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COMMISSION STAFF WORKING DOCUMENT

Analysis of the 2016 Draft Budgetary Plan of LUXEMBOURG

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of LUXEMBOURG

{C(2015) 8108 final}

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Analysis of the 2016 Draft Budgetary Plan of LUXEMBOURG

1. INTRODUCTION

Luxembourg submitted its Draft Budgetary Plan (DBP) for 2016 on 15 October 2015 in compliance with Regulation (EU) No 473/2013 of the Two-Pack. Luxembourg is subject to the preventive arm of the Pact and should preserve a sound fiscal position ensuring compliance with the medium-term objective (MTO).

Section 2 of this document presents the macroeconomic outlook underlying the DBP and provides an assessment based on the Commission forecast. The following section presents the recent and planned fiscal developments, according to the DBP, including an analysis of risks to their achievement based on the Commission forecast. In addition, it includes an assessment of the measures underpinning the DBP. Section 4 assesses the recent and planned fiscal developments in 2015-2016 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact (SGP). Section 5 provides an analysis on the implementation by Luxembourg in the area of fiscal governance in response to the latest Country-specific Recommendations (CSRs) adopted by the Council on 14 July 2015, including those to reduce the tax wedge. Section 6 concludes.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

According to the macroeconomic scenario underpinning the DBP, economic prospects would remain favourable both in 2015 and 2016, with real GDP growth estimated to slow down to 3.7% and 3.4%, respectively, from 4.1% in 2014. These growth rates compare with a 3.8% and 3.6% growth rate projected for 2015 and 2016, respectively in the 2015 Stability Programme.

The macroeconomic scenario underlying the DBP was established however before the national account data for the second quarter of 2015 were released on 12th October. These data brought forward a sizeable downward revision in output growth for the first quarter and pointed to considerable negative growth (on quarterly basis) for the second quarter. The revisions mostly relate to the contribution of the financial sector to the growth. This had already been anticipated in the release of national accounts for the first quarter of 2015, where a statement warned about the unusual high degree of uncertainty surrounding the GDP growth figures in the previous quarters.

Taking into account the data revision, the Commission 2015 autumn forecast projects a more pronounced slowdown, with real GDP growing at a rate of 3.1% in 2015. In 2016, under the assumption of a less dynamic external environment, notably in the euro area, where output expansion is projected to be slightly more subdued than assumed in the DBP, no strong rebound is forecast and economic output is projected to grow by 3.2%. Overall, the DBP macroeconomic assumptions underlying the budgetary projections can be assessed as favourable in 2015 and plausible thereafter.

Table 1. Comparison of macroeconomic developments and forecasts

	2014	2015			2016		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	4.1	3.8	3.7	3.1	3.6	3.4	3.2
Private consumption (% change)	3.7	3.7	3.0	0.7	2.7	2.3	3.3
Gross fixed capital formation (% change)	9.9	6.7	7.1	1.1	-4.7	-6.3	3.0
Exports of goods and services (% change)	6.8	5.4	5.4	4.9	6.9	6.9	4.6
Imports of goods and services (% change)	8.0	5.9	6.0	4.7	6.1	6.0	4.7
Contributions to real GDP growth:							
- Final domestic demand	3.7	3.0	2.8	1.1	0.1	-0.2	1.9
- Change in inventories	0.1	0.0	0.4	0.0	0.0	0.0	0.0
- Net exports	0.3	0.8	0.6	1.9	3.4	3.5	1.3
Output gap[1]	-2.0	-1.5	-1.3	-1.5	-0.2	-0.6	-1.1
Employment (% change)	2.5	2.7	2.6	2.6	2.3	2.5	2.5
Unemployment rate (%)	6.0	6.0	6.0	5.9	6.2	5.9	5.8
Labour productivity (% change)	1.5	0.9	1.1	0.5	1.1	0.9	0.7
HICP inflation (%)	0.7	-0.4	0.1	0.3	1.0	1.2	1.7
GDP deflator (% change)	1.0	-0.4	-0.4	-0.2	0.4	0.5	1.6
Comp. of employees (per head, % change)	2.9	1.0	0.7	1.0	1.8	2.4	2.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.5	n.a.	n.a.	4.4	n.a.	n.a.	4.2

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:
Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

Box 1: The macro economic forecast underpinning the budget in Luxembourg

The macroeconomic forecasts underlying the DBP have been prepared by the Direction "*Etudes, prévisions et recherche*" of the national statistical office STATEC[1], which also provided the methodology for the calculation of the output gap. STATEC is an autonomous entity placed under the authority of the Ministry of Economy.

[1] Institut national de la statistique et des études économiques du Grand-Duché du Luxembourg.

Its mandate and organisation were revised by the law of 10 July 2011[2], which explicitly highlights STATEC's scientific and administrative independence, its ability to access to appropriate information to carry out its mandate and its capacity to communicate freely. Its director is appointed by the Grand-Duke. Its statutes contain provisions supporting independence of the institution as a body producing macroeconomic forecasts.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

According to the October 2015 EDP notification, the general government surplus for 2014 was revised upwards to 1.4% of GDP, substantially higher than initially estimated in the most recent the Stability Programme (0.6% of GDP). The better-than-expected outcome is mostly explained by lower expenditure growth than initially planned. In 2014, total expenditure increased by 2.9%, down from 3.8% in 2013.

According to the DBP, the surplus of the general government balance is projected to drop to 0.1% of GDP in 2015, mostly explained by the expected drop in e-VAT revenues stemming from the change in the e-commerce legislation. The underlying fiscal loss is estimated at around 1.3% of GDP and will be only partially compensated by the consolidation measures – equivalent to 0.7% of GDP − contained in the consolidation package adopted by the government with the budget for 2015. In spite of the positive base effect of the higher than projected surplus recorded in 2014, the expected outcome is in line with the target surplus of 0.1% of GDP set in the Stability Programme. The positive surprise in 2014 was indeed mostly due to non-recurrent factors (as for instance the reimbursement of the excessive contribution to the EU budget) and temporary factors (e.g. a temporary retrenchment in public expenditure for investment), which will not occur again in 2015.

Concerning 2016, the DBP projects an increase in the general government surplus to 0.5% of GDP, mostly as a result of the measures already adopted in the previous year budget. This represents a slight deterioration compared with the budgetary trajectory outlined in last year`s Stability Programme, where a surplus of 0.7% of GP was projected.

The Commission 2015 autumn forecast foresees a balanced budget in 2015 and a surplus of 0.5% of GDP in 2016, almost fully in line with the DBP.

[2] Loi du 10 juillet 2011 portant organisation de l'Institut national de la statistique et des études économiques et modifiant la loi modifiée du 22 juin 1963 fixant le régime des traitements des fonctionnaires de l'État.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2014	2015			2016			Change: 2014-2016
	COM	**SP**	**DBP**	**COM**	**SP**	**DBP**	**COM**	**DBP**
Revenue	**43.8**	**44.4**	***43.7***	**43.6**	**44.7**	***44.5***	**43.9**	**0.6**
of which:								
- Taxes on production and imports	13.0	12.5	*12.2*	12.2	12.3	*12.0*	12.2	-1.0
- Current taxes on income, wealth, etc.	13.9	15.3	*14.8*	14.5	15.5	*15.0*	14.5	1.1
- Capital taxes	0.2	0.1	*0.2*	0.2	0.1	*0.2*	0.2	0.1
- Social contributions	12.3	12.4	*12.4*	12.4	12.5	*12.7*	12.5	0.4
- Other (residual)	4.4	4.1	*4.1*	4.4	4.3	*4.6*	4.5	0.1
Expenditure	**42.4**	**44.3**	**43.6**	**43.6**	**44.0**	**43.9**	**43.4**	**1.6**
of which:								
- Primary expenditure	42.0	44.0	43.3	43.2	43.7	43.6	43.0	1.6
of which:								
Compensation of employees	8.9	8.5	9.1	9.2	8.4	9.0	9.2	0.1
Intermediate consumption	3.6	3.9	4.0	3.7	3.8	3.9	3.6	0.4
Social payments	20.7	21.4	21.1	20.9	21.4	20.9	20.6	0.2
Subsidies	1.4	1.8	1.4	1.4	1.7	1.3	1.3	-0.1
Gross fixed capital formation	3.5	4.1	4.0	3.9	4.1	4.2	4.1	0.7
Other (residual)	3.9	4.3	3.7	4.1	4.3	4.3	4.1	0.4
- Interest expenditure	0.4	0.3	0.3	0.4	0.3	0.3	0.4	-0.1
General government balance (GGB)	**1.4**	**0.1**	**0.1**	**0.0**	**0.7**	**0.5**	**0.5**	**-0.9**
Primary balance	**1.8**	**0.4**	**0.4**	**0.4**	**1.0**	**0.8**	**0.9**	**-1.0**
One-off and other temporary measures	0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.2
GGB excl. one-offs	**1.3**	**0.1**	**0.1**	**0.0**	**0.7**	**0.5**	**0.4**	**-0.7**
Output gap[1]	-2.0	-1.5	-1.3	-1.5	-0.2	-0.6	-1.1	1.5
Cyclically-adjusted balance[1]	2.3	0.7	0.7	0.7	0.8	0.8	0.9	-1.6
Structural balance (SB)[2]	**2.1**	**0.7**	**0.7**	**0.7**	**0.8**	**0.8**	**0.9**	**-1.4**
Structural primary balance[2]	2.5	1.0	1.0	1.1	1.1	1.1	1.3	-1.5

Notes*:*

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

In structural terms, the DBP projects (recalculated) structural balance[3] of 0.7% of GDP in 2015. The surplus is projected to increase to 0.9% of GDP in 2016. By comparison, in the Stability Programme, the structural balance was estimated at 0.7% of GDP for 2015 and 0.8% of GDP for 2016. These developmetns are in line with those in the Commission 2015 autumn forecast, where structural surplus balance is projected to decrease from 2.1% of GDP in 2014 to 0.7% of GDP in 2015. In 2016, the structural balance is expected to increase to 0.9%, in line with the DBP.

Over the past years, Luxembourg has benefitted from stable and favorable financing conditions. In addition, in light of the low level of government debt, savings from interest expenditure, due to declining interest rates, have been limited. Interest expenditure is set to decline from 0.4% of GDP in 2013 to 0.3% of GDP in 2015. According to the DBP, interest outlays are estimated to stabilise in 2016, at around 0.3% of GDP

Concerning the sharp drop in VAT revenues due to changes in e-commerce legislation, the magnitude of the loss is broadly unchanged compared to the preliminary figures of around 1.3% of GDP in 2015. The current estimation, factored in by both the national and Commission forecasts is based on a central scenario, where the majority of companies concerned by the change will remain registered in Luxembourg for all their services. Given that the new legislation foresees a transition period, during which VAT collection will be shared between the company and the consumer residence countries, the loss would be higher if those affected companies were to leave the Grand Duchy. Indeed, in the worst-case scenario, where all concerned companies would choose to leave the country, the losses could exceed 2% of GDP (i.e. the VAT revenue from e-commerce activities in 2014)[4]. Additional risks to the fiscal outlook refer to the current discussion around changes in taxation of multi-national corporations. Moveover, remaining the financial sector as the main engine of the domestic economy, risks also exist on the potential impact, both on the budget and on the whole economy, of the current wave of new financial regulations that could affect the economic prospects of the sector.

3.2. Debt developments

In the DBP, the national authorities reiterate their commitment to maintain the public debt-to-GDP ratio under the national threshold of 30% and therefore, well below the Treaty threshold of 60%. The debt-to-GDP ratio is projected to decrease to 22.3% in 2015 from 23.0% in 2014. This is in line with the Commission forecast.

[3] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology.

[4] See document produced in the context of the 2015 Budget discussions, available at: http://www.chd.lu/wps/PA_RoleEtendu/FTSByteServingServletImpl/?path=/export/exped/sexpdata/Mag/169/373/136782.pdf

Table 3. Debt developments

(% of GDP)	2014	2015			2016		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**23.0**	**23.9**	**22.3**	**22.3**	**24.2**	**23.9**	**23.9**
Change in the ratio	-0.4	1.0	-0.6	-0.7	0.3	1.6	1.5
Contributions[2] *:*							
1. Primary balance	**-1.8**	**-0.4**	**0.4**	**-0.4**	**-1.0**	**0.8**	**-0.9**
2. "Snow-ball" effect	**-0.7**	**-0.4**	**-1.3**	**-0.3**	**-0.6**	**-2.2**	**-0.6**
Of which:							
Interest expenditure	0.4	0.3	-0.5	0.4	0.3	-1.3	0.4
Growth effect	-0.9	-0.8	-0.8	-0.7	-0.8	-0.7	-0.7
Inflation effect	-0.2	0.1	0.1	0.1	-0.1	-0.1	-0.3
3. Stock-flow adjustment	**2.2**	**1.8**	**0.2**	**0.0**	**1.9**	**2.9**	**3.0**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual

Source:

Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

In 2016, the public debt is forecast to increase to 23.9%, although the primary surplus is set to increase. This is explained by an increase in the stock-flow adjustment. According to the law, the surpluses of the social security sector are allocated to a reserve fund (the so-called "*Fonds de compensation commun au régime général de pension*") with the aim to cover future pension expenditure and they cannot be used to finance the needs of the central government[5]. In the Commission forecast, the central government is projected to be able to finance its needs without issuing new debt in 2015. Instead, in 2016 the level of government gross debt is driven up by the stock-flow adjustment, whose impact is then partially absorbed by the positive primary balance and by the denominator effect related to GDP growth.

3.3. Measures underpinning the Draft Budgetary Plan

Since last year budget cycle, Luxembourg has started to prepare a multi-annual financing law (MAFL) that accompany and complement the annual budget. The MAFL covers a pediod of 5

[5] The breakdown of the general government balance shows that, while the social security sector traditionally posts a surplus of more than 1% of GDP, the central government records a deficit, and the balance of the local government sector is broadly neutral. As a consequence, the central government needs to issue debt even in case of a balanced budget.

years and articulate the medium-term budgetary strategy. Last year MAFL already provided information about the measures underpinning the medium-term budgetary trajectory, in particular it identified a package of 258 measures to be implemented over the period covered by the law.

The 2015 DBP does not contain new consolidation measures compared with the last year budget, however it provides an update in relation to the degree of implementation of the afore mentioned planned measures, including to produce a revised estimation of the likely yields of the measures in the consolidation package, both on overall basis and as well on individual basis.

On the revenue side, two main measures were identified. First, an increase by 2 pps. in all VAT rates from 1 January 2015. In order to soften the regressive nature of the measure, the special low rate of 3% on essential goods and services was retained. In addition, it was specified that the higher standard rate of 17%, rather than the reduced 3% rate, applies on new housing investment projects, with the exclusion of primary residence acquisitions. In the DBP, the overall budgetary impact of the VAT increase for 2015 has been revised downwards to 0.3% of GDP from 0.5%, and to 0.4% of GDP from 0.7% for 2016. A new contribution of 0.5% levied on personal income was the second measure on the revenue side. Its yield estimation, equivalent to 0.2% of GDP for both years 2015 and 2016, has been confirmed.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2015	**2016**	**2017**
Taxes on production and	0.3	0.4	n.a.
Current taxes on income,	0.2	0.2	n.a.
Capital taxes	n.a.	n.a.	n.a.
Social contributions	n.a.	n.a.	n.a.
Property Income	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.
Total	0.5	0.6	n.a.

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2016

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2015	**2016**	**2017**
Compensation of employees	n.a.	n.a.	n.a.
Intermediate consumption	n.a.	n.a.	n.a.
Social payments	-0.2	-0.4	n.a.
Interest Expenditure	n.a.	n.a.	n.a.
Subsidies	n.a.	n.a.	n.a.
Gross fixed capital formation	n.a.	n.a.	n.a.
Capital transfers	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.
Total	-0.2	-0.4	n.a.

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source: Draft Budgetary Plan for 2016

On the expenditure side, a consolidation package identifying more than 250 saving measures, named "ZukunftsPak" was adopted in 2014. The measures underlying these savings were the result of the spending review exercise launched by the government and carried out by 19 working groups and provide detailed information about measures underpinning planned savings covering the period up to 2018. The budgetary impact of the planned measures have been estimated at 0.2% of GDP in 2015 compared to an initial estimation of 0.4% of GDP, already revised down during the budgetary discussions last year. For 2016, the planned measures are expected to produce savings equivalent to 0.4% of GDP.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Luxembourg is subject to the preventive arm of the Pact and should ensure compliance with its MTO. Box 3 reports the latest CSRs in the area of public finances.

Box 2: Council recommendations addressed to Luxembourg

On 14 July 2015, the Council addressed recommendations to Luxembourg in the context of the European Semester. In particular, in the area of public finances the Council recommended to Luxembourg to broaden the tax base, in particular on consumption, recurrent property taxation and environmental taxation.

Luxembourg registered a structural surplus of 2.1% of GDP in 2014, well above its MTO set at 0.5% of GDP. According to the information provided in the DBP, with a (recalculated) structural surplus of 0.7% and 0.8% of GDP in 2015 and 2016 respectively, the structural balance is expected to remain above the MTO. This is confirmed by the Commission 2015 autumn forecast.

Table 5. Compliance with the requirements of the preventive arm

(% of GDP)	2014	2015		2016	
Initial position[1]					
Medium-term objective (MTO)	0.5	0.5		0.5	
Structural balance[2] (COM)	2.1	0.7		0.9	
Structural balance based on freezing (COM)	2.1	0.6		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2014**	**2015**		**2016**	
	COM	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.0	0.0		0.0	
Required adjustment corrected[5]	-2.0	-1.6		-0.1	
Change in structural balance[6]	-0.9	-1.5	-1.4	0.1	0.2
One-year deviation from the required adjustment [7]	Compliant				
Two-year average deviation from the required adjustment [7]					
Expenditure benchmark pillar					
Applicable reference rate[8]	5.7	4.7		2.4	
One-year deviation [9]	Compliant				
Two-year average deviation [9]					
Conclusion					
Conclusion over one year	Compliance				
Conclusion over two years					

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 27.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) was carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations.

5. IMPLEMENTATION OF REFORMS IN THE AREA OF FISCAL GOVERNANCE

The DBP provides a list of the measures that have been already adopted or are planned to be adopted in order to ensure an adequate follow-up of the 2015 CSRs.

As regards the fiscal recommendation (see Box 2), which called for a broadening of the tax base, the DBP explains that the above-mentioned increase in VAT rates ensures the adequate follow-up to the Council recommendation to broaden the tax base, in particular on consumption, recurrent property taxation and environmental taxation. The decision to shift to the 17% rate to be applicable to real estate transactions, rather than the reduced rate of 3%, and the general increase of 2 pps. of all VAT rates is indeed in line with the Council's recommendation. However, limited or no progress has been recorded on property and environmental taxation.

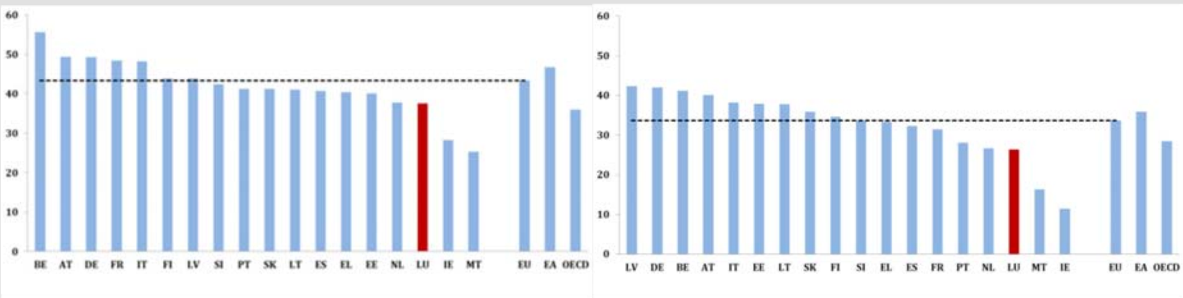
A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the CSRs adopted by the Commission in May.

Box 3: Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to screen euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability. Furthermore, the Eurogroup expressed its intention to take stock of the state of play in the reduction of the tax burden on labour when discussing the DBPs of euro area Member States.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker’s net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in Luxembourg for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

The tax burden on labour in Luxembourg at the average wage and a low wage (2014)



Notes: Data for Latvia, Lithuania and Malta is for 2013. No recent data is available for Cyprus. EU and EA averages are GDP-weighted. The OECD average is not weighted.

Source: European Commission Tax and Benefit Indicator database based on OECD data.

This screening is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

The DBP does not include any plans that affect the tax wedge on labour.

6. OVERALL CONCLUSION

According to the information provided in the DBP, the structural balance is planned to remain above the medium-term objective in 2015 and 2016. The Commission 2015 autumn forecast confirms a structural surplus above the MTO in 2015 and 2016.