2018. When it is observed to be highly likely that this spacing principle will not be respected, consultations will take place as to the steps to be taken to rectify this situation, and in the event of disagreement on the steps take, the government will engage a legislative initiative in order to implement the necessary measures in accordance with the coalition agreement.	Ensure that in the medium-term (2014-2018), wage changes follow changes in labour productivity, taking account of the fact that the economic recovery is currently gaining momentum in Luxembourg though potential growth will in future follow a more modest path, and inflation should remain relatively modest though it is strongly correlated to the oil price, which is very volatile, and may thus be subject to a shock
	Automatic price indexation system analysis	<p>Increase the information available on the impact of automatic indexation clauses</p> <p>Regulatory environment of price indexation clauses in France, Germany, Belgium and Luxembourg  <a href="http://www.odc.public.lu/publications/perspectives/PPE_019.pdf">http://www.odc.public.lu/publications/perspectives/PPE_019.pdf</a></p> <p>Study on price adjustments of companies in Luxembourg  <a href="http://www.odc.public.lu/publications/perspectives/PPE_026.pdf">http://www.odc.public.lu/publications/perspectives/PPE_026.pdf</a></p> <p>Wage formation and automatic indexation: comparative analysis of four European countries  <a href="http://www.odc.public.lu/publications/perspectives/PE_028.pdf">http://www.odc.public.lu/publications/perspectives/PE_028.pdf</a></p>
	The development of six priority sectors as part of multisectoral specialisation (environmental technology, biotechnology, logistics, information and communication technologies, space technology).	Diversify the structure of the economic fabric.
	Financing by the FNR’s AFR programme in 2013 of 38 doctoral and post-doctoral research projects conducted via a public-private partnership (AFR-PPP) The new multi-year agreement 2014-2017 between the state and FNR specifically highlights P/PP opportunities in FNR’s CORE and AFR programmes.	Further develop cooperation between public research and businesses

4.	Reform of the project for young people with a very low level of training (2013)	Mentor young job seekers with few or no skills, with no high school diploma or work experience, and better cover meet the requirement of the young people and businesses that are partners in the project
	Implementation of the vocational training reform	Match qualifications to those requested by the job market
	Implement the draft reform of secondary education	Ensure the academic success and qualification of young people so they can exercise a profession or enter higher education
	Optimise language teaching	Prevent academic failure and improve qualification among Luxembourg nationals and those from immigrant backgrounds (development of language learning from an early age, study of literacy alternatives in German, diversification of secondary school and vocational education offer in language schemes, extension of international baccalaureate qualification)
5.	Second Action Plan for the reduction of CO2 emissions	Help to achieve Luxembourg's national targets on greenhouse gas emission through a series of measures (e.g. transport - MoDu strategy, Transport Sectoral Plan; building - gradual improvements in sanitation, PRIME house; renewable energy - increased support; industry; information and awareness-raising; energy advice and training)
	Creation of a Climate Pact with the communes.	Authorise the government to provide financial and technical support to communes who adhere to this agreement, in order to strengthen the role of communes, to reduce greenhouse gas emissions and to reduce energy costs on communal areas, to stimulate local and regional investment
	Economic feasibility study of a reform of the taxation of energy products used in transportation Discussions initiated on comprehensive tax reform (2017)	Assess the impact in the medium- and long-term of a significant structural fall in fuel sales to non-residents following a potential review of taxation on energy products used in transportation, in order to

		ensure the uncoupling from the budget in the medium- and particularly the long-term of revenue made from the sale of fuel
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Note: For further information, consult the Luxembourg National Reform Programme (April 2014). [http://www.odc.public.lu/publications/pnr/2014\\_PNR\\_Luxembourg\\_2020\\_avril\\_2014.pdf](http://www.odc.public.lu/publications/pnr/2014_PNR_Luxembourg_2020_avril_2014.pdf)

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

Progress on implementation	List of measures and their state of play that were implemented in response to the commitment	The estimated impacts of the measures (qualitative and/or quantitative) (1)
<b>National 2020 headline targets</b>		
National 2020 employment target <b>71.5% for 2015</b> <b>73% for 2020</b>	<ol style="list-style-type: none"> <li>1. Reform of the Agency for the Development of Employment (ADEM): several reform projects, including personalised pathways, the strengthening and regionalisation of the youth employment department, and the creation of the employers department</li> <li>2. Establishment of the Employment Market Observatory: the creation of an employment dashboard and database</li> <li>3. Creation of the social &amp; vocational guidance centre (COSP)</li> <li>4. Draft bill on the reform of social dialogue within companies</li> <li>5. Creation of a guidance centre: writing of a draft bill</li> <li>6. Introduction of a "Youth Guarantee" scheme and development of pathways according to young people's needs</li> <li>7. Pilot project for a specific youth guidance unit</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>Specialist training for jobseekers remote from the labour market</p> <p>Qualitative strengthening of social dialogue.</p> <p>Provide a solid foundation for career guidance</p> <p>Guidance for young people at the beginning of their career and combating youth unemployment</p> <p>Monitor the progress of young jobseekers via guidance tools</p>

	<p>8. "Green Jobs" project</p> <p>9. Bill to transpose directive 2010/18/EU</p> <p>10. Implementation of the National Action Plan for Gender Equality</p> <p>11. "Positive action" programme</p> <p>12. Support for business creation by women</p> <p>13. Promotion of gender equality in the decision-making process (political parties, boards of directors, etc.)</p> <p>14. Draft bill on age policy</p> <p>15. Introduction of internships for jobseekers aged at least 50</p> <p>16. Implementation of measures contained in the White Paper on the national lifelong education and training strategy</p> <p>17. Summary of achievements made by the Law of 12 September 2003 on the integration of people with disabilities; awareness-raising campaigns; job-coaching projects</p> <p>18. Management of the age pyramid in the Civil Service through an action plan (four specific measures).</p> <p>19. Measures implemented under country-specific recommendation no. 4 on youth unemployment addressed in</p>	<p>personalised</p> <p>Specific training for the building and construction industry to reduce the energy consumption of buildings</p> <p>Make parental leave more appealing to men.</p> <p>Boost gender equality.</p> <p>Encouraging businesses to promote gender equality</p> <p>Increase the employment rate of women</p> <p>Reducing the gender equality gap in the decision-making process</p> <p>Draft a plan to manage ages within companies</p> <p>Provide more active support to assist reintegration of older jobseekers</p> <p>Increase lifelong learning.</p> <p>Improve the care of people with special needs and promote their integration on the labour market</p> <p>Increase the activity rate of older public officials and reduction in the budget for pensions.</p> <p>(see country-specific recommendation no. 4)</p>
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<p>National 2020 R&amp;D target  <b>2.0% for 2015</b>  <b>2.3-2.6% for 2020</b>  (of which 0.7% to 0.9% for the public sector)</p>	<p><u>For the public research sector</u></p> <ol style="list-style-type: none"> <li>1. Law of 27 August 2014 amending the National Research Fund (FNR)</li>   <li>2. Bill intended to organise Public Research Centres (CRPs), in addition to creating the Luxembourg Institute for Science and Technology (LIST), the Health, and the Center for Population, Poverty and Socio-Economic Policy Studies (CEPS) public research centres.</li>   <li>3. The FNR's CORE and INTER programme</li>   <li>4. Highlighting of P/PP opportunities in the FNR's CORE and AFR programmes</li>   <li>5. OECD study on the national R&amp;D and innovation scheme</li>   <li>6. Launch of Horizon 2020 programme at national level by the government</li>   <li>7. Encourage and manage the involvement of Luxembourg companies in international programmes and initiatives (7<sup>th</sup></li> </ol>	<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>Grouping of the Henri Tudor and Gabriel Lippmann CRPs, and integration of IBBL within CRP-Health.</p> <p>Focusing of the national R&amp;D effort on a limited number of priority areas, and funding of the participation of Luxembourg researchers in international projects</p> <p>Better connectivity between research and the business world through projects and/or researchers at doctoral and post-doctoral level</p> <p>Analyse the extent and quality of implementation of the recommendations previously issued, and draft an analysis of strengths and weaknesses</p> <p>Better integration of Luxembourg partners at international level</p>
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	<p>8. FNR Training-Research Support programme.</p> <p>9. FNR ATTRACT and PEARL programmes.</p> <p>10. Invitation extended by the government to national public research partners to publish in "Open Access"</p> <p>11. Expand and consolidate the network of the country's scientific libraries (bibnet.lu) and optimise the circulation and transfer of scientific knowledge (Consortium Luxembourg)</p> <p>12. "Business meets research" forum</p> <p><u>For the private research sector</u></p> <p>13. 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>14. Luxembourg Cluster Initiative</p> <p>15. Activities to promote and support innovation (territorial seminars, awareness-raising among SMEs, intellectual property, etc).</p> <p>16. Creation of the Technoport SA incubator</p>	<p>Better integration of Luxembourg partners at international level</p> <p>Support for doctoral and post-doctoral researchers</p> <p>Attract exceptional researchers in the field of strategic importance, at various stages in their career</p> <p>Make scientific publications freely available online free of charge</p> <p>Increase the visibility and accessibility of documentation resources made available to researchers and students and maintain and develop documentation tools.</p> <p>Promote dialogue between researchers and business (networking).</p> <p>Encourage RDI efforts across the entire innovation chain.</p> <p>Gather resources and means to achieve a critical mass and speed up the transfer of knowledge.</p> <p>Raise awareness of research and innovation among economic actors.</p>
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	<p>17. Encourage and manage the involvement of Luxembourg companies in international programmes and initiatives (7<sup>th</sup> PCRD, CIP, ESA, etc.)</p>	<p>Centralised management of the various business incubation infrastructures (start-ups and spin-offs) Support Luxembourg's participation in international programmes</p>
<p>GHG emission reduction target excluding ETS of <b>-20% compared to 2005</b> (CO<sub>2</sub> emissions of <b>around 8,085 Mt by 2020</b>)</p>	<ol style="list-style-type: none"> <li>1. Second "Action Plan for the reduction of CO<sub>2</sub> emissions"</li> <li>2. Financial assistance arrangements for energy saving and the use of renewable energy in the housing sector (<i>PRIME House</i>)</li> <li>3. Final extension until 31 December 2014 of financial aid for externally chargeable pure and hybrid electric cars (<i>PRIME Car-e</i>).</li> <li>4. Implementation of Climate Pact with communes</li> <li>5. Promotion of the use of public transport and soft mobility (SMOT and MoDu strategy).</li> <li>6. Development of a tram in the capital (Luxembourg City).</li> <li>7. Implement the Sectoral Transport Plan and the Sectoral Housing Plan.</li> </ol>	<p>Reduce greenhouse gas emissions.</p> <p>Increase the requirements in terms of energy performance for new residential buildings and reduce CO<sub>2</sub> emissions.</p> <p>Develop electric mobility and reduce average CO<sub>2</sub> emissions from new vehicles.</p> <p>Reduce GHG emissions and the energy bill in the communes and boost local and regional investment.</p> <p>Develop a sustainable mobility infrastructure to reduce CO<sub>2</sub> emissions resulting in a decline in individual motorised transport.</p> <p>Develop efficient public transport that takes into account economic development and demography in capital and across the country.</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</p>

		<p>in urban areas.</p> <p>Promote urbanisation over a small area, thus minimising flows of individual motorised transport, and promote low-energy housing.</p>
<p>Renewable energy target of <b>5.45% on average for 2015/2016, 11% for 2020</b></p>	<ol style="list-style-type: none"> <li>1. Implement the Grand-Ducal Regulation introducing a support mechanism for biogas production facilities injecting biogas into natural gas networks in Luxembourg.</li> <li>2. Grand Ducal Regulation on the energy performance of residential buildings (May 2012) and draft Grand Ducal Regulation on the energy performance of office buildings</li> <li>3. Draft Grand-Ducal Regulation of feed-in tariffs</li> <li>4. Grand-Ducal Regulation setting the sustainability criteria for biofuels and bioliquids (February 2011)</li> <li>5. Law on the organisation of the electricity market (August 2012) relating to electromobility in Luxembourg.</li> <li>6. Use of cooperation mechanisms.</li> </ol>	<p>Increase the number of biogas facilities.</p> <p>Gradually increase the energy performance requirements to the near-zero energy standard by 2017 (implicitly incorporating the use of renewable energy) in terms of new residential buildings and extensions to existing residential buildings, as well as office buildings until 2019.</p> <p>Increase electricity generation 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> <p>Increase renewable energy in the EU.</p>
<p>National energy efficiency target <b>14.06% for 2016</b> National indicative target for <b>2020: final energy consumption of 49.292 GWh (i.e. 52.111 GWh of</b></p>	<p>Establishment of a catalogue of measures</p>	<p>Improve the energy efficiency and create an aggregate energy saving target at end-usage point over the period from 1 January 2014 to 31 December 2020.</p>



<p><b>primary energy)</b></p>	<ol style="list-style-type: none"> <li>1. Grand Ducal Regulation on the energy performance of residential buildings (May 2012) - obligation to publish information on energy performance when leasing/selling buildings</li> <li>2. Creation of a register of energy performance certificates for residential buildings.</li> <li>3. Finalise a national plan to increase the number of near-zero energy buildings.</li> <li>4. Inventory of heated and/or cooled buildings owned by central government with a total useful floor area greater than 500 m<sup>2</sup></li> <li>5. Grand-Ducal Regulation s relating to the generation of electricity based on high-yield cogeneration (December 2012).</li> <li>6. Voluntary agreement with the industrial sector (2011–2016)</li> <li>7. Law introducing smart metering systems (August 2012).</li> </ol>	<p>Strengthen the energy performance requirements for new residential buildings and extensions of existing buildings.</p> <p>Creation of a monitoring system and a recording tool enabling statistical analysis of the energy performance of buildings.</p> <p>Increase the energy performance of buildings.</p> <p>Increase energy performance</p> <p>Further promote the development of cogeneration using renewable energies as a priority over cogeneration using fossil fuel energies.</p> <p>Improvement in energy efficiency and implementation of new or renewable energy sources in companies which belong 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>National target for tertiary education <b>Ensure that by 2020, 66% of the active population aged 30-34 have benefited from higher education and holds a degree from</b></p>	<ol style="list-style-type: none"> <li>1. Reform of financial aid from the State for higher education</li> </ol>	<p>Improve the population's level of education in order to ensure a better fit between people's skills and the job market</p>

the relevant institution.		
<p>National poverty target  <b>Reduce the number of people at risk of poverty or social exclusion by 6,000 by 2020.</b></p>	<ol style="list-style-type: none"> <li>1. Continuation of the policy to offer socio-educational recreational facilities for children</li>   <li>2. Awareness-raising among parents, who receive a guaranteed minimum income (RMG), about child-care service vouchers.</li>   <li>3. Increase in the activation rate as part of the RMG scheme</li>   <li>4. Promotion of measures to encourage the transition of young people from academic life to professional life, and motivate them to return to education (development of an activation and information platform; Level-up projects; voluntary guidance service; dynamic database of NEETs)</li>   <li>5. The Law on social support</li>   <li>6. National Strategy against homelessness and exclusion related to housing (e.g. Housing First pilot project)</li> </ol>	<p>Increase the employment rate of women and single-parent families; break the cycle of generational transmission of poverty; promote social inclusion and social cohesion in a multicultural society</p> <p>Increase the availability of parents for the labour market; promote social inclusion and social cohesion in a 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, and promote social inclusion.</p> <p>Reduce homelessness and exclusion related to housing</p>

Note: The above summary table sets out the main measures of the Luxembourg National Reform Programme 2014. For more details about the various targets and measures of the Europe 2020 strategy, please consult the Luxembourg National Reform Programme 2014. [http://www.odc.public.lu/publications/pnr/2014\\_PNR\\_Luxembourg\\_2020\\_avril\\_2014.pdf](http://www.odc.public.lu/publications/pnr/2014_PNR_Luxembourg_2020_avril_2014.pdf)

## 7. Divergence from latest Stability Programme

Table 7. Divergence from latest Stability Programme

	ESA Code	Year	Year	Year
		2013	2014	2015
		% of GDP	% of GDP	% of GDP
Target general government net lending/net borrowing	B.9			
Stability programme		0.1	0.1	-0.5
Draft budget plan		0.6	0.2	-0.2
Difference		0.5	0.1	0.3
General government net lending projection based on unchanged policies	B.9			
Stability programme		0.1	0.1	-1.6
Draft budgetary plan		0.6	0.2	-1.3
Difference		0.5	0.1	0.3

## 8. Methodological aspects

Table 8. Methodological aspects

Estimation technique	Stage of the budget procedure for which it was used	Relevant features of the model/technique used	Assumptions
Macroeconomic forecasts	Estimation of revenue and estimation of some expenditures drivers (e.g. sliding scale for wages)	Macro-econometric model developed by STATEC. More information can be obtained via the following link: <a href="http://www.statistiques.public.lu/catalogue-publications/cahiers-economiques/2007/PDF-Cahier-104-2007.pdf">http://www.statistiques.public.lu/catalogue-publications/cahiers-economiques/2007/PDF-Cahier-104-2007.pdf</a>	Use of technical assumptions for a number of macroeconomic variables (oil prices, commodity prices, exchange rates and interest rates).  Given the importance of the financial sector for Luxembourg and the role of cross-border workers in labour supply, the model has properties that pertain specifically to the banking, including a stock index forecast, and the supply of foreign labour.
Estimates of budgetary revenues	To prepare the draft budget	Use of parametric equations and microeconomic information	Macroeconomic forecasts
Impact of consolidation measures	To prepare the draft budget	Budgetary estimates using microeconomic information. No macroeconomic impacts were considered in the macroeconomic scenario	Macroeconomic forecasts