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COMMISSION OPINION

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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 2016 submitted on 15 October 2015 by Luxembourg, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Luxembourg is subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position ensuring compliance with the medium-term budgetary objective (MTO).
5. According to the macroeconomic scenario underpinning the Draft Budgetary Plan, 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 rates compare with a 3.8% and 3.6% growth rate projected for 2015 and 2016, respectively, in the 2015 Stability Programme. The Commission 2015 autumn forecast projects a more pronounced slowdown, projecting real GDP growth at 3.1% in 2015 in view of lower-than-expected growth in the first half of 2015. In 2016, under the assumption of a less dynamic external environment notably in the euro area, no strong rebound is planned and economic output is projected to increase by 3.2%. The Draft Budgetary Plan projects inflation to increase from 0.1% in 2015 to 1.2% in 2016. According to the Commission 2015 autumn forecast, inflation will increase from 0.3% in 2015 to 1.7% in 2016. Overall, the macroeconomic assumptions underlying the budgetary projections in the Draft Budgetary Plan can be assessed as favourable for 2015 and broadly plausible for 2016.
6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been produced by STATEC, the National Institute of statistics and economic studies of the Grand Duchy of Luxembourg, which also provided the methodology for the output gap calculation. STATEC is an autonomous administration placed under the authority of the Ministry of Economy. Its statutes contain provisions supporting the independence of the institution as a body producing macroeconomic forecasts.

7. According to the Draft Budgetary Plan, the general government surplus 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 in the 2015 budget. The target has remained unchanged compared to the 2015 Stability Programme. Concerning 2016, the Draft Budgetary Plan expects the surplus of the general government balance to increase to 0.5% of GDP, mostly as a result of the projected incremental effect of measures adopted with the 2015 budget. This represents a slight deterioration compared with the budgetary trajectory outlined in the 2015 Stability Programme, where a surplus of 0.7% of GP was projected.

In light of the low level of government debt, savings from interest expenditure due to low interest rates were very limited.

8. The main risk to the budgetary outlook as projected in the Draft Budgetary Plan relates to the loss in VAT revenues related to the change in e-commerce legislation. The current estimate, factored in by both the national and Commission forecasts, of an amount of about 1.3% of GDP is based on a central scenario, where the majority of companies concerned by the change in legislation will remain registered in Luxembourg for all their services. 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).
9. In the Draft Budgetary Plan, the general government debt for 2015 is projected at 22.3% of GDP, in line with the level projected in the Commission 2015 autumn forecast. For 2016, the Draft Budgetary Plan projects the general government debt to increase to 23.9% of GDP, still in line with the Commission forecast. In spite of this projected increase, the level of the general government gross debt remains well below the 60% of GDP reference value of the Treaty.
10. The Draft Budgetary Plan does not contain new consolidation measures compared with the 2015 budget. However, it provides an update of the implementation of the measures, including a revised estimate of the likely yields of the measures in the consolidation package. The main revision concerns the overall budgetary impact of the increase of VAT rates, which has been revised downward from 0.5% to 0.3% of GDP for 2015, and from 0.7% to 0.4% of GDP for 2016.
11. Luxembourg registered a structural surplus of 2.1% of GDP in 2014, well above its MTO of a structural surplus of 0.5% of GDP. According to the information provided in the Draft Budgetary Plan, with a (recalculated) structural surplus of 0.7% and 0.9% 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. Therefore, Luxembourg is assessed to be compliant with the requirements under the preventive arm of the Stability and Growth Pact.
12. The Draft Budgetary Plan provides a list of the measures that are adopted or are planned to be adopted in order to ensure an adequate follow-up of the 2015 country-specific recommendations (CSRs). As regards the fiscal recommendation, which called for a broadening of the tax base, in particular on consumption, recurrent property taxation and environmental taxation, the Draft Budgetary Plan mentions the increase in VAT rates as ensuring an adequate follow-up to the Council recommendation to broaden the tax base on consumption. The decision to increase

the VAT rate for real estate transactions from 3% to 17% and the general increase of all VAT rates by 2% is indeed broadly in line with the Council recommendation. However, limited or no progress has been recorded on property and environmental taxation.

13. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Luxembourg, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact.

The Commission is also of the opinion that Luxembourg has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress. 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 Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

For the Commission
Pierre MOSCOVICI
Member of the Commission