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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Delegations will find attached document C(2018) 8021 final.

EUROPEAN
COMMISSION

Brussels, 21.11.2018
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COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Luxembourg

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING LUXEMBOURG

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by Luxembourg, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies.

4. Luxembourg is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with its medium-term budgetary objective (MTO) of -0.5% of GDP.

5. According to the Commission 2018 autumn forecast, real GDP growth is projected at 3.1% in 2018 and 3.0% in 2019. By contrast, the macroeconomic scenario underpinning the Draft Budgetary Plan projects real GDP to grow by 3.9% in 2018 and by 4.0% in 2019. Overall, compared to the Commission 2018 autumn forecast the macroeconomic scenario on which the Draft Budgetary Plan is based appears markedly favourable with real GDP growth stronger by around 1 percentage point in both 2018 and 2019 than in the Commission services forecast. In that context, it has to be pointed out that the macroeconomic scenario underlying the DBP has been kept unchanged from the one produced by STATEC in May 2018 and, therefore, it does not factor in recent economic developments, which point to a weaker outcome in 2018 and 2019. The macroeconomic forecasts have been produced by Luxembourg's independent fiscal authority. In order to ensure compliance with the requirement of Regulation (EU) No 473/2013, the draft Budget Act to be transmitted to the national parliament should be based on an independently produced macroeconomic forecast.

6. The no-policy change Draft Budgetary Plan projects a general government headline budget surplus of 1.5% of GDP for 2018 and 1.3% of GDP in 2019. The Draft Budgetary Plan’s targets are broadly in line with the Commission 2018 autumn forecast, which projects the headline surplus at 1.3% of GDP in 2018 and 1.2% of GDP in 2019. The structural balance[1] in the DBP is expected to decline from 1.6% of

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

GDP in 2017 to 1.5% of GDP in 2018 and 1.1% of GDP in 2019. The Commission 2018 autumn forecast foresees the structural surplus to decline to 1.3% of GDP in 2018 and to 1.1% of GDP in 2019.

7. Over recent years the national authorities have continued to pursue sound public finances while keeping a high level of public investment, which has increased from 3.5% of GDP in 2013 to 4.0% in 2017. The no-policy-change Draft Budgetary Plan does not report any new measures affecting the tax wedge on labour. Nevertheless, a reform of the tax code was enacted at the start of 2017, which is expected to have affected that tax wedge. The reform reduced the progressivity of the system for lower-income earners and introduced two new marginal tax rates for the highest incomes. Finally, the Draft Budgetary Plan provides a list of measures adopted or that are to be adopted to follow-up to the Recommendation of 13 July 2018 addressed by the Council to Luxembourg.[2] The fiscal structural recommendation called for an increase of the employment rate of older people with a view to improve the long-term sustainability of the pension system. In order to increase the employment rate of older people, it was recommended to enhance their employment opportunities and employability and to further limiting early retirement. In that regard, the Draft Budgetary Plan reports on the adopted reform of the long-term care insurance scheme, which entered into effect at the start of 2018, on the new measures to help people in long-term unemployment, which entered into effect in August and on the reform of early retirement schemes[3]. It also recalls previously reported measures such as the adopted reform of the professional classification scheme for persons with partial incapacity.

8. According to the information provided in the Draft Budgetgary Plan, Luxembourg is expected to achieve a structural surplus of 1.5% of GDP in 2018. It is above its MTO of a deficit of 0.5% of GDP[4]. For 2019, based on the information in the Draft Budgetary Plan, the (recalculated) structural balance is expected to decline to a surplus of 1.3% of GDP, still above the MTO. The Commission 2018 autumn forecast broadly points to the same conclusion. Therefore, Luxembourg is assessed to be compliant with the requirements under the preventive arm of the Stability and Growth Pact.

9. Overall, while acknowledging the no-policy-change nature of those projections, the Commission is of the opinion that the Draft Budgetary Plan of Luxembourg is compliant with the provisions of the Stability and Growth Pact.

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2 Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Luxembourg and delivering a Council opinion on the 2018 Stability Programme of Luxembourg, OJ C 320, 10.9.2018, p. 68-71.

3 Law dated 30 November 2017.

4 MTOs are to be revised every 3 years. Based on a agreed methodology, the Commission computes a minimum MTO for each country. The minimum MTOs provide a lower bound for the national structural balance targets, which ensure the sustainability of the public finances, including the projected impact of ageing, or rapid progress towards sustainability, while providing a safety margin with respect to the 3% of GDP treaty reference value. Due to the more favourable estimation of its sustainability components (age-related expenditure, debt) in the 2015 Ageing report the new minimum MTOs for Luxembourg declined significantly, from a structural balance surplus of 0.5% of GDP to a deficit of 1% of GDP. However, given that Luxembourg is bound by the provisions of the Fiscal Compact, a deficit of 0.5% of GDP is considered as a general minimum MTO requirement. With the 2016 Stability Programme Luxembourg decided to revise its MTO from a surplus of 0.5% of GDP to a deficit of 0.5% of GDP for the period 2017-2019.

The Commission is also of the opinion that Luxembourg has made limited progress with regard to the structural part of the fiscal recommendation contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate its implementation. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Reports and assessed in the context of the country-specific recommendations to be adopted by the Commission in May 2019.

As soon as a new government takes office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission